THE CIVIC FEDERATION

CITY OF CHICAGO FY2023 PROPOSED BUDGET:

ANALYSIS AND RECOMMENDATIONS

for more information, visit civicfed.org/ChicagoFY2023

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Table of Contents

Acknowledgements

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EXECUTIVE SUMMARY

The Civic Federation **supports** Mayor Lightfoot's proposed FY2023 budget of $11.8 billion across all local funds, excluding grants and capital. The City of Chicago's economic recovery has generated significant revenue growth in the current fiscal year and the projected continuation of those trends next year will allow it to balance the budget without a general property tax increase and still make a $242 million supplemental pension payment. This is generally good news for taxpayers and the financial health of the City overall. However, the Federation retains concerns that the budget's use of one-time revenue sources could cause future budget difficulties, as would a potential recession in the next year.

The City initially proposed a 2.5% increase in the property tax levy in the Budget Forecast released in the summer, but the proposed FY2023 budget foregoes the City's planned annual inflationary increase because several other revenue sources have grown so much faster than expected even a few months ago. Chicago still plans to capture property tax revenue growth from expiring TIF increments and new property, which are expected to generate $25 million. The Civic Federation supports the City's decision to avoid an inflationary property tax increase, providing much-needed relief to taxpayers.

The FY2023 budget proposal represents an increase in spending of 10.8% from the adopted FY2022 budget of $10.6 billion across all local (operating) funds. Corporate Fund expenditures are projected to increase by 11.2% due to increased personnel and pension spending in FY2023. Pension fund contributions are increasing by 14.3%, or $334.4 million, which includes the proposed supplemental pension payment. The Federation believes the supplemental pension payment is a prudent use of higher-than-expected revenues. Fiscal Year 2023 additionally represents the second year that all four pension funds will be funded based on actuarial calculations.

In addition to improved revenue projections and a smaller initial budget gap than previous years, as well as funding its pensions more sustainably, the City has made important progress in increasing its budgetary reserves and ending practices like borrowing for settlements and scoop and toss. These moves recently resulted in the City's first GO bond rating upgrade in over a decade and are praiseworthy. However, the City's remaining financial challenges, such as maintaining its pension funding levels and high annual debt payments, mean its ratings remain below those of peer cities. While the City maintains that projected revenue growth in FY2023 and beyond will prevent a budget cliff caused by the end of federal revenue support, federal ARP funds are not the only one-time revenues in the FY2023 budget, and the Federation cautions that these nonrecurring revenues and/or a recession next year could make balancing future year budgets more difficult.

As in prior years, Civic Federation offers several recommendations to improve the City's budget transparency in this report. The Federation also makes recommendations in the area of public safety this year given its increased importance as Chicago and most other regions of the US, rural and urban, continue to face increased levels of gun violence. The Civic Federation calls on the Mayor and City Council to increase transparency related to policing around the cost of implementing the consent decree and other public safety initiatives, and to improve communication regarding the Department's compliance in the consent decree's implementation. We also call for the publication of a study on police staffing allocation.

The Civic Federation offers the following **key findings** on Mayor Lightfoot's proposed FY2023 budget:

- The projected net appropriations for FY2023 total $11.8 billion. This is an increase of $1.2 billion, or 10.8%, over the adopted FY2022 net appropriations of $10.6 billion;
- The proposed Corporate Fund (general operating) budget of $5.4 billion represents a $547.1 million, or 11.2%, increase from $4.9 billion in FY2022;
- Pension contributions to the four City pension funds will total nearly $2.7 billion in FY2023, an increase of $334.4 million, or 14.3%, from the prior year. The pensions are funded with $1.4 billion in property tax revenue, $644.9 million in transfers from the Corporate Fund, $266.3 million from the water-sewer tax, $303.7 million from the Enterprise and Special Revenue Funds and $40 million in upfront casino revenue. The City is further allocating $242 million in supplemental pension funding for FY2023 to be spread across all four funds.
- Personnel positions across all local funds will increase by 834 from the prior year to a total of 34,710 full-time equivalent (FTE) positions proposed in FY2023. The largest increase, 439 positions, will be within the Infrastructure Services program area to support additional positions in the Department of Water Management;
- Public Safety personnel make up the largest portion of budgeted positions with 20,625 FTEs, or 59.4%. Of that total, the Police Department accounts for 14,005 budgeted positions. Personnel within the Public Safety program area has decreased by 7.7% since 2019. Budgeted FTEs in the Police Department have decreased by 849, or 5.7%, over the same period;
- While the number of budgeted personnel positions has decreased from 35,413 to 34,710 over the past five years, personnel services appropriations (which account mostly for salaries and other costs associated with pay) have increased from $4.1 billion in FY2022 to $4.3 billion in FY2023;
- Personnel services appropriations within the Corporate Fund are projected to increase from $3.0 billion in FY2022 to $3.3 billion in FY2023;
- The City's FY2023 gross property tax levy is approximately $1.7 billion, an increase of $25 million over the prior year;
- The City had $11.6 billion in outstanding tax-supported debt at the end of FY2021. Another $16.3 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 FY2012 through FY2021, the City's total net direct debt decreased from $7.9 billion to $6.3 billion. During this same period, direct debt per capita decreased by 21.5% from $2,945 to $2,311; and
- Total long-term liabilities, including net pension liability, increased by 1.3%, or $568,232, in the two years between FY2020 and FY2021, from $44.3 billion to $44.8 billion.

The Civic Federation **supports** the following initiatives and elements of the City of Chicago's proposed FY2023 budget:

- Supplemental pension payment of $242 million and commitment to future supplemental payments;
- Restraint in the property tax levy; and
- Improvements in the City's financial sustainability and debt ratings.

The Civic Federation has **concerns** about the following issues related to the City of Chicago's proposed FY2023 budget:

- Use of nonrecurring revenues in the budget;
- Lack of transparency about public safety investments and costs associated with implementation of the federal Consent Decree;
- Pension and debt costs will require a large percentage of City resources for decades to come;
- Lack of departmental cost of services data due to the Finance General category;
- Statutory reliance on gaming revenues to fund police and fire pensions; and
- Future viability of the Chicago Transportation Authority (CTA).

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

- Improve transparency and communication regarding public safety spending, including how compliance with the federal Consent Decree impacts the Police Department's personnel and spending levels;
- Publish a staffing allocation study of the Chicago Police Department;
- Work with City and State agencies to improve the Chicago Transportation Authority (CTA);
- Expand the information contained in the Budget Forecast;
- Find stable pension funding sources to supplement uneven casino revenue;
- Work with the State of Illinois to explore consolidation of Chicago's four pension funds;
- Include finance general costs in departmental budgets;
- Include actual past year expenditures and revenues in budget documents; and
- Re-evaluate the use of TIF funds.

POSITION

The Civic Federation **supports** Mayor Lightfoot's proposed FY2023 budget of $11.8 billion across all local funds, excluding grants and capital. The City of Chicago's economic recovery has generated significant revenue growth in the current fiscal year and the projected continuation of those trends next year will allow it to balance the budget without a general property tax increase and still make a $242 million supplemental pension payment. This is generally good news for taxpayers and the financial health of the City overall. However, the Federation retains concerns that the budget's use of one-time revenue sources could cause future budget difficulties, as would a potential recession in the next year.

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ISSUES THE CIVIC FEDERATION SUPPORTS

The Civic Federation **supports** the following elements of the proposed FY2023 City of Chicago budget:

Supplemental Pension Payment of $242 Million and Commitment to Future Supplemental Payments

The City of Chicago's FY2023 revenue projections in the Corporate Fund have been revised upward by $260 million since the budget forecast was released in August. The FY2023 budget proposes to use much of that unexpected revenue to make a supplemental pension payment of $242 million that will be split across the City's four pension funds. The payment represents a contribution above the statutorily required amount and the City says the funds will help offset expected investment losses of 12% in the pension funds in FY2022 that would have required the funds to liquidate $30 million in assets in order to make benefit payments.[1] In the budget, the City also announced a commitment to making additional advance payments to the pensions in future years, acknowledging that the statutory funding goal of 90% means that the funds' net pension liabilities will continue to grow for many years since required payments will be short of the "tread water" contribution. The City says that starting in FY2023, it will annually budget for an advance pension contribution that will keep the net pension liabilities from growing.[2]

The Civic Federation strongly supports the Mayor's supplemental pension payments as a responsible use of higher-than-expected revenues and the commitment to making higher pension contributions in the future. However, the Federation must also note that the City's severely underfunded pensions will remain a significant burden on City budgets for many years to come, crowding out spending on other priorities.

Restraint in the Property Tax Levy

The FY2023 proposed budget does not include a general property tax increase despite a decision by the City as part of the FY2021 budget to increase property taxes annually based on the change in the consumer price index (CPI).[3] Prior to this change, the City had a self-imposed property tax limitation that mirrored the state Property Tax Extension Limitation Law.[4] The City initially announced in August that it planned to increase property taxes by 2.5% as part of the FY2023 budget, which represented the CPI average over 5 years, rather than the 7% increase which would otherwise have been permitted by the Municipal Code.[5] At the time the CPI increase to property taxes was proposed, the Civic Federation cautioned that future increases should be annually reviewed and not automatic, and we are pleased that the City has followed this recommendation. The budget instead proposes an increase of $25.0 million in property tax

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[1] City of Chicago FY2023 Budget Overview, p. 55.
[2] City of Chicago FY2023 Budget Overview, p. 55, 183.
[3] Municipal Code Chapter 3-92-075. "Beginning with the budget for fiscal year 2021, therefore, the City will include in each year's budget an increase in the property tax levy equal to the lesser of the most recently reported annual increase in the Consumer Price Index (CPI) or five percent, unless and until the Pension Code requirements set forth above have been met."
[4] The City ordinance is municipal code chapter 3-92. The state Property Tax Extension Limitation Law is 35 ILCS 200/18-185 et seq. The "aggregate extension" includes everything except property tax extensions for Special Service Areas, several kinds of bonds, pensions (added in 2015) and a few other exceptions.
[5] City of Chicago FY2023 Budget Forecast, p. 7.

revenue from levying for expiring TIF increment and new property, which is not a general property tax increase.

The Civic Federation commends the City for holding the line on property tax increases, particularly in the context of the Chicago Public Schools' decision to maximize their property tax levy in FY2023 and the ongoing financial challenges property owners in the City face.

Improvements to the City's Financial Sustainability and Debt Ratings

The City of Chicago has improved its financial stability in a number of areas over the last several years. The FY2023 budget represents the second year that its pension funds will be funded on an actuarially-calculated basis. Its unrestricted fund balance has increased significantly and it has continued to rebuild its long-term asset lease reserves, which provide buffers against economic downturns. Chicago is now funding its debt service payments without resorting to scoop-and-toss borrowings and does not borrow for settlements and judgements. All of these actions have put the City on stronger financial footing and prompted a recent one-notch rating upgrade to BBB, positive outlook by Fitch and outlook upgrades to stable by S&P and Moody's late last year.

The City faces a number of significant financial challenges and maintaining its current level of debt and pension payments takes up a large portion of the budget. But it has made large strides toward better financial practices that will put it in better financial shape over the long run.

CIVIC FEDERATION CONCERNS

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

Use of Nonrecurring Revenues in the Budget

The Civic Federation has concerns about the City's reliance on several one-time revenue sources in the FY2023 budget, and how the City will sustain increased appropriation levels in the budget. In addition to using the last $152.4 million of the City's revenue replacement ARP dollars in the proposed FY2023 budget, the City also plans to use $222.1 million in general operating budget reserves to balance the FY2023 budget. The City will additionally declare a record TIF surplus, generating an additional $56 million to balance the budget. All of these items are non-recurring[6] and therefore the City will need to have continued revenue growth, find additional revenues to support expenditures or make cuts in future years.

Of the total $1.9 billion the City received from the federal government via ARP, the City will have used over $1.3 billion as revenue replacement by the end of FY2023, including the final $152.4 million used as revenue for FY2023. The remaining portions of ARP funds, or $567 million, have been appropriated to support social services and infrastructure investments as part of the Chicago Recovery Plan. This means that the City will use approximately 70% of ARP dollars for

[6] While TIF surplus generally may recur given current City policy, it would require that the City continue to declare TIF surplus at the level set in FY2023.

recurring costs in the annual budget and the remaining 30% for short- and mid-term investments over the next two to four years to address the societal impact of the pandemic.[7]

While the Civic Federation supports both the federal COVID-19 relief funding and the use of this funding to replace revenue lost during a once-in-a-century crisis, we are also concerned about budget sustainability after the funds run out. This is of particular importance given the influx of new programs that were supported by this funding and the potential for a recession next year, which could impact the City's revenue projections in FY2023, as well as the other non-recurring resources in the budget.[8] There are some steps the City could take if revenues do not come in as projected next year, such as canceling the supplemental pension payments, but it should also identify other adjustments it could take in the event of a reduction to revenues in the coming year.

Lack of Transparency about Public Safety Investments

The Civic Federation finds that the City budget lacks transparency about public safety investments. For example, the Mayor's budget address announced an increased investment of $100 million in 2023 for public safety, but the investments are not described within the proposed budget documents. They are also not explained by the increase in the Chicago Police Department appropriation, which increases in 2023 from the prior year by $65 million across all funds, of which $35 million is in the local funds and $30 million in grants. The budget office reports that the investments consist of $42 million in capital maintenance and upgrades for CPD facilities (including $15 million for a training academy), $35 million for 543 new police vehicles, $11.5 million for two new helicopters, $2.7 million to cover 35 new civilian positions within the Police Department and smaller levels of funding for recruitment and hiring, technology, new cell phones for police officers and Consent Decree costs.[9]

Likewise, the Budget Overview says the FY2023 budget includes over $100 million in investments supporting violence prevention and reduction, but the investments are not explained. The budget does not describe within which departments and line items these investments can be found. Further, the budget does not discuss how the City is implementing its "Our City Our Safety" plan, the City's plan for violence reduction,[10] and where this plan is operationalized throughout City departments. The Civic Federation encourages the City budget office to incorporate more explanation of these investments by articulating the level of resources being directed toward public safety initiatives across all departments.

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[7] The City also plans to issue a total of $660 million in bonds to support its investments in violence reduction and economic recovery. The first issuance of recovery bonds is scheduled for late November 2022.

[8] Economists surveyed by the *Wall Street Journal* put the probability of a recession in the next 12 months at 63%, while 98% of CEOs in one survey believe that the United States will enter a recession in the next 12-18 months. See Harriet Torry and Anthony DeBarros's "Economists Now Expect a Recession, Job Losses by Next Year," *Wall Street Journal*, October 16, 2022 at https://www.wsj.com/articles/economists-now-expect-a-recession-job-losses-by-next-year-11665859869. And, for example, Steve Mollman's "What Do You Want for the Holidays? How About a Recession, CEOs Say", *Fortune*, October 16, 2022 at https://fortune.com/2022/10/16/recession-forecast-america-ceo-survey-economy-holidays/

[9] Information provided by the City of Chicago Budget Office, October 21, 2022.

[10] See https://www.chicago.gov/city/en/sites/public-safety-and-violence-reduction/home/our-city-our-safety.html.

Lack of Detail Regarding Consent Decree Investments and Implementation

The City of Chicago budget does not detail how steps toward compliance with the federal Police Department Consent Decree impact personnel levels and spending in the budget or the level of additional funding needed to reach full compliance. While the Civic Federation understands that implementation of the Consent Decree is spread throughout the Police Department budget, the budget documents could do a better job of describing the ways in which CPD is working toward meeting requirements such as training, recruitment and required staffing levels. The lack of such information does not generate confidence that there is an effective strategy in place to meet the goals of the federal Consent Decree. The Civic Federation urges the Mayor's Office, budget office and Police Department to increase transparency regarding implementation of the Chicago Police Department Consent Decree.

Pension and Debt Costs Will Require a Large Percentage of City Resources for Decades to Come

The City continues to have a large long-term liability burden. Long-term liabilities include all of the obligations owed by a government over time, such as general obligation and revenue debt; net pension liabilities; and claims and judgements. The liabilities for governmental activities totaled $44.8 billion in FY2021. Debt service appropriations in FY2023 make up 20.2% of total net appropriations, and pension contributions, including the supplemental contribution, make up 22.7% of total net appropriations. It will be difficult for the City to maintain such a high percentage of resources going to pensions over the next three decades, mostly to pay for past service of long-retired employees, rather than services to current residents. The high long-term liability burden the City of Chicago has carried for years continues to be a concern because the pension obligations will continue to put pressure on the City's budget and constrain its finances.

Lack of Departmental Cost of Services Data due to Finance General Category

The current City budget structure 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 $4.9 billion in FY2019 to $7.8 billion proposed in FY2023. This is an increase of 56.8%. In FY2019, Finance General accounted for 51.6% of appropriations across all local funds, then increased to 58.2% in the FY2023 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.).[11]

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

Following years of pursuit, the City Council approved the construction of a $1.7 billion casino complex. Mayor Lightfoot selected Bally's as the operator of the casino, which the City anticipates will generate $200 million in tax revenue each year once up and running. These funds have been earmarked for the City's police and firefighter pensions per a state statute that created the gaming expansion. The casino is not slated to open before 2026, and Bally's plans to open a temporary casino next year until the facility is completed. However, the City plans to use the $40 million upfront payment from the casino operator to help fund the statutory police and fire pension payment in FY2023.[12]

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.[13] 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.[14] 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.

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[11] Government Finance Officers' Association, "GFOA Best Practice: Measuring the Cost of Government Service," (2002).
[12] City of Chicago FY2023 Budget Overview, p. 54.
[13] "Are Sin Taxes Healthy for State Budgets?," *The Pew Charitable Trusts*, July 2018
[14] 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.

Future Viability of the Chicago Transit Authority (CTA)

Transit agencies across the United States were severely impacted by the COVID-19 pandemic and concurrent severe drops in ridership. Unprecedented levels of federal pandemic funding have helped CTA, Metra and Pace avoid severe cuts or fare increases for the time being, but this funding will dissipate in the next several years. Additionally, the CTA has security, staffing and reliability issues that must be addressed. Even before the pandemic, the service boards faced financial and infrastructure challenges that have been exacerbated by infighting and a lack of coordination.

The CTA is a significant Chicago asset and its functionality is essential for the City to thrive. As of the publication of this analysis, no permanent solution has been offered to account for the impending loss of ARP resources and the CTA projects significant budget shortfalls in coming years.[15] Further, the City Council will soon have to decide whether to fund a $3.6 billion Red Line extension plan using $950 million in tax revenues through the designation of a transit TIF. While the CTA is a separate unit of government from the City of Chicago, the two governments' futures are bound together. It is crucial that City leaders work with the CTA, RTA, CMAP, the Illinois General Assembly and State leaders to develop a plan to ensure the future of safe and reliable transit in the City of Chicago.

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.

Improve Transparency and Communication Regarding Public Safety Spending

As noted earlier, the City should provide significantly more public information about how it is allocating funds to implement public safety initiatives, including the federal Consent Decree. The Civic Federation believes the federal Consent Decree is the City's best roadmap to modernizing the police force, building legitimacy and gaining trust among the public. The City has yet to demonstrate that it has a plan to fundamentally reshape the way the City approaches police services with the dual goals of improving constitutional policing and reducing violence. The Police Department frequently points to percentages to describe the City's implementation efforts. For example, the Police Superintendent said the Department expects to reach 80% compliance in the next Independent Monitor report, up from 11% compliance in early 2020. The use of percentages does not improve the public's understanding of what the City is doing to achieve outcomes and how this is impacting personnel levels and expenditures. Rather than compliance percentages, a better measure of progress would be specific examples of how the City has improved constitutional policing, police training, recruiting and staffing, and investments the City has made to improve these areas.

