The Civic Federation

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CITY OF CHICAGO FY2021 PROPOSED BUDGET:

Analysis and Recommendations

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

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EXECUTIVE SUMMARY

The emergence of COVID-19 as a pandemic in early 2020 created a once-in-a-century and unprecedented challenge for states and cities across the country as economic activity was substantially limited due to public health concerns. The Federation recognizes that Mayor Lightfoot and her administration—like mayors across the country—had limited time and options to address an unforeseen and dramatic decline in revenues. All cities are in a difficult financial situation, which is compounded by uncertainty surrounding the longer-term impacts of the pandemic on the economy and how people live and work.

While the City of Chicago is not at fault for the impact of the pandemic on its budget and economy, it did start out in a more precarious situation than some of its peers, having begun FY2020 with a historic $838 million Corporate Fund budget gap. The City closed it through a number of savings and efficiencies, targeted tax increases and refinancing of debt for near-term budgetary relief. However, due to the dramatic decline in revenues caused by the pandemic and the failure of the federal government thus far to provide revenue relief to states and local governments, the City of Chicago faces a year end shortfall of approximately $799 million in FY2020 and a budget shortfall of $1.2 billion in FY2021, which could worsen if the pandemic does not subside.

The Civic Federation offers our **qualified support** for Mayor Lightfoot's proposed FY2021 local funds budget of $9.8 billion. It is reasonable within the context of the extreme uncertainty surrounding the pandemic crisis, which has severely limited the City's options. The Federation supports Mayor Lightfoot's goals of attempting to balance the City's short-term financial needs without overburdening an already fragile economy. **Our support is qualified because the Federation cannot independently verify the City's contention that the extraordinarily large debt restructuring it will rely on to close its FY2020 and FY2021 deficits is sustainable. Details have not been finalized or made public to show that there will be net present value savings on the transaction. Taxpayers would be better served if the City shared scenario plans and additional details associated with the proposed scoop-and-toss debt refinancing. Members of the City Council are well positioned to request such data and should do so if additional detail has not been presented before the budget vote.**

The Federation is **extremely concerned** about the future impact of the City's potential reliance on both large upfront savings from another round of debt transactions and other non-recurring revenues to close budgetary gaps. Such actions, while understandable as the City attempts to maintain services during a punishing economic recession, will increase the probability that the City will have to resort to drastic cuts in essential city services, revenue increases, or both, when it faces an enormous projected shortfall next year. The Civic Federation strongly supports federal revenue relief funding to states and local governments to help them address their pandemic-caused revenue shortfalls. However, additional federal funding will not close the City's pre-existing structural deficit. The need for lasting structural reforms to city operations is of the utmost importance in order for the City to be financially resilient moving forward.

The City is proposing to close a large portion of the FY2020 year-end deficit and FY2021 budget gap by refinancing and restructuring approximately $1.7 billion of general obligation and Sales Tax Securitization Corporation debt for $950 million in near-term budgetary relief and $750 million in economic savings. However, these enormous transactions come with risks. While interest rates are at historic lows and it is financially prudent to refinance debt for economic savings, the debt restructuring that is being proposed has a structure that extends the maturity date of the debt and increases debt costs in future years. The City does not have a lot of good options, but it is important to note that scoop-and-toss bond financing is not good policy. The City says it may not move forward with restructuring a portion of the debt if federal aid is provided, but it will still face increasingly daunting debt and pension obligations going forward.

In addition to the proposed debt restructuring that that will generate a combined $950 million in non-recurring budgetary savings for FY2020 and FY2021, the FY2021 budget also relies on a number of other non-recurring revenues. These one-time measures include $30 million in rainy-day funds, $74.1 million in tax increment financing surplus, $59 million from sweeping aging revenue accounts, as well as smaller amounts from the sale of land. The Federation does not oppose the use of rainy-day funds during times of extreme budgetary stress such as this and is encouraged by the City's restraint in not relying more heavily on reserves—particularly long-term asset lease reserves—to close the budget gap. A larger use of reserves would likely negatively impact the City's credit rating. And while the City has annually declared a TIF surplus, making it akin to a recurring revenue source, the available funding in TIF districts is not unlimited and should not be relied on in future years to close budget shortfalls. Using one-time resources for recurring expenditures is not an ideal practice and will cause budget difficulties in future years.

The Mayor's budget proposal also includes a moderate property tax increase of $94 million, which includes $16 million by taxing new property, $35.4 million from an increase based on the consumer price index[1] and $42.5 million to account for the loss of collections on property taxes for pension contributions. This broad-based and partially indexed tax increase can be justified given the growing financial obligations facing the City, but future increases should be annually reviewed and not automatic. This budget also includes a targeted tax increase on motor vehicle fuel and the personal property lease transaction tax, raising the vehicle fuel tax by $0.03 and the lease transaction tax on cloud-based products 1.75%. According the City's Office of Budget and Management, the estimated impact from the property tax increase will be approximately $56.00, when using the example of a home worth $250,000. The increases to the personal property lease transaction tax and vehicle fuel tax are expected to generate $25 million in FY2021. The Mayor's budget also proposes to eliminate 1,921 positions from the Corporate Fund by eliminating vacancies and shifting crossing guard costs onto the Chicago Public Schools budget as well as potential layoffs and furloughs. However, the City should move forward with requiring furlough days from both union and non-union workers, similar to actions taken by Cook County and Chicago Public Schools when they faced significant budgetary shortfalls. While the City's labor partners have suggested reforms and efficiencies to help avert a property tax increase and layoffs, the Mayor's administration has said many of the proposals have already been implemented. Therefore, the City should not wait until additional federal funding is received before rightsizing its workforce. The City's Office of Budget and Management should also identify the budget savings in their budget that were proposed by the City's labor partners that have already been implemented.

The members of the Chicago City Council have had to make difficult fiscal choices in recent years by approving a series of tax increases to address the severe underfunding of its four pension funds and put the City on better financial footing. However, much more remains to be done. In August 2020 the City projected corporate fund budget gaps of $1.5 billion in FY2022 and FY2023.[2] At the same time, it faces a growing debt burden and labor negotiations with the union representing the City's rank-and-file police, accounting for over 50% of the corporate fund workforce, which are ongoing and may add additional fiscal stress. Furthermore, the firefighter and paramedic collective bargaining agreements that were approved earlier this year will expire on June 30, 2021.

While the City's financial challenges continue to grow in size, the Civic Federation understands Mayor Lightfoot's approach to addressing this year's spending plan. It makes some important cuts and implements efficiencies and revenue increases, but tries also to focus on how to grow the economy on the other side of the pandemic. One of those investments is the decision to begin developing a citywide land

[1] Mayor Lightfoot's FY2021 budget proposal includes a recommendation to increase the property tax annually based on the change in the consumer price index.
[2] The forecasted corporate fund budget gaps are subject to change based on the actions taken by the City as well as other economic and financial factors.

use plan to help guide growth and development. The Federation is encouraged by the City's efforts to develop a citywide plan, which has not been conducted in over 50 years. Additionally, the Federation is encouraged by Mayor Lightfoot's initiatives to introduce best practices in risk management to help better control costs related to settlements and judgments and implement more thorough contract review processes that could produce significant savings.

The pace of recovery for Chicago will require cooperation among City officials, labor partners, residents and the State of Illinois to control the cost of government by enacting meaningful reforms and ensuring Chicago remains a strong economic engine for Illinois for years to come. Federal assistance to all governments should be a part of the recovery. However, given the lack of additional federal funding to date and the State of Illinois' own precarious finances, the City should not delay in addressing its challenges head on. It should additionally prepare for potential downside risks such as the State of Illinois reducing local government assistance in order to balance its own budget or a renewed stay at home order to clamp down on a resurging spread of the coronavirus. The City should share these plans with aldermen and the public through regular briefings—potentially as part of implementing a recent City Council resolution calling for quarterly hearings and updates to aldermen on the budget.[3]

The Civic Federation offers the following key findings on Mayor Lightfoot's proposed FY2021 budget:

- The projected net appropriations for FY2021 equal nearly $9.77 billion. This is a decrease of $74.0 million, or 0.8%, from FY2020 adopted net appropriations of just over $9.85 billion.
- The FY2021 Corporate Fund budget proposal will decrease by 9.0%, or $396.7 million, from approximately $4.4 billion in FY2020 to $4.0 billion in FY2021. The decrease is primarily due to the elimination and transfer of 1,921 positions and planned furlough days for non-union employees and potential layoffs;
- The FY2021 budget proposes to decrease staff by 2,089 FTEs or 5.9%, from 35,447 FTEs to 33,358 FTEs, not including grant-funded positions;
- Public Safety, which includes the Office of Public Safety Administration, Police Board, Police Department, Office of Emergency Management and Communication, Fire Department and Civilian Office of Police Accountability, will see the greatest decrease in FTEs, declining from 22,219 FTEs in FY2020 to 20,592 FTEs in FY2021, a decrease of 1,627 FTEs or 7.3%. This is due to the proposed reduction in vacant positions and the transferring of crossing guards from the City's Office of Emergency Management and Communication to the Chicago Public Schools budget;
- Corporate Fund personnel services are projected to decrease by $99.1 million, or 3.2%, from $3.1 billion in the adopted FY2020 budget to $3.0 billion in FY2021;
- The City's proposed FY2021 gross property tax levy is approximately $1.6 billion, which is a 5.9%, or $88.9 million, increase over the $1.5 billion levy adopted in the FY2020 budget;
- Between FY2010 and FY2019 total net direct debt rose by 11.4%, or $833.9 million. This represents an increase from $7.3 billion in FY2010 to nearly $8.2 billion ten years later;
- The total unfunded liabilities increased to $31.0 billion in FY2019 from $29.2 billion in FY2018; and
- Between FY2010 and FY2019, total unfunded liabilities per resident of Chicago grew from $5,473 per capita to $11,523 per capita. This is an increase of 110.6%.

[3] City Council Resolution SR2020-594, Adopted September 9, 2020.

The Civic Federation **supports** the following initiatives and elements of the City of Chicago's proposed FY2021 budget:

- Reduction in personnel related expenses;
- Relative restraint with proposed increase in property tax levy;
- Implementing management efficiencies and reforms;
- Continuing to fund the Police and Fire Pension Funds on an actuarially calculated basis;
- Limited reliance on reserves to help close FY2021 Corporate Fund budget gap;
- Encouraging public participation by conducting a public survey and holding a series of virtual budget town hall meetings;
- Seeking reimbursement from Chicago Public Schools to cover a portion of the contribution to the Municipal Employees' Annuity and Benefit Fund;
- Increasing targeted taxes for additional revenue; and
- Developing a citywide plan to help guide growth and development.

The Civic Federation has **concerns** about the following issues related to the City of Chicago's proposed FY2021 budget:

- Reliance on upfront savings from scoop-and-toss debt transactions and a return to unsustainable past financial practices;
- Pension contribution spike in 2022 for Municipal and Laborers' Funds;
- Ongoing structural imbalance;
- High bonded debt burden;
- Potential reduction in state shared revenues;
- Lack of cost of services data in budget;
- Uncertainty with regard to outcome of collective bargaining agreements that have not yet been ratified; and
- Planned reliance on gaming to fund police and fire pensions in future years.

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

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

CIVIC FEDERATION POSITION

The emergence of COVID-19 as a pandemic in early 2020 created a once-in-a-century and unprecedented challenge for states and cities across the country as economic activity was substantially limited due to public health concerns. The Federation recognizes that Mayor Lightfoot and her administration—like mayors across the country—had limited time and options to address an unforeseen and dramatic decline in revenues. All cities are in a difficult financial situation, which is compounded by uncertainty surrounding the longer-term impacts of the pandemic on the economy and how people live and work.

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[4] Mayor Lightfoot's FY2021 budget proposal includes a recommendation to increase the property tax annually based on the change in the consumer price index.

The members of the Chicago City Council have had to make difficult fiscal choices in recent years by approving a series of tax increases to address the severe underfunding of its four pension funds and put the City on better financial footing. However, much more remains to be done. In August 2020 the City projected corporate fund budget gaps of $1.5 billion in FY2022 and FY2023.[5] At the same time, it faces a growing debt burden and labor negotiations with the union representing the City's rank-and-file police, accounting for over 50% of the corporate fund workforce, which are ongoing and may add additional fiscal stress. Furthermore, the firefighter and paramedic collective bargaining agreements that were approved earlier this year will expire on June 30, 2021.

While the City's financial challenges continue to grow in size, the Civic Federation understands Mayor Lightfoot's approach to addressing this year's spending plan. It makes some important cuts and implements efficiencies and revenue increases, but tries also to focus on how to grow the economy on the other side of the pandemic. One of those investments is the decision to begin developing a citywide land use plan to help guide growth and development. The Federation is encouraged by the City's efforts to develop a citywide plan, which has not been conducted in over 50 years. Additionally, the Federation is encouraged by Mayor Lightfoot's initiatives to introduce best practices in risk management to help better control costs related to settlements and judgments and implement more thorough contract review processes that could produce significant savings.

The pace of recovery for Chicago will require cooperation among City officials, labor partners, residents and the State of Illinois to control the cost of government by enacting meaningful reforms and ensuring Chicago remains a strong economic engine for Illinois for years to come. Federal assistance to all governments should be a part of the recovery. However, given the lack of additional federal funding to date and the State of Illinois' own precarious finances, the City should not delay in addressing its challenges head on. It should additionally prepare for potential downside risks such as the State of Illinois reducing local government assistance in order to balance its own budget or a renewed stay at home order to clamp down on a resurging spread of the coronavirus. The City should share these plans with aldermen and the public through regular briefings—potentially as part of implementing a recent City Council resolution calling for quarterly hearings and updates to aldermen on the budget.[6]

Issues the Civic Federation Supports

The Civic Federation supports the following elements of the proposed FY2021 City of Chicago budget.

Reduction in Personnel Related Expenses

The Mayor's FY2021 budget proposes to eliminate 1,921 positions from the Corporate Fund. This is expected to generate $106.3 million in savings in FY2021. The reduction of employees includes the elimination of vacant positions primarily within the police department as well as

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[5] The forecasted corporate fund budget gaps are subject to change based on the actions taken by the City as well as other economic and financial factors.
[6] City Council Resolution SR2020-594, Adopted September 9, 2020.

approximately 900 crossing guards that were budgeted within the Office of Emergency Management and Communication, but are now being shifted onto the budget of the Chicago Board of Education.[7] The budget proposal also calls for five furlough days for non-union employees and potentially laying off 350 workers if additional federal funding does not materialize. Given that personnel expenses make up 73.4% of the Corporate Fund budget, these actions are unavoidable and necessary. The Civic Federation believes that the financial circumstances of this budget are dire enough to warrant that the City should not wait to implement five or more furlough days for both union and non-union workers across the City and should not make the planned layoffs contingent upon additional and unspecified levels of federal funding. While the Civic Federation supports federal revenue support it does not justify the delay in these needed actions. Such steps will not only have a greater impact on much-needed budgetary savings this year, but would also be the first step toward right-sizing the City's workforce and reducing personnel expenses with an eye on future budget gaps.

Relative Restraint with Property Taxes

Between FY2015 and FY2019 the City of Chicago increased property taxes by $543 million in an effort to stabilize its four pension funds. In FY2020 the City increased its property tax levy for the Chicago Public Library in FY2020 by $18.4 million to $124.7 million.[8] The increase in the property tax levy allowed for libraries to be open seven days a week and also freed up Corporate Fund revenues that were previously used to subsidize library operations. The Federation supported those increases in the property tax levy because they were necessary to stabilize the City's pension funds and were directed toward a clearly identified purpose. Prior to 2015, mayoral administrations mostly avoided raising property taxes.

In FY2021 the City of Chicago is proposing to increase its gross property tax levy by $93.9 million from the prior year. The increase is attributable to three factors: 1) an inflationary increase of $35.4 million based on the 2019 Consumer Price Index rate of 2.3%; 2) $42.5 million in "loss in collections" for the pension levy; and 3) $16.0 million in added value from new development and expiring Tax Increment Financing districts.[9]

As a home rule unit of government, the City of Chicago is exempt from state legal limits on property tax increases. However, the City has a self-imposed property tax limit that mirrors the state Property Tax Extension Limitation Law, limiting the annual increase in the aggregate property tax extension to the lesser of 5% or the rate of inflation.[10]

While it is not ideal to increase property taxes during an economic downturn, the property tax increase proposed in the FY2021 budget is fairly moderate given the City's financial challenges

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[7] Cassie Walker Burke and Erin Hegarty, City Hall to shift $55 million in costs onto Chicago Public Schools, The Daily Line, October 23, 2020, available at https://chicago.chalkbeat.org/2020/10/21/21527754/city-hall-to-shift-55-million-in-costs-onto-chicago-public-schools-budget-crossing-guards-pensions

[8] The levy for police and fire pension will increase by $70 million. Both increases are offset by a reduction in the debt service levy.

[9] City of Chicago, FY2021 Budget Overview, p. 60.

[10] 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.

and does not deviate from City's self-imposed tax cap policy. The Federation is supportive of the City's increase in the property tax levy to fund its enormous financial obligations, but cautions the City that the overlapping debt and pension burden of the governments in Chicago bears watching and any future increases should be reviewed and individually approved annually as part of the budget process.

Management Efficiencies and Reforms

Since taking office in May 2019, Mayor Lightfoot and her administration have implemented a number of reforms and efficiencies aimed at improving city operations and reducing expenditures. In FY2021 these savings, efficiencies and fiscal management practices are expected to generate $537.2 million. Efficiencies total $184.9 million. This includes $88.9 million in non-personnel savings, $25.0 million in contractual savings and $54.4 million in healthcare savings. Personnel savings are expected to generate $106.3 million by eliminating 1,921 full-time equivalent positions in the Corporate Fund through vacancy eliminations and shifting crossing guard expenses onto the Chicago Public Schools budget.[11] Fiscal management practices are estimated to generate $262.2 million in savings. This includes $68.0 million from enhanced revenue enforcement measures, $59.0 million by sweeping aging revenue accounts, $40.0 million in reimbursements from Chicago Public Schools for pensions, $59.6 million from improved loss in collections and the elimination of the $16 million in revenue shared with the Chicago Transit Authority from the City's rideshare tax.[12] The fiscal management practices also include smaller amounts from a parking meter true-up and improved accounts receivable, totaling $20 million. If these actions are accomplished, they will help make the City's finances more sustainable over the long-term. Labor representatives have laid out a number of proposed savings and efficiencies that they believe would avert layoffs and a property tax increase. While the Mayor's administration says that it has already implemented a number of these efficiencies in 2020 and in the proposed FY2021 budget, it would be helpful if the City shared that information with the public.

Continuing to Fund the Police and Fire Pensions on an Actuarially Calculated Basis

FY2021 is the second year the City will be funding the police and fire pension contributions on an actuarially calculated basis following a five-year ramp in contributions that began in FY2015. In FY2021 the City of Chicago's contributions to the Police and Fire pension funds will total $1.2 billion, which is an increase of $46.4 million from FY2020 levels. Of the $1.2 billion in contributions to the two funds in FY2021, $1.1 billion will be funded from property taxes, and $40.7 million from the City's Aviation Enterprise Funds.[13]

The City should next develop a public multi-year plan on how it will address an even larger spike of nearly $400 million in pension contributions in 2022 when the Municipal and Laborers'

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[11] City of Chicago, FY2021 Budget Overview, p. 200; and Cassie Walker Burke and Erin Hegarty, City Hall to shift $55 million in costs onto Chicago Public Schools, The Daily Line, October 23, 2020, available at https://chicago.chalkbeat.org/2020/10/21/21527754/city-hall-to-shift-55-million-in-costs-onto-chicago-public-schools-budget-crossing-guards-pensions

[12] Communication with City of Chicago, Chief Financial Officer, October 28, 2020.

[13] City of Chicago, FY2020 Budget Overview, p. 58.

pension funds transition to an actuarially calculated contribution and subsequent annual increases.

Limited Reliance on Reserves

Facing a historic FY2021 budget shortfall of $1.2 billion, the City of Chicago is proposing to use a total of $246.8 million in fund balance available from the prior year across all local funds. This includes $111.0 million in unrestricted fund balance available from the prior year within the Corporate Fund, $130.9 million in available fund balance within the special revenue funds and enterprise funds and $4.9 million of prior year fund balance in the debt service funds.
While some have called on the Mayor and her administration to use more reserve funds to close the FY2021 budget gap instead of layoffs or borrowing, doing so would not only reduce reserves that may be needed to address future budget shortfalls, but could trigger a credit downgrade from ratings agencies. The Federation is encouraged the Mayor and her administration are showing restraint by not relying more heavily on the use of reserve funds to close this year's budget gap.

Encouraging Public Participation in the Budget Process by Conducting a Public Survey and a Holding a Series of Virtual Budget Town Hall Meetings

The Civic Federation commends the Mayor and her finance team for adapting to the COVID-19 pandemic and holding virtual budget town hall meetings as well as conducting a public survey to encourage public participation and inform residents of the enormous financial challenges that the City faces in developing the FY2021 budget. The Mayor and her administration's continued efforts to interact with residents during these town halls is an encouraging step toward improving the transparency and accessibility of the budget to the general public.

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

In FY2021 the City will contribute $576.0 million to the Municipal Employees' Pension Fund.[14] However, roughly half of the 31,864 active Municipal Fund members are not City employees, but rather are non-teacher employees of Chicago Public Schools.[15] As part of the FY2021 budget, the City is seeking reimbursement of $40 million from Chicago Public Schools (CPS) to cover a portion of the City's annual pension contribution to the Municipal Fund.[16]

In FY2012 the City of Chicago had previously planned to transition some of these costs to Chicago Public Schools (CPS).[17] The Civic Federation supported this reimbursement to the City of Chicago because it improves cost transparency. However, due to the financial challenges CPS subsequently faced this reimbursement of pension costs was not implemented.

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[14] City of Chicago, FY2021 Budget Overview, p. 58.
[15] The most recent data available on the number of Board of Education employees in the Municipal Fund is of December 31, 2018. As of that date 54.8%, or 17,146 of the 31,285 active members of the Municipal Fund were employees of Chicago Public Schools (CPS). Certified teachers employed by CPS participate in the Public School Teachers' Pension and Retirement Fund of Chicago. All other CPS employees are enrolled in the City of Chicago's Municipal Employees' Annuity and Benefit Fund. Chicago Public Schools, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2019, p. 83.
[16] City of Chicago, FY2021 Budget Overview, p. 44.
[17] City of Chicago, FY2012 Budget Overview, p. 6.

While CPS faces its own financial challenges, particularly the increased expenses tied to the new Chicago Teacher's Union collective bargaining agreement and its reliance on uncertain federal funding to balance its budget, the Federation supports the pension cost transparency in this move, particularly at time when the City is facing its own financial challenges related to pensions.

Increasing Targeted Taxes for Additional Revenue

In the context of a rational financial plan, the Civic Federation is able to support moderate revenue increases through taxes and fines. State and local governments across the country are trying to balance their budgets for the upcoming fiscal year during a time of significant economic uncertainty due to the current pandemic and in the absence of assistance from the federal government. While increasing taxes during an economic recession is not ideal, the Mayor's proposed budget is narrow in its approach to generating much needed revenues in order to maintain its credit rating without overburdening a fragile economy. The FY2021 budget is proposing to increase a number of taxes to help offset the decline in revenue caused by the pandemic. This includes increasing its property tax levy by $94 million, its municipal vehicle fuel tax by $0.03 per gallon, from $0.05 to $0.08 per gallon and its personal property lease transaction tax on cloud-based products 1.75%, from 7.25% to 9.0% in FY2021. These tax increases are warranted and reasonable in order to address the City's enormous financial obligations and are projected to generate approximately $76 million in additional revenue for FY2021.

In the FY2020 budget the City increased the personal property lease transaction tax rate for nonpossessory computer leases of software and infrastructure—referred to as "cloud" software or infrastructure—from 5.25% to 7.25%. The rate for all other lease transactions remained at 9.0% of the lease or rental price. The proposed 1.75% increase on nonpossessory cloud products in FY2021 will now be aligned with all other products that are subject to this tax. With the proposed rate increase revenues from the personal property least transaction tax are projected to increase $19.7 million above the FY2020 adopted budget figures.[18]

The City's proposed $0.03 per gallon increase in its municipal vehicle fuel tax from $0.05 per gallon to $0.08 per gallon would increase the composite tax for gasoline in Chicago from $0.69 per gallon to $0.72 per gallon and $0.85 per gallon of diesel. This includes rates imposed by the federal government, State of Illinois, Cook County and the City of Chicago. The $0.03 per gallon increase is expected to generate $10 million in FY2021.[19]

Developing a Comprehensive Land Use Plan

Chicago is the birthplace of modern-day planning and is home to the American Planning Association, the Chicago Metropolitan Agency for Planning (CMAP), world class universities and some of the most renowned private planning and consulting firms in the world. Previous planning efforts have provided Chicago with miles of lakefront beaches, the forest preserves, Navy Pier, a thriving central business district and a number of other cultural assets that would not have otherwise been possible if they were not part of a larger plan for Chicago and the

[18] City of Chicago, FY2021 Budget Overview, p. 191.
[19] City of Chicago, FY2021 Budget Overview, p. 29.

region. However, Chicago does not have a coherent and comprehensive long-range plan to guide the future growth and development of the City. In fact, it has not had a comprehensive land use plan since 1966.

A comprehensive plan is a long-term plan that guides a community's growth and development over a 10- to 20-year period. The plan should be flexible and adaptive in nature to allow for revisions over time to meet the needs of the community and should include plans and recommendations to reach the desired vision of the community.

The plan should be composed of a series of distinct yet interrelated elements, as defined within the Illinois Local Planning Assistance Act (Public Act 92-0768). In summary, at a minimum the elements that must be addressed in a comprehensive plan include:[20]

- Issues and opportunities;
- Land use and natural resources;
- Transportation;
- Community facilities;
- Telecommunications infrastructure;
- Housing;
- Economic development;
- Natural resources; and
- Public participation.

The comprehensive plan is not required to, but should also address:

- Natural hazards;
- Agriculture and forest preservation;
- Human services;
- Community design;
- Historic preservation; and
- The adoption of subplans as needed.

An added benefit of adopting a comprehensive plan by a local government in Illinois is that the local government may be eligible to receive greater preferences in terms of State of Illinois economic development, transportation, planning, natural resource and agricultural programs.[21]

Under the Illinois Municipal Code (65 ILCS 5/11-12-5(1)), a municipal plan commission is responsible for preparing and recommending a "comprehensive plan for the present and future development or redevelopment of the municipality." Although the City of Chicago has had some form of a plan commission since 1909, it has not produced a comprehensive plan for City Council approval in over 50 years.

[20] For a complete explanation of what each element in a comprehensive plan is see Public Act 92-0768.
[21] State of Illinois, Public Act 92-0768.

Many of Chicago's peer cities already conduct this planning process. The Civic Federation applauds the City of Chicago for beginning to undertake this long overdue best practice in planning which will better prepare the City for a post-pandemic world.

Civic Federation Concerns

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

Reliance on Upfront Savings from Scoop-and-Toss Debt Transactions and a Return to Past Financial Practices

The City faces enormous financial challenges entering FY2021. The dramatic impact on revenues caused by the pandemic along with increasing pension obligations and unresolved collective bargaining agreements will make it extremely difficult for the City to achieve structural balance in the near future. The FY2021 budget proposes to close its record Corporate Fund deficit with a number of revenue enhancements, efficiencies and savings. The Federation supports the approach of emphasizing savings while also using targeted tax increases to balance the budget. However, we have significant concerns surrounding the massive debt restructuring and refinancing that is projected to generate $950 million in savings to help compensate for extreme losses in revenue in FY2020 and FY2021.

The Mayor and her administration announced they will be refinancing and restructuring approximately $1.7 billion in existing City General Obligation debt and Sales Tax Securitization Corporation debt for $750 million in economic savings and $950 million in near-term budgetary relief to help balance the FY2020 year-end revenue shortfall and FY2021 budget gap.[22] The City acknowledges that the debt restructuring will extend debt maturities and increase future debt service payments, which is considered to be a scoop-and-toss type transaction that reduces current year debt service payments but extends debt into future years. The City believes they will be able to get sufficient savings on interest costs for the refinancing to pay for the cost of the restructuring and that the transaction will be neutral to slightly positive on a net present value basis.

A majority of the refinancing will be funded with junior lien Sales Tax Securitization Corporation (STSC) bonds.[23] STSC deals done thus far on the whole will save taxpayers millions in interest debt service costs through its higher credit ratings and lower interest costs. The Civic Federation continues to be encouraged by this creative option to manage the cost of its high debt burden. However, the Federation is concerned because the upfront savings the City projects are non-recurring, meaning that because Chicago is directing them to close the budget gap in FY2020 and FY2021 it will have to find some other way to close a $500 million gap the one-time proceeds of the debt will open up in the FY2022 budget. Additionally, while the City has few options available, it is important for the Civic Federation to point out that scoop-and-toss transactions are not good policy and the City should avoid them in the future.

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[22] City of Chicago FY2021 Budget, Debt Refinancing and Restructuring Handout.
[23] Communication with the City of Chicago Chief Financial Officer on October 28, 2020.

Pension Contribution Spike in 2022 for Municipal and Laborers' Funds

Since 2015 the City has secured state legislation implementing new 40-year pension funding schedules for all four of its pension funds and implemented reliable funding streams that provide sufficient funding for the first years of each funding plan. The funding schedules provide for five years of increasing payments laid out specifically in the state statute, leading to an actuarially calculated payment schedule with a 90% funding goal for the subsequent 35 years. FY2021 is the second year the City will make an actuarially calculated contribution to the Police and Fire funds. The FY2021 contribution to the Police and Fire funds will total $1.2 billion. In FY2022 the City will begin making actuarially calculated payments to all four of its pension funds, which will total $2.2 billion, including a nearly $400 million projected increase to the Municipal and Laborers' funds, and an increase from the total FY2021 contribution of $1.8 billion.

While an actuarially calculated funding schedule is an improvement from the multiplier-based contribution schedule the Municipal and Laborers' Funds were previously subject to, the new schedule actually reduced payments for the Police and Fire Funds from the level that would have been required starting in 2016.

As the Civic Federation pointed out at the time the two bills implementing the new funding schedules were passed, the problem with specific dollar payments specified in law is that they do not change in response to the actual needs of the fund.[24] The result is that when the funds experience investment losses or change their actuarial assumptions, the payments do not compensate for those changes and have led to a fall in funding levels despite increased employer contributions. Additionally, any unfavorable deviation from expectations results in an even larger jump after the fifth year of ramp funding—2022 for Municipal and Laborers'[25]—in order to begin funding at an actuarially calculated level.

The Civic Federation is concerned that in order for the new pension funding schedules to fulfill their purpose of putting the City's four pension funds on a more sustainable path, it is imperative that the City develop a long-term funding plan. In fact, developing a rational, reliable plan for pension funding will be one of the most important jobs Mayor Lightfoot and her administration will take on in the coming years.

Ongoing Structural Imbalance

In its *2021 Budget Forecast* released in August 2020, the City projected that without changes to expenditures and revenues, its Corporate Fund deficit would be $1.2 billion in FY2021 and $1.5 billion in FY2022 and FY2023.[26] The Federation is pleased the City is now accounting for known long-term liabilities such as pensions and debt service in its budget forecasts.

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

The City is proposing to close its $1.2 billion corporate fund budget gap and make $18.6 million in investments with some one-time revenue sources, including $33.5 million of additional tax increment financing (TIF) surplus, $501 million in debt refunding savings, and approximately $59 million from sweeping aging revenue accounts.[27] These one-time revenue sources will not be available next year at the same level, particularly with the extraordinarily large TIF surplus that continues to be declared in recent years and recent debt transactions that capture all the savings upfront rather than spreading those savings out over the life of the bonds.

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

One-time resources ideally should not be used to cover ongoing operating expenditures, but would be more prudently dedicated to reducing long-term liabilities, building reserves or making capital investments. The structural deficit that remains due to the use of non-recurring revenues will require the City to make additional cuts or tax increases in the coming years when the City will need to increase its funding to the four pension funds, as discussed above.

The City continues to make considerable efforts to reform its operations through management efficiencies and innovative programs. However, the imbalance between operating expenditures and recurring revenue sources is projected to continue to grow, absent action to reduce expenditures or increase revenues, and the continued practice of using significant one-time revenue sources only exacerbates the ongoing structural deficit and leaves the City vulnerable when hit with unexpected costs or during an economic recession.

High Bonded Debt Burden

The City of Chicago continues to have a relatively high debt burden with debt service appropriations in FY2021 projected to be 20.0% of total local fund net appropriations, or $1.9 billion out of expenditures of $9.8 billion. Since FY2017 debt service appropriations have risen by 0.9%, less than the 18.9% increase in total net appropriations. The debt service ratio has averaged 21.3% over the five-year period analyzed. The ratings agencies consider a debt burden high if this ratio is between 15% and 20%.[28]

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

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[27] Communication with the City of Chicago Chief Financial Officer on October 28, 2020.
[28] Standard & Poor's, *U.S. Public Finance Rating Criteria: Tax-Secured and Utilities, 2016*, p. 7. See also Moody's, *General Obligation Bonds Issued by U.S. Local Governments*, October 2009, p. 18.

Potential Reduction in State Shared Revenues

Under Illinois law, the State is required to share a certain portion of state income tax receipts with municipal and county governments in Illinois. The money is deposited into the Local Government Distributive Fund (LGDF) and distributed to local governments based on population. Local governments are able to broadly use this revenue source for general operating costs without restrictions.

Until 2011, local governments received 10% of the State's net income tax revenues. The share was subsequently reduced to 10% of pre-2011 rates, which prevented counties and municipalities from benefiting from State income tax increases. That policy remained in place in FY2018, after the State enacted a permanent income tax increase. To help the State budget, the LGDF share was reduced by 10% in the FY2018 budget and by 5% in the FY2019 and FY2020 budgets. With the holdback, the effective LGDF share in the past two years was 5.84%, including 5.76% of individual income taxes and 6.51% of corporate income taxes.

The enacted State budget for FY2021 does not include a holdback. However, with the State's ongoing financial challenges that were only exacerbated by the current pandemic and recent failure to gain approval from voters for a graduated income tax, it is likely the State will again turn to reductions in the LGDF to prop up its own budget.

Lack of Cost of Services Data

As the City explores alternative ways to deliver services more efficiently and effectively, it is essential to account for the full cost per unit of services currently provided in order to evaluate alternatives. The GFOA points to other important uses for data on the cost of government services including performance measurement and benchmarking, setting user fees and charges, privatization, competition initiatives or "managed competition" and activity-based costing and activity-based management. The GFOA states that the full cost of service includes all direct and indirect costs related to the service. Examples of direct costs include salaries, employee wages and benefits, materials and supplies, associated operating costs such as utilities and rent, training and travel; and costs that may not be fully funded in the current period such as compensated absences, interest expense, depreciation or use, allowance and pensions. Indirect costs encompass shared administrative expenses within the work unit as well as support functions outside of the work unit (human resources, legal, finance, etc.).[29]

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

- Personnel Services;
- Contractual Services;
- Travel;
- Commodities
- Equipment;
- Permanent Improvement and Land; and

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

- Specific Items and Contingencies.

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

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

Corporate Fund personnel services included in Finance General are budgeted at $472.6 million for FY2021.[30]

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

Uncertainty With Regard to Outcome of Collective Bargaining Agreements

In 2017 all of the City's collective bargaining agreements expired. Over 90% of the City's workforce is unionized and all 44 contracts were up for renegotiation. The City has come to agreement with some of its labor partners since the expiration of the contracts in 2017. However, the collective bargaining agreement with police officers, which represent the approximately one-third of the City's personnel, are not yet finalized. While the labor agreements that have been finalized include reasonable increases in salaries and healthcare savings and the City is prudently incorporating estimated expenses tied to contracts still under negotiation in the upcoming budget, the contracts will increase the cost of government operations in coming years, particularly with the large back payments that will be required once contract negotiations are finalized.

With personnel related costs making up the largest share of expenses, the Civic Federation urges the City to remain cognizant of the increased financial pressures the City will face in coming years and insist on reasonable and sustainable collective bargaining agreement provisions for the remainder of the labor agreements that have not yet been ratified.

Planned Reliance on Gaming Revenues to Fund Police and Fire Pensions

When the State of Illinois passed its FY2020 Budget, it also enacted its first capital plan in over 10 years that relied on a massive expansion of gambling to fund certain projects. The expansion allows for an additional six casinos, including a Chicago casino, with the City's portion of the revenues from the Chicago casino being earmarked for police and fire pensions.[31] However, a feasibility study conducted in August 2019 that evaluated the preliminary sites for the new

[30] City of Chicago FY2021 Budget Recommendations, p. 7.
[31] Greg Hinz, "Lightfoot's pension pitch hits wall in Springfield," *Crain's Chicago Business*, September 18, 2019.

casino in Chicago determined that the then current tax rates and other upfront costs would lead to smaller profit margins.[32]

In May 2020, the General Assembly approved legislation replacing the 33.3% city tax on post-payout revenue with a graduated tax structure on slot machines and table games ranging from 10.5% on revenue up to $25 million to 34.7% of revenue greater than $1 billion.[33] It also increased the timetable for reconciliation fee payments for all Illinois casinos from two to six years and gave applicants a longer period of time to pay for a license if the Illinois Gaming Board approves.[34] The Governor signed the casino legislation on June 30, 2020.[35]

Gaming revenues are notoriously unreliable, particularly over the long run, and should be budgeted with caution.[36] The State of Illinois currently has 10 casinos and thousands of video gaming locations. With an additional 6 casinos plus the Chicago casino, there is greater potential for market saturation.

The City issued a Request for Information (RFI) in August 2020 to solicit ideas and strategies to develop and operate a casino in Chicago. However, when a casino would be up and running is uncertain given that casinos in Illinois have been shuttered due to social distancing guidelines and gaming revenues in Illinois as a whole have seen steep declines.

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.

Seek Budgetary Savings through Collective Bargaining Agreement Provisions

Over 90% of the City's workforce is unionized and given the City's current financial situation, it should be seeking long-term budgetary savings wherever possible, and labor partners should work with the City to reduce unnecessary costs contractually obligated through collective bargaining agreements. An Office of the Inspector General's report issued in May 2017

[32] Dan Petrella, Ryan Ori, John Byrne and Jamie Munks, "Proposed Chicago casino unattractive to investors because of 'onerous' taxes; South and West side sites wouldn't draw tourists, says a state-hired consultant," *Chicago Tribune*, August 13, 2019.

