The Civic Federation

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CITY OF CHICAGO FY2020 PROPOSED BUDGET:

Analysis and Recommendations

November 13, 2019

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

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

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EXECUTIVE SUMMARY

The Civic Federation supports Mayor Lightfoot's proposed FY2020 local funds budget of approximately $9.9 billion, but with several significant concerns.

Entering FY2020 Mayor Lightfoot faced a historic $838.2 million Corporate Fund budget deficit driven largely by a $281.2 million increase to the City's statutory contribution to the police and fire pension funds. The deficit is also impacted by a projected increase in personnel expenses tied to not-yet-completed collective bargaining agreements. In addition, the City is increasing the amount of money budgeted in the Corporate Fund to cover settlements and judgments rather than relying on borrowing to cover those expenditures.

Mayor Lightfoot's FY2020 budget incorporates a number of savings and efficiencies including implementing zero based budgeting, merging departments and improved fiscal management practices that should reduce expenditures and increase stability. The Mayor's budget also relies on a number of targeted taxes and fees. In an effort to alleviate congestion in the downtown area and provide much needed revenue the City is projected to generate an additional $40 million in FY2020 by increasing taxes on ridesharing companies; generating an additional $7 million by increasing parking meter rates and installing new parking meters in certain areas; and increasing the Personal Property Lease Tax by two percentage points to 7.25% and the restaurant tax by 0.25% to 0.50% generating $37.2 million. In addition, with the legalization of the sale of recreational cannabis in Illinois set to go into effect on January 1, 2020 the City is projecting it will generate an additional $3.5 million in FY2020 from a 3.0% excise tax on sales of marijuana and increased sales tax revenues.[1] The budget also includes an increase in the portion of the property tax levy dedicated to library services to expand hours and reduce the Corporate Fund subsidy to the library.

However, the originally proposed City budget relied on two revenue sources that will require approval by the State of Illinois and federal government and are therefore less certain. Ambulance transport expense reimbursements of $133 million from the federal government have yet to be approved, though the State and City have worked together to submit the proposal to the Centers for Medicare and Medicaid Services (CMS) and from information provided by the City and State it seems reasonable to assume that CMS will approve. And as of publication of this report, legislation has not received approval from the Illinois General Assembly and Governor that would allow the City to implement a graduated real estate transfer tax that would increase the amount paid on high end real estate, generating an additional $50 million in FY2020. As our analysis was being finalized City of Chicago budget staff indicated that the Mayor will introduce budget revisions with additional savings to replace the real estate transfer tax if necessary.[2]

The City is also relying on some one-time resources to close the budget shortfall, including a record $74.1 million in tax increment financing (TIF) surplus and $200 million in upfront savings that are non-recurring from a debt refunding plan.[3] Using one-time resources for recurring expenditures is not an ideal practice and will cause budget difficulties in future years.

While the City's financial challenges are daunting, the Civic Federation commends Mayor Lightfoot's approach to addressing this year's spending plan that focuses on savings and efficiencies and at the same time emphasizes targeted taxes and fees rather than a large property tax increase. Additionally, the

[1] Cook County has chosen not to rely on any new revenue from the legalization of recreational cannabis in FY2020.
[2] Communication with City of Chicago budget staff, November 12, 2019.
[3] The City may propose increasing refunding savings to $215 million as part of an amended budget proposal if the real estate transfer tax is not approved in Springfield. Communication with City of Chicago finance staff, November 12, 2019.

Federation is encouraged by Mayor Lightfoot's actions to institute good government reforms, such as curbing aldermanic privilege, reforming the workers' compensation program and implementing ethics reforms that could help to begin rebuilding trust in a city that faces severe financial and economic challenges. The budget plan also includes $51.8 million in investments to improve social and economic ills facing the City such as affordable housing, homelessness, violence prevention, mental health and neighborhood improvements.

The Federation recognizes that Mayor Lightfoot and her administration had limited time to achieve her legislative agenda in Springfield after being sworn into office in May 2019 and the spring legislative session ending on May 31, 2019. And we continue to believe that the State must assist the City in overcoming the financial difficulties the State helped create. The members of the Chicago City Council have made difficult fiscal choices in recent years by approving a series of tax increases to address the severe underfunding of its four pension funds and put the City on better financial footing. However, the difficult financial choices are not over. Over the summer the City projected Corporate Fund budget gaps of $1.19 billion in FY2021 and $1.16 billion in FY2022.[4] 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.

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. As the Civic Federation emphasized in our report on the financial challenges facing the new Mayor and City Council released in March 2019[5], the State's role in improving the City's and other local governments' financial positions is particularly important.

The Civic Federation offers the following key findings on Mayor Lightfoot's originally proposed FY2020 budget:

- The City proposes a FY2020 local funds budget of approximately $9.9 billion; this is an increase of 11.7% above the FY2019 adopted appropriations of $8.9 billion across all local funds;
- The FY2020 Corporate Fund budget proposal will increase by 17.0%, or $649.4 million, from approximately $3.82 billion in FY2019 to $4.47 billion in FY2020 due to increased personnel expenses and pension contributions;
- The FY2020 budget proposes to increase staff by 26 FTEs or 0.1%, from 35,413 FTEs to 35,439 FTEs, not including grant-funded positions;
- Community Services will see the greatest increase in FTEs, growing from 1,261 FTEs in FY2019 to 1,414 FTEs in FY2020, an increase of 153 FTEs or 12.1%;
- Corporate Fund personnel services are projected to increase by $175.7 million, or 6.1%, from approximately $2.88 billion in the adopted FY2019 budget to $3.05 billion in FY2020;
- The City's proposed FY2020 gross property tax levy is approximately $1.51 billion, which is a 5.0%, $72.3 million increase over the $1.44 billion levy adopted in the FY2019 budget;
- Between FY2009 and FY2018 total net direct debt rose by 18.5%, or $1.3 billion. This represents an increase from $6.9 billion in FY2009 to $8.1 billion ten years later;
- The total pension unfunded liabilities for the four City funds increased to $29.2 billion in FY2018 from $27.6 billion in FY2017; and

[4] 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.
[5] See the Civic Federation's website for the full report at https://www.civicfed.org/sites/default/files/chicagofiscalchallenges2019_full.pdf

- Between FY2009 and FY2018, total unfunded pension liabilities per resident of Chicago grew from $4,597 per capita to $10,782 per capita. This is an increase of 134.5%.

The Civic Federation **supports** the following initiatives and elements of the City of Chicago's originally proposed FY2020 budget:

- Emphasizing management efficiencies and reforms;
- Funding more settlements and judgments from the Corporate Fund;
- Funding police and fire pensions on an actuarially calculated basis;
- Encouraging public participation by conducting a public survey and holding multiple stand-alone town hall meetings;
- Improving transparency and accountability by live streaming city council committee meetings;
- Improving the effectiveness of the Council Office of Financial Analysis;
- Seeking reimbursement from Chicago Public Schools to cover a portion of the contribution to the Municipal Employees' Annuity and Benefit Fund;
- Increasing the portion of the property tax levy for library services to expand hours and eliminate the Corporate Fund subsidy; and
- Increasing targeted taxes and fees for additional revenue.

The Civic Federation has **concerns** about the following issues related to the City of Chicago's originally proposed FY2020 budget:

- Use of one-time and less certain gap closing measures;
- Pension contribution spike in 2022 for Municipal and Laborers' Funds;
- Ongoing fiscal imbalance;
- High bonded debt burden;
- Lack of cost of services data for the programs in its budget;
- Uncertainty with regard to the outcome of outstanding collective bargaining agreements;
- Planned reliance on gaming revenues in future years; and
- Potential for large property tax increase or major cuts if certain revenue sources do not come through as planned.

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

- Work with the Governor's Pension Consolidation Task Force to Explore the consolidation of Chicago's public safety pension funds;
- Seek reasonable and sustainable collective bargaining agreement provisions;
- Develop a formal long-term financial plan for city operations and pension funds;
- Include finance general costs in city department budgets to sow the full cost of services;
- Maximize transparency of the sales tax securitization corporation;
- Re-evaluate the use of TIF funds to address the City's and overlapping governments' financial challenges; and
- Annually reassess the garbage collection fee to better ensure revenues are aligned with expenses associated with providing the service to residents.

CIVIC FEDERATION POSITION

The Civic Federation supports Mayor Lightfoot's proposed FY2020 local funds budget of approximately $9.9 billion, but with several significant concerns.

Entering FY2020 Mayor Lightfoot faced a historic $838.2 million Corporate Fund budget deficit driven largely by a $281.2 million increase to the City's statutory contribution to the police and fire pension funds. The deficit is also impacted by a projected increase in personnel expenses tied to not-yet-completed collective bargaining agreements. In addition, the City is increasing the amount of money budgeted in the Corporate Fund to cover settlements and judgments rather than relying on borrowing to cover those expenditures.

Mayor Lightfoot's FY2020 budget incorporates a number of savings and efficiencies including implementing zero based budgeting, merging departments and improved fiscal management practices that should reduce expenditures and increase stability. The Mayor's budget also relies on a number of targeted taxes and fees. In an effort to alleviate congestion in the downtown area and provide much needed revenue the City is projected to generate an additional $40 million in FY2020 by increasing taxes on ridesharing companies; generating an additional $7 million by increasing parking meter rates and installing new parking meters in certain areas; and increasing the Personal Property Lease Tax by two percentage points to 7.25% and the restaurant tax by 0.25% to 0.50% generating $37.2 million. In addition, with the legalization of the sale of recreational cannabis in Illinois set to go into effect on January 1, 2020 the City is projecting it will generate an additional $3.5 million in FY2020 from a 3.0% excise tax on sales of marijuana and increased sales tax revenues.[6] The budget also includes an increase in the portion of the property tax levy dedicated to library services to expand hours and reduce the Corporate fund subsidy to the library.

However, the originally proposed City budget relied on two revenue sources that will require approval by the State of Illinois and federal government and are therefore less certain. Ambulance transport expense reimbursements of $133 million from the federal government have yet to be approved, though the State and City have worked together to submit the proposal to the Centers for Medicare and Medicaid Services (CMS) and from information provided by the City and State it seems reasonable to assume that CMS will approve. And as of publication of this report, legislation has not received approval from the Illinois General Assembly and Governor that would allow the City to implement a graduated real estate transfer tax that would increase the amount paid on high end real estate, generating an additional $50 million in FY2020. As our analysis was being finalized City of Chicago budget staff indicated that the Mayor will introduce budget revisions with additional savings to replace the real estate transfer tax if necessary.[7]

The City is also relying on some one-time resources to close the budget shortfall, including a record $74.1 million in tax increment financing (TIF) surplus and $200 million in upfront

[6] Cook County has chosen not to rely on any new revenue from the legalization of recreational cannabis in FY2020.
[7] Communication with City of Chicago budget staff, November 12, 2019.

savings that are non-recurring from a debt refunding plan.[8] Using one-time resources for recurring expenditures is not an ideal practice and will cause budget difficulties in future years.

While the City's financial challenges are daunting, the Civic Federation commends Mayor Lightfoot's approach to addressing this year's spending plan that focuses on savings and efficiencies and at the same time emphasizes targeted taxes and fees rather than a large property tax increase. Additionally, the Federation is encouraged by Mayor Lightfoot's actions to institute good government reforms, such as curbing aldermanic privilege, reforming the workers' compensation program and implementing ethics reforms that could help to begin rebuilding trust in a city that faces severe financial and economic challenges. The budget plan also includes $51.8 million in investments to improve social and economic ills facing the City such as affordable housing, homelessness, violence prevention, mental health and neighborhood improvements.

The Federation recognizes that Mayor Lightfoot and her administration had limited time to achieve her legislative agenda in Springfield after being sworn into office in May 2019 and the Spring legislative session ending on May 31, 2019. And we continue to believe that the State must assist the City in overcoming the financial difficulties the State helped create. The members of the Chicago City Council have made difficult fiscal choices in recent years by approving a series of tax increases to address the severe underfunding of its four pension funds and put the City on better financial footing. However, the difficult financial choices are not over. Over the summer the City projected corporate fund budget gaps of $1.19 billion in FY2021 and $1.16 billion in FY2022.[9] 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.

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. As the Civic Federation emphasized in our report on the financial challenges facing the new Mayor and City Council released in March 2019[10], the State's role in improving the City's and other local governments' financial positions is particularly important.

Issues the Civic Federation Supports

The Civic Federation supports the following elements of the proposed FY2020 City of Chicago budget.

[8] The City may propose increasing refunding savings to $215 million as part of an amended budget proposal if the real estate transfer tax is not approved in Springfield. Communication with City of Chicago finance staff, November 12, 2019.

[9] 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.

[10] See the Civic Federation's website for the full report at https://www.civicfed.org/sites/default/files/chicagofiscalchallenges2019_full.pdf

Emphasizing Management Efficiencies and Reforms

Since taking office in May 2019 Mayor Lightfoot and her administration have or plan to implement a number of reforms and efficiencies aimed at improving city operations and reducing expenditures. These savings and efficiencies in the originally proposed budget include a projected $159.1 million from zero based budgeting, $9.3 million in savings by reducing the size of the City's workforce, $25 million through improved revenue collection efforts, $3.2 million by merging departments and $141 million from improved fiscal management according to a graphic in the budget book. If these actions are accomplished they will help make City finances more sustainable over the long-term.

Funding More Settlements and Judgments from the Corporate Fund

The Mayor's proposed FY2020 budget increases the Corporate Fund budget for settlements and judgments by $79.7 million to $135.0 million. The Civic Federation is encouraged the City is paying more for settlements and judgments with operating funds rather than through borrowing. To better manage these costs, in 2019 the City created the Mayor's Office of Enterprise Risk Management that will be led by a Chief Risk Officer charged with developing a risk management strategy to address and minimize risk and loss.[11] In 2020 the Department of Law will work to reduce outside counsel costs by increasing the capacity of the City's Law Department.[12]

While these are positive steps that could potentially reduce costs related to settlements and judgments and outside counsel, the budgeted amount for settlements and judgments in FY2020 is still below the average annual payout of settlements and judgments in the five years leading up to 2016, which averaged $152 million.[13] The Civic Federation commends the Mayor and her administration for developing a budget that includes increased funding for settlements and judgments in the Corporate Fund, which is a break from past practices that relied on the expensive practice of borrowing to cover routine settlements and judgments.

Funding Police and Fire Pensions on an Actuarially Calculated Basis

In FY2020 the City of Chicago's contributions to the Police and Fire pension funds will total $1.1 billion, which is an increase of $281.2 million from FY2019 levels. This is the first year the City's contribution to these two funds will be on an actuarially calculated basis, following a five-year ramp in which increasing yearly contributions were laid out in statute. Of the $1.1 billion in contributions to the two funds in FY2020, $839.7 million will be funded from property taxes, $229.0 million from the Corporate Fund and $40 million from the City's Aviation Enterprise Funds.[14]

The Civic Federation is pleased the City was able to meet its statutory funding requirements in FY2020 for the Police and Fire funds. Beginning in FY2015, the City of Chicago implemented a

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[11] City of Chicago, FY2020 Budget Overview, p. 61.
[12] City of Chicago, FY2020 Budget Overview, p. 76.
[13] Steve Daniels, "How Chicago's financing of police-misconduct payouts adds hundreds of millions to the tab," *Crain's Chicago Business,* July 6, 2018.
[14] City of Chicago, FY2020 Budget Overview, p. 53.

four-year $543 million property tax increase to begin funding the contribution ramp. The City should next develop a public multi-year plan on how it will address an even larger spike in pension contributions in 2022 when the Municipal and Laborers' pension funds transition to an actuarially calculated contribution.

Encouraging Public Participation in the Budget Process by Conducting a Public Survey and Holding Multiple Stand-Alone Town Hall Meetings

The Civic Federation commends the Mayor and her finance team for holding five town hall meetings as well as conducting a public survey translated into multiple languages to encourage public participation and inform residents of the enormous financial challenges that the City faces in developing the FY2020 budget. The Mayor and her administration's attendance and interaction with residents during these towns halls was a positive step toward improving the transparency and accessibility of the budget to the general public.

Improving Transparency and Accountability by Live Streaming City Council Committee Meetings

The Civic Federation commends the City of Chicago for broadcasting and archiving the video of Chicago City Council's committee meetings and department budget hearings online. Broadcasting committee meetings improves the transparency of the Council's operations and the accountability of aldermen and staff to the public.

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 helps the City reach more of its constituents and improve the transparency and accountability of the elected and appointed officials.

Improving the Effectiveness of the Council Office of Financial Analysis

For the past several years the Civic Federation has called for the City Council to strengthen the powers and duties of the Council Office of Financial Analysis (COFA) by making reports publicly available and allowing for it to conduct analyses of financial transactions undertaken by the City in order for COFA to be a meaningful asset to City Council members.

The recently adopted ordinance strengthening COFA does much to accomplish those tasks by creating a website, requiring reports be made available to the public, allowing individual City Council members to request financial analyses and by providing more frequent reports on the Office's activities. Additionally, the ordinance allows COFA to have greater access to financial data and operate with greater independence.

The newly created website includes fiscal impact statements, aldermanic request reports, analysis of the City's most recent annual audit and mandated periodic reports.[15]

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[15] See https://www.chicago.gov/city/en/depts/cofa.html

The Federation supports these changes that will help the City Council and members of the public better understand the financial challenges the City faces and improve the transparency and accountability of City operations.

Seeking Reimbursement from Chicago Public Schools to Cover a Portion of the Contribution to the Municipal Employees' Annuity and Benefit Fund

In FY2020 the City will contribute $499.0 million to the Municipal Employees' Pension Fund.[16] However, roughly half of the 30,963 active Municipal Funds members are not City employees, but rather are non-teacher employees of Chicago Public Schools.[17] As part of the FY2020 budget, the City is seeking reimbursement of $60 million from Chicago Public Schools (CPS) to cover a portion of the City's annual pension contribution to the Municipal Fund.[18]

In FY2012 the City of Chicago had previously planned to transition some of these costs to Chicago Public Schools (CPS).[19] The Civic Federation supported this reimbursement to the City of Chicago because it improves cost transparency. However, due to the financial challenges CPS subsequently faced this reimbursement of pension costs was not implemented.

While CPS faces its own financial challenges, particularly the increased expenses tied to the new negotiated Chicago Teacher's Union collective bargaining agreement, the Federation commends Mayor Lightfoot and her administration for beginning to improve pension cost transparency, particularly at time when the City is facing its own financial challenges related to pensions.

Increasing the Portion of the Property Tax Levy for Library Services to Expand Hours and Eliminate Corporate Fund Subsidy

While the City of Chicago is not increasing its property tax levy in FY2020 to fund City general operations, it is increasing the net property tax levy for the Chicago Public Library in FY2020 by $18.4 million to $124.7 million.[20] The increase in the property tax levy will allow for libraries to be open seven days a week and will also free up Corporate Fund revenues that were previously used to subsidize library operations. The Federation supports this increase in the property tax levy because it is moderate and directed toward a clearly identified purpose.

Increasing Targeted Taxes and Fees for Additional Revenue

In the context of a rational financial plan, the Civic Federation supports moderate revenue increases such as rates for fines and permits and avoidable purchases. Increases in these

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[16] City of Chicago, FY2020 Budget Overview, p. 53.
[17] The most recent data available on the number of Board of Education employees in the Municipal Fund is of December 31, 2017. As of that date 54.1%, or 16,721 of the 30,922 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, 2018, p. 87.
[18] City of Chicago, FY2020 Budget Overview, p. 40.
[19] City of Chicago, FY2012 Budget Overview, p. 6.
[20] The levy for police and fire pension will increase by $70 million. Both increases are offset by a reduction in the debt service levy.

recurring revenue sources are preferable to broad-based tax increases because they are tied directly to the service provided and are also far better than using one-time resources.

As part of the FY2020 budget, the City is proposing to close its budget deficit by increasing a number of targeted taxes and fees. In an effort to alleviate congestion in the downtown area and provide much needed revenue the City is proposing to increase taxes on single occupancy rideshares citywide as well as during peak hours for all rides while imposing lower taxes and fees for multi-occupancy shared rides as well as implementing a new downtown surcharge. This effort is projected to generate an additional $40 million in FY2020. The City also plans to increase parking meter rates and install new parking meters in certain areas that will generate an additional $7 million in revenue. The City plans to increase the Personal Property Lease Tax by two percentage points to 7.25% and increase the restaurant tax by 0.25% to 0.50%. The increases on these existing service and sales taxes is expected to generate $37.2 million in FY2020. In addition, with the legalization of the sale of recreational cannabis in Illinois set to go into effect on January 1, 2020 the City is projecting it will generate an additional $3.5 million in FY2020 due to the City imposing a 3.0% excise tax and related sales tax.[21]

In addition, the City is relying on $133 million in reimbursements from the federal government for ambulance transport expenses and $30 million through increased ambulance transport fees. The $133 million in reimbursements for ambulance transport expenses has been negotiated with the State. However, the State has not yet received federal approval for the increased reimbursements.[22] The City currently only bills $900 per ambulance trip, but the actual cost is approximately $2,500.[23] The City is reimbursed between 8% and 36%, depending on the payer, but hopes that will increase to 50% if approved by the federal government. The Civic Federation supports the City working with the State to generate increased reimbursements from the federal government.

Civic Federation Concerns

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

Use of One-Time and Less Certain Gap Closing Measures

Mayor Lightfoot faced enormous financial challenges when she came into office. The City faces a huge increase in pension contributions to the Police and Fire funds as well as unresolved collective bargaining agreements. The FY2020 budget proposes to close its record Corporate Fund deficit with a number of revenue enhancements, efficiencies and savings. The Federation supports the approach of emphasizing savings while also using targeted tax and fee increases. However, there are significant concerns surrounding the uncertainty of the gap closing measures that require either State or Federal approval before they can be achieved and the potential for litigation surrounding the increased ride share fees. If these funding sources do not come to

[21] Cook County has chosen not to rely on any new revenue from the legalization of recreational cannabis in FY2020.
[22] John Byrne and Dan Petrella, "Mayor Lightfoot's budget relies on $163 million in extra ambulance reimbursement money—a plan still awaiting federal approval," *Chicago Tribune*, October 25, 2019 and Communication with staff at the Illinois Department of Healthcare and Family Services on November 8, 2019.
[23] John Byrne and Dan Petrella, "Mayor Lightfoot's budget relies on $163 million in extra ambulance reimbursement money—a plan still awaiting federal approval," *Chicago Tribune*, October 25, 2019.

fruition, the City may be forced to resort to a general property tax increase or find additional cuts and/or savings to help close the gap.

Taking $200 Million in Upfront Savings to Close Budget Gap

The Mayor and her administration announced they will be refinancing $1.3 billion in existing City motor fuel tax and General Obligation debt for economic savings to help balance the FY2020 budget. The City stated they will not be extending the debt repayment schedule and there will be debt service savings across all years, so it is not considered to be a scoop and toss refinancing. However, the debt refunding plan will have the City take $200 million in savings up front and direct those savings to closing nearly a quarter of the budget shortfall.[24]

A majority of the refinancing will be funded with junior lien Sales Tax Securitization Corporation (STSC) bonds.[25] STSC deals done thus far on the whole will save taxpayers millions in interest debt service costs through its higher credit ratings and lower interest costs. The Civic Federation continues to be encouraged by this creative option to manage the cost of its high debt burden. However, the Federation is concerned because the upfront savings the City projects are non-recurring, meaning that because Chicago is directing them to close the budget gap next year it will have to close that $200 million shortfall again.

Emergency Services Reimbursement

As part of the Mayor's plan to help close the FY2020 budget gap and generate additional revenue for city operations, her administration is relying on $133 million in reimbursements from the federal government and $30 million from increased transport fees. The $133 million in reimbursements has been negotiated with the State. However, the State has not yet received federal approval for the increased reimbursements.[26] While the Civic Federation commends the City for attempting to capture the additional revenues for emergency medical transport services, the Federation is concerned that if the federal government doesn't approve this change in reimbursement amount, the City will need to make difficult choices on cuts or additional revenues to close the budget gap.

Graduated Real Estate Transfer Tax

Mayor Lightfoot and her administration are proposing to transition the City of Chicago from a flat real estate transfer tax (RETT) to a graduated or progressive real estate transfer tax that is projected to generate $50 million in FY2020. The Mayor and her administration are hopeful the Illinois General Assembly will approve the necessary legislation during the fall veto session. The City's proposal would reduce the tax on property sales under $500,000 and increase the tax paid for properties sold above $1 million. However, there are now competing proposals from certain members of the Illinois General Assembly who wish to generate additional revenue to reduce

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[24] The City may propose increasing refunding savings to $215 million as part of an amended budget proposal if the real estate transfer tax is not approved in Springfield. Communication with City of Chicago finance staff, November 12, 2019.
[25] Communication with the City of Chicago Chief Financial Officer on November 8, 2019.
[26] John Byrne and Dan Petrella, "Mayor Lightfoot's budget relies on $163 million in extra ambulance reimbursement money—a plan still awaiting federal approval," *Chicago Tribune*, October 25, 2019.

homelessness. The Federation is concerned that there is uncertainty surrounding whether the RETT change in any form will pass the General Assembly.

Furthermore, the real estate transfer tax is an economically sensitive revenue source that may not generate the relied upon revenues during an economic downturn. For example, an increase in Chicago's transfer tax was a key source for the Chicago Transit Authority's 2008 bailout which has never generated anywhere near original projections and has been the cause of significant budget difficulties.[27]

<u>Rideshare Fee</u>

Mayor Lightfoot and her administration are proposing to increase taxes on single rides citywide as well as during peak hours for all rides while imposing lower taxes and fees for shared rides as well as implementing a new downtown surcharge. This effort is projected to generate an additional $40 million in FY2020. While the Federation supports this new initiative to alleviate congestion in the downtown area and generate much needed revenue, the new tax could be subject to future litigation. A lawsuit filed by Uber against the Village of Skokie challenges the suburb's tax on ride-hailing services as a violation of the Illinois Constitution's requirement of uniformity.[28] If the Skokie tax is struck down in court, similar challenges could be brought against the City of Chicago's proposed tax changes on ride-hailing services.

Pension Contribution Spike in 2022 for Municipal and Laborers' Funds

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 schedules provide 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. FY2020 is the first year the City will make an actuarially calculated contribution to the Police and Fire funds. The FY2020 contribution to the Police and Fire funds will total $1.1 billion. In FY2022 the City will begin making actuarially calculated payments to all four of its pension funds, which will total $2.2 billion.

While an actuarially calculated funding schedule is an improvement from the multiplier-based contribution schedule the Municipal and Laborers' Funds were previously subject to, the new 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.[29] The result is that when the funds

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[27] Chicago Transit Authority FY2010 Budget, pp. 3, 8 and 14.
[28] Greg Hinz, "Uber suing Skokie, but Lightfoot's tax plan is the real target," *Crain's Chicago Business*, October 30, 2019.
[29] 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.

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'[30]—in order to begin funding at an actuarially calculated level.

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 Mayor Lightfoot and her administration will face in the coming years.

Ongoing Fiscal Imbalance

In its *2020 Budget Forecast* released in August 2019, the City projected that without changes to expenditures and revenues, its Corporate Fund deficit, which does not include most pension contributions, would be $838.2 million in FY2020, $1.19 billion in FY2021 and $1.16 billion in FY2022.[31] The Federation is pleased the City is now accounting for known long-term liabilities such as pensions and debt service in its budget forecasts.

The City is proposing to close its $838.2 million corporate fund budget gap and make $51.8 million in investments with some one-time revenue sources, including $31.4 million of tax increment financing (TIF) surplus and $200 million of debt refunding savings.[32] Although the City is annually monitoring its debt profile for savings and TIF districts for surplus funds, these are one-time revenue sources and will not be available next year at the same level, particularly with the extraordinarily large TIF surplus declared for FY2020.

The City is also implementing a number of measures that will provide structural reforms and should strengthen the City's financial position in coming years including investments in technology to improve revenue collection, merging departments to improve efficiencies and savings, and begin requiring the reimbursement of pension costs for the Municipal Employees' Annuity and Benefit Fund borne by Chicago Public Schools, but previously paid for only by the City of Chicago.

One-time resources ideally should not be used to cover ongoing operating expenditures, but would be more prudently dedicated to reducing long-term liabilities, building reserves or making capital investments. The structural deficit that remains due to the use of non-recurring revenues 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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[30] Payment years 2021 and 2023.
[31] 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.
[32] The City may propose increasing refunding savings to $215 million as part of an amended budget proposal if the real estate transfer tax is not approved in Springfield. Communication with City of Chicago finance staff, November 12, 2019.

The City continues to make considerable efforts to reform its operations through management efficiencies and innovative programs. 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 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 FY2009 and FY2018 direct debt per capita rose by 27.3% from $2,371 to $3,018.
- Between FY2009 and FY2018 total direct debt from all eight major governments including Chicago rose by 81.2%. 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 FY2020 are projected to be 19.6% of total local fund net appropriations, or $1.9 billion out of expenditures of $9.9 billion.
    - Since FY2016 debt service appropriations have risen by 8.0%, less than the 26.2% increase in total net appropriations.
    - The debt service ratio has averaged 21.9% over the five-year period analyzed. The ratings agencies consider a debt burden high if this ratio is between 15% and 20%.[33]

The upward trend in debt burden over time is a serious cause for concern for the City of Chicago. A high debt burden combined with the City's other enormous long-term liabilities, particularly pensions, will continue to put pressure on the budget and constrain the City's finances.