As part of implementation of the federal Consent Decree, the City needs to do a better job at articulating what the cost of fully implementing the Consent Decree will be, and where those costs are spread throughout the Police Department budget. The Federation urges the Mayor and Police Superintendent to communicate to the public what the Police Department is doing to

[15] Greg Hinz, "The CTA is staring down a financial disaster," *Crain's Chicago Business*, October 20, 2022. Available at https://www.chicagobusiness.com/politics/chicago-transit-authority-budget-2023-fares-service.

implement the Consent Decree and how it impacts the Police Department's personnel and spending. Improved communications should articulate steps the City is taking to allocate personnel to comply with consent decree requirements (such as required supervisor ratios and unity of command/span of control), prioritize community policing citywide, increase the use of civilian positions and ensure that resources are used effectively and efficiently.

Additionally, the Civic Federation urges the Mayor's Office and Police Department, in partnership with other related departments (for example, Emergency Management and Communications and the Department of Public Health), to better promote and explain to the public what the City's plan is for addressing safety and violent crime concerns citywide.

Publish a Staffing Allocation Study of the Chicago Police Department

The City is falling far short of the level of transparency needed for members of the public to understand how the Department currently makes its staffing and deployment decisions. The Civic Federation urges the Mayor and the Police Department to better communicate the strategy currently being used as an approach to police assignments and to publish the data metrics that are used as the basis for such decisions. The Police Department has been reticent to publish any staffing evaluations that have been conducted, such as an analysis by the University of Chicago Crime Lab that found police deployments are not aligned with shooting incidents.[16] In a departmental budget hearing, the Police Superintendent indicated the Police Department has conducted a study on how officers should be allocated given existing resources, but has not conducted any studies regarding the number of officers that each police district should have.[17] We urge the City to conduct and publish an independent workforce allocation study of the Police Department to identify opportunities for civilian support and more effective allocation of police.

Work with City and State Agencies to Improve the Chicago Transportation Authority (CTA)

The CTA is a critical asset to the City of Chicago, and its reliability and safety is paramount. Public Act 102-1028, signed by Governor Pritzker in May 2022, requires the Chicago Metropolitan Agency for Planning and the Regional Transportation Authority to coordinate and offer recommendations on ensuring long-term funding for regional public transportation by January 1, 2024. The Civic Federation noted its acute concerns regarding the CTA above and are encouraged by the statutory effort to develop solutions. However, we also think it is imperative that the Mayor, City Council and Governor remain active participants in this process and provide regular updates to the riding public on how their concerns will be addressed.

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

[16] Annie Sweeney, "Analysis suggests Chicago police deployment doesn't match up with when most shootings take place," *Chicago Tribune*, August 15, 2022.
[17] City of Chicago Budget and Government Operations Committee, Chicago Police Department Budget Hearing, October 21, 2022.

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 FY2023 Budget Forecast projects large budget deficits in FY2024 and FY2025, 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.[18]

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

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

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 $33.3 billion in unfunded pension liabilities. While the significant increases in the amount of money the City must contribute to the four pension funds are projected to level off in coming years, the cost of pensions will continue to increase over time based on the back-loaded nature of the funding schedule.

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 $33.3 billion and collectively are only 23.8% funded), the Civic Federation believes the City should explore and pursue reforms that could reduce the cost of pensions. 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 cost of operating each department. Finance General costs, which are currently measured by fund only, ideally should be accounted by department to show the full cost of services. The City should include all direct costs in departmental budgets including all employee benefits, pensions, facilities expenses and liability expenses. In line with GFOA recommendations, the Civic Federation recommends that the City add a detailed breakdown to the budget recommendations and annual appropriations documents that identifies the Finance General appropriation levels by department. The Finance General totals for each department should also be added to the Budget Overview document, with an explanation of the allocation methodology.[19]

Include Actual Past Year Expenditures and Revenues in Budget Documents

The City does not include actual expenditures for prior years in the annual appropriation ordinances or in the downloadable versions of budget recommendations or appropriation ordinances. The only place where past year expenditures are available is in the budget recommendations documents in department line-items. There is little transparency about actual revenues and expenditures for past years, especially in summary tables. The Civic Federation recommends that the City revise its budget document to include past year actual data, as it is more conducive to conducting a thorough analysis of budgets. In this recommendation, the Federation agrees with a recommendation recently published by the Council Office of Financial Analysis.[20]

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.[21] In addition, 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.[22]

In FY2023, the City is declaring a surplus in Tax Increment Financing (TIF) districts of $395.0 million and will receive $98.3 million as its share of the distribution of those funds. Approximately $218.4 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 FY2023, the City will have declared a total of $2.4 billion in TIF surplus with approximately half going to Chicago Public Schools.[23]

The City has declared a TIF surplus larger than $100 million every year since 2016, with amounts growing to over $170 million annually from 2017 through 2019, and over $300 million annually from 2020 through 2022. These large declarations of TIF surplus are not guaranteed every year, but the repeated accumulation 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

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[19] Government Finance Officers' Association, "GFOA Best Practice: Measuring the Cost of Government Service" (2002).
[20] Council Office of Financial Analysis, "Analysis of the Annual Proposed Budget", October 7, 2022 at https://www.chicago.gov/content/dam/city/depts/COFA/ProposedBudget/COFA_AnalysisOfAnnualProposedBudget_FY2023.pdf
[21] City of Chicago FY2020 Budget, Declaring Surplus TIF Funds Handout.
[22] 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.
[23] City of Chicago FY2019 Budget Overview, p. 14 and Civic Federation calculations.

district so that their equalized assessment value (EAV) may be returned to the general tax base. Several other Cook County municipalities have successfully conducted such TIF "carve outs." The Federation 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.

CITY OF CHICAGO FINANCIAL OUTLOOK FOR FY2023

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 FY2023 Budget Forecast was released in August 2022 for the 2023 fiscal year, which begins on January 1.

This section discusses the City's financial outlook for year-end FY2022 and the upcoming FY2023 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 $838.2 million in FY2020. However, with the economic downturn and resulting loss of revenue related to COVID-19, even after the projected deficit was closed in the approved FY2020 budget, 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 and a projected FY2021 gap of $1.2 billion with an enormous debt refinance and restructure of $1.7 billion.

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 become part of a debt restructuring plan if additional federal pandemic revenue assistance was not granted.[24]

With the approval of the American Rescue Plan Act, the City was able to close the FY2020 and FY2021 gaps without refinancing its debt. The FY2022 budget gap was estimated to be $733

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

million, and was closed through savings, efficiencies, revenue increases and $385 million in ARP revenue replacement funds.

FY2022 Year-End Projections

The FY2023 Budget Forecast projected that the current FY2022 fiscal year will end with a budget surplus of $134.0 million. The surplus resulted from revenues exceeding budget expectations by $84.5 million due to better-than-expected economic recovery from the COVID-19 pandemic, and from expenditures projected to end the year $49.5 million below budget. However, the FY2023 budget projected even higher revenues in the Corporate fund since the projections made for the Budget Forecast of $211.9 million, meaning the year-end budget surplus will be higher than projected in August.

FY2023 Projected Deficit

The City is projecting a budget gap of $127.9 million in FY2023 due to increasing pension, personnel and contractual costs, among other factors.[25] The City proposes a number of measures to close the 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 increases in revenue, which include $56.0 million in TIF surplus revenue, $40 million from Bally's upfront casino payment for public safety pensions, $260 million in improved revenue projections due mostly to significant increases in projected transaction tax revenue, and $20.2 million in revenue enforcement efficiencies. The City has further identified $15.5 million in savings and efficiencies, which will come from fund sweeps, meaning closing out unused fund accounts. These savings and revenue increases are offset by a $201.9 million advance pension payment from the Corporate Fund and $61.9 million in investments in a number of areas, including public safety, homelessness services, supportive services and operational increases. Together, these savings, revenue sources and investments present a plan for closing the $127.9 million budget gap, as well as funding the budget investments and pension advance.

Closing the $127.9 million Budget Gap in FY2023

Savings & Efficiencies			Increased Revenue			Pension Advance			Investments	
Fund Sweeps	**$15.5**		***TIF Surplus*** - Additional TIF Surplus revenue above the projection in the FY2023 Budget Forecast	**$56.0**		***Pension Advance***	**$201.9**		***City Modernization***	**$7.5**
			Casino Upfront Payment for Public Safety Pensions	**$40.0**					***Public Safety***	**$13.5**
			Improved Revenue Projections	**$260.0**					***Homelessness Services***	**$6.4**
			Revenue Enforcement Efficiencies	**$20.2**					***Supportive Services***	**$4.1**
									Operational Increases	**$30.4**
Savings & Efficiencies	**$15.5**	**+**	**Increased Revenue**	**$376.2**	**–**	**Pension Advance**	**$201.9**	**–**	**Investments**	**$61.9**

Source: City of Chicago FY2023 Budget Overview, p. 32.

[25] City of Chicago FY2023 Budget Forecast, p. 7.

APPROPRIATIONS

The following section details the City's proposed appropriations for FY2023 compared to the adopted appropriations from FY2019 to FY2022. 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 gross appropriations of $13.3 billion across all local funds in FY2023. This total excludes grant funds and capital appropriations and accounts for proceeds of debt and transfers between funds totaling $1.6 billion in FY2023, resulting in some double counting. After deducting these transfers and proceeds of debt, the total net appropriation proposed for FY2023 is $11.8 billion.

The total and net appropriations over the five-year period from FY2019 through FY2023 are shown in the table below. Excluding debt proceeds and transfers between funds, the projected net appropriations for FY2023 of $11.8 billion represent an increase of nearly $1.2 billion, or 10.8%, from the FY2022 adopted net appropriations of $10.6 billion.

Appropriations within the Corporate Fund will increase by 11.2%, or $547.1 million, from approximately $4.9 billion in FY2022 to over $5.4 billion in FY2023. The increase is largely driven by increased spending on personnel and pensions in FY2023.[26]

Pension fund appropriations will increase from $2.3 billion in FY2022 to nearly $2.7 billion in FY2023, a difference of $334.4 million, or 14.3% The boost is partially due to an increase in statutorily required contributions to the four funds.[27] FY2023 is the fourth year the City will be making an actuarially calculated contribution to the Police and Fire Funds and the second year of actuarially calculated contributions to the Municipal and Laborers' Funds. However, the majority of the pension appropriation increase in FY2023 over the prior year is due to an advance payment to each of the pension funds totaling $242 million. The $242 million payment includes $201.9 million in one-time funding available from the Corporate Fund and approximately $40 million from other funds. For more information on pensions and pension contributions, see p. 46.

The special revenue funds, which are used to account for revenue from earmarked taxes and other sources, are designated to finance particular functions. These funds will increase by $154.7 million, or 15.9%, above FY2022 adopted appropriations of $974.5 million.

[26] City of Chicago FY2023 Budget Overview, p. 41-42.
[27] City of Chicago FY2023 Budget Overview, p. 54.

Debt service fund appropriations will decrease by $96.6 million, or 12.4%, from $777.1 million in FY2022 to $680.5 million in FY2023. 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.[28]

Enterprise fund appropriations, which fund business-type operations that are typically self-supporting and include the two Chicago airports as well as water and sewer operations, are increasing by 10.1%, or $314.9 million, in FY2023 over the prior year. The increase in water and sewer funds is primarily due in part to increased staffing levels.[29] The increase in appropriations within the airport funds is due to a proposed increase in FTEs within the O'Hare Airport Fund from 1,766 FTEs in FY2022 to 1,831 FTEs in FY2023.[30]

Over the five-year period from FY2019 to FY2023, total net appropriations will increase by 32.9%, from $8.9 billion to $11.8 billion. The largest increases within this timeframe are within the Corporate Fund, which will increase by $1.6 billion, or 42.4%, and the pension funds, which are increasing by $1.3 billion, or 96.3%.

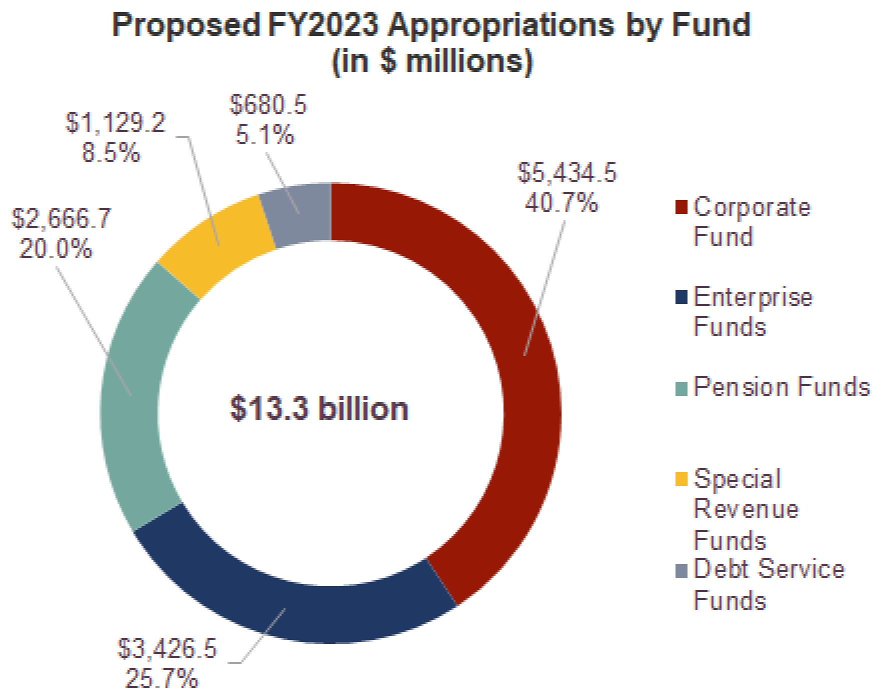
Appropriations by Fund for All Local Funds: FY2019-FY2023
(in $ millions)

	FY2019 Adopted	FY2020 Adopted	FY2021 Adopted	FY2022 Adopted	FY2023 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund	$ 3,815.7	$ 4,419.2	$ 4,037.6	$ 4,887.4	$ 5,434.5	$ 547.1	11.2%	$ 1,618.77	42.4%
Enterprise Funds	$ 2,783.3	$ 3,002.7	$ 3,017.8	$ 3,111.6	$ 3,426.5	$ 314.9	10.1%	$ 643.15	23.1%
Pension Funds	$ 1,358.5	$ 1,705.3	$ 1,870.8	$ 2,332.3	$ 2,666.7	$ 334.4	14.3%	$ 1,308.15	96.3%
Special Revenue Funds	$ 829.0	$ 919.2	$ 895.9	$ 974.5	$ 1,129.2	$ 154.7	15.9%	$ 300.25	36.2%
Debt Service Funds	$ 802.6	$ 802.0	$ 710.2	$ 777.1	$ 680.5	$ (96.6)	-12.4%	$ (122.07)	-15.2%
Total Appropriations	**$ 9,589.1**	**$ 10,848.4**	**$ 10,532.3**	**$ 12,082.9**	**$ 13,337.4**	**$ 1,254.5**	**10.4%**	**$ 3,748.25**	**39.1%**
Less Proceeds of Debt	$ (98.1)	$ (115.0)	$ (114.6)	$ (114.6)	$ (114.6)	$ -	0.0%	$ (16.51)	16.8%
Less Internal Transfer	$ (634.1)	$ (885.7)	$ (619.5)	$ (1,345.5)	$ (1,449.3)	$ (103.8)	7.7%	$ (815.20)	128.6%
Net Appropriations	**$ 8,857.0**	**$ 9,847.7**	**$ 9,798.1**	**$ 10,622.8**	**$ 11,773.5**	**$ 1,150.7**	**10.8%**	**$ 2,916.5**	**32.9%**

Note: Excludes grant funds.
Source: City of Chicago, FY2019-FY2022 Annual Appropriations Ordinances, Summary E; and FY2023 Budget Recommendations, Summary E, p. 20.

The following chart shows the breakdown of total appropriations by fund in the proposed FY2023 budget. The Corporate Fund accounts for the largest portion of proposed appropriations at $5.4 billion or 40.7%. The second largest appropriation in FY2022 is for the Enterprise Funds at $3.4 billion, or 25.7%. The Pension Funds account for 20.0% of the total, or $2.7 million. Grant funds are excluded and transfers between funds and the proceeds of debt are **not** netted out due to the way this information is presented in the City's budget document.

[28] City of Chicago FY2023 Budget Overview, p. 53.
[29] City of Chicago FY2023 Budget Overview, p. 108.
[30] City of Chicago FY2023 Budget Overview, p. 104.



Note: Excludes grant funds. Totals do not include deductions for transfers between funds or proceeds of debt.
Source: City of Chicago FY2023 Budget Recommendations, Summary E, p. 20.

APPROPRIATIONS BY PROGRAM AREA

In the City of Chicago budget, agencies are organized into eight functional program areas.[31] These areas are as follows:

[31] City of Chicago, FY2023 Budget Overview, p. 11.

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

The next chart shows the distribution of appropriations across each program area over the five-year period from FY2019 to FY2023. Between FY2022 and FY2023, appropriations across all program areas are budgeted to increase.

Finance General accounts for the largest program area spending, representing 58.2% of total appropriations in FY2023, or $7.8 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 dollar increase between FY2022 and FY2023 by $920.2 million or 13.5%.[32] The increase in Finance General is primarily due to increased costs of employee benefits and a large increase in the pension appropriation in FY2023.[33] Pension funds are set to increase by $334.3 million from FY2022 to FY2023. Pension appropriations alone make up 20% of the City's budget appropriations. Debt service appropriations also make up a large portion of total appropriations at nearly 18% of the budget.