[33] Dan Petrella, John Byrne and Jamie Munks, Chicago Mayor Lori Lightfoot spent months working both sides of the aisle in Springfield to secure casino vote. Chicago Tribune, May 29, 2020 at https://www.chicagotribune.com/politics/ct-lori-lightfoot-chicago-casino-framework-20200530-k4nnz2kqezc57keyg7jbm6vng4-story.html.

[34] Tina Sfondeles and Neal Earley. Chicago casino, budget get green light, in waning hours of special session. Chicago Sun-Times, May 24, 2020 at https://chicago.suntimes.com/2020/5/23/21268597/chicago-casino-bill-fix-springfield-illinois-house-pass-pritzker-gambling-expansion.

[35] Dan Petrella. Gov. J.B. Pritzker signs bill intended to boost prospect of long-discussed Chicago casino. Chicago Tribune, June 30, 2020 at https://www.chicagotribune.com/politics/ct-jb-pritzker-chicago-casino-tax-rates-20200630-hso3fv3levay3a26ktyluf2k7i-story.html.

[36] "Are Sin Taxes Healthy for State Budgets?," *The Pew Charitable Trusts*, July 2018

described a number of costly provisions in the City's collective bargaining agreements[37], many of which are specific to police and fire agreements including:

- Duty availability pay, which is a lump sum quarterly payment, to account for the expectation that police department and fire personnel are often called to duty on their days off. These payments are pensionable;
- Fitness pay, or a bonus for passing a physical fitness exam;
- Annual payments to the police and fire unions for holding a health fair;
- Compensatory time buy-backs, which allows Chicago Police Department members to cash in their accrued overtime worked upon retirement;
- Quarterly differentials for sergeants, lieutenants and captains, which are lump sum quarterly payments, originally intended to compensate police supervisors for overtime. These payments are on top of duty availability payments;
- Uniform allowances; and
- Tuition reimbursement.

At a September 17, 2020 joint meeting of the Budget and Government Operations and Public Safety Committees, the Council Office of Financial Analysis (COFA) suggested that the City could save approximately $55 million from the Police Department budget in the Corporate Fund by eliminating specialty pay, supervisors' quarterly payments, uniform allowance, specialty reimbursement and physical exams (which COFA suggested should be covered through health insurance). Similar eliminations on a smaller scale could be made in the airport funds for police officers assigned to O'Hare and Midway Airports.

The Civic Federation agrees that longstanding provisions included in collective bargaining agreements need to be reevaluated and that provisions deemed unnecessary be reduced either through reasonable modifications, or eliminated entirely. The City will face increased financial pressure in future years due to debt service expenses and pension funding commitments. With personnel related costs making up the largest share of the City's expenses, the collective bargaining agreements are an ideal place to begin identifying ways to better manage personnel related expenses.

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

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

The City of Chicago has $31.0 billion in unfunded actuarial accrued liabilities for its four pension funds and they are collectively only 23.2% funded. Since 2015 the City has secured state

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[37] City of Chicago Inspector General, *"Report of the Office of Inspector General: Review of the City of Chicago's Expired and Expiring Collective Bargaining Agreements,* May 2017, http://chicagoinspectorgeneral.org/wp-content/uploads/2017/05/2017-CBA-Review-1.pdf (last accessed November 7, 2017).

legislation implementing new 40-year pension funding schedules for all four of its pension funds and implemented reliable funding streams that provide sufficient funding for the first years of each funding plan. However, significant challenges remain for the City to keep to its statutory funding schedule. Given these challenges, it makes sense for the City to pursue any reforms that could reduce the cost of the pension program – including consolidation of investment and eventually benefit management with downstate and suburban funds.

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

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

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

The City of Chicago's four pension funds combined have $31.0 billion in unfunded pension liabilities. The City has already implemented a series of property tax increases, imposed a water and sewer utility tax and increased the 911 surcharge, which frees up corporate fund revenue to fund pension contributions to the Laborers' Fund. However, the City still faces enormous debt obligations and will face ongoing difficulty in funding its large pension obligations. Much more will need to be done in the future and the Mayor and City Council will need to make difficult decisions, including additional budgetary cuts, savings and possibly even more revenue.

The first *Annual Financial Analysis* released by the City prior to development of its FY2012 budget was an important step toward the development of a formal long-term financial plan. Subsequent *Annual Financial Analysis* reports have also contained much useful information, including financial projections and Mayor Lightfoot's FY2021 Budget Forecast provided greater transparency surrounding the City's long-term liabilities surrounding pensions and debt service payments. However, the Civic Federation believes that an effective financial planning process also must include the identification of possible actions and scenarios to address fiscal challenges. As the GFOA states in its long-term financial planning best practice, such forecasting allows financial capacity to be aligned with long-term service objectives and strategies to achieve long-term sustainability.[38]

Therefore, we recommend Mayor Lightfoot and her administration undertake a long-term financial planning process that would proceed in four stages. First, the Mayor's administration should articulate fiscal and programmatic goals and priorities informed by public input. The long-term financial plan should evaluate financial and service data in order to determine how to accomplish the goals and priorities. It should include a review of the City's financial policies, a financial condition analysis that presents 10 years of historical trend information, multi-year

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

financial forecasts, a reserve analysis, an evaluation of debt and capital obligations and a series of action recommendations. The insights derived from the long-term financial plan would directly inform the development of a balanced City of Chicago budget that is fiscally sustainable each year. The budget would then be regularly monitored to ensure its viability by means of regular financial reports.

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

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

Include Finance General Costs in City Department Budgets

The City should include all direct costs in departmental budgets including all employee benefits, pensions, facilities expenses and liability expenses. Finance General costs, which are currently measured by fund only, ideally should be accounted by department to show the full cost of services. Indirect costs such as support function expenses (human resources, legal, finance) should also be calculated and made available in the budget. The GFOA recommends that such shared costs be apportioned by a systematic and rational allocation methodology and that the methodology be disclosed.[39]

Improve Transparency of the Sales Tax Securitization Corporation

The City of Chicago plans to issue General Obligation and junior lien Sales Tax Securitization Corporation (STSC) bonds to refinance $1.7 billion of General Obligation (GO) and sales tax securitization (STSC) bonds for economic savings and near-term budgetary relief. The STSC entity is a lockbox designed to intercept sales tax revenue in order protect bondholders in the event of a bankruptcy. Any municipal bankruptcy in Illinois would have to be authorized by the State.

Chicago Sales Tax Securitization Corporation senior lien bonds were downgraded by Fitch in January 2020 from AAA to AA- with a stable outlook. The downgrade was due to a change in Fitch's rating criteria for public tax supported debt. In April 2020, Standard and Poor's revised

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

its rating of Chicago Sales Tax Securitization Corporation sales bonds from a stable to a negative outlook while affirming the bond's AA- rating. The outlook change was based on the rating agency's concerns over revenue declines caused by the coronavirus pandemic.[40] Kroll assigned a long-term rating of AA+ with a Stable Outlook to the Sales Tax Securitization Corporation (STSC) of Chicago's Second Lien Sales Tax Securitization Bonds in January 2020. At the same time, it affirmed the AAA rating with a stable outlook for the City's Sales Tax Securitization Bonds.[41]

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

Re-Evaluate the Use of TIF Funds

The City has taken a number of steps to improve the transparency and efficiency of the 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.[42] In addition, the Mayor Lightfoot instituted additional reforms that include a reorganization of the TIF Taskforce with a greater focus on equity in its decision-making, a more thorough review of TIF funded proposals and improved transparency by releasing monthly reports on TIF spending and annual publications on the TIF program.[43]

In FY2021 the City is declaring a surplus in Tax Increment Financing (TIF) districts of $304.0 million and will receive $76 million as its share of the distribution of those funds. Approximately $167.0 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 FY2021 the City will have declared a total of $1.8 billion in TIF surplus with approximately half going to Chicago Public Schools.[44] Such large TIF surplus declarations may not reoccur in future years.

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

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[40] S & P Global Ratings. Sales Tax Securitization Corporation of Chicago; Sales Tax, April 24, 2020.
[41] City of Chicago FY2019 Comprehensive Annual Financial Report, p. 105.
[42] City of Chicago FY2020 Budget, Declaring Surplus TIF Funds Handout.
[43] 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.
[44] City of Chicago FY2019 Budget Overview, p. 14 and Civic Federation calculations.

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

Increase the Garbage Collection Fee

As part of the FY2016 budget approval process the City of Chicago for the first time imposed a waste removal fee of $9.50 per month on approximately 600,000 residents currently receiving waste removal services provided by City of Chicago employees. The $9.50 fee on certain households is estimated to generate $62.2 million in FY2021. The City of Chicago estimated that it will spend $230.9 million on residential solid waste removal services in FY2018.[45] However, a City of Chicago Inspector General report issued June 21, 2018 stated that the City overestimated the cost of providing those services by approximately $45.2 million. Even with the overestimation in expenses tied to garbage collection, the residents receiving the service are not paying the true cost. As a matter of fairness, taxpayers in Chicago who are required to pay a private scavenger service for waste removal at their properties should not be subsidizing the cost of waste removal that is provided to the 600,000 residents that currently receive waste removal services from the City of Chicago.

According to the U.S. Census Bureau, in fiscal year 2012 solid waste revenues ranged from 4.0% of waste removal expenses in Houston to more than 95% of expenses in Dallas, Los Angeles, Phoenix, San Antonio, San Diego and San Jose.[46] The $9.50 fee imposed by the City of Chicago for waste removal services will only cover approximately 34% of the costs associated with the delivery of municipal waste services. Therefore, the remaining 66% must be paid for by other sources of revenue within the budget.

The Civic Federation continues to recommend that the City annually evaluate the fee as part of the budget approval process because the fee is tied directly to a service being provided and could free up revenue that can be used to cover increased pension contributions or a number of other pressing financial issues facing the City.

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

ACKNOWLEDGEMENTS

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

FY2020 YEAR-END DEFICIT AND FY2021 CORPORATE FUND BUDGET DEFICIT AND GAP CLOSING MEASURES

The City of Chicago is required by law to pass a balanced budget so it does not have a budget "deficit" in the same sense that the U.S. federal government has a deficit. The "budget deficit" is a commonly used synonym for the projected budget gap calculated by the City. It refers to the gap between projected revenues and expenditures for the next fiscal year, which must be addressed in the proposed budget ordinance.

In its *2021 Budget Forecast* the City of Chicago projected a FY2020 year-end deficit in its Corporate Fund of approximately $799 million and a $1.2 billion budget deficit for FY2021. The deficit includes all known long-term liabilities such as pensions and debt service.[47] The deficit was mainly the result of the unprecedented loss in revenue due to the COVID-19 pandemic.

FY2020 Year-End Deficit and Gap Closing Measures

Corporate Fund revenues for FY2020 are estimated to end the year $886.6 million lower than the originally budgeted while Corporate Fund expenditures are only expected to end the year $87.8 million lower than originally budgeted expenditures, creating a year-end gap between revenues and expenditures of $798.8 million in FY2020.[48] The City intends to close the year-end deficit by refinancing general obligation and Sales Tax Securitization Corporation bonds for near-term budgetary relief of $450 million and the remaining $349 million will be closed with federal funding tied to COVID-19 related expenses.[49]

City of Chicago Corporate Fund Projections: FY2020 (in $ millions)

	FY2020 Budgeted	FY2020 Year-End Estimate	FY2020 Budget - FY2020 Year-End $ Change	FY2020 Budget - FY2020 Year-End % Change
Total Resources	$ 4,419.2	$ 3,532.6	$ (886.6)	-20.1%
Expenditures	$ 4,419.2	$ 4,331.4	$ (87.8)	-2.0%
Surplus (Deficit)	**$ -**	**$ (798.8)**	**-**	**-**

Note: Numbers in chart may differ slightly from numbers presented in the Budget Forecast due to rounding.

Source: City of Chicago 2021 Budget Forecast, p. 19.

FY2021 Corporate Fund Gap-Closing Measures and Additional Investments

The City is proposing to close its $1.2 billion budget gap through a combination of revenue increases, savings and efficiencies, and debt restructurings, which are partially offset by an additional $18.6 million in investments. These measures are shown in the table below.

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[47] See 65 ILCS 5/8-2

[48] City of Chicago, 2020 Budget Forecast, pp. 17-18.

[49] City of Chicago, FY2021 Budget Overview, p. 200; and Cassie Walker Burke and Erin Hegarty, City Hall to shift $55 million in costs onto Chicago Public Schools, The Daily Line, October 23, 2020, available at https://chicago.chalkbeat.org/2020/10/21/21527754/city-hall-to-shift-55-million-in-costs-onto-chicago-public-schools-budget-crossing-guards-pensions

The City plans to generate a total of $184.9 million in increased revenues to help close the FY2021 budget gap. This includes $33.5 million in additional Tax Increment Financing (TIF) surplus due to the City implementing a more aggressive policy to sweep unused TIF fund balances not reserved for development projects. Existing sales taxes are expected to bring in another $25.0 million, including a $10 million by increasing the City's vehicle fuel tax by $0.03 to $0.08 per gallon and increasing the personal property lease transaction tax on cloud products 1.75 percent, from 7.25% to 9.0%, which is expected to generate $15 million.

Savings, efficiencies and fiscal management practices are expected to generate $537.2 million and the planned scoop-and-toss debt restructuring is expected to generate $501.0 million in upfront savings. Efficiencies total $184.9 million. This includes $88.9 million in non-personnel savings, $25.0 million in contractual savings and $54.4 million in healthcare savings. Personnel savings will total $106.3 million in FY2021 by eliminating 1,921 full-time equivalent positions in the Corporate Fund. Fiscal management practices are estimated to generate $262.2 million in savings. This includes $68.0 million from enhanced revenue enforcement measures, $59.0 million by sweeping aging revenue accounts, $40.0 million in reimbursements from Chicago Public Schools for pensions, $59.6 million from improved loss in collections and the elimination of the $16 million in revenue shared with the Chicago Transit Authority from the City's rideshare tax. The fiscal management practices also include smaller amounts from a parking meter true-up and improved accounts receivable, totaling $20 million.

Partially offsetting the revenues and savings are $18.6 million in new investments that include spending on services for economic recovery, violence prevention, affordable housing, youth investments and other operational increases.

The table below shows how the City plans to close the $1.2 billion budget gap through each of the initiatives discussed above.

City of Chicago FY2021 Corporate Fund Gap Closing Measures (in $ millions)	
Expenditure Reductions	
Efficiencies	
Non-Personnel	$ 88.9
Contractual Savings	$ 25.0
Healthcare Benefit Savings	$ 54.4
Personnel Savings	
Elimination of Vacancies and Shifting Crossing Guards onto CPS Budget	$ 106.3
Fiscal Management	
Parking Meter True-up	$ 10.0
Accounts Receivable	$ 10.0
Chicago Public Schools Pension Reimbursement	$ 40.0
Enhanced Revenue Enforcement	$ 68.0
Sweeping of Aging Revenue Accounts	$ 59.0
Ending CTA Rideshare Subsidy	$ 16.0
Improved Loss in Collections	$ 59.6
Debt Restructuring	
Using Upfront Savings from Transaction	$ 501.0
Total Savings and Efficiencies	**$ 1,038.2**
Revenue Enhancements	
Rainy Day Fund	$ 30.0
Additional TIF Surplus	$ 33.5
Property Tax Increase	$ 51.4
Increase in Existing Sales Taxes	$ 25.0
Other - Land Sales and Improved Revenues	$ 45.0
Total Increase in Revenues	**$ 184.9**
Investments	
Economic Recovery	$ 7.0
Violence Prevention	$ 5.25
Affordable Housing	$ 2.0
Youth Investments	$ 1.7
Operational Increases	$ 2.6
Total Investments	**$ 18.6**
Total	**$ 1,204.6**

Source: City of Chicago, FY2021 Budget Overview, p. 17 and 200; and Information provided by City of Chicago, Office of Budget and Management, October 28, 2020.

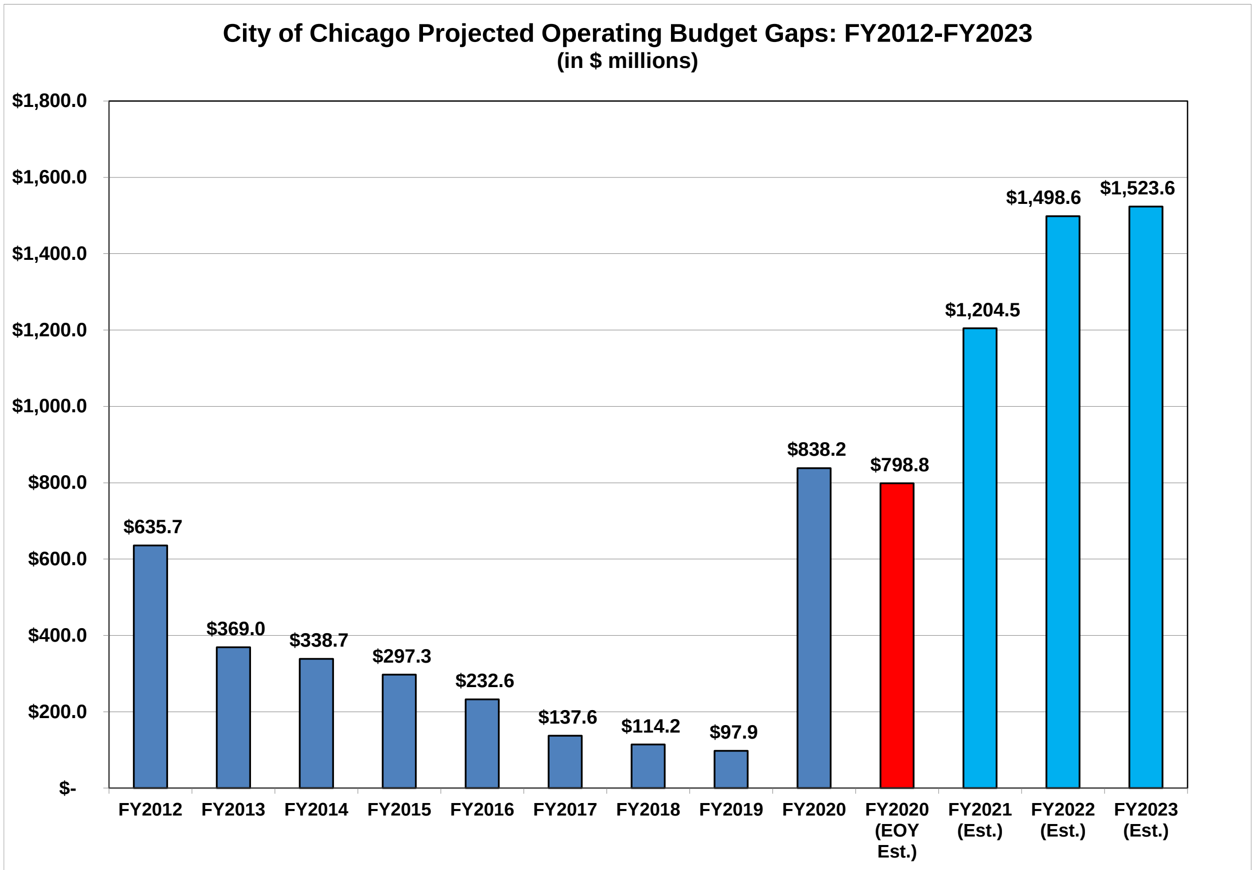
Historical Trend of Projected Budget Gaps

The following chart shows the historical trend of projected budget gaps from FY2012-FY2023. The City of Chicago's projected budget gaps have fluctuated over the past 10 years. Between FY2012 and FY2019 the reported initial budget gap declined from $654.7 million to $97.9 million for FY2019. In FY2020 the gap increased to $838.2 million. The increase was partially attributable to the change in methodology for calculating the budget gap by including long-term liabilities such as pensions and debt service. In August 2019 the City projected it would face a $838.2 million budget gap for FY2020. The City of Chicago closed that budget gap when it approved its FY2020 Budget late last year. However, in March 2020 when COVID-19 became a public health pandemic and stay-at-home orders were issued the City saw a dramatic decline in economically sensitive revenues, which caused a year-end deficit for FY2020 of $798.8 million. As previously noted, the City intends to close the year-end gap by refinancing debt for near-term budgetary relief of $450 million and $350 million in federal funding related to COVID-19 to address the remaining gap.[50]

The City projected that the operating budget gap of $1.2 billion for FY2021 will increase to $1.49 billion in FY2022 and $1.52 billion in FY2023. These projections were made before the

[50] Heather Cherone, Chicago to Return to 'Scoop-And-Toss' Borrowing, Chief Financial Officer Acknowledges, WTTW, October 22, 2020, Available at https://news.wttw.com/2020/10/22/chicago-return-scoop-and-toss-borrowing-chief-financial-officer-acknowledges

FY2021 budget, so they will be impacted by the actions taken in this year's budget to close the gap. However, the forecasted gaps are significantly higher than projected pre-pandemic.[51]



Source: City of Chicago 2018 Annual Financial Analysis, pp. 22 and 25; and City of Chicago FY2021 Budget Forecast, p. 19.

APPROPRIATIONS

The following section details the City's proposed appropriations for FY2021 compared to adopted appropriations for FY2017 to FY2020. Appropriations are compared by fund for local funds and by department, object and program area in the Corporate Fund. Local funds include all funds used by the City for its non-capital operations, other than grant funds, which includes the Corporate Fund, enterprise funds and special revenue funds.[52] The Corporate Fund is the City's general operating fund and is used to support day-to-day operations in the City.[53]

Appropriation Trends by Fund for All Local Funds

The following table outlines appropriations by fund between FY2017 and FY2021. The FY2021 proposed budget projects $10.5 billion in total appropriations for all funds. After accounting for proceeds of debt and transfers between funds included in the total, the projected net

[51] See City of Chicago, 2020 Budget Forecast, p. 16.
[52] City of Chicago, FY2021 Budget Overview, p. 185.
[53] City of Chicago, FY2021 Budget Overview, p. 183.

appropriations for FY2021 equal nearly $9.77 billion. This is a decrease of $74.0 million, or 0.8%, from FY2020 adopted net appropriations of just over $9.85 billion.

Appropriations for the Corporate Fund will decrease by 9.0%, or $396.7 million, from approximately $4.4 billion in FY2020 to $4.0 billion in FY2021. The decrease is primarily due to the elimination of 1,921 vacant positions and planned furlough days for non-union employees and potential layoffs.[54]

Appropriations for the pension funds will increase by 9.7%, or $165.4 million from $1.7 billion adopted in FY2020 to nearly $1.9 billion proposed for FY2021. The increase is due to an increase in the required contributions to the four funds. Following a five-year ramp in contributions to the Police and Fire Funds, FY2021 is the second year the City will be making an actuarially calculated contribution to the Police and Fire Funds. FY2021 is the fourth year of statutorily required contributions to the Municipal and Laborers' funds. For more information on pensions see p. 68.

The special revenue funds, which are used to account for revenue from specific taxes and other sources that are legally designated to finance particular functions, will decrease by $32.7 million, or 3.6%, below FY2020 adopted appropriations of $919.2 million.

Debt service fund appropriations will decline by $91.9 million, or 11.5%, from $802.0 million in FY2020 to $710.2 million in FY2021. 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.[55]

Enterprise fund appropriations, which fund business-type operations that are typically self-supporting and include the two Chicago airports and water and sewer operations, are increasing by 0.5%, or $15.1 million, in FY2021 over the prior year. This is primarily due to increased appropriations under the finance general category within the Chicago O'Hare Airport Fund.[56]

Over the five-year period beginning in FY2017 net appropriations for all funds are projected to increase by 18.1%, or approximately $1.5 billion. The City's Pension Funds will see the largest dollar and percentage increase since FY2017 at $784.8 million or 72.3%. The increase is due to increased contributions to the four funds.

The five-year $366.5 million, or 13.8%, increase in Enterprise Fund appropriations is mostly due to water and sewer repairs and upgrades funded with revenue from water and sewer rate increases and increased payments from the enterprise funds to cover increased contributions to the pension funds.[57]

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[54] City of Chicago, FY2021 Budget Overview, p. 45.
[55] City of Chicago, FY2021 Budget Overview, p. 56.
[56] City of Chicago, FY2021 Budget Overview, p. 175.
[57] City of Chicago, FY2017 Budget Overview, p. 33; and FY2019 Budget Overview, p. 37, FY2020 Budget Overview, p. 52; and FY2021 Budget Overview, p. 57.

Debt service funds will decline by $153.8 million, or 17.8%, over the five-year period. The decrease in debt service is primarily due to the creation of the Sales Tax Securitization Corporation (STSC) and the refinancing of debt in FY2020 and FY2021.[58]

City of Chicago Appropriations by Fund for Local Funds: FY2017-FY2021 (in $ millions)

	FY2017 Adopted	FY2018 Adopted	FY2019 Adopted	FY2020 Adopted	FY2021 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund	$ 3,719.0	$ 3,791.2	$ 3,815.7	$ 4,419.2	$ 4,022.5	$ (396.7)	-9.0%	$ 303.5	8.2%
Special Revenue Funds	$ 728.1	$ 780.1	$ 829.0	$ 919.2	$ 886.5	$ (32.7)	-3.6%	$ 158.4	21.8%
Pension Funds	$ 1,086.0	$ 1,245.7	$ 1,358.5	$ 1,705.3	$ 1,870.8	$ 165.4	9.7%	$ 784.8	72.3%
Debt Service Funds	$ 864.0	$ 821.3	$ 802.6	$ 802.0	$ 710.2	$ (91.9)	-11.5%	$ (153.8)	-17.8%
Enterprise Funds	$ 2,651.3	$ 2,672.5	$ 2,783.3	$ 3,002.7	$ 3,017.8	$ 15.1	0.5%	$ 366.5	13.8%
Total Appropriations	**$ 9,048.3**	**$ 9,310.8**	**$ 9,589.1**	**$ 10,848.4**	**$ 10,507.7**	**$ (340.8)**	**-3.1%**	**$ 1,459.4**	**16.1%**
Less Proceeds of Debt	$ (77.2)	$ (83.6)	$ (98.1)	$ (115.0)	$ (114.6)	$ 0.4	-0.4%	$ (37.4)	48.4%
Less Internal Transfer	$ (697.0)	$ (630.7)	$ (634.1)	$ (885.7)	$ (619.4)	$ 266.3	-30.1%	$ 77.6	-11.1%
Net Appropriation	**$ 8,274.2**	**$ 8,596.5**	**$ 8,857.0**	**$ 9,847.7**	**$ 9,773.7**	**$ (74.0)**	**-0.8%**	**$ 1,499.5**	**18.1%**

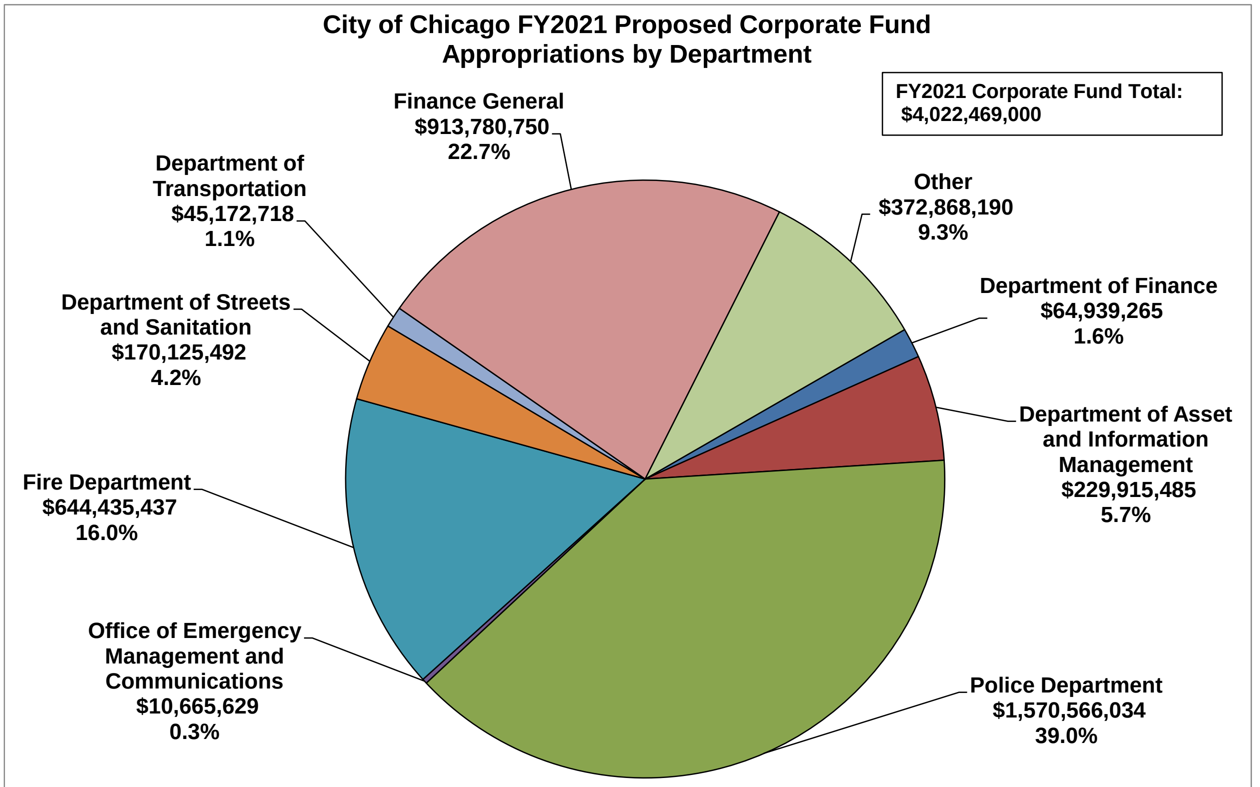
Note 1: Excludes grant funds. FY2017-FY2020 adopted figures are used because year-end estimates or actuals are not available.
Note 2: Totals may not sum due to rounding.
Source: City of Chicago, FY2017-FY2020 Annual Appropriations Ordinance, Summary E; and FY2021 Recommended Budget, Summary E.

Corporate Fund Appropriations by Department

The following chart shows FY2021 proposed Corporate Fund appropriations by department. The Police Department represents the largest portion of the Corporate Fund at 39.0% or $1.6 billion. Finance General appropriations represent 22.7%, or $913.8 million, of the Corporate Fund and consists of information technology expenses, employee health insurance benefit costs, contributions to pension funds and long-term debt service payments shared across departments.[59]

[58] City of Chicago, FY2021 Budget Overview, p. 56.
[59] City of Chicago, FY2021 Budget Overview, p. 184.

The remaining departments make up 38.2%, or $1.5 billion of the total Corporate Fund appropriations.



Note: Other includes: Office of the Mayor, Office of the Inspector General, Office of Budget and Management, Department of Innovation and Technology, City Council, City Clerk, City Treasurer, Department of Administrative Hearings, Department of Law, Department of Human Resources, Department of Procurement Services, Board of Election Commissioners, Department of Public Health, Commission on Human Relations, Mayor's Office for People with Disabilities, Department of Family and Support Services, Department of Planning and Development, Department of Buildings, Department of Business Affairs and Consumer Protection, Commission on Animal Care and Control, License Appeal Commission, Board of Ethics, Police Board and Civilian Office of Police Accountability (COPA).
Source: City of Chicago, FY2020 Budget Recommendations, Summary D.

Corporate Fund Appropriation Trends by Object

Appropriations by object categorizes similar line-item expenditures by type. The FY2021 Corporate Fund budget proposes a total appropriation of approximately $4.0 billion. This is a decrease of $9.0%, or $396.7 million, from the FY2020 adopted appropriation of $4.4 billion.

Specific Items and Contingencies will see the largest decline between FY2020 and FY2021, falling by $329.2 million or 36.8%. This object category includes pension payments, debt service payments, payments for torts and non-tort judgments, outside counsel expenses and subject matter expert costs, costs for hospital administration and medical expenses for employees injured who are not covered under the Workers' Compensation Act and for physical exams. The decrease is due to $25 million in anticipated contractual services savings, eliminating a $16.0 million subsidy in rideshare revenue to the Chicago Transit Authority, a reduction of one-time increases received in 2020 related to Census outreach, a reduction $65.6 million for the required State match for emergency transportation services as well as other expenses, including shifting a portion of the pension contributions from being paid from Corporate Fund to being paid by the property tax levy.[60] Pension contributions represent $85.5 million of the FY2021 appropriations for Specific Items and Contingencies, which is a decrease of $249.9 million from the FY2020 adopted appropriations due to an offset from refunding savings realized for 2021.[61] Specific Items and Contingencies also includes $20.0 million in investments related to COVID-19, $7.0 million for recovery efforts and an additional $5.25 million for violence prevention.[62]

Personnel Services appropriations, which make up 73.4% of the Corporate Fund budget, will see the second largest dollar decrease over the two-year period, declining by $68.5 million, or 2.3%, to $2.9 billion in FY2021. The decrease is primarily due to the elimination of 1,921 vacancies in the Corporate Fund.[63] The FY2021 personnel services appropriations include contractual salary and wages tied to current collective bargaining agreements as well as estimated expenses tied agreements still being negotiated.[64]

Spending on Permanent Improvement and Land, which includes the construction and maintenance of city owned property will be flat or nearly flat over the two- and five-year period. Spending on Equipment will see the largest percentage increase over the two-year period between FY2020 and FY2021, rising by 18.6%, or approximately $200,000, but declining by the largest percentage over the five-year period from FY2017 to FY2021, falling 52.2% or $1.2 million.

Commodities will decrease by approximately $300,000 or 0.4%, between FY2020 and FY2021. Commodities appropriations are used to purchase a variety of materials including repair parts, fuel, electricity, office supplies and sanitation supplies.

Over the five-year period from FY2017 to FY2021, net appropriations will rise by $303.5 million or 8.2%, primarily due to increased personnel services, contractual services and specific items and contingencies. Personnel services will see the largest dollar increase over the five-year period, rising by $129.9 million, or 4.6%. Contractual Services appropriations will increase see the largest percentage increase, rising by 25.8%, or $88.7 million, from $343.9 million in FY2017 to $432.5 million in FY2021.

City of Chicago Proposed Appropriations for Corporate Fund by Object
FY2017-FY2021
(in $ millions)

	FY2017 Adopted	FY2018 Adopted	FY2019 Adopted	FY2020 Adopted	FY2021 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Personnel Services	$2,821.8	$2,841.8	$2,874.9	$3,020.1	$2,951.6	$ (68.5)	-2.3%	$ 129.9	4.6%
Contractual Services	$ 343.9	$ 377.9	$ 421.4	$ 431.4	$ 432.5	$ 1.1	0.3%	$ 88.7	25.8%
Travel	$ 1.0	$ 0.7	$ 0.9	$ 1.0	$ 0.9	$ (0.1)	-13.4%	$ (0.1)	-9.8%
Commodities	$ 77.9	$ 77.0	$ 81.5	$ 71.3	$ 71.0	$ (0.3)	-0.4%	$ (6.9)	-8.9%
Equipment	$ 2.3	$ 0.8	$ 0.8	$ 0.9	$ 1.1	$ 0.2	18.6%	$ (1.2)	-52.2%
Permanent Improvement and Land	$ -	$ 0.1	$ 0.01	$ 0.01	$ 0.01	$ -	-	$ 0.01	-
Specific Items and Contingencies	$ 472.2	$ 493.0	$ 436.3	$ 894.5	$ 565.4	$ (329.2)	-36.8%	$ 93.2	19.7%
Total	**$3,719.0**	**$3,791.2**	**$3,815.7**	**$4,419.2**	**$4,022.5**	**$ (396.7)**	**-9.0%**	**$ 303.5**	**8.2%**

Source: City of Chicago FY2017-FY2020 Annual Appropriations Ordinances, Summary D; and City of Chicago, FY2021 Budget Recommendations, Summary D.

[60] City of Chicago, FY2021 Budget Overview, pp. 46 and 197.
[61] City of Chicago, FY2021 Budget Overview, p. 46.
[62] City of Chicago, FY2021 Budget Overview, p. 45.
[63] City of Chicago, FY2021 Budget Overview, p. 45.
[64] City of Chicago, FY2021 Budget Overview, p. 45.

All Funds Appropriation Trends by Program Area

In the City of Chicago budget, agencies are organized into eight functional program areas.[65] These areas are as follows:

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

This section compares the FY2021 proposed appropriations to the adopted appropriations for FY2017 to FY2020 across all funds by program area.

Spending by program area, net of internal transfers and proceeds of debt, will decrease by $74.0 million, or 0.8%, between FY2020 and FY2021.

Appropriations across all program areas are budgeted to decline between FY2020 and FY2021, with the exception of Community Services, which will increase by $5.9 million or 2.5%. This is primarily due to increased expenditures within the Chicago Commission on Human Relations and Chicago Public Library.[66]

[65] City of Chicago, FY2021 Budget Overview, p. 11.
[66] City of Chicago, FY2021 Budget Overview, p. 129.

Appropriations for Finance General, which includes cross departmental expenses, such as pension contributions, debt service and employee healthcare related expenses will see the largest two-year decrease at $260.9 million or 4.4%.[67] The decline in Finance General is primarily due to the City shifting a portion of the pension payments that were previously paid from the Corporate Fund to being paid from the City's property tax levy.[68] The General Financing Requirements of $5.65 billion for FY2021 include a total of $1.9 billion in employee and annuitant pension payments and a total of nearly $2.0 billion for the payment of debt service. It also includes $531.5 million in employee benefit costs (excluding pension costs) for active employees and annuitants, among other expenses.[69]

Public Safety spending is projected to decline by $23.5 million, or 0.9%, over the two-year period from $2.5 billion in FY2020 to $2.48 billion in FY2021. This is due to a reduction in full-time equivalent positions within the Chicago Police Department and Office of Emergency Management and Communications.[70] However, the decrease in spending is partially offset by increases within the Office of Public Safety Administration and Chicago Fire Department.[71]

Legislative and Elections along with City Development will both decline over the two-year period by 12.2%, or $5.7 million and $19.6 million, respectively. The reduction in Legislative and Elections is attributable to a reduction in appropriations for the Board of Election Commissioners due to FY2021 not being an election year. The decrease in spending for City Development is due to a reduction in appropriations withing in the Department of Housing and Department of Cultural Affairs and Special Events.[72]

Finance and Administration will see a $30.8 million, or 5.3%, decrease in appropriations over the two-year period to $548.4 million in FY2021. This is primarily due to reduced spending within the Department of Finance and the Department of Assets, Information, and Services.[73]

Infrastructure Services will decline by $2.2 million, or 0.2%, over the two-year period. The decrease is primarily due to reduced spending within the Department of Aviation.[74]

Over the five-year period between FY2017 and FY2021, appropriations by program area will increase by $1.5 billion or 16.1%. Appropriations in every program area will increase over the five-year period, with the exception of Regulatory, which will decline by 1.7% or $1.1 million. Finance General will see the largest dollar increase at $902.8 million. The increase in Finance General is primarily due to the City increasing funding to the pension funds in recent years. Public Safety will increase by $267.4 million over the five-year period primarily due to increased staffing in the police department that was part of Mayor Emanuel's public safety strategy as well

[67] City of Chicago, FY2021 Budget Overview, p. 175.
[68] City of Chicago, FY2021 Budget Overview, p. 46.
[69] City of Chicago, FY2021 Budget Overview, p. 176.
[70] City of Chicago, FY2021 Budget Overview, pp. 121 and 123.
[71] City of Chicago, FY2021 Budget Overview, p. 198.
[72] City of Chicago, FY2021 Budget Overview, p. 198.
[73] City of Chicago, FY2021 Budget Overview, p. 198.
[74] City of Chicago, FY2021 Budget Overview, p. 88.

as increases related to the police consent decree, the creation of the Public Safety Administration department and increases tied to collective bargaining agreements.

