THE CIVIC FEDERATION

CITY OF CHICAGO FY2024 PROPOSED BUDGET:

ANALYSIS AND RECOMMENDATIONS

for more information, visit civicfed.org/ChicagoFY2024

NOVEMBER 1, 2023

Acknowledgements

The Civic Federation would like to thank Chief Financial Officer Jill Jaworski, Office of Budget and Management (OBM) Director Annette Guzman and Comptroller Chasse Rehwinkel for providing us with a budget briefing and answering our questions about the budget.

Table of Contents

EXECUTIVE SUMMARY

The Civic Federation **supports** Mayor Johnson's proposed FY2024 budget of $16.6 billion. The City of Chicago budget continues to benefit from the region's strong economic recovery from the pandemic and recently improved revenue performance in areas that had thus far been slower to recover, such as tourism and large events. Further, it reflects several policies that the Civic Federation supports, including $306.6 million in supplemental payments to the City's four pension funds and a move to increase the number of civilian positions within the Police Department. Overall, the proposed budget will get the City through the next year while maintaining the status quo, but it is crucial that the administration develop a long-term plan to address issues that will continue to put a strain on the City's finances in upcoming years.

The Federation has ongoing concerns about the City budget's persistent structural imbalance and the use of one-time revenue sources to close the budget gap. In addition, emerging issues like the migrant crisis and some State legislative proposals to enhance pension benefits could add to already rising costs. It will be incumbent upon the administration and City Council to identify additional cuts, savings and sources of revenue to achieve future budget sustainability. Recognizing the pressing issue of caring for the influx of migrants in Chicago, the Federation calls for the development of a contingency plan in the event the State and federal government do not provide additional funding in the coming year.

Despite a large deficit projected for FY2024 and several looming budgetary concerns, the City's financial position continues to show signs of improvement, as recognized by various credit rating upgrades between 2022 and 2023. The most recent upgrade from Fitch Ratings on October 19, 2023, following the release of the budget, cited long-term liability reductions deriving from improved debt management practices and sustained economic growth. However, the Civic Federation agrees with the rating agency's concerns regarding the reliance on economically sensitive revenue sources, high pension and debt burdens and the use of one-time revenues to close budget gaps as potential threats to future economic vitality.[1]

Consistent with previous years, the Civic Federation urges the Mayor and City Council to develop a long-term plan for sustaining increasing spending levels, and particularly finding additional stable revenue sources to fund pension costs. The Federation continues to offer several recommendations to improve budgetary transparency across City departments, as well as enhanced transparency in the Chicago Police Department's implementation of the federal consent decree and the department's staffing allocations. The Federation also offers recommendations to improve transparency in the City Council's meeting agenda process.

[1] Fitch Ratings, "Fitch Upgrades Chicago, IL's IDR and GO's to 'BBB+'; Outlook Stable," October 19, 2023.

The Civic Federation offers the following **key findings** on Mayor Johnson's proposed FY2024 budget:

- The projected net appropriations for FY2024 total $12.3 billion. This is an increase of $479.9 million, or 4.1%, over the adopted FY2023 net appropriations of $11.8 billion;
- The proposed Corporate Fund (general operating budget) of $5.7 billion represents a $272.9 million, or 5%, increase from $5.4 billion in FY2023;
- Pension contributions to the four City pension funds will total $2.8 billion in FY2024, an increase of $138.7 million, or 5.2%, from the prior year. The pensions are funded with $1.4 billion in property tax revenue, $540.6 million in transfers from the Corporate Fund, $216.3 million from the water-sewer tax, $224.9 million from the Enterprise and Special Revenue Funds, $70.1 million in other sources and $35 million from the Chicago casino. Also included in this number is a $306.6 million supplemental pension contribution for FY2024 to be spread across all four funds;
- The City's FY2024 gross property tax levy is approximately $1.8 billion, an increase of $39.1 million over the prior year;
- Personnel positions within all local funds (excluding grant funds) will increase by 339, or 1.0%, from the prior year to a total of 35,049 full-time equivalent (FTE) positions proposed in FY2024. The largest increase, 169, will be within the Infrastructure Services program area largely due to additional positions in the Department of Aviation;
- Public Safety personnel make up the largest portion of budgeted positions with 20,582 FTEs, or 58.7%. Of that total, the Police Department accounts for 13,919 budgeted positions. Over the past five years, public safety personnel have decreased by 7.4%, including a decrease of 662 positions, or 4.5%, within the Police Department; and
- While the number of budgeted personnel positions has decreased from 35,447 to 35,049 over the past five years, personnel services appropriations (which account mostly for salaries and other costs associated with pay), have increased from $4.0 billion in FY2020 to $4.6 billion in FY2024.

The Civic Federation **supports** the following initiatives and elements of the City of Chicago's proposed FY2024 budget:

- Holding the line on tax increases;
- Supplemental pension payments;
- Improvement to the City's financial sustainability and debt ratings; and
- Increasing civilian positions within the Police Department.

