The Civic Federation

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CITY OF CHICAGO FY2015 PROPOSED BUDGET:

Analysis and Recommendations

November 3, 2014

The Civic Federation ● 177 N. State Street ● Chicago, IL 60601 ● civicfed.org

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

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EXECUTIVE SUMMARY

The Civic Federation **supports** Mayor Emanuel's proposed FY2015 City of Chicago budget of just over $7.3 billion because it is a reasonable one-year plan that includes ongoing attention to efficiencies and reforms. The City has also made a significant step toward reining in its enormous pension obligations through reforms to two of the four city pension funds. However, the City continues to face an impending crisis if it does not get meaningful pension reform for the police and fire pension funds in the next year. Without reform a $550 million projected increase in pension contributions next year threatens to derail the City's significant progress.

The Civic Federation offers the following **key findings** on the City of Chicago FY2015 budget:

- The City proposes a FY2015 local funds budget of just over $7.3 billion; this is a 5.0% increase from the FY2014 adopted appropriation of just under $7.0 billion across all local funds. When grant funds are included, the FY2015 budget totals $8.9 billion;
- The FY2015 Corporate Fund budget proposal is slightly above $3.5 billion, which is a 7.5% increase from FY2014 adopted appropriations of approximately $3.3 billion;
- The FY2015 budget proposes to add 248 FTEs in FY2015, an increase of 0.8% over FY2014 adopted levels and down over the five-year period, for a workforce of 31,660 FTEs, not including grant-funded positions. The Corporate Fund workforce will be 25,541 FTEs;
- Corporate Fund personnel service appropriations are projected to increase by 3.5% or $93.4 million above FY2014 adopted appropriations to $2.77 billion;
- The property tax levy for City purposes will rise by approximately $7.5 million in FY2015 for a total levy of $831.5 million with additional amounts levied for the City Colleges of Chicago of $36.6 million;
- Between FY2004 and FY2013 combined direct debt from other overlapping governments increased by 39.1% at the same time City of Chicago debt rose by 50.0%. Total direct debt from all eight major governments including Chicago rose by 43.6%;
- The $297.3 million FY2015 budget deficit is projected to be closed using the following measures: $122.1 million in expenditure reductions and reforms and $175.2 million in revenue increases; and
- Unfunded actuarial accrued liabilities for the City's four pension funds have grown by $13.0 billion or 180.2% from $7.2 billion in FY2004 to $20.2 billion in FY2013.

The Civic Federation **supports** the following initiatives and elements of the City of Chicago's FY2015 budget:

- Achieving pension reform for the City Municipal and Laborers' pension funds;
- Continuing to phase out the City's retiree health care subsidy;
- Formalizing a TIF surplus policy via executive order:
- Increasing targeted taxes and fees by eliminating the exemptions and capturing expiring TIF increment for additional revenue; and
- Moving toward zero-based budgeting as a tool to prioritize and reduce expenditures.

The Civic Federation has **concerns** about the following issues related to the City of Chicago's FY2015 budget:

- The City faces an immediate crisis with the police and fire pensions, which grows worse the longer action is delayed. The City's total unfunded pension liabilities reached $20.2 billion as of FY2013;

- Next year the City faces a nearly $627.4 million increase in its statutory pension contributions, exacerbating its ongoing structural deficit, a condition characterized by annual expenditure increases that consistently outpace recurring revenue increases over time;
- The City's practice of borrowing for operations through the issuance of refunding bonds provides short-term budgetary relief at an extremely high long-term cost;
- Long-term liabilities continue to grow and the City has not articulated a plan to curb this growth;
- Bonded debt levels are high and debt service as a percentage of total local fund appropriations is expected to reach 23.8% in FY2015, which is higher than the 15-20% recommended by rating agencies. This represents $1.7 billion in debt service payments out of total local funds spending of $7.3 billion;
- The City does not allocate shared Finance General expenses such as employee health care and pension payments to departments, making it difficult to assess the full cost of services provided by those departments; and
- The City Council Office of Independent Financial Analysis was not operational in time to provide analysis to aldermen on the FY2015 budget.

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

- **Continue to work with the State legislature to enact comprehensive pension reform specific for the City police and fire pension funds, including not pushing off contributions and pursuing statewide public safety pension fund consolidation;**
- End the practice of borrowing for operations through the refunding of bonds;
- Improve the City's debt management policy, including requiring level debt service payments for new bond issuances;
- Implement a long-term financial planning process that includes the participation of the City Council and general public in order to address the issues that are poised to harm the City's fiscal future;
- Improve the Capital Improvement Plan process;
- Allocate the full unit cost of City services in the budget in order to evaluate their efficiency and possibly prepare the City for additional alternative service delivery opportunities by reporting Finance General costs for each department;
- Improve the budget document format by reporting the following items: prior years' actual expenditure and personnel data, consistent full-time equivalent position counts including grants and vacancies and all property tax levies including those levied by the City on behalf of the City Colleges of Chicago and Chicago Public Schools; and
- Encourage public participation in the budget process by holding multiple stand-alone public hearings.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the proposed FY2015 City of Chicago budget of just over $7.3 billion because it is a reasonable one-year plan while the City works with the Illinois General Assembly toward reform of its Police and Fire pension systems. The FY2015 budget closes a $297.3 million budget gap with structural changes including operational efficiencies, moderate revenue growth and targeted tax and fee increases. The City has also made difficult decisions that will have positive long-term effects on the City's financial stability, including continuing to modify its retiree health care plan options for savings in FY2015 and achieving pension reform for the Municipal and Laborers' pension funds.

The City will continue to face significant challenges with an ongoing structural deficit, growing indebtedness and a required $550 million increase to its Police and Fire pension contributions next year. Although Mayor Rahm Emanuel has successfully reduced the structural deficit, the ongoing pension crisis threatens to derail much of this progress. Additionally, while the administration inherited a difficult debt situation, its recent actions to refund debt for near-term budgetary savings but higher long-term cost is unsustainable and will make it more difficult for the City to overcome its long-term fiscal issues, including the pension crisis.

The health of the City's police and fire pension funds are an immediate concern and can only be resolved with strong leadership by the Mayor and City Council, cooperation with relevant unions and engagement with the Illinois General Assembly.

Issues the Civic Federation Supports

The Civic Federation supports the following elements of the proposed FY2015 City of Chicago budget.

Achieving Pension Reform for the Municipal and Laborers' Funds

The Civic Federation commends the City for working with labor unions and legislators to accomplish pension reform for the City of Chicago Municipal and Laborers' funds. This is a strong step toward improving the City's long-run financial prospects.

Public Act 98-0641, signed into law on June 9, 2014, makes changes to pension benefit levels for current retirees and employee members of two of the City of Chicago's four pension funds, the Municipal and Laborers' Funds. Its provisions are expected to go into effect January 1, 2015 if the law is not challenged in court.

The Municipal Fund was projected to run out of money within 10 to 15 years and the Laborers' Fund in 15 to 20 years if P.A. 98-0641 had not passed the General Assembly. The major provisions of the law include phased-in increases to the employer contribution and employee contribution and changes to the automatic annual increase for current retirees and Tier I employees. The plan is projected to increase the funded level of both funds to 90% by the end of 2055.

The plan will require shared sacrifice by employees and increased tax contributions by taxpayers, but will allow for the financial stabilization of the funds, meaning members will be able to count on a pension when they retire and taxpayers' uncertainty will be reduced.

Continuing to Phase Out Retiree Healthcare Subsidy in Preparation for Transition to Affordable Care Act Exchanges

The Civic Federation supports Mayor Emanuel's difficult decision to phase out portions of the City's retiree healthcare subsidy and continue other healthcare reforms. The Retiree Healthcare Benefits Commission released a report on January 11, 2013 noting that the City's annual payout for retiree health benefits was projected to increase from $194.4 million in FY2014 to $540.7 million in FY2023. Additionally, the federal Affordable Care Act has changed the health care landscape for retirees by increasing health care access to low-income households, those with pre-existing conditions and retirees not yet eligible for Medicare. As such, the City's plan to phase out its subsidy takes advantage of the federal law while freeing itself of growing health care costs.

The City faces billions of dollars in unfunded pension liabilities, growing debt-service obligations and demand for public services that outstretches reasonable revenue projections. Continuing to fund health care costs for retirees would likely have required cuts to existing City services or significant tax increases. The City projects budgetary savings of approximately $27 million in FY2015 related to healthcare changes for both current employees and retirees.[1]

Formalizing a TIF Surplus Policy

On November 8, 2013, Mayor Emanuel signed an executive order making it an official practice to annually identify and declare a TIF surplus in districts that meet certain criteria. In FY2015 the City will declare a tax increment financing (TIF) surplus of approximately $60 million and will receive approximately $11.8 million as its share of the distribution of those funds.[2] The administration proposes to use its share of funds to help address the City's budget deficit and will distribute the remaining surplus to overlapping taxing districts in compliance with State statute. This has become a regular practice over the past few years and the Civic Federation supports the Mayor's efforts to formalize and make public the methodology behind the practice since the City intends to make TIF surplus an ongoing source of revenue.[3]

The formalized policy will additionally help area local governments that receive portions of TIF surplus to budget more effectively.

Increasing Targeted Tax and Fees for Additional Revenue

The Civic Federation supports moderate revenue increases such as rates for fines and permits.

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[1] Communication with the City of Chicago Budget Office staff, October 14, 2014.
[2] Communication with the City of Chicago Budget Office staff, October 31, 2014.
[3] Last year the City received $8.7 million in TIF Surplus. In FY2013 the City received $6.7 million in TIF surplus. In FY2012 the City declared a surplus of $82.9 million in TIF districts and used $12.0 million as its share. In FY2011 the City declared a surplus of $180.0 million and transferred $38.5 million to its Corporate Fund.

Increases in these recurring revenue sources are preferable to broad-based tax increases and are far better than using one-time funds from asset lease reserves, as the City did between FY2005 and FY2011.

As part of the FY2015 budget, the City is proposing to eliminate exemptions to the skybox amusement tax and the cable company amusement tax. Additionally, the City intends to increase the personal property lease tax and the parking garage tax.

The City is also proposing to capture additional property taxes associated with these expiring tax increment financing (TIF) districts. When a TIF expires, the City can recover some revenue from the increment equalized assessed value (EAV) by adding it to the property tax levy. This allows the City to capture additional resources without increasing the tax burden on residents. Additionally, any surplus funds left in closed TIF district accounts will be distributed as one-time revenues to the City and overlapping taxing agencies.

Moving Toward Zero-Based Budgeting

For the first time the City is starting to use zero-based budgeting in some portions of the budget as a means of reducing and controlling costs at the departmental level. Non-personnel expenditures were effectively "zeroed out" in the budget and had to be justified to be added to the spending plan. The City estimates $5.8 million in savings as a result of this new budgetary tool.[4] The Civic Federation supports the City's efforts to use new techniques to help budget more effectively. However, how the City actually used zero-based budgeting is mentioned very sparingly in this year's budget overview book and is absent from the budget recommendations book. In future years, the Federation suggests that the City provide greater detail on such initiatives.

Civic Federation Concerns

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

Pension Funding Crisis in Public Safety Funds

The police and fire pension funding crisis demands immediate attention from Mayor Emanuel and the City Council. Unfortunately, there are no easy fixes and any solution will require sacrifices on the part of employees and citizens alike. The landmark reforms for the Municipal and Laborers' pension funds were a strong step forward, but there is still much work to be done and our State legislature needs more specific encouragement by members of the City Council and the administration to take the necessary actions to secure the City's fiscal stability and reform the Police and Fire pension funds.

The Police and Fire pension funds were only 27.0% and 31.7% funded on a market value basis in FY2013 and absent reform and additional revenue are dangerously underfunded.

[4] Information provided by the City of Chicago Office of Budget and Management, October 31, 2014.

Public Act 96-1495, enacted in December 2010, requires the City to improve funding levels for its Police and Fire pension funds by beginning to make contributions to its Police and Fire pension funds in tax year 2015 (payable in 2016) that will be sufficient to bring the funded ratio of each fund to 90% by the end of 2040. However, no changes to current employee and retiree benefits were included. Pursuant to this legislation, the City's contribution to its public safety funds are therefore scheduled to increase by $550 million payable in 2016. Since the property tax levy is the primary source of revenue for the City's contributions to the pension funds, the levy would have to be significantly increased from its current $824.0 million level to cover the additional pension costs or crippling cuts would have to be made to City services, or both. The City cannot afford such an enormous contribution increase. Reforms and more moderate contribution increases for the City and for employees are clearly necessary to save these funds.

Borrowing for Operations through Refunding Bonds

Over the last three fiscal years the City reduced its annual principal debt service payments by increasing amounts each year through refundings that extend the life of maturing bonds for an additional 30 years. Details of these refundings are not included in the Mayor's budget proposal along with other deficit reduction measures and typically have been authorized outside the annual budget process.

The debt service payments included in the proposed FY2015 budget are reduced by $120.8 million of principal originally scheduled to be repaid in the coming fiscal year but instead were refunded through a bond issuance in March 2014. These bonds, originally due to mature in FY2015, were extended for an additional 30 years at an interest rate of 6.3%, leading to an additional interest cost of $228.8 million. Similarly, principal amounts due in FY2013 totaling $41.2 million and in FY2014 totaling $92.6 million were extended for 30 years at an interest rate of 5.4% through a refunding in May 2012. The FY2013 and FY2014 "scoop and toss" increased interest costs by $67.1 million and $150.9 million respectively.[5]

The practice of "scoop and toss" refunding differs from the City's direct borrowing for operations in previous years. In the past, the City directly used bond proceeds to fund operations, increasing corporate fund resources. The refunding procedure reduces total debt service owed, thus freeing up additional operating resources that would have otherwise been used to make the principal payments.

Refunding current principal debt payments is not only a costly and unsustainable way to address current budget deficits, it also threatens the City's ability to issue long-term debt for ongoing capital investments by filling the out-years of the City's debt service schedule with previously issued bonds.

Ongoing Structural Deficit

In its *Annual Financial Analysis 2014*, the City projected that without changes to expenditures and revenues and without comprehensive pension reform, its Corporate Fund deficit would grow to nearly $1.0 billion in FY2016 and nearly $1.1 billion in FY2017 if increased Police and Fire

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[5] See the Refunding Bonds section on page 86 of this report for more information.

pension contributions under Public Act 96-1495 are included. These projections assume that expenditures grow at an average annual rate of 5.3% and that revenues grow by 1.5% over the prior year in both 2016 and 2017.

The City has made considerable efforts to reform its operations through management efficiencies and innovative programs in the past three years. However, the imbalance between operating expenditures and recurring revenues has not been eliminated. The $550 million increase in Police and Fire pension contributions scheduled for next year will only exacerbate this imbalance further.

Growing Long-Term Liabilities

Total long-term obligations increased by 48.0%, or $5.8 billion, between FY2009 and FY2013, the most recent year for which data are available. Other long-term liabilities, which include net pension obligations,[6] lease obligations, pollution remediation liabilities and claims and judgments obligations increased at a much faster rate, rising by 99.4%, or $3.7 billion. The single largest percentage and dollar increase over the five-year period was for pension and other post-employment benefit obligations, which increased by 101.8% or $4.4 billion. The steady increases in long-term obligations, particularly the large cumulative pension funding shortfalls, are a serious cause for concern.

High Bonded Debt Burden

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

- Between FY2004 and FY2013, Chicago's total net direct debt rose by 50.0%, or $2.5 billion. This represents an increase from $5.1 billion in FY2004 to $7.7 billion ten years later. Long-term debt did decline by 3.4% between FY2012 and FY2013. During the same time period, direct debt per capita rose by 61.1% from $1,766 to $2,845.
- Between FY2004 and FY2013 combined direct debt from other overlapping governments increased by 39.1% at the same time City of Chicago debt rose by 50.0%. Total direct debt from all eight major governments including Chicago rose by 43.6%. The rate of increase in direct debt issued by Chicago outpaced the increase for the overlapping governments.
- Chicago's debt service appropriations in FY2015 are projected to be 23.8% of total local fund appropriations, or $1.7 billion out of expenditures of $7.3 billion. Since FY2011 debt service appropriations have risen by 35.0%, far outpacing the 19.2% increase in total appropriations. Ratings agencies consider a debt burden high if this ratio is between 15% and 20%.[7]

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[6] Net pension obligations as reported in the audited financial statements are the cumulative difference between annual pension costs and the employer's contributions to its plans since reporting standards were modified per GASB Statement No. 27.
[7] 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.

The sharp upward trend in debt burden over time is a serious cause for concern for the City of Chicago. It threatens to further erode the City's credit rating, making borrowing more expensive and possibly limiting available capacity for additional borrowing.

Lack of Cost of Services Data

As the City explores alternative ways to deliver services more efficiently and effectively, it is essential to account for the full cost per unit of services currently provided in order to evaluate alternatives. The GFOA points to other important uses for data on the cost of government services including performance measurement and benchmarking, setting user fees and charges, privatization, competition initiatives or "managed competition" and activity-based costing and activity-based management. The GFOA states that the full cost of service includes all direct and indirect costs related to the service. Examples of direct costs include salaries, wages and benefits of employees; materials and supplies; associated operating costs such as utilities and rent, training and travel; and costs that may not be fully funded in the current period such as compensated absences, interest expense, depreciation or use, allowance and pensions. Indirect costs encompass shared administrative expenses within the work unit as well as support functions outside of the work unit (human resources, legal, finance, etc.).[8]

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

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

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

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

Corporate Fund personnel services included in Finance General are budgeted at $414.0 million for FY2015.[9] In addition, the general financing cost center includes Medicare and Social Security Taxes, Professional Services for Information Technology Maintenance and reimbursements and subsidies to other funds.

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

[9] City of Chicago, FY2015 Budget Recommendations, p. 5.

Delay in Establishing a Financial Analysis Office for the City Council

The Civic Federation previously commended the Mayor and members of City Council for proposing to create the City Council Office of Financial Analysis. In the Civic Federation's 2011 *Recommendations for a Financially Sustainable City of Chicago*, the Federation recommended that the City create an independent budget office for the City Council. The office was intended to give aldermen access to the independent information and analysis that they need to be effective stewards of the City's finances. The Civic Federation is concerned that the delay in fully implementing the financial analysis office means aldermen will not have access to this resource before they vote on the FY2015 budget.

Civic Federation Recommendations

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

Reform Police and Fire Pensions

While comprehensive pension reforms that will make all four of the City's pension funds sustainable over the long-term has not passed the General Assembly, Governor Quinn signed Public Act 98-0641 on June 9, 2014 for the City's Municipal Employees' Annuity and Benefit Fund (MEABF) and the Laborers' and Retirement Board Employees' Annuity and Benefit Fund (LABF), which shows such reform is possible and provides a framework for current and retiree benefit reforms as well as employee and employer contribution increases.

The Civic Federation supports the pension reform legislation and commends the City for working with labor unions and legislators to enact a law that will likely have a significant impact on the City's financial future. The City still urgently needs a comprehensive plan to reform benefits and contribution levels for police and fire pension funds before the City must increase its contribution toward the funds by $550 million in 2015 (payable in 2016).[10]

While the Mayor, unions and legislators must work together to create a pension reform framework for the police and fire funds that will stabilize the funds at an affordable cost to taxpayers, the Civic Federation is able to make the following additional recommendations regarding the City's public safety pension funds:

Do Not Postpone Pension Contributions and Funding Level Goals

In September 2013 Mayor Emanuel backed legislation that would have postponed the City's large pension contribution increase scheduled for tax year 2015.[11] Additionally, the legislation would have pushed back the 90 percent funding level goal for police and fire pension funds to 2061.[12] The Civic Federation did not support this position and believes that any delay in resolving the pension crisis, including one that only offers temporary relief for the City's funding requirements, would further destabilize the pension funds and potentially push them to a point

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[10] City of Chicago, Annual Financial Analysis 2014, p. 89.
[11] House Bill 3088, Senate Amendment 2 of the 98th General Assembly.
[12] Fran Spielman, "Emanuel pension plan drawing fire from all sides," *Chicago Sun-Times*, September 26, 2013.

where they could not be saved. The cost of continued delay to taxpayers and beneficiaries of the pension funds is severe.

Pursue Pension Fund Consolidation

The Civic Federation recommends that the City study ways to consolidate its pension funds by, for example, merging the Chicago Police and Fire funds with downstate police and fire funds into an Illinois Municipal Retirement Fund-like entity or the IMRF itself. There are over 600 local pension funds in Illinois, each with its own governing board, most of which are police and fire funds for individual municipalities. It is difficult to understand how the maintenance of over 600 public safety funds in Illinois is either beneficial to taxpayers or cost effective for Chicago or other suburban and downstate municipalities. The Federation believes that the overall investment performance and administrative efficiency generated by economies of scale would greatly improve if individual funds were consolidated.

End the Practice of Borrowing for Operations through Refunding Bonds

The City of Chicago has issued certain types of refunding bonds that are not economic refinancings but instead represent a kind of borrowing for operations. These refunding bonds are issued to pay for principal debt payments owed in the current or near-term fiscal years and are structured to create annual budgetary relief but also extend the life of debt scheduled to be retired.

The Civic Federation opposes these refundings, also referred to as "scoop and toss," because borrowing for operations is not a sustainable method of funding ongoing operations, leads to future budget gaps and dramatically increases the cost of providing government services.

Over the last three fiscal years the City reduced its annual principal debt service payments by increasing amounts each year through refundings that extend the life of maturing bonds for an additional 30 years. Details of these refundings are not included in the Mayor's budget proposal along with other deficit reduction measures and typically have been authorized outside the annual budget process.

The debt service payments included in the proposed FY2015 budget are reduced by $120.8 million of principal originally scheduled to be repaid in the coming fiscal year but instead were refunded through a bond issuance in March 2014. These bonds, originally due to mature in FY2015, were extended for an additional 30 years at an interest rate of 6.3%, leading to an additional interest cost of $228.8 million. Similarly, principal amounts due in FY2013 totaling $41.2 million and in FY2014 totaling $92.6 million were extended for 30 years at an interest rate of 5.4% through a refunding in May 2012. The FY2013 and FY2014 "scoop and toss" increased interest costs by $67.1 million and $150.9 million respectively.[13]

In all, the City refunded $254.6 million of principal due to be repaid in the last three fiscal years at a total cost of $446.8 million of new interest repaid through FY2044.

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[13] See the Refunding Bonds section on page 86 of this report for more information.

The bonds refunded by the City in these years were originally sold in 1993 through 2008. The structure of the refunding extended the life of some of the 20-year bonds out to 50 years, dramatically increasing the cost of the capital investments and other government services paid for at the time of the issuance.

Not only is this trend of refunding current principal debt payments a costly and unsustainable measure for addressing current budget deficits, it also threatens the City's ability to issue long-term debt for ongoing capital investments by filling the out-years of the City's debt service schedule with previously issued bonds.

The current Mayoral administration inherited a high long-term debt burden and increasing annual debt service payments, which are complicated by the City's pension crisis and increased annual pension contributions. However, the City must articulate a strategy to end the practice of "scoop and toss" refundings and integrate its full annual debt service costs within its operating budgets.

Update the Debt Management Policy

The City of Chicago should update its debt management policy to ensure the most effective and fiscally prudent use of its long-term and short-term bonding authority.[14] The current debt management policy published in 2007 should be amended to prohibit the use of long-term refunding bonds to make current year principal payments, sometimes referred to as "scoop and toss" refinancing. The policy should also require level debt service payments for new bond issuances in order to prevent backloading of principal that can greatly increase the cost of borrowing and the total debt service owed by the City.

The policy should also articulate the intended uses and strategy behind the City's short-term debt program including the total authorized amounts, cost and plan for repayment of commercial paper, lines of credit and other annual borrowings.

The City is currently in the process of modernizing its debt management policy but is not expected to publish the update prior to the authorization of the FY2015 budget.[15]

As discussed above, in recent years the City of Chicago has relied heavily on unsustainable debt refundings that balanced its current year operating budgets but also greatly increased its total long-term obligations.

In order to prepare for the spikes in principal payments in the final years of these refundings and to avoid additional extension of this debt further into the future, the City should consider establishing additional debt service reserves that are set aside annually in order to reduce the impact of the increase in debt service. This will allow the city to continue to issue the capital debt necessary to maintain and upgrade critical government infrastructure despite the future liabilities already incurred to pay for current operating costs.

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[14] City of Chicago, *Debt Management Policy for the City for Chicago,* September 4, 2007. http://www.cityofchicago.org/content/dam/city/depts/fin/Bonds/debt_mgmt_policy.pdf (last visited October 27, 2014).

[15] Communication between the Civic Federation and officials at the City of Chicago, October 27, 2014.

By requiring level principal payment or reducing the amount of principal pushed off into the future, the City of Chicago would reduce the cost of its long-term debt while ensuring current expenses and capital expenses are not borne entirely by future generations. Although the structure leads to marginally higher debt service payments in the early years of new bond issuances, due to the earlier payment of principal the total interest cost is greatly reduced. The benefit of reducing the City's long-term obligations far outweighs the benefits of the modest annual budget savings in the early years when bonds are issued with back loaded principal payments.

The State of Illinois is limited in its refinancing of bonds by a Constitutional provision barring "scoop and toss" structures that extend the life of outstanding principal and the City should adhere to a the same standard.[16] Similarly, the State has a level debt service provision in the General Obligation Bond Act. The City should include a comparable requirement in its own debt management policy.[17]

The Government Finance Officers Association recommends that all state and local governments formally adopt a comprehensive written debt management policy and provides guidance to the minimum standards and development of these documents.[18]

Implement a Formal Long-Term Financial Plan

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

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

Therefore, we recommend that the City undertake a long-term financial planning process that would proceed in four stages.[20] First, the Mayor and his administration will articulate fiscal and

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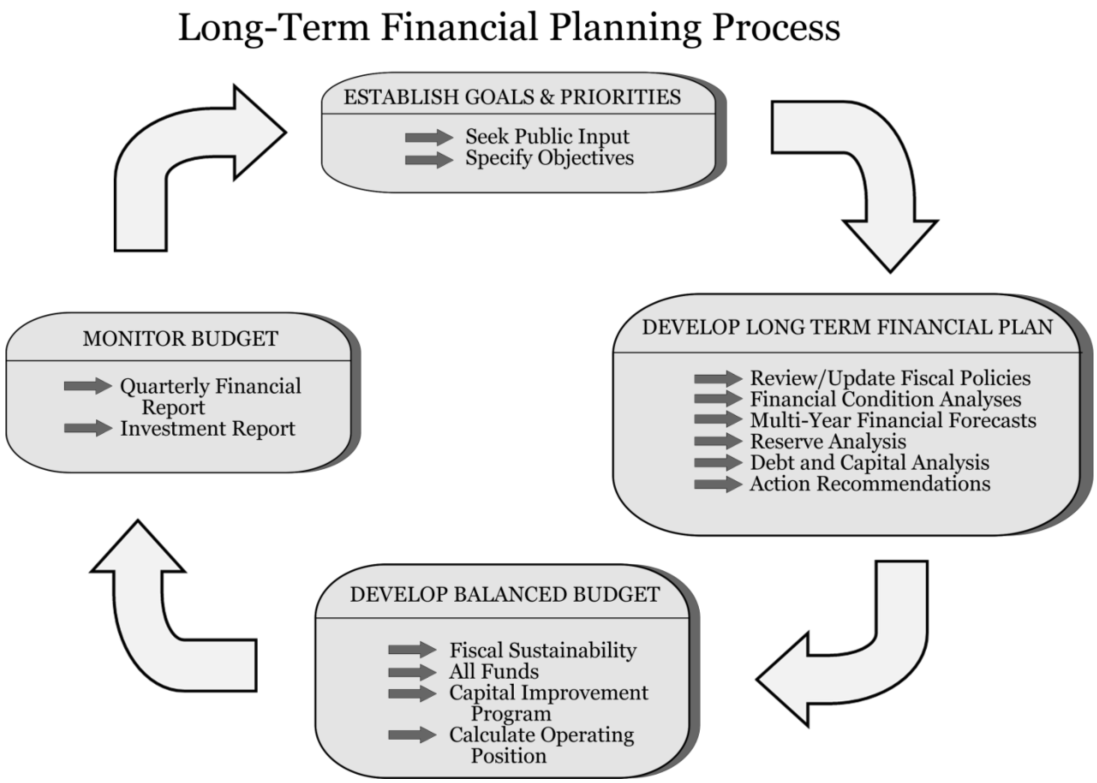
[16] Illinois State Constitution, Article IX, Section 9, clause (e).
[17] 30 ILCS 330/9.
[18] Government Finance Officers Association, *Best Practices: Debt Management Policy (1993, 2003, 2012) (Debt)*, October 2012.
[19] Government Finance Officers Association, "GFOA Best Practice: Long-Term Financial Planning," (2008).
[20] The graphic illustration of the long-term financial planning process is based on the City of San Clemente, California's Long-Term Financial Plan and is reproduced in the Government Finance Officers Association

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



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

1. A description of financial policies, service level targets and financial goals. Each policy should be reviewed using relevant forecasting data to determine if the policy is being followed, if the policy should be amended and if new policies should be added.
2. A scorecard or rating of the financial indicators as part of the financial analysis that assesses whether the trend is favorable, warrants caution, is a warning sign of potential problems or is unfavorable.
3. Possible strategies, actions and scenarios needed to address financial imbalances and other long-term issues, such as a discussion of the long-term implications of continuing

document "Long-Term Financial Planning for Governments" available at http://www.gfoa.org/downloads/LTFPbrochure.pdf.

or ending existing programs or adding new ones. These actions should include information on fiscal impact and ease of implementation.

4. Sufficient stakeholder input including holding a public hearing for decision makers and the public to provide meaningful input on a long-term financial strategy to address the City's financial challenges.

Improve the Capital Improvement Plan Process

The City of Chicago has released a FY2014-2018 Capital Improvement Plan (CIP).[21] This is the third CIP released by the Emanuel administration. No CIP was published for the FY2011-FY2015 period. The CIP provides a plan for five years of capital programming.
The purpose of a CIP is to establish priorities that balance capital needs with available resources, pair capital projects with funding sources, help ensure orderly repair and maintenance of capital assets and provide an estimate of the size and timing of future debt issuance. The first year of a CIP is the capital budget for that fiscal year. Developing a CIP is an important financial accountability measure because capital projects are costly and must be paid for over a number of years that the funds are borrowed.

The Civic Federation reviewed Chicago's CIP processes based on best practice guidelines from the National Advisory Council on State and Local Budgeting, the Government Finance Officers Association and the Federation's budget analyses of local government budgets.[22] Our review found that Chicago's CIP meets many important best practice criteria. It includes a summary list of projects, expenditures per project, funding sources and the period for completing projects. It is made available for public inspection on the City's website. However, the plan does not include a narrative description of the CIP process or individual projects. There is no discussion of how capital needs are determined or how they are prioritized. There is no discussion of the capital plan's impact on the operating budget. There appear to be few opportunities for stakeholders to provide input into the CIP process. While aldermen do have authority over the distribution of specific aldermanic menu projects in their wards, they do not formally approve the CIP.

The Civic Federation recommends that Chicago improve its CIP processes by:

- Including a narrative discussion of the CIP development and adoption process;
- Providing information on the capital plan's prioritization process including a discussion of the criteria used to determine how projects are selected;
- Including information on how the capital program in general and projects in particular impact the City's operating budget;
- Providing opportunities for the public to provide input about the capital plan; and
- Requiring the CIP to be formally approved by the City Council.

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[21] The FY2014-FY2018 Capital Improvement Plan is available on the City's website at http://www.cityofchicago.org/content/dam/city/depts/obm/supp_info/CIP_Archive/2014CapitalBook.pdf.
[22] 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.

Include Finance General Costs in City Department Budgets

The City should include all direct costs in departmental budgets including all employee benefits, pensions, facilities expenses and liability expenses. Finance General costs, which are currently measured by fund only, should be accounted by department to show the full cost of services. Indirect costs such as support function expenses (human resources, legal, finance) should also be calculated and made available in the budget. The GFOA recommends that such shared costs be apportioned by a systematic and rational allocation methodology and that the methodology be disclosed.[23]

Improve Budget Format

The City has made several improvements to its budget books over the past few years including providing additional data in a searchable and downloadable format on its website. The Civic Federation offers the following recommendations to improve the transparency and usefulness of the City's budget documents.

Report Actual Expenditure and Personnel Data in the Budget Overview and Revenue Estimates

The Budget Overview and Revenue Estimates book includes actual revenue data for five prior years, as well as a year-end estimate and the budget projection in the "Budget Details" section. This is important historical information and a critical feature of the budget presentation. The Civic Federation urges the Budget Office to also provide actual data for the expenditures and personnel parts of the "Budget Details." Currently only the appropriated, not actual, figures for prior year expenditures and personnel are provided.

Provide Revenue Data in an Electronic Format

The City began posting appropriations and personnel data sets on its data portal in a searchable and downloadable format in 2011. This was a significant step forward. The Civic Federation urges the City to also provide detailed revenue data sets in the future so that users may sort multiple years of data by revenue type and fund.

Consistently Report Full-Time Equivalent Positions

The budget documents do not consistently show the total number of full-time equivalent positions in all areas of the documents, including filled positions and vacancies. Full-time equivalent (FTE) positions represent the total hours worked divided by the average annual hours worked in a full-time position. The FTE count includes full-time, part-time, seasonal and hourly wage earners. The City made an important step by providing current and historical FTE counts in its FY2013 Budget Overview. However, the FY2014 Budget Recommendations, which is the document to be voted on by the City Council to become the FY2014 Appropriations Ordinance, still provides position count by full-time positions only (both filled and vacant). Meanwhile, the Budget Recommendations provide personnel services appropriations that reflect expenses for full-time equivalent positions, including personnel-related expenses such as pension and health

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

care costs. As such, the number of employees per fund is not an entirely accurate reflection of the costs associated with their employment per fund. The Civic Federation recommends that the City revise its budget documents to accurately and consistently reflect the number of individuals employed by the City as well as the total number of full-time equivalent positions needed to provide City services across all departments, including grant-funded positions.

Report All Property Taxes Levied Including Levies for Other Governments

The City of Chicago levies property taxes on behalf of the City Colleges and Chicago Public Schools. These levies are legal, but the transactions are not transparent. The City provides insufficient narrative information about the levies in its budget. City Colleges provides the amount of property taxes levied by the City on the District's behalf in its budget books.[24]

The Civic Federation believes that it is important for taxpayers to clearly understand what public services they are paying for and which governments receive and spend their monies. Governments must clearly present a complete picture of their revenues and expenses. We urge the City of Chicago to improve the public disclosure of its arrangements with the City Colleges and Chicago Public Schools in future budget documents.

Encourage Public Participation by Scheduling Multiple Stand-Alone Public Hearings

The Civic Federation urges the City Council to allow more time for adequate public participation by holding more than one public hearing as many other local governments do, including Chicago Public Schools and the Forest Preserve District of Cook County. These hearings on the proposed budget should be separate from regularly scheduled City Council meetings at times and locations convenient to the public. The hearings should be held at least 10 working days after publication of the proposed budget and five working days before the City Council is scheduled to vote on the budget.

ACKNOWLEDGMENTS

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

[24] See City Colleges of Chicago's FY2015 Annual Operating Budget, p. 307.

FY2015 BUDGET DEFICIT AND GAP CLOSING MEASURES

The City of Chicago projected a $297.3 million budget deficit for FY2015 in its *Annual Financial Analysis 2014* released on July 31, 2014.[25] The deficit was the result of a projected $36.9 million, or 1.1%, decline in Corporate Fund resources and a $260.4 million, or 8.0%, increase in Corporate Fund expenditures compared to the FY2014 year-end estimates.[26] The FY2014 budget used $53.4 million of fund balance to balance its budget. In FY2015 the City does not plan to use fund balance to balance its FY2015 budget.

Total revenue is up slightly from FY2014, due in part to continued economic improvement. Additionally, the City has continued to focus on increasing revenue by eliminating tax credits, phasing out partial exemptions and increasing rates and fees instead of increasing broad-based taxes such as property taxes. Expenditures are increasing primarily because of salary and wage increases tied to collective bargaining agreements. Health care costs are also contributing to increasing expenditures in FY2015.

Gap-Closing Measures

The primary means by which the City is proposing to close its budget gap are shown in the exhibit below. The City's FY2015 Budget Overview book states that the projected Corporate Fund budget gap of $297.3 million will be closed with $122.1 million in expenditure reductions and government reforms and efficiencies, including $31.2 million in personnel savings, primarily through health care savings and nearly $50.0 million in non-personnel savings through the implementation of zero-based budgeting and other efficiencies. The remaining $175.2 million will come from revenue growth and enhancements and increased efforts to collect debts owed to the city.