City of Chicago Appropriations for All Funds by Program Area FY2017-FY2021									
	FY2017 Adopted	FY2018 Adopted	FY2019 Adopted	FY2020 Adopted	FY2021 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Finance and Administration	$ 535.0	$ 546.6	$ 554.5	$ 579.2	$ 548.4	$ (30.8)	-5.3%	$ 13.4	2.5%
Infrastructure Services	$1,187.0	$1,213.4	$1,292.9	$ 1,344.8	$ 1,342.6	$ (2.2)	-0.2%	$ 155.6	13.1%
Public Safety	$2,209.4	$2,318.0	$2,374.2	$ 2,500.3	$ 2,476.8	$ (23.5)	-0.9%	$ 267.4	12.1%
Community Services	$ 167.7	$ 175.2	$ 195.3	$ 232.9	$ 238.8	$ 5.9	2.5%	$ 71.2	42.5%
City Development	$ 93.5	$ 111.8	$ 93.6	$ 160.9	$ 141.3	$ (19.6)	-12.2%	$ 47.9	51.2%
Regulatory	$ 66.0	$ 65.9	$ 68.6	$ 68.9	$ 64.9	$ (4.0)	-5.7%	$ (1.1)	-1.7%
Legislative and Elections	$ 38.9	$ 43.0	$ 62.2	$ 46.9	$ 41.2	$ (5.7)	-12.2%	$ 2.3	5.9%
Finance General	$4,750.9	$4,836.9	$4,947.7	$ 5,914.6	$ 5,653.6	$ (260.9)	-4.4%	$ 902.8	19.0%
Subtotal Program Areas	**$9,048.3**	**$9,310.8**	**$9,589.1**	**$10,848.4**	**$10,507.7**	**$ (340.8)**	**-3.1%**	**$1,459.4**	**16.1%**
Less Internal Transfers	$ (697.0)	$ (630.7)	$ (634.1)	$ (885.7)	$ (619.4)	$ 266.3	-30.1%	$ 77.6	-11.1%
Less Proceeds of Debt	$ (77.2)	$ (83.6)	$ (98.1)	$ (115.0)	$ (114.6)	$ 0.4	-0.4%	$ (37.4)	48.4%
Total	**$8,274.2**	**$8,596.5**	**$8,857.0**	**$ 9,847.7**	**$ 9,773.7**	**$ (74.0)**	**-0.8%**	**$1,499.5**	**18.1%**

Source: FY2017-FY2020 Annual Appropriation Ordinance, Summary E; and FY2021 Budget Recommendations, Summary E.

RESOURCES

This section of the analysis provides an overview of City of Chicago resources within all local funds and the Corporate Fund and an overview of the Chicago property tax levy. This analysis includes two-year and five-year trend analyses, comparing proposed FY2021 revenue estimates to FY2020 approved budget figures and prior year actual revenues when available.

The City received $470.1 million in coronavirus relief funding from the CARES Act, which must be spend by the end of the calendar year. Because the City's FY2020 budget did not account for any coronavirus-related funding at the time it was adopted, those additional funds are not included as a part of this analysis.

Projected FY2021 Resources for All Local Funds

The City of Chicago projects total resources for all local funds to be $10.5 billion in FY2021. All local funds are the funds used by the City for its non-capital operations, including the Corporate Fund (the City's general operating fund), special revenue funds, pension funds, debt service funds and enterprise funds. Local funds exclude the $2.9 billion in grant funds the City expects to receive from federal and State agencies, private foundations and other entities in FY2021.[75] Including grant funding, the City's total budget resources are projected to be $13.4 billion.

The City received approximately $1.5 billion in grants in FY2020 directly related to COVID-19. This resulted in total grants received in FY2020 of $3.2 billion, which was 80.8% higher than the City originally budgeted in grants—$1.7 billion.[76] In FY2021 the City anticipates $2.9 billion in total grant funding, of which $858.7 million is anticipated carryover from COVID-19 related grants received in FY2020.[77]

[75] City of Chicago FY2021 Budget Overview, p. 52.
[76] City of Chicago FY2021 Budget Overview, p. 52.
[77] City of Chicago FY2021 Budget Overview, p. 52.

The chart below provides an overview of the proposed FY2021 resources for all local funds by source.[78] Grant funds and capital funding are excluded from the chart.

Property tax revenues are projected to generate $1.6 billion in FY2021, or 15.5% of total resources. This includes $34.0 million levied on behalf of City Colleges of Chicago. Chicago's Midway and O'Hare airports are estimated to generate $1.9 billion from airport charges and fees, representing 17.7% of total resources. Revenue from water and sewer fees is projected to account for 12.4% of revenue in FY2021, or $1.3 billion.

Sales tax revenue is projected to be $63.6 million, or 0.6%, which reflects only a small portion of sales tax revenue, and includes the use tax on non-titled personal property, the restaurant tax and private vehicle use tax.[79] The majority of sales tax revenue is now directed to a Sales Tax Securitization Corporation (STSC) to pay for debt issuances, and any revenue not used for debt service is transferred to the City. The City expects to receive $570.2 million from the STSC, which is 5.4% of total resources.

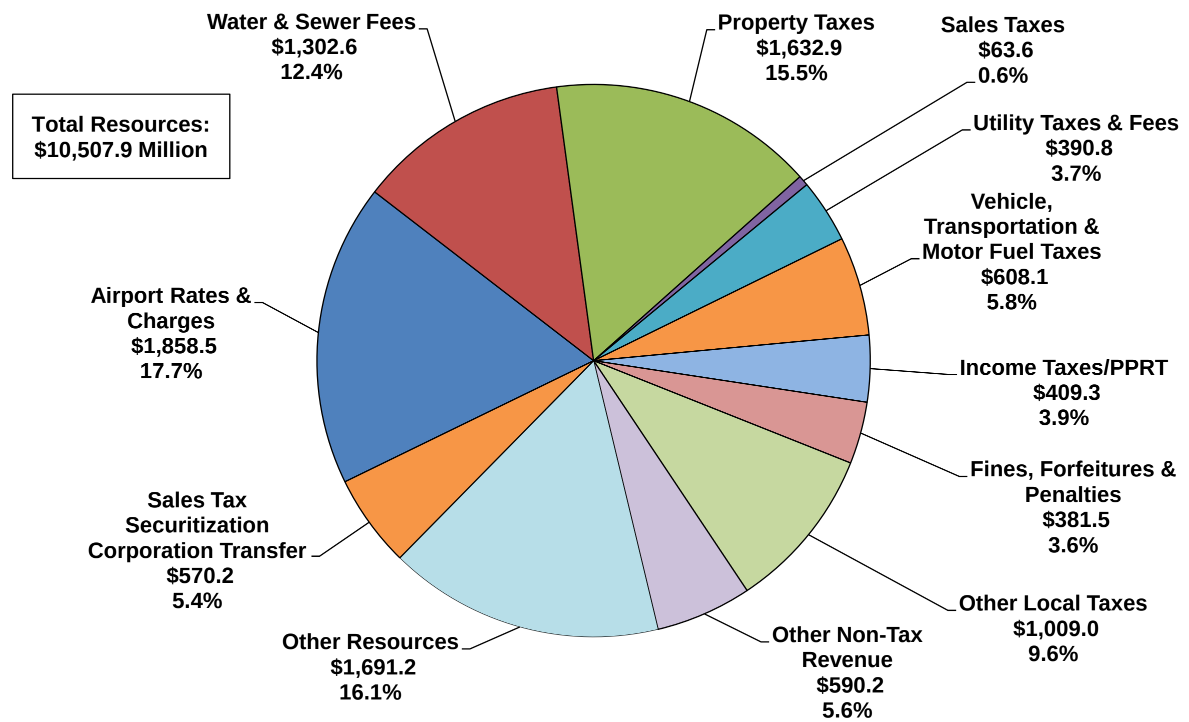
Other local taxes,[80] which are taxes on activities such as businesses, hotels, parking and recreation (amusement tax, liquor tax, cigarette tax, etc.), are projected to account for $1.0 billion, or 9.6%, of total resources. Non-tax revenues[81] from sources such as licenses, permits, parking and other fees and charges, are projected to compose 5.6% of total resources, or $590.2 million.

Other resources is a large category totaling $1.7 billion that includes prior year resources available for carrying forward, transfers from other funds, interest income, debt proceeds, internal service earnings and other miscellaneous resources. It is important to note that the four pension funds together will receive $221.2 million in transfers from other funds, which results in double counting in total resources. This other resources category also includes $246.8 million in

[78] The funds included in the chart are the Corporate Fund (the City's general fund), special revenue funds, pension funds, debt service funds and enterprise funds (water, sewer and airport funds).
[79] City of Chicago FY2021 Budget Overview, p. 42.
[80] The other local taxes category as calculated in the pie chart includes the following resources: transaction taxes; recreation taxes; hotel operator's tax; emergency communications surcharge; real property transfer tax – CTA portion; home rule retailers occupation tax; business taxes; and municipal parking tax.
[81] The non-tax revenues category as calculated in the pie chart includes the following resources: licenses and permits; charges for services; special event fees; leases, rentals and sales; impoundment fees; garbage collection fee; building permits; sale of impounded autos; and TIF administrative reimbursement.

prior year resources utilized within the Corporate Fund and the special revenue funds, enterprise funds and debt service funds.

City of Chicago FY2021 Resources, All Local Funds by Source (in $ millions)



Source: City of Chicago 2021 Budget Overview, pp. 191-197 and FY2021 Budget Recommendations, Detail of Revenue Estimate for 2021, pp. 30-41.
Other Local Taxes = Transaction taxes, recreation taxes, business taxes, emergency communications surcharge, municipal parking tax and CTA Real Estate Transfer Tax.
Other Non-Tax Revenue = Licenses and permits, charges for services, special events, leases, rentals and sales, garbage collection, building permits, library fines and rentals, and TIF administrative reimbursement.

All Local Funds Trends

The following table presents resources for all local funds by fund from FY2017 through FY2021. The City of Chicago's total resources for all local funds are projected to decrease by $340.9 million, or 3.1%, from total resources of $10.8 billion adopted in the FY2020 budget. This does not account for budgetary impacts of coronavirus seen in FY2020. Over the five-year period from FY2017 through FY2021, however, total resources of $10.8 billion in FY2021 represent a 14.9%, or $1.3 billion, increase from actual resources in FY2017.

Corporate Fund revenues are expected to decrease between the FY2020 adopted budget and the FY2021 proposed budget by 10.3%, or $381.5 million. The decrease is due to the ongoing impact of COVID-19 on several revenue sources that support Corporate Fund operations such as the parking tax, ground transportation tax, amusement tax and hotel tax.

Revenues within the special revenue funds are expected to total $769.0 million in FY2021, which is a decrease of $88.0 million, or 10.4%, from the FY2020 budget. The largest decreases over the two-year period between FY2020 and FY2021 fall within the Vehicle and Motor Fuel Taxes, Special Events and Hotel Tax, CTA Real Estate Transfer Tax, Affordable Housing Fund and Neighborhood Opportunity Fund. A new special fund for Cannabis Regulation Tax Fund is being established in FY2021 and is expected to receive $2.8 million in revenue. This is in addition to Cannabis Excise Tax of $5.2 million anticipated in FY2021 that is budgeted within the Corporate Fund.

Enterprise Fund revenues consist of revenues generated from Chicago's airports and water and sewer charges. The City projects that water and sewer fee revenues will decrease in FY2021 from the prior year adopted budget by $17.6 million, or 1.5%, to $1.15 billion. Airport fee revenue from O'Hare and Midway Airports is expected to increase in FY2021 from the prior year adopted budget by $55.3 million, or 3.1%, to $1.86 billion.

Revenues generated to support the City's four pension funds are projected to be $1.87 billion in FY2021, which is an increase of $165.5 million, or 9.7%, from the FY2020 adopted budget of $1.7 billion. The pension funds are supported by $1.4 billion in property tax revenue, $206.5 million from the water and sewer tax and a $36.8 million water-sewer escrow, $17.4 million in emergency communication revenue, $221.2 million in transfers from the enterprise funds and special revenue funds and $345.5 million in transfers from the Corporate Fund.[82]

The City has several debt service funds that are funded by various sources including the property tax, motor fuel tax, sales tax and emergency communications fees as well as interest, debt proceeds, transfers from other funds and available resources from the prior year. Property tax revenue constitutes the majority of debt service funding. Total debt service funding is expected to be $705.2 million in FY2021, which is an $89.6 million, or 11.3%, decrease from the FY2020 adopted budget level of $794.8 million. Over the five-year period from FY2017 to FY2021, debt service funds revenue will decline by $478.6 million or 40.4%. The decrease is due to the creation of the Sales Tax Securitization Corporation (STSC) in FY2018.

Other resources include proceeds and transfers-in to the Corporate Fund and use of prior year fund balance. The City expects to receive $597.2 million in proceeds and transfers in FY2021. The majority of this category, $570.2 million, consists of available sales tax revenue transferred from the Sales Tax Securitization Corporation (STSC) established in FY2018. The majority of sales tax revenue is now diverted to the STSC to pay for debt service on bonds, and remaining sales tax revenues are then transferred to the Corporate Fund.

The City also plans to use a total of $246.8 million in fund balance available from the prior year across all local funds. This includes $111.0 million in unrestricted fund balance available from the prior year within the Corporate Fund, $130.9 million in available fund balance within the

[82] City of Chicago FY2021 Budget Overview, pp. 52, 191. The water-sewer escrow comes from funds generated by the water-sewer tax in FY2020 that were higher than necessary to make the Municipal Fund pension contribution and were set aside to help make future years' payments. See FY2020 City of Chicago Budget Overview, p. 53.

special revenue funds and enterprise funds and $4.9 million of prior year fund balance in the debt service funds.

City of Chicago All Local Funds Resources by Fund: FY2017-FY2021
(in $ millions)

	FY2017 Actual	FY2018 Actual	FY2019 Actual	FY2020 Adopted	FY2021 Proposed	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
Corporate Fund									
Tax Revenues	$ 2,439.5	$ 2,012.7	$ 2,196.5	$ 2,223.5	$ 1,945.8	$ (277.7)	-12.5%	$ (493.7)	-20.2%
Non-Tax Revenues	$ 1,056.1	$ 1,117.4	$ 1,028.8	$ 1,472.2	$ 1,368.4	$ (103.8)	-7.1%	$ 312.3	29.6%
Total Corporate Fund Revenue	**$ 3,495.6**	**$ 3,130.1**	**$ 3,225.3**	**$ 3,695.7**	**$ 3,314.2**	**$ (381.5)**	**-10.3%**	**$ (181.4)**	**-5.2%**
Special Revenue Funds									
Vehicle & Motor Fuel Taxes	$ 271.9	$ 253.2	$ 311.2	$ 306.5	$ 293.3	$ (13.2)	-4.3%	$ 21.4	7.9%
Library	$ 98.2	$ 100.9	$ 110.1	$ 116.7	$ 115.4	$ (1.3)	-1.1%	$ 17.2	17.5%
Emergency Communication	$ 100.5	$ 131.2	$ 136.8	$ 132.1	$ 135.9	$ 3.8	2.9%	$ 35.4	35.2%
Special Events and Hotel Tax	$ 44.2	$ 43.1	$ 56.1	$ 49.7	$ 26.6	$ (23.1)	-46.4%	$ (17.6)	-39.8%
CTA Real Estate Transfer Tax	$ 63.9	$ 69.8	$ 60.9	$ 60.8	$ 49.9	$ (10.9)	-17.9%	$ (14.0)	-21.9%
Affordable Housing Fund	$ 19.9	$ 17.8	$ 43.4	$ 33.6	$ 20.0	$ (13.6)	-40.5%	$ 0.1	0.5%
TIF Administration	$ 9.0	$ 8.9	$ 8.6	$ 13.4	$ 13.3	$ (0.1)	-1.0%	$ 4.3	47.8%
Garbage Collection	$ 64.0	$ 63.0	$ 62.0	$ 63.0	$ 62.2	$ (0.8)	-1.3%	$ (1.8)	-2.8%
Neighborhood Opportunity Fund	$ 3.4	$ 11.3	$ 43.8	$ 43.4	$ 21.5	$ (21.9)	-50.4%	$ 18.1	532.4%
Chicago Police CTA Detail Fund	$ -	$ -	$ 5.1	$ 10.8	$ 10.8	$ 0.0	0.4%	$ 10.8	-
Foreign Fire Insurance Tax Fund	$ -	$ -	$ 5.5	$ 5.5	$ 5.5	$ -	0.0%	$ 5.5	-
Controlled Substances Fund	$ -	$ -	$ -	$ 0.1	$ 0.1	$ -	0.0%	$ 0.1	-
Chicago Parking Meters	$ -	$ -	$ 9.0	$ 14.0	$ 10.5	$ (3.5)	-25.0%	$ 10.5	-
Human Capital Innovation Fund	$ -	$ 10.5	$ -	$ -	$ -	$ -	-	$ -	-
Homeshare Surcharge - Homeless Services	$ -	$ -	$ -	$ 5.0	$ 0.8	$ (4.2)	-84.0%	$ 0.8	-
Homeshare Surcharge - Domestic Violence	$ -	$ -	$ -	$ 2.5	$ 0.4	$ (2.1)	-84.0%	$ 0.4	-
Cannabis Regulation Tax	$ -	$ -	$ -	$ -	$ 2.8	$ 2.8	-	$ 2.8	-
Total Special Revenue Funds Revenue	**$ 675.0**	**$ 699.2**	**$ 843.5**	**$ 857.0**	**$ 769.0**	**$ (88.0)**	**-10.3%**	**$ 94.0**	**13.9%**
Enterprise Funds									
Water & Sewer	$ 1,134.5	$ 1,154.7	$ 1,116.0	$ 1,163.5	$ 1,145.9	$ (17.6)	-1.5%	$ 11.4	1.0%
Midway and O'Hare Airports	$ 1,375.8	$ 1,462.1	$ 1,587.1	$ 1,803.2	$ 1,858.5	$ 55.3	3.1%	$ 482.7	35.1%
Total Enterprise Funds Revenue	**$ 2,510.3**	**$ 2,616.8**	**$ 2,703.1**	**$ 2,966.7**	**$ 3,004.4**	**$ 37.7**	**1.3%**	**$ 494.1**	**19.7%**
Pension Funds									
Municipal	$ 267.0	$ 402.2	$ 471.0	$ 524.5	$ 582.9	$ 58.4	11.1%	$ 315.9	118.3%
Laborers'	$ 36.0	$ 48.0	$ 60.0	$ 72.0	$ 86.2	$ 14.2	19.8%	$ 50.2	139.6%
Police	$ 500.0	$ 557.0	$ 579.0	$ 737.5	$ 818.9	$ 81.3	11.0%	$ 318.9	63.8%
Fire	$ 227.0	$ 238.5	$ 248.5	$ 371.3	$ 382.8	$ 11.5	3.1%	$ 155.8	68.6%
Total Pension Funds Revenue	**$ 1,030.0**	**$ 1,245.7**	**$ 1,358.5**	**$ 1,705.3**	**$ 1,870.8**	**$ 165.5**	**9.7%**	**$ 840.8**	**81.6%**
Debt Service Funds									
Motor Fuel Tax Debt Service	$ 16.7	$ 15.6	$ 17.9	$ 10.4	$ 8.4	$ (2.0)	-19.5%	$ (8.3)	-49.7%
Sales Tax Bond Redemption and Interest	$ 40.4	$ -	$ -	$ -	$ -	$ -	-	$ (40.4)	-100.0%
General Obligation Bonds	$ 993.7	$ 462.8	$ 571.3	$ 612.9	$ 527.8	$ (85.1)	-13.9%	$ (465.9)	-46.9%
Library Bonds	$ 78.3	$ 86.9	$ 84.5	$ 123.5	$ 119.4	$ (4.1)	-3.3%	$ 41.1	52.5%
Emergency Communication Bond Fund	$ 22.3	$ 22.3	$ 21.5	$ 16.4	$ 15.6	$ (0.8)	-5.0%	$ (6.7)	-30.0%
City Colleges Bond Fund	$ 32.4	$ 36.8	$ 34.2	$ 31.5	$ 34.0	$ 2.5	7.9%	$ 1.6	4.9%
Total Debt Service Funds Revenue	**$ 1,183.8**	**$ 624.4**	**$ 729.4**	**$ 794.8**	**$ 705.2**	**$ (89.6)**	**-11.3%**	**$ (478.6)**	**-40.4%**
Total Revenues	**$ 8,894.7**	**$ 8,316.2**	**$ 8,859.8**	**$ 10,019.4**	**$ 9,663.6**	**$ (355.9)**	**-3.6%**	**$ 768.9**	**8.6%**
Corporate Fund Proceeds & Transfers In	$ 180.2	$ 627.5	$ 650.9	$ 642.5	$ 597.2	$ (45.3)	-7.1%	$ 417.0	231.4%
Corporate Fund Prior Year Available Fund Balance	$ -	$ -	$ -	$ 81.0	$ 111.0	$ 30.0	37.0%	$ 111.0	-
Special Funds and Enterprise Funds Prior Year Available Fund Balance	$ 71.6	$ 89.5	$ 106.9	$ 98.3	$ 130.9	$ 32.6	33.1%	$ 59.3	82.8%
Debt Service Funds Prior Year Available Fund Balance	$ 23.9	$ 0.3	$ 36.7	$ 7.2	$ 4.9	$ (2.3)	-31.9%	$ (19.0)	-79.5%
Total Resources	**$ 9,146.5**	**$ 9,033.2**	**$ 9,617.6**	**$ 10,848.5**	**$ 10,507.6**	**$ (340.9)**	**-3.1%**	**$ 1,361.1**	**14.9%**

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

Sources: City of Chicago FY2020 Budget Overview, pp. 185-191; FY2021 Budget Recommendations, Detail of Revenue Estimate for 2021, pp. 30-41; and FY2020 Annual Appropriation Ordinance, pp. 20-31.

Corporate Fund Resources Trends

The Corporate Fund is the City's general fund for governmental operations. It supports a wide variety of services including public safety, public health, sanitation and transportation. The City projects $4.02 billion in Corporate Fund revenue in FY2021, a 9.0%, or $396.8 million, decrease from the FY2020 adopted Corporate Fund budget of $4.42 billion. See the next section for a discussion of how FY2021 projected revenues compare to projected FY2020 revenues, which incorporate the impact of the COVID-19 pandemic.

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

Tax Revenues

Tax revenues in the Corporate Fund are expected to total $1.95 billion in FY2021, a decrease of $277.7 million, or 12.5%, from the FY2020 adopted budget. All tax revenue categories are expected to decline in FY2021 compared to the FY2020 adopted budget, primarily due to the impact of COVID-19. The most significant declines are projected to occur within transportation, recreation and business taxes.

Sales and use tax revenue is expected to decrease by 14.1% from $74.0 million in the adopted FY2020 budget to $63.6 million in FY2021. Sales taxes previously accounted for the largest portion of tax revenue, but are now mostly accounted for under proceeds and transfers in because of the creation of the Sales Tax Securitization Corporation structure in FY2018. For this reason, sales and use tax revenue will decrease by 87.3% from $500.4 million in FY2017, and proceeds and transfers in will increase by $417.0 million, or 231.4%.

Non-Tax Revenues

Non-tax revenues are expected to generate $1.37 billion in FY2021, which is a $103.8 million, or 7.1%, decrease from the FY2020 adopted amount of $1.47 billion. Revenue from charges for services is expected to decline by $182.3 million from the FY2020 adopted budget. Last year the City reached an agreement with the State to increase reimbursements for emergency transportation services to recoup more of the actual cost of ambulance services.[83] However, the City estimates a decrease in the number of emergency transports in FY2021.[84]

Interest and other revenue is expected to increase by $43.2 million in FY2021 from the prior year. This category includes interest income, internal service earnings (reimbursements to the Corporate Fund from other funds) and other revenue including a $40 million reimbursement from Chicago Public Schools for its share of the Municipal Employees' Pension Fund contribution.

Fines and forfeiture revenue is projected to increase by $38.8 million, or 11.3%, in FY2021 from the prior year, due to improved collections and increased safety measures such as speed cameras.

Other Sources

The City is planning to use $111.0 million in unrestricted fund balance in FY2021 compared to $81.0 million used the prior year. Additionally, as noted above, the transfers-in from other funds to the Corporate Fund now includes the sales tax revenue available after covering bond expenses for the STSC. Transfers in also includes interest income from the Asset Lease and Concession

[83] City of Chicago, FY2020 Budget Overview, p. 40; and communication with City of Chicago budget office, October 22, 2019.

[84] City of Chicago, FY2021 Budget Overview, p. 43.

Reserves.[85] Proceeds and transfers-in will total $597.2 million in FY2021, consisting of $570.2 million of sales tax revenue from the STSC, $19.0 million from the asset lease reserves and $8.0 million from other transfers and proceeds.[86]

Over the five-year period from FY2017 to FY2021, total Corporate Fund resources are expected to increase by $346.6 million, or 9.4%. Over the five-year period, total non-tax revenue is expected to increase by 29.6%, while total tax revenue is expected to decrease by 20.2%, primarily due to the shifting of sales tax to the STSC.

City of Chicago Corporate Fund Resources: FY2017-FY2021 (in $ millions)

Tax Revenue	FY2017 Actual	FY2018 Actual	FY2019 Actual	FY2020 Adopted	FY2021 Proposed	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
City + State Sales & Use Taxes	$ 500.4	$ 57.0	$ 63.7	$ 74.0	$ 63.6	$ (10.4)	-14.1%	$ (436.8)	-87.3%
Utility Tax & Franchise Fees	$ 439.0	$ 432.1	$ 416.7	$ 416.1	$ 390.8	$ (25.3)	-6.1%	$ (48.2)	-11.0%
State Income Taxes (including PPRT)	$ 388.2	$ 392.4	$ 469.8	$ 427.0	$ 409.3	$ (17.7)	-4.1%	$ 21.1	5.4%
Transaction Taxes	$ 434.2	$ 477.5	$ 487.8	$ 508.9	$ 478.1	$ (30.8)	-6.1%	$ 43.9	10.1%
Transportation Taxes	$ 275.0	$ 307.1	$ 337.0	$ 383.6	$ 308.7	$ (74.9)	-19.5%	$ 33.7	12.3%
Recreation Taxes	$ 253.1	$ 279.5	$ 275.5	$ 273.3	$ 223.9	$ (49.4)	-18.1%	$ (29.2)	-11.5%
Business Taxes	$ 142.9	$ 141.7	$ 140.1	$ 134.4	$ 66.1	$ (68.3)	-50.8%	$ (76.8)	-53.7%
Other Intergovernmental*	$ 6.7	$ 7.5	$ 5.9	$ 6.2	$ 5.3	$ (0.9)	-14.5%	$ (1.4)	-20.9%
Total Tax Revenue	**$ 2,439.5**	**$ 2,094.8**	**$ 2,196.5**	**$ 2,223.5**	**$ 1,945.8**	**$ (277.7)**	**-12.5%**	**$ (493.7)**	**-20.2%**
Non-Tax Revenue									
Fines & Forfeitures	$ 344.9	$ 335.9	$ 319.2	$ 342.7	$ 381.5	$ 38.8	11.3%	$ 36.6	10.6%
Licenses & Permits	$ 133.5	$ 129.3	$ 136.0	$ 128.3	$ 119.2	$ (9.1)	-7.1%	$ (14.3)	-10.7%
Charges for Services	$ 118.2	$ 122.7	$ 134.4	$ 460.2	$ 277.9	$ (182.3)	-39.6%	$ 159.7	135.1%
Leases, Rentals & Sales	$ 25.9	$ 35.7	$ 42.0	$ 33.7	$ 39.3	$ 5.6	16.6%	$ 13.4	51.7%
Municipal Parking	$ 7.7	$ 7.8	$ 7.7	$ 7.6	$ 7.6	$ -	0.0%	$ (0.1)	-1.3%
Interest and Other**	$ 425.9	$ 341.1	389.5	$ 499.7	$ 542.9	$ 43.2	8.6%	$ 117.0	27.5%
Total Non-Tax Revenue	**$ 1,056.1**	**$ 972.5**	**$ 1,028.8**	**$ 1,472.2**	**$ 1,368.4**	**$ (103.8)**	**-7.1%**	**$ 312.3**	**29.6%**
Prior Year Unrestricted Fund Balance	**$ -**	**$ -**	**$ -**	**$ 81.0**	**$ 111.0**	**$ 30.0**	**37.0%**	**$ 111.0**	**-**
Proceeds & Transfers In	**$ 180.2**	**$ 627.5**	**$ 650.9**	**$ 642.5**	**$ 597.2**	**$ (45.3)**	**-7.1%**	**$ 417.0**	**231.4%**
Total Corporate Resources	**$ 3,675.8**	**$ 3,694.8**	**$ 3,876.2**	**$ 4,419.2**	**$ 4,022.4**	**$ (396.8)**	**-9.0%**	**$ 346.6**	**9.4%**

*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 FY2021 Budget Overview, pp. 42 & 191-192.

Corporate Fund FY2020 Year-End Projections

The section above compared budgeted FY2020 Corporate Fund figures to FY2021 proposed budget figures. This section examines those figures in more detail, as well as year-end projections for FY2020. The Civic Federation's analysis typically excludes year-end projections because the projections are subject to change. However, because the COVID-19 pandemic caused significant declines in several revenue sources, the FY2020 year-end estimates are examined here. The next table shows the Corporate Fund resources budgeted for FY2020 compared to FY2020 year-end projections and the FY2021 proposed budget.

At year-end in FY2020, total resources in the Corporate Fund are projected to be $908.8 million, or 20.6%, under budget. Almost every revenue category is projected to decline between the FY2020 adopted budget and the FY2020 year-end estimates. The only revenue sources expected to increase are the cigarette tax and cannabis excise tax.

Tax revenues are expected to be $518.6 million, or 23.3%, below budget at year-end in FY2020. Parking tax revenue is expected to decline by $67.4 million, or 48.6%, from the FY2020 budget.

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85 The Asset Lease and Concession Reserves were established with the lease transactions of the City's parking meters and the Skyway.
86 City of Chicago, FY2021 Budget Overview, p. 191.

Ground transportation tax revenue is expected to decline by $82.7 million, or 43.4%. Amusement tax revenue is expected to decline by $96.1 million, or 49.5%. Hotel tax revenue is expected to decline by $99.6 million, or 77.5%, below the FY2020 budget.

Non-tax revenue is projected to be $236.1 million, or 16.0%, lower at year-end than originally budgeted in FY2020. The largest projected decline is within fines and forfeitures, which are expected to be $112.7 million, or 32.9%, under budget.

The City's sales tax revenue is projected to decline by $26.1 million, or 35.3%, from the FY2020 budgeted level. Proceeds and transfers in, which, as noted above is mostly composed of sales tax revenue diverted to the Sales Tax Securitization Corporation (STSC) and transferred back to the Corporate Fund, are projected to be $154.1 million, or 24.0%, below budget.

The City's FY2021 budget proposal shows that Corporate Fund FY2021 resources are expected to be lower than FY2020 budgeted levels, although not as severe of declines as seen in the FY2020 year-end projections. Total Corporate Fund resources of $4.0 billion in FY2021 are estimated to be $396.8 million, or 9.0%, lower than the FY2020 budget. The largest tax revenue declines are expected to occur within the same taxes as the FY2020 year-end declines—parking tax, ground transportation tax, amusement tax and hotel tax. The cannabis excise tax is expected to increase from $1.6 million budgeted for FY2020 to $5.2 million proposed in the FY2021 budget. The City was able to begin collecting taxes on cannabis sales on July 1, 2020. The cannabis tax revenue projection reflects a full year of collections.[87] Total FY2021 Corporate

[87] City of Chicago, FY2021 Budget Overview, p. 43.

Fund, while lower than adopted FY2020 resources, are expected to exceed the FY2020 year-end projection by $512.0 million, or 14.5%.

City of Chicago Corporate Fund Resources:
FY2020 Adopted, FY2020 Year-End Projection and FY2021 Proposed
(in $ millions)

Tax Revenue	FY2020 Adopted	FY2020 Year-End Projected	FY2021 Proposed	FY20 Adopted-FY2020 Projected $ Change	FY20 Adopted-FY2020 Projected % Change	FY20 Adopted-FY2021 Proposed $ Change	FY20 Adopted-FY2021 Proposed % Change
City + State Sales & Use Taxes	$ 74.0	$ 47.9	$ 63.6	$ (26.1)	-35.3%	$ (10.4)	-14.1%
Utility Tax & Franchise Fees	$ 416.1	$ 385.7	$ 390.8	$ (30.4)	-7.3%	$ (25.3)	-6.1%
State Income Taxes (including PPRT)	$ 427.0	$ 406.6	$ 409.3	$ (20.4)	-4.8%	$ (17.7)	-4.1%
Transaction Taxes							
Personal Property Lease Transaction Tax	$ 350.4	$ 310.6	$ 348.4	$ (39.8)	-11.3%	$ (2.0)	-0.6%
Real Property Transfer Tax	$ 152.0	$ 120.5	$ 124.7	$ (31.5)	-20.7%	$ (27.3)	-18.0%
Motor Vehicle Lessor Tax	$ 6.5	$ 3.3	$ 5.0	$ (3.2)	-49.2%	$ (1.5)	-23.1%
Transaction Taxes	$ 508.9	$ 434.4	$ 478.1	$ (74.5)	-14.6%	$ (30.8)	-6.1%
Transportation Taxes							
Parking Tax	$ 138.6	$ 71.2	$ 108.5	$ (67.4)	-48.6%	$ (30.1)	-21.7%
Vehicle Fuel Tax	$ 54.5	$ 38.2	$ 55.6	$ (16.3)	-29.9%	$ 1.1	2.1%
Ground Transportation Tax	$ 190.6	$ 107.9	$ 144.6	$ (82.7)	-43.4%	$ (46.0)	-24.1%
Transportation Taxes	$ 383.6	$ 217.3	$ 308.7	$ (166.3)	-43.4%	$ (74.9)	-19.5%
Recreation Taxes							
Amusement Tax	$ 194.0	$ 97.9	$ 143.6	$ (96.1)	-49.5%	$ (50.4)	-26.0%
Liquor Tax	$ 32.7	$ 28.2	$ 31.0	$ (4.5)	-13.8%	$ (1.7)	-5.2%
Non-Alcoholic Beverage Tax	$ 24.8	$ 23.0	$ 24.9	$ (1.8)	-7.3%	$ 0.1	0.4%
Municipal Cigarette Tax	$ 18.2	$ 21.3	$ 17.3	$ 3.1	17.0%	$ (0.9)	-4.9%
Boat Mooring & Auto Amusement Tax	$ 1.7	$ 1.4	$ 1.5	$ (0.3)	-17.2%	$ (0.2)	-11.2%
Off-Track Betting	$ 0.4	$ 0.2	$ 0.4	$ (0.2)	-52.9%	$ (0.0)	-5.9%
Cannabis Excise Tax	$ 1.6	$ 2.1	$ 5.2	$ 0.5	32.9%	$ 3.6	229.1%
Recreation Taxes	$ 273.3	$ 174.1	$ 223.9	$ (99.2)	-36.3%	$ (49.4)	-18.1%
Business Taxes							
Hotel Tax	$ 128.5	$ 28.9	$ 60.1	$ (99.6)	-77.5%	$ (68.4)	-53.2%
Shopping Bag Tax	$ 5.9	$ 5.8	$ 6.0	$ (0.1)	-1.7%	$ 0.1	1.7%
Business Taxes	$ 134.4	$ 34.7	$ 66.1	$ (99.7)	-74.2%	$ (68.3)	-50.8%
Other Intergovernmental*	$ 6.2	$ 4.2	$ 5.3	$ (2.0)	-31.7%	$ (0.9)	-13.8%
Total Tax Revenue	**$ 2,223.5**	**$ 1,704.9**	**$ 1,945.8**	**$ (518.6)**	**-23.3%**	**$ (277.7)**	**-12.5%**
Non-Tax Revenue							
Fines & Forfeitures	$ 342.7	$ 230.0	$ 381.5	$ (112.7)	-32.9%	$ 38.8	11.3%
Licenses & Permits	$ 128.3	$ 107.4	$ 119.2	$ (20.9)	-16.3%	$ (9.1)	-7.1%
Charges for Services	$ 460.2	$ 388.0	$ 277.9	$ (72.2)	-15.7%	$ (182.3)	-39.6%
Leases, Rentals & Sales	$ 33.7	$ 8.0	$ 39.3	$ (25.7)	-76.3%	$ 5.6	16.6%
Municipal Parking	$ 7.6	$ 7.0	$ 7.6	$ (0.6)	-7.9%	$ -	0.0%
Interest and Other**	$ 499.7	$ 495.7	$ 542.9	$ (4.0)	-0.8%	$ 43.2	8.6%
Total Non-Tax Revenue	**$ 1,472.2**	**$ 1,236.1**	**$ 1,368.4**	**$ (236.1)**	**-16.0%**	**$ (103.8)**	**-7.1%**
Combined Tax & Non-Tax Revenue	**$ 3,695.7**	**$ 2,941.0**	**$ 3,314.2**	**$ (754.7)**	**-20.4%**	**$ (381.5)**	**-10.3%**
Prior Year Unrestricted Fund Balance	**$ 81.0**	**$ 81.0**	**$ 111.0**	**$ -**	**0.0%**	**$ 30.0**	**37.0%**
Proceeds & Transfers In	**$ 642.5**	**$ 488.4**	**$ 597.2**	**$ (154.1)**	**-24.0%**	**$ (45.3)**	**-7.1%**
Total Corporate Resources	**$ 4,419.2**	**$ 3,510.4**	**$ 4,022.4**	**$ (908.8)**	**-20.6%**	**$ (396.8)**	**-9.0%**

*Other Intergovernmental includes Municipal Auto Rental Tax and Reimbursements for City Services.
**Interest and Other includes interest income, internal service earnings and other revenue.
Source: City of Chicago FY2021 Budget Overview, pp. 191-192; and FY2020 Budget Ordinance, pp. 20-22.