The Civic Federation has **concerns** about the following issues related to the City of Chicago's proposed FY2024 budget:

- Potential sources of fiscal stress on next year's budget, including:
    - Uncertainty regarding migrant arrivals;
    - Police birth year legislation; and
    - Changes to Tier 2 pension benefits;
- Structural deficit and the use of non-recurring revenues in the budget;

- Pension and debt funds consuming a large portion of City spending;
- Statutory reliance on gaming revenue to fund police and fire pensions;
- Chicago Police Department reform;
- Reliance on TIF surplus funding;
- Budgetary transparency concerns, including:
  - Lack of departmental cost of services data due to the Finance General category; and
  - Lack of past-year data on actual expenditures;
- Future viability of the Chicago Transit Authority; and
- Recovery in Chicago's downtown.

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

- Develop a contingency plan for migrant care;
- Develop a long-term financial plan for City operations and pension funds;
- Pension recommendations, including:
  - Evaluate the financial impact of fixing Tier 2 Safe Harbor issues;
  - Find a stable pension funding source to supplement uneven casino revenue; and
  - Work with the State of Illinois to explore consolidation of Chicago's four pension funds;
- Increase transparency around police reform efforts;
- Re-evaluate tax increment financing districts;
- Recommendations to improve budgetary transparency, including:
  - Include Finance General costs in City department budgets; and
  - Include past-year expenditures in budget documents;
- Improve transparency of the City Council agenda process, including:
  - Eliminate direct introduction of agenda items without any prior notice;
  - Post agenda items with more than 48-hour notice ahead of meetings;
  - Include detailed descriptions of agenda items;
  - Post supporting materials with agenda items; and
  - Revise the public comment process;
- Work with the Illinois General Assembly to find solutions to CTA funding and governance;
- Expand the role of the City Council's Office of Financial Analysis; and
- Expand the reserves policy to establish a ceiling.

POSITION

The Civic Federation **supports** Mayor Johnson's proposed FY2024 budget of $16.6 billion. The City of Chicago budget continues to benefit from the region's strong economic recovery from the pandemic and recently improved revenue performance in areas that had thus far been slower to recover, such as tourism and large events. Further, it reflects several policies that the Civic Federation supports, including $306.6 million in supplemental payments to the City's four pension funds and a move to increase the number of civilian positions within the Police Department. Overall, the proposed budget will get the City through the next year while maintaining the status quo, but it is crucial that the administration develop a long-term plan to address issues that will continue to put a strain on the City's finances in upcoming years.

The Federation has ongoing concerns about the City budget's persistent structural imbalance and the use of one-time revenue sources to close the budget gap. In addition, emerging issues like the migrant crisis and some State legislative proposals to enhance pension benefits could add to already rising costs. It will be incumbent upon the administration and City Council to identify additional cuts, savings and sources of revenue to achieve future budget sustainability. Recognizing the pressing issue of caring for the influx of migrants in Chicago, the Federation calls for the development of a contingency plan in the event the State and federal government do not provide additional funding in the coming year.

Despite a large deficit projected for FY2024 and several looming budgetary concerns, the City's financial position continues to show signs of improvement, as recognized by various credit rating upgrades between 2022 and 2023. The most recent upgrade from Fitch Ratings on October 19, 2023, following the release of the budget, cited long-term liability reductions deriving from improved debt management practices and sustained economic growth. However, the Civic Federation agrees with the rating agency's concerns regarding the reliance on economically sensitive revenue sources, high pension and debt burdens and the use of one-time revenues to close budget gaps as potential threats to future economic vitality.[2]

Consistent with previous years, the Civic Federation urges the Mayor and City Council to develop a long-term plan for sustaining increasing spending levels, and particularly finding additional stable revenue sources to fund pension costs. The Federation continues to offer several recommendations to improve budgetary transparency across City departments, as well as enhanced transparency in the Chicago Police Department's implementation of the federal consent decree and the department's staffing allocations. The Federation also offers recommendations to improve transparency in the City Council's meeting agenda process.

[2] Fitch Ratings, "Fitch Upgrades Chicago, IL's IDR and GO's to 'BBB+'; Outlook Stable," October 19, 2023.

ISSUES THE CIVIC FEDERATION SUPPORTS

The Civic Federation **supports** the following elements of the proposed FY2024 City of Chicago budget.

Holding the Line on Tax Increases

The Civic Federation is encouraged to see that the proposed budget does not include any general tax increases, including holding the property tax relatively flat. The City has the authority to increase its property tax without State limitations due to its status as a home rule unit of government. However, the City has a self-imposed property tax limit that mirrors the State Property Tax Extension Limitation Law (PTELL),[3] which limits the annual increase in the aggregate property tax extension to the lesser of 5% or the rate of inflation. As part of the FY2021 budget, the City adopted an ordinance to annually increase the property tax levy by the rate of inflation or 5%, whichever is less, in order to help pay for rising annual pension contributions.[4] The FY2022 budget followed this policy for a second year, but inflationary increases became untenable when the inflation rate increased significantly in 2022. Rather than increasing the levy by the maximum 5% allowed based on this policy, the City instead increased the levy for FY2023 by 2.5%.

The Civic Federation's position on this policy is that all property tax increases should be proposed based on budgetary need in the context of the entire City budget plan, rather than tied to an automatic inflator. While small, incremental tax increases are preferable to large, infrequent tax increases, as a general principle the City Council must balance the need for ongoing revenue sources that keep up with rising expenses against other fiscal pressures on residents and businesses. This year, for example, there remains a significant amount of distress in the real estate market, especially in the downtown commercial market. The decision to forego the automatic increase indicates a mindfulness to this reality.

