THE CIVIC FEDERATION

CITY OF CHICAGO FY2022 PROPOSED BUDGET:

ANALYSIS AND RECOMMENDATIONS

for more information, visit civicfed.org/ChicagoFY2022

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ACKNOWLEDGEMENTS

The Civic Federation would like to thank Chief Financial Officer Jennie Huang Bennett, Office of Budget and Management (OBM) Director Susie Park and their staffs for providing us with a budget briefing and answering our questions about the budget.

EXECUTIVE SUMMARY

The Civic Federation supports Mayor Lightfoot's proposed FY2022 budget of $10.6 billion for all local funds (excluding grants and capital). The City of Chicago is in a much better financial position now than a year ago thanks to significant federal COVID-19 relief funding that has allowed the City to continue operating at full service levels, accommodate pay raises negotiated in union contracts, avoid cutting personnel or programs and invest in new programs and infrastructure. While the federal American Rescue Plan Act (ARP) provides the City with short-term budget relief, the Civic Federation cautions that if the economy does not recover as soon as projected the City will need to find a way to raise enough revenue or reduce expenses in order to balance its budgets after ARP funds are spent.

The FY2022 budget proposal represents an increase in spending of 8.4% from the adopted 2021 budget of $9.8 billion. Corporate Fund (general operating) expenditures are projected to increase by 21%, due to an increase in spending on salaries as well as large increases in amounts allocated from the Corporate Fund toward debt service and pension payments. Pension fund contributions are increasing by $461.5 million in FY2022, which is a 24.7% increase from the prior year. FY2022 represents the first year that all four pension funds will be funded based on actuarial calculations. Likewise, FY2022 is the final year of significant increases in pension funding, after which the annual increases in employer pension contributions will mostly level off and create more stability for the budget.

The City will receive a total of $1.9 billion in American Rescue Plan Act funding from the federal government. Of that amount, the majority—$1.3 billion—is going toward closing the budget gaps in 2021, 2022 and 2023. The FY2022 proposed budget allocates $385 million to be used as revenue replacement to help close the $733 million projected budget gap. The City is also using $782 million of ARP funds to close the year-end budget gap for the current 2021 fiscal year. An additional $152 million will be available for this same purpose in FY2023. The remaining ARP funds of $567 million are being allocated to fund investments in services and infrastructure. The use of these funds, which are a one-time source, to replace lost revenue is an appropriate use of the funds. However, the City still faces many structural budget challenges, primarily due to the high annual cost of paying off long-term liabilities: debt and pensions. And by using the bulk of the funds to close the current and upcoming year budget deficits, only a small amount will remain for use in future years.

The Civic Federation offers several recommendations to the City as it moves forward. Regarding use of the ARP funds for service and infrastructure investments, the City should disclose sufficient detail in progress tracking reports that allow members of the public to follow the dollars—including the amount of funding for each project that is coming from ARP funds and from bonds, actual expenditures by department, personnel positions associated with each initiative by department, and plans for how long-term initiatives will be sustained and incorporated into the operating budget. Regarding the operating budget, the Civic Federation recommends that the City add information to the annual Budget Forecast that would make it more useful for financial planning purposes. Importantly, the Forecast should include possible measures that could be taken to address future projected budget imbalances.

Regarding pensions, the City needs to develop a long-term revenue plan for funding the four pension funds. In the absence of sufficient revenue growth, pension obligations will continue to crowd out basic service investments unless the Illinois legislature authorizes significant statutory local pension reform and includes Chicago in further statewide pension consolidations. The City has already identified several sources of funding for pensions including the property tax, emergency communication surcharge and water-sewer charges. However, the pension funds receive large subsidies from other funds, including the general operating Corporate Fund. Pension contributions will continue to grow over time, albeit not as drastically as they have in the past several years. The City is banking on revenue from a future Chicago casino to serve as a pension funding source. The Civic Federation cautions that while its use for pensions was included in the legislation, gambling revenue is highly unreliable, and recommends that the City dedicate other, more stable sources of revenue to supplement pension funding over the long-term.

The Civic Federation offers the following **key findings** on Mayor Lightfoot's proposed FY2022 budget:

- The projected net appropriations for FY2022 total $10.6 billion. This is an increase of $821.4 million, or 8.4%, from the FY2021 adopted net appropriations of $9.8 billion;
- The proposed FY2022 Corporate Fund (general operating) budget of $4.9 billion represents an increase of 21.0%, or $846.3 million, from $4.0 billion in FY2021;
- Pension fund contributions to the four City pension funds combined will total $2.3 billion in FY2022, an increase of $461.5 million, or 24.7%, from the prior year. The pensions are funded with $1.4 billion in property tax revenue, $206 million from the water and sewer tax, a $115 million water-sewer escrow, $27.6 million in emergency communication revenue, $242.6 million in transfers to the pension funds from the enterprise funds and $329 million in transfers from the Corporate Fund;
- Personnel positions across all local funds will increase by 436 from the prior year to a total of 33,807 full-time equivalent (FTE) positions proposed in FY2022. The largest increase, 346 FTE positions, will be within the Infrastructure Services program area to support additional positions within the Department of Aviation and the Department of Transportation;
- Public Safety personnel make up the largest portion of budgeted personnel positions at 20,544 FTEs, or 61%. Of that total, the Police Department accounts for 13,970 budgeted positions. Personnel within the Public Safety program area has decreased by 7% in the five years since FY2018. Budgeted FTEs in the Police Department have decreased by 697, or 4.8%, during the same period;
- While the number of budgeted personnel positions has decreased from 35,033 to 33,807 FTEs over the past five years, personnel services appropriations (which account mostly for salaries and other costs associated with pay) have increased from $3.7 billion to $4.1 billion;
- Personnel Services appropriations within the Corporate Fund are projected to increase by $113.1 million, or 3.8%, from the prior year, from $2.9 billion in the adopted FY2021 budget to $3.1 billion in FY2022;
- The City's proposed FY2022 gross property tax levy is approximately $1.7 billion, which is a 4.7%, or $76.5 million, increase over the $1.6 billion levy adopted in the FY2021 budget;
- The City had $11.1 billion in outstanding tax-supported debt at the end of FY2020. Another $16.6 billion in debt supported by enterprise revenue (water-sewer and airport revenues) was outstanding as of the same period.
- Over the ten-year period from FY2011 through FY2020, the City's total net direct debt decreased from $7.9 billion to $7.1 billion. During this same period, direct debt per capita decreased from $2,830 per resident to $2,631 per resident; and

- Total long-term liabilities, including net pension liability, increased by 6.6%, or $2.8 billion, in the two years between FY2019 and FY2020, from $41.5 billion to $44.3 billion.

The Civic Federation **supports** the following initiatives and elements of the City of Chicago's proposed FY2022 budget:

- Federal COVID-19 relief provided to the City of Chicago and all other state and local governments;
- All four City of Chicago pension funds will be funded based on actuarial calculations beginning in 2022;
- Collective bargaining agreements finalized with the Fraternal Order of Police and other unions;
- Increase in reimbursement from Chicago Public Schools to the City of Chicago to help cover the CPS employees' portion of the annual contribution to the Municipal Employees Pension Fund;
- Relative restraint on tax increases;
- Reduction in planned use of general operating reserves in the FY2022 budget compared to the prior year;
- Cancellation of scoop and toss debt refinancing to balance the FY2021 budget and plans to avoid this practice in the future;
- Community engagement for the FY2022 budget process; and
- Budget schedule allows sufficient time for the public to review the budget proposal prior to the public hearing.

The Civic Federation has **concerns** about the following issues related to the City of Chicago's proposed FY2022 budget:

- Budget sustainability after American Rescue Plan Act funds are expended;
- Using all savings from debt refinancing upfront to balance the FY2021 budget;
- The City's continued high level of long-term debt;
- The cross-department Finance General category in the budget does not allow for evaluating the true cost of services by department;
- Planned reliance on casino revenues to fund police and fire pensions in future years.

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

- Ensure that public progress reports on the investments in the Chicago Recovery Plan include detailed information about expenditures;
- Expand the information contained in the annual Budget Forecast to make it more useful for long-term financial planning;
- Identify stable long-term pension funding sources to supplement uneven casino revenue;
- Work with the Governor's Pension Consolidation Task Force to explore the consolidation of Chicago's public safety pension funds with downstate police and fire pension funds;
- Include finance general costs in city department budgets to show the full cost of services; and
- Re-evaluate the use of TIF districts.

POSITION

The Civic Federation supports Mayor Lightfoot's proposed FY2022 budget of $10.6 billion for all local funds (excluding grants and capital). The City of Chicago is in a much better financial position now than a year ago thanks to significant federal COVID-19 relief funding that has allowed the City to continue operating at full service levels, accommodate pay raises negotiated in union contracts, avoid cutting personnel or programs and invest in new programs and infrastructure. While the federal American Rescue Plan Act (ARP) provides the City with short-term budget relief, the Civic Federation cautions that if the economy does not recover as soon as projected the City will need to find a way to raise enough revenue or reduce expenses in order to balance its budgets after ARP funds are spent.

The FY2022 budget proposal represents an increase in spending of 8.4% from the adopted 2021 budget of $9.8 billion. Corporate Fund (general operating) expenditures are projected to increase by 21%, due to an increase in spending on salaries as well as large increases in amounts allocated from the Corporate Fund toward debt service and pension payments. Pension fund contributions are increasing by $461.5 million in FY2022, which is a 24.7% increase from the prior year. FY2022 represents the first year that all four pension funds will be funded based on actuarial calculations. Likewise, FY2022 is the final year of significant increases in pension funding, after which the annual increases in employer pension contributions will mostly level off and create more stability for the budget.

The City will receive a total of $1.9 billion in American Rescue Plan Act funding from the federal government. Of that amount, the majority—$1.3 billion—is going toward closing the budget gaps in 2021, 2022 and 2023. The FY2022 proposed budget allocates $385 million to be used as revenue replacement to help close the $733 million projected budget gap. The City is also using $782 million of ARP funds to close the year-end budget gap for the current 2021 fiscal year. An additional $152 million will be available for this same purpose in FY2023. The remaining ARP funds of $567 million are being allocated to fund investments in services and infrastructure. The use of these funds, which are a one-time source, to replace lost revenue is an appropriate use of the funds. However, the City still faces many structural budget challenges, primarily due to the high annual cost of paying off long-term liabilities: debt and pensions. And by using the bulk of the funds to close the current and upcoming year budget deficits, only a small amount will remain for use in future years.

The Civic Federation offers several recommendations to the City as it moves forward. Regarding use of the ARP funds for service and infrastructure investments, the City should disclose sufficient detail in progress tracking reports that allow members of the public to follow the dollars—including the amount of funding for each project that is coming from ARP funds and from bonds, actual expenditures by department, personnel positions associated with each initiative by department, and plans for how long-term initiatives will be sustained and incorporated into the operating budget. Regarding the operating budget, the Civic Federation recommends that the City add information to the annual Budget Forecast that would make it more useful for financial planning purposes. Importantly, the Forecast should include possible measures that could be taken to address future projected budget imbalances.

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Issues the Civic Federation Supports

The Civic Federation **supports** the following elements of the proposed FY2022 City of Chicago budget.

Federal Funding Provided to Governments in Response to COVID-19 Pandemic

Through the federal American Rescue Plan Act (ARP), the City of Chicago will receive a total of $1.9 billion in COVID-19 relief funding. Throughout the pandemic, the Civic Federation has advocated for federal funding to serve as replacement for revenues lost by state and local governments resulting from the economic downturn. We are pleased the federal government provided this support to the City of Chicago and all other local and state governments. Thanks to the federal funds, the City of Chicago will be able to close its FY2021 and FY2022 budget gaps. The federal funding also allowed the City to cancel plans it had to issue a debt refinancing that would have extended the life of the bonds and increased the cost of the borrowing over time (known as scoop and toss refinancing). While the ARP funds do not resolve all of the City's long-term financial challenges, they provide a bridge that will allow the City to meet rising expenditures while mostly holding the line on taxes and continue to provide critical City services without layoffs or other measures that negatively impact workers.

All Four City Employee Pension Funds Now Funded Based on Actuarial Calculations

FY2022 will be the first year that the City of Chicago will make its annual employer contribution to all four of the City's pension funds based on actuarial calculations. Prior to starting actuarial funding in 2020 for the Police and Fire Funds and in 2022 for the Municipal and Laborers' funds, each was on a statutory five-year ramp that laid out specific dollar amounts of escalating employer contributions. After the end of the ramp, the funds transition to a 35-year plan to 90% funded. The funding schedule is back-loaded and will not begin to reduce the unfunded liabilities of any of the funds until the 2030s. However, the City's required funding will now adjust according to the financial needs of each fund. As such, the current funding schedule is an improvement over both the ramp funding levels and the previous statutory funding schedule, which was based on a fixed multiplier of what employees contributed two years prior.

The FY2022 total contribution to the City's four pension funds is $2.3 billion, which is an increase of $461.5 million, or 24.7%, from $1.8 billion in FY2021. Such a large increase in required funding is a strain on the City's budget, with pension contributions now making up 22% of the local funds budget of $10.6 billion.

The City of Chicago's four pension funds are severely underfunded. A combination of statutory underfunding, benefit enhancements, investment losses, optimistic assumptions and other long-term problems have all contributed to their abysmal financial condition. With a collective funded ratio of only 23% and absent changes to benefits, it will require a significant funding effort sustained for the next 35 years to put the funds on a more sustainable path.

Contracts Finalized with all City Unions

The City has finalized the collective bargaining agreement with the Fraternal Order of Police (FOP), the union for rank and file police officers, ratified by the City Council in September 2021. The finalized contract resolves a significant source of uncertainty that had hung over the City's budget since the expiration of the last contract in 2017.

The FOP contract is the City's largest, with police officers making up a third of City employees. The prior agreement with the FOP expired in June 2017, resulting in a four-year lapse. The police contract is costing the City $377.6 million in retroactive pay for 2017 through 2021 and $140 million in FY2022. The City also approved the collective bargaining agreements with the unions representing police sergeants, lieutenants and captains in 2020. Ninety percent of the City's workforce is unionized, which means its collective bargaining agreements have a strong impact on current and future budgets.

The City was able to negotiate better hospital reimbursement rates and higher employee contributions across all unions, which the City says will result in $22 million in savings in the FY2022 budget. Having these contracts in place allows Chicago to plan ahead and anticipate personnel cost increases in upcoming budgets.

While all of the City's collective bargaining agreements that expired in 2017 have now been finalized, there is work to be done immediately. The City approved a contract with the union representing firefighters and paramedics in 2020, but that contract expired in June 2021. City officials will need to work quickly to resolve a new series of collective bargaining agreements so that large retroactive payments are not again required. The negotiation process is expected to be contentious due to operational changes the Mayor says are necessary for efficiency, but that the union opposes.[1]

Increase in Reimbursement from Chicago Public Schools to Cover CPS Employees' Contribution to the Municipal Pension Fund

In FY2022 the City of Chicago is proposing an increased reimbursement from Chicago Public Schools to help cover the CPS portion of employer contributions to the Municipal Employees' Annuity and Benefit Fund (Municipal Fund). The total contribution to the Municipal Fund in FY2022 is $967.0 million. This is the largest of the City's four pension funds. However, more than half of the 31,051 active members of the Municipal Fund are not City employees, but rather are non-teacher employees of Chicago Public Schools.

The City of Chicago reached an agreement with Chicago Public Schools in 2019 to begin collecting reimbursement from CPS to help cover a portion of the annual Municipal Fund contribution. CPS contributed $60 million annually in the first two years, which then increased to $100 million in 2021. The CPS reimbursement will increase by an additional $75 million in City of Chicago fiscal year 2022.[2]

[1] Fran Spielman, "One-year deal with firefighters union includes $95m in back pay," *Chicago Sun-Times*, August 11, 2020.
[2] The City of Chicago has a different fiscal year than Chicago Public Schools. The City's fiscal year runs in line with the calendar year from January 1 through December 31, while the CPS fiscal year starts on

The Civic Federation supports this increased reimbursement from CPS to the City of Chicago because it improves cost transparency by more accurately covering expenses where they are incurred. The Federation believes this is a reasonable agreement, especially given the steep increase in the Municipal Fund contribution in FY2022 resulting from the fund moving to a funding schedule that is based on the actuarial needs of the fund.

Relative Restraint on Tax Increases

The FY2022 budget proposal does not include any tax increases outside of the property tax. The Civic Federation commends the City for holding the line on increases in taxes or fees, especially during a pandemic that has already impacted residents and consumers.

The FY2022 budget proposal does, however, include a property tax levy increase of $76.5 million, or 4.7%, from the adopted FY2021 levy of $1.6 billion. This year-over-year increase is comprised of the following components:

- A 1.4% inflationary increase of $22.9 million based on the consumer price index. The City Council approved an annual automatic increase in the annual property tax levy based on CPI as part of the FY2021 adopted budget;
- An increase of $25 million for debt service payments toward a new bond issuance for capital projects; and
- New property growth of $28.6 million from property development and expiring TIF districts.

The Civic Federation is generally able to support tax increases when they are justified and tied to a specific use or spending plan. We recognize the need for increases in stable sources of funding given the City's ever-increasing expenses and financial obligations. The $76.5 million property tax increase is a relatively small increase compared to the City's total levy of $1.7 billion. And a portion of the levy, the $28.6 million, is capturing revenue from the property value growth in new and improved properties. This only affects those properties and not other property owners. However, the Federation cautions the City against reflexively increasing the property tax levy by the rate of inflation every year without first justifying that such an increase is needed, and identifying how the additional revenue will be used within the budget plan.

Reduction in Planned use of General Operating Reserves in FY2022

In each annual budget, it is typical for the City to budget for using a certain portion of available Corporate Fund fund balance, which are general operating reserves from the prior year. While annual use of fund balance—a one-time resource—to close recurring general operating budget gaps is not a best practice, throughout the year the City makes adjustments to spending and revenue projections, which typically result in the City not using the budgeted fund balance.[3] The Civic Federation does not object to the use of fund balance as a cushion that can help governments get through difficult financial times, like the current pandemic, but they are not recurring and a plan must be made to replenish them after the crisis has passed.

July 1 and ends on June 30. The $75 million increase will not appear in the CPS budget until its 2023 fiscal year.

[3] The City additionally has a policy not to appropriate more than 1% of the value of the annual Corporate Fund budget from the prior year's unassigned fund balance in the current budget. City of Chicago, 2022 Budget Overview, p. 186.

The City budgeted for $111.0 million in use unrestricted fund balance from the prior year in the FY2021 adopted budget. In the FY2022 proposal, the City projects using $51.4 million, which is a reduction by approximately half of last year's budgeted use of reserves. This is a positive sign because it suggests that the City's Corporate Fund spending levels are better able to be balanced by available revenues, with a smaller potential use of prior year reserves.

Cancellation of Scoop and Toss to Balance the FY2021 Budget and City's Plans to Avoid the Practice in the Future

The Civic Federation is pleased that the City canceled its plans to use "scoop and toss" restructuring to generate near-term budgetary relief for the FY2020 and FY2021 budgets. The City initially had planned to restructure and refinance $1.7 billion in general obligation and Sales Tax Securitization Corporation debt during 2021 for $950 million in savings in 2020 and 2021 to help compensate for extreme revenue losses due to the COVID-19 pandemic. The City said the plan would also generate $750 million in economic savings. The restructuring would have helped the budget in the short run, but at the cost of increasing future debt service and burdening future budgets. Scoop and toss transactions generally are not good policy and should be avoided.

The City cancelled the proposal when federal American Rescue Plan Act funds became available, and instead will use $782 million of those ARP funds to help balance the FY2021 budget. The City will also go ahead with refinancing $1.2 billion in bonds for $254 million in interest savings and says that the proposal would not increase long-term liabilities or increase debt service payments in future years. The proceeds will be used to make retroactive police contract payments in FY2021 and provide some savings for the FY2022 budget.

The City additionally in its supplementary budget documents notes that it has plans for "climbing the scoop and toss ramp" and says it has reached the "end of scoop and toss restructurings."[4] As noted above, scoop and toss debt restructurings reduce debt service in the current year's budget, but as they are not recurring, can create problems in future budgets as full debt service payments resume and tend to lead to more restructurings to balance those budgets. Due to the City's significant past use of this budget gimmick, it has had to re-incorporate full debt service payments into its budget by finding sufficient recurring revenues to cover the payments. The City says it will pay more in debt principal in the next few years, which will reduce total debt by $1.5 billion through FY2025. Combined with $316 million in long-term debt the City has already reduced since May 2019, this will result in a total debt reduction of $1.8 billion.

Including a general obligation bond of $660 million to fund the infrastructure investments needed in the Chicago Recovery Plan, the City plans to issue a total of $1.8 billion in new debt between now and FY2025. While it is positive that the City will be able to issue additional debt to finance needed new infrastructure investments without increasing overall long-term outstanding debt, the Civic Federation cautions that the City already has a very high debt burden.

Expanding Community Engagement in the Budget Process

The Civic Federation commends the Mayor and her finance team for holding budget engagement forums as a way to receive meaningful input from community members on the

[4] City of Chicago, "2022 Budget Initiative: Refinancing for Savings and Overall Debt Update," (supplementary budget document), September 20, 2021.

budget. With help from the University of Illinois at Chicago, the City expanded its public feedback process on the development of the FY2022 budget, and UIC compiled findings from this effort into a report for the Mayor.[5] The Civic Federation supports the Lightfoot Administration's efforts to expand community engagement, encourage public participation, inform residents and community groups about the budget and receive input on budget priorities.

Sufficient Budget Schedule for the Public and Stakeholders to Review Budget Proposal

Mayor Lightfoot released the proposed FY2022 budget earlier this year than in past years, in September rather than October. The budget schedule allowed for a period of nearly four weeks between the initial budget introduction and the public hearing on the budget on October 14, 2021, when the City Council receives public input on the proposal. The Civic Federation commends Mayor Lightfoot's administration for allowing sufficient time for the public, City Council members, and other interested stakeholders to review the budget and hear from every City department on their budget recommendations prior to the public hearing.

CIVIC FEDERATION CONCERNS

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

Budget Sustainability After American Rescue Plan Act Funds are Expended

The Civic Federation is concerned about how the City will sustain the increased appropriation levels proposed in the FY2022 budget in future years, especially after ARP funds have been used. The City is planning to use $1.17 billion of the total $1.9 billion received as revenue replacement to close the FY2021 and FY2022 budget gaps, with $152.4 million remaining to address any budget gaps that arise in FY2023. The remaining portions of the ARP funds are being appropriated to support social services and infrastructure investments. This means that the City will use approximately 62% of the ARP dollars for recurring costs in the annual budget and the remaining 30% for short-term and mid-term investments over the next three to five years to address the societal impacts of the pandemic.

While the Civic Federation supports both the federal funding and its use to replace revenue lost to a once-in-a-century crisis, we also are concerned about budget sustainability after the funds run out. The Federation recommends that the governments receiving ARP funding document how they will be able to wean themselves off that revenue in future years. In addition to most revenue sources recovering in FY2022, the City also expects lagging tourism-related revenues impacted by COVID-19 will recover fully by 2023. These developments would help the City meet its rising expenditures in future years, but the Federation cautions that the course of the pandemic has been difficult to predict with certainty.

Taking all Debt Refinancing Savings Upfront to Balance FY2021 Budget

In order to help pay for retroactive salary increases for police officers resulting from the collective bargaining agreement with the Fraternal Order of Police, the City will refinance $1.2

[5] Great Cities Institute at the University of Illinois at Chicago, *2022 Budget Community Engagement Report*, September 2021, available at https://greatcities.uic.edu/wp-content/uploads/2021/09/2022-Budget-Community-Engagement-Report.pdf.

billion in bonds to generate $254 million in interest savings due to lower interest rates. This is not a scoop and toss transaction because the refinancing will not increase debt service payments or extend the term of the long-term debt. The City intends to use $232 million of these savings toward retroactive pay for the police contract. The other $22 million of savings will be used to close the FY2022 budget gap.

