The Civic Federation

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CITY OF CHICAGO FY2019 PROPOSED BUDGET:

Analysis and Recommendations

October 31, 2018

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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 FY2019 budget of approximately $8.9 billion because it is a reasonable one year financial plan that does not include any new taxes or fees, makes important public safety investments and funds the increased 2019 pension contribution of $32 million to the police and fire pension funds without a property tax increase.

Mayor Emanuel and the Chicago City Council have made difficult fiscal choices in recent years through a series of tax increases to address the severe underfunding of its four pension funds and put the City on better financial footing. This budget continues to incorporate good financial practices such as adding an additional $10 million into reserves, increasing funding for settlements and judgments in the operating budget and investing in a number of other initiatives. However, the heavy lifting is not over. The next Mayor and City Council will need to address a projected doubling in required pension contributions over the next five years as the four pension funds finish their five-year funding ramps and begin actuarial-based funding schedules.

In addition to the increased contributions to the four pension funds, the City projected corporate fund budget gaps of $251.7 million in 2020 and $362.2 million in 2021.[1] At the same time, it faces a growing debt burden and labor negotiations with unions representing the City's police and fire workforce are ongoing and may add additional fiscal stress.

Furthermore, despite the City's phase-out of scoop-and-toss transactions that had added to the City's interest cost, the Civic Federation is concerned that Chicago continues to rely on transactions that extend the maturity of debt to achieve short-term budgetary relief. The proposed $1.3 billion refunding transaction from the Sales Tax Securitization Corporation appears to include more than $1 billion of debt maturing from 2044 to 2053, which is beyond the maturity of the debt refunded.[2] This new debt, which is solely for refunding existing debt, would impact the City's capacity to issue debt for capital purposes during the 2040s and 2050s.

Properly addressing these challenges will require cooperation among City officials, labor partners, residents and the State of Illinois to control the cost of government by enacting meaningful reforms and ensuring Chicago remains a strong economic engine for Illinois for years to come.

The Civic Federation offers the following key findings on Mayor Emanuel's proposed FY2019 budget:

- The City proposes a FY2019 local funds budget of approximately $8.9 billion; this is an increase of 3.0% above the FY2018 adopted appropriations of $8.6 billion across all local funds;
- The FY2019 Corporate Fund budget proposal will increase by 0.6%, or $24.5 million, from approximately $3.79 billion in FY2018 to $3.81 billion in FY2019;
- The FY2019 budget proposes to increase staff by 364 FTEs or 1.0%, from 35,033 FTEs to 35,397 FTEs, not including grant-funded positions;
- Public Safety will see the greatest increase in FTEs, growing from 22,093 FTEs in FY2018 to 22,336 FTEs in FY2019, an increase of 243 FTEs or 1.1%;
- Corporate Fund personnel services are projected to increase by $33.2 million, or 1.2%, from approximately $2.84 billion in the adopted FY2018 budget to $2.87 billion in FY2019;

[1] The forecasted corporate fund budget gaps are subject to change based on the actions taken by the City as well as other economic and financial factors.
[2] Sales Tax Securitization Corporation, Series 2018CD, *Investor Roadshow*, October 25, 2018, p. 11; Yvette Shields, "Chicago supersizes deal to wrap up securitization program early," *The Bond Buyer*, October 29, 2018.

- The City's proposed FY2019 property tax levy is $1.44 billion, which is a 1.9% increase over the $1.41 billion levy adopted in the FY2018 budget;
- Between FY2008 and FY2017 total net direct debt rose by 56.9%, or $3.5 billion. This represents an increase from $6.1 billion in FY2008 to $9.6 billion ten years later;
- The total unfunded pension liabilities increased significantly to $27.6 billion in FY2017 from $25.5 billion in FY2016; and
- Between FY2008 and FY2017, total unfunded pension liabilities per resident of Chicago grew from $3,995 per capita to $10,163 per capita. This is an increase of 154.4%.

The Civic Federation **supports** the following initiatives and elements of the City of Chicago's FY2019 budget:

- Implementing management efficiencies and reforms;
- Increased funding in the rainy day fund;
- Increased funding for settlements and judgments from the corporate fund;
- Containing retiree healthcare obligations; and
- Developing a one-year funding plan for the draft police consent decree.

The Civic Federation has **concerns** about the following issues related to the City of Chicago's FY2019 budget:

- Structure of the Sales Tax Securitization Corporation's proposed $1.3 billion issuance;
- Proposed issuance of pension obligation bonds;
- Pension contribution spikes over the next five years;
- Ongoing fiscal imbalance;
- High bonded debt burden;
- Future costs of additional police staffing;
- Lack of cost of services data for the programs in its budget; and
- Uncertainty with regard to the outcome of outstanding collective bargaining agreements.

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

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

CIVIC FEDERATION POSITION

The Civic Federation **supports** Mayor Emanuel's proposed FY2019 budget of approximately $8.9 billion because it is a reasonable one year financial plan that does not include any new taxes or fees, makes important public safety investments and funds the increased 2019 pension contribution of $32 million to the police and fire pension funds without a property tax increase.

Mayor Emanuel and the Chicago City Council have made difficult fiscal choices in recent years through a series of tax increases to address the severe underfunding of its four pension funds and put the City on better financial footing. This budget continues to incorporate good financial practices such as adding an additional $10 million into reserves, increasing funding for settlements and judgments in the operating budget and investing in a number of other initiatives. However, the heavy lifting is not over. The next Mayor and City Council will need to address a projected doubling in required pension contributions over the next five years as the four pension funds finish their five-year funding ramps and begin actuarial-based funding schedules.

In addition to the increased contributions to the four pension funds, the City projected corporate fund budget gaps of $251.7 million in 2020 and $362.2 million in 2021.[3] At the same time, it faces a growing debt burden and labor negotiations with unions representing the City's police and fire workforce are ongoing and may add additional fiscal stress.

Furthermore, despite the City's phase-out of scoop-and-toss transactions that had added to the City's interest cost, the Civic Federation is concerned that Chicago continues to rely on transactions that extend the maturity of debt to achieve short-term budgetary relief. The proposed $1.3 billion refunding transaction from the Sales Tax Securitization Corporation appears to include more than $1 billion of debt maturing from 2044 to 2053, which is beyond the maturity of the debt refunded.[4] This new debt, which is solely for refunding existing debt, would impact the City's capacity to issue debt for capital purposes during the 2040s and 2050s.

Properly addressing these challenges will require cooperation among City officials, labor partners, residents and the State of Illinois to control the cost of government by enacting meaningful reforms and ensuring Chicago remains a strong economic engine for Illinois for years to come.

Issues the Civic Federation Supports

The Civic Federation supports the following elements of the proposed FY2019 City of Chicago budget.

Implementing Management Efficiencies and Reforms

Since taking office in 2011 Mayor Emanuel and his administration have implemented a number of reforms and efficiencies aimed at improving city operations and reducing growing

[3] The forecasted corporate fund budget gaps are subject to change based on the actions taken by the City as well as other economic and financial factors.
[4] Sales Tax Securitization Corporation, Series 2018CD, *Investor Roadshow*, October 25, 2018, p. 11; Yvette Shields, "Chicago supersizes deal to wrap up securitization program early," *The Bond Buyer*, October 29, 2018.

expenditures. With the proposed FY2019 budget, the Mayor continues to implement energy savings and efficiencies, consolidate functions across departments and better manage healthcare costs. These actions will help make City finances more sustainable over the long-term.

Increased Funding in the Rainy Day Fund

Since 2012 the City has added more than $50 million to its asset lease and concession reserves. In addition the City has added $20 million into the operating liquidity fund. In FY2019 the City plans to add an additional $10 million into its operating liquidity fund. The Civic Federation supports the City's efforts to stabilize its finances by increasing its reserve funds.

Increased Funding for Settlements and Judgments from Corporate Fund

The Mayor's proposed FY2019 budget increases the corporate fund budget for settlements and judgements by $15.1 million to $55.3 million. The appropriations for settlements and judgments across all local funds, including the corporate fund will total $62.0 million in FY2019. The Civic Federation is encouraged the City is paying more for settlements and judgments with operating funds rather than through borrowing. However, this amount is still well below the average annual payout of settlements and judgements in the five years leading up to 2016, which averaged $152 million.[5] Furthermore, in 2017 the City issued $274 million in taxable debt, of which $225 million of the proceeds were set aside to help pay legal settlements. While City Budget staff was quoted as saying that it would be the last time the administration borrows to cover **routine** settlements and judgements, this practice added an estimated $120 million in interest costs to cover these expenses over the life of the bonds.[6]

Containing Retiree Healthcare Obligations

The City of Chicago and certain of its annuitants and employees have been in litigation or party to settlement agreements with regard to the City and Pension Funds' provision of subsidized retiree healthcare for thirty years. However, with the Illinois Supreme Court's November 2017 refusal of an appeal from retirees to an appellate court ruling limiting their claims for undiminished lifetime healthcare subsidy benefits, the City looks to have successfully contained an expensive and growing obligation.[7]

In 2013 with a final settlement agreement coming to an end and annual retiree healthcare contributions projected to grow from $194.4 million in FY2014 to $540.7 million in FY2023, the City announced that it would phase out subsidized retiree healthcare for all but its oldest retirees. State legislation was passed to phase out the pension funds' subsidies by the end of 2016.[8] Police officers and firefighters who retired on or after August 23, 1989 and are eligible to receive

[5] Steve Daniels, "How Chicago's financing of police-misconduct payouts adds hundreds of millions to the tab," *Crain's Chicago Business*, July 6, 2018.
[6] Steve Daniels, "How Chicago's financing of police-misconduct payouts adds hundreds of millions to the tab," *Crain's Chicago Business*, July 6, 2018.
[7] Underwood v. City of Chicago, 2017 IL App (1st) 162356. Available at http://www.illinoiscourts.gov/Opinions/AppellateCourt/2017/1stDistrict/1162356.pdf.
[8] Public Act 98-0043.

healthcare coverage pursuant to their collective bargaining agreements saw no change to their coverage through this decision unless it is negotiated through collective bargaining.[9] Retirees sued, claiming they had rights to lifetime undiminished subsidies, but the Circuit and Appellate Courts both found that due to the time limitations of the settlements, the Illinois Constitution's pension protection clause only protected the full subsidy retirees had received up until the settlement expired on June 30, 2013. The Appellate Court also found that certain current employees and retirees hired before the latest settlement was executed on July 1, 2003 had rights for a lifetime subsidy, but only as it existed in 1983 and 1985, or between $21 and $55 per month. Litigation continues as to whether the City or the pension funds are responsible for that limited subsidy.

While it was a difficult decision to move to limit the City's retiree healthcare obligations, it was a prudent response to the major shift in the availability of healthcare to older adults who are not yet eligible for Medicare through the Affordable Care Act. Given the many financial challenges and increasing legacy costs the City of Chicago faces, the Civic Federation commends Mayor Emanuel and his administration for creatively working to limit obligations for younger retirees while protecting the oldest retirees.

Funding Plan for Draft Police Consent Decree

In FY2017 the City embarked on a multi-year public safety strategy that includes the hiring of an additional 1,054 new police officers in order to bring the total number of sworn officers to 13,631. In addition to the increased hiring, the Mayor's plan includes the promotion of 670 officers in 2017 and 540 officers in 2018. In FY2019 in preparation for the implementation of the draft police consent decree with the Illinois Attorney General, the City is appropriating $25.7 to pay for the first year costs of the draft police consent decree. The Civic Federation commends the City for proactively preparing for the implementation of police reforms.

Civic Federation Concerns

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

Structure of the Sales Tax Securitization Corporation's Proposed $1.3 Billion Issuance

The City of Chicago plans to issue an additional $1.3 billion to refund existing General Obligation bonds through a special purpose entity called the Sales Tax Securitization Corporation (STSC).[10] The year-old entity is a lockbox designed to intercept sales tax revenue in order protect bondholders in the event of a bankruptcy. Any municipal bankruptcy in Illinois would have to be authorized by the State. Both Fitch and Kroll have given the STSC AAA ratings.[11] While S&P initially assigned the STSC an AA rating, on October 26, 2018 it downgraded the entity to AA-, saying that the rating is constrained until the City's General

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[9] FY2017 City of Chicago CAFR, p. 94.
[10] City of Chicago FY2019 Budget Overview, p. 13.
[11] Fran Spielman, "Emanuel's $3 billion sales tax bonds get AAA rating," *Chicago Sun-Times,* November 2, 2017.

Obligation credit improves.[12] Additionally, since sales taxes are collected and distributed by the State the new entity may still be affected by investor perceptions of Illinois.

Nevertheless, the STSC has issued debt at a substantially lower interest cost than the City's General Obligation bonds, and achieved $88 million in net present value savings in its first two completed transactions in late 2017 and early 2018.[13] The deals refunded all $563.4 million of the City's outstanding sales tax-backed bonds and $929.5 million of General Obligation bonds.[14] The $1.3 billion proposed deal in November 2018 is to refund additional General Obligation bonds.[15]

The Civic Federation is encouraged that the City has found a creative way to manage the cost of its high debt burden. However, it should carefully explain to the public the long-term risks associated with the transaction. These include the impact on flexibility of sales tax revenue and the implications of prioritizing bondholders over taxpayers, employees and pensioners in the event of a bankruptcy.

Despite the lower interest cost of the STSC, the Civic Federation is concerned about the way the entity has structured the refunding of existing debt. The City has stated it expects the refunding transactions to result in budgetary savings of $700 million over the first five years of the STSC. [16] However, the Series 2018AB transaction significantly lengthened the maturities of the City's total debt profile. Before that transaction, the longest-dated outstanding General Obligation debt matured in 2044.[17] The new debt issued by the STSC includes $381 million maturing from 2044 to 2048.[18] The proposed $1.3 billion refunding transaction appears to include more than $1 billion of debt maturing between 2044 and 2053.[19] The new debt, which is solely for refunding existing debt, would impact the City's capacity to issue debt for capital projects during the 2040s and 2050s. Despite the City's phase-out of scoop-and-toss transactions that had added to the City's interest cost, the Civic Federation is concerned that the City continues to rely on transactions that extend the maturity of debt to achieve short-term budgetary relief.

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[12] S&P Global Ratings, "Sales Tax Securitization Corporation of Chicago; Sales Tax", ratings report, October 26, 2018.
[13] Information provided by City of Chicago Office budget staff, October 29, 2018.
[14] Sales Tax Securitization Corporation, Series 2017ABC, *Offering Circular*, December 6, 2017 as supplemented December 7, 2017, pp. D-1 to D-4; Sales Tax Securitization Corporation, Series 2018AB, *Offering Circular*, January 24, 2018, pp. D-1 to D-3.
[15] Sales Tax Securitization Corporation, Series 2018CD, *Supplement to Preliminary Offering Circular Dated October 18, 2018*, October 25, 2018.
[16] City of Chicago FY2019 Budget Overview, p. 13.
[17] City of Chicago, Series 2017AB, *Official Statement*, January 19, 2017, p. 85; Sales Tax Securitization Corporation, Series 2017ABC, *Offering Circular*, December 6, 2017 as supplemented December 7, 2017, pp. D-1 to D-2.
[18] Sales Tax Securitization Corporation, Series 2017ABC, *Offering Circular*, December 6, 2017 as supplemented December 7, 2017; Sales Tax Securitization Corporation, Series 2018AB, *Offering Circular*, January 24, 2018.
[19] Sales Tax Securitization Corporation, Series 2018CD, *Investor Roadshow*, October 25, 2018, p. 11; Yvette Shields, "Chicago supersizes deal to wrap up securitization program early," *The Bond Buyer*, October 29, 2018.

Proposed Issuance of Pension Obligation Bonds

The City of Chicago is facing budgetary pressure due to its four pension systems, which are collectively underfunded by $28 billion. Despite increasing revenues for the funds in recent years, the City faces increasing contribution schedules that jump by a total of $1.0 billion – essentially doubling the current contribution to $2.1 billion in budget year 2023. To address these pressures, the City recently floated the idea of issuing pension obligation bonds. In a presentation to investors, the City discussed issuing $10 billion of bonds, the proceeds of which were projected to raise the pensions' collective funded ratio from 26% to 53%.[20]

Chicago would see near-term budgetary savings through a pension obligation bond because the increased assets in the funds would reduce unfunded liabilities, lowering the contribution needed to amortize the pension debt. In the long run, savings to the City would depend on investment returns surpassing debt costs over the life of the bonds. The performance of the invested funds depends on market conditions and is impossible to predict.

The last taxable bonds issued under the City's General Obligation credit in 2017 had an interest rate of 7.045%.[21] However, for the pension obligation bonds the City has proposed to issue debt from securitized revenues, as it has recently done with the Sales Tax Securitization Corporation. The City has not disclosed whether it would issue the POBs under the STSC or would seek to securitize another revenue source. Nor has the City yet detailed the structure of debt service payments on the bonds, and whether they would be back-loaded. Additionally, using securitization revenues for the issuance could leave the City with less financial flexibility, particularly during an economic downturn.

While the proposal was recently put on hold, it remains on the table, according to City officials.[22] The Civic Federation urges extreme caution in moving forward with the proposal. In the event the City does move forward with this proposal or any other proposal that includes taxpayer risk, the Civic Federation encourages maximum transparency including releasing data publicly, holding multiple public hearings and establishing guardrails for a borrowing of billions of dollars for non-capital expenditures.

Pension Contribution Spikes Over the Next Five Years

Since 2015 the City has secured state legislation implementing new 40-year pension funding schedules for all four of its pension funds and implemented reliable funding streams that provide sufficient funding for the first years of each funding plan. The funding schedule provides for five years of increasing payments laid out specifically in the state statute, leading to an actuarially-calculated payment schedule with a 90% funding goal for the subsequent 35 years.

While an actuarially-calculated funding schedule is an improvement to the multiplier-based contribution schedule the Municipal and Laborers' Funds were previously subject to, the new

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[20] Michael Sacks, Presentation to the 2018 Chicago Investors Conference, August 2, 2018, https://www.cityofchicagoinvestors.com/city-of-chicago-il/view-file/i125?mediaId=206205.
[21] City of Chicago, General Obligation Bonds, Series 2017AB, *Official Statement*, January 19, 2017.
[22] Yvette Shields, "Brown insists Chicago pension bond proposal remains on the table," *The Bond Buyer*, October 11, 2018.

schedule actually reduced payments for the Police and Fire Funds from the level that would have been required starting in 2016.

As the Civic Federation pointed out at the time the two bills implementing the new funding schedules were passed, the problem with specific dollar payments specified in law is that they do not change in response to the actual needs of the fund.[23] The result is that when the funds experience investment losses or change their actuarial assumptions, the payments do not compensate for those changes and have led to a fall in funding levels despite increased employer contributions. Additionally, any unfavorable deviation from expectations results in an ever larger jump after the fifth year of ramp funding—2020 for Police and Fire and 2022 for Municipal and Laborers'[24]—in order to begin funding at an actuarially calculated level. The City has to date released no detailed plan for how it will afford a projected doubling of its contributions to the pensions over the next five years due to the transition to actuarially-based funding other than floating the possibility of issuing $10 billion in pension obligation bonds.

The Civic Federation is concerned that in order for the new pension funding schedules to fulfil their purpose of putting the City's four pension funds on a more sustainable path, it is imperative that the City develop a long-term funding plan. In fact, developing a rational, reliable plan for pension funding will be one of the most important jobs the new mayor who will take office next year will face.

Ongoing Fiscal Imbalance

In its *Annual Financial Analysis 2018* released in July, the City projected that without changes to expenditures and revenues, its Corporate Fund deficit, which does not include most pension contributions, would be $97.9 million in FY2019, $251.7 million in FY2020 and $362.2 million in FY2021.[25] However, the projected gap does not include the increased contributions to the Police and Fire Funds, which will need to be funded on an actuarial basis beginning that year.

As in past years, the City is proposing to close its $97.9 million corporate fund budget gap and make $113.8 million in investments with some one-time revenue sources, including $42 million of tax increment financing (TIF) surplus.

Although the City is annually monitoring its TIF districts for surplus funds, these are one-time revenue sources and may not be available next year at the same level, particularly with the extraordinarily large TIF surplus declared for FY2017, FY2018 and FY2019. The proceeds from these initiatives ideally should not be used to cover operating expenditures, but would be more prudently dedicated to reducing long-term liabilities, building reserves or making capital investments. The structural deficit that remains will require the City to make additional cuts or tax increases in the coming years when the City will need to increase its funding to the four pension funds, as discussed above.

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[23] See for example https://www.civicfed.org/civic-federation/blog/chicago-police-and-fire-employer-pension-funding-changes-passed-illinois-gener and https://www.civicfed.org/civic-federation/blog/chicago-municipal-and-laborers-pension-funding-changes-approved-part-state.
[24] Budget years 2021 and 2023.
[25] The forecasted corporate fund budget gaps are subject to change based on the actions taken by the City as well as other economic and financial factors.

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

High Bonded Debt Burden

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

- Between FY2008 and FY2017, Chicago's total net direct debt rose by 56.9%, or $3.5 billion. This represents an increase from $6.1 billion in FY2008 to $9.6 billion ten years later. During the same time period, direct debt per capita rose by 68.6% from $2,115 to $3,565.
- Between FY2008 and FY2017 total direct debt from all eight major governments including Chicago rose by 102.6%. While the rate of increase in direct debt issued by the other overlapping governments outpaced the increase for Chicago, the City and its overlapping governments all rely on the same tax base.
- Chicago debt service appropriations in FY2019 are projected to be 21.3% of total local fund net appropriations, or $1.9 billion out of expenditures of $8.9 billion. Since FY2015 debt service appropriations have risen by 8.1%, less than the 20.7% increase in total net appropriations. The debt service ratio has averaged 22.7% over the five-year period analyzed. The ratings agencies consider a debt burden high if this ratio is between 15% and 20%.[26]

The upward trend in debt burden over time and one that is not projected to end soon is a serious cause for concern for the City of Chicago. A high debt burden combined with the City's other enormous long-term liabilities, particularly pensions, will continue to put pressure on the budget and constrain the City's finances.

Future Cost of Additional Police Staffing

While recognizing that the City faces serious public safety challenges, the Civic Federation has concerns about the future costs and sustainability of the significant increase in police staffing in recent years and continuing in FY2019.

The City proposes to increase its workforce from 35,033 FTEs in FY2018 to 35,397 FTEs in FY2019 across all local funds. This is a net increase of 364 FTEs or 1.0% across all local funds. Public Safety will see the greatest increase in FTEs, growing from 22,093 FTEs in FY2018 to

[26] Standard & Poor's, *U.S. Public Finance Rating Criteria: Tax-Secured and Utilities, 2016*, p. 7. See also Moody's, *General Obligation Bonds Issued by U.S. Local Governments*, October 2009, p. 18.

22,336 FTEs in FY2019, an increase of 243 FTEs or 1.1%. The majority of the remaining staffing increases are in the Community Services and Infrastructure Services program areas.

The proposed FY2019 budget will appropriate just over $3.8 billion for personnel services across all local funds, which is approximately 42% of all local funds appropriations. Approximately $2.2 billion, or 57.5%, of all local funds personnel services appropriations will be allocated to public safety in FY2019.[27] Based on information provided to the Civic Federation when the City first announced its plan to increase the size of its police force, the first year cost of hiring one additional police officer is approximately $138,000, including testing, background checks and other human resource related expenses.

While the newly recruited police officers will likely have lower-cost Tier 2 pension benefits, their compensation costs will grow substantially in future years at the same time the City will need to accommodate growing pension contributions for existing employees and retirees. With the City of Chicago facing a growing projected structural deficit and an increase in long-term liabilities and since the City is no longer pursuing public safety pension benefit reforms, the Civic Federation recommends that the City conduct a thorough evaluation of the public safety departments with the primary goal of rationalizing personnel costs for the long-term. This is particularly important at a time when the City is negotiating new collective bargaining agreements with the unions that represent the police and fire workforce. Personnel spending will continue to be a major portion of the budget in coming years. Ongoing spending pressures and a strained revenue base will require the City to thoroughly examine ways to reduce the size and cost of its workforce.[28]

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.).[29]

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

[28] Additional ideas for reducing costs and improving efficiencies in public safety can be found in the City of Chicago Inspector General’s Savings and Revenue Options reports. See http://chicagoinspectorgeneral.org/wp-content/uploads/2012/09/IGO-Savings-and-Revenue-Options-2012-Final.pdf (last accessed November 2, 2017).

[29] Government Finance Officers’ Association, “GFOA Best Practice: Measuring the Cost of Government Service,” (2002).

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

- Personnel Services;
- Contractual Services;
- Travel;
- Commodities and Materials; and
- Specific Items and Contingencies.

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 $395.5 million for FY2019.[30] 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.

The Civic Federation urges the City to provide maximum transparency in how costs are allocated in the budget.

Uncertainty With Regard to Outcome of Collective Bargaining Agreements

In 2017 all of the City's collective bargaining agreements expired. Over 90% of the City's workforce is unionized and all 44 contracts were up for renegotiation beginning last year. The City has come to agreement with some of its labor partners since the expiration of the contracts in 2017. However, the collective bargaining agreements representing the police and fire unions, which represent the lion's share of the City's workforce, are not yet finalized. While the labor agreements that have been finalized include reasonable increases in salaries and healthcare savings, the contracts will increase the cost of government operations in coming years. With personnel related costs making up the largest share of the City's expenses, the Civic Federation urges the City to remain cognizant of the increased financial pressures the City will face in coming years and insist on reasonable and sustainable collective bargaining agreement provisions for the remainder of the labor agreements that have not yet been ratified.

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.

[30] City of Chicago FY2019 Budget Recommendations, p. 7.

Improve Transparency of the Sales Tax Securitization Corporation

The City of Chicago plans to issue an additional $1.3 billion to refund existing General Obligation bonds through a special purpose entity called the Sales Tax Securitization Corporation (STSC).[31] The year-old entity is a lockbox designed to intercept sales tax revenue in order protect bondholders in the event of a bankruptcy. Any municipal bankruptcy in Illinois would have to be authorized by the State. Both Fitch and Kroll have given the STSC AAA ratings.[32] While S&P initially assigned the STSC a AA rating, on October 26, 2018 it downgraded the entity to AA-, saying that the rating is constrained until the City's General Obligation credit improves.[33] Additionally, since sales taxes are collected and distributed by the State the new entity may still be affected by investor perceptions of Illinois.

The Civic Federation is encouraged that the City has found a creative way to manage the cost of its high debt burden. However, the City should carefully explain to the public the long-term risks associated with the transaction. These include the impact on flexibility of sales tax revenue and the implications of prioritizing bondholders over taxpayers, employees and pensioners in the event of a bankruptcy.

Reasonable and Sustainable Collective Bargaining Agreement Provisions

In 2017 all of the City's collective bargaining agreements expired. Over 90% of the City's workforce is unionized and all 44 contracts were up for renegotiation beginning last year. Given the City's current financial situation it is an opportune time for the City to negotiate with its labor partners collective bargaining agreements that are both reasonable and sustainable for the City over the life of the agreements. In an effort to better control personnel costs and align benefits provided by the City with industry norms, the City should give serious consideration to the findings in the Office of the Inspector General's report issued in May 2017 that highlights a number of the costly provisions in the City's collective bargaining agreements.[34] The City will face increased financial pressure in future years due to its debt service expenses and commitment to begin funding its pensions on an actuarial basis. With personnel related costs making up the largest share of the City's expenses, the collective bargaining agreements are the ideal place to begin identifying ways to better manage personnel related expenses.

Re-Evaluate the Use of TIF Funds

With the guidance of the TIF Reform Panel, the City has taken a number of steps to improve the transparency and efficiency of the TIF program, including aligning TIF investments with multi-year economic development plans, providing more data on TIF districts to the public as well as developing a TIF surplus strategy. In addition to declaring an annual TIF surplus through Executive Order, the Mayor froze new spending in downtown TIF districts in 2015 and has

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[31] City of Chicago FY2019 Budget Overview, p. 13.
[32] Fran Spielman, "Emanuel's $3 billion sales tax bonds get AAA rating," *Chicago Sun-Times,* November 2, 2017.
[33] S&P Global Ratings, "Sales Tax Securitization Corporation of Chicago; Sales Tax", ratings report, October 26, 2018.
[34] City of Chicago Inspector General, *"Report of the Office of Inspector General: Review of the City of Chicago's Expired and Expiring Collective Bargaining Agreements,* May 2017, http://chicagoinspectorgeneral.org/wp-content/uploads/2017/05/2017-CBA-Review-1.pdf (last accessed November 7, 2017).

terminated 17 TIF districts since 2011.[35] The Mayor has also committed to capturing the increased property taxes generated in the TIF districts from the four-year increase in the levy to fund the Police and Fire Pension Funds as TIF surplus.

In FY2019 the City will declare a surplus in Tax Increment Financing (TIF) districts of $175 million and will receive $42 million as its share of the distribution of those funds. In FY2018 the City declared $166.2 million and received $40 million as its share of the distribution of those funds. Approximately $97 million will be disbursed to the Chicago Public Schools (CPS) and the remainder to the other overlapping tax districts in FY2019. In FY2018 CPS received $88 million in TIF surplus to help reduce its fiscal imbalance. The City proposes to use its share of funds in FY2019 to help address the City's budget deficit. Since 2010 and including the proposed surplus for FY2019 the City will have declared a total of more than $1.2 billion in TIF surplus with approximately half going to Chicago Public Schools.[36]

Repeated accumulation and declaration of surplus in a TIF can raise concerns that the TIF district does not need its revenue for redevelopment projects. Such a situation could indicate that either the district does not have achievable redevelopment goals and should be terminated or that it generates more revenue than is needed and some parcels should be released from the TIF district so that their EAV may be returned to the general tax base. Several other Cook County municipalities have successfully conducted such TIF "carve outs."

The Federation encourages the City to recognize that TIF districts should not be used to temporarily reduce the short-term financial pressures facing the City and its overlapping governments. TIF districts should be used as an economic development tool and do not have unlimited resources for purposes outside the district.

Include Finance General Costs in City Department Budgets

The City should include all direct costs in departmental budgets including all employee benefits, pensions, facilities expenses and liability expenses. Finance General costs, which are currently measured by fund only, ideally 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.[37]

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

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

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[35] City of Chicago FY2019 Budget, Tax Increment Financing Handout.
[36] City of Chicago FY2019 Budget Overview, p. 14.
[37] Government Finance Officers' Association, "GFOA Best Practice: Measuring the Cost of Government Service," (2002).

The City of Chicago's four pension funds combined have nearly $28 billion in unfunded pension liabilities. The City has already implemented $543 million in property tax increases, and raised approximately $174.1 million through the new water and sewer utility tax[38] and approximately $147.1 million from the 911 surcharge on telephones, which frees up corporate fund revenue to fund pension contributions to the Laborers' Fund. The $543 million in property tax increases the City has already implemented to help it address these liabilities, while necessary, will not by themselves resolve the City of Chicago's financial challenges. The City still faces enormous debt obligations and will face ongoing difficulty in funding its large pension obligations, particularly once the "ramps" are over and the City must fund at an actuarially calculated amount. While these tax increases will help move the City of Chicago closer to financial stability, much more will need to be done in the future and the next Mayor and City Council will need to make difficult decisions, including additional budgetary cuts, savings and possibly even more revenue.

The first *Annual Financial Analysis* released by the City prior to development of its FY2012 budget was an important step toward the development of a formal long-term financial plan. Subsequent *Annual Financial Analysis* reports have also contained much useful information, including financial projections. However, the Civic Federation believes that an effective financial planning process also must include the identification of possible actions and scenarios to address fiscal challenges. As the GFOA states in its long-term financial planning best practice, such forecasting allows financial capacity to be aligned with long-term service objectives and strategies to achieve long-term sustainability.[39]

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

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

1. A description of financial policies, service level targets and financial goals. Each policy should be reviewed using relevant forecasting data to determine if the policy is being followed, if the policy should be amended and if new policies should be added;

[38] While the City projects that it will generate $174.1 million from the water and sewer utility tax in FY2019, $50 million will not be used to make the FY2019 pension contribution, but rather will be set aside in escrow to help make future years'contributions. City of Chicago, FY2019 Budget Overview, p. 40.
[39] Government Finance Officers Association, "GFOA Best Practice: Long-Term Financial Planning," (2008).

2. A scorecard or rating of the financial indicators as part of the financial analysis that assesses whether the trend is favorable, warrants caution, is a warning sign of potential problems or is unfavorable;
3. Possible strategies, actions and scenarios needed to address financial imbalances and other long-term issues, such as a discussion of the long-term implications of continuing or ending existing programs or adding new ones. These actions should include information on fiscal impact and ease of implementation; and
4. Sufficient stakeholder input including holding a public hearing for decision makers and the public to provide meaningful input on a long-term financial strategy to address the City's financial challenges.

Annually Reassess the Garbage Collection Fee

As part of the FY2016 budget approval process the City of Chicago for the first time imposed a waste removal fee of $9.50 per month on 600,000 residents currently receiving waste removal services provided by City of Chicago employees. The $9.50 fee on certain households is estimated to generate $61.2 million in FY2019. The City of Chicago estimated that it will spend $230.9 million on residential solid waste removal services in FY2018.[40] However, a City of Chicago Inspector General report issued June 21, 2018 states that the City overestimated the cost of providing those services by approximately $45.2 million. Even with the overestimation in expenses tied to garbage collection, the residents receiving the service are not paying the true cost.

According to the U.S. Census Bureau, in fiscal year 2012 solid waste revenues ranged from 4.0% of waste removal expenses in Houston to more than 95% of expenses in Dallas, Los Angeles, Phoenix, San Antonio, San Diego and San Jose.[41] The $9.50 fee imposed by the City of Chicago for waste removal services will only cover approximately 33% of the costs associated with the delivery of municipal waste services. Therefore, the remaining 67% must be paid for by other sources of revenue within the budget.

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

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

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

[40] Information provided by City of Chicago budget staff, November 7, 2017.
[41] Citizens Budget Commission, "A Better Way to Pay for Solid Waste Management," February 2015, p. 6.

appointed city officials on matters related to the financial crisis facing the City of Chicago and Chicago Public Schools.

The proposed FY2019 budget does not increase property taxes, but the Federation was disappointed the Mayor and his finance team did not schedule multiple public hearings prior to the adoption of the FY2019 budget. While the Civic Federation recognizes that many of the Aldermen hold town hall meetings to gain input from their constituents, the Federation encourages the City to increase opportunities for the public to weigh in on the budget by holding more than one public hearing on the budget, similar to Chicago Public Schools which holds multiple hearings during the day and evening hours.