The Civic Federation recognizes the City's need for future recurring revenue sources, and our support for holding the property tax levy relatively flat this year does not preclude the need for additional future revenues. The City's past practice of imposing unpredictable large increases in the property tax after many years of holding the levy relatively flat created an atmosphere of uncertainty that is not ideal for taxpayers. A sustainable City budget will need to balance the funding needs of City government against the economic impact on taxpayers of the revenues it collects.

The Civic Federation encourages the City Council's new Revenue Subcommittee to keep this balance in mind as they examine the City's tax structure and identify ways to modernize the

[3] Chicago Municipal Code, 3-92-030; 35 ILCS 200/18-185.

[4] Chicago Municipal Code 3-92-075. "Beginning with the budget for fiscal year 2021, therefore, the City will include in each year's budget an increase in the property tax levy equal to the lesser of the most recently reported annual increase in the Consumer Price Index (CPI) or five percent, unless and until the Pension Code requirements set forth above have been met."

City's tax revenues based on the modern economy. The Federation looks forward to reviewing the conclusions of the Revenue Subcommittee.

Supplemental Pension Payments

The Mayor's FY2024 budget proposes a supplemental pension payment of $306.6 million beyond the statutory required amount. Of this amount, $259 million will derive from the FY2022 available fund balance in the Corporate Fund. This is the second year the City will make supplemental pension payments, having made a supplemental contribution of $242 million in FY2023. The supplemental contributions in FY2023 and FY2024 are intended to increase the pension contribution to a level that prevents the pension liability from growing. The budget states that the City intends to continue to make supplemental pension payments in the coming years to counterbalance the fact that the statutorily required payments are projected to be short of the "tread water" contribution for several years.

The Civic Federation supports the supplemental pension payment as a responsible use of non-recurring revenue. However, the Federation must also note that the City's severely underfunded pensions will remain a significant burden on City budgets for many years to come, crowding out spending on other priorities.

Improvement to City's Financial Sustainability and Debt Ratings

The City of Chicago has improved its financial sustainability in a number of areas over the past decade. The FY2024 budget represents the third year that all four pension funds will be funded on an actuarially calculated basis and the second year the City will make supplemental contributions to the pension funds beyond the statutorily required amounts. The unrestricted fund balance has increased significantly in recent years, which has helped Chicago build its operating reserves and provide a buffer against an economic downturn or other financial emergency. The City of Chicago has also moved away from some bad past practices, including using scoop-and-toss borrowing to fund debt and borrowing to pay for annual legal settlements and judgements. All of these actions have put the City on stronger financial footing and have resulted in recent bond rating upgrades, including the most recent in October 2023 from Fitch to BBB+ from BBB with a stable outlook.[5] The City has in the past estimated that every credit rating upgrade represents $100 million in interest cost savings on each $1 billion in bonds issued.[6]

Increasing Civilian Positions within the Police Department

The Civic Federation is pleased to see that the City is prioritizing the civilianization of approximately 400 positions within the Chicago Police Department in 2024. The City has a very high ratio of sworn officers compared to non-sworn employees, so this move will bring the Department more in line with other cities and result in other operational and financial benefits to the City. The 400 positions are primarily newly created positions transferred from previously

---

[5] Fitch Ratings, "Fitch Upgrades Chicago, IL's IDR and GO's to 'BBB+'; Outlook Stable," October 19, 2023.
[6] City of Chicago Mid-Year Budget Forecast, April 2023, p. 10.

sworn officer positions in the budget. The total number of full-time positions in the CPD budget will remain the same as the prior year. The new civilian positions include approximately 100 training positions that will handle training requirements as part of the federal consent decree and 50 record-keeping positions. The move toward filling more positions in CPD with non-sworn personnel is expected to provide multiple benefits: it will free up officers to serve on patrol and respond to calls for service, and it is expected to result in cost savings to the City.[7]

Civic Federation Concerns

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

Potential Sources of Fiscal Stress on Next Year's Budget

Uncertainty Regarding Migrant Arrivals

Over the past year, the City has seen an influx of migrants sent to Chicago from the U.S. southern border. Of the 18,000 migrants transported to the Chicago thus far, 11,000 are in the shelter system while the remainder await housing,[8] and the City has struggled with its ability to care for such a large number of people. The proposed budget pledges $150 million for new migrant arrivals, which is only half of the projected cost of approximately $300 million to care for migrants in both FY2023 and FY2024. The Civic Federation finds this a cause of concern, particularly given that the State of Illinois will not pass supplemental appropriations for asylum-seekers during veto session as the City had previously hoped.[9]

Further, significant uncertainty remains regarding how many additional migrants may be arriving in the next year. The Civic Federation supports the position of State and local government leaders that the federal government, which has jurisdiction over national borders, must provide additional support. In the meantime, however, the City, State and wider region should work together to develop contingency plans and a means to fund these plans.