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, employee wages and benefits, 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

[33] 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.

encompass shared administrative expenses within the work unit as well as support functions outside of the work unit (human resources, legal, finance, etc.).[34]

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
- Equipment;
- Permanent Improvement and Land; 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, healthcare, overtime pay and unemployment compensation. 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:

- Information Technology;
- Employee Benefits;
- Pension Contributions; and
- Long-term debt service payments.

Corporate Fund personnel services included in Finance General are budgeted at $498.0 million for FY2020.[35]

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. 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, particularly with the large back payments that will be required once contract negotiations are finalized.

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

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[34] Government Finance Officers' Association, "GFOA Best Practice: Measuring the Cost of Government Service," (2002).
[35] City of Chicago FY2020 Budget Recommendations, p. 7.

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.

Planned Reliance on Gaming Revenues in Future Years

In conjunction with the State of Illinois' FY2020 Budget, the State also enacted its first capital plan in over 10 years. The capital budget totals $44.8 billion in new appropriations and $15.7 billion of reappropriations and is the largest capital plan ever passed by the State.

To afford the large increase in capital expenditures, the State also enacted two bills authorizing the largest expansion of revenues for capital in decades. One bill, covering transportation-related revenues that are constitutionally restricted to transportation expenditures, is projected to deliver over $1.9 billion annually once fully implemented.

The second bill, authorizing revenues dedicated to non-transportation, "vertical" construction projects, is expected to generate approximately $810 million annually at full implementation. The centerpiece of the "vertical" revenue bill is a massive expansion of gambling, expected to generate $350 million annually at full implementation plus several hundred million more in upfront license fees for new and expanded gambling facilities. However, the ability of the State to implement the expansion quickly remains in doubt, as it requires implementation of new regulations and the selection of expansion sites.

The State of Illinois currently has 10 casinos. The expansion of gaming in Illinois allows for an additional six casinos, including a Chicago casino, with the City's portion of the revenues from the Chicago casino being earmarked for police and fire pensions.[36] However, a feasibility study that evaluated the preliminary sites for the new casino in Chicago determined that the current tax rates and other upfront costs would lead to smaller profit margins.[37] While the City is working with the Illinois General Assembly and Governor Pritzker to rework the tax and fee structure for the Chicago casino during the fall veto session, it is not yet known whether the changes will be approved in Springfield. Additionally, gaming revenues are notoriously unreliable particularly over the long run and should be budgeted with caution.[38]

Potential for a Large Property Tax Increase or Major Cuts if Certain Revenue Sources Do Not Come Through as Planned

The City of Chicago's proposed FY2020 budget relies on a number of revenue sources that may not come to fruition, particularly the change in the real estate transfer tax. Mayor Lightfoot and her administration have publicly stated that if they are not successful in securing a change in legislation to allow for a graduated real estate transfer tax and changes in the tax structure of the proposed Chicago casino that a property tax may be an option to make up for the loss in expected

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[36] Greg Hinz, "Lightfoot's pension pitch hits wall in Springfield," *Crain's Chicago Business*, September 18, 2019.
[37] Dan Petrella, Ryan Ori, John Byrne and Jamie Munks, "Proposed Chicago casino unattractive to investors because of 'onerous' taxes; South and West side sites wouldn't draw tourists, says a state-hired consultant," *Chicago Tribune*, August 13, 2019.
[38] "Are Sin Taxes Healthy for State Budgets?," *The Pew Charitable Trusts*, July 2018

revenues.[39] While the property tax is a very reliable revenue source and is a sound back up plan should the City's revenues not come in as projected, the size of the property tax increase could be very large at time when taxpayers have been burdened by increases from other overlapping governments, particularly Chicago Public Schools. The City's property tax levy has additionally increased significantly since FY2015 due to a pension funding plan that increases required contributions to the City's Police and Fire pension funds.

The Civic Federation recognizes that Mayor Lightfoot had limited time to advocate for her legislative priorities between being sworn into office as Mayor of Chicago in mid-May and the Spring legislative session in Springfield that ended May 31, 2019. The Mayor and her team are now under intense pressure to achieve her legislative agenda during the fall veto session that will end November 14, 2019. If not successful in Springfield during the fall veto session, the Mayor and her team will have very little time to develop a budget that does not include the new revenue from the graduated real estate transfer tax that is projected to generate $50 million in FY2020 or other uncertain sources.

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.

Work with the Governor's Pension Consolidation Task Force to Explore Consolidation of Chicago's Four Pension Funds

In October 2019, Governor Pritzker's Pension Consolidation Feasibility Task Force released its report that called for consolidating the assets of the 649 downstate and suburban police and fire pension funds and making changes to Tier 2 employee benefits. The City of Chicago's public safety pension funds were not included in the first phase. However, the Task Force report states that the unique challenges facing the City's pension funds will be part of their future work as a task force.

The City of Chicago has $29.2 billion in unfunded actuarial accrued liabilities for its four pension funds and they are collectively only 25% funded. 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. However, significant challenges remain for the City to keep to its statutory funding schedule. Given these challenges, it makes sense for the City to pursue any reforms that could reduce the cost of the pension program – including consolidation of investment and eventually benefit management with downstate and suburban funds.

The Civic Federation urges the City of Chicago to work with the Pension Consolidation Task Force, Illinois General Assembly and Governor Pritzker to find a long-term solution that includes some form of consolidation of the City's pension funds to gain greater efficiencies and savings for taxpayers.

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[39] John Byrne, "Mayor Lightfoot's budget staff talk possible property tax increase, hike to downtown parking meter rates," *Chicago Tribune*, October 28, 2019.

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 to negotiate with its labor partners collective bargaining agreements that are both reasonable and sustainable for the City over the life of the agreements. Likely retroactive payments to members of the collective bargaining agreements will also add additional strain on current and future year budgets.

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.[40] 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.

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.

The City of Chicago's four pension funds combined have $29.1 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[41] 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. However, the City still faces enormous debt obligations and will face ongoing difficulty in funding its large pension obligations. Much more will need to be done in the future and the Mayor and City Council will need to make difficult decisions, including additional budgetary cuts, savings and possibly even more revenue.

The first *Annual Financial Analysis* released by the City prior to development of its FY2012 budget was an important step toward the development of a formal long-term financial plan. Subsequent *Annual Financial Analysis* reports have also contained much useful information, including financial projections and Mayor Lightfoot's FY2020 Budget Forecast provided greater transparency surrounding the City's long-term liabilities surrounding pensions and debt service payments. However, the Civic Federation believes that an effective financial planning process

[40] 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).

[41] While the City projects that it will generate $216.5 million from the water and sewer utility tax in FY2020, $25.5 million will not be used to make the FY2020 pension contribution, but rather will be set aside in escrow to help make future years' contributions. City of Chicago, FY2020 Budget Overview, p. 53.

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.[42]

Therefore, we recommend Mayor Lightfoot and her administration undertake a long-term financial planning process that would proceed in four stages. First, the Mayor's administration should articulate fiscal and programmatic goals and priorities informed by public input. The long-term financial plan should evaluate financial and service data in order to determine how to accomplish the goals and priorities. It should 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 *Budget Forecast* should be expanded to include:

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

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.[43]

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[42] Government Finance Officers Association, "GFOA Best Practice: Long-Term Financial Planning," (2008).
[43] Government Finance Officers' Association, "GFOA Best Practice: Measuring the Cost of Government Service," (2002).

Maximize Transparency of the Sales Tax Securitization Corporation

The City of Chicago plans to issue General Obligation and junior lien Sales Tax Securitization Corporation (STSC) bonds to refinance $1.3 billion of outstanding callable General Obligation (GO) and Motor Fuel Tax (MFT) bonds for economic savings. The STSC 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.[44] 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.[45] Additionally, while interest rates are currently very low, since the new STSC bond will carry junior lien status it is possible they could be rated lower and carry higher interest costs more than the senior lien debt.

The Civic Federation continues to be 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 as a whole. 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.

Re-Evaluate the Use of TIF Funds

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. Mayor Lightfoot is expanding upon the policies of the previous administration by reviewing TIF projects carefully to identify which TIF funds are not needed for specific project.[46]

In FY2020 the City is declaring a surplus in Tax Increment Financing (TIF) districts of $300.2 million and will receive $74.1 million as its share of the distribution of those funds. Approximately $163.1 million will be disbursed to the Chicago Public Schools (CPS) and the remainder to the other overlapping tax districts. Since 2010 and including the proposed surplus for FY2020 the City will have declared a total of more than $1.5 billion in TIF surplus with approximately half going to Chicago Public Schools.[47] The City has said that this declaration of TIF surplus is extremely large and is unlikely to reoccur in future years.

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."

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[44] Fran Spielman, "Emanuel's $3 billion sales tax bonds get AAA rating," *Chicago Sun-Times*, November 2, 2017.
[45] S&P Global Ratings, "Sales Tax Securitization Corporation of Chicago; Sales Tax", ratings report, October 26, 2018.
[46] City of Chicago FY2020 Budget, Declaring Surplus TIF Funds Handout.
[47] City of Chicago FY2019 Budget Overview, p. 14 and Civic Federation calculations.

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.

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 $63.0 million in FY2020. The City of Chicago estimated that it will spend $230.9 million on residential solid waste removal services in FY2018.[48] 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.[49] The $9.50 fee imposed by the City of Chicago for waste removal services will only cover approximately 34% of the costs associated with the delivery of municipal waste services. Therefore, the remaining 66% must be paid for by other sources of revenue within the budget.

The Civic Federation continues to recommend 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.

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

ACKNOWLEDGEMENTS

The Civic Federation appreciates the willingness of Chief Financial Officer Jennie Huang Bennett, Office of Budget and Management (OBM) Director Susie Park and their staffs to answer our questions about the budget.

FY2020 CORPORATE FUND BUDGET DEFICIT AND GAP CLOSING MEASURES

This Analysis is based on the originally proposed budget[50]

In its *2020 Budget Forecast* the City of Chicago projected a $838.2 million budget deficit for FY2020 that includes all known long-term liabilities such as pensions and debt service.[51] The deficit was mainly the result of a projected $853.5 million increase in Corporate Fund expenditures in FY2020 compared to the FY2019 budget, offset partially by a $15.3 million increase in Corporate Fund revenues.[52]

The increase in expenditures in FY2020 is driven primarily by a $296.3 million increase in personnel costs tied to collective bargaining agreements, a $277.4 million increase in pension costs in the Corporate Fund, a $98 million increase in debt service and a $89.7 million increase over the prior year for expenses related to legal settlements and judgments budgeted in the Corporate Fund.[53]

Gap-Closing Measures and Additional Investments

The City is proposing to close its $838 budget gap through a combination of revenue increases and savings and efficiencies totaling $889.8 million, which are partially offset by an additional $51.8 million in investments. These measures are shown in the table below.

The City plans to generate a total of $352.2 million in increased revenues to help close the FY2020 budget gap. Congestion initiatives are estimated to generate $47.0 million, which include an increase to the City's Ground Transportation Tax applied to ridesharing companies for single rides to $1.13 per ride from $0.60, and an additional surcharge for rides that drop off and pick up in a downtown designated congestion area on weekdays between 6am and 10pm—an additional $1.75 for single rides and $0.60 for pooled rides.[54] Existing service and sales taxes are expected to bring in another $37.2 million, including a $20 million increase in estimated restaurant tax revenue by raising the rate from 0.25% to 0.50%, and a $17 million increase from increasing the personal property lease transaction rate charged for cloud software from 5.25% to 7.25%.[55]

The City plans to generate an additional $163 million in emergency services reimbursements for ambulance trips, consisting of an additional $133 million in Medicaid reimbursements from the federal government and $30 million through an increase in the ambulance fee.[56] The $133 million in reimbursements has been approved by the State but still must be approved by the

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[50] Media reports released as this analysis was being finalized have indicated that the Mayor will introduce a revised budget with additional savings to cover a potential shortfall if the real estate transfer tax is not passed in time.
[51] 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.
[52] City of Chicago, 2020 Budget Forecast, pp. 17-18.
[53] City of Chicago, 2020 Budget Forecast, p. 18.
[54] City of Chicago, 2020 Budget Overview, p. 39.
[55] City of Chicago, 2020 Budget Overview, pp. 179-180; and information provided by the City of Chicago Finance Department, October 22, 2019.
[56] Information provided by the City of Chicago Finance Department, October 22, 2019.

Centers for Medicare and Medicaid Services. Tax Increment Financing (TIF) surplus is expected to bring in $31.4 million more than originally anticipated due to the City implementing a more aggressive policy to sweep unused TIF fund balances not reserved for development projects. The budget factors in an additional $50 million from the real estate transfer tax in FY2020, which would require a change in State law to a proposed progressive tax rate. Another $23.6 million is expected to come mostly from an excise tax on cannabis and additional sales tax revenue on cannabis sales and an increase in the property tax for libraries.

In addition to increased revenue, the City expects to achieve a total of $537.6 million in savings and efficiencies. Approximately $200 million of these savings will be accomplished through a long-term debt refunding in which the City plans to take all of the interest cost savings upfront in the first year. Approximately $160 million of savings will be accomplished through zero based budgeting. The City will also close 250 vacant full-time equivalent (FTE) positions, which is estimated to save $9.3 million. Improved revenue collection through better systems management is expected to save $25 million. Another $141 million in savings is expected through improved fiscal management and sweeping of unused funds.

Partially offsetting the revenues and savings are $51.8 million in new investments that include spending on services for affordable housing and homelessness, violence prevention, mental health, congestion management and other neighborhood investments. This also includes $15.1 million in operational increases.

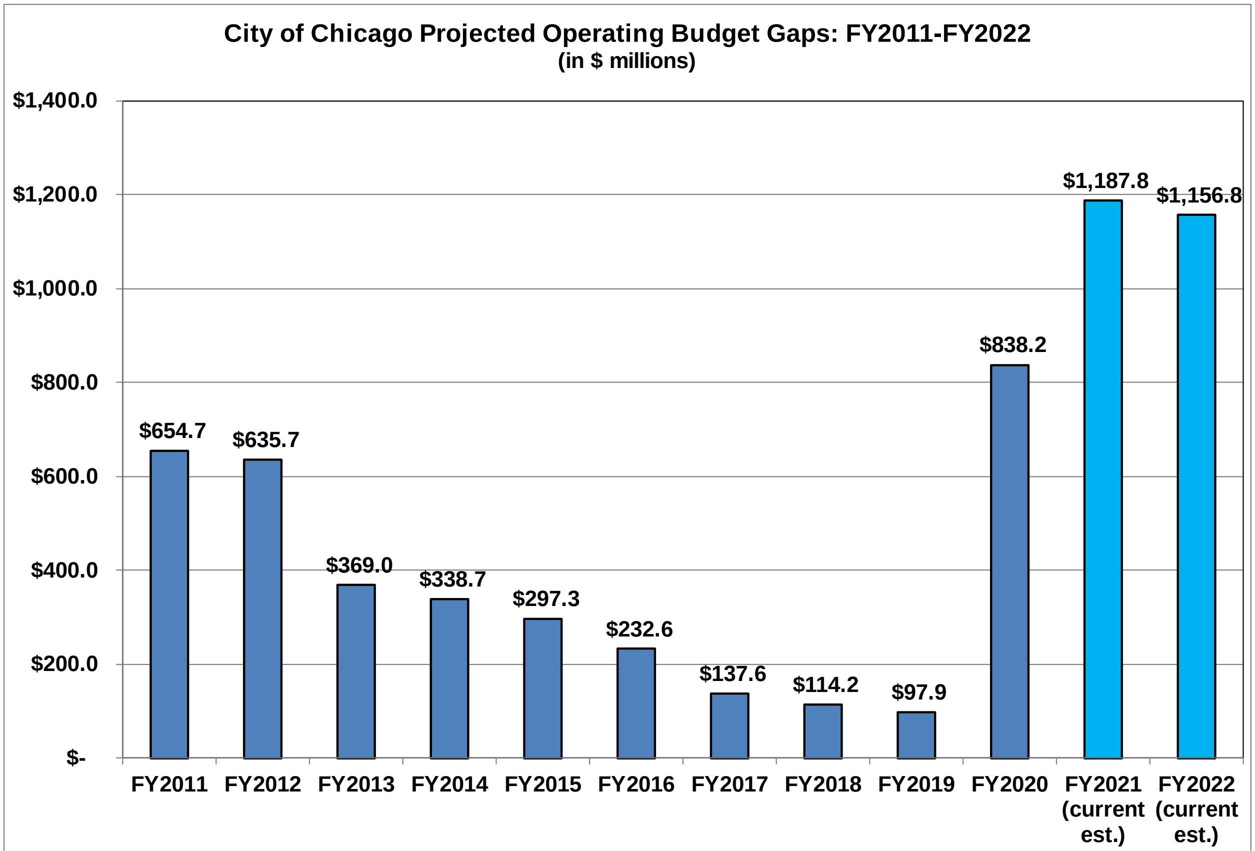
The table below shows how the City plans to close the $838 million budget gap through each of the initiatives discussed above.

Closing the City of Chicago FY2020 Corporate Fund Gap of $838 Million (in $ millions)		
Revenue Increases		
Congestion Initiatives	$	47.0
Existing Service and Sales Taxes	$	37.2
Emergency Services Reimbursement	$	163.0
Additional TIF Surplus	$	31.4
Real Estate Transfer Tax	$	50.0
Cannabis Tax and Other Revenue	$	23.6
Subtotal Revenue Increases	**$**	**352.2**
Savings and Efficiencies		
Zero-Based Budgeting	$	159.1
FTE Reduction	$	9.3
Debt Refunding	$	200.0
Improved Revenue Collection	$	25.0
Department Mergers	$	3.2
Improved Fiscal Management	$	141.0
Subtotal Expenditure Reductions	**$**	**537.6**
Total Revenue Increases/Savings	**$**	**889.8**
New Investments		
Affordable Housing and Homelessness	$	10.0
Violence Prevention	$	9.0
Framework for Mental Health Transformation	$	9.3
Focused Congestion and Mobility Management	$	2.0
Neighborhood Investments	$	6.4
Operational Increases	$	15.1
Subtotal New Investments	**$**	**51.8**
Total Deficit Closed	**$**	**838.0**

Source: City of Chicago, FY2020 Budget Overview, p. 31.

Historical Trend of Projected Budget Gaps

The following chart shows the historical trend of projected budget gaps from FY2011-FY2022. The City of Chicago’s projected budget gaps have fluctuated over the past 10 years. Between FY2011 and FY2019 the budget gap declined from $654.7 million to $97.9 million for FY2019. In FY2020 the gap increased to $838.2 million. The increase is partially attributable to the change in methodology for calculating the budget gap by including long-term liabilities such as pensions and debt service. The City projects that the operating budget gap of $838.2 million will increase to $1.19 billion in FY2021 and then will drop slightly to $1.16 billion in FY2022. These projections were made before the FY2020 budget, so they will be impacted by the actions taken in this year's budget to close the gap.



Source: City of Chicago 2018 Annual Financial Analysis, pp. 22 and 25; and City of Chicago FY2020 Budget Forecast, p. 20.

APPROPRIATIONS

The following section details the City's proposed appropriations for FY2020 compared to adopted appropriations for FY2016 to FY2019. Appropriations are compared by fund for local funds and by department, object and program area in the Corporate Fund. 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.[57] The Corporate Fund is the City's general operating fund and is used to support day-to-day operations in the City.[58]

Appropriation Trends by Fund for All Local Funds

The following table outlines appropriations by fund between FY2016 and FY2020. The FY2020 proposed budget projects $10.9 billion in total appropriations for all funds. When accounting for proceeds of debt and transfers between funds, the projected net appropriations for this year equal $9.9 billion. This is an increase of $1.0 billion, or 11.7%, from FY2019 adopted net appropriations of $8.9 billion.

[57] City of Chicago, FY2020 Budget Overview, p. 179.
[58] City of Chicago, FY2020 Budget Overview, p. 37.

Appropriations for the Corporate Fund will increase by 17.0%, or $649.4 million, from approximately $3.8 billion in FY2019 to $4.5 billion in FY2020. The increase is primarily due to increased salaries and wages in personnel services and increased expenditures in specific items and contingencies.

Appropriations for the pension funds will increase by 25.5%, or $346.8 million from $1.4 billion adopted in FY2019 to $1.7 billion proposed for FY2020. The large increase is due to the transition from five-year ramp funding to actuarially-based funding for the Police and Fire Pension Funds. For more information on pensions see p. 62.

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 $90.3 million, or 10.9%, above FY2019 adopted appropriations of $829.0 million.

Debt service fund appropriations will see a slight decline from $802.6 million in FY2019 to $802.4 million in FY2020. The debt service funds account for the payment of principal and interest on General Obligation bonds, as well as Motor Fuel Tax and Sales Tax Securitization Corporation (STSC) bonds. Debt service for the enterprise and special revenue funds is budgeted within those respective funds.[59]

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 7.9%, or $219.0 million, over the two-year period. The increase is primarily due to investments being made at O'Hare International Airport.[60]

Over the five-year period beginning in FY2016 net appropriations are projected to increase by 26.2%, or approximately $2.1 billion. The City's Corporate Fund will see the largest dollar increase since FY2016 at $894.4 million or 25.0%. The increase may have been greater if not for 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,[61] and a reduction of 252 full-time equivalent employees in the Corporate Fund through vacancy reductions and reallocations as well as other efficiencies proposed in FY2020.[62]

The City's Pension Funds will see the largest percentage increase over the five-year period at 74.3% or $727.1 million. This increase is due to increased contributions to the four funds. Following a five-year ramp in contributions to the Police and Fire Funds, FY2020 is first year the City will be making an actuarially calculated contribution to the Police and Fire Funds. FY2020 is the third year of statutory contributions to the Municipal and Laborers' funds.

The five-year $453.5 million, or 17.8%, 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

[59] City of Chicago, FY2020 Budget Overview, p. 51.
[60] City of Chicago, FY2020 Budget Overview, p. 47.
[61] City of Chicago, FY2019 Budget Overview, p. 38.
[62] City of Chicago, FY2020 Budget Overview, p. 41.

increased payments from the enterprise funds to cover increased contributions to the pension funds.[63]

Debt service funds will increase by $24.1 million, or 3.1%, over the five-year period. The increase in debt service is primarily due to the Sales Tax Securitization Corporation STSC. See p. 93 for more information about the STSC.

City of Chicago Appropriations by Fund for Local Funds: FY2016-FY2020 (in $ millions)

	FY2016 Adopted	FY2017 Adopted	FY2018 Adopted	FY2019 Adopted	FY2020 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund	$ 3,570.8	$ 3,719.0	$ 3,791.2	$ 3,815.7	$ 4,465.2	$ 649.4	17.0%	$ 894.4	25.0%
Special Revenue Funds	$ 678.4	$ 728.1	$ 780.1	$ 829.0	$ 919.2	$ 90.3	10.9%	$ 240.8	35.5%
Pension Funds	$ 978.3	$ 1,086.0	$ 1,245.7	$ 1,358.5	$ 1,705.3	$ 346.8	25.5%	$ 727.1	74.3%
Debt Service Funds	$ 778.3	$ 864.0	$ 821.3	$ 802.6	$ 802.4	$ (0.1)	0.0%	$ 24.1	3.1%
Enterprise Funds	$ 2,548.9	$ 2,651.3	$ 2,672.5	$ 2,783.3	$ 3,002.4	$ 219.0	7.9%	$ 453.5	17.8%
Total Appropriations	**$ 8,554.6**	**$ 9,048.3**	**$ 9,310.8**	**$ 9,589.1**	**$ 10,894.5**	**$ 1,305.4**	**13.6%**	**$ 2,339.9**	**27.4%**
Less Proceeds of Debt	$ (77.1)	$ (77.2)	$ (83.6)	$ (98.1)	$ (115.0)	$ (16.9)	17.2%	$ (37.9)	49.1%
Less Internal Transfer	$ (638.8)	$ (697.0)	$ (630.7)	$ (634.1)	$ (885.7)	$ (251.6)	39.7%	$ (246.9)	38.7%
Net Appropriation	**$ 7,838.6**	**$ 8,274.2**	**$ 8,596.5**	**$ 8,857.0**	**$ 9,893.8**	**$ 1,036.8**	**11.7%**	**$ 2,055.2**	**26.2%**

Note 1: Excludes grant funds. FY2016-FY2019 adopted figures are used because year-end estimates or actuals are not available.
Note 2: Totals may not sum due to rounding.
Source: City of Chicago, FY2016-FY2019 Annual Appropriations Ordinance, Summary E; and FY2020 Recommended Budget, Summary E.

Corporate Fund Appropriations by Department

The following chart illustrates FY2020 proposed Corporate Fund appropriations by department. The Police Department represents the largest portion of the Corporate Fund at 37.0% or $1.7 billion. Finance General appropriations represent 28.4%, or $1.3 billion of the Corporate Fund and consists of information technology expenses, employee health insurance benefit costs, contributions to pension funds and long-term debt service payments shared across departments.[64]

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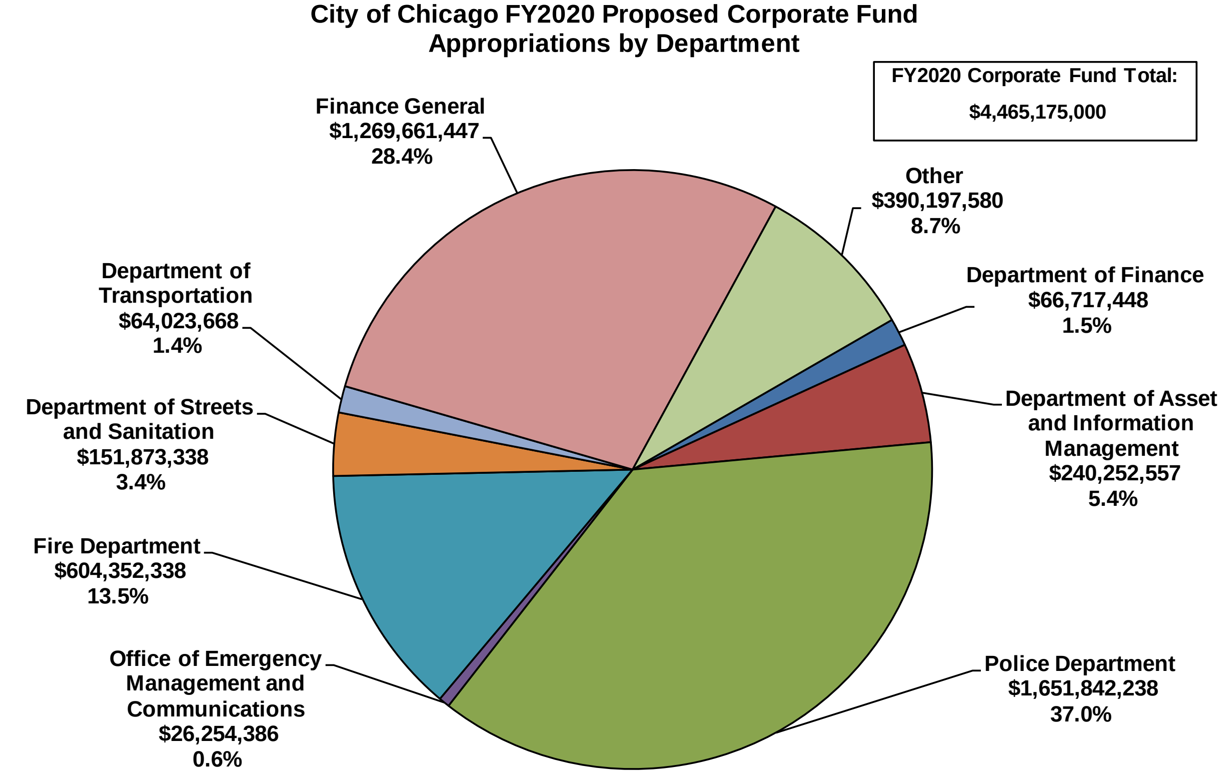
63 City of Chicago, FY2017 Budget Overview, p. 33; and FY2019 Budget Overview, p. 37.
64 City of Chicago, FY2020 Budget Overview, p. 178.

The remaining departments make up 34.6%, or $1.5 billion 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, Board of Ethics, Police Board and Civilian Office of Police Accountability (COPA).
Source: City of Chicago, FY2020 Budget Recommendations, Summary D.

Corporate Fund Appropriation Trends by Object

Appropriations by object categorizes similar line-item expenditures by type. The FY2020 Corporate Fund budget proposes a total appropriation of nearly $4.5 billion. This is an increase of $17.0%, or $649.4 million, from the FY2019 adopted appropriation of $3.8 billion.