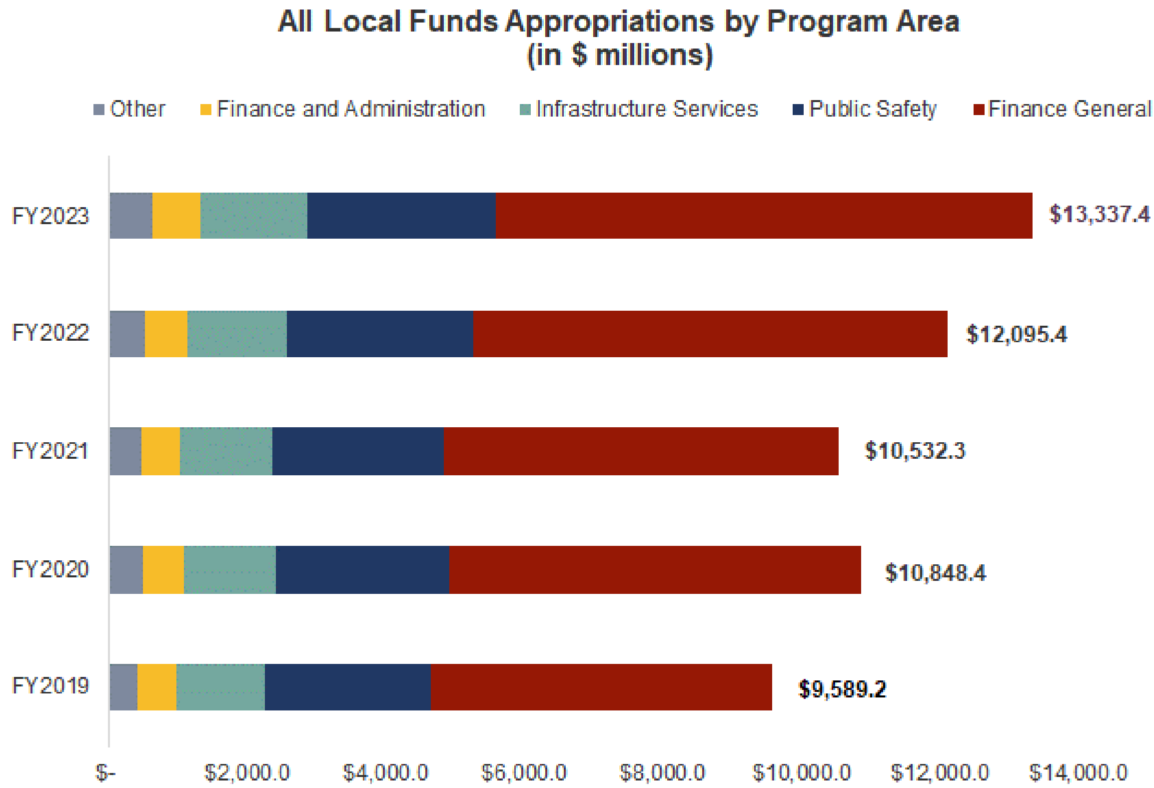
After Finance General, public safety is the second largest area of spending in the City budget, accounting for 20% of the total. Public Safety spending is projected to increase by $337.1 million, or 14.2%, over the five-year period from $2.4 billion in FY2019 to more than $2.7 billion in FY2023. This is primarily due to increased personnel costs within the Chicago Police Department, including an increase of about $140 million in FY2022 due to a collective bargaining agreement with the Fraternal Order of Police,[34] as well as the creation of the Office of Public Safety Administration in FY2020.

Infrastructure Services will increase by $251.1 million, or 19.4%, over the five-year period. The increase is due in large part to increased staffing and spending in the Chicago Department of Transportation in FY2023.[35]

Over the five-year period between FY2019 and FY2023, total appropriations across all program areas will increase from $9.6 billion to $13.3 billion. This is an increase of $3.7 billion or 39.0%. Appropriations in every program area will increase over the five-year period. Finance General will see the largest dollar increase at $2.8 billion.

All other program areas combined—community services, city development, regulatory and legislative and elections—make up a much smaller portion of City appropriations, totaling $643.3 million in FY2023. These other program areas will increase by $212 million, or 50.2%, over the five-year period.

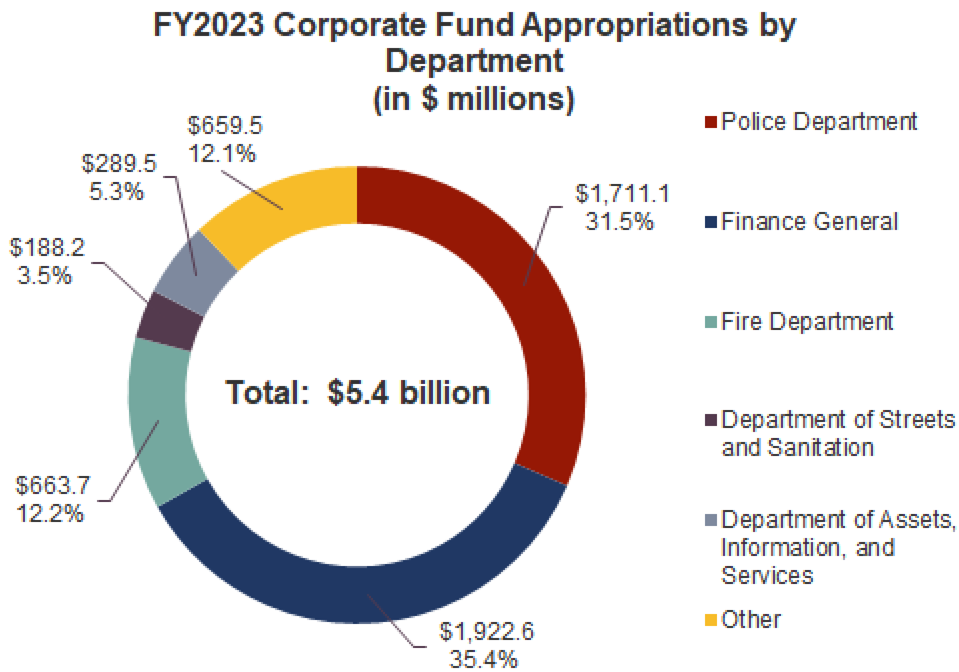
[32] City of Chicago, FY2022 Budget Ordinance, Summary E, p. 19.
[33] City of Chicago FY2022 Budget Ordinance, Summary E, p. 19; City of Chicago FY2023 Budget Recommendations, Summary E, p. 20.
[34] City of Chicago, FY2022 Budget Overview, pp. 117 and 123.
[35] City of Chicago FY2023 Budget Overview, p. 90.



Note: Other category includes Community Services, City Development, Regulatory, and Legislative and Elections program areas.
Source: City of Chicago FY2023 Budget Overview, p. 200.

Corporate Fund Appropriations by Department

This section presents more detail on FY2023 proposed appropriations within the Corporate Fund by department, as shown in the chart below. The proposed FY2023 Corporate Fund budget presents an increase of 11.2%, or $547.0 million, from the FY2022 appropriations of $4.9 billion. Finance General represents the largest portion of the Corporate Fund at 35.4% or $1.9 billion 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 Police Department represents 31.5%, or $1.7 billion, of the Corporate Fund. The remaining departments make up 33.1% or $1.8 billion of the total Corporate Fund appropriations.



Note: Other includes the Department of Finance, Department of Transportation, Office of Emergency Management and Communications and additional smaller departments.
Source: City of Chicago FY2023 Budget Recommendations, Summary D, pp. 6-7.

CORPORATE FUND APPROPRIATION TRENDS BY OBJECT

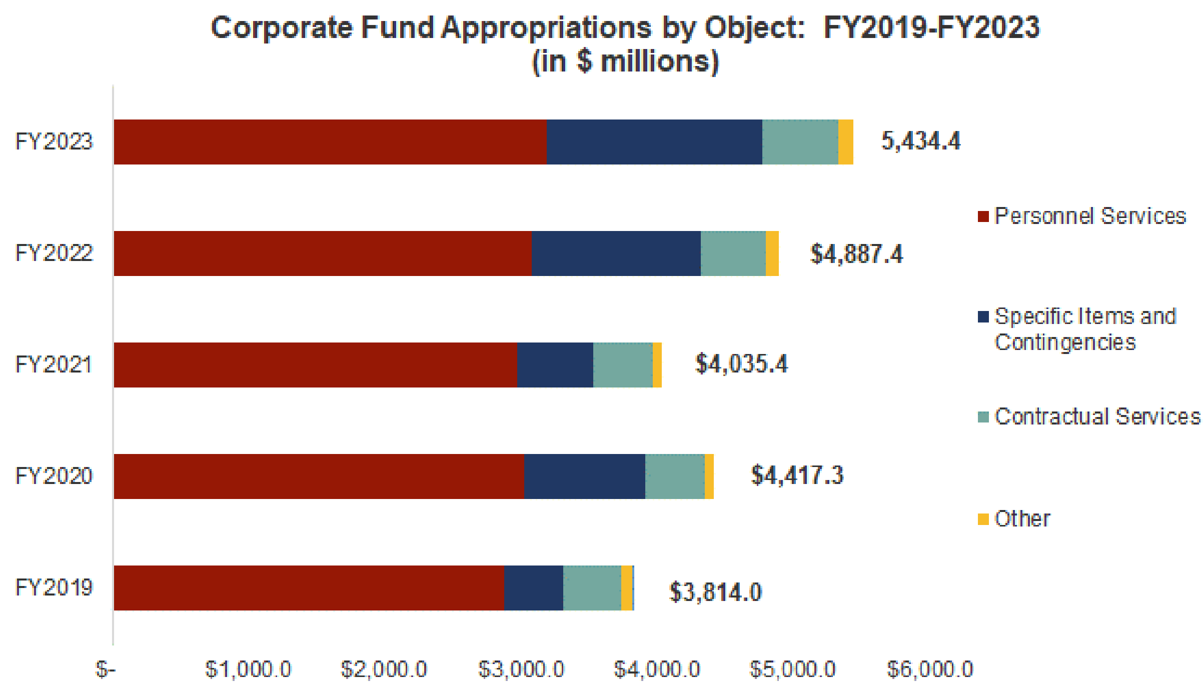
This section examines appropriations by object within the Corporate Fund over the five-year period from FY2019 to FY2023. Object refers to the following categories: personnel services, contractual services, travel, commodities, equipment, permanent improvement and land, and specific items and contingencies.

Over the five-year period from FY2019 to FY2023, total appropriations will rise by $1.6 billion or 42.4%, primarily due to pensions and increases in salaries. Specific Items and Contingencies will see the largest increase between FY2019 and FY2023, by $1.1 billion or 261.3%. 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 largely due to debt and statutory and supplemental pension payments.[36]

Personnel Services appropriations are projected to increase by 10.9% or $313.3 million from $2.9 billion in FY2019 to $3.2 billion in FY2023. Personnel services accounts for salaries and other wage-related expenditures, such as the Fraternal Order of Police contract. For FY2023, personnel expenses account for 58.7% of the Corporate Fund operating expenditures. Contractual service appropriations represent a projected.[37]

[36] City of Chicago FY2023 Budget Overview, p. 41.
[37] City of Chicago FY2023 Budget Overview, p. 41.

The Other category includes appropriations by object for Commodities, Travel, Equipment, and Permanent Improvement and Land, with Commodities accounting for the vast majority of the category. Over the five-year period, Other appropriations increased by $17 million or 20.4%, from $83.2 million in FY2019 to $100.2 million in FY2023.



Note: "Other" category includes Commodities, Travel, Equipment, and Permanent Improvement and Land.
Source: City of Chicago FY2019-FY2023 Annual Appropriations Ordinance; City of Chicago FY2023 Budget Recommendations, Summary D.

RESOURCES

This section describes the City of Chicago's resources in the FY2023 budget, which total $11.8 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.[38]

COVID-19 Relief Funding: The proposed FY2023 budget includes American Rescue Plan Act (ARP) Funds from the federal government. The City of Chicago received a total allocation of $1.9 billion in ARP funds, of which half was received in May 2021 and the second half was received in 2022. The City proposes to spend $152.4 million in ARP funds for revenue replacement in FY2023. In total, $1.3 billion of the $1.9 billion has been used as revenue replacement in the City's FY2021, FY2022 and FY2023 budgets. Approximately $538.4 million in ARP funds are projected to be obligated in FY2023 and future years for proposed infrastructure and social service investments as outlined in the Chicago Recovery Plan Progress

[38] Net of transfers between funds, total.

Update.[39] The ARP funds are in addition to approximately $447 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.[40]

FY2023 Proposed Resources for All Local Funds

The City of Chicago proposes total resources of $13.3 billion in FY2023 for all local funds, excluding grant funds. This total includes $114.6 million in proceeds of debt and approximately $1,450 million in transfers between funds that results in double-counting revenue. The total of $13.3 billion is used in the following analysis due to the way the City presents this information in the budget documents. Excluding the net of transfers between funds and proceeds of debt, the total proposed local funds resources, are actually $11.8 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 $4.6 billion in grant funds the City expects to receive from federal and State agencies, private foundations and other entities in FY2023.[41] Including grant funding and net of proceeds of debt and transfers between funds, the City's total budget resources are projected to be $16.4 billion.

The chart below provides an overview of the proposed FY2023 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 $2.0 billion. This represents 15.3% of the City's total resources. The second largest source of revenue is other local taxes. In FY2023, other local taxes are expected to generate $1.9 billion, accounting for approximately 14.1% of total resources. This includes hotel taxes, business taxes, recreation taxes, utility taxes and the emergency communication surcharge on phone bills. The property tax levy will account for nearly $1.7 billion. Revenue from water and sewer fees also makes up a substantial portion of the City's revenue, at $1.2 billion (9.1% of the total).

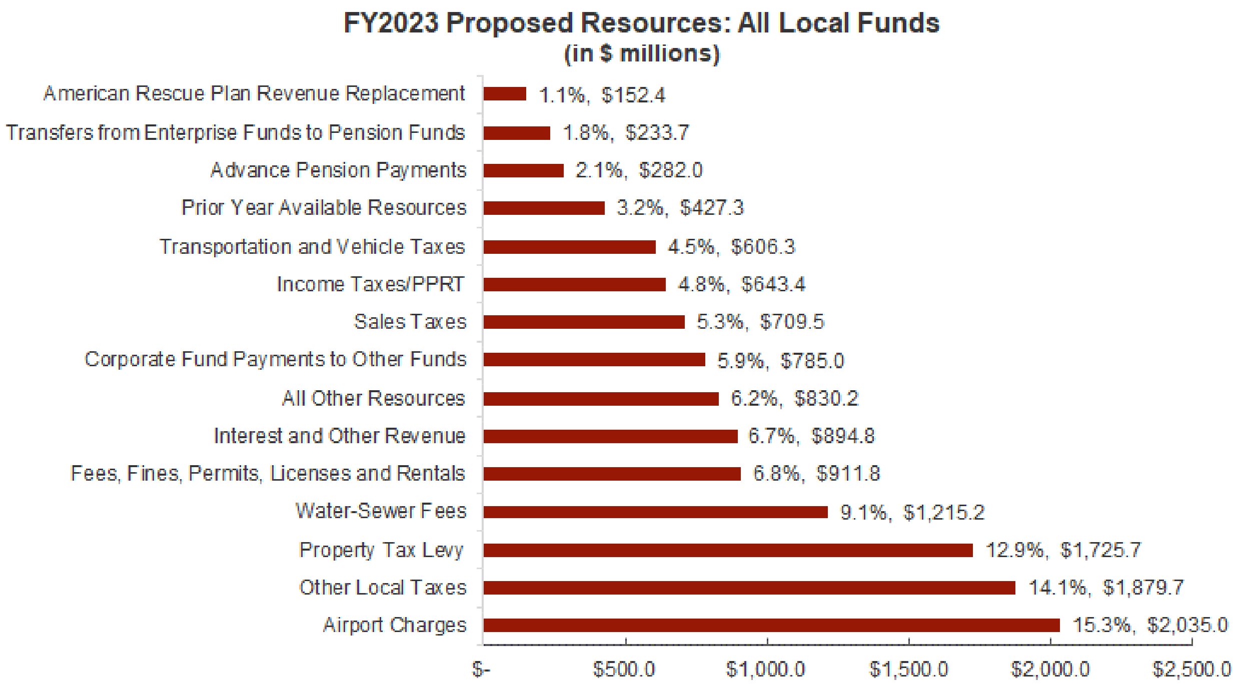
Sales tax revenue is projected to be $709.5 million. The majority of this amount—$619.4 million—is a transfer from the City's Sales Tax Securitization Corporation (STSC). In 2018, the City began directing the City's share of state-imposed sales taxes to the STSC in order to issue bonds at a higher bond 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.[42] In FY2023, this portion of sales tax is projected to total $90.1 million.

The FY2023 budget proposal plans on using $152.4 million in American Rescue Plan funds. This is a one-time revenue source being used as revenue replacement to help revenues meet expenditures and balance the FY2023 budget.

[39] 2023 Chicago Recovery Plan Progress Update, p. 6, available at https://www.chicago.gov/content/dam/city/depts/obm/supp_info/2023Budget/CRP%202023.pdf.
[40] City of Chicago, FY2022 Budget Overview, p.54-55
[41] City of Chicago, FY2023 Budget Overview, p. 36.
[42] City of Chicago, FY2023 Budget Overview, p. 37-38.

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 ($785.0 million) and Transfers from the Enterprise Funds to the four City pension funds ($233.7 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 debt proceeds, internal service earnings, reimbursements, other intergovernmental revenue and a number of smaller tax revenue sources such as cannabis tax, foreign fire insurance tax and TIF administrative reimbursements. Fees, fines, permits and rentals totaling $911.8 million include a number of non-tax revenue such as fines and penalties, charges for services, licenses, permits and parking fees. The City also plans to use resources available to carry forward from the prior year, totaling $427.3 million across all local funds.



Source: City of Chicago FY2023 Budget Overview, pp. 193-199.
Other Local Taxes include: Business Taxes, Hotel Taxes, Utility Taxes, Emergency Communication Surcharges, Recreation Taxes and Transaction

Resources by Fund Type

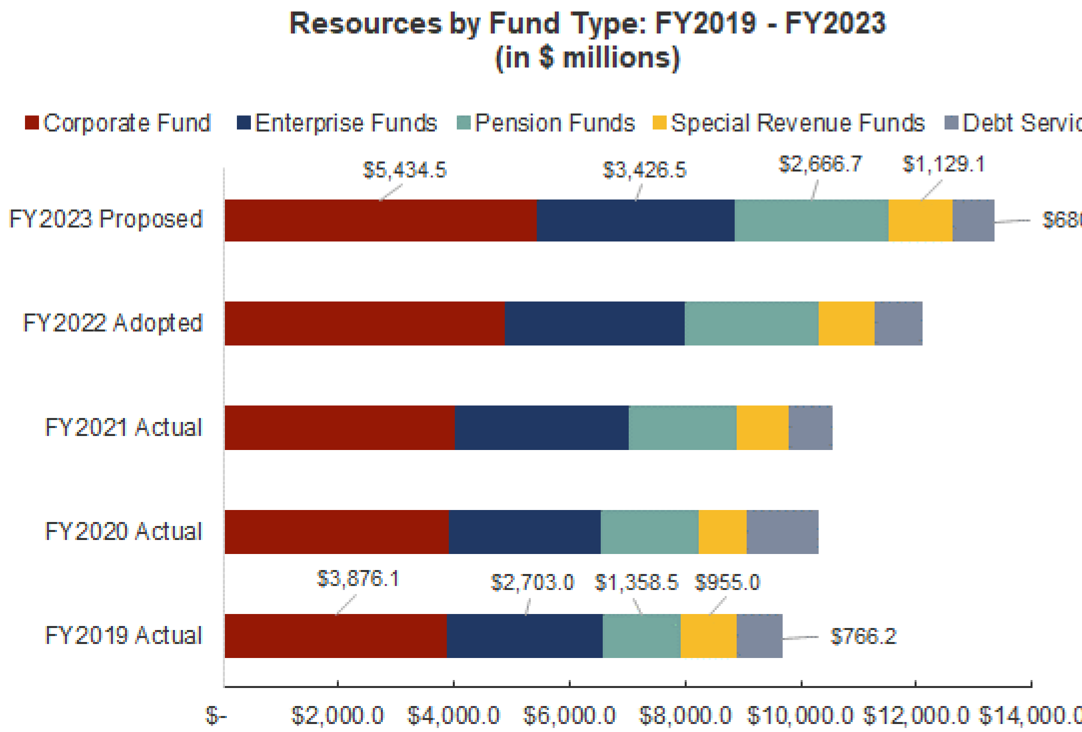
The following chart presents resources by type of fund over the five-year period from FY2019 to FY2023. Over this period, the City of Chicago's total resources for all local funds are projected to increase from $9.7 billion to $13.3 billion, which is an increase of $3.7 billion, or 38.1%. Corporate Fund resources will see the largest dollar increase from $3.9 billion to $5.4 billion. This represents an increase of $1.6 billion, or 40.2%. This increase in Corporate Fund resources is due in part to increases in transfers to the Corporate Fund from ARP funding beginning in FY2021, and large increases in some Corporate Fund revenue resources including transaction taxes, charges for services and internal service earnings.[43]

[43] City of Chicago, FY2023 Budget Overview, p. 37-39.