Police Birth Year Legislation

In 2021 the Governor signed Public Act 101-0673 into law, which doubled the cost-of-living adjustment for Chicago firefighters born after January 1, 1966. The legislation increased the actuarial accrued liability of the fund by $196.5 million and the normal cost (the cost of benefits earned each year) of the firefighter pensions by $6 million.[10] When this bill was passed,

---

[7] Information provided by the City of Chicago Budget Office, October 23, 2023; and Chicago City Council Committee on Budget and Government Operations, Chicago Police Department Budget Hearing, October 24, 2023.
[8] Briefing from the City's Office of Management and Budget, October 23, 2023.
[9] Rich Miller, "Mayor Johnson accepts reality: State won't consider more money for migrants until 2024," *Chicago Sun Times,* October 13, 2023.
[10] Firemen's Annuity and Benefit Fund of Chicago, "Actuarial Valuation and Review as of December 31, 2021, June 2022," p. 10.

lawmakers expressed the intention to make the same adjustments to the Police pension fund and legislators have indicated an intention to introduce such a bill during veto session this month.[11] Because the police fund is much larger than the fire fund, the Civic Federation is concerned about how such legislation would impact the City budget absent a plan to fund the increase in payments from the City. The Chicago budget office already projects a deficit in the coming years, and the increased burden of this legislation would only put more pressure on the City's budget.

Changes to Tier 2 Pension Benefits

The General Assembly is considering legislation enhancing pension benefits for Chicago firefighters hired after January 1, 2011 (Tier 2), which changes the calculation of final average salary as well as the limitation on pensionable salary.[12] The legislative sponsors and supporters of these proposals promote them as a "fix" to preemptively address concerns about Tier 2 benefits failing to meet Internal Revenue Service Safe Harbor rules, which require government workers to receive a retirement benefit from their public pension that is at least equal to the benefit they would receive under Social Security. The Civic Federation opposed these bills as premature before comprehensive analysis had been done of their financial impact and whether the approach taken was the most efficient and effective way to address Safe Harbor.

The Federation understands that the Illinois legislature will need to pass legislative changes to the statutes that govern each of the pension funds in Illinois (except for those whose employees are already covered by Social Security) in order to meet these IRS standards. However, legislation introduced earlier this year in Senate Bills 1629 and 1630 was billed as a Safe Harbor "fix," but would overshoot what is required for Safe Harbor compliance. These bills would markedly increase benefits for all Tier 2 Chicago firefighters by changing final average pay calculations in addition to increasing the Tier 2 pensionable salary. The City of Chicago estimated these enhancements would have increased pension obligations by $3.3 billion through 2055.

Rather than making the benefit enhancements that have been proposed, a better course of action could be to increase the pensionable salary cap to more closely align with the Social Security Wage Base. This would be a more direct Tier 2 "fix" because it is less costly and directly tied to addressing compliance with IRS Safe Harbor rules.

It is critically important that the Illinois General Assembly get any Tier 2 fix right, because once pension benefits are provided they become protected under the Illinois Constitution and cannot be reduced later. Additionally, before passing any legislation to change Tier 2 benefit calculations, the Illinois General Assembly should call for an actuarial study of both state and local pension plans to estimate when pension plans will fail to meet Safe Harbor compliance, and what the cost of any enhanced benefits would be to government employers like the City of Chicago. Reinstating pension benefits without analysis showing they are necessary to address

---

[11] Heather Cherone, "With a Comprehensive Overhaul for Chicago's Pension Woes Elusive, Small Fixes on Tap for Veto Session," *Chicago Tonight*, October 26, 2023.
[12] Senate Bills 1629 and 1630, 103rd General Assembly.

Safe Harbor could substantially reverse much of the work Tier 2 has done to reduce massive pension liability costs. The State cannot afford to take a step backward by unnecessarily increasing Tier 2 pension benefits. The Federation urges the City working group on pensions convened by Mayor Johnson earlier this year to develop recommendations that will be the most effective, least costly and most directly tied to addressing compliance with IRS Safe Harbor rules.

Structural Deficit and Use of Non-Recurring Revenues in the Budget

The Civic Federation is concerned about the City's reliance on several one-time revenue sources in the FY2024 budget and how it will sustain increased appropriation levels in the budget. The repeated use of one-time resources is an indicator of a structural gap between revenues and expenditures in a government's budget. The budget proposes to close the projected FY2024 gap of $538 million in part with $49.5 million in additional TIF surplus funds and $50 million in additional prior-year general operating fund balance. These sources are not guaranteed to recur every year. Therefore there could be shortfalls in future budgets absent continued growth, additional resources or reductions to spending in future years.[13]

Pension and Debt Funds Consume a Large Portion of City Spending

The City continues to have a large long-term liability burden. Long-term liabilities include all obligations owed by a government over time, such as general obligation and revenue debt; net pension liabilities; and claims and adjustments. Debt service appropriations in FY2024 make up 17% of total net appropriations, and pension contributions, including the supplemental contribution, make up 22.9% of total net appropriations. It will be difficult for the City to maintain such a high percentage of resources going to pensions over the next three decades, mostly to pay for past service of long-retired employees, rather than services to current residents. The high long-term liability burden the City of Chicago has carried for years continues to be a concern because the pension and other debt obligations will continue to put pressure on the City's budget and constrain its finances.

Statutory Reliance on Gaming Revenue to Fund Police and Fire Pensions

The first casino in the City of Chicago opened in a temporary space at the Medinah Temple in September 2023, authorized as part of the State of Illinois' gaming expansion legislation passed in 2019. The City anticipates it will generate $200 million in tax revenue each year once up and running in its permanent space in several years. The tax revenue generated by the casino was earmarked for the City's police and firefighter pensions per a State statute that created the gaming expansion. The Mayor's budget estimates that the temporary casino will generate $35 million of the total $1.5 billion contribution to the Police and Fire pension funds in FY2024. The full casino is not slated to open until 2026.