Specific Items and Contingencies will see the largest dollar increase between FY2019 and FY2020, increasing by $467.9 million or 107.3%. This object 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. The increase is due to three factors: increasing funding for settlements and judgments to more accurately budget for these expenses, increased expenses related to a State match for emergency medical transportation reimbursements and increased contributions to the pension funds. Pension contributions represent $345.5 million of the FY2019 appropriations for Specific Items and Contingencies, which is an increase of $208.7 million from the FY2019 adopted appropriations.[65] This object of spending also includes $21.7 million in new investments related to affordable housing, homelessness, violence prevention and census investments.[66]

Personnel Services appropriations will see the second largest dollar increase over the two-year period, increasing by $175.8 million, or 6.1%, to $3.1 billion in FY2020. The increase includes required and currently under negotiation salary and wage increases for collective bargaining agreements.[67] However, the increase is offset by a reduction of 252 full-time equivalent employees in the Corporate Fund as a result of efforts to reduce and reallocate existing vacancies and positions through efficiencies.[68]

Spending on Permanent Improvement and Land and expenses related to Travel will be flat or nearly flat over the two- and five-year period. Spending on Equipment will see a slight decrease over the two-year period and will remain flat over the five-year period.

Commodities will decrease by $8.0 million or 9.8%. 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 FY2016 to FY2020, net appropriations will rise by $894.4 million or 25.0%. Specific Items and Contingencies will experience the greatest increase in dollar amount over the five-year period, rising by $491.9 million, or 119.3%, due primarily to increases in pension contributions, capital financing, debt service requirements and transfers between funds.

Personnel Services appropriations will increase by $287.7 million, or 10.4%, over the five-year period. Contractual Services appropriations will increase by $124.0 million, or 39.9%, from $311.1 million in FY2016 to $435.2 million in FY2020.

City of Chicago Proposed Appropriations for Corporate Fund by Object
FY2016-FY2020
(in $ millions)

	FY2016 Adopted	FY2017 Adopted	FY2018 Adopted	FY2019 Adopted	FY2020 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Personnel Services	$2,763.0	$2,821.8	$2,841.8	$2,874.9	$3,050.7	$ 175.8	6.1%	$ 287.7	10.4%
Contractual Services	$ 311.1	$ 343.9	$ 377.9	$ 421.4	$ 435.2	$ 13.8	3.3%	$ 124.0	39.9%
Travel	$ 1.0	$ 1.0	$ 0.7	$ 0.9	$ 1.0	$ 0.1	7.4%	$ 0.0	4.1%
Commodities	$ 82.9	$ 77.9	$ 77.0	$ 81.5	$ 73.5	$ (8.0)	-9.8%	$ (9.4)	-11.3%
Equipment	$ 0.6	$ 2.3	$ 0.8	$ 0.8	$ 0.6	$ (0.2)	-25.2%	$ 0.0	2.2%
Permanent Improvement and Land	$ -	$ -	$ 0.1	$ 0.0	$ 0.0	$ -	0.0%	$ 0.0	-
Specific Items and Contingencies	$ 412.3	$ 472.2	$ 493.0	$ 436.3	$ 904.2	$ 467.9	107.3%	$ 491.9	119.3%
Total	**$3,570.8**	**$3,719.0**	**$3,791.2**	**$3,815.7**	**$4,465.2**	**$ 649.4**	**17.0%**	**$ 894.4**	**25.0%**

Source: City of Chicago FY2016-FY2019 Annual Appropriations Ordinances, Summary D; and City of Chicago, FY2020 Budget Recommendations, Summary D.

[65] City of Chicago, FY2020 Budget Overview, p. 42.
[66] City of Chicago, FY2020 Budget Overview, p. 42.
[67] City of Chicago, FY2020 Budget Overview, p. 41.
[68] City of Chicago, FY2020 Budget Overview, p. 41.

All Funds Appropriation Trends by Program Area

In the City of Chicago budget, agencies are organized into eight functional program areas.[69] 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.
- **Infrastructure Services** departments are responsible for the reconstruction of streets, sidewalks and bridges, 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 FY2020 proposed appropriations to the adopted appropriations for FY2016 to FY2019 across all funds by program area.

Spending by program area, net of internal transfers and proceeds of debt, will increase by $1.0 billion, or 11.7%, between FY2019 and FY2020.

Appropriations for Legislative and Elections will decrease to $45.7 million from $62.2 million in FY2019, a decline of $16.5 million or 26.6%. This is the only program area that will see a decline over the two-year period. The reduction is primarily attributable to a reduction in appropriations for the Board of Election Commissioners.[70]

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[69] City of Chicago, FY2020 Budget Overview, p. 11.

[70] City of Chicago, FY2020 and Budget Recommendations, Summary E and FY2019 Budget Ordinance, p. 167.

Appropriations for Finance General, which includes cross departmental expenses, such as pension contributions, debt service and employee healthcare related expenses will see the largest two-year increase at $991.5 million or 20.0%. The increase is primarily due to the same changes in the Specific Items/Contingencies Fund described earlier in this section, particularly increased pension contributions, employee benefits, payments of judgments and other expenses. The General Financing Requirements for FY2020 includes a total of $1.7 billion in employee and annuitant pension payments and a total of nearly $2.0 billion for the payment of debt service. It also includes $572.0 million in employee benefit costs (excluding pension costs) for active employees and annuitants, among other expenses.[71]

Public Safety spending will see the second largest dollar increase in appropriations over the two-year period, increasing by $145.6 million or 6.1%. This is due to the creation of the new Office of Public Safety Administration, which will total $34.4 million in FY2020 as well as increases in spending for the Police Board, Police Department and Fire Department.[72]

City Development will see the largest percentage increase over the two-year period, increasing by 71.9% or $67.3 million. This increase is primarily due to increased spending in the Department of Housing and Department of Planning and Development.[73]

Finance and Administration will see a $26.2 million, or 4.7%, increase over the two-year period. This is primarily due to increased spending in the Mayor's Office, the Department of Finance and the Department of Asset and Information Management. However, these increases are offset by the merging of the Department of Innovation and Technology into the Department of Asset and Information Management.[74]

Infrastructure Services will increase by $52.8 million, or 4.1%, over the two-year period. The increase is primarily due to increased spending within the Department of Transportation and Department of Aviation.[75]

Over the five-year period between FY2016 and FY2020, appropriations by program area will increase by $2.1 billion or 26.2%. Appropriations in every program area will increase over the five-year period. Finance General will see the largest increase at $1.5 billion. The increase in Finance General is primarily due to the City increasing funding to the pension funds in recent years. Public Safety will increase by $386.2 million primarily due to increased staffing in the

[71] City of Chicago, FY2020 Budget Overview, p. 168.
[72] City of Chicago, FY2020 Budget Overview, pp. 109-110.
[73] City of Chicago, FY2020 Budget Overview, p. 139.
[74] City of Chicago, FY2020 Budget Overview, p. 60.
[75] City of Chicago, FY2020 Budget Overview, p. 88.

police department that was part of Mayor Emanuel's public safety strategy as well as increases related to the police consent decree.

City of Chicago Appropriations for All Funds by Program Area FY2016-FY2020									
	FY2016 Adopted	FY2017 Adopted	FY2018 Adopted	FY2019 Adopted	FY2020 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Finance and Administration	$ 516.8	$ 535.0	$ 546.6	$ 554.5	$ 580.8	$ 26.2	4.7%	$ 64.0	12.4%
Infrastructure Services	$1,129.2	$1,187.0	$1,213.4	$1,292.9	$ 1,345.7	$ 52.8	4.1%	$ 216.5	19.2%
Public Safety	$2,133.7	$2,209.4	$2,318.0	$2,374.2	$ 2,519.9	$ 145.6	6.1%	$ 386.2	18.1%
Community Services	$ 153.1	$ 167.7	$ 175.2	$ 195.3	$ 233.3	$ 38.0	19.5%	$ 80.3	52.5%
City Development	$ 72.1	$ 93.5	$ 111.8	$ 93.6	$ 161.0	$ 67.3	71.9%	$ 88.9	123.4%
Regulatory	$ 63.0	$ 66.0	$ 65.9	$ 68.6	$ 69.0	$ 0.4	0.7%	$ 6.1	9.6%
Legislative and Elections	$ 42.1	$ 38.9	$ 43.0	$ 62.2	$ 45.7	$ (16.5)	-26.6%	$ 3.6	8.5%
Finance General	$4,444.6	$4,750.9	$4,836.9	$4,947.7	$ 5,939.2	$ 991.5	20.0%	$1,494.6	33.6%
Subtotal Program Areas	**$8,554.4**	**$9,048.3**	**$9,310.8**	**$9,589.1**	**$10,894.5**	**$1,305.4**	**13.6%**	**$2,340.1**	**27.4%**
Less Internal Transfers	$ (638.8)	$ (697.0)	$ (630.7)	$ (634.1)	$ (885.7)	$ (251.6)	139.7%	$ (246.9)	38.7%
Less Proceeds of Debt	$ (77.1)	$ (77.2)	$ (83.6)	$ (98.1)	$ (115.0)	$ (16.9)	117.2%	$ (37.9)	49.1%
Total	**$7,838.4**	**$8,274.2**	**$8,596.5**	**$8,857.0**	**$ 9,893.8**	**$1,036.8**	**11.7%**	**$2,055.3**	**26.2%**

Source: FY2016-FY2019 Annual Appropriation Ordinance, Summary E; and FY2020 Budget Recommendations, Summary E.

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 FY2020 revenue estimates to FY2019 approved budget figures and prior year actual revenues when available.

Projected FY2020 Resources for All Local Funds

The City of Chicago projects total resources for all local funds to be $10.9 billion in FY2020. 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 FY2020.[76] Including grant funding, the City's total budget resources are projected to be $11.7 billion.[77]

The chart below provides an overview of the proposed FY2020 resources for all local funds by source.[78] Grant funds and capital funding are excluded from the chart.

Property tax revenues are projected to generate $1.54 billion in FY2020, or 14.1% of total resources. This includes $29.0 million levied on behalf of City Colleges of Chicago. Chicago's Midway and O'Hare airports are estimated to generate $1.8 billion from airport charges and fees, representing 16.6% of total resources. Revenue from water and sewer fees is projected to account for 12.1% of revenue in FY2019, or $1.3 billion.

[76] City of Chicago FY2020 Budget Overview, p. 36.
[77] City of Chicago FY2020 Budget Overview, p. 35.
[78] 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).

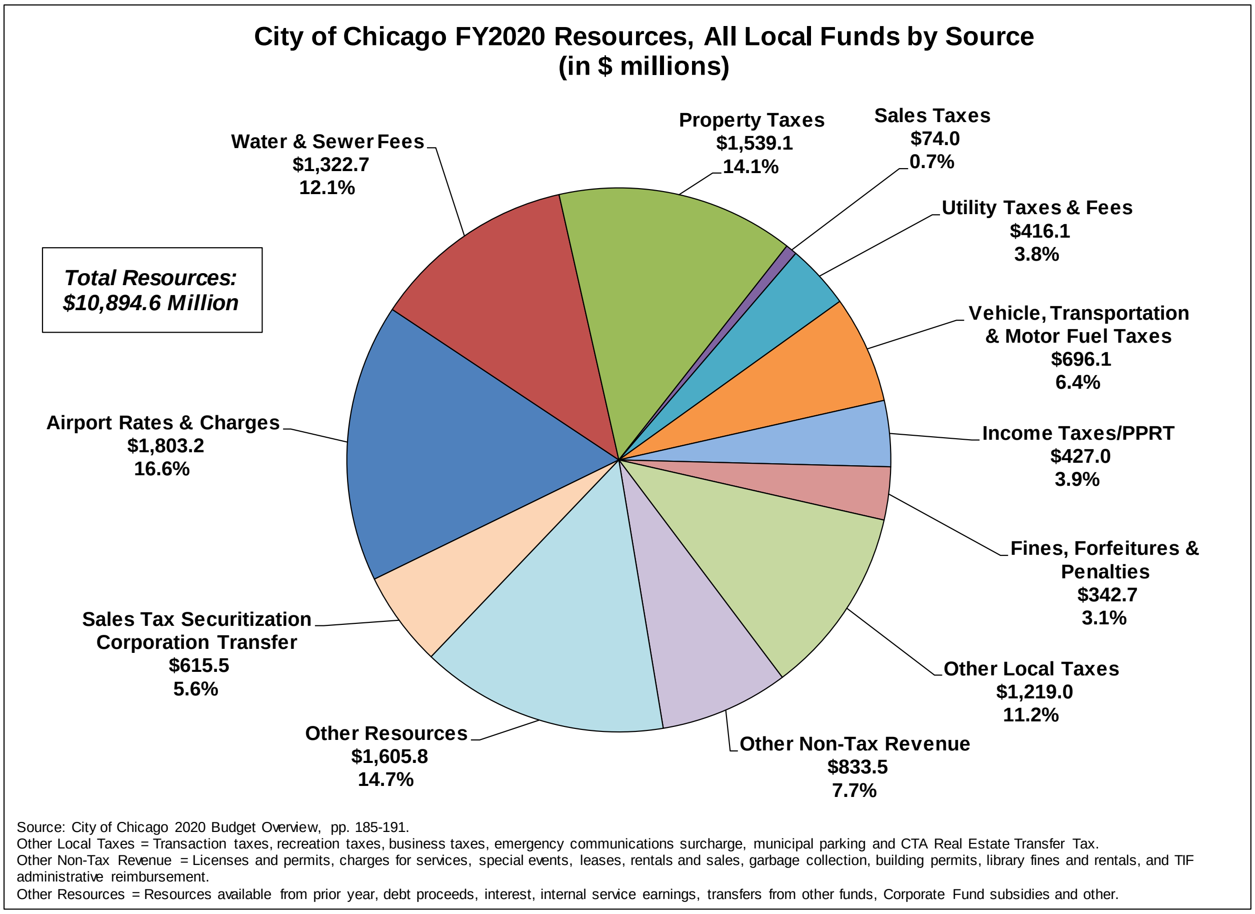
Sales tax revenue is projected to be $74.0 million, or 0.7%, which reflects only a portion of sales tax revenue, and includes the use tax on non-titled personal property, the restaurant tax and private vehicle use tax.[79] The majority of sales tax revenue is now directed to a Sales Tax Securitization Corporation (STSC) to pay for debt issuances, and any revenue not used for debt service is transferred to the City. The City expects to receive $615.5 million from the STSC, which is 5.6% of total resources.

Other local taxes,[80] which are taxes on activities such as businesses, hotels, parking and recreation (amusement tax, liquor tax, cigarette tax, etc.), are projected to account for $1.2 billion, or 11.2%, of total resources. Non-tax revenues[81] from sources such as licenses, permits and other fees and charges, are projected to compose 7.7% of total resources, or $833.5 million.

Other resources is a large category totaling $1.6 billion that includes prior year resources available for carrying forward, transfers from other funds, interest income, debt proceeds, internal service earnings and other miscellaneous resources. It is important to note that the four

[79] City of Chicago FY2020 Budget Overview, p. 38.
[80] 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.
[81] 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.

pension funds together receive $498.7 million in transfers from other funds,[82] which results in double counting in total resources.



All Local Funds Trends

The following table presents resources for all local funds by fund from FY2016 through FY2020. The City of Chicago's total resources for all local funds are projected to increase by 13.7%, or $1.3 billion, to $10.9 billion in FY2020 from total resources of $9.6 billion adopted in the FY2019 budget.

Corporate Fund revenues are expected to increase by 19.4%, or $607.5 million, from $3.1 million in FY2019 to $3.7 million in FY2020. In the five-year period between FY2016 and FY2020, Corporate Fund revenues are expected to increase by $114.4 million or 3.2%. Corporate Fund revenues are discussed in more detail in the next section.

Revenues within the special revenue Funds are expected to increase by 18.0%, or $130.7 million, to $857.1 million from $726.4 million the prior year. The City expects revenues within several special funds to increase. The city projects a $43.0 million, or 16.3%, increase in motor fuel tax revenue due to a State increase in the tax effective July 1, 2019. The City also anticipates a $31.2

[82] City of Chicago FY2020 Budget Overview, p. 191.

million increase in revenue within the Neighborhood Opportunity Fund and $16.1 million increase in the Affordable Housing Opportunity Fund, which are funded by payments from developers in exchange for density bonuses that allow development projects to increase density. These initiatives are intended to support economic activity on the south and west sides of the City and increase available affordable housing.[83] The City is creating new special revenue funds in FY2020: a Parking Meter fund to account for payments owed in relation to the parking meter concession deal, and two homeshare surcharge funds to support homeless and domestic violence services.

Over the five-year period from FY2016 to FY2020, revenue within the special revenue funds is expected to increase by $192.4 million or 28.9%, mainly due to the creation of several special revenue funds to support specific programs over the years.

Enterprise Fund revenues consist of revenues generated from Chicago's airports and water and sewer charges. The City projects that these revenues will increase by $199.9 million, or 7.2%, to $3.0 billion in FY2020 from $2.8 billion in FY2019. Revenues are expected to increase across all four funds (Water, Sewer, O'Hare and Midway) in FY2020 due to fee increases.

Total resources allocated to the City's four pension funds are projected to be $1.7 billion in FY2020, which is an increase of $346.8 million, or 25.5%, from the FY2019 adopted budget of $1.4 billion. The largest increases will take place within the Police and Fire Pension Funds. The Police will increase by $158.5 million, or 27.4%, to $737.5 million from $579.0 million the prior year. The Fire Fund is increasing by $122.8 million, or 49.4%, from $248.5 million in FY2019 to $371.3 million in FY2020. The Municipal and Laborers' Pension Funds will also increase in FY2020.

The pension funds are supported by $975.5 million in property tax revenue, $191.0 million from the water and sewer tax, $14.5 million in emergency communication revenue, $153.2 million in transfers from the enterprise funds and special revenue funds and $345.5 million in transfers from the Corporate Fund.[84]

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 $795.2 million in FY2020, which is a $24.4 million, or 3.0%, decrease from the FY2019 adopted budget level of $819.6 million. Over the five-year period from FY2016 to FY2020, debt service funds revenue will decline by $403.2 million or 33.6%. The decrease is due to the creation of the Sales Tax Securitization Corporation (STSC) in FY2018.

Other resources include proceeds and transfers-in to the Corporate Fund and use of prior year fund balance. The City expects to receive $642.5 million in proceeds and transfers in FY2020. This category primarily consists of available sales tax revenue from the Sales Tax Securitization Corporation (STSC) established in FY2018. The majority of sales tax revenue is now diverted to

[83] City of Chicago FY2020 Budget Overview, pp. 45-46.
[84] City of Chicago FY2020 Budget Overview, pp. 52, 191.

the STSC to pay for debt service on bonds, and remaining sales tax revenues are then transferred to the Corporate Fund. The City expects to receive $615.5 million in sales tax revenue from the STSC in FY2020.

The City also plans to use $80.0 million in unrestricted fund balance available from the prior year within the Corporate Fund, $98.2 million in available fund balance within the special revenue funds and enterprise funds and $7.2 million of prior year fund balance in the debt service funds. In total, the City plans to utilize $185.4 million in available fund balance from the prior year.

City of Chicago All Local Funds Resources by Fund: FY2016-FY2020 (in $ millions)	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Adopted	FY2020 Proposed	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
Corporate Fund									
Tax Revenues	$ 2,604.9	$ 2,439.5	$ 2,012.7	$ 2,060.9	$ 2,273.0	$ 212.1	10.3%	$ (331.9)	-12.7%
Non-Tax Revenues	$ 1,023.4	$ 1,056.1	$ 1,117.4	$ 1,074.3	$ 1,469.7	$ 395.4	36.8%	$ 446.3	43.6%
Total Corporate Fund Revenue	**$ 3,628.3**	**$ 3,495.6**	**$ 3,130.1**	**$ 3,135.2**	**$ 3,742.7**	**$ 607.5**	**19.4%**	**$ 114.4**	**3.2%**
Special Revenue Funds									
Vehicle & Motor Fuel Taxes	$ 260.3	$ 271.9	$ 253.2	$ 263.5	$ 306.5	$ 43.0	16.3%	$ 46.2	17.7%
Library	$ 99.6	$ 98.2	$ 100.9	$ 108.3	$ 116.7	$ 8.4	7.8%	$ 17.1	17.2%
Emergency Communication	$ 101.3	$ 100.5	$ 131.2	$ 124.8	$ 132.1	$ 7.3	5.8%	$ 30.8	30.4%
Special Events and Hotel Tax	$ 44.4	$ 44.2	$ 43.1	$ 48.3	$ 49.7	$ 1.4	2.9%	$ 5.3	11.9%
CTA Real Estate Transfer Tax	$ 79.3	$ 63.9	$ 69.8	$ 64.0	$ 60.8	$ (3.2)	-5.0%	$ (18.5)	-23.3%
Affordable Housing Fund	$ 16.7	$ 19.9	$ 17.8	$ 17.5	$ 33.6	$ 16.1	92.0%	$ 16.9	101.2%
TIF Administration	$ 8.7	$ 9.0	$ 8.9	$ 10.2	$ 13.4	$ 3.2	31.4%	$ 4.7	54.0%
Garbage Collection	$ 54.4	$ 64.0	$ 63.0	$ 61.2	$ 63.0	$ 1.8	2.9%	$ 8.6	15.8%
Neighborhood Opportunity Fund	$ -	$ 3.4	$ 11.3	$ 12.2	$ 43.4	$ 31.2	255.7%	$ 43.4	-
Chicago Police CTA Detail Fund	$ -	$ -	$ -	$ 10.8	$ 10.8	$ -	0.0%	$ 10.8	-
Foreign Fire Insurance Tax Fund	$ -	$ -	$ -	$ 5.5	$ 5.5	$ -	0.0%	$ 5.5	-
Controlled Substances Fund	$ -	$ -	$ -	$ 0.1	$ 0.1	$ -	0.0%	$ 0.1	-
Chicago Parking Meters	$ -	$ -	$ -	$ -	$ 14.0	$ 14.0	-	$ 14.0	-
Human Capital Innovation Fund	$ -	$ -	$ 10.5	$ -	$ -	$ -	-	$ -	-
Homeshare Surcharge - Homeless Services	$ -	$ -	$ -	$ -	$ 5.0	$ 5.0	-	$ 5.0	-
Homeshare Surcharge - Domestic Violence	$ -	$ -	$ -	$ -	$ 2.5	$ 2.5	-	$ 2.5	-
Total Special Revenue Funds Revenue	**$ 664.7**	**$ 675.0**	**$ 699.2**	**$ 726.4**	**$ 857.1**	**$ 130.7**	**18.0%**	**$ 192.4**	**28.9%**
Enterprise Funds									
Water & Sewer	$ 1,132.7	$ 1,134.5	$ 1,154.7	$ 1,119.4	$ 1,163.2	$ 43.8	3.9%	$ 30.5	2.7%
Midway and O'Hare Airports	$ 1,285.1	$ 1,375.8	$ 1,462.1	$ 1,647.1	$ 1,803.2	$ 156.1	9.5%	$ 518.1	40.3%
Total Enterprise Funds Revenue	**$ 2,417.8**	**$ 2,510.3**	**$ 2,616.8**	**$ 2,766.5**	**$ 2,966.4**	**$ 199.9**	**7.2%**	**$ 548.6**	**22.7%**
Pension Funds									
Municipal	$ 161.5	$ 267.0	$ 402.2	$ 471.0	$ 524.5	$ 53.5	11.4%	$ 363.0	224.8%
Laborers'	$ 15.0	$ 36.0	$ 48.0	$ 60.0	$ 72.0	$ 12.0	20.0%	$ 57.0	380.0%
Police	$ 464.0	$ 500.0	$ 557.0	$ 579.0	$ 737.5	$ 158.5	27.4%	$ 273.5	58.9%
Fire	$ 208.0	$ 227.0	$ 238.5	$ 248.5	$ 371.3	$ 122.8	49.4%	$ 163.3	78.5%
Total Pension Funds Revenue	**$ 848.5**	**$ 1,030.0**	**$ 1,245.7**	**$ 1,358.5**	**$ 1,705.3**	**$ 346.8**	**25.5%**	**$ 856.8**	**101.0%**
Debt Service Funds									
Motor Fuel Tax Debt Service	$ 13.5	$ 16.7	$ 15.6	$ 18.4	$ 10.4	$ (8.0)	-43.5%	$ (3.1)	-23.0%
Sales Tax Bond Redemption and Interest	$ 37.9	$ 40.4	$ -	$ -	$ -	$ -	-	$ (37.9)	-100.0%
General Obligation Bonds	$ 997.1	$ 993.7	$ 462.8	$ 637.2	$ 613.3	$ (23.9)	-3.8%	$ (383.8)	-38.5%
Library Bonds	$ 88.4	$ 78.3	$ 86.9	$ 105.2	$ 123.6	$ 18.4	17.5%	$ 35.2	39.8%
Emergency Communication Bond Fund	$ 22.3	$ 22.3	$ 22.3	$ 22.3	$ 16.4	$ (5.9)	-26.5%	$ (5.9)	-26.5%
City Colleges Bond Fund	$ 39.2	$ 32.4	$ 36.8	$ 36.5	$ 31.5	$ (5.0)	-13.7%	$ (7.7)	-19.6%
Total Debt Service Funds Revenue	**$ 1,198.4**	**$ 1,183.8**	**$ 624.4**	**$ 819.6**	**$ 795.2**	**$ (24.4)**	**-3.0%**	**$ (403.2)**	**-33.6%**
Total Revenues	**$ 8,757.7**	**$ 8,894.7**	**$ 8,316.2**	**$ 8,806.2**	**$ 10,066.7**	**$ 1,260.5**	**14.3%**	**$ 1,309.0**	**14.9%**
Corporate Fund Proceeds & Transfers In	$ 8.0	$ 180.2	$ 627.5	$ 604.6	$ 642.5	$ 37.9	6.3%	$ 634.5	7931.3%
Corporate Fund Prior Year Available Fund Balance	$ -	$ -	$ -	$ 76.0	$ 80.0	$ 4.0	5.3%	$ 80.0	-
Special Funds and Enterprise Funds Prior Year Available Fund Balance	38.4	$ 71.6	$ 89.5	$ 97.7	$ 98.2	$ 0.5	0.5%	$ 59.8	155.7%
Debt Service Funds Prior Year Available Fund Balance	$ 15.9	$ 23.9	$ 0.3	$ 1.4	$ 7.2	$ 5.8	414.3%	$ (8.7)	-54.7%
Total Resources	**$ 8,804.1**	**$ 9,146.5**	**$ 9,033.2**	**$ 9,584.5**	**$ 10,894.6**	**$ 1,310.1**	**13.7%**	**$ 2,090.5**	**23.7%**

Note: Minor differences from budget may appear due to rounding.
Sources: City of Chicago FY2020 Budget Overview, pp. 185-191; and FY2019 Annual Appropriation Ordinance, pp. 20-30.

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 $4.47 billion in Corporate Fund revenue in FY2020, a 17.0%, or $649.4 million, increase from the FY2019 adopted Corporate Fund budget of $3.82 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 in the Corporate Fund are expected to total $2.3 billion in FY2020, an increase of $212.1 million, or 10.3%, from the prior year. The increase is largely due to a $118.5 million projected increase in transaction taxes including the personal property lease transaction tax and real property transfer tax. The City plans to implement a 2.0% increase to the personal property lease transaction tax to 7.25%, and implement a progressive rate structure for real estate transfers, which requires State legislation.[85] In addition, the City expects transportation taxes to increase by $41.7 million due to a proposed increase to the Ground Transportation Tax applied to rideshare companies.[86]

Sales and use tax revenue is expected to increase from $48.1 million in the adopted FY2019 budget to $74.0 million in FY2020 primarily due to a planned increase in the restaurant tax rate from 0.25% to 0.50%, which is expected to generate $20.0 million.[87] Sales taxes previously accounted for the largest portion of tax revenue, but are now accounted for under proceeds and transfers in because of the creation of the Sales Tax Securitization Corporation structure in FY2018.

The City projects a slight 3.2% decline in utility taxes from $430.0 million in FY2019 to $416.1 million in FY2020.

Non-Tax Revenues

Non-tax revenues are expected to generate $1.5 billion in FY2020, which is a $395.4 million, or 36.8%, increase from the FY2019 adopted amount of $1.1 billion. The increase is primarily within charges for services due to an increase in State reimbursements for emergency transportation services to recoup more of the actual cost of ambulance services.[88] Interest and other revenue will also increase by $83.5 million in FY2020 from the prior year due to an expected reimbursement from Chicago Public Schools for its share of the Municipal Employees' Pension Fund contribution and TIF surplus.[89]

Other Sources

The City is planning to use $80.0 million in unrestricted fund balance in FY2020. Additionally, as noted above, the transfers-in from other funds to the Corporate Fund now includes the sales tax revenue available after covering bond expenses for the STSC. Transfers in also includes interest income from the Asset Lease and Concession Reserves.[90] Proceeds and transfers-in will

[85] City of Chicago, FY2020 Budget Overview, pp. 38-39.
[86] City of Chicago, FY2020 Budget Overview, p. 39.
[87] City of Chicago, FY2020 Budget Overview, p. 38.
[88] City of Chicago, FY2020 Budget Overview, p. 40; and communication with City of Chicago budget office, October 22, 2019.
[89] City of Chicago, FY2020 Budget Overview, p. 40.
[90] The Asset Lease and Concession Reserves were established with the lease transactions of the City's parking meters and the Skyway.

total $642.5 million in FY2020, consisting of $615.5 million of sales tax revenue from the STSC, $19.0 million from the asset lease reserves and $8.0 million from other transfers and proceeds.[91]

Over the five-year period from FY2016 to FY2020, total Corporate Fund resources are expected to increase by $828.9 million, or 22.8%. Over the five-year period, total non-tax revenue is expected to increase by 43.6%, while total tax revenue is expected to decrease by 12.7%, primarily due to the shifting of sales tax to the STSC.