The pension funds will increase significantly over the five-year period from FY2019 to FY2023, from $1.4 billion to $2.7 billion, or an increase of 96.3%.

Enterprise Fund revenues generated from Chicago's airports and water and sewer charges are projected to increase from $2.7 billion in FY2019 to $3.4 billion in FY2023, an increase of 26.8%. Water and sewer rates increase annually based on the rate of inflation.

Debt service funding is expected to be $680.5 million in FY2023, which is an $85.7 million decline from $766.2 million in FY2019.



Source: City of Chicago FY2023 Budget Overview, pp. 196; and FY2022 Annual Appropriations Ordinance, Summary B

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 $5.4 billion in Corporate Fund resources in FY2023. This is an 11.2%, or $547.0 million, increase from $4.9 billion in the adopted FY2022 budget. The Corporate Fund revenue over the past five years is detailed in the next table.

Tax revenues in the Corporate Fund are expected to total nearly $2.8 billion in FY2023, an increase of $466.9 million, or 20.3%, from the FY2022 adopted budget. Nearly all tax revenue categories are expected to increase from FY2022 to FY2023, signaling expected COVID-19 recovery in most revenue sources projected for the upcoming year due to higher projections for FY2022. Income taxes, transaction taxes, recreation taxes, transportation taxes and internal service earnings are all expected to increase significantly from the FY2022 adopted budget.

Transportation taxes, which includes taxes on parking and vehicle fuel purchases are expected to generate $397.9 million, or 9.5% more than the FY2022 budget due to the recovery of ridership and parking garage usage after the COVID-19 pandemic.[44] Transaction taxes are increasing significantly by 39.4% due in large part to projected increases Personal Property Lease Tax revenue from increased enforcement and compliance.[45] Sales tax revenue that is transferred to the Corporate Fund from the Sales Tax Securitization Corporation. This revenue is also increasing by $49.5 million, or 8.7% above FY2022 figures. Other city sales taxes are also projected to increase in FY2023.

Non-tax revenues, including licenses, permits and charges for services are expected to increase in FY2023 by 6.2% from the prior year. Declines are expected within Fines & Forfeitures by $67.5 million. However, revenue from charges for services is expected to increase by 6.8%, from $340.4 million in FY2022 to $363.6 million in FY2023. 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.[46]

Interest and other revenue is expected to increase by $130.0 million in FY2023 from the prior year due to the City expecting to receive a total of $98.3 million in surplus Tax Increment Financing (TIF) revenue, plus an additional $33.0 million from aging revenue accounts that will be allocated to the Corporate Fund.[47]

In addition to the tax and non-tax revenue sources, the City is planning to use $222.1 million in prior year available resources (unrestricted fund balance, or current net assets) and $152.4 million in American Rescue Plan Act funding to balance the FY2023 budget.

[44] City of Chicago, FY2023 Budget Overview, p. 38.
[45] City of Chicago, FY2023 Budget Overview, p. 38.
[46] City of Chicago, FY2020 Budget Overview, p. 40; and communication with City of Chicago budget office, October 22, 2019.
[47] City of Chicago, FY2023 Budget Overview, p. 39.

Corporate Fund Resources: FY2019-FY2023 (in $ millions)

Tax Revenue	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2022 Adopted	FY2023 Proposed	$ Change FY2022-FY2023	% Change FY2022-FY2023
City + State Sales & Use Taxes	$ 63.7	$ 58.7	$63.6	$73.1	$90.1	$ 17.0	23.3%
Utility Tax & Franchise Fees	$ 416.7	$ 391.4	$390.8	$388.9	$406.5	$ 17.6	4.5%
State Income Taxes (including PPRT)	$ 469.8	$ 487.2	$409.3	$530.3	$643.4	$ 113.1	21.3%
Transaction Taxes	$ 487.8	$ 477.5	$478.1	$582.3	$811.8	$ 229.5	39.4%
Transportation Taxes	$ 337.0	$ 193.9	$308.7	$336.1	$367.9	$ 31.8	9.5%
Recreation Taxes	$ 275.5	$ 178.1	$223.9	$274.4	$318.4	$ 44.0	16.0%
Business Taxes	$ 140.1	$ 29.5	$66.1	$112.7	$126.4	$ 13.7	12.2%
Other Intergovernmental*	$ 5.9	$ 3.5	$5.3	$6.0	$6.2	$ 0.2	3.3%
Total Tax Revenue	**$ 2,196.5**	**$ 1,819.8**	**$1,945.8**	**$2,303.8**	**$2,770.7**	**$ 466.9**	**20.3%**
Non-Tax Revenue							
Fines & Forfeitures	$ 319.2	$ 229.6	$381.5	$369.7	$302.2	$ (67.5)	-18.3%
Licenses & Permits	$ 136.0	$ 107.8	$119.2	$119.6	$123.6	$ 4.0	3.3%
Charges for Services	$ 134.4	$ 317.9	$277.9	$340.4	$363.6	$ 23.2	6.8%
Leases, Rentals & Sales	$ 42.0	$ 11.3	$39.3	$29.3	$32.0	$ 2.7	9.2%
Municipal Parking	$ 7.7	$ 7.1	$7.6	$7.6	$7.7	$ 0.1	1.3%
Interest and Other**	389.5	$ 495.8	$543.0	$616.8	$746.8	$ 130.0	21.1%
Total Non-Tax Revenue	**$ 1,028.8**	**$ 1,169.5**	**$1,368.5**	**$1,483.4**	**$1,575.9**	**$ 92.5**	**6.2%**
Other Resources							
Sales Tax Securitization Corporation	$ 615.7	$ 475.7	$570.2	$569.9	$619.4	$ 49.5	8.7%
Proceeds & Transfers In	$ 35.1	$ 474.8	$42.0	$94.0	$94.0	$ -	0.0%
American Rescue Plan Revenue Replacement	$ -	$ -	$ -	$385.0	$152.4	$ (232.6)	-60.4%
Prior Year Unrestricted Fund Balance	$ -	$ -	$111.0	$51.4	$222.1	$ 170.7	332.1%
Total Corporate Fund Resources	**$3,876.1**	**$3,939.8**	**$4,037.5**	**$4,887.5**	**$5,434.5**	**$ 547.0**	**11.2%**

*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. 195-201; FY2023 Budget Recommendations, pp. 31-43; and FY2022 Annual Appropriations Ordinance, pp. 20-22 .

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—FY2023—is payable in 2024, and the levy for the current fiscal year—FY2022—is payable in 2023.

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, which are issued for the Department's general obligations on capital projects and short-term borrowing[48]; 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.[49]

The City's proposed FY2023 gross property tax levy is approximately $1.73 billion. The distribution of the $1.73 billion levy across the four property-tax supported purposes as follows:

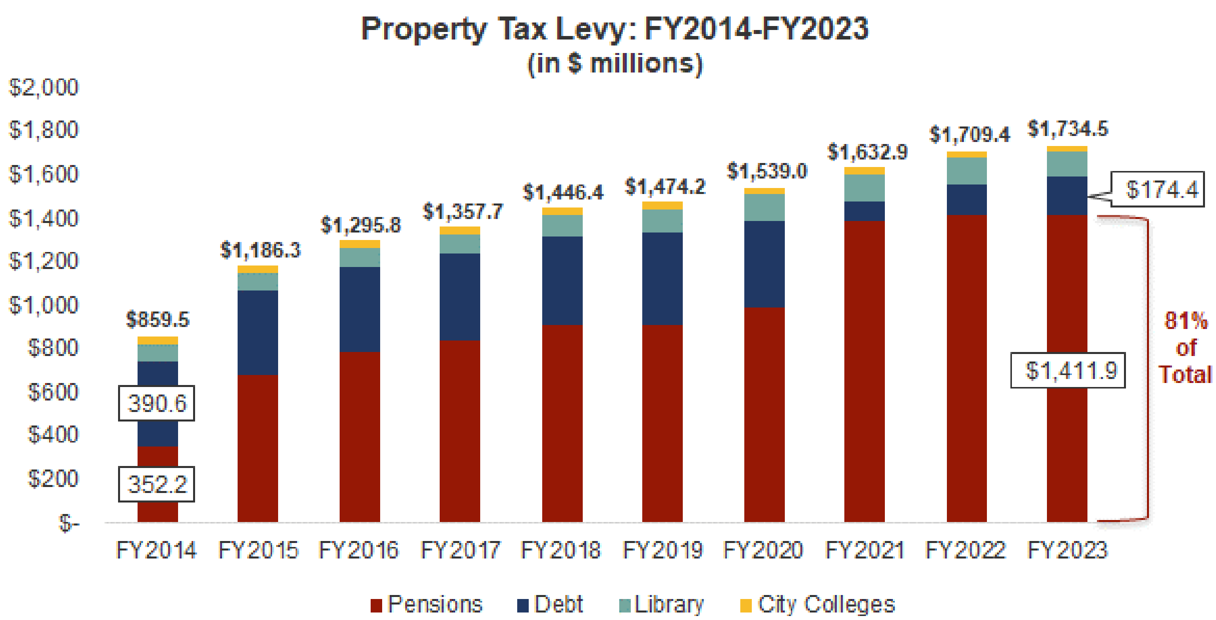
- $1.4 billion allocated to pension funding;

[48] 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.
[49] FY2004 was the last year that any of the City property tax levy was used for the Corporate Fund.

- $174.4 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 Intergovernmental Agreement (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, and to $142.3 million in FY2020 (it will remain at this level through FY2031 per the debt service schedule);[50]
- $119.4 million allocated to Chicago Public Library bonds; and
- $28.8 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 FY2014 to FY2023 is shown in the graph below. The gross levy has increased by $875.0 million, or 102%, since FY2014, 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 FY2014, which quadrupled to $1.4 billion in the FY2023 proposal. Pension funding accounts for 81% 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 FY2014, the debt service levy was $390.6 million compared to $174.4 million in FY2023. The decrease in the property tax allocation for debt 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).[51]



Source: City of Chicago, Annual Appropriation Ordinances FY2013-FY2022, Summary B; and FY2023 Budget Recommendations, Summary B, p. 2.

50 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.
51 City of Chicago, FY2021 Budget Overview, p. 56.

The proposed FY2023 property tax levy represents an increase of $25.1 million, or 1.5%, from the adopted FY2022 levy of $1.70 billion. This year-over-year increase is comprised of $25.0 million in new property growth from property development and expiring TIF districts.[52]

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 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 130 TIF districts.[53] TIFs accounted for 14.5% of the total tax billed for all taxing districts in the City in 2020.[54]

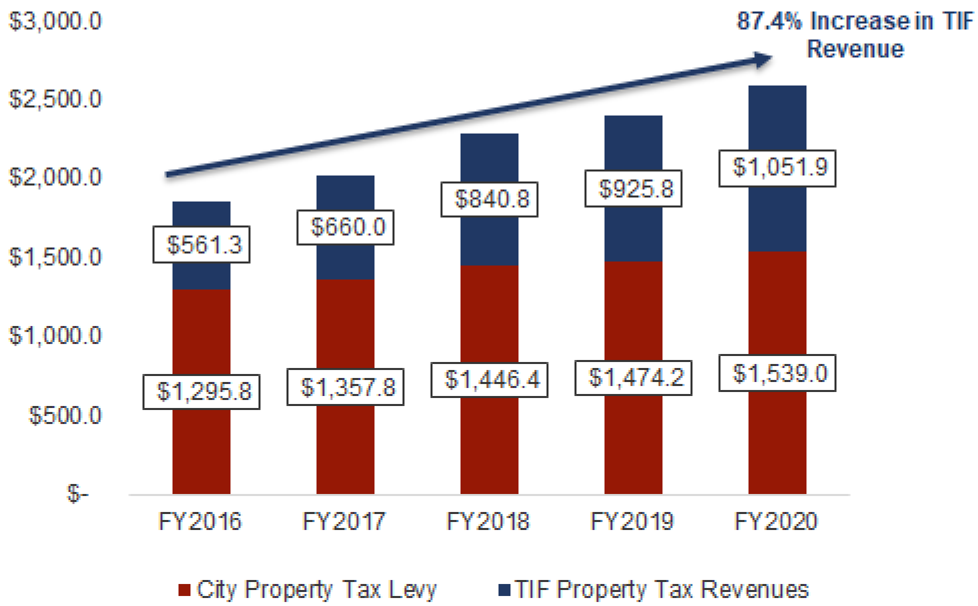
The tax revenue generated in a TIF district is not appropriated as part of the City budget and is not part of the City's property tax levy. However, the revenue is spent by the City according to the Redevelopment Plan for each TIF. Some TIF revenue is used to support capital projects of the City or other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

[52] City of Chicago, FY2023 Budget Overview, p.58.
[53] City of Chicago, FY2023 Budget Overview, p. 57.
[54] Cook County 2020 TIF Report, Executive Summary, p. 2. Available at https://www.cookcountyclerkil.gov/sites/default/files/publications/2020%2520TIF%2520Executive%2520Summary_0.pdf.

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%.

Gross Property Tax Levy and TIF Revenue: FY2016-FY2020 (in $ millions)



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 $395.0 million for 2023, $218.4 million of which will go to Chicago Public Schools, and $98.3 million of which will go to the City's Corporate Fund.[55] The FY2023 TIF surplus is $123.4 million more than the FY2022 surplus of $271.6 million. It is the largest TIF surplus declared by the City. The TIF surplus has increased from $65.2 million in 2014.[56]

PERSONNEL

This section describes the City of Chicago's personnel levels and personnel appropriations proposed for FY2023 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.

[55] City of Chicago, FY2023 Budget Overview, p. 57.
[56] City of Chicago, FY2023 Budget Overview, p. 57.

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 of 34,710 full-time equivalent positions within all Local Funds in the proposed FY2023 budget, compared to 33,876 FTE positions adopted in the FY2022 budget. This represents an increase of 834 positions, or 2.5%. 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 FY2022 and FY2023 will occur within the Infrastructure Services program area, which includes the Departments of Streets and Sanitation, Transportation, Aviation and Water Management. Infrastructure Services are proposed to grow by 439 FTE positions, or 5.5%. The increase is due in large part to an increase of 291 positions in the Department of Water Management, plus additional smaller increases in positions across the other three departments.[57]

The program area of Finance and Administration is also requesting a substantial increase of 226 FTEs in FY2023. The largest increase within this program area is for the Department of Assets, Information and Services, with smaller FTE increases for the Departments of Finance, Budget, Human Resources and Procurement Services.[58]

Public Safety, which accounts for the largest number of positions in the City of Chicago budget, is proposed to have a total of 20,625 FTE positions in FY2023. This represents an increase of 81 FTEs, or 0.4%, from the prior year.
The following table shows the number of FTE positions proposed in the FY2023 budget across each of the program areas compared to the number of FTEs in the FY2022 adopted budget.

[57] City of Chicago, FY2023 Budget Overview, p. 202.
[58] City of Chicago, FY2023 Budget Overview, p. 202.

Budgeted Full-Time Equivalent Positions: FY2022-FY2023

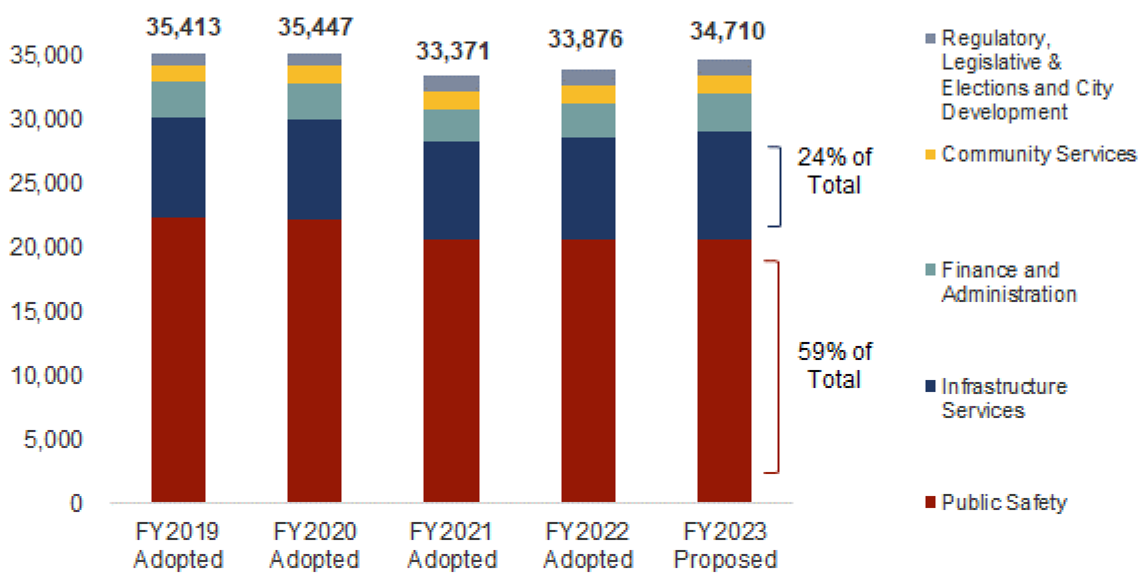
Function	FY2022 Adopted	FY2023 Proposed	# Change FY2022-FY2023	% Change FY2022-FY2023
Public Safety	20,544	20,625	81	0.4%
Infrastructure Services	7,994	8,433	439	5.5%
Finance and Administration	2,657	2,883	226	8.5%
Community Services	1,463	1,489	26	1.8%
Regulatory	619	657	38	6.1%
Legislative and Elections	333	333	0	0.0%
City Development	266	290	24	9.0%
Total	**33,876**	**34,710**	**834**	**2.5%**

Source: City of Chicago, FY2023 Budget Overview, p. 202.

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 FY2019 through FY2023 across all local funds. The number of budgeted FTEs has decreased from 35,413 in FY2019 to 34,710 in the FY2023 budget proposal, which is a decline of 703 FTEs, or 2.0%. The decline in total positions citywide is due to a reduction in Public Safety personnel. Over this five-year period, the number of budgeted Public Safety FTEs decreased by 1,710, or 7.7%. However, this reduction was partially offset by increases in FTEs across all other program areas. For example, Infrastructure Services will see an increase of 628 FTEs, or 8.0%, and Community Services will see an increase of 228 FTE positions, or 18.1%, over this period.

Budgeted Full-Time Equivalent Positions: All Local Funds by Program Area



Source: City of Chicago, FY2023 Budget Overview, p. 202; 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.

As shown in the graph above, Public Safety accounts for the largest portion of personnel, making up 59% of the total FTE positions across all local funds. The next table below provides further details on the number of FTEs within each department in the Public Safety program area.

Overall, Public Safety program area positions are set to decline by 1,170, or 7.7%, from 22,335 in FY2019 to 20,625 in FY2023. The largest decreases in FTEs over this five-year period are within the Office of Emergency Management and Communications (OEMC) and the Police Department. OEMC will see a decrease in budgeted positions of 1,166 FTEs, or 54.9%. This decrease is primarily due to the City transferring approximately 900 crossing guard positions to the Chicago Public Schools budget in 2021. The Chicago Police Department (CPD) will also see a sizeable reduction of 849 FTE positions, or 5.7%. The majority of the decrease within CPD took place between FY2020 and FY2021 due to the department eliminating vacant positions in order to produce budget savings in FY2021. The new Community Commission for Public Safety and Accountability, which was established in 2022, is budgeted for 23 positions in FY2023.