Improve Transparency and Accountability by Live Streaming City Council Committee Meetings

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

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

ACKNOWLEDGEMENTS

The Civic Federation appreciates the willingness of Chief Financial Officer Carole Brown, Office of Budget and Management (OBM) Director Samantha Fields and Director of Public Affairs at the Office of Budget and Management/Department of Finance Kristen Cabanban and their staffs to answer our questions about the budget.

FY2019 CORPORATE FUND BUDGET DEFICIT AND GAP CLOSING MEASURES

In its *Annual Financial Analysis 2018* the City of Chicago projected a $97.9 million budget deficit for FY2019 in the Corporate Fund.[42] The deficit was mainly the result of a projected $55.0 million decrease in Corporate Fund revenues in FY2019 and a $49.9 million increase in Corporate Fund expenditures compared to the FY2018 budget.[43]

The increase in expenditures identified above is primarily due to salary and wage increases tied to collective bargaining agreements and are the primary contributors to increasing expenditures in FY2019.[44] The decline in revenue is primarily due to decreased non-tax revenues and a reduction in land sales and revenue available from the sweeping of aging revenue accounts.[45]

Gap-Closing Measures and Additional Investments

The primary means by which the City is proposing to close its budget gap and to make an additional $113.8 million in investments are shown in the exhibit below. The projected Corporate Fund budget gap of $97.9 million plus $113.8 million in additional investments totaling $211.7 million will be closed through a combination of expenditure reductions, cost recovery and improved fiscal management.

The expenditure reductions totaling $73.7 million include $56.7 million in personnel savings and reforms and $17.0 million in non-personnel savings and reforms. The City expects to generate $26.5 million through improved cost recovery and charges for services, which include $14.0 million in reimbursement from Chicago Public Schools for security expenses and $12.0 million from the reallocation of street degradation fee revenue, offsetting the corporate fund subsidy. Improved fiscal management, which totals $73.5 million, includes $53.3 million from debt service savings and TIF surplus and reform measures as well as debt service savings generated from its sales tax-backed debt securitization corporation and the sweeping of revenue accounts. The remaining $38.0 million will be allocated to the Public Safety Investment Fund.

The City has significantly reduced its reliance on one-time revenue sources in recent years to help close its budget gap. In FY2019 the City will allocate approximately $42 million in tax increment financing (TIF) surplus. TIF surplus is excess money within the TIF districts' funds that is calculated annually after all obligations are met. The City declares the surplus and the funds are then distributed to the overlapping governments. TIF surplus has previously been a one-time source of revenue, but the City now declares annual surpluses, thus making it similar to a recurring source of revenue. The surplus in FY2019 is higher than it would have been otherwise because the Mayor froze TIF spending in the central business district, declared revenues generated in TIF districts from increased property taxes as a result of the City's and CPS' increased levies for employee pensions as surplus and delayed some projects.

[42] 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.
[43] City of Chicago, 2018 Annual Financial Analysis, Financial Forecast, pp. 22 and 24.
[44] City of Chicago, 2018 Annual Financial Analysis, Financial Forecast, p. 24.
[45] City of Chicago, 2018 Annual Financial Analysis, Financial Forecast, p. 23.

The following table shows how the City proposes to close its $97.9 million Corporate Fund gap and make $113.8 million in additional investments.

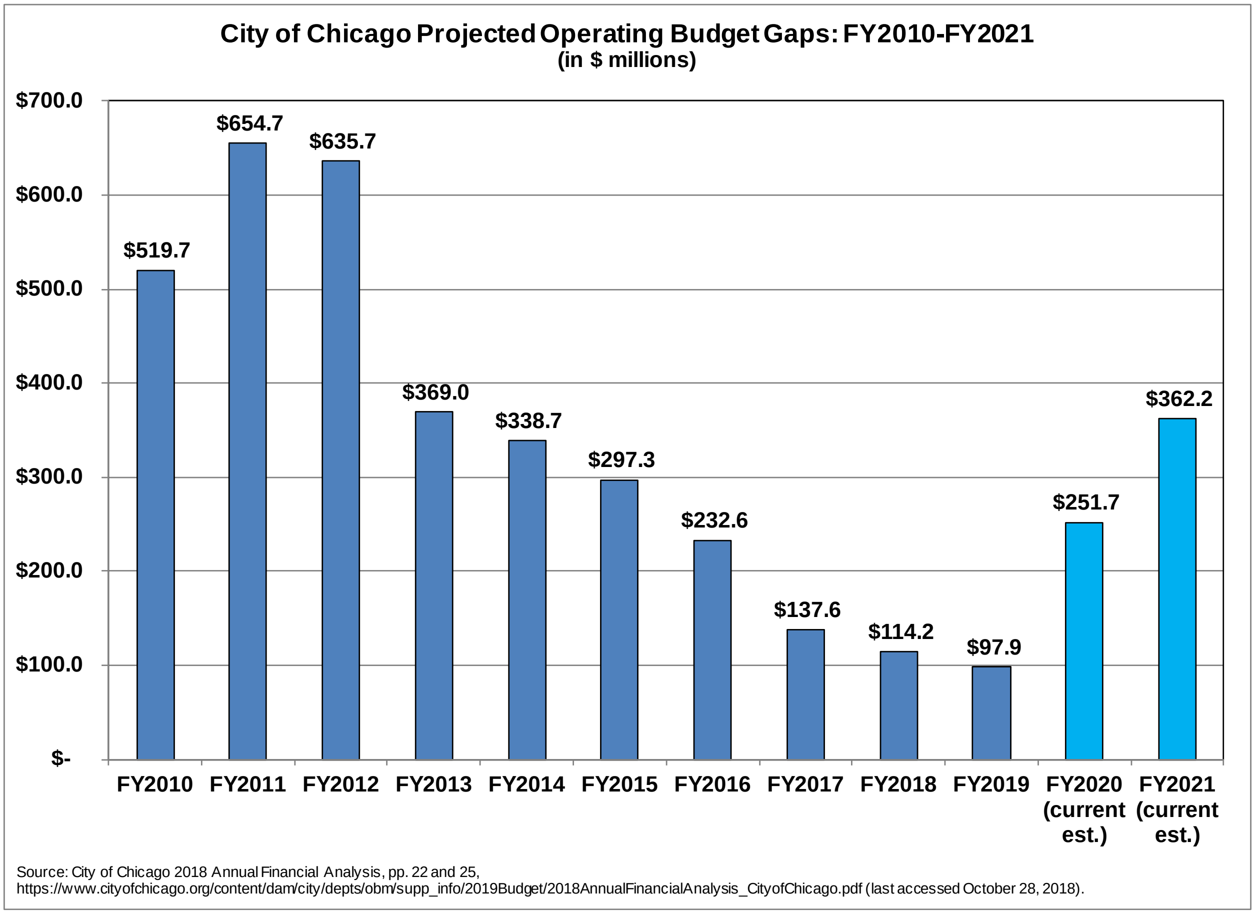
Closing the City of Chicago FY2019 Corporate Fund Gap of $97.9 Million and Making $113.8 Million in Additional Investments (in $ millions)		
Expenditure Reductions		
Personnel Savings	$	56.7
Non-Personnel Savings	$	17.0
Total Expenditure Reductions	**$**	**73.7**
Revenue Increases		
Improved Cost Recovery and Charges for Services	$	26.5
Improved Fiscal Management	$	73.5
Public Safety Investment Fund	$	38.0
Total Revenue Increases	**$**	**138.0**
Total	**$**	**211.7**

Note: Numbers may not add due to rounding.

Source: City of Chicago FY2019 Budget Overview, p. 19; and information provided by the City of Chicago Office of Budget and Management, October 29, 2018.

Historical Trend of Projected Budget Gaps

The following exhibit shows the historical trend of projected budget gaps from FY2010-FY2021. The City of Chicago's projected budget gaps have fluctuated over the past 10 years from a high of $654.7 million in FY2011 to a low of $97.9 million for FY2019. The City projects that the operating budget gap of $97.9 million will increase to $251.7 million in FY2020 and to $362.2 million in FY2021. These projections were made before the FY2019 budget, so they will be impacted by the actions taken in the budget to close the gap. It is also important to note that the projected Corporate Fund deficits in FY2020 and FY2021 do not incorporate the actuarially required pension contributions to the Police and Fire Funds.



APPROPRIATIONS

The following section details the City's proposed appropriations for FY2019 compared to adopted appropriations for FY2018 and adopted, amended and actual expenditures when available for FY2015 through FY2017. Appropriations are compared by fund, object and program area across all local funds. The program area analysis also includes grant appropriations. Local funds include all funds used by the City for its non-capital operations other than grant funds, which includes the corporate fund, enterprise funds and special revenue funds.[46]

Appropriation Trends by Fund for Local Funds

The FY2019 proposed budget projects that net appropriations for all funds will increase by 3.0%, or $259.6 to $8.9 billion from FY2018 adopted appropriations of just under $8.6 billion. This is net of proceeds of debt and transfers between funds so as not to double count.

[46] City of Chicago, Proposed FY2019 Budget Overview, p. 193.

Appropriations for the Corporate Fund will increase by 0.6%, or $24.5 million, from approximately $3.79 billion in FY2018 to $3.82 billion in FY2019. The increase in FY2019 is primarily attributable to the increased hiring and other public safety investments related to the draft police consent decree.[47]

The Special Revenue Funds, which are used to account for revenue from specific taxes and other sources that are legally designated to finance particular functions, will increase by $45.6 million, or 5.8%, above FY2018 adopted appropriations.

Appropriations for the Pension Funds will increase by 9.1%, or $112.8 million from nearly $1.25 billion adopted in FY2018 to $1.36 billion proposed for FY2019. Appropriations to the Pension Funds previously reflected changes in payroll from two years prior because, per state statute, the City's pension contributions were a multiple of employee payroll deductions made two years prior. Funding for the Municipal and Laborers' Funds was changed via State law when the legislation was included in Senate Bill 42 (now Public Act 100-0023), the budget implementation bill for FY2018 that was passed over Governor Rauner's veto in July 2017. The new funding schedule includes a five-year ramp of fixed payments to the funds beginning in FY2018 and then will switch to an actuarially required contribution over a 35 year period to reach 90% funded.

Legislation passed by the Illinois General Assembly (SB 777) in May 2015 was vetoed by the Governor, but the General Assembly voted to override the Governor's veto May 30, 2016 and SB 777 became law (now Public Act 99-0506). Public Act 99-0506, changes the funding schedule of the public safety pensions by creating a five-year ramp of steadily increasing employer contributions to the City's Police and Fire funds to reach a goal of 90% funded ratio by 2055. This reduced the previously required pension payment in 2016 by approximately $220 million. For more information on pensions see p. 57.

Enterprise Fund appropriations, which fund business-type operations that are typically self-supporting and include the two Chicago airports, water and sewer operations, are increasing by 4.1%, or $110.9 million, over the two-year period. The increase is primarily due to investments being made at Midway Airport and O'Hare International Airport to expand and modernize airport operations.[48]

Over the five-year period beginning in FY2015 net appropriations are projected to increase by 15.5%, or approximately $1.2 billion. The City's Pension Funds will see the largest dollar and percentage increase since FY2015 at $472.8 million or 53.4%. The five-year $323.5 million, or 13.2%, increase in Enterprise Fund appropriations is mostly due to water and sewer repairs and upgrades funded with revenue from water and sewer rate increases and an increase in full-time equivalent (FTE) employees in both airport funds, plus increased payments from the Enterprise Funds to cover increased contributions to the pension funds.[49]

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[47] City of Chicago, Proposed FY2019 Budget Overview, pp. 37-38.
[48] City of Chicago, FY2019 Budget Overview, pp. 89, 102 and 103.
[49] City of Chicago, FY2017 Budget Overview, p. 33; and FY2019 Budget Overview, p. 37.

The Corporate Fund will see the second largest dollar increase over the same time period, at an increase of $281.0 million or 8.0%. The increase in Corporate Fund expenditures is offset due to the City moving all eligible 911 operation and emergency preparedness expenses in FY2018 into the Emergency Communication special revenue fund, which is solely supported by the 911 surcharge.[50]

Debt Service Funds will decrease by $23.8 million, or 2.9%, over the five-year period. The decrease in debt service is due to the creation of the new Sales Tax Securitization Corporation (STSC). The STSC is projected to save the City more than $700 million over a five-year period.[51] The following table outlines the appropriations by fund for FY2015-FY2019 and includes two-year and five-year trends.

City of Chicago Appropriations by Fund for Local Funds: FY2015-FY2019 (in $ millions)

	FY2015 Amended	FY2016 Adopted	FY2017 Adopted	FY2018 Adopted	FY2019 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund	$ 3,534.7	$ 3,570.8	$ 3,719.0	$ 3,791.2	$ 3,815.7	$ 24.5	0.6%	$ 281.0	8.0%
Special Revenue Funds	$ 619.7	$ 678.4	$ 728.1	$ 780.1	$ 825.7	$ 45.6	5.8%	$ 206.0	33.2%
Pension Funds	$ 885.7	$ 978.3	$ 1,086.0	$ 1,245.7	$ 1,358.5	$ 112.8	9.1%	$ 472.8	53.4%
Debt Service Funds	$ 826.4	$ 778.3	$ 864.0	$ 821.3	$ 802.6	$ (18.7)	-2.3%	$ (23.8)	-2.9%
Enterprise Funds	$ 2,459.8	$ 2,548.9	$ 2,651.3	$ 2,672.5	$ 2,783.3	$ 110.9	4.1%	$ 323.5	13.2%
Total Appropriations	**$ 8,326.3**	**$ 8,554.6**	**$ 9,048.3**	**$ 9,310.8**	**$ 9,585.9**	**$ 275.1**	**3.0%**	**$ 1,259.6**	**15.1%**
Less Proceeds of Debt	$ (95.3)	$ (77.1)	$ (77.2)	$ (83.6)	$ (98.1)	$ (14.5)	17.3%	$ (2.8)	2.9%
Less Internal Transfer	$ (562.6)	$ (638.8)	$ (697.0)	$ (630.7)	$ (631.7)	$ (1.0)	0.2%	$ (69.1)	12.3%
Net Appropriation	**$ 7,668.4**	**$ 7,838.6**	**$ 8,274.2**	**$ 8,596.5**	**$ 8,856.1**	**$ 259.6**	**3.0%**	**$ 1,187.7**	**15.5%**

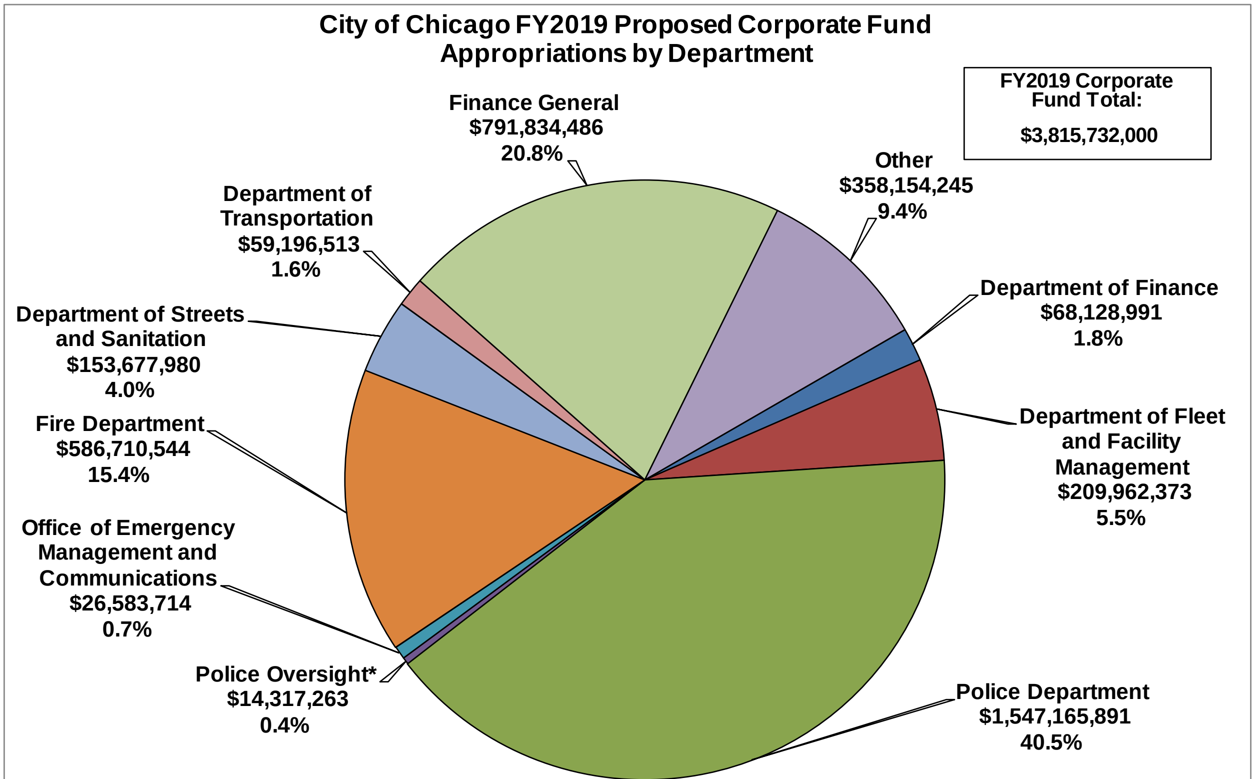
Note 1: Excludes grant funds. FY2015-FY2017 and FY2018 adopted figures are used because year-end estimates or actuals are not available. FY2015 Amended includes supplemental appropriations adopted as part of the FY2016 budget.
Source: City of Chicago, FY2015-FY2018 Annual Appropriations Ordinance, Summary E; FY2015 Supplemental Appropriations; and FY2019 Recommended Budget, Summary E.

Corporate Fund Appropriations by Department

The following chart illustrates FY2019 proposed Corporate Fund appropriations by department. Public Safety, which consist of the Police and Fire departments, Police Board, the Civilian Office of Police Accountability[52] (COPA) and the Office of Emergency Management and Communications (OEMC), represents 57.0% of the Corporate Fund appropriations. Finance General appropriations represent 20.8% of the Corporate Fund and consist of information technology expenses, employee health insurance benefit costs, contributions to pension funds

[50] City of Chicago, Proposed FY2019 Budget Overview, p. 38.
[51] City of Chicago, FY2019 Budget Overview, p. 13.
[52] In FY2017 the Civilian Office of Police Accountability (COPA) was created and assumed the functions of the Independent Police Review Authority (IPRA).

and long-term debt service payments shared across departments.[53] The remaining departments make up 22.3%, or $849.1 million of the total Corporate Fund appropriations.



Note: Other includes: Office of the Mayor, Office of the Inspector General, Office of Budget and Management, Department of Innovation and Technology, City Council, City Clerk, City Treasurer, Department of Administrative Hearings, Department of Law, Department of Human Resources, Department of Procurement Services, Board of Election Commissioners, Department of Public Health, Commission on Human Relations, Mayor's Office for People with Disabilities, Department of Family and Support Services, Department of Planning and Development, Department of Buildings, Department of Business Affairs and Consumer Protection, Commission on Animal Care and Control, License Appeal Commission and Board of Ethics.
*Police Oversight includes Police Board and Civilian Office of Police Accountability (COPA).
Source: City of Chicago, FY2019 Budget Recommendations, Summary D.

The following table shows Corporate Fund appropriations and expenditures on public safety over the five-year period from FY2015-FY2019. The data shown include actual expenditures from FY2015-FY2017, FY2018 adopted appropriations and FY2019 proposed appropriations. Between FY2015 and FY2019, appropriations for Public Safety as a share of Corporate Fund appropriations will increase slightly from 56.8% in FY2015 to 57.0% in FY2019, while total public safety spending will increase by $167.4 million or 8.3%. Police Department expenses will increase by $181.0 million, or 13.3%. The increase in the Police Department is primarily due to the hiring of additional police officers as part of the Mayor's multi-year public safety strategy to increase the size of the police department in 2017 and 2018 in addition to increased spending in the FY2019 budget tied to the draft police consent decree with the Illinois Attorney General that will increase staffing and make additional investments in public safety related departments.[54] Office of Emergency Mangement and Communications appropriations will decrease by $52.6 million or 66.4%. The decrease in spending for the Office of Emergency Management and

[53] City of Chicago, FY2019 Budget Overview, p. 172.
[54] City of Chicago, FY2019 Budget Overview, p. 16.

Communications (OEMC) is due to the City transferring a majority of the OEMC expenses from the Corporate Fund to Emergency Communications Fund in FY2018.[55]

Spending for Police Oversight, which includes the Police Board, Independent Police Review Authority and the newly created Civilian Office of Police Accountability[56] (COPA) will increase by 80.0%, or $6.4 million, over the five-year period, to a total of $14.3 million in FY2019. When the Public Safety Audit unit in the Office of the Inspector General, the Reform Management program within the Chicago Police Department and new proposed Independent Monitor tied to the draft police consent decree is included, police oversight spending increases an additional $6.9 million in FY2019 to approximately $21.2 million.[57]

City of Chicago Corporate Fund
Public Safety as % of Total Corporate Fund Appropriations: FY2015-FY2019
(in $ millions)

	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Adopted	FY2019 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Police Department	$ 1,366.1	$ 1,461.6	$ 1,495.2	$ 1,511.9	$ 1,547.2	$ 35.2	2.3%	$ 181.0	13.3%
Police Oversight	$ 8.0	$ 8.9	$ 7.0	$ 13.8	$ 14.3	$ 0.6	4.0%	$ 6.4	80.0%
Office of Emergency Management and Communications	$ 79.2	$ 94.4	$ 95.4	$ 26.6	$ 26.6	$ 0.0	0.1%	$ (52.6)	-66.4%
Fire Department	$ 554.1	$ 576.5	$ 575.8	$ 587.8	$ 586.7	$ (1.1)	-0.2%	$ 32.6	5.9%
Subtotal Public Safety	**$ 2,007.3**	**$ 2,141.4**	**$ 2,173.4**	**$ 2,140.1**	**$ 2,174.8**	**$ 34.7**	**1.6%**	**$ 167.4**	**8.3%**
All Other Departments	$ 1,527.1	$ 1,429.3	$ 1,349.3	$ 1,651.2	$ 1,641.0	$ (10.2)	-0.6%	$ 113.9	7.5%
Total Corporate Fund Appropriations	**$ 3,534.4**	**$ 3,570.8**	**$ 3,522.7**	**$ 3,791.2**	**$ 3,815.7**	**$ 24.5**	**0.6%**	**$ 281.3**	**8.0%**
Public Safety as % of Total	**56.8%**	**60.0%**	**61.7%**	**56.4%**	**57.0%**				

Note: Police Oversight includes the Police Board, Independent Police Review Authority (IPRA) and Civilian Office of Police Accountability (COPA).
Source: City of Chicago, FY2017-FY2019 Budget Recommendations, Summary F; and FY2018 Annual Appropriations Ordinance, Summary D.

Appropriation Trends by Object

Appropriations by object categorizes similar line-item expenditures by type. In a comparison of two-year and five-year appropriations trends by object, adopted appropriations were used because actual expenditures and amended FY2015 expenditures by object were not available. The FY2019 budget proposes a total appropriation of nearly $8.9 billion, excluding projected grant funds and net of internal transfers between funds and debt proceeds. This is an increase of 3.0%, or $259.6 million, from the FY2018 adopted net appropriation of nearly $8.6 billion.

Contractual Services will see the largest dollar and percentage increase between FY2018 and FY2019, increasing by $131.1 million or 14.1%. The increase is primarily due to investments in information technology, increased costs related to waste disposal and contractual custodial and security personnel services.[58]

Personnel Services appropriations will see the second largest dollar increase over the two-year period, increasing by $101.3 million, or 2.7%, to $3.8 billion in FY2019. This is due primarily to increases in FTE count tied to the Mayor’s public safety strategy that calls for the hiring of additional police staff, the hiring of additional staff in the Office of the Inspector General, the Civilian Office of Police Accountability and increased hiring in the FY2019 budget related to the

[55] City of Chicago, FY2019 Budget Overview, p 38.
[56] In FY2017 the Civilian Office of Police Accountability (COPA) was created and assumed the duties of the Independent Policy Review Authority (IPRA).
[57] City of Chicago, FY2019 Budget Overview, pp. 117 and 153; and information provided by the City of Chicago budget staff on October 16, 2018.
[58] City of Chicago, FY2019 Budget Overview, p. 38.

implementation of the draft police consent decree.[59] It is important to note that pension payments are not accounted for in personnel services, but rather in Specific Items and Contingencies.

Appropriations for Specific Items and Contingencies will increase by $45.2 million or 1.0%, over the two-year period. This category includes pension payments, debt service payments, payments for torts and non-tort judgments, outside counsel expenses and subject matter expert costs, costs for hospital administration and medical expenses for employees injured who are not covered under the Workers' Compensation Act and for physical exams.

Spending on Permanent Improvement and Land will remain flat over the two-year period at $3.0 million. Travel expenses will increase slightly over the two-year period by $0.2 million, or 11.5%, to $1.7 million.

Spending on Equipment will decline over the two-year period by $8.2 million or 37.3%. Commodities will increase by $5.6 million or 2.3%. 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 FY2015 to FY2019, net appropriations will rise by nearly $1.5 billion or 20.7%. Specific Items and Contingencies will experience the greatest increase in dollar amount and percentage change over the five-year period, rising by $928 billion, or 26.7%, due primarily to increases in pension contributions, capital financing, debt service requirements and transfers between funds.

Personnel Services appropriations will increase by $372.4 million, or 10.7%, over the five-year period. Contractual Services appropriations will increase by $304.1 million, or 40.1%, from $758.6 million in FY2015 to $1,062.8 billion in FY2019. Travel, Commodities and Equipment appropriations, by contrast, will see slight declines of $0.2, $2.2 and $3.2 million, respectively.

City of Chicago Proposed Appropriations by Object All Local Funds: FY2015-FY2019 (in $ millions)

Object	FY2015 Adopted	FY2016 Adopted	FY2017 Adopted	FY2018 Adopted	FY2019 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Personnel Services	$ 3,471.7	$ 3,544.1	$ 3,642.6	$ 3,742.8	$ 3,844.1	$ 101.3	2.7%	$ 372.4	10.7%
Contractual Services	$ 758.6	$ 762.8	$ 813.3	$ 931.6	$ 1,062.8	$ 131.1	14.1%	$ 304.1	40.1%
Travel	$ 1.9	$ 1.7	$ 1.8	$ 1.5	$ 1.7	$ 0.2	11.5%	$ (0.2)	-11.9%
Commodities	$ 255.3	$ 244.9	$ 253.3	$ 247.6	$ 253.1	$ 5.6	2.3%	$ (2.2)	-0.9%
Equipment	$ 17.0	$ 15.8	$ 20.0	$ 22.0	$ 13.8	$ (8.2)	-37.3%	$ (3.2)	-19.0%
Permanent Improvement and Land	$ 2.9	$ 2.9	$ 2.9	$ 3.0	$ 3.0	$ (0.0)	-1.3%	$ 0.0	0.3%
Specific Items and Contingencies	$ 3,479.5	$ 3,982.4	$ 4,314.4	$ 4,362.3	$ 4,407.5	$ 45.2	1.0%	$ 928.0	26.7%
Subtotal	**$ 7,987.0**	**$ 8,554.6**	**$ 9,048.3**	**$ 9,310.8**	**$ 9,585.9**	**$ 275.1**	**3.0%**	**$ 1,598.9**	**20.0%**
Less Internal Transfers	$ (552.2)	$ (638.8)	$ (697.0)	$ (630.7)	$ (631.7)	$ (1.0)	0.2%	$ (79.5)	14.4%
Less Proceeds of Debt	$ (95.3)	$ (77.1)	$ (77.2)	$ (83.6)	$ (98.1)	$ (14.5)	17.3%	$ (2.8)	2.9%
Total	**$ 7,339.5**	**$ 7,838.6**	**$ 8,274.2**	**$ 8,596.5**	**$ 8,856.1**	**$ 259.6**	**3.0%**	**$ 1,516.6**	**20.7%**

Note: Adopted appropriations were used because actual expenditures by object were not available. Some differences may appear due to rounding.
Source: City of Chicago, Annual Appropriation Ordinances, FY2015-FY2018, Summary D; and FY2019 Budget Recommendation, Summary D.

[59] City of Chicago, FY2017 Budget Overview, p. 33; FY2018 Budget Overview, p. 34; and FY2019 Budget Overview, p. 16.

Appropriation Trends by Program Area

In the City of Chicago budget, agencies are organized into eight functional program areas.[60] 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.
- **Public Service Enterprises and Infrastructure Services**[61] departments are responsible for the reconstruction of streets, sidewalks and bridges, the issuance of permits, the maintenance and repair of water and sewer infrastructure and the management of the two Chicago airports. These departments include Transportation, Streets and Sanitation, Water Management and Aviation.
- **Public Safety** is composed of the Chicago Police Department, Police Board, Civilian Office of Police Accountability, Fire Department and the Office of Emergency Management and Communications.
- **Community Services** departments include the Chicago Public Library, Department of Public Health, Department of Family and Support Services, Commission on Human Relations and the Mayor's Office for People with Disabilities. These departments provide services such as home heating assistance programs, assistance for the disabled, health services, programs for the homeless and youth programs.
- **City Development** departments include the City's Department of Planning Development and Department of Cultural Affairs and Special Events, which handle community, economic and cultural related activities in the City.
- **Regulatory** departments are responsible for the day-to-day enforcement of City ordinances and include Animal Care and Control, License Appeal Commission, Department of Buildings, the Department of Business Affairs and Consumer Protection, the Board of Ethics and the Office of the Inspector General.
- **Legislative and Elections** include the City Council, its staff, committees and legislative offices as well as the Board of Election Commissioners and handle the Primary and General Elections within the City and its legislative functions.
- **General Financing Requirements** are pension and other employee benefits, long-term debt payments, and other cross-departmental expenses, such as information technology systems.

This section compares the FY2018 adopted appropriations to the FY2019 proposed appropriations for all local funds and grant funds. In a comparison of FY2018 adopted appropriations and FY2019 proposed appropriations. Spending by program area, including grant funding, will increase by $644.5 million, or 6.0%, between FY2018 and FY2019. Grant funds help provide services to City residents by 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. City Development is the only program area that will experience a net decrease in funding. Appropriations for all other program areas will increase over the two-year period.

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[60] City of Chicago FY2019 Budget Overview, pp. 56-58.
[61] In FY2016 the City of Chicago combined Infrastructure Services with Public Service Enterprises.

Of the program areas that receive grant funds, Infrastructure Services/Public Service Enterprises will receive the greatest dollar amount in grant funding in FY2019, totaling $739.9 million. This is a $112.8 million, or 18.0%, increase from the prior year.

The most significant dollar increase over the two-year period will occur in Community Services, which will increase by $248.2 million, or 38.6%, from nearly $642.5 million in FY2018 to nearly $890.7 million in FY2019, which most of the funding comes from grants. Grant funds will compose 78.0%, or $695.1 million of the total Community Services appropriations in FY2019.

Appropriations for General Financing Requirements will increase over the two-year period by $107.0 million or 2.2%. The increase is primarily due to the same changes in the Specific Items/Contingencies Fund described earlier in this section, including increased pension contributions, funding for capital improvement projects for the City's water and sewer systems and airports, debt service payments and increasing Real Property Transfer Tax revenues, which are transferred to the Chicago Transit Authority. The General Financing Requirements for FY2019 includes a total of $1.4 billion in employee and annuitant pension payments and a total of $1.9 billion for the payment of debt service. It also includes $461.0 million in employee benefit costs (excluding pension costs) for active employees and annuitants, among other expenses.[62]

Estimated grant fund appropriations will increase by $369.4 million, or 25.6%, from $1.4 billion in FY2018 to $1.8 billion in FY2019. This includes $112 million in new grant funding and $257 million in carryover appropriations from FY2018[63]. In both years, grants account for the majority of funding for City Development, Community Services and Infrastructure Services programming.

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[62] City of Chicago, FY2019 Budget Overview, p. 172.
[63] City of Chicago, FY2019 Budget Overview, p. 36.

The following table compares the FY2018 adopted appropriations and FY2019 proposed appropriations for all local funds and grants funds by program area.

City of Chicago All Funds Appropriations by Program Area FY2018 Adopted & FY2019 Proposed (in $ millions)				
	FY2018 Adopted	FY2019 Proposed	Two-Year $ Change	Two-Year % Change
Finance and Administration				
Local Fund	$ 546.6	$ 554.5	$ 8.0	1.5%
Grants	$ 17.1	$ 58.2	$ 41.0	239.5%
Subtotal Finance and Administration	**$ 563.7**	**$ 612.7**	**$ 49.0**	**8.7%**
Legislative and Elections				
Local Fund	$ 43.0	$ 62.2	$ 19.2	44.6%
Grants	$ -	$ -	$ -	-
Subtotal Legislative and Elections	**$ 43.0**	**$ 62.2**	**$ 19.2**	**44.6%**
City Development				
Local Fund	$ 111.8	$ 93.6	$ (18.1)	-16.2%
Grants	$ 110.7	$ 125.9	$ 15.3	13.8%
Subtotal City Development	**$ 222.4**	**$ 219.6**	**$ (2.8)**	**-1.3%**
Community Services				
Local Fund	$ 175.2	$ 195.6	$ 20.4	11.6%
Grants	$ 467.3	$ 695.1	$ 227.8	48.7%
Subtotal Community Services	**$ 642.5**	**$ 890.7**	**$ 248.2**	**38.6%**
Public Safety				
Local Fund	$ 2,318.0	$ 2,374.4	$ 56.3	2.4%
Grants	$ 210.7	$ 182.2	$ (28.5)	-13.5%
Subtotal Public Safety	**$ 2,528.8**	**$ 2,556.6**	**$ 27.8**	**1.1%**
Regulatory				
Local Fund	$ 65.9	$ 68.6	$ 2.7	4.1%
Grants	$ 8.2	$ 9.2	$ 1.0	11.7%
Subtotal Regulatory	**$ 74.1**	**$ 77.8**	**$ 3.7**	**4.9%**
Infrastructure Services				
Local Fund	$ 1,213.4	$ 1,293.1	$ 79.7	6.6%
Grants	$ 627.1	$ 739.9	$ 112.8	18.0%
Subtotal Infrastructure Services	**$ 1,840.5**	**$ 2,033.0**	**$ 192.5**	**10.5%**
General Financing Requirements				
Local Fund	$ 4,836.9	$ 4,943.8	$ 107.0	2.2%
Grants	$ -	$ -	$ -	-
Subtotal General Financing Requirements	**$ 4,836.9**	**$ 4,943.8**	**$ 107.0**	**2.2%**
Subtotal All Program Areas	**$ 10,752.0**	**$ 11,396.5**	**$ 644.5**	**6.0%**
Less Internal Transfers	$ (630.7)	$ (631.7)	$ (1.0)	0.2%
Less Proceeds of Debt	$ (83.6)	$ (98.1)	$ (14.5)	17.3%
Less Grant Funds	$ (1,441.2)	$ (1,810.6)	$ (369.4)	25.6%
All Local Funds Total	**$ 8,596.5**	**$ 8,856.1**	**$ 259.6**	**3.0%**

Source: City of Chicago, FY2018 Annual Appropriation Ordinance, Summary G; and FY2019 Budget Recommendations, Summary G.