Property Tax Levy

In order to better understand the City of Chicago property tax proposals contained in the FY2021 budget, it is necessary to provide a brief description of the levy and billing processes. For most taxing districts, the amount of available property tax revenue is an important consideration as the annual budget is developed. The governing body of a unit of local government typically makes decisions about property taxation during the annual budget process and presents property tax revenues along with other revenue sources in its budget proposal.

The amount of property tax revenue a taxing district requests from taxpayers is the levy. A levy must be filed with the County Clerk by a certain date each year so that the Clerk has sufficient time to calculate tax rates for that tax year, which residents pay in the following calendar year. So the property tax levy for the upcoming fiscal year—FY2021—is payable in calendar year 2022, and the levy for the current fiscal year—FY2020—is payable in 2021.

Property Tax Revenues

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 with long-term borrowing for capital projects and short-term borrowing for general operations; and 4) for General Obligation Bonds to fund City Colleges of Chicago capital projects. None of the property tax levy is used for Corporate Fund general operating purposes.[88]

The City's proposed FY2021 gross property tax levy is approximately $1.6 billion, which is a 5.9%, or $88.9 million, increase over the $1.5 billion levy adopted in the FY2020 budget.

The distribution of the budgeted gross property tax levy over the five-year period between FY2017 and FY2021 is shown in the chart below. The majority of the levy in FY2021, nearly $1.4 billion, will be used for the City's pension funds. This represents nearly 87% of the total levy. The pension allocation of property tax funding proposed in FY2021 is an increase of $403.5 million over the FY2020 budget. Simultaneous to the large increase in property tax funding for pensions, the allocation for debt service will decrease to $90.5 million in FY2021 from $405.2 million in FY2020. The decrease in the property tax allocation for debt funding is made possible by savings from refinancing bonds issued by the City and the Sales Tax Securitization Corporation (STSC).[89]

The allocation of $119.4 million in property taxes levied for the Chicago Public Library will remain the same as the prior year. The City provides funding for debt service payments on bonds issued for the library's capital program and for short-term borrowing to support the library's operating expenses.[90] The City issues short-term debt (tax anticipation notes) for the library in order to bridge the roughly 18-month gap between approval of the levy and collection of taxes.

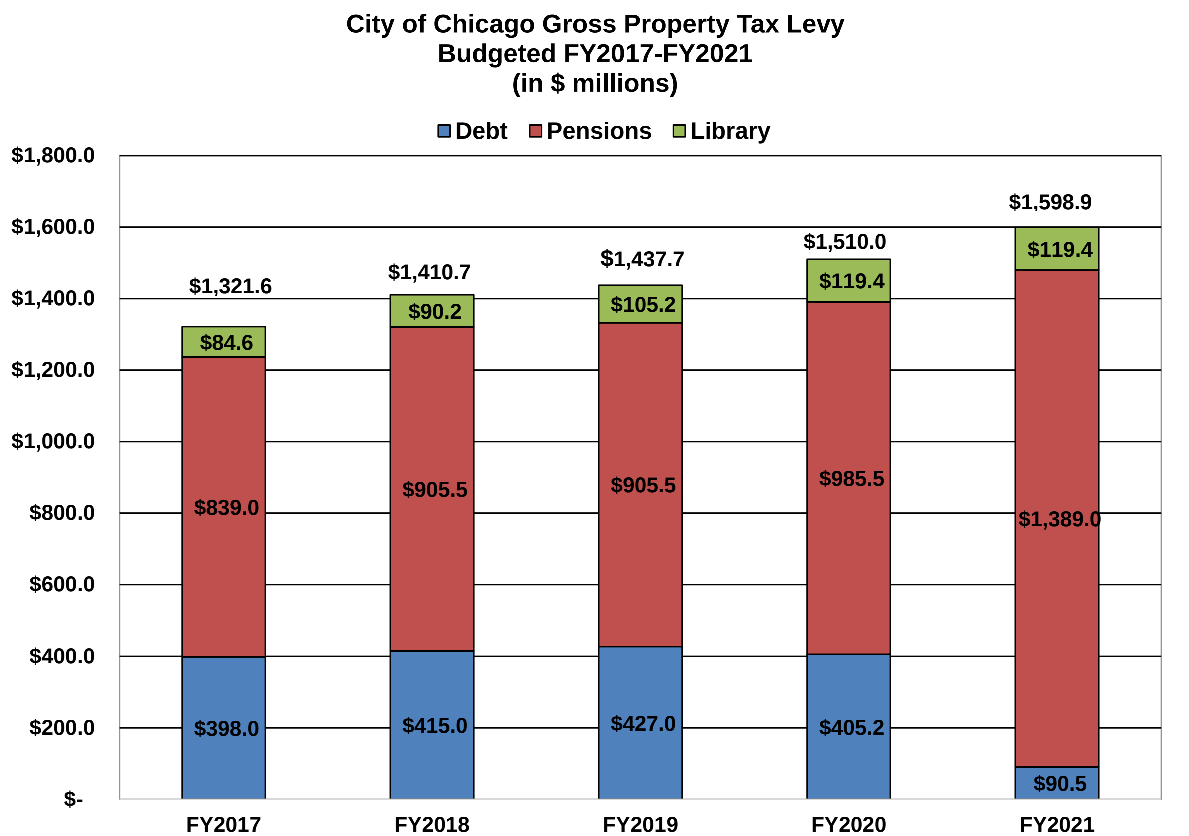
The City also levies property taxes on behalf of City Colleges of Chicago. The gross levy for City Colleges in FY2021 is proposed to be $34.0 million, compared to $29.0 million the prior year.[91] This amount is not included in the chart below because City Colleges is a separate unit of government.

Including the levy on behalf of City Colleges, the City's total gross property tax levy in FY2021 is proposed to increase by $93.9 million from the prior year. The increase is attributable to three factors: 1) an inflationary increase of $35.4 million based on the 2019 Consumer Price Index rate of 2.3%; 2) $42.5 million in "loss in collections"; and 3) $16.0 million in added value from new

[88] FY2004 is the last year that any of the City property tax levy was used for the Corporate Fund.
[89] City of Chicago, FY2021 Budget Overview, p. 56.
[90] The Chicago Public Library is a department of city government. However, since 1996 the library has been listed as a separate line item on Chicago property tax bills.
[91] City of Chicago FY2021 Budget Recommendations and FY2020 Budget Ordinance, Summary B.

development and expiring Tax Increment Financing districts.[92] As a home rule unit of government, the City of Chicago is exempt from State legal limits on property tax extension increases. However, the City has a self-imposed property tax limit that mirrors the state Property Tax Extension Limitation Law, limiting the annual increase in the aggregate property tax extension to the lesser of 5% or the rate of inflation.[93] The loss in collections portion will make up the difference between what the City levies for its pension funds and what it actually collects due to late payment or no payment and ensure the City is able to make the full statutory payment and avoid triggering a state intercept.

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



Note: Excludes levy for City Colleges.
Source: FY2017-FY2021 Budget Recommendations, Summary B.

[92] City of Chicago, FY2021 Budget Overview, p. 60.

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

Additional Property Tax Revenues

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

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

City Colleges of Chicago

The City Council adopted an ordinance on September 29, 1999 authorizing the issuance of up to $385 million in General Obligation Bonds to pay for City Colleges capital projects.[94] The City of Chicago levies taxes to pay debt service on capital improvement bonds for the City Colleges of Chicago. This is done to compensate for the expiration of the City Colleges' authority to issue debt through the Public Building Commission (PBC).

Debt service limits for the City Colleges were fixed at the time the property tax cap law was implemented in 1995.[95] At that time the District's debt burden consisted of obligations issued through the PBC and paid for through an Operations and Maintenance (O&M) levy. When these obligations were fulfilled, the O&M levy was eliminated, which required the District to seek other ways to issue debt. The City of Chicago, by means of an intergovernmental agreement, now levies property taxes that are used to pay for Public Building Commission obligations that fund City Colleges projects.[96] This arrangement results in no net increase for property taxpayers, but rather transfers part of the City Colleges levy to the City of Chicago. The effect is an increase in the City of Chicago tax rate and a decrease in the City Colleges tax rate.

The City's levy for City Colleges debt was held flat at $5.7 million for several years and then jumped to $33.5 million in FY2007 and to $36.6 million in FY2008.[97] The City proposes a levy of $34.0 million for City Colleges in FY2021.[98]

Chicago Public Schools

The City of Chicago and the Chicago Public Schools have an intergovernmental agreement through which the City levies taxes to pay for some of the school district's capital needs. The

[94] Journal of Proceedings of the City Council, September 29, 1999, available at http://www.chicityclerk.com/journalofproceedings90s.php.
[95] Property Tax Extension Limitation Law, 35 ILCS 200/18.
[96] Information provided by City Colleges of Chicago Finance Office, June 26, 2008.
[97] This is because the debt schedule called for interest payments only from 1999-2007. Principal had to be paid starting in 2008. See City Colleges of Chicago Capital Improvement Projects Series 1999 City of Chicago General Obligation Bonds Official Statement, p. B-7. http://emma.msrb.org/MS162961-MS138269-MD268443.pdf
[98] City of Chicago, FY2021 Budget Recommendations, Summary B, p. 2.

intergovernmental agreement was approved on October 1, 1997 and has been used to fund and refund several bond issuances.[99]

The City took on a greater role in capital funding for the Chicago Public Schools following the passage of Public Act 89-15 in 1995, which gave substantial control of the school district to the Mayor of Chicago. Pursuant to that Act, the School Finance Authority (SFA), which had been created in 1980 to provide capital debt financing for the Chicago Public Schools, ceased issuing debt for the schools and ended operations on June 1, 2010.[100] The SFA levied its final property tax in tax year 2007, payable in 2008.

According to the debt service schedule for bonds covered by the intergovernmental agreement, City of Chicago payments for school bonds were to increase from $18.8 million in 2008 to $91.0 million in 2009 and remain at $91.0 million annually through 2018.[101] In 2019 the debt service payment would escalate to $112.5 million and then increase to $142.3 million annually through 2031.[102] The intergovernmental agreement is not mentioned in the City's budget documents. Unlike the City Colleges bond levy, it is not listed as a line item in the City budget revenue estimates.

The following pie chart shows the distribution of the City's gross proposed property tax levy for 2021 (taxes payable in 2022) including the City Colleges levy. As shown, 2.1% of the City's proposed FY2021 property tax levy is for City Colleges bonds; 7.3% is for the library; 5.5% is for the debt service on City bonds; and 85.1% is dedicated to pension payments. The bonds issued per the intergovernmental agreement with the Chicago Public Schools are included in the

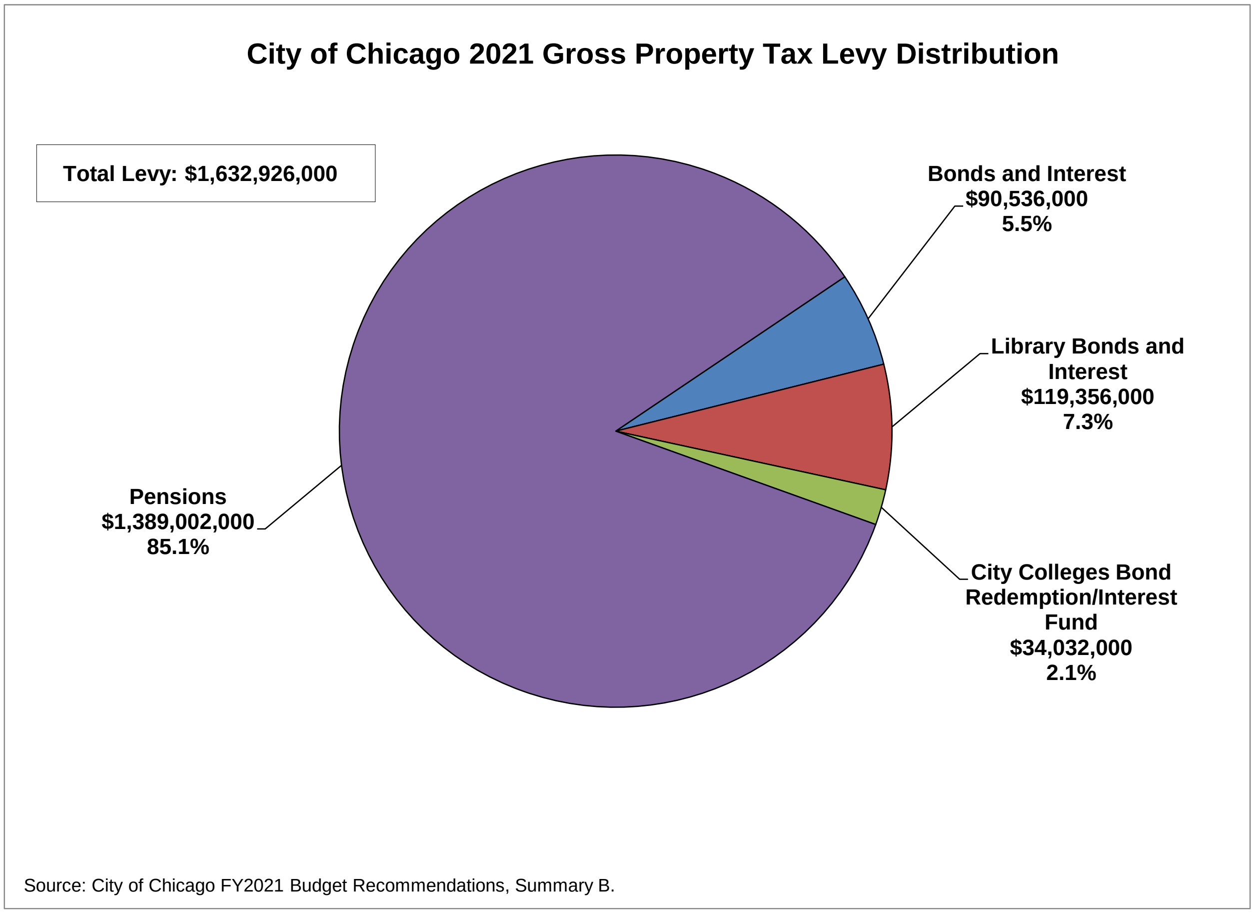
99 Board of Education of the City of Chicago Unlimited Tax General Obligation Refunding Bond Official Statement, Series 2007A, p. 2, available at http://emma.msrb.org/MS263138-MS238446-MD465315.pdf. See also Chicago Public Schools Comprehensive Annual Financial Report for the Year Ended June 30, 2008, pp. 57, 58, 155.

100 Board of Education of the City of Chicago Unlimited Tax General Obligation Refunding Bond Official Statement, Series 2007A, pp. 49-50, available at http://emma.msrb.org/MS263138-MS238446-MD465315.pdf. See also http://www.civicfed.org/civic-federation/blog/school-finance-authority-creation-dissolution

101 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.

102 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.

Bonds and Interest amount but are not itemized. The total City levy for 2021 (payable in 2022) is $1.63 billion.



Tax Increment Financing Districts

The City of Chicago receives and distributes property tax revenue for tax increment financing (TIF) districts within City boundaries. This revenue is not appropriated as part of the City budget, but is spent by the City according to the Redevelopment Plan for each TIF. There are 136 active TIF districts in Chicago in FY2021.[103]

TIF revenue is available to the City of Chicago for implementation of TIF Redevelopment Plans. Some TIF revenue is used to support capital projects of the City or other local governments, such as building schools and parks, provided that these projects fit the Redevelopment Plan of the TIF District.[104] According to the City of Chicago's TIF Reform Panel report, 47% of all TIF allocations between 1983 and 2010 were for public works projects.[105]

[103] City of Chicago, FY2021 Budget Overview, p. 59.
[104] See, for example, Chicago Park District FY2009 Budget Summary, page 111 on the value of TIF dollars received by the Park District.
[105] City of Chicago, TIF Reform Panel Report, August 23, 2011, p. 15.

The City plans to declare a TIF surplus of $304 million for 2021, $167 million of which will go to Chicago Public Schools, and $76 million of which will go to the City.[106]

It is important to note that the property tax dollars collected for TIF are not a *levy*. A levy is the amount a government asks for each year and is the basis on which a tax rate is calculated. TIF does not have its own levy or rate, but is a product of applying the composite rates of all the other extensions to the incremental EAV growth in a TIF district.[107] Since TIF revenue is a product of the tax rates of local governments, TIF revenue is not known until the tax rates of the governments are calculated. The most recent tax rates available are 2019 rates (taxes payable in 2020).[108] Additionally, since TIF revenue is based on tax rates, if tax rates go up, TIF revenue will go up. The composite tax rate in Chicago has grown in recent years as a result of increases in the City and CPS levies and increased TIF revenue.

The following table presents the total City of Chicago property tax levy plus TIF revenues for FY2015 through FY2019, which is the most recent data available. For tax year 2019, the City of Chicago will collect a total of $2.4 billion from taxpayers across the City, including levies for City Colleges, Chicago Public Schools capital programs and TIF revenue. The $925.8 million in TIF revenue collected in FY2019 is a 10.1% increase from $840.8 million collected for tax year 2018. The total gross levy plus TIF revenue for tax year 2019 (payable in 2020) is a 45.7% increase over the five-year period.

City of Chicago FY2015-2019 Gross Property Tax Levy and TIF Revenue (in $ thousands)

Fund Name	FY2015	FY2016	FY2017	FY2018	FY2019
City Government Funds	$ 1,149,700	$ 1,261,195	$ 1,321,722	$ 1,410,671	$ 1,437,686
City Colleges Bond Redemption/Interest Fund	$ 36,632	$ 34,636	$ 36,112	$ 35,693	$ 36,536
TIF Property Tax Revenues	$ 460,638	$ 561,293	660,046	840,821	925,832
GRAND TOTAL	**$ 1,646,970**	**$ 1,857,124**	**$ 2,017,880**	**$ 2,287,185**	**$ 2,400,054**

Source: City of Chicago, FY2015-FY2019 Appropriations Ordinance, Summary B; and Cook County Clerk TIF Reports 2015-2019, available at https://www.cookcountyclerk.com/service/tif-reports.

Transparency and Accountability Issues

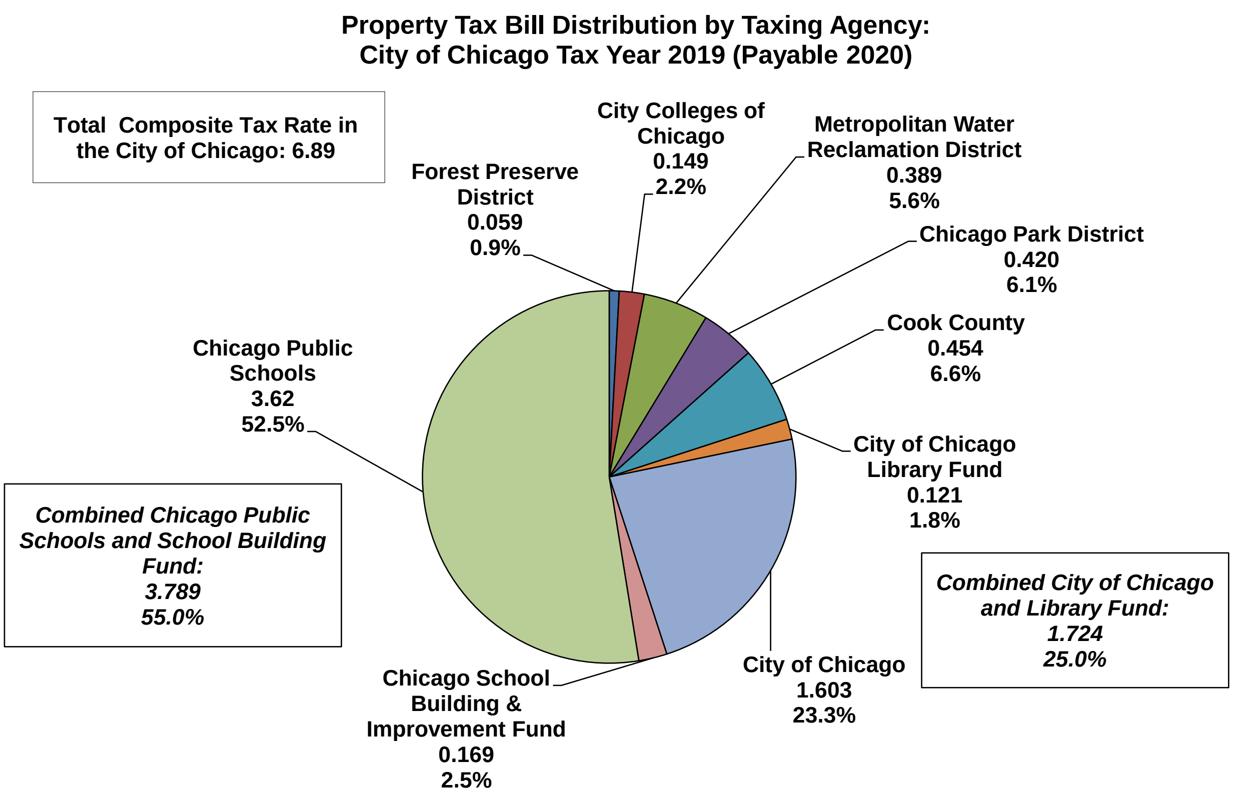
It is important for property taxpayers to understand how much of their property tax dollars governments receive and for what purpose so that they may hold public officials accountable for the level of property taxation imposed. The information currently provided in the City financial documents and on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

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

106 City of Chicago FY2021 Budget Overview, p. 59.
107 Civic Federation, "The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts," October 5, 2010. http://www.civicfed.org/civic-federation/publications/cook-county-property-tax-extension-process-primer-levies-tax-caps-and-.
108 Available on the Cook County Clerk's website at www.cookcountyclerk.com.

of the City of Chicago tax bill among the different governments.[109] The most recent is for tax year 2019, payable in 2020.

The chart below shows the distribution of property taxes from the County Clerk's 2019 Tax Rate Report, as reflected on property tax bills. Based on this data, it appears that 25.0% of a typical City property tax bill is allocated to the City of Chicago and the library, and 55.0% goes to Chicago Public Schools, including the Chicago School Building and Improvement Fund. However, the City of Chicago tax rate includes taxes levied for the Chicago Public Schools and the City Colleges of Chicago, so the pie chart does not accurately represent the distribution of property tax dollars among these local governments. The chart shows each taxing agency's tax rate and percentage of the total composite tax rate in the City of Chicago, as reported by the Cook County Clerk.



Source: Cook County Clerk 2019 Tax Rate Report, available at https://www.cookcountyclerk.com/sites/default/files/pdfs/2019%20tax%20rate%20report.pdf.

PUBLIC SAFETY

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

- Police Department;
- Fire Department;
- Office of Emergency Management and Communications;

[109] Cook County Clerk 2019 Tax Rate Report, available at https://www.cookcountyclerk.com/sites/default/files/pdfs/2019%20tax%20rate%20report.pdf.

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

Public safety makes up a significant portion of the City of Chicago's budget and operations. The proposed FY2021 public safety appropriations of $2.5 billion account for approximately 25.5% of the City's $9.8 billion spending proposal for all local funds. Public safety functions account for over half of spending in the Corporate Fund, the City's general fund.

For public safety initiatives in the FY2021 budget, but outside of the six public safety departments, the City is allocating $16.5 million to community-based violence reduction programs, including $1.3 million for a co-responder 911 response pilot program in which a trained mental health professional, paramedic and police officer with crisis intervention training will respond together to calls involving a mental health crisis.[110] FY2021 will also be the third year of the Consent Decree approved on January 31, 2019 to institute comprehensive reforms of the Chicago Police Department.[111] The Consent Decree focuses on a variety of reform areas including use of force, training and accountability.

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

Total Public Safety Appropriations by Fund

The table below shows the total appropriations for public safety functions in the proposed FY2021 budget in all funds excluding grant funds. Total FY2021 public safety spending is recommended to be $2.5 billion, consisting of $2.3 billion in the Corporate Fund, $137.7 million in the special revenue funds and $82.8 million in the enterprise funds.

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

Public safety spending within the special revenue funds includes:

- $68.5 million for the Office of Public Safety Administration budgeted within the Emergency Communication Fund;
- $58.4 million for the Office of Emergency Management and Communications in the Emergency Communication Fund; and

[110] City of Chicago, FY2021 Budget Overview, p. 30.
[111] Chicago Police Department Consent Decree Documents, http://chicagopoliceconsentdecree.org/resources/ (last accessed on November 6, 2020).

- $10.9 million for the Police Department budgeted primarily within the Chicago Police CTA Detail Fund and a small portion—$100,000—within the Controlled Substances Fund.

The Emergency Communication Fund handles the City's 911 system and is funded through a $5.00 surcharge on monthly phone bills in the City of Chicago.[112] The Chicago Police CTA Fund accounts for reimbursement from the Chicago Transit Authority (CTA) to the City for security services provided by off-duty police officers on CTA property.[113] The Controlled Substances Fund is used for the enforcement of laws related to controlled substances.[114]

Appropriations within the enterprise funds are for police, fire and emergency management services provided at O'Hare and Midway airports.[115]

City of Chicago Proposed Public Safety Appropriations by Fund: FY2021				
	Corporate Fund	Special Revenue Funds	Enterprise Funds	Total
Office of Public Safety Administration	$ 30,626,710	$ 68,475,593	$ 74,476	$ 99,176,779
Police Department	$ 1,556,686,263	$ 10,854,000	$ 32,561,229	$ 1,600,101,492
Fire Department	$ 664,435,437	$ -	$ 39,170,298	$ 703,605,735
Office of Emergency Management and Communications	$ 10,665,629	$ 58,405,146	$ 10,968,179	$ 80,038,954
Civilian Office of Police Accountability	$ 13,314,826	$ -	$ -	$ 13,314,826
Police Board	$ 564,945	$ -	$ -	$ 564,945
Total Public Safety	**$ 2,276,293,810.0**	**$ 137,734,739.0**	**$ 82,774,182.0**	**$ 2,496,802,731.0**

Source: City of Chicago, FY2021 Budget Recommendations, Summary E, p. 18.

Public Safety Appropriations in the Corporate Fund

The following table shows Corporate Fund appropriations and expenditures on public safety over the five-year period from FY2017 to FY2021. Corporate Fund spending on public safety is proposed to be $2.27 billion in FY2021. This is a slight decrease of $20.4 million, or 0.9%, from the adopted FY2020 appropriations of $2.3 billion.

Appropriations for the new Office of Public Safety Administration are proposed to be $30.6 million in FY2021. The City created this office in FY2020 with a budget of $18.5 million. The Office of Public Safety Administration is intended to reduce costs and increase efficiency by aligning the administrative functions of the Police Department, Fire Department and Office of Emergency Management and Communications. This office will handle finance, human resources, information technology and logistical functions for the three departments.[116] The new office is intended to be staffed by civilian workers, thereby freeing up uniformed officers to work in the community.

Police Department spending is proposed to be $1.56 billion in FY2021, which is a decrease of $79.2 million, or 4.8%, from the FY2020 budget. The decrease is due to the elimination of 613

[112] City of Chicago, FY2021 Budget Overview, p. 49.
[113] City of Chicago, FY2021 Budget Overview, p. 50.
[114] City of Chicago, FY2021 Budget Overview, p. 49.
[115] City of Chicago, FY2020 Budget Recommendations, Summary F, pp. 26-27.
[116] City of Chicago, FY2020 Budget Overview, p. 110.

vacant positions. The Police Department budget is approximately 90% personnel costs including salaries and related personnel expenses. The budget includes $91.4 million in overtime spending and $82.6 million for legal settlements and judgments.[117] Both of these line items are flat from prior year appropriations, although the City is expected to actually spend $125 million in overtime in FY2020. Approximately $75 million of that estimate is for overtime related to the police response to social unrest and looting incidents over the summer following the death of George Floyd in Minneapolis, Minnesota. If not for those incidents in June, the City reports that overtime expenses would have been on track to be under budget.[118]

The Police Department budget includes $7.7 million in expenditures specifically related to the Consent Decree. However, positions to fulfill certain Consent Decree requirements are spread throughout the Department budget, including a new Office of Constitutional Policing created in January 2020 as part of a Police Department Reorganization. Accounting for $182.3 billion of the Police Department budget, the Constitutional Policing office oversees reform efforts related to the Consent Decree.

The Fire Department budget is proposed to increase by 10.5% to $664.4 million in FY2021 from $601.3 the prior year. The increase is primarily due to back pay agreed to in a collective bargaining agreement with the firefighters union that included a 10% pay increase retroactive to 2017.[119] Over the five-year period between FY2017 and FY2021, the Fire Department budget represents an increase of 15.4%, or $88.7 million.

Appropriations for the Office of Emergency Management and Communications will decrease by 59.2% in FY2021 to $10.7 million, from $26.1 million in FY2020. Over the five-year period from FY2017 to FY2021, the Emergency Management and Communications budget will decrease by 88.8% from $95.4 million in FY2017. The decrease between FY2017 and FY2018 was due to the City transferring a majority of the Office's expenses from the Corporate Fund to the Emergency Communications Fund in FY2018.[120] The decrease in the Corporate Fund in FY2021 is due to the elimination of approximately 900 crossing guard positions whose management will be transferred to Chicago Public Schools.[121]

Proposed spending within the police oversight departments—the Police Board and the Civilian Office of Police Accountability[122] (COPA)—will decrease slightly in FY2021 from the prior year. The Police Board budget is proposed to decrease from $1.1 million in FY2020 to approximately $565,000 in FY2021, primarily due to a reduction in contractual services.[123]

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117 City of Chicago FY2021 Budget Recommendations, pp. 164-165.
118 Information provided at the City of Chicago Police Department Budget Hearing of the City Council Budget & Operations Committee, October 29, 2020.
119 Alex Nitkin, "Pass an ordinance on recruitment exams to help diversify fire department, commissioner tells aldermen," *The Daily Line*, October 29, 2020.
120 City of Chicago, FY2019 Budget Overview, p 38.
121 Alex Nitkin, "Pass an ordinance on recruitment exams to help diversify fire department, commissioner tells aldermen," *The Daily Line*, October 29, 2020.
122 The Civilian Office of Police Accountability (COPA) replaced the Independent Policy Review Authority (IPRA) in FY2017.
123 City of Chicago FY2021 Budget Recommendations, p. 163.

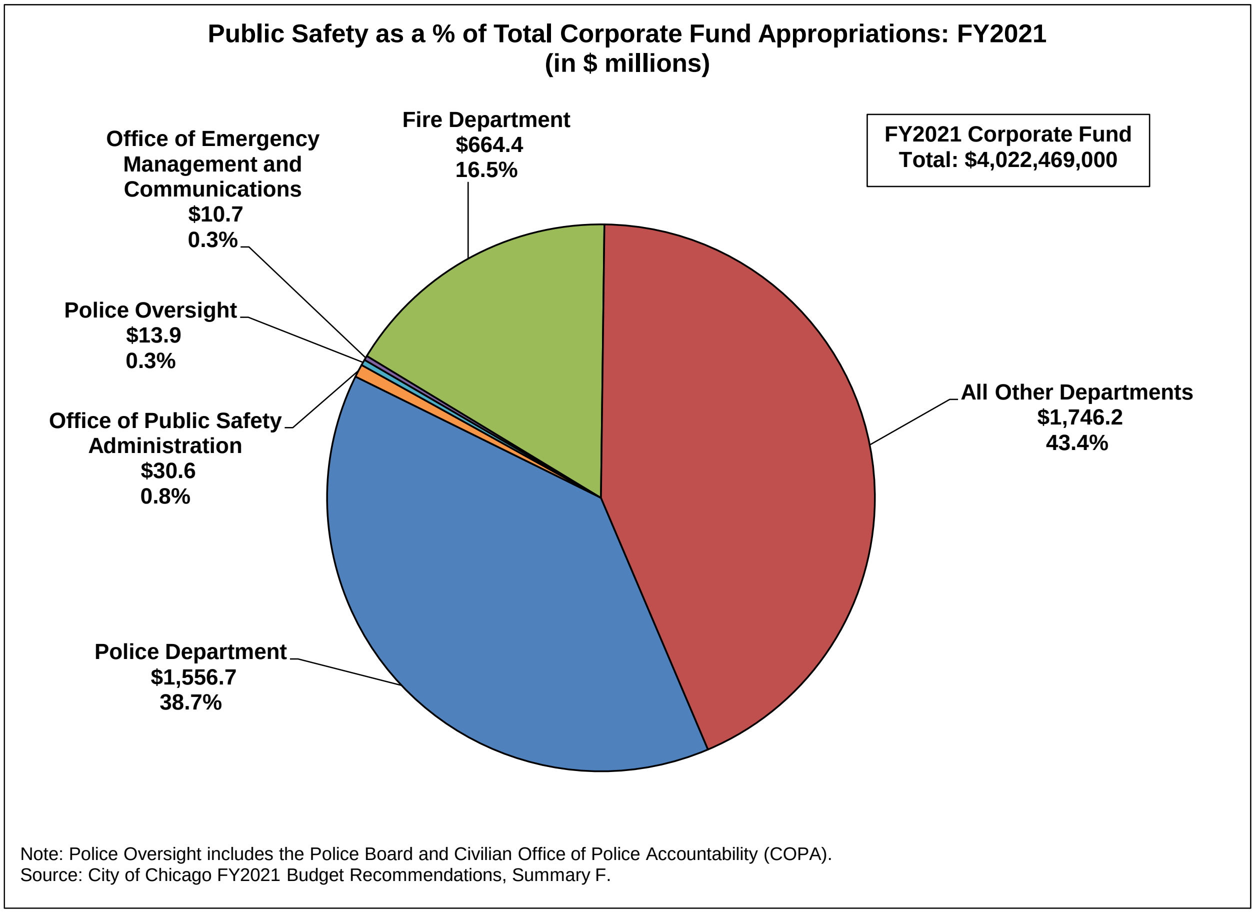
Over the five-year period from FY2017 to FY2021, total appropriations for Public Safety in the Corporate Fund will increase by 4.7%, or $102.5 million, from $2.17 billion to $2.28 billion. Public safety appropriations accounted for 61.7% of total Corporate Fund appropriations in FY2017, compared to 56.6% of Corporate Fund proposed spending in FY2021.

City of Chicago Corporate Fund
Public Safety Corporate Fund Appropriations by Department: FY2017-FY2021
(in $ millions)

	FY2017 Actual	FY2018 Actual	FY2019 Actual	FY2020 Adopted	FY2021 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Office of Public Safety Administration	$ -	$ -	$ -	$ 18.5	$ 30.6	$ 12.1	65.2%	$ 30.63	-
Police Department	$ 1,495.2	$ 1,575.6	$ 1,589.6	$ 1,635.9	$ 1,556.7	$ (79.2)	-4.8%	$ 61.5	4.1%
Fire Department	$ 575.8	$ 578.8	$ 604.3	$ 601.3	$ 664.4	$ 63.2	10.5%	$ 88.7	15.4%
Office of Emergency Management and Communications	$ 95.4	$ 25.5	$ 25.3	$ 26.1	$ 10.7	$ (15.5)	-59.2%	$ (84.7)	-88.8%
Civilian Office of Police Accountability	$ 7.0	$ 11.0	$ 11.7	$ 13.8	$ 13.3	$ (0.4)	-3.2%	$ 6.3	89.3%
Police Board	$ 0.4	$ 0.4	$ 0.4	$ 1.1	$ 0.6	$ (0.5)	-48.7%	$ 0.2	40.2%
Subtotal Public Safety	**$ 2,173.8**	**$ 2,191.3**	**$ 2,231.4**	**$ 2,296.7**	**$ 2,276.3**	**$ (20.4)**	**-0.9%**	**$ 102.5**	**4.7%**
Total Corporate Fund Appropriations	**$ 3,522.7**	**$ 3,538.3**	**$ 3,815.7**	**$ 4,465.2**	**$ 4,022.5**	**$ (442.7)**	**-9.9%**	**$ 499.8**	**14.2%**
Public Safety as % of Corporate Fund	**61.7%**	**61.9%**	**58.5%**	**51.4%**	**56.6%**				

Source: City of Chicago, FY2019-FY2021 Budget Recommendations, Summary F.

The chart below shows the distribution of the proposed FY2021 public safety appropriations as a percent of total Corporate Fund appropriations. In total, public safety departments make up 56.6% of the Corporate Fund. The Police Department will constitute 38.7% of total Corporate Fund proposed appropriations and the Fire Department will account for 16.5%. All other departments outside the public safety departments will collectively make up 43.4% of the Corporate Fund budget.



Public Safety Personnel Full-Time Equivalent Positions

The following table shows the number of budgeted full-time equivalent (FTE) positions between FY2017 and FY2021 within the public safety departments. These FTE figures account for positions across all local funds, which include the Corporate Fund, enterprise funds and special revenue funds, but excludes grant funds.

The total number of FTE positions across all public safety departments is proposed to be 20,771 in FY2021. This is a decrease of 1,622 FTE vacant positions, or 7.2%, from the FY2020 adopted budget. Over the five-year period, it is a decrease of 911 FTEs, or 4.2%, from 21,682 in FY2017.

Positions within the new Office of Public Safety Administration will be reduced by 62, or 15.1%, from 411 FTE positions approved in FY2020, the first year of operation, to 349 FTEs in FY2021. In FY2020 the City moved 244 existing civilian positions and 64 vacant positions from the Police Department, Fire Department and Office of Emergency Management and Communications to create the Office of Public Safety Administration.[124]

[124] City of Chicago Budget Information Sheet, "2020 Budget Initiative: New Office of Public Safety Initiative."

The number of budgeted FTEs in the Police Department will decrease by 613, or 4.2%, in FY2021 from 14,708 in FY2020 to 14,095 in FY2021. The number of police officer positions increased significantly between FY2016 and FY2019. In September 2016, former Mayor Rahm Emanuel announced a public safety strategy to increase the number of sworn personnel by 970.[125] The number of Police Department FTEs increased by 556 between FY2016 and FY2017, and another 462 between FY2017 and FY2018, resulting in a total increase of 1,018 in that three-year period. Police Department FTEs continued to increase through FY2019 by another 291 positions. In FY2020, the number of budgeted FTEs decreased by 250 from the prior year because the Police Department shifted some administrative positions related to finance, human resources, technical services and other functions to the new Office of Public Safety Administration. The decrease of 613 positions in FY2021 is due to the elimination of vacant positions. The Department has 800 total vacancies, of which approximately 613 will be eliminated to achieve savings of approximately $30 million, and the remainder will be filled through a new police recruit class in 2021.[126]

The Fire Department will eliminate 34 vacant FTE positions in FY2021, which is a decrease of 0.7% from the prior year. The 5,124 FTEs proposed for the Fire Department in FY2021 is relatively flat over the five-year period from FY2017 through FY2021.