While the City has dramatically reduced its reliance on one-time revenue sources, a significant percentage of the FY2015 budget gap will be closed with non-recurring resources including the sale of excess land and the sweeping of aging accounts and grant funds. The City will also allocate approximately $11.8 million in tax increment financing (TIF) surplus. TIF surplus is excess money within the TIF districts' funds that is calculated annually after all obligations are met. The City declares the surplus and is then distributed to the overlapping governments. TIF

[25] The City of Chicago is required by law to pass a balanced budget so it does not have a budget "deficit" in the same sense that the U.S. federal government has a deficit. The "budget deficit" is a commonly used synonym for the projected budget gap annually calculated by the City each summer. It refers to the gap between projected revenues and expenditures for the next fiscal year, which must be addressed in the proposed budget ordinance.
[26] City of Chicago, 2014 Annual Financial Analysis, pp. 50-51.

surplus has previously been a one-time source of revenue, but the City plans to declare annual surpluses, making it like a recurring source of revenue.

City of Chicago FY2015 Gap Closing Measures (in $ millions)		
Expenditure Reductions		
Non-Personnel Savings and Reforms	$	49.7
Personnel Savings and Reforms	$	31.2
Improved Fiscal Management	$	41.2
Total Expenditure Reductions	$	122.1
Revenue Increases		
Revenue Growth	$	75.4
Improved Debt Collection	$	26.1
Revenue Enhancements	$	73.7
Total Revenue Increases	$	175.2
Total	**$**	**297.3**

Source: City of Chicago FY2015 Budget Overview, p. 4; and information provided by the City of Chicago Office of Budget and Management, October 31, 2014.

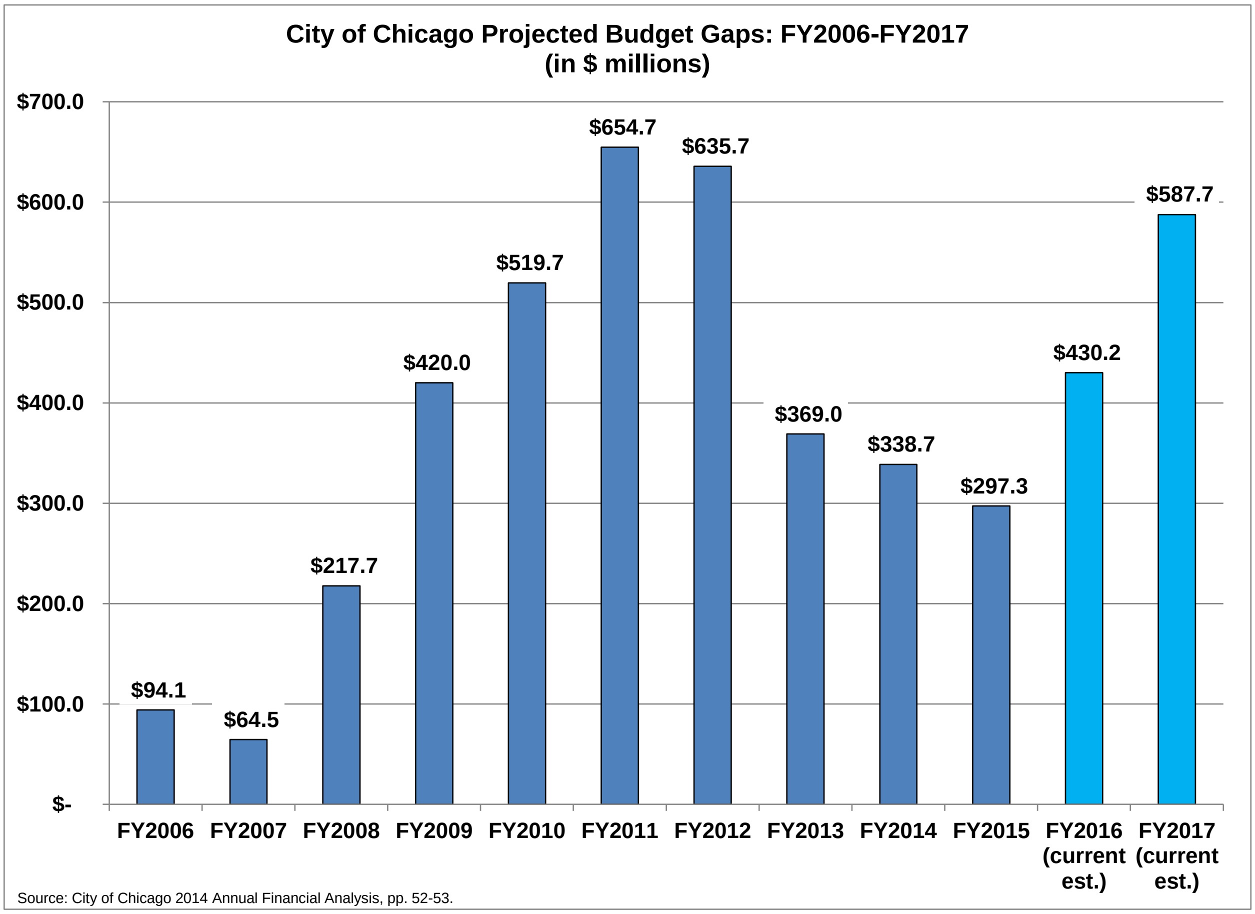
Historical Trend of Projected Budget Gaps

The City of Chicago's projected budget gaps have fluctuated over the past 10 years from $94.1 million in FY2006 to $297.3 million for FY2015, with highs of $654.7 million for FY2011 and $635.7 million for FY2012. In its *Annual Financial Analysis 2014* document, the City projects that its Corporate Fund deficit will grow to $430.2 million in FY2016 and nearly $587.7 million in FY2017 under a continuation of current revenue and expenditure trends. These projections assume that expenditures grow at a rate of 5.3% and that revenue grows at a lower rate of 1.5% over the next two years. The City also includes two alternative projections with higher or lower revenue growth estimates.[27] The sharp rise in projected budget deficits in FY2016 and FY2017 is the partial result of pension reform legislation that was passed by the Illinois General Assembly in June 2014 for the Municipal and Laborers' pension funds. However, the increase in pension contributions does not include a more than $500 million dollar increase in required payments to the Police and Fire pension funds. The City's pension contributions are expected to increase from approximately $727 million in FY2014 to over $1.0 billion in FY2015 and FY2016.[28]

[27] City of Chicago, 2014 Annual Financial Analysis, pp. 49-53.
[28] City of Chicago, 2014 Annual Financial Analysis, pp. 88-89. The City refers to pension contributions by tax year, with 2015 contributions being paid in FY2016.

Although pension reform has been achieved for the Municipal and Laborers' pension funds, the City has not been able to achieve pension reforms for its Police and Fire pension funds.

If reform for the police and fire pensions is not achieved in 2015, the projected budget gaps shown here for FY2016 and FY2017 would be approximately $500 million more.



UPDATE ON *RECOMMENDATIONS FOR A FINANCIALLY SUSTAINABLE CITY OF CHICAGO*

On June 30, 2011 the Civic Federation released *Recommendations for a Financially Sustainable City of Chicago*. The report offered a comprehensive set of forty recommendations to improve the City's long-term fiscal condition. The reforms could have been implemented in the first few fiscal years of the new administration and covered a wide array of functions from pensions to public safety.

In the past three years, Mayor Rahm Emanuel has produced four budgets and has implemented initiatives that reflect significant progress on recommendations made by the Civic Federation. Since the City's proposed FY2015 budget is the last budget of Mayor Rahm Emanuel's term, upon approval and implementation of the budget, the Civic Federation will be producing a final report on the status of the forty recommendations made in *Recommendations for a Financially*

Sustainable City of Chicago. The following section highlights the City's major accomplishments and remaining challenges from the past year.

Pension Funds

The Civic Federation offered five recommendations to reform the City's pension system, which were estimated to have a high financial impact reflected in a significant reduction of liabilities for the City. On June 9, 2014, Governor Pat Quinn signed into law Public Act 98-0641, a set of pension reforms aimed to stabilize the City's Municipal Employees' Annuity and Benefit Fund (MEABF) and the Laborers' and Retirement Board Employees' Annuity and Benefit Fund (LABF). The Civic Federation supported the reforms, which incorporated parts of two of the Civic Federation's five recommendations.

Reduce Benefits Not Yet Earned By Current Employees

P.A. 98-0641 goes beyond the Civic Federation's 2011 recommendation in reducing benefits already earned by employees and retirees. It reduces the annual automatic increase, also known as the cost of living increase (COLA), from 3% compounded annually to the lesser of 3% or half the increase in the consumer price index (CPI) using a simple interest calculation. The change applies to current retirees and employees hired before January 1, 2011. Additionally, a COLA pause will occur for all current and future annuitants in 2017, 2019 and 2025. Low-income annuitants are protected from the COLA pause and are also guaranteed an annual increase of at least 1%, no matter how low CPI goes.

Increase Employer and Employee Contributions to Meet the Actuarially-Based Needs of the Funds

P.A. 98-0641 increases the employer's contributions along a funding ramp beginning in 2015. The City's contribution will increase over five years from the current 1:1 matching rate for the Laborers' Fund (LABF) and 1.25:1 matching rate for the Municipal Fund (MEABF) to 2.8:1 for LABF and 3.05:1 for MEABF. According to the City, the contributions will then meet the actuarially required amounts necessary to bring the funds to 90 percent funded in 40 years. Employee contributions will increase by 0.5% of pensionable pay each year for five years.

The Civic Federation supports the pension reform legislation and commends the City for working with labor unions and legislators to enact a law that will likely have a significant impact on the City's finances. However, there is still much room for improvement. P.A. 98-0641 did not address the severe funding crisis in the Police and Fire Pension Funds. Without a comprehensive plan to reform benefits and contribution levels, the City anticipates having to pay $839.0 million for the Police and Fire Funds in 2015 (payable in 2016).[29]

The City has not yet made efforts on the Federation's other pension reform recommendations, including that the City study ways to consolidate or merge its pension funds, to revise the composition of the pension boards of trustees into a tripartite structure including independent

[29] City of Chicago, Annual Financial Analysis 2014, p. 89.

taxpayer representation and to end the City subsidy of Chicago Public Schools' employer contribution to MEABF.

Create a Policy Analysis Office for the City Council

Among the Civic Federation's recommendations for efficiencies related to governance was a recommendation to create an independent policy analysis. Such an office is essential to evaluate the complex budgets, privatization proposals and ratings agency actions that have had major financial impacts on the City's operations in recent years.

On December 11, 2013, the City Council approved an ordinance to establish the City Council Office of Financial Analysis (COFA), modeled on agencies established in the cities of New York, San Diego and Pittsburgh.

The Federation strongly supports the creation of COFA, which once implemented will give the City Council the tools and resources it needs to be a more effective steward of the City's finances.

Implement a Comprehensive Right-of-Way Management Program

In an effort to minimize inefficiencies associated with complex public and private collaborations for work within the public right-of-way, the Civic Federation recommended that the City implement a right-of-way management program. The program would aim to better coordinate and manage street excavations and to create right-of-way use standards that would result in punitive actions. The City's Department of Transportation (CDOT) created the Project Management Office in 2012 and has since increased coordination on infrastructure improvement projects. According to the City in 2014, CDOT, the Department of Water Management and utilities have worked together to reduce conflicts that would have led to multiple excavations. The Project Management Office has also set new standards for restoring the public way after construction, which has led to utilities resurfacing more street miles.[30]

The Federation commends the City for implementing the Project Management Office. With increased communication and better management of these infrastructure projects, the City will likely reduce incidents of duplicative work and will increase the accountability of outside entities performing projects on the public way.

APPROPRIATIONS

The following section details the City's proposed appropriations for FY2015 as compared to adopted appropriations for FY2014 and adopted and actual expenditures when available for FY2011 through FY2013. Appropriations are compared by fund, object and program area across all local funds. The program area analysis also includes grant appropriations. Local funds include the Corporate Fund, Water Fund, Vehicle Tax Fund, Motor Fuel Tax Fund, Sewer Fund, Airport

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[30] City of Chicago, "Mayor Emanuel Marks Halfway Point for 2014 Street Resurfacing," press release, September 5, 2014.

Funds (Chicago Midway and Chicago O'Hare Airport Funds), Pension Funds and All Other Local Funds.[31] Local funds do not include grant funds.

Appropriation Trends by Fund for Local Funds

The FY2015 proposed budget projects that net appropriations for all funds will increase by 5.0% to approximately $7.3 billion from FY2014 adopted appropriations of just under $7.0 billion. Appropriations for the Corporate Fund will increase by 7.4%, or $243.9 million, from approximately $3.3 billion in FY2014 to $3.5 billion in FY2015, due in part to a change in how pension fund payments are accounted for in this year's budget.

The Special Revenue Fund, which includes appropriations for the operation of and revenue generated for specific activities that require special accounting procedures, will increase by 18.5% from FY2014 adopted appropriations. Appropriations for the Debt Service Fund will increase by 3.6%, or $29.0 million. Enterprise Fund appropriations, which fund business-type operations that are typically self-supporting and include the two airports, water and sewer operations, are increasing by 5.9%, or $135.7 million, over the two-year period. Pension Fund appropriations are also proposed to increase by $78.8 million or 16.5%. Appropriations to the Pension Funds typically reflect changes in payroll from two years prior because, per state statute, the City's pension contributions are a multiple of employee payroll deductions made two years prior. However, starting in FY2015 the Municipal and Laborers Funds will be funded on a five-year ramp that starts the City's 40-year plan to get the Funds to 90% funded.

Net appropriations are projected to rise by 19.3%, or $1.2 billion, in the five-year period since FY2011. The City's Debt Service Fund will see the largest percentage increase since FY2011 of 41.3%. The Enterprise Fund will see the largest dollar increase over the time frame, at an increase of $626.8 million. The 34.4% increase in Enterprise Fund appropriations from FY2011 to FY2015 is due in part to the water and sewer repairs and upgrades funded with revenue from these rate increases and an increase in the O'Hare and Midway airport funds, which are set at a level necessary to pay debt service and support operations at the airports.[32] The following table outlines the appropriations by fund for FY2011-FY2015 and includes two-year and five-year trend analyses.

City of Chicago Appropriations by Fund for Local Funds: FY2011-FY2015 (in $ millions)

	FY2011 Adopted	FY2012 Adopted	FY2013 Adopted	FY2014 Adopted	FY2015 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund	$ 3,263.7	$ 3,098.4	$ 3,161.8	$ 3,290.2	$ 3,534.1	$ 243.9	7.4%	$ 270.4	8.3%
Special Revenue Fund	$ 445.6	$ 473.2	$ 484.4	$ 523.0	$ 619.7	$ 96.7	18.5%	$ 174.1	39.1%
Pension Funds	$ 450.5	$ 476.4	$ 479.4	$ 478.3	$ 557.1	$ 78.8	16.5%	$ 106.6	23.7%
Debt Service Fund	$ 584.9	$ 646.6	$ 708.3	$ 797.4	$ 826.4	$ 29.0	3.6%	$ 241.5	41.3%
Enterprise Fund	$ 1,822.6	$ 2,001.6	$ 2,108.0	$ 2,313.7	$ 2,449.4	$ 135.7	5.9%	$ 626.8	34.4%
Total Resources	**$ 6,567.3**	**$ 6,696.2**	**$ 6,941.9**	**$ 7,402.6**	**$ 7,986.7**	**$ 584.1**	**7.9%**	**$ 1,419.4**	**21.6%**
Less Proceeds of Debt	$ (70.4)	$ (70.5)	$ (72.3)	$ (95.0)	$ (95.3)	$ (0.3)	0.3%	$ (24.9)	35.4%
Less Internal Transfer	$ (344.4)	$ (330.3)	$ (324.5)	$ (316.0)	$ (552.2)	$ (236.2)	74.7%	$ (207.8)	60.3%
Net Appropriation	**$ 6,152.5**	**$ 6,295.4**	**$ 6,545.1**	**$ 6,991.6**	**$ 7,339.2**	**$ 347.6**	**5.0%**	**$ 1,186.7**	**19.3%**

Note: Excludes grant funds. FY2011-FY2014 adopted figures are used because year-end estimates or actuals are not available.
Source: City of Chicago, Appropriation Ordinances, FY2011-FY2014 and Budget Overview FY2015.

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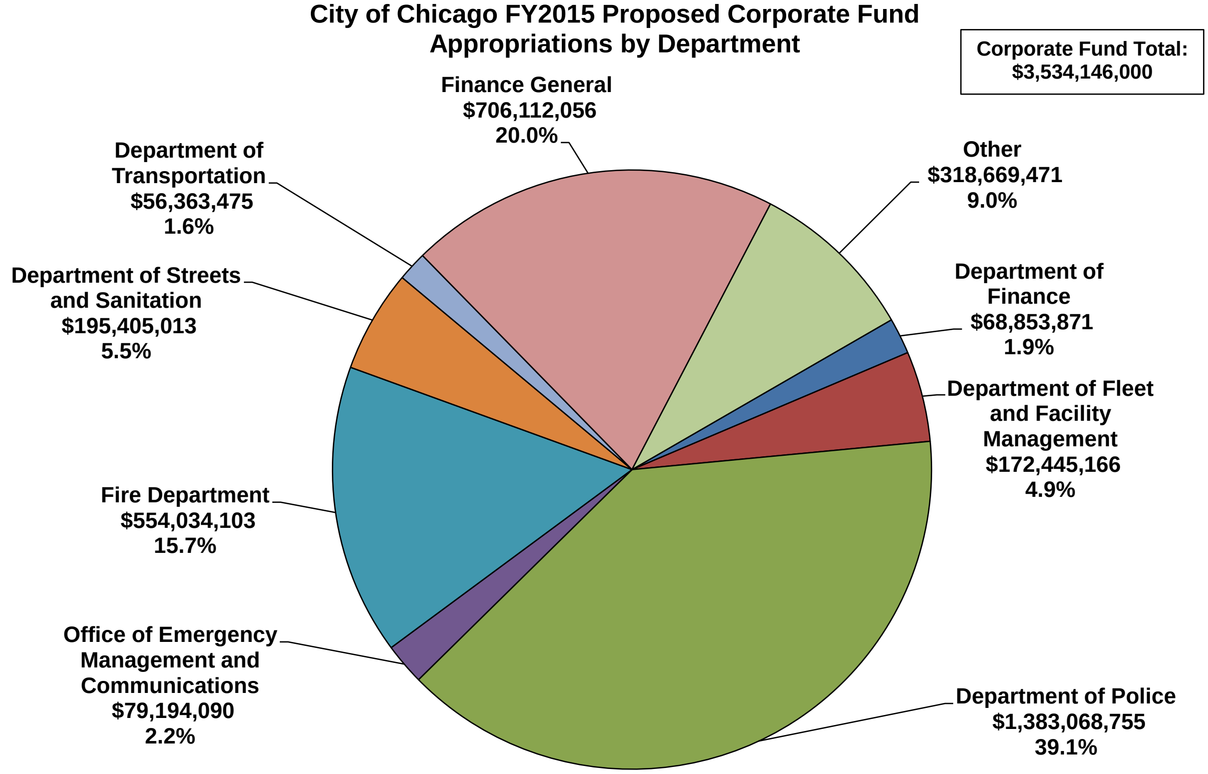
[31] See notes on figures *City of Chicago All Local Fund Appropriations by Fund: FY2014 & FY2015* and *City of Chicago All Local Fund Appropriations by Fund: FY2011-FY2015* for further detail.
[32] City of Chicago, 2014 Annual Financial Analysis, p. 58.

The following chart illustrates FY2015 proposed Corporate Fund appropriations by department. Several departments are represented in the Other category as these departments each represent less than 1.0% of total Corporate Fund appropriations.[33] Public Safety, which consists of the Police and Fire departments and the Office of Emergency Management and Communications, represents 57.1% of the Corporate Fund. Finance General appropriations represent 20.0% of the

[33] See note in pie chart above that lists the departments that are included in Other.

Corporate Fund and consist of employee health insurance benefit costs, contributions to pension funds and long-term debt service payments shared across departments.[34]

City of Chicago FY2015 Proposed Corporate Fund Appropriations by Department



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

Source: City of Chicago, FY2015 Budget Recommendations, Summary D.

The following table shows five-year trends of Corporate Fund actual appropriations for FY2011-FY2013, FY2014 adopted appropriations and proposed appropriations for FY2015 that have been allocated for Public Safety. Between FY2011 and FY2015, appropriations for Public Safety as a share of Corporate Fund appropriations will decline slightly, decreasing from 57.5% in FY2011 to 57.1% in FY2015. In the same period, appropriations for Police[35] will increase by

[34] City of Chicago, FY2014 Budget Overview, p. 131.
[35] Police includes the Chicago Police Board, the Independent Police Review Authority and the Chicago Police Department

$78.4 million, or 6.0%, while Fire Department appropriations will increase by $70.6 million, or 14.6%. Spending for the Office of Emergency Management and Communications will decrease by 11.3% from $89.3 million in FY2011 to $79.2 million in FY2015.

City of Chicago Corporate Fund
Public Safety as % of Total Corporate Fund Appropriations: FY2011-FY2015
(in $ millions)

Department	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Adopted	FY2015 Proposed	Five-Year $ Change	Five-Year % Change
Police	$ 1,304.6	$ 1,285.9	$ 1,319.0	$ 1,300.5	$ 1,383.1	$ 78.4	6.0%
Office of Emergency Management and Communications	$ 89.3	$ 83.1	$ 82.1	$ 79.1	$ 79.2	$ (10.1)	-11.3%
Fire Department	$ 483.4	$ 537.0	$ 524.9	$ 537.0	$ 554.0	$ 70.6	14.6%
All Other Departments	$ 1,386.3	$ 1,152.4	$ 1,152.4	$ 1,373.6	$ 1,517.8	$ 131.5	9.5%
Total Corporate Fund Appropriations	**$ 3,263.7**	**$ 3,058.4**	**$ 3,115.9**	**$ 3,290.2**	**$ 3,534.1**	**$ 270.4**	**8.3%**
Public Safety as % of Total	**57.5%**	**62.3%**	**61.8%**	**58.3%**	**57.1%**	**-0.5%**	**-0.8%**
All Other Department as % of Total	**42.5%**	**37.7%**	**38.2%**	**41.7%**	**42.9%**	**0.5%**	**1.1%**

Note: Police includes Police Board, Independent Police Review Authority and Department of Police.
Source: City of Chicago, FY2013-FY2015 Budget Recommendations, Summary F.

Appropriation Trends by Object

In a comparison of two-year and five-year appropriations trends by object, adopted appropriations were used because actual expenditures by object were not available. The FY2015 City of Chicago budget proposes a net appropriation of $7.3 billion, excluding projected grant funds. This is an increase of 5.0%, or $347.6 million, from the FY2014 adopted appropriation of nearly $7.0 billion. Travel appropriations will remain flat over the two-year period at $1.9 million, as will Permanent Improvement and Land at $2.9 million.

Specific Items and Contingencies will rise by the greatest dollar amount, increasing by $450.4 million or 14.9%. This category includes payments for torts and non-tort judgments, outside counsel expenses and expert costs, costs for hospital administration and medical expenses for employees injured who are not covered under the Workers' Compensation Act and for physical exams.

Despite the City's efforts to reduce personnel costs by eliminating vacancies and making changes to retiree health care and the structure of the City's HMO that have offset normal health care inflation.[36] Personnel Services appropriations will increase by $120.6 million, or 3.6%, to nearly $3.5 billion. Contractual Services will rise by $10.3 million or 1.4%. These services include information technology costs, waste disposal fees, property rental, custodial services for City facilities and contracts for landscaping, engineering and other professional services.[37]

Appropriations for Commodities and Equipment will increase by $1.9 million, or 0.7%, and $1.0 million, or 6.1%, respectively. Commodities appropriations are used to purchase a variety of materials including repair parts, fuel, electricity, office supplies and sanitation supplies.

Over the five-year period from FY2011 to FY2015, net appropriations will rise by $1,186.5 million, or 19.3%. Specific Items/Contingencies will experience the greatest increase in dollar amount, rising by $1,145.3 million, or 49.1%, due primarily to increases in capital financing,

[36] City of Chicago, FY2015 Budget Overview, p. 20.
[37] City of Chicago, FY2015 Budget Overview, p. 20.

debt service requirements and transfers between funds.

Personnel Services appropriations will increase by $165.5 million, or 5.0%, over the same period. Commodities appropriations will increase by $111.8 million, or 77.9%, from $143.5 million in FY2011 to $255.3 million in FY2015. Travel appropriations, by contrast, will decline by 29.7%. Appropriations for Contractual Services will decline over the five-year period, by $5.1 million or 0.7%.

City of Chicago Proposed Appropriations by Object All Local Funds: FY2011-FY2015 (in $ millions)

Object	FY2011 Adopted	FY2012 Adopted	FY2013 Adopted	FY2014 Adopted	FY2015 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Personnel Services	$ 3,305.6	$ 3,204.1	$ 3,243.5	$ 3,350.5	$ 3,471.1	$ 120.6	3.6%	$ 165.5	5.0%
Contractual Services	$ 763.3	$ 652.2	$ 720.2	$ 747.8	$ 758.2	$ 10.3	1.4%	$ (5.1)	-0.7%
Travel	$ 2.7	$ 2.1	$ 1.9	$ 1.9	$ 1.9	$ (0.0)	-0.6%	$ (0.8)	-29.7%
Commodities	$ 143.5	$ 227.7	$ 233.0	$ 253.4	$ 255.3	$ 1.9	0.7%	$ 111.8	77.9%
Equipment	$ 14.6	$ 14.6	$ 15.1	$ 16.1	$ 17.0	$ 1.0	6.1%	$ 2.5	17.1%
Permanent Improvement and Land	$ 2.9	$ 2.9	$ 2.9	$ 2.9	$ 2.9	$ -	0.0%	$ 0.0	0.4%
Specific Items and Contingencies	$ 2,334.9	$ 2,589.6	$ 2,722.0	$ 3,029.8	$ 3,480.2	$ 450.4	14.9%	$ 1,145.3	49.1%
Subtotal	**$ 6,567.5**	**$ 6,693.3**	**$ 6,938.5**	**$ 7,402.6**	**$ 7,986.7**	**$ 584.2**	**7.9%**	**$ 1,419.2**	**21.6%**
Less Internal Transfers	$ (344.4)	$ (330.3)	$ (324.5)	$ (316.0)	$ (552.2)	$ (236.2)	74.8%	$ (207.8)	60.3%
Less Proceeds of Debt	$ (70.4)	$ (70.5)	$ (72.3)	$ (95.0)	$ (95.3)	$ (0.3)	0.3%	$ (24.9)	35.3%
Total	**$ 6,152.7**	**$ 6,292.4**	**$ 6,541.7**	**$ 6,991.6**	**$ 7,339.2**	**$ 347.6**	**5.0%**	**$ 1,186.5**	**19.3%**

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

Source: City of Chicago, Appropriation Ordinanaces, FY2011-FY2014 and FY2015 Budget Recommendation, Summary D.

Appropriation Trends by Program Area

In the City of Chicago budget, City agencies are organized into nine functional program areas. These areas are as follows:

- **Finance and Administration** departments manage the City's finances, personnel, legal and technology functions and day-to-day operations. These departments include the Office of the Mayor and the Departments of Finance, Law, Human Resources, Procurement Services, Fleet and Facility Management as well as City Clerk and Treasurer.
- **Legislative and Elections** departments incur the costs necessary to hold Primary and General Elections and administer appropriations for the City Council and its various committees.
- **City Development** departments include the City's Department of Planning Development and Department of Cultural Affairs and Special Events, which handle community, economic, cultural and infrastructure development in the City.
- **Community Services** departments include the Chicago Public Library, Department of Public Health and the Mayor's Office for People with Disabilities. These departments provide services such as home heating assistance programs, assistance for the disabled, affordable housing and homeowner programs and Chicago's Plan to End Homelessness.
- **Public Safety** is composed of the Departments of Police and Fire and the Office of Emergency Management and Communications.
- **Regulatory** departments are responsible for the day-to-day enforcement of City ordinances and include the Department of Buildings, the Department of Business Affairs and Consumer Protection, the Board of Ethics and the Office of the Inspector General.

- **Infrastructure Services** departments are responsible for the reconstruction of streets, sidewalks and bridges and the issuance of permits. These departments include Transportation and Streets and Sanitation.
- **Public Service Enterprises,** comprising the Departments of Water Management and Aviation, which manages O'Hare and Midway Airports.
- **General Financing Requirements** are pension and other employee benefits, long-term debt payments, and other cross-departmental expenses.

In a comparison of FY2014 adopted and FY2015 proposed appropriations, spending by program area, including grant funding, will increase by $820.2 million, or 9.4%. Grant funds help provide services to City residents while relieving the operating budget. However, a government cannot be overly reliant on grants because grants are non-recurring revenue sources that are only available for fixed amounts of time. For program areas receiving grant funds, Public Service Enterprises will increase by the greatest dollar amount, by $182.4 million, or 21.1%, primarily due to an increase in grants of $164.7 million, or 92.3%.

Appropriations for General Financing Requirements will increase significantly over the two-year period, growing by $391.5 million or 11%. The increase is primarily due to the same changes in the Specific Items/Contingencies Fund described earlier in this section, including funding for capital improvement projects for the City's water and sewer systems and airports, debt service payments and increasing Real Property Transfer Tax revenues, which are transferred to the Chicago Transit Authority. The increase in appropriations for General Financing Requirements is also the result of a rise in debt service payments. The General Financing Requirements for FY2015 includes a total of $550 million in employee and annuitant pension payments and a total of $1.75 billion for the payment of debt service. It also includes $459 million in employee benefit costs (excluding pension costs) for active employees and annuitants. Nearly $3.7 million in new TIF revenue will also be included in the General Financing Requirements Fund.

Appropriations for Finance and Administration, Legislative and Elections, Community Services and Public Safety will experience increases ranging from $7.3 million to $114.1 million. The most significant decrease will occur in Regulatory as appropriations will decrease by $6.2 million, or 8.5%, due to a decline in grant funding of $7.0 million or 43.5%.

Estimated grant fund appropriations will rise by 17.9% from $1.3 billion in FY2014 to $1.6 billion in FY2015. In both years, grants account for the majority of funding for City Development, Community Services and Infrastructure Services.

City of Chicago Appropriations by Function FY2014 & FY2015 (in $ millions)	FY2014 Adopted	FY2015 Proposed	$ Change	% Change
Finance and Administration				
Local Fund	$ 514.6	$ 530.9	$ 16.3	3.2%
Grants	$ 33.1	$ 43.9	$ 10.8	32.6%
Subtotal Finance and Administration	**$ 547.7**	**$ 574.8**	**$ 27.1**	**4.9%**
Legislative and Elections				
Local Fund	$ 38.7	$ 52.5	$ 13.8	35.7%
Grants	$ -	$ -	$ -	0.0%
Subtotal Legislative and Elections	**$ 38.7**	**$ 52.5**	**$ 13.8**	**35.7%**
City Development				
Local Fund	$ 62.6	$ 70.8	$ 8.2	13.1%
Grants	$ 124.3	$ 115.7	$ (8.6)	-6.9%
Subtotal City Development	**$ 186.9**	**$ 186.5**	**$ (0.4)**	**-0.2%**
Community Services				
Local Fund	$ 135.5	$ 147.6	$ 12.1	8.9%
Grants	$ 418.5	$ 413.7	$ (4.8)	-1.1%
Subtotal Community Services	**$ 554.0**	**$ 561.3**	**$ 7.3**	**1.3%**
Public Safety				
Local Fund	$ 1,976.1	$ 2,082.5	$ 106.4	5.4%
Grants	$ 165.0	$ 172.7	$ 7.7	4.7%
Subtotal Public Safety	**$ 2,141.1**	**$ 2,255.2**	**$ 114.1**	**5.3%**
Regulatory				
Local Fund	$ 56.6	$ 57.4	$ 0.8	1.4%
Grants	$ 16.1	$ 9.1	$ (7.0)	-43.5%
Subtotal Regulatory	**$ 72.7**	**$ 66.5**	**$ (6.2)**	**-8.5%**
Infrastructure Services				
Local Fund	$ 381.0	$ 398.5	$ 17.5	4.6%
Grants	$ 385.6	$ 458.7	$ 73.1	19.0%
Subtotal Infrastructure Services	**$ 766.6**	**$ 857.2**	**$ 90.6**	**11.8%**
Public Service Enterprises				
Local Fund	$ 687.9	$ 705.6	$ 17.7	2.6%
Grants	$ 178.4	$ 343.1	$ 164.7	92.3%
Subtotal Public Service Enterprises	**$ 866.3**	**$ 1,048.7**	**$ 182.4**	**21.1%**
General Financing Requirements				
Local Fund	$ 3,549.6	$ 3,941.1	$ 391.5	11.0%
Grants	$ -	$ -	$ -	0.0%
Subtotal General Financing Requirements	**$ 3,549.6**	**$ 3,941.1**	**$ 391.5**	**11.0%**
Subtotal All Program Areas	**$ 8,723.6**	**$ 9,543.8**	**$ 820.2**	**9.4%**
Less Internal Transfers	$ (316.0)	$ (552.2)	$ (236.2)	74.7%
Less Proceeds of Debt	$ (95.0)	$ (95.3)	$ (0.3)	0.3%
Less Grant Funds	$ (1,321.0)	$ (1,556.9)	$ (235.9)	17.9%
Total	**$ 6,991.6**	**$ 7,339.4**	**$ 347.8**	**5.0%**

Source: City of Chicago, FY2014 Appropriation Ordinance, Summary G and FY2015 Budget Recommendations, Summary G.

Between FY2011 and FY2015, appropriations by program area, including grant funds, will increase overall by $846.9 million or 9.7%. Grant funding for all program areas will decrease by $572.5 million, or 26.9%, over the five-year span.

Public Service Enterprises, General Financing Requirements, Legislative and Elections and Public Safety will experience increases in spending while the rest of the program areas will see appropriations reduced by $21.5 million to $184.4 million. City Development will see the greatest decline of 49.7% or $184.4 million. The decrease is attributable to a large drop in grant funding from $308.6 million to $115.7 million over the five-year period.

In FY2011 and FY2015, grants make up the majority of funding for City Development, Community Services and Infrastructure Services. There were no grant funds for General

Financing Requirements in FY2011 through FY2015; local fund appropriations will increase by $1,040.0 million, or 35.8%, for this program area over the five years.

City of Chicago Appropriations by Program Area: FY2011 & FY2015 (in $ millions)	FY2011 Adopted	FY2015 Proposed	$ Change	% Change
Finance and Administration				
Local Fund	$ 482.3	$ 530.9	$ 48.6	10.1%
Grants	$ 121.1	$ 43.9	$ (77.2)	-63.7%
Subtotal Finance and Administration	**$ 603.4**	**$ 574.8**	**$ (28.6)**	**-4.7%**
Legislative and Elections				
Local Fund	$ 45.0	$ 52.5	$ 7.5	16.7%
Grants	$ -	$ -	$ -	0.0%
Subtotal Legislative and Elections	**$ 45.0**	**$ 52.5**	**$ 7.5**	**16.7%**
City Development				
Local Fund	$ 62.3	$ 70.8	$ 8.5	13.6%
Grants	$ 308.6	$ 115.7	$ (192.9)	-62.5%
Subtotal City Development	**$ 370.9**	**$ 186.5**	**$ (184.4)**	**-49.7%**
Community Services				
Local Fund	$ 109.3	$ 147.6	$ 38.3	35.0%
Grants	$ 597.5	$ 413.7	$ (183.8)	-30.8%
Subtotal Community Services	**$ 706.8**	**$ 561.3**	**$ (145.5)**	**-20.6%**
Public Safety				
Local Fund	$ 1,929.0	$ 2,082.5	$ 153.5	8.0%
Grants	$ 297.3	$ 172.7	$ (124.6)	-41.9%
Subtotal Public Safety	**$ 2,226.3**	**$ 2,255.2**	**$ 28.9**	**1.3%**
Regulatory				
Local Fund	$ 55.1	$ 57.4	$ 2.3	4.2%
Grants	$ 57.9	$ 9.1	$ (48.8)	-84.3%
Subtotal Regulatory	**$ 113.0**	**$ 66.5**	**$ (46.5)**	**-41.2%**
Infrastructure Services				
Local Fund	$ 367.4	$ 398.5	$ 31.1	8.5%
Grants	$ 511.3	$ 458.7	$ (52.6)	-10.3%
Subtotal Infrastructure Services	**$ 878.7**	**$ 857.2**	**$ (21.5)**	**-2.4%**
Public Service Enterprises				
Local Fund	$ 616.0	$ 705.6	$ 89.6	14.5%
Grants	$ 235.7	$ 343.1	$ 107.4	45.6%
Subtotal Public Service Enterprises	**$ 851.7**	**$ 1,048.7**	**$ 197.0**	**23.1%**
General Financing Requirements				
Local Fund	$ 2,901.1	$ 3,941.1	$ 1,040.0	35.8%
Grants	$ -	$ -	$ -	0.0%
Subtotal General Financing Requirements	**$ 2,901.1**	**$ 3,941.1**	**$ 1,040.0**	**35.8%**
Subtotal All Program Areas	**$ 8,696.9**	**$ 9,543.8**	**$ 846.9**	**9.7%**
Less Internal Transfers	$ (344.4)	$ (552.2)	$ (207.8)	60.3%
Less Proceeds of Debt	$ (70.4)	$ (95.3)	$ (24.9)	35.3%
Less Grant Funds	$ (2,129.4)	$ (1,556.9)	$ 572.5	-26.9%
Total	**$ 6,152.7**	**$ 7,339.4**	**$ 1,186.7**	**19.3%**

Source: City of Chicago, FY2010 Appropriation Ordinance, Summary G and FY2014 Budget Recommendations, Summary G.