The retroactive pay for police officers is expected to cost a total of $377.6 million (reflected in FY2021), of which $103.3 million was already budgeted for in the adopted FY2021 budget. The remaining $274.3 million will be financed mainly with the savings from the debt refinancing.

The Civic Federation does not take issue with this debt refinancing for savings, but by taking all of the savings upfront to pay off a one-time expense, future City budgets will not benefit from reduced debt service from this refinancing.

High Bonded Debt Burden

The City of Chicago continues to have a high debt burden. The City's outstanding long-term tax-supported debt totals $7.1 billion. When including debt backed by enterprise revenue (water-sewer funds and airport charges), the City has another $16.6 billion in outstanding long-term debt. Debt service appropriations in FY2022 make up 23.0% of total net appropriations, which is a high ratio; ratings agencies consider a debt burden to be high if debt service accounts for between 15% and 20% of total expenditures. The high debt burden the City of Chicago has carried for years continues to be a concern because these debt levels, 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 Departmental Cost of Services Data due to Finance General Category

The way the City's budget is structured currently does not allow for a full accounting of expenses within each department because some departmental costs are combined together in a cross-departmental Finance General category. Finance General is a standalone cost center where a variety of costs are lumped together including the following major categories of expenses:

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

The problem with not including these categories of spending within each department's appropriations is that it does not allow for an accurate estimate of the full cost of running each department. This means that it is more difficult for the City to measure the full cost per unit of services provided and to conduct evaluations for performance measurement and benchmarking, setting user fees and charges, privatization, competition initiatives or "managed competition" and activity-based costing and activity-based management. As the City explores alternative ways to deliver services more efficiently and effectively and capture user costs, it is essential to account for the full cost per unit of services provided.

For example, a longstanding recommendation of the Civic Federation has been for the City to re-evaluate its garbage collection fee on an annual basis in order to ensure the fees charged

are covering the true cost of waste removal services. In order to determine the correct fee for garbage service, the City needs to be able to evaluate the true and full cost.
This issue is especially problematic given that spending within Finance General makes up *over half* of the entire City of Chicago budget, and it has increased exponentially in recent years due in part to increases in pension contributions. Over the past five years, Finance General appropriations have increased from $4.8 billion in FY2018 to $6.8 billion proposed in FY2022. This is an increase of 41.1%. In FY2018, Finance General accounted for 51.9% of appropriations across all local funds, then increased to 56.5% in the FY2022 budget proposal.

The Government Finance Officers Association (GFOA) recommends accounting for the full cost of service by including all direct and indirect costs related to the service. 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 encompass shared administrative expenses within the work unit as well as support functions outside of the work unit (human resources, legal, finance, etc.).[6]

The Civic Federation urges the City to provide maximum transparency in how costs are allocated in the budget by breaking out Finance General line items by department in the budget documents.

Statutory Reliance on Gaming Revenues to Fund Police and Fire Pensions

Mayors of the City of Chicago have long pursued a casino to be located within City limits as a potential source of revenue for its underfunded pensions. The passage of a massive gambling expansion in 2019 with a tax structure that was amended in 2020 made that ambition closer to reality with its inclusion of one casino license for the City of Chicago. After several years of stops and starts, the City is currently accepting requests for proposals to apply for the Chicago casino license and expects to receive as many as five proposals.[7] Tax revenues to the City from a potential casino have been earmarked to its police and firefighter pensions by the State statute creating the gaming expansion.

While a casino may eventually generate some budgetary relief to the City of Chicago, gaming revenues are notoriously unreliable, particularly over the long run, and should be budgeted with caution.[8] The State of Illinois currently has 10 casinos and thousands of video gaming locations. With an additional 6 casinos including the Chicago casino, the legalization of sports gambling and more and more video gaming locations, there is greater potential for market saturation. The industry has also been significantly impacted by the pandemic.[9] Therefore, the Civic Federation cautions that the City will need to develop contingency plans to supplement unreliable casino revenue when planning for future pension contributions.

[6] Government Finance Officers' Association, "GFOA Best Practice: Measuring the Cost of Government Service," (2002).
[7] Greg Hinz, "City now expects multiple casino bids," *Crain's Chicago Business*, October 5, 2021.
[8] "Are Sin Taxes Healthy for State Budgets?," *The Pew Charitable Trusts*, July 2018
[9] Commission on Government Forecasting and Accountability, "Wagering in Illinois: 2021 Update," September 2021. Available at https://cgfa.ilga.gov/Upload/2021_wagering_in_il.pdf.

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.

Ensure that the Public Progress Reports on Chicago Recovery Plan Initiatives Provide Detailed Operational and Expenditure Information

The majority of American Rescue Plan Act funds ($1.3 billion) will be used to replace revenue and close budget gaps in FY2021 through FY2023, which means these funds will pay for ongoing operational expenses including personnel costs. As noted in an earlier concern, the Civic Federation is concerned about the City's ability to raise sufficient revenues in the years after the ARP funds have been expended to continue funding personnel and other operational expenses at the same or higher levels in the FY2022 budget proposal.

An additional $567 million is being used to fund new initiatives laid out in the Chicago Recovery Plan. These investments fall under two broad areas: Thriving and Safe Communities (which will provide funding for affordable housing, direct assistance, health, violence prevention, environmental investments, homelessness support services and youth services) and Equitable Economic Recovery (which will fund arts and culture, climate investments, community development, parks and infrastructure, workforce support and travel industry support). The investment priorities were identified through an extensive community engagement process and evidence-based research and are laid out in some detail in the Recovery Plan document.[10] City finance officials have indicated these investments are intended to be 3-5 year pilot programs that will be evaluated through a performance management process. Some programs may end, some may be outsourced and some may be continued in future years. The majority, however, are expected to be short-term. It is not clear how much of these new initiatives will fund personnel positions (a typically recurring cost).

The City is establishing a dedicated project management office to handle implementation and performance measurement. The federal government has compliance and reporting requirements associated with use of the funds, including project details (expenditures, timelines, partners, outcomes) and key performance indicators (outputs and outcomes). To help members of the interested public track the use of these dollars over time, the Civic Federation urges the City to ensure that these reports are *made public* and that, in addition to the information already required to be reported, they provide detailed information for each initiative including:

- The amount of ARP funding and the amount of bonded debt supporting each initiative;
- The departments involved and the number of personnel positions within each department associated with each initiative;
- The amount of expenditures actually spent on each initiative per year; and
- For initiatives that will be continued, details about how ongoing program operations will be absorbed into the City budget

The progress reports should be discussed at a public hearing held by the City Council.

[10] See City of Chicago, "Chicago Recovery Plan," September 20, 2021, at https://www.chicago.gov/content/dam/city/depts/obm/supp_info/2022Budget/ChicagoRecoveryPlan.pdf.

Expand the Information Contained in the Budget Forecast

As noted earlier, the City of Chicago still faces significant budget challenges related to the high cost of pension contributions and debt service payments, as well as the challenge of achieving structural budget balance once the federal ARP funds run out. Given the Civic Federation's concerns about the long-term sustainability of Chicago's finances, the Federation recommends that the City take several steps to build on its long-term financial planning process. Having a long-term financial plan in place allows governments to better forecast revenues and expenditures by making assumptions about economic conditions, future spending scenarios and other changes and would allow the City to articulate how it plans to overcome its future fiscal challenges.

The first *Annual Financial Analysis* released by the City in 2011 prior to development of its FY2012 budget was an important step toward the development of a formal long-term financial plan. Now referred to as the Budget Forecast, these mid-year reports contain financial projections regarding expected budget gaps (if the City were to make no substantive changes to revenue and expenditures) over a three-year period based on best case, worst case and base scenarios. The Budget Forecast reports also provide historical information and future year projections about the City's pension contributions and debt service payments.

In addition to the information already provided in the Budget Forecasts, the Civic Federation recommends that the City make these projections even more useful within the context of financial planning by including possible actions the City could take to address fiscal challenges based on the three scenario projections. For example, the FY2022 Budget Forecast projects large budget deficits in FY2023 and FY2024, even in the best-case scenario. However, there is no discussion of what the City plans to do to address these gaps or what revenue-generating or cost-cutting options are available.

The City could improve the effectiveness of the Budget Forecast by adding information that would make it more useful in budget conversations with members of the City Council and other City stakeholders. Our recommended additions are in line with GFOA long-term financial planning best practices—with the goal being to use forecasting to help determine how a government will achieve long-term sustainability.[11]

We recommend that the City make the following additions to the Budget Forecast:

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

[11] Government Finance Officers Association, "GFOA Best Practice: Long-Term Financial Planning," (2008).

4. As part of the Budget Forecast process, the City should seek ways for decision makers and the public to provide meaningful input on the long-term goals and strategies to address the City's financial challenges.

Find Stable Pension Funding Sources to Supplement Uneven Casino Revenue

Related to developing a long-term financial plan for operations, a major part of this process will involve developing a plan to provide stable funding for the City's four pension funds, which combined have $32.0 billion in unfunded pension liabilities. While the significant increases in the amount of money the City must contribute to the four pension funds will level off after FY2022, the cost of pensions will continue to increase over time based on the actuarially-calculated funding schedule. Pension contributions are projected to increase by approximately $50 million in FY2023 from the prior year, and by nearly $200 million from FY2022 through FY2026 (these projections are subject to change based on the actual experience of the funds). While these are manageable increases, the pension funds must have stable sources of funding that can be relied upon year after year. In the absence of sufficient revenue growth, pension obligations continue to crowd out spending on basic services.

Over the past several years, the City has implemented a series of property tax increases, imposed a water and sewer utility tax and increased the 911 surcharge to fund pensions. However, to fund ongoing annual increases, the City will need additional stable sources of funding. The potential revenue from a Chicago casino will **not** be such a stable source and the City must plan for this. Much more will need to be done in the future and the Mayor and City Council will need to make difficult decisions, including additional budgetary cuts, savings and possibly even more revenue.

Work with the State of Illinois to Explore Consolidation of Chicago's Four Pension Funds

In October 2019, Governor Pritzker's Pension Consolidation Feasibility Task Force released a 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 stated that the unique challenges facing the City's pension funds will be part of their future work as a task force.

Given the funding challenges faced by the City's four pension funds (which have total combined unfunded liabilities of $32.0 billion and collectively are only 23% funded), the Civic Federation believes the City should explore and pursue reforms that could reduce the cost of pensions. These might include consolidation of investments and eventually benefit management with downstate and suburban funds. The Civic Federation recommends that the City of Chicago work with the Illinois General Assembly and Governor Pritzker to find a long-term solution that consolidates the City's police and fire with the downstate police and fire pension funds to gain greater efficiencies and savings for taxpayers.

Include Finance General Costs in Department Budgets

As described in the concern above, several large categories of departmental spending (employee benefits, pension contributions, IT and other cross-departmental administrative or indirect costs) are combined together in Finance General, which does not allow for calculating the true expense of operating each department. Finance General costs, which are currently measured by fund only, ideally should be accounted by department to show the full cost of services. The City should include all direct costs in departmental budgets including all employee benefits, pensions, facilities expenses and liability expenses. In line with GFOA recommendations, the Civic Federation recommends that the City add a detailed breakdown to the budget recommendations and annual appropriations documents that identifies the Finance General appropriation levels by department. The Finance General totals for each department should also be added to the Budget Overview document, with an explanation of the allocation methodology.[12]

Re-Evaluate the Use of TIF Funds

The City has taken a number of steps to improve the transparency and efficiency of the Tax Increment Financing (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 projects.[13] In addition, the Mayor Lightfoot instituted additional reforms that include a reorganization of the TIF Taskforce with a greater focus on equity in its decision-making, a more thorough review of TIF funded proposals and improved transparency by releasing monthly reports on TIF spending and annual publications on the TIF program.[14]

In FY2022 the City is declaring a surplus in Tax Increment Financing (TIF) districts of $271.6 million and will receive $67 million as its share of the distribution of those funds. Approximately $150.2 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 FY2022 the City will have declared a total of $2 billion in TIF surplus with approximately half going to Chicago Public Schools.[15]

The City has declared a TIF surplus larger than $100 million since 2016, with amounts growing to over $170 million in 2017 through 2019, and over $300 million in 2020 and 2021. These large declarations of TIF surplus are not guaranteed every year, but the repeated accumulation and of surplus in a TIF does signal that the TIF district does not need its revenue for redevelopment projects. Such a situation indicates that either the district does not have achievable redevelopment goals and should be terminated or that it generates more revenue than is needed and some parcels should be released from the TIF district so that their EAV may be returned to the general tax base. Several other Cook County municipalities have successfully conducted such TIF "carve outs."

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

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[12] Government Finance Officers' Association, "GFOA Best Practice: Measuring the Cost of Government Service," (2002).
[13] City of Chicago FY2020 Budget, Declaring Surplus TIF Funds Handout.
[14] Press Release, Office of the Mayor, City of Chicago, Mayor Lightfoot Announces Major Reforms to the City's Approach to Allocating Tax Increment Financing (TIF) Funds, February 5, 2020.
[15] City of Chicago FY2019 Budget Overview, p. 14 and Civic Federation calculations.

CITY OF CHICAGO FINANCIAL OUTLOOK FOR FY2022

The City of Chicago produces an annual budget forecast at the mid-way point of each year to evaluate how revenues and expenditures are expected to perform compared to the budget by the end of the current fiscal year, as well as to make projections about the expected budget gap in the next fiscal year. The projections are made for the Corporate Fund, which is the City's general operating fund. The City's FY2022 Budget Forecast was released in August 2021 for the 2022 fiscal year that begins on January 1.

This section discusses the City's financial outlook for year-end FY2021 and the upcoming FY2022 budget year, and what steps it will take to address budget imbalances and achieve a balanced budget.

In past years, the City has typically projected a budget shortfall, meaning that expenditures are on pace to exceed revenues. The City of Chicago is required by law to pass a balanced budget so it does not have a budget "deficit" in the way the federal government does. This means projected revenues and expenditures for the next fiscal year must be balanced in the budget ordinance adopted by the City Council. Throughout the year the City takes corrective action to close the budget gap.

The largest projected budget gap in recent years, prior to the COVID-19 pandemic, was $654.7 million in FY2011. Since that time, the City worked to close its structural budget deficit. In FY2019 the projected budget gap was down to $97.9 million. However, with the economic downturn and resulting loss of revenue related to COVID-19, a year-end budget gap opened up in the FY2020 budget by mid-year to a projected $798.8 million. The City planned to close that budget gap by refinancing general obligation and Sales Tax Securitization Corporation bonds to achieve $450 million in short-term budget relief. The remaining $349 million was to be closed with federal COVID-19 relief funding.

The City ended up instead pursuing a one-year line of credit of $450 million in December 2020, in the hope that the federal government would provide additional relief funds and a scoop and toss restructuring would not be necessary. City officials noted the short-term borrowing would either be repaid with federal funds or would become part of a debt restructuring if additional federal pandemic revenue assistance was not passed.[16] After the Treasury Department's preliminary guidance[17] issued in May 2021 indicated that American Rescue Plan Act (ARP) funds could not be used to directly pay off debt, the City announced, "ARP revenue replacement may be utilized for eligible 2021 expenses, freeing up other Corporate Fund resources to cover the 2020 revenue shortfall."[18]

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[16] Yvette Shields, "Chicago finalizes JPMorgan credit line to delay scoop-and-toss restructuring," *Bond Buyer*, December 18, 2020.

[17] United States Department of Treasury, "FACT SHEET: The Coronavirus State and Local Fiscal Recovery Funds Will Deliver $350 Billion for State, Local, Territorial, and Tribal Governments to Respond to the COVID-19 Emergency and Bring Back Jobs, May 10, 2021. Available at https://home.treasury.gov/system/files/136/SLFRP-Fact-Sheet-FINAL1-508A.pdf.

[18] City of Chicago, "2022 Budget Forecast," p. 18.

FY2021 Year-End Projections

The FY2022 Budget Forecast projects that the current FY2021 fiscal year will end with a budget surplus of $210.1 million. The surplus results from revenues exceeding budget expectations by $177.6 million due to a better than expected economic recovery from COVID-19, and from expenditures projected to end the year below budget by $32.5 million. However, the City has additional obligations totaling $1.2 billion that must be paid in FY2021. The obligations are due to:

- Retroactive pay for police officers resulting from the collective bargaining agreement with the Fraternal Order of Police, which will cost an additional $274 million not already budgeted in FY2021;
- Repayment of principal totaling $450 million on short-term borrowing utilized by the City in December 2020 due to revenue loss from the COVID-19 pandemic; and
- Cancellation of a $500 million in debt refinancing that the City had originally anticipated due to revenue loss associated with COVID-19, but later cancelled when federal American Rescue Plan Act funds became available.

The additional financial obligations of $1.2 billion have created a budget deficit, or “budget gap” that must be addressed before the end of the fiscal year. To address the $1.2 billion in financial obligations, the City plans to refund debt on existing long-term bonds for that is expected to generate proceeds of $232 million. This will be used to pay for the retroactive salary increases approved in the Fraternal Order of Police contract. The City will close the remaining budget gap by using $782.2 million in federal ARP funding as one-time revenue replacement for eligible operating expenses. Those revenue replacement funds then free up Corporate Fund resources to pay off the $450 million in short-term debt.

FY2022 Projected Deficit

The City is projecting a budget gap of $733.0 million in FY2022 due to $4.95 billion in projected expenditures outweighing revenues of $4.22 billion. The City proposes a number of measures to close the $733.0 million budget gap, which are outlined in the table below based on the way the City categorizes each initiative in its proposed budget.

The City has identified a number of savings and efficiencies totaling $298.2 million including lower cost projections for the police contract, reduced employee healthcare rates, improved revenue collection, and using a small portion of fund balance from the prior year. An additional $491.1 million has been identified as increased revenue. The majority of this amount—$385.0 million—will come from federal ARP funding. Together these savings and revenue increases, offset partially by $56.3 million in investments, present a plan for closing the $733.0 billion budget deficit.

Closing the $733 million Budget Gap in FY2022						
Savings & Efficiencies			**Increased Revenue**		**Investments**	
Personnel Savings - Cost of Police contract reduced from original projection	**$46.2**		***American Rescue Plan Funding*** - To replace lost revenue and fund essential government services	**$385.0**	***Fund Support***	**$24.3**
Healthcare Savings - Better negotiated reimbursement rates from hospitals & increased employee contributions included in collective bargaining agreements	**$21.6**		***TIF Surplus Revenue*** - Additional TIF Surplus revenue above the projection in the FY2022 budget forecast	**$24.9**	***Enhanced City Services***	**$15.0**
Improved Fiscal Management	**$131.4**		***New Property*** - Growth in property tax revenue due to new property is projected to be higher than the FY2022 budget forecast	**$18.6**	***Community Commission for Public Safety and Accountability***	**$3.4**
- Sweeping aging revenue funds	$25.0					
- Leveraging available funds for legal costs	$67.0					
- Fund balance and refinancing	$29.4					
- Improved water and sewer tax collections	$10.0					
Cost Recovery	**$99.0**		***Other Revenue*** - Higher than expected revenue due to projections that have imrpoved since the FY2022 budget forecast	**$62.6**	***Operational Increases***	**$13.6**
- Improved revenue collection from intergovernmental agreements	$24.0					
- Increase in pension payment from Chicago Public Schools for Municipal Employee's Pension Fund	$75.0					
Savings & Efficiencies	**$298.2**	**+**	**Increased Revenue**	**$491.1**	**– Investments**	**$56.3**

Source: City of Chicago, FY2022 Budget Overview, p. 35; and Communication with City of Chicago Department of Finance, September 16, 2021.

APPROPRIATIONS

The following section details the City's proposed appropriations for FY2022 compared to the adopted appropriations for FY2018 to FY2021. Adopted appropriations are used for past years because past year actual expenditures are not presented in the same way that appropriations are shown in the budget documents. The focus of the analysis is appropriations within all local funds, as well as a more detailed breakdown of appropriations within the Corporate Fund, which is the City's general operating fund. All local funds are the funds used by the City for operations, excluding grant funds and capital funds. Local Funds include the Corporate fund (general operating fund), four enterprise funds (Water, Sewer, Midway and O'Hare Airport Funds), four pension funds (Municipal, Laborers, Police and Fire) and several special revenue funds.

APPROPRIATIONS BY FUND: ALL LOCAL FUNDS

The City proposes total net appropriations of $10.6 billion across all local funds in FY2022. This excludes grant funds and capital appropriations. This net appropriation accounts for proceeds of debt and transfers between funds totaling $1.46 billion in FY2022. Including these transfers and proceeds of debt (which result in some double counting between funds), the total gross appropriation proposed for FY2022 is $12.1 billion.

The total and net appropriations over the five-year period from FY2018 through FY2022 are shown in the table below. Excluding debt proceeds and transfers between funds, the projected net appropriations for FY2022 of $10.6 billion represents an increase of $821.4 million, or 8.4%, from FY2021 adopted net appropriations of $9.8 billion.

Appropriations within the Corporate Fund will increase by 21.0%, or $846.3 million, from approximately $4.0 billion in FY2021 to $4.9 billion in FY2022. The increase is primarily due to two factors: a $113.1 million increase in salaries and wages related to an increase in 230 personnel positions and a $665.3 million increase in debt and pension payments.[19]

Appropriations for the pension funds will increase by 24.7%, or $461.5 million from $1.8 billion adopted in FY2021 to nearly $2.3 billion proposed for FY2022. The increase is due to an increase in the required contributions to the four funds. FY2022 is the third year the City will be making an actuarially calculated contribution to the Police and Fire Funds and the first year of actuarially calculated contributions to the Municipal and Laborers' Funds[20]. For more information on pension and pension contributions see p. 49.

The special revenue funds, which are used to account for revenue from earmarked taxes and other sources that are designated to finance particular functions, will increase by $78.6 million, or 8.8%, above FY2021 adopted appropriations of $895.9 million.

Debt service fund appropriations will increase by $66.8 million, or 9.4%, from $710.2 million in FY2021 to $777.0 million in FY2022. 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.[21]

Enterprise fund appropriations, which fund business-type operations that are typically self-supporting and include the two Chicago airports and water and sewer operations, are increasing by 3.1%, or $93.7 million, in FY2022 over the prior year. The increase in the water and sewer funds is primarily due to increased water and sewer rates tied to increases in the consumer price index as of June 1, 2021.[22] The increase in appropriations within the airport funds is due to

[19] City of Chicago, FY2022 Budget Overview, p. 45.
[20] City of Chicago, FY2022 Budget Overview, p. 60-61.
[21] City of Chicago, FY2022 Budget Overview, p. 59.
[22] City of Chicago, FY2022 Budget Overview, p. 51.

a proposed increase in FTEs within the O'Hare Airport Fund from 1,672 FTEs in FY2021 to 1,766 FTEs in FY2022.