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

Department	FY2019 Adopted	FY2020 Adopted	FY2021 Adopted	FY2022 Adopted	FY2023 Proposed	# Change FY2018-FY2022	% Change FY2018-FY2022
Chicago Police Department	14,854	14,581	13,963	13,970	14,005	**(849)**	**-5.7%**
Fire Department	5,204	5,148	5,114	5,130	5,134	**(70)**	**-1.3%**
Office of Emergency Management and Communications	2,124	1,947	1,044	945	958	**(1,166)**	**-54.9%**
Office of Public Safety Administration	0	411	329	333	349	**349**	**-**
Civilian Office of Police Accountability	151	151	140	150	154	**3**	**2.0%**
Community Commission for Public Safety and Accountability	0	0	0	14	23	**23**	**-**
Police Board	2	2	2	2	2	**0**	**0.0%**
Total Public Safety	**22,335**	**22,240**	**20,592**	**20,544**	**20,625**	**(1,710)**	**-7.7%**

Source: City of Chicago, FY2023 Budget Overview, p. 202; FY2022 Budget Overview, p. 206; FY2021 Budget Overview, p. 200; and FY2020 Budget Overview, p. 194.

PERSONNEL SPENDING

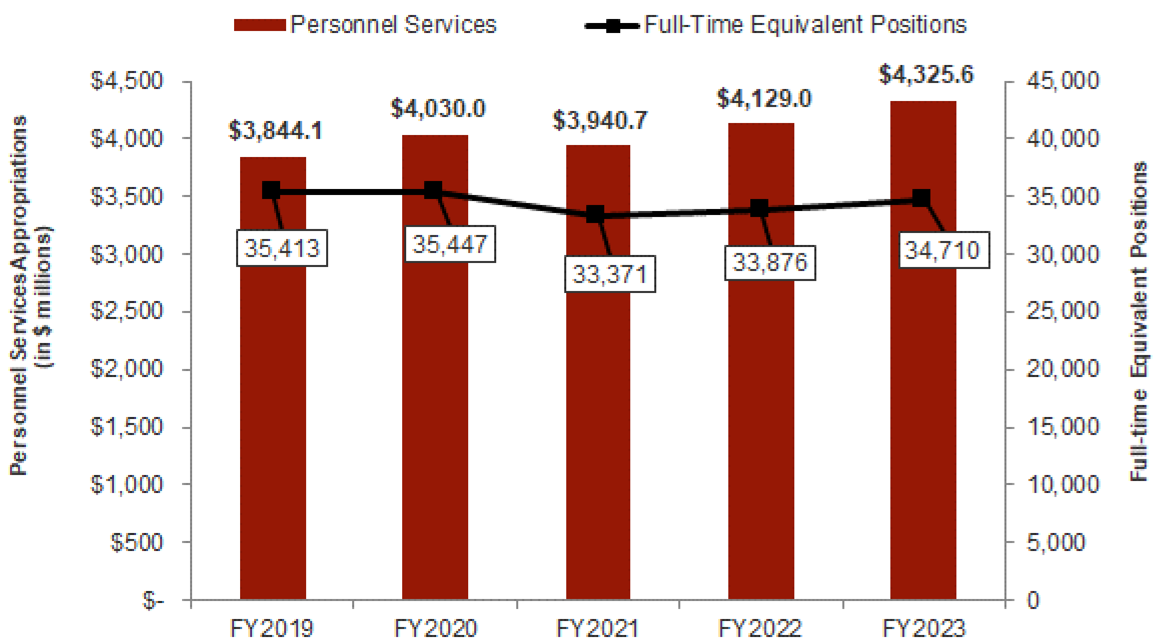
Personnel services spending in the proposed FY2023 budget totals $4.3 billion. This accounts for approximately one-third (32.4%) of the City's total appropriations of $13.3 billion proposed for FY2023 across all local funds.[59] This $13.3 billion total includes transfers between funds and proceeds of debt that are not netted out, which results in some double counting. 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 in 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 $2.66 billion in pension payments.[60]

[59] City of Chicago FY2023 Budget Recommendations, p. 16.
[60] City of Chicago, FY2023 Budget Overview, p. 55.

Budgeted personnel services appropriations over the five-year period from FY2019 through FY2023 are shown in the graph below, along with the budgeted number of FTE positions. While the number of personnel positions will decrease by 2.0% over this period, budgeted spending on personnel services is projected to increase by 12.5%, from $3.8 billion to $4.3 billion.

The increase in personnel spending in the two-year period from FY2022 to FY2023, from $4.1 billion to $4.3 billion, represents an increase of $196.6 million, or 4.8%. This increase incorporates salary and wage increases pursuant to collective bargaining agreements that are a major driver of personnel services spending.

Personnel Services Appropriations and Budgeted Full-Time Equivalent Positions: All Local Funds FY2019-FY2023



Source: City of Chicago, Annual Appropriation Ordinances, FY2019-FY2022, Summary D; FY2023 Budget Recommendations, Summary D; City of Chicago FY2021 Budget Overview, p. 200; FY2022 Budget Overview, p. 206; and FY2023 Budget Overview, p. 202.

Corporate Fund Personnel Services Appropriations

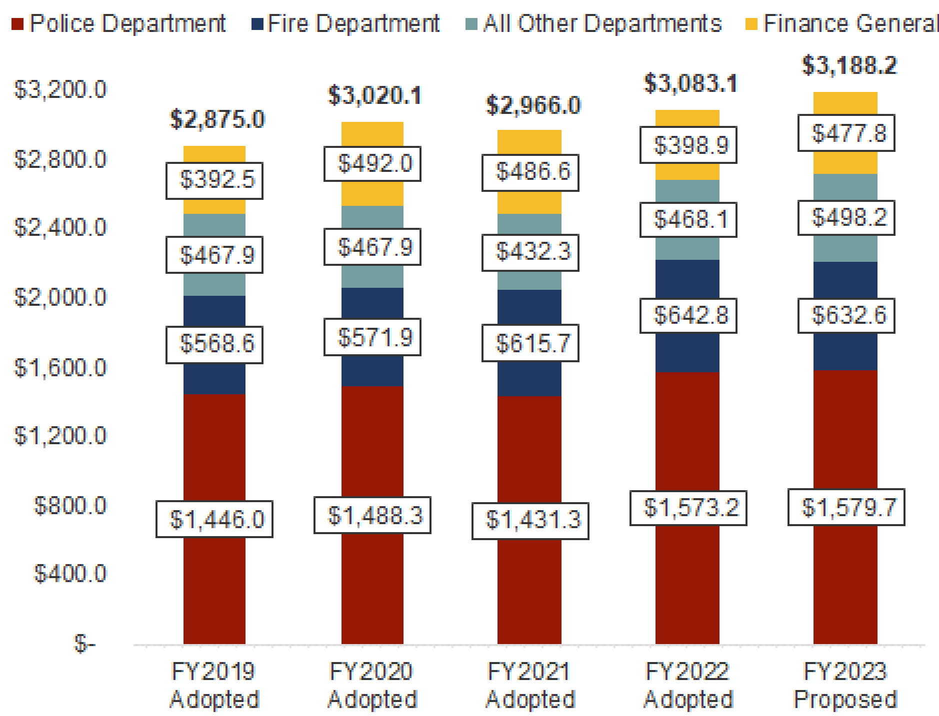
The FY2023 proposed budget includes a total of $3.2 billion in Personnel Services appropriations within the Corporate Fund, the City's general operating fund. Personnel Services appropriations include salaries and some benefits such as healthcare, but exclude employee pension costs. Corporate Fund appropriations for Personnel Services represent 58.7% of total proposed Corporate Fund appropriations across all categories of spending, totaling $5.4 billion.

The Chicago Police Department accounts for the largest departmental expenditures on personnel in the Corporate Fund. 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 $3.2 billion in Personnel

Services appropriations within the Corporate Fund. All other departments combined account for $498.2 million in Personnel Services appropriations in the FY2023 proposed budget. Healthcare and other benefits accounted for within the Finance General budget category account for $477.8 million.

Personnel Services appropriations across these four categories for the five-year period from FY2019 to FY2023 are shown in the chart below. Over this five-year period, total Corporate Fund Personnel Services appropriations will grow by 10.9%, from $2.9 billion in the FY2019 adopted budget to $3.2 billion in the FY2023 proposal. Police Department appropriations will grow by 9.3% over this period and the Fire Department by 11.8%. Personnel cost increases are largely tied to salary and wage increases in collective bargaining agreements.

Corporate Fund Personnel Services Appropriations: FY2019-FY2023
(in $ millions)



Source: City of Chicago, FY2023 Budget Recommendations, Summary D; and Annual Appropriations Ordinances, FY2019-FY2022, Summary D.

The following table provides more detail by department within the Corporate Fund for Personnel Services appropriations between the FY2022 adopted budget and the FY2023 proposed budget. Overall, Personnel Services appropriations are proposed to increase by 3.4% from the prior year. The largest increase is within the Finance General category, proposed to increase by 19.8%, or $78.8 million, from $389.9 million in FY2022 to $477.8 million in FY2023. This increase is due to a $33 million increase in scheduled wage adjustments, a $42 million increase in the cost of medical care claims and a $3.5 million increase in the allocation for payments of one year's worth of salary to the family of any sworn police or fire department member killed in the line of duty.[61]

Compared to total Corporate Fund appropriations, the increase in Personnel Services from FY2022 to FY2023 is smaller than the overall Corporate Fund spending increase. Total Corporate Fund appropriations are expected to increase by 11.2%, or $547.1 million, which is primarily due to an increase in pension appropriations in the FY2023 budget, including an advance pension payment of $201.9 million in the Corporate Fund.

Corporate Fund Personnel Services Appropriations: FY2022-FY2023
(in $ millions)

Department	FY2022 Adopted	FY2023 Proposed	$ Change FY2022-FY2023	% Change FY2022-FY2023
Police Department	$ 1,573.2	$ 1,579.7	$ 6.5	0.4%
Fire Department	$ 642.8	$ 632.6	$ (10.2)	-1.6%
Other Public Safety*	$ 43.0	$ 45.2	$ 2.2	5.1%
Assets, Information and Services**	$ 90.5	$ 95.2	$ 4.7	5.2%
Streets and Sanitation	$ 89.6	$ 89.1	$ (0.6)	-0.6%
Department of Finance	$ 38.2	$ 38.2	$ 0.1	0.1%
City Council	$ 21.9	$ 22.9	$ 1.0	4.4%
Transportation	$ 19.1	$ 22.3	$ 3.1	16.4%
All Other Departments	$ 165.8	$ 185.3	$ 19.6	11.8%
Finance General	$ 398.9	$ 477.8	$ 78.8	19.8%
Total Personnel Services	**$ 3,083.1**	**$ 3,188.2**	**$ 105.2**	**3.4%**
Total Corporate Fund	**$ 4,887.4**	**$ 5,434.5**	**$ 547.1**	**11.2%**
Personnel Services as a % of Total Corporate Fund	**63.1%**	**58.7%**		

*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.

**The Department of Assets, Information and Services merged in FY2020 to include the prior Department of Fleet and Facility Management and the Department of Innovation and Technology.

Source: City of Chicago FY2022 Annual Appropriation Ordinance, Summary D; and FY2023 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.[62]

[61] City of Chicago FY2023 Budget Recommendations, p. 279.
[62] Government Finance Officers Association (GFOA), Fund Balance Guidelines for the General Fund at http://www.gfoa.org/fund-balance-guidelines-general-fund.

The Governmental Accounting Standards Board (GASB) Statement No. 54 has established five components of fund balance:[63]

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.
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.

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.[64] **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 maintain unrestricted budgetary fund balance in their general fund of at least two months of regular general fund operating revenues or regular general fund operating expenditures. Two months of operating expenditures or revenues is approximately 16.7% of the total amount. 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. Further, the statement directs governments to consider

[63] Governmental Accounting Standards Board. Statement No. 54 of the Governmental Accounting Standards Board Fund Balance Reporting and Governmental Fund Type Definitions at https://gasb.org/page/ShowDocument?path=GASBS_54.pdf&acceptedDisclaimer=true&title=GASBS+54&Submit=.
[64] GFOA. Fund Balance Guidelines for the General Fund at http://www.gfoa.org/fund-balance-guidelines-general-fund.

the financial resources available in other funds when determining an adequate unrestricted General Fund fund balance level. [65]

GFOA also recommends that governments establish a formal unrestricted fund balance policy that considers the government's specific circumstances. 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. [66]

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.[67]

The table below presents the City's unrestricted fund balance from FY2013 through FY2021, the latest year for which audited financial data is available. Between FY2013 and FY2021, the unrestricted fund balance ratio rose substantially from 4.6% to 13.7%. In terms of dollars, the unrestricted fund balance rose from $142.3 million to $641.5 million, a 351.0% increase. The increase was attributed primarily to the recovery of revenues that had been negatively impacted by the COVID-19 pandemic, as well as decreases in expenditures that were transferred to grant funds received to be used for COVID-19 related responses.[68]

The City's unrestricted fund balance of $641.5 million in FY2021 consisted of $323.4 million that was assigned for specific purposes and $318.1 million that was unassigned. The City's 13.7% fund balance ratio is lower than the GFOA's recommendation of 16.7%. However, as previously mentioned, the GFOA acknowledges that it may be appropriate for large governments with a

[65] GFOA, Fund Balance Guidelines for the General Fund at http://www.gfoa.org/fund-balance-guidelines-general-fund.
[66] GFOA, Fund Balance Guidelines for the General Fund at http://www.gfoa.org/fund-balance-guidelines-general-fund.
[67] GFOA, Fund Balance Guidelines for the General Fund at http://www.gfoa.org/fund-balance-guidelines-general-fund.
[68] City of Chicago FY2021 Annual Comprehensive Annual Financial Report, p. 19.

diverse revenue base that are in a better position to predict contingencies to maintain a smaller fund balance.

Unrestricted Corporate Fund
Fund Balance Ratio: FY2013-FY2021

Year	Unrestricted Corporate Fund Balance	Corporate Fund Operating Expenditures	Ratio
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%
FY2021	$ 641,495,000	$ 4,683,948,000	13.7%

Sources: City of Chicago, Comprehensive Annual Financial Reports FY2013-FY2021, 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.

City of Chicago's Fund Balance Policy

In 2016, the City of Chicago established a new Fund Stabilization policy to maintain a 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.[69]

The City's policy is to maintain an unrestricted fund balance of no less than two months or 16.7% of operating expenses,[70] composed of resources from three sources:

1) **Unassigned Fund Balance:** As noted above, this portion of fund balance is part of the unrestricted fund balance. The unassigned fund balance in FY2021 was $318.1 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.[71] Between FY2015 and FY2019, the City set aside a total of $30 million of unassigned fund balance into this Fund, while in FY2020 and FY2021, it contributed $5.0 million per year;[72] 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. There was a total of $729.7 million in the asset lease reserves as of FY2021.[73]

Therefore, the City calculates fund balance differently than the GFOA does because the City's calculation includes only a portion of unrestricted fund balance, plus resources in addition to its unrestricted Corporate Fund balance. The table below shows the City of Chicago's calculation

69 Communication with City of Chicago Office of Management and Budget, October 10, 2016.
70 City of Chicago FY2023 Budget Overview, p. 181.
71 City of Chicago FY2023 Budget Overview, p. 181.
72 City of Chicago FY2023 Budget Forecast, p. 46.
73 City of Chicago FY2023 Budget Forecast, p. 46.

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

City of Chicago Calculation of Fund Balance Ratios: FY2017-FY2021

Year	Subtotal: City Fund Balance Sources	Corporate Fund Operating Expenditures	Ratio
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	$ 955,016,000	$ 3,668,057,000	26.0%
FY2021	$ 1,052,795,000	$ 4,683,948,000	22.5%

Sources: City of Chicago, Comprehensive Annual Financial Reports FY2017-FY2021, 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 FY2023 Budget Forecast, p. 46

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 these pension funds and presents multi-year trend data for funded ratios, unfunded liabilities, investment returns and Chicago's contributions to the funds. Additional descriptive information about the City's pension benefits and history can be found in past budget analyses.[74]

PENSIONS IN THE FY2023 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 employees were reduced in 2011 along with most other public pension plans in the State of Illinois, but later attempts to reduce benefits for current employees in order to shore up the funds' financial condition were struck down by the Illinois Supreme Court.[75] City and State leaders subsequently turned to changing statutory funding laws in an attempt to prevent the funds from becoming insolvent.

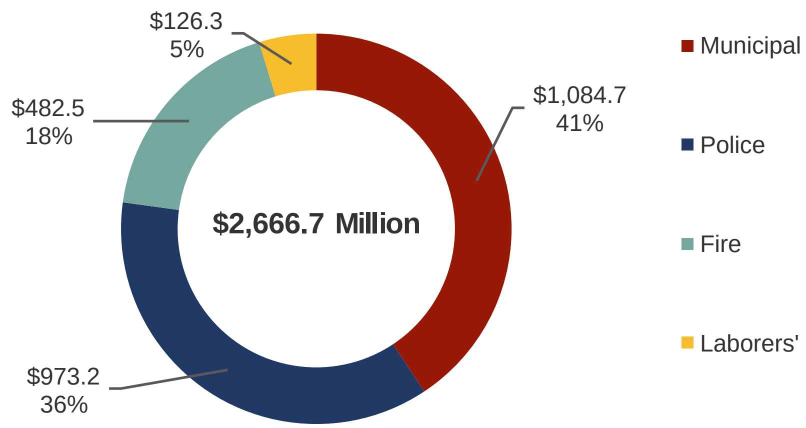
In 2016 the City of Chicago's four pension funds began transitioning per State law to 40-year funding plans. The plans started with five-year ramps of growing annual contributions set by state statute before transitioning to a 35-year schedule of actuarially calculated contributions that increase their funded ratios to 90%. The Police and Fire funds started their ramps in FY2015 and transitioned to actuarially-calculated funding in FY2020, and the Municipal and Laborers' funds started their ramps in FY2017 and transitioned to actuarially-based funding in FY2022. Since all four funds are now funded on an actuarially-calculated basis, annual contributions from the City will adjust according to the financial needs of the funds, but the

[74] 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.
[75] For more information see https://www.civicfed.org/civic-federation/blog/chicago-pension-reforms-struck-down-illinois-supreme-court.

length of the funding schedule and its backloaded nature mean that the City will not make contributions sufficient to reduce the unfunded liability on the largest funds until 2029 for the Police Fund and 2035 for the Municipal Fund.[76]

The FY2023 total proposed contribution to the City's four pension funds is nearly $2.7 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 $2.1 billion. As noted above, the City is making supplemental contributions to the pension funds beyond the requirements in its statutory funding formula of $242 million.