The Office of Emergency Management and Communications is proposing to reduce the number of FTE positions by 902 to a total of 1,061 FTEs in FY2021. This is a 46.0% decrease from the prior year. The decrease in FY2021 is due to the elimination of 898 crossing guard positions whose management will be transferred to Chicago Public Schools.[127] An additional four vacant positions will also be eliminated. The number of positions budgeted within Emergency Management and Communications decreased by 200 between FY2019 and FY2020 as many administrative positions were moved to the Office of Public Safety Administration.

Police oversight within the Independent Police Review Authority and Civilian Office of Police Accountability offices has increased from 62 in FY2017 to 140 in FY2020. In FY2017 the Independent Police Review Authority (IPRA) transitioned to the Civilian Office of Police Accountability (COPA). IPRA budgeted to keep 62 positions that year to remain in operation for half a year during the transition, while COPA budgeted for 142 positions, which was an increase

[125] City of Chicago, FY2017 Budget Overview, p. 33.
[126] Alex Nitkin and Erin Hegarty, "Aldermen push for policing alternatives as their colleagues call for more officers on the streets," *The Daily Line*, October 30, 2020.
[127] Alex Nitkin, "Pass an ordinance on recruitment exams to help diversify fire department, commissioner tells aldermen," *The Daily Line*, October 29, 2020.

of 45 FTE positions from the number of FTEs budgeted in IPRA the prior year.[128] The number of Police Board positions has remained the same at 2 FTEs over the five-year period.

City of Chicago Public Safety Full-Time Equivalent Positions by Department All Funds: FY2017-FY2021									
	FY2017 Adopted	FY2018 Adopted	FY2019 Adopted	FY2020 Adopted	FY2021 Proposed	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Office of Public Safety Administration	0	0	0	411	349	-62	-15.1%	349	-
Police Department	14,205	14,667	14,958	14,708	14,095	-613	-4.2%	-110	-0.8%
Fire Department	5,161	5,158	5,216	5,158	5,124	-34	-0.7%	-37	-0.7%
Office of Emergency Management and Communications	2,110	2,121	2,163	1,963	1,061	-902	-46.0%	-1,049	-49.7%
Civilian Office of Police Accountability*	142	145	151	151	140	-11	-7.3%	-2	-1.4%
Independent Police Review Authority*	62	0	0	0	0	0	-	-62	-100.0%
Police Board	2	2	2	2	2	0	0.0%	0	0.0%
Total	**21,682**	**22,093**	**22,490**	**22,393**	**20,771**	**-1622.0**	**-7.2%**	**-911.0**	**-4.2%**

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

Source: City of Chicago, FY2021 Budget Overview, p. 199.

PERSONNEL

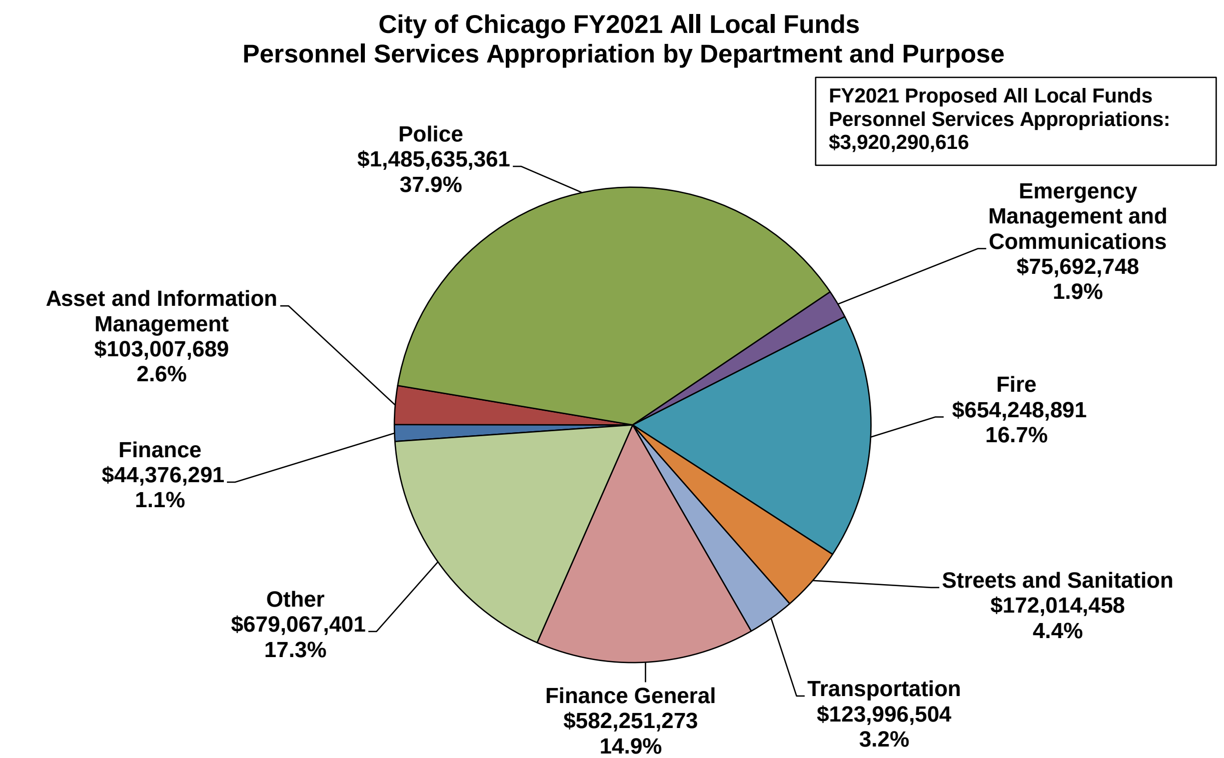
This section describes the City of Chicago's personnel levels and appropriations. It includes information on all local funds personnel services appropriations, a full-time equivalent (FTE) position count and Corporate Fund personnel service appropriations.[129] The FY2021 Budget Recommendations, which the City Council will vote on to become the FY2021 appropriation ordinance, describes position count and personnel services appropriations by fund. Position count and personnel services appropriations reflect budgeted FTE positions and include personnel related expenses such as salaries and wages, overtime, uniform allowances, stipends and salary adjustments.[130] The actual number of full-time equivalent positions is not available in the budget book. Therefore, for the purposes of this analysis, the Civic Federation presents *budgeted* FTE positions from the FY2017 through FY2020 appropriation ordinances and FY2021 proposed budget.

All Local Funds Personnel Services and Full-Time Equivalent Positions

The City of Chicago proposes to appropriate just over $3.9 billion for personnel services across all local funds in FY2021. Approximately $1.5 billion, or 37.9%, of all local funds personnel services appropriations will be allocated to police. Police includes the Police Department, Police Board and the Civilian Office of Police Accountability (COPA). The second largest portion of spending across all local funds, aside from Other, is the Fire Department, which accounts for 16.7%, or $654.2 million, of personnel services appropriations across all local funds. The Finance General category accounts for citywide personnel-related expenditures such as pension contributions and employee healthcare costs across all departments. Finance general represents 14.9%, or $582.3 million, of personnel services appropriations across all local funds for FY2021.

[128] City of Chicago, FY2017 Budget Overview, pp. 33 and 109.
[129] Personnel services include salaries and wages and other compensated related benefits. It does not include healthcare related benefits and pensions, which are included in Finance General.
[130] Full-time equivalent (FTE) positions represent the total hours worked divided by the average annual hours worked in a full-time position.

The following chart illustrates the City's proposed FY2021 personnel services appropriations for all local funds by department.



Note: Other includes: Office of the Mayor, Office of the Inspector General, Office of Budget and Management, Department of Innovation and Technology, City Council, City Clerk, City Treasurer, Department of Administrative Hearings, Department of Law, Department of Human Resources, Department of Procurement Services, Board of Election Commissioners, Department of Public Health, Commission on Human Relations, Mayor's Office for People with Disabilities, Department of Family and Support Services, Department of Planning and Development, Department of Buildings, Department of Business Affairs and Consumer Protection, Commission on Animal Care and Control, License Appeal Commission and Board of Ethics; Department of Water Management; Libary, Department of Aviation and Office of Public Safety Administration. Police includes: the Police Department; Police Board and Civilian Office of Police Accountability.
Source: City of Chicago, FY2021 Budget Recommendations, Summary D.

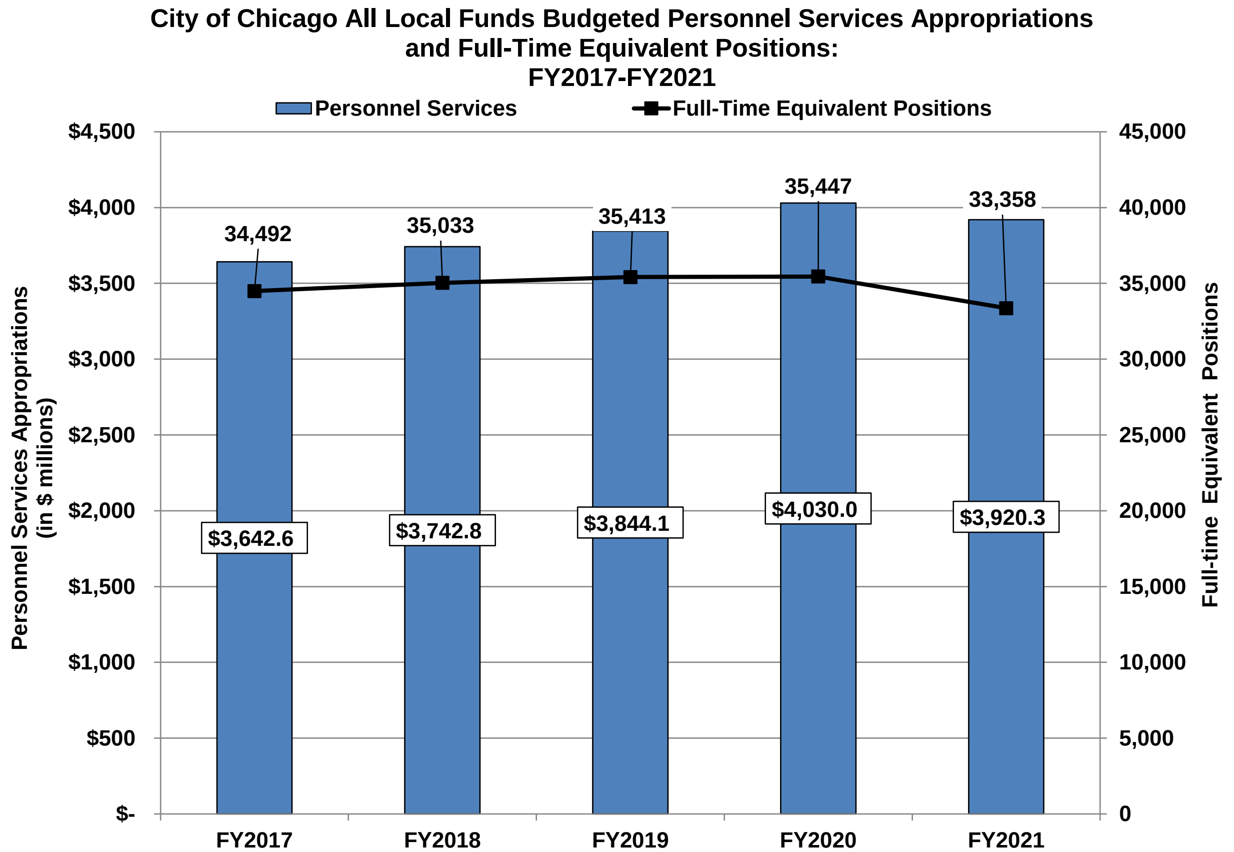
The next chart illustrates the five-year trend in personnel services appropriations and budgeted FTE positions. Between FY2017 and FY2021, local fund budgeted appropriations for personnel services, which include salaries and wages, overtime pay and other benefits, increased by $277.7 million, or 7.6%, from $3.6 billion to $3.9 billion. During the same time period the number of FTEs decreased by 1,164.0 FTEs or 3.4%. The number of FTEs and personnel services appropriations declined between FY2020 and FY2021, primarily due to the elimination of 1,921 vacant positions within the Corporate Fund and a combination of furloughs days for non-union workers and layoffs.[131] The growth in personnel appropriations from FY2017 to FY2020 is attributable to the following:

- Additional hiring in 2017 and 2018 in the area of public safety that was tied to former Mayor Emanuel's multi-year public safety strategy, including hiring additional sworn

[131] City of Chicago, FY2021 Budget Overview, p. 45.

police officers, the creation of the Civilian Office of Police Accountability and additional staff in the Office of the Inspector General;[132]

- Additional hiring and investments included in the FY2019 budget in the public safety departments related to the police consent decree with the Illinois Attorney General;[133] and
- Increases in salaries and wages for current collective bargaining agreements and estimated salary and wage growth for collective bargaining agreements currently under negotiation.[134]



Source: City of Chicago, Annual Appropriation Ordinances, FY2017-FY2020, Summary D; and FY2021 Budget Overview, p. 200 and FY2021 Budget Recommendations, Summary D.

The following table shows the City's budgeted FTE counts for all local funds by function. The number of budgeted FTEs will decline across all functions in the local funds in FY2021, from 35,447 FTEs in FY2020 to 33,528 FTEs in FY2021 across all local funds. This is a net decrease of 2,089 FTE positions or 5.9%. Public safety will see the greatest decline in the number of FTEs, decreasing by 1,627 FTEs, or 7.3%, from 22,219 FTEs in FY2020 to 20,592 FTEs in FY2021. The decrease in public safety is primarily due to a reduction in FTE positions within the Corporate Fund of the Police Department and Office of Emergency Management and

[132] City of Chicago, FY2017 Budget Overview, p. 112 and FY2018 Budget Overview, p. 112.
[133] City of Chicago, FY2019 Budget Overview, p. 16.
[134] City of Chicago, FY2020 Budget Overview, p. 41; and FY2021 Budget Overview, p. 45.

Communications.[135] Regulatory FTEs will decrease by 7.8%, or 49 FTEs, from 628 FTEs in FY2020 to 579 FTEs in FY2021. Infrastructure Services will decline by 196 FTEs or 2.5%. Legislative and elections, city development and community services will decline by smaller amounts over the two-year period examined.

Over the five-year period between FY2017 to FY2021, the City proposes to decrease its budgeted workforce by 1,134 FTEs, or 3.3%, from 34,492 FTEs in FY2017 to 33,358 FTEs in FY2021. Over the same period, the most significant decrease in personnel count occurred in public safety, declining by 1,090 FTEs from 21,682 FTEs in FY2017 to 20,592 FTEs for FY2021. The decrease in public safety is largely due to the proposed reduction in vacancies primarily within the Chicago Police Department and Office of Emergency Management and Communications in FY2021.

City of Chicago All Local Funds Budgeted Full-Time Equivalent Positions by Function: FY2017-FY2021

Function	FY2017 Adopted	FY2018 Adopted	FY2019 Adopted	FY2020 Adopted	FY2021 Proposed	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Finance and Administration	2,756	2,763	2,782	2,759	2,579	-180	-6.5%	-177	-6.4%
Legislative and Elections	357	357	332	332	330	-2	-0.6%	-27	-7.6%
City Development	252	252	264	267	246	-21	-7.9%	-6	-2.4%
Community Services	1,129	1,186	1,261	1,419	1,405	-14	-1.0%	276	24.4%
Public Safety	21,682	22,093	22,335	22,219	20,592	-1,627	-7.3%	-1,090	-5.0%
Regulatory	612	619	634	628	579	-49	-7.8%	-33	-5.4%
Infrastructure Services	7,704	7,763	7,805	7,823	7,627	-196	-2.5%	-77	-1.0%
Total	**34,492**	**35,033**	**35,413**	**35,447**	**33,358**	**-2,089**	**-5.9%**	**-1,134**	**-3.3%**

Note: The full-time equivalent positions presented above do not include grant-funded positions.

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

Corporate Fund Personnel Services Trends

Personnel service appropriations in the Corporate Fund are projected to decrease by $99.1 million, or 3.2%, from $3.1 billion in the adopted FY2020 budget to just under $3.0 billion in FY2021. At the same time, total Corporate Fund appropriations are budgeted to decline by $442.7 million or 9.9%. The FY2021 personnel services appropriations represent 73.4% of the Corporate Fund budget of $4.0 billion. Personnel service appropriations within each department include salaries and wages. Personnel benefits such as healthcare, workers' compensation and unemployment compensation are appropriated in the Finance General category.[136] Personnel spending in the Finance General category will decrease by $25.4 million, or 5.1%, over the two-year period. The decline in Finance General is primarily due to renegotiated healthcare benefits.

Between FY2017 and FY2021, personnel services appropriations in the Corporate Fund will increase by $129.9 million or 4.6%. During the five-year period, personnel services appropriations for public safety departments will increase by $64.7 million or 3.2%. This increase in public safety personnel expenditures is tied to salary increases under current collective bargaining agreements reached with the Fire Department in FY2020, estimated expenses tied to collective bargaining agreements currently being negotiated, increased public safety hiring in FY2017 and FY2018 and expenses tied to the police department consent

[135] City of Chicago, FY2021 Budget Overview, pp. 121 and 123.
[136] City of Chicago FY2021 Budget Overview, p. 47.

decree.[137] For more information on public safety see p. 51. Finance General will also see a large increase between FY2017 and FY2021 that will total $74.3 million or 18.7%. The increase in Finance General over the five-year period is primarily attributable to the City increasing payments to its four pension funds. Personnel services appropriations in the Department of Transportation will decline by 50.7%, or $18.3 million, over the five-year period. The decline in personnel services within the Department of Transportation is primarily due to the City shifting employees from the Corporate Fund to the Motor Fuel Tax Fund in FY2021.[138]The remaining departments will see smaller increases and decreases in funding over the five-year period examined.

City of Chicago Corporate Fund Personnel Services: FY2017-FY2021 (in $ millions)

Department	FY2017 Adopted	FY2018 Adopted	FY2019 Adopted	FY2020 Proposed	FY2021 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Public Safety*	$ 2,020.0	$ 2,027.3	$ 2,051.7	$ 2,135.1	$ 2,084.7	$ (50.4)	-2.4%	$ 64.7	3.2%
Streets and Sanitation	$ 86.5	$ 82.6	$ 84.9	$ 81.9	$ 86.5	$ 4.7	5.7%	$ 0.1	0.1%
Asset and Information Management**	$ 77.2	$ 77.0	$ 80.5	$ 90.2	$ 83.9	$ (6.3)	-7.0%	$ 6.7	8.7%
Transportation	$ 36.2	$ 35.7	$ 36.6	$ 29.1	$ 17.9	$ (11.2)	-38.6%	$ (18.3)	-50.7%
City Council	$ 20.6	$ 20.7	$ 21.4	$ 20.9	$ 20.9	$ (0.0)	-0.1%	$ 0.3	1.4%
Finance	$ 37.3	$ 37.3	$ 37.8	$ 38.1	$ 37.2	$ (0.9)	-2.3%	$ (0.1)	-0.2%
Office of the Mayor	$ 6.3	$ 6.5	$ 7.0	$ 11.0	$ 9.4	$ (1.6)	-14.8%	$ 3.1	49.4%
Finance General	$ 398.3	$ 412.3	$ 392.5	$ 498.0	$ 472.6	$ (25.4)	-5.1%	$ 74.3	18.7%
All Other	$ 139.4	$ 142.2	$ 162.6	$ 146.4	$ 138.6	$ (7.9)	-5.4%	$ (0.9)	-0.6%
Total Personnel Services	**$ 2,821.8**	**$ 2,841.8**	**$ 2,875.0**	**$ 3,050.7**	**$ 2,951.6**	**$ (99.1)**	**-3.2%**	**$ 129.9**	**4.6%**
Total Corporate Fund	**$ 3,719.0**	**$ 3,791.2**	**$ 3,815.7**	**$ 4,465.2**	**$ 4,022.5**	**$ (442.7)**	**-9.9%**	**$ 303.5**	**8.2%**

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

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

Source: City of Chicago Annual Appropriation Ordinances, FY2017-FY2020, Summary D; and FY2021 Budget Recommendations, Summary D.

RESERVE FUNDS

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

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

Fund Balance Definitions and Components

Fund balance is a term commonly used to describe the net assets of a governmental fund and serves as a measure of budgetary reserves.[139] Prior to FY2011, Chicago reported *unreserved* fund balance, or resources available for appropriation without any external legal restrictions or constraints.[140] Starting in FY2011, the audited financial statements for the City include a modification in fund balance reporting, as recommended by the Governmental Accounting

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[137] City of Chicago FY2016 Budget Overview, p. 35; FY2017 Budget Overview, p. 33; FY2018 Budget Overview, p. 34; FY2019 Budget Overview, p. 16; and FY2020 Budget Overview, p. 41.
[138] City of Chicago, FY2021 Budget Overview, pp. 100-105.
[139] Government Finance Officers Association (GFOA), Fund Balance Guidelines for the General Fund (Adopted September 2015). Available at http://www.gfoa.org/fund-balance-guidelines-general-fund.
[140] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009.

Standards Board (GASB). GASB Statement No. 54 shifts the focus of fund balance reporting from the availability of fund resources for budgeting purposes to the "extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent."[141]

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

- *Nonspendable fund balance* – resources that inherently cannot be spent such as pre-paid rent or the long-term portion of loans receivable. In addition, this category includes resources that cannot be spent because of legal or contractual provisions, such as the principal of an endowment.
- *Restricted fund balance* – net fund resources subject to legal restrictions that are externally enforceable, including restrictions imposed by the constitution, creditors or laws and regulations of non-local governments.
- *Committed fund balance* – net fund resources with self-imposed limitations set at the highest level of decision-making which remain binding unless removed by the same action used to create the limitation.
- *Assigned fund balance* – the portion of fund balance reflecting the government's intended use of resources, with the intent established by government committees or officials in addition to the governing board. Appropriated fund balance, or the portion of existing fund balance used to fill the gap between appropriations and estimated revenues for the following year, would be categorized as assigned fund balance.
- *Unassigned fund balance* – in the General Fund, the remaining surplus of net resources after funds have been identified in the four categories above.[142]

The current method of measuring fund balance per GASB 54 is through *unrestricted* fund balance, which is identified by the GFOA as "only resources without a constraint on spending or for which the constraint on spending is imposed by the government itself."[143] ***Unrestricted*** fund balance includes the combined total of ***committed fund balance, assigned fund balance*** and ***unassigned fund balance***.

GFOA Best Practices

The Government Finance Officers Association (GFOA) provides guidelines on the appropriate level of fund balance that governments should maintain, calculated in accordance with generally accepted accounting principles. The GFOA recommends that "general purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures."[144] Two months of operating expenditures is approximately 17%. GFOA also states that in practice, a level of unrestricted fund balance lower than the recommended

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

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.[145] Further, the statement directs governments to consider the financial resources available in other funds when determining an adequate unrestricted General Fund fund balance level.[146]

GFOA recommends that governments establish a formal unrestricted fund balance policy that considers the government's specific circumstances.[147] GFOA specifies several factors that should be considered when establishing a fund balance policy: revenue predictability and expenditure volatility; perceived exposure to one-time disasters or immediate expenses; the potential drain on general fund resources from other funds and the availability of resources in other funds; the potential impact on the government's bond rating and borrowing costs; and funds that are already committed or assigned for specific purposes.

City of Chicago Unrestricted Fund Balance

This section examines the City's Corporate Fund (i.e., General Fund) unrestricted fund balance as a percent of general operating expenditures based on audited data from the City's most recent Comprehensive Annual Financial Report. This ratio serves as a measure of whether a government is maintaining adequate levels of fund balance to mitigate current and future risks and ensure stable tax rates.[148]

The table below presents the City's unrestricted fund balance from FY2011 through FY2019. The table begins with FY2011 because this was the first year in which Chicago implemented the fund balance reporting changes of GASB 54 described above and ends in FY2019 because that is the most recent year of audited financial information available.

Between FY2011 and FY2019, unrestricted fund balance fell from a high of 10.2% of operating expenditures in FY2011 to a low of 3.6% in FY2014. Then between FY2014 and FY2019, the fund balance ratio steadily increased to 8.2% in FY2019. The City's FY2019 unrestricted fund balance consists of $123.0 million that has been assigned for specific purposes and $161.9 million that is unassigned. The City attributes its growth in unassigned fund balance of $44.0

[145] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015).
[146] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015).
[147] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015).
[148] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015).

million in FY2018 over the previous year to other financing sources offset by expenditures greater than revenues during FY2018.[149]

City of Chicago Unrestricted Corporate Fund Fund Balance Ratio: FY2011-FY2019			
	Unrestricted Corporate Fund Balance	Operating Expenditures	Ratio
FY2011	$ 311,478,000	$ 3,040,436,000	10.2%
FY2012	$ 210,417,000	$ 3,081,369,000	6.8%
FY2013	$ 142,269,000	$ 3,109,074,000	4.6%
FY2014	$ 116,780,000	$ 3,231,258,000	3.6%
FY2015	$ 191,404,000	$ 3,433,102,000	5.6%
FY2016	$ 245,852,000	$ 3,473,208,000	7.1%
FY2017	$ 262,416,000	$ 3,454,858,000	7.6%
FY2018	$ 306,864,000	$ 3,597,453,000	8.5%
FY2019	$ 307,651,000	$ 3,752,341,000	8.2%

Source: City of Chicago, Comprehensive Annual Financial Reports FY2011-FY2019, Balance Sheet - Governmental Funds and Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.

The City's 8.2% fund balance ratio is lower than the GFOA recommendation of 17%. However, as previously mentioned, the GFOA acknowledges that it may be appropriate for states and the country's largest governments with a diverse revenue base and better position to predict contingencies to maintain a smaller fund balance based on the government's own financial policies and other available financial resources.

City of Chicago Fund Balance Policy

In 2016 the City of Chicago established a new Fund Stabilization policy to maintain sufficient fund balance to mitigate financial risks and revenue shortfalls. City officials said the policy is aimed at maintaining a reasonable rainy day fund while avoiding the build-up of unneeded cash reserves.[150]

The City's policy is to maintain an unrestricted fund balance of no less than two months of operating expenses, composed of three fund balance sources: 1) Unassigned Fund Balance; 2) Operating Liquidity Fund; and 3) Asset Lease and Concession Reserves.[151] Together these funds make up what the City considers to be its budgetary reserves.

The Operating Liquidity Fund was created in 2016 to function as a reoccurring short-term funding solution for City operations, allowing the City to manage liquidity issues associated with the timing of revenue collection.[152] Each year, the City allocates a portion of unassigned fund balance for the Operating Liquidity Fund. The City has set aside $30 million of unassigned fund

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[149] City of Chicago FY2018 Comprehensive Annual Financial Report, p. 26.
[150] Communication with City of Chicago Office of Management and Budget, October 10, 2016.
[151] City of Chicago FY2021 Budget Overview, p. 179.
[152] City of Chicago FY2020 Budget Overview, p. 173.

balance for the Operating Liquidity Fund – $5 million each in 2015 through 2018 and an additional $10 million in FY2019.[153]

Asset Lease and Concession Reserves account for leftover revenue generated from agreements to lease the Chicago Skyway and the parking meter system. These are discussed in more detail below.

The Fund Stabilization policy states that the City will not appropriate more than 1.0% of the value of the annual Corporate budget from the prior year's audited unassigned fund balance for the current year's budget.[154]

Evaluation of Budget Stabilization Funds Compared to GFOA Guidelines

The Fund Stabilization policy states that the City will adhere to the GFOA's recommended fund balance level of two months of general operating expenses, or approximately 17%.[155] As discussed above, the unassigned portion of the City's unrestricted fund balance in FY2019 was $161.9 million.[156] The asset lease and concession reserves totaled $714.7 million in FY2019, which includes $620.0 million in principal (discussed further below).[157] Together, the two reserve sources total $876.6 million. The City's FY2019 general operating expenses totaled $3.75 billion. The $876.6 million of budget stabilization funds equals 23.4% of general operating expenses. Therefore, the Budget Stabilization Funds meet the City's own fund balance policy.

Asset Lease Reserve Balance

The City maintains Asset Lease and Concession Reserves, which were created after the City leased the Chicago Skyway and the City's parking meters to private companies. The City also used to have two other lease assets: a downtown parking garage lease and a Midway Airport lease. Neither of these accounts any longer have reserve fund balances.

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

The purpose of the long-term reserves was to supplement Corporate Fund reserves through interest earned on the parking meter and Skyway funds, leaving the principal intact. However, the City used the proceeds from these lease transactions to balance the budget from FY2005 until FY2011. Each year a portion was transferred to the Corporate Fund to support general operations. In FY2012 the City ended the practice of using reserves to pay for the City's operating expenditures and established that going forward only interest generated from the funds

[153] City of Chicago 2018 Annual Financial Analysis, p. 117-118; and 2021 Budget Forecast, p. 48.
[154] City of Chicago FY2020 Budget Overview, p.173.
[155] City of Chicago FY2021 Budget Overview, p. 179. However, the City measures "unrestricted fund balance" differently from the GFOA.
[156] City of Chicago FY2019 Comprehensive Annual Financial Report, p. 36.
[157] City of Chicago FY2018 Comprehensive Annual Financial Report, p. 35.

be transferred to the Corporate Fund. The City also began replenishing the parking meter long-term reserve fund, with $40 million deposited between 2012 and 2014.[158]

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

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

Asset Lease Reserve Balances: FY2005-FY2019 (in $ millions)

Year	Skyway Mid-Term Reserve Fund	Skyway Long-Term Reserve Fund	Parking Meter Mid-Term Reserve Fund	Parking Meter Long-Term Reserve Fund	Parking Meter Budget Stabilization Fund	Total
Skyway Deposit (2005)	**$ 375**	**$ 500**				**$ 875**
2005	$ 275	$ 500				$ 775
2006	$ 225	$ 500				$ 725
2007	$ 150	$ 500				$ 650
2008	$ 100	$ 500				$ 600
Parking Meter Deposit (2008)			**$ 325**	**$ 400**	**$ 326**	**$ 1,051**
2009	$ 50	$ 500	$ 175	$ 380	$ 101	$ 1,206
2010	$ -	$ 500	$ 75	$ 220	$ -	$ 795
2011	$ -	$ 500	$ -	$ 80	$ -	$ 580
2012	$ -	$ 500	$ -	$ 100	$ -	$ 600
2013	$ -	$ 500	$ -	$ 115	$ -	$ 615
2014	$ -	$ 500	$ -	$ 120	$ -	$ 620
2015	$ -	$ 500	$ -	$ 120	$ -	$ 620
2016	$ -	$ 500	$ -	$ 120	$ -	$ 620
2017	$ -	$ 500	$ -	$ 120	$ -	$ 620
2018	$ -	$ 500	$ -	$ 120	$ -	$ 620
2019	$ -	$ 500	$ -	$ 120	$ -	$ 620
2019 Balance	**$ -**	**$ 500**	**$ -**	**$ 120**	**$ -**	**$ 620**

Note: Does not include Skyway Long-Term interest earnings as these are recurring. Does not include Human Infrastructure Funds.
Source: City of Chicago, 2019 Annual Financial Analysis, p. 48.

Going forward, interest earned on the long-term asset lease funds will continue to be transferred to the Corporate Fund to support general operations. In FY2021, the City has budgeted $19.0 million from interest earned on the asset lease reserves to be transferred into the Corporate Fund for operating expenses.[159] If the City were to spend a significant portion of the principal funds in the Asset Lease Reserves, its credit rating could be downgraded.

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[158] City of Chicago 2021 Budget Forecast, p. 48.
[159] City of Chicago FY2021 Budget Overview, p. 44.

PENSION FUNDS

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

Plan Descriptions

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

The Firemen's Annuity and Benefit Fund of Chicago was created in 1931 by Illinois State statute to provide retirement and disability benefits for fire service employees of the City of Chicago and their dependents.[160] It is governed by an eight-member Board of Trustees. Four members are ex-officio (City Treasurer, City Clerk, City Comptroller and Deputy Fire Commissioner), three are elected by active employee members and one is elected by annuitant members.

The Policemen's Annuity and Benefit Fund of Chicago was created in 1921 by Illinois State statute to provide retirement and disability benefits for police service employees of the City of Chicago and their dependents.[161] It is governed by an eight-member Board of Trustees. Four members are appointed by the Mayor, three are elected by active employee members and one is elected by annuitant members.

The Municipal Employees' Annuity and Benefit Fund of Chicago was created in 1921 by Illinois State statute to provide retirement and disability benefits for general employees of the City of Chicago and the Chicago Board of Education and their dependents.[162] It is governed by a five-member Board of Trustees. Two members are ex-officio (City Treasurer and City Comptroller) and three are elected by active employee members.

The Laborers' Annuity and Benefit Fund of Chicago was created in 1935 by Illinois State statute to provide retirement and disability benefits for labor service employees of the City of Chicago and their dependents.[163] It is governed by an eight-member Board of Trustees. Two members are ex-officio (City Treasurer and City Comptroller), two are appointed by the City Department of Human Resources, one is appointed by the local labor union, two are elected by active employee members and one is elected by annuitant members.

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[160] Firemen's Annuity and Benefit Fund of Chicago, Financial Statements, December 31, 2019, p. 9.

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

[162] Municipal Employees' Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report for the year ended December 31, 2019, p. 42. Covered employees include all employees of the City of Chicago and the Chicago Board of Education who are not policemen, firemen, teachers, laborers or participants in any other pension plan.

[163] Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago, Financial Statements, December 31, 2019, pp. 14-15.

Pension Benefits

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

Municipal and Laborers' Funds

The Municipal and Laborers' funds have three tiers of benefits. Public Act 96-0889, enacted in April 2010, created the second tier of benefits for employees hired on or after January 1, 2011.[164] Public Act 100-0023, enacted in July 2017, created a third tier of benefits for Municipal and Laborers' employees hired on or after July 6, 2017 and Tier 2 employees who irrevocably elected between October 1, 2017 and November 15, 2017 to be subject to the Tier 3 benefit structure. This report will refer to "Tier 1 employees" as those persons hired before the effective date of Public Act 96-0889 and "Tier 2 employees" as those persons hired on or after January 1, 2011 but before July 6, 2017 and "Tier 3 employees" as those persons hired on or after July 6, 2017 or who elected to join the tier.

Tier 1 employees are eligible for full retirement benefits once they reach age 60 and have at least ten years of employment with the City. The amount of the retirement annuity is 2.4% of final average salary multiplied by years of service. Final average salary is the highest average monthly salary for any 48 consecutive months within the last ten years of service. The maximum annuity amount is 80% of final average salary. Employees with 20 years of service may retire as young as age 55 but their benefit is reduced by 0.25% per month they are under age 60. This reduction is waived for employees with at least 25 years of service, such that a 55 year-old with 25 years of service may retire with an unreduced benefit and those with at least 30 years of service can retire with an unreduced benefit at age 50.

The major changes from Tier 1 to Tier 2 are an increase in full retirement age from 60 to 67 and early retirement age from 55 to 62; the reduction of final average salary from the highest four year average to the highest eight year average; the $106,800 cap on pensionable salary; and the reduction of the automatic annual increase from 3% compounded to the lesser of 3% or one half of the increase in Consumer Price Index not compounded. Employee contributions remained the same at 8.5%. The main changes for Tier 3 employees include a reduction in the full retirement

[164] A "trailer bill" to correct technical problems with Public Act 96-0889 was enacted in December 2010 as Public Act 96-1490.

age from 67 to 65 and early retirement age from 62 to 60 and an increase in the employee contribution to 11.5%.[165] The following table compares Tier 1 employee benefits to Tier 2 employee benefits enacted in Public Act 96-0889 and Tier 3 employee benefits enacted in Public Act 100-0023.

Major City of Chicago Municipal and Laborers' Fund Pension Benefit Provisions			
	Tier 1 **(hired before 1/1/2011)**	**Tier 2** **(hired on or after 1/1/2011)**	**Tier 3** **(hired on or after 7/6/2017 or elected by 11/15/2017)**
Full Retirement Eligibility: Age & Service	age 60 with 10 years of service, age 55 with 25 years of service, or age 50 with 30 years of service	age 67 with 10 years of service	age 65 with 10 years of service
Early Retirement Eligibility: Age & Service	age 55 with 20 years of service	age 62 with 10 years of service	age 60 with 10 years of service
Final Average Salary	highest average monthly salary for any 48 consecutive months within the last 10 years of service	highest average monthly salary for any 96 consecutive months within the last 10 years of service; capped at $106,800*	
Annuity Formula**	2.4% of final average salary for each year of service		
Early Retirement Formula Reduction	0.25% per month under age 60	0.5% per month under age 67	0.5% per month under age 65
Maximum Annuity	80% of final average salary		
Annuity Automatic Increase on Retiree or Surviving Spouse Annuity	3% compounded; begins at earlier of age 60 and first anniversary of retirement, or age 55 and third anniversary of retirement	lesser of 3% or one-half of the annual increase in CPI-U, not compounded; begins at the later of age 67 or the first anniversary of retirement	lesser of 3% or one-half of the annual increase in CPI-U, not compounded; begins at the later of age 65 or the first anniversary of retirement

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

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

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

Source: Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2019; Municipal Employees' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2019; Public Act 96-0889; and Public Act 100-0023.

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

Public Act 98-0641

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

Police and Fire Funds

Public Act 96-1495 was enacted in December 2010 and created a new tier of benefits for public employees who become members of police or fire pension funds on or after January 1, 2011.[166] Tier 1 employees are eligible for full retirement benefits once they reach age 50 and have at least 20 years of employment with the City. The amount of the retirement annuity is 2.5% of final average salary multiplied by years of service. Final average salary is the highest average monthly salary for any 48 consecutive months within the last ten years of service. The maximum annuity amount is 75% of final average salary. Employees with 10 years of service may retire as young as age 50 but their benefit is reduced by a formula.

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

[166] Public Act 96-1495 also applies to members of the Illinois Municipal Retirement Fund's Sheriff's Law Enforcement Program, but not to Cook County sheriff's employees or university public safety employees. See http://www.civicfed.org/civic-federation/blog/senate-bill-3538-police-and-fire-pension-reforms.