[13] While TIF surplus generally may recur given current City policy, it would require that the City continue to declare TIF surplus at the level set in FY2024.

The Civic Federation has long had concerns over the City of Chicago's proposed reliance on casino revenues as a major funding source for its Police and Firefighter Pension Funds. While a casino may generate some budgetary relief, gaming revenues can be unreliable, particularly over the long run, and should be budgeted with caution.[14] Further, the State of Illinois currently has 15 casinos and thousands of video gaming locations. With six additional casinos enabled by the 2019 gaming expansion including the Chicago casino, the legalization of sports gambling and a growing number of video gaming locations, not to mention nearby casinos in neighboring states, there is a greater potential for market saturation. Therefore, the Civic Federation cautions that the City will need to develop contingency plans to supplement unreliable casino revenue when planning for future pension contributions.

Chicago Police Department Reform

Mayor Johnson entered office at a time of critical need for improving community safety, police-community relations and making significant reforms within the Chicago Police Department. Four years into federal court oversight, the Police Department has been slow to fully implement and operationalize the Chicago Police Department Consent Decree.[15] Crime remains a major concern for residents and progress on community-police relations is stagnant, especially for Black residents.[16] Meanwhile, the Chicago Police Department has operated with staffing significantly below budgeted levels since the COVID-19 pandemic started, while over-spending on overtime and legal settlements year after year.[17] Given these challenges, the Civic Federation is concerned about the accountability and effectiveness of the Chicago Police Department.

The Civic Federation is encouraged that the new Police Superintendent has expressed a commitment to transparency and accountability of the Chicago Police Department, as well as a commitment to fully implementing the federally imposed consent decree. The Superintendent also committed to ensuring that the $2 billion Police Department budget is used effectively.[18] These statements are reassuring, and we hope to see much better transparency from the Mayor's Office and Chicago Police Department going forward about the budgetary impact of the consent decree and the basis for police officer deployment decisions across districts and special units.

Progress on the consent decree is frequently measured in paragraphs, due to the way that the Consent Decree is structured. The Chicago Police Department maintains a dashboard that shows the percentage of paragraphs that have reached partial or full compliance.[19] But this way of measuring progress does not translate to the on-the-ground experience. The budget also

---

[14] Pew Charitable Trusts, "Are Sin Taxes Healthy for State Budgets?," July 2018.
[15] Patrick Smith, "Chicago's new police superintendent inherits a department notoriously slow to enact reforms," *WBEZ* and the *Chicago Sun Times*, August 14, 2023.
[16] Independent Monitoring Team, Chicago Police Department Consent Decree, Community Survey Report (October 2021-May 2022), May 30, 2023.
[17] Civic Federation, "Chicago Police Department Budget Q&A," September 1, 2023.
[18] Chicago City Council Committee on Budget and Government Operations, Chicago Police Department Budget Hearing, October 24, 2023.
[19] Chicago Police Department Consent Decree Compliance Dashboard.

does not detail how steps toward compliance with the Consent Decree impact personnel levels, spending in the budget or the level of additional funding needed to reach full compliance.

As the new Mayor and Police Superintendent work to address the City's public safety challenges, the Civic Federation urges the administration to make improvements in transparency of the Chicago Police Department budget, especially as it relates to how the Department is implementing the Consent Decree and how police department personnel are distributed.

Reliance on TIF Surplus Funding

The Civic Federation is concerned that the City continues to rely on large amounts of Tax Increment Financing (TIF) surplus funds to close budget deficits. The proposed $49.5 million in additional TIF surplus funds used to close the FY2024 budget gap represent 9.2% of the total deficit. The repeated accumulation of surplus in a TIF signals that the TIF district does not need its revenue for redevelopment projects. This 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 equalized assessment value (EAV) may be returned to the general tax base. Several other Cook County municipalities have successfully conducted such TIF "carve outs."

Budgetary Transparency Concerns

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

The current City budget structure does not allow for a full accounting of expenses by department because several departmental costs are combined together in a cross-departmental Finance General category. Finance General is a standalone cost center where a variety of expenses are lumped together, including major categories of expenses like employee healthcare benefits, information technology, contractual services, pension contributions and debt service payments.

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

Finance General makes up nearly 65% of the budget, and it has increased substantially in recent years due in part to increases in pension contributions. Over the past five years, Finance General appropriations have increased from $5.9 billion in FY2020 to nearly $8 billion proposed in FY2024. This is an increase of 34.6% over the past five years.

The Government Finance Officers Association (GFOA) recommends accounting for the full cost of service by including all direct and indirect costs related to the service. Direct costs include salaries, employee wages and benefits, materials and supplies, associated operating costs such as utilities and rent, training and travel, and costs that may not be fully funded in the current period such as compensated absences, interest expense, depreciation or use, allowance and pensions. Indirect costs encompass shared administrative expenses within the work unit as well as support functions outside of work unit (human resources, legal, finance, etc.).[20]

The Civic Federation hopes to see the City begin to break out Finance General line items by department, rather than grouping them together, in the budget documents.