City of Chicago Corporate Fund Resources: FY2016-FY2020
(in $ millions)

Tax Revenue	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Adopted	FY2020 Proposed	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
City + State Sales & Use Taxes	$ 674.5	$ 500.4	$ 57.0	$ 48.1	$ 74.0	$ 25.9	53.8%	$ (600.5)	-89.0%
Utility Tax & Franchise Fees	$ 434.4	$ 439.0	$ 432.1	$ 430.0	$ 416.1	$ (13.9)	-3.2%	$ (18.3)	-4.2%
State Income Taxes (including PPRT)	$ 413.7	$ 388.2	$ 392.4	$ 392.2	$ 427.0	$ 34.8	8.9%	$ 13.3	3.2%
Transaction Taxes	$ 463.6	$ 434.2	$ 477.5	$ 440.4	$ 558.9	$ 118.5	26.9%	$ 95.3	20.6%
Transportation Taxes	$ 247.1	$ 275.0	$ 307.1	$ 341.9	$ 383.6	$ 41.7	12.2%	$ 136.5	55.2%
Recreation Taxes	$ 246.6	$ 253.1	$ 279.5	$ 270.1	$ 272.8	$ 2.7	1.0%	$ 26.2	10.6%
Business Taxes	$ 118.9	$ 142.9	$ 141.7	$ 132.2	$ 134.4	$ 2.2	1.7%	$ 15.5	13.0%
Other Intergovernmental*	$ 6.1	$ 6.7	$ 7.5	$ 6.0	$ 6.2	$ 0.2	3.3%	$ 0.1	1.6%
Total Tax Revenue	**$ 2,604.9**	**$ 2,439.5**	**$ 2,094.8**	**$ 2,060.9**	**$ 2,273.0**	**$ 212.1**	**10.3%**	**$ (331.9)**	**-12.7%**
Non-Tax Revenue									
Fines & Forfeitures	$ 318.4	$ 344.9	$ 335.9	$ 345.0	$ 342.7	$ (2.3)	-0.7%	$ 24.3	7.6%
Licenses & Permits	$ 130.4	$ 133.5	$ 129.3	$ 134.1	$ 128.3	$ (5.8)	-4.3%	$ (2.1)	-1.6%
Charges for Services	$ 130.8	$ 118.2	$ 122.7	$ 139.6	$ 460.2	$ 320.6	229.7%	$ 329.4	251.8%
Leases, Rentals & Sales	$ 26.1	$ 25.9	$ 35.7	$ 34.3	$ 33.7	$ (0.6)	-1.7%	$ 7.6	29.1%
Municipal Parking	$ 7.5	$ 7.7	$ 7.8	$ 7.6	$ 7.6	$ -	0.0%	$ 0.1	1.3%
Interest and Other**	$ 410.2	$ 425.9	$ 341.1	413.7	$ 497.2	$ 83.5	20.2%	$ 87.0	21.2%
Total Non-Tax Revenue	**$ 1,023.4**	**$ 1,056.1**	**$ 972.5**	**$ 1,074.3**	**$ 1,469.7**	**$ 395.4**	**36.8%**	**$ 446.3**	**43.6%**
Prior Year Unrestricted Fund Balance	**$ -**	**$ -**		**$ 76.0**	**$ 80.0**	**$ 4.0**	**5.3%**	**$ 80.0**	**-**
Proceeds & Transfers In	**$ 8.0**	**$ 180.2**	**$ 627.5**	**$ 604.6**	**$ 642.5**	**$ 37.9**	**6.3%**	**$ 634.5**	**7931.3%**
Total Corporate Resources	**$ 3,636.3**	**$ 3,675.8**	**$ 3,694.8**	**$ 3,815.8**	**$ 4,465.2**	**$ 649.4**	**17.0%**	**$ 828.9**	**22.8%**

*Other Intergovernmental includes Municipal Auto Rental Tax and Reimbursements for City Services.
**Interest and Other includes interest income, internal service earnings and other revenue.
Source: City of Chicago FY2020 Budget Overview, pp. 38 & 185-186.

Property Tax Levy

In order to better understand the City of Chicago property tax proposals contained in the FY2020 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, FY2020, is payable in calendar year 2021.

Property Tax Revenues

The City of Chicago levies property taxes for four purposes: to support payments to the City's four pension funds; to pay the City's debt service obligations; to help the Chicago Public Library with long-term borrowing for capital projects and short-term borrowing for general operations;

[91] City of Chicago, FY2020 Budget Overview, p. 185.

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.[92]

The City's proposed FY2020 gross property tax levy is approximately $1.51 billion, which is a 5.0%, $72.3 million increase over the $1.44 billion levy adopted in the FY2019 budget. The $72.3 million increase in FY2020 gross property tax revenue is due to an increase in the gross property tax levy for library debt of $14 million,[93] and an increase of $70.0 million in the gross levies for the Police and Fire pension funds as they transition from the five-year pension ramp to actuarially-calculated contributions. The increases are offset by decreases in debt service gross levies of nearly $12 million, which the City attributes to savings from refunding bonds issued by the City and the Sales Tax Securitization Corporation ("STSC").[94] The City also says it will increase property tax revenue through capturing new property and expiring TIF increment, which will be added to the debt service levy.[95]

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. Approximately 64.6% of the FY2020 levy, or $975.5 million, will be used for pension payments.

Of the proposed FY2020 property tax levy, $415.2 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 FY2020 gross property tax levy includes $119.4 million in property taxes levied for the Chicago Public Library, which is a department of city government.[96] 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 $29.0 million will be dedicated in FY2020.[97]

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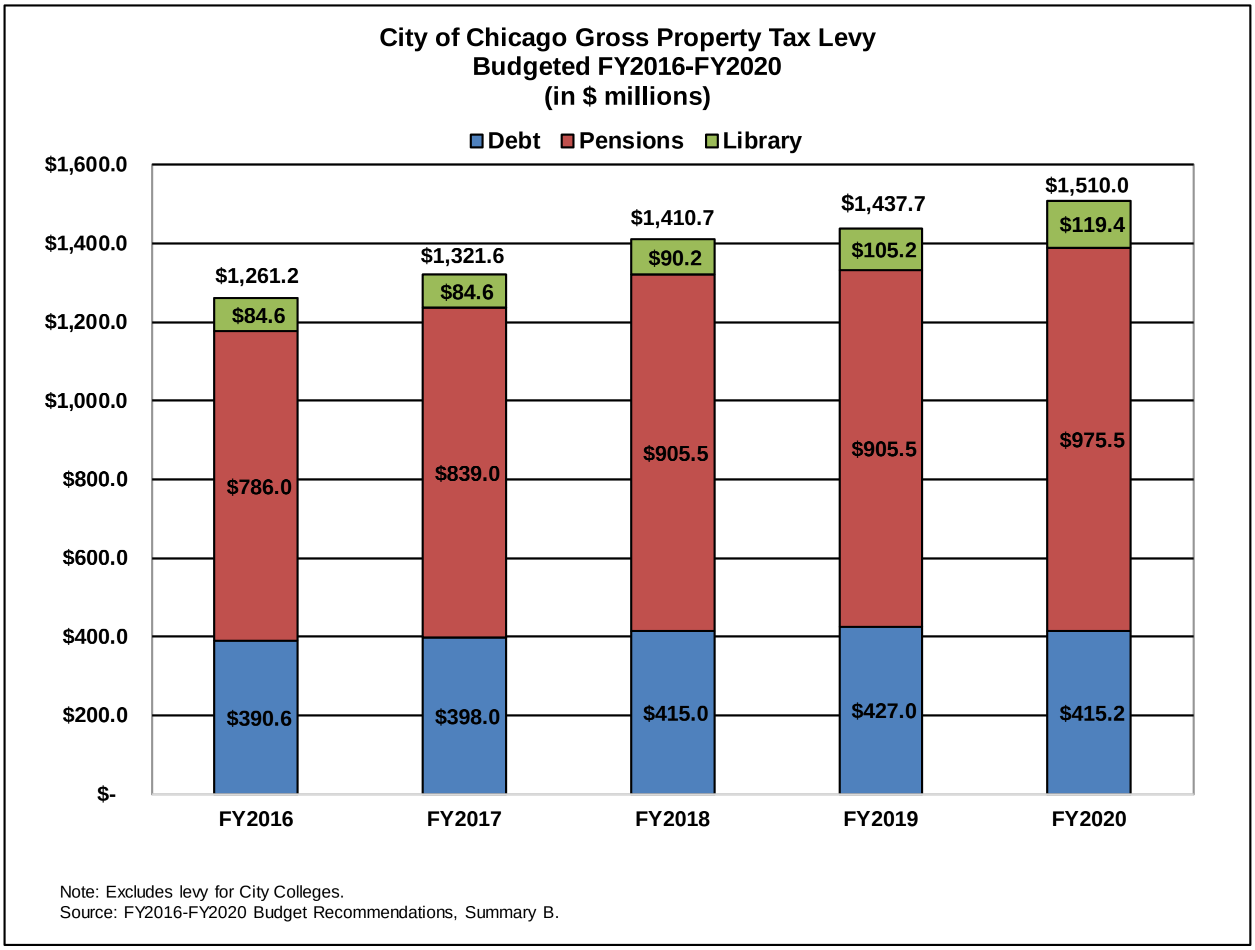
[92] FY2004 is the last year that any of the City property tax levy was used for the Corporate Fund.
[93] On a net basis, the library levy increase is $18.4 million over FY2019. The City says the increase in the levy will eliminate the need for the Corporate Fund to subsidize the Chicago Public Libraries and allow them to be open on Sundays. City of Chicago, FY2020 Budget Overview, p. 55.
[94] City of Chicago, FY2020 Budget Overview, p. 51.
[95] City of Chicago, FY2020 Budget Overview, p. 55.
[96] Since 1996 the library has been listed as a separate line item on Chicago property tax bills.
[97] City of Chicago FY2020 Budget Recommendations, Summary B, p. 2.

The chart below provides the dollar amounts of the City's gross property tax levy dedicated to pensions, debt service and libraries, but excluding the City Colleges levy.



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.[98]

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.

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

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.[99] 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.[100] 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.[101] 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.[102] It remained relatively flat until FY2019 and declined to $29.0 million in FY2020. The City proposes to appropriate $2.5 million in other revenue and $4.8 million in fund balance to cover the remaining portion of the debt service.[103]

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.[104]

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[99] Journal of Proceedings of the City Council, September 29, 1999. Available at http://www.chicityclerk.com/journalofproceedings90s.php.
[100] Property Tax Extension Limitation Law, 35 ILCS 200/18.
[101] Information provided by City Colleges of Chicago Finance Office, June 26, 2008.
[102] 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
[103] City of Chicago, FY2020 Budget Recommendations, Summary B, p. 2.
[104] 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.

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.[105] 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.[106] In 2019 the debt service payment will escalate to $112.5 million and then increase to $142.3 million annually through 2031.[107] 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.

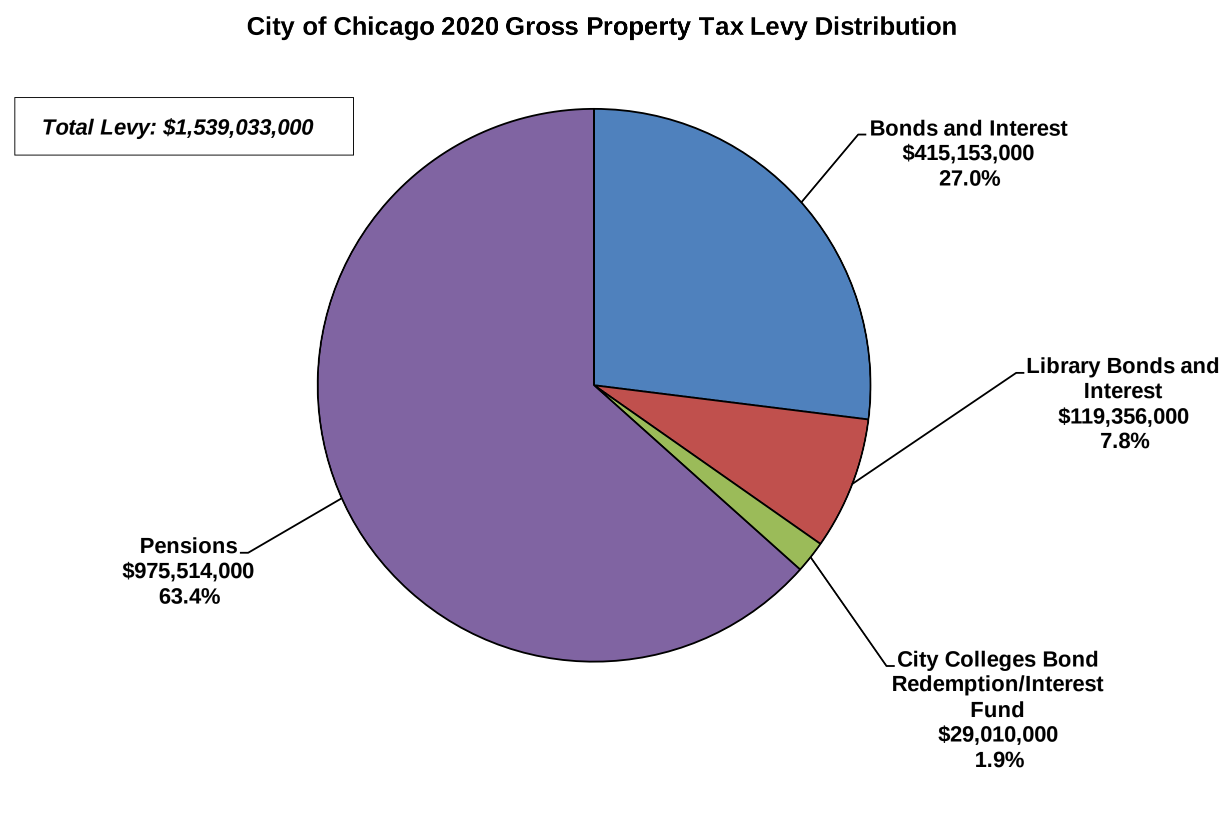
The following pie chart shows the distribution of the City's gross proposed property tax levy for 2020 (taxes payable in 2021): 1.9% of the City's proposed FY2020 property tax levy is for City Colleges bonds; 7.8% is for the library; 63.4% is dedicated to pension payments and 27.0% is for the debt service on City bonds. The bonds issued per the intergovernmental agreement with the

[105] 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

[106] 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.

[107] 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 $1.54 billion.



Source: City of Chicago FY2019 Budget Recommendations, Summary B.

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 140 active TIFs in Chicago in FY2020.[108]

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.[109] 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.[110]

[108] City of Chicago, FY2020 Budget Overview, p. 54.
[109] See, for example, Chicago Park District FY2009 Budget Summary, page 111 on the value of TIF dollars received by the Park District.
[110] City of Chicago, TIF Reform Panel Report, August 23, 2011, p. 15.

The City plans to declare a TIF surplus of $300.2 million for 2020, $163.1 million of which will go to Chicago Public Schools, and $74.1 million of which will go to the City.[111]

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.[112] 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 2018 rates (taxes payable in 2019).[113] 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 FY2014 to FY2018, which is the most recent data available. For tax year 2018, the City of Chicago will collect a total of nearly $2.3 billion from taxpayers across the City, including levies for City Colleges and Chicago Public Schools capital programs and TIF revenue. The $840.8 million in TIF revenue collected in FY2018 is a 27.4% increase from the $660.1 million collected for tax year 2017. The total gross levy plus TIF revenue for tax year 2018 (payable in 2019) is an 85.8% increase over the five-year period starting in 2014.

City of Chicago FY2014-2018 Gross Property Tax Levy and TIF Revenue (in $ thousands)

Fund Name	FY2014	FY2015	FY2016	FY2017	FY2018
City Government Funds	$ 824,039	$ 1,149,700	$ 1,261,195	$ 1,321,722	$ 1,410,671
City Colleges Bond Redemption/Interest Fund	$ 35,470	$ 36,632	$ 34,636	$ 36,112	$ 35,693
TIF Property Tax Revenues	$ 371,791	$ 460,638	$ 561,293	660,046	840,821
GRAND TOTAL	**$ 1,231,300**	**$ 1,646,970**	**$ 1,857,124**	**$ 2,017,880**	**$ 2,287,185**

Source: City of Chicago, FY2014-FY2018 Appropriations Ordinance, Summary B and Cook County Clerk TIF Reports 2014-2018, available at https://www.cookcountyclerk.com/service/tif-reports.

Transparency and Accountability Issues

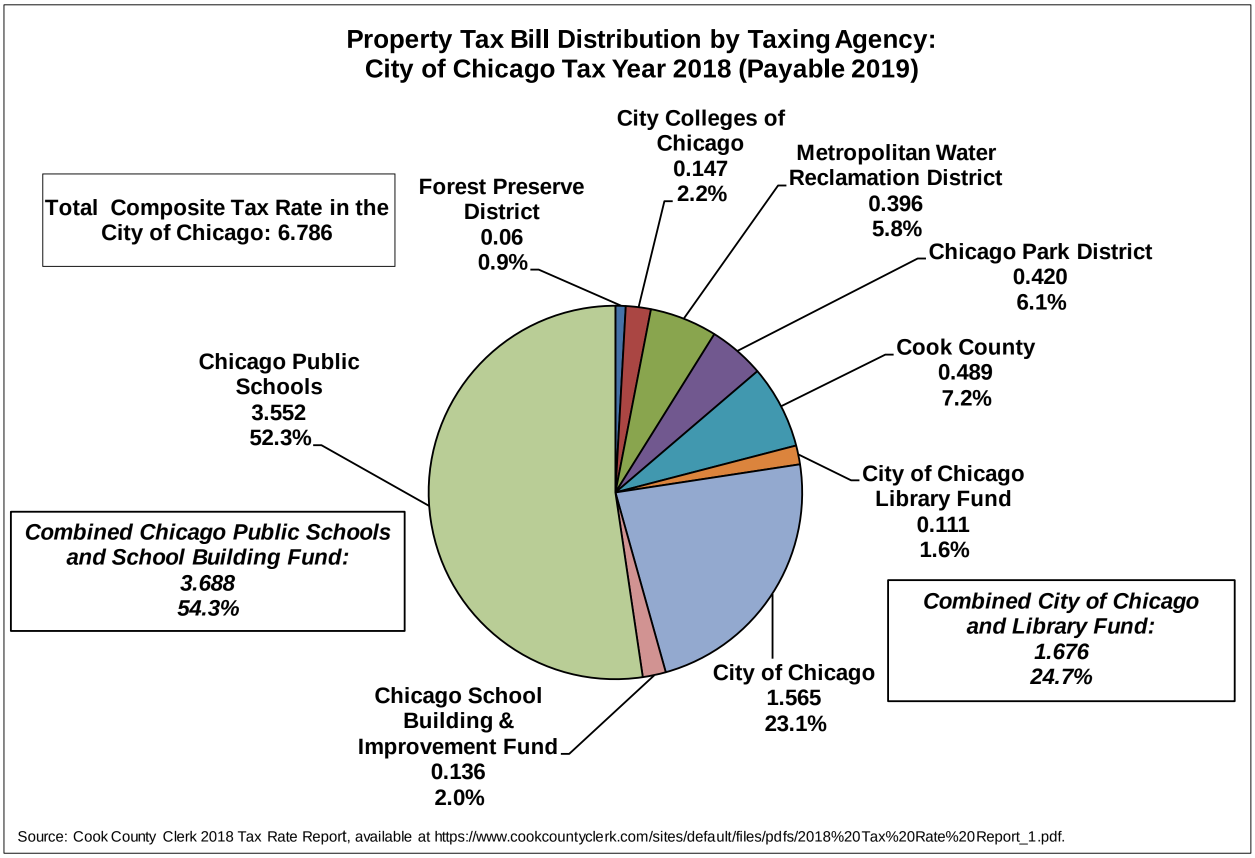
It is important for property taxpayers to understand how much of their property tax dollars governments receive and for what purpose so that they may hold public officials accountable for the level of property taxation imposed. The information currently provided in the City financial documents and on 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

[111] City of Chicago FY2020 Budget Overview, p. 54.
[112] 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-.
[113] Available on the Cook County Clerk's website at www.cookcountyclerk.com.

of the City of Chicago tax bill among the different governments.[114] The most recent is for tax year 2018, payable in 2019.

The chart below shows the distribution of property taxes from the County Clerk's 2018 Tax Rate Report, as reflected on property tax bills. Based on this data, it appears that 24.7% of a typical City property tax bill is allocated to the City of Chicago, including the library, and 54.3% 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 rate and percentage of the total composite tax rate in the City of Chicago, as reported by the Cook County Clerk.



PUBLIC SAFETY

Public safety functions within City of Chicago government encompass the following City departments:

- Police Department;
- Fire Department;
- Office of Emergency Management and Communications (911 call center);

[114] Cook County Clerk 2018 Tax Rate Report, available at https://www.cookcountyclerk.com/sites/default/files/pdfs/2018%20Tax%20Rate%20Report_1.pdf

- Police Board;
- Civilian Office of Police Accountability (formerly the Independent Police Review Authority); and
- Office of Public Safety Administration, which is a new office in FY2020.

Public safety makes up a significant portion of the City of Chicago's budget and operations. The proposed FY2020 public safety appropriations of $2.5 billion account for approximately 25.5% of the City's $9.9 billion spending proposal for all local funds. Public safety functions account for over half of spending in the Corporate Fund, the City's general fund.

The FY2020 proposed budget includes several public safety initiatives. One is the creation of an Office of Public Safety Administration. This new office is intended to reduce costs and increase efficiency by aligning the administrative functions of the Police Department, Fire Department and Office of Emergency Management and Communications. This office will handle finance, human resources, information technology and logistical functions for the three departments.[115] The new office will be staffed by civilian workers, thereby freeing up uniformed officers to work in the community. During its first year of operation, the office is expected to save the City $2 million.[116] It is expected to be operational by May 1, 2020.[117]

The City also plans to reopen two detective areas—Harrison and Grand Central. This is expected to improve response time in investigations by decreasing detectives' travel time and reduce overtime.[118] A new swiping policy requiring Police Department and Fire Department employees to swipe at both the beginning and end of their shift is aimed at addressing the high overtime costs. Overtime within the Police Department is budgeted at $91.4 million in FY2020, compared to $95.0 million budgeted in FY2019.[119]

FY2020 is the second year of the Consent Decree approved on January 31, 2019 to institute comprehensive reforms of the Chicago Police Department.[120] The Consent Decree focuses on a variety of reform areas including use of force, training and accountability. The City says it will invest $25 million in Consent Decree compliance in FY2020.[121]

Police oversight is provided through the Civilian Office of Police Accountability (COPA) and the Chicago Police Board. COPA investigates allegations of police misconduct and the Police Board decides disciplinary cases involving sworn officers. Additionally, the Office of the Inspector General created a Public Safety Audit Section in FY2017 to review and audit the Police Department, COPA and the Police Board.

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[115] City of Chicago, FY2020 Budget Overview, p. 110.
[116] City of Chicago, FY2020 Budget Overview, p. 24.
[117] City of Chicago Budget Information Sheet, "2020 Budget Initiative: New Office of Public Safety Initiative."
[118] Fran Spielman, "Mayor Lightfoot to re-open two shuttered detectives areas, merge administrative functions of police, fire and emergency response," *Chicago Sun-Times*, October 11, 2019.
[119] City of Chicago, FY2020 Budget Recommendations, p. 167.
[120] Chicago Police Department Consent Decree Documents, http://chicagopoliceconsentdecree.org/resources/ (last accessed on November 5, 2019).
[121] City of Chicago, FY2020 Budget Overview, p. 25.

Total Public Safety Appropriations by Fund

The table below shows the total appropriations for public safety functions in the proposed FY2020 budget. Total FY2020 public safety spending is recommended to be $2.5 billion, consisting of $2.3 billion in the Corporate Fund, $122.2 million in the special revenue funds and $81.4 million in the enterprise funds.

Public safety spending within the Corporate Fund accounts for the majority of public safety appropriations across all public safety offices. Corporate Fund appropriations for the public safety offices is discussed further below.

Public safety spending within the special revenue funds includes $12.0 million for the Office of Public Safety Administration and $99.3 million for the Office of Emergency Management and Communications within the Emergency Communication Fund. The Emergency Communication Fund handles the City's 911 system and is funded through a $5.00 surcharge on monthly phone bills in the City of Chicago.[122] Special revenue fund appropriations also include $10.9 million within the Chicago Police CTA Fund for security services provided on Chicago Transit Authority property.[123]
Appropriations within the enterprise funds are for police, fire and emergency management services provided at O'Hare and Midway airports.[124]

City of Chicago Proposed Public Safety Appropriations by Fund: FY2020 (in $ millions)

	Corporate Fund	Special Revenue Funds	Enterprise Funds	Total
Office of Public Safety Administration	$ 19.4	$ 12.0	$ -	$ 31.5
Police Department	$ 1,651.8	$ 10.9	$ 34.0	$ 1,696.7
Fire Department	$ 604.4	$ -	$ 36.5	$ 640.8
Office of Emergency Management and Communications	$ 26.3	$ 99.3	$ 10.9	$ 136.5
Civilian Office of Police Accountability	$ 13.9	$ -	$ -	$ 13.9
Police Board	$ 0.5	$ -	$ -	$ 0.5
Total Public Safety	**$ 2,316.3**	**$ 122.2**	**$ 81.4**	**$ 2,519.9**

Source: City of Chicago, FY2020 Budget Recommendations, Summary E, p. 18.

Public Safety Appropriations in the Corporate Fund

The following table shows Corporate Fund appropriations and expenditures on public safety over the five-year period from FY2016 to FY2020. Corporate Fund spending on public safety is proposed to be $2.32 billion in FY2020. This is a $141.7 million, or 6.5%, increase over the adopted FY2019 appropriations of $2.17 billion.

Appropriations for the new Office of Public Safety Administration in FY2020 are proposed to be $19.4 million.

[122] City of Chicago, FY2020 Budget Overview, p. 45.
[123] City of Chicago, FY2020 Budget Overview, p. 45.
[124] City of Chicago, FY2020 Budget Recommendations, Summary F, pp. 26-27.

Police Department spending is expected to increase by 6.8% between FY2019 and FY2020 to $1.65 billion. The increase is due in part to salary increases and retroactive salary payments, Consent Decree spending and an increase in the amount budgeted for settlements and judgments.[125]

Over the five-year period from FY2016 to FY2020, the Police Department appropriations represent a 13.0% increase, up from $1.46 billion. The increase in the Police Department over the past five years is primarily due to the hiring of additional police officers as part of former Mayor Emanuel's multi-year public safety strategy to increase the size of the police department in 2017 and 2018 and increased spending in the FY2019 and FY2020 budgets tied to the Consent Decree to increase staffing and make investments in public safety related departments.[126]

The Fire Department budget is proposed to increase by 3.0% in the two years between FY2019 and FY2020 from $586.5 million to $604.4 million, due in large part to increases in budgeted overtime spending and spending for settlements and judgments.[127] Over the five-year period, this is an increase of 4.8% from $576.5 million in FY2016.

Appropriations for the Office of Emergency Management and Communications will decrease by $68.2 million, or 72.2%, over the five-year period from $94.5 million in FY2016 to $26.3 million in FY2020. The decrease in spending is due to the City transferring a majority of the Office's expenses from the Corporate Fund to the Emergency Communications Fund in FY2018.[128]

Spending within the police oversight departments—the Police Board and the Civilian Office of Police Accountability[129] (COPA)—will remain relatively flat from the prior year.

Over the five-year period from FY2016 to FY2020, appropriations for Public Safety in the Corporate Fund will increase by 8.2%, or $176.1 million, from $2.1 billion to $2.3 billion.