The next table shows a five-year comparison of local funds and grant funds by program area. Between FY2015 and FY2019, appropriations by program area, including grant funds, will increase by $2.2 billion or 24.4%. Grant funding for all program areas will increase by $242.5 million, or 15.5%, over the five-year period.

Appropriations will see a net increase across all program areas over the five-year period. Regulatory and Infrastructure Services & Public Service Enterprises are the only two program areas that will see a decline in grant funding, with grants declining by $1.9 million and $64.3 million, respectively, over the five-year period.

In FY2015 and FY2019, grants make up the majority of funding for City Development and Community Services. There were no grant funds for General Financing Requirements and Legislative and Elections in FY2015 and FY2019. Local fund appropriations will increase by approximately 1.7 billion, or 23.3%, for these program areas over the five year period.

City of Chicago All Funds Appropriations by Program Area: FY2015 & FY2019 (in $ millions)				
	FY2015 Adopted	FY2019 Proposed	Five-Year $ Change	Five-Year % Change
Finance and Administration				
Local Fund	$ 531.0	$ 554.5	$ 23.5	4.4%
Grants	$ 43.9	$ 58.2	$ 14.2	32.4%
Subtotal Finance and Administration	**$ 574.9**	**$ 612.7**	**$ 37.8**	**6.6%**
Legislative and Elections				
Local Fund	$ 52.5	$ 62.2	$ 9.7	18.5%
Grants	$ -	$ -	$ -	-
Subtotal Legislative and Elections	**$ 52.5**	**$ 62.2**	**$ 9.7**	**18.5%**
City Development				
Local Fund	$ 70.8	$ 93.6	$ 22.8	32.2%
Grants	$ 115.6	$ 125.9	$ 10.3	8.9%
Subtotal City Development	**$ 186.4**	**$ 219.6**	**$ 33.1**	**17.8%**
Community Services				
Local Fund	$ 147.6	$ 195.6	$ 48.0	32.5%
Grants	$ 415.4	$ 695.1	$ 279.7	67.3%
Subtotal Community Services	**$ 562.9**	**$ 890.7**	**$ 327.8**	**58.2%**
Public Safety				
Local Fund	$ 2,082.5	$ 2,374.4	$ 291.9	14.0%
Grants	$ 177.8	$ 182.2	$ 4.4	2.5%
Subtotal Public Safety	**$ 2,260.3**	**$ 2,556.6**	**$ 296.3**	**13.1%**
Regulatory				
Local Fund	$ 57.7	$ 68.6	$ 10.9	18.9%
Grants	$ 11.1	$ 9.2	$ (1.9)	-17.3%
Subtotal Regulatory	**$ 68.8**	**$ 77.8**	**$ 9.0**	**13.0%**
Infrastructure Services & Public Service Enterprises				
Local Fund	$ 1,104.3	$ 1,293.1	$ 188.8	17.1%
Grants	$ 804.2	$ 739.9	$ (64.3)	-8.0%
Subtotal Infrastructure Services & Public Service Enterprises	**$ 1,908.5**	**$ 2,033.0**	**$ 124.5**	**6.5%**
General Financing Requirements				
Local Fund	$ 3,549.6	$ 4,943.8	$ 1,394.3	39.3%
Grants	$ -	$ -	$ -	-
Subtotal General Financing Requirements	**$ 3,549.6**	**$ 4,943.8**	**$ 1,394.3**	**39.3%**
Subtotal All Program Areas	**$ 9,164.0**	**$ 11,396.5**	**$ 2,232.5**	**24.4%**
Less Internal Transfers	$ (316.0)	$ (631.7)	$ (315.7)	99.9%
Less Proceeds of Debt	$ (95.0)	$ (98.1)	$ (3.1)	3.3%
Less Grant Funds	$ (1,568.1)	$ (1,810.6)	$ (242.5)	15.5%
All Local Funds Total	**$ 7,184.9**	**$ 8,856.1**	**$ 1,671.2**	**23.3%**

Note: FY2019 Recommendations, Summary G combines Public Service Enterprises with Infrastructure Services. For a more accurate five-year trend analysis the Civic Federation combined FY2015 Public Service Enterprises and Infrastructure Services.

Source: City of Chicago, FY2015 Annual Appropriations Ordinance, Summary G and FY2019 Budget Recommendations, Summary G.

RESOURCES

This section of the analysis provides an overview of City of Chicago resources within all local funds and the Corporate Fund and an overview of the Chicago property tax levy. This analysis includes two-year and five-year trend analyses, comparing proposed FY2019 revenue estimates to FY2018 approved budget figures and prior year actual revenues when available.

Projected FY2019 Resources for All Local Funds

The City of Chicago projects total resources for all local funds to be $9.6 billion in FY2019. All local funds are the funds used by the City for its non-capital operations, including the Corporate Fund (the City's general operating fund), special revenue funds, pension funds, debt service funds and enterprise funds. Local funds exclude the $1.8 billion in grant funds the City expects to receive from federal and State agencies, private foundations and other entities in FY2019.[64] Including grant funding, the City's total budget resources are projected to be $11.4 billion.[65]

The chart below provides an overview of the proposed FY2019 resources for all local funds by source.[66] Grant funds and capital funding are excluded from the chart.

Property tax revenues are projected to generate $1.47 billion in FY2019, or 15.4% of total resources. This includes $36.5 million levied on behalf of City Colleges of Chicago. Chicago's Midway and O'Hare airports are estimated to generate $1.6 billion from airport charges and fees. This represents 17.2% of total resources. Revenue from water and sewer fees is projected to account for 13.0% of revenue in FY2019, or $1.2 billion.

Other resources makes up the largest portion of resources at $1.8 billion or 19.3%. The other resources category as calculated in the pie chart includes transfers in and payments from other funds, prior year available resources, proceeds of debt, internal service earnings, interest income, other resources and other revenue. This category grew significantly in FY2019 because of a change in the way the City receives its sales tax revenue. In October 2017, the City Council created a Sales Tax Securitization Corporation (STSC) after legislation was passed by the Illinois General Assembly allowing all home rule municipalities to create a special purpose corporation for issuing bonds paid for from revenues collected by the State (including the sales tax).[67] The majority of sales tax revenues are now directed to the STSC and are first used to pay for debt service and the STSC's operating expenses, then the City receives the remaining sales tax revenues.[68] Therefore, the sales tax is shown in the chart as a very small portion of revenue because only a portion of City-collected sales taxes were not diverted to the STSC, including the use tax on non-titled personal property, the restaurant tax and private vehicle use tax.[69] Sales tax revenue generated through the STSC is expected to total $576.6 million in FY2019.[70]

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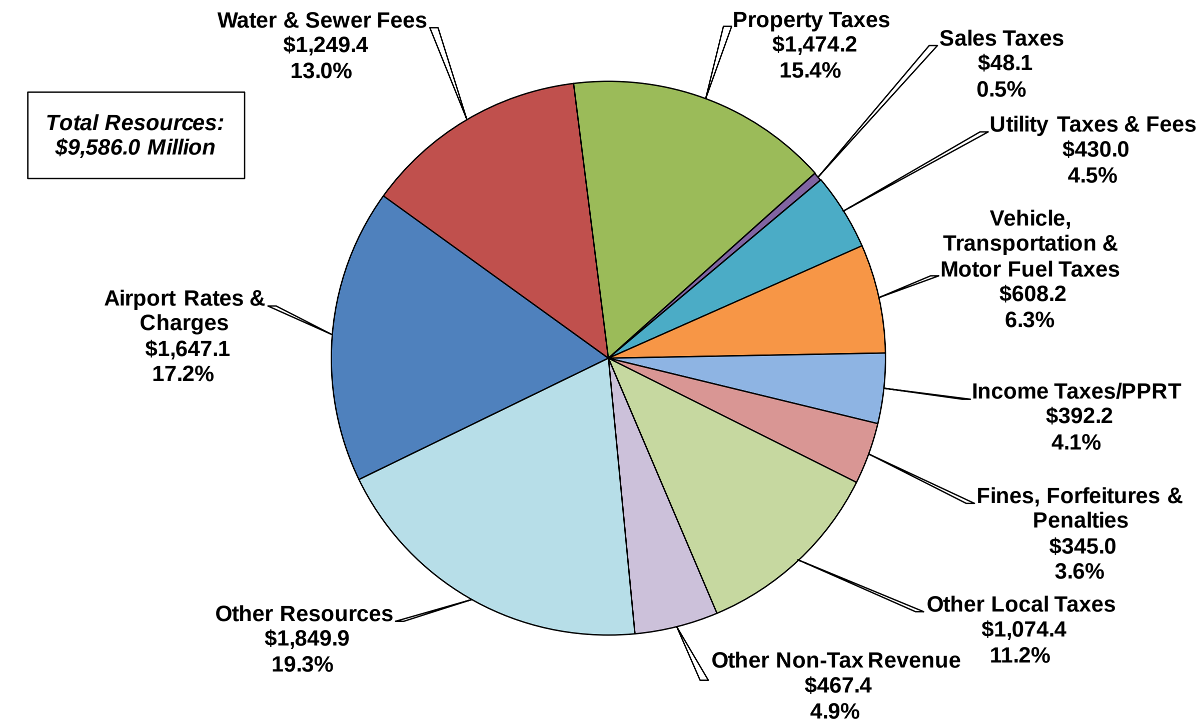
[64] City of Chicago FY2019 Budget Overview, p. 36.
[65] City of Chicago FY2019 Budget Overview, p. 26.
[66] The funds included in the chart are the Corporate Fund (the City's general fund), Special Revenue Funds, Pension Funds, Debt Service Funds and Enterprise Funds (water, sewer and airport funds).
[67] City of Chicago 2018 Annual Financial Analysis, p. 44.
[68] City of Chicago 2018 Annual Financial Analysis, p. 45.
[69] City of Chicago FY2019 Budget Overview, p. 28.
[70] City of Chicago FY2019 Budget Overview, p. 178.

Other local taxes,[71] which are taxes on activities such as businesses, hotels, parking and recreation (amusement tax, liquor tax, cigarette tax, etc.), are projected to account for $1.1 billion, or 11.2%, of total resources. Non-tax revenues[72] from sources such as licenses, permits and other fees and charges, are projected to compose 4.9% of total resources, or $467.4 million.

City of Chicago FY2019 Resources, All Local Funds by Source (in $ millions)



Source: City of Chicago 2019 Budget Overview, pp. 168-182 and FY2019 Budget Recommendations, Detail of Revenue Estimate for 2019, pp. 30-40.
Other Local Taxes = Transaction taxes, recreation taxes, business taxes, emergency communications surcharge, municipal parking tax and CTA Real Estate Transfer Tax.
Other Non-Tax Revenue = Licenses and permits, charges for services, special events, leases, rentals and sales, garbage collection, building permits, library fines and rentals, and TIF administrative reimbursement.
Other Resources = Resources available from prior year, debt proceeds, interest, internal service earnings, transfers, Corporate Fund subsidies and other.

All Local Funds Trends

The following table presents resources for all local funds by fund from FY2015 through FY2019. The City of Chicago's total resources for all local funds are projected to increase by 2.9%, or $272.8 million, to $9.6 billion in FY2019 from total resources of $9.3 billion adopted in the FY2018 budget.

Corporate Fund revenues are expected to remain relatively flat between FY2018 and FY2019. In the five-year period between FY2015 and FY2019, Corporate Fund revenues are projected to decrease by 9.6% or $331.4 million. However, this is partially due to the City now collecting the

[71] The other local taxes category as calculated in the pie chart includes the following resources: transaction taxes; recreation taxes; hotel operator's tax; emergency communications surcharge; real property transfer tax – CTA portion; home rule retailers occupation tax; business taxes; and municipal parking tax.
[72] The non-tax revenues category as calculated in the pie chart includes the following resources: licenses and permits; charges for services; special event fees; leases, rentals and sales; impoundment fees; garbage collection fee; building permits; sale of impounded autos; and TIF administrative reimbursement.

majority of sales tax revenues as a transfer through the Sales Tax Securitization Corporation. Corporate Fund revenues are discussed in more detail in the next section.

Revenues within the Special Revenue Funds are expected to remain fairly level, decreasing by $5.1 million in FY2019 from the prior year. Over the five-year period from FY2015 to FY2019, revenue within the special revenue funds is expected to increase by $174.9 million or 31.7%. The City has initiated several special revenue funds to support specific programs. The largest is the Garbage Collection Fund, which will generate $61.2 million in FY2019. Growth over the five-year period is also due to increased revenues from vehicle taxes, library fees and emergency communication fees.

Enterprise Fund revenues consist of revenues generated from Midway and O'Hare Airports and water and sewer charges. The City projects that these revenues will increase by $94.0 million, or 3.5%, to $2.77 billion in FY2019 from $2.67 billion in FY2018. The increase can be attributed to increased revenue generated at both O'Hare and Midway airports, offsetting a decline in water and sewer revenue due to water conservation trends. Over the five-year period from FY2015 to FY2019, Enterprise Fund revenues are projected to increase by $433.1 million or 18.6%.

Total resources allocated to the City's four pension funds are projected to be $1.36 billion, which is an increase of $112.8 million, or 9.1%, from the FY2018 adopted budget of $1.25 billion. The pension funds are supported by $905.5 million in property tax revenue, $136.8 million from the Corporate Fund, $124.1 million from the water and sewer tax and $142.1 million from enterprise funds and special revenue funds.[73] The Municipal pension fund will receive the largest funding increase between FY2018 and FY2019, an increase of $68.8 million or 17.1%. The municipal fund will receive $124.1 million from the water and sewer tax and an additional $50 million will be set aside in escrow to help make future contributions.[74] The Laborers' pension fund will also see a 25.0% increase of $12.0 million funded through freed-up revenues resulting from an increase in the 911 surcharge from $3.90 to $5.00 per phone line per month approved in 2018.[75]

Over the five-year period from FY2015 through FY2019, pension fund revenues are projected to increase by $560.5 million or 70.2%. For more information on the City's pension funds, see the pension funds chapter on page 57 of this report.

The City has several debt service funds that are funded by various sources including the property tax, motor fuel tax, sales tax and emergency communications fees as well as interest, debt proceeds, transfers from other funds and available resources from the prior year. Property tax revenue constitutes the majority of debt service funding. Total debt service funding is expected to be $819.6 million in FY2019. This represents a $14.2 million, or 1.7%, decrease from the FY2018 adopted budget level of $833.8 million. Over the five-year period from FY2015 to FY2019, debt service funds revenue will decline by $250.2 million or 23.4%.

Other resources the City plans to utilize in FY2019 include $604.6 million in proceeds and transfers-in to the Corporate Fund. This category includes $576.6 million in available sales tax

[73] City of Chicago FY2019 Budget Overview, p. 40.
[74] City of Chicago FY2019 Budget Overview, p. 40.
[75] City of Chicago FY2019 Budget Overview, p. 40

revenue from the Sales Tax Securitization Corporation established in FY2018. The City also plans to use $76.0 million in unrestricted fund balance available from the prior year within the Corporate Fund, $97.7 million in available fund balance in the special revenue funds and enterprise funds and $1.4 million of fund balance available in other funds from the prior year in the debt service funds. In total, the City plans to utilize $175.1 million in available fund balance from the prior year.

City of Chicago All Local Funds Resources by Fund: FY2015-FY2019
(in $ millions)

	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Adopted	FY2019 Proposed	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
Corporate Fund									
Tax Revenues	$ 2,378.0	$ 2,604.9	$ 2,439.5	$ 2,012.7	$ 2,060.9	$ 48.2	2.4%	$ (317.1)	-13.3%
Non-Tax Revenues	$ 1,088.6	$ 1,023.4	$ 1,056.1	$ 1,117.4	$ 1,074.3	$ (43.1)	-3.9%	$ (14.3)	-1.3%
Total Corporate Fund Revenue	**$ 3,466.6**	**$ 3,628.3**	**$ 3,495.6**	**$ 3,130.1**	**$ 3,135.2**	**$ 5.1**	**0.2%**	**$ (331.4)**	**-9.6%**
Special Revenue Funds									
Vehicle & Motor Fuel Taxes	$ 238.3	$ 260.2	$ 272.3	$ 262.0	$ 263.4	$ 1.4	0.5%	$ 25.1	10.5%
Library	$ 84.8	$ 99.6	$ 98.2	$ 101.1	$ 108.3	$ 7.2	7.1%	$ 23.5	27.7%
Emergency Communication	$ 102.7	$ 101.3	$ 100.5	$ 121.5	$ 124.8	$ 3.3	2.8%	$ 22.1	21.5%
Special Events and Hotel Tax	$ 40.8	$ 44.4	$ 44.2	$ 43.6	$ 48.3	$ 4.7	10.8%	$ 7.5	18.4%
CTA Real Estate Transfer Tax	$ 76.1	$ 79.3	$ 63.7	$ 68.0	$ 64.0	$ (4.0)	-5.9%	$ (12.1)	-15.9%
Affordable Housing Fund	$ -	$ 16.7	$ 19.9	$ 39.9	$ 17.5	$ (22.4)	-56.2%	$ 17.5	--
TIF Administration	$ 8.7	$ 8.7	$ 8.9	$ 10.7	$ 10.2	$ (0.5)	-4.8%	$ 1.5	--
Garbage Collection	$ -	$ 54.4	$ 64.0	$ 61.2	$ 61.2	$ (0.0)	-0.1%	$ 61.2	--
Neighborhood Opportunity Fund	$ -	$ -	$ 3.4	$ 23.3	$ 12.2	$ (11.1)	-47.6%	$ 12.2	--
Chicago Police CTA Detail Fund	$ -	$ -	$ -	$ -	$ 10.8	$ 10.8	--	$ 10.8	--
Foreign Fire Insurance Tax Fund	$ -	$ -	$ -	$ -	$ 5.5	$ 5.5	--	$ 5.5	--
Controlled Substances Fund	$ -	$ -	$ -	$ -	$ 0.1	$ 0.1	--	$ 0.1	--
Total Special Revenue Funds Revenue	**$ 551.4**	**$ 664.6**	**$ 675.1**	**$ 731.4**	**$ 726.3**	**$ (5.1)**	**-0.7%**	**$ 174.9**	**31.7%**
Enterprise Funds									
Water & Sewer	$ 1,152.5	$ 1,132.7	$ 1,134.5	$ 1,138.4	$ 1,119.4	$ (19.0)	-1.7%	$ (33.1)	-2.9%
Midway and O'Hare Airports	$ 1,180.9	$ 1,285.1	$ 1,375.8	$ 1,534.1	$ 1,647.1	$ 113.0	7.4%	$ 466.2	39.5%
Total Enterprise Funds Revenue	**$ 2,333.4**	**$ 2,417.8**	**$ 2,510.3**	**$ 2,672.5**	**$ 2,766.5**	**$ 94.0**	**3.5%**	**$ 433.1**	**18.6%**
Pension Funds									
Municipal	$ 164.0	$ 161.5	$ 267.0	$ 402.2	$ 471.0	$ 68.8	17.1%	$ 307.0	187.2%
Laborers'	$ 15.0	$ 15.0	$ 36.0	$ 48.0	$ 60.0	$ 12.0	25.0%	$ 45.0	300.0%
Police	$ 420.0	$ 464.0	$ 500.0	$ 557.0	$ 579.0	$ 22.0	3.9%	$ 159.0	37.9%
Fire	$ 199.0	$ 208.0	$ 227.0	$ 238.5	$ 248.5	$ 10.0	4.2%	$ 49.5	24.9%
Total Pension Funds Revenue	**$ 798.0**	**$ 848.5**	**$ 1,030.0**	**$ 1,245.7**	**$ 1,358.5**	**$ 112.8**	**9.1%**	**$ 560.5**	**70.2%**
Debt Service Funds									
Motor Fuel Tax Debt Service	$ 14.0	$ 13.5	$ 16.7	$ 15.5	$ 18.4	$ 2.9	18.4%	$ 4.4	31.4%
Sales Tax Bond Redemption and Interest	$ 66.1	$ 37.9	$ 40.4	$ 38.9	$ -	$ (38.9)	-100.0%	$ (66.1)	-100.0%
General Obligation Bonds	$ 857.6	$ 997.1	$ 993.7	$ 632.0	$ 637.2	$ 5.2	0.8%	$ (220.4)	-25.7%
Library Bonds	$ 75.7	$ 88.4	$ 78.3	$ 90.2	$ 105.2	$ 15.0	16.7%	$ 29.5	39.0%
Emergency Communication Bond Fund	$ 22.3	$ 22.3	$ 22.3	$ 21.5	$ 22.3	$ 0.8	3.7%	$ -	0.0%
City Colleges Bond Fund	$ 34.1	$ 39.2	$ 32.4	$ 35.7	$ 36.5	$ 0.8	2.3%	$ 2.4	7.0%
Total Debt Service Funds Revenue	**$ 1,069.8**	**$ 1,198.4**	**$ 1,183.8**	**$ 833.8**	**$ 819.6**	**$ (14.2)**	**-1.7%**	**$ (250.2)**	**-23.4%**
Total Revenues	**$ 8,219.2**	**$ 8,757.6**	**$ 8,894.8**	**$ 8,613.4**	**$ 8,806.1**	**$ 192.7**	**2.2%**	**$ 586.9**	**7.1%**
Corporate Fund Proceeds & Transfers In	$ 53.9	$ 8.0	$ 180.2	$ 624.1	$ 604.6	$ (19.5)	-3.1%	$ 550.7	1021.7%
Corporate Fund Prior Year Available Fund Balance	$ -	$ -	$ 37.0	$ 37.0	$ 76.0	$ 39.0	105.4%	$ 76.0	--
Special Funds and Enterprise Funds Prior Year Available Fund Balance	$ 75.8	38.4	$ 71.6	$ 37.1	$ 97.7	$ 60.6	163.6%	$ 21.9	28.9%
Debt Service Funds Prior Year Available Fund Balance	$ 12.3	$ 15.9	$ 23.9	$ 37.0	$ 1.4	$ (35.6)	-96.2%	$ (10.9)	--
Total Resources	**$ 8,348.9**	**$ 8,804.0**	**$ 9,183.6**	**$ 9,311.6**	**$ 9,584.4**	**$ 272.8**	**2.9%**	**$ 1,235.5**	**14.8%**

Note: Minor differences from budget may appear due to rounding.

Sources: City of Chicago FY2018 Annual Appropriation Ordinance, pp. 2 and 17-27; FY2019 Budget Overview, pp. 178-183; and FY2019 Budget Recommendations, Summary B, pp. 2-3.

Corporate Fund Resources Trends

The Corporate Fund is the City's general fund for governmental operations. It supports a wide variety of services including public safety, public health, sanitation and transportation. The City projects $3.82 billion in Corporate Fund revenue in FY2019, a 0.6%, or $24.6 million, increase compared to the FY2018 adopted Corporate Fund budget of $3.79 billion.

The Corporate Fund receives revenues from both taxes and non-tax sources such as fees, licenses and fines. The Corporate Fund is not funded by any of the City's property tax revenue. Tax revenue and non-tax revenue in the Corporate Fund are detailed below and shown in the next table.

Tax Revenues

Tax revenues are expected to make up 54.0% of Corporate Fund revenue. The City proposes $2.1 billion in tax revenue for the Corporate Fund. Tax revenues are projected to increase by 2.4% between FY2018 adopted levels and FY2019 projections, rising by $48.2 million. Sales taxes previously accounted for the largest portion of tax revenue, but are now accounted for under proceeds and transfers in because of the recent creation of the Sales Tax Securitization Corporation structure.

The City projects a slight 1.3% decline in utility taxes from $435.7 million in FY2018 to $430.0 million in FY2019. State income taxes including the personal property replacement tax (PPRT) are expected to increase by $5.5 million or 1.4%. Transaction taxes are projected to increase by $17.8 million, or 4.2%, from $422.6 million in FY2018 to $440.4 million in FY2019. Transportation taxes on parking, gas and ground transportation are expected to increase significantly by 10.5% from $309.5 million in FY2018 to $341.9 million in FY2019. The increase in transportation taxes is primarily due to the Ground Transportation Tax on ridesharing, which is projected to increase by $21.6 million in FY2019 over the year-end estimate because of growth in ridership and a five cent increase per ride.[76] Recreation taxes and business taxes are both projected to increase slightly from FY2018.

Non-Tax Revenues

Non-tax revenues are expected to generate $1.07 billion in FY2019, which is a $43.1 million, or 3.9%, decrease from the FY2018 adopted budget. Revenue from leases and rental fees and municipal parking is expected to decrease slightly from FY2018 to FY2019. Revenue from interest and other sources is projected to decrease by $79.8 million or 16.2%. This category includes transfers to the Corporate Fund from other City funds, investment returns and surplus Tax Increment Financing revenue. The City expects to receive $42.7 million in TIF surplus in FY2019.[77]

Revenues from fines and forfeitures, licenses and permits and charges for services are all expected to increase from the FY2018 adopted budget levels to the FY2019 projected levels. Fines and forfeiture revenue is expected to increase by $18.8 million, or 5.8%, to $345.0 million in FY2019. License and permit revenue is expected to increase by $3.0 million, or 2.3%, to $134.1 million. Revenue from charges for services is projected to increase by $17.6 million, or 14.4%, to $139.6 million. The increase in this category is due to a planned reimbursement from Chicago Public Schools for police security services beginning in July 2019.[78]

The City is also using unrestricted fund balance in FY2019 in the amount of $76.0 million. As noted above, the Corporate Fund transfers-in from other funds now includes the sales tax revenue available after covering bond expenses, as well as income from the Asset Lease and

[76] City of Chicago, FY2019 Budget Overview, p. 26.
[77] City of Chicago, FY2019 Budget Overview, p. 29.
[78] City of Chicago, FY2019 Budget Overview, p. 29.

Concession Reserves.[79] This category will total $604.6 million in FY2019, consisting of $576.6 million from sales tax and the remainder from asset lease reserves and other transfers.[80]

Over the five-year period from FY2015 to FY2019, total Corporate Fund resources are expected to increase by 8.4% or $295.3 million. The largest change in revenue will be an increase in transportation taxes of $144.0 million, or 72.8%, from $197.9 million in FY2015 to $341.9 million in FY2019. Income tax, transaction tax and recreation tax revenue are all projected to increase significantly as well.

City of Chicago Corporate Fund Resources: FY2015-FY2019
(in $ millions)

Tax Revenue	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Adopted	FY2019 Proposed	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
City + State Sales & Use Taxes	$ 665.8	$ 674.5	$ 500.4	$ 54.8	$ 48.1	$ (6.7)	-12.2%	$ (617.7)	-92.8%
Utility Tax & Franchise Fees	$ 437.8	$ 434.4	$ 439.0	$ 435.7	$ 430.0	$ (5.7)	-1.3%	$ (7.8)	-1.8%
State Income Taxes (including PPRT)	$ 337.0	$ 413.7	$ 388.2	$ 386.7	$ 392.2	$ 5.5	1.4%	$ 55.2	16.4%
Transaction Taxes	$ 390.3	$ 463.6	$ 434.2	$ 422.6	$ 440.4	$ 17.8	4.2%	$ 50.1	12.8%
Transportation Taxes	$ 197.9	$ 247.1	$ 275.0	$ 309.5	$ 341.9	$ 32.4	10.5%	$ 144.0	72.8%
Recreation Taxes	$ 227.5	$ 246.6	$ 253.1	$ 268.9	$ 270.1	$ 1.2	0.4%	$ 42.6	18.7%
Business Taxes	$ 115.8	$ 118.9	$ 142.9	$ 128.5	$ 132.2	$ 3.7	2.9%	$ 16.4	14.2%
Other Intergovernmental*	$ 6.0	$ 6.1	$ 6.7	$ 6.0	$ 6.0	$ -	0.0%	$ -	0.0%
Total Tax Revenue	**$ 2,378.1**	**$ 2,604.9**	**$ 2,439.5**	**$ 2,012.7**	**$ 2,060.9**	**$ 48.2**	**2.4%**	**$ (317.2)**	**-13.3%**
Non-Tax Revenue									
Fines & Forfeitures	$ 366.3	$ 318.4	$ 344.9	$ 326.2	$ 345.0	$ 18.8	5.8%	$ (21.3)	-5.8%
Licenses & Permits	$ 126.7	$ 130.4	$ 133.5	$ 131.1	$ 134.1	$ 3.0	2.3%	$ 7.4	5.8%
Charges for Services	$ 119.6	$ 130.8	$ 118.2	$ 122.0	$ 139.6	$ 17.6	14.4%	$ 20.0	16.7%
Leases, Rentals & Sales	$ 25.5	$ 26.1	$ 25.9	$ 36.6	$ 34.3	$ (2.3)	-6.3%	$ 8.8	34.5%
Municipal Parking	$ 6.5	$ 7.5	$ 7.7	$ 8.0	$ 7.6	$ (0.4)	-5.0%	$ 1.1	16.9%
Interest and Other**	$ 443.9	$ 410.2	$ 425.9	$ 493.5	$ 413.7	$ (79.8)	-16.2%	$ (30.2)	-6.8%
Total Non-Tax Revenue	**$ 1,088.5**	**$ 1,023.4**	**$ 1,056.1**	**$ 1,117.4**	**$ 1,074.3**	**$ (43.1)**	**-3.9%**	**$ (14.2)**	**-1.3%**
Prior Year Unrestricted Fund Balance	**$ -**	**$ -**	**$ -**	**$ 37.0**	**$ 76.0**	**$ 39.0**	**105.4%**	**$ 76.0**	**N/A**
Proceeds & Transfers In	**$ 53.9**	**$ 8.0**	**$ 180.2**	**$ 624.1**	**$ 604.6**	**$ (19.5)**	**-3.1%**	**$ 550.7**	**1021.7%**
Total Corporate Resources	**$ 3,520.5**	**$ 3,636.3**	**$ 3,675.8**	**$ 3,791.2**	**$ 3,815.8**	**$ 24.6**	**0.6%**	**$ 295.3**	**8.4%**

*Includes Municipal Auto Rental Tax and Reimbursements for City Services.

**Includes interest income, internal service earnings and other revenue.

Source: City of Chicago FY2019 Budget Overview, pp. 27 & 178.

Property Tax Levy

In order to better understand the City of Chicago property tax proposals contained in the FY2019 budget, it is necessary to provide a brief description of the levy and billing processes. For most taxing districts, the amount of available property tax revenue is an important consideration as the annual budget is developed. The governing body of a unit of local government typically makes decisions about property taxation during the annual budget process and presents property tax revenues along with other revenue sources in its budget proposal.

The amount of property tax revenue a taxing district requests from taxpayers is the levy. A levy must be filed with the County Clerk by a certain date each year so that the Clerk has sufficient time to calculate tax rates for that tax year, which residents pay in the following calendar year. So the property tax levy for the current fiscal year, FY2018, is payable in calendar year 2019.

Property Tax Revenues

The City of Chicago levies property taxes for four purposes: to support payments to the City's

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[79] City of Chicago, FY2018 Budget Overview, p. 26. The Asset Lease and Concession Reserves were established with the lease transactions of the City's parking meters and the Skyway.
[80] City of Chicago, FY2019 Budget Overview, p. 178.

four pension funds; to pay the City's debt service obligations; to help the Chicago Public Library with long-term borrowing for capital projects and short-term borrowing for general operations; and for General Obligation Bonds to fund City Colleges of Chicago capital projects. None of the property tax levy is used for Corporate Fund operating purposes.[81]

The City's proposed FY2019 property tax levy is approximately $1.44 billion, which is a 1.9%, $27.0 million increase over the $1.41 billion levy adopted in the FY2018 budget. The City's property tax levy has increased significantly since FY2015 due to a pension funding plan that increases required contributions to the City's Police and Fire pension funds.

In October 2015 the City adopted annual increases to the property tax through 2018 to make increased contributions to the Police and Fire pension funds. The City amended the property tax levy for 2015 along with the passage of its FY2016 budget. The amendment increased the 2015 property tax levy from $831.5 million to $1.15 billion, which was a $326.9 million, or 38.0%, increase over FY2014 levels.

The FY2016 property tax levy increased to $1.26 billion and the FY2017 levy increased again to $1.32 billion. The property tax levy proposed for FY2018 was $1.41 billion and the FY2019 levy (payable in 2020) will increase to $1.44 billion. Approximately 63.0% of the FY2019 levy, or $905.5 million, will be used for pension payments. The $27.0 million increase in FY2019 property tax revenue is generated by the City capturing new property growth and TIF expirations, and will be used for debt and the Chicago Public library.

Of the proposed FY2019 property tax levy, $427.0 million will be used for long-term debt service payments. Property taxes levied for debt service reflect the City's borrowing activities and bond payment schedule.