FY2023 Pension Fund Contributions
(in $ millions)

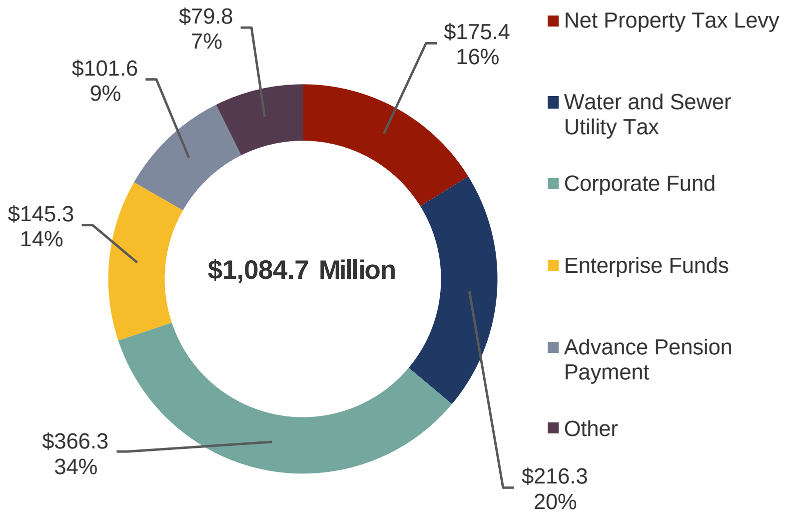


Source: FY2023 City of Chicago Budget Overview, p. 61.

[76] See Fund Actuarial Valuations, 50-year funding projections. Backloading means that contributions are artificially low in the early years of the funding schedule and grow significantly in the out years.

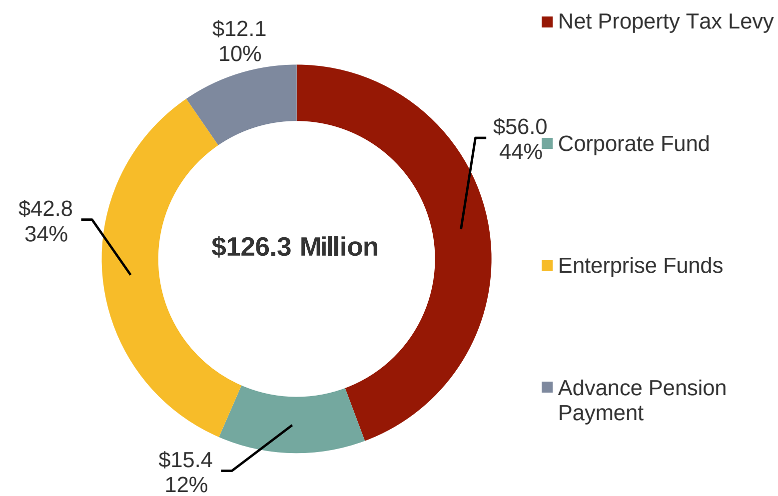
The City of Chicago uses several revenue sources to make its pension contributions: property taxes, contributions from the Corporate and Enterprise funds, a dedicated water and sewer tax for the Municipal Fund and other sources. The following charts show the breakdown of those sources for each fund. The supplemental pension payments are shown as “Advance Pension Payment” and “Casino Advance Payment” in the charts below. The property tax is the single largest source of revenue for the pensions at $1.4 billion or 52.9% of total pension funding.

FY2023 Municipal Fund Sources of Revenue
(in $ millions)



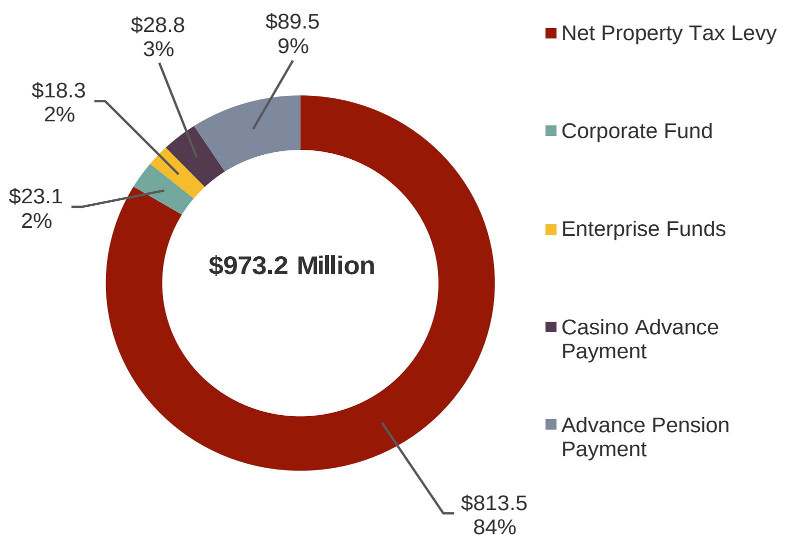
Source: FY2023 City of Chicago Budget Recommendations, p. 38.

FY2023 Laborers' Fund Sources of Revenue
(in $ millions)



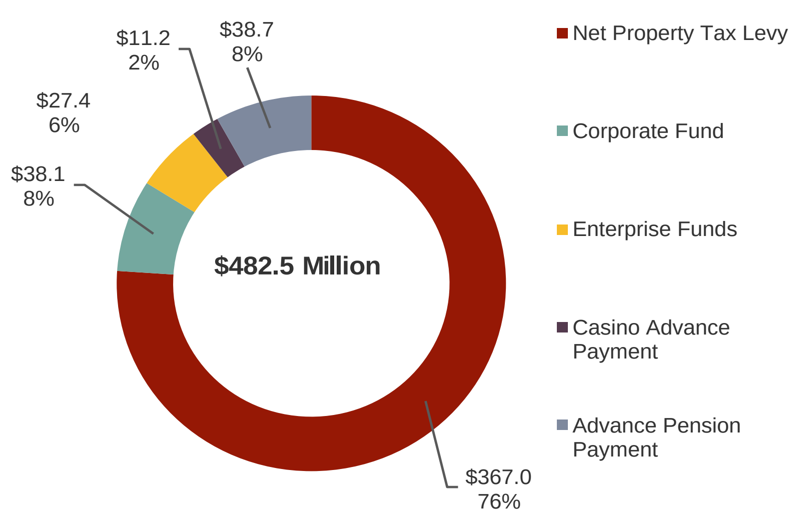
Source: FY2023 City of Chicago Budget Recommendations, p. 38.

FY2023 Police Fund Sources of Revenue
(in $ millions)



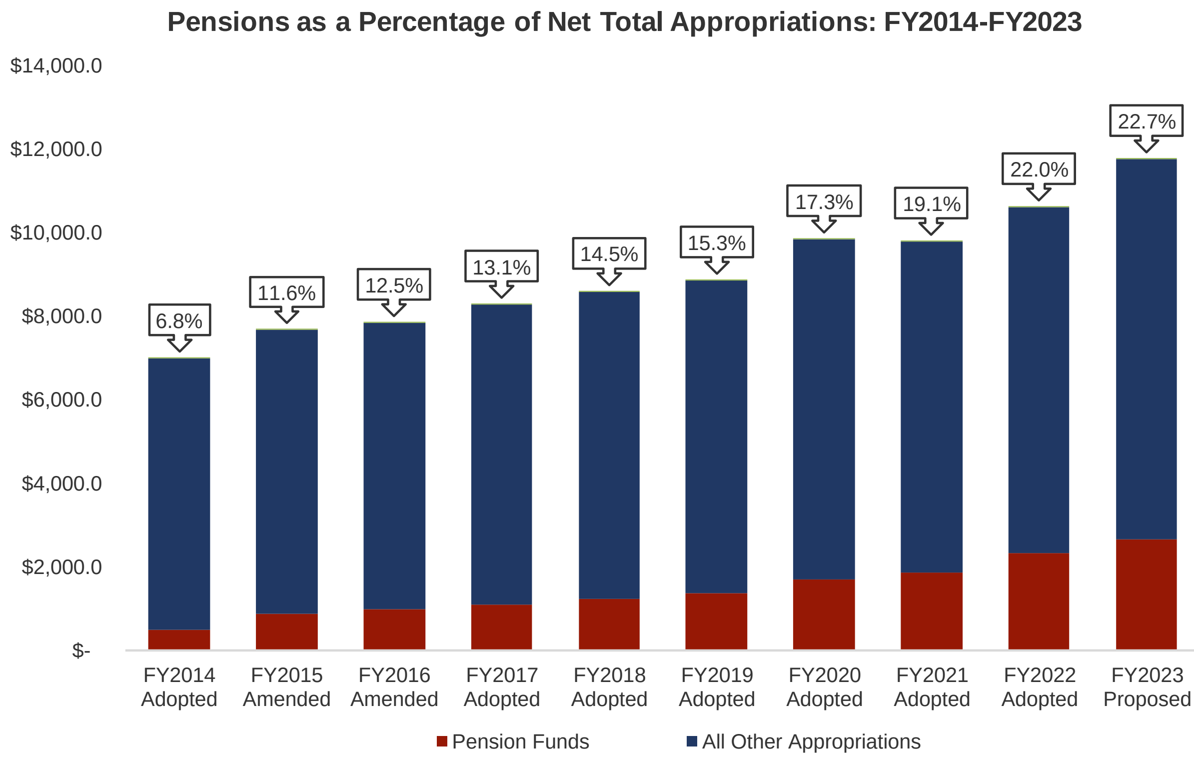
Source: FY2023 City of Chicago Budget Recommendations, p. 39

FY2023 Fire Fund Sources of Revenue
(in $ millions)



Source: FY2023 City of Chicago Budget Recommendations, p. 39.

Prior to the implementation of the 40-year funding plans, the City's pension funds were funded based on a multiple of what employees contributed two years prior, which did not adjust according to each fund's actuarial funding needs. 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 11.6% 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 22.7% in FY2023.[77]



Source: City of Chicago Budgets, FY2014-FY2023

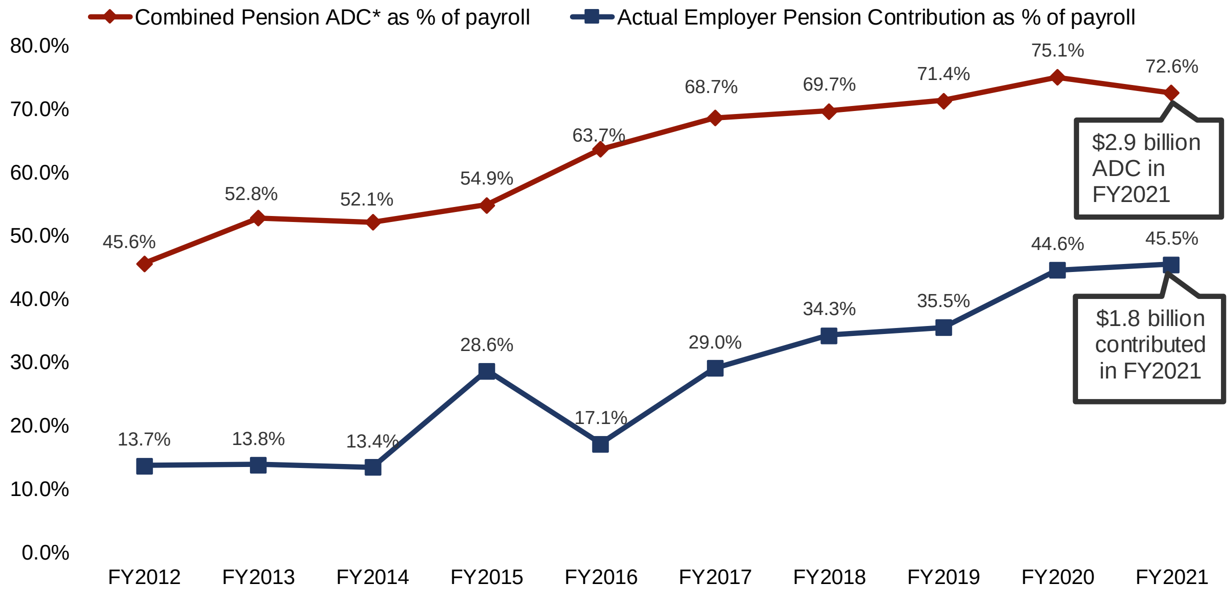
In order to analyze how insufficient past years' contributions have been, it is useful to compare the City's actual contributions to an objective measure of how much the City would need to contribute in order to pay off its unfunded liability over a set period of time. That measure, the Actuarially Determined Contribution (ADC), is a reporting requirement of the Governmental Accounting Standards Board and is reported in each pension fund's annual actuarial reports.[78]

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 FY2012 of 32.0 percentage points, or $1.0 billion, to a gap of 38.7 percentage points in FY2014, before falling to a gap of 26.2 percentage points in FY2015, due to higher employer contributions for the Police and Fire Funds. The gap increased again in FY2016 to 46.6 percentage points due to the City decreasing its contributions that year to make

[77] For a historical and projected pension contribution chart, see City of Chicago, 2023 Budget Overview, p. 54. Available at https://www.chicago.gov/content/dam/city/depts/obm/supp_info/2023Budget/2023-OVERVIEW.pdf
[78] 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.

up for over-contributions in FY2015. The shortfall improved over the next several years to 27.1% in FY2021 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 27.1% of payroll, or $1.1 billion, in FY2021.

Actuarially Determined Contribution* vs. Actual Employer Contribution: FY2012-FY2021

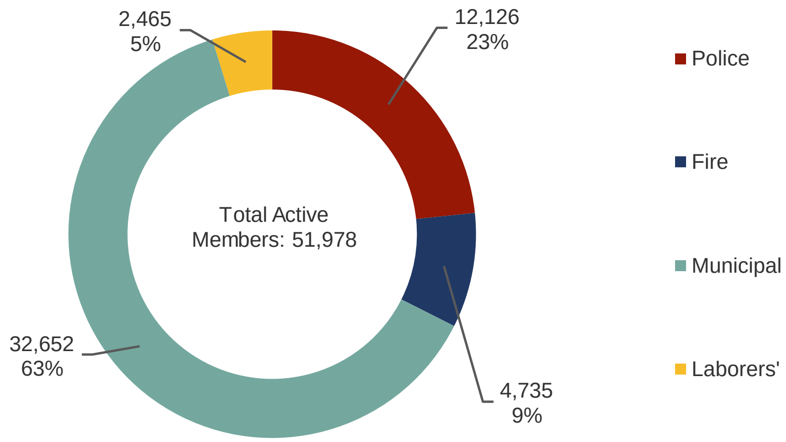


*Annual Required Contribution in FY2014 and prior.

In FY2021 there were 51,978 employees participating in the four pension funds. The Municipal Fund constitutes 63% of total active employee membership. However, roughly half of the 32,652 active Municipal Fund members are not City employees, but rather are non-teacher employees of Chicago Public Schools. Approximately 50.5% of all active members of all four pension funds belong to Tier 1 and 49.5% belong to Tier 2 or 3. The Municipal Fund is the only fund whose members are majority Tier 2 or 3 members with approximately 54.2% in those tiers. The Laborers' Fund has the lowest percentage of Tier 2/3 members at approximately 39.1%.

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

FY2021 Chicago Pension Fund Membership



Note: Roughly half of the Municipal Fund members are non-teacher employees of the Chicago Public Schools.
Sources: FY2021 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 0.67 in the Laborers' Fund to 0.90 and 0.85 for the Fire and Police Funds to 1.26 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. This 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.[79] 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 2021 Fire Fund Actuarial Valuation noted that the benefit enhancement increased the actuarial accrued liability by $196.5 million and the normal cost of benefits by $6.6 million.[80]

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.

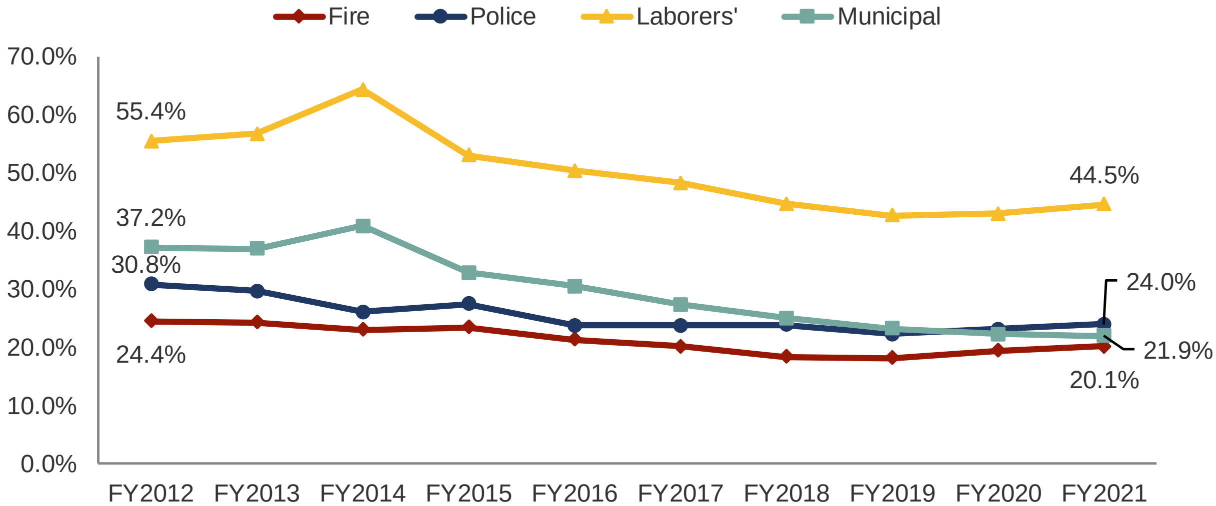
[79] For a short description of the debate see Thomas J. Healey, "Commentary: A note on the discount rate," *Pensions and Investments*, October 8, 2019. Available at https://www.pionline.com/industry-voices/commentary-note-discount-rate.
[80] Public Act 101-0673, https://ilga.gov/legislation/publicacts/101/PDF/101-0673.pdf. See also Firemen's Annuity and Benefit Fund of Chicago Actuarial Valuation and Review as of December 31, 2021, p. 10. Available at https://www.fabf.org/PDF/Financial/ActuarialValuation/Segal12-31-2021.pdf.

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 three to five years.[81]

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 FY2021. The Fire Fund increased to 20.1%, the Police Fund increased to 24.0% and the Laborers' Fund rose to 44.5%, but the Municipal Fund decreased to 21.9%.

Funded Ratio - Actuarial Value of Assets: FY2012-FY2021

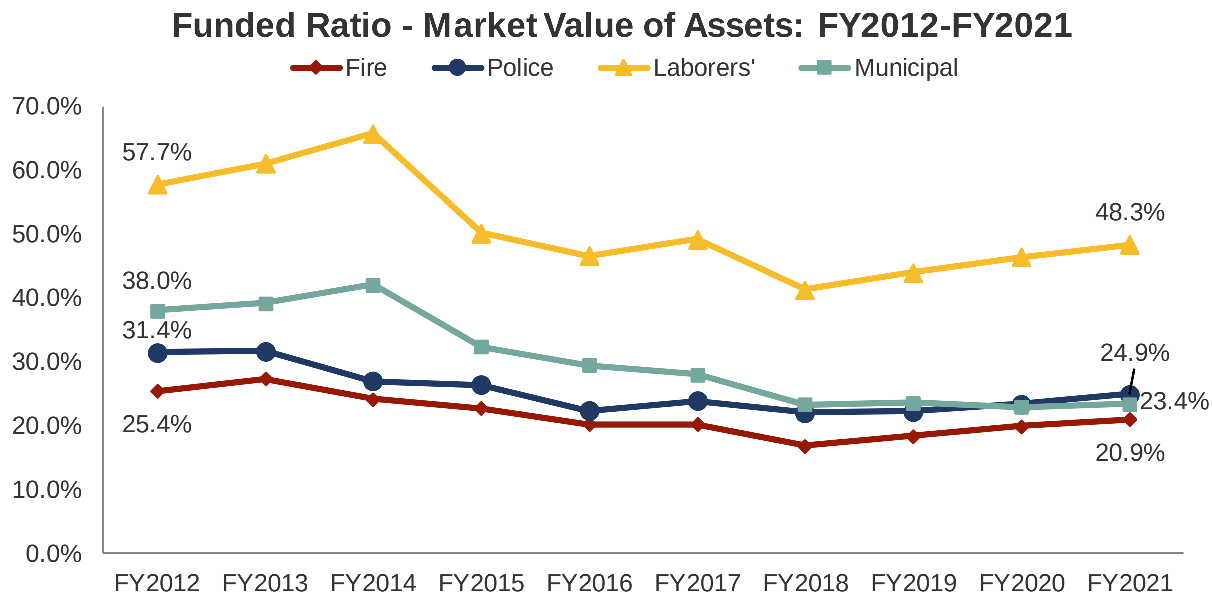


Note: Actuarial Value of Assets smoothes investment returns over five years.
Source: FY2012-FY2021 Fire, Police, Laborers' & Municipal Employees Pension Fund Annual Financial Reports.