Lack of Past-Year Data on Actual Expenditures

The City does not include actual expenditures for prior years in the annual appropriation ordinances or in the downloadable spreadsheets of budget recommendations or appropriation ordinances. The only place where past-year expenditures are available is in the budget recommendations documents in department line-items. There is little transparency about actual revenues and expenditures for past years, especially in summary tables.

Future Viability of the Chicago Transit Authority

Transit agencies in Northeastern Illinois continue to suffer the ongoing impact of COVID-19 and its subsequent effects on ridership. Unprecedented levels of federal pandemic funding have helped the Chicago Transit Authority (CTA), Metra and Pace avoid severe cuts or fare increases for the time being, but this funding will run out in the next few years. CTA's FY2024 proposed budget estimates that, absent intervention, the agency will face a $577 million budget gap in FY2026. Additionally, the CTA has security, staffing and reliability issues that must be addressed. Even before the pandemic, the service boards faced financial and infrastructure challenges that have been exacerbated by governance issues and a lack of coordination.

A Plan of Action for Regional Transit (PART) Committee convened by the Chicago Metropolitan Agency for Planning (CMAP) recently released a report identifying baseline priorities for funding, principles for reform and potential sources of revenue to foster fiscal sustainability in the agency.[21] These recommendations will be presented to the Illinois General Assembly later this year, and the General Assembly could develop its own package of revenues, expenditure reductions and governance reforms in the next few years.

The CTA and RTA are crucial to the economic vitality of the Chicago region. Further, the City Council has approved a $3.6 billion Red Line extension plan using $1.95 billion in federal infrastructure funding and $959 million in tax revenues through the designation of a transit TIF. While the CTA is a separate unit of government from the City of Chicago, the two governments' futures are bound together. The Civic Federation urges the City to work with stakeholders, the

---

[20] Government Finance Officers Association, "GFOA Best Practice: Measuring the Cost of Government Service," (2002).
[21] See "Plan of Action for Regional Transit."

General Assembly and the Governor to find a path toward fiscal viability and governance reform for the CTA and other RTA service boards.

Recovery in Chicago's Downtown

The viability of Chicago's commercial downtown areas is critical to the economic future of the City as it emerges from the COVID-19 pandemic. The Civic Federation urges the City to carefully consider the long-term impact of its policies on the Loop and to develop plans that will assist the downtown business district to recover and grow for the benefit of all Chicago residents.

Historically, a significant portion of Chicago's property tax revenues have come from downtown commercial properties. However, downtown office vacancy rates are currently at historically high levels and the number of Loop office building sales has plummeted. This will have a major impact on the distribution of property tax burdens in Chicago going forward.

Property assessments and taxes are essentially a zero-sum game. Decreases in value of commercial properties will shift the tax burden onto residential properties. A recent Boston Consulting Group study has projected a 35% to 45% decline in office building values and a corresponding 25% to 35% loss in office rent revenue.[22] Another recent study by the Mansueto Institute for Urban Innovation and the University of Chicago's Center for Municipal Finance found that the property tax bill paid by the average Chicago homeowner could rise substantially by hundreds of dollars as downtown commercial property values fall.[23]

In addition, concerns have been raised about the future conversion of the proposed LaSalle Street properties from commercial to residential and/or mixed use.[24] The repurposing of this area, which is important to stabilize the tax and commercial base of the Loop, will likely require tax increment financial subsidies to move forward. But the use of $180 million in surplus revenues from TIF districts in or around the central business district to balance the FY2024 budget could negatively impact the ability of these projects to move forward.

---

[22] Santiago Ferrer, Jeff Hill, Paul Steitz, Dimitrios Laigas, Lara Koslow & Will Bate, "Countering the Curse of Zombie Buildings," *Boston Consulting Group*, May 11, 2023.
[23] Christopher Berry & Nicholas Marchio, "Simulating property tax effects from declines in downtown commercial real estate valuations in Chicago," October 5, 2023.
[24] Fran Spielman, "La Salle Street revamp threatened by Johnson's plan to declare record $434M TIF surplus, City Council members say," *Chicago Sun-Times*, October 18, 2023.

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.

Develop a Contingency Plan for Migrant Care

As stated in our concerns, the FY2024 proposed budget only includes half of the projected amount necessary to care for asylum seekers. With such uncertainty regarding the number of migrants the City can expect over the next year, it will be essential to develop a contingency plan in the event that State and federal funds do not materialize.

It will also be necessary for the Mayor and Governor to continue to press the federal government to further intervene. In September, the City Council approved $33 million in federal aid for supportive services,[25] and it will need to further utilize similar resources going forward. It is also essential that contracts entered into by the City are well vetted and represent the most prudent use of City resources.

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

The City faces significant structural budget deficits related to the high cost of pension contributions and debt service payments, as well as the challenge of achieving a structurally balanced budget now that American Rescue Plan Act (ARP) dollars designated for revenue replacement have run out. Federal ARPA funds helped the City close budget gaps from FY2021 through FY2023 and enabled the City to make it through the pandemic without any major cuts to programs or staff. The FY2024 budget will get the City through another year without needing to make any major changes, but the Federation urges the Mayor's Office and City Council to take a long-term view of the City's financial future.

The City spends more than 20% of its annual budget on pension payments, and pension contributions will only continue to grow in the coming years to meet the statutory funding requirements. Chicago's four pension funds combined are only 24% funded, making them the most poorly funded of any large U.S. city. The high unfunded liability has burdened the City for years and continues to be a concern because pension obligations will continue to put pressure on the City's budget and constrain its finances. The City's high debt burden additionally takes up approximately 17% of the net total budget.