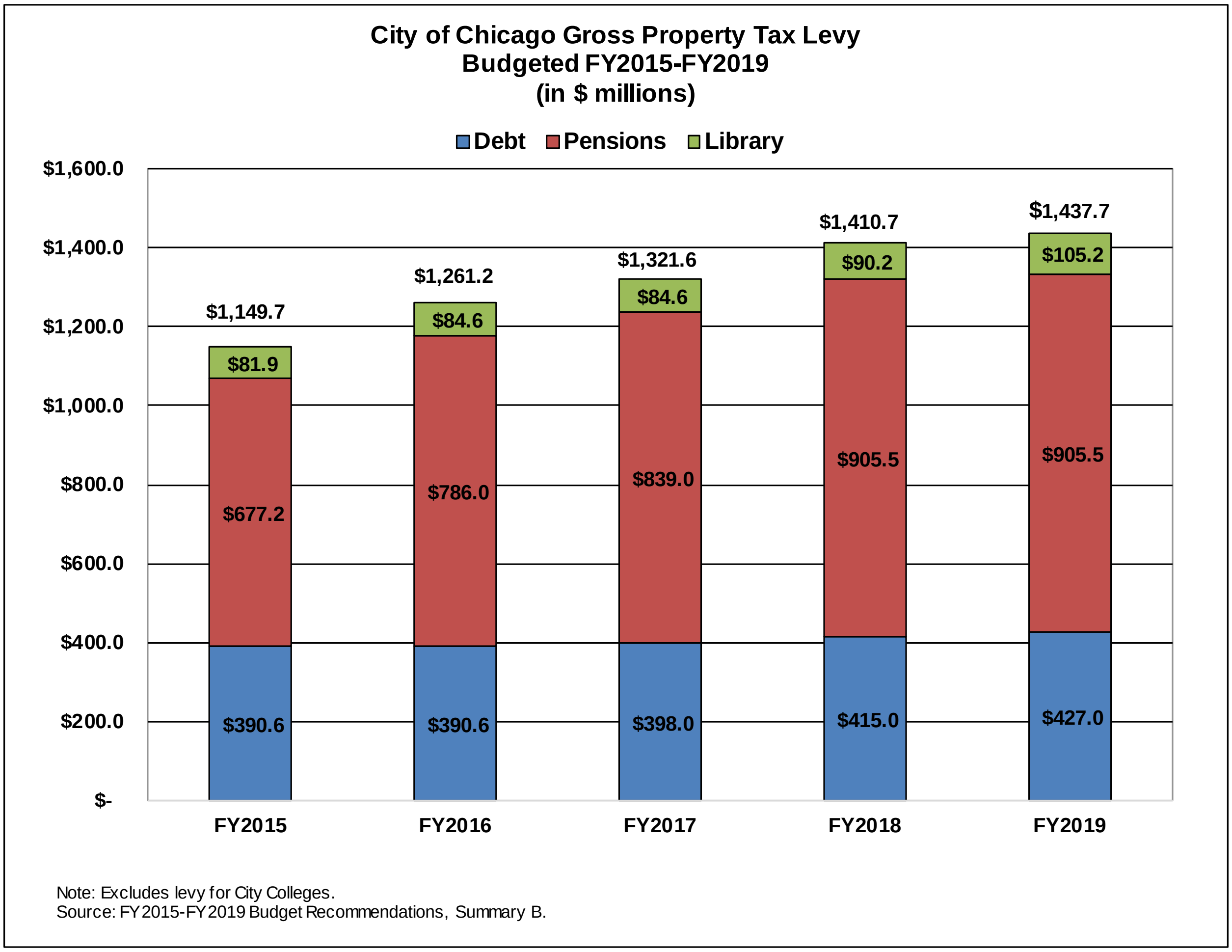
The remainder of the proposed FY2019 property tax levy includes $105.2 million in property taxes levied for the Chicago Public Library, which is a department of city government.[82] The City provides funding for debt service payments on bonds issued for the library's capital program and for short-term borrowing to support the library's operating expenses. The City issues short-term debt (tax anticipation notes) for the library in order to bridge the roughly 18-month gap between approval of the levy and collection of taxes.

The City also levies property taxes on behalf of City Colleges, to which $36.5 million will be dedicated in FY2019.[83]

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

[81] FY2004 is the last year that any of the City property tax levy was used for the Corporate Fund.
[82] Since 1996 the library has been listed as a separate line item on Chicago property tax bills.
[83] City of Chicago FY2019 Budget Recommendations, Summary B, p. 2.

pensions, debt service and libraries, but excluding the City Colleges levy.



Property taxes were previously levied for pensions as a direct result of payroll increases, including retroactive increases, since the City's employer contributions to pensions were set in State statute as a multiple of employee contributions made two years prior. The property tax levy increases approved in 2015 for pension contributions are now based on a five-year ramp to actuarially calculated statutory funding formulas for the Police and Fire funds, rather than the previous multiple calculation. Employee contributions are a percentage of pay. The FY2019 increase in Police and Fire fund pension contributions of $32 million is being made through available operating revenues rather than the property tax.[84]

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.[85]

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[84] City of Chicago, FY2019 Budget Overview, p. 12.
[85] 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

Additional Property Tax Revenues

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

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

City Colleges

The City Council adopted an ordinance on September 29, 1999 authorizing the issuance of up to $385 million in General Obligation Bonds to pay for City Colleges capital projects.[86] The City of Chicago levies taxes to pay debt service on capital improvement bonds for the City Colleges of Chicago. 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.[87] 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.[88] 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 held flat at $5.7 million for several years and then jumped to $33.5 million in FY2007 and to $36.6 million in FY2008.[89] It will continue to remain relatively flat at $35.5 million in FY2019.[90]

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."

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

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

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

[89] 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

[90] City of Chicago, FY2019 Budget Recommendations, Summary B, p. 2.

Chicago Public Schools

The City of Chicago and the Chicago Public Schools have an intergovernmental agreement through which the City levies taxes to pay for some of the school district's capital needs. The intergovernmental agreement was approved on October 1, 1997 and has been used to fund and refund several bond issuances.[91]

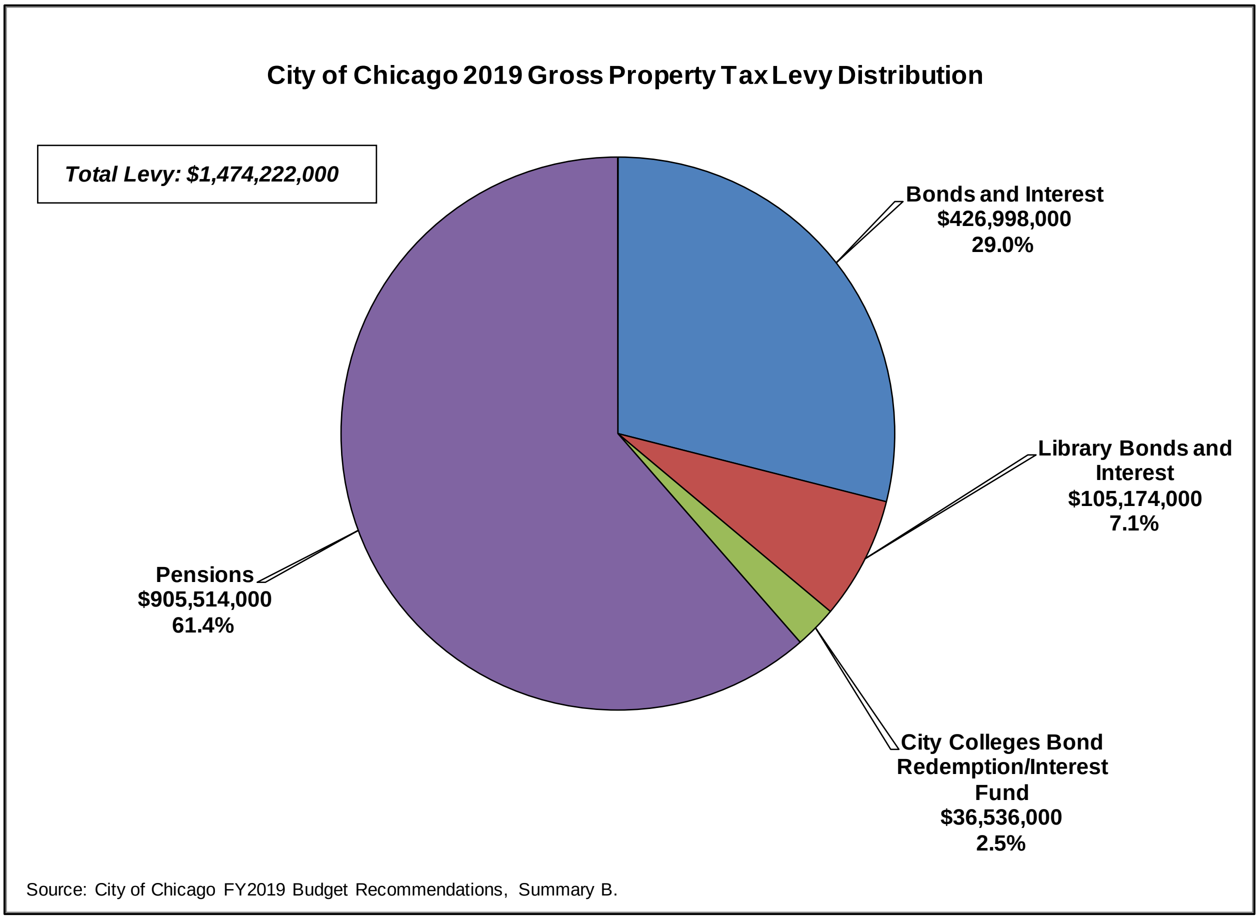
The City took on a greater role in capital funding for the Chicago Public Schools following the passage of Public Act 89-15 in 1995, which gave substantial control of the school district to the Mayor of Chicago. Pursuant to that Act, the School Finance Authority (SFA), which had been created in 1980 to provide capital debt financing for the Chicago Public Schools, ceased issuing debt for the schools and ended operations on June 1, 2010.[92] The SFA levied its final property tax in tax year 2007, payable in 2008.

According to the debt service schedule for bonds covered by the intergovernmental agreement, City of Chicago payments for school bonds were to increase from $18.8 million in 2008 to $91.0 million in 2009 and remain at $91.0 million annually through 2018.[93] In 2019 the debt service payment will escalate to $112.5 million and then increase to $142.3 million annually through 2031.[94] The intergovernmental agreement is not mentioned in the City's budget documents. Unlike the City Colleges bond levy, it is not listed as a line item in the City budget revenue estimates.

The following pie chart shows the distribution of the City's gross proposed property tax levy for 2019 (taxes payable in 2020): 2.5% of the City's proposed FY2019 property tax levy is for City Colleges bonds; 7.1% is for the library; 61.4% is dedicated to pension payments and 29.0% is for the debt service on City bonds. The bonds issued per the intergovernmental agreement with the

[91] 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.
[92] 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
[93] 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.
[94] 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.

Chicago Public Schools are included in the Bonds and Interest amount but are not itemized. The total City levy is $1.47 billion.



Tax Increment Financing Districts

The City of Chicago receives and distributes property tax revenue for tax increment financing (TIF) districts within City boundaries. This revenue is not appropriated as part of the City budget, but is spent by the City according to the Redevelopment Plan for each TIF. There will be 144 active TIFs in Chicago in FY2018.[95]

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.[96] 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.[97] On November 8, 2013, Mayor Emanuel issued Executive Order No. 2013-3 establishing a practice of annually

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[95] City of Chicago, FY2018 Budget Overview, p. 40.
[96] See, for example, Chicago Park District FY2009 Budget Summary, page 111 on the value of TIF dollars received by the Park District.
[97] City of Chicago, TIF Reform Panel Report, August 23, 2011, p. 15.

identifying and declaring a TIF surplus.[98] In 2015 Mayor Emanuel froze seven downtown TIF districts, which will sunset when the current and committed projects are paid off and excess funds are in the meantime declared annually as TIF surplus.[99] Phasing out the TIFs was projected to free up nearly $250 million over five years.[100] The City declared a TIF surplus of $175.0 million for 2019, $97.0 million of which will go to Chicago Public Schools, and $42.7 million of which will go to the City.[101]

It is important to note that the property tax dollars collected for TIF are not a *levy*. A levy is the amount a government asks for each year and is the basis on which a tax rate is calculated. TIF does not have its own levy or rate, but is a product of applying the composite rates of all the other extensions to the incremental EAV growth in a TIF district.[102] Since TIF revenue is a product of the tax rates of local governments, TIF revenue is not known until the tax rates of the governments are calculated. The most recent tax rates available are 2017 rates (taxes payable in 2018).[103] Additionally, since TIF revenue is based on tax rates, if tax rates go up, TIF revenue will go up. The composite tax rate in Chicago has grown in recent years as a result of increases in the City and CPS levies and increased TIF revenue.

The following table presents the total City of Chicago property tax levy plus TIF revenues for FY2013-FY2017, which is the most recent data available. For tax year 2017, the City of Chicago will collect a total of $2.1 billion from taxpayers across the City, including levies for City Colleges and Chicago Public Schools capital programs and TIF revenue. The $660.0 million in TIF revenue collected in FY2017 is a 17.6% increase from the $561.3 million collected for tax year 2016. The amount taxpayers paid for tax year 2017 (payable in 2018) is a 22.6% increase over the five year period starting in 2013.

City of Chicago FY2013-2017 Gross Property Tax Levy and TIF Revenue (in $ thousands)

Fund Name	FY2013	FY2014	FY2015	FY2016	FY2017
City Government Funds	$ 36,632	$ 824,039	$ 1,149,700	$ 1,261,195	$ 1,410,671
City Colleges Bond Redemption/Interest Fund	$ 422,065	$ 35,470	$ 36,632	$ 34,636	$ 35,693
TIF Property Tax Revenues	$ 1,259,969	$ 371,791	$ 460,638	$ 561,293	660,046
GRAND TOTAL	**$ 1,718,665**	**$ 1,231,300**	**$ 1,646,970**	**$ 1,857,124**	**$ 2,106,410**

Source: City of Chicago, FY2013-FY2017 Appropriations Ordinance, Summary B and Cook County Clerk TIF Reports 2013-2017, available at http://www.cookcountyclerk.com/tsd/tifs/pages/tifreports.aspx.

Beginning with the FY2012 budget (enacted in 2011), the City started shifting property taxes from expiring Tax Increment Financing (TIF) districts back to the general property tax levy. These additional property tax revenues are allocated to the pension fund levies, thus freeing up

98 City of Chicago, Executive Order 2013-3 (Declaration of TIF surplus funds in TIF eligible areas), November 8, 2013, available at the City of Chicago Office of the City Clerk, http://www.chicityclerk.com/legislation-records/journals-and-reports/executive-orders.
99 City of Chicago, FY2019 Budget Overview, p. 46.
100 Fran Spielman, "Chicago to get $250 million as Emanuel winds down 7 downtown TIF districts," Chicago Sun-Times, July 12, 2015, https://chicago.suntimes.com/chicago-politics/chicago-to-get-250-million-as-emanuel-winds-down-7-downtown-tif-districts/.
101 City of Chicago FY2019 Budget Overview, p. 14.
102 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-.
103 Available on the Cook County Clerk's website at www.cookcountyclerk.com.

the personal property replacement tax (PPRT) revenue normally needed to make the full pension payments for general Corporate Fund use.[104]

Transparency and Accountability Issues

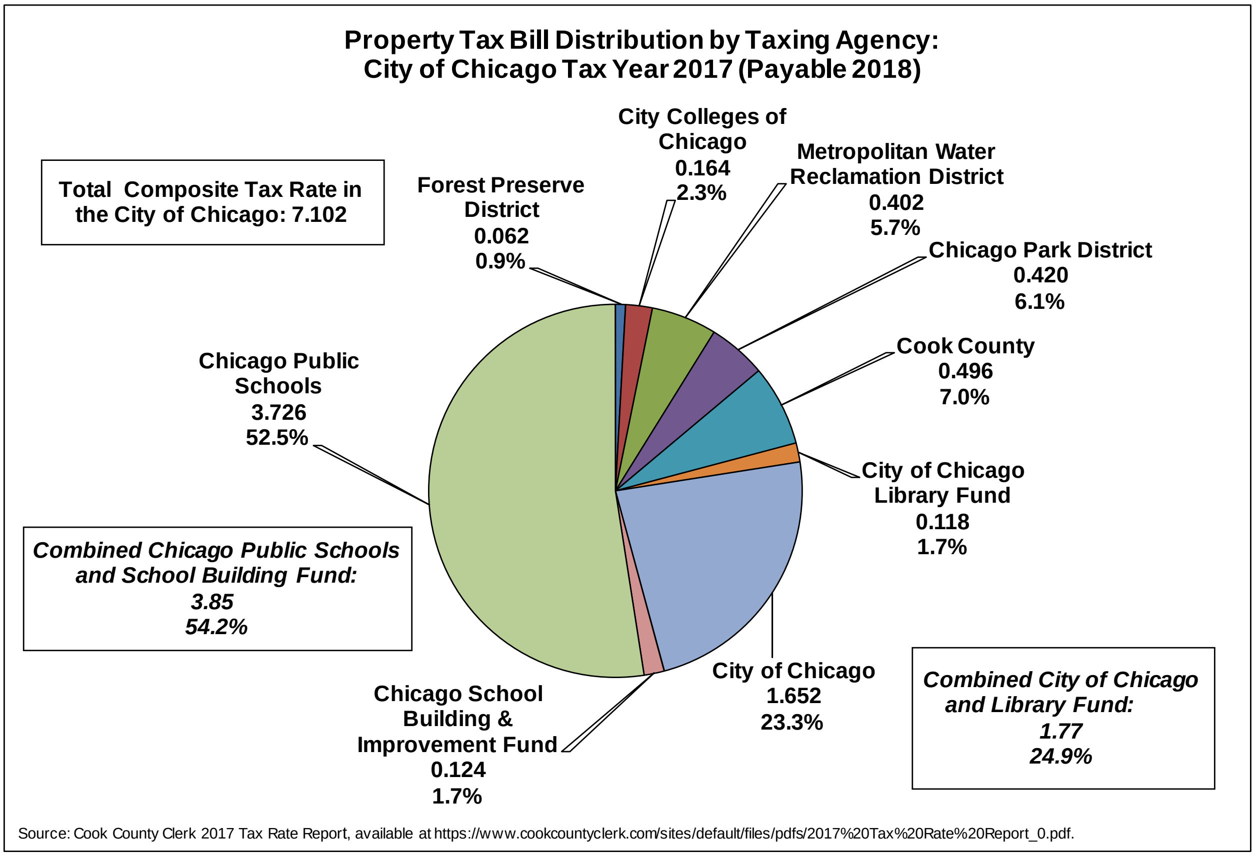
It is important for property taxpayers to understand how much of their property tax dollars governments receive and for what purpose so that they may hold public officials accountable for the level of property taxation imposed. The information currently provided in the City financial documents and on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

The property tax rates of the various governments and their pension funds are printed on property tax bills so that taxpayers may see an estimate of how much of their tax bill goes to which government. The Cook County Clerk also publishes information showing the distribution of the City of Chicago tax bill among the different governments.[105] The most recent is for tax year 2017, payable in 2018.

The chart below shows the distribution of property taxes from the County Clerk's 2017 Tax Rate Report, as reflected on property tax bills. Based on this data, it appears that 24.9% of a typical City property tax bill is allocated to the City of Chicago, including the library, and 54.2% goes to Chicago Public Schools, including the Chicago School Building and Improvement Fund. However, the City of Chicago tax rate includes taxes levied for the Chicago Public Schools and the City Colleges of Chicago, so the pie chart does not accurately represent the distribution of property tax dollars among these local governments. The chart shows each taxing agency's tax

[104] 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.
[105] Cook County Clerk 2017 Tax Rate Report, available at https://www.cookcountyclerk.com/sites/default/files/pdfs/2017%20Tax%20Rate%20Report_0.pdf

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 tables below show the City's gross property tax levies from tax years 2013-2017 (2017 is the most recent available) as reported by the Cook County Clerk and as reported by the City Budget Appropriation Ordinances from FY2013-FY2017. Some of the differences may be attributable to the City's levy for the Chicago Public Schools capital programs, which is not listed in the City appropriations but presumably is part of the Bond and Interest fund levy in the Clerk's reports. As shown in the tables below, there were differences between the Chicago property tax levy reported by the County Clerk and the City of Chicago in each of the tax years between 2014 and 2017.

The final City tax rate is calculated based on the total levy reported by the Cook County Clerk. Therefore, property taxpayers collectively owe the full amount as reported by the Clerk, not the amount reported by the City. For tax year 2017 (taxes payable in 2018), City of Chicago taxpayers collectively owed a total of $1.36 billion in property taxes for the City of Chicago.

City of Chicago Gross Property Tax Levy: Tax Year 2013-2017 As Reported in the Cook County Clerk Agency Tax Rate Reports						
Fund #	**Fund Name**	**2013**	**2014**	**2015**	**2016**	**2017**
003	Bonds & Interest	$ 407,115,466	$ 407,115,368	$ 407,116,150	$ 425,563,632	$ 434,398,609
120	Police Pension	$ 138,146,000	$ 136,680,000	$ 361,987,000	$ 455,355,000	$ 490,685,000
121	Fire Pension	$ 81,518,000	$ 81,363,000	$ 179,424,000	$ 194,825,000	$ 212,622,000
122	Municipal Pension	$ 116,766,000	$ 117,939,000	$ 119,406,000	$ 119,406,000	$ 119,406,000
125	Laborers Pension	$ 10,486,000	$ 10,934,000	$ 11,070,000	$ 11,070,000	$ 11,070,000
	Subtotal City	**$ 754,031,466**	**$ 754,031,368**	**$ 1,079,003,150**	**$ 1,206,219,632**	**$ 1,268,181,609**
003	Library Bonds & Interest	$ 4,341,536	$ 4,343,529	$ 4,298,542	$ 4,282,084	$ 4,221,500
128	Library Municipal Pension	$ 5,300,000	$ 5,300,000	$ 5,300,000	$ 5,300,000	$ 5,300,000
259	Library Note Redemption	$ 74,231,000	$ 76,948,000	$ 77,595,000	$ 80,359,000	$ 80,420,000
	Subtotal Library	**$ 83,872,536**	**$ 86,591,529**	**$ 87,193,542**	**$ 89,941,084**	**$ 89,941,500**
	GRAND TOTAL City + Library	**$ 837,904,002**	**$ 840,622,897**	**$ 1,166,196,692**	**$ 1,296,160,716**	**$ 1,358,123,109**

Note: Funds for which there were no levies in these years are excluded.

Source: Cook County Clerk, Agency Tax Rate Reports for City of Chicago and City of Chicago Library Fund, available at https://www.cookcountyclerk.com/service/tax-agency-reports.

City of Chicago Gross Property Tax Levy: Tax Year 2013-2017 As Reported in the City of Chicago Appropriation Ordinances						
Fund #	**Fund Name**	**2013**	**2014**	**2015**	**2016**	**2017**
509	Note Redemption and Interest Fund	$ -	$ 20,113,000	$ 20,113,000	$ -	$ -
510	Bond Redemption and Interest Fund	$ 370,485,000	$ 370,485,000	$ 370,485,000	$ 390,598,000	$ 397,998,000
516	Library Bond Redemption Fund	$ 4,340,000	$ 4,277,000	$ 4,300,000	$ 4,282,000	$ 4,221,000
521	Library Note Redemption and Interest Fund	$ 74,231,000	$ 76,948,000	$ 77,595,000	$ 80,359,000	$ 80,420,000
681	Municipal Pension	$ 122,066,000	$ 123,239,000	$ 124,706,000	$ 124,706,000	$ 124,706,000
682	Laborers' Pension	$ 10,486,000	$ 10,934,000	$ 11,070,000	$ 11,070,000	$ 11,070,000
683	Police Pension	$ 138,146,000	$ 136,680,000	$ 361,987,000	$ 455,355,000	$ 490,685,000
684	Fire Pension	$ 81,518,000	$ 81,363,000	$ 179,424,000	$ 194,825,000	$ 212,622,000
	Subtotal City Government Funds	**$ 801,272,000**	**$ 824,039,000**	**$ 1,149,680,000**	**$ 1,261,195,000**	**$ 1,321,722,000**
549	City Colleges Bond Redemption/Interest Fund	$ 36,632,000	$ 35,470,000	$ 36,632,000	$ 34,636,000	$ 36,112,000
	GRAND TOTAL	**$ 837,904,000**	**$ 859,509,000**	**$ 1,186,312,000**	**$ 1,295,831,000**	**$ 1,357,834,000**

Source: City of Chicago, FY2013-FY2017 Appropriations Ordinances, Summary B, p. 2 and 2015 Supplemental Appropriation.

PERSONNEL

This section describes the City of Chicago's personnel levels and appropriations. It includes information on all local funds personnel services appropriations, a full-time equivalent (FTE) position count and Corporate Fund personnel service appropriations.[106] The FY2019 Budget Recommendations, which the City Council will vote on to become the FY2019 Appropriation Ordinance, describes position count and personnel services appropriations by fund. Position count and personnel services appropriations reflect budgeted FTE positions and include personnel related expenses such as salaries and wages, overtime, uniform allowances, stipends and salary adjustments.[107] The actual number of full-time equivalent positions is not available in the budget book. Therefore, for the purposes of this analysis, the Civic Federation presents *budgeted* FTE positions from the FY2015 through FY2018 appropriation ordinances and FY2019 Recommended budget.

All Local Funds Personnel Services and Full-Time Equivalent Positions

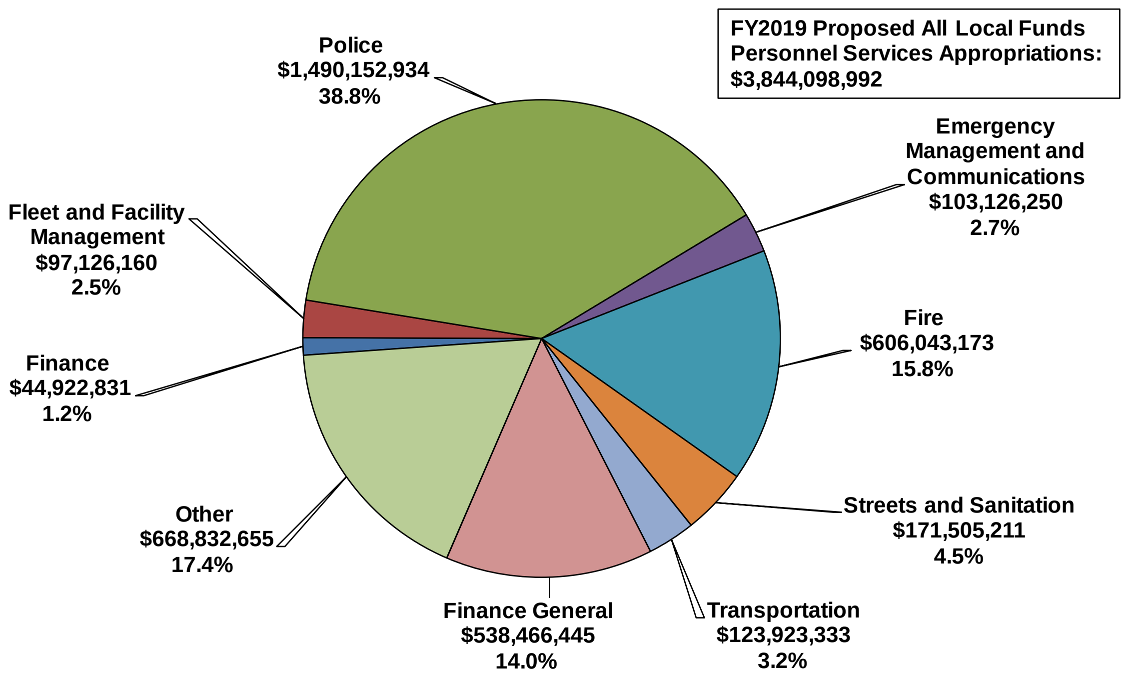
The City of Chicago proposes to appropriate $3.8 billion for personnel services across all local funds in FY2019. Approximately $2.2 billion, or 57.5%, of all local funds personnel services

[106] Personnel services include salaries and wages and other compensated related benefits. It does not include healthcare related benefits and pensions, which are included in Finance General.
[107] Full-time equivalent (FTE) positions represent the total hours worked divided by the average annual hours worked in a full-time position.

appropriations will be allocated to public safety.[108] Public Safety includes Police, Fire and Emergency Management and Communications (OEMC). Police includes the Police Department, Police Board and Civilian Office of Police Accountability (COPA). This appropriation percentage is a slight decrease from FY2018 approved appropriations when public safety represented 57.8% of all local funds personnel services expenses. The second largest portion of spending across all local funds, aside from Other, is the Finance General category which accounts for citywide expenditures such as pension contributions, debt service and employee healthcare across all departments. Finance General represents 14.0%, or $538.5 million, of all local funds for FY2019.

The following chart illustrates the City's proposed FY2019 personnel services appropriation for all local funds by department.

City of Chicago FY2019 All Local Funds
Personnel Services Appropriation by Department and Purpose



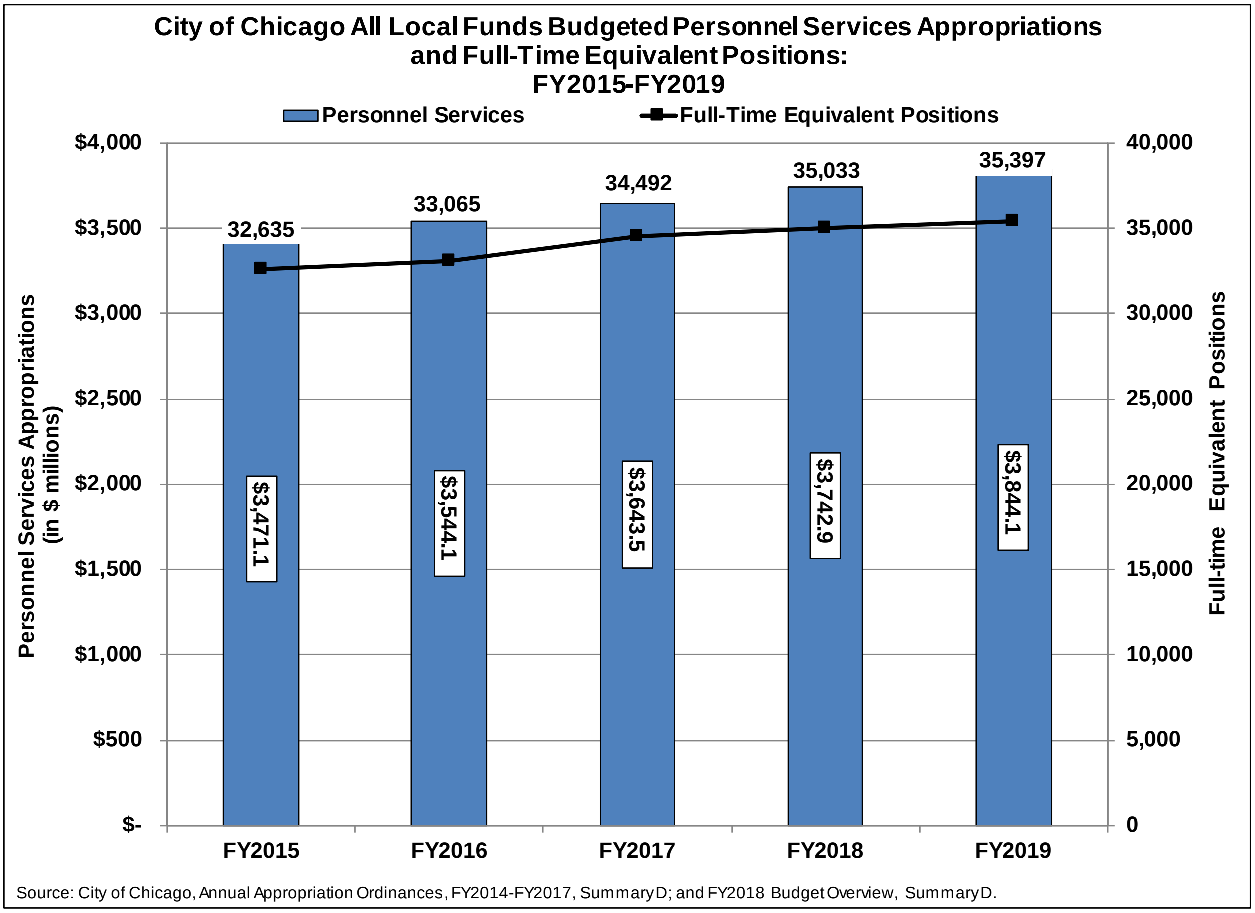
Note: Other includes: Office of the Mayor, Office of the Inspector General, Office of Budget and Management, Department of Innovation and Technology, City Council, City Clerk, City Treasurer, Department of Administrative Hearings, Department of Law , Department of Human Resources, Department of Procurement Services, Board of Election Commissioners, Department of Public Health, Commission on Human Relations, Mayor's Office for People with Disabilities, Department of Family and Support Services, Department of Planning and Development, Department of Buildings, Department of Business Affairs and Consumer Protection, Commission on Animal Care and Control, License Appeal Commission and Board of Ethics; Department of Water Management; Libary and Department of Aviation.
Source: City of Chicago, FY2019 Budget Recommendations, Summary D.

The following chart illustrates the five-year trend in personnel services appropriations and budgeted FTE positions. Between FY2015 and FY2019, local fund budgeted appropriations for personnel services, which include salaries and wages, overtime pay and other benefits, increased by $373.0 million, or 10.7%, from $3.5 billion to $3.8 billion. Personnel services appropriations will increase by $101.2 million, or 2.7%, in FY2019 from FY2018 budgeted appropriations. The

[108] Public Safety includes the Police Board, Civilian Office of Police Accountability, Police Department, Office of Emergency Management & Communication and Fire Department.

growth in personnel appropriations over the five-year period from FY2015 to FY2019 is attributable to the following:

- Increases in salaries and wages under collective bargaining agreements as unions represent most of the City's workforce;[109]
- Additional hiring in 2017 and 2018 in the area of public safety that is tied to the Mayor's multi-year public safety strategy, such as hiring additional sworn police officers, the creation of the Civilian Office of Police Accountability and additional staff in the Office of the Inspector General;[110] and
- Additional hiring and investments included in the FY2019 budget related to hiring and investments in public safety departments tied to the draft police consent decree with the Illinois Attorney General.[111]



The following table shows the City's FTE counts for all local funds by function. Budgeted FTE position count will rise from 35,033 FTEs in FY2018 to 35,397 FTEs in FY2019 across all local funds. This is a net increase of 364 FTE positions or 1.0% across all functions and local funds, with the exception of Legislative and Elections, which will remain flat at 357 FTEs. Public

[109] City of Chicago, FY2018 Budget Overview, p. 35.
[110] City of Chicago, FY2017 Budget Overview, p. 112 and FY2018 Budget Overview, p. 112.
[111] City of Chicago, FY2019 Budget Overview, p. 16.