3% not compounded to the lesser of 3% or one half of the increase in Consumer Price Index not compounded.[167]

Major City of Chicago Police and Fire Fund Pension Benefit Provisions		
	Tier 1 (hired before 1/1/2011)	Tier 2 (hired on or after 1/1/2011)
Full Retirement Eligibility: Age & Service*	age 50 with 20 years of service	age 55 with 10 years of service
Early Retirement Eligibility: Age & Service*	age 50 with 10 years of service	
Final Average Salary	highest average monthly salary for any 48 consecutive months within the last 10 years of service	highest average monthly salary for any 96 consecutive months within the last 10 years of service; pensionable salary capped at $106,800**
Annuity Formula*	2.5% of final average salary for each year of service	
Early Retirement Formula*	accumulation of age and service annuity contributions plus 10% of City contributions for each year after 10 years of service	reduced by 0.5% per month under age 55
Maximum Annuity	75% of final average salary	
Annuity Automatic Increase on Retiree or Surviving Spouse Annuity	3% simple interest if born before 1/1/1966, starts at later of age 55 or retirement; 1.5% simple interest if born after 1/1/1966, starts at later of age 60 or retirement, with a limit of 30%	lesser of 3% or one-half of the annual increase in CPI-U, not compounded; begins at the later of age 60 or the first anniversary of retirement

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

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

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

Employer Contribution Schedule

Public Act 96-1495 did not change employee contributions but it did change employer contributions for the Chicago Police and Fire Funds. The City of Chicago was to be required to begin making contributions in tax year 2015, payable in 2016, that would be sufficient to bring the funded ratio of each fund to 90% by the end of 2040, using a level percentage of payroll and projected unit credit actuarial valuation method. City officials estimated that would represent a $549 million contribution increase in 2015.[168]

However, in the FY2016 budget and revised FY2015 budget, Chicago did not base its projected contribution for 2015, payable in 2016, and beyond on the provisions of Public Act 96-1495, but instead used the revised payment schedule set out in Senate Bill 777, which was passed by the Illinois General Assembly on May 31, 2015 but had not been sent to the Governor to be signed

[167] This is the change for Chicago Police and Fire Funds. Most other public safety funds' first tier benefits provide a 3% compounded automatic cost of living adjustment.
[168] City of Chicago, Annual Financial Analysis 2015, p. 90.

into law.[169] Senate Bill 777, as amended in the House, laid out five years of steadily increasing payments to the City's public safety funds until it reaches a level where it starts to contribute enough to raise the funded level to 90% over 35 years for a total 40-year funding plan. The amount the City must contribute each year to each fund between FY2015 and FY2019 was specified in dollar amounts in the legislation. On May 27, 2016 Illinois Governor Bruce Rauner vetoed the legislation, calling it "bad policy" and "gambling with the pensions of…police officers and firefighters."[170] However, three days later both houses of the Illinois General Assembly voted to override the Governor's veto. Senate Bill 777 became Public Act 99-0506 and went into effect on May 31, 2016.[171] The City transitioned to actuarial-based funding with the FY2020 budget.

Public Act 100-0023 changed employer contributions for the Municipal and Laborers' funds from a set multiple of what employees contributed two years prior to a 40-year plan to 90% funded. The schedule started with a five-year ramp of increasing payments laid out in statute and then transitions to an actuarially calculated funding schedule over the remaining 35 years to get to 90% funded. The City in FY2021 is on year five of the Municipal and Laborers' ramp funding and will transition to actuarial-based funding in FY2022.

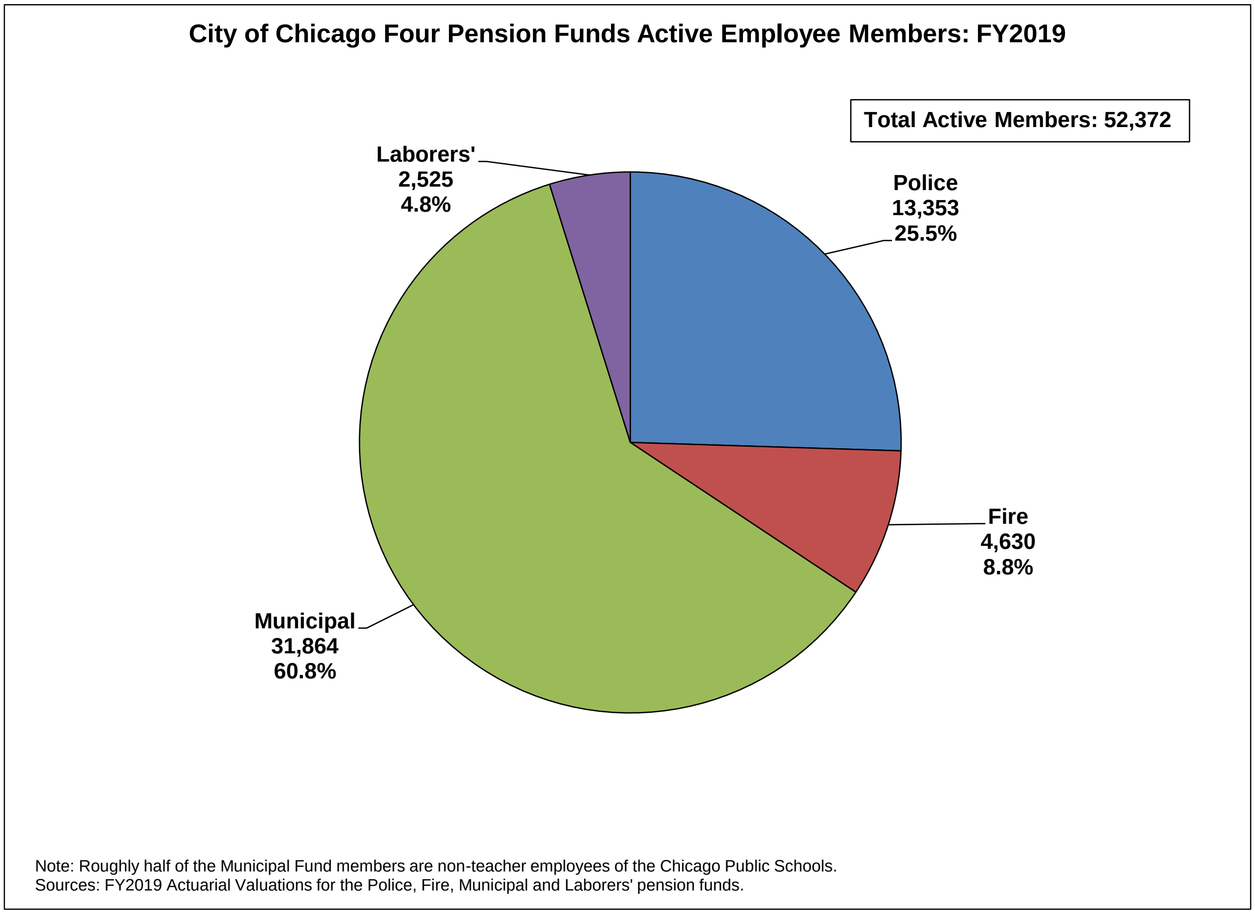
Members of the four City of Chicago pension funds do not participate in the federal Social Security program so they are not eligible for Social Security benefits related to their City employment when they retire.

Members

In FY2019 there were 52,372 employees participating in the four pension funds. The Municipal Fund constitutes 60.8% of total active employee membership. However, roughly half of the 31,864 active Municipal Fund members are not City employees, but rather are non-teacher employees of Chicago Public Schools.[172] Approximately 57.9% of all active members of all four pension funds belong to Tier 1 and 42.1% belong to Tier 2 or 3. The Municipal Fund has the

[169] City of Chicago FY2016 Budget Overview, p. 31.
[170] Senate Bill 777, Governor's Message, May 27, 2016.
[171] John O'Connor, "Chicago gets some pension relief as Rauner veto overridden," Associated Press, May 30, 2016.
[172] The most recent data available on the number of Board of Education employees in the Municipal Fund is of December 31, 2018. As of that date 54.8%, or 17,146 of the 31,285 active members of the Municipal Fund were employees of Chicago Public Schools (CPS). Certified teachers employed by CPS participate in the Public School Teachers' Pension and Retirement Fund of Chicago. All other CPS employees are enrolled in the City of Chicago's Municipal Employees' Annuity and Benefit Fund. Chicago Public Schools, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2019, p. 83.

highest percentage of non-Tier 1 members with approximately 46.7% and the Laborers' Fund has the lowest with approximately 30.5%.[173]



Funded Ratios – Actuarial and Market Value of Assets

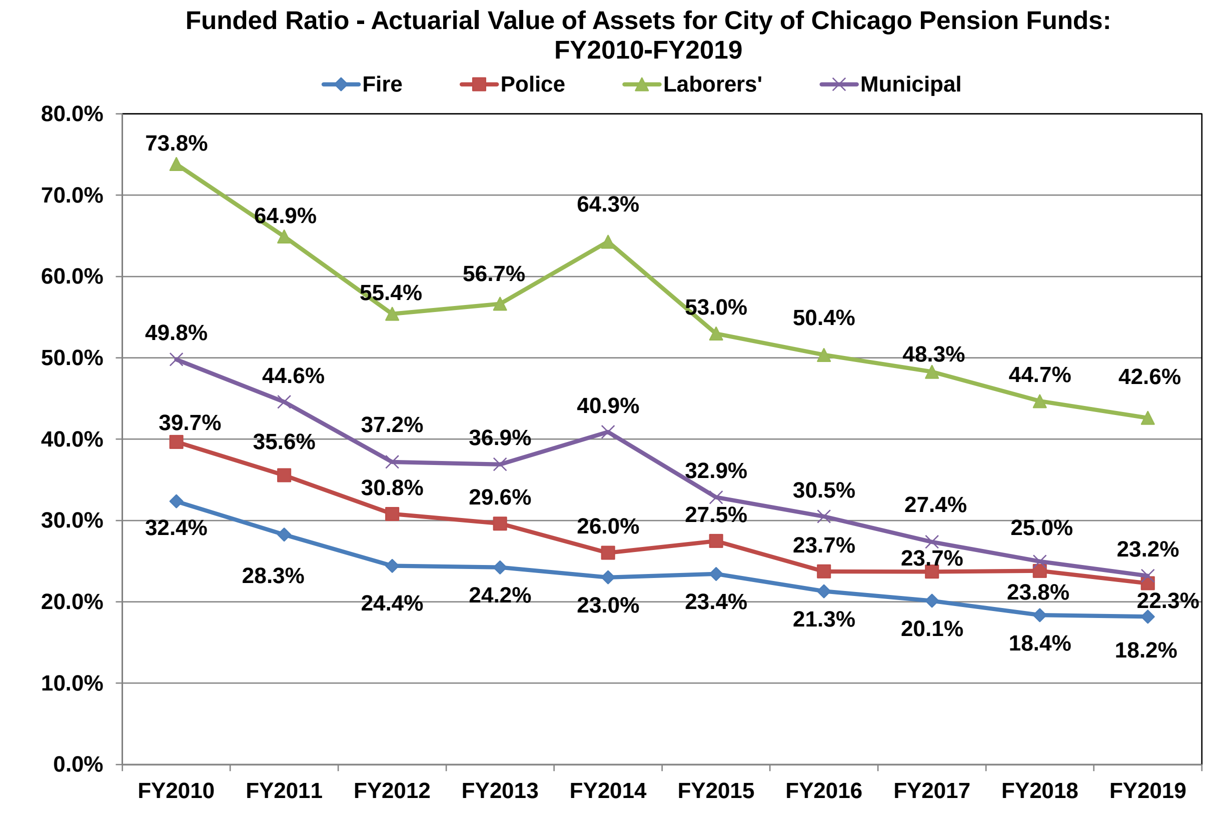
This report uses two measurements of pension plan funded ratio: the actuarial value of assets measurement and the market value of assets measurement. These ratios show the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting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

The actuarial value of assets measurement presents the ratio of assets to liabilities and accounts for assets by recognizing unexpected gains and losses over a period of three to five years.[174] 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.

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

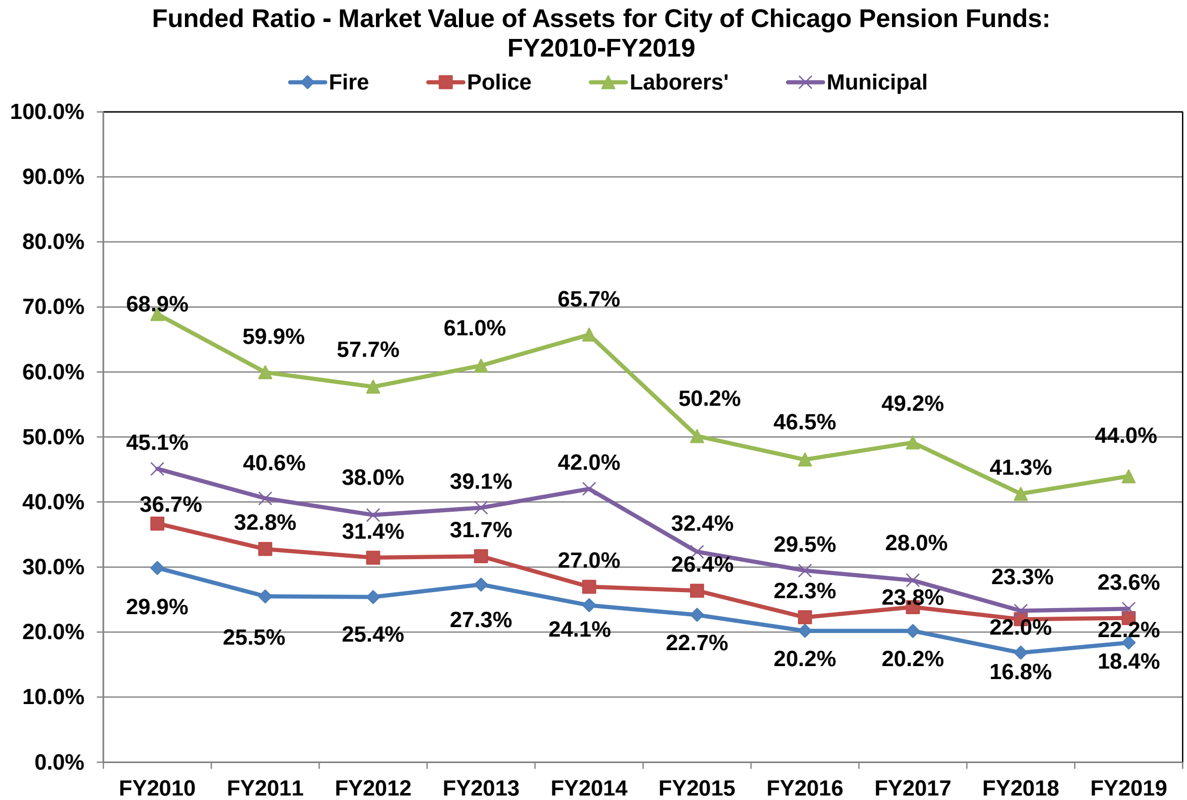
The following exhibit shows actuarial value funded ratios for each of the four pension funds. The actuarial value funded ratios for all four City pension funds decreased in FY2019. The Fire Fund decreased to 18.2%, the Police Fund decreased to 22.3%, the Municipal Fund decreased to 23.2% and the Laborers' Fund fell to 42.6%.

A low and declining funded ratio is cause for concern as it raises questions about the ability of the government to adequately fund its retirement systems over time.



Note: Actuarial Value of Assets smoothes investment returns over five years.
Source: FY2010-FY2019 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 FY2010, but generally shown a downward trend as liabilities have increased due predominantly to insufficient employer contributions and changes to actuarial assumptions and the funds have experienced periodic investment losses, as in FY2018. All four funds' market value funded ratios increased in FY2019 due to high investment returns, ranging from 44.0% for the Laborers' Fund to 18.4% for the Fire Fund.



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

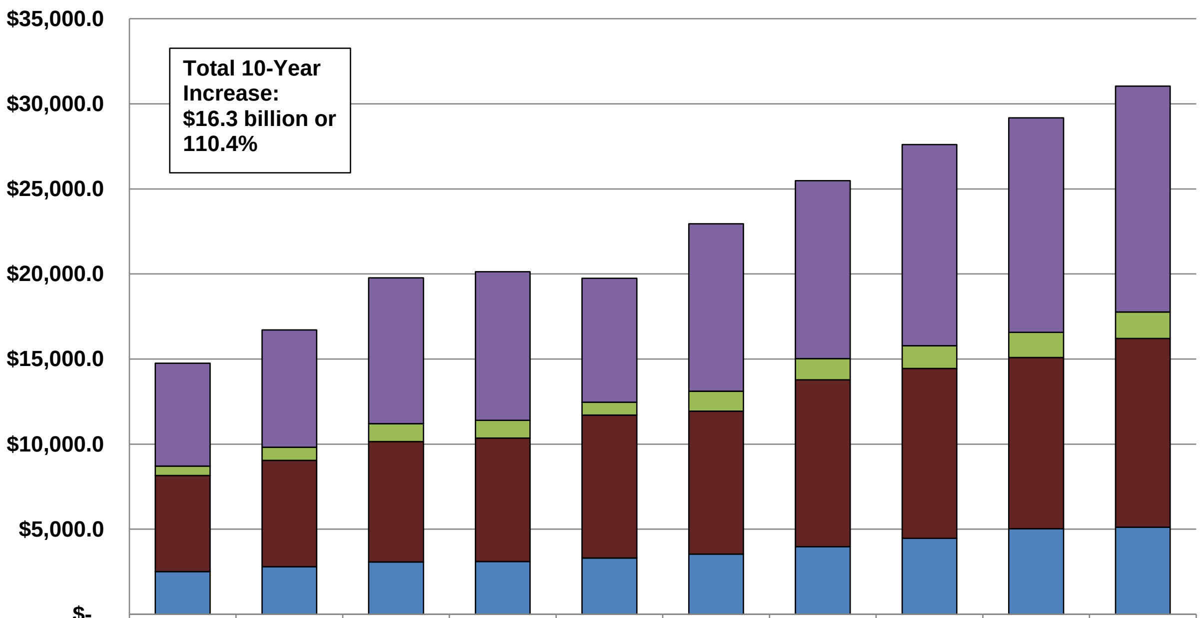
Unfunded Liabilities

Unfunded actuarial accrued liabilities (UAAL) are the dollar value of liabilities not covered by assets measured on an actuarial, not market value, basis. Over the past ten years, the unfunded liabilities of the four pension funds combined have grown by $16.3 billion, or 110.4%. This was an increase from $14.8 billion in FY2010. The total unfunded liabilities increased to $31.0 billion in FY2019 from $29.2 billion in FY2018. The largest percentage increase in unfunded liabilities from the prior year was in the Fire Fund with a nearly $1.0 billion or 11.1% increase due to mainly to reducing the expected rate of return on investment to 6.75% from 7.25% ($720.0 million) and a shortfall in the employer contribution ($261.2 million).

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

- Fire Pension Fund: 104.3% increase, or $2.6 billion;
- Police Pension Fund: 96.1% increase, or $5.4 billion;
- Laborers' Pension Fund: 186.1% increase, or $1.0 billion;[175] and
- Municipal Pension Fund: 119.6% increase, or $7.2 billion.

Unfunded Actuarial Accrued Liabilities for the City of Chicago Pension Funds: FY2010-FY2019 (in $ millions)

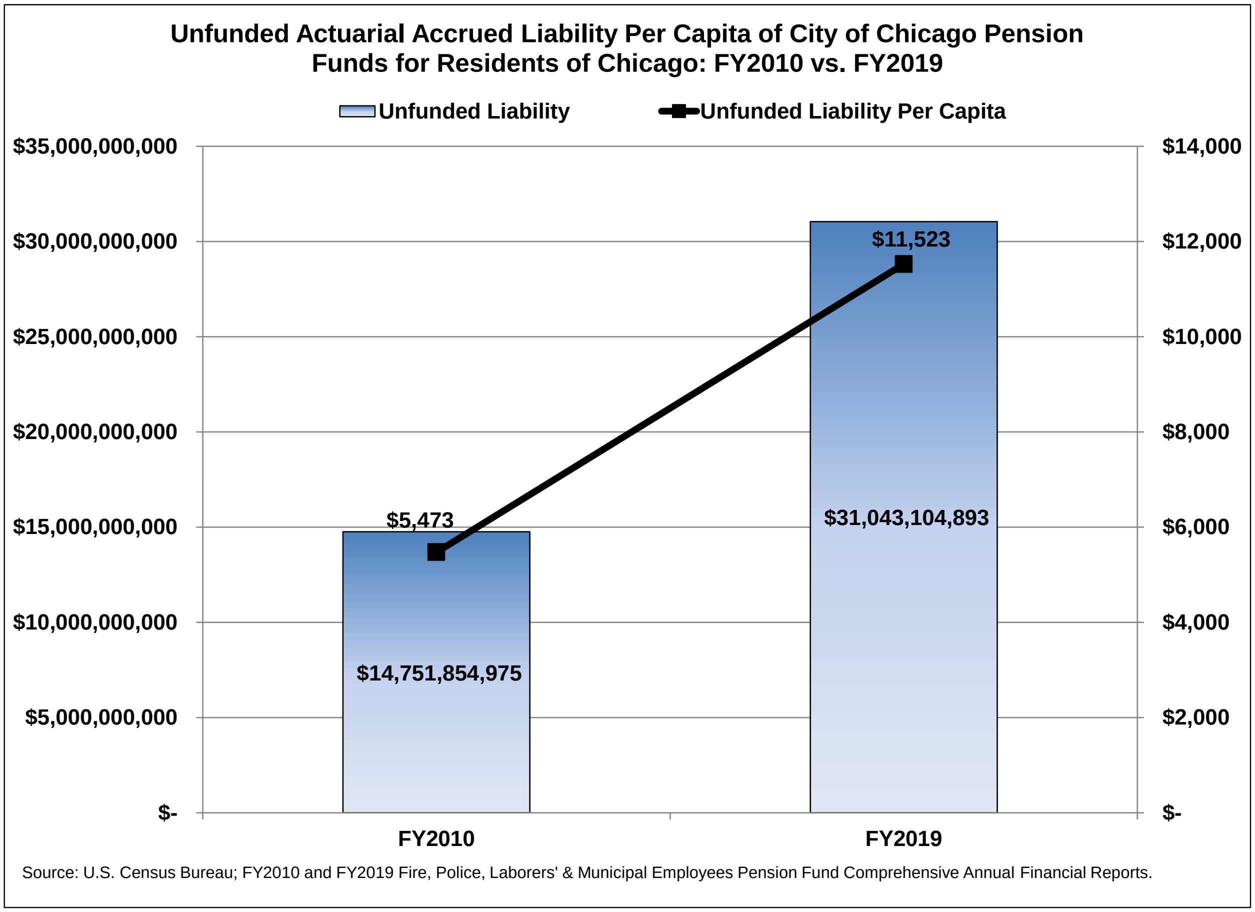


	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Municipal	$6,048.8	$6,903.9	$8,564.1	$8,742.3	$7,285.3	$9,840.1	$10,465.0	$11,825.6	$12,613.0	$13,283.4
Laborers'	$542.0	$768.8	$1,058.9	$1,036.3	$754.3	$1,161.2	$1,245.6	$1,333.6	$1,467.6	$1,550.4
Police	$5,655.9	$6,243.7	$7,071.7	$7,256.8	$8,399.2	$8,411.4	$9,804.5	$9,989.9	$10,069.5	$11,090.3
Fire	$2,505.1	$2,797.2	$3,073.1	$3,098.0	$3,305.6	$3,532.6	$3,971.0	$4,459.0	$5,025.5	$5,119.0
TOTAL	$14,751.9	$16,713.5	$19,767.8	$20,133.4	$19,744.4	$22,945.3	$25,486.1	$27,608.2	$29,175.6	$31,043.1

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

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

Between FY2010 and FY2019, total unfunded liabilities per resident of Chicago grew from $5,473 per capita to $11,523 per capita. This is an increase of 110.6%.



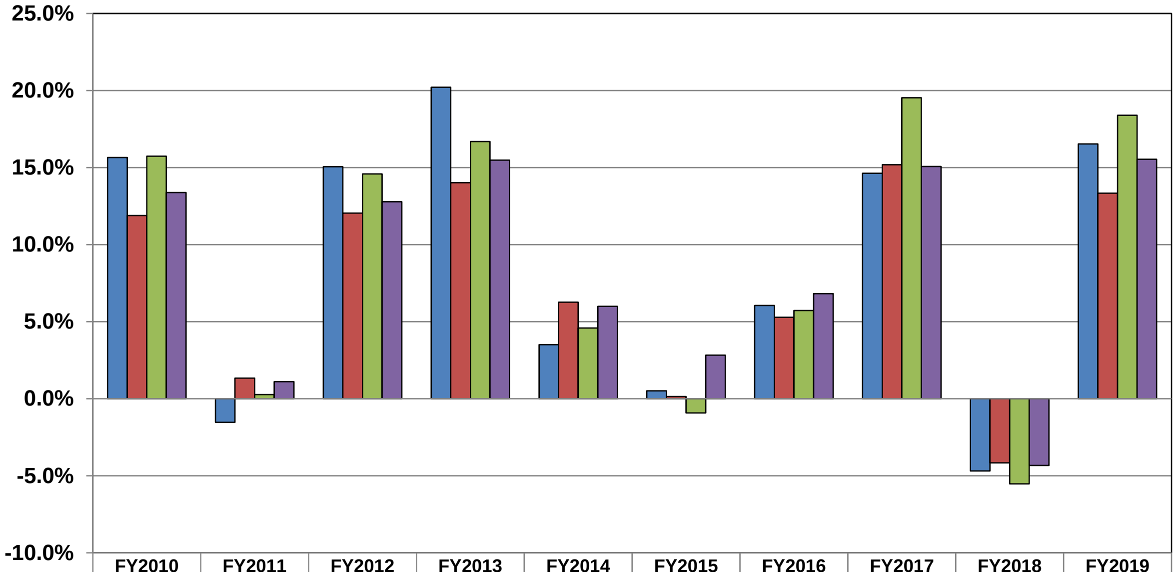
Investment Rates of Return

In FY2019 all four City pension funds experienced returns greater than their expected rates of return on their investments, ranging from 13.3% for the Police Fund to 18.4% for the Laborers' Fund.[176] The FY2019 investment assumption for the Police Fund, as noted above, decreased to

[176] 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.

6.75% from 7.25%. The Fire Fund maintained its rate of return at 6.75%, as did the Laborers' Fund at 7.25% and the Municipal fund at 7.0%.

Investment Rate of Return - City of Chicago Pension Funds: FY2010-FY2019



	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Fire	15.6%	-1.5%	15.0%	20.2%	3.5%	0.5%	6.0%	14.6%	-4.7%	16.5%
Police	11.9%	1.3%	12.0%	14.0%	6.3%	0.1%	5.3%	15.2%	-4.2%	13.3%
Laborers'	15.7%	0.3%	14.6%	16.7%	4.6%	-0.9%	5.7%	19.5%	-5.5%	18.4%
Municipal	13.4%	1.1%	12.8%	15.5%	6.0%	2.8%	6.8%	15.1%	-4.3%	15.5%

Note: Actuarial Value of Assets smoothes investment returns over five years.
Source: FY2010-FY2019 Fire, Police, Laborers' & Municipal Employees Pension Fund Annual Financial Reports.

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

In 2012 the Governmental Accounting Standards Board (GASB) issued new accounting and financial reporting standards for public pension plans and for governments, Statements No. 67 and 68. According to GASB, the new standards were intended to "improve the way state and local governments report their pension liabilities and expenses, resulting in a more faithful representation of the full impact of these obligations."[177] Among other disclosures, pension funds and governments are now required to report total pension liability, fiduciary net position, net pension liability, pension expense and actuarially determined contribution (ADC), which are calculated on a different basis from previous GASB 25 and 27 pension disclosure requirements. Both pension funds and governments must also disclose additional information about pensions in the notes to the financial statements and in required supplementary information sections. It is important to note that GASB intended to separate pension reporting from pension funding. Thus, the numbers reported according to GASB 67 and 68 standards are not used to determine how

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

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

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

The total pension liability, fiduciary net position, net pension liability and ADC[178] are all calculated on a different basis both from what used to be required by GASB and from the traditional public pension actuarial basis.

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

- Entry age normal actuarial cost method and level percent of payroll. The Municipal and Laborers' Funds use entry age normal for statutory reporting and funding purposes. The Police and Fire Funds in FY2016 switched from using projected unit credit for statutory reporting and funding purposes to entry age normal.
- Single blended discount rate, instead of basing the discount rate only on projected investment earnings. The discount rate is used to calculate the present value of the future obligations of a pension fund. The discount rate has an inverse relationship to actuarial liabilities, such that a lower discount rate will result in higher liabilities.
    - If a government is projected to have enough assets to cover its projected benefit payments to current and inactive employees, it can use the expected return on investments as its discount rate.
    - If a government is projected to reach a crossover point beyond which projected assets are insufficient to cover projected benefit payments, then a blended discount rate must be used. Benefit payments projected to be made from that point forward are discounted using a high-quality municipal bond interest rate. The blended rate is a single equivalent rate that reflects the investment rate of return and the high-quality municipal bond interest rate.
    - Under the funding provisions of P.A. 99-0506, both the Police and Fire Funds are projected to reach the crossover point, the Fire Fund in 2071 and the Police Fund in 2075. Therefore, the funds' GASB 67 and 68 reporting is discounted at a blend of the full 6.75% assumed rate of return and a lower municipal bond rate of 2.75%. The reported blended rate was 6.43% for the Police Fund and 6.34% for the Fire Fund.[179]

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

- Under the funding schedule laid out in P.A. 100-0023 for the Municipal and Laborers' Funds the Municipal Fund is not projected to reach the crossover point, so its full rate of 7.0% is used.[180]
- The FY2019 actuarial valuation for the Laborers' Fund was also developed taking into account the funding schedule under P.A. 100-0023. Under the new funding formula, the fund was projected to run out of funding during 2073, so its GASB 67 and 68 reporting is discounted at a blend of the full 7.25% assumed rate of return and a lower municipal bond rate of 2.75%. The reported blended rate was 7.0%.[181]

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

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

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

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

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

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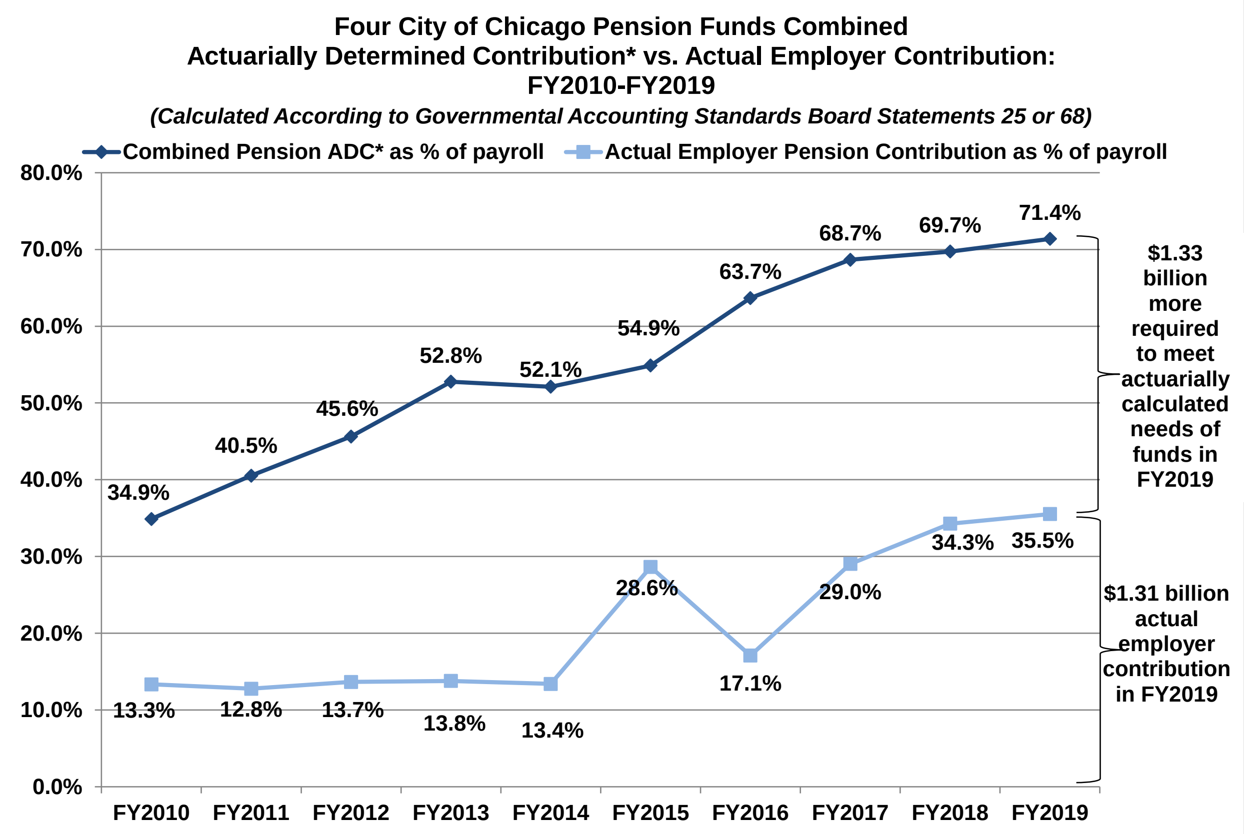
[180] Municipal Employees' Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report for the Fiscal Years Ended December 31, 2019 and 2018, p. 49.
[181] Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago, Financial Statements, FY2019, p. 37.

Because the ADC and ARC are calculated on a similar basis, the Civic Federation will continue to analyze the trend of the difference between the reported ADC/ARC and the statutorily required employer contribution the City must make under state law in order to demonstrate how far from sufficient the statutory payment is. The City of Chicago in FY2019 was required to make an annual employer contribution based on the third year of a 40-year funding plan for the Municipal Fund and Laborers' Fund and the fifth year of the plan for the Police and Fire Funds.

The graph below illustrates the gap between the combined pension ARC of the four funds as a percent of payroll and the actual employer contribution as a percent of payroll. The spread between the two amounts grew from a shortfall in FY2010 of 21.5 percentage points, or $687.1 million, to a gap of 38.7 percentage points in FY2014, before falling to a gap of 26.2 percentage points in FY2015, due to higher employer contributions for the Police and Fire Funds. The gap increased again in FY2016 to 46.6 percentage points due to lower contributions to make up for over-contributions in FY2015. The shortfall decreased again in FY2017 and FY2018 before rising slightly in FY2019 to 35.9 percentage points or $1.3 billion as the new statutory funding formula for the Municipal and Laborers' funds kicked in and the Police and Fire Fund contributions increased according to their own formulas. In other words, to fund the pension plans at a level that would both cover normal cost and amortize the unfunded liability over 30 years, the City would have needed to contribute an additional 35.9% of payroll, or $1.3 billion, in FY2019.



*Annual Required Contribution in FY2014 and prior.
Sources: FY2010-FY2019 Actuarial Valuations for the Police, Fire, Municipal and Laborers' pension funds.

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

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

The following table shows the City of Chicago's Pension Fund financial reporting under GASB 67 and 68. Fiduciary Net Position as a percentage of Total Pension Liabilities is analogous to a funded ratio as calculated under actuarial standards. Because three of the four funds' assets are forecast to be insufficient to cover projected benefit payments, the funds and Chicago must use blended discount rates that are lower than the expected rate of return on investment for those funds. A lower discount rate results in higher present values for liabilities and net pension liabilities.[182]

The total reported net pension liability for all four funds in FY2019 was $31.8 billion, somewhat higher than the unfunded liability for all four funds of $31.0 billion. The City was required to include the net pension liability among the liabilities on its balance sheet for the first time in FY2015.

City of Chicago Pension Funds Combined GASB 67 Reporting FY2014-FY2019

	Total Pension Liability	Fiduciary Net Position	Net Pension Liability	Fiduciary Net Position as a Percentage of Total Pension Liability	Combined Actuarially Determined Contribution
FY2014	$ 30,756,190,434	$ 10,665,601,909	$ 20,090,588,525	34.68%	$ 1,740,973,647
FY2015	$ 43,930,302,599	$ 10,084,134,932	$ 33,846,167,667	22.95%	$ 1,866,096,904
FY2016	$ 45,247,266,583	$ 9,488,000,917	$ 35,759,265,666	20.97%	$ 2,198,450,430
FY2017	$ 38,113,116,271	$ 10,069,792,455	$ 28,043,323,816	26.42%	$ 2,413,466,281
FY2018	$ 39,067,637,575	$ 8,949,834,507	$ 30,117,803,068	22.91%	$ 2,516,037,414
FY2019	$ 41,368,099,028	$ 9,580,441,637	$ 31,787,657,391	23.16%	$ 2,641,612,123
Six-Year Change	**$ 10,611,908,594**	**$ (1,085,160,272)**	**$ 11,697,068,866**	**-11.52%**	**$ 900,638,476**
Six-Year % Change	**34.50%**	**-10.17%**	**58.22%**	**-33.22%**	**51.73%**

Source: FY2014 -FY2019 Fund Actuarial Valuations.

OTHER POST-EMPLOYMENT BENEFITS

The City of Chicago administered a retiree benefit healthcare plan under the terms of a settlement agreement that expired on June 30, 2013.[183] Under the agreement, the four City of Chicago pension funds additionally all subsidized the participant portion of retiree health insurance premiums for those annuitants participating in the City's retiree health insurance program. The pension funds provided $95 per month for non-Medicare eligible annuitants and $65 per month for Medicare eligible annuitants. The City's contribution was roughly 55% of the premium cost, with the remainder to be paid by the annuitant. The Fire, Police, Municipal and

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

[183] The most recent version of the settlement was dated April 4, 2003 and resulted from *City of Chicago v. Marshall Korshak, et. al., and Martin Ryan*, No. 01 CH 4962 (Circuit Court of Cook County, Illinois, County Department, Chancery Division). See http://www.cityofchicago.org/city/en/depts/fin/supp_info/rhbc/rhbc_report_to_mayor.html.