The Civic Federation recommends that the Mayor and City Council undertake a strategic and comprehensive long-term financial planning process in line with several other U.S. cities. This would benefit City stakeholders by identifying solutions to address the City's future pension funding needs. It could also help address issues like the future of the downtown commercial and residential real estate market. To reduce the structural deficit and absorb increasing

---

[25] Madison Savedra, "Chicago Approves $33 million In Federal Funds For Migrant Shelters, Services," *Block Club Chicago*, September 14, 2023.

liabilities, difficult decisions may need to be made, including reducing expenditures and looking for additional stable sources of revenue. The City Council and Mayor's Budget Office should look at ways that the planning process throughout the year can be used to thinking more strategically and longer-term than just the upcoming budget year. The budget forecast is an important piece in the development of a formal long-term financial plan and could be expanded to include more information that would help inform a strategic planning process, such as longer-term forecasting and possible actions and scenarios that could be used to address fiscal challenges. Additionally, a reserve analysis, fiscal performance indicators and a menu of revenue-generating or expenditure-reduction options should be incorporated.

Pension Recommendations

Evaluate the Financial Impact of Fixing Tier 2 Safe Harbor Issues

Before any further action is taken on legislation to address the IRS Safe Harbor issue relating to the City of Chicago pension funds, the Mayor and City Council should advocate for a fix which is simple and the least costly possible, such as increasing the pensionable salary cap for Tier 2 employees to match the Social Security Wage Base. Such a change would bring Tier 2 pension benefits into compliance with Safe Harbor rules at what actuaries say would be a lower cost than other options.[26]

Any benefits that go beyond this change would likely overshoot necessary enhancements. Enhancing pension benefits without analysis showing the enhancements are necessary and sufficient to address potential issues with Tier 2 could substantially reverse much of the work the State and the City have done to reduce massive pension liability costs. The State and the City cannot afford to take a step backward by increasing Tier 2 pension benefits beyond what is strictly necessary.

The Civic Federation supported Mayor Johnson's decision to convene a working group to address the various pension issues facing the City.[27] However, the bill is likely to be introduced during veto session.[28] While the Civic Federation understands that some benefit changes are necessary to meet Safe Harbor requirements (for example, potentially increasing the final average salary cap to meet the Social Security wage base), the solution should be thoroughly vetted, actuarily sound and the most cost-effective of all possible options. Any pension benefits enhancements should be tied directly to Safe Harbor requirements.

---

[26] This was the recommendation made by the representatives of several State pension funds during testimony provided over summer 2023 to the Illinois House Committee on Personnel and Pensions during subject matter hearings on Tier 2 pensions.

[27] Mayor Johnson requested that lawmakers delay passing the Chicago firefighter pension legislation so that a working group of legislators, City budget officials and union representatives could evaluate the issue. Yvette Shields, "Chicago will seek pension answers over the summer," *Bond Buyer*, May 30, 2023.

[28] Heather Cherone, "With a Comprehensive Overhaul for Chicago's Pension Woes Elusive, Small Fixes on Tap for Veto Session," *Chicago Tonight*, October 26, 2023.

Find Stable Pension Funding Sources to Supplement Uneven Casino Revenue

As part of developing a long-term financial plan, a major part of the process will involve developing a plan to provide stable funding for the City's four pension funds, which combined have nearly $34 billion in unfunded pension liabilities. While the significant increases in the amount of money the City must contribute to the four pension funds are projected to level off in the coming years, the cost of pensions will continue to increase over time based on the back-loaded nature of the funding schedule.

Over the past several years, the City has implemented several pension funding sources, including increases to property taxes, the water and sewer utility tax and the 911 surcharge. However, to fund ongoing annual increases, the City will need additional stable sources of funding. The City is anticipating $35 million in casino revenue for FY2024 and expecting it to increase to $170.1 million once the full casino opens in FY2026.[29]

The potential revenue from the Chicago casino will **not** be a stable source, and the City must plan to develop more reliable and sustainable revenue sources. A recent report from the Illinois Commission of Government Forecasting and Accountability noted that casino revenues have largely declined over the past decade, and even amid pandemic recovery and the addition of several new casinos, adjusted gross receipts have failed to reach their FY2016 peak.[30] Much more will need to be done in the future to account for this volatility, and the Mayor and City Council will need to make difficult decisions, including additional budgetary cuts, savings and possibly even more revenue.

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

In October 2019 Governor Pritzker's Pension Consolidation Feasibility Task Force released a report that called for consolidating the assets of the 649 downstate and suburban police and fire pension funds and making changes to Tier 2 employee benefits. The City of Chicago's public safety pension funds were not included in the first phase, which has been completed over the last several years. Since the release of the report, the Task Force has not followed through on a stated intention that the unique challenges facing the City's pension funds will be part of their future work as a task force.

Given the funding challenges faced by the City's four pension funds (which have total combined unfunded liabilities of $34 billion and are collectively only 24% funded), the Civic Federation believes the City should explore and pursue reforms that could reduce the cost of pensions. These might include consolidation of investments and eventually benefit management with downstate and suburban funds. The Civic Federation recommends that the City of Chicago work with the Illinois General Assembly and Governor Pritzker to find a long-term solution that consolidates the City police and fire with the downstate police and fire pension funds to gain greater efficiencies and savings for taxpayers.