Safety will see the greatest increase in the number of FTEs, growing from 22,093 FTEs in FY2018 to 22,336 FTEs in FY2019, an increase of 243 FTEs or 1.1%. City Development will see the largest percentage increase of the two-year period, growing by 4.8% or 12 FTEs.

In the five-year period from FY2015 to FY2019, the City proposes to increase its budgeted workforce by 2,762 FTEs, or 8.5%, from 32,635 FTEs in FY2015 to 35,397 FTEs proposed in FY2019. Over the same period, the most significant increase in personnel count occurred in Public Safety, increasing by 1,881 FTEs from 20,455 FTEs in FY2015 to 22,336 FTEs proposed for FY2019. As previously noted, the increase in Public Safety is primarily due to the increased police hiring as part of the Mayor's multi-year public safety strategy, which was announced in September 2016 and includes increasing the number of sworn personnel in the police department to 13,631 positions by the end of 2018.[112] In FY2019 the City is planning for the implementation of the draft police consent decree with the Illinois Attorney General, which will include additional hiring and investments in public safety related departments.[113]

City of Chicago All Local Funds Budgeted Full-Time Equivalent Positions by Function: FY2015-FY2019

Function	FY2015 Adopted	FY2016 Adopted	FY2017 Adopted	FY2018 Adopted	FY2019 Proposed	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Finance and Administration	2,673	2,722	2,756	2,763	2,774	11	0.4%	101	3.8%
Legislative and Elections	358	357	357	357	357	0	0.0%	-1	-0.3%
City Development	248	247	252	252	264	12	4.8%	16	6.5%
Community Services	1,112	1,126	1,129	1,186	1,227	41	3.5%	115	10.3%
Public Safety	20,455	20,727	21,682	22,093	22,336	243	1.1%	1,881	9.2%
Regulatory	566	569	612	619	632	13	2.1%	66	11.7%
Infrastructure Services	7,223	7,318	7,704	7,763	7,807	44	0.6%	584	8.1%
Total	**32,635**	**33,066**	**34,492**	**35,033**	**35,397**	**364**	**1.0%**	**2,762**	**8.5%**

Note: The full-time equivalent positions presented above do not include grant-funded positions.
Source: City of Chicago, FY2019 Budget Overview, p. 186.

Corporate Fund Personnel Services Trends

Personnel service appropriations in the Corporate Fund are projected to increase by $33.2 million, or 1.2%, from approximately $2.84 billion in the adopted FY2018 budget to $2.88 billion in FY2019. The FY2019 personnel services appropriations represents 75.3% of the Corporate Fund budget of over $3.8 billion. Personnel service appropriations by department include salaries and wages. The Corporate Fund includes $136.8 million in pension contributions in FY2019, but they are accounted for in Finance General, not personnel services. Personnel benefits such as healthcare, workers' compensation, unemployment compensation and pension contributions are appropriated in the Finance General area.[114] Personnel spending in the Finance General category will decrease by $19.8 million, or 4.8%, over the two-year period.

Between FY2015 and FY2019, personnel services appropriations in the Corporate Fund will increase by $100.3 million or 3.6%. During the five-year period, personnel services appropriations for public safety departments will increase by $126.6 million or 6.6%. This increase in public safety personnel expenditures is tied to salary increases under collective bargaining agreements reached during the course of 2014 with unions representing most of the City's public safety and civilian employees, which are reflected in the FY2016 budget and

[112] City of Chicago FY2018 Budget Overview, p. 34.
[113] City of Chicago FY2019 Budget Overview, p. 16.
[114] City of Chicago FY2019 Budget Overview, p. 58.

increased public safety hiring in FY2017 and FY2018, as well as the planned implementation of the draft consent decree, as previously noted.[115] Personnel services appropriations for Streets and Sanitation will decrease by 39.2%, or $54.6 million, declining from $139.4 million in FY2015 to $84.8 million in FY2019. This decrease is the result of the City creating a new Garbage Collection Fund in FY2017, which shifted personnel related costs tied to the collection of solid waste from the Corporate Fund into the new special revenue fund. Finance General will also see a decrease in personnel expenses between FY2015 and FY2019 that total $21.5 million or 5.2%. The decline in Finance General over the five-year period is primarily attributable to the City better managing expenses related to healthcare and other benefits.[116] The remaining departments will see increases ranging from $1.6 million to $12.6 million over the five-year period.

City of Chicago Corporate Fund Personnel Services: FY2015-FY2019
(in $ millions)

Department	FY2015 Adopted	FY2016 Adopted	FY2017 Adopted	FY2018 Adopted	FY2019 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Public Safety*	$ 1,925.3	$ 1,970.0	$ 2,020.0	$ 2,027.3	$ 2,051.9	$ 24.6	1.2%	$ 126.6	6.6%
Streets and Sanitation	$ 139.4	$ 83.8	$ 86.5	$ 82.6	$ 84.8	$ 2.2	2.7%	$ (54.6)	-39.2%
Fleet and Facility Management	$ 67.9	$ 69.9	$ 77.2	$ 77.0	$ 80.5	$ 3.5	4.6%	$ 12.6	18.6%
Transportation	$ 33.4	$ 35.3	$ 36.2	$ 35.7	$ 36.6	$ 0.9	2.6%	$ 3.3	9.8%
City Council	$ 20.0	$ 20.4	$ 20.6	$ 20.7	$ 21.4	$ 0.6	3.1%	$ 1.4	7.0%
Finance	$ 34.7	$ 36.7	$ 37.3	$ 37.3	$ 37.8	$ 0.4	1.2%	$ 3.1	8.8%
Office of the Mayor	$ 5.6	$ 6.0	$ 6.3	$ 6.5	$ 7.0	$ 0.5	7.7%	$ 1.5	26.6%
Finance General	$ 414.0	$ 407.1	$ 398.3	$ 412.3	$ 392.5	$ (19.8)	-4.8%	$ (21.5)	-5.2%
All Other	$ 134.5	$ 133.8	$ 139.4	$ 142.2	$ 162.4	$ 20.2	14.2%	$ 28.0	20.8%
Total Personnel Services	**$ 2,774.7**	**$ 2,763.0**	**$ 2,821.8**	**$ 2,841.8**	**$ 2,875.0**	**$ 33.2**	**1.2%**	**$ 100.3**	**3.6%**
Total Corporate Fund	**$ 3,534.4**	**$ 3,570.8**	**$ 3,719.0**	**$ 3,791.2**	**$ 3,815.7**	**$ 24.5**	**0.6%**	**$ 281.3**	**8.0%**

*Public Safety includes Police Board, Independent Police Review Authority (IPRA), Civilian Office of Police Acctountability (COPA), Department of Police, Office of Emergency Management and Communications (OEMC) and Fire Department. FY2017 was the last year IPRA was operational. IPRA's functions were absorbed by COPA in FY2017.

Source: City of Chicago Annual Appropriation Ordinances, FY2015-FY2018, Summary D; and FY2019 Budget Recommendations, Summary D.

The following chart displays two- and five-year trends for Corporate Fund appropriations by object classification and separates public safety appropriations from non-public safety appropriations so that trends in public safety and non-public safety personnel appropriations can be seen.

Between FY2018 and FY2019, public safety appropriations in the Corporate Fund will increase by $34.7 million, or 1.6%, while appropriations for non-public safety departments will decrease by $10.2 million or 0.6%. This results in a total net increase of $24.5 million, or 0.6% in the Corporate Fund.

Specific Items and Contingencies, which include personnel-related legal and medical expenses, will increase for public safety departments by $11.4 million, or 21.2%, while non-public safety departments will see a decrease of $69.7 million or 15.9%, over the two-year period.

The increase in public safety departments is primarily attributable to the City's multi-year public safety strategy, which includes the hiring of additional police officers in 2017 and 2018. In 2019 City is expanding the size of its police force and making investments in other public safety related departments due to the draft police consent decree.[117] Appropriations for Contractual Services will decrease by $0.6 million, or 1.3% for public safety departments, while at the same time increasing by $45.4 million, or 13.8% in non-public safety departments, over the two-year

[115] City of Chicago FY2016 Budget Overview, p. 35; FY2017 Budget Overview, p. 33; FY2018 Budget Overview, p. 34; and FY2019 Budget Overview, p. 16.
[116] City of Chicago, FY2019 Budget Overview, p. 12.
[117] City of Chicago, FY2018 Budget Overview, p. 16.

period. Appropriations for Travel, Commodities and Equipment will decrease for public safety departments by 5.7%, or $0.6 million, but will increase for non-public safety departments by 8.2% or $5.5 million, over the two-year period.

Over the five-year period between FY2015 and FY2019, public safety appropriations in the Corporate Fund will increase by $158.4 million or 7.9%. Non-public safety appropriations in the Corporate Fund will increase by $122.9 million or 8.1%. This is a net increase in the Corporate Fund of $281.3 million or 8.0%. Personnel Services appropriations for public safety will increase by $126.6 million, or 6.6%. In contrast, Personnel Services appropriations for non-public safety departments will decrease by $26.3 million or 3.1%.

City of Chicago Corporate Fund Appropriations by Object: FY2015-FY2019
(in $ millions)

Object Classification	FY2015 Adopted	FY2016 Adopted	FY2017 Adopted	FY2018 Adopted	FY2019 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Public Safety*									
Personnel Services	$ 1,925.3	$ 1,970.0	$ 2,019.7	$ 2,027.3	$ 2,051.9	$ 24.6	1.2%	$ 126.6	6.6%
Contractual Services	$ 29.5	$ 33.1	$ 47.9	$ 48.2	$ 47.5	$ (0.6)	-1.3%	$ 18.0	61.0%
Travel, Commodities and Equipment	$ 8.8	$ 8.4	$ 10.8	$ 10.9	$ 10.3	$ (0.6)	-5.7%	$ 1.5	16.8%
Specific Items and Contingencies**	$ 52.7	$ 52.8	$ 53.4	$ 53.7	$ 65.0	$ 11.4	21.2%	$ 12.3	23.3%
Sub-Total Public Safety	**$ 2,016.4**	**$ 2,064.3**	**$ 2,131.8**	**$ 2,140.1**	**$ 2,174.8**	**$ 34.7**	**1.6%**	**$ 158.4**	**7.9%**
Non-Public Safety									
Personnel Services	$ 849.4	$ 793.0	$ 802.9	$ 814.5	$ 823.1	$ 8.6	1.1%	$ (26.3)	-3.1%
Contractual Services	$ 288.6	$ 278.0	$ 294.6	$ 329.6	$ 375.0	$ 45.4	13.8%	$ 86.5	30.0%
Travel, Commodities and Equipment	$ 58.6	$ 76.0	$ 70.8	$ 67.6	$ 73.1	$ 5.5	8.2%	$ 14.5	24.8%
Specific Items and Contingencies**	$ 321.5	$ 359.5	$ 418.9	$ 439.3	$ 369.7	$ (69.7)	-15.9%	$ 48.1	15.0%
Sub-Total Non-Public Safety	**$ 1,518.1**	**$ 1,506.4**	**$ 1,587.2**	**$ 1,651.1**	**$ 1,640.9**	**$ (10.2)**	**-0.6%**	**$ 122.9**	**8.1%**
Total Corporate Fund	**$ 3,534.4**	**$ 3,570.8**	**$ 3,719.0**	**$ 3,791.2**	**$ 3,815.7**	**$ 24.5**	**0.6%**	**$ 281.3**	**8.0%**

*Includes Police Board, Independent Police Review Authority (IPRA), Department of Police, Office of Emergency Management and Communications, Fire Department and Civilian Office of Police Accountability (COPA). FY2017 was the last year IPRA was operational. IPRA's functions were transferred to COPA in FY2017.

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

Source: City of Chicago, Annual Appropriation Ordinances, FY2015-FY2018, Summary D; and FY2019 Budget Recommendations, Summary D.

RESERVE FUNDS

This section describes the City of Chicago's fund balance and other reserve funds. It includes discussion of the following:

- An overview of definitions describing the way fund balance is classified and reported based on standards set by the Governmental Accounting Standards Board;
- Best practices for fund balance set by the Government Finance Officers Association;
- An assessment of Chicago's audited unrestricted fund balance compared to the GFOA guidelines;
- An assessment of Chicago's fund balance compared to its own fund balance policy; and
- A discussion of the City of Chicago's Budget Stabilization Fund.

Fund Balance Definitions and Components

Fund balance is a term commonly used to describe the net assets of a governmental fund and serves as a measure of budgetary reserves.[118] Prior to FY2011, Chicago reported *unreserved* fund balance, or resources available for appropriation without any external legal restrictions or constraints.[119] Starting in FY2011, the audited financial statements for the City include a

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[118] Government Finance Officers Association (GFOA), Fund Balance Guidelines for the General Fund (Adopted September 2015). Available at http://www.gfoa.org/fund-balance-guidelines-general-fund.
[119] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009.

modification in fund balance reporting, 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."[120]

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 the 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 Fund, the remaining surplus of net resources after funds have been identified in the four categories above.[121]

The current method of measuring fund balance per GASB 54 is through *unrestricted* fund balance, which is identified by the GFOA as "only resources without a constraint on spending or for which the constraint on spending is imposed by the government itself."[122] ***Unrestricted*** fund balance includes the combined total of ***committed fund balance, assigned fund balance*** and ***unassigned fund balance***.

GFOA Best Practices

The Government Finance Officers Association (GFOA) provides guidelines on the appropriate level of fund balance that governments should maintain, calculated in accordance with generally accepted accounting principles. The GFOA recommends that "general purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures." [123] Two months of operating expenditures is approximately 17%. GFOA also

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[120] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review,* April 2009 and GASB Statement No. 54, paragraph 5.
[121] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009.
[122] GFOA, Fund Balance Guidelines for the General Fund (Adopted September 2015).
[123] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015). Available at http://www.gfoa.org/appropriate-level-unrestricted-fund-balance-general-fund.

states that in practice, a level of unrestricted fund balance lower than the recommended minimum may be appropriate for states and America's largest governments, such as cities and counties, because they can often better predict contingencies and they typically have diverse revenue streams.[124] Further, the statement directs governments to consider the financial resources available in other funds when determining an adequate unrestricted General Fund fund balance level.[125]

GFOA recommends that governments establish a formal unrestricted fund balance policy that considers the government's specific circumstances.[126] GFOA specifies several factors that should be considered when establishing a fund balance policy: revenue predictability and expenditure volatility; perceived exposure to one-time disasters or immediate expenses; the potential drain on general fund resources from other funds and the availability of resources in other funds; the potential impact on the government's bond rating and borrowing costs; and funds that are already committed or assigned for specific purposes.

City of Chicago Audited Fund Balance

This section examines the City's Corporate Fund (i.e., General Fund) fund balance as a percent of general operating expenditures based on audited data from the City's most recent Comprehensive Annual Financial Report. This ratio serves as a measure of whether a government is maintaining adequate levels of fund balance to mitigate current and future risks and ensure stable tax rates.[127]

The table below presents the City's unrestricted fund balance for FY2011 through FY2017. The table begins with FY2011 because this was the first year in which Chicago implemented the fund balance reporting changes of GASB 54 described above, and ends in FY2017 because it is the most recent year of audited financial information available.

Between FY2011 and FY2017, unrestricted fund balance fell from a high of 10.2% of operating expenditures in FY2011 to a low of 3.6% in FY2014. In the following three years, the fund balance ratio has steadily increased to 7.6% in FY2017. The City's FY2017 unrestricted fund balance consists of $106.9 million that has been assigned for specific purposes, which includes $15 million for the Operating Liquidity Fund[128] and $155.5 million that is unassigned. The City

[124] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015).
[125] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015).
[126] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015).
[127] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015).
[128] City of Chicago 2018 Annual Financial Analysis, Appendices, p. 117.

attributes its growth in unassigned fund balance since FY2014 in part to economic growth, enhancements in debt collection, investment strategies and ongoing savings and efficiencies.[129]

City of Chicago Unrestricted Corporate Fund Fund Balance Ratio: FY2011-FY2017			
	Unrestricted Corporate Fund Balance	Operating Expenditures	Ratio
FY2011	$ 311,478,000	$ 3,040,436,000	10.2%
FY2012	$ 210,417,000	$ 3,081,369,000	6.8%
FY2013	$ 142,269,000	$ 3,109,074,000	4.6%
FY2014	$ 116,780,000	$ 3,231,258,000	3.6%
FY2015	$ 191,404,000	$ 3,433,102,000	5.6%
FY2016	$ 245,852,000	$ 3,473,208,000	7.1%
FY2017	$ 262,416,000	$ 3,454,858,000	7.6%

Source: City of Chicago, Comprehensive Annual Financial Reports FY2011-FY2017, Balance Sheet - Governmental Funds and Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.

The City's 7.6% fund balance ratio is lower than the GFOA recommendation of 17%. However, as previously mentioned, the GFOA acknowledges that it may be appropriate for states and the country's largest governments with a diverse revenue base and better position to predict contingencies to maintain a smaller fund balance based on the government's own financial policies and other available financial resources.

City of Chicago Budget Stabilization Funds

In 2016 the City of Chicago established a new Fund Stabilization policy to maintain sufficient fund balance to mitigate financial risks and revenue shortfalls. City officials said the policy is aimed at maintaining a reasonable rainy day fund while avoiding the build-up of unneeded cash reserves.[130]

The City's policy states that it will maintain unrestricted fund balance, from three sources: Unassigned Fund Balance (discussed above), Asset Lease and Concession Reserves, and an Operating Liquidity Fund.[131] Together these funds make up what the City considers to be its budgetary reserves. Asset Lease and Concession Reserves account for leftover revenue generated from agreements to lease the Chicago Skyway and the parking meter system. The Operating Liquidity Fund was created in 2016 to function as a reoccurring short-term funding solution for City operations, allowing the City to manage liquidity issues associated with the timing of revenue collection.[132]

The Fund Stabilization policy states that the City will not appropriate more than 1.0% of the general operating budget from the prior year's audited unassigned fund balance for the current

[129] City of Chicago 2018 Annual Financial Analysis, Appendices, p. 118.
[130] Communication with City of Chicago Office of Management and Budget, October 10, 2016.
[131] City of Chicago FY2019 Budget Overview, p. 45.
[132] City of Chicago FY2019 Budget Overview, p. 45.

year's budget.[133] Additionally, the City has a mechanism to build the City's unrestricted Corporate Fund reserves based on an executive order signed by Mayor Emanuel in October 2013.[134] This order calls for the transfer of at least 10% of the previous year's Corporate Fund unreserved fund balance into the City's Corporate Fund reserves for unanticipated future needs.

Evaluation of Budget Stabilization Funds

The Fund Stabilization policy states that the City will adhere to the GFOA's recommended fund balance level of two months of general operating expenses, or approximately 17%.[135] The Unassigned General Fund fund balance in FY2017 was $155.5 million.[136] The asset lease and concession reserves totaled $668.3 million in FY2017, which includes $620.0 million in principal (these reserves are discussed further below).[137] Together, the two reserve sources total $823.8 million. The City's FY2017 general operating expenses totaled $3.45 billion. The $823.8 million of budget stabilization funds equals 23.8% of general operating expenses. Therefore, the Budget Stabilization Funds meet the City's own fund balance policy.

Operating Liquidity Fund

The Operating Liquidity Fund was created in 2016 to provide a portion of unassigned fund balance for recurring short-term funding for City operations. The City plans to assign a portion of unassigned fund balance to this Liquidity Fund each year. The City has set aside $20 million of unassigned fund balance for the Operating Liquidity Fund – $5 million each in 2015-2017 and another planned $5 million in 2018.[138] The City plans to deposit another $10 million to the Operating Liquidity Fund in FY2019.[139]

Asset Lease Reserve Balance

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

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

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[133] City of Chicago FY2019 Budget Overview, p. 45.
[134] Executive Order No. 2013-2 (Rainy Day Fund).
[135] City of Chicago FY2019 Budget Overview, p. 45.
[136] City of Chicago FY2017 Comprehensive Annual Financial Report, p. 34.
[137] City of Chicago FY2017 Comprehensive Annual Financial Report, p. 35.
[138] City of Chicago 2018 Annual Financial Analysis, p. 117-118
[139] City of Chicago FY2019 Budget Overview, p. 14.

The purpose of the long-term reserves was to supplement Corporate Fund reserves through interest earned on the parking meter and Skyway funds, leaving the principal intact. However, the City used the proceeds from these lease transactions to balance the budget from FY2005 until FY2011. Each year a portion was transferred to the Corporate Fund to support general operations. In FY2012, Mayor Rahm Emanuel's administration ended the practice of using reserves to pay for the City's operating expenditures and ordered that only interest generated from the funds be transferred to the Corporate Fund. The City also began replenishing the parking meter long-term reserve fund, with $40 million deposited between 2011 and 2014.[140]

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

The remaining Skyway and parking meter lease proceeds that have not been expended or allocated to the Corporate Fund are held in an accounting entity called the Service Concession and Reserve Fund. The table below shows the balances that remain in the asset lease reserve funds. $500.0 million remains in the Skyway long-term reserve fund principal and $120.0 million remains in the parking meter long-term reserve fund principal, totaling $620.0 million. These balances have held constant since 2014, as shown in the table below.

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

Year	Skyway Mid-Term Reserve Fund	Skyway Long-Term Reserve Fund	Parking Meter Mid-Term Reserve Fund	Parking Meter Long-Term Reserve Fund	Parking Meter Budget Stabilization Fund	Total
Skyway Deposit (2005)	**$ 375**	**$ 500**				**$ 875**
2005	$ 275	$ 500				$ 775
2006	$ 225	$ 500				$ 725
2007	$ 150	$ 500				$ 650
2008	$ 100	$ 500				$ 600
Parking Meter Deposit (2008)			**$ 325**	**$ 400**	**$ 326**	**$ 1,051**
2009	$ 50	$ 500	$ 175	$ 380	$ 101	$ 1,206
2010	$ -	$ 500	$ 75	$ 220	$ -	$ 795
2011	$ -	$ 500	$ -	$ 80	$ -	$ 580
2012	$ -	$ 500	$ -	$ 100	$ -	$ 600
2013	$ -	$ 500	$ -	$ 115	$ -	$ 615
2014	$ -	$ 500	$ -	$ 120	$ -	$ 620
2015	$ -	$ 500	$ -	$ 120	$ -	$ 620
2016	$ -	$ 500	$ -	$ 120	$ -	$ 620
2017	$ -	$ 500	$ -	$ 120	$ -	$ 620
2017 Balance	**$ -**	**$ 500**	**$ -**	**$ 120**	**$ -**	**$ 620**

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

Source: City of Chicago, 2018 Annual Financial Analysis, p. 117.

Going forward, interest earned on the long-term asset lease funds will continue to be transferred to the Corporate Fund to support general operations. In FY2019, the City has budgeted $20.0 million from interest earned on the asset lease reserves to be transferred into the Corporate Fund

[140] City of Chicago 2017 Annual Financial Analysis, Liquidity and Stabilization Funds.

for operating expenses.[141] The City plans to maintain its $620.0 million asset lease fund balance, to be used only in the event of an economic downturn. If the City were to spend the funds in the Asset Lease Reserves, its credit rating would likely be downgraded.

PENSION FUNDS

The Civic Federation analyzes 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, including changes to benefits for members of the Municipal and Laborers' Funds enacted in 2017.

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.[142] 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 Chicago and their dependents.[143] 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.[144] 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

[141] City of Chicago FY2019 Budget Overview, p. 29.
[142] Firemen's Annuity and Benefit Fund of Chicago, Financial Statements, December 31, 2017, p. 9.
[143] Policemen's Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report for the year ended December 31, 2017, p. 5.
[144] Municipal Employees' Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report for the year ended December 31, 2017, p. 41. 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.

and their dependents.[145] It is governed by an eight-member Board of Trustees. Two members are ex-officio (City Treasurer and City Comptroller), two are appointed by the City Department of Human Resources, one is appointed by the local labor union, two are elected by active employee members and one is elected by annuitant members.

Pension Benefits

The following section describes the pension benefits provided by each of the City's four funds and describes recent changes to those benefits enacted in 2010 and changes to funding enacted in 2016 and 2017.

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.[146] This report will refer to "Tier 1 employees" as those persons hired before the effective date of Public Act 96-0889 and "Tier 2 employees" as those persons hired on or after January 1, 2011. Public Act 100-0023, enacted in July 2017, created a third tier of benefits for Municipal and Laborers' employees hired on or after July 6, 2017, as well as changing the City of Chicago's employer contribution schedule from a set multiple of what employees contributed two years prior to a 40-year plan to 90% funded. Tier 2 employees are also allowed to irrevocably elect between October 1, 2017 and November 15, 2017 to be subject to the Tier 3 benefit structure. This report will refer to "Tier 3 employees" as those persons hired on or after July 6, 2017 and those who elect to join Tier 3. The changes included in P.A. 100-0023 were the result of negotiations between the City and most of its labor unions.

Tier 1 employees are eligible for full retirement benefits once they reach age 60 and have at least ten years of employment with the City. The amount of the 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 ten years of service. The maximum annuity amount is 80% of final average salary. Employees with 20 years of service may retire as young as age 55 but their benefit is reduced by 0.25% per month they are under age 60. This reduction is waived for employees with at least 25 years of service, such that a 55 year-old with 25 years of service may retire with an unreduced benefit and those with at least 30 years of service can retire with an unreduced benefit at age 50.

The major changes from Tier 1 to Tier 2 are an increase in full retirement age from 60 to 67 and early retirement age from 55 to 62; the reduction of final average salary from the highest four year average to the highest eight year average; the $106,800 cap on pensionable salary; and the 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. Employee contributions remained the same at 8.5%. The main changes for Tier 3 employees include a reduction in the full retirement

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[145] Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago, Financial Statements, December 31, 2017, p. 14-15.
[146] A "trailer bill" to correct technical problems with Public Act 96-0889 was enacted in December 2010 as Public Act 96-1490.

age from 67 to 65 and early retirement age from 62 to 60 and an increase in the employee contribution to 11.5%.[147] The following table compares Tier 1 employee benefits to Tier 2employee benefits enacted in Public Act 96-0889 and Tier 3 employee benefits enacted in Public Act 100-0023.

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)**	**Tier 3** **(hired on or after 7/6/2017 or elected by 11/15/2017)**
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	age 65 with 10 years of service
Early Retirement Eligibility: Age & Service	age 55 with 20 years of service	age 62 with 10 years of service	age 60 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	0.5% per month under age 65
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	lesser of 3% or one-half of the annual increase in CPI-U, not compounded; begins at the later of age 65 or the first anniversary of retirement

*The 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, 2017; Municipal Employees' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2017; Public Act 96-0889; and Public Act 100-0023.

[147] For Tier 2 employees who elect to join Tier 3, employee contributions rise from 8.5% as follows: 9.5% beginning July 6, 2017; 10.5% beginning January 1, 2018; and 11.5% or normal cost, whichever is less, beginning January 1, 2019. For all Tier 3 employees, contributions fall to 7.5% once 90% funding is reached.

Public Act 98-0641

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

After the Circuit Court ruling in 2015, the Municipal and Laborers' funds refunded the increased contributions from active employees that began January 1, 2015 to the City of Chicago and the City disbursed the refunds to the active employee members of the funds.[148] The active employees' ongoing contributions as a percentage of their salaries were reduced to the levels in place prior to the implementation of P.A. 98-0641. The Municipal and Laborers' Funds also made a one-time payment to all retirees to restore the 3% compounded automatic annual increase to their annuities that was reduced to 0.85% simple interest by the provisions of P.A. 98-0641. Going forward, retirees' monthly checks will include the 3% compounded automatic annual increase.[149] Higher employer contributions that had been held in escrow were released after the Supreme Court ruling. The accrued liabilities of the two funds increased significantly as the savings from the benefit changes were erased.

Police and Fire Funds

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.[150] Tier 1 employees are eligible for full retirement benefits once they reach age 50 and have at least 20 years of employment with the City. The amount of the 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 ten years of service. The maximum annuity amount is 75% of final average salary. Employees with 10 years of service may retire as young as age 50 but their benefit is reduced by a formula.

The major benefit changes are an increase in full retirement age from 50 to 55, a reduction of final average salary from the highest four-year average to the highest eight-year average, a $106,800 cap on pensionable earnings (increased annually by the lesser of 3% or one half of the increase in Consumer Price Index), and a change in the automatic annual increase from 1.5% or

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148 Communication with the City of Chicago Office of Budget and Management, October 5, 2015.

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

150 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.

3% not compounded to the lesser of 3% or one half of the increase in Consumer Price Index not compounded.[151]

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 1/1/1966, starts at later of age 55 or retirement; 1.5% simple interest if born after 1/1/1966, 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, 2017; Policemens' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2017; Public Act 96-1495.

Public Act 96-1495 did not change employee contributions but it did change employer contributions for the Chicago Police and Fire Funds. The City of Chicago was to be required to begin making contributions in tax year 2015, payable in 2016, that would be sufficient to bring the funded ratio of each fund to 90% by the end of 2040, using a level percentage of payroll and projected unit credit actuarial valuation method. City officials estimated that would represent a $549 million contribution increase in 2015.[152]

However, in the FY2016 budget and revised FY2015 budget, Chicago did not base its projected contribution for 2015, payable in 2016, and beyond on the provisions of Public Act 96-1495, but instead used the revised payment schedule set out in Senate Bill 777, which was passed by the Illinois General Assembly on May 31, 2015 but had not been sent to the Governor to be signed into law.[153] Senate Bill 777, as amended in the House, laid out five years of steadily increasing payments to the City's public safety funds until it reaches a level where it starts to contribute enough to raise the funded level to 90% over 35 years for a total 40-year funding plan. The

[151] 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.
[152] City of Chicago, Annual Financial Analysis 2015, p. 90.
[153] City of Chicago FY2016 Budget Overview, p. 31.

amount the City must contribute each year to each fund between FY2016 and FY2020 is specified in dollar amounts in the legislation. The first year of contributions is $220 million lower than under the 2010 funding law, but significantly increases funding from the previous statutory level. Projections of the contributions that will be made under the actuarial calculations in budget year 2021 (tax year 2020) and beyond have not been made available.[154] On May 27, 2016 Illinois Governor Bruce Rauner vetoed the legislation, calling it "bad policy" and "gambling with the pensions of…police officers and firefighters."[155] However, three days later both houses of the Illinois General Assembly voted to override the Governor's veto. Senate Bill 777 became Public Act 99-0506 and went into effect on May 31, 2016.[156] Public Act 99-0506 and Public Act 99-0905, effective November 29, 2016 added minimum annuity levels for certain Police and Fire retirees and all Police and Fire widows and widowers of 125% of the federal poverty level. P.A. 99-0905 also extended 3% simple interest automatic annual increases in annuities to annuitants born after 1955 but before 1966.

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 FY2017 there were 50,370 employees participating in the four pension funds. The Municipal Fund constitutes 60.6% of total active employee membership. However, roughly half of the 30,549 active Municipal Fund members are not City employees, but rather are non-teacher employees of Chicago Public Schools.[157] Approximately 68% of all active members of all four pension funds belong to Tier 1 and 32% belong to Tier 2 or 3. The Municipal Fund has the

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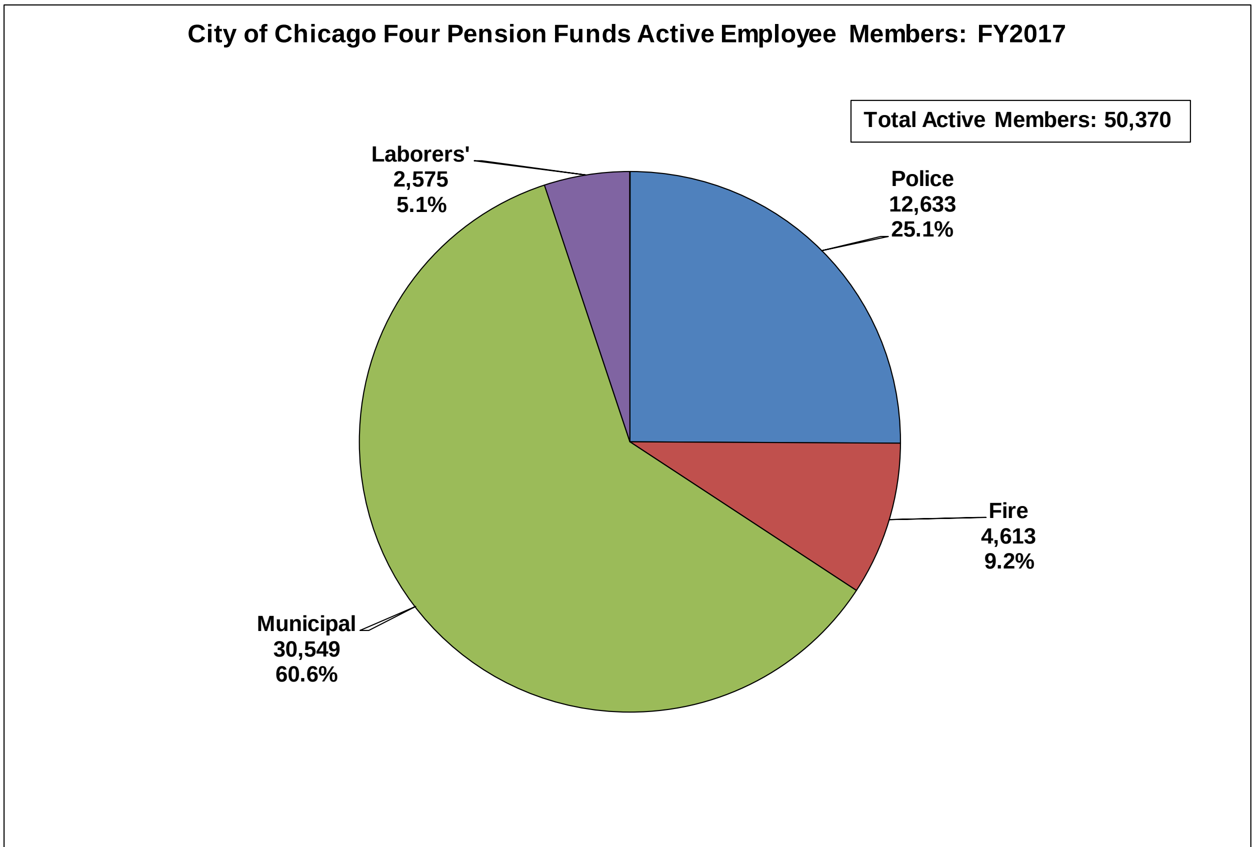
[154] Civic Federation Blog, "Chicago Police and Fire Employer Pension Funding Changes Passed in Illinois General Assembly," June 5, 2015. https://www.civicfed.org/civic-federation/blog/chicago-police-and-fire-employer-pension-funding-changes-passed-illinois-gener.