Public Safety Corporate Fund Appropriations by Department: FY2016-FY2020 (in $ millions)

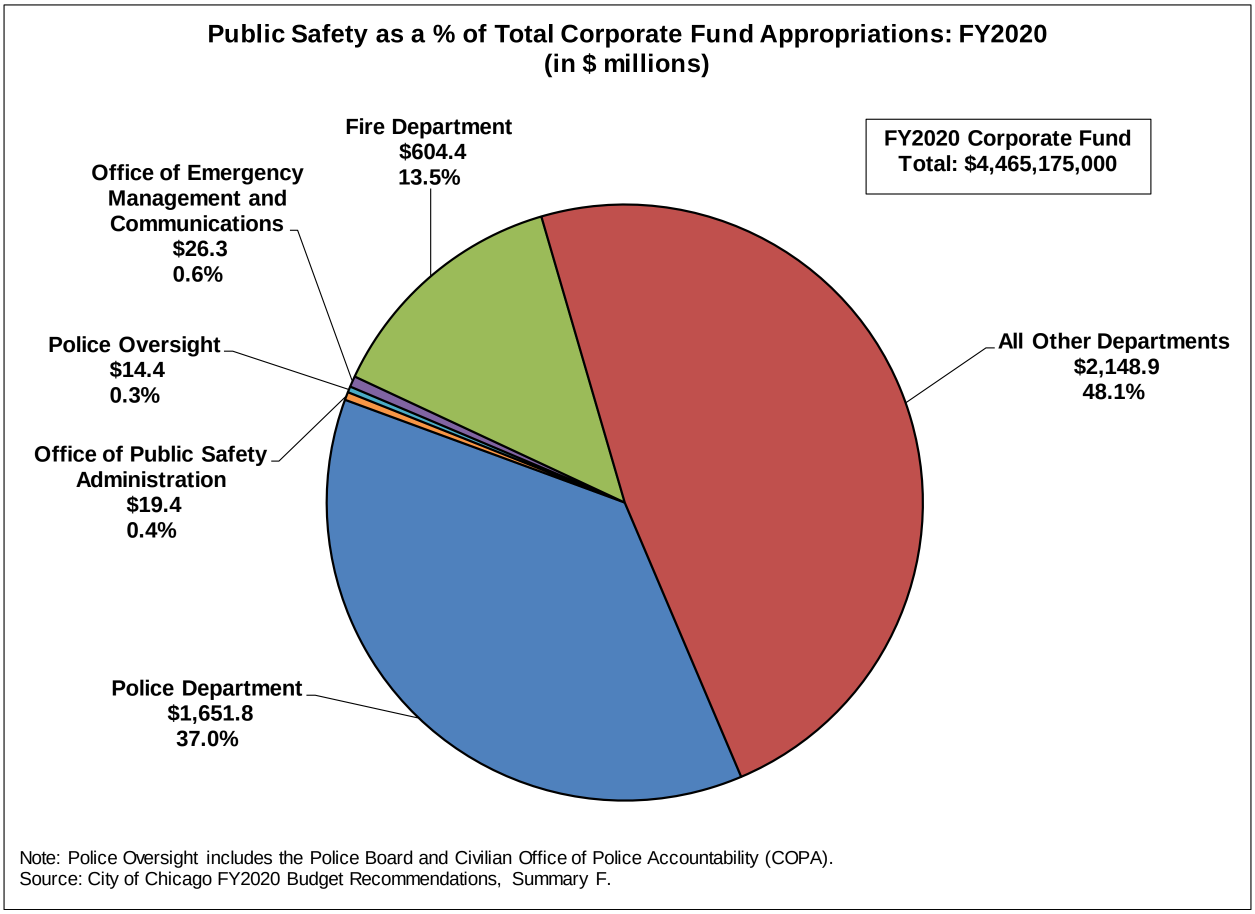
	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Adopted	FY2020 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Office of Public Safety Administration	$ -	$ -	$ -	$ -	$ 19.4	$ 19.4	-	$ 19.45	-
Police Department	$ 1,461.6	$ 1,495.2	$ 1,575.6	$ 1,547.2	$ 1,651.8	$ 104.7	6.8%	$ 190.2	13.0%
Fire Department	$ 576.5	$ 575.8	$ 578.8	$ 586.5	$ 604.4	$ 17.9	3.0%	$ 27.8	4.8%
Office of Emergency Management and Communications	$ 94.5	$ 95.4	$ 25.5	$ 26.6	$ 26.3	$ (0.3)	-1.2%	$ (68.2)	-72.2%
Civilian Office of Police Accountability	$ 7.3	$ 7.0	$ 11.0	$ 13.9	$ 13.9	$ 0.0	0.2%	$ 6.6	$ 1
Police Board	$ 0.3	$ 0.4	$ 0.4	$ 0.5	$ 0.5	$ 0.1	15.9%	$ 0.2	76.5%
Subtotal Public Safety	**$ 2,140.2**	**$ 2,173.8**	**$ 2,191.3**	**$ 2,174.6**	**$ 2,316.3**	**$ 141.7**	**6.5%**	**$ 176.1**	**8.2%**
Total Corporate Fund Appropriations	**$ 3,570.8**	**$ 3,522.7**	**$ 3,538.3**	**$ 3,815.7**	**$ 4,465.2**	**$ 649.4**	**17.0%**	**$ 894.4**	**25.0%**
Public Safety as % of Corporate Fund	**59.9%**	**61.7%**	**61.9%**	**57.0%**	**51.9%**				

Source: City of Chicago, FY2018-FY2020 Budget Recommendations, Summary F.

Public safety appropriations account for approximately 52% of Corporate Fund spending in FY2020. This is down from approximately 60% in FY2016 through FY2018. The chart below

[125] City of Chicago, FY2020 Budget Recommendations, pp. 167-168.
[126] City of Chicago, FY2019 Budget Overview, p. 16.
[127] City of Chicago, FY2020 Budget Recommendations, pp. 209-210.
[128] City of Chicago, FY2019 Budget Overview, p 38.
[129] The Civilian Office of Police Accountability (COPA) replaced the Independent Policy Review Authority (IPRA) in FY2017.

shows the distribution of public safety proposed FY2020 appropriations as a percent of total Corporate Fund appropriations.



Public Safety Personnel Full-Time Equivalent Positions

The following table shows the number of budgeted full-time equivalent (FTE) positions between FY2016 and FY2020 within the public safety departments. These FTE figures account for positions across all local funds, which include the Corporate Fund, enterprise funds and special revenue funds, but excludes grant funds.

The new Office of Public Safety Administration will receive 390 FTE positions in FY2020, the first year of operation. The City will move 244 existing civilian positions and 64 vacant positions from the Police Department, Fire Department and Office of Emergency Management and Communications to the Office of Public Safety Administration.[130]

The number of FTEs in the Police Department has increased by 932 since FY2016. In September 2016, former Mayor Rahm Emanuel announced a public safety strategy to increase the number of sworn personnel by 970.[131] The number of Police Department FTEs increased by 556 between

[130] City of Chicago Budget Information Sheet, "2020 Budget Initiative: New Office of Public Safety Initiative."
[131] City of Chicago, FY2017 Budget Overview, p. 33.

FY2016 and FY2017, and another 462 between FY2017 and FY2018, resulting in a total increase of 1,018 in that three-year period. While Police Department FTEs continued to increase through FY2019, the number of budgeted FTEs in FY2020 is decreasing by 273 from the prior year. This is because the Police Department is shifting some administrative positions related to finance, human resources, technical services and other functions to the new Office of Public Safety Administration.

Fire Department FTEs will decrease slightly by 1.1% from FY2019 to FY2020. FTEs in the Office of Emergency Management and Communications will decrease by 177, or 8.3%, from 2,124 in FY2019 to 1,947 in FY2020. Many administrative positions within the Office of Emergency Management and Communications will move to the Office of Public Safety Administration.

Police oversight within the Independent Police Review Authority and Civilian Office of Police Accountability offices has increased from 97 in FY2016 to 151 in FY2020. In FY2017 the Independent Police Review Authority (IPRA) transitioned to the Civilian Office of Police Accountability (COPA). IPRA budgeted to keep 62 positions that year to remain in operation for half a year during the transition, while COPA budgeted for 142 positions, which was an increase of 45 FTE positions from the number of FTEs budgeted in IPRA the prior year.[132] The number of Police Board positions has remained the same at 2 FTEs over the five-year period.

City of Chicago Public Safety Full-Time Equivalent Positions by Department
All Local Funds: FY2016-FY2020

	FY2016 Adopted	FY2017 Adopted	FY2018 Adopted	FY2019 Adopted	FY2020 Proposed	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Office of Public Safety Administration	0	0	0	0	390	390	-	390	-
Police Department	13,649	14,205	14,667	14,854	14,581	-273	-1.8%	932	6.8%
Fire Department	5,163	5,161	5,158	5,204	5,148	-56	-1.1%	-15	-0.3%
Office of Emergency Management and Communications	1,816	2,110	2,121	2,124	1,947	-177	-8.3%	131	7.2%
Civilian Office of Police Accountability*	0	142	145	151	151	0	-	151	-
Independent Police Review Authority*	97	62	0	0	0	0	-	-97	-100.0%
Police Board	2	2	2	2	2	0	-	0	-
Total	**20,725**	**21,680**	**22,091**	**22,333**	**22,217**	**-116.0**	**-0.5%**	**1492.0**	**7.2%**

*The Civilian Office of Police Accountability replaced the Independent Police Review Authority (IPRA) in FY2017. IPRA budgeted for 62 FTE positions in FY2017 to account for half the year during the transition.

Note: The FTE postions presented in this table exclude grant funds.

Source: City of Chicago, FY2020 Budget Overview, p. 193.

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.[133] The FY2020 Budget Recommendations, which the City Council will vote on to become the FY2020 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

[132] City of Chicago, FY2017 Budget Overview, pp. 33 and 109.
[133] 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.

and salary adjustments.[134] 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 FY2016 through FY2019 appropriation ordinances and FY2020 Recommended budget.

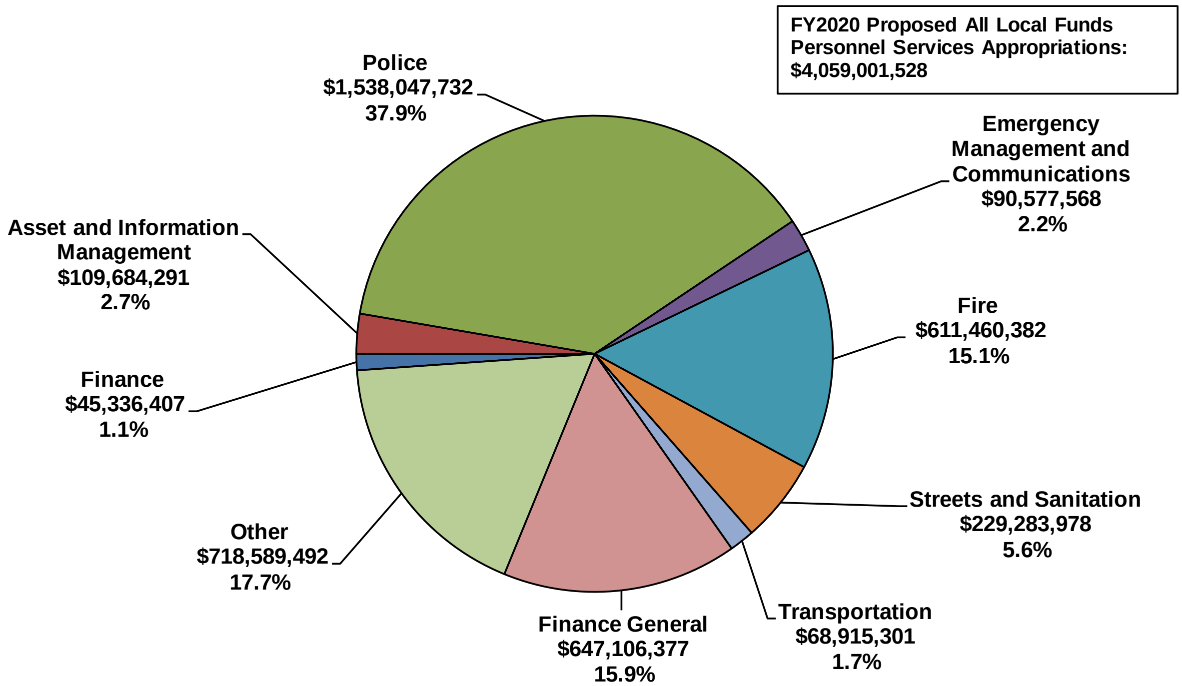
All Local Funds Personnel Services and Full-Time Equivalent Positions

The City of Chicago proposes to appropriate just over $4.0 billion for personnel services across all local funds in FY2020. Approximately $2.1 billion, or 52.3%, of all local funds personnel services appropriations will be allocated to public safety.[135] Public Safety includes Police, Fire, Office of Emergency Management and Communications (OEMC) and Office of Public Safety Administration. Police includes the Police Department, Police Board and Civilian Office of Police Accountability (COPA). The second largest portion of spending across all local funds, aside from Other, is the Finance General category which accounts for citywide personnel-related expenditures such as pension contributions and employee healthcare costs across all departments. Finance General represents 15.9%, or $647.1 million, of all local funds for FY2020.

[134] Full-time equivalent (FTE) positions represent the total hours worked divided by the average annual hours worked in a full-time position.
[135] Public Safety includes the Police Board, Civilian Office of Police Accountability, Police Department, Office of Emergency Management & Communication, Fire Department and Office of Public Safety Administration.

The following chart illustrates the City's proposed FY2020 personnel services appropriations for all local funds by department.

City of Chicago FY2020 All Local Funds
Personnel Services Appropriation by Department and Purpose

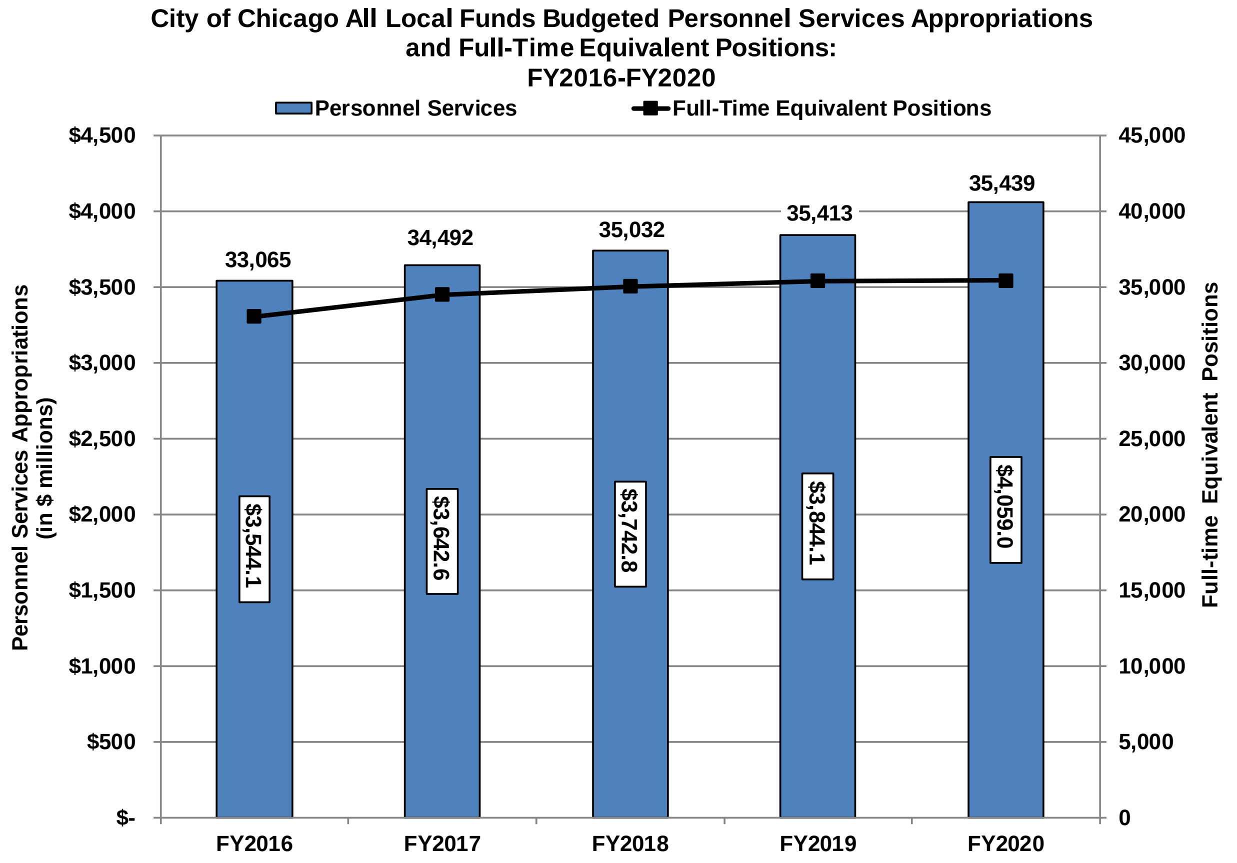


Note: Other includes: Office of the Mayor, Office of the Inspector General, Office of Budget and Management, Department of Innovation and Technology, City Council, City Clerk, City Treasurer, Department of Administrative Hearings, Department of Law, Department of Human Resources, Department of Procurement 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, FY2020 Budget Recommendations, Summary D.

The following chart illustrates the five-year trend in personnel services appropriations and budgeted FTE positions. Between FY2016 and FY2020, local fund budgeted appropriations for personnel services, which include salaries and wages, overtime pay and other benefits, increased by $514.9 million, or 14.5%, from $3.5 billion to $4.1 billion. Personnel services appropriations will increase by $214.9 million, or 5.6%, in FY2020 from FY2019 budgeted appropriations. The growth in personnel appropriations over the five-year period from FY2016 to FY2020 is attributable to the following:

- Additional hiring in 2017 and 2018 in the area of public safety that was tied to former Mayor Emanuel'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;[136]

- Additional hiring and investments included in the FY2019 budget related to hiring and investments in public safety departments tied to the police consent decree with the Illinois Attorney General;[137] and
- Increases in salaries and wages for current collective bargaining agreements and estimated salary and wage growth for collective bargaining agreements currently under negotiation.[138]



Source: City of Chicago, Annual Appropriation Ordinances, FY2016-FY2019, Summary D; and FY2020 Budget Overview, p. 193.

The following table shows the City's FTE counts for all local funds by function. Budgeted FTE position count will rise from 35,413 FTEs in FY2019 to 35,439 FTEs in FY2020 across all local funds. This is a net increase of 26 FTE positions or 0.1% across all functions and local funds. Community Services will see the greatest increase in the number of FTEs, growing from 1,261 FTEs in FY2019 to 1,414 FTEs in FY2020, an increase of 153 FTEs or 12.1%. Public Safety will see the greatest decline in the number of FTEs, decreasing from 22,335 FTEs in FY2019 to 22,218 FTEs in FY2020, a decrease of 117 FTEs or 0.5%.

136 City of Chicago, FY2017 Budget Overview, p. 112 and FY2018 Budget Overview, p. 112.
137 City of Chicago, FY2019 Budget Overview, p. 16.
138 City of Chicago, FY2020 Budget Overview, p. 41.

In the five-year period from FY2016 to FY2020, the City proposes to increase its budgeted workforce by 2,373 FTEs, or 7.2%, from 33,066 FTEs in FY2016 to 35,439 FTEs in FY2020. Over the same period, the most significant increase in personnel count occurred in Public Safety, increasing by 1,491 FTEs from 20,727 FTEs in FY2016 to 22,218 FTEs for FY2020. As previously noted, the increase in Public Safety is primarily due to the increased police hiring as part of former Mayor Emanuel's multi-year public safety strategy, announced in September 2016 that included increasing the number of sworn personnel in the police department to 13,631 positions by the end of 2018.[139]

City of Chicago All Local Funds Budgeted Full-Time Equivalent Positions by Function: FY2016-FY2020

Function	FY2016 Adopted	FY2017 Adopted	FY2018 Adopted	FY2019 Adopted	FY2020 Proposed	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Finance and Administration	2,722	2,756	2,763	2,782	2,760	-22	-0.8%	38	1.4%
Legislative and Elections	357	357	357	332	329	-3	-0.9%	-28	-7.8%
City Development	247	252	252	264	267	3	1.1%	20	8.1%
Community Services	1,126	1,129	1,186	1,261	1,414	153	12.1%	288	25.6%
Public Safety	20,727	21,682	22,093	22,335	22,218	-117	-0.5%	1,491	7.2%
Regulatory	569	612	619	634	623	-11	-1.7%	54	9.5%
Infrastructure Services	7,318	7,704	7,763	7,805	7,828	23	0.3%	510	7.0%
Total	**33,066**	**34,492**	**35,033**	**35,413**	**35,439**	**26**	**0.1%**	**2,373**	**7.2%**

Note: The full-time equivalent positions presented above do not include grant-funded positions.
Source: City of Chicago, FY2020 Budget Overview, p. 193.

Corporate Fund Personnel Services Trends

Personnel service appropriations in the Corporate Fund are projected to increase by $175.7 million, or 6.1%, from approximately $2.9 billion in the adopted FY2019 budget to $3.1 billion in FY2020. The FY2020 personnel services appropriations represents 68.3% of the Corporate Fund budget of over $4.5 billion. Personnel service appropriations within each department include salaries and wages. Personnel benefits such as healthcare, workers' compensation and unemployment compensation are appropriated in the Finance General area.[140] Personnel spending in the Finance General category will increase by $105.5 million, or 26.9%, over the two-year period.

Between FY2016 and FY2020, personnel services appropriations in the Corporate Fund will increase by $287.7 million or 10.4%. During the five-year period, personnel services appropriations for public safety departments will increase by $165.9 million or 8.4%. 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 increased public safety hiring in FY2017 and FY2018, the implementation of the consent decree, as well as current and estimated salary and wage growth for collective bargaining agreements currently under negotiation.[141] Finance General will also see a large increase between FY2016 and FY2020 that will total $91.0 million or 22.3%. The increase in Finance General over the five-year period is primarily attributable to the City increasing payments to its four pension funds

[139] City of Chicago FY2018 Budget Overview, p. 34.
[140] City of Chicago FY2020 Budget Overview, p. 43.
[141] City of Chicago FY2016 Budget Overview, p. 35; FY2017 Budget Overview, p. 33; FY2018 Budget Overview, p. 34; FY2019 Budget Overview, p. 16; and FY2020 Budget Overview, p. 41.

from the Corporate Fund. The remaining departments will see smaller increases and decreases in funding over the five-year period examined.

City of Chicago Corporate Fund Personnel Services: FY2016-FY2020 (in $ millions)

Department	FY2016 Adopted	FY2017 Adopted	FY2018 Adopted	FY2019 Adopted	FY2020 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Public Safety*	$ 1,970.0	$ 2,020.0	$ 2,027.3	$ 2,051.7	$ 2,136.0	$ 84.2	4.1%	$ 165.9	8.4%
Streets and Sanitation	$ 83.8	$ 86.5	$ 82.6	$ 84.9	$ 81.9	$ (3.0)	-3.5%	$ (1.9)	-2.3%
Asset and Information Management**	$ 69.9	$ 77.2	$ 77.0	$ 80.5	$ 90.2	$ 9.6	12.0%	$ 20.3	29.1%
Transportation	$ 35.3	$ 36.2	$ 35.7	$ 36.6	$ 29.1	$ (7.5)	-20.5%	$ (6.2)	-17.6%
City Council	$ 20.4	$ 20.6	$ 20.7	$ 21.4	$ 20.9	$ (0.5)	-2.2%	$ 0.5	2.6%
Finance	$ 36.7	$ 37.3	$ 37.3	$ 37.8	$ 38.1	$ 0.3	0.9%	$ 1.4	3.7%
Office of the Mayor	$ 6.0	$ 6.3	$ 6.5	$ 7.0	$ 11.0	$ 4.0	56.7%	$ 5.1	84.7%
Finance General	$ 407.1	$ 398.3	$ 412.3	$ 392.5	$ 498.0	$ 105.5	26.9%	$ 91.0	22.3%
All Other	$ 133.8	$ 139.4	$ 142.2	$ 162.6	$ 145.5	$ (17.0)	-10.5%	$ 11.7	8.8%
Total Personnel Services	**$ 2,763.0**	**$ 2,821.8**	**$ 2,841.8**	**$ 2,875.0**	**$ 3,050.7**	**$ 175.7**	**6.1%**	**$ 287.7**	**10.4%**
Total Corporate Fund	**$ 3,570.8**	**$ 3,719.0**	**$ 3,791.2**	**$ 3,815.7**	**$ 4,465.2**	**$ 649.4**	**17.0%**	**$ 894.4**	**25.0%**

*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), Fire Department and Office of Public Safety Administration. FY2017 was the last year IPRA was operational. IPRA's functions were absorbed by COPA in FY2017.

**In FY2020 the Department of Fleet and Facility Management and the Department of Innovation and Technology merged to create the Department of Asset and Information Management

Source: City of Chicago Annual Appropriation Ordinances, FY2016-FY2019, Summary D; and FY2020 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.[142] Prior to FY2011, Chicago reported *unreserved* fund balance, or resources available for appropriation without any external legal restrictions or constraints.[143] Starting in FY2011, the audited financial statements for the City include a 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."[144]

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:

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[142] 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.
[143] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009.
[144] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009 and GASB Statement No. 54, paragraph 5.

- *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.[145]

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."[146] ***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."[147] Two months of operating expenditures is approximately 17%. GFOA also states that in practice, a level of unrestricted fund balance lower than the recommended minimum may be appropriate for states and America's largest governments, such as cities and counties, because they can often better predict contingencies and they typically have diverse revenue streams.[148] Further, the statement directs governments to consider the financial resources available in other funds when determining an adequate unrestricted General Fund fund balance level.[149]

[145] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review,* April 2009.
[146] GFOA, Fund Balance Guidelines for the General Fund (Adopted September 2015).
[147] 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.
[148] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015).
[149] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015).

GFOA recommends that governments establish a formal unrestricted fund balance policy that considers the government's specific circumstances.[150] 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 Unrestricted Fund Balance

This section examines the City's Corporate Fund (i.e., General Fund) unrestricted 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.[151]

The table below presents the City's unrestricted fund balance for FY2011 through FY2018. 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 FY2018 because that is the most recent year of audited financial information available.

Between FY2011 and FY2018, 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 8.5% in FY2018. The City's FY2018 unrestricted fund balance consists of \$145.0 million that has been assigned for specific purposes, which includes \$20 million for the Operating Liquidity Fund[152] and \$161.9 million that is unassigned. The City

[150] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015).
[151] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015).
[152] City of Chicago 2020 Budget Forecast, p. 45 and City of Chicago 2018 Annual Financial Analysis, Appendices, p. 117.

attributes its growth in unassigned fund balance of $44.0 million in FY2018 over the previous year to expenditures greater than revenues during FY2018.[153]

City of Chicago Unrestricted Corporate Fund Fund Balance Ratio: FY2011-FY2018			
	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%
FY2018	$ 306,864,000	$ 3,597,453,000	8.5%

Source: City of Chicago, Comprehensive Annual Financial Reports FY2011-FY2018, Balance Sheet - Governmental Funds and Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.

The City's 8.5% 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.[154]

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.[155] 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.[156]

[153] City of Chicago FY2018 Comprehensive Annual Financial Report, p. 26.
[154] Communication with City of Chicago Office of Management and Budget, October 10, 2016.
[155] City of Chicago FY2020 Budget Overview, p. 173.
[156] City of Chicago FY2020 Budget Overview, p. 173.

The Fund Stabilization policy states that the City will not appropriate more than 1.0% of the value of the annual Corporate budget from the prior year's audited unassigned fund balance for the current year's budget.[157]

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%.[158] The Unassigned General Fund fund balance in FY2018 was $161.9 million.[159] The asset lease and concession reserves totaled $652.5 million in FY2018, which includes $620.0 million in principal (these reserves are discussed further below).[160] Together, the two reserve sources total $814.3 million. The City's FY2018 general operating expenses totaled nearly $3.6 billion. The $814.3 million of budget stabilization funds equals 22.8% 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 through 2018.[161] The City planned to deposit another $10 million to the Operating Liquidity Fund in FY2019.[162]

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.

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

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[157] City of Chicago FY2020 Budget Overview, p.173.
[158] City of Chicago FY2020 Budget Overview, p. 173.
[159] City of Chicago FY2018 Comprehensive Annual Financial Report, p. 34.
[160] City of Chicago FY2018 Comprehensive Annual Financial Report, p. 35.
[161] City of Chicago 2018 Annual Financial Analysis, p. 117-118
[162] City of Chicago FY2019 Budget Overview, p. 14.

FY2011. Each year a portion was transferred to the Corporate Fund to support general operations. In FY2012 the City ended the practice of using reserves to pay for the City's operating expenditures and established that going forward 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.[163]

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 has been drawn down.

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 principal and replenished 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 replenished 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 FY2020, the City has budgeted $19.0 million from interest earned on the asset lease reserves to be transferred into the Corporate Fund for operating expenses.[164] If the City were to spend a significant portion of the principal funds in the Asset Lease Reserves, its credit rating could be downgraded.

[163] City of Chicago 2020 Budget Forecast, p. 45.
[164] City of Chicago FY2020 Budget Overview, p. 40.

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.

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.[165] 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.[166] 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.[167] It is governed by a five-member Board of Trustees. Two members are ex-officio (City Treasurer and City Comptroller) and three are elected by active employee members.

The Laborers' Annuity and Benefit Fund of Chicago was created in 1935 by Illinois State statute to provide retirement and disability benefits for labor service employees of the City of Chicago and their dependents.[168] 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.

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[165] Firemen's Annuity and Benefit Fund of Chicago, Financial Statements, December 31, 2018, p. 9.

[166] Policemen's Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report for the year ended December 31, 2018, p. 5.

[167] Municipal Employees' Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report for the year ended December 31, 2018, p. 39. 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.

[168] Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago, Financial Statements, December 31, 2018, pp. 14-15.

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

The Municipal and Laborers' funds have three tiers of benefits. Public Act 96-0889, enacted in April 2010, created the second tier of benefits for employees hired on or after January 1, 2011.[169] 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 and Tier 2 employees who irrevocably elected between October 1, 2017 and November 15, 2017 to be subject to the Tier 3 benefit structure. 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 but before July 6, 2017 and "Tier 3 employees" as those persons hired on or after July 6, 2017 or who elected to join the tier.