RESOURCES

This section of the analysis provides an overview of City of Chicago resources including analyses of all local funds, Corporate Fund revenue trends and the property tax levy. "All local funds" are the funds used by the City for its non-capital operations, including the Corporate Fund, special revenue funds, pension funds, debt service funds and enterprise funds. They exclude grant funds.[38] The Corporate Fund is the City's general fund for regular governmental operations.

This analysis examines proposed FY2015 revenue estimates, FY2014 approved budget figures and prior year actual revenues.

All Local Funds Resources Trends

The City of Chicago's total resources are projected to increase by 4.3%, or $318.8 million, to nearly $7.8 billion in FY2015. The City's resources include estimated revenues across all funds, including $32.8 million in proceeds and transfers-in into the Corporate Fund. Transfers-in are resources such as funds captured from expiring tax increment financing (TIF) districts that are moved from other funds into the corporate fund.

The exhibit below shows the City's resources for all local funds by source. Across all local funds, the top five sources of FY2015 revenue are the aviation fees, sewer and water fees, property taxes, sales taxes and utility taxes and fees. Together, these five sources total approximately $4.5 billion, or 57.2%, of total revenues. Property taxes are estimated to generate $868.2 million across all funds, which is a $8.7 million, or 1.0%, increase over the FY2014 approved budget. This total includes $36.6 million in property tax revenues collected for the City College Bond Redemption and Interest Fund. Over the past five years, property tax revenues have decreased by $11.4 million or 1.3%. Details of the property tax levy will be discussed on page 37.

Until FY2012 Proceeds and Transfers-In was one of the top five revenue sources for the City because of its practice of transferring proceeds from the long-term asset leases into the Corporate Fund to balance the City's operating budget. The amount of Proceeds and Transfers-In proposed in FY2015 is $32.8 million – a significant decrease from the FY2011 amount of $467.7 million. The FY2015 Proceeds and Transfers-In include $11.0 million in interest income from the Skyway long-term reserve fund, $2.5 million in interest income from the parking meter long-term reserve fund and funds captured from expiring and terminated Tax Increment Financing (TIF) districts and new property.[39]

The two- and five-year trends of revenue sources for all funds reflect the continuation of a number of initiatives proposed by Mayor Rahm Emanuel since his first budget, including:

- Sewer and Water revenues represent the largest two-year ($132.0 million) and five-year ($446.0) dollar increase, with revenue growing 13.0% and 63.3%, respectively, to $1.2 billion in FY2015. This reflects incremental increases to water rates enacted in the

[38] City of Chicago, FY2015 Budget Overview, p. 144.
[39] City of Chicago, FY2015 Budget Overview, p. 13.

FY2012 budget. The increased revenues are funding an accelerated capital plan to update the City's aging water infrastructure;[40]

- The second largest dollar increase in revenue since FY2011 will occur in Aviation, which will increase by $272.9 million or 26.6%. Airport revenues include landing fees, terminal rent, parking fees and revenues from concessions. Fees associated with airlines are determined by the airport annually based on the amount that is needed to pay for operating expenses and debt service;[41]
- The largest two-year percentage increase occurs with the Emergency Communications Surcharge, which will increase by 37.5%, or $33.5 million, to $122.9 million in FY2015. The increase is largely due to legislation allowing the City to increase its surcharge rate to $3.90 per month on landlines and wireless connections and 9.0% on prepaid wireless services. This rate increase frees up resources from the corporate fund to allow for increased pension contributions;[42]
- Revenues from Fines, Forfeitures & Penalties will shrink by $45.2 million, or 10.9%, from the adopted FY2014 budget. The projected decrease is largely the result of the phased roll-out of automated speed enforcement cameras and the program's greater-than-anticipated effectiveness resulting in lower-than-expected violation rates;[43]
- There are other minor decreases in projected revenues for FY2015, including a $300,000 decline in municipal parking revenues and a $4.8 million decline in special events which reflects the harsh winter during the first quarter of the fiscal year and loss in revenue due to inclement weather during the Taste of Chicago;[44]
- Over the five-year period, the largest percentage increase will occur in Other Resources, which will increase 77.5% from $299.2 million in FY2011 to $531.0 million in FY2015. The increase is largely driven by increased revenues in FY2013 and FY2014 in the debt service funds that are allocated to pay off general obligation bonded debt. These revenues come from Build America Bonds and past debt restructuring;[45] and
- The largest percentage decrease in revenues over the five-year period will occur with Municipal Parking, which will fall 29.7% from $9.1 million in FY2011 to $6.4 million in FY2015. Municipal parking should not be confused with the garage tax. Municipal parking includes revenues from various parking permits for designated parking zones throughout the City.

[40] City of Chicago, FY2015 Budget Overview, p. 16.
[41] City of Chicago, FY2015 Budget Overview, p. 16.
[42] City of Chicago, FY2015 Budget Overview, p. 14.
[43] City of Chicago, FY2015 Budget Overview, p. 15.
[44] The Employers' Expense Tax applied to businesses that employ 50 or more full-time workers or employees that perform 50% or more of their work service per calendar quarter in the City of Chicago. The tax rate was $4.00 per employee per month and was phased out beginning in July 2012.
[45] Communication with the City of Chicago budget staff, November 12, 2013.

City of Chicago All Local Funds Resources by Source: FY2011-FY2015 (in $ millions)									
Revenue	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Adopted	FY2015 Proposed	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
Aviation	$ 1,026.1	$ 1,015.7	$ 1,078.4	$ 1,295.3	$ 1,299.0	$ 3.7	0.3%	$ 272.9	26.6%
Sewer & Water	$ 704.4	$ 835.2	$ 894.8	$ 1,018.4	$ 1,150.4	$ 132.0	13.0%	$ 446.0	63.3%
Property Taxes	$ 879.6	$ 838.5	$ 769.7	$ 859.5	$ 868.2	$ 8.7	1.0%	$ (11.4)	-1.3%
Sales Taxes	$ 562.7	$ 594.3	$ 624.0	$ 636.9	$ 688.0	$ 51.1	8.0%	$ 125.3	22.3%
Utility Taxes & Fees	$ 467.6	$ 462.5	$ 456.9	$ 450.3	$ 451.8	$ 1.5	0.3%	$ (15.8)	-3.4%
Other Resources*	$ 299.2	$ 269.9	$ 251.7	$ 435.4	$ 531.0	$ 95.6	22.0%	$ 231.8	77.5%
Vehicle, Transportation & Motor Fuel Taxes	$ 377.5	$ 420.1	$ 434.1	$ 447.0	$ 434.0	$ (13.0)	-2.9%	$ 56.5	15.0%
Income Taxes/PPRT	$ 344.7	$ 391.3	$ 436.7	$ 419.8	$ 420.0	$ 0.2	0.0%	$ 75.3	21.8%
Fines, Forfeitures & Penalties	$ 263.3	$ 290.8	$ 313.5	$ 414.7	$ 369.5	$ (45.2)	-10.9%	$ 106.2	40.3%
Internal Service Earnings	$ 306.1	$ 302.9	$ 306.5	$ 318.2	$ 353.3	$ 35.1	11.0%	$ 47.2	15.4%
Transaction Taxes	$ 215.3	$ 241.1	$ 288.4	$ 284.6	$ 326.4	$ 41.8	14.7%	$ 111.1	51.6%
Recreation Taxes	$ 159.4	$ 163.2	$ 169.1	$ 182.6	$ 205.0	$ 22.4	12.3%	$ 45.6	28.6%
Licenses & Permits	$ 102.7	$ 117.6	$ 123.6	$ 131.7	$ 136.9	$ 5.2	3.9%	$ 34.2	33.3%
Charges for Services	$ 132.6	$ 124.6	$ 119.9	$ 124.5	$ 132.2	$ 7.7	6.2%	$ (0.4)	-0.3%
Business Taxes	$ 88.2	$ 108.3	$ 105.7	$ 102.5	$ 110.9	$ 8.4	8.2%	$ 22.7	25.7%
Emergency Communications Surcharge	$ 97.0	$ 86.5	$ 90.7	$ 89.4	$ 122.9	$ 33.5	37.5%	$ 25.9	26.7%
Special Events	$ 32.4	$ 37.2	$ 36.3	$ 44.9	$ 40.1	$ (4.8)	-10.7%	$ 7.7	23.8%
Lease, Rentals & Sales	$ 22.6	$ 14.7	$ 19.0	$ 22.1	$ 30.2	$ 8.1	36.7%	$ 7.6	33.6%
Municipal Parking	$ 9.1	$ 8.4	$ 6.4	$ 6.7	$ 6.4	$ (0.3)	-4.5%	$ (2.7)	-29.7%
Proceeds & Transfers In	**$ 467.7**	**$ 86.6**	**$ 21.0**	**$ 58.6**	**$ 32.8**	**$ (25.8)**	**-44.0%**	**$ (434.9)**	**-93.0%**
Prior Year Unrestricted Corporate Fund Balance	**$ -**	**$ 72.3**	**$ 77.2**	**$ 53.4**	**$ -**	**$ (53.4)**	**-100.0%**	**-**	**-**
Prior Year Unrestricted Other Fund Balance	**$ 11.5**	**$ 24.4**	**$ 56.9**	**$ 73.1**	**$ 79.4**	**$ 6.3**	**8.6%**	**$ 67.9**	**590.4%**
Total	**$ 6,569.7**	**$ 6,506.1**	**$ 6,680.5**	**$ 7,469.6**	**$ 7,788.4**	**$ 318.8**	**4.3%**	**$ 1,218.7**	**18.6%**

Note: Totals may differ due to rounding.

Sources: City of Chicago FY2014 Appropriations Ordinance, Summary A and Summary B; FY2015 Budget Overview, pp. 150-156.

*Other = Other Debt Service Funds Revenue, Other Corporate Fund Revenue and Intergovernmental Reimbursements, Interest Income, Hotel Operator's Tax, CTA Real Estate Transfer Taxes and Library Funds.

The exhibit that follows presents the resources for all local funds by fund. Some of the resource highlights by fund include:

- Tax revenues in the Corporate Fund are expected to increase in FY2015 by 12.2%. Since FY2011 these revenues will have increased by $495.7 million or 26.6%. During the same five-year period, non-tax revenues in the Corporate Fund will increase by $224.3 million, or 24.4%, from $921.1 million in FY2011 to a projected $1.1 billion in FY2015. In-depth analysis of the Corporate Fund will be presented later in this section;
- Revenues within the Special Revenue Funds will increase by $46.3 million, or 9.3%, to $541.8 million in FY2015 over FY2014. The increase is largely driven by a recovering economy and the increased surcharge on communication devices;[46]
- The City is projecting an increase of $149.3 million, or 6.5%, in Enterprise Fund revenues for a total of $2.4 billion in FY2015 from FY2014. Over five years, revenues are increasing by $718.9 million or 41.5%. As noted previously, Water & Sewer revenues are increasing due to water rate increases and Aviation revenues are established at each airport on an ongoing basis;
- Resources allocated for the pension funds will increase by $78.8 million from the FY2014 approved budget to $550 million in FY2015. Pension revenues have increased by $75.8 million, or 15.7%, over the past five years. This is due to the state pension reform law for the Municipal and Laborers' pension funds. However, the City will need to allocate more than $500 million in FY2016 in order to comply with State of Illinois legislation to make an

[46] City of Chicago, FY2015 Budget Overview, pp. 13-14.

actuarially-determined contribution toward Police and Fire pension funds.[47] For more information on the pension funds, see page 55 of this report;

- The City is projecting to use approximately $824.9 million of resources toward debt service in FY2015. This represents a $31.4 million, or 4.0%, increase from the FY2014 approved budget and a $192.4 million, or 30.4%, increase from FY2011; and
- The City is not projecting to use unreserved Corporate Fund fund balance. For more information on the City's fund balance levels, see the Reserve Funds section on page 50.

City of Chicago All Local Funds Resources by Fund: FY2011-FY2015
(in $ millions)

	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Adopted	FY2015 Proposed	2-Year $ Change	2-Year $ Change	5-Year $ Change	5-Year $ Change
Corporate Fund									
Tax Revenues	$ 1,860.2	$ 2,012.9	$ 2,101.0	$ 2,099.8	$ 2,355.9	$ 256.1	12.2%	$ 495.7	26.6%
Non-Tax Revenues	$ 921.1	$ 907.7	$ 929.4	$ 1,078.5	$ 1,145.4	$ 66.9	6.2%	$ 224.3	24.4%
Total Corporate Fund Revenue	**$ 2,781.3**	**$ 2,920.6**	**$ 3,030.4**	**$ 3,178.3**	**$ 3,501.3**	**$ 323.0**	**10.2%**	**$ 720.0**	**25.9%**
Special Revenue Funds									
Vehicle & Motor Fuel Taxes	$ 222.0	$ 238.3	$ 247.6	$ 240.6	$ 241.9	$ 1.3	0.5%	$ 19.9	9.0%
Library	$ 87.7	$ 81.3	$ 83.6	$ 84.5	$ 85.6	$ 1.1	1.3%	$ (2.1)	-2.4%
Emergency Communication	$ 83.7	$ 64.2	$ 68.4	$ 67.1	$ 100.6	$ 33.5	49.9%	$ 16.9	20.2%
Special Events and Hotel Tax	$ 32.4	$ 37.2	$ 39.6	$ 39.1	$ 40.1	$ 1.0	2.6%	$ 7.7	23.8%
CTA Real Estate Transfer Tax	$ 35.2	$ 40.8	$ 56.1	$ 55.8	$ 63.4	$ 7.6	13.6%	$ 28.2	80.1%
TIF Administration	$ 3.9	$ 4.4	$ 5.4	$ 8.4	$ 10.2	$ 1.8	21.4%	$ 6.3	161.5%
Total Special Revenue Funds Revenue	**$ 464.9**	**$ 466.2**	**$ 500.7**	**$ 495.5**	**$ 541.8**	**$ 46.3**	**9.3%**	**$ 76.9**	**16.5%**
Enterprise Funds									
Water & Sewer	$ 704.4	$ 835.2	$ 894.8	$ 1,018.3	$ 1,150.4	$ 132.1	13.0%	$ 446.0	63.3%
Aviation	$ 1,026.1	$ 1,015.7	$ 1,078.4	$ 1,281.8	$ 1,299.0	$ 17.2	1.3%	$ 272.9	26.6%
Total Enterprise Funds Revenue	**$ 1,730.5**	**$ 1,850.9**	**$ 1,973.2**	**$ 2,300.1**	**$ 2,449.4**	**$ 149.3**	**6.5%**	**$ 718.9**	**41.5%**
Pension Funds									
Municipal Employees	$ 176.5	$ 163.9	$ 151.8	$ 162.6	$ 242.7	$ 80.1	49.3%	$ 66.2	37.5%
Laborers and Retirement Board Employees	$ 19.1	$ 16.0	$ 13.9	$ 15.1	$ 24.0	$ 8.9	58.9%	$ 4.9	25.7%
Policemen and Firemen	$ 285.7	$ 279.1	$ 279.2	$ 300.6	$ 290.4	$ (10.2)	-3.4%	$ 4.7	1.6%
Total Pension Funds Revenue	**$ 481.3**	**$ 459.0**	**$ 444.9**	**$ 478.3**	**$ 557.1**	**$ 78.8**	**16.5%**	**$ 75.8**	**15.7%**
Debt Service Funds									
Bond Redemption and Interest	$ 632.5	$ 626.3	$ 579.5	$ 793.5	$ 824.9	$ 31.4	4.0%	$ 192.4	30.4%
Total Debt Service Funds Revenue	**$ 632.5**	**$ 626.3**	**$ 579.5**	**$ 793.5**	**$ 824.9**	**$ 31.4**	**4.0%**	**$ 192.4**	**30.4%**
Total Revenues	**$ 6,090.5**	**$ 6,323.0**	**$ 6,528.7**	**$ 7,245.7**	**$ 7,874.5**	**$ 628.8**	**8.7%**	**$ 1,784.0**	**29.3%**
Corporate Fund Proceeds & Transfers In	**$ 467.7**	**$ 86.6**	**$ 21.0**	**$ 57.3**	**$ 32.8**	**$ (24.5)**	**-42.8%**	**$ (434.9)**	**-93.0%**
Corporate Fund Prior Year Unrestricted Fund Balance	**$ -**	**$ 72.3**	**$ 77.2**	**$ 53.4**	**$ -**	**$ (53.4)**	**-100.0%**	**$ -**	**-**
Other Funds Prior Year Unrestricted Fund Balance	**$ 11.6**	**$ 4.3**	**$ 21.8**	**$ 31.4**	**$ 79.4**	**$ 48.0**	**152.9%**	**$ 67.8**	**584.5%**
Total Resources	**$ 6,569.8**	**$ 6,486.2**	**$ 6,648.7**	**$ 7,387.8**	**$ 7,986.7**	**$ 598.9**	**8.1%**	**$ 1,416.9**	**21.6%**

Note: Minor differences may appear due to rounding.
Sources: City of Chicago FY2014 Appropriations Ordinance, Summary A and Summary B; FY2015 Budget Overview, pp. 150-156.

Corporate Fund Resources Trends

The Corporate Fund is the City's general operating fund. It supports a wide variety of services including public safety, public health, sanitation and transportation. The City projects a 7.5%, or $247.5 million increase in Corporate Fund resources in FY2015 from the FY2014 approved budget.

The Corporate Fund's tax revenues are projected to increase by 12.2% in FY2015, rising $255.9 million from FY2014 adopted appropriations to $2.4 billion in FY2015. The increase is primarily due to a 8.6% increase in sales and use taxes as a result of the growing economy and a 43.0% increase in income and personal property replacement taxes (PPRT) as a result of a change in the way the City budgets PPRT revenue, all of which will flow into the corporate fund beginning this fiscal year.[48] Additionally, the City anticipates a 14.7% increase in transaction taxes due to

[47] City of Chicago, Annual Financial Analysis 2014, pp. 51-52.
[48] City of Chicago, FY2015 Budget Overview, p. 12.

continued growth in the housing market and a 12.3% increase in recreation taxes as a result of the proposed elimination of the partial exemption from the amusement tax for cable companies, as well as a proposed elimination of the partial exemption applied to skybox sales at sporting events.[49] Collectively, these four tax sources will generate nearly $1.6 billion in FY2015, an increase of $241.6 million, or 17.3%, from the FY2014 adopted budget. Business tax revenues are expected to increase in FY2015. Business taxes will generate $110.9 million in FY2015, an $8.4 million increase from the FY2014 approved budget. The increase is the result of higher hotel occupancy rates and the capture of current and prior year revenues from online resellers of hotel rooms, which were previously not collected.[50]

Non-tax revenues are expected to increase by $69.5 million, or 6.5%, to $1.1 billion. The majority of this growth is due to a $93.9 million, or 25.0%, growth in reimbursements, interest and other revenue sources, which consist of amounts transferred to the corporate fund for central office services such as information technology, police and fire services, street and building maintenance and administrative services.[51]

Over the five-year period beginning in FY2011, all tax and non-tax revenues are expected to increase except for utility tax & franchise fees, charges for services and municipal parking. The largest dollar increase over the five years occurs with income taxes (including PPRT), which are projected to increase by $183.5 million or 77.6%, primarily due to a change in the way the City budgets PPRT revenue, all of which will flow into the corporate fund in 2015.[52] This budget reflects an overall improving economy and the City's efforts to eliminate certain tax credits provided to companies purchasing fuel or supplies outside city limits.[53]

The City's Corporate Fund resources include $32.8 million of proceeds and transfers-in, including $11.0 million in interest income from the Skyway long-term reserve fund, $2.5 million in interest income from the parking meter long-term reserve fund, and funds from expiring and terminated tax increment financing (TIF) districts and tax revenue from new property.[54]

[49] City of Chicago, FY2015 Budget Overview, pp. 9-12.
[50] City of Chicago, FY2015 Budget Overview, p. 11 and communication with the City of Chicago budget staff, October, 14, 2014.
[51] City of Chicago, FY2015 Budget Overview, p. 13.
[52] City of Chicago, FY2015 Budget Overview, p. 12.
[53] City of Chicago, FY2015 Budget Overview, p. 12.
[54] City of Chicago, FY2015 Budget Overview, p. 13. These transfers-in come from interest generated on the long- and mid-term reserves established with the lease transactions of the parking meters and the Skyway.

City of Chicago Corporate Fund Resources: FY2011-FY2015 (in $ millions)									
Tax Revenue	**FY2011 Actual**	**FY2012 Actual**	**FY2013 Actual**	**FY2014 Adopted**	**FY2015 Proposed**	**2-Year $ Change**	**2-Year % Change**	**5-Year $ Change**	**5-Year % Change**
Sales & Use Taxes	$ 536.3	$ 572.2	$ 583.7	$ 596.8	$ 647.9	$ 51.1	8.6%	$ 111.6	20.8%
Utility Tax & Franchise Fees	$ 467.6	$ 462.5	$ 456.9	$ 450.3	$ 451.8	$ 1.5	0.3%	$ (15.8)	-3.4%
Income Taxes (Incl. PPRT)	$ 236.5	$ 282.8	$ 308.9	$ 293.7	$ 420.0	$ 126.3	43.0%	$ 183.5	77.6%
Transaction Taxes	$ 215.3	$ 241.1	$ 288.4	$ 284.6	$ 326.4	$ 41.8	14.7%	$ 111.1	51.6%
Transportation Taxes	$ 151.9	$ 177.9	$ 182.5	$ 183.7	$ 188.0	$ 4.3	2.3%	$ 36.1	23.8%
Recreation Taxes	$ 159.4	$ 163.2	$ 169.1	$ 182.6	$ 205.0	$ 22.4	12.3%	$ 45.6	28.6%
Business Taxes	$ 88.2	$ 108.3	$ 105.7	$ 102.5	$ 110.9	$ 8.4	8.2%	$ 22.7	25.7%
Other	$ 4.9	$ 5.0	$ 5.9	$ 5.6	$ 5.7	$ 0.1	1.8%	$ 0.8	16.3%
Total Tax Revenue	**$ 1,860.1**	**$ 2,013.0**	**$ 2,101.1**	**$ 2,099.8**	**$ 2,355.7**	**$ 255.9**	**12.2%**	**$ 495.6**	**26.6%**
Non-Tax Revenue									
Fines & Forfeitures	$ 263.3	$ 290.8	$ 313.5	$ 414.7	$ 369.5	$ (45.2)	-10.9%	$ 106.2	40.3%
Licenses & Permits	$ 102.7	$ 117.6	$ 123.6	$ 131.7	$ 136.9	$ 5.2	3.9%	$ 34.2	33.3%
Charges for Services	$ 132.6	$ 124.6	$ 119.9	$ 124.5	$ 132.3	$ 7.8	6.3%	$ (0.3)	-0.2%
Leases, Rentals & Sales	$ 22.6	$ 14.7	$ 19.0	$ 22.1	$ 30.2	$ 8.1	36.7%	$ 7.6	33.6%
Municipal Parking	$ 9.1	$ 8.4	$ 6.4	$ 6.7	$ 6.4	$ (0.3)	-4.5%	$ (2.7)	-29.7%
Reimbursement,Interest,Other	$ 390.8	$ 351.6	$ 346.9	$ 376.2	$ 470.1	$ 93.9	25.0%	$ 79.3	20.3%
Total Non-Tax Revenue	**$ 921.1**	**$ 907.7**	**$ 929.3**	**$ 1,075.9**	**$ 1,145.4**	**$ 69.5**	**6.5%**	**$ 224.3**	**24.4%**
Prior Year Unrestricted Fund Balance	**$ -**	**$ 72.3**	**$ 77.2**	**$ 53.4**	**$ -**	$ (53.4)	-100.0%	$ -	-
Proceeds & Transfers In	**$ 467.7**	**$ 86.6**	**$ 21.0**	**$ 57.3**	**$ 32.8**	$ (24.5)	-42.8%	$ (434.9)	-93.0%
Total Corporate Resources	**$ 3,248.9**	**$ 3,079.6**	**$ 3,128.6**	**$ 3,286.4**	**$ 3,533.9**	**$ 247.5**	**7.5%**	**$ 285.0**	**8.8%**

Source: City of Chicago FY2014 Appropriations Ordinance, Summary A and FY2015 Budget Overview, pp. 150-156.

Property Tax Revenues

The City of Chicago's proposed 2015 property tax levy for City government purposes is $831.5 million, which is an increase of $7.5 million, or 0.9%, from the FY2014 levy. The increase in the levy includes $26.0 million captured from new property and expiring or terminating tax increment financing (TIF) districts in 2012 through 2014 and $7.5 million in 2015.[55] The City's total property tax levy is $862.9 million, which includes $36.6 million levied on behalf of City Colleges of Chicago.

The proposed 2015 levy includes $81.9 million of property taxes levied for the Chicago Public Library, which is a department of city government.[56] A portion of the library levy funds debt service on bonds issued for the library's capital program, but some of the levy pays for short-term borrowing to fund library operating expenses. The City issues short-term debt (tax anticipation notes) for the library in order to bridge the roughly 18-month gap between approval of the levy and collection of taxes. Taxes levied for FY2015 will not be collected until 2016 and any increase appears on the second installment of tax bills due to be sent in the summer of 2016.

The other two City government purposes for which the City levies property taxes are pension contributions and debt service. Prior to tax year 2015, property taxes levied for pensions are a direct result of payroll increases, including retroactive increases, since the City's employer contributions to pensions were set in State statute as a multiple of employee contributions made two years prior. This changes in tax year 2015 (payable in 2016), pursuant to P.A. 96-1495 which change City contribution funding based on varying plans to get to 90% funded. Employee contributions are a percentage of pay. Property taxes levied for debt service reflect the City's borrowing activities and bond payment schedule.

The levy for City government purposes was maintained at $713.5 million between FY2003 and

[55] City of Chicago, FY2015 Budget Overview, p. 18.
[56] Since 1996 the library has been listed as a separate line item on Chicago property tax bills.

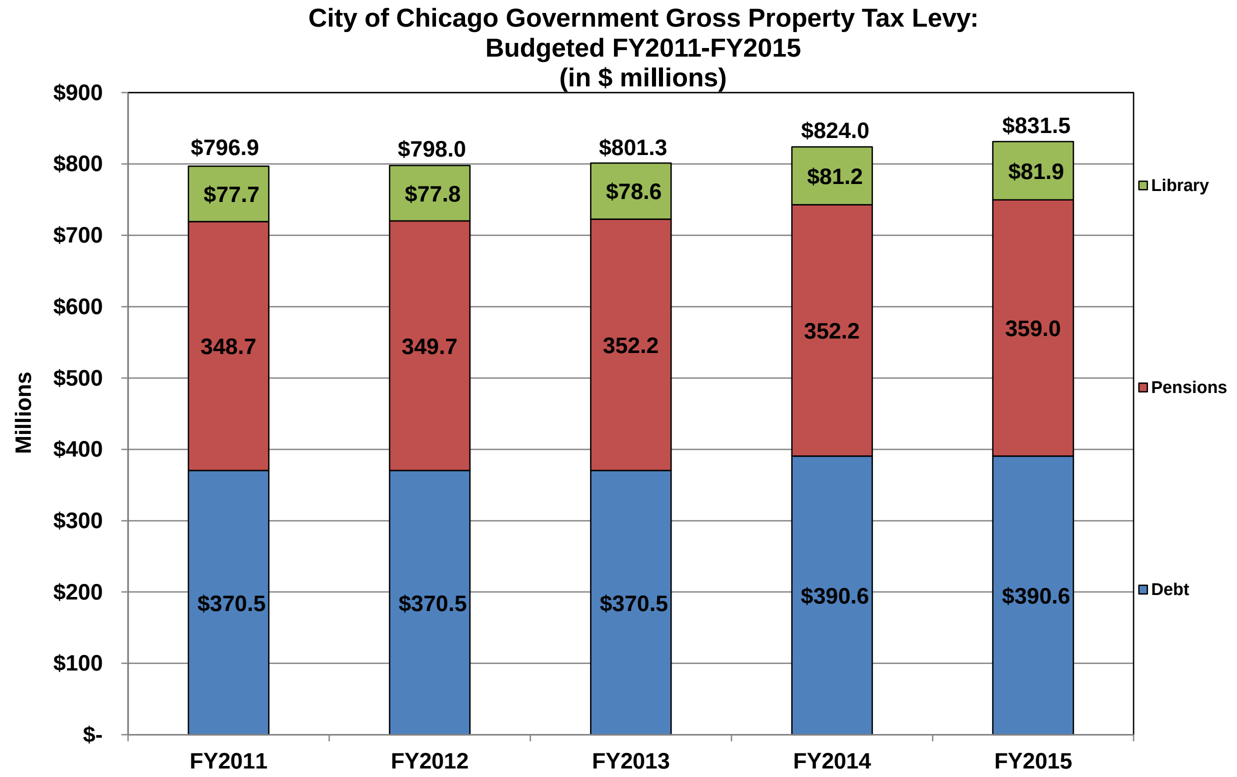
FY2007. In FY2008 the levy was increased by 11.7%, or $83.4 million, to $796.9 million.[57] The 2008 levy increase exceeded the City's self-imposed limit on property tax increases by 7.9%. As a home rule unit of government, the City of Chicago is exempt from State legal limits on property tax extension increases. However, the City has a self-imposed property tax limit that mirrors the state Property Tax Extension Limitation Law, limiting the annual increase in the aggregate property tax extension to the lesser of 5% or the rate of inflation.[58] The 2008 levy increase was paid by taxpayers in the fall of 2009, as there is a one-year lag in Cook County between the approval of a levy and the time it is reflected in a new tax rate. The levy remained at $796.9 million from FY2008 to FY2011.

In FY2012 the property tax levy increased to $798.0 million in order to capture revenue from three expiring tax increment financing (TIF) districts. The FY2012 proposed budget noted that going forward, as TIF districts expire, the City intends to shift property taxes from the districts back to the general property tax levy. These additional property tax revenues would be allocated to the pension fund levies, thus freeing up the personal property replacement tax (PPRT) revenue normally needed to make the full pension payments for general Corporate Fund use.[59] The FY2014 property levy was $824.0 million, which increased by $22.7 million or 2.8% from the previous year primarily because of revenue captured from expiring and terminated TIF districts.[60]

The City's proposed 2015 property tax levy will increase by $7.5 million, or 0.9%, to $831.5 million. The increase in the levy reflects $7.5 million in additional gross property tax revenue

[57] This was a reduction from the original budget proposal, which would have raised the property tax levy by $108 million or 15.1%.
[58] The City ordinance is Municipal Code Chapter 3-92. The state Property Tax Extension Limitation Law is 35 ILCS 200/18-185 et seq. The "aggregate extension" includes everything except property tax extensions for Special Service Areas, several kinds of bonds and a few other exceptions. On November 13, 2007, the City passed an ordinance to exclude the library levy from the definition of "aggregate extension."
[59] Information provided by City of Chicago Office of Budget and Management, November 1, 2011. City of Chicago, TIF Reform Panel Report, August 23, 2011, p. 51.
[60] City of Chicago, 2015 Budget Overview, p. 18.

captured from new property and expiring or terminating tax increment financing (TIF) districts.[61] The figure below shows the components of the property tax levy for the past five years.



Source: City of Chicago, Budgets Recommendations, Summary B, FY2011-FY2015. Excludes levies for the City Colleges of Chicago debt service.

Additional Property Tax Revenues

As discussed in the previous section, the City of Chicago's proposed 2015 property tax levy for City government purposes, including the library, is $831.5 million. The City has proposed to capture property tax revenue from terminating and expiring TIF districts and new property, resulting in a $7.5 million increase in 2015. There have been only slight increases in the levy since 2008. However, this figure does not represent the full amount of property tax revenues collected by the City of Chicago.

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

These three additional property tax uses are described here because it is important for property taxpayers to have an accurate description of the total amount of property taxes they actually pay as well as which governments receive those property tax dollars and for what purpose. Without

[61] City of Chicago, FY2015 Budget Overview, p. 18.

accurate descriptions, it is impossible for the public to hold elected officials responsible for the level of property taxation they impose and for the uses of those dollars.

City Colleges

The City Council adopted an ordinance on September 29, 1999 authorizing the issuance of up to $385 million in General Obligation Bonds to pay for City Colleges capital projects.[62]

The City of Chicago levies taxes to pay debt service on capital improvement bonds for the City Colleges. This is done to compensate for the expiration of the City Colleges' authority to issue debt through the Public Building Commission (PBC). Debt service limits for the City Colleges were fixed at the time the property tax cap law was implemented in 1995.[63] At that time the District's debt burden consisted of obligations issued through the PBC and paid for through an Operations and Maintenance (O&M) levy. When these obligations were fulfilled, the O&M levy was eliminated, which required the District to seek other ways to issue debt. The City of Chicago, by means of an intergovernmental agreement, now levies property taxes that are used to pay for Public Building Commission obligations that fund City Colleges projects.[64] This arrangement results in no net increase for property taxpayers, but rather transfers part of the City Colleges levy to the City of Chicago. The effect is an increase in the City of Chicago tax rate and a decrease in the City Colleges tax rate.

The City's levy for City Colleges debt was flat at $5.7 million for several years and then jumped to $33.5 million in FY2007 and to $36.6 million in FY2008.[65] It remained at $36.6 million from FY2008 through FY2013 and dropped to $35.5 million in FY2014.

Although this levy is part of the City of Chicago's tax rate and is listed as a line item in the City budget revenue estimates, it is largely absent from the budget narrative and budget totals where the City's property tax levy is described.[66] When the FY2015 gross levy of $36.6 million for City Colleges is added to the $831.5 million total listed it brings the total levy to $868.2 million, which is the amount reflected in the City's property tax rate.

Chicago Public Schools

There is an intergovernmental agreement between the City of Chicago and Chicago Public Schools through which the City levies taxes to pay for some of the school district's capital needs. The intergovernmental agreement was approved on October 1, 1997 and has been used to fund

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[62] Journal of Proceedings of the City Council, September 29, 1999. Available at http://www.chicityclerk.com/journalofproceedings90s.php.

[63] Property Tax Extension Limitation Law, 35 ILCS 200/18.

[64] Information provided by City Colleges of Chicago Finance Office, June 26, 2008.

[65] This is because the debt schedule called for interest payments only from 1999-2007. Principal had to be paid starting in 2008. See City Colleges of Chicago Capital Improvement Projects Series 1999 City of Chicago General Obligation Bonds Official Statement, p. B-7. http://emma.msrb.org/MS162961-MS138269-MD268443.pdf

[66] The City Colleges levy appears in the City's FY2015 Budget Recommendations book (p. 32) but is absent from the property tax discussion in the FY2015 Budget Overview book (p. 18).

and refund several bond issuances.[67] The City has taken on a greater role in capital funding for Chicago Public Schools following the passage of Public Act 89-15 in 1995, which gave substantial control of the school district to the Mayor of Chicago. Pursuant to that Act, the School Finance Authority (SFA), which had been created in 1980 to provide capital debt financing for Chicago Public Schools, ceased issuing debt for the schools and ended operations on June 1, 2010.[68] The SFA levied its final property tax in tax year 2007, payable in 2008.