[155] Senate Bill 777, Governor's Message, May 27, 2016.

[156] John O'Connor, "Chicago gets some pension relief as Rauner veto overridden," Associated Press, May 30, 2016.

[157] The most recent data available on the number of Board of Education employees in the Municipal Fund is of December 31, 2016. As of that date 54.4%, or 16,468 of the 30,296 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, 2017*, p. 77.

highest percentage of Tier 2 members with approximately 37% and the Fire Fund has the lowest with approximately 20%.



Note: Roughly half of the Municipal Fund members are non-teacher employees of the Chicago Public Schools.
Sources: FY2017 Actuarial Valuations for the Police, Fire, Municipal and Laborers' pension funds.

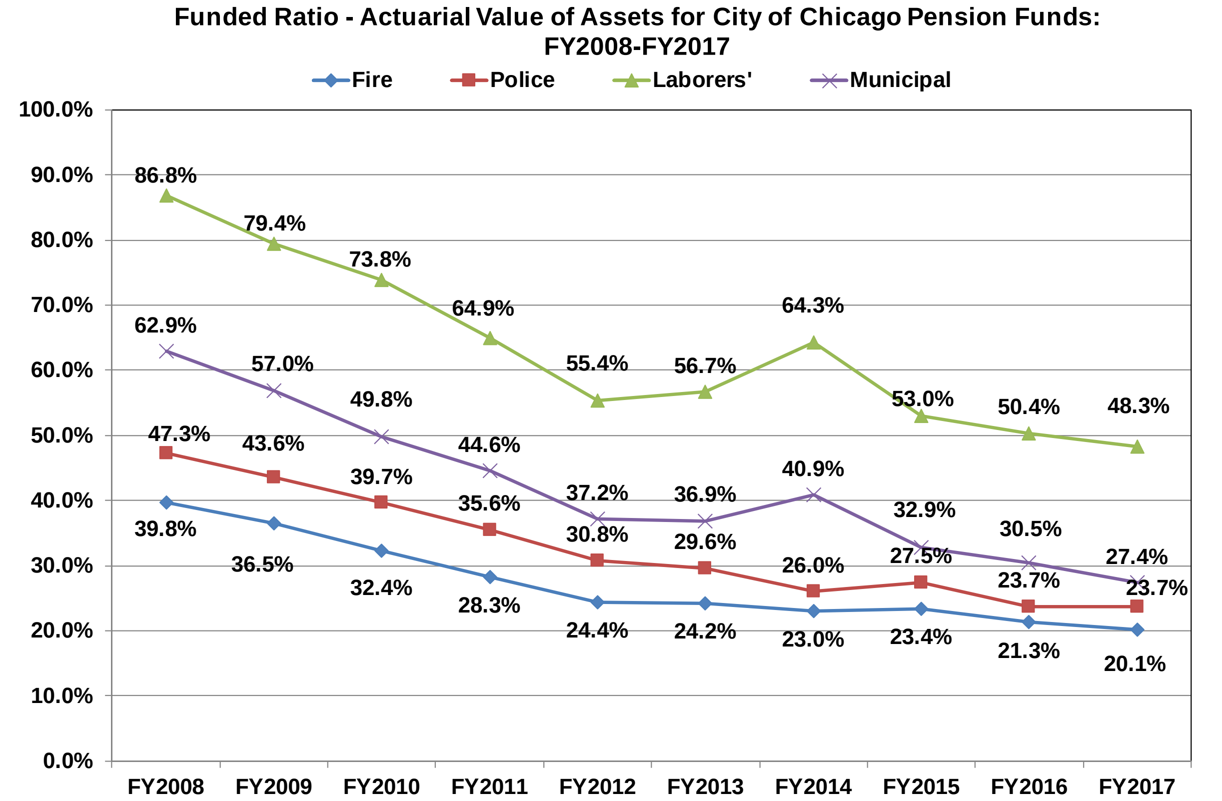
Funded Ratios – Actuarial and Market Value of Assets

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

The actuarial value of assets measurement presents the ratio of assets to liabilities and accounts for assets by recognizing unexpected gains and losses over a period of three to five years.[158] 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 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.

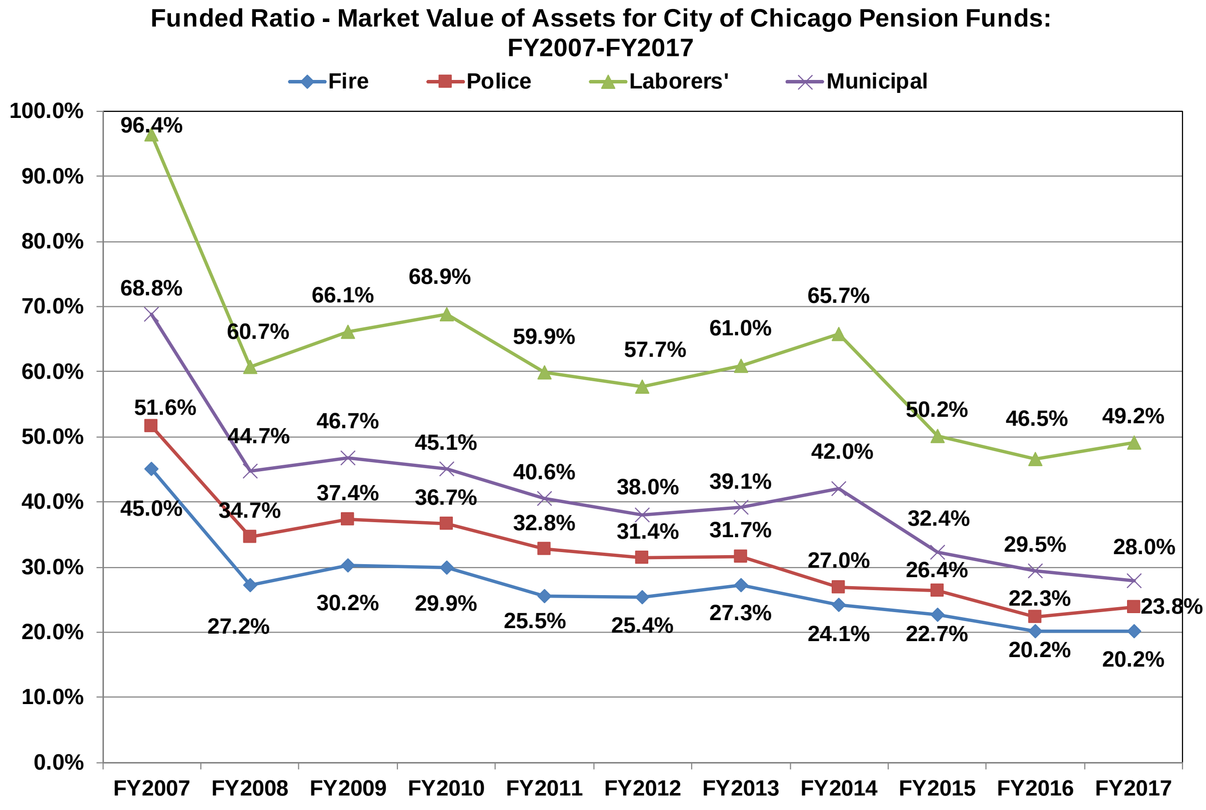
[158] For more detail on the actuarial value of assets, see Civic Federation, *Status of Local Pension Funding FY2012*, October 2, 2014.

The following exhibit shows actuarial value funded ratios for each of the four pension funds. The actuarial value funded ratios for all four City pension funds decreased or were flat in FY2017. The Fire Fund decreased to 20.1%, the Police Fund was flat at 23.7%, the Municipal Fund decreased significantly to 27.4% and the Laborers' Fund to 48.3%. 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: FY2008-FY2017 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 fell significantly in FY2008 due to large stock market losses that year. Since then, the ratios for all four funds have fluctuated, but generally shown a downward trend as liabilities have increased due predominantly to insufficient employer contributions and changes to actuarial assumptions.



Source: FY2008-FY2017 Fire, Police, Laborers' & Municipal Employees Pension Fund Annual Financial Reports.

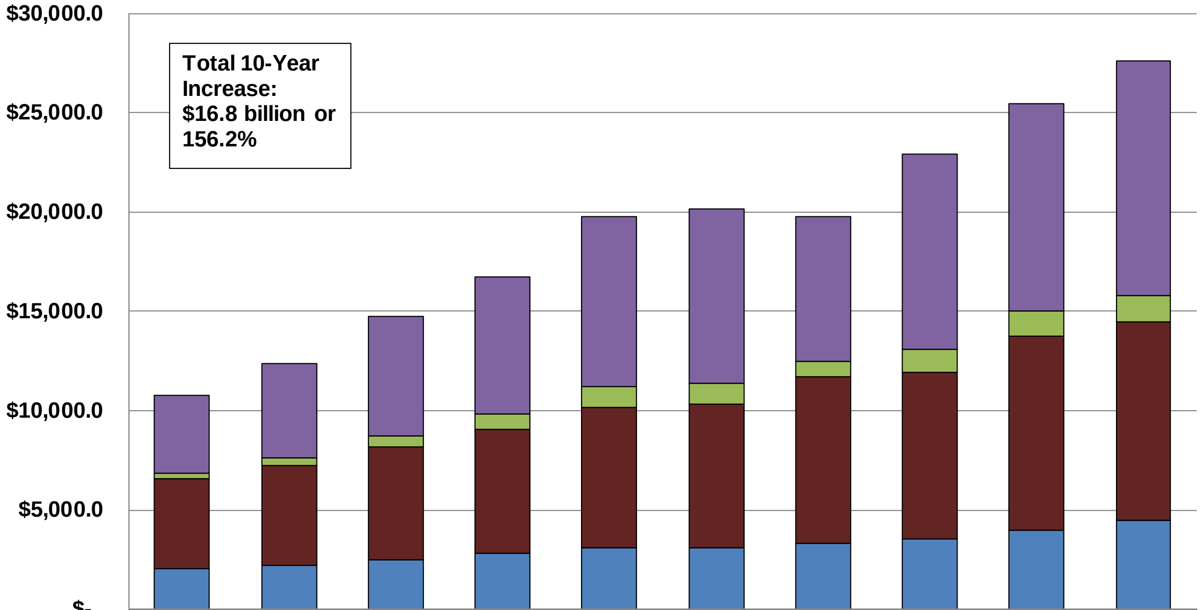
Unfunded Liabilities

Unfunded actuarial accrued liabilities (UAAL) are the dollar value of liabilities not covered by assets measured on an actuarial, not market value, basis. Over the past ten years, the unfunded liabilities of the four pension funds combined have grown by $16.8 billion, or 156.2%. This was an increase from $10.8 billion in FY2008. The total unfunded liabilities increased significantly to $27.6 billion from $25.5 billion in FY2016. The largest increase in unfunded liabilities from the prior year was in the Municipal Fund with a nearly $1.4 billion increase due to reducing the expected rate of return on investment to 7.0% from 7.25% ($861.9 million) and a shortfall in the employer contribution ($648.7 million), offset by some demographic and investment gains ($150 million). The Fire Fund increased by $488.0 million, due to changes in the demographic assumptions and a shortfall in employer contributions.

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

- Fire Pension Fund: 120.4% increase, or $2.4 billion;
- Police Pension Fund: 119.1% increase, or $5.4 billion;
- Laborers' Pension Fund: 415.0% increase, or $1.1 billion;[159] and
- Municipal Pension Fund: 200.4% increase, or $7.9 billion.

Unfunded Actuarial Accrued Liabilities for the City of Chicago Pension Funds: FY2008-FY2017 (in $ millions)

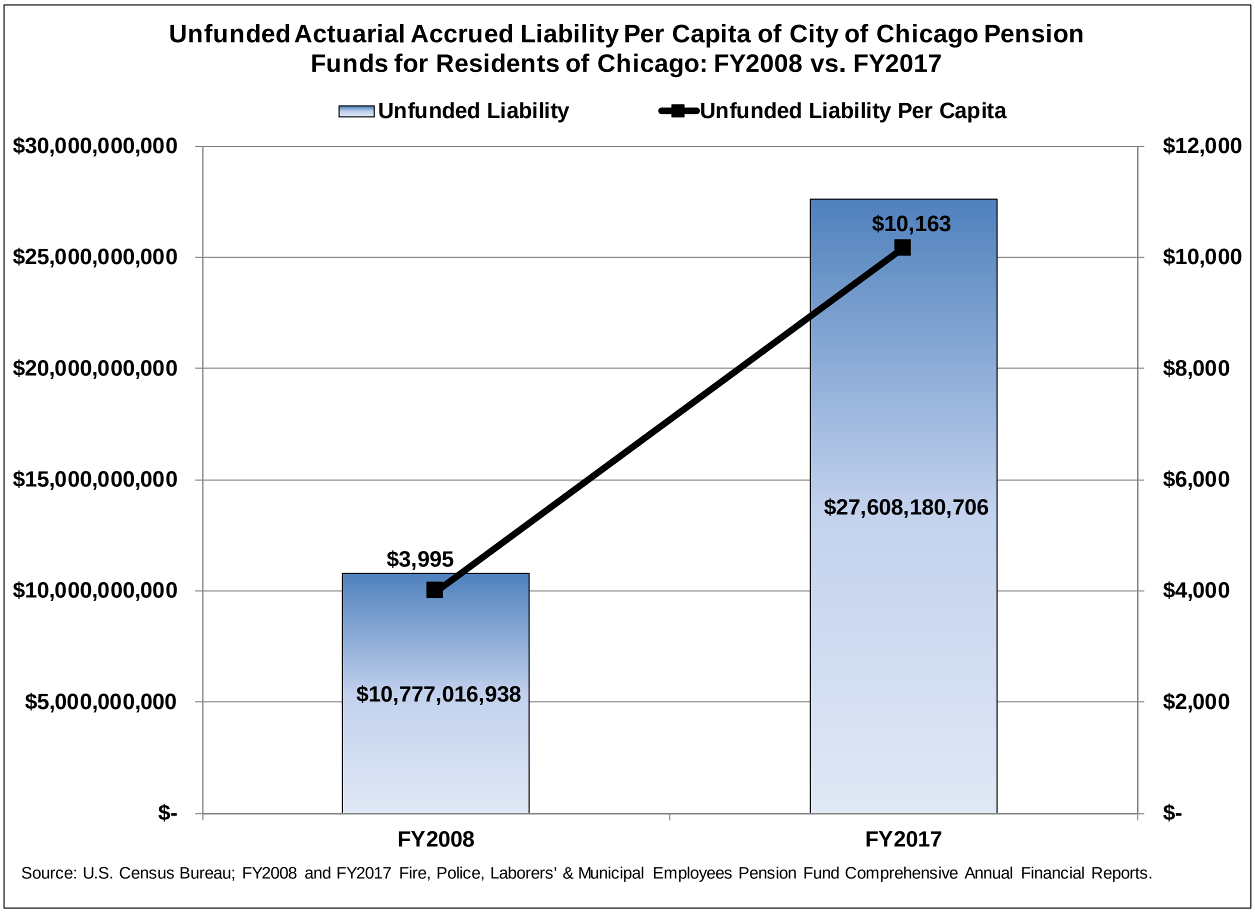


	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Municipal	$3,936.3	$4,758.5	$6,048.8	$6,903.9	$8,564.1	$8,742.3	$7,285.3	$9,840.1	$10,465.0	$11,825.6
Laborers'	$259.0	$416.1	$542.0	$768.8	$1,058.9	$1,036.3	$754.3	$1,161.2	$1,245.6	$1,333.6
Police	$4,558.8	$5,015.9	$5,655.9	$6,243.7	$7,071.7	$7,256.8	$8,399.2	$8,411.4	$9,804.5	$9,989.9
Fire	$2,022.9	$2,207.5	$2,505.1	$2,797.2	$3,073.1	$3,098.0	$3,305.6	$3,532.6	$3,971.0	$4,459.0
TOTAL	$10,777.0	$12,398.1	$14,751.9	$16,713.5	$19,767.8	$20,133.4	$19,744.4	$22,945.3	$25,486.1	$27,608.2

Source: FY2008-FY2017 Fire, Police, Laborers' & Municipal Employees Pension Fund Comprehensive Annual Financial Reports.

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

Between FY2008 and FY2017, total unfunded liabilities per resident of Chicago grew from $3,995 per capita to $10,163 per capita. This is an increase of 154.4%.



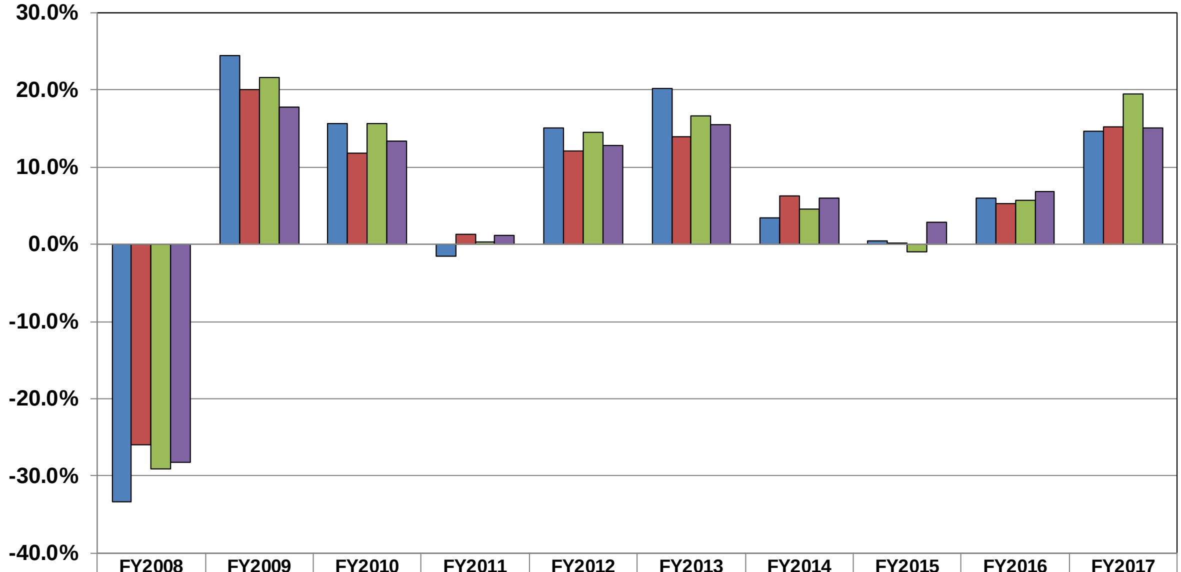
Investment Rates of Return

In FY2017 all four City pension funds experienced returns greater than their expected rates of return on their investments, ranging from 14.6% for the Municipal Fund to 19.5% for the Laborers' Fund.[160] The FY2017 investment assumption for the Fire Fund maintained at 7.5%

[160] The Civic Federation calculates investment rate of return using the following formula: Current Year Rate of Return = Current Year Gross Investment Income/ (0.5*(Previous Year Market Value of Assets + Current Year Market Value of Assets – Current Year Gross Investment Income)). This is not necessarily the formula used by the pension funds' actuaries and investment managers, thus investment rates of return reported here may differ from those reported in a fund's actuarial statements. However, it is a standard actuarial formula. Gross investment income includes income from securities lending activities, net of borrower rebates. It does not subtract out related investment and securities lending fees, which are treated as expenses.

and the Police Fund at 7.25%. The Laborers' Fund reduced its expected rate of return to 7.25% from 7.5% for FY2017 and the Municipal fund to 7.0% from 7.5%.

Investment Rate of Return - City of Chicago Pension Funds: FY2008-FY2017



	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Fire	-33.3%	24.4%	15.6%	-1.5%	15.0%	20.2%	3.5%	0.5%	6.0%	14.6%
Police	-25.9%	20.1%	11.9%	1.3%	12.0%	14.0%	6.3%	0.1%	5.3%	15.2%
Laborers'	-29.1%	21.6%	15.7%	0.3%	14.6%	16.7%	4.6%	-0.9%	5.7%	19.5%
Municipal	-28.3%	17.7%	13.4%	1.1%	12.8%	15.5%	6.0%	2.8%	6.8%	15.1%

Note: Actuarial Value of Assets smoothes investment returns over five years.
Source: FY2008-FY2017 Fire, Police, Laborers' & Municipal Employees Pension Fund Annual Financial Reports.

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

In 2012 the Governmental Accounting Standards Board (GASB) issued new accounting and financial reporting standards for public pension plans and for governments, Statements No. 67 and 68. According to GASB, the new standards were intended to "improve the way state and local governments report their pension liabilities and expenses, resulting in a more faithful representation of the full impact of these obligations."[161] Among other disclosures, pension funds and governments are now required to report total pension liability, fiduciary net position, net pension liability, pension expense and actuarially determined contribution (ADC), which are calculated on a different basis from previous GASB 25 and 27 pension disclosure requirements. Both pension funds and governments must also disclose additional information about pensions in the notes to the financial statements and in required supplementary information sections. It is important to note that GASB intended to separate pension reporting from pension funding. Thus, the numbers reported according to GASB 67 and 68 standards are not used to determine how

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

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

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

The total pension liability, fiduciary net position, net pension liability and ADC[162] are all calculated on a different basis both from what used to be required by GASB and from the traditional public pension actuarial basis.

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

- Entry age normal actuarial cost method and level percent of payroll. The Municipal and Laborers' Funds use entry age normal for statutory reporting and funding purposes. The Police and Fire Funds in FY2016 switched from using projected unit credit for statutory reporting and funding purposes to entry age normal.
- Single blended discount rate, instead of basing the discount rate only on projected investment earnings. The discount rate is used to calculate the present value of the future obligations of a pension fund. The discount rate has an inverse relationship to actuarial liabilities, such that a lower discount rate will result in higher liabilities.
  - If a government is projected to have enough assets to cover its projected benefit payments to current and inactive employees, it can use the expected return on investments as its discount rate.
  - If a government is projected to reach a crossover point beyond which projected assets are insufficient to cover projected benefit payments, then a blended discount rate must be used. Benefit payments projected to be made from that point forward are discounted using a high-quality municipal bond interest rate. The blended rate is a single equivalent rate that reflects the investment rate of return and the high-quality municipal bond interest rate.
  - Under the funding provisions of P.A. 99-0506, both the Police and Fire Funds are projected to have sufficient funding through 2070, so their GASB 67 and 68 reporting is discounted at a blend of the full 7.25% or 7.5% assumed rate of return and a lower municipal bond rate of 3.31%. The reported blended rate was 7.0% for the Police Fund and 7.23% for the Fire Fund.[163]
  - After the new funding schedule under P.A. 100-0023 for the Municipal and Laborers' Funds was enacted in July 2017 the Municipal Fund is not projected to reach the crossover point, so its full rate of 7.0% is used.[164]

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[162] Other differences and newly reported numbers are not central to the discussion here.
[163] GASB Statement No. 67 Actuarial Valuations.
[164] Municipal Employees' Annuity and Benefit Fund of Chicago, Actuarial Valuation as of December 31, 2017, p. 90.

- The FY2017 actuarial valuation for the Laborers' Fund was also developed after the new funding schedule under P.A. 100-0023 was enacted in July 2017. Under the new funding formula, the fund was projected to run out of funding during 2071, so its GASB 67 and 68 reporting is discounted at a blend of the full 7.25% assumed rate of return and a lower municipal bond rate of 3.31%. The reported blended rate was 7.07%.[165]

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

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

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

<u>Difference between the ADC and ARC</u>

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

Because the ADC and ARC are calculated on a similar basis, the Civic Federation will continue to analyze the trend of the difference between the reported ADC/ARC and the statutorily required employer contribution the City must make under state law in order to demonstrate how far from sufficient the statutory payment is. The City of Chicago in FY2017 was required to

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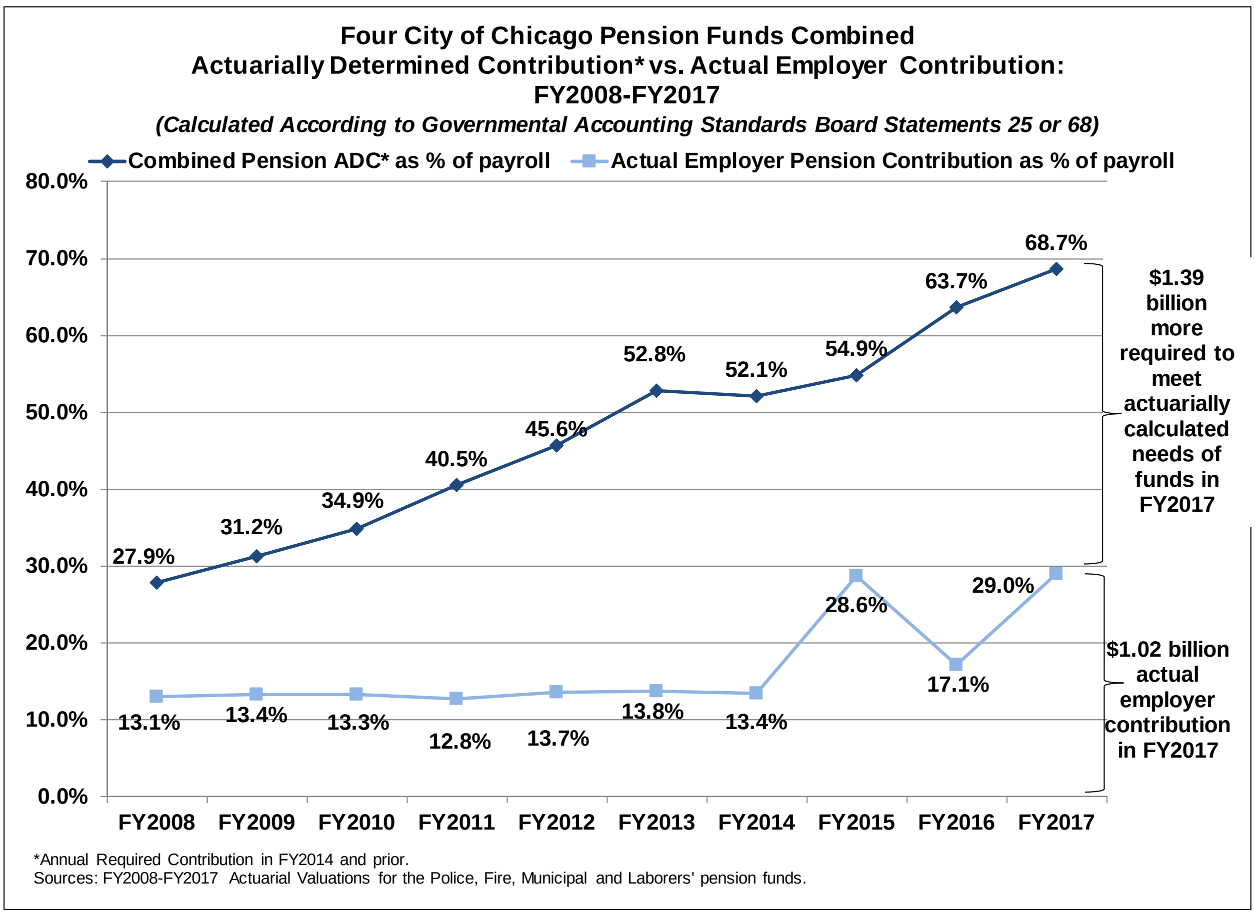
[165] Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago, GASB Statements No. 67 and 68 Accounting and Financial Reporting for Pensions, FY2017, p. A-1.

make an annual employer contribution based on the first year of a 40-year funding plan for the Municipal Fund and Laborers' Fund and the third year of the plan for the Police and Fire Funds.

The graph below illustrates the gap between the combined pension ARC of the four funds as a percent of payroll and the actual employer contribution as a percent of payroll. The spread between the two amounts grew from a shortfall in FY2008 of 14.8 percentage points, or $470.1 million, to a gap of 38.7 percentage points in FY2014, before falling to a gap of 26.2 percentage points in FY2015, due to higher employer contributions for the Police and Fire Funds. The gap increased again in FY2016 to 46.6 percentage points due to lower contributions to make up for over contributions in FY2015. The shortfall decreased again in FY2017 to 39.6 percentage points or nearly $1.4 billion as the new statutory funding formula for the Municipal and Laborers' funds kicked in and the Police and Fire Fund contributions increased according to their own formulas. In other words, to fund the pension plans at a level that would both cover normal cost and amortize the unfunded liability over 30 years, the City would have needed to contribute an additional 39.6% of payroll, or $1.4 billion, in FY2017.



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

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

The following table shows the City of Chicago's Pension Fund financial reporting under GASB 67 and 68. Fiduciary Net Position as a percentage of Total Pension Liabilities is analogous to a funded ratio as calculated under actuarial standards. Because all three of the four funds' assets are forecast to be insufficient to cover projected benefit payments, the funds and Chicago must use blended discount rates that are lower than the expected rate of return on investment for those funds. A lower discount rate results in higher present values for liabilities and net pension liabilities.[166]

The total reported net pension liability for all four funds in FY2017 was $28.0 billion, much lower than the prior year's because the Municipal Fund and Laborers' funds were able to use much higher blended rates than before they were funded by the new statutory formula. The City was required to include the net pension liability among the liabilities on its balance sheet for the first time in FY2015.

City of Chicago Pension Funds Combined GASB 67 Reporting FY2014-FY2017

	Total Pension Liability	Fiduciary Net Position	Net Pension Liability	Fiduciary Net Position as a Percentage of Total Pension Liability	Combined Actuarially Determined Contribution
FY2014	$ 30,756,190,434	$ 10,665,601,909	$ 20,090,588,525	34.68%	$ 1,740,973,647
FY2015	$ 43,930,302,599	$ 10,084,134,932	$ 33,846,167,667	22.95%	$ 1,866,096,904
FY2016	$ 45,247,266,583	$ 9,488,000,917	$ 35,759,265,666	20.97%	$ 2,198,450,430
FY2017	$ 38,113,116,271	$ 10,069,792,455	$ 28,043,323,816	26.42%	$ 2,413,466,281
Four-Year Change	**$ 7,356,925,837**	**$ (595,809,454)**	**$ 7,952,735,291**	**-8.26%**	**$ 672,492,634**
Four-Year % Change	**23.92%**	**-5.59%**	**39.58%**	**-23.81%**	**38.63%**

Source: FY2014 -FY2017 Fund Actuarial Valuations.

OTHER POST-EMPLOYMENT BENEFITS

The City of Chicago administered a retiree benefit healthcare plan under the terms of a settlement agreement that expired on June 30, 2013.[167] 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.[168]

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[166] For more on discount rates and how they impact measurements of the present value of liabilities, read the Civic Federation blog: https://www.civicfed.org/iifs/blog/state-pension-liabilities-rise-due-lower-expected-investment-returns and https://www.civicfed.org/civic-federation/blog/local-government-pension-funds-lower-their-expected-investment-rates-return-fy.

[167] 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.

[168] Cost allocation estimates provided to the Civic Federation by Sulan Tong, City of Chicago Department of Finance, April 2, 2013.

The settlement agreement called for the creation of a Retiree Healthcare Benefits Commission ("RHBC") to "make recommendations concerning the state of retiree healthcare benefits, their related cost trends and issues affecting the offering of any retiree healthcare benefits after July 1, 2013." The agreement said the members of the RHBC must be experts who will be "objective and fair-minded as to the interests of both retirees and taxpayers." The other members of the Commission were to be a representative of the City and a representative of the pension funds.[169]

The City appointed a reconstituted Retiree Healthcare Benefits Commission, the members of which met for the first time on June 22, 2012 to explore the options available to the City in continuing to provide or not continuing to provide retiree healthcare benefits and make recommendations.[170] The Commission finished its work in January 2013 and released its report on January 11, 2013.[171] On May 15, 2013, the City announced its decision on how it would continue retiree healthcare after June 30, 2013.[172] First, it would continue subsidies at current levels for all retirees through December 31, 2013. Second, annuitants retired before August 23, 1989, many of whom do not qualify for Medicare, would continue to receive current subsidy levels. Third, due to substantial projected increases in the cost of the plan, annuitants retired on or after August 23, 1989 would see a phase-out of the city's subsidy of benefits with an end to the plan by the beginning of 2017. Non Medicare-eligible retirees would then be able to access healthcare and federal subsidies through the federal Affordable Care Act exchanges. On May 30, 2013, the General Assembly passed legislation allowing the four City pension funds to continue their part of the OPEB subsidy through December 31, 2016 or whenever the City ends its retiree healthcare plan, whichever comes first. Governor Quinn signed the bill into law on June 28, 2013.[173] It is important to note that police officers and firefighters who retired on or after August 23, 1989 and are eligible to receive healthcare coverage pursuant to their collective bargaining agreements will see no change to their coverage unless it is negotiated through collective bargaining.[174]

Retirees sued, claiming they had rights to lifetime undiminished subsidies, but the Circuit Court and Appellate Court did not agree to an injunction and the phase out was implemented. The Trial and Appellate Courts both found that due to the time limitations of the settlements, the Illinois Constitution's pension protection clause only protected the full subsidy retirees had received up until the settlement expired on June 30, 2013. The Appellate Court also found that current

[169] *City of Chicago v. Marshall Korshak, et. al., and Martin Ryan,* Settlement Agreement, p. 8-10.
[170] Retiree Healthcare Benefits Commission, http://www.cityofchicago.org/city/en/depts/fin/provdrs/ben/alerts/2012/aug/retiree_healthcarebenefitscommissionmeeting.html.
[171] Retiree Healthcare Benefits Commission, Report to the Mayor's Office on the State of Retiree Healthcare, January 11, 2013. Available at http://www.cityofchicago.org/content/dam/city/depts/fin/supp_info/Benefits/RHBC/ReportToMayor/RHBC_Report_to_the_Mayor.pdf.
[172] 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.
[173] Public Act 98-0043.
[174] The latest collective bargaining agreement for city firefighters included a provision that requires retirees not yet eligible for Medicare to contribute a portion of their annuity to defray the cost of their healthcare starting January 1, 2015. See Fran Spielman, "Council passes firefighters contract with ambulance upgrade," July 30, 2014. http://politics.suntimes.com/article/chicago/council-passes-firefighters-contract-ambulance-upgrade/wed-07302014-1217pm.

employees and retirees hired before the latest settlement was executed on July 1, 2003 had rights to the open-ended fixed rate subsidy as it existed in 1985, or between $21 and $55 per month.[175] The retirees appealed the decision to the Illinois Supreme Court, but their petition was denied. The case was remanded back to the trial court to address how the subsidy will be funded, where litigation continues. The City of Chicago reported the OPEB liabilities in its financial statements for FY2017, but noted:

> The issue of whether the Pension Funds or the City is obligated to make the subsidy payments to the annuitants is still subject to litigation. The 1983 and 1985 statutes state that the Pension Funds are obligated to make the payments but none of the Pension Funds included the liability for the monthly subsidies in their respective actuarial valuation reports under GASB 43. For that reason, the City has included the liability for the monthly fixed subsidies for this limited group under GASB 45 and is reported together with the Retirees' Settlement Health Plan liability.[176]

OPEB Plan Unfunded Liabilities

The unfunded actuarial accrued liability for the City of Chicago's retiree healthcare plan totaled $842.9 million in FY2017. As described above, the City pays for a portion of the non Medicare-eligible retiree healthcare premiums, but the pension funds also subsidized part of the employee portion of the premium through December 31, 2016. The following table shows that the pension funds no longer report an unfunded accrued actuarial liability, reflecting the fact that their subsidies ended at the end of 2016. The City does not report its own obligation by pension fund, but in the FY2017 CAFR it did split the City obligation to show the amount of liability associated with the settlement plan and that associated with the special public safety retiree healthcare program. The City's financial statements reported an FY2017 unfunded OPEB liability as of December 31, 2017 of $842.9 million.[177] The City does not pre-fund OPEB, so there are no assets to offset the actuarial accrued liability and the funded ratio is 0%.