Appropriations by Fund for All Local Funds: FY2018-FY2022
(in $ millions)

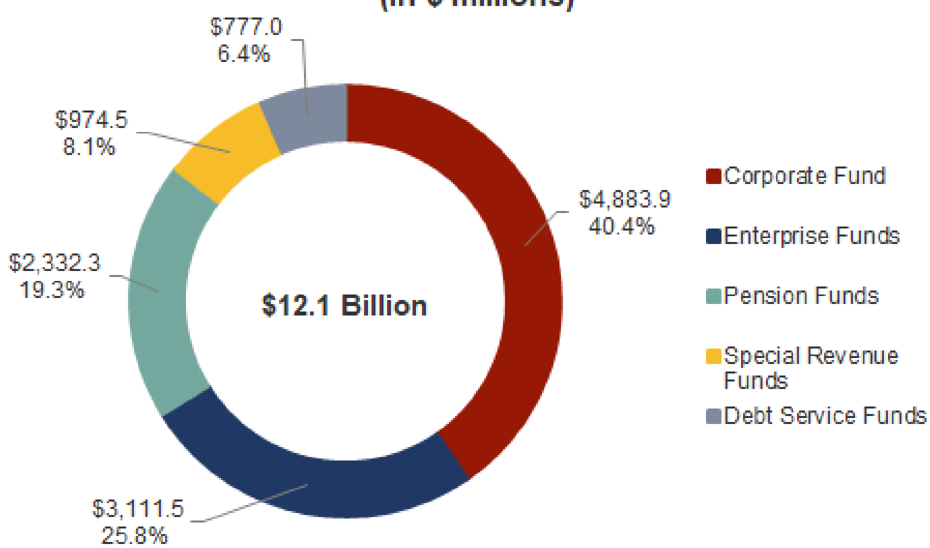
	FY2018 Adopted	FY2019 Adopted	FY2020 Adopted	FY2021 Adopted	FY2022 Proposed	$ Change FY2021-FY2022	% Change FY2021-FY2022
Corporate Fund	$ 3,791.2	$ 3,815.7	$ 4,419.2	$ 4,037.6	$ 4,883.9	$ 846.3	21.0%
Enterprise Funds	$ 2,672.5	$ 2,783.3	$ 3,002.7	$ 3,017.8	$ 3,111.5	$ 93.7	3.1%
Pension Funds	$ 1,245.7	$ 1,358.5	$ 1,705.3	$ 1,870.8	$ 2,332.3	$ 461.5	24.7%
Special Revenue Funds	$ 780.1	$ 829.0	$ 919.2	$ 895.9	$ 974.5	$ 78.6	8.8%
Debt Service Funds	$ 821.3	$ 802.6	$ 802.0	$ 710.2	$ 777.0	$ 66.8	9.4%
Total Appropriations	**$ 9,310.8**	**$ 9,589.1**	**$ 10,848.4**	**$ 10,532.3**	**$ 12,079.2**	**$ 1,546.9**	**14.7%**
Less Proceeds of Debt	$ (83.6)	$ (98.1)	$ (115.0)	$ (114.6)	$ (114.6)	$ (0.0)	0.0%
Less Internal Transfer	$ (630.7)	$ (634.1)	$ (885.7)	$ (619.5)	$ (1,345.5)	$ 726.0	117.2%
Net Appropriations	**$ 8,596.5**	**$ 8,857.0**	**$ 9,847.7**	**$ 9,798.1**	**$ 10,619.1**	**$ 821.0**	**8.4%**

Note: Excludes grant funds.

Source: City of Chicago, FY2018-FY2021 Annual Appropriations Ordinances, Summary E; and FY2022 Budget Recommendations, Summary E.

The following chart shows the breakdown of total appropriations by fund in the proposed FY2022 budget. The Corporate Fund accounts for the largest portion of proposed appropriations at $4.9 billion or 40.4%. The second largest appropriation in FY2022 is for the Enterprise Funds at $3.1 billion, or 25.8%.The Pension Funds account for 19.3% of the total, or $2.3 million. Grant funds are excluded and transfers between funds and the proceeds of debt are **<u>not</u>** netted out.

Proposed FY2022 Appropriations by Fund (in $ millions)



Note: Excludes grant funds. Totals do not include deductions for transfers between funds or proceeds of debt.
Source: City of Chicago, FY2022 Budget Recommendations, Summary E.

Appropriations by Program Area

In the City of Chicago budget, agencies are organized into eight functional program areas.[23] These areas are as follows:

Program Area/Function	Description	Departments
Finance and Administration	Handles management of the City's finances, human resources, technology and legal functions.	Office of the Mayor Departments of Finance Law, Human Resources Procurement Services Fleet and Facility Management City Clerk Treasurer
Infrastructure Services	Handles the garbage collection, the repair and maintenance of streets, sidewalks, bridges, and water and sewer infrastructure, and the management of the two Chicago airports.	Department of Transportation Streets and Sanitation Water Management Department of Aviation
Public Safety	Provides public safety services including police, fire and 911 operations, as well as police oversight functions.	Police Department Police Board Civilian Office of Police Accountability Fire Department Office of Emergency Management and Communications Community Commission for Public Safety Accountability
Community Services	Provides services related to public health, recreation, services for people with disabilities, direct assistance programs, job programs, youth programs, emergency shelters for the homeless and crisis intervention.	Chicago Public Library Department of Public Health Department of Family and Support Services Commission on Human Relations Mayor's Office for People with Disabilities
City Development	Handles citywide planning and special events.	Department of Planning Development Department of Cultural Affairs and Special Events
Regulatory	Oversees regulation of health and safety, consumer protection, enforcement of City ordinances and compliance with municipal, state and federal laws.	Animal Care and Control License Appeal Commission Department of Buildings Department of Business Affairs and Consumer Protection Board of Ethics Office of the Inspector General
Legislative and Elections	Handles administration of city, state and federal elections and legislative functions of the City Council.	City Council Board of Election Commissioners
Finance General	Accounts for cross-departmental expenses including employee benefits, pensions, information technology and debt service costs.	N/A

[23] City of Chicago, FY2022 Budget Overview, p. 11.

The next chart shows the distribution of appropriations across each program area over the five-year period from FY2018 to FY2022. Between FY2021 and FY2022, appropriations across all program areas are budgeted to increase, with the exception of City Development, which will decline by $7.2 million or 5.1%.

Finance general accounts for the largest program area spending, representing 56.5% of total appropriations in FY2022, or $6.8 billion. Finance General includes cross departmental expenses such as pension contributions, debt service and employee healthcare related expenses. This area of spending will see the largest increase between FY2021 and FY2022: an increase of $1.1 billion or 20.2%.[24] The increase in Finance General is primarily due to expenses related to the pension fund and debt service payments.[25] Pension funds increased by $4.6 million from FY2021 to FY2022. Debt Service increased by $4.8 million from FY2021 to FY2022. The increase in pension funds is due to the Municipal and Laborer's Funds reflecting actuarially-calculated contributions for the first time and payments for debt service increased due to one-time refunding and refinancing savings that were budgeted for FY2021.

Public Safety spending is projected to increase by $358.2 million, or 15.5%, over the five-year period from $2.3 billion in FY2018 to $2.67 billion in FY2022. This is due to an increase in Chicago Police Department staffing under Mayor Emanuel, the police consent decree and the creation of the Public Safety Administration department. There was also an increase of about $140 million in FY2022 from the collective bargaining agreement with the Fraternal Order of Police.[26]

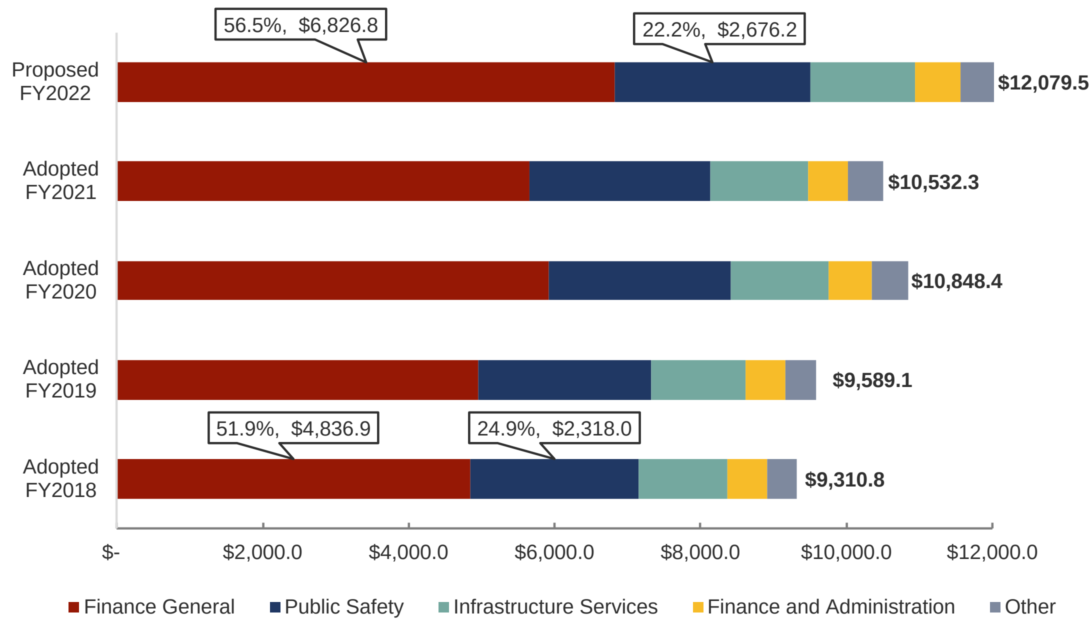
Infrastructure Services will increase by $215.2 million, or 17.7%, over the five-year period. The increase is due in large part to increased staffing and spending in the Chicago Department of Transportation in FY2022.[27]

Over the five-year period between FY2018 and FY2022, total appropriations across all program areas will increase from $9.3 billion to $12.1 billion. This is an increase of $2.8 billion or 29.7%. The increase is 23.5% on a net basis. Appropriations in every program area will increase over the five-year period. Finance General will see the largest dollar increase at $1.9 billion. All other

[24] City of Chicago, FY2021 Budget Ordinance, Summary E, p. 19.
[25] City of Chicago, FY2022 Budget Recommendations, Summary E, p. 20.
[26] City of Chicago, FY2022 Budget Overview, pp. 117 and 123.
[27] City of Chicago, FY2022 Budget Overview, pp. 96 and 104.

program areas combined—community services, city development, regulatory and legislative and elections—will increase by $126.6 million, or 32%, over this period.

All Local Funds Appropriations by Program Area: FY2018-FY2022
(in $ millions)

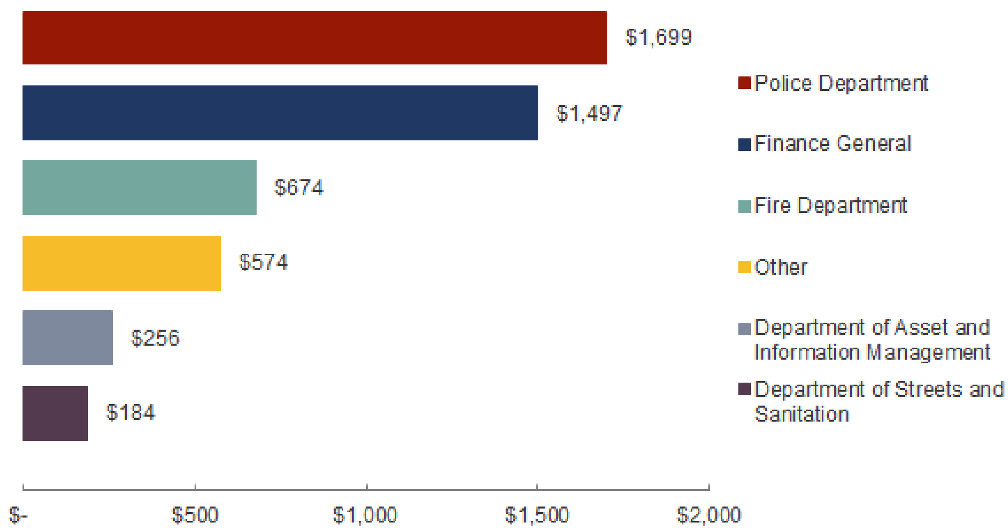


Note: Other includes Community Services, City Development, Regulatory, and Legislative and Elections program areas.
Source: City of Chicago, FY2018-FY2021 Annual Appropriation Ordinance, Summary E; and FY2022 Budget Recommendations, Summary E.

Corporate Fund Appropriations by Department

The next section presents more detail on appropriations within the Corporate Fund. The proposed FY2022 Corporate Fund budget presents an increase of 21%, or $846.3 million, from the FY2021 amended appropriations of $4.0 billion. The following chart shows FY2022 proposed Corporate Fund appropriations by department. The Police Department represents the largest portion of the Corporate Fund at 34.8% or $1.7 billion. Finance General appropriations represent 30.6%, or $1.4 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. The remaining departments make up 34.6%, or $1.6 billion of the total Corporate Fund appropriations.

FY2022 Corporate Fund Appropriations by Department
(in $ millions)
Total: $4,883,997,000



Other includes the Department of Finance, Department of Transportation, Office of Emergency Management and Communications and additional smaller departments.
Source: City of Chicago, FY2022 Budget Recommendations, Summary D.

CORPORATE FUND APPROPRIATION TRENDS BY OBJECT

This section examines appropriations by object within the Corporate Fund over the five-year period from FY2018 to FY2022. Object refers to the following categories: personnel services, contractual services, travel, commodities, equipment, permanent improvement and land, and specific items and contingencies.

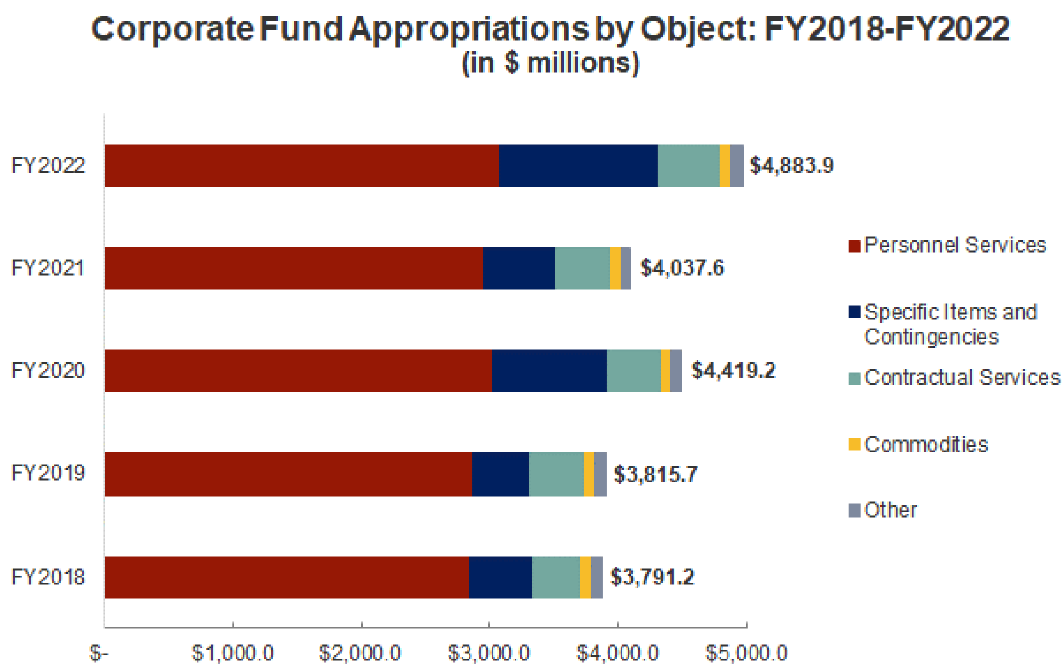
Specific Items and Contingencies will see the largest increase between FY2018 and FY2022, by $738.7 million or 149.8%. This object category includes pension payments, debt service payments, employee healthcare benefits, payments for judgments and settlements, transfers, reimbursements and non-personnel programmatic expenses. The increase is due an increase in pension contributions and debt payments.[28]

Personnel Services appropriations increases by 8.3% or $237.2 million from $2.8 billion in FY2018 to $3.1 billion in FY2022. Personnel services accounts for salaries and other wage-related expenditures, such as the Fraternal Order of Police contract. For FY2022, personnel expenses are $3.1 billion or 63% of the Corporate Fund operating expenditures[29].

[28] City of Chicago, FY2022 Budget Overview, p. 45.
[29] City of Chicago, FY2022 Budget Overview, p. 45.

The Other category includes appropriations by object for Travel, Equipment, and Permanent Improvement and Land. Over the five-year period, Other appropriations increased by $8.32 million or 10.4% from $80.1 million in FY2018 to $88.5 million in FY2022.

Over the five-year period from FY2018 to FY2022, total appropriations will rise by $1.1 billion or 28.8%, primarily due to increased personnel services, contractual services and specific items and contingencies. Commodities will increase by $6 million or 7.7% from $77 million in FY2018 to $82.9 million in FY2022.



Note: The Other category includes Travel, Equipment, and Permanent Improvement and Land.
Source: City of Chicago FY2018-FY2021 Annual Appropriations Ordinances, Summary D; and City of Chicago, FY2022 Budget Recommendations, Summary D.

RESOURCES

This section describes the City of Chicago's resources in the FY2022 budget, which total $10.6 billion across all local funds (excluding grant funds and net of transfers and proceeds of debt). Resources refer to revenue from tax and fee sources, including the property tax levy, as well as other sources such as proceeds of debt, prior year available resources and transfers between funds.[30]

COVID-19 Relief Funding: The proposed FY2022 budget includes American Rescue Plan Act (ARP) Funds from the federal government. The City of Chicago will receive a total allocation of $1.9 billion in ARP funds, of which half was received in May 2021 and the second half will be received in 2022. The City proposes to spend $782 million in ARP funds to close the FY2021 budget gap and $385 million to close the FY2022 budget gap. An additional $152.4 million is projected to be used in the FY2023 budget. In total $1.3 billion of the $1.9 billion will be used as

[30] Net of transfers between funds, total.

revenue replacement to close the City's FY2021, FY2022 and FY2023 budget deficits. The remaining $567 million in ARP funds will be used for proposed infrastructure and social service investments as outlined in the Chicago Recovery Plan.[31] The ARP funds are in addition to $470 million in discretionary Coronavirus Relief Funding received through the CARES Act. Those funds were used to pay for public health and public safety expenditures that qualified under the Coronavirus Relief Funding criteria, including personnel costs.

FY2022 Proposed Resources for All Local Funds

The City of Chicago proposes total resources of $12.08 billion in FY2022. This total includes $114.6 million in proceeds of debt and approximately $1,300 in transfers between funds that results in double-counting revenue. The total of $12.08 billion is used in the following analysis due to the way the City presents this information in the budget documents. Net of transfers between funds and proceeds of debt, the total proposed resources are actually $10.6 billion.

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 (water, sewer and airport funds). Local funds exclude the $6.0 billion in grant funds the City expects to receive from federal and State agencies, private foundations and other entities in FY2022.[32] Including grant funding and net of proceeds of debt and transfers between funds, the City's total budget resources are projected to be $16.7 billion.

The chart below provides an overview of the proposed FY2022 resources for all local funds by source. Grant funds and capital funding are excluded.

Airport charges at O'Hare and Midway Airports make up the largest source of revenue at $1.9 billion. This represents 16% of the City's total resources. The second largest source of revenue is the property tax levy. In FY2022, the property tax levy is expected to generate $1.7 billion, accounting for approximately 14% of total resources. Other local taxes will account for $1.5 billion. This includes hotel taxes, business taxes, recreation taxes, utility taxes and the emergency communication surcharge on phone bills. Revenue from water and sewer fees also makes up a substantial portion of the City's revenue, at $1.4 billion (11.8% of the total).

Sales tax revenue is projected to be $642.1 million. The majority of this amount—$569.0 million—is a transfer from the City's Sales Tax Securitization Corporation (STSC). In 2018 the City began directing the City's share of state-imposed sales taxes to the STSC in order to issue bonds at a higher bond rating and lower cost of borrowing. Any residual revenue not used for debt service is transferred from the STSC to the Corporate Fund. In addition to this sales tax revenue, the City has a home rule retailers' occupation tax, which is not deposited into the STSC. This consists of the use tax on non-titled personal property, the restaurant tax and private vehicle use tax.[33] In FY2022, this portion of sales tax is projected to total $73.1 million.

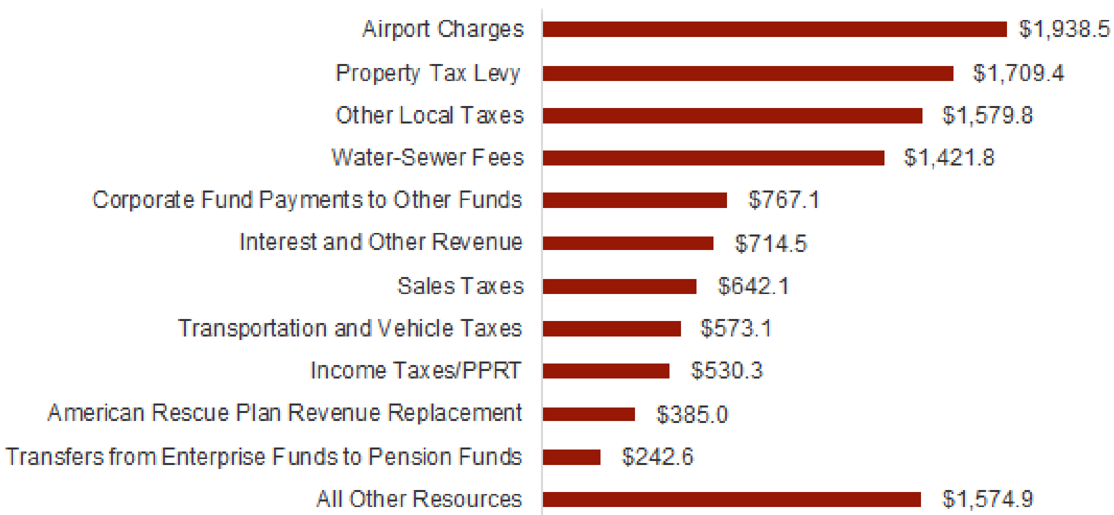
The FY2022 budget proposal plans on using $385 million in American Rescue Plan Act funding. This is a one-time revenue source being used as revenue replacement to help revenues meet expenditures and balance the FY2022 budget.

[31] The Chicago Recovery Plan is available at https://www.chicago.gov/content/dam/city/depts/obm/supp_info/2022Budget/ChicagoRecoveryPlan.pdf.
[32] City of Chicago FY2021 Budget Overview, p. 40.
[33] City of Chicago FY2022 Budget Overview, p. 42.

There are two resource categories that account for large transfers between funds that are included in the graph below: Corporate Fund payments to other funds ($767.1 million) and Transfers from the Enterprise Funds to the four City pension funds ($242.6 million). It is important to note that these interfund transfers result in over-counting total resources.

The All Other Resources category encompasses a number of other smaller sources including prior year resources available for carrying forward, debt proceeds, internal service earnings and a number of smaller local revenue sources (fines and penalties, charges for services, licenses and permits, parking fees, cannabis tax, rentals and other sources).

FY2022 Proposed Resources: All Local Funds
(in $ millions)



Source: City of Chicago FY2022 Budget Overview, pp. 197-203.
Other Local Taxes include: Business Taxes, Hotel Taxes, Utility Taxes, Emergency Communication Surcharges, Recreation Taxes and Transaction Taxes.

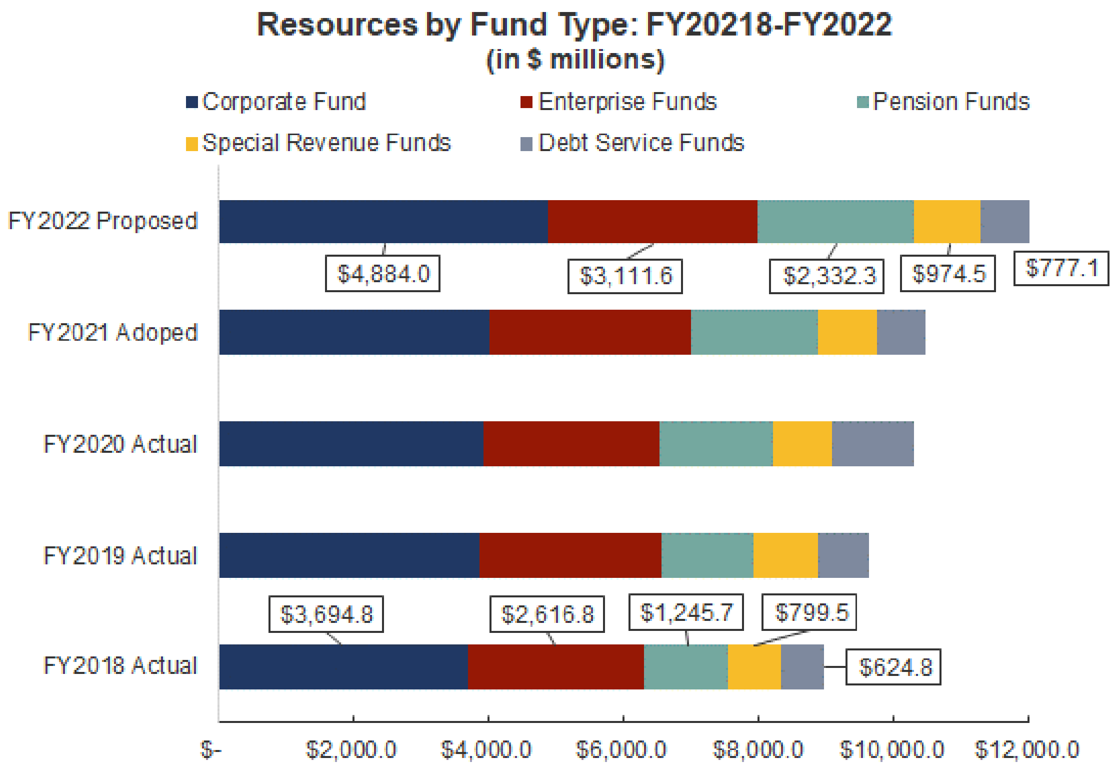
RESOURCES BY FUND TYPE

The following chart presents resources by type of fund over the five-year period from FY2018 to FY2022. Over this period, the City of Chicago's total resources for all local funds are projected to increase from $9.0 billion to $12.1 billion, which is an increase of $3.1 billion, or 34.5Corporate Fund resources will see the largest dollar increase from $3.7 billion to $4.9 billion. This represents an increase of $1.2 billion, or 32.3%. This increase in Corporate Fund resources is due in part to ARP funding of $382 million that results in an increase in resources transferred in to the Corporate Fund compared to the prior year adopted budget.