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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[169] 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%.[170] The following table compares Tier 1 employee benefits to Tier 2 employee 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, 2018; Municipal Employees' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2018; Public Act 96-0889; and Public Act 100-0023.

[170] 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.

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.[171] 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

[171] 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.[172]

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, 2018; Policemens' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2018; Public Act 96-1495.

Employer Contribution Schedule

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.[173]

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

[172] 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.
[173] City of Chicago, Annual Financial Analysis 2015, p. 90.

into law.[174] 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 amount the City must contribute each year to each fund between FY2015 and FY2019 was specified in dollar amounts in the legislation. 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."[175] 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.[176] The City in FY2020 projects an increase in contributions of $281.2 million to complete the transition to actuarially-based funding.

Public Act 100-0023 changed employer contributions for the Municipal and Laborers' funds from a set multiple of what employees contributed two years prior to a 40-year plan to 90% funded. The schedule started with a five-year ramp of increasing payments laid out in statute and then transitions to an actuarially calculated funding schedule over the remaining 35 years to get to 90% funded. The City in FY2020 is on year four of the Municipal and Laborers' ramp funding.

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.

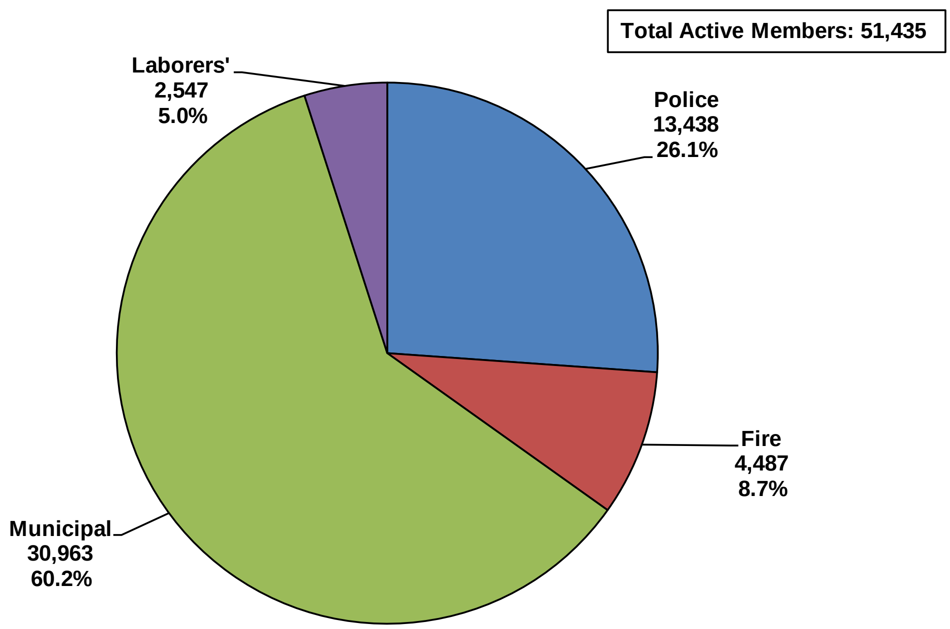
Members

In FY2018 there were 51,435 employees participating in the four pension funds. The Municipal Fund constitutes 60.2% of total active employee membership. However, roughly half of the 30,963 active Municipal Fund members are not City employees, but rather are non-teacher employees of Chicago Public Schools.[177] Approximately 63% of all active members of all four pension funds belong to Tier 1 and 37% belong to Tier 2 or 3. The Municipal Fund has the

[174] City of Chicago FY2016 Budget Overview, p. 31.
[175] Senate Bill 777, Governor's Message, May 27, 2016.
[176] John O'Connor, "Chicago gets some pension relief as Rauner veto overridden," Associated Press, May 30, 2016.
[177] The most recent data available on the number of Board of Education employees in the Municipal Fund is of December 31, 2017. As of that date 54.1%, or 16,721 of the 30,922 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, 2018, p. 87.

highest percentage of Tier 2 members with approximately 42% and the Fire Fund has the lowest with approximately 24%.[178]

City of Chicago Four Pension Funds Active Employee Members: FY2018



Note: Roughly half of the Municipal Fund members are non-teacher employees of the Chicago Public Schools.
Sources: FY2018 Actuarial Valuations for the Police, Fire, Municipal and Laborers' pension funds.

Funded Ratios – Actuarial and Market Value of Assets

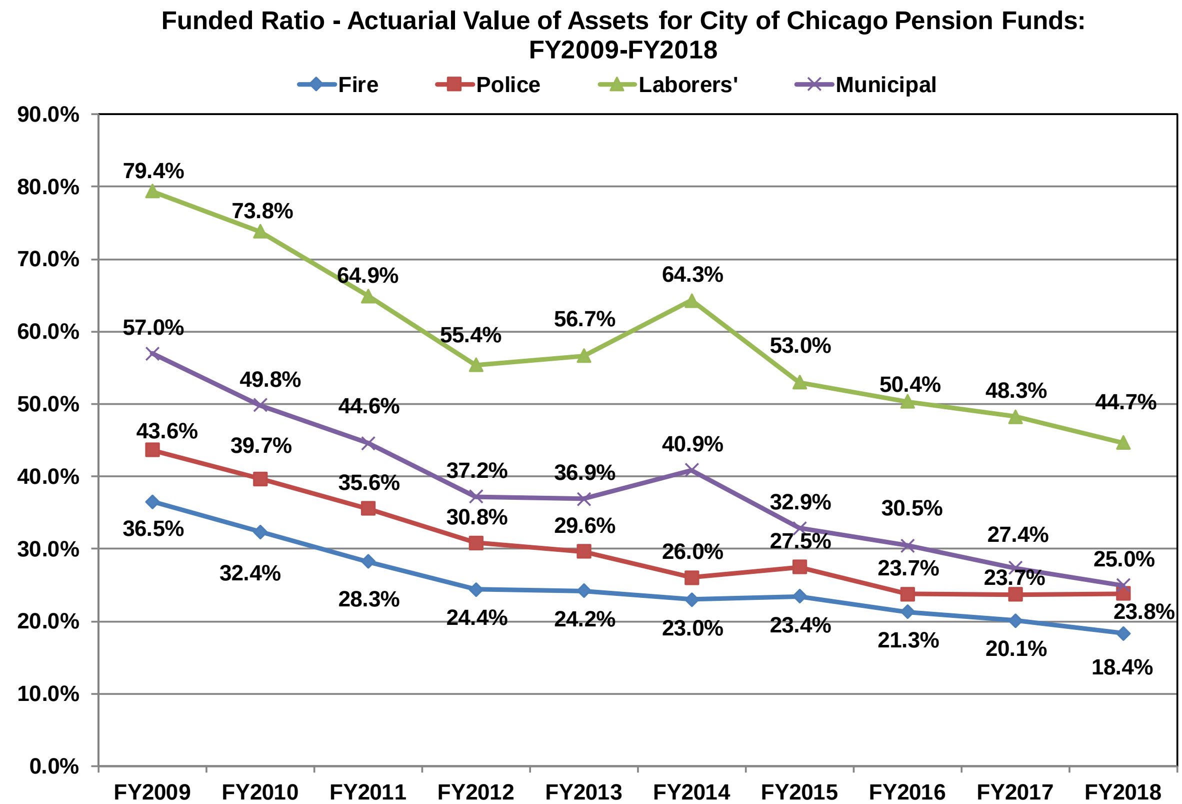
This report uses two measurements of pension plan funded ratio: the actuarial value of assets measurement and the market value of assets measurement. These ratios show the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting 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.[179] 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.

[178] Actuarial valuations of the four pension funds.
[179] For more detail on the actuarial value of assets, see Civic Federation, *Status of Local Pension Funding FY2012*, October 2, 2014.

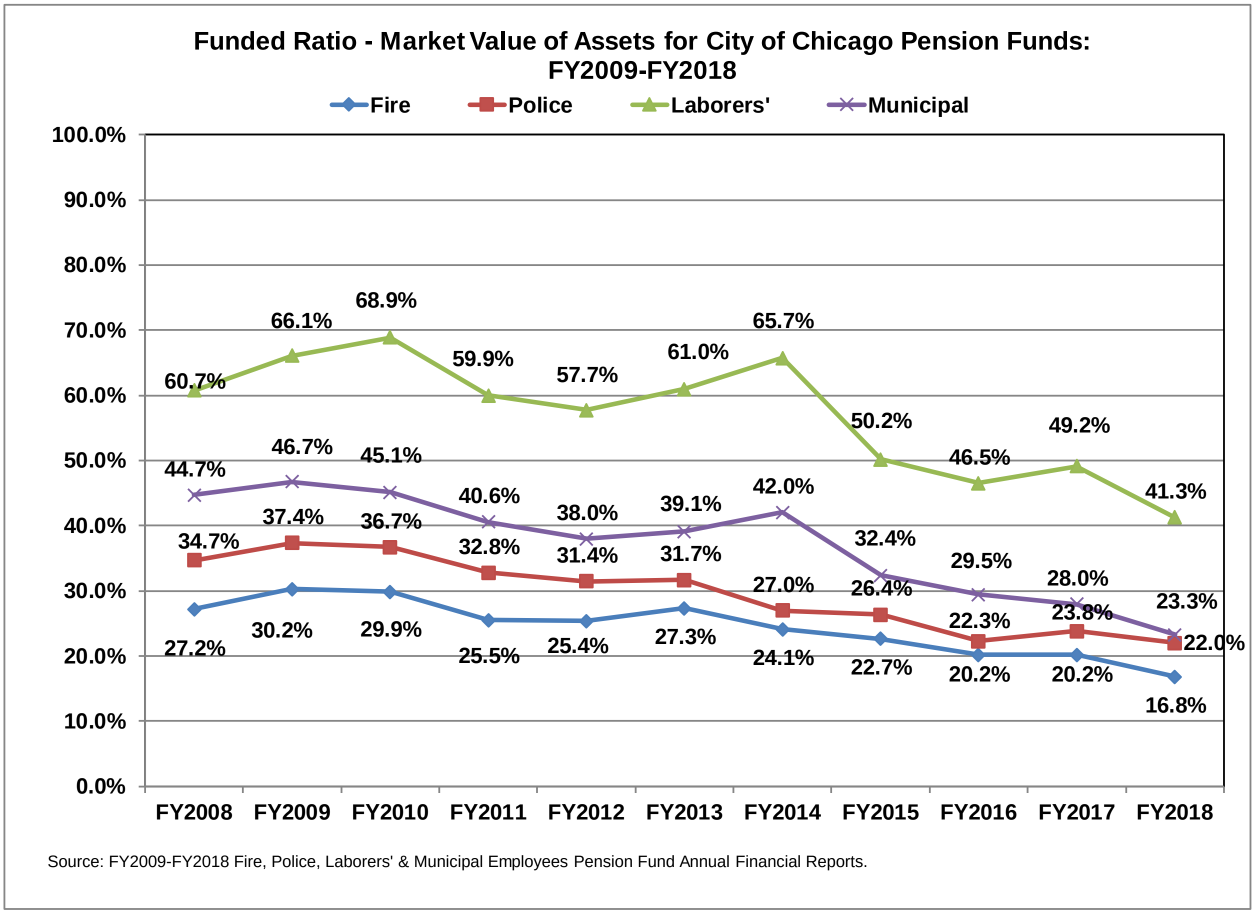
The following exhibit shows actuarial value funded ratios for each of the four pension funds. The actuarial value funded ratios for all four City pension funds decreased or were flat in FY2018. The Fire Fund decreased to 18.4%, the Police Fund was nearly flat at 23.8%, the Municipal Fund decreased to 25.0% and the Laborers' Fund fell to 44.7%.

A low and declining 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: FY2009-FY2018 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 have fluctuated since FY2009, but generally shown a downward trend as liabilities have increased due predominantly to insufficient employer contributions and changes to actuarial assumptions and the funds have experienced periodic investment losses, as in FY2018. All four funds' market value funded ratios declined in FY2018, ranging from 41.3% for the Laborers' Fund to 16.8% for the Fire Fund.

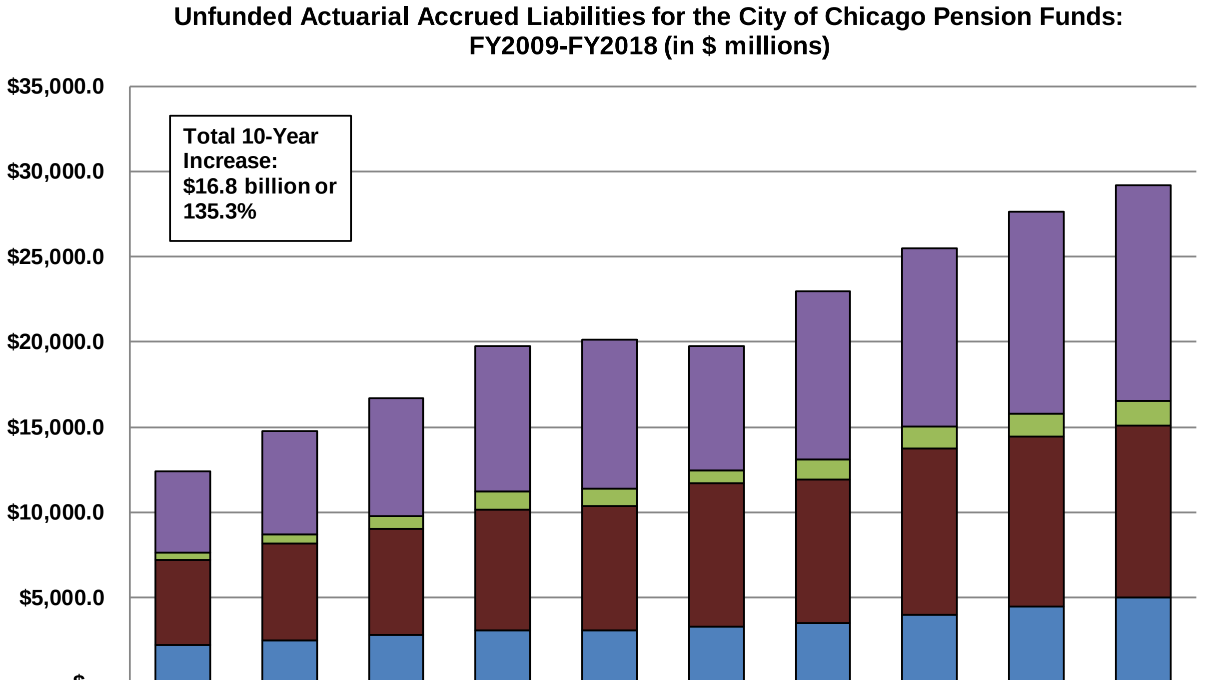


Unfunded Liabilities

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 135.3%. This was an increase from $12.4 billion in FY2009. The total unfunded liabilities increased to $29.2 billion in FY2018 from $27.6 billion in FY2017. The largest percentage increase in unfunded liabilities from the prior year was in the Fire Fund with a nearly $566.5 million or 12.7% increase due to mainly to reducing the expected rate of return on investment to 6.75% from 7.5% ($451.9 million) and a shortfall in the employer contribution ($126.0 million).

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

- Fire Pension Fund: 127.7% increase, or $2.8 billion;
- Police Pension Fund: 100.8% increase, or $5.1 billion;
- Laborers' Pension Fund: 252.7% increase, or $1.1 billion;[180] and
- Municipal Pension Fund: 165.1% increase, or $7.9 billion.

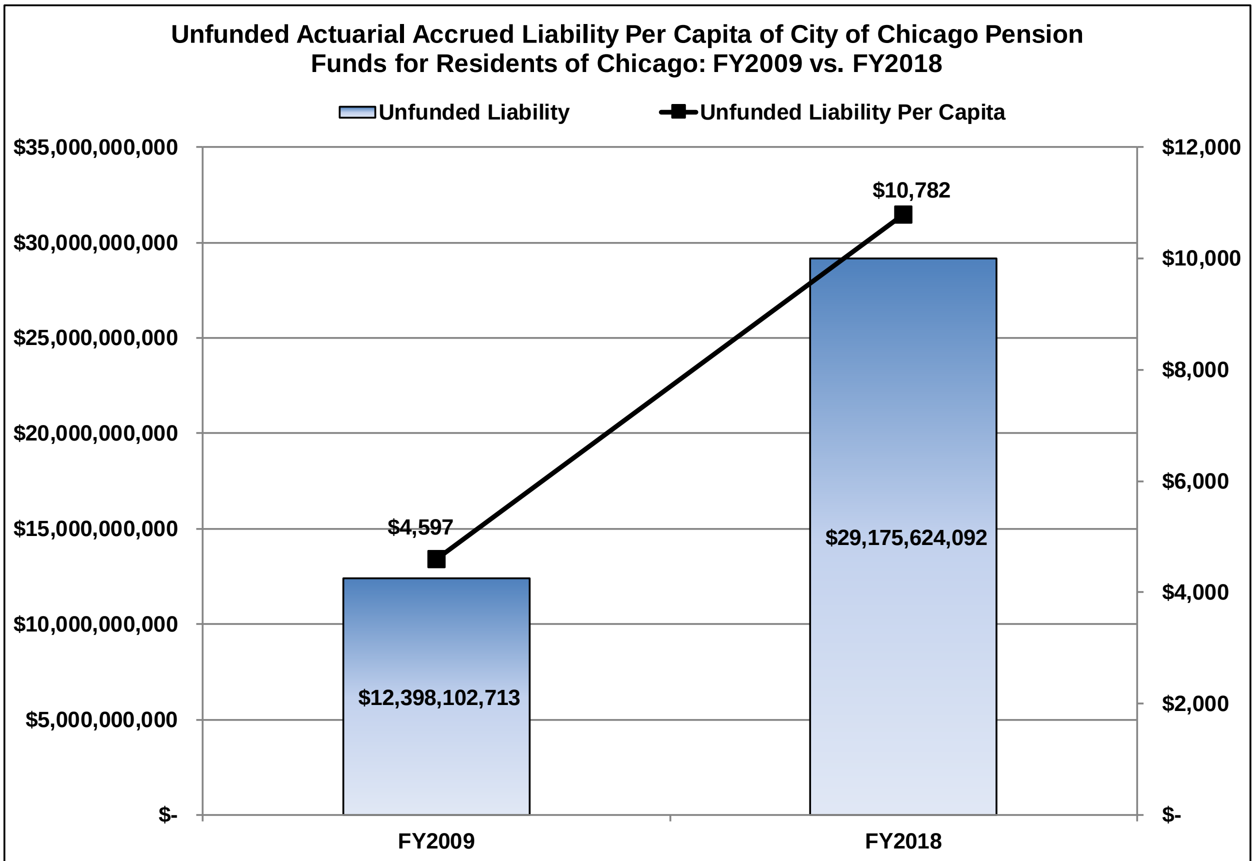


	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Municipal	$4,758.5	$6,048.8	$6,903.9	$8,564.1	$8,742.3	$7,285.3	$9,840.1	$10,465.0	$11,825.6	$12,613.0
Laborers'	$416.1	$542.0	$768.8	$1,058.9	$1,036.3	$754.3	$1,161.2	$1,245.6	$1,333.6	$1,467.6
Police	$5,015.9	$5,655.9	$6,243.7	$7,071.7	$7,256.8	$8,399.2	$8,411.4	$9,804.5	$9,989.9	$10,069.5
Fire	$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	$5,025.5
TOTAL	$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	$29,175.6

Source: FY2009-FY2018 Fire, Police, Laborers' & Municipal Employees Pension Fund Comprehensive Annual Financial Reports.

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

Between FY2009 and FY2018, total unfunded liabilities per resident of Chicago grew from $4,597 per capita to $10,782 per capita. This is an increase of 134.5%.



Source: U.S. Census Bureau; FY2009 and FY2018 Fire, Police, Laborers' & Municipal Employees Pension Fund Comprehensive Annual Financial Reports.

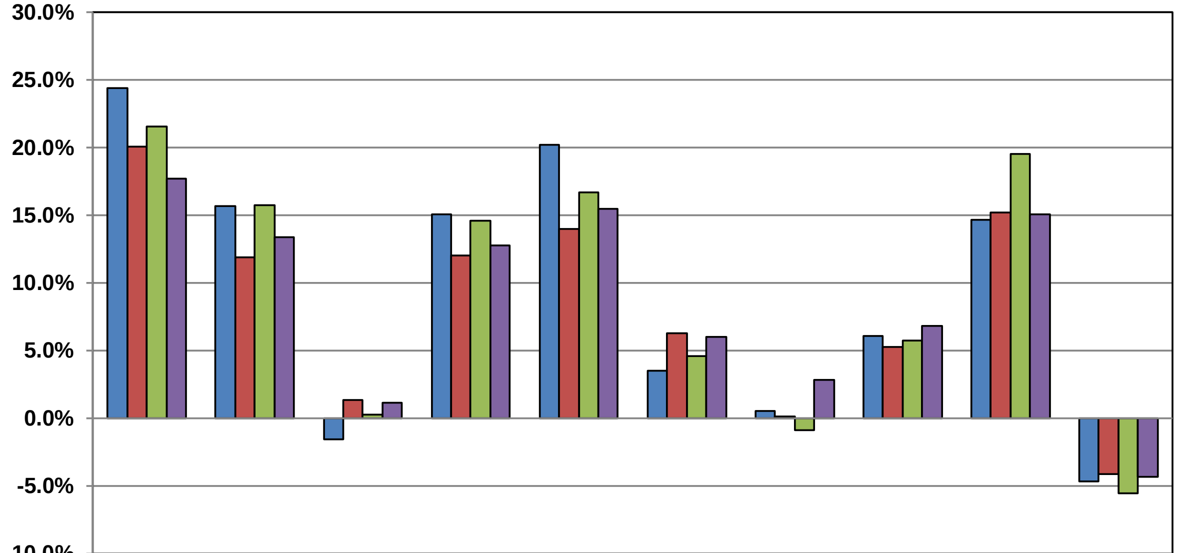
Investment Rates of Return

In FY2018 all four City pension funds experienced negative returns far less than their expected rates of return on their investments, ranging from -4.2% for the Police Fund to -5.5% for the Laborers' Fund.[181] The FY2018 investment assumption for the Fire Fund, as noted above,

[181] 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.

decreased to 6.75% from 7.5%. The Police Fund maintained at 7.25%, as did the Laborers' Fund at 7.25% and the Municipal fund at 7.0%.

Investment Rate of Return - City of Chicago Pension Funds: FY2009-FY2018



	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Fire	24.4%	15.6%	-1.5%	15.0%	20.2%	3.5%	0.5%	6.0%	14.6%	-4.7%
Police	20.1%	11.9%	1.3%	12.0%	14.0%	6.3%	0.1%	5.3%	15.2%	-4.2%
Laborers'	21.6%	15.7%	0.3%	14.6%	16.7%	4.6%	-0.9%	5.7%	19.5%	-5.5%
Municipal	17.7%	13.4%	1.1%	12.8%	15.5%	6.0%	2.8%	6.8%	15.1%	-4.3%

Note: Actuarial Value of Assets smoothes investment returns over five years.
Source: FY2009-FY2018 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."[182] 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

[182] 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[183] 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 reach the crossover point, the Fire Fund in 2072 and the Police Fund in 2019. Therefore, the funds' GASB 67 and 68 reporting is discounted at a blend of the full 6.75% or 7.25% assumed rate of return and a lower municipal bond rate of 3.71%. The reported blended rate was 7.18% for the Police Fund and 6.61% for the Fire Fund.[184]

[183] Other differences and newly reported numbers are not central to the discussion here.
[184] Fund financial statements.

- Under the funding schedule laid out in P.A. 100-0023 for the Municipal and Laborers' Funds the Municipal Fund is not projected to reach the crossover point, so its full rate of 7.0% is used.[185]
- The FY2018 actuarial valuation for the Laborers' Fund was also developed taking into account the funding schedule under P.A. 100-0023. Under the new funding formula, the fund was projected to run out of funding during 2072, 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 3.71%. The reported blended rate was 7.11%.[186]

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.

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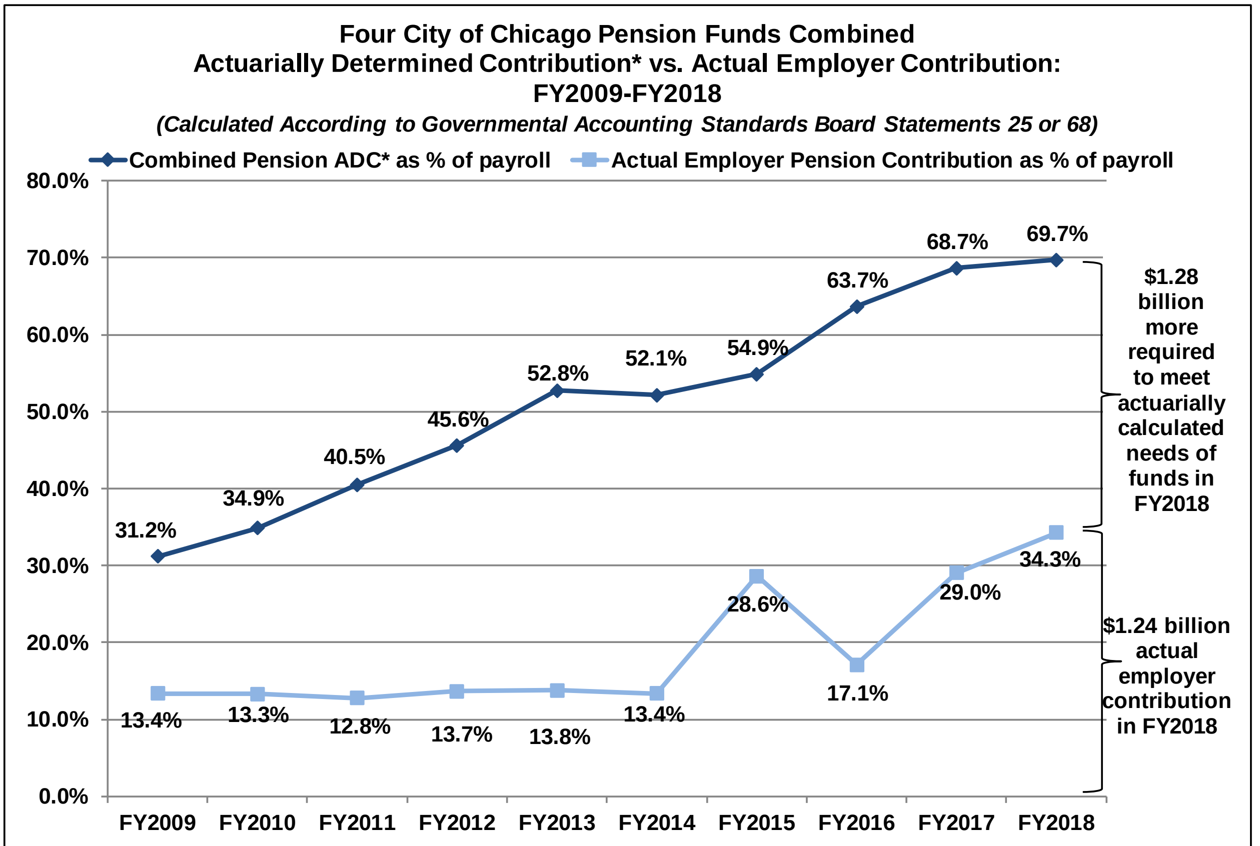
[185] Municipal Employees' Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report for the Fiscal Years Ended December 31, 2018 and 2017, p. 45.
[186] Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago, Financial Statements, FY2018, p. 38.

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 FY2018 was required to make an annual employer contribution based on the second year of a 40-year funding plan for the Municipal Fund and Laborers' Fund and the fourth 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 FY2009 of 17.9 percentage points, or $566.5 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 and FY2018 to 35.5 percentage points or $1.3 billion in FY2018 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 35.5% of payroll, or $1.3 billion, in FY2018.



*Annual Required Contribution in FY2014 and prior.
Sources: FY2009-FY2018 Actuarial Valuations for the Police, Fire, Municipal and Laborers' pension funds.

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 four 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.[187]

The total reported net pension liability for all four funds in FY2018 was $30.1 billion, somewhat higher than the unfunded liability for all four funds of $29.2 billion. The City was required to include the net pension liability among the liabilities on its balance sheet for the first time in FY2015.

City of Chicago Pension Funds Combined GASB 67 Reporting FY2014-FY2018

	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
FY2018	$ 39,067,637,575	$ 8,949,834,507	$ 30,117,803,068	22.91%	$ 2,516,037,414
Four-Year Change	**$ 8,311,447,141**	**$ (595,809,454)**	**$ 7,952,735,291**	**-8.26%**	**$ 672,492,634**
Four-Year % Change	**27.02%**	**-5.59%**	**39.58%**	**-23.81%**	**38.63%**

Source: FY2014 -FY2018 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.[188] 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

[187] 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.

[188] 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.