City of Chicago OPEB Unfunded Liabilities for Settlement Plan and CBA Special Benefits: FY2017 (in $ thousands)

	Municipal	Laborers'	Police	Fire	Total
Settlement Plan Unfunded Liability: Pension Funds	N/A	N/A	N/A	N/A	**N/A**
Settlement Plan Unfunded Liability: City					**$ 331,496**
CBA Special Benefits Unfunded Liability: City					**$ 511,429**
TOTAL					**$ 842,925**

Sources: FY2017 Pension Fund CAFRs; FY2017 City of Chicago CAFR, p. 96.

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[175] Underwood v. City of Chicago, 2017 IL App (1st) 162356. Available at http://www.illinoiscourts.gov/Opinions/AppellateCourt/2017/1stDistrict/1162356.pdf.

[176] City of Chicago, FY2017 Comprehensive Annual Financial Report, p. 93-94.

[177] City of Chicago, FY2017 Comprehensive Annual Financial Report, p. 96. The City does not break out its liabilities by pension fund.

SHORT-TERM LIABILITIES

Short-term or current liabilities are financial obligations that must be satisfied within one year. They can include short-term debt, accounts payable, accrued payroll and other current liabilities. The City of Chicago included the following short-term liabilities in the Governmental Funds Balance Sheet in its annual Comprehensive Annual Financial Report (CAFR) for FY2017, which is the most recent audited financial statement released by the City:

- *Voucher Warrants Payable*: Monies owed to vendors for goods and services carried over into the new fiscal year (called accounts payable by most other local governments);
- *Accrued Interest:* Includes interest due on deposits payable by the City in the next fiscal year;
- *Due to Other Funds:* These are monies owed to other funds for services that have been rendered that are outstanding at the end of the fiscal year;[178]
- *Accrued and Other Liabilities:* Includes self-insurance funds, unclaimed property and other unspecified liabilities;
- *Claims Payable*: Monies owed for claims against the City; and
- *Line of credit and commercial paper*:[179] Lines or letters of credit are commitments issued by a bank or other financial institution to provide a short-term loan for certain purposes.[180] Commercial paper is a type of short-term borrowing whereby a government issues a security that can be traded by the lender to other parties.[181]

The chart below presents City of Chicago short-term liabilities by category and the percent change between FY2013 and FY2017.

In the two-year period between FY2016 and FY2017, total short-term liabilities increased by $1.1 billion or 62.3%. The biggest driver of this two-year increase was the reporting of a $769.0 million liability for Sales Tax Securitization Corporation refunding bonds issued in 2017. In addition, voucher warrants payable rose by $297.3 million or 51.3%. This increase was primarily due to a sales tax payment from the State of Illinois still outstanding at the end of FY2017 in the amount of $150.8 million and an increase in the City's pension contributions payable of $129.2 million, reflecting the required contribution increase over the prior year.[182]

Between FY2013 and FY2017 total short-term liabilities increased by 58.3%, or $1.0 billion, rising from nearly $1.8 billion to $2.8 billion. The five year increase was primarily due to the following two items:

- A $509.2 million increase in amounts due to other funds. This five-year increase is primarily attributable to the $769.0 million liability for Sales Tax Securitization

[178] City of Chicago FY2017 Comprehensive Annual Financial Report, p. 58.
[179] Information about the City of Chicago's use of letters of credit and commercial paper in FY2014 can be found in the FY2014 Comprehensive Annual Financial Report, p. 58.
[180] A. John Vogt, *Capital Budgeting and Finance: A Guide for Local Governments* (Washington, D.C.: ICMA, 2004), p. 389.
[181] Steven A. Finkler, *Financial Management for Public, Health, and Not-for-Profit Organizations* (Upper Saddle River, Prentice Hall, 2001), p. 552.
[182] Information provided by the City of Chicago budget office on October 29, 2018.

Corporation refunding bonds issued in 2017; and

- A $443.7 million increase in voucher warrants payable

City of Chicago Short-Term Liabilities in the Governmental Funds: FY2013 - FY2017 (in $ thousands)									
Type	FY2013	FY2014	FY2015	FY2016	FY2017	Two-Year Change	Two-Year % Change	Five-Year Change	Five-Year % Change
Voucher Warrants Payable	$ 443,046	$ 564,629	$ 505,759	$ 579,446	$ 876,754	$ 297,308	51.3%	$ 433,708	97.9%
Accrued Interest	$ 209,399	$ 225,459	$ 270,551	$ 224,746	$ 289,714	$ 64,968	28.9%	$ 80,315	38.4%
Due to Other Funds	$ 945,701	$ 827,180	$ 730,006	$ 754,539	$ 1,454,950	$ 700,411	92.8%	$ 509,249	53.8%
Accrued & Other Liabilities	$ 149,540	$ 245,613	$ 117,288	$ 155,483	$ 158,349	$ 2,866	1.8%	$ 8,809	5.9%
Line of Credit & Commercial Paper	$ -	$ 297,309	$ -	$ -	$ -	$ -	--	$ -	---
Claims Payable	$ 29,487	$ 13,326	$ 13,748	$ 19,176	$ 33,529	$ 14,353	74.8%	$ 4,042	13.7%
Total	**$ 1,777,173**	**$ 2,173,516**	**$ 1,637,352**	**$ 1,733,390**	**$ 2,813,296**	**$ 1,079,906**	**62.3%**	**$ 1,036,123**	**58.3%**

Source: City of Chicago FY2013-FY2017 Comprehensive Annual Financial Report Balance Sheets Governmental Funds.

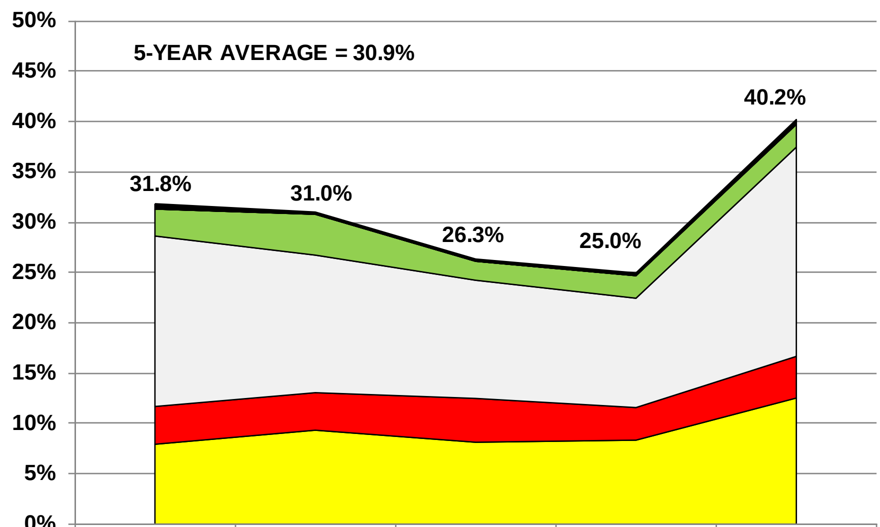
Increasing short-term liabilities in a government's operating funds as a percentage of net operating revenues may be a warning sign of possible future financial difficulties.[183] The short-term liabilities to net operating revenues ratio, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending.

The following graph shows the five-year trend for the City's short-term liabilities to net operating revenues ratio by category. The ratio decreased between FY2013 and FY2016, falling from 31.8% to 25.0%. However, the trend was reversed in FY2017 as the ratio rose sharply to 40.2%. As noted above, the increase was due to a $769.0 million liability for Sales Tax

[183] 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.

Securitization Corporation refunding bonds issued in 2017 and a $297.3 million increase in voucher warrants payable. The average ratio during this five-year period was 30.9%.

City of Chicago Short-Term Liabilities as % of Operating Revenue: FY2013-FY2017



	FY2013	FY2014	FY2015	FY2016	FY2017
Claims Payable	0.5%	0.2%	0.2%	0.3%	0.5%
Line of Credit & Commercial Paper	0.0%	0.0%	0.0%	0.0%	0.0%
Accrued & Other Liabilities	2.7%	4.1%	1.9%	2.2%	2.3%
Due to Other Funds	16.9%	13.7%	11.7%	10.9%	20.8%
Accrued Interest	3.8%	3.7%	4.4%	3.2%	4.1%
Voucher Warrants Payable	7.9%	9.3%	8.1%	8.3%	12.5%

Note: As of FY2014, the City has reclassified lines of credit and commercial paper as short-term obligations.
Source: City of Chicago, FY2013-FY2017 Comprehensive Annual Financial Reports.

Current Ratio

The current ratio is a measure of liquidity. The ratio is calculated by dividing current assets by current liabilities. It assesses whether the government has enough cash and other liquid resources to meet its short-term obligations as they come due. A ratio of 1.0 means that current assets are 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.[184]

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

- *Cash and cash equivalents*: Assets that are cash or can be converted into cash immediately, including petty cash, demand deposits and certificates of deposit;
- *Cash and Investments with Escrow Agent*: Due to contractual agreements or legal restrictions, the cash and investments of certain funds are segregated and earn and receive

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

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 2.4 in FY2017, the most recent year for which data is available. In the past five years, the City's current ratio averaged 2.9, which is above preferred benchmark of 2.0 and thus demonstrates a good level of liquidity. Over time, the current ratio has fallen from 3.2 in FY2013 to 2.4 five years later. The reason for the decline is that while assets increased during this period by 18.3%, or $1.0 million, liabilities also increased by $1.0 billion or 58.1%. In short, the rate of growth in liabilities outpaced the rate of growth in assets.

City of Chicago Current Ratio in the Governmental Funds: FY2013-FY2017
(in $ thousands)

	FY2013	FY2014	FY2015	FY2016	FY2017	Two-Year Change	Two-Year % Change	Five-Year Change	Five-Year % Change
Current Assets									
Cash and Cash Equivalents	$ 695,927	$ 537,665	$ 857,747	$ 223,829	$ 851,501	$ 627,672	280.4%	$ 155,574	22.4%
Investments	$ 1,307,700	$ 1,563,515	$ 705,364	$ 1,333,554	$ 1,538,985	$ 205,431	15.4%	$ 231,285	17.7%
Cash and Investments with Escrow Agent	$ 462,837	$ 411,085	$ 661,474	$ 506,804	$ -	$ (506,804)	-100.0%	$ (462,837)	-100.0%
Receivables (Net of Allowances): Property Taxes	$ 1,207,362	$ 1,150,682	$ 1,560,464	$ 1,739,062	$ 1,853,000	$ 113,938	6.6%	$ 645,638	53.5%
Receivables (Net of Allowances): Accounts	$ 295,894	$ 242,233	$ 256,558	$ 289,168	$ 459,406	$ 170,238	58.9%	$ 163,512	55.3%
Due from Other Funds	$ 870,080	$ 724,769	$ 614,108	$ 543,996	$ 1,264,468	$ 720,472	132.4%	$ 394,388	45.3%
Due from Other Governments	$ 743,251	$ 735,640	$ 723,487	$ 735,994	$ 638,506	$ (97,488)	-13.2%	$ (104,745)	-14.1%
Inventories	$ 24,788	$ 24,498	$ 23,828	$ 23,730	$ 25,945	$ 2,215	9.3%	$ 1,157	4.7%
Total Current Assets	**$ 5,607,839**	**$ 5,390,087**	**$ 5,403,030**	**$ 5,396,137**	**$ 6,631,811**	**$ 1,235,674**	**22.9%**	**$ 1,023,972**	**18.3%**
Current Liabilities									
Voucher Warrants Payable	$ 443,046	$ 564,629	$ 505,759	$ 579,446	$ 876,754	$ 297,308	51.3%	$ 433,708	97.9%
Accrued Interest	$ 209,399	$ 225,459	$ 270,551	$ 224,746	$ 289,714	$ 64,968	28.9%	$ 80,315	38.4%
Due to Other Funds	$ 945,701	$ 827,180	$ 730,006	$ 754,539	$ 1,454,950	$ 700,411	92.8%	$ 509,249	53.8%
Accrued & Other Liabilities	$ 149,540	$ 245,613	$ 117,288	$ 155,483	$ 158,349	$ 2,866	1.8%	$ 8,809	5.9%
Line of Credit & Commercial Paper	$ -	$ 297,309	$ -	$ -	$ -				
Claims Payable	$ 29,487	$ 13,326	$ 13,748	$ 19,176	$ 33,529	$ 14,353	74.8%	$ 4,042	13.7%
Total Current Liabilities	**$ 1,777,173**	**$ 2,173,516**	**$ 1,637,352**	**$ 1,733,390**	**$ 2,813,296**	**$ 1,079,906**	**62.3%**	**$ 1,032,081**	**58.1%**
Current Ratio	**3.2**	**2.5**	**3.3**	**3.1**	**2.4**	**-**	**-24.3%**	**-**	**-25.3%**

Note: Cash and investments with escrow agent amounts were not reported in FY2017. Only restricted cash and investments with escrow agent were shown.

Source: FY2013-FY2017 City of Chicago Comprehensive Annual Financial Reports, Balance Sheet, Governmental Funds.

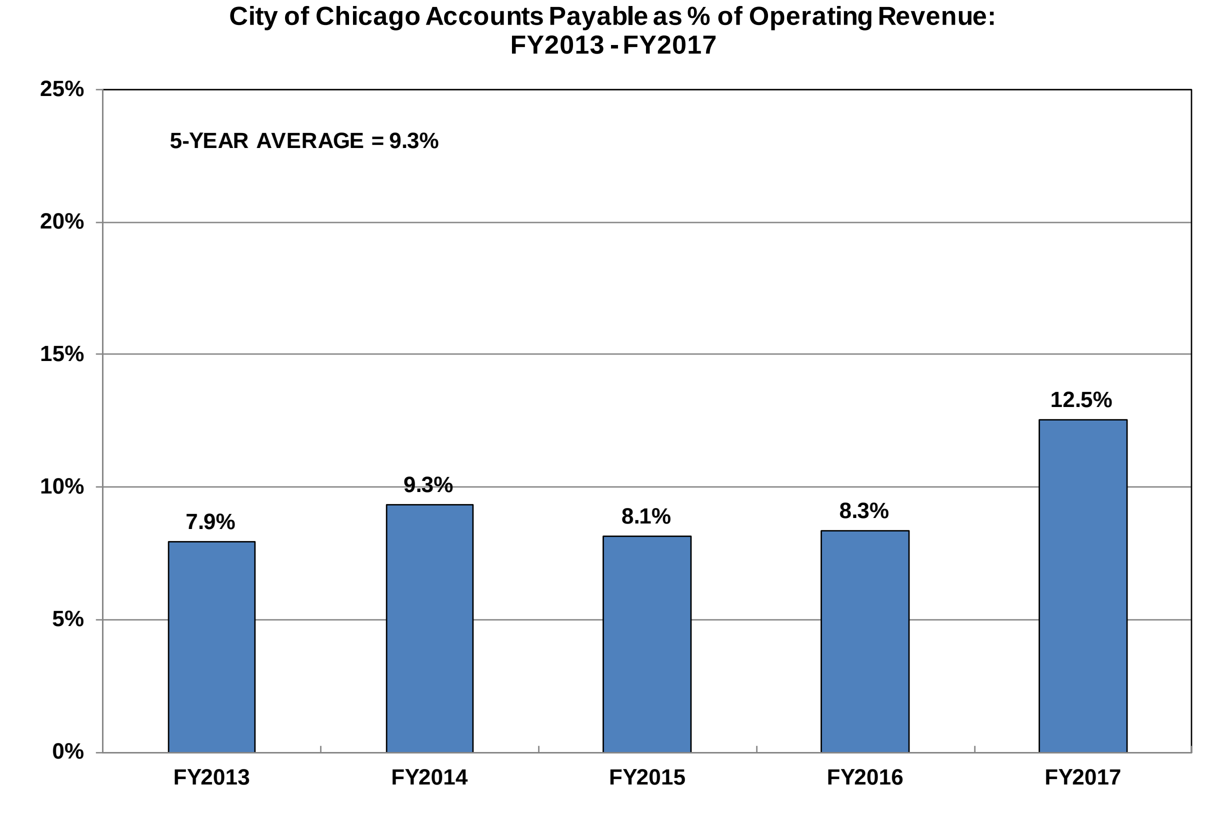
Accounts Payable as a Percentage of Operating Revenues

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

The following graph shows the accounts payable as a percentage of operating revenues ratio trend between FY2013 to FY2017. The City's ratio has fluctuated over the past five years.

Between FY2013 and FY2014, the accounts payable ratio rose due to increased construction and acquisition activity for TIF-funded projects and grant-funded projects during the fourth quarter of FY2014 over the fourth quarter of FY2013, resulting in a higher volume of vouchers pending payment.[185] In FY2015, the accounts payable ratio fell to 8.1% and then rose slightly to 8.3% the following year. In FY2017, the ratio rose to 12.5% as the dollar amount of voucher warrants payable outstanding rose by $297.3 million or 51.3%.

Over the five-year period reviewed, the accounts payable to operating revenue ratio averaged 9.3%, which is equal to slightly more than one month's worth of outstanding bills. This is not considered to be a cause for concern.



Note: Accounts payable for Chicago are called voucher warrants.
Source: City of Chicago, FY2013-FY2017 Comprehensive Annual Financial Reports.

[185] Information provided by City of Chicago Office of Budget and Management, October 7, 2015.

LONG-TERM LIABILITIES

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

Long-term liabilities include:

- *Bonds, Notes and Certificates Payable*: These are amounts reported for different types of tax supported long-term debt, including general obligation, lease, tax increment financing and revenue debt.
- *Net pension and other post-employment benefits obligations (NPO)*: the cumulative difference (as of the effective date of GASB Statement 27) between the annual pension cost and the employer's contributions to the plan. This included the pension liability at transition (beginning pension liability) and excluded short term differences and unpaid contributions that had been converted to pension-related debt. Since FY2015, this figure has been disaggregated. Thus, net other post employment liabilities and net pension liabilities are reported differently (see next bullet point).
- *Net Pension Liabilities*: Since FY2015 Chicago has reported 100% of the net pension liabilities of its four pension funds in the Statement of Net Position to comply with GASB Statement 68 requirements. Previously, this liability was reported in the Statement of Net Position as a Net Pension Obligation or NPO (see description above). As a result of the reporting change for pensions involved in implementing GASB 68, the amount of Chicago long-term liabilities **reported** increased substantially. This is because it reflects a more holistic approach to measuring the liabilities of the government, which the previous NPO pension measurement did not. The amount owed by Chicago to its pension funds has not significantly changed. It is only being reported more transparently.
- *Lease Obligations*: The amount reported annually until FY2015 was the present value of minimum future lease payments for a sale and lease back arrangements with third parties that Chicago entered into regarding the City-owned portion of the Orange Line rapid transit rail line with a book value of $430.8 million in 2005. In June 2015 the lease was terminated and the City regained unrestricted title to the transit line. Under the termination agreement relating to the rapid transit line, the City paid a net amount of $167.9 million to Prudential and a net payment of $52.5 million to Citizens Asset Finance.[186]
- *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.[187]
- *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

[186] City of Chicago, FY2015 Comprehensive Annual Financial Report, p. 70.
[187] City of Chicago, FY2017 Comprehensive Annual Financial Report, p. 59.

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.[188]

Total long-term liabilities fell by 13.1%, or nearly $5.7 billion, between FY2016 and FY2017. Long-term debt (bonds, notes and certificates payable) rose during this period, from $10.4 billion to $11.1 billion. All other liabilities declined by nearly $6.4 billion. The decrease primarily can be attributed to a $6.5 billion drop in net pension liabilities; they fell from $31.5 billion to $25.1 billion.

The five-year increase in total long-term liabilities between FY2013 and FY2017 was 111.7%. This was a $19.7 billion increase from $17.7 billion to $37.4 billion. Total long-term debt alone rose by 23.2%, from roughly $9.0 billion to $11.1 billion.

Other liabilities, which include net pension obligations, net other post-employment obligations, lease obligations, pollution remediation liabilities and claims and judgments increased at a faster rate, rising by 204.0% or $17.6 billion.

Much of the total five-year reported increase between FY2013 and FY2017 and the large increase in other liabilities was due to the impact of the change in pension reporting guidelines. As noted above, the reporting requirements of GASB Statement 68 present a more transparent approach to measuring these liabilities than the previous approach.

City of Chicago Long Term Liabilities for Governmental Activities
FY2013 - FY2017 (in $ thousands)

	FY2013	FY2014	FY2015	FY2016	FY2017	Two-Year Change	Two-Year % Change	5-Year Change	5-Year % Change
General Obligation Debt	$ 7,730,178	$ 8,335,506	$ 9,364,398	$ 9,173,009	$ 9,686,627	$ 513,618	5.6%	$ 1,956,449	25.3%
Tax Increment	$ 88,397	$ 74,395	$ 65,360	$ 33,520	$ 27,925	$ (5,595)	-16.7%	$ (60,472)	-68.4%
Revenue	$ 753,162	$ 743,795	$ 754,052	$ 766,628	$ 254,224	$ (512,404)	-66.8%	$ (498,938)	-66.2%
Sales Tax Securitization Corporation	$ -	$ -	$ -	$ -	$ 743,735	$ 743,735	---	$ 743,735	---
Subtotal Bonds, Notes and Certificates Payable	**$ 8,571,737**	**$ 9,153,696**	**$ 10,183,810**	**$ 9,973,157**	**$ 10,712,511**	**$ 739,354**	**7.4%**	**$ 2,140,774**	**25.0%**
Add unamortized premium	$ 160,014	$ 154,767	$ 117,199	$ 118,300	$ 88,675	$ (29,625)	-25.0%	$ (71,339)	-44.6%
Add accretion of capital appreciation bonds	$ 293,789	$ 298,012	$ 307,305	$ 318,844	$ 315,863	$ (2,981)	-0.9%	$ 22,074	7.5%
Total Bonds, Notes and Certificates Payable	**$ 9,025,540**	**$ 9,606,475**	**$ 10,608,314**	**$ 10,410,301**	**$ 11,117,049**	**$ 706,748**	**6.8%**	**$ 2,091,509**	**23.2%**
Pension & OPEB Obligations	$ 7,589,929	$ -	$ -	$ -	$ -	$ -	---	$ (7,589,929)	-100.0%
Net Pension Liability	$ -	$ 18,345,143	$ 29,697,694	$ 31,512,071	$ 25,058,993	$ (6,453,078)	-20.5%	$ 25,058,993	---
Net OPEB Obligation	$ -	$ 252,944	$ 214,535	$ 167,209	$ 187,641	$ 20,432	12.2%	$ 187,641	---
Lease Obligations	$ 171,674	$ 116,858	$ -	$ -	$ -	$ -	---	$ (171,674)	-100.0%
Pollution Remediation	$ 8,598	$ 8,532	$ 32,850	$ 33,201	$ 35,044	$ 1,843	5.6%	$ 26,446	307.6%
Claims and Judgments	$ 879,768	$ 900,616	$ 850,561	$ 942,622	$ 1,012,756	$ 70,134	7.4%	$ 132,988	15.1%
Total Other Liabilities	**$ 8,649,969**	**$ 19,624,093**	**$ 30,795,640**	**$ 32,655,103**	**$ 26,294,434**	**$ (6,360,669)**	**-19.5%**	**$ 17,644,465**	**204.0%**
Grand Total	**$ 17,675,509**	**$ 29,230,568**	**$ 41,403,954**	**$ 43,065,404**	**$ 37,411,483**	**$ (5,653,921)**	**-13.1%**	**$ 19,735,974**	**111.7%**

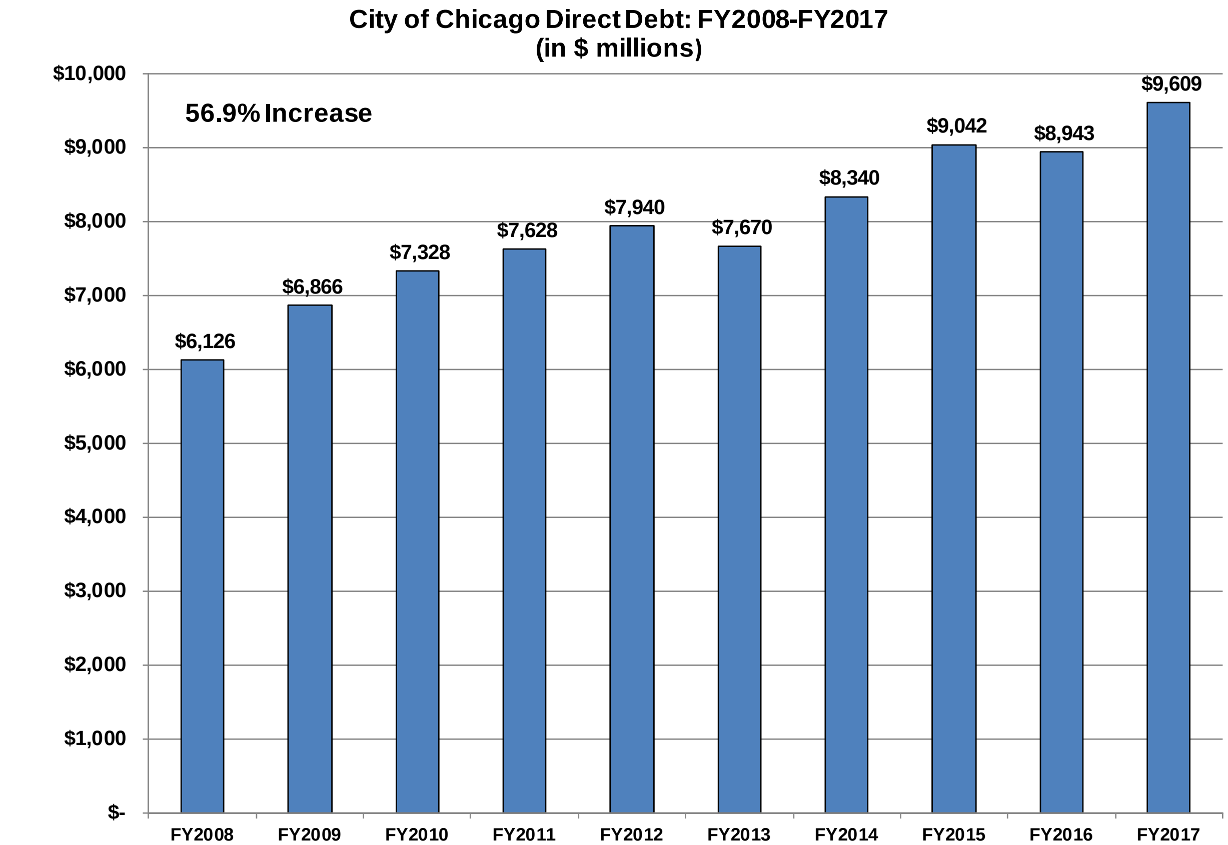
Beginning in FY2015, Governments report 100% of their net pension liabilities rather than the net pension obligations. Net pension liabilities are reported separately from net OPEB liabiliies.
Beginning in FY2013 commercial paper and lines of credit are no longer included in the general obligation line item. They have been reclassified as short-term debt.
Source: City of Chicago FY2013-FY2017 Comprehensive Annual Financial Reports. Note 10: Long-Term Obligations.

Long-Term Direct Debt Trends

Direct debt is a government's tax-supported debt. Increases over time bear watching as a potential sign of rising financial risk. The exhibit below presents ten-year trend information for

[188] City of Chicago, FY2017 Comprehensive Annual Financial Report, p. 100.

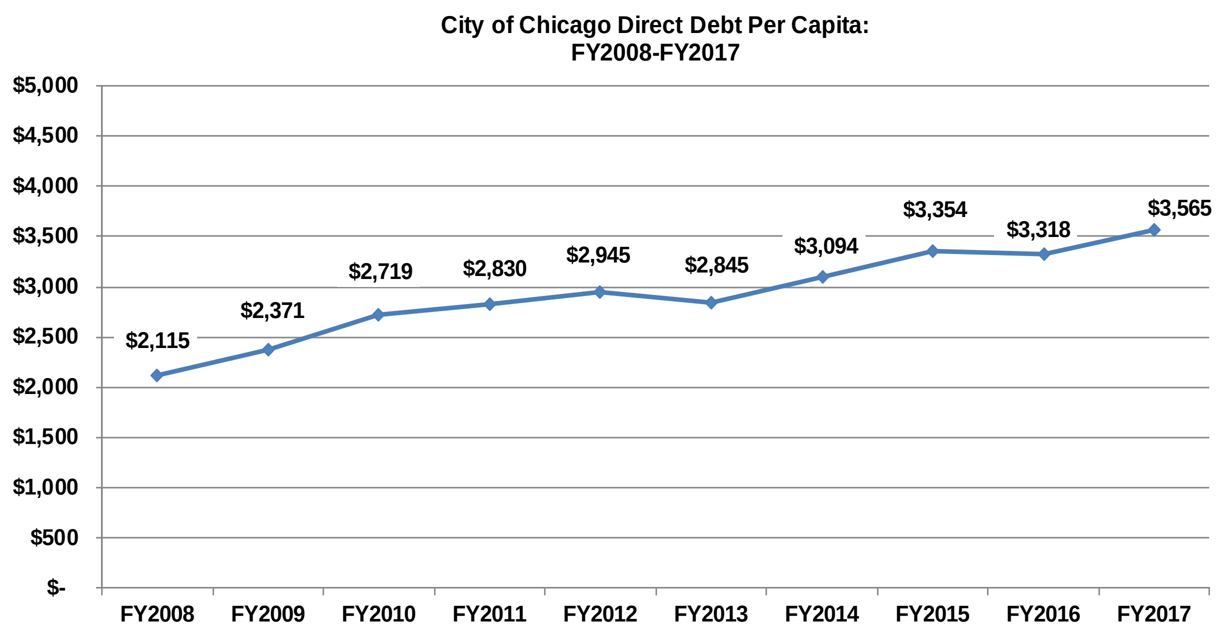
the total amount of City of Chicago net direct debt. During that time, total net direct debt rose by 56.9%, or $3.5 billion. This represents an increase from $6.1 billion in FY2008 to $9.6 billion ten years later. Long-term debt did decline slightly between FY2015 and FY2016, falling from $9.0 billion to $8.9 billion. However, it rose again in FY2017 to $9.6 billion. The large increase over time bears watching and raises concerns about the affordability of the City's rising debt burden.



City of Chicago FY2017 Comprehensive Annual Financial Report, pp. 206-207.

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 FY2008 and FY2017, direct debt per capita rose by 68.6% from $2,115 to $3,565. The per capita ratio did decline from $3,354 to $3,318 between FY2015 and FY2016. However, it rose again in FY2017 to $3,565. The large and steady upward trend in debt per capita over time 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.