The following exhibit shows market value funded ratios for each of the four pension funds. The market value funded ratios have fluctuated since FY2012, but generally shown a downward trend. Liabilities have increased due predominantly to insufficient employer contributions and changes to actuarial assumptions, and the funds have experienced periodic investment losses.

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

However, all four funds' market value funded ratios increased in FY2021 due to high investment returns.



Source: FY2012-FY2021 Fire, Police, Laborers' & Municipal Employees Pension Fund Annual Financial Reports.

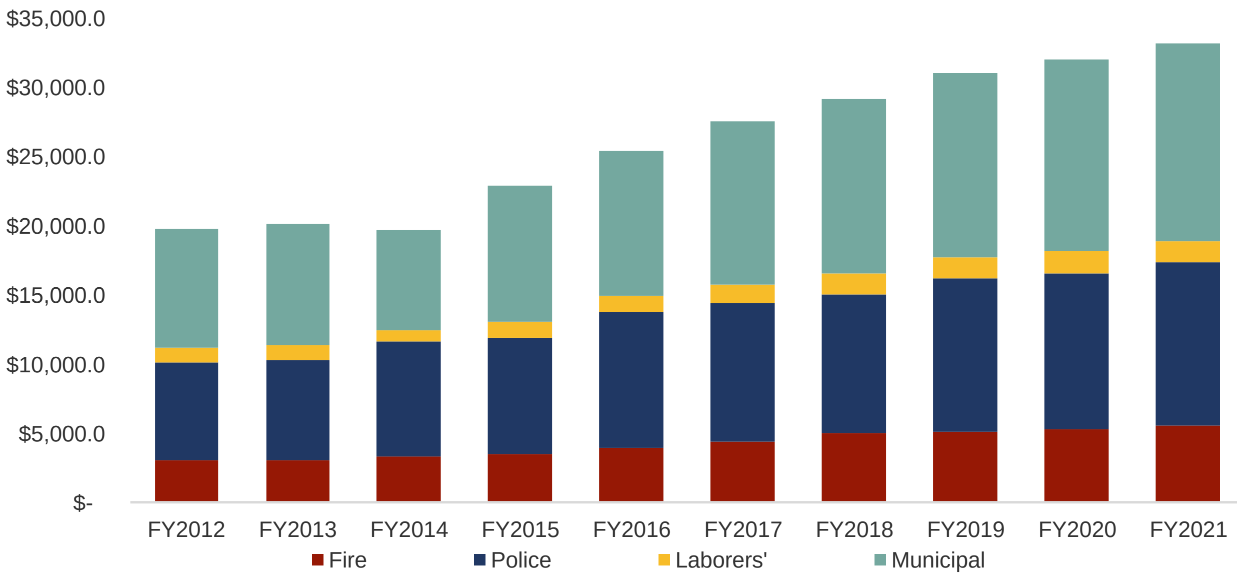
Unfunded Actuarial Accrued Liability

Over the past ten years, the unfunded liabilities of the four pension funds combined have grown by $13.5 billion, or 68.3%. This was an increase from $19.8 billion in FY2012. The total unfunded liabilities of the four funds increased to $33.3 billion in FY2021 from $32.0 billion in FY2020, or by 3.86%.

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

- Fire Pension Fund: 82.1% increase, or $2.5 billion;
- Police Pension Fund: 66.3% increase, or $4.7 billion;
- Laborers' Pension Fund: 44.7% increase, or $473.2 million; and
- Municipal Pension Fund: 67.9% increase, or $5.8 billion.

Unfunded Actuarial Accrued Liabilities: FY2012-FY2021 (in $ millions)



Source: FY2012-FY2021 Fire, Police, Laborers' & Municipal Employees Pension Fund Comprehensive Annual Financial Reports.

Investment Return

In FY2021, all four City pension funds experienced returns greater than their expected rates of return on their investments, ranging from 10.4% for the Fire Fund to 13.1% for the Municipal Fund.[82] As noted above, the FY2021 investment assumption for the Police Fund was 6.75%, the

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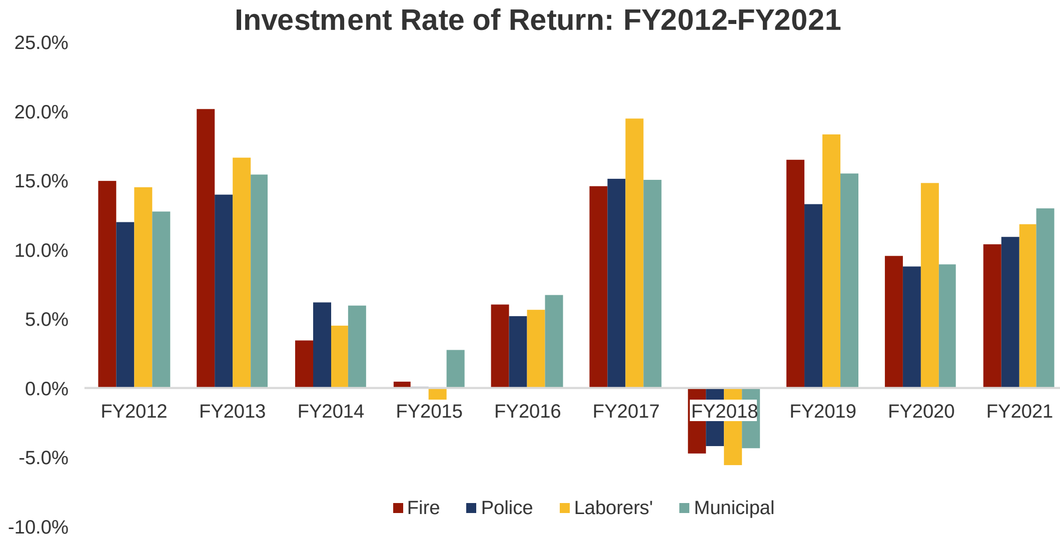
[82] The Civic Federation calculates investment rate of return using the following formula: Current Year Rate of Return = Current Year Gross Investment Income/ (0.5*(Previous Year Market Value of Assets + Current Year Market Value of Assets – Current Year Gross Investment Income)). This is not necessarily 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.

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: FY2012-FY2021 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.[83] 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.[84]

Older non-public safety retirees who retired prior to August 23, 1989 are entitled to lifetime subsidized coverage of 55%. 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 make those subsidy payments to the annuitants, but they are funded by the statutorily-required City of Chicago pension contributions. Liabilities for these subsidies are not reflected in the City of Chicago's OPEB reporting.[85]

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83 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.
84 City of Chicago, FY2021 Annual Comprehensive Financial Report, p. 97.
85 City of Chicago, FY2021 Annual Comprehensive Financial Report, p. 97-98.

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 FY2021 totaling $2.0 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 FY2021 financial statements 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 FY2021 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 FY2021 financial statements. With the approval of new CBAs, the City is currently using an assumption that the CBA benefits will be continued indefinitely, but with assumptions that contributions will increase in future years.

City of Chicago Net OPEB Liability* for Non-CBA and CBA Special Benefits: FY2021
(in $ thousands)

	Municipal	Laborers'	Police	Fire	Total
Pension Funds	$ 16,443	N/A	N/A	$ 9,156	**$ 25,599**
Non-CBA Benefits: City					**$ 198,149**
CBA Benefits Net OPEB Liability: City					**$ 1,801,868**
Total					**$ 2,025,616**

* 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: FY2021 Pension Fund Financial Reports; FY2021 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***:[86] Beginning with the FY2018 Annual Comprehensive Financial Report (ACFR), the City of Chicago implemented

[86] 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,

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.[87] 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** increased substantially. This is because it reflected 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 did not significantly change. It is only being reported more transparently. The City also restated its FY2017 OPEB reporting to show net OPEB liabilities; this information 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.[88]
- ***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.[89]

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 FY2017 to FY2021 from audited annual financial reports; FY2021 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 FY2017 and FY2021 was 18.1%. This was a nearly $6.9 billion increase from $37.9 billion to $44.8 billion. Total long-term debt alone rose by 4.3%, or $483.3 million, from $11.1 billion to $11.6 billion.

Other liabilities, which include net pension obligations, net other post-employment obligations, lease obligations, pollution remediation liabilities and claims and judgments increased between FY2017 and FY2021, rising by 23.7% or $6.4 billion. Much of the increase in this five-year period was because of a $1.3 billion increase in net OPEB liabilities and a $5.1 billion increase

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dental insurance, life insurance and term care coverage. It does not include termination benefits such as accrued sick leave and vacation.

[87] Governmental Accounting Standards Board, Summary Of Statement No. 75: Accounting And Financial Reporting For Postemployment Benefits Other Than Pensions at https://gasb.org/page/ShowDocument?path=gasbs75_final_cropped.pdf&acceptedDisclaimer=true&title=GASB+Statement+No.+75%2C+Accounting+and+Financial+Reporting+for+Postemployment+Benefits+Other+Than+Pensions&Submit=.

[88] City of Chicago, FY2021 Annual Comprehensive Financial Report, p. 62.

[89] City of Chicago, FY2021 Annual Comprehensive Financial Report, p. 104.

in net pension liabilities. The latter increase was due in large part to the Municipal and Laborers' Funds starting a new statutory funding schedule in FY2017.[90]

Total long-term liabilities increased by 1.3%, or $568.2 million, in the one-year period between FY2020 and FY2021. Long-term debt, which includes bonds, notes and certificates payable, fell by 1.5% during this two-year period, from $11.8 billion to $11.6 billion.

Total other liabilities between FY2020 and FY2021 rose by $747.6 million, or 2.3%, increasing from $32.5 billion to $33.2 billion. That increase was primarily attributable to a $720.2 million, or 2.4%, increase in net pension liabilities.

City of Chicago Long Term Liabilities for Governmental Activities: FY2017-FY2021
(In $ thousands)

Bonds, Notes and Certificates Payable	FY2017	FY2018	FY2019	FY2020	FY2021	Five-Year Change	Five-Year % Change
General Obligation Debt	$ 9,686,627	$ 8,207,779	$ 7,908,489	$ 6,754,252	$ 5,940,409	$ (3,746,218)	-38.7%
Line of Credit				$ 500,000	$ 215,000	$ 215,000	---
Tax Increment	$ 27,925	$ 19,945	$ 16,195	$ 12,060	$ 7,685	$ (20,240)	-72.5%
Revenue	$ 254,224	$ 249,929	$ 245,414	$ 179,102	$ 4,895	$ (249,329)	-98.1%
Sales Tax Securitization Corporation	$ 743,735	$ 2,036,435	$ 2,641,865	$ 3,655,780	$ 4,608,965	$ 3,865,230	---
Subtotal Bonds, Notes and Certificates Payable	**$ 10,712,511**	**$ 10,514,088**	**$ 10,811,963**	**$ 11,101,194**	**$ 10,776,954**	**$ 64,443**	**0.6%**
Add unamortized premium	$ 88,675	$ 158,298	$ 193,890	$ 342,624	$ 485,946	$ 397,271	448.0%
Add accretion of capital appreciation bonds	$ 315,863	$ 323,485	$ 330,174	$ 335,989	$ 337,491	$ 21,628	6.8%
Total Bonds, Notes and Certificates Payable	**$ 11,117,049**	**$ 10,995,871**	**$ 11,336,027**	**$ 11,779,807**	**$ 11,600,391**	**$ 483,342**	**4.3%**
Other Liabilities							
Net Pension Liability	$ 25,058,993	$ 26,761,592	$ 28,252,526	$ 29,443,464	$ 30,163,647	$ 5,104,654	20.4%
Net OPEB Obligation	$ 746,321	$ 684,632	$ 828,787	$ 1,963,340	$ 2,000,017	$ 1,253,696	168.0%
Pollution Remediation	$ 35,044	$ 44,415	$ 43,838	$ 43,635	$ 49,535	$ 14,491	41.4%
Claims and Judgments	$ 1,012,756	$ 1,032,385	$ 1,043,713	$ 1,030,153	$ 1,015,039	$ 2,283	0.2%
Total Other Liabilities	**$ 26,853,114**	**$ 28,523,024**	**$ 30,168,864**	**$ 32,480,592**	**$ 33,228,238**	**$ 6,375,124**	**23.7%**
Grand Total	**$ 37,970,163**	**$ 39,518,895**	**$ 41,504,891**	**$ 44,260,399**	**$ 44,828,629**	**$ 6,858,466**	**18.1%**

FY2017 Other Post Employment Benefits Obligations were restated in the FY2018 CAFR due to the implementation of GASB 75.
Source: City of Chicago FY2017-FY2021 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 FY2017 and FY2021, the total amount of business-type long-term liabilities increased by 5.5% or $1.0 billion, rising from $18.8 billion to

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

$19.8 billion. Most of the increase was due to a $476.0 million increase in revenue debt and a $548.5 million increase in net pension liabilities.

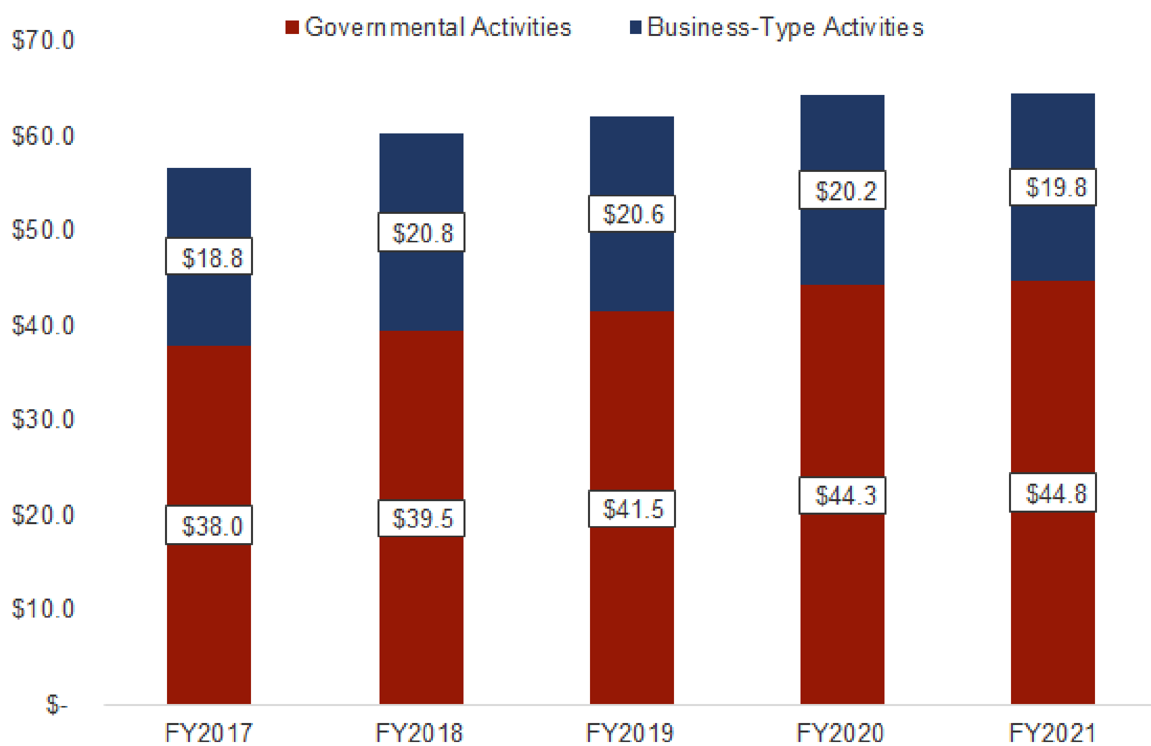
City of Chicago Long Term Liabilities for Business-Type Activities: FY2017-FY2021
(in $ thousands)

Revenue bonds and notes payable	FY2017	FY2018	FY2019	FY2020	FY2021	Five-Year Change	Five-Year % Change
Water	$ 2,401,005	$ 2,457,341	$ 2,497,156	$ 2,408,774	$ 2,341,421	$ (59,584)	-2.5%
Sewer	$ 1,861,381	$ 1,893,561	$ 1,895,495	$ 1,953,134	$ 1,895,795	$ 34,414	1.8%
Chicago O'Hare International Airport	$ 8,633,782	$ 10,317,980	$ 10,047,551	$ 9,609,566	$ 9,486,016	$ 852,234	9.9%
Chicago Midway International Airport	$ 1,755,835	$ 1,713,485	$ 1,677,005	$ 1,648,820	$ 1,594,952	$ (160,883)	-9.2%
Subtotal Revenue Bonds	**$ 14,652,003**	**$ 16,382,367**	**$ 16,117,207**	**$ 15,620,294**	**$ 15,318,184**	**$ 666,181**	**4.5%**
Add unamortized premium (discount)	$ 1,040,375	$ 1,006,798	$ 920,786	$ 947,452	$ 863,893	$ (176,482)	-17.0%
Add accretion of capital appreciation bonds	$ 82,509	$ 78,816	$ 75,114	$ 73,356	$ 68,806	$ (13,703)	-16.6%
Total Revenue Debt	**$ 15,774,887**	**$ 17,467,981**	**$ 17,113,107**	**$ 16,641,102**	**$ 16,250,883**	**$ 475,996**	**3.0%**
Net Pension Liability	$ 2,984,331	$ 3,356,211	$ 3,535,131	$ 3,514,787	$ 3,532,821	$ 548,490	18.4%
Grand Total	**$ 18,759,218**	**$ 20,824,192**	**$ 20,648,238**	**$ 20,155,889**	**$ 19,783,704**	**$ 1,024,486**	**5.5%**

FY2017 Other Post Employment Benefits Obligations were restated in the FY2018 CAFR due to the implementation of GASB 75.
Source: City of Chicago FY2017-FY2021 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 FY2017 and FY2021, these obligations rose by nearly $7.9 billion or 13.9%, increasing from $56.7 billion to $64.6 billion.