Laborers' pension funds each contributed roughly 34% of the annuitant contribution, effectively subsidizing 13% of the total premium cost.[184]

The settlement agreement called for the creation of a Retiree Healthcare Benefits Commission ("RHBC") to "make recommendations concerning the state of retiree healthcare benefits, their related cost trends and issues affecting the offering of any retiree healthcare benefits after July 1, 2013." The agreement said the members of the RHBC must be experts who will be "objective and fair-minded as to the interests of both retirees and taxpayers." The other members of the Commission were to be a representative of the City and a representative of the pension funds.[185]

The City appointed a reconstituted Retiree Healthcare Benefits Commission, the members of which met for the first time on June 22, 2012 to explore the options available to the City in continuing to provide or not continuing to provide retiree healthcare benefits and make recommendations.[186] The Commission finished its work in January 2013 and released its report on January 11, 2013.[187] On May 15, 2013, the City announced its decision on how it would continue retiree healthcare after June 30, 2013, including maintaining current subsidy levels for annuitants retired before August 23, 1989 and phasing out those retired on or after that date in favor of the retirees using the Affordable Care Act exchanges.[188]

On May 30, 2013, the General Assembly passed legislation allowing the four City pension funds to continue their part of the OPEB subsidy through December 31, 2016 or whenever the City ends its retiree healthcare plan, whichever comes first. Governor Quinn signed the bill into law on June 28, 2013.[189] It is important to note that police officers and firefighters who retired on or after August 23, 1989 and are eligible to receive healthcare coverage pursuant to their collective bargaining agreements will see no change to their coverage unless it is negotiated through collective bargaining.[190] Retirees sued, claiming they had rights to lifetime undiminished subsidies, but the Circuit Court and Appellate Court did not agree to an injunction and the phase out was implemented. The Trial and Appellate Courts both found that due to the time limitations of the settlements, the Illinois Constitution's pension protection clause only protected the full subsidy retirees had received up until the settlement expired on June 30, 2013. The Appellate

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184 Cost allocation estimates provided to the Civic Federation by Sulan Tong, City of Chicago Department of Finance, April 2, 2013.
185 *City of Chicago v. Marshall Korshak, et. al., and Martin Ryan*, Settlement Agreement, p. 8-10.
186 Retiree Healthcare Benefits Commission, http://www.cityofchicago.org/city/en/depts/fin/provdrs/ben/alerts/2012/aug/retiree_healthcarebenefitscommissionmeeting.html.
187 Retiree Healthcare Benefits Commission, Report to the Mayor's Office on the State of Retiree Healthcare, January 11, 2013. Available at http://www.cityofchicago.org/content/dam/city/depts/fin/supp_info/Benefits/RHBC/ReportToMayor/RHBC_Report_to_the_Mayor.pdf.
188 City of Chicago Department of Finance, "Annuitant Notice," May 15, 2013. Available at http://www.cityofchicago.org/content/dam/city/depts/fin/supp_info/Benefits/Annuitant_Notice_May_15_2013.pdf.
189 Public Act 98-0043.
190 The latest collective bargaining agreement for city firefighters included a provision that requires retirees not yet eligible for Medicare to contribute a portion of their annuity to defray the cost of their healthcare starting January 1, 2015. See Fran Spielman, "Council passes firefighters contract with ambulance upgrade," July 30, 2014. http://politics.suntimes.com/article/chicago/council-passes-firefighters-contract-ambulance-upgrade/wed-07302014-1217pm.

Court also found that current employees and retirees hired before the latest settlement was executed on July 1, 2003 had rights to the open-ended fixed rate subsidy as it existed in 1985, or between $21 and $55 per month.[191] The retirees appealed the decision to the Illinois Supreme Court, but their petition was denied. The case was remanded back to the trial court to address how the subsidy will be funded. The circuit court later ruled that the Pension Funds are obligated to make the subsidy payments to the annuitants. The Pension Funds are processing annuitant claims and issuing retroactive payments for these subsidies for the period of time of January 1, 2017 through December 31, 2019 and have begun making the required monthly subsidy payments going forward.[192] Three of the four funds reported net OPEB liabilities in their 2019 financial reports. The Police Pension Fund reported the present value of projected retiree health insurance premium subsidies of $25.2 million as a portion of its actuarial accrued liability, but did not report it separately.[193]

Collective Bargaining Agreement Retiree Healthcare Benefits

The City also provides retiree healthcare to certain employees under the terms of prior collective bargaining agreements with police and firefighters. Qualifying annuitants are permitted to enroll themselves and their dependents in the healthcare benefit program offered to active employees. They may keep the coverage until they reach the age of Medicare eligibility. For those retiring after the end of 2017, a contribution of 2% of the member's pension is required. The collective bargaining agreements (CBAs) for police and firefighters have expired and are currently being negotiated, but the CBA retiree healthcare program is continued under maintenance of effort provisions. [194]

Net OPEB Liabilities

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

The City of Chicago reported net OPEB liability in FY2019 totaling $828.8 million. No assets are accumulated in a trust for retiree healthcare and OPEB benefits are funded on a pay-as-you-

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[191] Underwood v. City of Chicago, 2017 IL App (1st) 162356. Available at http://www.illinoiscourts.gov/Opinions/AppellateCourt/2017/1stDistrict/1162356.pdf.
[192] City of Chicago, FY2019 Comprehensive Annual Financial Report, p. 97.
[193] Policemen's Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the year ending December 31, 2019, p. 23
[194] City of Chicago, FY2019 Comprehensive Annual Financial Report, p. 96.

go basis. The City does not report net OPEB liabilities by pension fund, but in the FY2019 CAFR it did split the City obligation to show the amount of liability associated with the special public safety retiree healthcare program "CBA Benefits" and the settlement retiree healthcare plan "Non-CBA Benefits."[195] As noted above, three of the four funds reported either net OPEB liabilities in FY2019 or net Health Insurance Supplement Liability in the case of the Fire Fund. The Police Fund did not report net OPEB liability in its FY2019 financial statements.

City of Chicago Net OPEB Liability* for Non-CBA and CBA Special Benefits: FY2019 (in $ thousands)					
	Municipal	Laborers'	Police	Fire	Total
Pension Funds	$ 35,939	$ 2,896	N/A	$ 10,077	**$ 48,912**
Non-CBA Benefits: City					**$ 203,563**
CBA Special Benefits Unfunded Liability: City					**$ 625,224**
TOTAL					**$ 877,699**

Note: For Fire Fund, reported as Net Health Insurance Supplement Liability. The Police Fund did not separately report a net OPEB liability for retirees in FY2

Sources: FY2019 Pension Fund CAFRs; FY2019 City of Chicago CAFR, p. 94.

SHORT-TERM LIABILITIES

Short-term or current liabilities are financial obligations that must be satisfied within one year. They can include short-term debt, accounts payable, accrued payroll and other current liabilities. The City of Chicago included the following short-term liabilities in the Governmental Funds Balance Sheet in its annual Comprehensive Annual Financial Report (CAFR) for FY2019, which is the most recent audited financial statement released by the City:

- *Voucher Warrants Payable*: Monies owed to vendors for goods and services carried over into the new fiscal year (called accounts payable by most other local governments);
- *Accrued Interest*: Includes interest due on deposits payable by the City in the next fiscal year;
- *Due to Other Funds*: These are monies owed to other funds for services that have been rendered that are outstanding at the end of the fiscal year;[196]
- *Accrued and Other Liabilities*: Includes self-insurance funds, unclaimed property and other unspecified liabilities; and
- *Claims Payable*: Monies owed for claims against the City.

The chart below presents City of Chicago short-term liabilities by category and the percent change between FY2015 and FY2019.

In the two-year period between FY2018 and FY2019 total short-term liabilities increased by $782.3 million, or 18.2%. The increase was driven primarily by a 21.5%, or $641.7 million, increase in amounts due to other funds. The biggest driver of the two-year increase in due to other funds was the reporting of a $2.6 billion liability for Sales Tax Securitization Corporation refunding bonds issued in 2017 and 2018 as required by accounting rules.[197]

[195] City of Chicago, FY2019 Comprehensive Annual Financial Report, p. 94.
[196] City of Chicago FY2019 Comprehensive Annual Financial Report, p. 60.
[197] City of Chicago FY2019 Comprehensive Annual Financial Report, p. 27 and 75.

Between FY2015 and FY2019 total short-term liabilities increased by 209.7%, or $3.4 billion, rising from approximately $1.6 billion to nearly $5.1 billion. The five-year increase was primarily due to the following two items:

A $2.9 billion increase in amounts due to other funds. This five-year increase is primarily attributable to the $2.1 billion liability for Sales Tax Securitization Corporation refunding bonds issued in 2017 and 2018;[198] and
A $418.5 million increase in voucher warrants payable.

City of Chicago Short-Term Liabilities in the Governmental Funds: FY2015 - FY2019 (in $ thousands)

Type	FY2015	FY2016	FY2017	FY2018	FY2019	Two-Year Change	Two-Year % Change	Five-Year Change	Five-Year % Change
Voucher Warrants Payable	$ 505,759	$ 579,446	$ 876,754	$ 840,750	$ 924,308	$ 83,558	9.9%	$ 418,549	82.8%
Accrued Interest	$ 270,551	$ 224,746	$ 289,714	$ 283,196	$ 309,245	$ 26,049	9.2%	$ 38,694	14.3%
Due to Other Funds	$ 730,006	$ 754,539	$ 1,454,950	$ 2,985,037	$ 3,626,776	$ 641,739	21.5%	$ 2,896,770	396.8%
Accrued & Other Liabilities	$ 117,288	$ 155,483	$ 158,349	$ 159,229	$ 190,226	$ 30,997	19.5%	$ 72,938	62.2%
Claims Payable	$ 13,748	$ 19,176	$ 33,529	$ 21,055	$ 21,055	$ 16,004	0.0%	$ 7,307	53.1%
Total	**$ 1,637,352**	**$ 1,733,390**	**$ 2,813,296**	**$ 4,289,267**	**$ 5,071,610**	**$ 782,343**	**18.2%**	**$ 3,434,258**	**209.7%**

Source: City of Chicago FY2015-FY2019 Comprehensive Annual Financial Report Balance Sheets Governmental Funds.

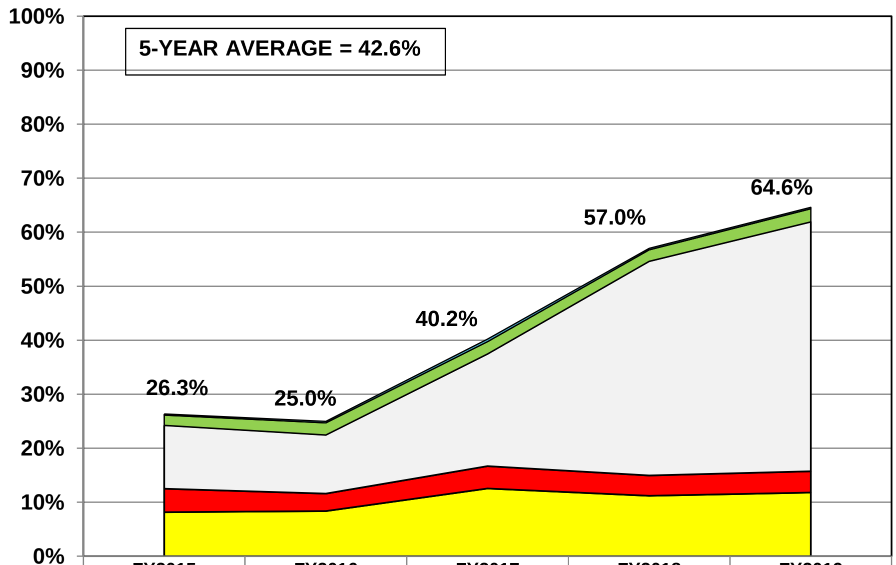
Increasing short-term liabilities in a government's operating funds as a percentage of net operating revenues may be a warning sign of possible future financial difficulties.[199] The short-term liabilities to net operating revenues ratio, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending.

The following graph shows the five-year trend for the City's short-term liabilities to net operating revenues ratio by category. The ratio decreased between FY2015 and FY2016, falling slightly from 26.3% to 25.0%. However, the trend was reversed in FY2017 as the ratio rose sharply to 40.2%, in FY2018 when it increased to 57.0% and in FY2019 when it rose to 64.6%. As noted above, the increases in FY2017 and FY2018 were primarily due to a $2.1 billion liability reported due to accounting rule requirements for Sales Tax Securitization Corporation

[198] The $2.1 billion in assets listed as an asset in the STSC debt service fund is a deferred outflow of the STSC, representing the bond proceeds (principal and premium) of the 2017 and 2018 bonds which were paid to the City for the right title and interest in the City's sales tax revenues. When the STSC is shown as a component unit of the City, deferred outflows are categorized instead as an asset "due from other funds" and is amortized over the life of the bonds. The liability "due to other funds" in the Bond Note Redemption and Interest Fund is also amortized over the life of the bonds and represents the City's sale of its right title and interest in the sales tax revenues and its interest in the bond proceeds. Since the modified accrual basis does not include long term debt payable in more than one year in liabilities, the STSC debt service fund has $2.1 billion in fund balance. And, since the amount represents a deferred outflow, the fund balance is restricted and nonspendable. Explanation of the accounting process provided by the City of Chicago budget office on October 29, 2018.
[199] Operating funds are those funds used to account for general operations – the General Fund, Special Revenue Funds and the Debt Service Fund. See Karl Nollenberger, Sanford Groves and Maureen G. Valente, *Evaluating Financial Condition: A Handbook for Local Government* (International City/County Management Association, 2003), pp. 77 and 169.

refunding bonds issued in 2017 and 2018. The average ratio during this five-year period was 42.6%.

City of Chicago Short-Term Liabilities as % of Operating Revenue: FY2015-FY2019



	FY2015	FY2016	FY2017	FY2018	FY2019
Claims Payable	0.2%	0.3%	0.5%	0.3%	0.3%
Accrued & Other Liabilities	1.9%	2.2%	2.3%	2.1%	2.4%
Due to Other Funds	11.7%	10.9%	20.8%	39.7%	46.2%
Accrued Interest	4.4%	3.2%	4.1%	3.8%	3.9%
Voucher Warrants Payable	8.1%	8.3%	12.5%	11.2%	11.8%

Note: As of FY2014, the City has reclassfied lines of credit and commercial paper as short-term obligations.
Source: City of Chicago, FY2015-FY2019 Comprehensive Annual Financial Reports.

Current Ratio

The current ratio is a measure of liquidity. The ratio is calculated by dividing current assets by current liabilities. It assesses whether the government has enough cash and other liquid resources to meet its short-term obligations as they come due. A ratio of 1.0 means that current assets are equal to current liabilities and are sufficient to cover obligations in the near term. Generally, a government's current ratio should be close to 2.0 or higher.[200]

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

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

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

interest directly. The City uses separate escrow accounts in which certain tax revenues are deposited and held for payment of debt;

- *Investments*: Any investments that the government has made that will expire within one year, including stocks and bonds that can be liquidated quickly;
- *Receivables*: Monetary obligations owed to the government including property taxes and interest on loans;
- *Due from other funds or governments*: Receivables from those sources that are outstanding at the end of the fiscal year; and
- *Inventories*: The value of materials or supplies that will be used to provide goods or services within a one-year period.

Chicago's current ratio was 1.9 in FY2019, the most recent year for which data is available. It is slightly below the preferred benchmark of 2.0, but it is still above 1.0, so current assets are greater than current liabilities and are sufficient to cover obligations in the near term.

In the past five years, the City's current ratio averaged 2.5, which is above the preferred benchmark of 2.0 and thus demonstrates a good level of liquidity. Over time, however, the current ratio has fallen from 3.3 in FY2015 to 1.9 in FY2019. The reason for the decline is that while current assets increased during this period by 82.9% or $4.4 billion, current liabilities simultaneously increased by $3.4 billion or 209.3%. In sum, the rate of growth in current liabilities outpaced the rate of growth in current assets.

City of Chicago Current Ratio in the Governmental Funds: FY2015-FY2019
(in $ thousands)

	FY2015	FY2016	FY2017	FY2018	FY2019	Two-Year Change	Two-Year % Change	Five-Year Change	Five-Year % Change
Current Assets									
Cash and Cash Equivalents	$ 857,747	$ 223,829	$ 851,501	$ 1,344,338	$ 1,284,997	$ (59,341)	-4.4%	$ 427,250	49.8%
Investments	$ 705,364	$ 1,333,554	$ 1,538,985	$ 1,158,227	$ 1,878,845	$ 720,618	62.2%	$ 1,173,481	166.4%
Cash and Investments with Escrow Agent	$ 661,474	$ 506,804	$ -	$ -	$ -	$ -	---	$ (661,474)	-100.0%
Receivables (Net of Allowances): Property Taxes	$ 1,560,464	$ 1,739,062	$ 1,853,000	$ 2,004,049	$ 2,217,812	$ 213,763	10.7%	$ 657,348	42.1%
Receivables (Net of Allowances): Accounts	$ 256,558	$ 289,168	$ 459,406	$ 538,211	$ 536,841	$ (1,370)	-0.3%	$ 280,283	109.2%
Due from Other Funds	$ 614,108	$ 543,996	$ 1,264,468	$ 2,740,291	$ 3,477,408	$ 737,117	26.9%	$ 2,863,300	466.3%
Due from Other Governments	$ 723,487	$ 735,994	$ 638,506	$ 529,403	$ 456,625	$ (72,778)	-13.7%	$ (266,862)	-36.9%
Inventories	$ 23,828	$ 23,730	$ 25,945	$ 25,463	$ 28,272	$ 2,809	11.0%	$ 4,444	18.7%
Total Current Assets	**$ 5,403,030**	**$ 5,396,137**	**$ 6,631,811**	**$ 8,339,982**	**$ 9,880,800**	**$ 1,540,818**	**18.5%**	**$ 4,477,770**	**82.9%**
Current Liabilities									
Voucher Warrants Payable	$ 505,759	$ 579,446	$ 876,754	$ 840,750	$ 924,308	$ 83,558	9.9%	$ 418,549	82.8%
Accrued Interest	$ 270,551	$ 224,746	$ 289,714	$ 283,196	$ 309,245	$ 26,049	9.2%	$ 38,694	14.3%
Due to Other Funds	$ 730,006	$ 754,539	$ 1,454,950	$ 2,985,037	$ 3,626,776	$ 641,739	21.5%	$ 2,896,770	396.8%
Accrued & Other Liabilities	$ 117,288	$ 155,483	$ 158,349	$ 159,229	$ 190,226	$ 30,997	19.5%	$ 72,938	62.2%
Claims Payable	$ 13,748	$ 19,176	$ 33,529	$ 21,055	$ 21,055	$ -	0.0%	$ 7,307	53.1%
Total Current Liabilities	**$ 1,637,352**	**$ 1,733,390**	**$ 2,813,296**	**$ 4,289,267**	**$ 5,071,610**	**$ 782,343**	**18.2%**	**$ 3,426,951**	**209.3%**
Current Ratio	**3.3**	**3.1**	**2.4**	**1.9**	**1.9**	**-**	**0.2%**	**-**	**-41.0%**

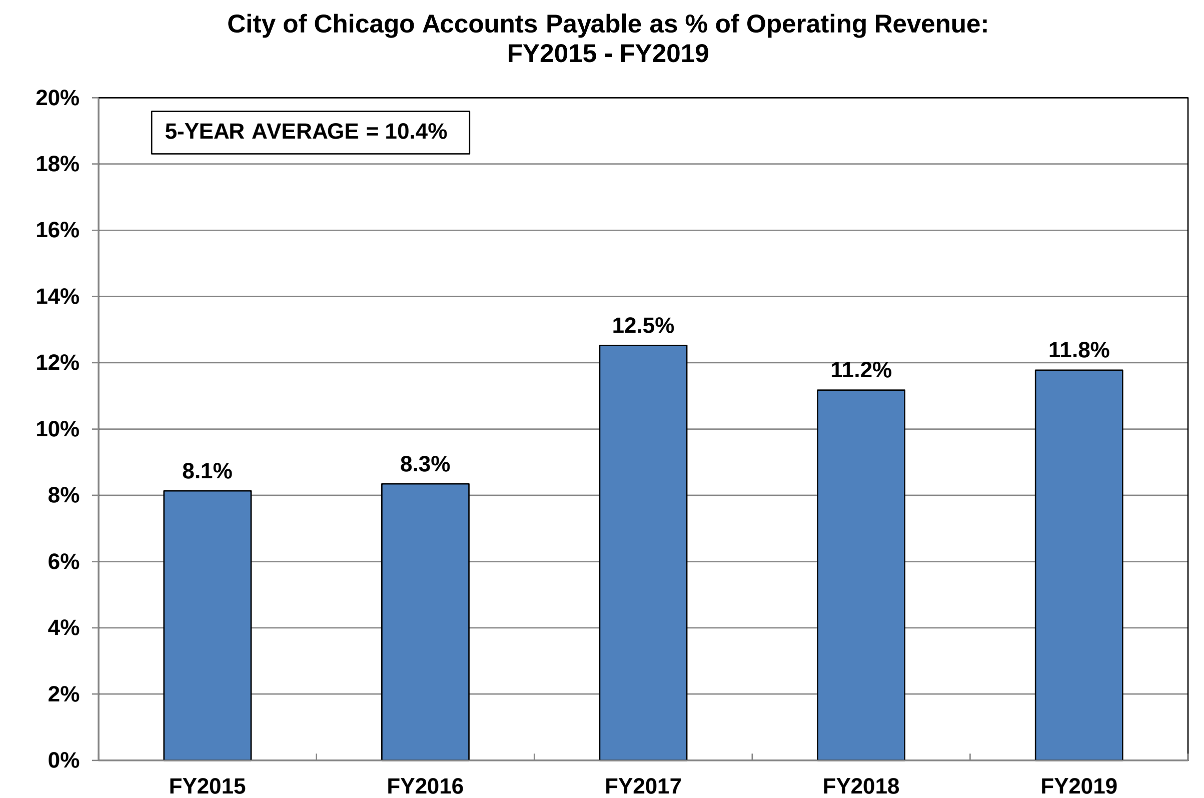
Note: Cash and investments with escrow agent amounts were not reported in FY2017. Only restricted cash and investments with escrow agent were shown.
Source: FY2015-FY2019 City of Chicago Comprehensive Annual Financial Reports, Balance Sheet, Governmental Funds.

Accounts Payable as a Percentage of Operating Revenues

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

The following graph shows the accounts payable as a percentage of operating revenues ratio trend between FY2015 and FY2019. The City's ratio has fluctuated over the past five years. Between FY2015 and FY2017, the accounts payable ratio rose to 12.5% as the dollar amount of voucher warrants payable outstanding rose by $371.0 million or 73.4%. In FY2018, the ratio declined to 11.2% as the amount of voucher warrants payable fell by $36.0 million. However, the trend reversed in FY2019 when the ratio increased to 11.8%, a rise of $83.6 million.

Over the five-year period reviewed, the accounts payable to operating revenue ratio averaged 10.4%, which is equal to slightly more than one month's worth of outstanding bills. This is not considered to be a cause for concern.



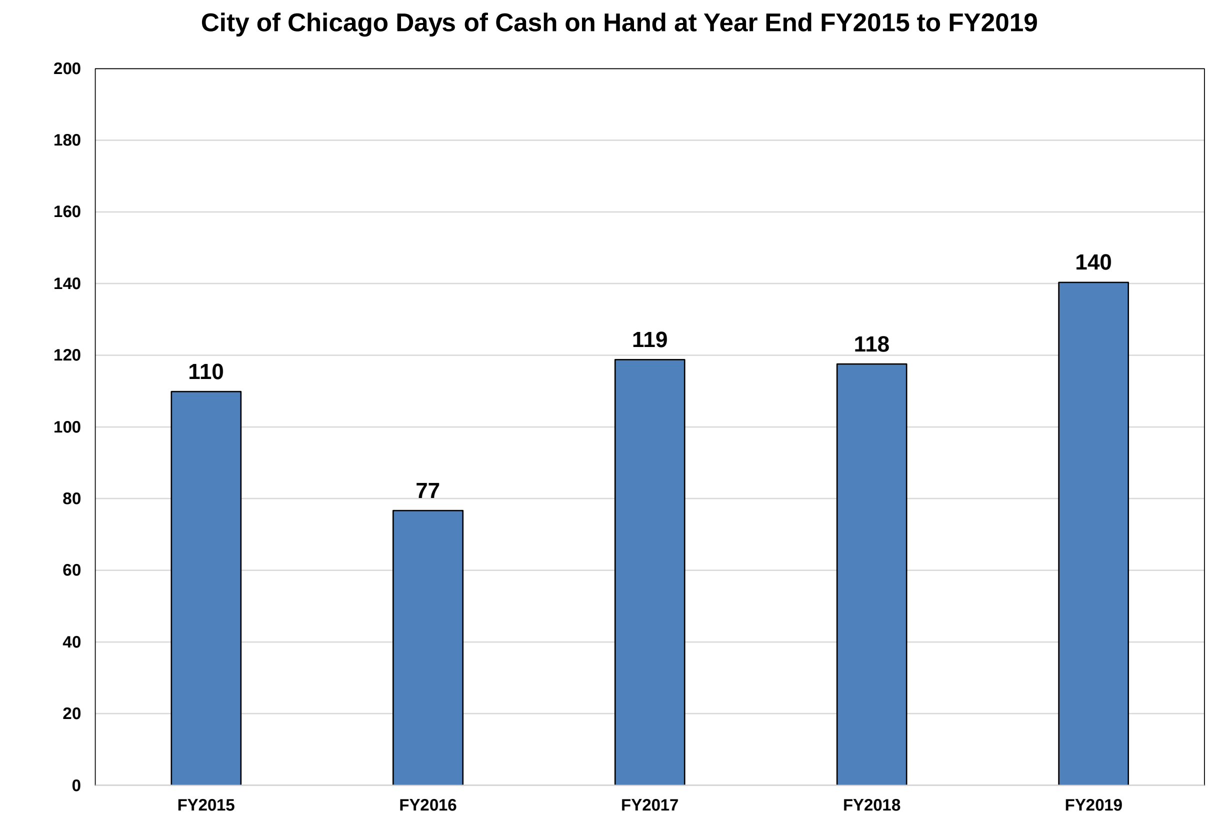
Note: Accounts payable for Chicago are called voucher warrants.
Source: City of Chicago, FY2015-FY2019 Comprehensive Annual Financial Reports.

Days of Cash on Hand

Days of cash on hand is a widely used liquidity ratio. It shows how long an organization could meet its daily expenses using the cash on hand or assets that can quickly be turned into cash. It is calculated by dividing the amount of cash and marketable securities in the governmental funds by daily operating expenses in those funds. A government should maintain several months' worth of cash to pay bills as they come due. It is a sound practice to have at least enough cash on hand to exceed the length of a typical billing period, or 30 to 60 days.[201]

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

Between FY2015 and FY2016, the City of Chicago reported that the days of cash on hand at year end fell from 110 to 77 days. By FY2019 the number of days rose to 140 days. Over the five-year period the City has always had at least two months of cash available to pay bills, indicating a reasonable amount of liquidity.



City of Chicago FY2015-FY2019 Comprehensive Annual Financial Reports.

LONG-TERM LIABILITIES

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

Long-term liabilities include:

- *Bonds, Notes and Certificates Payable*: These are amounts reported for different types of tax supported long-term debt, including general obligation, lease, tax increment financing and revenue debt.
- *Net pension and other post-employment benefits obligations (NPO)*: the cumulative difference (as of the effective date of GASB Statement No. 27) between the annual pension cost and the employer's contributions to the plan. This included the pension liability at transition (beginning pension liability) and excluded short term differences and unpaid contributions that had been converted to pension-related debt. Since FY2015,

this figure has been disaggregated. Thus, net other post-employment liabilities and net pension liabilities are reported differently (see next bullet point).

- *Net Pension Liabilities*: Since FY2015 Chicago has reported 100% of the net pension liabilities of its four pension funds in the Statement of Net Position to comply with GASB Statement No. 68 requirements. Previously, this liability was reported in the Statement of Net Position as a Net Pension Obligation or NPO (see description above). As a result of the reporting change for pensions involved in implementing GASB No. 68, the amount of Chicago long-term liabilities **reported** increased substantially. This is because it reflects a more holistic approach to measuring the liabilities of the government, which the previous NPO pension measurement did not. The amount owed by Chicago to its pension funds has not significantly changed. It is only being reported more transparently.
- *Net Other Post Employment Benefit (OPEB) Liabilities*:[202] Beginning with the FY2018 CAFR, the City of Chicago implemented GASB Statement No. 75 requirements to report net OPEB liability as the portion of the present value of projected benefit payments to current active and inactive employees that is attributed to those employees' past periods of service less the amount of the OPEB plan's fiduciary net position.[203] Prior to FY2018, under the requirements of GASB Statement No. 45, net Other Post-Employment Benefit (OPEB) obligations were reported as the cumulative difference between the annual OPEB cost and the employer's contributions to its OPEB Plan. As a result of the reporting change for other post-employment liabilities involved in implementing GASB No. 75, the amount of Chicago's long-term liabilities **reported** has increased substantially. This is because it reflects a more holistic approach to measuring the liabilities of the government, which the previous net other post-employment measurement did not. The amount owed by the City for retiree health insurance to its pension funds has not significantly changed. It is only being reported more transparently. The City also restated its FY2017 OPEB reporting to show net OPEB liabilities; this is included in the chart that follows.
- *Lease Obligations*: The amount reported annually until FY2015 was the present value of minimum future lease payments for a sale and lease back arrangements with third parties that Chicago entered into regarding the City-owned portion of the Orange Line rapid transit rail line with a book value of $430.8 million in 2005. In June 2015 the lease was terminated and the City regained unrestricted title to the transit line. Under the termination agreement relating to the rapid transit line, the City paid a net amount of $167.9 million to Prudential and a net payment of $52.5 million to Citizens Asset Finance.[204]
- *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

[202] Non-pension benefits provided to employees after employment ends are referred to as Other Post-Employment Benefits (OPEB). OPEB includes health insurance coverage for retirees and their families, dental insurance, life insurance and term care coverage. It does not include termination benefits such as accrued sick leave and vacation.
[203] Governmental Accounting Standards Board, Summary Of Statement No. 75: Accounting And Financial Reporting For Postemployment Benefits Other Than Pensions at https://www.gasb.org/cs/ContentServer?cid=1176166370763&d=&pagename=GASB%2FPronouncement_C%2FGASBSummaryPage.
[204] City of Chicago, FY2015 Comprehensive Annual Financial Report, p. 70.

reported for claims and judgments are amounts needed to finance future liabilities arising from personnel, property, pollution and casualty claims.[205]

- *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.[206]

Total long-term liabilities rose by 5.0%, or $2.0 billion, between FY2018 and FY2019. Long-term debt (bonds, notes and certificates payable) rose during this period, from nearly $11.0 billion to $11.3 billion. All other liabilities rose by $1.6 billion, or by 5.8%. That increase primarily can be attributed to a $1.5 billion, or 5.6%, increase in net pension liabilities; they rose from $26.8 billion to roughly $28.3 billion.

The five-year increase in total long-term liabilities between FY2015 and FY2019 was 0.2%. This was a nearly $100.9 million increase from $41.4 billion to $41.5 billion. Total long-term debt alone rose by 6.9%, from $10.6 billion to approximately $11.3 billion.

Other liabilities, which include net pension obligations, net other post-employment obligations, lease obligations, pollution remediation liabilities and claims and judgments declined between FY2015 and FY2019, falling by 2.0% or $626.8 million. Much of the five-year reported decrease in the five-year period reviewed was due to a $1.4 billion decrease in net pension liabilities.

City of Chicago Long Term Liabilities for Governmental Activities
FY2015 - FY2019 (in $ thousands)

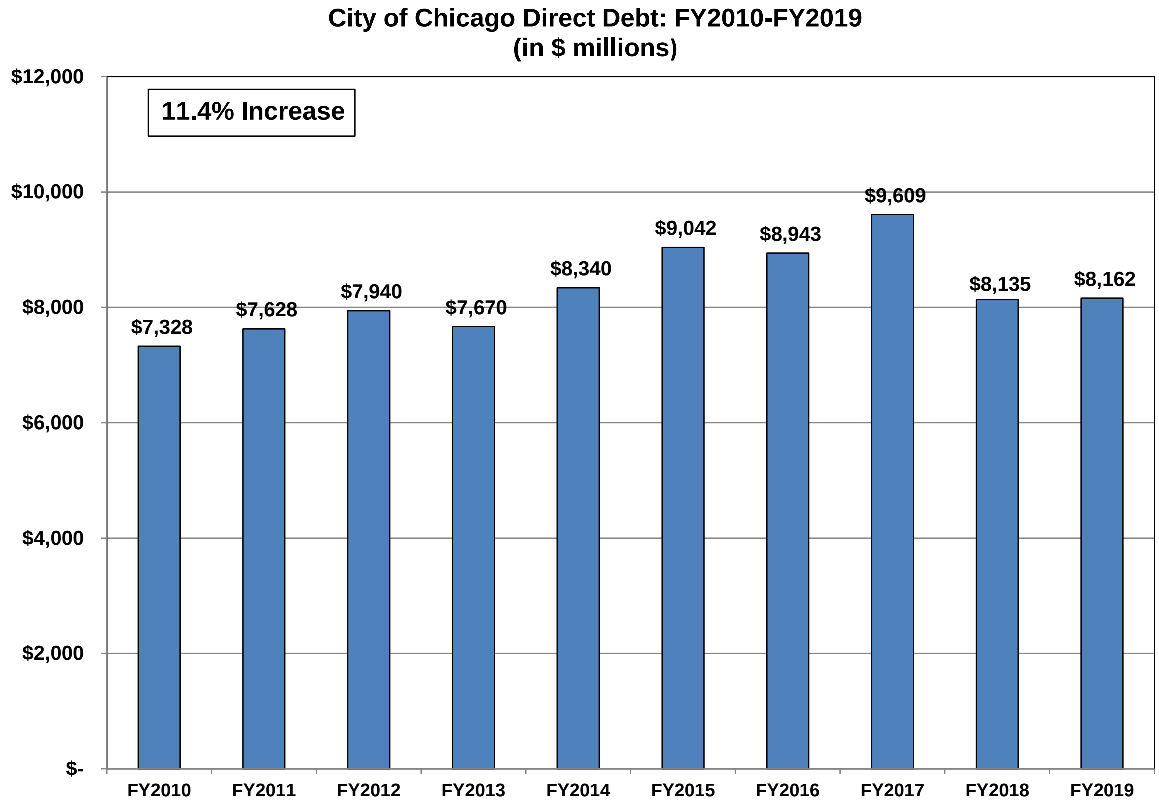
	FY2015	FY2016	FY2017	FY2018	FY2019	Two-Year Change	Two-Year % Change	5-Year Change	5-Year % Change
General Obligation Debt	$ 9,364,398	$ 9,173,009	$ 9,686,627	$ 8,207,779	$ 7,908,489	$ (299,290)	-3.6%	$ (1,455,909)	-15.5%
Tax Increment	$ 65,360	$ 33,520	$ 27,925	$ 19,945	$ 16,195	$ (3,750)	-18.8%	$ (49,165)	-75.2%
Revenue	$ 754,052	$ 766,628	$ 254,224	$ 249,929	$ 245,414	$ (4,515)	-1.8%	$ (508,638)	-67.5%
Sales Tax Securitization Corporation	$ -	$ -	$ 743,735	$ 2,036,435	$ 2,641,865	$ 605,430	---	$ 2,641,865	---
Subtotal Bonds, Notes and Certificates Payable	**$ 10,183,810**	**$ 9,973,157**	**$ 10,712,511**	**$ 10,514,088**	**$ 10,811,963**	**$ 297,875**	**2.8%**	**$ 628,153**	**6.2%**
Add unamortized premium	$ 117,199	$ 118,300	$ 88,675	$ 158,298	$ 193,890	$ 35,592	22.5%	$ 76,691	65.4%
Add accretion of capital appreciation bonds	$ 307,305	$ 318,844	$ 315,863	$ 323,485	$ 330,174	$ 6,689	2.1%	$ 22,869	7.4%
Total Bonds, Notes and Certificates Payable	**$ 10,608,314**	**$ 10,410,301**	**$ 11,117,049**	**$ 10,995,871**	**$ 11,336,027**	**$ 340,156**	**3.1%**	**$ 727,713**	**6.9%**
Net Pension Liability	$ 29,697,694	$ 31,512,071	$ 25,058,993	$ 26,761,592	$ 28,252,526	$ 1,490,934	5.6%	$ (1,445,168)	-4.9%
Net OPEB Obligation	$ 214,535	$ 167,209	$ 746,321	$ 684,632	$ 828,787	$ 144,155	21.1%	$ 614,252	286.3%
Pollution Remediation	$ 32,850	$ 33,201	$ 35,044	$ 44,415	$ 43,838	$ (577)	-1.3%	$ 10,988	33.4%
Claims and Judgments	$ 850,561	$ 942,622	$ 1,012,756	$ 1,032,385	$ 1,043,713	$ 11,328	1.1%	$ 193,152	22.7%
Total Other Liabilities	**$ 30,795,640**	**$ 32,655,103**	**$ 26,853,114**	**$ 28,523,024**	**$ 30,168,864**	**$ 1,645,840**	**5.8%**	**$ (626,776)**	**-2.0%**
Grand Total	**$ 41,403,954**	**$ 43,065,404**	**$ 37,970,163**	**$ 39,518,895**	**$ 41,504,891**	**$ 1,985,996**	**5.0%**	**$ 100,937**	**0.2%**

Beginning in FY2015, Governments report 100% of their net pension liabilities rather than the net pension obligations. Net pension liabilities are reported separately from net OPEB liabiliies.
Beginning in FY2013 commercial paper and lines of credit are no longer included in the general obligation line item. They have been reclassified as short-term debt.
FY2017 Other Post Employment Benefits Obligations were restated in the FY2018 CAFR due to the implementation of GASB 75.
Source: City of Chicago FY2015-FY2019 Comprehensive Annual Financial Reports. Note 10: Long-Term Obligations.

[205] City of Chicago, FY2019 Comprehensive Annual Financial Report, p. 62
[206] City of Chicago, FY2019 Comprehensive Annual Financial Report, p. 103.

Long-Term Direct Debt Trends

Direct debt is a government's tax-supported debt. Increases over time bear watching as a potential sign of rising financial risk. The exhibit below presents ten-year trend information for the total amount of City of Chicago net direct debt. During that time, total net direct debt rose by 11.4%, or $833.9 million. This represents an increase from $7.3 billion in FY2010 to nearly $8.2 billion ten years later. Long-term debt rose between FY2010 and FY2017 to $9.6 billion, before dropping by 15.3% to $8.1 billion in FY2018. The decrease in FY2018 was due to the refunding of certain callable general obligation bonds by the Sales Tax Securitization Corporation (STSC Series 2018AB and Series 2018C refunding bonds) which shifted direct debt obligations to the Sales Tax Securitization Corporation.[207] Direct debt rose slightly in FY2019 to $8.2 billion. The overall debt burden remains high.