The pension funds will increase significantly over the five-year period from FY2018 to FY2022, from $1.2 billion to $2.3 billion, or an increase of 87.2%.

Enterprise Fund revenues generated from Chicago's airports and water and sewer charges are projected to increase from $2.6 billion in FY2018 to $3.1 billion in FY2022, an increase of 18.9%. Water and sewer rates increase annually based on the rate of inflation.

Debt service funding is expected to be $777.1 million in FY2022, which is a 24.4% increase from $624.8 million in FY2018.



Source: City of Chicago FY2022 Budget Overview, pp. 197-203; and FY2021 Annual Appropriations Ordinance, Summary B.

The next flow chart presents a visualization of the types of resources that support these funds in FY2022. Property taxes primarily are directed to the City's four pension funds, as well as a portion to the debt service funds. The Corporate Fund is not supported by property tax revenue; instead it is funded through a variety of other taxes and fees.

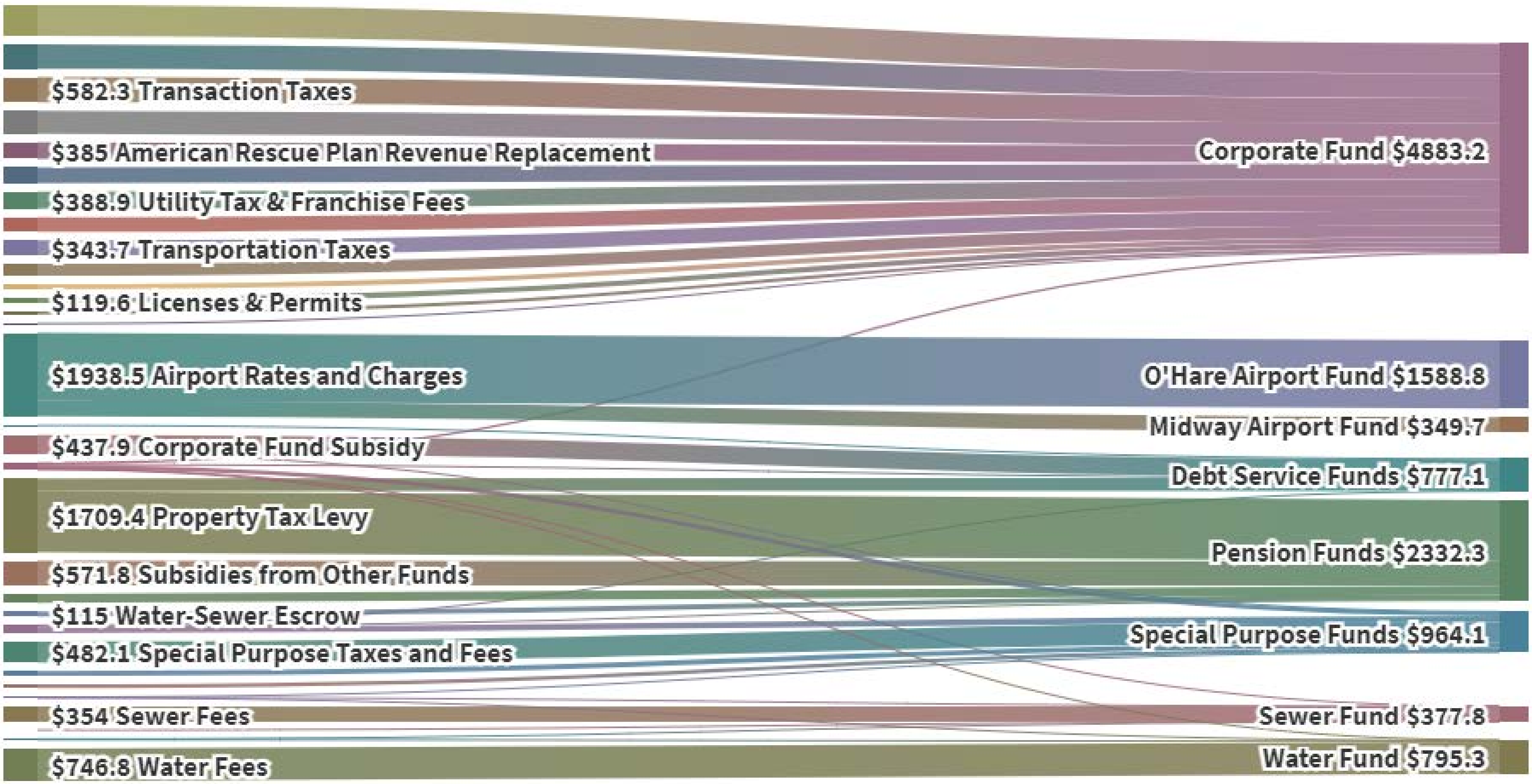
The pension funds are supported by $1.4 billion in property tax revenue, $206.0 million from the water and sewer tax plus a $115.0 million water-sewer escrow, $27.6 million in emergency communication revenue, $242.6 million in transfers from the enterprise funds and $329.0 million in transfers from the Corporate Fund.[34] The debt service funds are funded by $297.5 million in property tax revenue, a $413.6 million transfer from the Corporate Fund, and other smaller resources including emergency communications fees and interest.

The four Enterprise Funds (O'Hare and Midway Airport Funds and Water and Sewer Funds) are funded through airport rates and charges and water-sewer fees respectively. The City's 18 special purpose funds are funded through specific revenues intended to support specific functions (for example, emergency communications, affordable housing, cannabis regulation, vehicle and motor fuel tax and garbage collection).

Across all funds, $175.6 million in prior year available resources will be used as a funding source in FY2022.

[34] City of Chicago FY2022 Budget Overview, p. 203. The water-sewer escrow comes from funds generated by the water-sewer tax in FY2020 that were higher than necessary to make the Municipal Fund pension contribution and were set aside to help make future years' payments. City of Chicago FY2020 Budget Overview, p. 53.

City of Chicago Proposed FY2022 Resources



Source: City of Chicago, FY2022 Budget Overview, pp. 197-203.
To view an interactive version of this chart, visit civicfed.org/ChicagoFY2022.

CORPORATE FUND RESOURCES

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 proposes a total of $4.9 billion in Corporate Fund resources in FY2022. This is a 21%, or $846.6 million increase, from $4.0 million in the adopted FY2021 budget. It should be noted, however, that actual year-end estimates for FY2021 are much higher than the adopted budget levels due to the City incorporating $782 million in American Rescue Plan Act Funding into the FY2021 budget.[35] Corporate Fund revenue over the past five years is detailed in the next table.

Tax revenues in the Corporate Fund are expected to total $2.3 billion in FY2022, an increase of $358.0 million, or 18.4%, from the FY2021 adopted budget. Nearly all tax revenue categories are expected to increase from FY2021 to FY2022, signaling expected COVID-19 recovery in most revenue sources projected for the upcoming year compared to projections for FY2021. Income taxes, transaction taxes, recreation taxes and business taxes are all expected to increase significantly from the FY2021 adopted budget. Sales tax revenue that is transferred to the Corporate Fund from the Sales Tax Securitization Corporation is expected to remain flat. Other city sales taxes are projected to increase slightly in FY2022.

Non-tax revenues including fines, fees, licenses, permits and charges for services are expected to increase in FY2022 by 8.1% from the prior year. Slight declines are expected within Fines & Forfeitures and Leases, Rentals & Sales. However, revenue from charges for services is expected to increase by 22.5% from $277.9 million in FY2021 to $340.4 million in FY2022. This increase is due to higher than budgeted reimbursements for emergency transportation services. The City reached an agreement with the State of Illinois in 2019 to increase reimbursements for emergency transportation services to recoup more of the actual cost of ambulance services.[36]

Interest and other revenue is expected to increase by $70.4 million in FY2022 from the prior year due to an additional $75 million reimbursement the City will receive from Chicago Public Schools to cover its share of the City's contribution to the Municipal Employees' Pension Fund.

In addition to the tax and non-tax revenue sources, the City is planning to use $51.4 million in prior year available resources (unrestricted fund balance, or current net assets) and $385 million in American Rescue Plan Act funding to balance the FY2022 budget. Again, the FY2021 budget numbers presented in the table below are from the budget adopted in November 2020. The amended FY2021 budget includes $782 million in ARP funds.

[35] For more information about the use of ARP funds in the FY2021 budget, see the City of Chicago, FY2022 Budget Forecast, p. 18, available at https://www.chicago.gov/content/dam/city/depts/obm/supp_info/2022Budget/2022BudgetForecastFINAL.pdf and the year-end FY2021 estimate in the City of Chicago FY2022 Budget Overview, p. 197, available at https://www.chicago.gov/content/dam/city/depts/obm/supp_info/2022Budget/2022OverviewFINAL.pdf.
[36] City of Chicago, FY2020 Budget Overview, p. 40; and communication with City of Chicago budget office, October 22, 2019.

Corporate Fund Resources: FY2018-FY2022 (in $ millions)

Tax Revenue	FY2018 Actual	FY2019 Actual	FY2020 Actual	FY2021 Adopted	FY2022 Proposed	$ Change FY2021-FY2022	% Change FY2021-FY2022
City + State Sales & Use Taxes	$ 57.0	$ 63.7	$ 58.7	$63.6	$73.1	$ 9.5	14.9%
Utility Tax & Franchise Fees	$ 432.1	$ 416.7	$ 391.4	$390.8	$388.9	$ (1.9)	-0.5%
State Income Taxes (including PPRT)	$ 392.4	$ 469.8	$ 487.2	$409.3	$530.3	$ 121.0	29.6%
Transaction Taxes	$ 477.5	$ 487.8	$ 477.5	$478.1	$582.3	$ 104.2	21.8%
Transportation Taxes	$ 307.1	$ 337.0	$ 193.9	$308.7	$336.1	$ 27.4	8.9%
Recreation Taxes	$ 279.5	$ 275.5	$ 178.1	$223.9	$274.4	$ 50.5	22.6%
Business Taxes	$ 141.7	$ 140.1	$ 29.5	$66.1	$112.7	$ 46.6	70.5%
Other Intergovernmental*	$ 7.5	$ 5.9	$ 3.5	$5.3	$6.0	$ 0.7	13.2%
Total Tax Revenue	**$ 2,094.8**	**$ 2,196.5**	**$ 1,819.8**	**$1,945.8**	**$2,303.8**	**$ 358.0**	**18.4%**
Non-Tax Revenue							
Fines & Forfeitures	$ 335.9	$ 319.2	$ 229.6	$381.5	$369.7	$ (11.8)	-3.1%
Licenses & Permits	$ 129.3	$ 136.0	$ 107.8	$119.2	$119.6	$ 0.4	0.3%
Charges for Services	$ 122.7	$ 134.4	$ 317.9	$277.9	$340.4	$ 62.5	22.5%
Leases, Rentals & Sales	$ 35.7	$ 42.0	$ 11.3	$39.3	$29.3	$ (10.0)	-25.4%
Municipal Parking	$ 7.8	$ 7.7	$ 7.1	$7.6	$7.6	$ -	0.0%
Interest and Other**	$ 341.1	389.5	$ 495.8	$543.0	$613.4	$ 70.4	13.0%
Total Non-Tax Revenue	**$ 972.5**	**$ 1,028.8**	**$ 1,169.5**	**$1,368.5**	**$1,480.0**	**$ 111.5**	**8.1%**
Other Resources							
Sales Tax Securitization Corporation	$ 608.2	$ 615.7	$ 475.7	$570.2	$569.9	$ (0.3)	0.0%
Proceeds & Transfers In	$ 19.3	$ 35.1	$ 474.8	$42.0	$94.0	$ 52.0	123.8%
American Rescue Plan Revenue Replacement	$ -	$ -	$ -	$ -	$385.0	$ 385.0	-
Prior Year Unrestricted Fund Balance	$ -	$ -	$ -	$111.0	$51.4	$ (59.6)	-53.7%
Total Corporate Fund Resources	**$3,694.8**	**$3,876.1**	**$3,939.8**	**$4,037.5**	**$4,884.1**	**$ 846.6**	**21.0%**

*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, FY2022 Budget Overview, pp. 197-203; and FY2022 Budget Recommendations, pp. 31-33.

PROPERTY TAX LEVY

The property tax levy is the amount of property tax revenue a taxing district requests from taxpayers annually. 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. The property tax levy for the upcoming fiscal year—FY2022—is payable in 2023, and the levy for the current fiscal year—FY2021—is payable in 2022.

The City of Chicago levies property taxes for four purposes: 1) to support payments to the City's four pension funds; 2) to pay the City's debt service obligations; 3) to help the Chicago Public Library fund debt service payments on long-term borrowing through bonds issued for the Library Department's for capital projects and short-term borrowing[37] for general operations; and 4) for General Obligation Bonds to fund City Colleges of Chicago capital projects. Property tax revenue is *not* used for Corporate Fund general operating purposes.[38]

[37] 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.

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

The City's proposed FY2022 gross property tax levy is approximately $1.7 billion. The distribution of the $1.7 billion levy across the four property-tax supported purposes is the following:

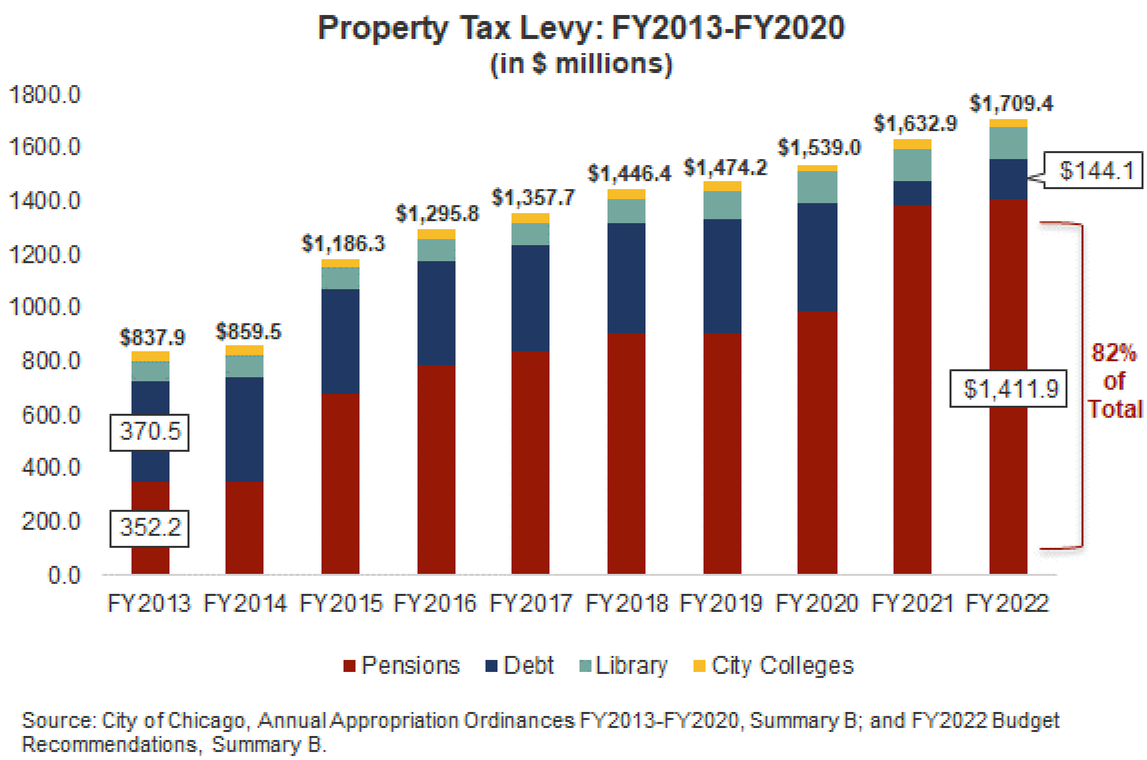
- $1.4 billion allocated to pension funding;
- $144.1 million allocated to City of Chicago debt service funding. While not shown as a separate line item in the budget, the City transfers this portion of property tax funding to Chicago Public Schools per an intergovernmental agreement in which the City helps pay for bonds to fund the school district's capital needs. The IGA has been in place since 1995. The amount contributed to CPS for debt service increased from $18.8 million to $91.0 million in FY2008, to $142.3 million in FY2020 (it will remain at this level through FY2031 per the debt service schedule);[39]
- $119.4 million allocated to Chicago Public Library bonds; and
- $34.0 million allocated to City Colleges of Chicago. The City of Chicago levies this amount annually on behalf of City Colleges, which is a separate unit of government. This revenue therefore is directed to City Colleges rather than to support the City of Chicago budget.

The distribution of the budgeted gross property tax levy over the ten-year period from FY2013 to FY2022 is shown in the graph below. The gross levy has increased by $871.5 million, or 104%, since FY2013, and the amount of property tax revenue allocated to pensions has grown significantly over the past ten years. Property tax funding allocated to pensions was $352.2 million in FY2013, which quadrupled to $1.4 billion in the FY2022 proposal. Pension funding accounts for 82% of the City's total property tax levy.

The amount of property tax revenue directed to debt service has decreased as the portion of the levy directed to pensions has increased. In FY2013, the debt service levy was $370.5 million compared to $144.1 million in FY2022. The decrease in the property tax allocation for debt

[39] 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.

funding that took place in FY2021 was made possible by savings from refinancing bonds issued by the City and the Sales Tax Securitization Corporation (STSC).[40]



The proposed FY2022 property tax levy represents an increase of $76.5 million, or 4.7%, from the adopted FY2021 levy of $1.6 billion. This year-over-year increase is comprised of the following components:

- A 1.4% inflationary increase of $22.9 million based on the consumer price index rate from December 2019-December 2020. The City Council approved an annual automatic increase in the annual property tax levy based on CPI as part of the FY2021 adopted budget;
- An increase of $25 million for debt service payments toward a new bond issuance for capital projects; and
- New property growth of $28.6 million from property development and expiring TIF districts.

TAX INCREMENT FINANCING DISTRICTS

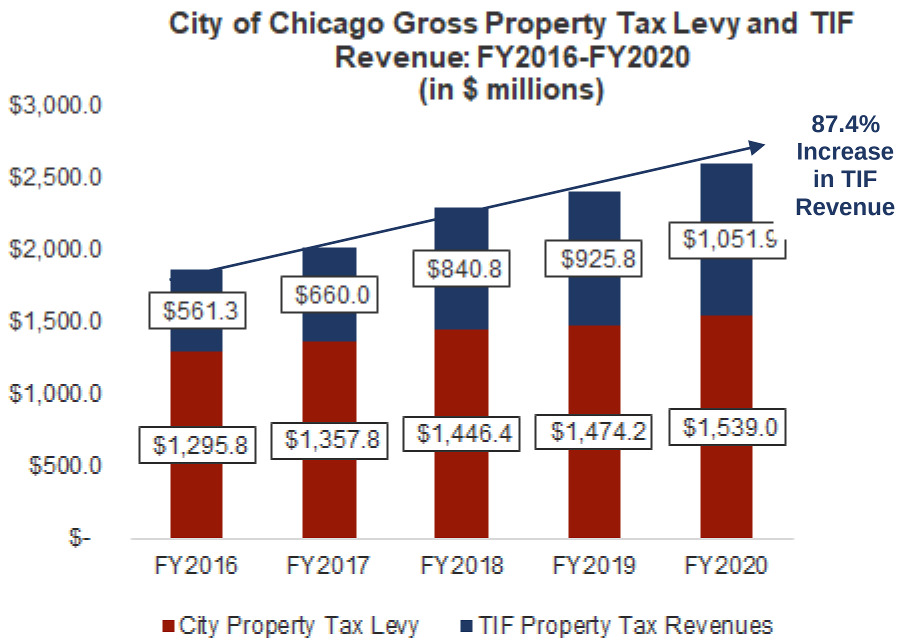
Outside of the property tax levy, the City of Chicago also receives and distributes property tax revenue for tax increment financing (TIF) districts within City boundaries. Tax increment financing (TIF) is a financial mechanism that is widely used by municipalities and other governments to promote economic development and redevelopment. The use of TIF is intended to generate economic development activity that would not have occurred "but for" the incentives offered. When a TIF district is created, the total equalized assessed value (EAV) of property is

[40] City of Chicago, FY2021 Budget Overview, p. 56.

frozen at the dollar amount for that year. In subsequent years, governments tax the base EAV to generate their property tax revenue. However, revenues generated from the incremental growth in property tax value over the frozen baseline amount are used to pay for redevelopment costs. The City of Chicago has 132 TIF districts.[41] TIFs account for 14.5% of the total tax billed for all taxing districts in the City.[42]

The tax revenue generated in a TIF district is not appropriated as part of the City budget and is not part of the City's property tax levy. However, the revenue is spent by the City according to the Redevelopment Plan for each TIF. Some TIF revenue is used to support capital projects of the City or other local governments, such as building schools and parks.

The following chart shows the TIF revenues generated in the City of Chicago in addition to the City's property tax levy over the five-year period from FY2016 through FY2020. FY2020 is the most recent year with TIF revenue data available. TIF revenue increased from $561.3 million in FY2016 to $1.1 billion, an increase of 87.4%.



Source: City of Chicago, Annual Appropriation Ordinances FY2016-FY2020, Summary B; and Cook County Clerk TIF Reports 2016-2020, City of Chicago Summary, available at https://www.cookcountyclerk.com/service/tif-reports.

Unused TIF funds can be declared as a "surplus" by the City of Chicago and distributed back to taxing bodies based on their share of the property tax bill distribution across all government units. The City plans to declare a TIF surplus of $271.6 million for 2022, $150.2 million of which will go to Chicago Public Schools, and $67 million of which will go to the City's Corporate Fund.[43] The FY2022 TIF surplus is slightly less than the surplus declared the prior year. The

[41] City of Chicago, FY2022 Budget Overview, p. 62.
[42] Cook County 2020 TIF Report, Executive Summary, p. 2. Available at https://www.cookcountyclerkil.gov/sites/default/files/pdfs/2020%20TIF%20Executive%20Summary_0.pdf.
[43] City of Chicago, FY2022 Budget Overview, p. 62.

City declared a TIF Surplus of $304.0 million in FY2021, of which the City received $76 million as its share.

PERSONNEL

This section describes the City of Chicago's personnel levels and personnel appropriations proposed for FY2022 compared to budgeted personnel and appropriation levels in past years.