According to the debt service schedule for bonds covered by this intergovernmental agreement, City of Chicago payments for school bonds were to increase from $18.8 million in 2008 to $91.0 million in 2009 and will remain at $91.0 million annually through 2018.[69]

The intergovernmental agreement is not mentioned in the City's budget documents. Unlike the City Colleges bond levy, it is not even listed as a line item in the City budget revenue estimates.[70] The City's financial statements refer to it only in the property tax statistics, from which the property taxes for the "School Building and Improvement Fund" are explicitly excluded.[71]

The City also issued new bonds to finance its "Modern Schools Across Chicago" school construction program. The bonds amounted to over $356 million in 2007 and $150 million in 2010.[72] Additional general obligation bonds have been issued in FY2010 and FY2011, the proceeds of which may be used to finance school district projects.[73]

The following pie chart illustrates the distribution of the City's gross proposed property tax levy for 2015 (taxes payable in 2016). Approximately 4.2% of the City's proposed FY2015 property tax levy is for City Colleges bonds and 9.4% is for the library. Roughly 41.4% is dedicated to pension payments and 45.0% of the levy is for the debt service on City bonds. The bonds issued

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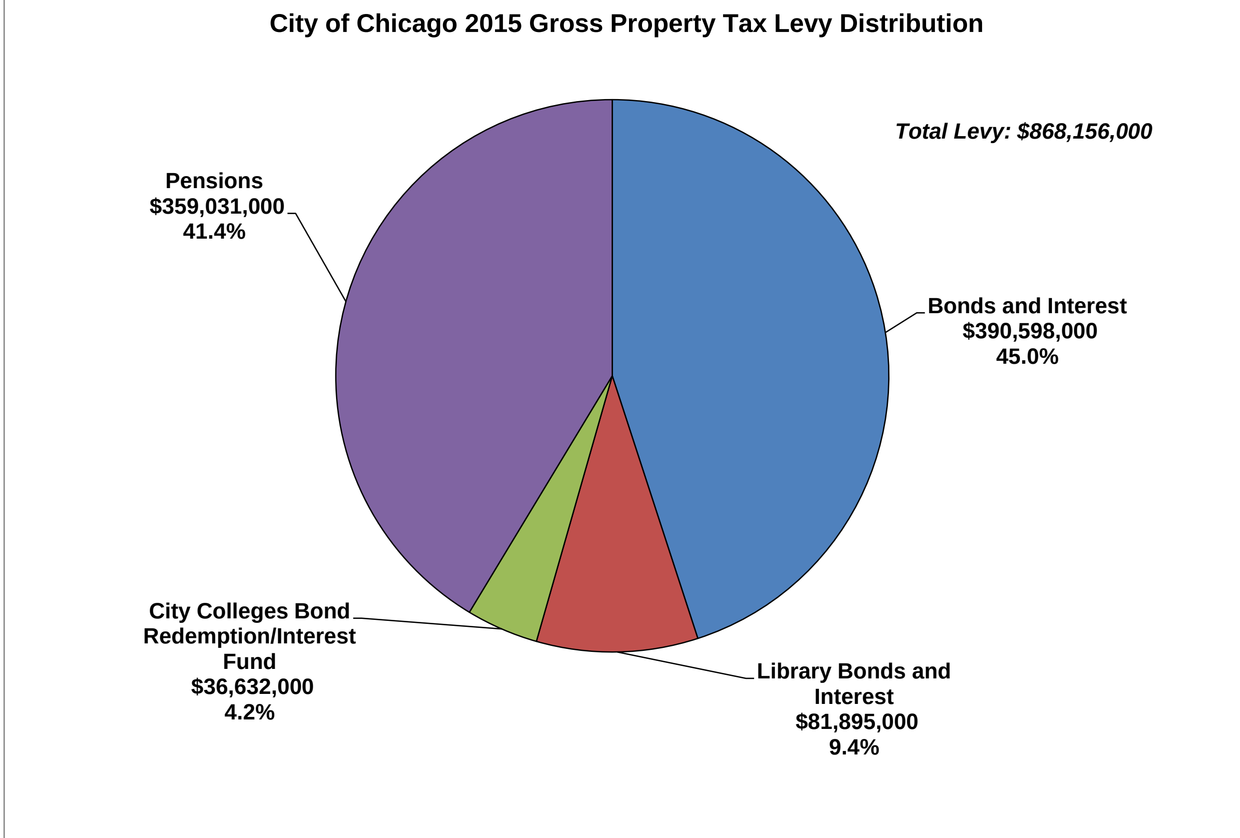
[67] Board of Education of the City of Chicago Unlimited Tax General Obligation Refunding Bond Official Statement, Series 2007A, p. 2, available at http://emma.msrb.org/MS263138-MS238446-MD465315.pdf. See also Chicago Public Schools Comprehensive Annual Financial Report for the Year Ended June 30, 2008, pp. 57, 58, 155.
[68] Board of Education of the City of Chicago Unlimited Tax General Obligation Refunding Bond Official Statement, Series 2007A, pp. 49-50, available at http://emma.msrb.org/MS263138-MS238446-MD465315.pdf. See also http://www.civicfed.org/civic-federation/blog/school-finance-authority-creation-dissolution
[69] Board of Education of the City of Chicago Unlimited Tax General Obligation Refunding Bond Official Statement, Series 2007A, p. 42, available at http://emma.msrb.org/MS263138-MS238446-MD465315.pdf.
[70] City of Chicago, FY2015 Budget Recommendations, pp. 29-35.
[71] City of Chicago, FY2012 Comprehensive Annual Financial Report, p. 144.
[72] City of Chicago, FY2007 Comprehensive Annual Financial Report, p. 26 and FY2010 Comprehensive Annual Financial Report, p. 69.
[73] City of Chicago, FY2011 Comprehensive Annual Financial Report, p. 72; FY2012, p. 72.

per the intergovernmental agreement with Chicago Public Schools are included in this latter amount but are not itemized. The total City gross levy is $868.2 million.



Source: City of Chicago FY2015 Budget Recommendations Summary B.

Tax Increment Financing Districts

The City of Chicago receives and distributes the property tax revenue for tax increment financing (TIF) districts within its boundaries. This revenue is not appropriated as part of the City budget, but is spent by the City according to the Redevelopment Plan for each TIF. There are 147 active TIFs in Chicago in 2015.[74] During the next three years eight TIF districts will expire which will allow the City to capture additional property tax revenue.[75] The City plans to move property taxes from the expired and closed districts to the general property tax levy.[76]

It is important to note that the property tax dollars collected for TIF are not a *levy*. A levy is the amount a government asks for each year and is the basis on which a tax rate is calculated. TIF does not have its own levy or rate, but is a product of applying the composite rates of all the

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74 City of Chicago, FY2015 Budget Overview, p. 131.
75 City of Chicago, FY2014 Annual Financial Analysis, p. 74.
76 City of Chicago, FY2014 Budget Overview, p. 18.

other extensions to the incremental EAV growth in a TIF district.[77] Since TIF revenue is a product of the tax rates of local governments, TIF revenue cannot be known until the tax rates of the governments are calculated. The most recent tax rates available are 2013 rates, paid in 2014.[78] For tax year 2013, the City of Chicago will collect $422.0 million in TIF revenue, down 7.2% from the $457.0 million collected in 2012. The decrease in overall TIF revenue comes after the first increase in 2012 followed three years of decline including an 11% drop in 2011 and 2% drop in 2010.[79]

TIF revenue is available to the City of Chicago for implementation of TIF Redevelopment Plans. Some TIF revenue is used to support capital projects of the City or other local governments, such as building schools and parks, provided that these projects fit the Redevelopment Plan of the TIF District.[80] According to the City of Chicago's TIF Reform Panel report, 47% of all TIF allocations between 1983 and 2010 were for public works projects.[81] On November 8, 2014, Mayor Emanuel issued Executive Order No. 2013-3 establishing a practice of annually identifying and declaring a TIF surplus.

When TIF revenue is added to the total City of Chicago property tax levy (including levies for the City Colleges and Chicago Public Schools' capital programs), the City's 2013 property tax revenues totaled nearly $1.3 billion. This was a decline of $93.1 million from FY2009.

City of Chicago FY2009-FY2013 Gross Property Tax Levy and TIF Revenue (in $ thousands)

Fund Name	FY2009	FY2010	FY2011	FY2012	FY2013
City Government Funds	$ 796,862	$ 796,862	$ 796,862	$ 797,972	$ 801,272
City Colleges Bond Redemption/Interest Fund	$ 36,632	$ 36,632	$ 36,637	$ 36,632	$ 36,632
TIF Property Tax Revenues	$ 519,716	$ 509,971	$ 453,672	$ 457,007	$ 422,065
GRAND TOTAL	**$ 1,353,210**	**$ 1,343,465**	**$ 1,287,171**	**$ 1,291,611**	**$ 1,259,969**

Source: City of Chicago, FY2009-FY2013 Appropriations Ordinance, Summary B and Cook County Clerk TIF reports, 2009-2013.

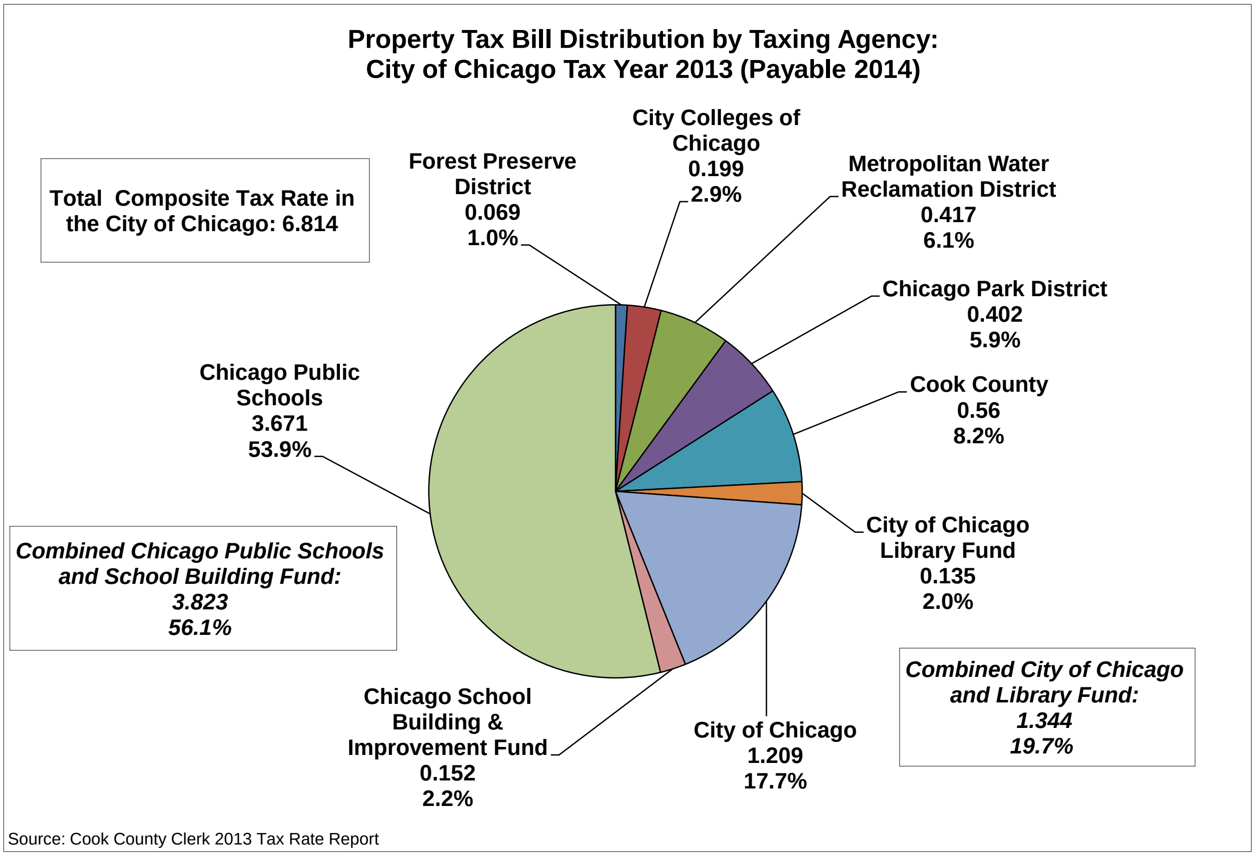
Transparency and Accountability Issues

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

The property tax rates of the various governments and their pension funds are printed on property tax bills so that taxpayers may see an estimate of how much of their tax bill goes to which government. The Cook County Clerk also publishes a pie chart showing the distribution of

[77] Civic Federation, "The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts," October 5, 2010. http://www.civicfed.org/civic-federation/publications/cook-county-property-tax-extension-process-primer-levies-tax-caps-and-.
[78] Available on the Cook County Clerk's website at www.cookcountyclerk.com.
[79] Cook County Clerk, "Chicago TIF revenue up 1%, down 3% in suburbs," press release, July 9, 2013.
[80] See, for example, Chicago Park District FY2009 Budget Summary, page 111 on the value of TIF dollars received by the Park District.
[81] City of Chicago, TIF Reform Panel Report, August 23, 2011, p. 15.

the City of Chicago tax bill among the different governments.[82] The 2013 distribution of property taxes is reproduced below. From the tax rates shown on tax bills and in the pie chart, it appears that 19.7% of a typical City property tax bill is for the City of Chicago, including the library, and 56.1% is for Chicago Public Schools, including the Chicago School Building and Improvement Fund. However, as discussed in the preceding pages, the City of Chicago tax rate includes taxes levied for Chicago Public Schools and the City Colleges of Chicago, thus the pie chart does not accurately represent the distribution of property tax dollars among these local governments. The following chart shows each taxing agency's tax rate and percentage of the total composite tax rate in the City of Chicago, as reported by the Cook County Clerk.



There has been a discrepancy in some years between the City levy as reported by the Cook County Clerk (who is responsible for calculating final tax rates) and the City levy as reported by the City in its budgets and financial statements. The two tables below show the City's 2009-2013 levies as reported by the Cook County Clerk and by the City Budget Appropriation Ordinances. Some of the differences may be attributable to the City's levy for Chicago Public Schools capital programs, which is not listed in the City appropriations but presumably is part of the Bond and Interest fund levy in the Clerk's reports. Property taxpayers collectively owe the full amount as

[82] Cook County Clerk 2013 Tax Rate Report, p. v., available at http://www.cookcountyclerk.com/tsd/extensionsandrates/Pages/default.aspx

reported by the Cook County Clerk, not the amount reported by the City, and the final City tax rate is calculated based on the total levy reported by the Clerk.

City of Chicago Gross Property Tax Levy: Tax Year 2009-2013 As Reported in the Cook County Clerk Agency Tax Rate Reports						
Fund #	**Fund Name**	**2009**	**2010**	**2011**	**2012**	**2013**
3	Bonds & Interest	$ 404,269,309	$ 405,045,033	$ 407,105,446	$ 407,116,767	$ 407,115,466
120	Police Pension	$ 141,741,000	$ 140,165,000	$ 143,785,000	$ 143,865,000	$ 138,146,000
121	Fire Pension	$ 66,140,000	$ 64,323,000	$ 66,125,000	$ 65,461,000	$ 81,518,000
122	Municipal Pension	$ 124,326,000	$ 126,831,000	$ 121,297,000	$ 123,438,000	$ 116,766,000
125	Laborers Pension	$ 13,327,000	$ 13,714,000	$ 11,759,000	$ 11,202,000	$ 10,486,000
	Subtotal City	**$ 749,803,309**	**$ 750,078,033**	**$ 750,071,446**	**$ 751,082,767**	**$ 754,031,466**
3	Bonds & Interest	$ 4,339,219	$ 4,338,906	$ 4,339,922	$ 4,340,234	$ 4,341,536
128	Library Municipal Pension	$ 5,700,000	$ 5,700,000	$ 5,700,000	$ 5,700,000	$ 5,300,000
259	Library Note Redemption	$ 73,363,000	$ 73,377,000	$ 73,377,000	$ 73,481,000	$ 74,231,000
	Subtotal Library	**$ 83,402,219**	**$ 83,415,906**	**$ 83,416,922**	**$ 83,521,234**	**$ 83,872,536**
	GRAND TOTAL City + Library	**$ 833,205,528**	**$ 833,493,939**	**$ 833,488,368**	**$ 834,604,001**	**$ 837,904,002**

Note: Funds for which there were no levies in these years are excluded.
Source: Cook County Clerk Agency Tax Rate Reports for City of Chicago and City of Chicago Library Fund

City of Chicago Gross Property Tax Levy: Tax Year 2009-2013 As Reported in the City of Chicago Appropriation Ordinances						
Fund #	**Fund Name**	**2009**	**2010**	**2011**	**2012**	**2013**
509	Note Redemption and Interest Fund	$ -	$ -	$ -	$ -	$ -
510	Bond Redemption and Interest Fund	$ 367,918,000	$ 368,419,000	$ 370,485,000	$ 370,485,000	$ 370,485,000
512	Note Redemption and Interest Fund	$ -	$ -	$ -	$ -	$ -
516	Library Bond Redemption Fund	$ 4,347,000	$ 4,333,000	$ 4,334,000	$ 4,340,000	$ 4,340,000
521	Library Note Redemption and Interest Fund	$ 73,363,000	$ 73,377,000	$ 73,377,000	$ 73,481,000	$ 74,231,000
681	Municipal Pension	$ 130,026,000	$ 132,531,000	$ 126,997,000	$ 129,138,000	$ 122,066,000
682	Laborers' Pension	$ 13,327,000	$ 13,714,000	$ 11,759,000	$ 11,202,000	$ 10,486,000
683	Police Pension	$ 141,741,000	$ 140,165,000	$ 143,785,000	$ 143,865,000	$ 138,146,000
684	Fire Pension	$ 66,140,000	$ 64,323,000	$ 66,125,000	$ 65,461,000	$ 81,518,000
	Subtotal City Government Funds	**$ 796,862,000**	**$ 796,862,000**	**$ 796,862,000**	**$ 797,972,000**	**$ 801,272,000**
549	City Colleges Bond Redemption/Interest Fund	$ 36,632,000	$ 36,632,000	$ 36,637,000	$ 36,632,000	$ 36,632,000
	GRAND TOTAL	**$ 833,494,000**	**$ 833,494,000**	**$ 833,499,000**	**$ 834,604,000**	**$ 837,904,000**

Source: City of Chicago, FY2009-FY2013 Appropriations Ordinances, Summary B. The levy for Special Service Area #1 is excluded.

PERSONNEL

This section describes the City of Chicago's personnel levels and appropriations. It includes information on all local funds personnel services appropriations, full-time equivalent (FTE) position count and Corporate Fund personnel services. The FY2015 Budget Recommendations, which will be voted on by the City Council to become the FY2015 Appropriations Ordinance, describes position count and personnel services appropriations by fund. Position count and personnel services appropriations reflect budgeted full-time equivalent positions and include personnel related expenses such as pension and health care costs.[83] The actual number of full-time equivalent positions is not available; therefore, for the purposes of this analysis, the Civic Federation presents *budgeted* FTE positions from the FY2011 through FY2014 appropriation ordinances and FY2015 proposed budget.

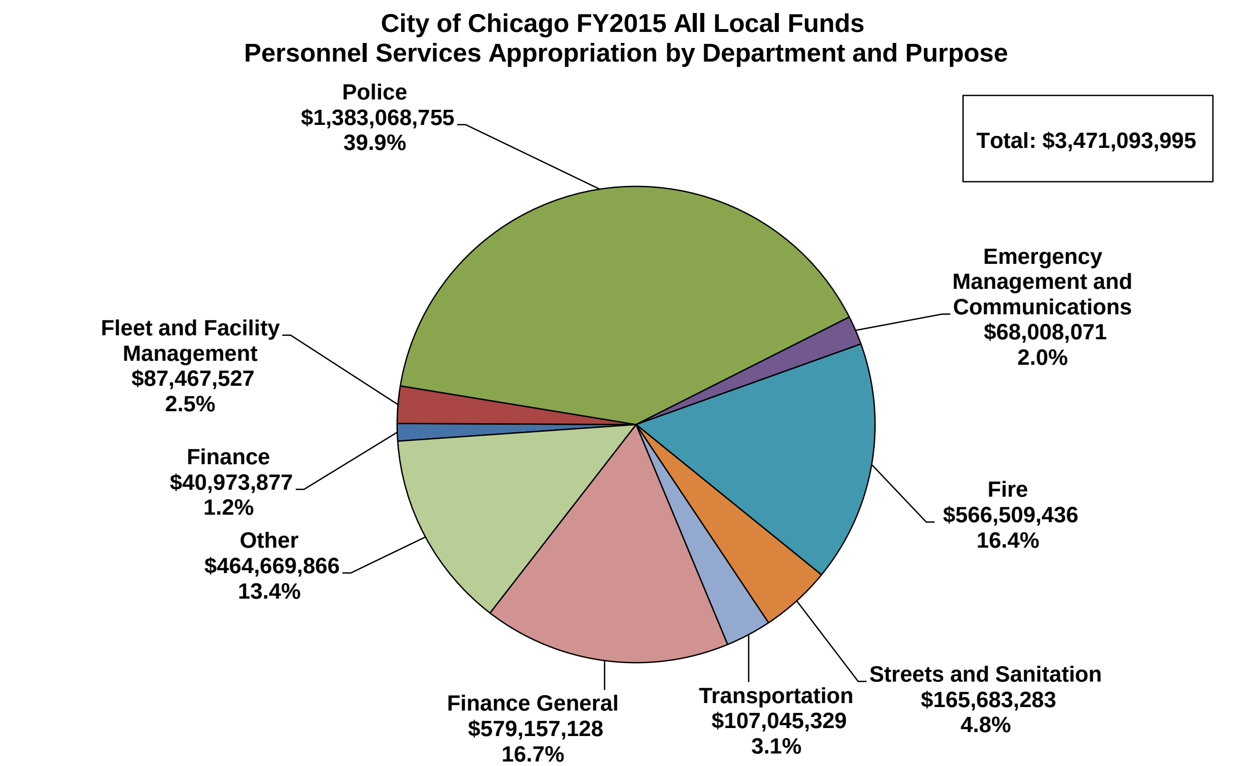
All Local Funds Personnel Services and Full-Time Equivalent Positions

The personnel summaries in the City of Chicago FY2015 Budget Overview book describe personnel for all local funds, which include the Corporate Fund, special revenue funds and enterprise funds, but exclude grant funds. The City proposes to increase its workforce from

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

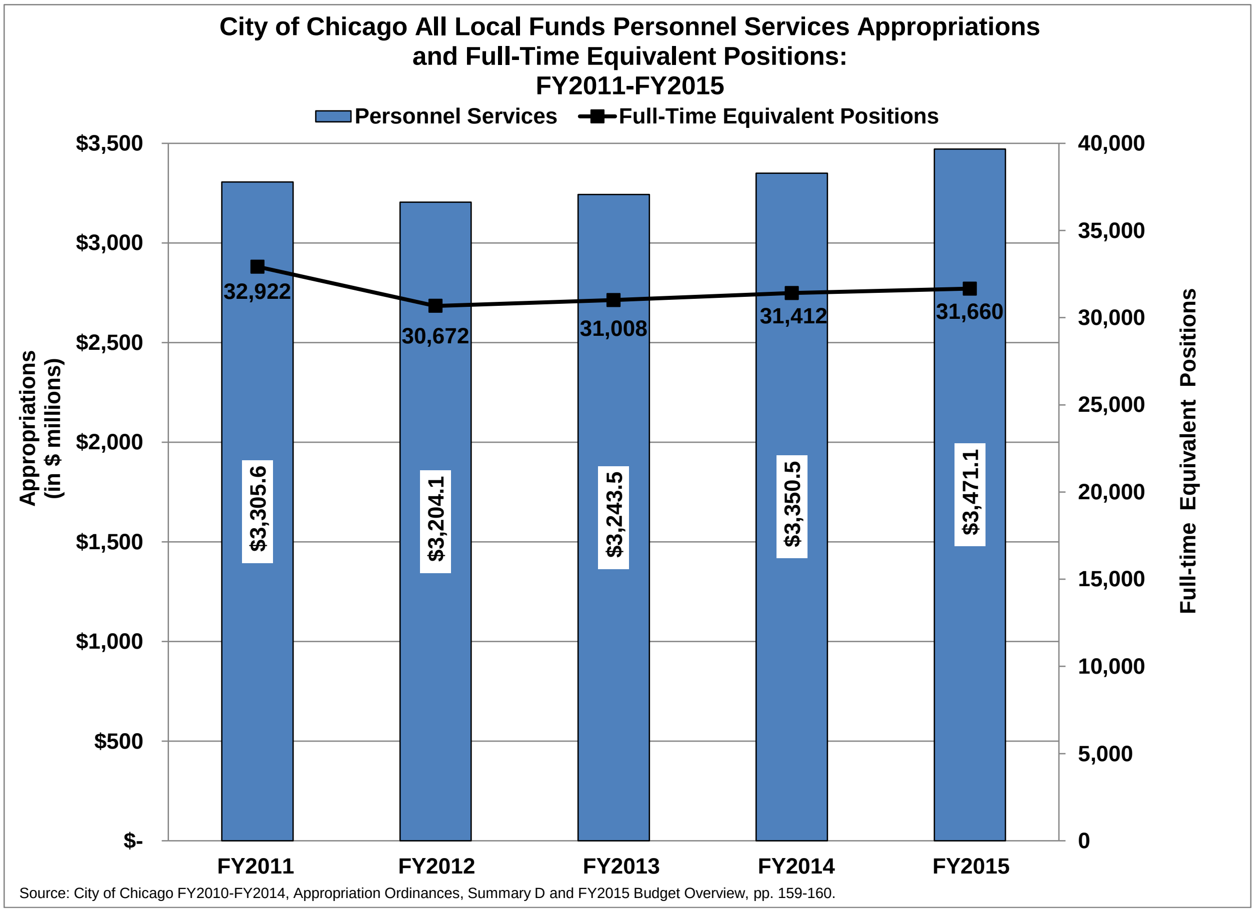
31,412 FTEs in FY2014 to 31,660 FTEs in FY2015 across all local funds. This is an increase of 248 FTEs or 0.8%.

The City of Chicago proposes to appropriate nearly $3.5 billion to personnel services across all local funds in FY2015. Approximately $2.0 billion, or 58.1%, of all local funds personnel services appropriations will be allocated to public safety. This appropriation is a slight increase from FY2014 approved appropriations when public safety represented 57.1% of all local funds personnel services expenses. The next largest percentage is the Finance General category which accounts for citywide expenditures such as pension contributions, debt service and employee health care for employees across all departments. Finance General represents 16.7%, or $579.2 million, of all local funds for FY2015. The following chart illustrates the City's personnel services appropriation for all local funds by department.



Note: Other includes: Office of the Mayor, Office of the Inspector General, Office of Budget and Management, Department of Innovation and Technology, City Council, City Clerk, City Treasurer, Department of Administrative Hearings, Department of Law, Department of Human Resources, Department of Procurement Services, Board of Election Commissioners, Department of Public Health, Commission on Human Relations, Mayor's Office for People with Disabilities, Department of Family and Support Services, Department of Planning and Development, Department of Buildings, Department of Business Affairs and Consumer Protection, Commission on Animal Care and Control, License Appeal Commission and Board of Ethics.
Source: City of Chicago, FY2015 Budget Recommendations, Summary D.

The following chart illustrates the five-year trend in personnel services appropriations and budgeted FTE positions. Between FY2011 and FY2015, local fund budgeted appropriations for personnel services, which include salaries, health care, overtime pay, workers' compensation, pension payments and other benefits, increased by $165.2 million, or 5.0%, from $3.3 billion to $3.5 billion. The FY2012 proposed appropriation was the first significant decline in personnel expenditures since FY2004. Personnel services appropriations will increase in FY2015 from FY2014 budgeted appropriations by $120.6 million, or 3.6%, in part to fund police overtime. The growth in personnel appropriations over the five-year period from FY2011 to FY2015 is attributable to increases in salaries and wages under collective bargaining agreements with unions representing most of the City's public safety and civilian employees.[84] In a contrast to previous years, costs for employee benefits across all funds are down slightly, as changes to retiree health care and the structure of the City's HMO offset health care inflation.[85]



Budgeted FTE position count will rise slightly from 31,412 FTEs in FY2014 to 31,660 FTEs in FY2015 across all local funds. This is a net increase of 248 FTE positions or 0.8%. Most departments will stay relatively flat in terms of FTEs. Public Service Enterprises will see the greatest increase in FTEs, growing from 3,328 FTEs in FY2014 to 3,403 FTEs in FY2015, an increase of 75 FTEs or 2.3%. Community Services will also see growth in FTEs, increasing from 903 in FY2014 to 963 in FY2015. Prior to FY2014, the City accounted for some full-time employees under hourly positions, referred to as "open line positions." As in last year's budget, the FY2015 budget accounts for these employees under regular full-time budgeted positions and only actual seasonal and part-time employees will remain categorized as "open line positions."[86]

The following table shows the City's FTE counts for all local funds by function. In the five-year period from FY2011 to FY2015, the City proposes to reduce its budgeted workforce by 1,262

[84] City of Chicago, FY2015 Budget Overview, p. 20.
[85] City of Chicago, FY2015 Budget Overview, p. 20.
[86] City of Chicago, FY2015 Budget Overview, p. 21.

FTEs, or 3.8%, from 32,922 FTEs in FY2011 to 31,660 FTEs proposed in FY2015. Over the same period, the most significant decrease in personnel count occurred in the public safety departments, primarily as a result of the FY2012 proposed budget when the City's budgeted payroll reductions included 517 layoffs and the elimination of more than 2,100 budgeted vacant positions including 1,252 vacant sworn officer positions from the Police Department.[87]

City of Chicago All Local Funds Full-Time Equivalent Positions by Function: FY2011-FY2015									
Function	FY2011 Adopted	FY2012 Adopted	FY2013 Adopted	FY2014 Adopted	FY2015 Proposed	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Finance and Administration	2,502	2,410	2,430	2,488	2,514	26	1.0%	12	0.5%
Legislative and Elections	358	360	355	358	358	0	0.0%	0	0.0%
City Development	231	233	243	245	247	2	0.8%	16	6.9%
Community Services	1,169	983	896	903	963	60	6.6%	-206	-17.6%
Public Safety	21,850	20,219	20,255	20,291	20,317	26	0.1%	-1,533	-7.0%
Regulatory	627	534	553	551	552	1	0.2%	-75	-12.0%
Infrastructure Services	2,768	2,613	2,945	3,248	3,306	58	1.8%	538	19.4%
Public Service Enterprise	3,417	3,320	3,331	3,328	3,403	75	2.3%	-14	-0.4%
Total	**32,922**	**30,672**	**31,008**	**31,412**	**31,660**	**248**	**0.8%**	**(1,262)**	**-3.8%**

Note: The full-time positions presented above do not include grant-funded positions.
Source: City of Chicago, FY2015 Budget Overview, pp. 159-160.

Corporate Fund Personnel Services Trends

Personnel services appropriations in the Corporate Fund are projected to increase by $93.4 million, or 3.5%, from $2.68 billion in FY2014 to $2.77 billion in FY2015. The FY2015 appropriation represents 78.6% of the Corporate Fund budget of over $3.5 billion. Personnel services appropriations by department include salaries and wages. However, personnel benefits such as health care, overtime pay, workers' compensation and unemployment compensation are appropriated in the Finance General area. Pension contributions are also categorized as Finance General.[88]

Personnel spending in the Department of Streets and Sanitation will decrease slightly by $0.6 million, or 0.4%, over the two-year period. Finance General will see the largest two-year decline, decreasing 5.5% or $24 million from FY2014 levels. The most significant two-year increase in terms of dollars in personnel services will occur in the public safety departments due to increases in police overtime budgeted for FY2015. The majority of the remaining departments will each increase only slightly, rising by less than $2.0 million.

Between FY2011 and FY2015, personnel services appropriations in the Corporate Fund will increase by $59.6 million or 2.2%. During the five-year period, personnel services appropriations for public safety departments will increase by $144.3 million or 8.1%. This increase in public safety personnel expenditures is tied to salary increases under collective bargaining agreements reached during the course of 2014 with unions representing most of the City's public safety and civilian employees.[89] Personnel services appropriations will decrease 17.2% for Finance General expenses, declining from $500.2 million in FY2011 to $414.0 million in FY2015. The Department of Transportation will also experience a reduction of $14.7 million, or 30.6%, in personnel services costs over the five-year period.

[87] City of Chicago, FY2012 Budget Overview, p. 2.
[88] City of Chicago, FY2015 Budget Overview, p. 21.
[89] City of Chicago, FY2015 Budget Overview, p. 20.

The percentage of Corporate Fund appropriations earmarked for personnel services will decrease from 83.2% in FY2011 to 78.6% in FY2015.

City of Chicago Corporate Fund Personnel Services: FY2011-FY2015 (in $ millions)									
Department	FY2011 Adopted	FY2012 Adopted	FY2013 Adopted	FY2014 Adopted	FY2015 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Public Safety*	$ 1,780.7	$ 1,750.7	$ 1,777.5	$ 1,825.6	$ 1,925.0	$ 99.4	5.4%	$ 144.3	8.1%
Streets and Sanitation	$ 135.9	$ 127.8	$ 141.2	$ 139.8	$ 139.2	$ (0.6)	-0.4%	$ 3.3	2.4%
Fleet and Facility Management**	$ 59.8	$ 62.1	$ 67.2	$ 65.9	$ 67.9	$ 2.0	3.0%	$ 8.1	13.5%
Transportation	$ 48.1	$ 31.8	$ 30.8	$ 31.4	$ 33.4	$ 2.0	6.4%	$ (14.7)	-30.6%
City Council	$ 18.6	$ 19.7	$ 19.7	$ 19.9	$ 20.0	$ 0.1	0.6%	$ 1.4	7.5%
Finance***	$ 32.4	$ 30.4	$ 32.9	$ 33.7	$ 34.7	$ 1.0	3.1%	$ 2.3	7.0%
Office of the Mayor	$ 5.4	$ 5.1	$ 5.4	$ 5.5	$ 5.6	$ 0.1	2.5%	$ 0.2	4.2%
Finance General	$ 500.2	$ 433.7	$ 419.7	$ 438.0	$ 414.0	$ (24.0)	-5.5%	$ (86.2)	-17.2%
All Other	$ 133.3	$ 120.3	$ 117.8	$ 120.9	$ 134.30	$ 13.4	11.1%	$ 1.0	0.7%
Total Personnel Services	**$ 2,714.5**	**$ 2,581.7**	**$ 2,612.2**	**$ 2,680.7**	**$ 2,774.1**	**$ 93.4**	**3.5%**	**$ 59.6**	**2.2%**
Total Corporate Fund	**$ 3,263.7**	**$ 3,095.7**	**$ 3,158.6**	**$ 3,290.2**	**$ 3,534.1**	**$ 243.9**	**7.4%**	**$ 270.4**	**8.3%**

*Public Safety includes Police Board, Independent Police Review Authority, Department of Police, Office of Emergency Management and Communications and Fire Department.

**Includes the Department of General Services and the Department of Fleet Management for FY2010-FY2011, which merged to create the Department of Fleet and Facility Management in FY2012.

Source: City of Chicago, FY2011-FY2014 Appropriation Ordinances, Summary D and FY2015 Budget Recommendations, Summary D.

The following chart displays Corporate Fund appropriations by object classification and separates out public safety appropriations from non-public safety appropriations. Between FY2014 and FY2015, public safety appropriations will increase by $100.1 million, or 5.2%, while appropriations for non-public safety departments increase by $143.8 million or 10.5%. In the two-year period, Personnel Services appropriations for public safety will increase by $99.7 million, or 5.5%, while Personnel Service appropriations for non-public safety will decrease by $6.2 million or 0.7%. Specific Items and Contingencies, which include personnel-related legal and medical expenses, will increase in both areas – by $0.8 million, or 1.5%, for public safety departments and by $162.0 million, or 101.1%, for non-public safety departments. Appropriations for Contractual Services will fall slightly for both public safety and non-public safety departments, by 3.1% and 0.2% respectively. Appropriations for Travel, Commodities and Equipment will increase for public safety departments by 7.7%, or $0.6 million, but will decrease for non-public safety departments by 16.2% or $11.3 million.

Over the five-year period between FY2011 and FY2015, Personnel Services appropriations will increase for public safety departments by $144.5 million, or 8.1%. In contrast, Personnel Services appropriations for non-public safety departments will decrease $84.9 million or 9.1%. In public safety departments, spending for Contractual Services and Travel, Commodities and Equipment will decline over the five-year period by $9.9 million and $1.4 million, respectively. Appropriations for Specific Items and Contingencies, which include personnel-related legal and medical expenses, will increase in both public safety and non-public safety departments, the latter of which will see a $179 million or 124.8% increase.