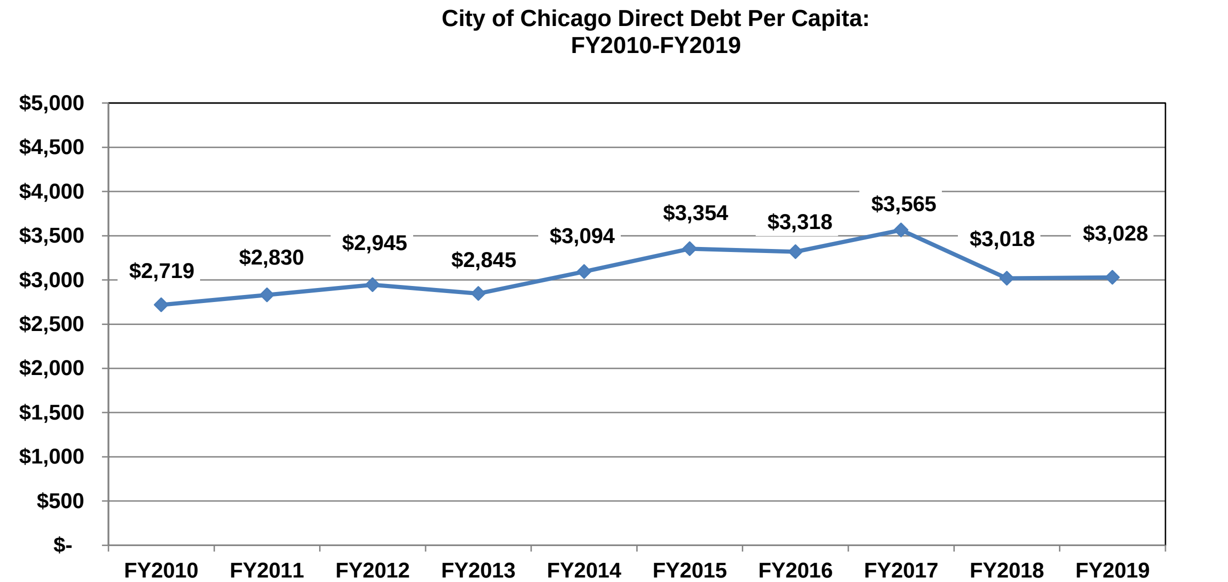
City of Chicago FY2019 Comprehensive Annual Financial Report, pp. 214-215.

Long-Term Direct Debt Per Capita

A common ratio used by rating agencies and other public finance analysts to evaluate long-term debt trends is direct debt per capita. This ratio reflects the premise that the entire population of a jurisdiction benefits from infrastructure improvements. In the ten years between FY2010 and FY2019, direct debt per capita rose by 11.4% from $2,719 to $3,028. The decrease in FY2018 is

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

attributed to the refunding of certain callable general obligation bonds by the Sales Tax Securitization Corporation (STSC Series 2018AB and Series 2018C refunding bonds).[208]



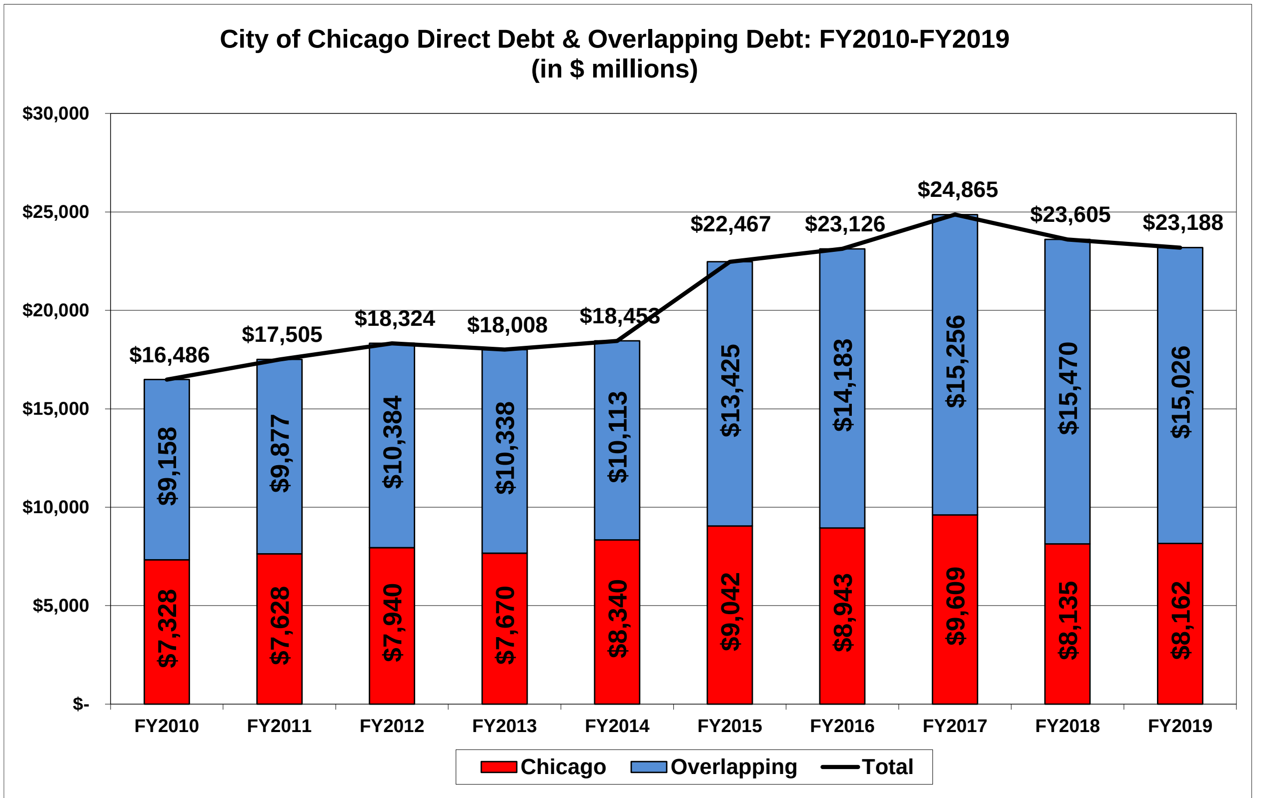
Source: City of Chicago, FY2019 Comprehensive Annual Financial Report, pp. 214-215.

Overlapping Debt: Chicago vs. Other Governments

The next exhibit compares total City of Chicago net direct debt with overlapping net debt reported by seven other major Cook County governments with boundaries coterminous with the City of Chicago or located partially within its boundaries. These governments are: the Chicago Public Schools, Cook County, the Forest Preserve District of Cook County, the Metropolitan Water Reclamation District, the Chicago Park District, City Colleges of Chicago, the former School Finance Authority and the Chicago School Building Improvement Fund.[209] Ratings agencies and other financial analysts commonly monitor overlapping debt trends as an affordability indicator when governments consider debt issuance. Chicago's portion of total long-term debt in FY2018 accounted for 35.2% of all long-term debt. Between FY2010 and FY2019, combined direct debt from other overlapping governments increased by 64.1% at the same time City of Chicago debt rose by 11.4%. Total direct debt from all eight major governments including Chicago rose by 40.7%. The rate of increase in direct debt issued by the other overlapping governments far outpaced the increase for Chicago. These figures do not

[208] City of Chicago FY2018 Comprehensive Annual Financial Report, p. 10.
[209] 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.

account for additional City of Chicago debt issued through the Sales Tax Securitization Corporation.



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

Debt Service Appropriation Ratio

Chicago debt service appropriations in FY2021 are projected to be 20.0% of total local fund net appropriations, or $1.9 billion out of expenditures of $9.8 billion. Since FY2017 debt service appropriations have risen by 0.9%, less than the 18.9% increase in total net appropriations. The debt service ratio has averaged 21.3% over the five-year period analyzed. The rating agencies consider a debt burden high if this ratio is between 15% and 20%.[210] Thus, Chicago's debt service ratio is high, reflecting the City's large debt burden.

City of Chicago Debt Service Appropriations as a Percentage of Total Net Appropriations: FY2017-FY2021			
	Debt Service	Total Net Appropriation	Ratio
FY2017	$ 1,938,455,902	$ 8,218,266,000	23.6%
FY2018	$ 1,886,630,393	$ 8,579,435,000	22.0%
FY2019	$ 1,884,599,917	$ 8,856,121,000	21.3%
FY2020	$ 1,938,788,156	$ 9,893,783,000	19.6%
FY2021	$ 1,956,178,697	$ 9,773,719,000	20.0%
Five-Year $ Increase	$ 17,722,795	$ 1,555,453,000	
Five Year % Increase	0.9%	18.9%	

Source: City of Chicago Budget Recommendations: FY2017-FY2021.

Sales Tax Securitization Corporation (STSC)

In 2017 the City entered into an Assignment, Purchase and Sale Agreement with a new Sales Tax Securitization Corporation (STSC). The STSC is a special purpose nonprofit corporation that is a blended component unit of the City. The entity is a lockbox designed to intercept sales tax revenue in order protect bondholders in the event of a bankruptcy. Any municipal bankruptcy in Illinois would have to be authorized by the State. The STSC is governed by a five-member Board composed of City officials. Certain actions by the Board require the vote of an additional independent director appointed by the Mayor before these actions are taken.[211]

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

Sales Tax Securitization Corporation Sales Tax Securitization Bonds Series 2018 Series AB bonds were sold at a premium in January 2018. The bonds have interest rates ranging from 3.82 percent to 5.0 percent. Net proceeds of $720.1 million were transferred to the City in exchange for a pledge of the City's sales tax revenues and used to refund outstanding General Obligation bond debt. This refunding increased total debt service payments by $349.6 million, resulting in a net economic gain of approximately $40.1 million.[212]

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

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[210] 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.
[211] City of Chicago FY2018 Comprehensive Annual Financial Report, p. 53.
[212] City of Chicago FY2018 Comprehensive Annual Financial Report, p. 79.

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.[213]

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.[214] In the FY2020 budget, the City projected an increase of $121.2 million in debt service in the new fiscal year as compared to 2019.[215] 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.[216]

Currently, the City is planning to issue $1.7 billion of General Obligation and Sales Tax Securitization Corporation bonds to refinance and restructure outstanding general obligation and Sales Tax Securitization Corporation bonds. These refundings are expected to generate up to $450 million of budgetary relief for the 2020 budget and $501 million of budgetary relief for the 2021 budget.[217] The City believes that the savings for this transaction will offset the cost of the refinancing.[218]

The refinancing takes advantage of current low interest rates to refinancing outstanding debt with a higher interest rate to a lower interest rate. The City intends to use these interest rate savings to pay for the debt restructuring that

Credit Ratings

The narrative that follows discusses credit related events that have occurred since 2010, including creation of a new sales tax securitization corporation and various downgrade actions. The table that follows summarizes credit ratings as of October 24, 2020 for various types of City bonds.

[213] City of Chicago FY2018 Comprehensive Annual Financial Report, p. 79.
[214] Official Statement, $605,430,000 Sales Tax Securitization Corporation, Sales Tax Securitization Bonds, Taxable Series 2019A, January 16, 2019.
[215] City of Chicago 2020 Budget Overview, p. 51.
[216] Heather Cherone, "Lightfoot saves $310M by refinancing $1.3B in debt — and sets $100M aside to pay down looming 2021 budget gap," Daily Line, January 20, 2020.
[217] City of Chicago FY2021 Budget Overview, p. 29.
[218] Information provided by City of Chicago, November 4, 2020.

City of Chicago Credit Ratings (as of October 24, 2020)				
	Ratings Agency			
Type of Bonds	**Moody's**	**Standard & Poor's**	**Fitch**	**Kroll**
General Obligation Bonds				
City	Ba1	BBB+	BBB-	A
Revenue Bonds				
O'Hare Airport				
Senior Lien General Airport Revenue Bonds	A2	A	A	A+
Passenger Facility Charge Revenue Bonds	A2	A	A	Not Rated
Customer Facility Charge	Baa1	BBB	Not Rated	Not Rated
Midway Airport				
First Lien - Revenue Bonds	A2	A	Not Rated	Not Rated
Second Lien - Revenue Bonds	A3	A	A	A
Water				
Senior Lien - Revenue Bonds	Baa1	A+	AA	Not Rated
Junior Lien - Revenue Bonds	Baa2	A	AA-	AA
Wastewater				
Senior Lien - Revenue Bonds	Baa2	A+	Not Rated	Not Rated
Junior Lien - Revenue Bonds	Baa3	A	AA-	AA-
Sales Tax Securitization Corporation	N/A	AA-	AAA	AAA
Motor Fuel Tax	Ba1	BB+	BBB-	Not Rated

Sources: City of Chicago FY2019 Comprehensive Annual Financial Report, p. 30; https://www.salestaxsecuritizationcorporation.com/stsc-il/bonds/i3228#anchor-bond-ratings; and https://www.cityofchicagoinvestors.com/city-of-chicago-il/bonds/i125.

Chicago Credit Actions on 2019 and 2020

The rating agencies took a number of actions in late 2019 and throughout 2020 regarding City of Chicago debt issuances

<u>Moody's Credit Actions</u>

Moody's affirmed the credit rating for Chicago's general obligation debt at Ba1 with a stable outlook on December 6, 2019. The stable outlook at that time reflected Moody's expectation that the City would accommodate increased pension obligations without diminishing reserves or issuing debt.[219] At the same time, Moody's affirmed its Ba1 with a stable outlook rating for the City's motor fuel tax bonds. Because motor fuel tax revenues are not legally separated from general operations, the motor fuel tax rating is capped at the City's general obligation bond rating. Also, the rating is limited at one notch below the State of Illinois' rating because these revenues are subjected to annual state appropriation by the General Assembly.[220]

On December 9, 2019 Moody's updated its previous credit analysis. The update noted that the stable outlook in the December 6th rating action reflected an expectation that Chicago would be able to accommodate larger pension contributions in the near term without significantly drawing

[219] Moody's Investors Service, Rating Action: Moody's affirms Chicago, IL's Ba1 GO rating; outlook stable, December 6, 2019.
[220] Moody's Investors Service, Rating Action: Moody's affirms Chicago, IL's motor fuel tax bonds at Ba1; outlook stable.

down reserves or increasing debt. The update also noted several concerns about credit challenges the City faces:

- The City's scheduled increases in pension contributions are insufficient to prevent growth in unfunded liabilities;
- The resource needs of the region's overlapping government, such as the Chicago Public Schools, could constrain the ability of the City to raise revenues in the future; and
- Securitized bonds such as those issued by the Sales Tax Securitization Corporation are increasing as a proportion of all bonded debt.

Certain factors could lead Moody's to downgrade Chicago's credit:

- A decline in the City's financial position;
- Increased operating risk at the Chicago Public Schools;
- Growth in unfunded pension liabilities; and/or
- Substantial increases in securitized bonds that are prioritized over funding city operations and General Obligation debt service.[221]

On October 29, 2020 Moody's affirmed the following credit ratings for outstanding Chicago debt:

- Ba1 credit rating on general obligations unlimited tax bonds;
- Ba1 rating on motor fuel tax debt;
- Baa2 rating on senior lien sewer revenue bonds; and
- Baa3 rating on junior lien sewer revenue bonds.

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

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

Downgrades for the motor fuel tax bonds could occur if general obligation bonds were downgraded or if there were large decreases in motor fuel tax collections and reduced coverage ratios for these bonds. Sewer bond downgrades could result from a general obligation bond downgrade or if there were reduction in liquidity or coverage for these bonds.[222]

[221] Moody's Investors Service, Credit Opinion, Update to Credit Analysis, December 9, 2019.
[222] Moody's Investors Services. Rating Action: Moody's affirms Chicago, IL's GO and related ratings, revises outlook to negative," October 29, 2020 at https://www.moodys.com/research/Moodys-affirms-Chicago-ILs-GO-and-related-ratings-revises-outlook--PR_906601492.

Fitch Credit Actions

In March 2020 Fitch affirmed its A rating for Midway Airport's second-lien lien revenue bonds, but revised the outlook from stable to negative. The outlook change reflected the severe economic disruption cause to airport revenues by the coronavirus pandemic.[223]

In April 2020 Fitch downgraded Chicago's motor fuel tax bonds to BB+ from BBB- and revised the outlook from stable to negative. The action was based on Fitch's downgrade of the State of Illinois' revenue and appropriation rating by one notch and outlook change to negative.[224] Fitch assigned an A rating to O'Hare International Airport senior-lien revenue refunding bonds, senior lien revenue bonds and customer facility bonds with a negative outlook in September 2020. The negative outlook reflected the adverse economic and financial aspects brought about by the COVID-19 pandemic. If airport activity does not increase in 2021, Fitch reported that it would likely downgrade all of the airport's debt obligations.[225]
Chicago Sales Tax Securitization Corporation senior lien bonds were downgraded by Fitch in January 2020 from AAA to AA- with a stable outlook. The downgrade was due to a change in Fitch's rating criteria for public tax supported debt. The change limits ratings to six notches above the associated government's issuer default rating. In this case this limits the sales tax bond rating to six notches above Chicago's rating of BBB-. Without this limitation, the rating would have been higher.[226] In October 2020 Fitch affirmed the AA- rating for outstanding sales tax securitization bonds and second lien sales tax securitization bonds, but revised the rating outlook to negative due to concerns over the impacts of the coronavirus pandemic and the City's large budget gaps.[227]

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

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

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

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

[227] Fitch Ratings. Fitch Affirms Chicago, IL's IDR at 'BBB-'; Outlook Revised to Negative," October 28, 2020 at

https://www.fitchratings.com/research/us-public-finance/fitch-affirms-chicago-il-idr-at-bbb-outlook-revised-to-negative-28-10-2020.

Standard and Poor's Credit Actions

In March 2020, Standard and Poor's revised the outlook for O'Hare International Airport senior lien revenue bond and Midway Airport revenue bond from stable to negative based on the severe economic impact caused by the coronavirus pandemic.[228]

In April 2020, Standard and Poor's revised its rating of Chicago Sales Tax Securitization Corporation sales bonds from a stable to a negative outlook while affirming the bond's AA-_ rating. The outlook change was based on the rating agency's concerns over revenue declines caused by the coronavirus pandemic.[229]

S&P also revised its outlook on Chicago general obligation debt from stable to negative in April 2020. The debt rating of BBB+ was affirmed. The outlook change was based on the economic recession cause by the coronavirus pandemic.[230]

Kroll Credit Actions

In December 2019 Kroll Bond Rating Agency affirmed the City of Chicago's A rating with a stable outlook. The report was based on Kroll's assessment that the City had taken positive steps to in balance its FY2020 budget.[231]

Kroll assigned a long-term rating of AA+ with a Stable Outlook to the Sales Tax Securitization Corporation (STSC) of Chicago's Second Lien Sales Tax Securitization Bonds in January 2020. At the same time, it affirmed the AAA rating with a stable outlook for the City's Sales Tax Securitization Bonds.[232]

In March 2020 Kroll issued a ratings watch for debt held by a number of U.S. airports. The Chicago airport debt included on the list were O'Hare Airport senior lien revenue bonds and Midway Airport second lien revenue bonds. The outlook for both issues was changed from stable to a watch-developing status. The change reflected comments over the revenue implications of sharp declines in airport activity due to the coronavirus pandemic.[233]

In September 2020, Kroll assigned an A+ rating with a negative outlook to O'Hare International Airport senior lien revenue refunding bonds due to the negative impact of the coronavirus pandemic.[234]

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[228] S & P Global Ratings, Ratings Outlooks on U.S. Transportation Infrastructure Issuers Revised To Negative Due To COVID-19 Pandemic, March 26, 2020.

[229] S & P Global Ratings. Sales Tax Securitization Corporation of Chicago; Sales Tax, April 24, 2020.

[230] S & P Global Ratings. Summary: Chicago General Obligation, April 24, 2020.
[231] Kroll Bond Rating Agency, Public Finance Rating Report, City of Chicago IL, December 5, 2019.
[232] City of Chicago FY2019 Comprehensive Annual Financial Report, p. 105.
[233] Kroll Bond Rating Agency, KBRA Places Rated Airports on Watch, March 26, 2020 at https://www.krollbondratings.com/documents/press-release/22483/kbra-places-rated-airports-on-watch.

[234] Kroll Bond Rating AgencyKBRA Releases Report Assigning A+ Rating with Negative Outlook to Various Chicago O'Hare International Airport General Airport Senior Lien Revenue Bonds, September 16, 2020 at

CAPITAL PROGRAM

The City of Chicago last released a Capital Improvement Plan (CIP) in FY2019. The current five-year plan provides information for FY2019 through FY2023.[235]

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

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

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

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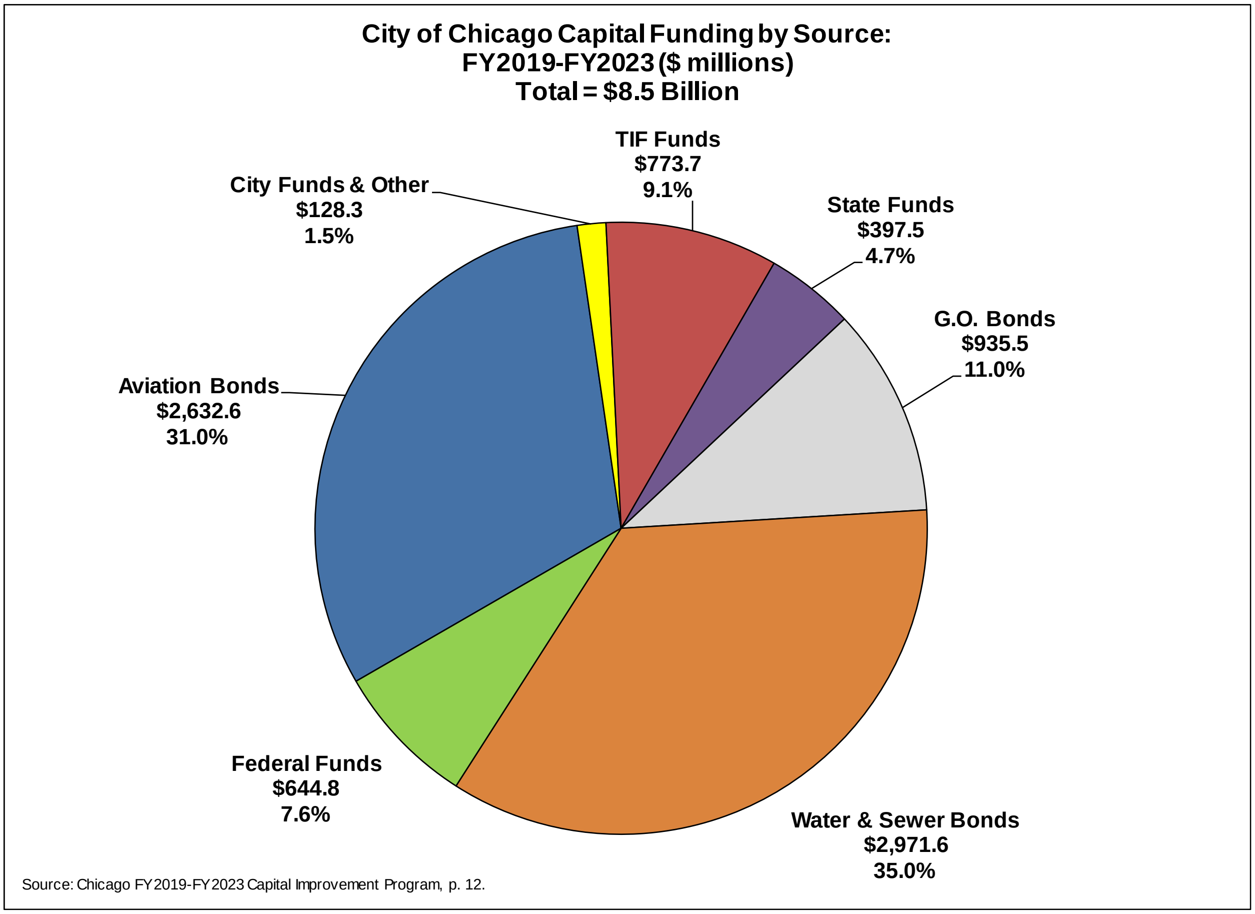
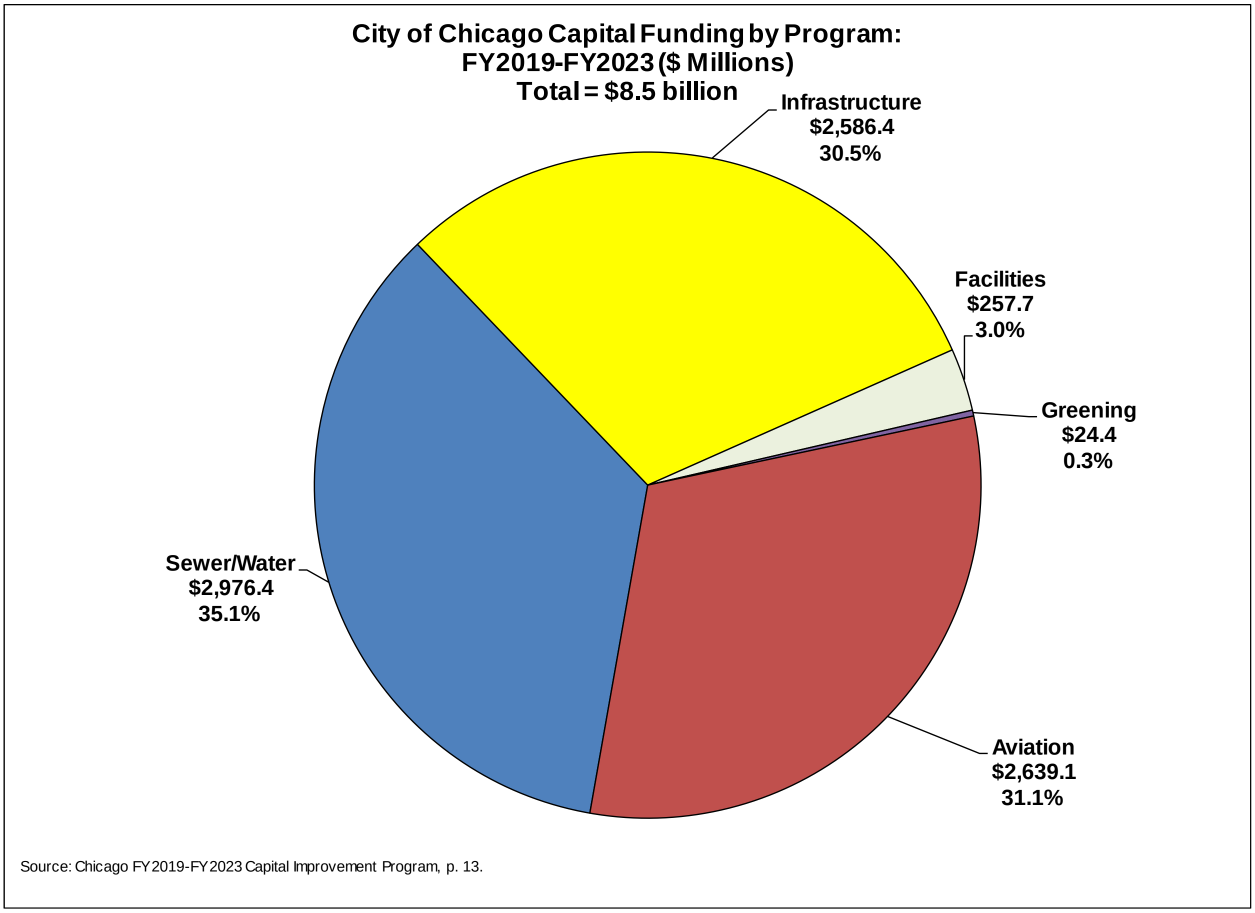
https://www.krollbondratings.com/documents/press-release/28395/kbra-releases-report-assigning-a-rating-with-negative-outlook-to-various-chicago-o-hare-international-airport-general-airport-senior-lien-revenue-bonds.

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



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



The following exhibit evaluates the City of Chicago's CIP format based on best practice guidelines from the National Advisory Council on State and Local Budgeting, the Government Finance Officers Association and Civic Federation budget analyses of local government budgets.[236]

This review is based on the FY2019-FY2023 capital improvement program posted online on the City's website.[237] The CIP includes a summary list of projects, expenditures per project, funding sources and the time frame for completing projects. It is made available for public inspection on the City's website. However, the plan does not include a narrative description of the CIP process or individual projects. There is no discussion of how capital needs are determined or how they are prioritized. There is no discussion of the capital plan's impact on the operating budget. There

[236] See National Advisory Council on State and Local Budgeting Recommended Practice 9.6: Develop a Capital Improvement Plan, the Government Finance Officers Association and Civic Federation Budget Analyses of Local Government Budget – various years.

[237] City of Chicago Capital Improvement Plan available at: https://www.chicago.gov/content/dam/city/depts/obm/supp_info/CIP_Archive/2019-2023CIPBook.pdf

appear to be few opportunities for stakeholders to provide input into the CIP process. While aldermen do have authority over the distribution of specific aldermanic menu projects in their wards, they do not formally approve the CIP. Finally, the City should update the CIP on an annual basis and link it to the annual budget process.

City of Chicago Capital Improvement Program Checklist	
Does the government prepare a formal capital improvement plan?	Yes
How often is the CIP updated?	Annually
Does the capital improvement plan include:	
• *A narrative description of the CIP process?*	No
• *A five-year summary list of projects and expenditures by project that includes funding sources for each project?*	Yes
• *Information about the impact and amount of capital spending on the annual operating budget for each project?*	No
• *Brief narrative descriptions of individual projects, including the purpose, need, history and current status of each project?*	No, but there is an overview of planned projects
• *The time frame for fulfilling capital projects?*	Yes
Are projects ranked and/or selected according to a formal prioritization or needs assessment process?	Not in the CIP
Is the capital improvement plan made publicly available for review by elected officials and citizens?	
• *Is the CIP published in the budget or a separate document?*	It is published in a separate document.
• *Is the CIP available on the Web?*	Yes[238]
Are there opportunities for stakeholders to provide input into the CIP?	
• *Is there stakeholder participation on a CIP advisory or priority setting committee?*	Unclear
• *Does the governing body hold a formal public hearing at which stakeholders may testify?*	No
• *Is the public permitted at least ten working days to review the CIP prior to a public hearing?*	Unclear
Is the CIP formally approved by the governing body of the government?	No
Is the CIP integrated into a long-term financial plan?	Unclear

238 City of Chicago Capital Improvement Plan available at: https://www.chicago.gov/content/dam/city/depts/obm/supp_info/CIP_Archive/2019-2023CIPBook.pdf

APPENDIX

Chicago Credit Rating Actions in 2018

In February 2018, Kroll Bond RatingAgency upgraded the City's General Obligation bond rating from BBB+ to A with a stable outlook.[239]

S&P downgraded the Sales Tax Securitization Corporation from AA to AA- on October 26, 2018, saying that the rating is constrained until the City's General Obligation credit improves.[240]

Moody's revised its outlook for City of Chicago general obligation debt from negative to stable in July 2018 while maintaining the City's Ba1 credit rating. The outlook change was based on the City's actions to accumulate healthy reserves and increase funding for its pension funds.[241]

Moody's affirmed its A2 rating for O'Hare general revenue and passenger facility charge bonds in April 2018.[242] Similarly, Fitch affirmed its A rating with a stable outlook for Chicago O'Hare Airport revenue bonds in September 2018.[243]

In February 2018, Kroll Bond Rating Agency, Inc. upgraded its rating of the City's General Obligation bonds two notches from BBB+ to A with a stable outlook. Kroll cited the City's efforts to stabilize its underfunded pension funds.[244] In the same month, Fitch, Kroll, Moody's, and Standard and Poor's all withdrew their ratings on the City's Sales Tax revenue bonds as all of the outstanding Sales Tax bonds have been defeased.[245]

Moody's Investors Services has criticized the City's $8.5 billion O'Hare 21 funding plan approved in 2018 that is designed to substantially modernize O'Hare Airport facilities. The rating agency labelled the plan as credit negative because "it will increase leverage and airline costs above those of the airport's peers, weakening O'Hare's competitive position and airlines' profitability at the airport if growth fails to materialize."[246] Moody's noted that the plan would increase O'Hare's total debt load by 107.1%, from $7 billion in outstanding bonds to $14.5 billion by 2022, an amount well above debt increases at other major airports.

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[239] City of Chicago FY2018 Comprehensive Annual Financial Report, p. 29.

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

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

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

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

[244] Hal Dardick, "Credit rating agency upgrades Chicago debt, says investors face "small risk of loss," *Chicago Tribune*, February 5, 2018 at http://www.chicagotribune.com/news/local/politics/ct-met-chicago-bond-rating-upgrade-20180205-story.html.

[245] Chicago FY2017 Comprehensive Annual Financial Report, p. 102.

[246] Moody's Investors Services. "City of Chicago IL O'Hare Airport Ent.: Chicago O'Hare Airport's capital plan is credit negative," April 5, 2018.

Moody's has also expressed concern about enplanement growth at O'Hare. Enplanement growth is critical to the success of the O'Hare 21 financing plan as fee increases are needed to pay for debt issued. But enplanement growth has been stagnant at O'Hare, rising only 3% in 2017 above 2006 levels. In contrast, at other hub airports enplanements rose by 22%. This raises concerns about whether the proposed rate of enplanement growth will be realized. If it is not, then big cost increases per passenger would be required to pay for the massive debt burden. This would make O'Hare less competitive and provide an incentive to transfer connecting operations to other airports.[247]

However, the City argues that their growth estimates are accurate and that the expansion plan does not present a credit risk.[248] Moody's also notes that the airlines' agreement to the new lease plan indicates they are optimistic about future growth. They also point to some credit positive aspects of the financing plan, including an incremental increase in the debt service coverage ratio to 1.25 in 2021 from 1.10 and the creation of an additional operating and maintenance expense reserve of 25% of the following year's expenses by 2025.[249]

Fitch Ratings has not reviewed either the financial or cost forecasts associated with the O'Hare 21 Plan or its associated capital plan. However, Fitch did note that there are considerable risks associated with the implementation of such a large capital plan. The airport expansion plan will likely make O'Hare one of the highest cost airports in the nation. Its already high leverage position of nearly 10 times net debt to cashflow available for debt service will need to be maintained for some time. Additional debt issuance could increase the leverage position higher, which might negatively impact the airport's A credit rating. Fitch concluded that:

> …the new terms under the updated airline agreement are fundamental to the airport's modernization plans while operating under a partnership approach with the airlines. The overall financial integrity of the airport should remain sound given the provisions to boost coverage levels and operating reserves.[250]

Chicago Credit Rating Changes in 2017

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

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

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

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[247] Moody's Investors Services. "City of Chicago IL O'Hare Airport Ent.: Chicago O'Hare Airport's capital plan is credit negative," April 5, 2018.
[248] Rachel Koning Beals. "O'Hare expansion will be credit negative," MarketWatch at https://www.marketwatch.com/story/ohare-airport-expansion-will-be-credit-negative-says-moodys-2018-04-06.
[249] Moody's Investors Services. "City of Chicago IL O'Hare Airport Ent.: Chicago O'Hare Airport's capital plan is credit negative," April 5, 2018.
[250] *American Journal of Transportation*, "Fitch: Chicago O'Hare Airport Inks New Airline Agreement," April 13, 2018 at https://www.ajot.com/news/fitch-chicago-ohare-airport-inks-new-airline-agreement.

In June 2017, S&P downgraded the rating of the Motor Fuel Tax revenue bonds from BBB- to BB+ with a negative outlook.[251]

In July 2017, Moody's Investors Services placed the City's General Obligation, sales tax, motor fuel tax and senior lien water revenue debt under review for a possible downgrade because of the City's relationship with the financial troubled Chicago Public Schools.[252] However, in September 2017 Moody's reaffirmed the City's General Obligation and water and sewer revenue bond ratings with negative outlooks. The negative outlooks reflected the expectation that growing costs and continued fiscal distress at Chicago Public Schools would further burden City taxpayers.[253]

<u>Chicago Credit Rating Changes in 2016</u>

In late 2016 the City of Chicago received some good news related to its credit ratings. In October, Standard & Poor's revised its credit outlook from negative to stable, while re-affirming its previous BBB+ rating. The reason for Standard & Poor's action was the City' approval of increased water and sewer taxes to boost funding for the Municipal Pension Fund, increased property taxes for the Police and Fire pension funds and increases in telephone surcharges to shore up the Laborers' Pension Fund. These actions will help to stabilize the precarious financial position of these retirement funds.[254] Standard & Poor's action mirrored Fitch's decision to change its credit outlook from negative to stable in August, while re-affirming its previous BBB- rating. Fitch also cited the City's actions to increase taxes and fees to provide funding stability for its pension funds as the reason for its change in outlook.[255]

In March 2016, in the wake of the Illinois Supreme Court's rejection of pension reform laws that sought to stabilize the finances of the Chicago Municipal and Laborer's Pension Funds, Fitch downgraded City general obligation and sales tax bonds to BBB- from BBB+ with a negative outlook. Moody's Investor's Services characterized the court ruling as a "credit negative" action for Chicago, but did not change its previous credit rating or outlook. Standard & Poor's made no ratings change at that time.[256]

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[251] Chicago FY2017 Comprehensive Annual Financial Report, p. 29.

[252] Moody's Investors Services. "Moody's Places Chicago, IL's GO and Related Ratings Under Review for Possible Downgrade," July 7, 2017.

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

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

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

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

Chicago Credit Rating Downgrades in 2015

On February 27, 2015, which triggered the termination clauses of several of the derivative instruments tied to the City's variable rate bonds, also referred to as swaps. At that time, Moody's cited a number of factors that could lead to a further reduction in the City's bond rating, including the Illinois Supreme Court issuing its ruling that the State's pension reform package was unconstitutional.[257]

In May 2015 Moody's Investors Service further downgraded the City of Chicago's general obligation bond ratings to Ba1 with a negative outlook, a rating below investment grade.[258] Soon after, Fitch Ratings and Standard & Poor's Ratings Services followed suit by downgrading Chicago's general obligation bond rating one notch to BBB+ from A- and to A- from A+, respectively, with negative outlook, but keeping Chicago's rating at investment grade.[259]

[257] Civic Federation, "Chicago Area Governments Bond Ratings Fall Below Investment Grade," May 22, 2015. See https://www.civicfed.org/civic-federation/blog/chicago-area-governments-bond-ratings-fall-below-investment-grade.
[258] *Chicago Tribune*, "Chicago credit junked, Moody's downgrades to Detroit-level status after pension fix tossed," May 13, 2015.
[259] Civic Federation, "Chicago Area Governments Bond Ratings Fall Below Investment Grade," May 22, 2015 See https://www.civicfed.org/civic-federation/blog/chicago-area-governments-bond-ratings-fall-below-investment-grade.