Laborers' pension funds each contributed roughly 34% of the annuitant contribution, effectively subsidizing 13% of the total premium cost.[189]

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.[190]

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.[191] The Commission finished its work in January 2013 and released its report on January 11, 2013.[192] On May 15, 2013, the City announced its decision on how it would continue retiree healthcare after June 30, 2013.[193]

- 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.[194] 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.[195]

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[189] Cost allocation estimates provided to the Civic Federation by Sulan Tong, City of Chicago Department of Finance, April 2, 2013.
[190] *City of Chicago v. Marshall Korshak, et. al., and Martin Ryan,* Settlement Agreement, p. 8-10.
[191] Retiree Healthcare Benefits Commission, http://www.cityofchicago.org/city/en/depts/fin/provdrs/ben/alerts/2012/aug/retiree_healthcarebenefitscommissionmeeting.html.
[192] 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.
[193] 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.
[194] Public Act 98-0043.
[195] 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,

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 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.[196] 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. The circuit court later ruled that the Pension Funds are obligated to make the subsidy payments to the annuitants, but that decision may be subject to appeal and none of the four City pension funds reported OPEB liabilities in their FY2018 financial statements. The City of Chicago in its financial statements for FY2018 noted:

> The Pension Funds are in the process of preparing to issue retroactive payments for these subsidies for the period of time of January 1, 2017 through December 31, 2018 and will begin making the required monthly subsidy payments going forward. Not all of the Pension Funds included the liability for the monthly subsidies in their respective actuarial valuation reports under GASB 74. For that reason, the City has included the liability for the monthly fixed subsidies for this limited group under GASB 75 and is reported together with the non-CBA liability.[197]

During the summer of 2019, all four City pension funds announced on their websites they would be issuing premium subsidies to qualified annuitants, per Circuit Court of Cook County order. All announcements also recounted the eligibility requirements for the subsidy and any necessary refund of premiums paid starting January 1, 2017.

Collective Bargaining Agreement Retiree Healthcare Benefits

The City also provides retiree healthcare to certain employees under the terms of prior collective bargaining agreements with police and firefighters. Qualifying annuitants are permitted to enroll themselves and their dependents in the healthcare benefit program offered to active employees. They may keep the coverage until they reach the age of Medicare eligibility. For those retiring after the end of 2017, a contribution of 2% of the member's pension is required. The collective bargaining agreements (CBAs) for police and firefighters have expired and are currently being negotiated, but the CBA retiree healthcare program is continued under maintenance of effort provisions. [198]

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.

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

[197] City of Chicago, FY2018 Comprehensive Annual Financial Report, p. 93.

[198] City of Chicago, FY2018 Comprehensive Annual Financial Report, p. 92.

Net OPEB Liabilities

In 2015 the Governmental Accounting Standards Board (GASB) issued new accounting and financial reporting standards for governments' OPEB obligations, Statement 75. According to GASB, the new standards were intended to "improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions." Pension funds and governments are now required to report additional information in the financial statements about OPEB liabilities, assets (if any) and expenses that are calculated on a different basis from previous GASB 45 OPEB disclosure requirements. Both pension funds and governments must also disclose additional information about OPEB in the notes to the financial statements and in required supplementary information sections. The City of Chicago previously reported unfunded OPEB liabilities, but now reports Net OPEB Liability, which is similar in concept to the previously reported unfunded accrued liability, but the method by which the OPEB liability is measured has changed.

The City of Chicago reported net OPEB liability in FY2018 totaling $684.6 million. No assets are accumulated in a trust for retiree healthcare and OPEB benefits are funded on a pay-as-you-go basis. The City does not report net OPEB liabilities by pension fund, but in the FY2018 CAFR it did split the City obligation to show the amount of liability associated with the special public safety retiree healthcare program "CBA Benefits" and the settlement retiree healthcare plan "Non-CBA Benefits."[199]

City of Chicago Net OPEB Liability for Non-CBA and CBA Special Benefits: FY2018 (in $ thousands)

	Municipal	Laborers'	Police	Fire	Total
Pension Funds	N/A	N/A	N/A	N/A	**N/A**
Non-CBA Benefits: City					**$ 298,774**
CBA Special Benefits Unfunded Liability: City					**$ 385,858**
TOTAL					**$ 684,632**

Sources: FY2018 Pension Fund CAFRs; FY2018 City of Chicago CAFR, p. 94.

SHORT-TERM LIABILITIES

Short-term or current liabilities are financial obligations that must be satisfied within one year. They can include short-term debt, accounts payable, accrued payroll and other current liabilities. The City of Chicago included the following short-term liabilities in the Governmental Funds Balance Sheet in its annual Comprehensive Annual Financial Report (CAFR) for FY2018, 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;[200]
- *Accrued and Other Liabilities:* Includes self-insurance funds, unclaimed property and

[199] City of Chicago, FY2018 Comprehensive Annual Financial Report, p. 94.
[200] City of Chicago FY2018 Comprehensive Annual Financial Report, p. 58.

other unspecified liabilities;

- *Claims Payable*: Monies owed for claims against the City; and
- *Line of credit and commercial paper*:[201] Lines or letters of credit are commitments issued by a bank or other financial institution to provide a short-term loan for certain purposes.[202] 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.[203]

The chart below presents City of Chicago short-term liabilities by category and the percent change between FY2014 and FY2018.

In the two-year period between FY2017 and FY2018, total short-term liabilities increased by $1.5 billion, or 52.5%. The increase was driven by a 105.2% increase in amounts due to other funds. The biggest driver of this two-year increase in due to other funds was the reporting of a $2.1 billion liability for Sales Tax Securitization Corporation refunding bonds issued in 2017 and 2018 as required by accounting rules.[204]

Between FY2014 and FY2018 total short-term liabilities increased by 97.3%, or $2.1 billion, rising from nearly $2.2 billion to $4.3 billion. The five-year increase was primarily due to the following two items:

- A $2.2 billion increase in amounts due to other funds. This five-year increase is primarily attributable to the $2.1 billion liability for Sales Tax Securitization Corporation refunding bonds issued in 2017 and 2018;[205] and
- A $276.1 million increase in voucher warrants payable.

City of Chicago Short-Term Liabilities in the Governmental Funds: FY2014 - FY2018 (in $ thousands)

Type	FY2014	FY2015	FY2016	FY2017	FY2018	Two-Year Change	Two-Year % Change	Five-Year Change	Five-Year % Change
Voucher Warrants Payable	$ 564,629	$ 505,759	$ 579,446	$ 876,754	$ 840,750	$ (36,004)	-4.1%	$ 276,121	48.9%
Accrued Interest	$ 225,459	$ 270,551	$ 224,746	$ 289,714	$ 283,196	$ (6,518)	-2.2%	$ 57,737	25.6%
Due to Other Funds	$ 827,180	$ 730,006	$ 754,539	$ 1,454,950	$ 2,985,037	$ 1,530,087	105.2%	$ 2,157,857	260.9%
Accrued & Other Liabilities	$ 245,613	$ 117,288	$ 155,483	$ 158,349	$ 159,229	$ 880	0.6%	$ (86,384)	-35.2%
Line of Credit & Commercial Paper	$ 297,309	$ -	$ -	$ -	$ -	$ -	--	$ (297,309)	---
Claims Payable	$ 13,326	$ 13,748	$ 19,176	$ 33,529	$ 21,055	$ (12,474)	-37.2%	$ 7,729	58.0%
Total	**$ 2,173,516**	**$ 1,637,352**	**$ 1,733,390**	**$ 2,813,296**	**$ 4,289,267**	**$ 1,475,971**	**52.5%**	**$ 2,115,751**	**97.3%**

Source: City of Chicago FY2014-FY2018 Comprehensive Annual Financial Report Balance Sheets Governmental Funds.

[201] 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.
[202] A. John Vogt, *Capital Budgeting and Finance: A Guide for Local Governments* (Washington, D.C.: ICMA, 2004), p. 389.
[203] Steven A. Finkler, *Financial Management for Public, Health, and Not-for-Profit Organizations* (Upper Saddle River, Prentice Hall, 2001), p. 552.
[204] City of Chicago FY2018 Comprehensive Annual Financial Report, p. 26 and 72.
[205] The $2.1 billion in assets listed as an asset in the STSC debt service fund is a deferred outflow of the STSC, representing the bond proceeds (principal and premium) of the 2017 and 2018 bonds which were paid to the City for the right title and interest in the City's sales tax revenues. When the STSC is shown as a component unit of the City, deferred outflows are categorized instead as an asset "due from other funds" and is amortized over the life of the bonds. The liability "due to other funds" in the Bond Note Redemption and Interest Fund is also amortized over the life of the bonds and represents the City's sale of its right title and interest in the sales tax revenues and its interest in the bond proceeds. Since the modified accrual basis does not include long term debt payable in more than one year in liabilities, the STSC debt service fund has $2.1 billion in fund balance. And, since the amount represents a

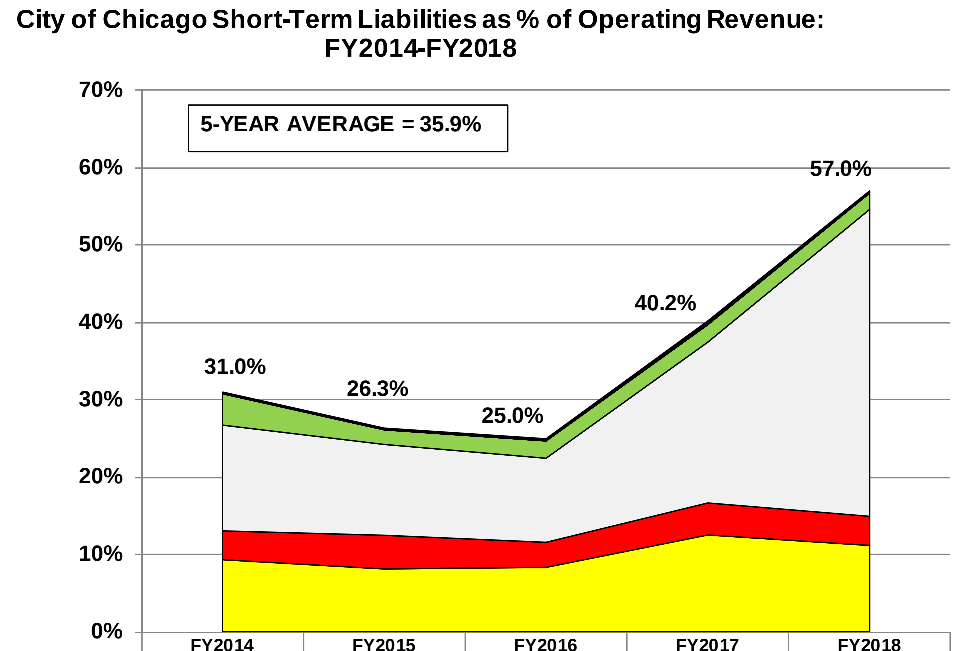
Increasing short-term liabilities in a government's operating funds as a percentage of net operating revenues may be a warning sign of possible future financial difficulties.[206] The short-term liabilities to net operating revenues ratio, developed by the International City/County Management Association (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 FY2014 and FY2016, falling from 31.0% to 25.0%. However, the trend was reversed in FY2017 as the ratio rose sharply to 40.2% and in FY2018 when it increased to 57.0%. As noted above, the increases in FY2017 and FY2018 were primarily due to a $2.1 billion liability reported due to accounting rule

deferred outflow, the fund balance is restricted and nonspendable. Explanation of the accounting process provided by the City of Chicago budget office on October 29, 2018.

[206] 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.

requirements for Sales Tax Securitization Corporation refunding bonds issued in 2017 and 2018. The average ratio during this five-year period was 35.9%.



	FY2014	FY2015	FY2016	FY2017	FY2018
Claims Payable	0.2%	0.2%	0.3%	0.5%	0.3%
Line of Credit & Commercial Paper	0.0%	0.0%	0.0%	0.0%	0.0%
Accrued & Other Liabilities	4.1%	1.9%	2.2%	2.3%	2.1%
Due to Other Funds	13.7%	11.7%	10.9%	20.8%	39.7%
Accrued Interest	3.7%	4.4%	3.2%	4.1%	3.8%
Voucher Warrants Payable	9.3%	8.1%	8.3%	12.5%	11.2%

Note: As of FY2014, the City has reclassified lines of credit and commercial paper as short-term obligations.
Source: City of Chicago, FY2014-FY2018 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.[207]

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

[207] 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 1.9 in FY2018, the most recent year for which data is available. It is slightly below the preferred benchmark of 2.0, but it is still above 1.0, so current assets are greater than current liabilities and are sufficient to cover obligations in the near term

In the past five years, the City's current ratio averaged 2.6, which is above preferred benchmark of 2.0 and thus demonstrates a good level of liquidity. Over time, however, the current ratio has fallen from 2.5 in FY2014 to 1.9 five years later. The reason for the decline is that while current assets increased during this period by 54.7% or $2.9 billion, current liabilities also increased by $2.4 billion or 110.7%. In short, the rate of growth in liabilities outpaced the rate of growth in assets.

City of Chicago Current Ratio in the Governmental Funds: FY2014-FY2018
(in $ thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018	Two-Year Change	Two-Year % Change	Five-Year Change	Five-Year % Change
Current Assets									
Cash and Cash Equivalents	$ 537,665	$ 857,747	$ 223,829	$ 851,501	$ 1,344,338	$ 492,837	57.9%	$ 806,673	150.0%
Investments	$ 1,563,515	$ 705,364	$ 1,333,554	$ 1,538,985	$ 1,158,227	$ (380,758)	-24.7%	$ (405,288)	-25.9%
Cash and Investments with Escrow Agent	$ 411,085	$ 661,474	$ 506,804	$ -	$ -	$ -	---	$ (411,085)	-100.0%
Receivables (Net of Allowances): Property Taxes	$ 1,150,682	$ 1,560,464	$ 1,739,062	$ 1,853,000	$ 2,004,049	$ 151,049	8.2%	$ 853,367	74.2%
Receivables (Net of Allowances): Accounts	$ 242,233	$ 256,558	$ 289,168	$ 459,406	$ 538,211	$ 78,805	17.2%	$ 295,978	122.2%
Due from Other Funds	$ 724,769	$ 614,108	$ 543,996	$ 1,264,468	$ 2,740,291	$ 1,475,823	116.7%	$ 2,015,522	278.1%
Due from Other Governments	$ 735,640	$ 723,487	$ 735,994	$ 638,506	$ 529,403	$ (109,103)	-17.1%	$ (206,237)	-28.0%
Inventories	$ 24,498	$ 23,828	$ 23,730	$ 25,945	$ 25,463	$ (482)	-1.9%	$ 965	3.9%
Total Current Assets	**$ 5,390,087**	**$ 5,403,030**	**$ 5,396,137**	**$ 6,631,811**	**$ 8,339,982**	**$ 1,708,171**	**25.8%**	**$ 2,949,895**	**54.7%**
Current Liabilities									
Voucher Warrants Payable	$ 564,629	$ 505,759	$ 579,446	$ 876,754	$ 840,750	$ (36,004)	-4.1%	$ 276,121	48.9%
Accrued Interest	$ 225,459	$ 270,551	$ 224,746	$ 289,714	$ 283,196	$ (6,518)	-2.2%	$ 57,737	25.6%
Due to Other Funds	$ 827,180	$ 730,006	$ 754,539	$ 1,454,950	$ 2,985,037	$ 1,530,087	105.2%	$ 2,157,857	260.9%
Accrued & Other Liabilities	$ 245,613	$ 117,288	$ 155,483	$ 158,349	$ 159,229	$ 880	0.6%	$ (86,384)	-35.2%
Line of Credit & Commercial Paper	$ 297,309	$ -	$ -	$ -	$ -				
Claims Payable	$ 13,326	$ 13,748	$ 19,176	$ 33,529	$ 21,055	$ (12,474)	-37.2%	$ 7,729	58.0%
Total Current Liabilities	**$ 2,173,516**	**$ 1,637,352**	**$ 1,733,390**	**$ 2,813,296**	**$ 4,289,267**	**$ 1,475,971**	**52.5%**	**$ 2,405,331**	**110.7%**
Current Ratio	**2.5**	**3.3**	**3.1**	**2.4**	**1.9**	**-**	**-17.5%**	**-**	**-21.6%**

Note: Cash and investments with escrow agent amounts were not reported in FY2017. Only restricted cash and investments with escrow agent were shown.
Source: FY2014-FY2018 City of Chicago Comprehensive Annual Financial Reports, Balance Sheet, Governmental Funds.

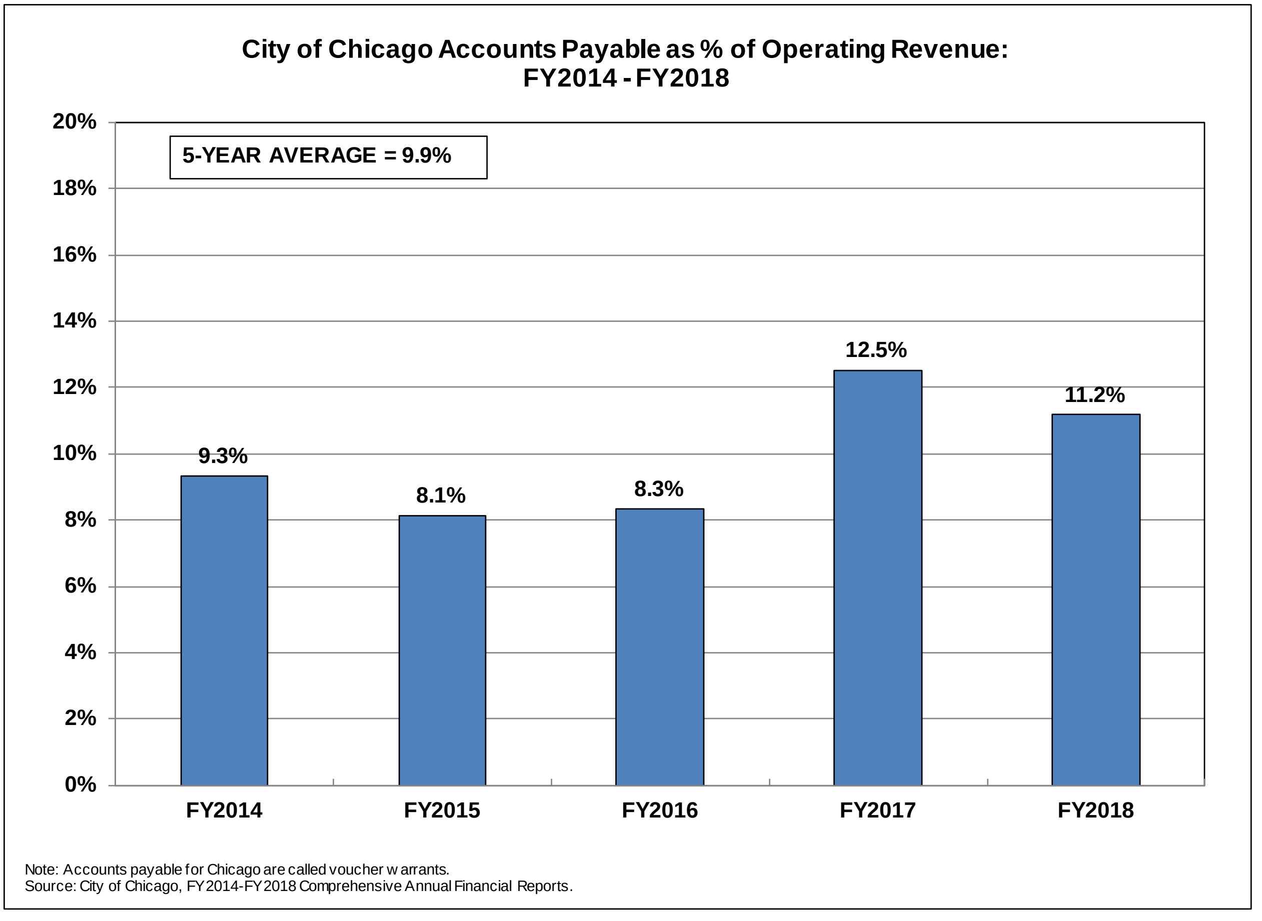
Accounts Payable as a Percentage of Operating Revenues

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 FY2014 and FY2018. The City's ratio has fluctuated over the past five years.

Between FY2014 and FY2016, the accounts payable ratio fell from 9.3% to 8.3%. 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%. In FY2018, the ratio declined to 11.2% as the amount of voucher warrants payable fell by $36.0 million.

Over the five-year period reviewed, the accounts payable to operating revenue ratio averaged 9.9%, which is equal to slightly more than one month's worth of outstanding bills. This is not considered to be a cause for concern.

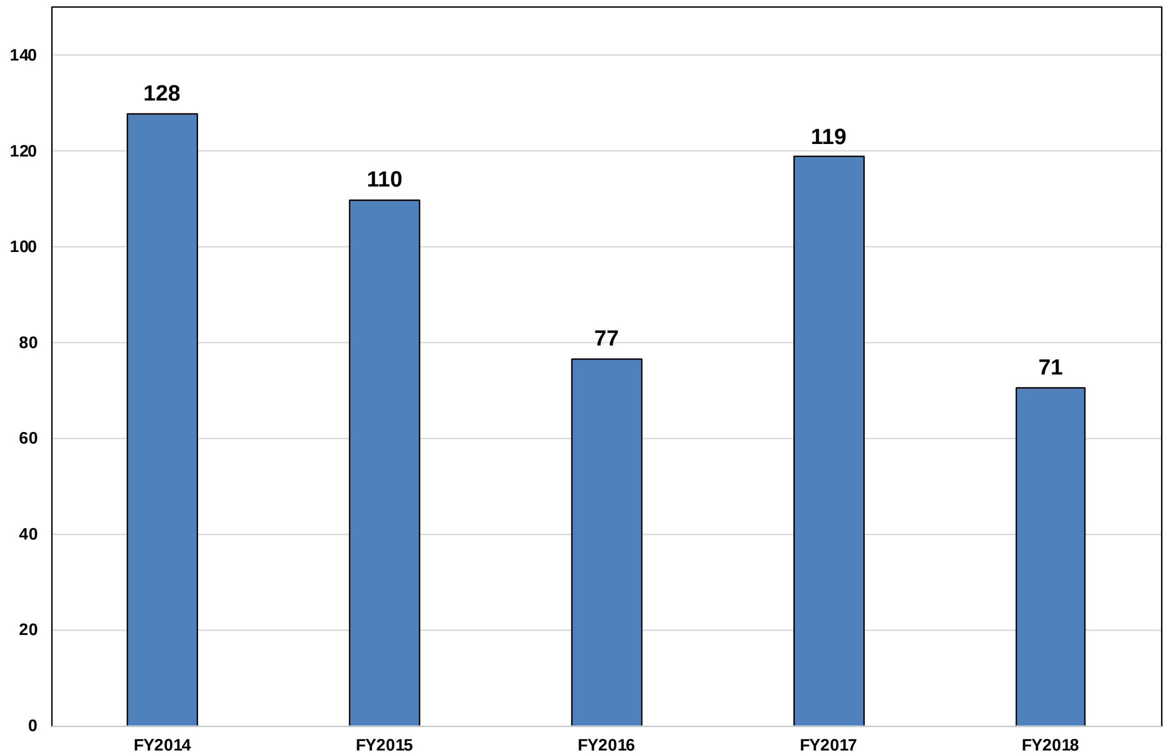


Days of Cash on Hand

Days of cash on hand is a widely used liquidity ratio. It shows how long an organization could meet its daily expenses using the cash on hand or assets that can quickly be turned into cash. It is calculated by dividing the amount of cash and marketable securities in the governmental funds by daily operating expenses in those funds. A government should maintain several months' worth of cash to pay bills as they come due. It is a sound practice to have at least enough cash on hand to exceed the length of a typical billing period, or 30 to 60 days.[208]

Between FY2014 and FY2016, the City of Chicago reported that the days of cash on hand at year end fell from 128 to 77 days. Then, the number of days rose to 119 by FY2017, before falling again in FY2018 to 71 days. Over the five-year period the City has always had at least two months of cash available to pay bills, indicating a reasonable amount of liquidity.

City of Chicago Days of Cash on Hand at Year End FY2014 to FY2018



City of Chicago FY2014-FY2018 Comprehensive Annual Financial Reports.

LONG-TERM LIABILITIES

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

- *Bonds, Notes and Certificates Payable*: These are amounts reported for different types of tax supported long-term debt, including general obligation, lease, tax increment financing and revenue debt.

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[208] Steven A. Finkler, *Financial Management for Public, Health, and Not-for-Profit Organizations*, p. 535.

- *Net pension and other post-employment benefits obligations (NPO)*: the cumulative difference (as of the effective date of GASB Statement No. 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 No. 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 No. 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.
- *Net Other Post Employment Benefit (OPEB) Liabilities*:[209] Beginning with the FY2018 CAFR, the City of Chicago implemented GASB Statement No. 75 requirements to report net OPEB liability as the portion of the present value of projected benefit payments to current active and inactive employees that is attributed to those employees' past periods of service less the amount of the OPEB plan's fiduciary net position.[210] Prior to FY2018, under the requirements of GASB Statement No. 45, net Other Post-Employment Benefit (OPEB) obligations were reported as the cumulative difference between the annual OPEB cost and the employer's contributions to its OPEB Plan. As a result of the reporting change for other post-employment liabilities involved in implementing GASB No. 75, the amount of Chicago's long-term liabilities **reported** has increased substantially. This is because it reflects a more holistic approach to measuring the liabilities of the government, which the previous net other post-employment measurement did not. The amount owed by the City for retiree health insurance to its pension funds has not significantly changed. It is only being reported more transparently. The City also restated its FY2017 OPEB reporting to show net OPEB liabilities; this is included in the chart that follows.
- *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

[209] Non-pension benefits provided to employees after employment ends are referred to as Other Post-Employment Benefits (OPEB). OPEB includes health insurance coverage for retirees and their families, dental insurance, life insurance and term care coverage. It does not include termination benefits such as accrued sick leave and vacation.
[210] Governmental Accounting Standards Board, Summary Of Statement No. 75: Accounting And Financial Reporting For Postemployment Benefits Other Than Pensions at https://www.gasb.org/cs/ContentServer?cid=1176166370763&d=&pagename=GASB%2FPronouncement_C%2FGASBSummaryPage**.**

$167.9 million to Prudential and a net payment of $52.5 million to Citizens Asset Finance.[211]

- *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.[212]
- *Pollution Remediation*: The City's pollution remediation obligations are primarily related to Brownfield redevelopment projects. These projects include removal of underground storage tanks, cleanup of contaminated soil and removal of other environmental pollution identified at the individual sites. The estimated liability is calculated using the expected cash flow technique. The pollution remediation obligation is an estimate and subject to changes resulting from price increases or reductions, technology or changes in applicable laws or regulations.[213]

Total long-term liabilities rose by 4.1%, or $1.5 billion, between FY2017 and FY2018. Long-term debt (bonds, notes and certificates payable) declined during this period, from $11.1 billion to nearly $11.0 billion. All other liabilities rose by nearly $1.7 billion. That increase primarily can be attributed to a $1.7 billion, or 6.8%, increase in net pension liabilities; they rose from $25.1 billion to roughly $26.8 billion.

The five-year increase in total long-term liabilities between FY2014 and FY2018 was 35.2%. This was a nearly $10.3 billion increase from $29.2 billion to $39.5 billion. Total long-term debt alone rose by 14.5%, from $9.6 billion to nearly $11.0 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 45.3% or $8.9 billion. Much of the large total five-year reported increase between FY2014 and FY2018 for other liabilities was due to the impact of the changes in pension and other post-employment benefit reporting guidelines. As noted above, the reporting requirements

[211] City of Chicago, FY2015 Comprehensive Annual Financial Report, p. 70.
[212] City of Chicago, FY2018 Comprehensive Annual Financial Report, p. 59.
[213] City of Chicago, FY2018 Comprehensive Annual Financial Report, p. 99.

of GASB Statements 68 and 75 present a more transparent approach to measuring these liabilities than the previous approach, rather than large increases in liabilities.