City of Chicago Corporate Fund Appropriations by Object: FY2011-FY2015 (in $ millions)									
Object Classification	**FY2011 Adopted**	**FY2012 Adopted**	**FY2013 Adopted**	**FY2014 Adopted**	**FY2015 Proposed**	**Two-Year $ Change**	**Two-Year % Change**	**Five-Year $ Change**	**Five-Year % Change**
Public Safety*									
Personnel Services	$ 1,780.7	$ 1,750.7	$ 1,777.5	$ 1,825.6	$ 1,925.2	$ 99.7	5.5%	$ 144.5	8.1%
Contractual Services	$ 39.5	$ 36.0	$ 29.9	$ 30.5	$ 29.5	$ (1.0)	-3.1%	$ (9.9)	-25.2%
Travel, Commodities and Equipment	$ 10.2	$ 8.6	$ 7.9	$ 8.18	$ 8.81	$ 0.6	7.7%	$ (1.4)	-13.3%
Specific Items and Contingencies**	$ 47.1	$ 48.7	$ 47.0	$ 52.0	$ 52.7	$ 0.8	1.5%	$ 5.6	11.8%
Sub-Total Public Safety	**$ 1,877.4**	**$ 1,844.1**	**$ 1,862.3**	**$ 1,916.2**	**$ 2,016.3**	**$ 100.1**	**5.2%**	**$ 138.9**	**7.4%**
Non-Public Safety									
Personnel Services	$ 933.8	$ 831.0	$ 903.2	$ 855.09	$ 848.86	$ (6.2)	-0.7%	$ (84.9)	-9.1%
Contractual Services	$ 263.2	$ 230.3	$ 289.4	$ 288.78	$ 288.07	$ (0.7)	-0.2%	$ 24.9	9.5%
Travel, Commodities and Equipment	$ 45.9	$ 50.4	$ 70.2	$ 69.91	$ 58.62	$ (11.3)	-16.2%	$ 12.7	27.6%
Specific Items and Contingencies**	$ 143.4	$ 139.8	$ 165.2	$ 160.25	$ 322.30	$ 162.0	101.1%	$ 179.0	124.8%
Sub-Total Non-Public Safety	**$ 1,386.2**	**$ 1,251.6**	**$ 1,428.0**	**$ 1,374.0**	**$ 1,517.8**	**$ 143.8**	**10.5%**	**$ 131.6**	**9.5%**
Total Corporate Fund	**$ 3,263.7**	**$ 3,095.7**	**$ 3,290.3**	**$ 3,290.2**	**$ 3,534.1**	**$ 243.9**	**7.4%**	**$ 270.5**	**8.3%**

*Includes Police Board, Independent Police Review Authority, Department of Police, Office of Emergency Management and Communications and Fire Department.

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

Source: City of Chicago, Appropriation Ordinances, FY2011-FY2014, Summary D and FY2015 Budget Recommendations, Summary D.

RESERVE FUNDS

Reserve funds or fund balance, are terms commonly used to describe the net assets of a governmental fund.[90] Fund balance is an important financial indicator for local governments and serves as a measure of financial resources. It represents the difference between the assets and liabilities in a governmental fund. Fund balance is more a measure of liquidity than of net worth and can be thought of as the savings account of the local government.[91]

This section discusses four aspects of the City's reserve funds: recent changes to fund balance reporting, fund balance policy and definitions, a presentation of historical audited fund balance data and a presentation of the City's long-term asset lease reserves.

Recent Changes to Fund Balance Reporting

Starting with the FY2011 audited financial statements for the City of Chicago, a modification in fund balance reporting was implemented, as recommended by the Governmental Accounting Standards Board (GASB). GASB Statement No. 54 shifts the focus of fund balance reporting from the availability of fund resources for budgeting purposes to the "extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent."[92]

Previous Components of Fund Balance

Previously, the categories for fund balance focused on whether resources were available for appropriation by governments. The *unreserved* fund balance thus referred to resources that did not have any external legal restrictions or constraints. The unreserved fund balance was able to be further categorized as designated and undesignated. A *designation* was a limitation placed on the use of the fund balance by the government itself for planning purposes or to earmark funds.[93]

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[90] Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).
[91] Stephen J. Gauthier, *The New Fund Balance* (Chicago: GFOA, 2009), p. 34.
[92] Stephen J., Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009 and GASB Statement No. 54, paragraph 5.
[93] Gauthier, Stephen J., "Fund Balance: New and Improved," *Government Finance Review*, April 2009.

Current Components of Fund Balance

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

- *Nonspendable fund balance* – resources that inherently cannot be spent such as pre-paid rent or the long-term portion of loans receivable. In addition, this category includes resources that cannot be spent because of legal or contractual provisions, such as the principal of an endowment.
- *Restricted fund balance* – net fund resources subject to legal restrictions that are externally enforceable, including restrictions imposed by constitution, creditors or laws and regulations of non-local governments.
- *Committed fund balance* – net fund resources with self-imposed limitations set at the highest level of decision-making which remain binding unless removed by the same action used to create the limitation.
- *Assigned fund balance* – the portion of fund balance reflecting the government's intended use of resources, with the intent established by government committees or officials in addition to the governing board. Appropriated fund balance, or the portion of existing fund balance used to fill the gap between appropriations and estimated revenues for the following year, would be categorized as assigned fund balance.
- *Unassigned fund balance* – in the General or Corporate Fund, the remaining surplus of net resources after funds have been identified in the four categories above.[94]

Historically, the focus of the Civic Federation fund balance analysis has been on the unreserved general fund balance, or in other words, how much is left in the savings account, not how much is being withdrawn. Given the new components of fund balance established by GASB Statement No. 54, the Civic Federation now focuses on a government's unrestricted fund balance, which includes the *committed*, *assigned* and *unassigned* fund balance levels. The only difference between the two terms (unreserved and unrestricted) is that a portion of what used to be categorized as unreserved fund balance is now reported as restricted fund balance; otherwise, the two terms are synonymous.[95]

A ten-year trend analysis of the City's fund balance ratio including the most recent FY2013 numbers is not possible because the data has been classified differently with implementation of GASB No. 54. In the interest of government transparency, the Civic Federation recommends that all local governments, if possible, provide ten years of fiscal data in the GASB No. 54 format in the statistical section of their audited financial statements. Each government should also provide a guide as to how different fund balance lines were reclassified. An accurate trend analysis can only be conducted with reclassified data.

Fund Balance Policy

On October 22, 2013, Mayor Emanuel signed an executive order that provides a mechanism to build the City's unrestricted Corporate Fund reserves.[96] For every budget, the order instructs the

[94] Gauthier, Stephen J., "Fund Balance: New and Improved," *Government Finance Review*, April 2009.
[95] Gauthier, Stephen J., *The New Fund Balance* (Chicago: GFOA, 2009), p. 34.
[96] Executive Order No. 2013-2 (Rainy Day Fund).

City's Budget Director to identify the amount of the previous year's Corporate Fund fund balance, and then calls for the transfer of at least 10% of that balance into the City's Corporate Fund reserves for unanticipated future needs.

The Government Finance Officers Association (GFOA) recommends "at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures." Two months of operating expenditures is approximately 17%.[97] The GFOA statement adds that each unit of government should adopt a formal policy that considers the unit's own specific circumstances and that a smaller fund balance ratio may be appropriate for the largest governments.[98]

The City's FY2013 unrestricted Corporate Fund fund balance is $142.3 million, or 4.6% of its operating expenditures. To meet the GFOA standard of two months of operating expenditures, the City would need approximately $518.2 million. As noted above, according to the GFOA a large government with a diverse revenue base and home-rule authority may effectively maintain a smaller ratio.

Audited Fund Balance

The exhibit below shows thirteen years of the City's Corporate Fund fund balance and its ratio to general fund expenditures. Prior to FY2011 and GASB Statement No. 54, the City categorized its unreserved fund balance into *designated for future appropriations* and *undesignated – major funds, undesignated – special revenue funds* and *undesignated – capital projects funds*.

The first chart below includes only the unreserved undesignated fund balance to determine the portion of the fund balance without any constraints. Between FY2001 and FY2010, the City of Chicago Corporate Fund unreserved fund balance fluctuated between a high of $81.2 million in

[97] Previously, the GFOA had recommended a general fund balance of 5 to 15%.
[98] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted October 2009).

FY2010 to a low of just $226,000 in FY2008. The fund balance ratios for these years were 2.67% and 0.01%, respectively.

City of Chicago Unreserved, Undesignated Corporate Fund Fund Balance Ratio: FY2001-FY2010			
	Unreserved Undesignated Corporate Fund Balance	Operating Expenditures	Ratio
FY2001	$ 33,241,000	$ 2,440,426,000	1.36%
FY2002	$ 13,014,000	$ 2,442,796,000	0.53%
FY2003	$ 19,458,000	$ 2,661,102,000	0.73%
FY2004	$ 42,246,000	$ 2,567,658,000	1.65%
FY2005	$ 57,648,000	$ 2,739,570,000	2.10%
FY2006	$ 26,834,000	$ 2,902,202,000	0.92%
FY2007	$ 4,634,000	$ 3,063,019,000	0.15%
FY2008	$ 226,000	$ 3,107,284,000	0.01%
FY2009	$ 2,658,000	$ 3,014,077,000	0.09%
FY2010	$ 81,151,000	$ 3,033,941,000	2.67%

Source: City of Chicago, Comprehensive Annual Financial Reports, FY2001-FY2010.

The following chart presents unrestricted fund balance between FY2011 and FY2013. In this exhibit, the City's net resources including self-imposed constraints amount to $142.3 million, or 4.6% of Corporate Fund expenditures in FY2013. These resources include an assigned portion of $108.4 million and an unassigned portion of fund balance of $33.8 million. The unassigned portion is made up of the City's net resources without constraints, self or externally imposed, and represents 1.1% of Corporate Fund expenditures.[99]

City of Chicago Unrestricted Corporate Fund Fund Balance Ratio: FY2011-FY2013			
	Unrestricted Corporate Fund Balance	Operating Expenditures	Ratio
FY2011	$ 311,478,000	$ 3,040,436,000	10.2%
FY2012	$ 210,417,000	$ 3,081,369,000	6.8%
FY2013	$ 142,269,000	$ 3,109,074,000	4.6%

Source: City of Chicago, Comprehensive Annual Reports, FY2011-FY2013

Long-Term Asset Lease Reserve Funds

In addition to its Corporate Fund fund balance, the City also maintains a reserve fund that is used to account for reserves created through the Skyway and parking meter lease transactions.[100] For background information about the City's long-term asset leases, see Appendix A on page 93 of

[99] City of Chicago, FY2013 Comprehensive Annual Financial Report, pp. 34 and 36.
[100] City of Chicago, FY2013 Comprehensive Annual Financial Report, p. 51.

the report. While asset reserves have in the past been viewed favorably by bond ratings agencies, it is important to note that the asset lease reserves are not the same as budgetary reserves.

As a result of the changes to GASB Statement No. 54 in FY2011, the Service Concession Agreement Fund and the Reserve Fund were combined to create the Service Concession and Reserve Fund as a major special revenue fund.[101] The Service Concession Agreement Fund accounted for deferred inflows from long-term concession and lease transactions, such as the Skyway and parking meter lease reserves. The Reserve Fund accounted for the City's Mid-Term and Long-Term reserves.

Upon the onset of each lease agreement, the City set aside $500 million of the $1.8 billion Skyway lease proceeds and $400 million of the nearly $1.2 billion parking meter lease proceeds for long-term reserves. While the $500 million in Skyway reserves has remained intact, the parking meter long-term reserves have been significantly depleted. By the end of FY2011, approximately $320.0 million, or 80.0%, of the parking meter Long-Term Reserve Fund was transferred into the Corporate Fund. Since FY2012 the City has been replenishing the long-term reserve and as of June 30, 2014 the balance was $120.0 million.[102]

Nearly $1.3 billion in non-recurring revenues will have been transferred from asset lease proceeds to the Corporate Fund between 2005 and 2014 (not including amounts spent on human infrastructure programs). These transfers and disbursements were made in addition to the $57.4 million drawn out from the Corporate Fund unreserved fund balance between FY2005 and FY2008, which was also used to balance the Corporate Fund budget. The transfer of these asset lease proceeds to the Corporate Fund at the same time as the Corporate Fund fund balance was being depleted highlights the size of the structural gap that was created over the last several years. With the approval of the FY2012 budget, the City ordered that principal from these reserves will no longer be used to pay for the City's operating expenditures and only interest generated from these reserve funds will be transferred to the Corporate Fund.[103]

Beginning in FY2012, the City began replenishing the parking meter reserves with transfers of $20 million in FY2012, $15 million in FY2013, $5 million in FY2014 and a proposed transfer of $5 million in FY2015.[104] The City is also continuing to transfer interest generated in the reserve funds to the Corporate Fund as part of its Proceeds and Transfers In revenue. The chart below

[101] City of Chicago, FY2011 Comprehensive Annual Financial Report, p. 49.
[102] City of Chicago, Annual Financial Analysis 2014, p. 62.
[103] See the FY2012 Annual Appropriations Ordinance, Section 12.
[104] City of Chicago, FY2015 Budget Overview, p. 1.

shows the initial deposits into the asset lease reserve funds and their balances each year thereafter.

Long-Term Asset Lease Balances: FY2005-FY2015 (in $ millions)						
Year	Skyway Mid-Term Reserve Fund (2005)	Skyway Long-Term Reserve Fund (2005)	Parking Meter Mid-Term Reserve Fund (2008)	Parking Meter Long-Term Reserve Fund (2008)	Parking Meter Budget Stabilization Fund (2008)	Total
Skyway Deposit	**$ 375**	**$ 500**				**$ 875**
2005	$ 275	$ 500				$ 775
2006	$ 225	$ 500				$ 725
2007	$ 150	$ 500				$ 650
2008	$ 100	$ 500				$ 600
Parking Meter Deposit			**$ 325**	**$ 400**	**$ 326**	**$ 1,051**
2009	$ 50	$ 500	$ 175	$ 380	$ 101	$ 1,206
2010	$ -	$ 500	$ 75	$ 220	$ -	$ 795
2011	$ -	$ 500	$ -	$ 80	$ -	$ 580
2012	$ -	$ 500	$ -	$ 100	$ -	$ 600
2013	$ -	$ 500	$ -	$ 115	$ -	$ 615
As of 6/30/2014	$ -	$ 500	$ -	$ 120	$ -	$ 620
FY2015 Proposed Balance	**$ -**	**$ 500**	**$ -**	**$ 125**	**$ -**	**$ 625**

Note: Does not include Skyway Long-Term interest earnings as these are recurring. Does not include Human Infrastructure Funds.
Source: City of Chicago, Annual Financial Analysis 2014, p. 62; FY2015 Budget Overview, p. 1.

PENSION FUNDS

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

Plan Descriptions

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

The Firemen's Annuity and Benefit Fund of Chicago was created in 1931 by Illinois State statute to provide retirement and disability benefits for fire service employees of the City of Chicago and their dependents.[105] It is governed by an eight-member Board of Trustees. Four members are ex-officio (City Treasurer, City Clerk, City Comptroller and Deputy Fire Commissioner), three are elected by active employee members and one is elected by annuitant members.

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

[105] Firemen's Annuity and Benefit Fund of Chicago, Financial Statements, December 31, 2013, pp. 9-10.

Chicago and their dependents.[106] It is governed by an eight-member Board of Trustees. Four members are appointed by the Mayor, three are elected by active employee members and one is elected by annuitant members.

The Municipal Employees' Annuity and Benefit Fund of Chicago was created in 1921 by Illinois state statute to provide retirement and disability benefits for general employees of the City of Chicago and the Chicago Board of Education and their dependents.[107] It is governed by a five-member Board of Trustees. Two members are ex-officio (City Treasurer and City Comptroller) and three are elected by active employee members.

The Laborers' Annuity and Benefit Fund of Chicago was created in 1935 by Illinois State statute to provide retirement and disability benefits for labor service employees of the City of Chicago and their dependents.[108] It is governed by an eight-member Board of Trustees. Two members are ex-officio (City Treasurer and City Comptroller), two are appointed by the City Department of Human Resources, one is appointed by the local labor union, two are elected by active employee members and one is elected by annuitant members.

Pension Benefits

The following section describes the pension benefits provided by each of the City's four funds and describes recent changes to those benefits enacted in 2010 and 2014.

Municipal and Laborers' Funds

Public Act 96-0889, enacted in April 2010, created a new tier of benefits for many public employees hired on or after January 1, 2011 including new members of the Chicago Municipal and Laborers' pension funds.[109] This report will refer to "Tier 1 employees" as those persons hired before the effective date of Public Act 96-0889 and "Tier 2 hires" as those persons hired on or after January 1, 2011.

Tier 1 employees in the Municipal and Laborers' funds are eligible for full retirement benefits once they reach age 60 and have at least 10 years of employment at the City, age 55 with 25 years, or age 50 with 30 years of service. The amount of retirement annuity is 2.4% of final average salary multiplied by years of service. Final average salary is the highest average monthly salary for any 48 consecutive months within the last 10 years of service. The maximum annuity amount is 80% of final average salary. For example, a 63 year-old employee with 24 years of service and a $52,000 final average salary could retire with a $29,952 annuity: 24 x $52,000 x

[106] Policemen's Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report for the year ended December 31, 2013, p. 5.
[107] Municipal Employees' Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report for the year ended December 31, 2013, p. 34. Covered employees include all employees of the City of Chicago and the Chicago Board of Education who are not policemen, firemen, teachers, laborers or participants in any other pension plan.
[108] Laborers' Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report for the year ended December 31, 2013, p. 20.
[109] A "trailer bill" to correct technical problems with Public Act 96-0889 was enacted in December 2010 as Public Act 96-1490.

2.4% = $29,952.[110] The annuity increases every year by an automatic compounded 3.0% adjustment until and unless the provisions of Public Act 98-0641, described below, go into effect. Employees with 20 years of service may retire as young as age 55 but their benefit is reduced by 0.25% for each month they are under age 60.

The following table compares Tier 1 employee benefits to Tier 2 employee benefits enacted in Public Act 96-0889. The major changes are the increase in full retirement age from 60 to 67 and early retirement age from 55 to 62; the reduction of final average salary from the highest 4 year

average to the highest 8 year average; the $106,800 cap on pensionable salary; and the reduction of the automatic annual increase from 3% compounded to the lesser of 3% or one half of the increase in Consumer Price Index not compounded.

[110] The average FY2013 benefit at retirement for Municipal fund participants was $31,177; the average age at retirement was 63.0 and the average years of service at retirement was 23.55. Municipal Employees' Annuity and Benefit Fund of Chicago Actuarial Valuation Report for the Year Ending December 31, 2013, p. 47.

Major City of Chicago Municipal and Laborers' Fund Pension Benefit Provisions		
	Tier 1 (hired before 1/1/2011)	**Tier 2 (hired on or after 1/1/2011)**
Full Retirement Eligibility: Age & Service	age 60 with 10 years of service, age 55 with 25 years of service, or age 50 with 30 years of service	age 67 with 10 years of service
Early Retirement Eligibility: Age & Service	age 55 with 20 years of service	age 62 with 10 years of service
Final Average Salary	highest average monthly salary for any 48 consecutive months within the last 10 years of service	highest average monthly salary for any 96 consecutive months within the last 10 years of service; capped at $106,800*
Annuity Formula**	2.4% of final average salary for each year of service	
Early Retirement Formula Reduction	0.25% per month under age 60	0.5% per month under age 67
Maximum Annuity	80% of final average salary	
Annuity Automatic Increase on Retiree or Surviving Spouse Annuity	3% compounded; begins at earlier of age 60 and first anniversary of retirement, or age 55 and third anniversary of retirement	lesser of 3% or one-half of the annual increase in CPI-U, not compounded; begins at the later of age 67 or the first anniversary of retirement

*The $106,800 maximum final average salary automatically increases by the lesser of 3% or one-half of the annual increase in the CPI-U during the preceding 12-month calendar year.

**There is also an enhanced annuity available to aldermen, the City Clerk, and the City Treasurer. See 40 ILCS 5/8-243.2.

Note: New Hires are prohibited from simultaneously receiving a salary and a pension from any public employers covered by the State Pension Code ("double-dipping").

Source: Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2013; Municipal Employees' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2013; and Public Act 96-0889.

Public Act 98-0641

Public Act 98-0641, signed into law on June 9, 2014, makes changes to pension benefit levels for current retirees and employee members of two of the City of Chicago's four pension funds, the Municipal and Laborers' Funds. Its provisions are expected to go into effect January 1, 2015 if the law is not challenged in court.

The Municipal Fund was projected to run out of money within 10 to 15 years and the Laborers' Fund in 15 to 20 years if P.A. 98-0641 had not passed the General Assembly. The major provisions of the law include increases to the employer contribution and employee contribution and changes to the automatic annual increase for current retirees and Tier I employees. The plan is projected to increase the funded level of both funds to 90% by the end of 2055.

Employer Contribution

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

Under the provisions of the new law, the multiples contributed by the City for each fund will increase gradually over five years starting in 2016 (tax year 2015) until in 2021 the city will begin to annually contribute an amount that will increase funding to 90% by the end of 2055. If the City fails to make the required contributions, the Illinois Comptroller will withhold State fund transfers to the City. This provision is similar to the intercept described below for the Police and Fire Funds that was enacted as part of Public Act 96-1495. The increase in contributions for FY2015 (payable in FY2016) is projected to be approximately $89 million.[111]

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

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

Source: Public Act 98-0641

Police and Fire Funds

Tier 1 members of the Chicago Police and Fire Funds are eligible for full retirement benefits once they reach age 50 with at least 20 years of service, or age 63 and 10 years of service. The amount of retirement annuity is 2.5% of final average salary multiplied by years of service. Final average salary is the highest average monthly salary for any 48 consecutive months within the last 10 years of service. The maximum annuity amount is 75% of final average salary. For example, a 58 year-old firefighter with 30 years of service and a $100,000 final average salary could retire with a $75,000 annuity: 30 x $100,000 x 2.5% = $75,000.[112]

Public Act 96-1495 was enacted in December 2010 and created a new tier of benefits for public employees who become members of police or fire pension funds on or after January 1, 2011.[113] The major benefit changes are an increase in full retirement age from 50 to 55, reduction of final average salary from the highest 4 year average to the highest 8 year average, a $106,800 cap on pensionable earnings (increased annually by the lesser of 3% or one half of the increase in Consumer Price Index), and change in the automatic annual increase from 1.5% not compounded to the lesser of 3% or one half of the increase in Consumer Price Index not compounded.[114]

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[111] City of Chicago, *Annual Financial Analysis 2014,* p. 89.
[112] The average FY2013 salary at retirement for Fire fund participants was $103,764; the average age at retirement was 57.6; and the average years of service at retirement was 30.2. Firemen's Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report, December 31, 2013, p. 41.
[113] Public Act 96-1495 also applies to members of the Illinois Municipal Retirement Fund's Sheriff's Law Enforcement Program, but not to Cook County sheriff's employees or university public safety employees. See http://www.civicfed.org/civic-federation/blog/senate-bill-3538-police-and-fire-pension-reforms.
[114] This is the change for Chicago Police and Fire Funds. Most other public safety funds' first tier benefits provide a 3% compounded automatic cost of living adjustment.

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

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

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

Source: Firemen's Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2013; Policemens' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2013; Public Act 96-1495.

Public Act 96-1495 does not change employee contributions but it does change employer contributions for the Chicago police and fire funds. The City of Chicago will be required to begin making contributions in tax year 2015, payable in 2016, that will be sufficient to bring the funded ratio of each fund to 90% by the end of 2040, using a level percentage of payroll and projected unit credit actuarial valuation method. City officials have estimated that it will represent a $550 million contribution increase in 2015.[115] If the City fails to make its required contributions within 90 days of the due date, the Illinois Comptroller must deduct and deposit into the pension fund the certified amounts or a portion of these amounts from the following proportions of State revenue transferred to the City (not to exceed total amount of delinquency): one-third of total State funds to the City in 2016, two-thirds of total State funds to the City in 2017 and 100% of State funds to the City in 2018 and thereafter.

Prior to the enactment of Public Act 96-1495, the Fire Fund was projected to run out of assets during 2021 and the Police Fund was projected to run out of assets during 2025.[116]

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[115] City of Chicago, Annual Financial Analysis 2014, p. 89.

[116] Illinois Commission on Government Forecasting and Accountability, *Illinois Public Retirement Systems: A Report on the Financial Condition of the Chicago, Cook County and Illinois Municipal Retirement Fund Systems of Illinois*, November 2010, pp. 46 and 108.

Public Act 96-1495 also requires that the Police and Fire Funds' actuarial value of assets be reset at market value on March 30, 2011 and will be calculated thenceforth using five-year smoothing.[117]

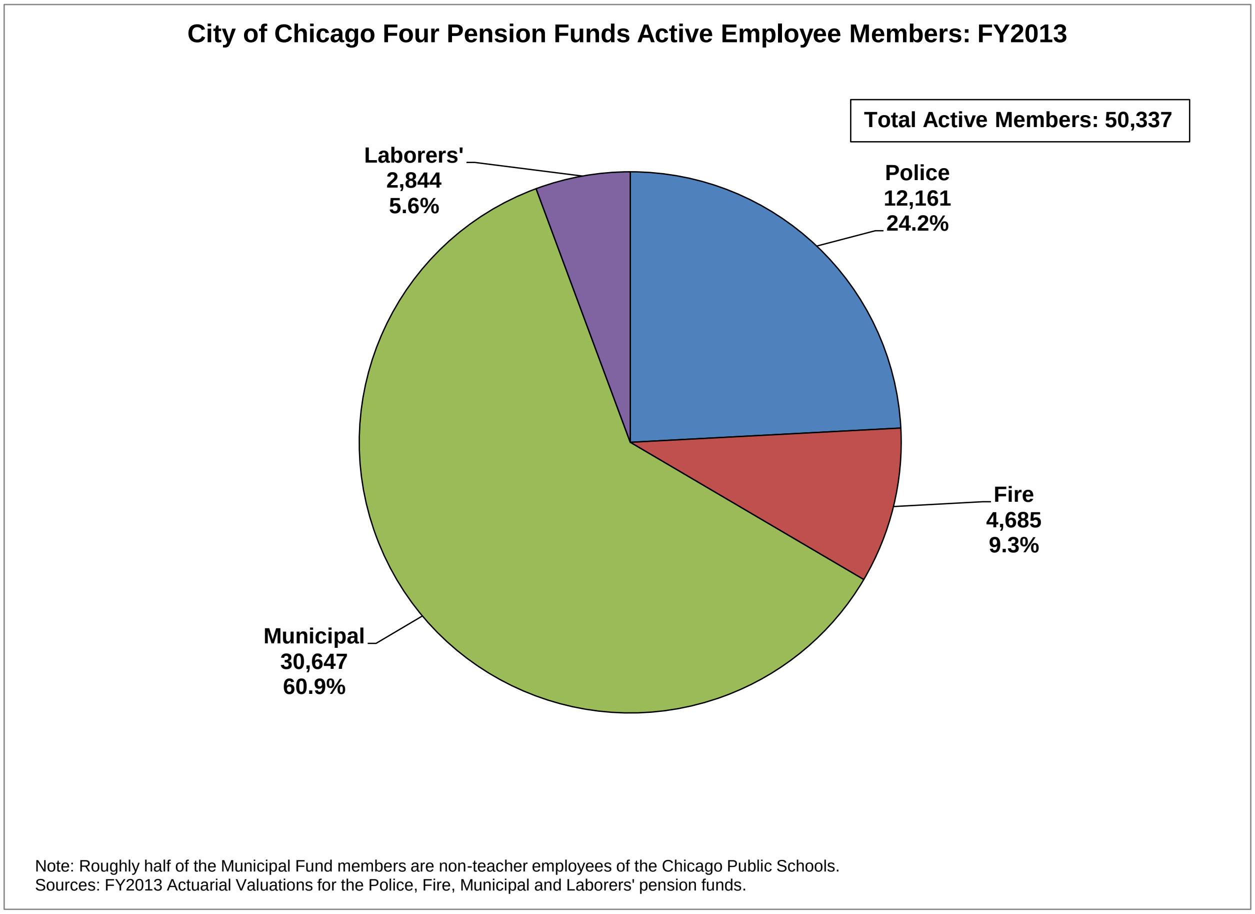
Members of the four City of Chicago pension funds do not participate in the federal Social Security program so they are not eligible for Social Security benefits related to their City employment when they retire.

Members

In FY2013 there were 50,337 employees participating in the four pension funds. The Municipal Fund constitutes 60.9% of total active employee membership. However, roughly half of the

[117] GASB Statements 25 and 27 allow governments and pension funds to report assets on a smoothed or market value basis. GASB Statements 67 and 68, approved in July 2012, which revised government pension and pension fund reporting requirements, will only allow reporting at market value when they go into effect in fiscal year 2014 and 2015, respectively.

30,647 active Municipal Fund members are not City employees, but are non-teacher employees of Chicago Public Schools.[118]



Funded Ratios – Actuarial and Market Value of Assets

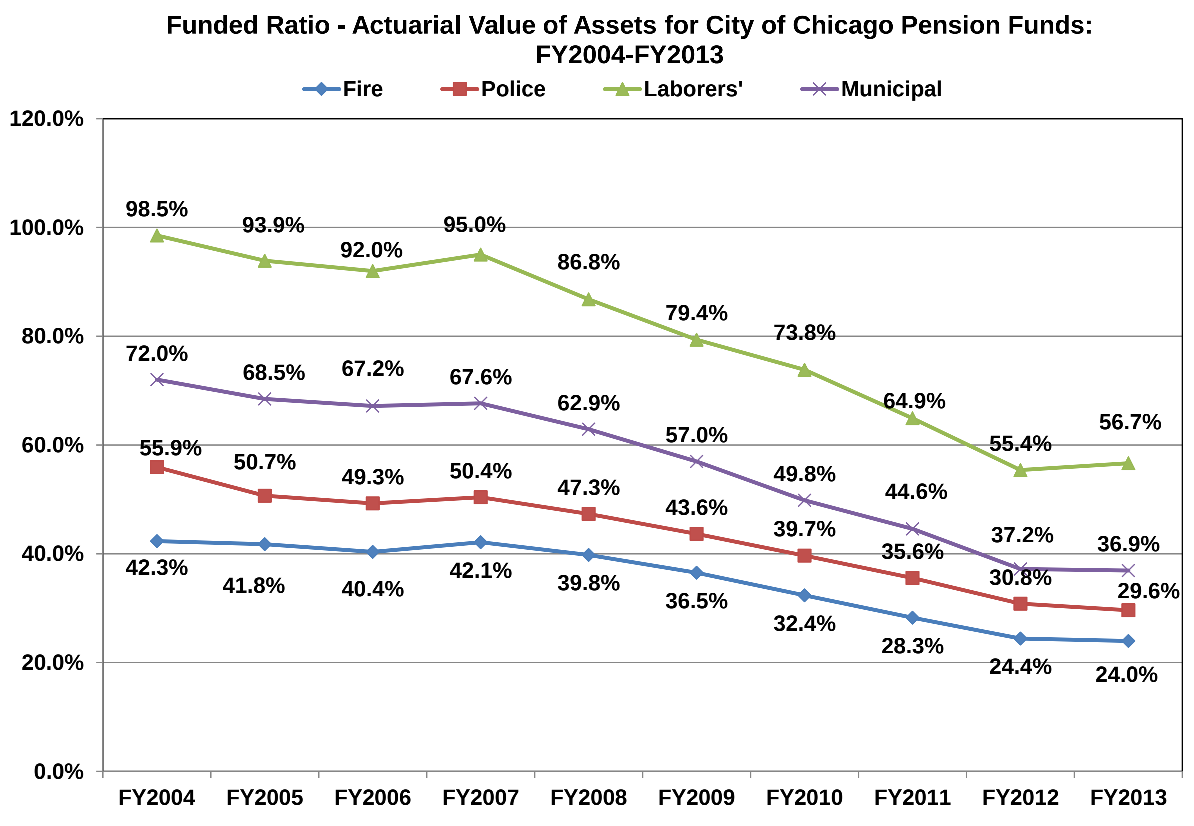
This report uses two measurements of pension plan funded ratio: the actuarial value of assets measurement and the market value of assets measurement. These ratios show the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting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

The actuarial value of assets measurement presents the ratio of assets to liabilities and accounts for assets by recognizing unexpected gains and losses over a period of three to five years.[119] The market value of assets measurement presents the ratio of assets to liabilities by recognizing investments only at current market value. Market value funded ratios are more volatile than

[118] As of December 31, 2012, 55.9%, or 17,518, of the 31,326 active members of the Municipal Fund were employees of Chicago Public Schools (CPS). Certified teachers employed by CPS participate in the Public School Teachers' Pension and Retirement Fund of Chicago. All other CPS employees are enrolled in the City of Chicago's Municipal Employees' Annuity and Benefit Fund. Chicago Public Schools, *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2013*, p. 83.
[119] For more detail on the actuarial value of assets, see Civic Federation, *Status of Local Pension Funding FY2012*, October 2, 2014.

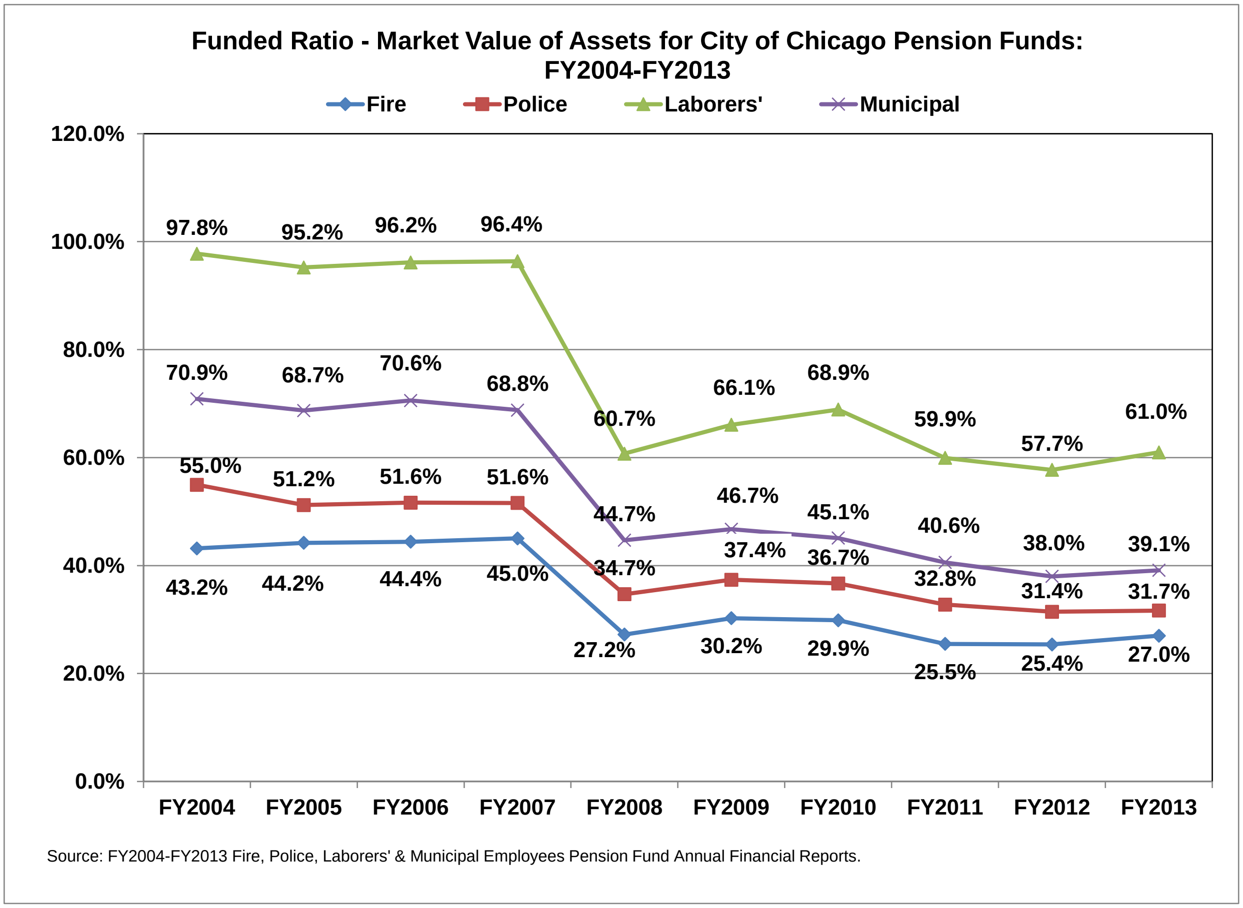
actuarial funded ratios due to the smoothing effect of actuarial value. However, market value funded ratios represent how much money is actually available at the time of measurement to cover actuarial accrued liabilities.

The following exhibit shows actuarial value funded ratios for each of the four pension funds. The actuarial value funded ratios for three of the four City pension funds declined in FY2013. The Fire Fund fell to 24.0%, the Police Fund fell to 29.6% and the Municipal Fund fell to 36.9%. The funded ratio for the Laborers' Fund rose slightly to 56.7%. The decline in all four funds actuarial ratios leveled off in FY2013 due to the fact that significant losses in FY2008 were smoothed in over five years and are no longer offsetting recent years' investment gains. These ratios are roughly half of what they were for each fund in 2004. A low funded ratio is cause for concern as it raises questions about the ability of the government to adequately fund its retirement systems over time.



Note: Actuarial Value of Assets smoothes investment returns over five years.
Source: FY2004-FY2013 Fire, Police, Laborers' & Municipal Employees Pension Fund Annual Financial Reports.