Position counts are measured by **full-time equivalent** (FTE) positions. (FTE) positions represent the total hours worked divided by the average annual hours worked in a full-time position. FTE is used as a measure of personnel positions, rather than the number of employees, to compare workloads regardless of the number of hours each employee works. The personnel numbers used are *budgeted* rather than the actual number of filled positions.

Personnel spending is measured using the **Personnel Services** line item in the City's budget. Personnel Services include salaries and wages and other compensation-related categories including overtime, salary adjustments, uniform allowances, tuition reimbursement, stipends and specialty pay for certain employees (e.g., police officers and fire fighters). Personnel Services also accounts for some employee benefits including healthcare premiums, life insurance, dental insurance, unemployment insurance, and workers' compensation claims. These categories are budgeted within a cross-departmental Finance General line item, which combines these costs across all departments within each fund. Personnel Services does not account for pension costs from employer contributions the City makes to the four pension funds on behalf of employees. It also does not include City contributions to Social Security Tax or Medicare Tax. All personnel spending presented in this chapter is for *budgeted appropriations* because actual expenditures are not available in the budget documents.

BUDGETED POSITIONS

The City of Chicago is proposing a total 33,807 full-time equivalent positions in the proposed FY2022 budget, compared to 33,371 FTE positions adopted in the FY2021 budget. The FTE positions shown in this section are across all Local Funds (Corporate, Special Purpose Funds, Pension Funds and Enterprise Funds) and exclude grant funds.

The largest FTE increase between FY2021 and FY2022 will occur within Infrastructure Services. This function area is proposed to grow by 346 FTE positions, or 4.5%. The increase is mainly due to increases within the Department of Aviation and the Department of Transportation. The Department of Transportation is requesting an additional 171 FTE positions in FY2022. The majority of these—132—would be for in-house construction positions and another 17 would be for engineers.[44] The Department of Aviation is requesting an additional 117 positions from the number of budgeted positions in FY2021. Twenty-three of these positions would be added at Midway Airport and 94 would be at O'Hare Airport.[45]

Within the program area of Public Safety, the FY2022 budget proposes a slight decrease of 48 positions. The budget proposal suggests increases of 7 FTEs in the Police Department, 16 within the Fire Department, 10 in the Civilian Office of Police Accountability, 4 in the Office of Public Safety Administration, and 14 new positions for the newly created Community

[44] City of Chicago, FY2022 Budget Overview, pp. 104, 107.
[45] City of Chicago, FY2022 Budget Overview, pp. 109-110.

Commission for Public Safety and Accountability. These increases partially offset a proposed decrease of 99 positions within the Office of Emergency Management and Communications. The budget proposal would decrease the number of OEMC positions within the Midway Airport Fund by 112, while increasing the number of positions budgeted within the Emergency Communication Fund for a net decrease of 99 FTEs.[46]

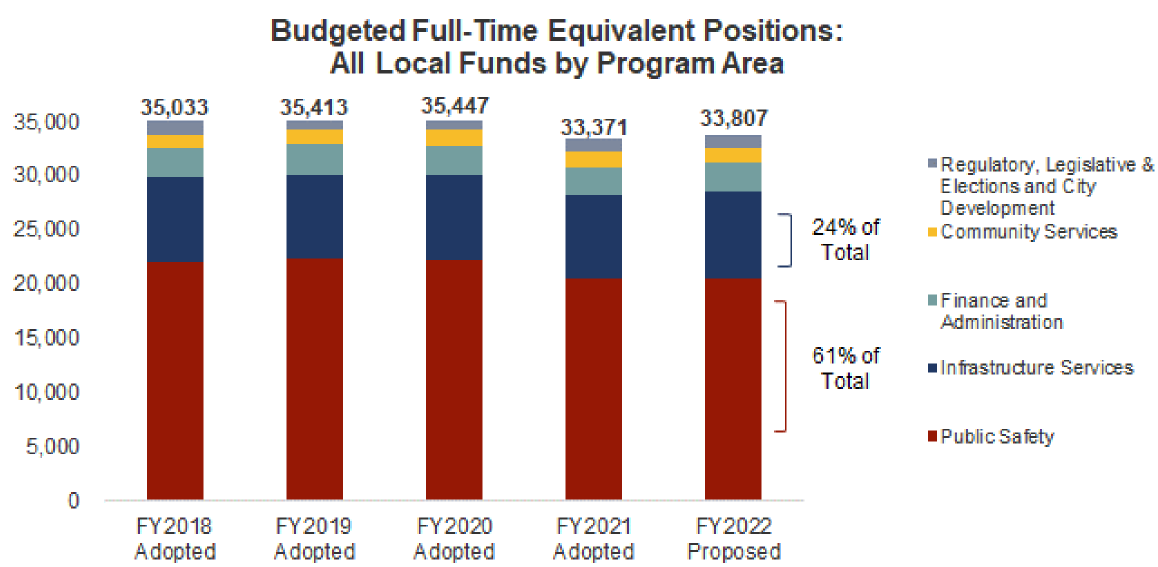
Budgeted Full-Time Equivalent Positions: FY2021-FY2022

Function	FY2021 Adopted	FY2022 Proposed	# Change FY2021-FY2022	% Change FY2021-FY2022
Public Safety	20,592	20,544	-48	-0.2%
Infrastructure Services	7,627	7,973	346	4.5%
Finance and Administration	2,584	2,650	66	2.6%
Community Services	1,410	1,431	21	1.5%
Regulatory	582	613	31	5.3%
Legislative and Elections	330	333	3	0.9%
City Development	246	263	17	6.9%
Total	**33,371**	**33,807**	**436**	**1.3%**

Source: City of Chicago, FY2022 Budget Overview, p. 206.

Note: FTE positions presented in this table are for all Local Funds and exclude grant-funded positions.

The following graph shows budgeted FTE positions over the five-year period from FY2018 through FY2022 across all local funds. The number of FTEs decreased from 35,033 to 33,807 over this period, a decline of 3.5% or 1,126 FTEs. While FTEs in most program areas have decreased over this period, the number of positions within Community Services will increase by 20.7% (245 FTE positions), and Infrastructure Services will increase by 2.7% (210 FTEs).



Source: City of Chicago, FY2022 Budget Overview, p. 206; FY2021 Budget Overview, p. 200; and FY2020 Budget Overview, p. 194.
Note: FTE counts in this chart exclude grant funds.

Public Safety accounts for the largest portion of personnel, making up 61% of the total FTE positions across all local funds. The table below provides further details on the FTEs within each

[46] City of Chicago, FY2022 Budget Overview, p. 126.

department in the Public Safety program area. Over the five-year period from FY2018 to FY2022, the Office of Emergency Management and Communication will see the largest decrease in budgeted positions—a decline of 1,176 FTEs, or 55.4%—primarily due to transferring approximately 900 crossing guard positions to the Chicago Public Schools budget in 2021. The Chicago Police Department will also see a sizeable reduction of 697 FTE positions, or 4.8%. The majority of that decrease within CPD took place between FY2020 and FY2021 due to the department eliminating vacant positions in order to produce budget savings in FY2021.

Full-Time Equivalent Positions within the Public Safety Program Area by Department: All Local Funds

Department	FY2018 Adopted	FY2019 Adopted	FY2020 Adopted	FY2021 Adopted	FY2022 Proposed	# Change FY2018-FY2022	% Change FY2018-FY2022
Chicago Police Department	14,667	14,854	14,581	13,963	13,970	**(697)**	**-4.8%**
Fire Department	5,158	5,204	5,148	5,114	5,130	**(28)**	**-0.5%**
Office of Emergency Management and Communications	2,121	2,124	1,947	1,044	945	**(1,176)**	**-55.4%**
Office of Public Safety Administration	0	0	411	329	333	**333**	**-**
Civilian Office of Police Accountability	145	151	151	140	150	**5**	**3.4%**
Community Commission for Public Safety and Accountability	0	0	0	0	14	**14**	**-**
Police Board	2	2	2	2	2	**0**	**0.0%**
Total Public Safety	**22,093**	**22,335**	**22,240**	**20,592**	**20,544**	**(1,549)**	**-7.0%**

Source: City of Chicago, FY2022 Budget Overview, p. 206; FY2021 Budget Overview, p. 200; and FY2020 Budget Overview, p. 194.

PERSONNEL SPENDING

Personnel services spending proposed in the FY2022 budget totals $4.1 billion. This accounts for approximately one-third (34.1%) of the City's total appropriations proposed for FY2022 across all local funds. Personnel services covers salaries, other compensation costs, and certain benefits such as healthcare. However, it excludes pension costs, which make up a significant portion of the City's appropriations. Employer pension contributions are accounted for within a non-personnel line item within the Finance General category of the budget. Finance General combines cross-departmental expenses including IT costs, employee benefits, contributions to employee pension funds, and long-term debt service payments. Within Finance General, the City is budgeting for $2.3 billion in pension payments.[47]

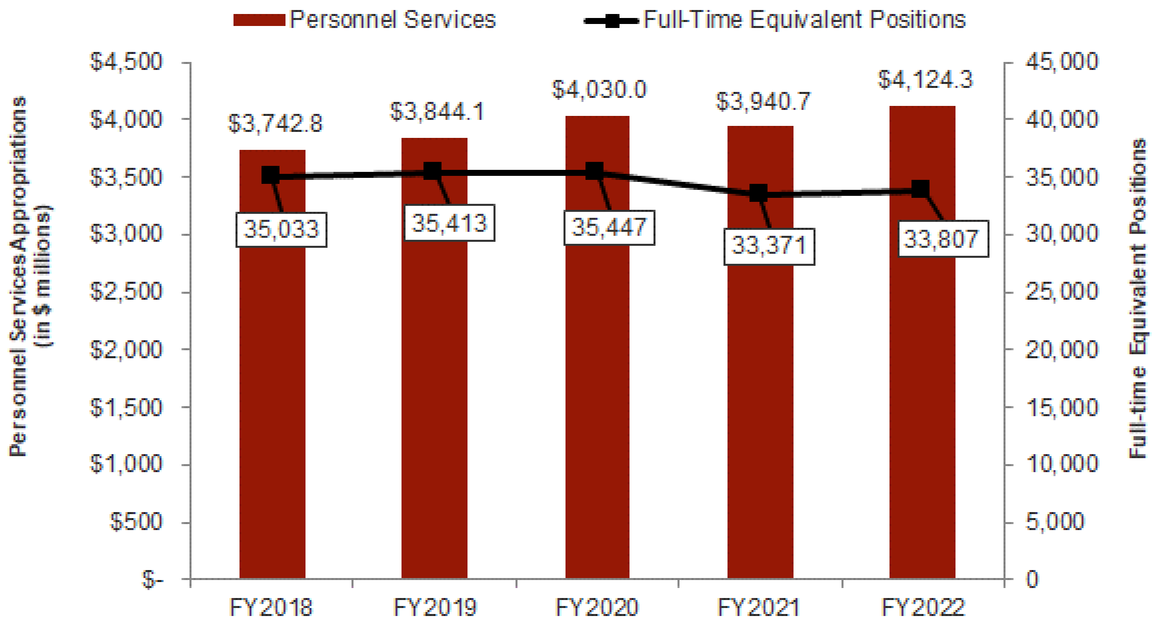
Budgeted personnel services appropriations over the five-year period from FY2018 through FY2022 are shown in the graph below, along with the budgeted number of FTE positions. Over the five-year period, the number of personnel positions will decrease by 1,126 FTEs from 35,033 to 33,807 FTE positions. However, despite the personnel decline, budgeted spending on personnel services is projected to increase from $3.7 billion to $4.1 billion, or by 10.2%.

The increase in personnel spending between FY2021 and FY2022 from $3.9 billion to $4.1 billion represents an increase of $183.6 million, or 4.7%. This increase incorporates salary and wage increases pursuant to collective bargaining agreements that are a major driver of personnel services spending. The collective bargaining agreement reached with the Fraternal Order of Police in 2021 (retroactive to 2017 and running through June 2025) is estimated to cost

[47] City of Chicago, FY2022 Budget Overview, p. 182.

the city $140 million in FY2022.[48] This is in addition to $377.6 million in retroactive police pay increases for the first five years of the contract that will be reflected in the FY2021 budget.

Personnel Services Appropriations and Budgeted Full-Time Equivalent Positions: All Local Funds FY2018-FY2022



Source: City of Chicago, Annual Appropriation Ordinances, FY2018-FY2021, Summary D; FY2022 Budget Recommendations, Summary D; City of Chicago FY2021 Budget Overview, p. 200 and FY2022 Budget Overview, p. 206.

Corporate Fund Personnel Services Appropriations

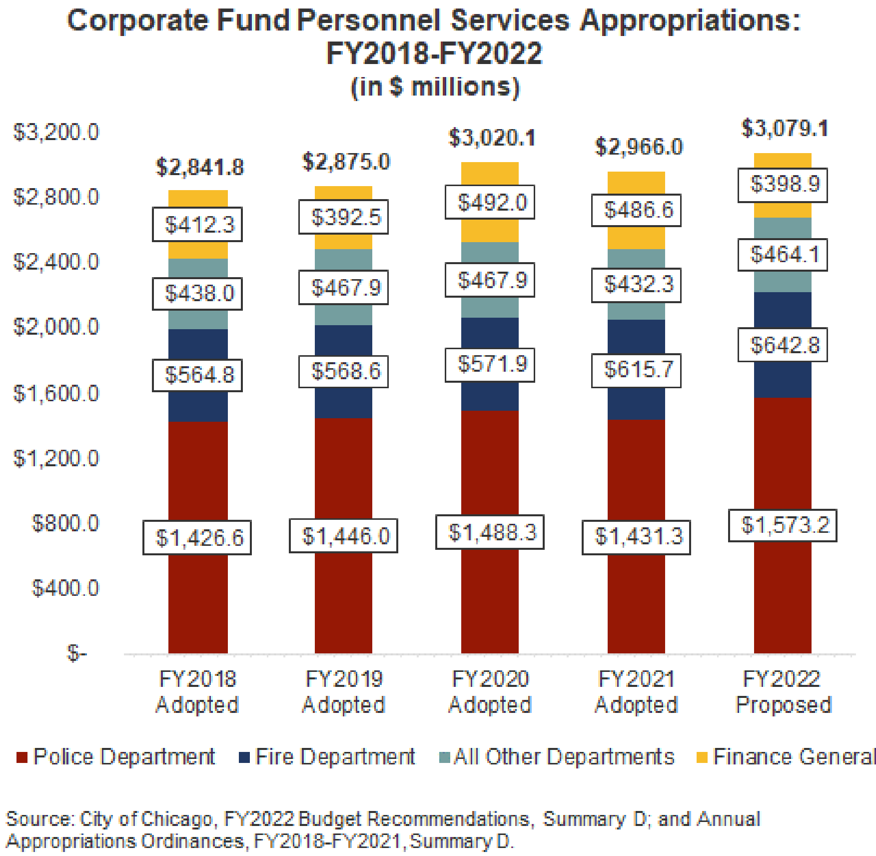
Of the $4.1 billion in total Personnel Services appropriations proposed in the FY2022 budget, the Corporate Fund accounts for approximately 75% of those expenditures—$3.1 billion.

The Chicago Police Department accounts for the largest departmental expenditures on personnel. The Police Department represents approximately 50% of Corporate Fund Personnel Services appropriations. The second largest departmental spending on Personnel Services within the Corporate Fund is the Fire Department. Together, the Police Department and Fire Department account for $2.2 billion of the $3.1 billion Personnel Services appropriations within the Corporate Fund. All other departments combined account for $464.1 million in Personnel Services appropriations in the FY2022 proposed budget. Healthcare and other benefits accounted for within the Finance General budget category account for $398.9 million.

These four categories of appropriations over the five-year period from FY2018 to FY2022 are shown in the next chart below. Over this five-year period, total Corporate Fund Personnel Services appropriations will grow by 8.4% from $2.8 billion in the FY2018 adopted budget to $3.1 billion in the FY2022 proposal. Police Department appropriations will grow by 10.3% over

[48] Communication with City of Chicago Department of Finance, September 16, 2021.

this period and the Fire Department by 13.8%. Personnel cost increases are largely tied to salary and wage increases in collective bargaining agreements.



The following table provides more detail by department within the Corporate Fund for Personnel Services appropriations between FY2021 and FY2022. Appropriations across all departments are projected to increase in FY2022 from the prior year budget. The only category expected to decline in cost is the Finance General category. This decrease of $87.7 million is due to renegotiated healthcare benefits resulting in savings in FY2022.[49] Overall, Personnel Services appropriations within the Corporate Fund are proposed to increase by 3.8%.

Compared to the increase in total Corporate Fund appropriations from FY2021 to FY2022, the increase in Personnel Services is fairly small. The 21.0% increase in total Corporate Fund

[49] City of Chicago, FY2022 Budget Overview, p. 180.

appropriations is primarily due to the large increase in pension appropriations in the FY2022 budget.

Corporate Fund Personnel Services Appropriations: FY2021-FY2022
(in $ millions)

Department	FY2021 Adopted	FY2022 Proposed	$ Change FY2021-FY2022	% Change FY2021-FY2022
Police Department	$ 1,431.3	$ 1,573.2	$ 141.9	9.9%
Fire Department	$ 615.7	$ 642.8	$ 27.1	4.4%
Other Public Safety*	$ 37.9	$ 43.0	$ 5.0	13.3%
Asset and Information Management**	$ 83.9	$ 90.0	$ 6.1	7.3%
Streets and Sanitation	$ 86.5	$ 88.8	$ 2.3	2.6%
Department of Finance	$ 37.2	$ 38.2	$ 1.0	2.7%
City Council	$ 20.9	$ 21.9	$ 1.0	4.8%
Transportation	$ 17.9	$ 19.1	$ 1.3	7.2%
All Other Departments	$ 148.0	$ 163.0	$ 15.0	10.1%
Finance General	$ 486.6	$ 398.9	$ (87.7)	-18.0%
Total Personnel Services	**$ 2,966.0**	**$ 3,079.1**	**$ 113.1**	**3.8%**
Total Corporate Fund	**$ 4,037.6**	**$ 4,884.0**	**$ 846.4**	**21.0%**
Personnel Services as a % of Total Corporate Fund	**73.5%**	**63.0%**		

*Other Public Safety includes the Police Board, Civilian Office of Police Acctountability (COPA), Office of Emergency Management and Communications (OEMC), Office of Public Safety Administration and the new Community Commission for Public Safety and Accountability.

**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, FY2018-FY2021, Summary D; and FY2022 Budget Recommendations, Summary D.

RESERVE FUNDS

This section describes the City of Chicago's fund balance and other reserve funds. Fund balance is a term used to describe the net assets of a governmental fund and serves as a measure of budgetary reserves.[50]

The Governmental Accounting Standards Board (GASB) Statement No. 54 has established five components of fund balance:

1. ***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.
2. ***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.
3. ***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.

[50] 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.

4. ***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.
5. ***Unassigned fund balance*** – in the General Fund, the remaining surplus of net resources after funds have been identified in the four categories above.[51]

The first two components of fund balance involve legal or contractual limitations on the use of those funds. The other three components involve constraints that can be lifted by the government; they are guidelines rather than legal limitations.[52] **Unrestricted fund balance** that could potentially be used for any purposes, therefore, includes all funds identified as:

- Committed fund balance;
- Assigned fund balance; and
- Unassigned fund balance.

GFOA Fund Balance Best Practices

The Government Finance Officers Association (GFOA) provides guidelines on the appropriate level of fund balance that governments should maintain. 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."[53] Two months of operating expenditures is approximately 16.7%. 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.[54] Further, the statement directs governments to consider the financial resources available in other funds when determining an adequate unrestricted General Fund fund balance level.[55]

GFOA also recommends that governments establish a formal unrestricted fund balance policy that considers the government's specific circumstances.[56] 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.

[51] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009.
[52] GFOA, Fund Balance Guidelines for the General Fund (Adopted September 2015).
[53] 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.
[54] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015).
[55] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015).
[56] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015).

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 Annual Comprehensive Financial Reports. This ratio is a measure of whether a government is maintaining adequate levels of fund balance to mitigate current and future risks and ensure stable tax rates.[57]

The table below presents the City's unrestricted fund balance from FY2012 through FY2020, the latest year for which audited financial data are available. Between FY2012 and FY2020, the unrestricted fund balance rose from 6.8% to 8.9%. The City's $ unrestricted fund balance of $327.7 million in FY2020 consists of $131.0 million that has been assigned for specific purposes and $196.7 million that is unassigned.

City of Chicago Unrestricted Corporate Fund Fund Balance Ratio: FY2012-FY2020

Year	Unrestricted Corporate Fund Balance	Corporate Fund Operating Expenditures	Ratio
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%
FY2019	$ 307,651,000	$ 3,752,341,000	8.2%
FY2020	$ 327,716,000	$ 3,668,057,000	8.9%

Sources: City of Chicago, Comprehensive Annual Financial Reports FY2012-FY2020, Balance Sheet - Governmental Funds and Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds and Note 13: Expenditure of Funds and Appropriation of Fund Balances.

The City's 8.9% fund balance ratio is lower than the GFOA recommendation of 16.7%. However, as previously mentioned, the GFOA acknowledges that it may be appropriate for large governments with a diverse revenue base and better position to predict contingencies to maintain a smaller fund balance.

CITY OF CHICAGO'S FUND BALANCE POLICY

In 2016 the City of Chicago established a new Fund Stabilization policy to maintain sufficient fund balance to mitigate financial risks and revenue shortfalls. The policy is aimed at maintaining a reasonable rainy-day fund while avoiding the build-up of unneeded cash reserves.[58]

The City's policy is to maintain an unrestricted fund balance of no less than two months or 16.7% of operating expenses,[59] composed of resources from three sources:

[57] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015).
[58] Communication with City of Chicago Office of Management and Budget, October 10, 2016.
[59] City of Chicago FY2022 Budget Overview, p. 185.

1) Unassigned Fund Balance: As noted above, this portion of fund balance is part of unrestricted fund balance. Unassigned fund balance in FY2020 was $196.7 million ;
2) Operating Liquidity Fund: This fund was created in 2016 to allow the City to manage liquidity issues associated with the timing of revenue collections.[60] Between FY2015 and FY2019, the City set aside a total of $30 million of unassigned fund balance into this Fund;[61] and
3) Asset Lease and Concession Reserves: These reserves account for leftover revenue generated from agreements to lease the Chicago Skyway and the parking meter system.[62] There was a total of $753.3 million in the asset lease reserves as of FY2020.[63]

Therefore, the City calculates fund balance differently than does the GFOA as it includes resources in addition to unrestricted Corporate Fund balance. The table below shows the City of Chicago's calculation of fund balance amounts and ratios.

City of Chicago Calculation of Fund Balance Ratios: FY2016-FY2020

Year	Subtotal: City Fund Balance Sources	Corporate Fund Operating Expenditures	Ratio
FY2016	$ 798,937,000	$ 3,473,208,000	23.0%
FY2017	$ 828,816,000	$ 3,454,858,000	24.0%
FY2018	$ 819,364,000	$ 3,597,453,000	22.8%
FY2019	$ 909,351,000	$ 3,752,341,000	24.2%
FY2020	$ 950,016,000	$ 3,668,057,000	25.9%

Sources: City of Chicago, Comprehensive Annual Financial Reports FY2012-FY2020, Balance Sheet - Governmental Funds and Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds and Note 13: Expenditure of Funds and Appropriation of Fund Balances; and City of Chicago FY2022 Budget Forecast, p. 48.

The ratio in each year examined is above 16.7%. Therefore, the Budget Stabilization Funds meet the City's own fund balance policy.