Total Long-Term Liabilities: FY2017-FY2021
(in $ millions)

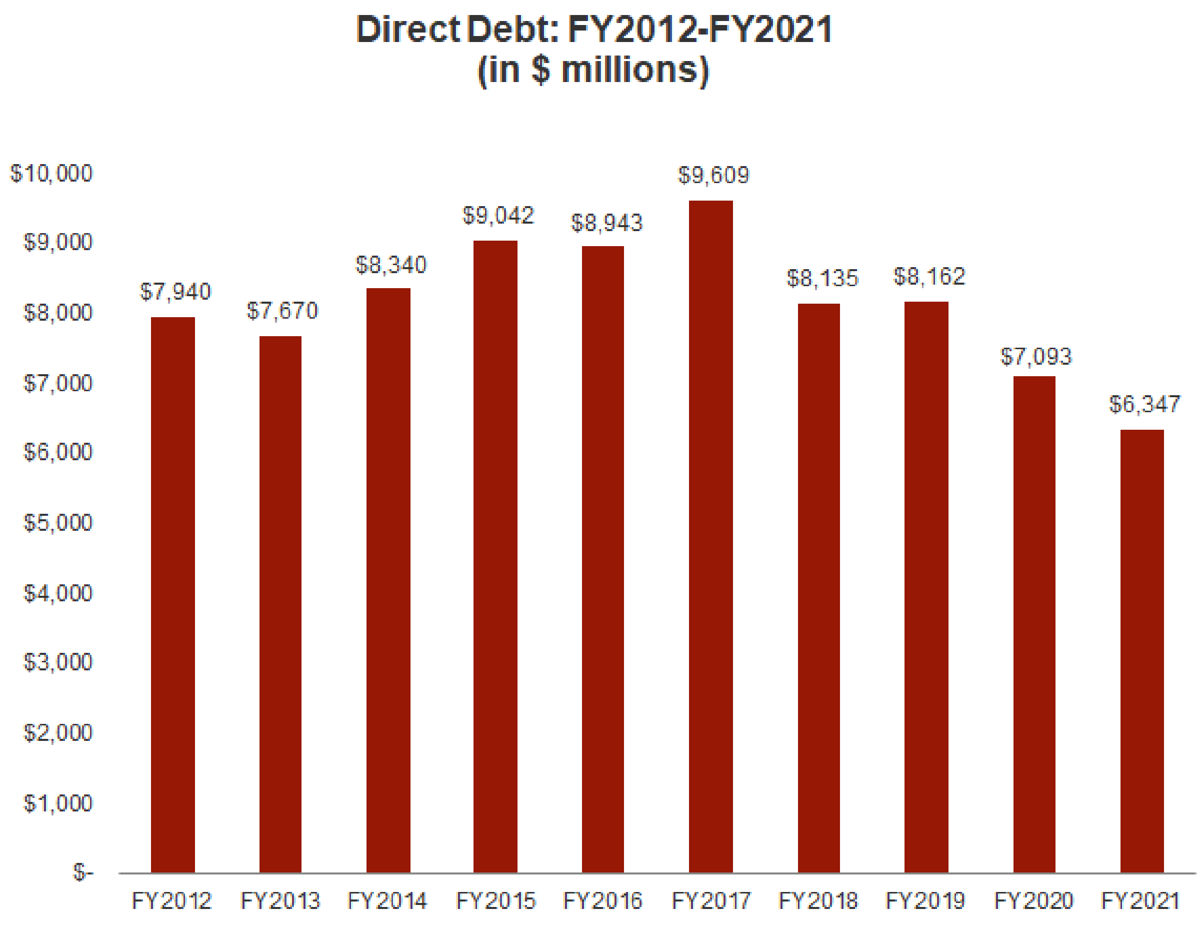


Source: City of Chicago FY2017-FY2021 Annual Comprehensive Financial Reports. Note 10: Long-Term Obligations.

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 20.1%, or nearly $1.6 billion. This represents a decrease from $7.9 billion in FY2012 to nearly $6.3 billion ten years later.

Long-term debt between FY2012 and FY2017 rose to $9.6 billion, before dropping by 29.8% or $2.7 billion by FY2021. 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.[91] The decline between FY2019 and FY2020 was also due to the issuance of additional STSC debt in order to refund general obligation bonds.[92] Further refinancing of STSC debt in FY2021 contributed to additional reductions in debt service costs.[93] The overall debt burden remains high.



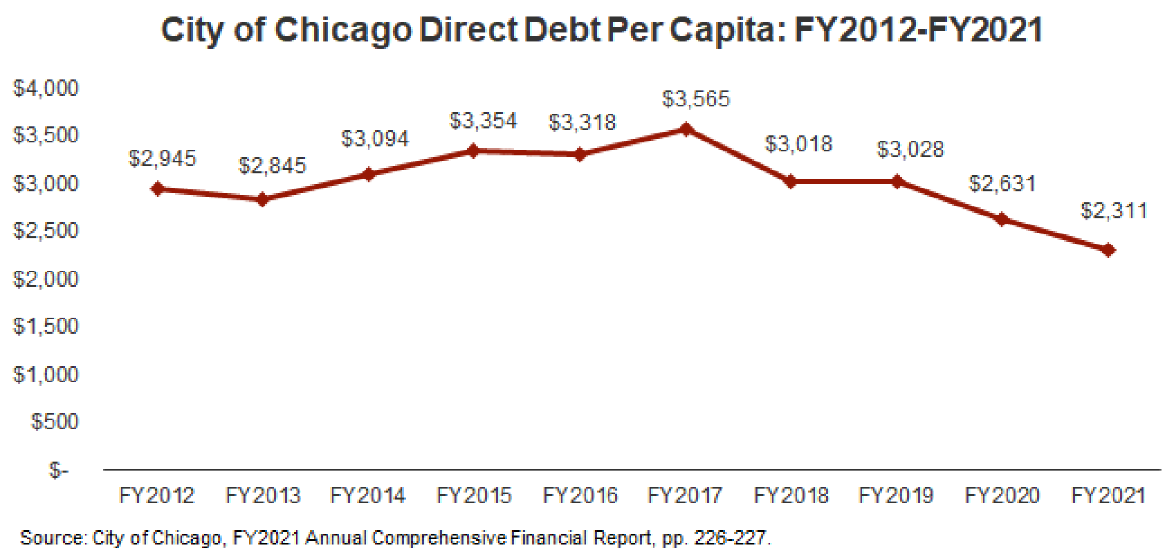
City of Chicago FY2021 Annual Comprehensive Financial Report, pp. 226-227.

[91] City of Chicago FY2018 Annual Comprehensive Financial Report, p. 10.
[92] City of Chicago FY2020 Annual Comprehensive Financial Report, p. 83.
[93] City of Chicago FY2021 Annual Comprehensive Financial Report, p. 83.

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 FY2012 and FY2021, direct debt per capita declined by 21.5% from $2,945 to $2,311. The significant decrease in FY2018 is attributed to the refunding of certain callable general obligation bonds by the Sales Tax Securitization Corporation (STSC Series 2018AB and Series 2018C refunding bonds).[94]



Overlapping Debt: Chicago vs. Other Governments

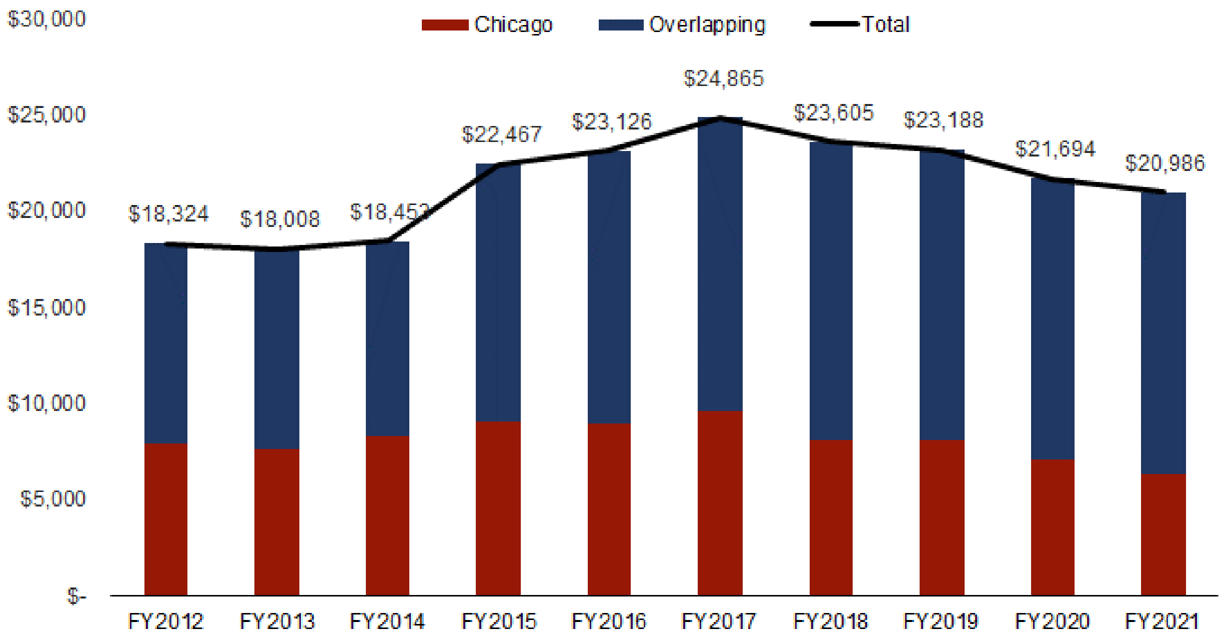
The next exhibit compares total City of Chicago net direct debt with overlapping net debt reported by seven other major Cook County governments with boundaries coterminous with the City of Chicago or located partially within its boundaries. These governments are: Chicago Public Schools, Cook County, the Forest Preserve District of Cook County, the Metropolitan Water Reclamation District, the Chicago Park District, City Colleges of Chicago, the former School Finance Authority and the Chicago School Building Improvement Fund.[95] 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 FY2021 accounted for 30.2% of all long-term debt. Between FY2012 and FY2021, combined direct debt from other overlapping governments increased by 41.0% at the same time City of Chicago debt fell by 20.1%. Total direct debt from all eight major governments including Chicago rose by 14.5% or nearly $2.7

[94] City of Chicago FY2018 Annual Comprehensive Financial Report, p. 10.
[95] 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.

billion. The rate of increase in direct debt issued by the other overlapping governments far outpaced the increase for Chicago.[96]

City of Chicago Direct Debt & Overlapping Debt: FY2012-FY2021
(in $ millions)



Debt Service Appropriation Ratio

Chicago debt service appropriations in FY2023 are projected to be 20.2% of total local fund net appropriations, or $2.4 billion out of expenditures equaling $11.8 billion. Since FY2019, debt service appropriations have risen by 26.5%, less than the 32.9% increase in total net appropriations. The debt service ratio has averaged 20.8% over the five-year period analyzed.

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

The rating agencies consider a debt burden high if this ratio is between 15% and 20%.[97] Thus, Chicago's debt service ratio is high, reflecting the City's large debt burden.

Debt Service Appropriations as a Percentage of Total Net Appropriations: FY2019-FY2023			
Year	Debt Service	Total Net Appropriation	Ratio
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%
FY2023	$ 2,383,853,128	$ 11,773,473,000	20.2%
Five-Year $ Increase	$ 499,253,211	$ 2,917,352,000	
Five Year % Increase	26.5%	32.9%	

Source: City of Chicago Budget Recommendations: FY2019-FY2023.

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 to 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.[98]

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 $4.6 billion outstanding in STSC debt as of December 31, 2021.[99]

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.[100]

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[97] 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.
[98] City of Chicago FY2018 Annual Comprehensive Financial Report, p. 53.
[99] City of Chicago FY2021 Annual Comprehensive Financial Report, p. 30.
[100] City of Chicago FY2018 Annual Comprehensive Financial Report, p. 79.

Sales Tax Securitization Corporation Sales Tax Securitization Series 2018C bonds were sold at a premium in November 2018. The bonds have interest rates ranging from 5.0 percent to 5.25 percent. Net proceeds of $689.3 million were transferred to the City in exchange for a pledge of the City's Sales Tax Revenues and used by the City to refund outstanding General Obligation Bond debt. 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.[101]

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.[102] In the FY2020 budget, the City projected an increase of $121.2 million in debt service in the new fiscal year as compared to FY2019.[103] 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.[104]

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.[105]

In FY2021, the City issued $394.2 million in Series 2021A Sales Tax Securitization Corporation Second Lien Sales Tax Securitization Bonds and $609.9 million in Taxable Series 2021B bonds. The Series 2021A bonds have an interest rate of 5.0 percent and maturity dates from January 1, 2024 and January 1, 2034; the Taxable Series 2021B bonds have interest rates ranging from 0.79% to 3.338% and maturity dates from January 1, 2023 to January 1, 2048. The $1.1 billion in net proceeds from these bonds were primarily used to refund outstanding general obligation bond issues, to refund certain STSC and motor fuel tax bonds and to repay Transportation Infrastructure Finance and Innovation Act (TIFIA) loans. The refunding of the bonds reduced the City's total debt service payments by $91.3 million, resulting in a net economic gain of approximately $134.9 million and a book loss of approximately $120.5 million.[106]

In FY2022, the City projected that $260 million would 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 anticipated that the residual revenue transferred to the City from the STSC would total

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[101] City of Chicago FY2018 Annual Comprehensive Financial Report, p. 79.
[102] Official Statement, $605,430,000 Sales Tax Securitization Corporation, Sales Tax Securitization Bonds, Taxable Series 2019A, January 16, 2019.
[103] City of Chicago 2020 Budget Overview, p. 51.
[104] 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.
[105] Chicago FY2020 Annual Comprehensive Financial Report, p. 83.
[106] City of Chicago FY2021 Annual Comprehensive Financial Report, p. 83.

$569.9 million.[107] The City proposed a refunding for economic savings to cover a portion of the police contract settlement that would include a $48.7 million reduction in STSC debt service.[108]

In FY2023, the City estimates that $319 million will be needed to pay STSC debt services and operating expenses. As of FY2023, the City will no longer have any non-enterprise debt that is not paid for with property taxes. All outstanding debt in the Motor Fuel Tax Debt Service Fund was refunded in full through the STSC in December 2021.[109] The City anticipates that the residual revenue transferred to the City from the STSC will total $619.4 million in FY2023.[110]

Credit Ratings

The table below summarizes the credit ratings as of October 2022 for various types of City bonds.

City of Chicago Credit Ratings (as of October 2022)

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	AA+
Motor Fuel Tax	Ba1	BBB-	BBB-	Not Rated

Sources: City of Chicago FY2021 Annual Comprehensive Financial Report, p. 31; https://www.salestaxsecuritizationcorporation.com/stsc-il/bonds/i3228#anchor-bond-ratings; and https://www.cityofchicagoinvestors.com/generalobligationbonds/bonds/i1398.

Chicago Credit Upgrades in 2021 and 2022

Chicago received a number of credit upgrades from Moody's, Standard and Poor's and Fitch for its long term general obligation and revenue debt in late 2021 and in 2022 from the rating agencies. The upgrades were primarily due to the City's improved economic and revenue situation as it emerged from the depths of the COVID 19 pandemic. The major upgrades are listed below:

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107 City of Chicago FY2022 Budget Overview, p. 44.
108 City of Chicago FY2022 Budget Overview, p. 59.
109 City of Chicago FY2023 Budget Overview, p. 53.
110 City of Chicago FY2023 Budget Overview, p. 40.

- On October 21, 2022 Fitch Ratings upgraded the City of Chicago's general obligation bonds to BBB from BBB- and Sales Tax Securitization Corporation's bonds to 'AA' from 'AA-'. Both issues received a positive outlook. The reason for the upgrade was the City's commitment to improving its pension funding, maintaining strong reserves and implementing structural budget measures that have improved its ability to respond to future cyclical economic changes.[111]

- In August 2022, Fitch Ratings upgraded the rating on $8.5 billion of outstanding general revenue airport bonds to A+ from A. The credit upgrade was based on O'Hare Airport's improved financial performance and stable debt service coverage levels as well as progress that had been made on the airport's expansion and improvement plans.[112]

- In August 2022, S&P raised its rating for Chicago's outstanding senior lien general O'Hare International Airport revenue bonds to A+ from A based on increased passenger traffic and improved enterprise operations.

- In June 2022, S&P revised the outlook to positive from stable for Chicago's customer facility senior lien Series 2013 bonds and affirmed its BBB long term and underlying ratings for these bonds. The action was based on improved rental car activity as the City recovered from the COVID 19 pandemic.[113]

- S&P revised the outlook to positive from stable in January 2022 for the City of Chicago's first lien and second lien general airport revenue bonds issued for Midway International Airport. At the same time, it affirmed its A- rating on these bonds. The outlook change was based on the improved economic situation at Midway Airport as air traffic activity reached 87% of September 2019 levels.[114]

- In December 2021, Fitch Ratings revised the outlook for the Water Second Lien Bonds and Wastewater Second Lien bonds from Negative to Stable and affirmed the bond rating of A-. The upgrade reflected the rating agency's revision of the outlook on the City's issuer default rating in October 2021.[115]

- In November 2021, Moody's Investors Services revised the outlook for $986 million senior lien revenue bonds and $395 million passenger facility charge revenue bonds

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[111] Fitch Upgrades Chicago, IL's GO Bonds to 'BBB' and Rates $757MM GO Bonds 'BBB'; Outlook Positive
Fri 21 Oct, 2022 at https://www.fitchratings.com/research/us-public-finance/fitch-upgrades-chicago-il-go-bonds-to-bbb-rates-757mm-go-bonds-bbb-outlook-positive-21-10-2022.

[112] Fitch Ratings. Fitch Rates Chicago O'Hare (IL) Airport Rev Bonds at 'A+', Upgrades Outstanding: Outlook Stable, August 17, 2022 at https://www.fitchratings.com/research/us-public-finance/fitch-rates-chicago-o-hare-il-airport-rev-bonds-at-a-upgrades-outstanding-outlook-stable-17-08-2022.

[113] S&P Global Ratings. Chicago O'Hare International Airport Bond Rating Outlook Revised To Positive On Improved Rental Car Activity, June 14, 2022 at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/2854176.

[114] S&P Global Ratings. Chicago Midway International Airport Bond Rating Outlook Revised To Positive From Stable On Improving Enplanements, January 20, 2022 at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/2783159

[115] Fitch Ratings. Fitch Revises Outlook to Stable on Chicago, IL's Second Lien Water Revs; Affirms Rating at 'A-', December 23, 2021 at https://www.fitchratings.com/research/us-public-finance/fitch-revises-outlook-to-stable-on-chicago-il-second-lien-water-revs-affirms-rating-at-a-23-12-2021.

issued for Chicago O'Hare International Airport to stable from negative. The agency based the change on improved air traffic at the airport as the Chicago economy recovers from the effects of the COVID-9 pandemic and adequate debt service coverage ratios for the bonds.[116]

- In November 2021, Standard & Poor's made several ratings changes to Chicago bonds. It revised the outlook for General Obligation bonds from negative to stable. In addition, ratings of BBB+ were applied to Chicago's series 2021A, 2021B and 2021C $666.4 million in general obligation bonds and the BBB+ rating on outstanding GO bonds was affirmed. The outlook change reflects the agency's view that the City had returned to greater financial stability following the pressures caused by the COVID 19 pandemic.[117] S&P also revised the outlook for Motor Fuel Tax bonds from negative to positive and the outlook for Sales Tax Securitization Senior Lien and Second Lien bonds from negative to stable based on the City's improved fiscal condition.[118]

116 Moody's Investors Services. Moody's revises outlook of Chicago O'Hare Airport Enterprise (IL) to stable from negative; affirms A2 senior and PFC lien ratings at https://www.moodys.com/research/Moodys-revises-outlook-of-Chicago-OHare-Airport-Enterprise-IL-to--PR_907447127?cy=can&lang=en.

117 S&P Global Ratings. Chicago Outlook Revised To Stable From Negative On Return To Stability Following Pandemic-Related Pressures. November 3, 2021 at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/2749783.

118 City of Chicago FY2021 Annual Comprehensive Financial Report, p. 32.