The following exhibit shows market value funded ratios for each of the four pension funds. The market value funded ratios of all four funds rose in FY2013. This is because the market value ratio was able to immediately take into account significant investment gains in FY2012 and especially FY2013, while the actuarial funded ratio realizes only a portion of the gains and is still recognizing losses and low returns in FY2011. So while actuarial value funded ratios for all four funds have mostly declined steadily since FY2007, market value ratios declined sharply in FY2008 and have been relatively flat or declined less dramatically since then.



Unfunded Liabilities

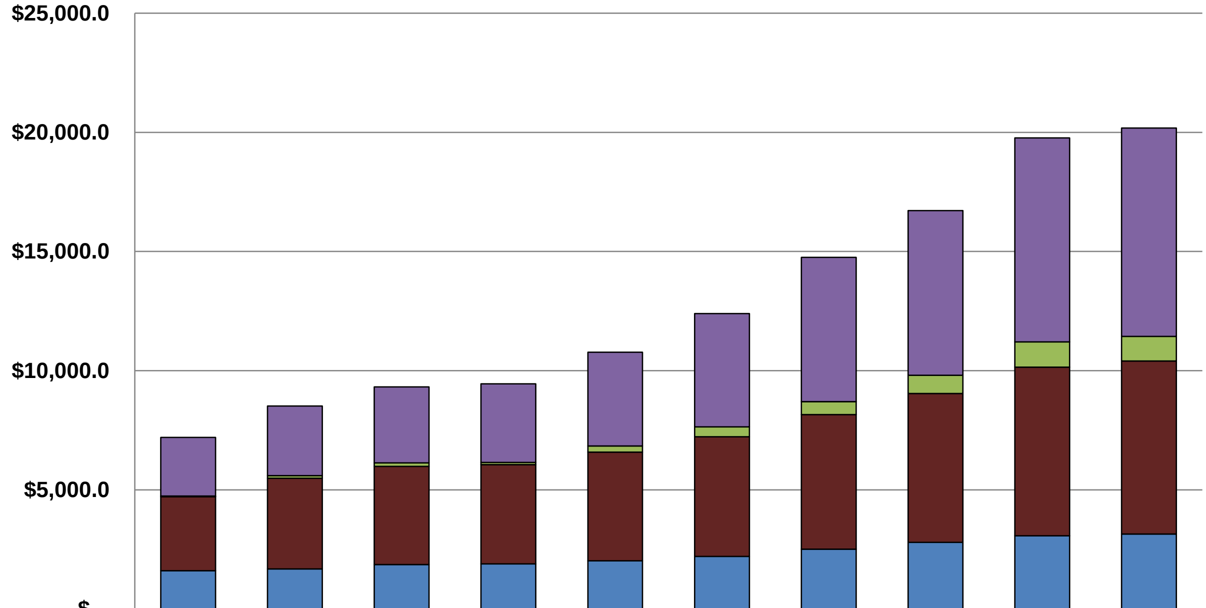
Unfunded actuarial accrued liabilities are the dollar value of liabilities not covered by assets measured on an actuarial, not market value, basis. Over the past ten years, the unfunded liabilities of the four pension funds combined have grown by nearly $13.0 billion, or 180.2%. The total unfunded liabilities reached $20.2 billion in FY2013, of which $8.7 billion was in the Municipal Fund followed by the Police Fund at $7.3 billion.

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

- Fire Pension Fund: 95.2% increase, or $1.5 billion;
- Police Pension Fund: 134.0% increase, or $4.2 billion;
- Laborers' Pension Fund: 4,103.2% increase, or $1.0 billion;[120] and
- Municipal Pension Fund: 254.6% increase, or $6.3 billion.

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

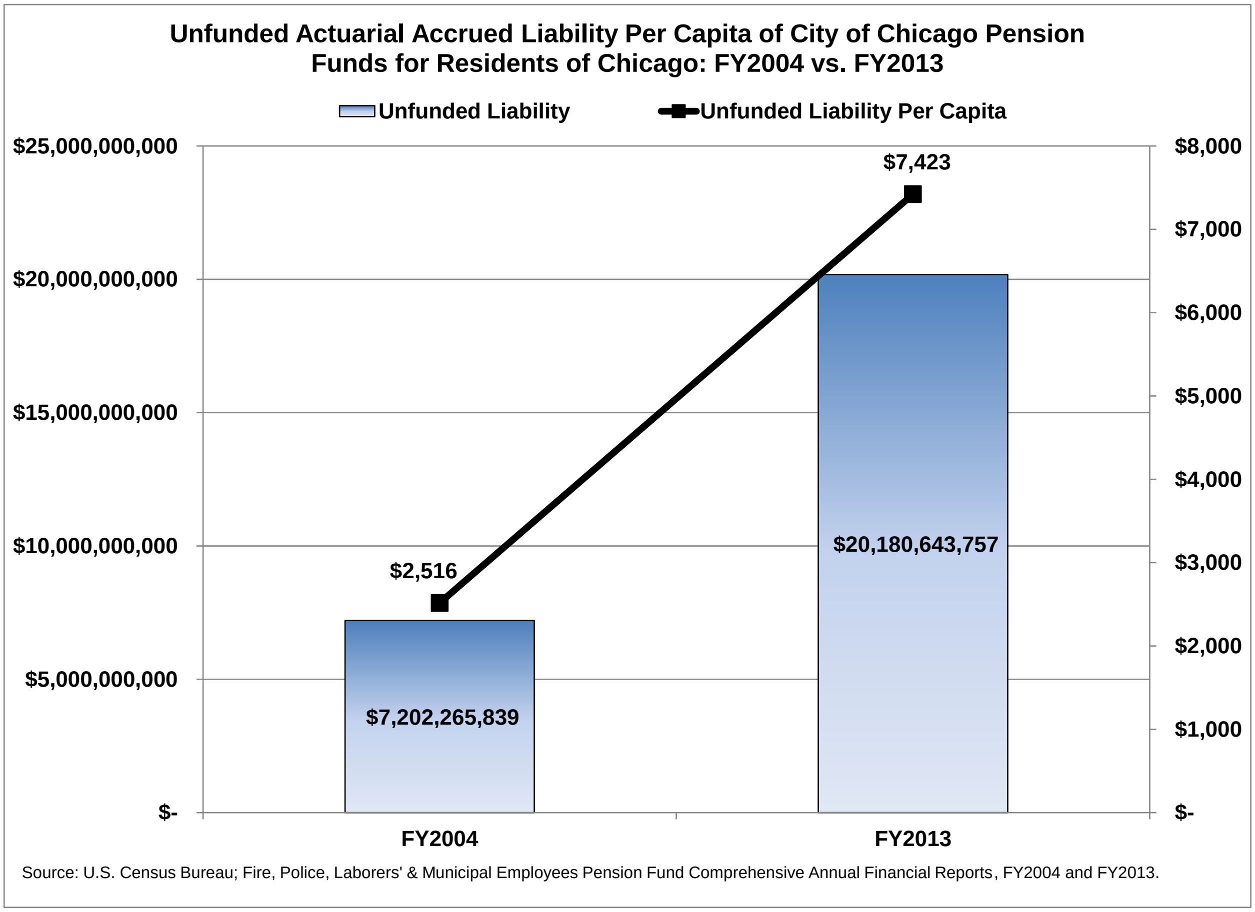
Unfunded Actuarial Accrued Liabilities for the City of Chicago Pension Funds: FY2004-FY2013 (in $ millions)



	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Municipal	$2,465.4	$2,917.8	$3,183.2	$3,296.2	$3,936.3	$4,758.5	$6,048.8	$6,903.9	$8,564.1	$8,742.3
Laborers'	$24.7	$106.7	$145.2	$92.0	$259.0	$416.1	$542.0	$768.8	$1,058.9	$1,036.3
Police	$3,101.2	$3,808.3	$4,118.6	$4,167.7	$4,558.8	$5,015.9	$5,655.9	$6,243.7	$7,071.7	$7,256.8
Fire	$1,610.9	$1,679.3	$1,868.6	$1,888.0	$2,022.9	$2,207.5	$2,505.1	$2,797.2	$3,073.1	$3,145.2
TOTAL	$7,202.3	$8,512.1	$9,315.5	$9,443.9	$10,777.0	$12,398.1	$14,751.9	$16,713.5	$19,767.8	$20,180.6

Source: FY2004-FY2013 Fire, Police, Laborers' & Municipal Employees Pension Fund Comprehensive Annual Financial Reports,.

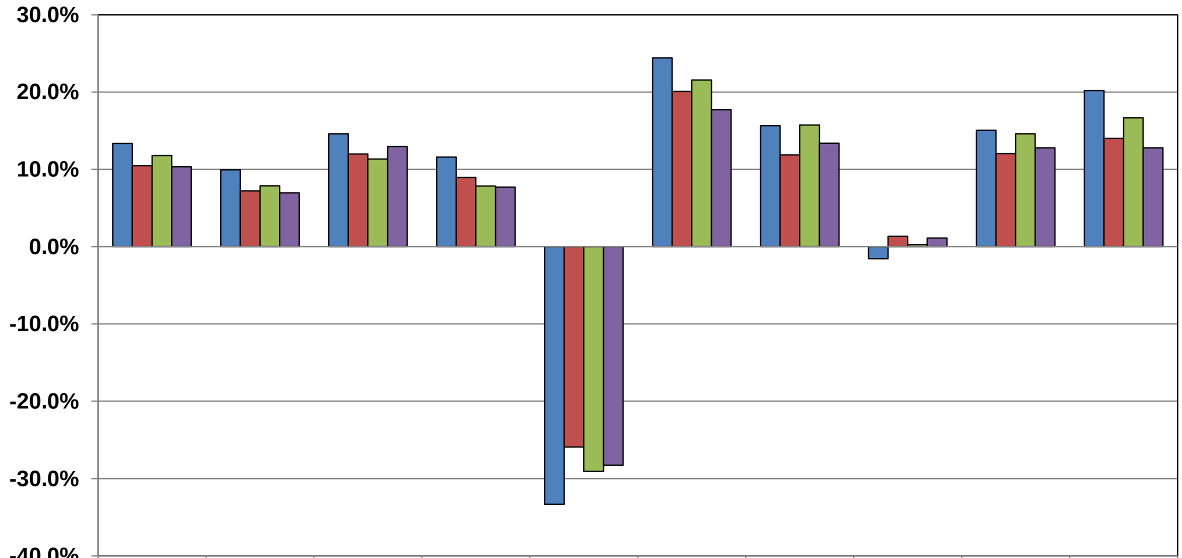
Between FY2004 and FY2013, total unfunded liabilities per resident of Chicago grew from $2,516 per capita to $7,423 per capita. This is an increase of 195.0%.



Investment Rates of Return

In FY2013 all four City pension funds again experienced strong returns on their investments, ranging from 12.8% for the Municipal Fund to 20.2% for the Fire Fund. This was the second consecutive year of investment returns in excess of expected rates of returns.

Investment Rate of Return - City of Chicago Pension Funds: FY2004-FY2013



	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Fire	13.4%	10.0%	14.6%	11.6%	-33.3%	24.4%	15.6%	-1.5%	15.0%	20.2%
Police	10.5%	7.2%	12.0%	9.0%	-25.9%	20.1%	11.9%	1.3%	12.0%	14.0%
Laborers'	11.8%	7.9%	11.3%	7.8%	-29.1%	21.6%	15.7%	0.3%	14.6%	16.7%
Municipal	10.4%	7.0%	13.0%	7.7%	-28.3%	17.7%	13.4%	1.1%	12.8%	12.8%

Note: Actuarial Value of Assets smoothes investment returns over five years.
Source: FY2004-FY2013 Fire, Police, Laborers' & Municipal Employees Pension Fund Annual Financial Reports.

Employer Annual Required Contribution

The financial reporting requirements for public pension funds and their associated governments are set by the Governmental Accounting Standards Board (GASB). GASB standards require disclosure of an Annual Required Contribution (ARC), which is an amount equal to the sum of (1) the employer's "normal cost" of retirement benefits earned by employees in the current year and (2) the amount needed to amortize any existing unfunded accrued liability over a period of not more than 30 years.[121] Normal cost is that portion of the present value of pension plan benefits and administrative expenses which is allocated to a given valuation year and is calculated using one of six standard actuarial cost methods. Each of these methods provides a way to calculate the present value of future benefit payments owed to active employees. The methods also specify procedures for systematically allocating the present value of benefits to

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[121] The ARC reporting requirement was established by GASB Statements 25 and 27. GASB Statements 67 and 68 will end the requirement for ARC disclosure. No substitute measure of a government's annual pension funding adequacy was proposed by the GASB.

time periods, usually in the form of the normal cost for the valuation year and the actuarial accrued liability (AAL). The actuarial accrued liability is that portion of the present value of benefits which is not covered by future normal costs.

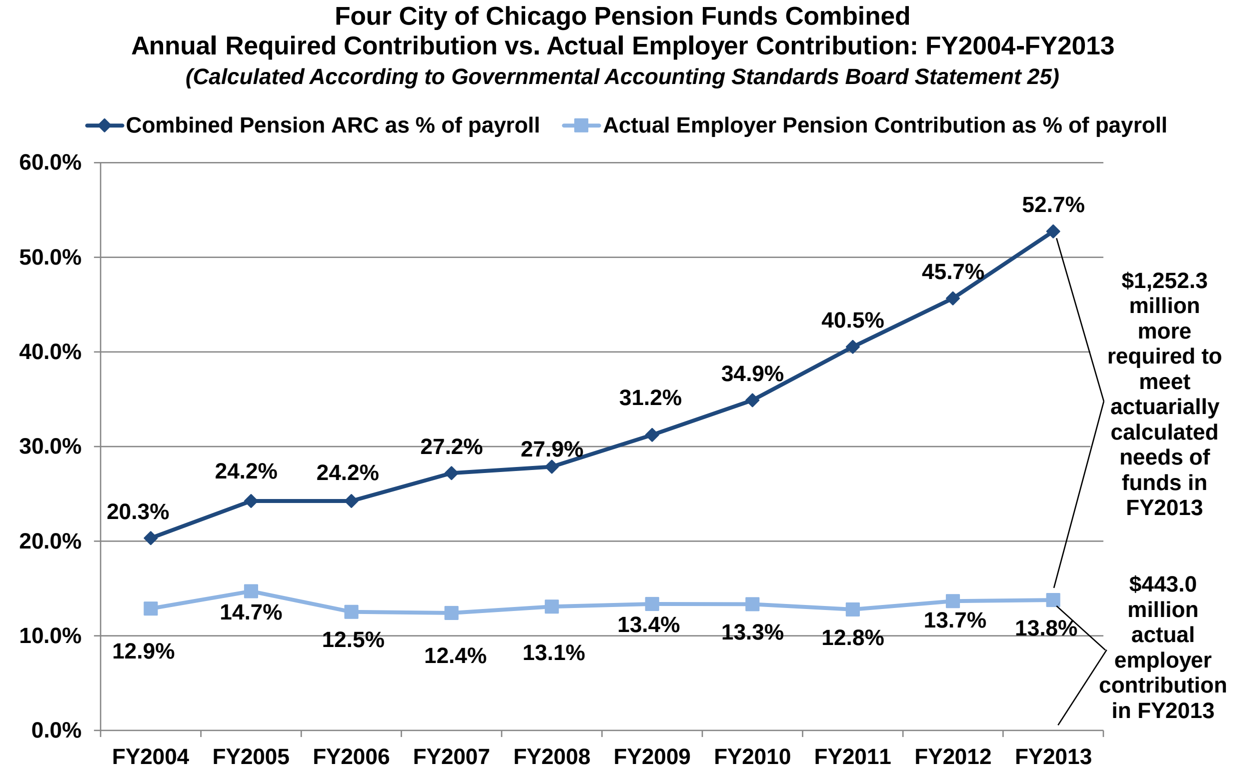
ARC is a financial reporting requirement but not a funding requirement. The statutorily required City of Chicago contributions to its pension funds are set in the state pension code. However, because paying the normal cost and amortizing the unfunded liability over a period of 30 years does represent a reasonably sound funding policy, the ARC can be used as an indicator of how well a public entity is actually funding its pension plan.[122]

Expressing ARC as a percent of payroll provides a sense of scale and affordability. The cumulative ten-year difference between ARC and actual employer contribution for all four pension funds combined is a $6.2 billion shortfall. In FY2013 the combined ARC for the four funds was nearly $1.3 billion or nearly three times the actual employer contribution of $443.0 million.

The graph below illustrates the growing gap between the combined pension ARC of the four funds as a percent of payroll and the actual employer contribution as a percent of payroll. The spread between the two amounts has grown from a shortfall in FY2004 of 7.4 percentage points, or nearly $200.0 million, to a gap of 38.9 percentage points in FY2013. In other words, to fund the pension plans at a level that would both cover normal cost and amortize the unfunded

[122] See Appendix B on page 97 for more historical data on the four City of Chicago pension funds' annual required contributions.

liability over 30 years, the City would have needed to contribute an additional 38.9 of payroll, or $1.3 billion, in FY2013.



Note: Beginning in FY2005, the ARC for the portion of OPEB paid for by the pension funds was calculated separately from the pension ARC. This graph shows only the pension ARC after FY2005. The OPEB ARC for the pension funds would add roughly 1-2% of payroll and the actual employer contribution was roughly 0-1% of payroll.
Sources: FY2004-FY2013 Actuarial Valuations for the Police, Fire, Municipal and Laborers' pension funds.

The City of Chicago has consistently contributed its statutorily required amounts of 2.26 times the employee contribution made two years prior for the Fire Fund, 2.0 for the Police Fund, 1.25 for the Municipal Fund and 1.00 for the Laborers' Fund. However, these amounts have been less than the ARC for the last ten years. The pension fund actuaries estimate that in order to contribute an amount sufficient to meet the ARC in FY2014, the City would need to contribute a multiple of 6.45 for the Fire Fund, 5.44 for the Police Fund, 6.53 for the Municipal Fund and 7.20 for the Laborers' Fund.[123]

FY2014 Statutory Multiple for Employer Contribution vs. Annual Required Multiple			
	Unfunded Actuarial Accrued Liability Amortization Method Used for Financial Reporting	**Annually Required Multiple (Normal Cost + UAAL Amortization)**	**Statutory Multiple**
Fire	level dollar, open	**6.45**	2.26
Police*	level % of payroll, open	**5.44**	2.00
Municipal	level dollar, open	**6.53**	1.25
Laborers'	level dollar, open	**7.20**	1.00

*Police Fund also computes that the FY2014 annual required multiple using a level dollar amortization would be 7.60. See Police Fund FY2013 Actuarial Valuation p. 18.

Source: Respective Pension Fund FY2013 Actuarial Valuations.

The table below shows employee contribution levels, which are set in state statute as a percent of appropriated salary. It also shows the actual employer contributions for FY2013 as a percent of payroll. Employee contributions to the Fire Fund are highest, at 9.125% of salary. Employer contributions are also highest for the Fire Fund as a percent of payroll, at 25.5%.

City of Chicago Pension Funds Employee and Employer Contribution Requirements (current laws)			
Fund	**Employee Contribution** (% of appropriated salary)	**Employer Contribution** (multiple of employee contribution made two years prior)	**FY2013 Employer Contribution** (shown as % of payroll)
Fire	9.125%	2.26	25.5%
Police	9.00%	2.00	18.6%
Municipal	8.50%	1.25	10.0%
Laborers	8.50%	1.00	7.0%

Note: For non-teacher employees of the Chicago Public Schools, CPS "picks up" 7% of the employee contributions to the Chicago Municipal Fund.

Source: FY2013 Police, Fire, Municipal and Laborers' Pension Fund Financial Statements.

Employer Contributions for Chicago Public Schools Members of the Municipal Fund

Roughly half of the Municipal Fund members are not City employees but are non-teacher employees of Chicago Public Schools. CPS has not traditionally made an employer contribution to the Municipal Fund for these employees, beyond transferring associated federal grant revenue to the City for those Municipal Fund participants that are paid through federal grants. The City makes the full statutory Municipal Fund employer contribution through its property tax levy and other sources of revenue.[124] It is important to note that Chicago Public Schools employees who are members of the Municipal Fund are subject to the changes to benefits and contributions

[123] Chicago Policemens' Annuity and Benefit Fund Actuarial Valuation for the year ended December 31, 2013, p. 19; Firemen's Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report, December 31, 2013, p. 19; Laborers' Annuity and Benefit Fund of Chicago Actuarial Valuation for the year ended December 31, 2013, p. 87; and Municipal Employees' Annuity and Benefit Fund of Chicago Actuarial Valuation for the year ended December 31, 2013, p. 94.

[124] City of Chicago, FY2014 Budget Overview, p. 17.

under Public Act 98-0641, described above.

CPS estimates that the FY2015 Municipal Fund contribution from the City (recorded as revenue) will be $55.9 million.[125] CPS budgeted $5.6 million to be reimbursed to the City for the employer pick-up of employees funded by federal grants for FY2014 and budgeted $5.3 million for FY2015.[126]

OTHER POST EMPLOYMENT BENEFITS

The City of Chicago administered a retiree benefit health care plan under the terms of a settlement agreement that expired on June 30, 2013.[127] Under the agreement, the four City of Chicago pension funds additionally all subsidized the participant portion of retiree health insurance premiums for those annuitants participating in the City's retiree health insurance program. The pension funds provided $95 per month for non-Medicare eligible annuitants and $65 per month for Medicare eligible annuitants. The City's contribution was roughly 55% of the premium cost, with the remainder to be paid by the annuitant. The Fire, Police, Municipal and Laborers' pension funds each contributed roughly 34% of the annuitant contribution, effectively subsidizing 13% of the total premium cost.[128]

The settlement agreement called for the creation of a Retiree Health care Benefits Commission ("RHBC") to "make recommendations concerning the state of retiree health care benefits, their related cost trends and issues affecting the offering of any retiree health care benefits after July 1, 2013." The agreement said the members of the RHBC must be experts who will be "objective and fair-minded as to the interests of both retirees and taxpayers." The other members of the Commission were to be a representative of the City and a representative of the pension funds.[129]

The City appointed a reconstituted Retiree Health care Benefits Commission, who met for the first time on June 22, 2012 to explore the options available to the City in continuing to provide or not continuing to provide retiree health care benefits and make recommendations.[130] Members of the Commission included former City of Chicago Comptroller Amer Ahmad; Leemore Dafney, Associate Professor of Management and Strategy, and the Herman Smith Research Professor in Hospital and Health Services at the Kellogg School of Management at Northwestern University; Will Irving, Laborers Union, Local 1001; and Michael Knitter, Executive Director of Compensation and Benefits at the University of Chicago.[131]

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[125] CPS FY2015 Proposed Budget, p. 23.
[126] CPS FY2015 Interactive Proposed Budget, Revenues and Expenditures, https://supplier.csc.cps.k12.il.us/analytics/saw.dll?Dashboard.
[127] The most recent version of the settlement was dated April 4, 2003 and resulted from *City of Chicago v. Marshall Korshak, et. al., and Martin Ryan*, No. 01 CH 4962 (Circuit Court of Cook County, Illinois, County Department, Chancery Division). See http://www.cityofchicago.org/city/en/depts/fin/supp_info/rhbc/rhbc_report_to_mayor.html.
[128] Cost allocation estimates provided to the Civic Federation by Sulan Tong, City of Chicago Department of Finance, April 2, 2013.
[129] *City of Chicago v. Marshall Korshak, et. al., and Martin Ryan*, Settlement Agreement, p. 8-10.
[130] Retiree Health care Benefits Commission, http://www.cityofchicago.org/city/en/depts/fin/provdrs/ben/alerts/2012/aug/retiree_health carebenefitscommissionmeeting.html.
[131] Retiree Health care Benefits Commission, June 22, 2012 Meeting Minutes. Available at http://www.cityofchicago.org/city/en/depts/fin/supp_info/rhbc/retiree_health

The Commission finished its work in January 2013 and released its report on January 11, 2013.[132] The report did not make any specific recommendations as to how the City should proceed regarding retiree health care, but instead offered a series of options with their projected cost to the City. These proposed options included: 1) continuing to provide retiree health care benefits at current support levels; 2) continuing to provide benefits at reduced support levels; and 3) eliminating City support for retiree health care benefits and placing non-Medicare eligible retirees on the Affordable Care Act exchanges. The report additionally gave background on the City's history of the court case arising from the City of Chicago's provision of other post employment benefits (OPEB), as well as an analysis of current enrollment and costs.

On May 15, 2013, the City announced its decision on how it would continue retiree health care after June 30, 2013.[133] First, it would continue subsidies at current levels for all retirees through December 31, 2013. Second, annuitants retired before August 23, 1989, many of whom do not qualify for Medicare, will continue to receive current subsidy levels. Third, due to substantial projected increases in the cost of the plan, annuitants retired on or after August 23, 1989 will see a phase-out of the city's subsidy of benefits with an end to the plan by the beginning of 2017. Non Medicare-eligible retirees would then be able to access health care and federal subsidies through the federal Affordable Care Act exchanges. On May 30, 2013, the General Assembly passed legislation allowing the four City pension funds to continue their part of the OPEB subsidy through December 31, 2016 or whenever the City ends its retiree health care plan, whichever comes first. Governor Quinn signed the bill into law on June 28, 2013.[134]

On October 9, 2013, the City released the details for FY2014 for the previously announced reduction to retiree health care subsidies for those retired on or after August 23, 1989.[135] It is important to note that police officers and firefighters who retired on or after August 23, 1989 and are eligible to receive health care coverage pursuant to their collective bargaining agreements will see no change to their coverage unless it is negotiated through collective bargaining.[136] The reductions to other affected retirees during FY2014 were announced as follows:

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carebenefitscommissionjune222012.html. The Chicago City Council passed an ordinance on March 14, 2012 to indemnify the non-City employee members of the RHBC against lawsuits arising from their participation as members of the Commission. Ordinance O2012-1422.

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

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

[134] Public Act 98-0043.

[135] Chicago Mayor Rahm Emanuel's Press Office, "City Informs Retirees of Health care Adjustments For 2014," October 9, 2013. Available at http://www.cityofchicago.org/city/en/depts/mayor/press_room/press_releases/2013/october_2013/city_informs_retireesofhealth careadjustmentsfor2014.html.

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

- For those who retired on or after August 23, 1989 and before July 1, 2005:
    - The City will provide up to a 41.25% subsidy toward these retirees' health care benefits. The previous subsidy is 55%.
- For those who retired after July 1, 2005 through the present, the City subsidy will vary depending on years of City service. The City subsidy for FY2014 was as follows for the following groups of retirees:
    - 20-plus years was up to 37.5%. (Currently 50 percent.)
    - 15 through 19 years was up to 33.75%. (Currently 45 percent.)
    - 10 through 14 years was up to 30%. (Currently 40 percent.)[137]

Mayor Emanuel expected these changes to save the City approximately $24 million in FY2014. Additional changes will go into effect for FY2015 and are expected to save a similar amount.[138]

OPEB Plan Unfunded Liabilities

The unfunded actuarial accrued liability for the City of Chicago's retiree health care plan totaled $1.1 billion in FY2013. As described above, the City pays for a portion of the non Medicare-eligible retiree health care premiums, but the pension funds also subsidize part of the employee portion of the premium through December 31, 2016. The following table shows the unfunded accrued actuarial liability reported for the pension funds, reflecting the obligations of each fund based on their subsidy of the employee premium contribution. The City does not report its own obligation by pension fund, but in the FY2013 CAFR it did split the City obligation to show the amount of liability associated with the settlement plan and that associated with the special public safety retiree health care program. The City's financial statements reported an FY2012 unfunded OPEB liability of $415.8 million for the portion subsidized by the pension funds and a FY2011 unfunded OPEB liability of $471.0 million for the portion subsidized by the City.[139] In FY2013, changes to the pension funds' subsidy of retiree health care, namely the enactment of an end date of December 31, 2016, significantly reduced the funds' liabilities to a total of $70 million. The City's total liability increased to $997.3 million in keeping with the extension of the City's provision of retiree health care benefits beyond the Korshak Settlement end date of June 30, 2013. The City does not pre-fund OPEB, so there are no assets to offset the actuarial accrued liability and the funded ratio is 0%. The combined unfunded OPEB liability for the City and the pension funds is $1,068.0 million.

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provision. See Fran Spielman, "Police contract with retro pay a political coup for Emanuel," September 4, 2014. http://politics.suntimes.com/article/chicago/police-contract-retro-pay-political-coup-emanuel/thu-09042014-123pm.

[137] "City of Chicago 2014 Retiree Health care Plan – Questions and Answers." Available at http://ward32.org/wp-content/uploads/2013/10/Retiree_health care_fact_sheet_10.08.13.pdf.

[138] City of Chicago, FY2014 Budget Overview, p. 2; FY2015 Budget Overview, p. 2.

[139] City of Chicago, FY2012 Comprehensive Annual Financial Report, pp. 87 and 89. The FY2012 financial statements state that December 31, 2011 was the most recent actuarial valuation date for the portion of OPEB subsidized by the City. The City does not report a combined total liability for both the pension fund and the City OPEB subsidies, nor does it break out its liabilities by pension fund.

City of Chicago OPEB Unfunded Liabilities for Settlement Plan and CBA Special Benefits (in $ thousands)					
	Municipal	Laborers'	Police	Fire	Total
Settlement Plan Unfunded Liability: Pension Funds	$ 27,573	$ 7,074	$ 28,376	$ 7,692	**$ 70,715**
Settlement Plan Unfunded Liability: City					**$ 608,633**
CBA Special Benefits Unfunded Liability: City					**$ 388,648**
TOTAL					**$ 1,067,996**

Sources: FY2013 Pension Fund CAFRs; FY2013 City of Chicago CAFR, pp. 87 and 89. Note that City of Chicago OPEB numbers are as of December 31, 2012.

SHORT-TERM LIABILITIES

Short-term liabilities are financial obligations that must be satisfied within one year. They can include short-term debt, accounts payable, accrued payroll and other current liabilities. The City of Chicago included the following short-term liabilities in the Governmental Funds Balance Sheet in its annual Comprehensive Annual Financial Report (CAFR) for FY2013, which is the most recent financial statement released by the City:

- *Voucher Warrants Payable*: Monies owed to vendors for goods and services carried over into the new fiscal year (called accounts payable by most other local governments);
- *Accrued Interest:* Includes interest due on deposits payable by the City in the next fiscal year;
- *Due to Other Funds:* These are monies owed to other funds for services that have been rendered that are outstanding at the end of the fiscal year;[140]
- *Accrued and Other Liabilities:* Includes self-insurance funds, unclaimed property and other unspecified liabilities; and
- *Claims Payable*: Monies owed for claims against the City.

The following chart shows short-term liabilities by category and the percent change between FY2009 and FY2013. During the five-year period of this review, total short-term liabilities increased by 26.3%, rising from $1.4 billion to nearly $1.8 billion.

City of Chicago Short-Term Liabilities in the Governmental Funds: FY2009 - FY2013 (in $ thousands)									
Type	FY2009	FY2010	FY2011	FY2012	FY2013	Two-Year Change	Two-Year % Change	Five-Year Change	Five-Year % Change
Voucher Warrants Payable	$ 410,820	$ 454,162	$ 428,259	$ 564,952	$ 443,046	$ (121,906)	-21.6%	$ 32,226	7.8%
Accrued Interest	$ 136,679	$ 144,935	$ 177,026	$ 210,413	$ 209,399	$ (1,014)	-0.5%	$ 72,720	53.2%
Due to Other Funds	$ 538,196	$ 525,993	$ 580,254	$ 735,495	$ 945,701	$ 210,206	28.6%	$ 407,505	75.7%
Accrued & Other Liabilities	$ 310,907	$ 199,324	$ 283,313	$ 145,803	$ 149,540	$ 3,737	2.6%	$ (161,367)	-51.9%
Claims Payable	$ 10,482	$ 36,505	$ 12,554	$ 37,685	$ 29,487	$ (8,198)	-21.8%	$ 19,005	181.3%
Total	**$ 1,407,084**	**$ 1,360,919**	**$ 1,481,406**	**$ 1,694,348**	**$ 1,777,173**	**$ 82,825**	**4.9%**	**$ 370,089**	**26.3%**

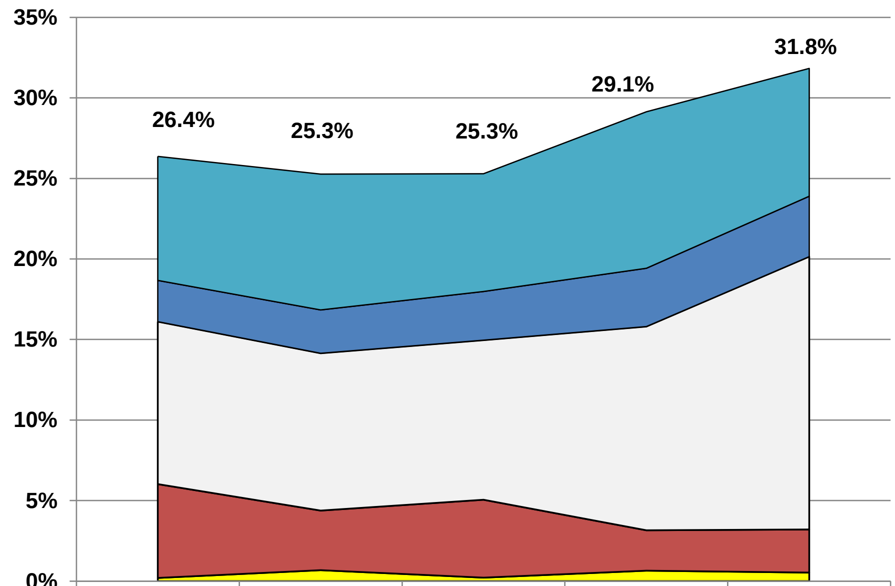
Source: City of Chicago Comprehensive Annual Financial Report Balance Sheets Governmental Funds: FY2009-FY2013 .

Increasing short-term liabilities in a government's operating funds as a percentage of net operating revenues may be a warning sign of possible future financial difficulties.[141] The short-term liabilities to net operating revenues ratio, developed by the International City/County

[140] City of Chicago FY2012 Comprehensive Annual Financial Report, p. 54-55.
[141] Operating funds are those funds used to account for general operations – the General Fund, Special Revenue Funds and the Debt Service Fund. See Karl Nollenberger, Sanford Groves and Maureen G. Valente. *Evaluating Financial Condition: A Handbook for Local Government* (International City/County Management Association, 2003), pp. 77 and 169.

Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending. The ratio has increased between FY2009 and FY2013, rising from 26.4% to 31.8%. The average ratio during this period was 27.6%. The following graph shows the five-year trend in the City's short-term liabilities by category.

City of Chicago Short-Term Liabilities as % of Operating Revenue: FY2009-FY2013



	FY2009	FY2010	FY2011	FY2012	FY2013
Voucher Warrants Payable	7.7%	8.4%	7.3%	9.7%	7.9%
Accrued Interest	2.6%	2.7%	3.0%	3.6%	3.8%
Due to Other Funds	10.1%	9.8%	9.9%	12.6%	16.9%
Accrued & Other Liabilities	5.8%	3.7%	4.8%	2.5%	2.7%
Claims Payable	0.2%	0.7%	0.2%	0.6%	0.5%

Source: City of Chicago,Comprehensive Annual Financial Reports, FY2009-FY2013.

Current Ratio

The current ratio is a measure of liquidity. It assesses whether the government has enough cash and other liquid resources to meet its short-term obligations as they come due. A ratio of 1.0 means that current assets are equal to current liabilities and are sufficient to cover obligations in the near term. Generally, a government's current ratio should be close to 2.0 or higher.[142]
In addition to the short-term liabilities listed above, the current ratio formula uses the current assets of a municipality, including:

- *Cash and cash equivalents*: Assets that are cash or can be converted into cash immediately, including petty cash, demand deposits and certificates of deposit;

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

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

Chicago's current ratio was 3.2 in FY2013, the most recent year for which data are available. In the past five years, the City's current ratio averaged 3.7, far above the preferred benchmark of 2.0 and thus demonstrated a healthy level of liquidity. Between FY2009 and FY2010, the current ratio increased from 3.9 to 4.2. This change was largely due to a $148.2 million, or 18.5%, increase in the value of investments and an $11.6 million, or 35.9%, decrease in the amount of accrued and other liabilities. Since then the City's current ratio has decreased. Between FY2009 and FY2013, the current ratio fell from 3.9 to 3.2.