PENSION FUNDS

This section examines the budgetary impact of the City of Chicago's contributions to its four pension funds: Municipal Employees, Laborers', Police and Fire. The Civic Federation additionally analyzes indicators of the fiscal health of its pension funds and presents multi-year trend data. Additional descriptive information about the City's pension benefits and history can be found in past budget analyses and will soon be available on a special area of the Civic Federation's website dedicated to pension data and information.[64]

PENSIONS IN THE FY2022 CITY OF CHICAGO BUDGET

The City of Chicago's four pension funds are severely underfunded. A combination of statutory underfunding, benefit enhancements, investment losses, optimistic assumptions and other long-term problems have all contributed to their abysmal financial condition. Benefits for new

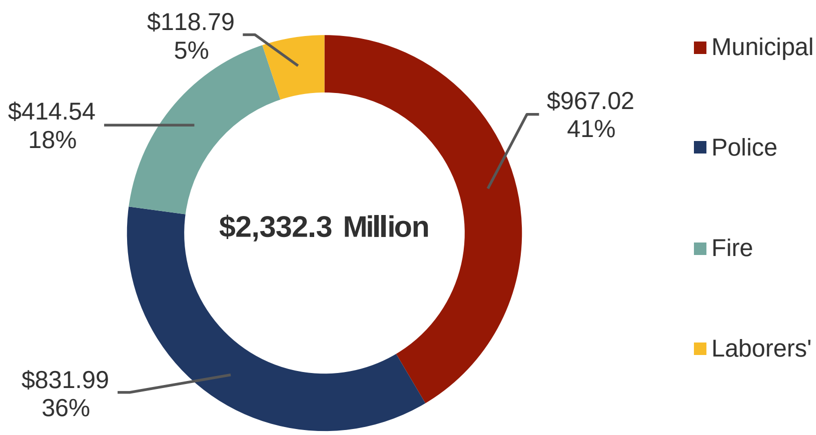
[60] City of Chicago FY2022 Budget Overview, p. 185.
[61] City of Chicago 2022 Budget Forecast, p. 48.
[62] City of Chicago FY2022 Budget Overview, p. 185.
[63] City of Chicago FY2022 Budget Forecast, p. 48.
[64] See for example Civic Federation, "City of Chicago Proposed Budget: Analysis and Recommendations," November 16, 2020, pp. 68-73. Available at https://www.civicfed.org/ChicagoFY2021.

employees were reduced in 2011 along with most other public pension plans in the State of Illinois, but subsequent attempts to reduce benefits for current employees in order to shore up the funds' financial condition were struck down by the Illinois Supreme Court.[65] City and State leaders subsequently turned to changing statutory funding laws in an attempt to prevent the funds from becoming insolvent.

Since 2016 the City of Chicago's four pension funds have been transitioned by State law to 40-year funding plans that start with five-year ramps of growing annual contributions set by state statute and a subsequent transition to a 35-year schedule of actuarially calculated contributions to increase their funded ratios to 90%. The Police and Fire funds started their ramps in FY2015 and transitioned to actuarially-calculated funding in FY2020 and the Municipal and Laborers' funds started their ramps in FY2017 and will transition to actuarially-based funding in FY2022. Since all four funds in the future will be funded on an actuarially-calculated basis, annual contributions from the City will adjust according to the financial needs of the funds, but the length of the funding schedule and backloaded nature mean that the City will not make contributions sufficient to reduce the unfunded liability until the 2030s.[66]

The FY2022 total contribution to the City's four pension funds is $2.3 billion, as shown in the following chart. The two largest funds, the Municipal and Police Funds, receive the largest portion of the annual funding at 77% or nearly $1.8 billion.

FY2022 Pension Fund Contributions
(in $ millions)



Source: FY2022 City of Chicago Budget Overview, p. 61.

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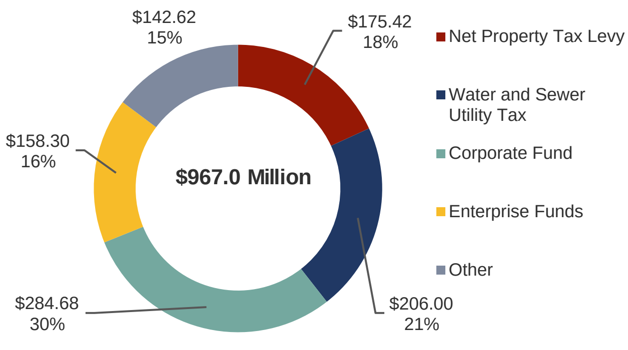
[65] For more information see https://www.civicfed.org/civic-federation/blog/chicago-pension-reforms-struck-down-illinois-supreme-court.
[66] See Fund Actuarial Valuations, 50-year funding projections.

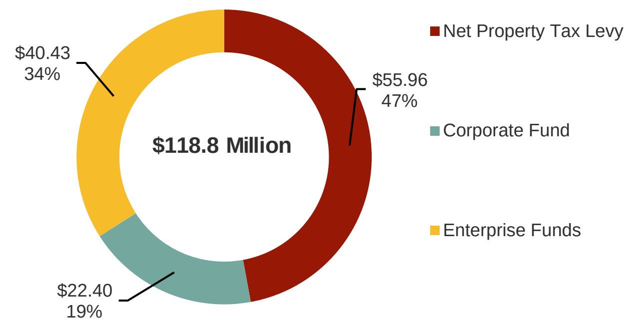
The City of Chicago uses several revenue sources to make its pension contributions: property taxes, contributions from the Corporate and Enterprise funds, a dedicated water and sewer tax for the Municipal Fund and other sources. The following charts show the breakdown of those sources for each fund. The property tax is the single largest source of revenue for the pensions at $1.4 billion or 60% of total pension funding.

FY2022 Municipal Fund Sources of Revenue
(in $ millions)



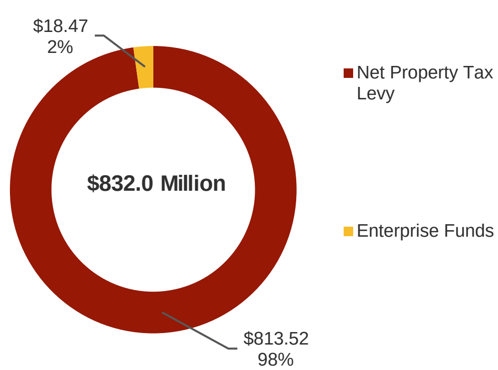
Source: FY2022 City of Chicago Budget Recommendations, p. 38.

FY2022 Laborers' Fund Sources of Revenue
(in $ millions)



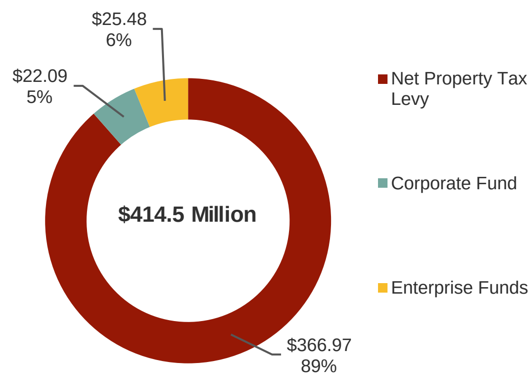
Source: FY2022 City of Chicago Budget Recommendations, p. 38.

FY2022 Police Fund Sources of Revenue
(in $ millions)



Source: FY2022 City of Chicago Budget Recommendations, p. 39

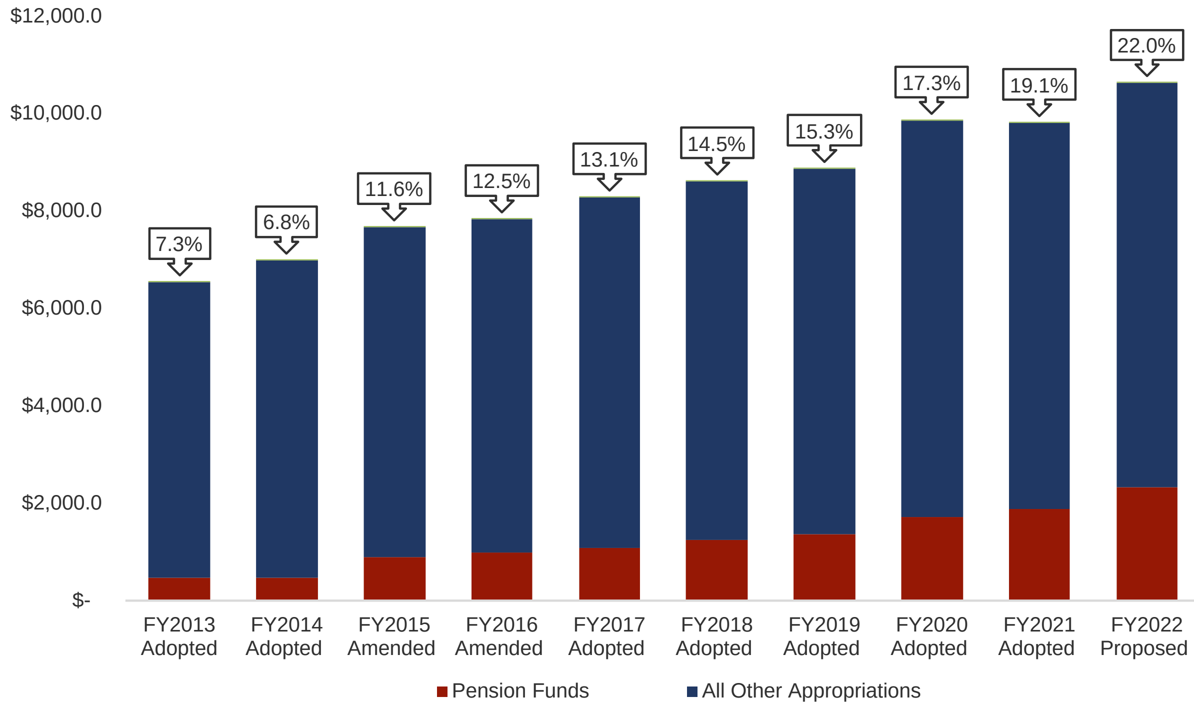
FY2022 Fire Fund Sources of Revenue
(in $ millions)



Source: FY2022 City of Chicago Budget Recommendations, p. 39.

Prior to the implementation of the 40-year funding plans, the City's pension funds were funded on a multiple of what employees contributed two years prior, which did not adjust according to each fund's actuarial funding need. As shown in the following chart, prior to the transition of the funding schedule, pensions made up $478.3 million or 6.5% of the City's spending in FY2014. However, the following year that increased to $885.7 million or 10.6% as the City started its ramps for the Police and Fire funds. The percentage of the budget going to pensions has increased over the following years to 19.3% in FY2022.[67]

Pensions as a Percentage of Net Total Appropriations: FY2013-FY2022



Source: City of Chicago Budgets, FY2013-FY2022

In order to analyze how far short of sufficient past years' contributions have been, it is useful to compare the City's actual contributions to an objective measure of how much the City would need to contribute in order to pay off its unfunded liability over a set period of time. That measure, the Actuarially Determined Contribution (ADC), is a reporting requirement of the Governmental Accounting Standards Board and is reported in each pension fund's annual actuarial reports.[68]

The following chart compares the City's statutory contribution to its four pension funds as a percentage of payroll to the ADC as a percentage of payroll. The spread between the two amounts grew from a shortfall in FY2011 of 27.8 percentage points, or $905.1 million, to a gap of 38.7 percentage points in FY2014, before falling to a gap of 26.2 percentage points in FY2015, due to higher employer contributions for the Police and Fire Funds. The gap increased

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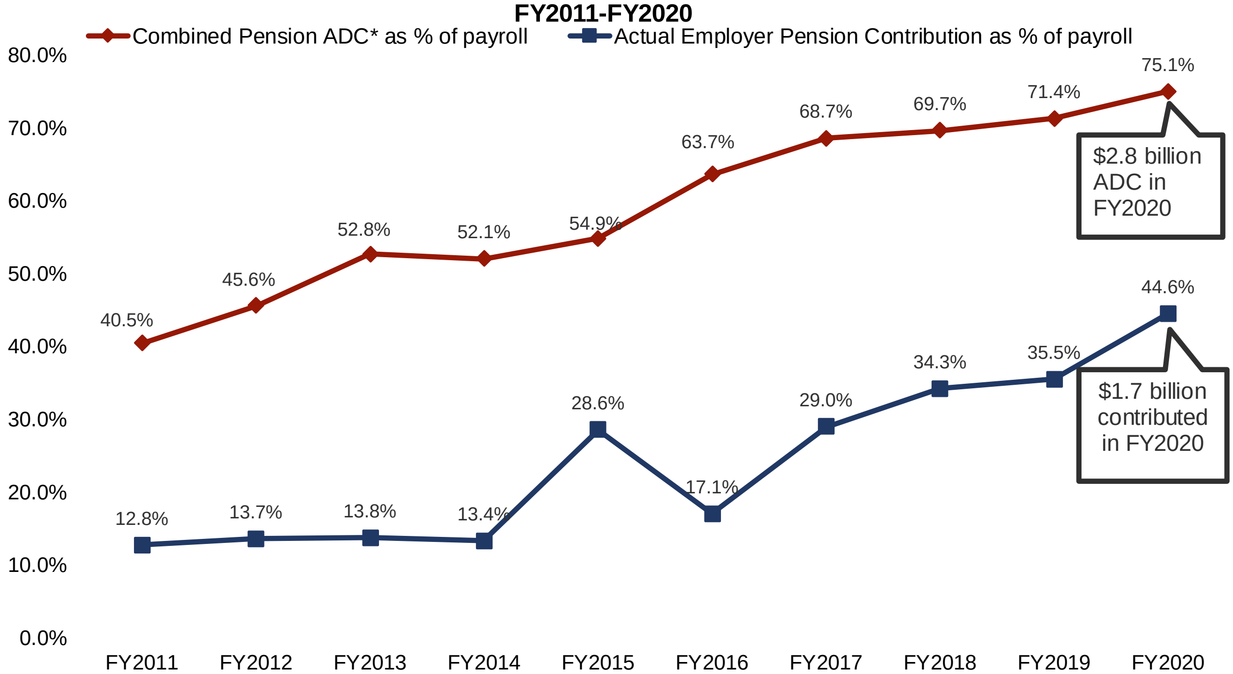
[67] For a historical and projected pension contribution chart, see City of Chicago, 2022 Budget Overview, p. 60. Available at https://www.chicago.gov/content/dam/city/depts/obm/supp_info/2022Budget/2022OverviewFINAL.pdf
[68] To read more about the Actuarially Determined Contribution and how it is similar and differs from a previous measure, the Annual Required Contribution (ARC), see the Appendix.

again in FY2016 to 46.6 percentage points due to the City decreasing its contributions that year to make up for over-contributions in FY2015. The shortfall improved over the next several years to 30.5% in FY2020 or $1.1 billion. 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 30.5% of payroll, or $1.1 billion, in FY2020.

Actuarially Determined Contribution* vs. Actual Employer Contribution: FY2011-FY2020

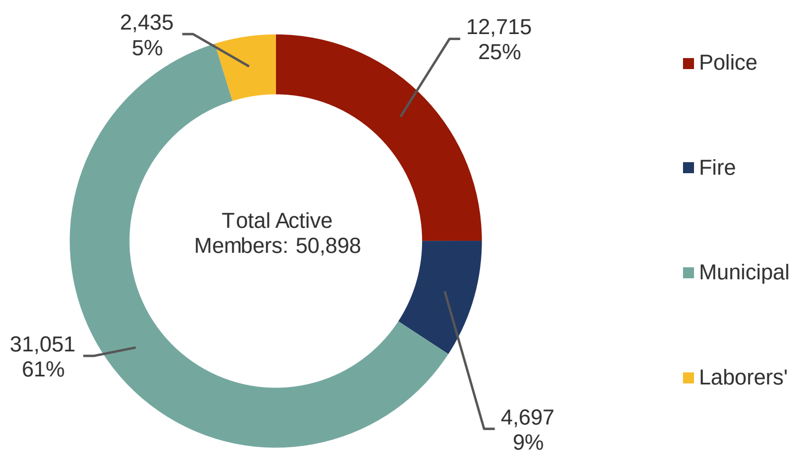


*Annual Required Contribution in FY2014 and prior.
Sources: FY2011-FY2020 Actuarial Valuations for the Police, Fire, Municipal and Laborers' pension funds.

In FY2020 there were 50,898 employees participating in the four pension funds. The Municipal Fund constitutes 61.0% of total active employee membership. However, roughly half of the 31,051 active Municipal Fund members are not City employees, but rather are non-teacher employees of Chicago Public Schools. Approximately 57.9% of all active members of all four pension funds belong to Tier 1 and 42.1% belong to Tier 2 or 3. The Municipal Fund has the highest percentage of non-Tier 1 members with approximately 46.7% and the Laborers' Fund has the lowest with approximately 30.5%.

The following chart shows the percentage of active members in each fund.

FY2020 Chicago Pension Fund Membership



Note: Roughly half of the Municipal Fund members are non-teacher employees of the Chicago Public Schools.
Sources: FY2020 Actuarial Valuations for the Police, Fire, Municipal and Laborers' pension funds.

Every fund except the Municipal Fund has more annuitants and beneficiaries than active employees. The ratio of actives to annuitants ranges from 0.65 in the Laborers' Fund to 0.90 and 0.91 for the Fire and Police Funds to 1.21 for the Municipal Fund. A low ratio of active employees to annuitants means there are fewer employees paying into the fund and more retirees taking annuity payments out of the fund and can be a signal of distress for a mature and underfunded pension like the four Chicago funds.

FUNDING STATUS OF THE CITY OF CHICAGO'S PENSIONS

In addition to evaluating whether an employer is contributing enough to the pension fund through a comparison to the ARC, it is important to understand how well-funded a pension plan is and whether funding is improving or declining over time. Pension fund status indicators show how well a pension fund is meeting its goal of accruing sufficient assets to cover its liabilities. Ideally, a pension fund should hold exactly enough assets to cover all of its actuarial accrued liabilities.
The Civic Federation analyzes three measures over time to evaluate funding status:

- Funded ratio;
- Unfunded actuarial accrued liabilities; and
- Investment rate of return.

Funded Ratio: The most basic indicator of pension fund status is its ratio of assets to liabilities, or "funded ratio." In other words, this indicator shows how many pennies of assets a fund has per dollar of liabilities. For example, if a plan had $100 million in liabilities and $90 million in assets, it would have a 90% funded ratio and about 90 cents in assets per dollar of obligations to its employees and retirees.

When a pension fund has enough assets to cover all its accrued liabilities, it is considered 100% funded. This does not mean that further contributions are no longer required. Instead it means that the plan is funded at the appropriate level at a certain date. A funding level under 100% means that a fund does not have sufficient assets on the date of valuation to cover its actuarial accrued liability.

Unfunded Liability: Unfunded actuarial accrued liabilities (UAAL) are obligations not covered by assets. Unfunded liability is calculated by subtracting the value of assets from the actuarial accrued liability of a fund. For example, if a plan had $90 million in assets and $100 million in liabilities, its unfunded liability would be $10 million.
One of the purposes of examining the unfunded liability is to measure a fund's ability to bring assets in line with liabilities. Healthy funds are able to reduce their unfunded liabilities over time. On the other hand, substantial and sustained increases in unfunded liabilities are a cause for concern.

Investment Rate of Return: A pension fund invests the contributions of employers and employees in order to generate additional revenue over an extended period of time. Investment income provides the majority of revenue for an employee's pension over the course of a typical career. In addition to the actual annual rate of return, the assumed investment rate of return plays an important role in the calculation of actuarial liabilities. It is used to discount the present value of projected future benefit payments and has been the subject of considerable debate in recent years.[69] The assumed rate of return for the four Chicago pension funds ranges from 6.75% for the Police and Fire funds to 7.0% for the Municipal Fund and 7.25% for the Laborers' Fund.

Other major contributors to a pension fund's financial status in addition to employer contributions and investment returns are benefit enhancements and changes to actuarial assumptions. In past years, the funds' reductions to their expected rate of return on investment has been a major source of increases to the unfunded liability. In 2021 a major benefit enhancement for Chicago firefighters was enacted in Springfield that extended a larger automatic annual increase to annuities to younger firefighters. The effective date of Public Act 101-0673 was April 5, 2021 and the changes will be accounted for in the FY2021 actuarial valuation.[70]

Funded Ratio

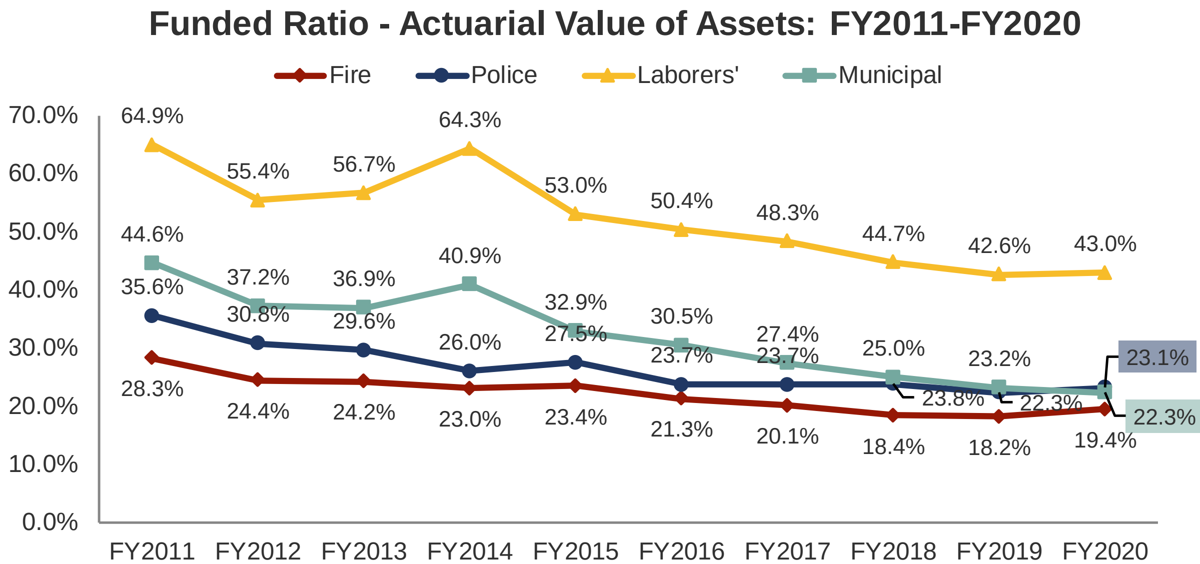
This section uses two measurements of pension plan funded ratio: the actuarial value of assets measurement and the market value of assets measurement. These ratios show the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting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

[69] For a short description of the debate see Thomas J. Healey, "Commentary: A note on the discount rate," *Pensions and Investments*, October 8, 2019. Available at https://www.pionline.com/industry-voices/commentary-note-discount-rate.
[70] Public Act 101-0673, https://ilga.gov/legislation/publicacts/101/PDF/101-0673.pdf. See also Firemen's Annuity and Benefit Fund of Chicago Actuarial Valuation and Review as of December 31, 2020, p. 10. Available at https://www.fabf.org/PDF/Financial/ActuarialValuation/Segal12-31-2020.pdf.

three to five years.[71] 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.

The following exhibit shows actuarial value funded ratios for each of the four pension funds. The actuarial value funded ratios for three of the four City pension funds increased in FY2020. The Fire Fund increased to 19.4%, the Police Fund increased to 23.1% and the Laborers' Fund rose to 43.0%, but the Municipal Fund decreased to 23.3%.