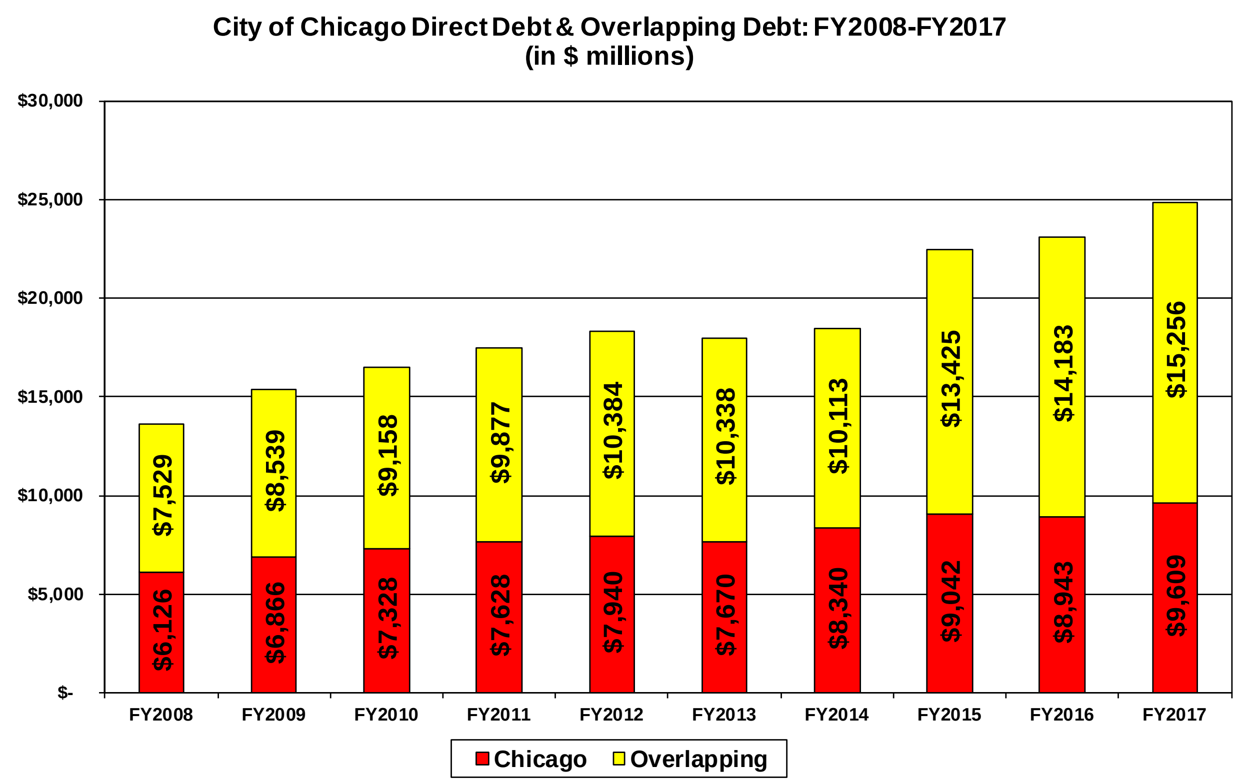
Source: City of Chicago, FY2017 Comprehensive Annual Financial Report, pp. 206-207.

Overlapping Debt: Chicago vs. Other Governments

The next exhibit compares total City of Chicago net direct debt with overlapping net debt reported by seven other major Cook County governments with boundaries coterminous with the City of Chicago or located partially within its boundaries. These governments are: the Chicago Public Schools, Cook County, the Forest Preserve District of Cook County, the Metropolitan Water Reclamation District, the Chicago Park District, City Colleges of Chicago, the former School Finance Authority and the Chicago School Building Improvement Fund.[189] Rating agencies and other financial analysts commonly monitor overlapping debt trends as an affordability indicator when governments consider debt issuance. Chicago's portion of total long-term debt in FY2017 accounted for 38.6% of all long-term debt. Between FY2008 and

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

FY2017 combined direct debt from other overlapping governments increased by 102.6% at the same time
City of Chicago debt rose by 56.9%. Total direct debt from all eight major governments including Chicago rose by 82.1%. The rate of increase in direct debt issued by the other overlapping governments far outpaced the increase for Chicago.



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

Debt Service Appropriation Ratio

Chicago debt service appropriations in FY2019 are projected to be 21.3% of total local fund net appropriations, or $1.9 billion out of expenditures of $8.9 billion. Since FY2015, debt service appropriations have risen by 8.1%, less than the 20.7% increase in total net appropriations. The debt service ratio has averaged 22.7% over the five-year period analyzed. The rating agencies consider a debt burden high if this ratio is between 15% and 20%.[190] Thus, Chicago's debt service ratio is high, reflecting the City's large debt burden.

City of Chicago Debt Service Appropriations as a Percentage of Total Net Appropriations: FY2015-FY2019

	Debt Service	Total Net Appropriation	Ratio
FY2015	$ 1,743,440,463	$ 7,339,188,000	23.8%
FY2016	$ 1,794,543,572	$ 7,837,956,000	22.9%
FY2017	$ 1,938,455,902	$ 8,218,266,000	23.6%
FY2018	$ 1,886,630,393	$ 8,579,435,000	22.0%
FY2019	$ 1,884,599,917	$ 8,856,121,000	21.3%
Five-Year $ Increase	$ 141,159,454	$ 1,516,933,000	
Five Year % Increase	8.1%	20.7%	

Source: City of Chicago Budget Recommendations: FY2015-FY2019.

In 2017 the City entered into an Assignment, Purchase and Sale Agreement with a new Sales Tax Securitization Corporation (STSC). The STSC is a special purpose nonprofit corporation that is a blended component unit of the City.[191] The year-old entity is a lockbox designed to intercept sales tax revenue in order protect bondholders in the event of a bankruptcy. Any municipal bankruptcy in Illinois would have to be authorized by the State. The STSC is governed by a five-member Board composed of City officials. Certain actions by the Board require the vote of an additional independent director appointed by the Mayor before these actions are taken.[192]

The Assignment, Purchase and Sale Agreement with the STSC authorized the sale of the City's right, title and interest in and to home rule and local share sales tax revenues collected by the State of Illinois. In exchange, the City has received a residual certificate which represents the City's ownership interest in excess sales tax revenues to be received by the STSC to pay the debt service requirements of any outstanding obligations and administrative costs during the term of the Sale Agreement. The Sale Agreement is effective until there are no secured obligations outstanding for the STSC.

The STSC has received an AAA rating from Kroll and Fitch.[193] While S&P initially assigned the STSC an AA rating, on October 26, 2018 it downgraded the entity to AA-, saying that the rating is constrained until the City's General Obligation credit improves.[194] Additionally, since sales

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[190] 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.
[191] City of Chicago FY2017 Comprehensive Annual Financial Report, p. 18.
[192] City of Chicago FY2017 Comprehensive Annual Financial Report, p. 53.
[193] Sales Tax Securitization Corporation, "Bond Ratings," at https://www.salestaxsecuritizationcorporation.com/stsc-il/bond-ratings/i3228.
[194] S&P Global Ratings, "Sales Tax Securitization Corporation of Chicago; Sales Tax," ratings report, October 26, 2018.

taxes are collected and distributed by the State the new entity may still be affected by investor perceptions of Illinois.

On December 14, 2017, the STSC issued $743.7 million of bonds to provide funds for the STSC to use, along with the proceeds of any additional bonds issued by the STSC. The proceeds from the 2017 Bonds were applied by the City to refund all $563.4 million of the outstanding City of Chicago Sales Tax Revenue Bonds and refund $166.0 million of the City's outstanding General Obligation bonds.[195] On February 22, 2018, the STSC issued $680.3 million, which refunded an additional $763.6 million of General Obligation bonds.[196] According the City officials, those transactions resulted in total net present value savings of $88 million.

Elimination of Scoop-and-Toss and the Continued Extension of Maturities for Short-Term Budgetary Savings.

Scoop-and-toss debt financing reduces current year payments for outstanding bonds by pushing off large principal debt payments to future years. It provides budgetary relief in the beginning years as debt service expenses are reduced, but has two negative financial effects. The first is increasing interest cost, because interest is paid for a longer period and longer-dated securities tend to yield higher interest rates. The second is the extension of maturities, which limit the capacity of future generations to borrow for capital expenses.

In FY2016, the City announced a four-year phase out of scoop-and-toss bond financing techniques. In FY2018 the Mayor proposed to eliminate scoop-and-toss financing completely, one year ahead of schedule.[197] The Civic Federation commended the City for prohibiting this practice and incorporating that prohibition into the City's Debt Management Policy.[198]

However, despite the lower interest cost and present value savings of the STSC transactions, the Civic Federation is concerned about the way the entity has structured the refunding of existing debt. The City has stated that it expects the STSC transactions to result in budgetary savings of $700 million over the first five years of the STSC. [199] However, the Series 2018AB transaction significantly lengthened the maturities of the City's total debt profile. Before that transaction, the longest-dated outstanding General Obligation debt matured in 2044.[200] The new debt issued by the STSC includes $381 million maturing from 2044 to 2048.[201]

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195 Sales Tax Securitization Corporation, Series 2017ABC, *Offering Circular*, December 6, 2017 as supplemented December 7, 2017, pp. D-1 to D-4.

196 Sales Tax Securitization Corporation, Series 2018AB, *Offering Circular*, January 24, 2018, pp. D-1 to D-3.

197 Fran Spielman, "Emanuel to end scoop-and-toss borrowing one year early," Chicago Sun-Times, October 16, 2017 at https://chicago.suntimes.com/news/emanuel-to-end-scoop-and-toss-borrowing-one-year-early/.

198 Civic Federation, *City of Chicago FY2018 Proposed Budget: Analysis and Recommendations*, November 8, 2017, p.5

199 City of Chicago FY2019 Budget Overview, p. 13.

200 City of Chicago, Series 2017AB, *Official Statement*, January 19, 2017, p. 85; Sales Tax Securitization Corporation, Series 2017ABC, *Offering Circular*, December 6, 2017 as supplemented December 7, 2017, pp. D-1 to D-2.

201 Sales Tax Securitization Corporation, Series 2017ABC, *Offering Circular*, December 6, 2017 as supplemented December 7, 2017; Sales Tax Securitization Corporation, Series 2018AB, *Offering Circular*, January 24, 2018.

The STSC plans to issue another $1.3 billion in November 2018 to refund additional General Obligation bonds.[202] The proposed debt schedule appears to include more than $1 billion of debt maturing between 2044 and 2053.[203] This new debt, which is solely for refunding existing debt, would reduce the City's capacity to issue debt for capital projects during the 2040s and 2050s. Despite the City's phase-out of scoop-and-toss transactions that had added to the City's interest cost, the Civic Federation is concerned that Chicago continues to rely on transactions that extend the maturity of debt to achieve short-term budgetary relief.

Credit Ratings

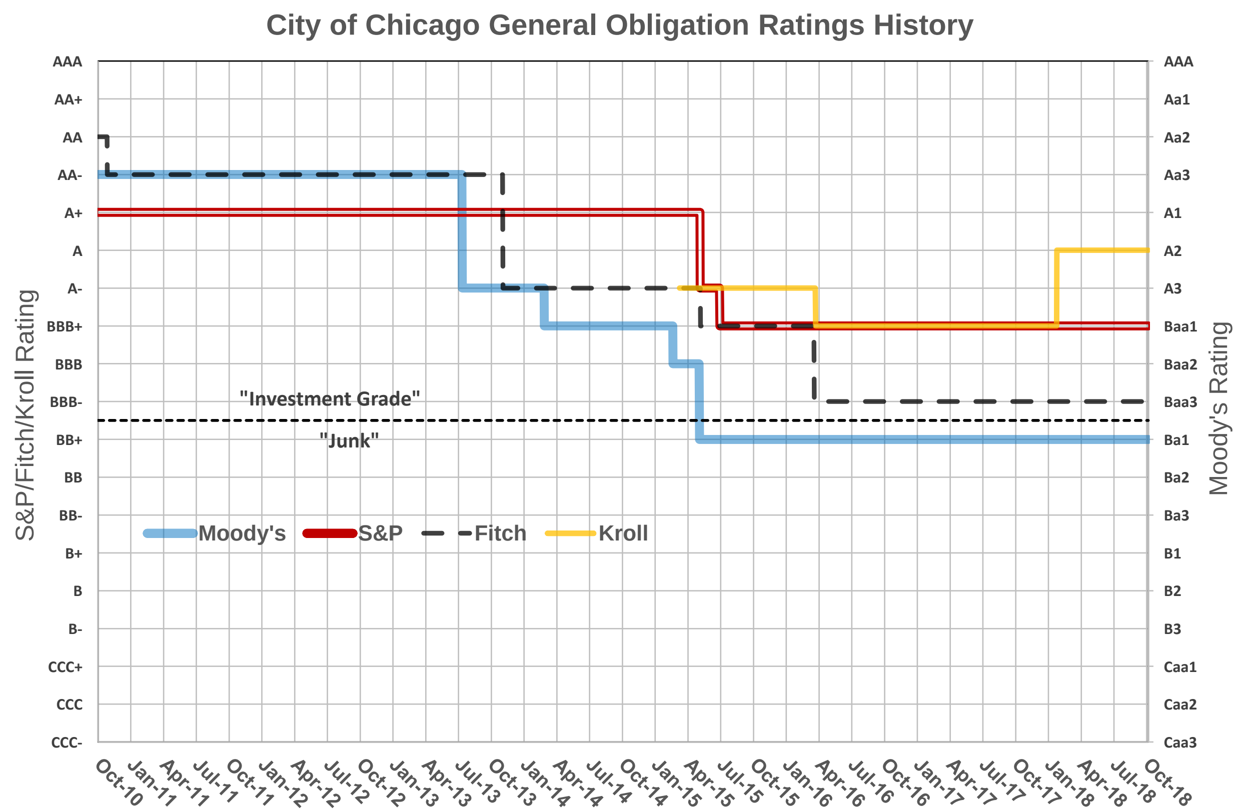
The narrative that follows discusses credit related events that have occurred since 2010, including creation of a new sales tax securitization corporation and various downgrade actions. The table that follows summarizes credit ratings as of October 1, 2018 for various types of City bonds.

City of Chicago Credit Ratings (as of October 18, 2018)				
	Ratings Agency			
Type of Bonds	**Moody's**	**Standard & Poor's**	**Fitch**	**Kroll**
General Obligation Bonds				
City	Ba1	BBB+	BBB-	A
Revenue Bonds				
O'Hare Airport				
Senior Lien General Airport Revenue Bonds	A2	A	A	A+
Passenger Facility Charge Revenue Bonds	A2	A	A	Not Rated
Customer Facility Charge	Baa1	BBB	Not Rated	Not Rated
Midway Airport				
First Lien - Revenue Bonds	A2	A	Not Rated	Not Rated
Second Lien - Revenue Bonds	A3	A	A	A
Water				
Senior Lien - Revenue Bonds	Baa1	A+	AA	Not Rated
Junior Lien - Revenue Bonds	Baa2	A	AA-	AA-
Wastewater				
Senior Lien - Revenue Bonds	Baa2	A+	Not Rated	Not Rated
Junior Lien - Revenue Bonds	Baa3	A	AA-	AA-
Sales Tax Securitization Corporation	N/A	AA-	AAA	AAA
Motor Fuel Tax	Ba1	BB+	BBB-	Not Rated

Source: City of Chicago FY2017 Comprehensive Annual Financial Report, p. 29 and https://www.salestaxsecuritizationcorporation.com/stsc-il/bond-ratings/i3228.

[202] Sales Tax Securitization Corporation, Series 2018CD, *Supplement to Preliminary Offering Circular Dated October 18, 2018*, October 25, 2018.
[203] Sales Tax Securitization Corporation, Series 2018CD, *Investor Roadshow*, October 25, 2018, p. 11; Yvette Shields, "Chicago supersizes deal to wrap up securitization program early," *The Bond Buyer*, October 29, 2018.

Chicago Credit Rating Actions in 2018



Source: Moody's Investors Service, www.moodys.com; S&P Global Ratings, www.standardandpoors.com; Fitch Ratings, www.fitchratings.com; Kroll Bond Rating Agency, krollbondratings.com

S&P downgraded the Sales Tax Securitization Corporation from AA to AA- on October 26, 2018, saying that the rating is constrained until the City's General Obligation credit improves.[204]

Moody's revised its outlook for City of Chicago general obligation debt from negative to stable in July 2018 while maintaining the City's Ba1 credit rating. The outlook change was based on the City's actions to accumulate healthy reserves and increase funding for its pension funds.[205]

Moody's affirmed its A2 rating for O'Hare general revenue and passenger facility charge bonds in April 2018.[206] Similarly, Fitch affirmed its A rating with a stable outlook for Chicago O'Hare Airport revenue bonds in September 2018.[207]

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[204] S&P Global Ratings, "Sales Tax Securitization Corporation of Chicago; Sales Tax", ratings report, October 26, 2018.

[205] Greg Hinz, "Surprise: Moody's bumps up City Hall, CPS credit outlook," *Crain's Chicago Business*, July 12, 2018.

[206] Moody's Investor's Services, "Moodys affirms A2 on Chicago IL O'Hare airport revenue and PFC Bonds; outlook is stable," April 24, 2018 at https://www.moodys.com/credit-ratings/Chicago-City-of-IL-OHare-Airport-Ent-credit-rating-806241444.

[207] Fitch Ratings, "Fitch Affirms Chicago O'Hare (IL) Airport Rev Bonds at 'A'; Outlook Stable," September 14, 2018 at https://www.fitchratings.com/site/pr/10043448.

In February 2018, Kroll Bond Rating Agency, Inc. upgraded its rating of the City's General Obligation bonds two notches from BBB+ to A with a stable outlook. Kroll cited the City's efforts to stabilize its underfunded pension funds.[208] In the same month, Fitch, Kroll, Moody's, and Standard and Poor's all withdrew their ratings on the City's Sales Tax revenue bonds as all of the outstanding Sales Tax bonds have been defeased.[209]

Moody's Investors Services has criticized the City's $8.5 billion O'Hare 21 funding plan approved in 2018 that is designed to substantially modernize O'Hare Airport facilities. The rating agency labelled the plan as credit negative because "it will increase leverage and airline costs above those of the airport's peers, weakening O'Hare's competitive position and airlines' profitability at the airport if growth fails to materialize."[210] Moody's noted that the plan would increase O'Hare's total debt load by 107.1%, from $7 billion in outstanding bonds to $14.5 billion by 2022, an amount well above debt increases at other major airports.

Moody's has also expressed concern about enplanement growth at O'Hare. Enplanement growth is critical to the success of the O'Hare 21 financing plan as fee increases are needed to pay for debt issued. But enplanement growth has been stagnant at O'Hare, rising only 3% in 2017 above 2006 levels. In contrast, at other hub airports enplanements rose by 22%. This raises concerns about whether the proposed rate of enplanement growth will be realized. If it is not, then big cost increases per passenger would be required to pay for the massive debt burden. This would make O'Hare less competitive and provide an incentive to transfer connecting operations to other airports.[211]

However, the City argues that their growth estimates are accurate and that the expansion plan does not present a credit risk.[212] Moody's also notes that the airlines' agreement to the new lease plan indicates they are optimistic about future growth. They also point to some credit positive aspects of the financing plan, including an incremental increase in the debt service coverage ratio to 1.25 in 2021 from 1.10 and the creation of an additional operating and maintenance expense reserve of 25% of the following year's expenses by 2025.[213]

Fitch Ratings has not reviewed either the financial or cost forecasts associated with the O'Hare 21 Plan or its associated capital plan. However, Fitch did note that there are considerable risks associated with the implementation of such a large capital plan. The airport expansion plan will likely make O'Hare one of the highest cost airports in the nation. Its already high leverage position of nearly 10 times net debt to cashflow available for debt service will need to be

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[208] Hal Dardick, "Credit rating agency upgrades Chicago debt, says investors face 'small risk of loss'," *Chicago Tribune*, February 5, 2018 at http://www.chicagotribune.com/news/local/politics/ct-met-chicago-bond-rating-upgrade-20180205-story.html.
[209] Chicago FY2017 Comprehensive Annual Financial Report, p. 102.
[210] Moody's Investors Services. "City of Chicago IL O'Hare Airport Ent.: Chicago O'Hare Airport's capital plan is credit negative," April 5, 2018.
[211] Moody's Investors Services. "City of Chicago IL O'Hare Airport Ent.: Chicago O'Hare Airport's capital plan is credit negative," April 5, 2018.
[212] Rachel Koning Beals. "O'Hare expansion will be credit negative," MarketWatch at https://www.marketwatch.com/story/ohare-airport-expansion-will-be-credit-negative-says-moodys-2018-04-06.
[213] Moody's Investors Services. "City of Chicago IL O'Hare Airport Ent.: Chicago O'Hare Airport's capital plan is credit negative," April 5, 2018.

maintained for some time. Additional debt issuance could increase the leverage position higher, which might negatively impact the airport's A credit rating. Fitch concluded that:

> …the new terms under the updated airline agreement are fundamental to the airport's modernization plans while operating under a partnership approach with the airlines. The overall financial integrity of the airport should remain sound given the provisions to boost coverage levels and operating reserves.[214]

Chicago Credit Rating Changes in 2017

In February 2017, Fitch Ratings (Fitch) downgraded the rating of the Motor Fuel Tax revenue bonds from BBB to BBB-, with a negative outlook.

In May 2017, Fitch downgraded ratings of the Senior Lien Water revenue bonds from AA+ to AA, with a negative outlook. The rating agency also downgraded the ratings of the Second Lien Water revenue bonds from AA to AA-, with a negative outlook.

In May 2017, Fitch downgraded ratings of the Senior Lien Wastewater Transmission revenue bonds from AA to AA-, with a negative outlook.

In June 2017, S&P downgraded the rating of the Motor Fuel Tax revenue bonds from BBB- to BB+ with a negative outlook.[215]

In July 2017, Moody's Investors Services placed the City's General Obligation, sales tax, motor fuel tax and senior lien water revenue debt under review for a possible downgrade because of the City's relationship with the financial troubled Chicago Public Schools.[216] However, in September 2017 Moody's reaffirmed the City's General Obligation and water and sewer revenue bond ratings with negative outlooks. The negative outlooks reflected the expectation that growing costs and continued fiscal distress at Chicago Public Schools would further burden City taxpayers.[217]

Chicago Credit Rating Changes in 2016

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

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[214] *American Journal of Transportation*, "Fitch: Chicago O'Hare Airport Inks New Airline Agreement," April 13, 2018 at https://www.ajot.com/news/fitch-chicago-ohare-airport-inks-new-airline-agreement.
[215] Chicago FY2017 Comprehensive Annual Financial Report, p. 29.
[216] Moody's Investors Services. "Moody's Places Chicago, IL's GO and Related Ratings Under Review for Possible Downgrade," July 7, 2017.
[217] See Moody's Investor's Services. "Moody's Confirms All Ratings on Chicago, IL Water and Sewer Revenue Bonds; Outlooks Negative," September 5, 2017and Moody's Investor's Services." Moody's Confirms Chicago, IL GO at Ba1; Outlook Negative," September 5, 2017.

position of these retirement funds.[218] Standard & Poor's action mirrored Fitch's decision to change its credit outlook from negative to stable in August, while re-affirming its previous BBB- rating. Fitch also cited the City's actions to increase taxes and fees to provide funding stability for its pension funds as the reason for its change in outlook.[219]

In March 2016, in the wake of the Illinois Supreme Court's rejection of pension reform laws that sought to stabilize the finances of the Chicago Municipal and Laborer's Pension Funds, Fitch downgraded City general obligation and sales tax bonds to BBB- from BBB+ with a negative outlook. Moody's Investor's Services characterized the court ruling as a "credit negative" action for Chicago, but did not change its previous credit rating or outlook. Standard & Poor's made no ratings change at that time.[220]

Chicago Credit Rating Downgrades in 2015

On February 27, 2015 , which triggered the termination clauses of several of the derivative instruments tied to the City's variable rate bonds, also referred to as swaps. At that time, Moody's cited a number of factors that could lead to a further reduction in the City's bond rating, including the Illinois Supreme Court issuing its ruling that the State's pension reform package was unconstitutional.[221]

In May 2015 Moody's Investors Service further downgraded the City of Chicago's general obligation bond ratings to Ba1 with a negative outlook, a rating below investment grade.[222] Soon after, Fitch Ratings and Standard & Poor's Ratings Services followed suit by downgrading Chicago's general obligation bond rating one notch to BBB+ from A- and to A- from A+, respectively, with negative outlook, but keeping Chicago's rating at investment grade.[223]

Chicago Credit Rating Downgrades in 2013 and 2014

Chicago motor fuel tax bonds credit ratings were lowered by both Fitch and Moody's in June 2013 after they downgraded the State of Illinois' general obligation ratings. Fitch lowered the rating to BBB+ from A-. This action was triggered by Fitch's downgrade of the State of Illinois' general obligation bond rating to A- from A. Moody's reduced the rating on the bonds to Baa1 with a negative outlook from A3 one day after their State of Illinois rating was lowered to A2

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

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

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

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

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

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

from A3. Motor fuel taxes are distributed according to formula set by the state and are subject to annual appropriation by the General Assembly. The ratings agencies expressed concern that weakness in the state's financial condition raised questions about the reliability of state revenues provided to local governments that are used to pay for local debt.[224]

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.[225]

In September 2013, S&P reduced the City's A+ general obligation bond rating from stable to negative. The downgrade was due to concerns that Chicago might reduce its reserves in order to pay for increased pension funding in fiscal year 2015. In that year S&P said that the City must substantially increase contributions to two of its four retirement funds to meet state statuary requirements. S&P noted that the City could retain its A+ rating with a stable outlook if it devised a plan to make the forthcoming pension payments while maintaining a balanced budget and keeping reserves at current levels.[226]

In November 2013 Fitch issued the following credit downgrades:

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

The rating outlook for Chicago debt was negative. The downgrade reflected the City's lack of action on solving its mounting unfunded pension liability problem.[227]

In March 2014 Moody's Investor's Services again downgraded the City of Chicago's credit rating, lowering it from A3 to Baa1 with a negative outlook, only three ranks above speculative status. The negative outlook indicates that another downgrade could come if the City does not implement a solution to its looming pension funding shortfall. As a result of the downgrade, Chicago had the worst credit rating of any major city except Detroit.[228]

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[224] Fitch Ratings. "Fitch Downgrades Chicago, IL's Motor Fuel Tax Bonds to 'BBB+'; Outlook Negative," June 4, 2013 and Paul Merrion, *Crain's Chicago Business*, "Why state's falling credit rating hurts Chicago," June 7, 2013.
[225] 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.
[226] Reuters. "S&P turns 'negative' on Chicago's financial outlook," September 16, 2013.
[227] 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.
[228] CBS Chicago, *Moody's Downgrades Chicago's Credit Rating, Lowest Of Any Major City Except Detroit,*

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+.[229] 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.[230] 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.[231]

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.[232]

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.[233]

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

March 4, 2014 and Civic Federation Blog. "Chicago Faces Significant Swaps Liabilities if Bond Rating Lowered Again," June 19, 2014.

[229] 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.

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

[231] 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.

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

[233] 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 $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.

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.[234]

CAPITAL PROGRAM

The City of Chicago has released a FY2018-2022 Capital Improvement Plan (CIP).[235] 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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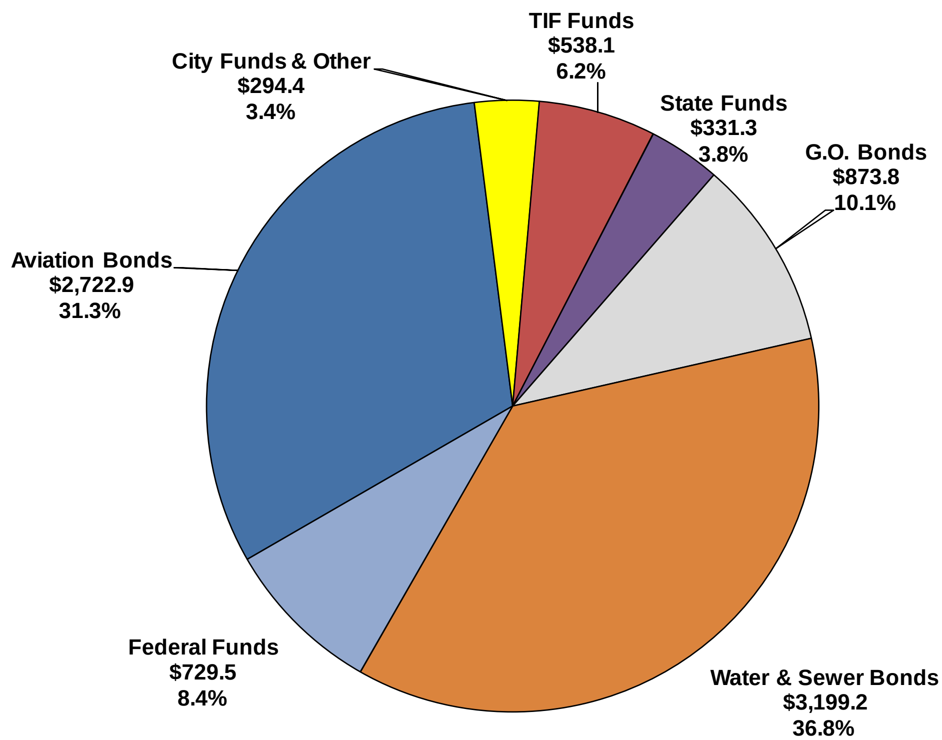
[234] Jon Hilkevitch and Hal Dardick. "O'Hare revenue bonds downgraded," Chicago Tribune, July 22, 2012.
[235] The FY2018-FY2022 Capital Improvement Plan is available on the City's website at https://www.cityofchicago.org/content/dam/city/depts/obm/supp_info/CIP_Archive/2018-2022%20CIP%20Book.pdf

The FY2018-FY2022 CIP proposes $8.7 billion in planned projects. Of that amount:

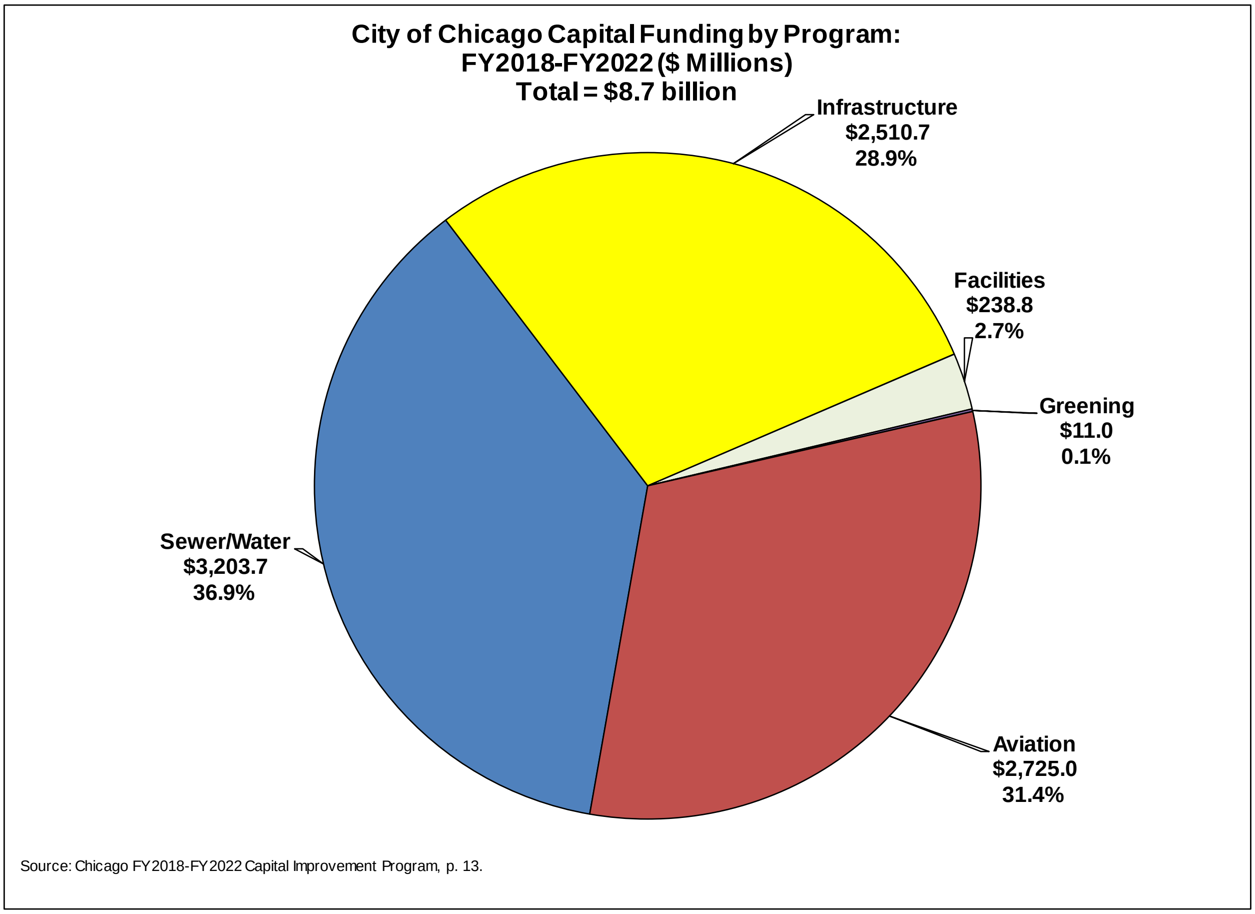
- Water and sewer bonds will fund $3.2 billion, or 36.8%, of total capital spending;
- Aviation debt will provide $2.7 billion, or 31.3% of all capital funding;
- City issued general obligation bonds will be used for $873.8 million, or 10.1%, of all projects;
- Federal funds will be used to finance 8.4% or $729.5 million in projects;
- City and other funds, derived from various fees and resources, will account for $294.4 million, or 3.4%, of all five-year CIP spending; and
- Additional amounts will be derived from the State of Illinois and tax increment financing districts.

City of Chicago Capital Funding by Source: FY2018-FY2022 ($ millions)
Total = $8.7 Billion



Source: Chicago FY2018-FY2022 Capital Improvement Program, p. 12.

The next exhibit shows the distribution of Chicago FY2018-FY2022 CIP funds by program. The largest component of the capital program will be $3.2 billion for sewer and water infrastructure construction and rehabilitation. Aviation projects will total nearly $2.7 billion, or 31.4% of all funding. The next largest capital program will be for infrastructure, which will total approximately $2.5 billion, or 28.9% of funding. Smaller amounts will be used for facilities and greening projects.



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.[236]

This review is based on the FY2018-FY2022 capital improvement program posted online on the City's website.[237] 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

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[236] 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.

[237] See https://www.cityofchicago.org/content/dam/city/depts/obm/supp_info/CIP_Archive/2018-2022%20CIP%20Book.pdf

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

City of Chicago Capital Improvement Program Checklist	
Does the government prepare a formal capital improvement plan?	Yes
How often is the CIP updated?	Annually
Does the capital improvement plan include: • *A narrative description of the CIP process?* • *A five year summary list of projects and expenditures by project that includes funding sources for each project?* • *Information about the impact and amount of capital spending on the annual operating budget for each project?* • *Brief narrative descriptions of individual projects, including the purpose, need, history and current status of each project?* • *The time frame for fulfilling capital projects?*	 No Yes No No, but there is an overview of planned 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?* • *Is the CIP available on the Web?*	 It is published in a separate document. Yes[238]
Are there opportunities for stakeholders to provide input into the CIP? • *Is there stakeholder participation on a CIP advisory or priority setting committee?* • *Does the governing body hold a formal public hearing at which stakeholders may testify?* • *Is the public permitted at least ten working days to review the CIP prior to a public hearing?*	 Unclear No 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

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