City of Chicago Current Ratio in the Governmental Funds: FY2009-FY2013 (in $ thousands)

	FY2009	FY2010	FY2011	FY2012	FY2013	Two-Year Change	Two-Year % Change	Five-Year Change	Five-Year % Change
Current Assets									
Cash and Cash Equivalents	$ 1,606,394	$ 1,594,798	$ 664,643	$ 729,095	$ 695,927	$ (33,168)	-4.5%	$ (910,467)	-56.7%
Investments	$ 801,904	$ 950,161	$ 1,869,980	$ 1,626,647	$ 1,307,700	$ (318,947)	-19.6%	$ 505,796	63.1%
Cash and Investments with Escrow Agent	$ 491,626	$ 457,748	$ 498,483	$ 499,754	$ 462,837	$ (36,917)	-7.4%	$ (28,789)	-5.9%
Receivables (Net of Allowances): Property Taxes	$ 1,323,772	$ 1,423,922	$ 1,350,049	$ 1,258,648	$ 1,207,362	$ (51,286)	-4.1%	$ (116,410)	-8.8%
Receivables (Net of Allowances): Accounts	$ 318,862	$ 318,331	$ 309,947	$ 285,918	$ 295,894	$ 9,976	3.5%	$ (22,968)	-7.2%
Due from Other Funds	$ 502,384	$ 504,225	$ 518,329	$ 644,731	$ 870,080	$ 225,349	35.0%	$ 367,696	73.2%
Due from Other Governments	$ 383,396	$ 417,476	$ 526,139	$ 639,312	$ 743,251	$ 103,939	16.3%	$ 359,855	93.9%
Inventories	$ 19,658	$ 18,180.00	$ 24,055	$ 20,885	$ 24,788	$ 3,903	18.7%	$ 5,130	26.1%
Total Current Assets	**$ 5,447,996**	**$ 5,684,841**	**$ 5,761,625**	**$ 5,704,990**	**$ 5,607,839**	**$ (97,151)**	**-1.7%**	**$ 159,843**	**2.9%**
Current Liabilities									
Voucher Warrants Payable	$ 410,820	$ 454,162	$ 428,259	$ 564,952	$ 443,046	$ (121,906)	-21.6%	$ 32,226	7.8%
Accrued Interest	$ 136,679	$ 144,935	$ 177,026	$ 210,413	$ 209,399	$ (1,014)	-0.5%	$ 72,720	53.2%
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Claims Payable	$ 10,482	$ 36,505	$ 12,554	$ 37,685	$ 29,487	$ (8,198)	-21.8%	$ 19,005	181.3%
Total Current Liabilities	**$ 1,407,084**	**$ 1,360,919**	**$ 1,481,406**	**$ 1,694,348**	**$ 1,777,173**	**$ 82,825**	**4.9%**	**$ 351,084**	**25.0%**
Current Ratio	**3.9**	**4.2**	**3.9**	**3.4**	**3.2**	**-**	**-**	**-**	**-**

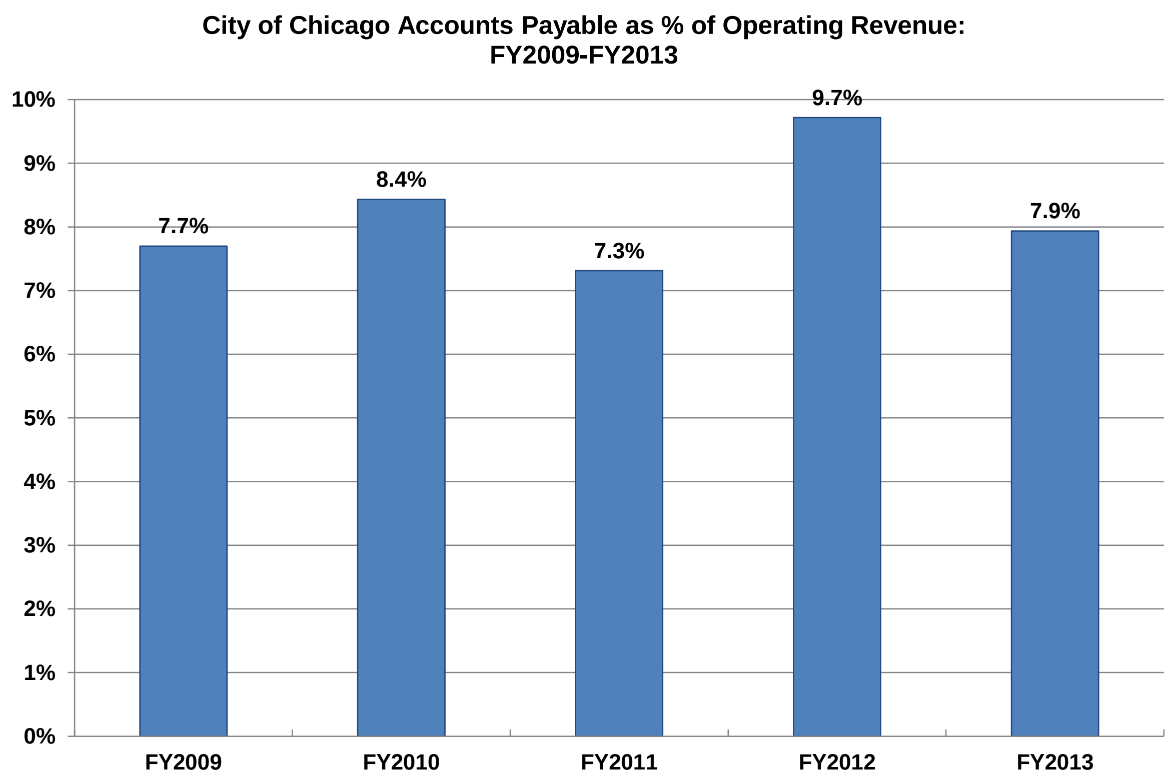
Source: City of Chicago Comprehensive Annual Financial Reports, Balance Sheet, Governmental Funds, FY2009-FY2013.

Accounts Payable as a Percentage of Operating Revenues

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

The City of Chicago's ratio of accounts payable to operating revenues has fluctuated over the past five years, rising and falling in successive years. Between FY2011 and FY2012, the ratio rose sharply from 7.3% to 9.7%. The City reports that this increase is due to an aggressive process of identifying and recording FY2012 year-end accruals that had been received but not yet paid. The majority of these accruals were related to capital improvement related expenses.[143] In FY2013, however, the ratio fell to 7.9%.

Over the five-year period reviewed, the accounts payable to operating revenue ratio averaged 8.2%, which is equal to roughly one month's worth of outstanding bills. This not considered to be a cause for concern. The following graph shows the ratio trend between FY2009 to FY2013.



Source: City of Chicago, Comprehensive Annual Financial Reports, FY2009-FY2013.

[143] Information provided by City of Chicago Office of Budget and Management, November 11, 2013.

LONG-TERM LIABILITIES

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

- *Bonds, Notes and Certificates Payable*: These are amounts reported for different types of tax supported long-term debt, including general obligation, lease, tax increment financing and revenue debt.
- *Net pension and other post employment benefits obligations (NPO)*: the cumulative difference (as of the effective date of GASB Statement 27) between the annual pension cost and the employer's contributions to the plan. This includes the pension liability at transition (beginning pension liability) and excludes short term differences and unpaid contributions that have been converted to pension-related debt.
- *Lease Obligations*: The amount reported annually is the present value of minimum future lease payments for a sale and lease back arrangements with third parties that the City entered into regarding the City-owned portion of a rapid transit line with a book value of $430.8 million in 2005.[144]
- *Claims and Judgments*: Claims and judgments are reported when it is probable that a loss has occurred and the amount of the loss can reasonably be estimated. The amount reported for claims and judgments are amounts needed to finance future liabilities arising from personnel, property, pollution and casualty claims.[145]
- *Pollution Remediation*: The City's pollution remediation obligations are primarily related to Brownfield redevelopment projects. These projects include removal of underground storage tanks, cleanup of contaminated soil and removal of other environmental pollution identified at the individual sites. The estimated liability is calculated using the expected cash flow technique. The pollution remediation obligation is an estimate and subject to changes resulting from price increases or reductions, technology or changes in applicable laws or regulations.[146]

Total long-term liabilities rose by 7.0% or nearly $1.2 billion, from FY2012 to FY2013. The five-year increase in these liabilities between FY2009 and FY2013 was 48.0%. This was a $5.8 billion increase. In the same five-year period, total long-term debt (bonds, notes and certificates payable) rose by 18.6%, from $7.8 billion to approximately $9.3 billion. Other liabilities, which include pension and lease obligations, pollution remediation liabilities and claims and judgments increased at a much faster rate, rising by 101.8% or $4.4 billion. The single largest percentage and dollar increase over the five-year period was for pension and other post employment benefit obligations, which increased by 119.8% or $4.1 billion. The steady increase in long-term obligations, particularly the large pension and OPEB obligation increase, is a serious cause for concern.

[144] City of Chicago, FY2013 Comprehensive Annual Financial Report, p. 68.
[145] City of Chicago, FY2013 Comprehensive Annual Financial Report, p. 20.
[146] City of Chicago, FY2013 Comprehensive Annual Financial Report, p. 91.

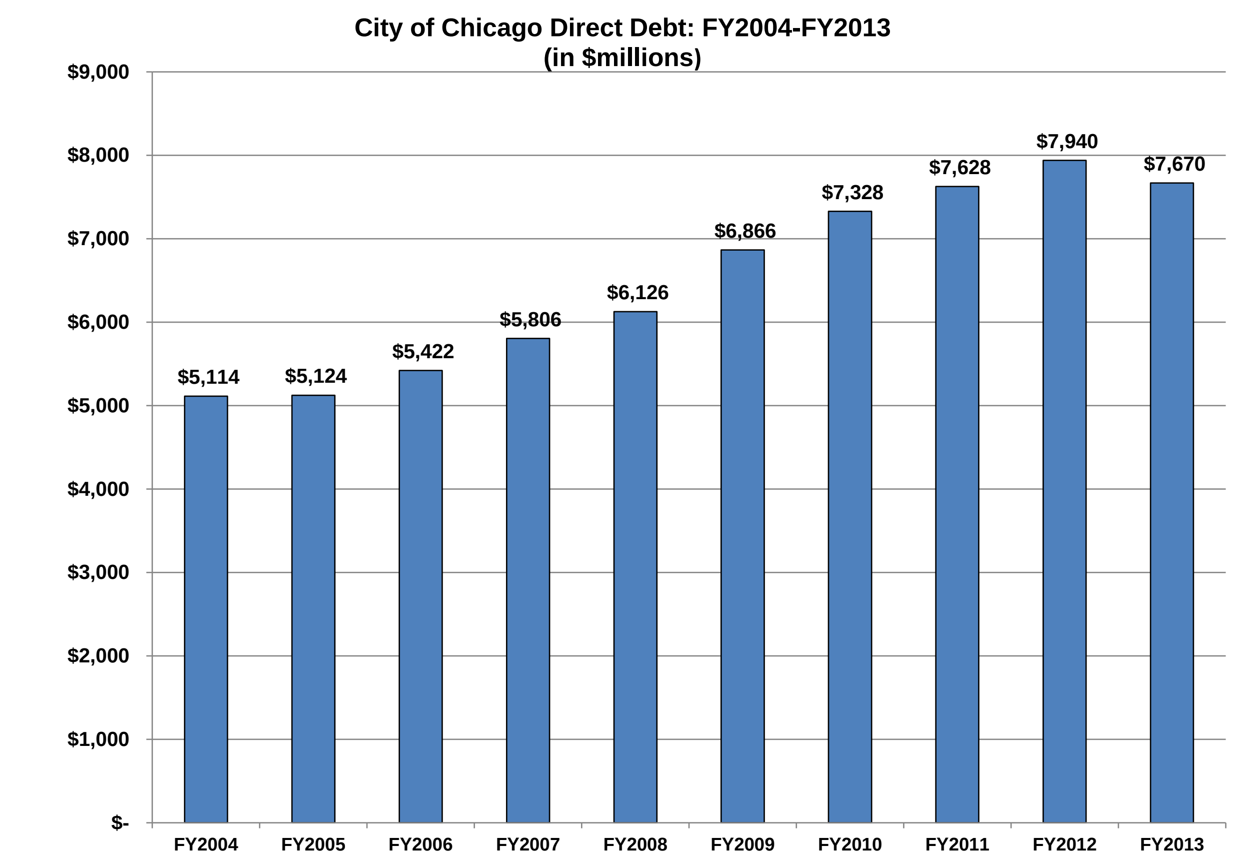
City of Chicago Long Term Liabilities for Governmental Activities FY2009 - FY2013 (in $ thousands)									
	FY2009	FY2010	FY2011	FY2012	FY2013	Two-Year Change	Two-Year % Change	5-Year Change	5-Year % Change
General Obligation Debt	$ 6,863,427	$ 7,504,739	$ 7,777,667	$ 8,011,830	$ 8,000,365	$ (11,465)	-0.1%	$ 1,136,938	16.6%
Installment Purchase Agreement	$ 3,500	$ 1,200	$ -	$ -	$ -	$ -	--	$ (3,500)	-100.0%
Tax Increment	$ 186,158	$ 163,578	$ 131,561	$ 112,151	$ 88,397	$ (23,754)	-21.2%	$ (97,761)	-52.5%
Revenue	$ 564,842	$ 559,417	$ 776,027	$ 770,312	$ 753,162	$ (17,150)	-2.2%	$ 188,320	33.3%
Subtotal Bonds, Notes and Certificates Payable	**$ 7,617,927**	**$ 8,228,934**	**$ 8,685,255**	**$ 8,894,293**	**$ 8,841,924**	**$ (52,369)**	**-0.6%**	**$ 1,223,997**	**16.1%**
Less unamortized debt refunding transactions	$ (159,810)	$ (171,150)	$ (166,065)	$ -	$ -	$ -	---	$ 159,810	---
Add unamortized premium	$ 173,347	$ 198,730	$ 196,637	$ 175,820	$ 160,014	$ (15,806)	-9.0%	$ (13,333)	-7.7%
Add accretion of capital appreciation bonds	$ 207,878	$ 235,412	$ 264,402	$ 283,010	$ 293,789	$ 10,779	3.8%	$ 85,911	41.3%
Less converted portion of conversion bonds	$ (3,923)	$ -	$ -	$ -	$ -	$ -	---	$ 3,923	---
Total Bonds, Notes and Certificates Payable	**$ 7,835,419**	**$ 8,491,926**	**$ 8,980,229**	**$ 9,353,123**	**$ 9,295,727**	**$ (57,396)**	**-0.6%**	**$ 1,460,308**	**18.6%**
Pension & OPEB Obligations	$ 3,453,365	$ 4,216,250	$ 5,386,668	$ 6,364,927	$ 7,589,929	$ 1,225,002	19.2%	$ 4,136,564	119.8%
Lease Obligations	$ 169,282	$ 177,011	$ 166,787	$ 163,013	$ 171,674	$ 8,661	5.3%	$ 2,392	1.4%
Pollution Remediation	$ 37,368	$ 14,263	$ 11,235	$ 8,373	$ 8,598	$ 225	2.7%	$ (28,770)	-77.0%
Claims and Judgments	$ 627,370	$ 641,762	$ 667,650	$ 888,593	$ 879,768	$ (8,825)	-1.0%	$ 252,398	40.2%
Total Other Liabilities	**$ 4,287,385**	**$ 5,049,286**	**$ 6,232,340**	**$ 7,424,906**	**$ 8,649,969**	**$ 1,225,063**	**16.5%**	**$ 4,362,584**	**101.8%**
Grand Total	**$ 12,122,804**	**$ 13,541,212**	**$ 15,212,569**	**$ 16,778,029**	**$ 17,945,696**	**$ 1,167,667**	**7.0%**	**$ 5,822,892**	**48.0%**

Source: City of Chicago Comprehensive Annual Financial Reports: FY2009-FY2013. Note 10: Long-Term Obligations

Long-Term Direct Debt Trends

Direct debt is a government’s tax-supported debt. Increases over time bear watching as a potential sign of rising financial risk. The exhibit below presents ten-year trend information for the total amount of City of Chicago net direct debt. During that time, total net direct debt rose by 50.0%, or $2.5 billion. This represents an increase from $5.1 billion in FY2004 to $7.7 billion ten years later. Long-term debt did decline by 3.4% between FY2012 and FY2013.

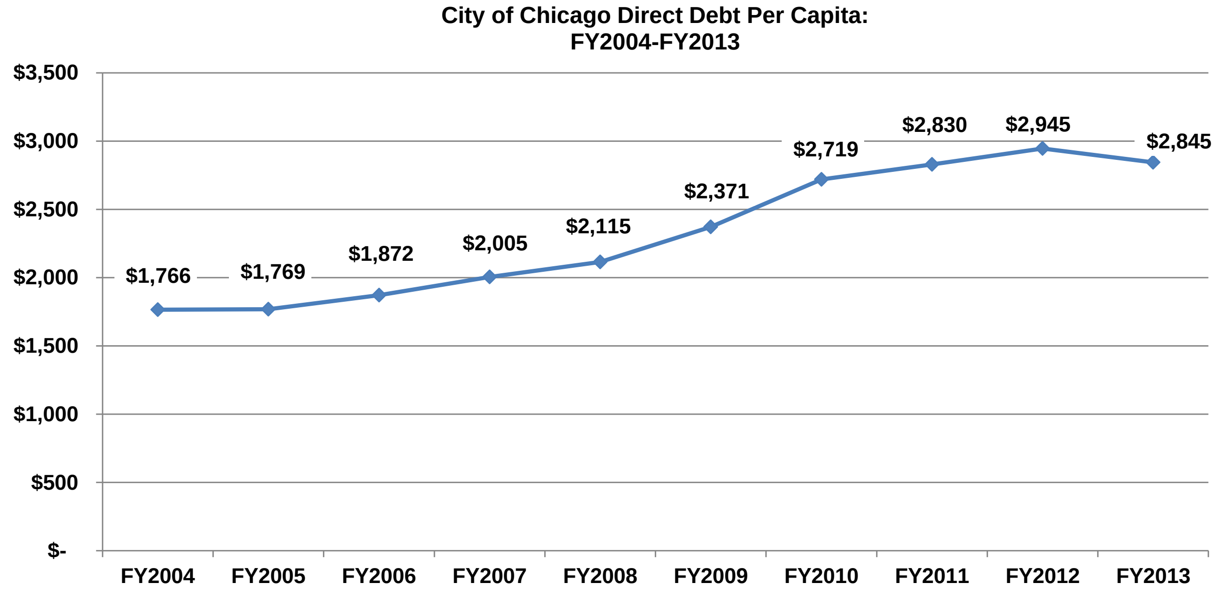
However, the large increase over time bears watching and raises concerns about the affordability of the increased debt burden.



City of Chicago FY2013 Comprehensive Annual Financial Report, pp. 154-155.

Long-Term Direct Debt Per Capita

A common ratio used by ratings agencies and other public finance analysts to evaluate long-term debt trends is direct debt per capita. This ratio reflects the premise that the entire population of a jurisdiction benefits from infrastructure improvements. In the ten years, between FY2004 and FY2013, direct debt per capita rose by 61.1% from $1,766 to $2,845. The large upward trend in debt per capita between FY2004 and FY2013 is a cause for concern for the City of Chicago. It threatens to further reduce the City's credit rating, making borrowing more expensive and possibly limiting available capacity for additional borrowing.



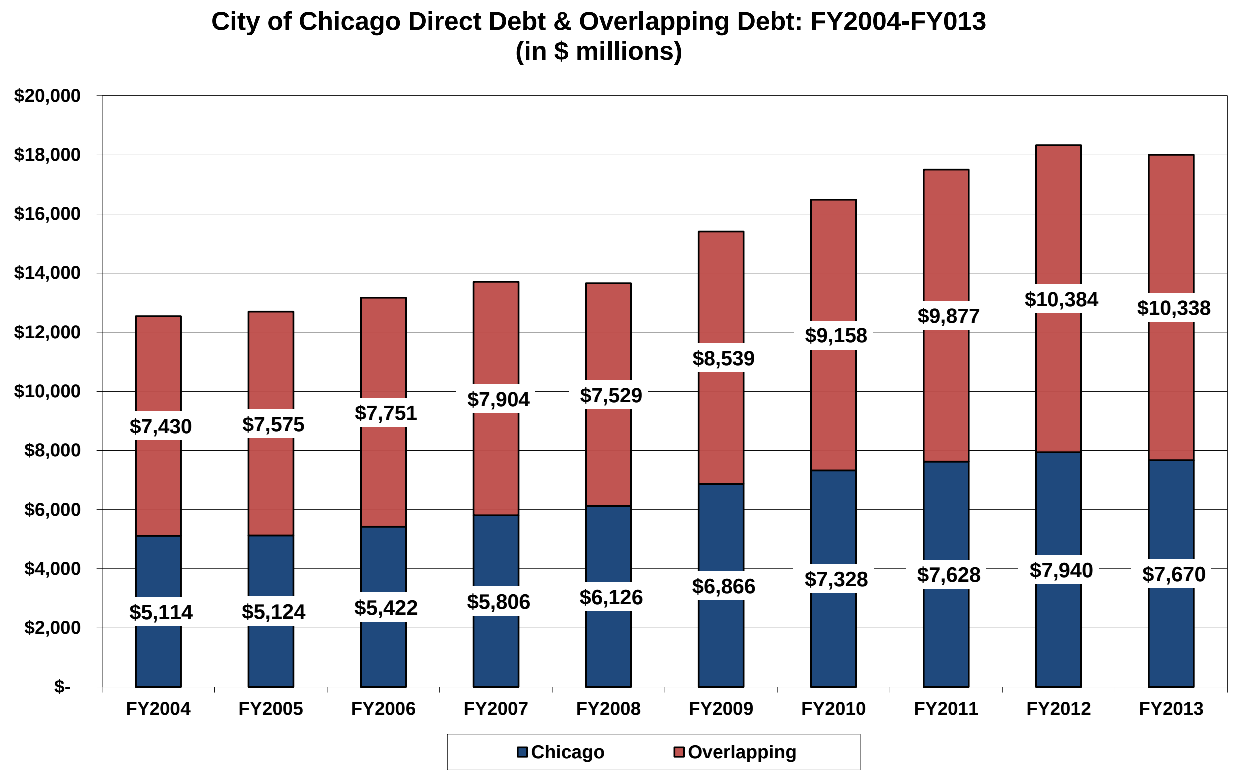
Source: City of Chicago, FY2013 Comprehensive Annual Financial Report, pp. 154-155.

Overlapping Debt: Chicago vs. Other Governments

The next exhibit compares total City of Chicago net direct debt with overlapping net debt reported by seven other major Cook County governments with boundaries coterminous with the City of Chicago or located partially within its boundaries. These governments are: Chicago Public Schools, Cook County, the Forest Preserve District of Cook County, the Metropolitan Water Reclamation District, the Chicago Park District, City Colleges of Chicago, the former School Finance Authority and the Chicago School Building Improvement Fund.[147] Ratings agencies and other financial analysts commonly monitor overlapping debt trends as an affordability indicator when governments consider debt issuance. Between FY2004 and FY2013 combined direct debt from other overlapping governments increased by 39.1% at the same time City of Chicago debt rose by 50.0%. Total direct debt from all eight major governments

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

including Chicago rose by 43.6%. The rate of increase in direct debt issued by the City of Chicago outpaced the increase for all other overlapping debt.



Source: City of Chicago FY2013 Comprehensive Annual Financial Report, pp. 154-155; and information provided by the City of Chicago Office of Budget and Management, October 31, 2014.

Debt Service Appropriation Ratio

Chicago debt service appropriations in FY2015 are projected to be 23.8% of total local fund appropriations, or $1.7 billion out of expenditures of $7.3 billion. Since FY2011 debt service appropriations have risen by 35.0%, far outpacing the 19.2% increase in total appropriations. The debt service ratio increased steadily between FY2011 and FY2014, rising from 21.0% to 24.5%. It will fall slightly in FY2015 to 23.8%. It is important to note that the percentage decrease is primarily the result of the two-year increase in the budget. The ratings agencies consider a debt burden high if this ratio is between 15% and 20%.[148]

City of Chicago Debt Service Appropriations as a Percentage of Total Appropriations: FY2011-FY2015			
	Debt Service	**Total Appropriation**	**Ratio**
FY2011	$ 1,291,683,500	$ 6,154,793,000	21.0%
FY2012	$ 1,437,125,733	$ 6,283,605,000	22.9%
FY2013	$ 1,520,332,540	$ 6,540,147,000	23.2%
FY2014	$ 1,708,603,837	$ 6,976,982,000	24.5%
FY2015	$ 1,743,440,463	$ 7,339,188,000	23.8%
Five-Year $ Increase	$ 451,756,963	$ 1,184,395,000	
Five Year % Increase	35.0%	19.2%	

Source: City of Chicago Program and Budget Summaries and Budget Recommendations: FY2011-FY2015.

Credit Ratings

In 2013 and 2014 the ratings agencies issued a number of credit rating downgrades, reflecting the City's continued deteriorating financial outlook. This follows on the heels of a series of downgrades in 2010 through 2012. The following table summarizes credit ratings for various

[148] 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.

types of City bonds as of November 11, 2013. The narrative that follows discusses the various downgrade actions over the past four years.

City of Chicago Credit Ratings (as of 10/21/14)			
	Ratings Agency		
Type of Bonds	**Moody's**	**Standard & Poor's**	**Fitch**
General Obligation Bonds			
City	Baa1	A+	A-
Revenue Bonds			
O'Hare Airport			
Senior Lien General Airport Revenue Bonds	A2	A-	A-
Passenger Facility Charge Revenue Bonds	A2	A-	A
Midway Airport			
First Lien - Revenue Bonds	A2	A	A
Second Lien - Revenue Bonds	A3	A-	A-
Water			
Senior Lien - Revenue Bonds	Aa2	AA	AA+
Junior Lien - Revenue Bonds	Aa3	AA-	AA
Wastewater			
Senior Lien - Revenue Bonds	A1	AA-	Not Rated
Junior Lien - Revenue Bonds	A2	A+	AA
Sales Tax	A3	AAA	A-
Motor Fuel Tax	Baa1	AA+	BBB+

Moody's Investors Services Rating Action, July 17, 2013; Paul Merrion, Crain's Chicago Business, "Why state's falling credit ratings hurt Chicago, June 7, 2013; Fitch Ratings, Fitch Downgrades Chicago, IL's Motor Fuel Tax Bonds to BBB+. Outlook Negative, June 4, 2013; Fitch Ratings, Fitch Rates Chicago O'Hare airport, IL Revs 'A-', Outlook Negative; Affs PFCs at 'A', Outlook Stable, September 25, 2013; Chicago Tribune, S & P turns 'negative' on Chicago's financial outlook, September 16, 2013; Chicago Sun-Times, "Fitch lowers Chicago's bond rating," November 11, 2013 at http://www.suntimes.com/23683456-761/fitch-lowers-chicagos-bond-rating.html; City of Chicago website at http://www.cityofchicago.org/city/en/depts/fin/supp_info/bond_issuances0/credit_information.html; CBS Chicago, Moody's Downgrades Chicago's Credit Rating, Lowest Of Any Major City Except Detroit, March 4, 2014.

Chicago Credit Rating Downgrades in 2013 and 2014

Chicago motor fuel tax bonds credit ratings were lowered by both Fitch and Moody's in June 2013 after they downgraded the State of Illinois' general obligation ratings. Fitch lowered the rating to BBB+ from A-. This action was triggered by Fitch's downgrade of the State of Illinois' general obligation bond rating to A- from A. Moody's reduced the rating on the bonds to Baa1 with a negative outlook from A3 one day after the State of Illinois rating was lowered to A3 from A2. Motor fuel taxes are distributed according to a formula set by the state and are subject to annual appropriation by the General Assembly. The ratings agencies expressed concern that weakness in the state's financial condition raised concerns about the reliability of state revenues provided to local governments that are used to pay for local debt.[149]

[149] Fitch Ratings."Fitch Downgrades Chicago, IL's Motor Fuel Tax Bonds to 'BBB+'; Outlook Negative," June 4, 2013 and Pauk Merrion, *Crain's Chicago Business*, "Why state's falling credit rating hurts Chicago," June 7, 2013.

In July 2013, Moody's downgraded Chicago general obligation sales tax bonds to A3 from Aa3, water and sewer senior lien revenue bond to A1 from Aa2 and water and sewer junior lien bonds to A2 from Aa3. The outlook on all ratings was negative. The primary reason for the general obligation bond downgrade was the City's large and growing unfunded pension liabilities and the increasing budget pressures resulting from these obligations. The sales tax bonds were downgraded due to the "lack of legal separation between pledged sales tax revenues and the city's general operations." The downgrades of the water and sewer bonds reflected the ratings agency's concerns about how the City's water and sewer enterprises were linked to its general operations.[150]

In September 2013, Standard & Poor's (S&P) reduced the City's A+ general obligation bond rating from stable to negative. The downgrade was due to concerns that Chicago might reduce its reserves in order to pay for increased pension funding in fiscal year 2015. In that year S&P said that the City must substantially increase contributions to two of its four retirement funds to meet state statutory requirements. S&P noted that the City could retain its A+ rating with a stable outlook if it devised a plan to make the forthcoming pension payments while maintaining a balanced budget and keeping reserves at current levels.[151]

In November 2013 Fitch issued the following credit downgrades:

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

The rating outlook for Chicago debt was negative. The downgrade reflected the City's lack of action on solving its growing unfunded pension liability problem.[152]

In March 2014 Moody's Investors Services again downgraded the City of Chicago's credit rating, lowering it from A3 to Baa1 with a negative outlook, only three ranks above speculative status. The negative outlook indicates that another downgrade could come if the City does not implement a solution to its looming pension funding shortfall. As a result of the downgrade, Chicago had the worst credit rating of any major city except Detroit.[153]

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[150] Moody's Investors Services, Rating Action: Moody's downgrades Chicago to A3 from Aa3, affecting $8.2 billion of GO and sales tax debt; outlook negative.
[151] Reuters, "S&P turns 'negative' on Chicago's financial outlook," September 16, 2013.
[152] Reuters, "Fitch Downgrades Chicago, IL's ULTGOs to 'A-'; Outlook Negative," November 8, 2013 at http://www.reuters.com/article/2013/11/09/ny-fitch-ratings-chicago-idUSnBw085976a+100+BSW20131109.
[153] CBS Chicago, *Moody's Downgrades Chicago's Credit Rating, Lowest Of Any Major City Except Detroit*, March 4, 2014 and Civic Federation Blog, "Chicago Faces Significant Swaps Liabilities if Bond Rating Lowered Again," June 19, 2014.

Chicago Credit Rating Downgrades 2010-2012

In August of 2010, Fitch downgraded $6.8 billion in outstanding City general obligation bonds to AA from AA+.[154] The City's rating outlook was changed to "negative." The downgrade reflected the City's weakening financial condition as a result of revenue declines and the accelerated use of asset lease reserves to balance the operating budget. The downgrade and negative outlook also reflected the City's large unfunded accrued actuarial pension liability.[155] On October 28, 2010 Fitch announced another downgrade of the City's outstanding General Obligation bonds to AA- from AA, again citing the City's accelerated use of asset lease reserves and other non-recurring revenues for operating purposes as a key factor in assigning the downgrade.[156]

Moody's also downgraded the City's outstanding $6.8 million in long-term general obligation debt rating to Aa3 with a stable outlook from the previous rating of Aa2 in August 2010. The reasons given for the downgrade were that the City was overly dependent on asset lease reserves that were being rapidly depleted, the City's pension funds are severely underfunded and the City maintains an above average debt burden characterized by a slow 32-year payout. Moody's noted, however, that Chicago maintains a large and diverse tax base, it still maintains reserves from the Skyway long-term lease and that management has taken steps to reduce expenditures.[157]

Moody's, Standard & Poor's and Fitch reaffirmed the City of Chicago's general obligation and sales tax bond ratings and gave the City's credit a stable outlook on October 18, 2011. At that time, the ratings agencies noted that the City's FY2012 budget proposal relies on recurring revenue sources instead of reserves and non-recurring measures.[158]

In July 2012, Moody's downgraded O'Hare Airport senior lien general revenue bonds to A2 from A1 over concerns about slow growth in passengers and the bankruptcy of American Airlines, the airport's second largest carrier. The ratings agency noted that the ongoing O'Hare runway expansion effort faces considerable risk in its ability to contain costs and complete work on time because of the size and complexity of the project. Moody's affirmed the A2 rating for O'Hare passenger facility revenue bonds at this time.[159]

Refunding Bonds

The Mayor's recommended FY2015 budget does not propose new debt refinancing but the budget benefits from $120.8 million in principal debt payments that were refunded in March

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[154] The City's GO debt had been raised to AA+ as part of Fitch Ratings' recalibration of almost all municipal issuers in April 2010. Moody's and Standard & Poor's also undertook recalibrations intended to rate public and corporate debt on the same scale. Dan Seymour, "Fitch Recalibrates 38,000-Plus Ratings," *The Bond Buyer*, April 6, 2010.
[155] Fitch Ratings, "Fitch Rates City of Chicago, IL GO Bonds and Tender Notes 'AA'; Downgrades Outstanding GOs," August 5, 2010.
[156] Fitch Ratings, "Fitch Rates City of Chicago, IL GO Bonds and Tender Notes 'AA'; Downgrades Outstanding GOs," August 5, 2010. Fitch Ratings, "Fitch Downgrades Chicago, IL's GO Bonds to 'AA-'; Outlook Revised to Stable," October 28, 2010.
[157] Moody's Investors Service, "City of Chicago High Profile New Issue," August 12, 2010.
[158] Fitch Ratings, "Fitch Rates Chicago, IL GOs & Sales Tax Bonds 'AA-'; Outlook Stable," October 18, 2011 and Standard & Poor's, "'AAA' Rating Assigned To Chicago, IL's $229.5 Million Series 2011A-C Sales Tax Refunding Bonds," October 18, 2011. Fran Spielman, "500 jobs coming, bond rating steady," *Chicago Sun-Times*, October 19, 2011.
[159] Jon Hilkevitch and Hal Dardick. "O'Hare revenue bonds downgraded," Chicago Tribune, July 22, 2012.

2014 and will not be repaid until FY2044.[160] The refunding bonds were sold with an annual interest rate of 6.3% and structured so that no principal payments are made for 30 years. Extending the life of the debt leads to a total interest cost of $228.8 million for the refunding bonds. If the City had not refunded the debt, the FY2015 budget would have had to include this principal payment as part of its total debt service payment. Likewise, the FY2013 and FY2014 operating budgets benefited from $133.8 million in refunded principal that was due to be paid out of operating expenses in those years but was part of refunding bonds issued in May 2012. The additional interest for the FY2014 and FY2013 refunding totals $218.0 million.

By extending the life of bonds that were due to be repaid over the last three budget years, all extended for an additional 30 years, the City reaped savings that reduced its operating deficits by a total of $254.6 million but at a cost of $446.8 million in additional interest that will be paid through FY2044. The City will also experience a spike in debt service owed at the end of the refunding when the entire principal amounts are due to be repaid in full.

The following chart shows the principal that was owed in FY2013 through FY2015 by the City but that were refunded and paid for using refunding bond proceeds and will now not be repaid until FY2044. The chart also shows the original bond series that were refunded and the amount of interest that will be paid over the life of the extended debt.

City of Chicago: Refunded Principal and New Interest Costs FY2013-FY2015 (in $ millions)

	FY2013		FY2014		FY2015		Total	
Refunded Bond Series	Principal Refunded	New Interest	Principal Refunded	New Interest	Principal Refunded	New Interest	Principal Refunded	Total New Interest Owed
1993A	$ 6.4	$ 10.4	$ -	$ -	$ -	$ -	$ 6.4	$ 10.4
1993B	$ -	$ -	$ 6.0	$ 9.8	$ 12.4	$ 23.5	$ 18.4	$ 33.3
1995A	$ -	$ -	$ -	$ -	$ 15.4	$ 29.1	$ 15.4	$ 29.1
1998	$ -	$ -	$ 4.0	$ 6.4	$ 6.8	$ 12.9	$ 10.8	$ 19.4
2001A	$ -	$ -	$ 2.3	$ 3.8	$ 2.4	$ 4.6	$ 4.8	$ 8.4
2002A	$ -	$ -	$ -	$ -	$ 0.2	$ 0.3	$ 0.2	$ 0.3
2003A	$ 3.1	$ 5.0	$ 3.3	$ 5.4	$ 0.8	$ 1.5	$ 7.1	$ 11.8
2004A	$ 2.1	$ 3.4	$ 2.4	$ 3.8	$ 1.6	$ 3.1	$ 6.1	$ 10.4
2005A	$ 13.1	$ 21.3	$ 59.6	$ 97.1	$ 63.6	$ 120.5	$ 136.3	$ 238.9
2005B	$ 2.4	$ 4.0	$ 1.8	$ 3.0	$ 2.7	$ 5.1	$ 7.0	$ 12.1
2005C	$ -	$ -	$ -	$ -	$ 4.2	$ 8.0	$ 4.2	$ 8.0
2006A	$ 1.5	$ 2.5	$ 1.6	$ 2.6	$ -	$ -	$ 3.1	$ 5.1
2006B	$ -	$ -	$ -	$ -	$ 4.9	$ 9.3	$ 4.9	$ 9.3
2007A	$ 0.2	$ 0.3	$ -	$ -	$ -	$ -	$ 0.2	$ 0.3
2007C	$ 12.3	$ 20.0	$ 11.5	$ 18.8	$ 5.7	$ 10.9	$ 29.5	$ 49.7
2008A	$ 0.1	$ 0.2	$ 0.1	$ 0.2	$ -	$ -	$ 0.2	$ 0.3
Total	**$ 41.2**	**$ 67.1**	**$ 92.6**	**$ 150.9**	**$ 120.8**	**$ 228.8**	**$ 254.6**	**$ 446.8**

Source: City of Chicago, General Obligation Bonds, Taxable Series 2014B, *Official Statement* , Mach 13, 2014, p. H-2; City of Chicago, General Obligation Bonds, Taxable Project and Refunding Bonds Series 2012B, *Official Statement* , May 16, 2012, pp. G1-G3.