City of Chicago Long Term Liabilities for Governmental Activities FY2014 - FY2018 (in $ thousands)									
	FY2014	FY2015	FY2016	FY2017	FY2018	Two-Year Change	Two-Year % Change	5-Year Change	5-Year % Change
General Obligation Debt	$ 8,335,506	$ 9,364,398	$ 9,173,009	$ 9,686,627	$ 8,207,779	$ (1,478,848)	-15.3%	$ (127,727)	-1.5%
Tax Increment	$ 74,395	$ 65,360	$ 33,520	$ 27,925	$ 19,945	$ (7,980)	-28.6%	$ (54,450)	-73.2%
Revenue	$ 743,795	$ 754,052	$ 766,628	$ 254,224	$ 249,929	$ (4,295)	-1.7%	$ (493,866)	-66.4%
Sales Tax Securitization Corporation	$ -	$ -	$ -	$ 743,735	$ 2,036,435	$ 1,292,700	---	$ 2,036,435	---
Subtotal Bonds, Notes and Certificates Payable	**$ 9,153,696**	**$ 10,183,810**	**$ 9,973,157**	**$ 10,712,511**	**$ 10,514,088**	**$ (198,423)**	**-1.9%**	**$ 1,360,392**	**14.9%**
Add unamortized premium	$ 154,767	$ 117,199	$ 118,300	$ 88,675	$ 158,298	$ 69,623	78.5%	$ 3,531	2.3%
Add accretion of capital appreciation bonds	$ 298,012	$ 307,305	$ 318,844	$ 315,863	$ 323,485	$ 7,622	2.4%	$ 25,473	8.5%
Total Bonds, Notes and Certificates Payable	**$ 9,606,475**	**$ 10,608,314**	**$ 10,410,301**	**$ 11,117,049**	**$ 10,995,871**	**$ (121,178)**	**-1.1%**	**$ 1,389,396**	**14.5%**
Net Pension Liability	$ 18,345,143	$ 29,697,694	$ 31,512,071	$ 25,058,993	$ 26,761,592	$ 1,702,599	6.8%	$ 8,416,449	45.9%
Net OPEB Obligation	$ 252,944	$ 214,535	$ 167,209	$ 746,321	$ 684,632	$ (61,689)	-8.3%	$ 431,688	170.7%
Lease Obligations	$ 116,858	$ -	$ -	$ -	$ -	$ -	---	$ (116,858)	-100.0%
Pollution Remediation	$ 8,532	$ 32,850	$ 33,201	$ 35,044	$ 44,415	$ 9,371	26.7%	$ 35,883	420.6%
Claims and Judgments	$ 900,616	$ 850,561	$ 942,622	$ 1,012,756	$ 1,032,385	$ 19,629	1.9%	$ 131,769	14.6%
Total Other Liabilities	**$ 19,624,093**	**$ 30,795,640**	**$ 32,655,103**	**$ 26,853,114**	**$ 28,523,024**	**$ 1,669,910**	**6.2%**	**$ 8,898,931**	**45.3%**
Grand Total	**$ 29,230,568**	**$ 41,403,954**	**$ 43,065,404**	**$ 37,970,163**	**$ 39,518,895**	**$ 1,548,732**	**4.1%**	**$ 10,288,327**	**35.2%**

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.

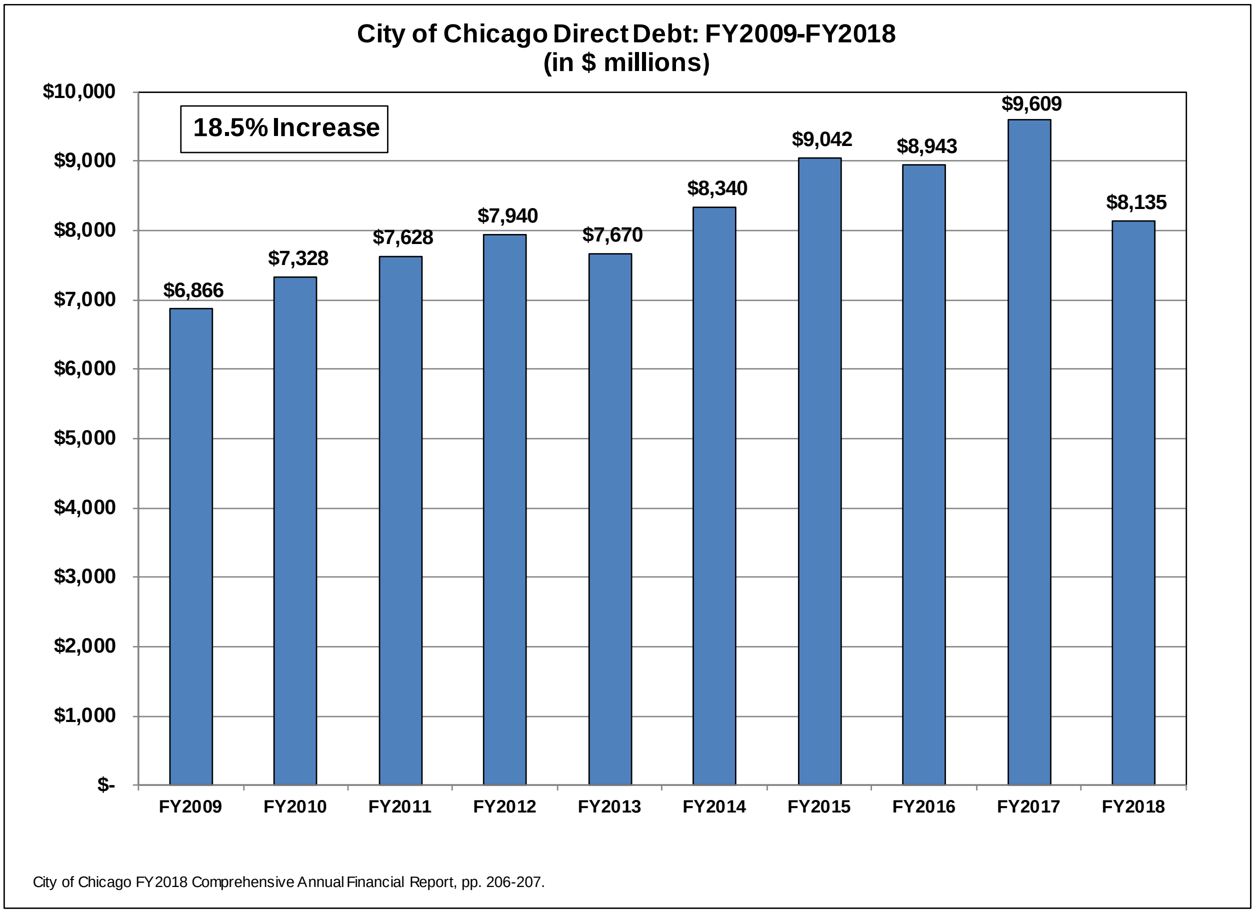
FY2017 Other Post Employment Benefits Obligations were restated in the FY2018 CAFR due to the implementation of GASB 75.

Source: City of Chicago FY2014-FY2018 Comprehensive Annual Financial Reports. Note 10: Long-Term Obligations.

Long-Term Direct Debt Trends

Direct debt is a government’s tax-supported debt. Increases over time bear watching as a potential sign of rising financial risk. The exhibit below presents ten-year trend information for the total amount of City of Chicago net direct debt. During that time, total net direct debt rose by 18.5%, or $1.3 billion. This represents an increase from $6.9 billion in FY2009 to $8.1 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 before dropping by 15.3% to $8.1 billion in FY2018. The decrease in FY2018 was due to the refunding of certain callable general obligation bonds by the Sales Tax Securitization Corporation (STSC Series 2018AB and Series 2018C refunding bonds).[214] The overall debt burden remains high.

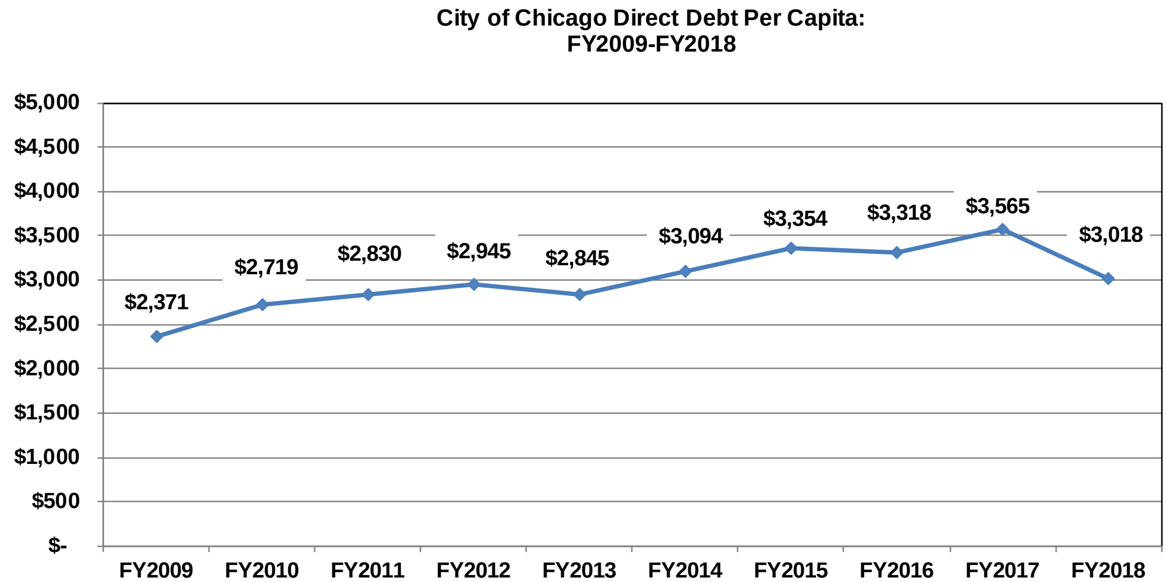


Long-Term Direct Debt Per Capita

A common ratio used by rating 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 FY2009 and FY2018, direct debt per capita rose by 27.3% from $2,371 to $3,018. The decrease in FY2018 is

[214] City of Chicago FY2018 Comprehensive Annual Financial Report, p. 10.

attributed to the refunding of certain callable general obligation bonds by the Sales Tax Securitization Corporation (STSC Series 2018AB and Series 2018C refunding bonds).[215]



Source: City of Chicago, FY2018 Comprehensive Annual Financial Report, pp. 206-207.

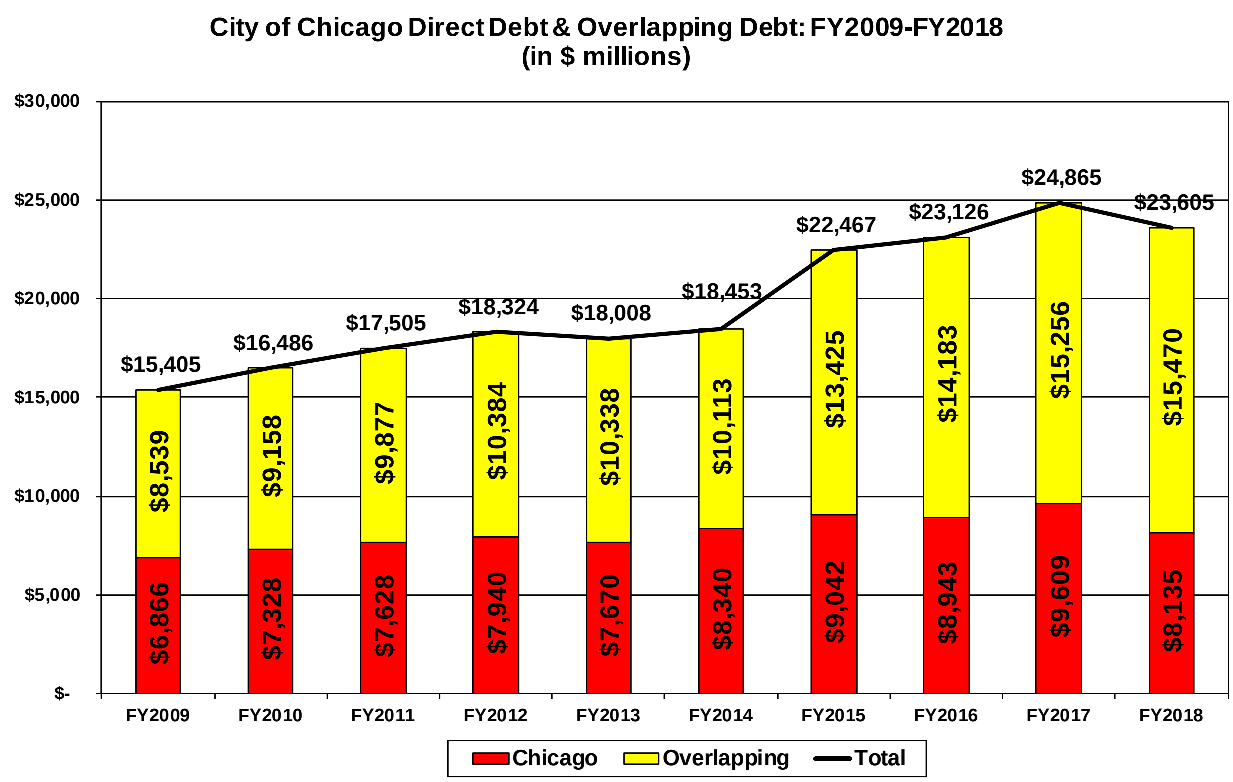
Overlapping Debt: Chicago vs. Other Governments

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.[216] Ratings agencies and other financial analysts commonly monitor overlapping debt trends as an affordability indicator when governments consider debt issuance. Chicago's portion of total

[215] City of Chicago FY2018 Comprehensive Annual Financial Report, p. 10.

[216] 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.

long-term in FY2018 accounted for 34.5% of all long-term debt. Between FY2009 and FY2018 combined direct debt from other overlapping governments increased by 81.2% at the same time City of Chicago debt rose by 18.5%. Total direct debt from all eight major governments including Chicago rose by 53.2%. 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 FY2020 are projected to be 19.6% of total local fund net appropriations, or $1.9 billion out of expenditures of $9.9 billion. Since FY2016 debt service appropriations have risen by 8.0%, less than the 26.2% increase in total net appropriations. The debt service ratio has averaged 21.9% over the five-year period analyzed. The rating agencies consider a debt burden high if this ratio is between 15% and 20%.[217] 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: FY2016-FY2020			
	Debt Service	Total Net Appropriation	Ratio
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%
FY2020	$ 1,938,788,156	$ 9,893,783,000	19.6%
Five-Year $ Increase	$ 144,244,584	$ 2,055,827,000	
Five Year % Increase	8.0%	26.2%	

Source: City of Chicago Budget Recommendations: FY2016-FY2020.

Sales Tax Securitization Corporation (STSC)

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. The 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.[218]

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.[219] 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.[220] Additionally, since sales taxes are collected and distributed by the State the new entity could be affected by investor perceptions of Illinois in the future.

[217] 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.
[218] City of Chicago FY2018 Comprehensive Annual Financial Report, p. 53.
[219] Sales Tax Securitization Corporation, "Bond Ratings," at https://www.salestaxsecuritizationcorporation.com/stsc-il/bond-ratings/i3228.
[220] S&P Global Ratings, "Sales Tax Securitization Corporation of Chicago; Sales Tax", ratings report, October 26, 2018.

Sales Tax Securitization Corporation Sales Tax Securitization Bonds Series 2018 Series AB bonds were sold at a premium in January 2018. The bonds have interest rates ranging from 3.82 percent to 5.0 percent. Net proceeds of $720.1 million were transferred to the City in exchange for a pledge of the City's sales tax revenues and used to refund outstanding General Obligation bond debt. This refunding increased total debt service payments by $349.6 million, resulting in a net economic gain of approximately $40.1 million.[221]

Sales Tax Securitization Corporation Sales Tax Securitization Series 2018C bonds were sold at a premium in November 2018. The bonds have interest rates ranging from 5.0 percent to 5.25 percent. Net proceeds of $689.3 million were transferred to the City in exchange for a pledge of the City's Sales Tax Revenues and used by the City to refund outstanding General Obligation Bond debt. The refunding increased the City's total debt service payments by $101.6 million, resulting in a net economic gain of approximately $39.1 million.[222]

In January 2019, $605.4 million in Sales Tax Securitization Corporation Sales Tax Securitization Series 2019A bonds were sold. The net proceeds will be transferred to the City in exchange for a pledge of the City's Sales Tax Revenues and used by the City to refund outstanding General Obligation Bond debt.[223] In the FY2020 budget, the City projects an increase of $121.2 million in debt service in the new fiscal year as compared to 2019.[224] In addition, the City has identified $200 million in savings in the FY2020 budget from refunding general obligation bonds using the sales tax securitization corporation as well as general obligation credits.[225]

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.

[221] City of Chicago FY2018 Comprehensive Annual Financial Report, p. 79.
[222] City of Chicago FY2018 Comprehensive Annual Financial Report, p. 79.
[223] Official Statement. $605,430,000 Sales Tax Securitization Corporation, Sales Tax Securitization Bonds, Taxable Series 2019A, January 16, 2019.
[224] City of Chicago 2020 Budget Overview, p. 51.
[225] City of Chicago 2020 Budget Overview, p. 23. Media reports have since reported this number will increase to $215 million. Greg Hinz, "Lightfoot's 'Plan B' budget includes higher property tax, *Crain's Chicago Business*, November 12, 2019.

The table that follows summarizes credit ratings as of October 24, 2019 for various types of City bonds.

City of Chicago Credit Ratings (as of October 24, 2019)				
	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 FY2018 Comprehensive Annual Financial Report, p. 29 and https://www.salestaxsecuritizationcorporation.com/stsc-il/bonds/i3228 and https://www.cityofchicagoinvestors.com/city-of-chicago-il/documents/downloads/i125.

Chicago Credit Rating Actions in 2018

In February 2018, Kroll Bond RatingAgency upgraded the City's General Obligation bond rating from BBB+ to A with a stable outlook.[226]

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.[227]

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.[228]

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[226] City of Chicago FY2018 Comprehensive Annual Financial Report, p. 29.
[227] S&P Global Ratings, "Sales Tax Securitization Corporation of Chicago; Sales Tax", ratings report, October 26, 2018.
[228] Greg Hinz. "Surprise: Moody's bumps up City Hall, CPS credit outlook," *Crain's Chicago Business*, July 12, 2018.

Moody's affirmed its A2 rating for O'Hare general revenue and passenger facility charge bonds in April 2018.[229] Similarly, Fitch affirmed its A rating with a stable outlook for Chicago O'Hare Airport revenue bonds in September 2018.[230]

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.[231] 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.[232]

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."[233] 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.[234]

However, the City argues that their growth estimates are accurate and that the expansion plan does not present a credit risk.[235] 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

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229 Moody's Investor's Services, "Moody's 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.

230 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.

231 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.

232 Chicago FY2017 Comprehensive Annual Financial Report, p. 102.

233 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.

234 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.

235 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.

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.[236]

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 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.[237]

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.[238]

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.[239] 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

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[236] 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.
[237] *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.
[238] Chicago FY2017 Comprehensive Annual Financial Report, p. 29.
[239] Moody's Investors Services. "Moody's Places Chicago, IL's GO and Related Ratings Under Review for Possible Downgrade," July 7, 2017.

growing costs and continued fiscal distress at Chicago Public Schools would further burden City taxpayers.[240]

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 position of these retirement funds.[241] 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.[242]

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.[243]

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.[244]

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.[245]

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[240] See Moody's Investor's Services. "Moody's Confirms All Ratings on Chicago, IL's Water and Sewer Revenue Bonds; Outlooks Negative," September 5, 2017and Moody's Investor's Services." Moody's Confirms Chicago, IL's GO at Ba1; Outlook Negative," September 5, 2017.

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

[242] 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.

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

[244] 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.

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

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.[246]

CAPITAL PROGRAM

The City of Chicago has released a FY2019-2023 Capital Improvement Plan (CIP).[247] 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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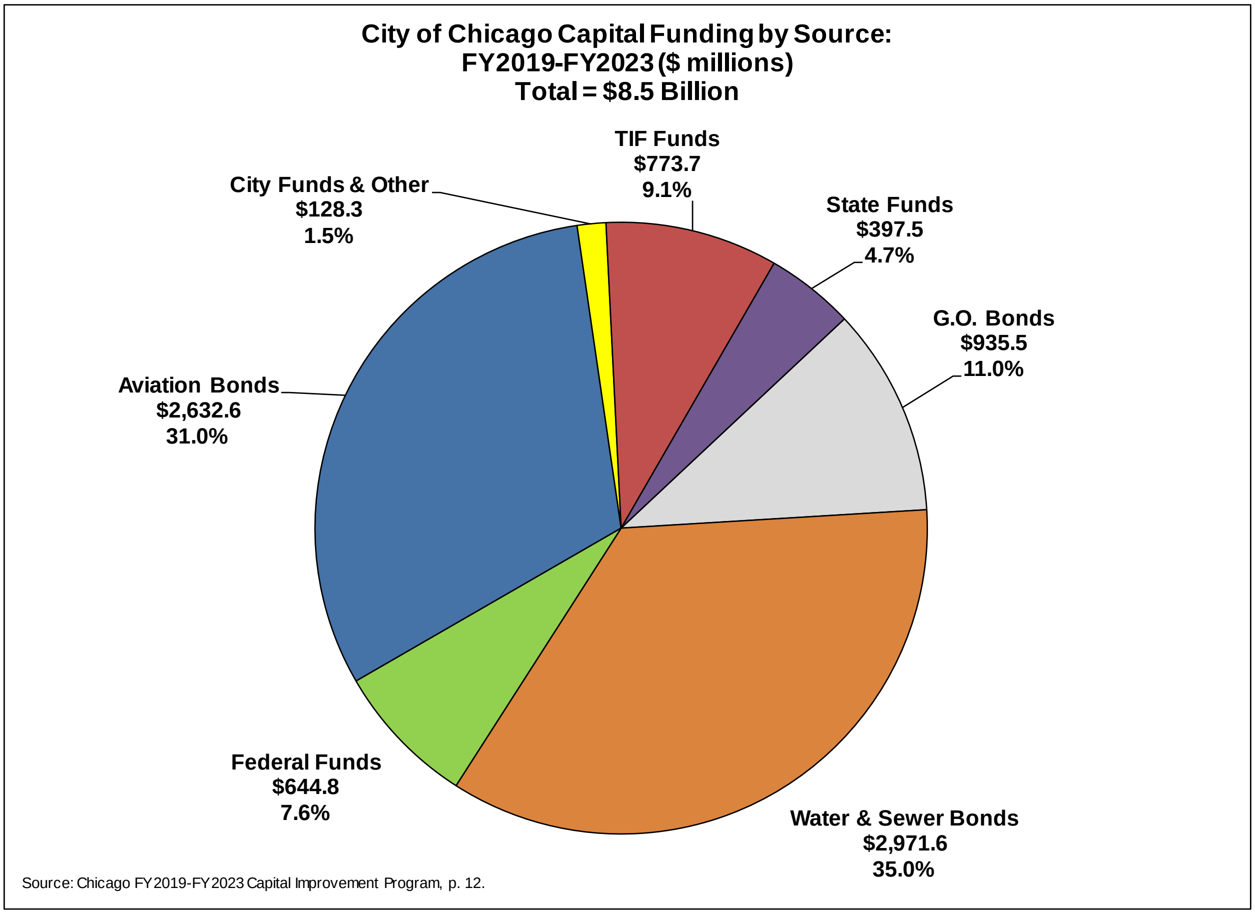
[246] Civic Federation, "Chicago Area Governments Bond Ratings Fall Below Investment Grade," May 22, 2015 See https://www.civicfed.org/civic-federation/blog/chicago-area-governments-bond-ratings-fall-below-investment-grade.

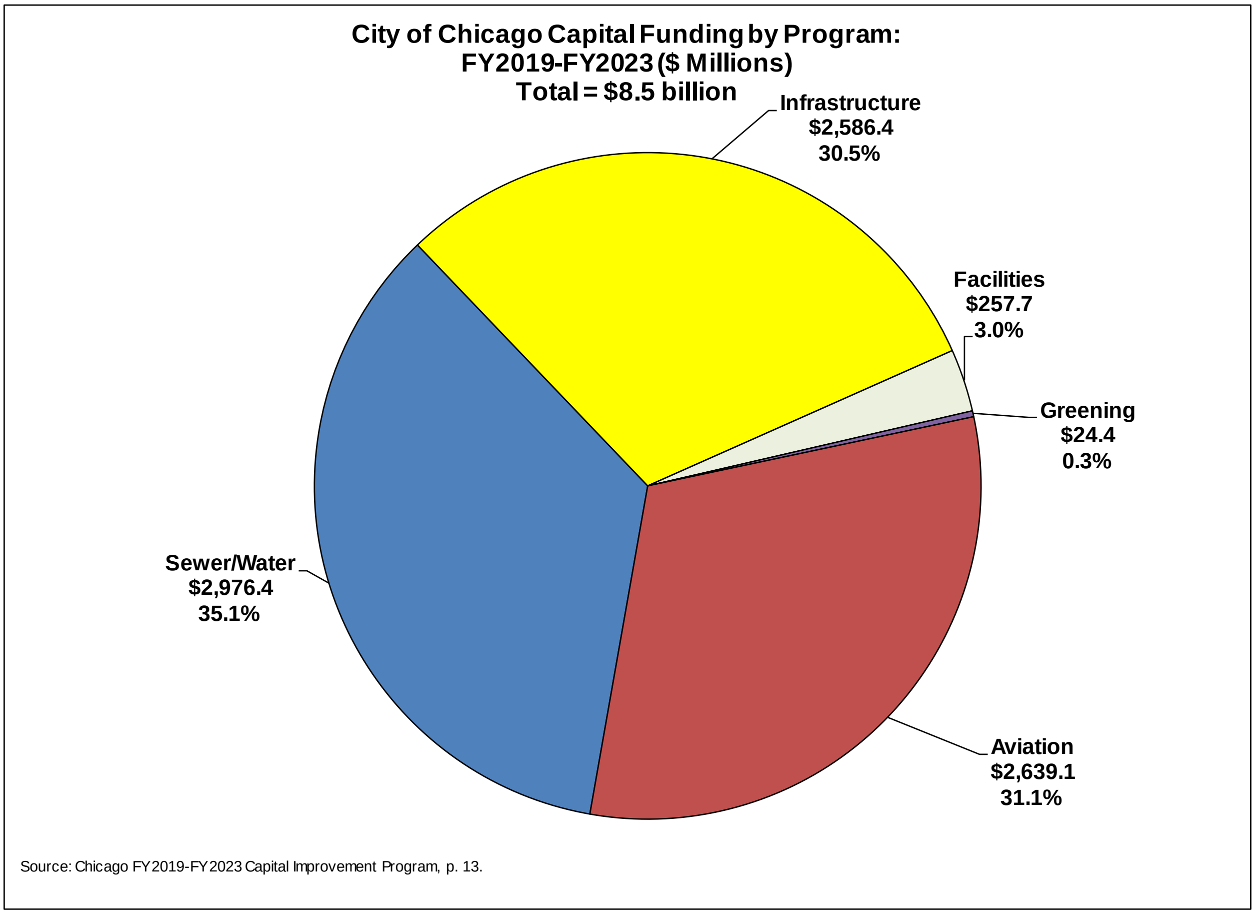
[247] The FY2019-FY2023 Capital Improvement Plan is available on the City's website at https://www.chicago.gov/content/dam/city/depts/obm/supp_info/CIP_Archive/2019-2023CIPBook.pdf.

The FY2019-FY2023 CIP proposes $8.5 billion in planned projects. Of that amount:

- Water and sewer bonds will fund $3.0 billion, or 35.0%, of total capital spending;
- Aviation debt will provide $2.6 billion, or 31.0% of all capital funding;
- City issued general obligation bonds will be used for $935.5 million, or 11.0%, of all projects;
- Tax Increment Financing district funds will finance 9.1% or $773.7 million in projects;
- Federal funds will be used to finance 7.6% or $644.8 million in projects;
- State of Illinois funds will account for 4.7%, or $397.5 million; and
- City and other funds, derived from various fees and resources, will account for $128.3 million, or 1.5%, of all five-year CIP spending.



The next exhibit shows the distribution of Chicago FY2019-FY2023 CIP funds by program. The largest component of the capital program will be $3.0 billion for water and sewer infrastructure construction and rehabilitation. Aviation projects will total roughly $2.6 billion, or 31.1% of all funding. The next largest capital program will be for infrastructure such as streets and sidewalks, which will total approximately $2.6 billion, or 30.5% 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.[248]

This review is based on the FY2019-FY2023 capital improvement program posted online on the City's website.[249] 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

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248 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.
249 City of Chicago at file:///M:/City%20of%20Chicago/FY2020%20Chicago%20Budget%20Analysis/Government%20Documents/2019-2023CIPBook.

are prioritized. There is no discussion of the capital plan's impact on the operating budget. There appear to be few opportunities for stakeholders to provide input into the CIP process. While aldermen do have authority over the distribution of specific aldermanic menu projects in their wards, they do not formally approve the CIP.

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?*	No
• *A five-year summary list of projects and expenditures by project that includes funding sources for each project?*	Yes
• *Information about the impact and amount of capital spending on the annual operating budget for each project?*	No
• *Brief narrative descriptions of individual projects, including the purpose, need, history and current status of each project?*	No, but there is an overview of planned projects
• *The time frame for fulfilling capital projects?*	Yes
Are projects ranked and/or selected according to a formal prioritization or needs assessment process?	Not in the CIP
Is the capital improvement plan made publicly available for review by elected officials and citizens?	
• *Is the CIP published in the budget or a separate document?*	It is published in a separate document.
• *Is the CIP available on the Web?*	Yes[250]
Are there opportunities for stakeholders to provide input into the CIP?	
• *Is there stakeholder participation on a CIP advisory or priority setting committee?*	Unclear
• *Does the governing body hold a formal public hearing at which stakeholders may testify?*	No
• *Is the public permitted at least ten working days to review the CIP prior to a public hearing?*	Unclear
Is the CIP formally approved by the governing body of the government?	No
Is the CIP integrated into a long-term financial plan?	Unclear

[250] City of Chicago Capital Improvement Plan available at: file:///M:/City%20of%20Chicago/FY2020%20Chicago%20Budget%20Analysis/Government%20Documents/2019-2023CIPBook.pdf