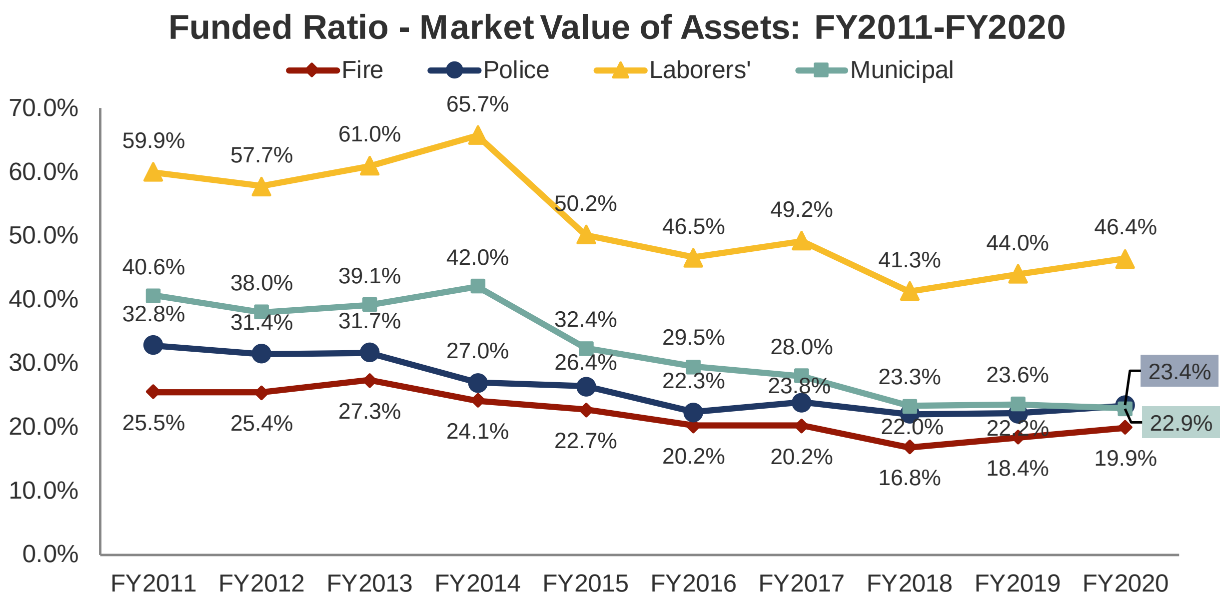


Note: Actuarial Value of Assets smoothes investment returns over five years.
Source: FY2011-FY2020 Fire, Police, Laborers' & Municipal Employees Pension Fund Annual Financial Reports.

The following exhibit shows market value funded ratios for each of the four pension funds. The market value funded ratios have fluctuated since FY2011, 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. The same three funds' market value funded ratios increased in FY2020 due to high investment

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

returns, while the Municipal Fund's market funded ratio fell because of insufficient employer contributions.



Source: FY2011-FY2020 Fire, Police, Laborers' & Municipal Employees Pension Fund Annual Financial Reports.

Unfunded Actuarial Accrued Liability

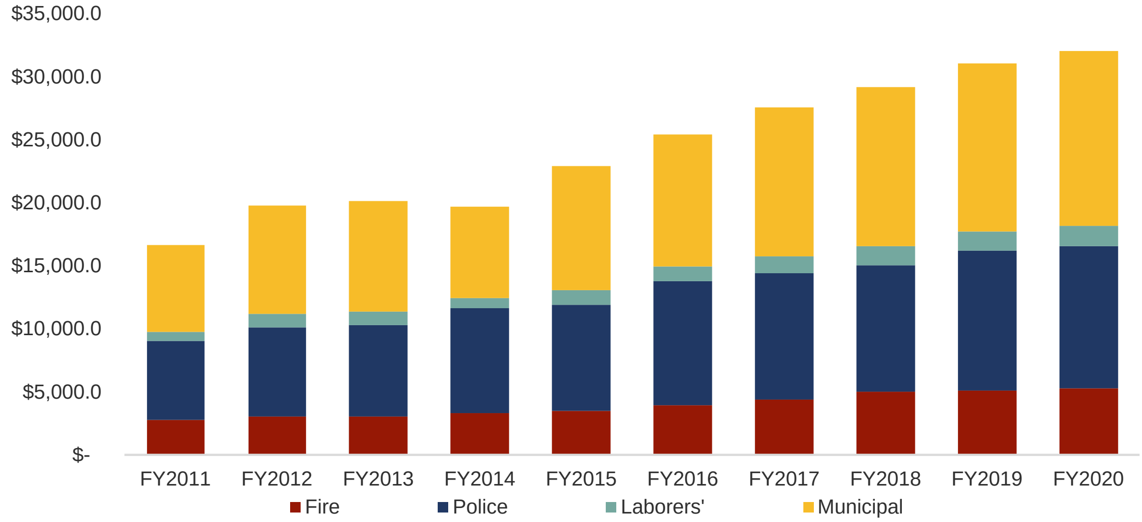
Over the past ten years, the unfunded liabilities of the four pension funds combined have grown by $15.3 billion, or 91.6%. This was an increase from $16.7 billion in FY2011. The total unfunded liabilities of the four funds increased to $32.0 billion in FY2020 from $31.0 billion in FY2019, or by 3.17%.

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

- Fire Pension Fund: 89.3% increase, or $2.5 billion;
- Police Pension Fund: 81.0% increase, or $5.1 billion;
- Laborers' Pension Fund: 102.9% increase, or $791.3 billion; and

- Municipal Pension Fund: 100.9% increase, or $7.0 billion.

Unfunded Actuarial Accrued Liabilities: FY2011-FY2020 (in $ millions)



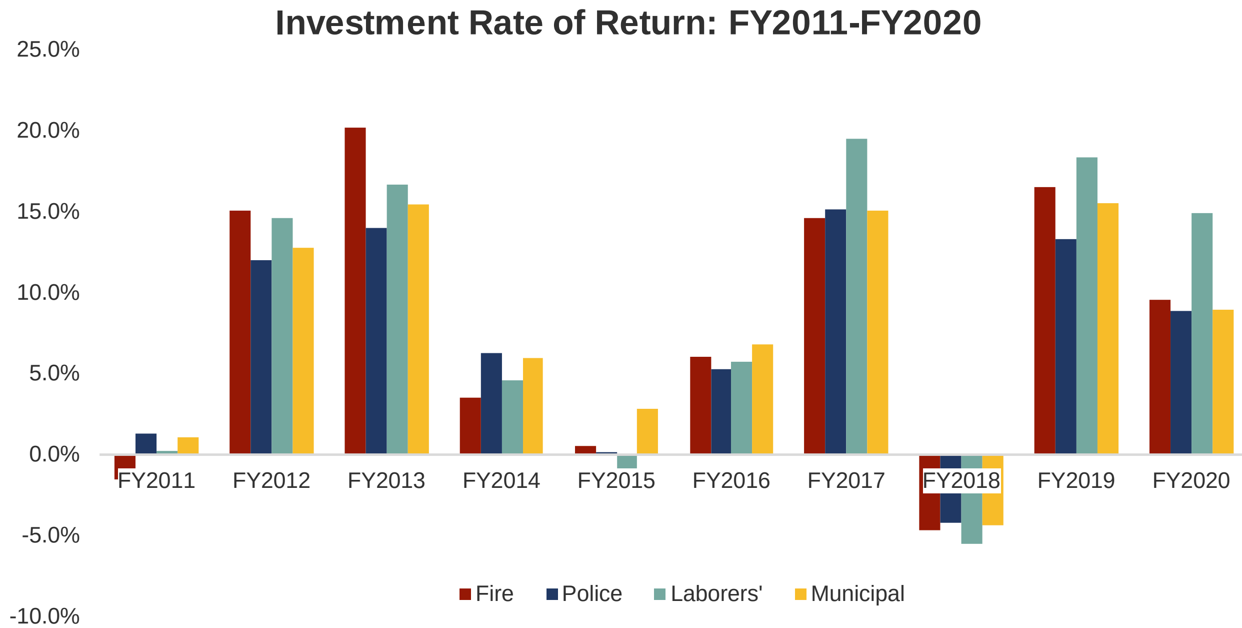
Source: FY2010-FY2019 Fire, Police, Laborers' & Municipal Employees Pension Fund Comprehensive Annual Financial Reports.

Investment Return

In FY2020 all four City pension funds experienced returns greater than their expected rates of return on their investments, ranging from 8.9% for the Police Fund to 14.9% for the Laborers' Fund.[72] As noted above, the FY2020 investment assumption for the Police Fund was 6.75%,

[72] 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.

the Fire Fund rate of return was 6.75%, the Laborers' Fund was 7.25% and the Municipal fund was 7.0%.



Note: Actuarial Value of Assets smoothes investment returns over five years.
Source: FY2011-FY2020 Fire, Police, Laborers' & Municipal Employees Pension Fund Annual Financial Reports.

OTHER POST-EMPLOYMENT BENEFITS

Certain City of Chicago annuitants are entitled to healthcare and other ancillary benefits or subsidies after they retire. Some receive special benefits under collective bargaining agreements with public safety unions and others are entitled to benefits either based on a promise made by the City or following a court order that wrapped up decades of litigation.[73] Qualifying public safety 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. Those employees retiring at age 55 but before 60 are required to contribute 3.5 percent of their pension for health care coverage; those retiring at ages 60 through 63 are required to contribute 1.5 percent of their pension for healthcare coverage. This represents an increase in retiree contributions of 1.5 percent of their pension for those who retire after 2020.[74]

Older non-public safety retirees are entitled to lifetime subsidized coverage of 55% or 50%, depending on their retirement date. Some younger annuitants and current employees hired before 2003 and who retired in or after 1989 with other qualifying age and service levels, pursuant to an Illinois Appellate Court decision in *Underwood v. City of Chicago*, are eligible for lifetime fixed rate monthly subsidies based on the subsidy amounts provided in the mid-1980s. Those subsidies are between $21 and $55 per month. The four pension funds are required to

[73] For more information about the history of the litigation, see the Civic Federation's FY2021 City of Chicago Budget analysis, pp. 83-84. Available at https://www.civicfed.org/sites/default/files/fy2021chicagobudgetanalysis.pdf.
[74] City of Chicago, FY2020 Annual Comprehensive Financial Report, p. 97.

make those subsidy payments to the annuitants, but they are funded by the statutorily-required City of Chicago pension contributions.

Pension funds and governments are required to report information in their financial statements about OPEB liabilities, assets (if any) and expenses. The City of Chicago reported net OPEB liability in FY2020 totaling nearly $1.8 billion. 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 FY2020 ACFR 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." Two of the four funds reported either net OPEB liabilities in FY2020 or net Health Insurance Supplement Liability in the case of the Fire Fund. The Police Fund and Laborers' Fund did not report net OPEB liability in their FY2020 financial statements. The City of Chicago's reported net OPEB liability for the CBA benefits increased significantly from the prior year because the CBA provisions were previously assumed to expire in 2022 while the City was still negotiating new collective bargaining agreements. With the approval of new CBAs the City is currently using an assumption that the CBA benefits will be continued indefinitely, which significantly increased the estimated liability.

City of Chicago Net OPEB Liability* for Non-CBA and CBA Special Benefits: FY2020
(in $ thousands)

	Municipal	Laborers'	Police	Fire	Total
Pension Funds	$ 32,415	N/A	N/A	$ 8,975	**$ 41,390**
Non-CBA Benefits: City					**$ 194,044**
CBA Special Benefits Unfunded Liability: City					**$ 1,769,296**
Total					**$ 2,004,730**

* For Fire Fund, reported as Net Health Insurance Supplement Liability. The Police Fund and Laborers' Fund did not separately report a net OPEB liability for retirees in FY2020.

Sources: FY2020 Pension Fund Financial Reports; FY2020 City of Chicago ACFR, p. 99.

DEBT AND 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 include all of the obligations owed by a government over time. Significant increases in long-term liabilities over time may be a sign of fiscal stress.

Long-term liabilities include:

- ***Bonds, Notes and Certificates Payable***: These are amounts reported for different types of tax supported long-term debt, including general obligation, lease, tax increment financing and revenue debt.
- ***Net Pension 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. The reporting change for pensions reflects a more holistic and transparent approach to measuring the liabilities of the government, which the previous NPO pension measurement did not.

- ***Net Other Post Employment Benefit (OPEB) Liabilities***:[75] Beginning with the FY2018 ACFR, 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.[76] 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.
- ***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.[77]
- ***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.[78]

The table below presents the City's total long-term liabilities, including long-term debt from bonds and other liabilities in the Governmental Funds for the five-year period from FY2016 to FY2020 based on the City's audited annual financial reports (FY2020 is the most recent year available). These liabilities are primarily paid for with taxes, such as property taxes and other broad-based taxes. The five-year increase in total long-term liabilities between FY2016 and FY2020 was 2.8%. This was a nearly $1.2 billion increase from $43.1 billion to $44.3 billion. Total long-term debt alone rose by 13.2%, from $10.4 billion to approximately $11.8 billion.

Total long-term liabilities increased by 6.6%, or $2.8 billion, between FY2019 and FY2020. Long-term debt (bonds, notes and certificates payable) rose by 3.9% during this two-year period, from $11.3 billion to nearly $11.8 billion. All other liabilities rose by $2.3 billion, or by 7.7%, increasing from $30.1 billion to $32.5 billion. That increase was attributable to a $1.2

[75] 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.
[76] 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.
[77] City of Chicago, FY2020 Annual Comprehensive Financial Report, p. 62.
[78] City of Chicago, FY2020 Annual Comprehensive Financial Report, p. 104.

billion, or 4.2%, increase in net pension liabilities and a $1.1 billion or 136.9% increase in net other post-employment benefits.

Other liabilities, which include net pension obligations, net other post-employment obligations, lease obligations, pollution remediation liabilities and claims and judgments declined between FY2016 and FY2020, falling by 0.5% or $174.5 million. Much of the five-year reported decrease in the five-year period reviewed was due to a $2.1 billion decrease in net pension liabilities due mainly to the Municipal and Laborers' Funds starting a new statutory funding schedule in FY2017.[79]

City of Chicago Long Term Liabilities for Governmental Activities: FY2016-FY2020
(in $ thousands)

	FY2016	FY2017	FY2018	FY2019	FY2020	Two-Year Change	Two-Year % Change	5-Year Change	5-Year % Change
Bonds, Notes and Certificates Payable									
General Obligation Debt	$ 9,173,009	$ 9,686,627	$ 8,207,779	$ 7,908,489	$ 6,754,252	$ (1,154,237)	-14.6%	$ (2,418,757)	-26.4%
Line of Credit					$ 500,000	$ 500,000	---	$ 500,000	---
Tax Increment	$ 33,520	$ 27,925	$ 19,945	$ 16,195	$ 12,060	$ (4,135)	-25.5%	$ (21,460)	-64.0%
Revenue	$ 766,628	$ 254,224	$ 249,929	$ 245,414	$ 179,102	$ (66,312)	-27.0%	$ (587,526)	-76.6%
Sales Tax Securitization Corporation	$ -	$ 743,735	$ 2,036,435	$ 2,641,865	$ 3,655,780	$ 1,013,915	---	$ 3,655,780	---
Subtotal Bonds, Notes and Certificates Payable	**$ 9,973,157**	**$10,712,511**	**$ 10,514,088**	**$ 10,811,963**	**$ 11,101,194**	**$ 289,231**	**2.7%**	**$ 1,128,037**	**11.3%**
Add unamortized premium	$ 118,300	$ 88,675	$ 158,298	$ 193,890	$ 342,624	$ 148,734	76.7%	$ 224,324	189.6%
Add accretion of capital appreciation bonds	$ 318,844	$ 315,863	$ 323,485	$ 330,174	$ 335,989	$ 5,815	1.8%	$ 17,145	5.4%
Total Bonds, Notes and Certificates Payable	**$ 10,410,301**	**$11,117,049**	**$ 10,995,871**	**$ 11,336,027**	**$ 11,779,807**	**$ 443,780**	**3.9%**	**$ 1,369,506**	**13.2%**
Other Liabilities									
Net Pension Liability	$ 31,512,071	$25,058,993	$ 26,761,592	$ 28,252,526	$ 29,443,464	$ 1,190,938	4.2%	$ (2,068,607)	-6.6%
Net OPEB Obligation	$ 167,209	$ 746,321	$ 684,632	$ 828,787	$ 1,963,340	$ 1,134,553	136.9%	$ 1,796,131	1074.2%
Pollution Remediation	$ 33,201	$ 35,044	$ 44,415	$ 43,838	$ 43,635	$ (203)	-0.5%	$ 10,434	31.4%
Claims and Judgments	$ 942,622	$ 1,012,756	$ 1,032,385	$ 1,043,713	$ 1,030,153	$ (13,560)	-1.3%	$ 87,531	9.3%
Total Other Liabilities	**$ 32,655,103**	**$26,853,114**	**$ 28,523,024**	**$ 30,168,864**	**$ 32,480,592**	**$ 2,311,728**	**7.7%**	**$ (174,511)**	**-0.5%**
Grand Total	**$ 43,065,404**	**$37,970,163**	**$ 39,518,895**	**$ 41,504,891**	**$ 44,260,399**	**$ 2,755,508**	**6.6%**	**$ 1,194,995**	**2.8%**

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

Source: City of Chicago FY2016-FY2020 Annual Comprehensive Financial Reports. Note 10: Long-Term Obligations.

In addition to long-term liabilities in the Governmental Funds, the City of Chicago has incurred long-term liabilities for its business-type activities. These include revenue bonds issued to support infrastructure projects within the City's four enterprise funds (Water, Sewer, O'Hare and Midway Airport) and pension obligations incurred in those funds. These obligations are primarily paid for with user fees and charges. Between FY2016 and FY2020, the total amount of

[79] City of Chicago, FY2017 Annual Comprehensive Financial Report, p. 18.

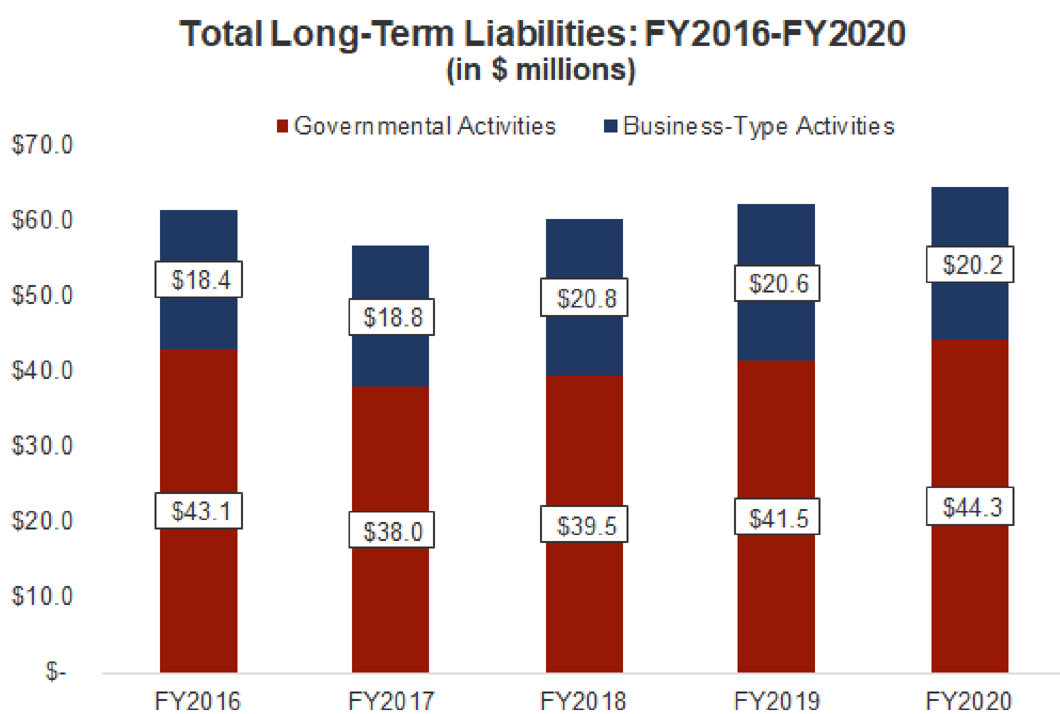
business-type long-term liabilities increased by 9.8% or $1.8 billion, rising from $18.4 billion to $20.2 billion. Most of the increase was due to a $2.5 billion increase in revenue debt.

City of Chicago Long Term Liabilities for Business-Type Activities: FY2016-FY2020
(in $ thousands)

	FY2016	FY2017	FY2018	FY2019	FY2020	Two-Year Change	Two-Year % Change	5-Year Change	5-Year % Change
Revenue bonds and notes payable									
Water	$ 2,468,397	$ 2,401,005	$ 2,457,341	$ 2,497,156	$ 2,408,774	$ (88,382)	-3.5%	$ (59,623)	-2.4%
Sewer	$ 1,692,820	$ 1,861,381	$ 1,893,561	$ 1,895,495	$ 1,953,134	$ 57,639	3.0%	$ 260,314	15.4%
Chicago O'Hare International Airport	$ 7,260,508	$ 8,633,782	$ 10,317,980	$ 10,047,551	$ 9,609,566	$(437,985)	-4.4%	$ 2,349,058	32.4%
Chicago Midway International Airport	$ 1,781,605	$ 1,755,835	$ 1,713,485	$ 1,677,005	$ 1,648,820	$ (28,185)	-1.7%	$ (132,785)	-7.5%
Subtotal Revenue Bonds	$ 13,203,330	$ 14,652,003	$ 16,382,367	$ 16,117,207	$ 15,620,294	$(496,913)	-3.1%	$ 2,416,964	18.3%
Add unamortized premium (discount)	$ 815,420	$ 1,040,375	$ 1,006,798	$ 920,786	$ 947,452	$ 26,666	2.9%	$ 132,032	16.2%
Add accretion of capital appreciation bonds	$ 85,363	$ 82,509	$ 78,816	$ 75,114	$ 73,356	$ (1,758)	-2.3%	$ (12,007)	-14.1%
Total Revenue Debt	$ 14,104,113	$ 15,774,887	$ 17,467,981	$ 17,113,107	$ 16,641,102	$(472,005)	-2.8%	$ 2,536,989	18.0%
Net Pension Liability	$ 4,247,194	$ 2,984,331	$ 3,356,211	$ 3,535,131	$ 3,514,787	$ (20,344)	-0.6%	$ (732,407)	-17.2%
Grand Total	$ 18,351,307	$ 18,759,218	$ 20,824,192	$ 20,648,238	$ 20,155,889	$(492,349)	-2.4%	$ 1,804,582	9.8%

FY2017 Other Post Employment Benefits Obligations were restated in the FY2018 CAFR due to the implementation of GASB 75.
Source: City of Chicago FY2016-FY2020 Annual Comprehensive Financial Reports. Note 10: Long-Term Obligations.

The following chart shows the total amount of Chicago long-term liabilities for both governmental activities and business-type activities. Between FY2016 and FY2020 these obligations rose by nearly $3.0 billion or 4.9%, increasing from $61.4 billion to $64.4 billion

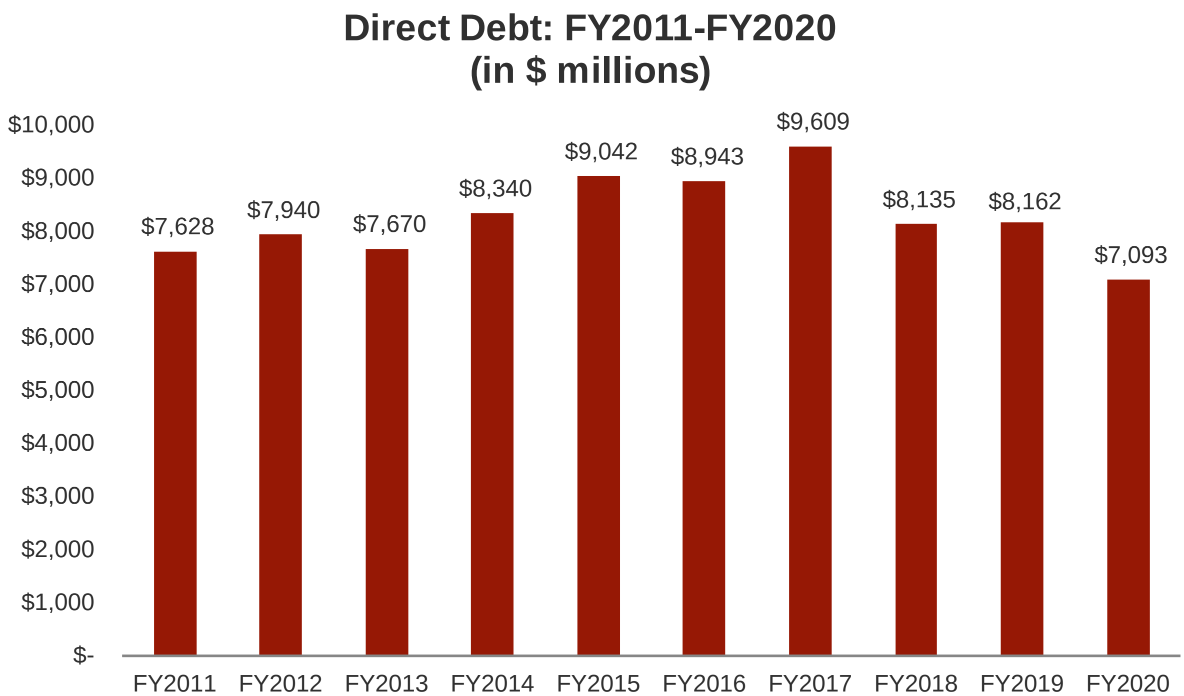


Source: City of Chicago FY2016-FY2020 Annual Comprehensive Financial Reports. Note 10: Long-Term Obligations.