As shown in the table above the bonds refunded to reduce the annual debt service owed by the city date back to 1993, which extends the life of the original debt from 20 to 50 years. The

[160] City of Chicago, General Obligation Bonds, Taxable Series 2014B, *Official Statement,* March 13, 2014, p. H-2.

refunding of bonds and backloading of principal payments for 30 years greatly increases the cost of the original investments and utilizes an extraordinarily expensive bond repayment structure.

The City also refunded $14.0 million of principal payments due from FY2016 through FY2027 with the Taxable Series 2014B Bonds. The refunding increases the interest rate being paid on all of these bonds to 6.3% through 2044. The original interest rates ranged from 5.0% to 5.37%.[161]

The practice of "scoop and toss" refunding differs from the City's direct borrowing for operations in previous years. In the past, the City directly used bond proceeds to fund operations, increasing corporate fund resources. The refunding procedure reduces total debt service owed, thus freeing up additional operating resources that would have otherwise been used to make the principal payments.

Another use of the Taxable Series 2014B Bonds was to repay short-term commercial loans used to cover operating expenses in FY2014. The City retired $53.2 million of its commercial paper, which are short-term loans typically repaid in the same fiscal year or within 12 months of borrowing, as part of the taxable bonds sold in March 2014.[162] At the same interest rate of 6.3% and with no principal repayment until 2044, the interest cost associated with repayment of the commercial loans using long-term refunding bonds totals $100.8 million.

Swaps Portfolio

The City of Chicago maintains a portfolio of swaps contracts associated with variable rate bonds that serve various purposes including hedging against interest rate fluctuation and accessing additional funds through upfront payments.

These contracts carry separate terms for payments between the City and financial institutions counterparty to the agreements. The swaps overlay the payment terms owed to the original bondholders and can lower or increase the total cost of the bonds. Depending on the terms of the agreements and the indices that the deals are tied to, the City or counterparty may be in a negative or positive position under the contract at any given time.

More typical swaps serve to convert variable-rate debt to artificially fixed-rate debt by defining a flat rate paid by the City while the counterparties are responsible for payments under the terms of the original variable rate bonds. These contracts are referred to as floating-to-fixed rate swaps. Other swaps require that the City and counterparties make payments based on other available indices, which also fluctuate with market trends. These contracts are known as floating-to-floating rate swaps.

The City currently has 15 swaps outstanding related to three variable rate bond issuances with a total notional value of $615.6 million.[163] These contracts have a combined negative market value

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[161] City of Chicago, General Obligation Bonds, Taxable Series 2014B, *Official Statement*, March 13, 2014, p. H-2.
[162] City of Chicago, General Obligation Bonds, Taxable Series 2014B, *Official Statement*, March 13, 2014, p. 19.
[163]City of Chicago, General Obligation Variable Rate Bonds Project and Refunding Series 2003, *Reoffering Circular*, September 25, 2014, p. 16.

of $147.3 million as of June 30, 2014. The swaps portfolio includes six floating-to-fixed rate swaps and nine floating-to-floating rate swaps.

Under the terms of the swaps contracts if the City's General Obligation Bond rating falls below a certain threshold the swaps are terminated and the City must pay the negative value (or receive a payment of the positive value) of the deals based on a market valuation at the time of the downgrade.

The City is currently rated Baa1 by Moody's Investors Service with a negative outlook. If Moody's downgrades the City to Baa2 or lower, 10 out of the 15 swaps face termination. Two more of the swaps have a termination threshold below Baa2 and three are terminated below Baa3.[164]

Fitch Ratings currently rates the City at A- with a negative outlook. Standard and Poor's rates the City at A+ with a negative outlook. If either Fitch or S&P lowers the City's rating below BBB+ it will trigger the termination clause for 10 of the 15 swaps, below BBB for two more and below BBB- for the final three.[165]

In September 2014, the City voluntarily terminated the swaps associated with variable rate bonds sold in 2002 with a notional value of $206.7 million. Ending the contracts cost the City $36.3 million, which represented the negative market value of the swaps at the time of the termination.[166] The payment to the swap counter parties was made using the City's short-term borrowing program and it is unclear if this cost will be refinanced into a long-term bond or repaid out of current operating funds.

CAPITAL PROGRAM

The City of Chicago has released a FY2014-2018 Capital Improvement Plan (CIP).[167] This is the third CIP released by the Emanuel administration. No CIP was published for the FY2011-FY2015 period. The CIP provides a plan for five years of capital programming.

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

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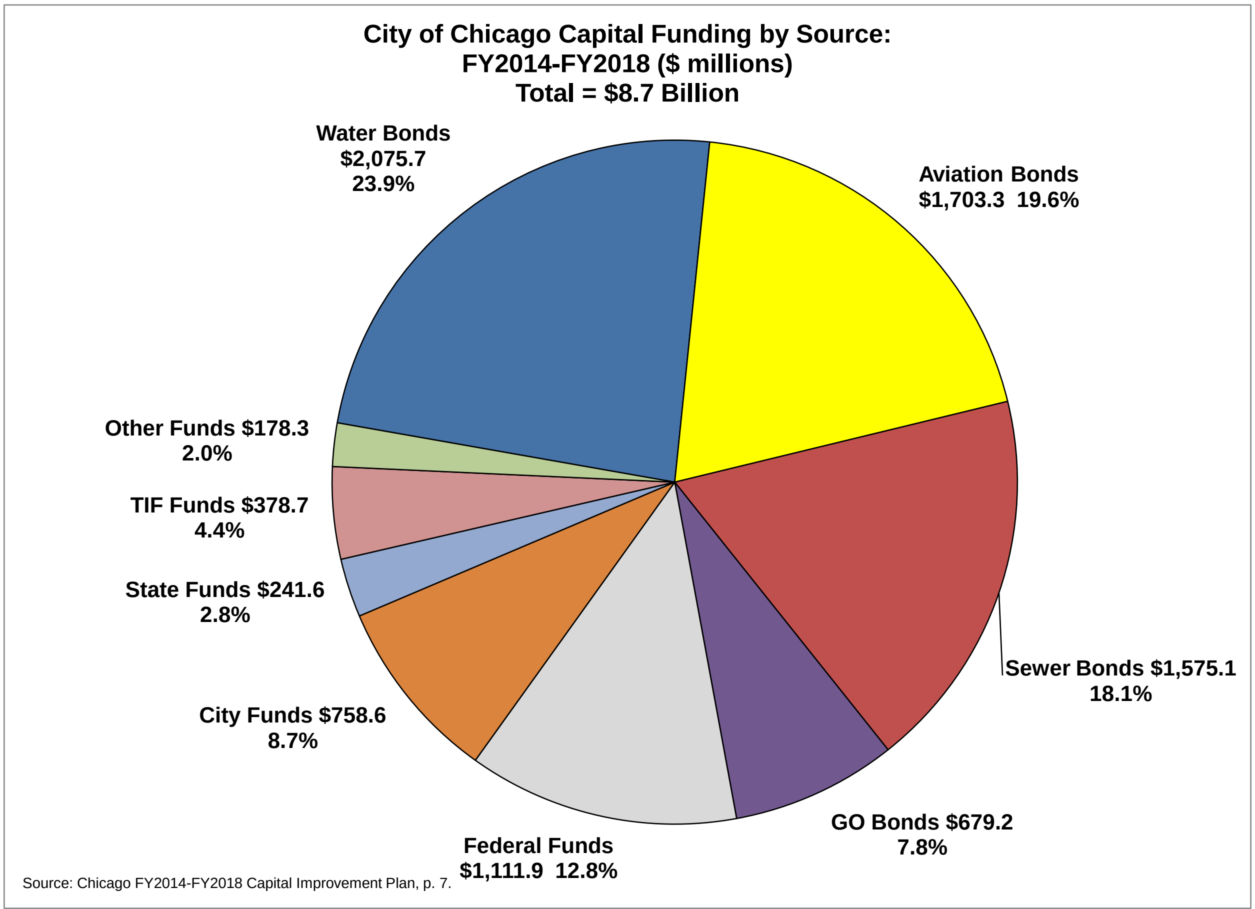
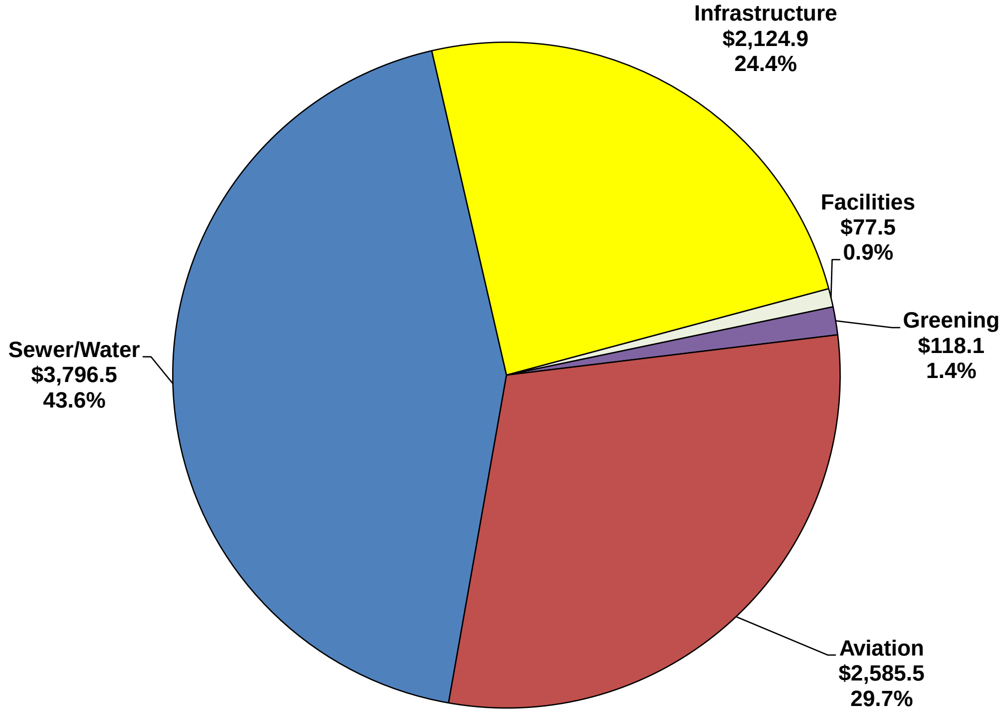
[164] City of Chicago, General Obligation Variable Rate Bonds Project and Refunding Series 2003, *Reoffering Circular*, September 25, 2014, p. 16.
[165] City of Chicago, General Obligation Variable Rate Bonds Project and Refunding Series 2003, *Reoffering Circular*, September 25, 2014, p. 16.
[166] City of Chicago, General Obligation Variable Rate Bonds Project and Refunding Series 2003, *Reoffering Circular*, September 25, 2014, p. 17.
[167] The FY2014-FY018 Capital Improvement Plan is available on the City's website at http://www.cityofchicago.org/content/dam/city/depts/obm/supp_info/CIP_Archive/2014CapitalBook.pdf.

The FY2014-FY2018 CIP proposes $8.7 billion in planned projects. These will primarily be paid for with water, aviation, sewer and general obligation bond funds (69.3% of the total or $6.0 billion). City of Chicago funds will provide nearly $759 million, or 8.7% of all funding. Federal funds will be used to finance 12.8% or $1.1 billion in projects. Smaller sums will be derived from the State, tax increment financing districts and other funds.



The next exhibit shows the distribution of CIP funds by program. The largest component of the capital program will be $3.8 billion for sewer and water infrastructure construction and rehabilitation. Aviation projects will total $2.6 billion, or 29.7% of all funding. The next largest capital program will be for infrastructure, which will total nearly $2.1 billion, or 24.4% of funding. Smaller amounts will be used for facilities and greening projects such as greenways, street medians, neighborhood parks, streetscaping and natural areas.

City of Chicago Capital Funding by Program:
FY2014-FY2018 ($ Millions)
Total = $8.7 billion



Source: Chicago FY2014-FY2018 Capital Improvement Plan, p. 8.

The following exhibit evaluates the City of Chicago's CIP format based on best practice guidelines from the National Advisory Council on State and Local Budgeting, the Government Finance Officers Association and Civic Federation budget analyses of local government budgets.[168] The CIP includes a summary list of projects, expenditures per project, funding sources and the time frame for completing projects. It is made available for public inspection on the City's website. However, the plan does not include a narrative description of the CIP process or individual projects. There is no discussion of how capital needs are determined or how they are prioritized. There is no discussion of the capital plan's impact on the operating budget. There appear to be few opportunities for stakeholders to provide input into the CIP process. While

[168] 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.

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

City of Chicago Capital Improvement Program Checklist	
Does the government prepare a formal capital improvement plan?	Yes
How often is the CIP updated?	Annually, although no CIP was produced for the FY2011-2015 period.
Does the capital improvement plan include:	
• *A narrative description of the CIP process?*	No
• *A five year summary list of projects and expenditures by project that includes funding sources for each project?*	Yes
• *Information about the impact and amount of capital spending on the annual operating budget for each project?*	No
• *Brief narrative descriptions of individual projects, including the purpose, need, history and current status of each project?*	No
• *The time frame for fulfilling capital projects?*	Yes
Are projects ranked and/or selected according to a formal prioritization or needs assessment process?	Not in the CIP
Is the capital improvement plan made publicly available for review by elected officials and citizens?	
• *Is the CIP published in the budget or a separate document?*	It is published in a separate document.
• *Is the CIP available on the Web?*	Yes[169]
Are there opportunities for stakeholders to provide input into the CIP?	
• *Is there stakeholder participation on a CIP advisory or priority setting committee?*	Unclear
• *Does the governing body hold a formal public hearing at which stakeholders may testify?*	No
• *Is the public permitted at least ten working days to review the CIP prior to a public hearing?*	Unclear
Is the CIP formally approved by the governing body of the government?	No
Is the CIP integrated into a long term financial plan?	Unclear

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

APPENDIX A: LONG-TERM ASSET LEASE PROCEEDS

In 2005 the City of Chicago leased the Skyway toll road for $1.83 billion to the Skyway Concession Company LLC for 99 years. In 2009 the City completed a similar deal that leased its parking meters for $1.15 billion to Chicago Parking Meters, LLC for 75 years. These proceeds were a principal method the City used to balance its budgets between FY2005 and FY2011. Mayor Rahm Emanuel ended the practice of transferring principal from these leases into the Corporate Fund with his FY2012 budget. The City also began replenishing the parking meter reserves with transfers of $20 million in FY2012, $15 million in FY2013, $5 million in FY2014 and a proposed transfer of $5 million in FY2015.[170] At the end of 2014, the aggregate principal balance in the Skyway and parking meter asset lease reserve funds is expected to be approximately $620 million.[171]

This section describes the use of proceeds from these two lease transactions, as well as transactions involving municipal parking garages and Midway airport.

Skyway Lease

In 2005 the City leased the Chicago Skyway for $1.83 billion to the Skyway Concession Company LLC for 99 years. The City deposited $500.0 million of the proceeds into a long-term reserve account, while $855.0 million was used to retire debt associated with the Skyway itself, along with other debt accrued by the City. The remaining $475.0 million was set aside for operating expenses: $100.0 million for a Human Infrastructure Fund and $375.0 million in a Mid-Term Reserve Fund.[172]

The principal balance of the Human Infrastructure Fund was fully drawn down by the end of 2009, as scheduled. By the end of 2011, the principal balance of the Mid-Term Reserve Fund was also fully drawn down.[173]

The following chart shows Skyway lease revenues and expenditures. The Mid-Term Reserve Fund has been depleted as it was used to balance the Corporate Fund budget from 2005 through 2010. The Skyway Human Infrastructure Fund has also been exhausted; it funded a variety of programs primarily focused on human service, job training and housing programs. The Parking Meter Human Infrastructure Fund described in the next section has taken its place and is being used to continue and expand the number of programs originally supported by Skyway funds. The Skyway Long-Term Reserve Fund principal of $500.0 million remains intact and is legally restricted per the Skyway lease transaction. Investment earnings from the account are transferred

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[170] City of Chicago, FY2015 Budget Overview, p. 1.
[171] City of Chicago, Annual Financial Analysis 2014, p. 62.
[172] The term "fund" is used loosely in this discussion and in the concession agreements. The remaining Skyway and parking meter lease proceeds that have not been expended or allocated to the Corporate Fund are held in one accounting entity called the "Service Concession and Reserve Fund." For a description of this fund, see City of Chicago, FY2013 Comprehensive Annual Financial Report, p. 51.
[173] City of Chicago, Asset Lease Agreements, http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html A transfer of $50.0 million in interest was made in FY2011.

to the Corporate Fund. The proposed budget indicates that the year-end estimate for interest income to be transferred to the Corporate Fund in FY2014 will be $12.0 million with a projected transfer of $11.0 million in FY2015.[174]

As of June 30, 2014, there were $505.8 million of the Skyway lease proceeds remaining.

Skyway Lease Proceeds: As of June 30, 2014 (in $ thousands)					
	Debt Retirement	Long-Term Reserve Fund	Mid-Term Reserve Fund	Human Infrastructure Fund	Total
Revenues (through 6/30/14)					
Proceeds	$ 850,000	$ 500,000	$ 375,000	$ 100,000	$ 1,825,000
Interest Earnings	$ -	$ 197,589	$ 50,134	$ 12,274	$ 259,997
Total	**$ 850,000**	**$ 697,589**	**$ 425,134**	**$ 112,274**	**$ 2,084,997**
Expenses, Transfers and Disbursements					
2005*	$ 850,000	$ 18,244	$ 100,000	$ 34,000	$ 1,002,244
2006	$ -	$ 27,400	$ 50,000	$ 25,505	$ 102,905
2007	$ -	$ 26,497	$ 75,000	$ 19,058	$ 120,555
2008	$ -	$ 28,857	$ 50,000	$ 15,025	$ 93,882
2009	$ -	$ 25,079	$ 50,000	$ 12,198	$ 87,277
2010	$ -	$ 26,204	$ 50,000	$ 1,209	$ 77,413
2011	$ -	$ 17,950	$ 50,000	$ 5,203	$ 73,153
2012	$ -	$ 10,430	$ -	$ 72	$ 10,502
2013	$ -	$ 11,300	$ -	$ -	$ 11,300
As of 6/30/2014	$ -	$ -	$ -	$ -	$ -
Total	**$ 850,000**	**$ 191,961**	**$ 425,000**	**$ 112,270**	**$ 1,579,231**
Balance	**$ -**	**$ 505,628**	**$ 134**	**$ 4**	**$ 505,766**

*Includes $50.0 million for 2004.

Notes: Debt Retirement includes $446.3 million in Skyway Associated Debt Retired.

Sources: City of Chicago, Annual Financial Analysis 2014, p. 62 and historical data from Asset Lease Agreements, http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html

Parking Garage Lease

In 2006 the City leased its downtown underground parking garage system and three garages owned by the Chicago Park District to Morgan Stanley for 99 years. However, Morgan Stanley turned over the lease to Societe Generale S.A. who assumed operations. The City received a net payment of $215.2 million, which it used to pay transaction fees and retire parking garage debt. The total payment from the lessee was $563.0 million, of which the City used $347.8 million to

[174] City of Chicago, FY2015 Budget Overview, p. 13 and 150.

purchase the Park District's garages as part of the transaction.[175] There are no City reserve funds associated with the parking garage lease transaction.

Midway Airport Lease

In 2008 the City signed a 99-year lease agreement with Midway Investment and Development to operate Midway airport. The vendor was ultimately unable to secure sufficient financing and withdrew from the agreement, forfeiting a $126.1 million security deposit in 2009. The deposit was used to pay $13.1 million of fees associated with the terminated transaction, and $33 million of existing debt. A transfer of $40 million was also made to the Corporate Fund for use in the FY2009 budget. The remaining $40 million was placed in a short-term reserve fund from which $20 million was transferred to the Corporate Fund in 2010 and the final $20 million was transferred during 2011.[176] There will be no further reserves associated with this terminated lease transaction.

Parking Meter Lease

In 2009 the City leased its parking meters for $1.15 billion to a Chicago Parking Meters LLC for 75 years. The City allocated $400.0 million of the parking meter proceeds into a long-term reserve fund, the Revenue Replacement Fund, and set aside the remaining $751.4 million for operating expenses in the following funds:

- Mid-Term Reserve Fund – $325.0 million intended to be transferred to the Corporate Fund over five fiscal years ($25 million initially, $100 million to cover 2008 carried forward obligations, $50 million for 2009, $50 million for 2010, $50 million for 2011 and $100 million for 2012).[177]
- Budget Stabilization Fund – $326.4 million for largely discretionary purposes with no specified time period for transfer.
- Human Infrastructure Fund - $100 million intended to replace Skyway Human Infrastructure Fund.[178]

As illustrated in the following chart, the parking meter proceeds have been utilized at a rapid rate. The City spent over one billion dollars in parking meter revenue (combined Budget Stabilization, Mid-Term Reserve, and Revenue Replacement) funds in just three years, leaving the Budget Stabilization and Mid-Term Reserve funds essentially depleted.

The principal of the Mid-Term Reserve Fund was depleted at the end of 2011. The principal of the Budget Stabilization Fund was drawn down in 2010, and $125,000 in interest remained in the fund as of June 30, 2014. As of June 30, 2014, the Human Infrastructure Fund had a balance of $6.5 million.[179]

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[175] City of Chicago, FY2011 Comprehensive Annual Financial Report, p. 94 and Asset Lease Agreements, http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html.
[176] City of Chicago, Annual Financial Analysis 2014, p. 61.
[177] These amounts total more than $325 million because interest income was also anticipated.
[178] City of Chicago, Annual Financial Analysis 2014, p. 61-64 and Asset Lease Agreements, http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html.
[179] City of Chicago, Asset Lease Agreements, http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html.

While the Skyway Long-Term Fund principal is required to stay intact at $500 million with only the earned interest transferred to the Corporate Fund, the parking meter Revenue Replacement Fund was previously required to transfer at least $20 million in interest earnings per year to the Corporate Fund. If $20 million was not earned, then the balance had to come from the principal. The City "borrowed" more than $20 million in interest earnings totaling $190 million in FY2010 and $69.9 million in FY2011 to close budget deficits in those years. This money is supposed to be paid back to that fund. The City began to pay back these funds in FY2012, with a $20.0 million deposit in FY2012, a $15.0 million deposit in FY2013, a $5.0 million deposit in FY2014 and a proposed $5.0 million deposit in FY2015.[180] As funds were borrowed from the principal, there were fewer funds available on which to earn interest: Thus it became harder for the fund to generate the $20 million anticipated interest.

With the passage of the FY2012 budget, the City amended the ordinance authorizing the parking meter lease agreement so that, like the Skyway Long-Term Reserve Fund, the amount transferred annually to the Corporate Fund can only come from interest earnings and not from the principal balance.[181] The City transferred $1.6 million in interest earnings from the parking meter Revenue Replacement Fund in FY2012. The City transferred $11.3 million in interest income from the Skyway Long-Term Reserve Fund and $2.7 million in interest income from the Parking Meter Long-Term Reserve Fund to its operating budget in FY2013. The year-end estimates for FY2014 include transfers of $12.0 million from the Skyway Long-Term Reserve Fund and $4.9 million from the Parking Meter Revenue Replacement Fund.[182] The Revenue Replacement Fund earned $23.2 million in interest earnings between its establishment in 2009 and June 30, 2014 and the fund had a balance of $119.3 million at this time. As of June 30, 2014, the Mid-Term Reserve Fund had earned $4.9 million in interest since 2009 and had a zero balance. In FY2015 the proposed budget includes Transfers-in of $32.8 million.

As of June 30, 2014, there were $127.9 million of parking meter lease proceeds and interest remaining.

[180] City of Chicago, Annual Financial Analysis 2013, p. 58. FY2015 Budget Overview, p. 1.
[181] Communication with the Office of Budget and Management, October 23, 2012. See Section 12 of the FY2012 Annual Appropriation Ordinance.
[182] City of Chicago, FY2015 Budget Overview, p. 150.

Parking Meter Lease Proceeds: As of June 30, 2014 (in $ thousands)					
	Long-Term Reserve Fund*	**Mid-Term Reserve Fund**	**Budget Stabilization Fund**	**Human Infrastructure Fund**	**Total**
Revenues (through 6/30/14)					
Proceeds	$ 400,000	$ 325,000	$ 326,355	$ 100,000	$ 1,151,355
Interest Earnings	$ 23,209	$ 4,922	$ 2,863	$ 1,201	$ 32,195
Total	**$ 423,209**	**$ 329,922**	**$ 329,218**	**$ 101,201**	**$ 1,183,550**
Expenses, Transfers and Disbursements					
2009	$ 20,000	$ 150,000	$ 224,753	$ -	$ 394,753
2010	$ 210,000	$ 100,000	$ 103,795	$ 23,516	$ 437,311
2011	$ 89,900	$ 79,919	$ 53	$ 40,886	$ 210,758
2012	$ (18,728)	$ 3	$ 492	$ 17,308	$ (925)
2013	$ 2,700	$ -	$ -	$ 11,062	$ 13,762
As of 6/30/2014	$ -	$ -	$ -	$ 1,911	
Total	**$ 303,872**	**$ 329,922**	**$ 329,093**	**$ 94,683**	**$ 1,055,659**
Balance	**$ 119,337**	**$ -**	**$ 125**	**$ 6,518**	**$ 127,891**

*Also referred to as Revenue Replacement Fund.
Source: City of Chicago, Asset Lease Agreements,
http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html

Summary: Use of Long-Term Lease Proceeds

By June 30, 2014, the City will have utilized 75.7% of the Skyway proceeds and interest earnings for operating expenses and debt retirement, leaving a balance of $505.6 million in a long-term reserve. It will also have utilized 89.2% of the parking meter proceeds and interest earnings for operating expenses and debt retirement, leaving a balance of $119.3 million in the long-term reserve fund. The FY2014 balance of the parking meter proceeds is slightly better than in FY2011, when the City drained reserves to $80.0 million and had spent approximately 91.4% of proceeds on operating expenses.

The City allocated 100% of its parking garage proceeds toward debt retirement and closing costs. In contrast, 90.9% of the $1.15 billion in parking meter proceeds were spent on operating expenses including amounts borrowed from the parking meter long-term reserve fund to bridge Corporate Fund budget gaps from FY2009 to FY2011.

APPENDIX B – ANNUAL REQUIRED CONTRIBUTIONS FOR THE FOUR CITY OF CHICAGO PENSION FUNDS

The following four tables compare the ARC to the actual City of Chicago contribution over the last ten years for each of the pension funds. These tables do not include the ARC for the pension funds' subsidy of retiree health care (see OPEB section of this report on page 71), which has been reported separately since FY2005.[183] In FY2013 the Municipal Fund had the largest ARC, at $820.0 million, followed by the Police Fund at $474.2 million. The Municipal Fund also had the largest shortfall between its ARC and actual employer contribution, $671.8 million.

Chicago Policemens' Pension Fund Schedule of Employer Contributions--Pension Plan as Computed for GASB Statement 25								
Fiscal Year	Employer Annual Required Contribution (1)	Actual Employer Contribution (2)	Shortfall (1-2)	% of ARC contributed	Payroll	ARC as % of payroll	Actual Employer Contribution as % of payroll	Actuarial Funded Ratio
2004	$ 203,757,534	$ 135,744,173	$ 68,013,361	66.6%	$ 874,301,958	23.3%	15.5%	55.9%
2005	$ 238,423,459	$ 178,278,371	$ 60,145,088	74.8%	$ 948,973,732	25.1%	18.8%	50.7%
2006*	$ 262,657,025	$ 150,717,705	$ 111,939,320	57.4%	$ 1,012,983,635	25.9%	14.9%	49.3%
2007	$ 312,726,608	$ 170,598,268	$ 142,128,340	54.6%	$ 1,038,957,026	30.1%	16.4%	50.4%
2008	$ 318,234,870	$ 172,835,805	$ 145,399,065	54.3%	$ 1,023,580,667	31.1%	16.9%	47.3%
2009	$ 339,488,187	$ 172,043,754	$ 167,444,433	50.7%	$ 1,011,205,359	33.6%	17.0%	43.6%
2010	$ 363,624,570	$ 174,500,507	$ 189,124,063	48.0%	$ 1,048,084,301	34.7%	16.6%	39.7%
2011	$ 402,751,961	$ 174,034,600	$ 228,717,361	43.2%	$ 1,034,403,526	38.9%	16.8%	35.6%
2012	$ 431,010,173	$ 197,885,552	$ 233,124,621	45.9%	$ 1,015,170,686	42.5%	19.5%	30.8%
2013	$ 474,177,604	$ 179,521,259	$ 294,656,345	37.9%	$ 1,015,426,128	46.7%	17.7%	29.6%

*Beginning in 2006, the ARC excludes other post employment benefits (OPEB). The OPEB ARC is calculated separately.
Source: Chicago Policemen's Annuity and Benefit Fund, Actuarial Valuation for the year ended December 31, 2013, p. 82.

Chicago Firemen's Pension Fund Schedule of Employer Contributions--Pension Plan as Computed for GASB Statement 25								
Fiscal Year	Employer Annual Required Contribution (1)	Actual Employer Contribution (2)	Shortfall (1-2)	% of ARC contributed	Payroll	ARC as % of payroll	Actual Employer Contribution as % of payroll	Actuarial Funded Ratio
2004	$ 134,762,334	$ 55,532,454	$ 79,229,880	41.2%	$ 334,423,753	40.3%	16.6%	42.3%
2005	$ 161,696,388	$ 90,128,915	$ 71,567,473	55.7%	$ 341,252,492	47.4%	26.4%	41.8%
2006*	$ 160,246,525	$ 76,763,308	$ 83,483,217	47.9%	$ 387,442,074	41.4%	19.8%	40.4%
2007	$ 188,201,379	$ 72,022,810	$ 116,178,569	38.3%	$ 389,124,547	48.4%	18.5%	42.1%
2008	$ 189,940,561	$ 81,257,754	$ 108,682,807	42.8%	$ 396,181,778	47.9%	20.5%	39.8%
2009	$ 203,866,919	$ 89,211,671	$ 114,655,248	43.8%	$ 400,912,173	50.9%	22.3%	36.5%
2010	$ 218,388,037	$ 80,947,311	$ 137,440,726	37.1%	$ 400,404,320	54.5%	20.2%	32.4%
2011	$ 250,056,273	$ 82,869,839	$ 167,186,434	33.1%	$ 425,385,354	58.8%	19.5%	28.3%
2012	$ 271,505,718	$ 81,521,883	$ 189,983,835	30.0%	$ 416,491,784	65.2%	19.6%	24.4%
2013	$ 294,877,895	$ 103,669,015	$ 191,208,880	35.2%	$ 418,964,763	70.4%	24.7%	24.0%

*Beginning in 2006, the ARC excludes other post employment benefits (OPEB). The OPEB ARC is calculated separately.
Source: Chicago Firemen's Annuity and Benefit Fund, Actuarial Valuation for the year ended December 31, 2007, p. 28 and Financial Statements for the year ended December 31, 2013, p. 27.

[183] The pension fund OPEB subsidy adds approximately 1-2% to ARC as a percent of payroll and 0-4.3% to Actual Employer Contribution as a Percent of Payroll. See Civic Federation, *Status of Local Pension Funding Fiscal Year 2012*, October 2, 2014.

Chicago Laborers' Pension Fund Schedule of Employer Contributions--Pension Plan as Computed for GASB Statement 25								
Fiscal Year	Employer Annual Required Contribution (1)	Actual Employer Contribution* (2)	Shortfall (1-2)	% of ARC contributed	Payroll	ARC as % of payroll	Actual Employer Contribution as % of payroll	Actuarial Funded Ratio
2004	$ 8,513,018	$ 202,684	$ 8,310,334	2.4%	$ 171,476,937	5.0%	0.1%	98.5%
2005	$ 12,744,103	$ 40,435	$ 12,703,668	0.3%	$ 182,809,397	7.0%	0.0%	93.9%
2006**	$ 17,599,766	$ 106,270	$ 17,493,496	0.6%	$ 193,176,272	9.1%	0.1%	92.0%
2007	$ 21,725,805	$ 13,256,147	$ 8,469,658	61.0%	$ 192,847,482	11.3%	6.9%	95.0%
2008	$ 17,652,023	$ 15,232,804	$ 2,419,219	86.3%	$ 216,744,211	8.1%	7.0%	86.8%
2009	$ 33,517,429	$ 14,626,771	$ 18,890,658	43.6%	$ 208,626,493	16.1%	7.0%	0.0%
2010	$ 46,664,704	$ 15,351,944	$ 31,312,760	32.9%	$ 199,863,410	23.3%	7.7%	73.8%
2011	$ 57,258,593	$ 12,778,697	$ 44,479,896	22.3%	$ 195,238,332	29.3%	6.5%	64.9%
2012	$ 77,566,394	$ 11,852,905	$ 65,713,489	15.3%	$ 198,789,741	39.0%	6.0%	55.4%
2013	$ 106,199,410	$ 11,583,051	$ 94,616,359	10.9%	$ 200,351,820	53.0%	5.8%	56.7%

*The City did not levy a property tax for the Laborer's fund from 2001-2006 because it was over 100% funded, excluding the liabilities attributable to the Early Retirement Incentive. These amounts represent miscellaneous income and changes in reserves for tax loss and collections for prior years. The FY2005 funded ratio excluding the ERI was 96.3%, thus the City was required begin making regular employer contributions again in FY2007.

**Beginning in 2006, the ARC excludes other post employment benefits (OPEB). The OPEB ARC is calculated separately.

Source: Laborers' Annuity and Benefit Fund of Chicago, Actuarial Valuation for the year ended December 31, 2013, p. 92.

Chicago Municipal Employees' Pension Fund Schedule of Employer Contributions--Pension Plan as Computed for GASB Statement 25								
Fiscal Year	Employer Annual Required Contribution (1)	Actual Employer Contribution* (2)	Shortfall (1-2)	% of ARC contributed	Payroll	ARC as % of payroll	Actual Employer Contribution as % of payroll	Actuarial Funded Ratio
2004	$ 198,199,001	$ 154,000,624	$ 44,198,377	77.7%	$ 1,303,127,528	15.2%	11.8%	72.0%
2005	$ 285,291,350	$ 155,057,116	$ 130,234,234	54.4%	$ 1,407,323,058	20.3%	11.0%	68.5%
2006**	$ 303,271,824	$ 157,062,769	$ 146,209,055	51.8%	$ 1,475,877,378	20.5%	10.6%	67.2%
2007	$ 343,123,106	$ 139,606,140	$ 203,516,966	40.7%	$ 1,564,458,835	21.9%	8.9%	67.6%
2008	$ 360,387,176	$ 146,803,250	$ 213,583,926	40.7%	$ 1,543,976,553	23.3%	9.5%	62.9%
2009	$ 413,508,622	$ 148,046,490	$ 265,462,132	35.8%	$ 1,551,973,348	26.6%	9.5%	57.0%
2010	$ 483,948,339	$ 154,752,320	$ 329,196,019	32.0%	$ 1,541,388,065	31.4%	10.0%	49.8%
2011	$ 611,755,657	$ 147,009,321	$ 464,746,336	24.0%	$ 1,605,993,339	38.1%	9.2%	44.6%
2012	$ 690,822,553	$ 148,858,655	$ 541,963,898	21.5%	$ 1,590,793,702	43.4%	9.4%	37.2%
2013	$ 820,022,689	$ 148,196,884	$ 671,825,805	18.1%	$ 1,580,288,702	51.9%	9.4%	36.9%

*A dollar amount actual employer contribution is not disclosed in the Schedule of Employer Contributions for this fund so one was computed from the % of ARC contributed.

**Beginning in 2006, the ARC excludes other post employment benefits (OPEB). The OPEB ARC is calculated separately.

Source: Municipal Employees' Annuity and Benefit Fund of Chicago FY2006 Actuarial Valuation, p. 94 and Financial Statements for the Year Ended December 31, 2013, p. 46.