Long-Term Direct Debt Trends

Direct debt is a government's tax-supported debt. Increases over time should be monitored 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 decreased by 7.0%, or $535.1 million. This represents a decrease from $7.6 billion in FY2011 to nearly $7.1 billion ten years later.

Long-term debt rose between FY2011 and FY2017 to $9.6 billion, before dropping by 26.2% or $2.5 billion by FY2020. The large $1.5 billion decrease between FY2017 and 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) which shifted direct debt obligations to the Sales Tax Securitization Corporation.[80] The decline in FY2020 below FY2019 is also due to the issuance of additional STSC debt in order to refund general obligation bonds.[81] The overall debt burden remains high.



City of Chicago FY2020 Annual Comprehensive Financial Report, pp. 214-215.

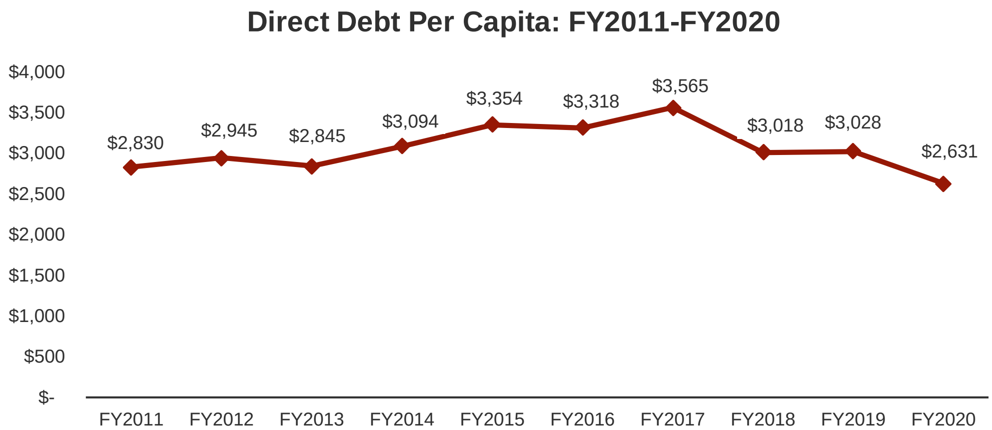
Long-Term Direct Debt Per Capita

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 FY2011 and FY2020, direct debt per capita declined by 7.0% from $2,830 to $2,631. The decrease in FY2018 is attributed to the refunding of certain callable

[80] City of Chicago FY2018 Annual Comprehensive Financial Report, p. 10.
[81] City of Chicago FY2020 Annual Comprehensive Financial Report, p. 83.

general obligation bonds by the Sales Tax Securitization Corporation (STSC Series 2018AB and Series 2018C refunding bonds).[82]



Source: City of Chicago, FY2020 Annual Comprehensive Financial Report, pp. 214-215.

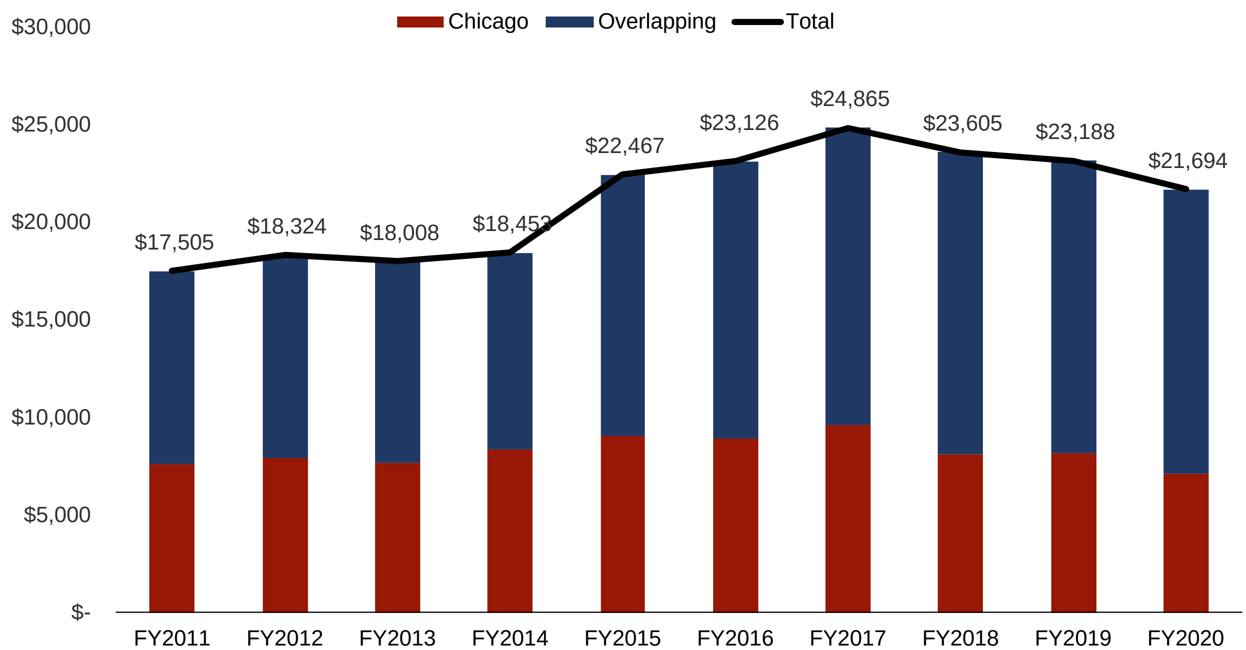
Overlapping Debt: Chicago vs. Other Governments

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.[83] Rating agencies and other financial analysts commonly monitor overlapping debt trends as an affordability indicator when governments consider debt issuance. Chicago's portion of total overlapping long-term debt in FY2020 accounted for 32.7% of all long-term debt. Between FY2011 and FY2020, combined direct debt from other overlapping governments increased by 47.8% at the same time City of Chicago debt fell by 7.0%. Total direct debt from all eight major

[82] City of Chicago FY2018 Annual Comprehensive Financial Report, p. 10.
[83] 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.

governments including Chicago rose by 23.9% or $4.2 billion. The rate of increase in direct debt issued by the other overlapping governments far outpaced the increase for Chicago.[84].

City of Chicago Direct Debt & Overlapping Debt: FY2011-FY2020
(in $ millions)



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

DEBT SERVICE APPROPRIATION RATIO

Chicago debt service appropriations in FY2022 are projected to be 23.0% of total local fund net appropriations, or $2.4 billion out of expenditures of $10.6 billion. Since FY2018, debt service appropriations have risen by 29.4%, which is greater than the 23.8% increase in total net appropriations. The debt service ratio has averaged 21.2% over the five-year period analyzed. The rating agencies consider a debt burden high if this ratio is between 15% and 20%.[85] Thus, Chicago's debt service ratio is high, reflecting the City's large debt burden.

[84] These figures do not account for additional City of Chicago debt issued through the Sales Tax Securitization Corporation.
[85] 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.

Debt Service Appropriations as a Percentage of Total Net Appropriations: FY2018-FY2022

Year	Debt Service	Total Net Appropriation	Ratio
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%**
FY2021	$ 1,956,178,697	$ 9,773,719,000	**20.0%**
FY2022	$ 2,440,370,228	$ 10,619,499,000	**23.0%**
Five-Year $ Increase	$ 553,739,835	$ 2,040,064,000	
Five Year % Increase	29.4%	23.8%	

Source: City of Chicago Budget Recommendations: FY2018-FY2022.

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.[86]

The STSC agreement authorized the sale of the City's right, title and interest in home rule and local share sales tax revenues collected by the State of Illinois. In exchange, the City has received an ownership interest in excess sales tax revenues that are received by the STSC to pay the debt service requirements of any outstanding obligations and administrative costs while the agreement is in effect. The Sale Agreement will be in force until there are no secured obligations outstanding for the STSC.

The benefit of having the Sales Tax Securitization Corporation is so that the City can issue debt, backed by sales tax revenue, at a lower credit risk and therefore lower interest cost than other general obligation debt. The City had a total of $3.7 billion outstanding in STSC debt as of December 31, 2020.

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% to 5.0%. 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.[87]

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

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[86] City of Chicago FY2018 Annual Comprehensive Financial Report, p. 53.
[87] City of Chicago FY2018 Annual Comprehensive Financial Report, p. 79.

Bond debt. In 2019, 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.[88]

In January 2019, $605.4 million in Sales Tax Securitization Corporation Sales Tax Securitization Series 2019A bonds were sold. The net proceeds 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.[89] In the FY2020 budget, the City projected an increase of $121.2 million in debt service in the new fiscal year as compared to 2019.[90] In addition, the City was able to save $310 million in the FY2020 budget from refunding general obligation bonds using the Sales Tax Securitization Corporation as well as general obligation credits.[91]

In 2020 $521.1 million in Sales Tax Securitization Corporation Second Lien Sales Tax Securitization Bonds, Series 2020A bonds were sold at a premium. In addition, $495.8 million in Taxable Series 2020B bonds were sold at par. The Series 2020A bonds have interest rates ranging from 4.0% to 5.0% while the Taxable Series 2020B bonds have interest rates ranging from 2.128% to 3.411%. Net proceeds of $1.1 billion were transferred to the City in exchange for a pledge of the City's sales tax revenues and then used by the City to refund or retire all or a portion of certain outstanding General Obligation bonds and to fund capitalized interest. The current refunding of the bonds decreased the City's total debt service payments by $130.4 million, resulting in a net economic gain of approximately $178.1 million and a book loss of approximately $92.3 million.[92]

In FY2022, the City projects that $260 million will be needed to pay STSC debt service. All remaining Sales Tax revenues are then paid to the City as the holder of the residual certificate; the City anticipates that the residual revenue transferred to the City from the STSC to total $569.9 million.[93] The City proposes a refunding for economic savings to cover a portion of the police contract settlement that will include a $48.7 million reduction in STSC debt service.[94]

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[88] City of Chicago FY2018 Annual Comprehensive Financial Report, p. 79.
[89] Official Statement, $605,430,000 Sales Tax Securitization Corporation, Sales Tax Securitization Bonds, Taxable Series 2019A, January 16, 2019.
[90] City of Chicago 2020 Budget Overview, p. 51.
[91] Heather Cherone, "Lightfoot saves $310M by refinancing $1.3B in debt — and sets $100M aside to pay down looming 2021 budget gap," *The Daily Line*, January 20, 2020.
[92] Chicago FY2020 Annual Comprehensive Financial Report, p. 83.
[93] City of Chicago FY2022 Budget Overview, p. 44.
[94] City of Chicago FY2022 Budget Overview, p. 59.

CREDIT RATINGS

The table below summarizes the credit ratings as of October 2021 for various types of City bonds.

City of Chicago Credit Ratings (as of October 2021)

Type of Bonds	**Moody's**	**Standard & Poor's**	**Fitch**	**Kroll**
General Obligation Bonds	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				
Junior Lien - Revenue Bonds	Baa2	A	A-	AA
Wastewater				
Senior Lien - Revenue Bonds	Baa2	A+	Not Rated	Not Rated
Junior Lien - Revenue Bonds	Baa3	A	A-	AA-
Sales Tax Securitization Corporation				
Sales Tax Securitization Bonds	N/A	AA-	AA-	AAA
Second Lien - Sales Tax Securitization Bonds	N/A	AA-	AA-	AAA
Motor Fuel Tax	Ba1	BB+	BBB-	Not Rated

Sources: City of Chicago FY2020 Annual Comprehensive Financial Report, p. 30; https://www.salestaxsecuritizationcorporation.com/stsc-il/bonds/i3228#anchor-bond-ratings; and https://www.cityofchicagoinvestors.com/city-of-chicago-il/bonds/i125.

Chicago Credit Actions in 2020 and 2021

The following narrative summarizes actions taken by rating agencies in 2020 and 2021 regarding major City of Chicago debt issuances and credit ratings shown in the table above.

Moody's Credit Actions

On October 29, 2020 Moody's affirmed its credit ratings for the City's general obligations unlimited tax bonds, motor fuel tax debt, and junior and senior and lien sewer revenue bonds.

However, Moody's changed the ratings outlook for all obligations from stable to negative. The change reflects Moody's opinion that the severe reduction in revenues brought about by the COVID 19 pandemic will seriously impact the City's ability to address its fiscal structural challenges going forward. Factors that could lead to a general obligation credit rating downgrade include:

- An increase in Chicago's structural deficit;
- Reductions in existing reserves; and/or
- Growth in unfunded pension liabilities.

Moody's indicated that downgrades for the motor fuel tax bonds could occur if general obligation bonds were downgraded or if there were large decreases in motor fuel tax collections and reduced coverage ratios for these bonds. Sewer bond downgrades could result from a general obligation bond downgrade or if there were reduction in liquidity or coverage for these bonds.[95]

In July 2021 Moody's again affirmed the City's ratings for general obligation bonds, water revenue bonds and sewer revenue bonds.

At the same time, Moody's revised the outlook on all of the ratings to stable from negative. The outlook was changed because the City is receiving large amounts of federal stimulus funding and its revenues have recovered from prior year downturns. This should stabilize the City's liquidity position for at least the next two years.[96]

Fitch Credit Actions

In March 2020 Fitch affirmed its A rating for Midway Airport's second-lien lien revenue bonds but revised the outlook from stable to negative. The outlook change reflected the severe economic disruption cause to airport revenues by the coronavirus pandemic.[97]

In April 2020 Fitch downgraded Chicago's motor fuel tax bonds to BB+ from BBB- and revised the outlook from stable to negative. The action was based on Fitch's downgrade of the State of Illinois' revenue and appropriation rating by one notch and outlook change to negative.[98]

Fitch assigned an A rating to O'Hare International Airport senior-lien revenue refunding bonds, senior lien revenue bonds and customer facility bonds with a negative outlook in September 2020. The negative outlook reflected the adverse economic and financial aspects brought about by the COVID-19 pandemic. If airport activity does not increase in 2021, Fitch reported that it would likely downgrade all of the airport's debt obligations.[99]

Chicago Sales Tax Securitization Corporation senior lien bonds were downgraded by Fitch in January 2020 from AAA to AA- with a stable outlook. The downgrade was due to a change in Fitch's rating criteria for public tax supported debt. The change limits ratings to six notches above the associated government's issuer default rating. In this case this limits the sales tax bond rating to six notches above Chicago's rating of BBB-. Without this limitation, the rating would have been higher.[100] In October 2020 Fitch affirmed the AA- rating for outstanding sales

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[95] Moody's Investors Services. Rating Action: Moody's affirms Chicago, IL's GO and related ratings, revises outlook to negative," October 29, 2020 at https://www.moodys.com/research/Moodys-affirms-Chicago-ILs-GO-and-related-ratings-revises-outlook--PR_906601492.

[96] Moody's Investors Services. Rating Action: Moody's affirms Chicago, IL's GO and related ratings, revises outlook to stable, July 26, 2021 at https://www.moodys.com/research/Moodys-affirms-Chicago-ILs-GO-and-related-ratings-revises-outlook--PR_907243927.

[97] Fitch Ratings. Fitch Takes Rating Actions on U.S. Large Airports and Major Hubs Amid Coronavirus Disruptions, March 31, 2020.

[98] Fitch Ratings. Fitch Downgrades Chicago, IL's Motor Fuel Tax Bonds to 'BB+' on State Downgrade; Outlook Negative, April 30, 2020 at https://www.fitchratings.com/research/us-public-finance/fitch-downgrades-chicago-il-motor-fuel-tax-bonds-to-bb-on-state-downgrade-outlook-negative-30-04-2020.

[99] Fitch Ratings. Fitch Rates Chicago O'Hare (IL) Airport Rev Bonds 'A'; Outlook Negative, September 15, 220 at https://www.fitchratings.com/research/infrastructure-project-finance/fitch-rates-chicago-o-hare-il-airport-rev-bonds-at-a-outlook-negative-10-09-2020 and https://www.fitchratings.com/research/infrastructure-project-finance/fitch-rates-chicago-o-hare-il-airport-rev-bonds-a-outlook-negative-15-09-2020.

[100] Fitch Ratings. Fitch Rates Chicago Sales Tax 2nd Lien 'AA-'; Downgrades 1st Lien on Criteria Change; Outlook Stable, January 14, 2020 at https://www.fitchratings.com/research/us-public-finance/fitch-rates-chicago-sales-tax-2nd-lien-aa-downgrades-1st-lien-on-criteria-change-outlook-stable-14-01-2020.

tax securitization bonds and second lien sales tax securitization bonds but revised the rating outlook to negative due to concerns over the impacts of the coronavirus pandemic and the City's large budget gaps.[101]

In October 2020 Fitch also affirmed its BBB- rating on outstanding Chicago general obligation bonds but revised the outlook from stable to negative. The outlook change reflected Fitch's concerns about the effectiveness of the City's efforts to close its City's FY2020 and FY2021 budget gaps in a climate of continued fiscal and economic uncertainty.[102]

Standard and Poor's Credit Actions
In March 2020, Standard and Poor's revised the outlook for O'Hare International Airport senior lien revenue bond and Midway Airport revenue bond from stable to negative based on the severe economic impact caused by the coronavirus pandemic.[103]

In April 2020, Standard and Poor's revised its rating of Chicago Sales Tax Securitization Corporation sales bonds from a stable to a negative outlook while affirming the bond's AA-rating. The outlook change was based on the rating agency's concerns over revenue declines caused by the coronavirus pandemic.[104]

S&P also revised its outlook on Chicago general obligation debt from stable to negative in April 2020. The debt rating of BBB+ was affirmed. The outlook change was based on the economic recession cause by the coronavirus pandemic.[105]

Kroll Credit Actions
Kroll assigned a long-term rating of AA+ with a Stable Outlook to the Sales Tax Securitization Corporation (STSC) of Chicago's Second Lien Sales Tax Securitization Bonds in January 2020. At the same time, it affirmed the AAA rating with a stable outlook for the City's Sales Tax Securitization Bonds.[106]

In March 2020 Kroll issued a ratings watch for debt held by a number of U.S. airports. The Chicago airport debt included on the list were O'Hare Airport senior lien revenue bonds and Midway Airport second lien revenue bonds. The outlook for both issues was changed from stable to a watch-developing status. The change reflected comments over the revenue implications of sharp declines in airport activity due to the coronavirus pandemic.[107]

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[101] Fitch Ratings. Fitch Affirms Chicago, IL's IDR at 'BBB-'; Outlook Revised to Negative," October 28, 2020 at https://www.fitchratings.com/research/us-public-finance/fitch-affirms-chicago-il-idr-at-bbb-outlook-revised-to-negative-28-10-2020.
[102] Fitch Ratings. Fitch Affirms Chicago, IL's IDR at 'BBB-'; Outlook Revised to Negative," October 28, 2020 at https://www.fitchratings.com/research/us-public-finance/fitch-affirms-chicago-il-idr-at-bbb-outlook-revised-to-negative-28-10-2020.
[103] S & P Global Ratings, Ratings Outlooks on U.S. Transportation Infrastructure Issuers Revised To Negative Due To COVID-19 Pandemic, March 26, 2020.
[104] S&P Global Ratings. Sales Tax Securitization Corporation of Chicago; Sales Tax, April 24, 2020.
[105] S&P Global Ratings. Summary: Chicago General Obligation, April 24, 2020.
[106] City of Chicago FY2019 Annual Comprehensive Financial Report, p. 105.
[107] Kroll Bond Rating Agency, KBRA Releases Report Affirming City of Chicago, IL General Obligation Bond Rating of 'A'; Revises Outlook to Negative, December 15, 2020 at https://www.kbra.com/documents/press-release/31944/kbra-releases-report-affirming-city-of-chicago-il-general-obligation-bond-rating-of-a-revises-outlook-to-negative.

In September 2020, Kroll assigned an A+ rating with a negative outlook to O'Hare International Airport senior lien revenue refunding bonds due to the negative impact of the coronavirus pandemic.[108]

In December 2020, Kroll affirmed its A rating for Chicago's general obligation bonds but revised the outlook to negative from stable due to economic and fiscal uncertainty caused by the COVID-19 pandemic.[109] Eight months later, in August 2021, Kroll revised the outlook again to stable, citing the positive actions the City had taken to improve its budgetary situation, an improved revenue climate and significant federal stimulus funds to support operations.[110]

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[108] Kroll Bond Rating Agency KBRA Releases Report Assigning A+ Rating with Negative Outlook to Various Chicago O'Hare International Airport General Airport Senior Lien Revenue Bonds, September 16, 2020 at https://www.krollbondratings.com/documents/press-release/28395/kbra-releases-report-assigning-a-rating-with-negative-outlook-to-various-chicago-o-hare-international-airport-general-airport-senior-lien-revenue-bonds.

[109] Kroll Bond Rating Agency, KBRA Places Rated Airports on Watch, March 26, 2020 at https://documents.kbra.com/press-release/22483/kbra-places-rated-airports-on-watch.

[110] Kroll Bond Rating Agency, Ratings Affirmed with Change of Outlook, August 23, 2021 at https://bondlink-cdn.com/1338/City-of-Chicago--Illinois-General-Obligation-Bonds-Surveillance-Report.sqkilfRGh.pdf

APPENDIX

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."[111] 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 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[112] 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.

[111] Governmental Accounting Standards Board, Pension Standards for State and Local Governments, available at: http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176163528472.
[112] Other differences and newly reported numbers are not central to the discussion here.

- 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 2070 and the Police Fund in 2076. Therefore, the funds' GASB 67 and 68 reporting is discounted at a blend of the full 6.75% assumed rate of return and a lower municipal bond rate of 2.00% for the Police Fund and 2.12% for the Fire Fund. The reported blended rate was 6.28% for the Police Fund and 6.30% for the Fire Fund.[113]
- 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.[114]The Laborers' fund was projected to run out of funding during 2073, 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 2.00%. The reported blended rate was 6.84%.[115]

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.

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[113] Fund financial statements.
[114] Municipal Employees' Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report for the Fiscal Years Ended December 31, 2020 and 2019, p. 49.
[115] Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago, Financial Statements, FY2020, p. 37.

Difference between the ADC and ARC

Depending on the employer's funding plan, a pension fund's ADC may be very similar to the previously reported ARC. 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.

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 three of the four funds' assets are forecast to be insufficient to cover projected benefit payments, the funds and Chicago must use blended discount rates that are lower than the expected rate of return on investment for those funds. A lower discount rate results in higher present values for liabilities and net pension liabilities.[116]

The total reported net pension liability for all four funds in FY2020 was nearly $33.0 billion, somewhat higher than the unfunded liability for all four funds of $32.0 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-FY2020

	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
FY2019	$ 41,368,099,028	$ 9,580,441,637	$ 31,787,657,391	23.16%	$ 2,641,612,123
FY2020	$ 43,069,017,600	$ 10,110,765,876	$ 32,958,251,724	23.48%	$ 2,827,086,191
Seven-Year Change	**$ 12,312,827,166**	**$ (554,836,033)**	**$ 12,867,663,199**	**-11.20%**	**$ 1,086,112,544**
Seven-Year % Change	**40.03%**	**-5.20%**	**64.05%**	**-32.30%**	**62.39%**

Source: FY2014 -FY2020 Fund Actuarial Valuations.

[116] 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.