---

[29] See "Chicago Casino Projections."
[30] Illinois Commission on Government Forecasting and Accountability, "Wagering in Illinois: 2023 Update," September 2023, p. 16.

Increase Transparency Around Police Reform Efforts

With a budget of $2 billion and some of the highest per-capita staffing levels in the country, the Chicago Police Department should maximize the best use of current resources available within the Department and gain a clearer understanding of how many staff members are truly needed for optimal CPD operations. The Civic Federation hopes to see the City budget office include more explanation of how resources are being directed toward public safety initiatives and how progress is being measured.

First, more clarity around the cost and budgetary impact of the consent decree is needed. While the Civic Federation understands that implementation of the Consent Decree is spread throughout the Police Department budget, the budget documents could do a better job describing the ways in which CPD is working toward meeting requirements such as training, recruitment and required staffing levels associated with unity of command and supervisor ratios. Under this new administration, the Federation hopes to see the Mayor's Office, budget office and Police Department better communicate how Consent Decree requirements are informing its public safety and violence reduction strategy. The City should quantify the cost of full implementation of the Consent Decree and identify where those costs are spread throughout the Police Department budget. Without a better understanding of the full breadth of resources the Consent Decree requires, there will be no way to determine whether the Department has allocated adequate staffing and resources to meet those goals.

Second, to ensure effective use of resources, there needs to be better transparency around: 1) how the Department currently makes its staffing and deployment decisions based on the staff it has; and 2) how many staff members the department actually needs for optimal operations. During the CPD budget hearing, the Superintendent noted the need for a true staffing analysis that looks at need based on a number of different metrics. The Civic Federation urges the Police Department, with the support of City Council and the Mayor's Office, to prioritize completing a staffing analysis to identify opportunities for more effective allocation of police, along with civilian support. In the meantime, the Police Department should better communicate how personnel are currently allocated, how the Department is performing, and how performance is measured.

Re-Evaluate Tax Increment Financing Districts

As part of the long-term financial planning process, the Mayor and City Council should incorporate a re-evaluation of the City's use of Tax Increment Financing (TIF) funding in its annual budget. One of the Mayor's proposed initiatives leading up to his campaign was to "regularize the transfer of surpluses to the Corporate Fund," which the campaign said would result in $100 million in excess funds.[31] Declaring annual TIF surpluses has been a practice used annually to generate extra revenue from unused TIF accounts over the years. However, there is a general misunderstanding about how TIF works and how the City benefits from excess TIF funds.

---

[31] See "Brandon Johnson's Plan to Stop Property Tax Hikes."

The purpose of TIF revenue is not to fund general government operations. TIF is intended to be an economic development tool used to spur development in blighted areas. Revenue generated in a TIF district is used for redevelopment costs within the district such as land acquisition, site development, public works improvements, and paying for debt service on bonds to fund improvements within the district.

Tax increment financing (TIF) districts within the City of Chicago borders generated a total of $1.2 billion in tax year 2021, which taxpayers paid in 2022.[32] This is in addition to, and separate from, the City of Chicago's property tax levy, as well as the property tax levies imposed by other Chicago-based local governments.

These large declarations of TIF surplus are not guaranteed every year and should be considered one-time sources of revenue. TIF surplus—whether or not it is declared annually and according to a policy—is not a sustainable, recurring revenue source for the City of Chicago and other governments. Surplus distributions should not be used to close budgetary deficits, but instead should be directed to reserves or to non-recurring expenses.

The Federation urges 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. Instead, they should be used as an economic development tool. TIF districts do not have unlimited resources for purposes outside the district. The City should review each TIF district and close out or eliminate TIF districts that are no longer needed for development projects, and shrink TIFS that are generating more revenue than is needed for their projects.

Improve Budgetary Transparency

The following two recommendations relate to additional detail that should be made available in the City's annual budget documents.

Include Finance General Costs in City Department Budgets

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

[32] Cook County Clerk, 2021 TIF Report Executive Summary, p. 5.

department should also be added to the Budget Overview document, with an explanation of the allocation methodology.[33]

Include Past-Year Expenditures in Budget Documents

The Civic Federation recommends that the City include past-year actual expenditures by department and by line-item in the annual appropriations ordinance, budget overview summaries and downloadable appropriations data spreadsheets. Providing this past-year actual spending data, in addition to budgeted appropriations data, would allow for more thorough analysis of budgets and trends in actual costs of government services. This recommendation has also been supported by other groups including the Council Office of Financial Analysis.[34]

Improve Transparency of the City Council Agenda Process

The Civic Federation supports better coordination and streamlining of processes for City Council and Committee meetings so that procedures are clear, consistent and transparent. The Civic Federation recommends that members of City Council work with the City Clerk and Committee Chairs to make the following improvements to the agendas and public comment process at City Council and Committee meetings. The Civic Federation joins the Better Government Association and the League of Women Voters in these recommendations to improve transparency and public access in the legislative process.[35]

Eliminate Direct Introduction of Agenda Items Without Any Prior Notice

City Council Rule 41 allows for the introduction of agenda items from the Mayor and City departments on Council or Committee agendas. The text of the agenda item is often not posted until several days after action is taken on the item. This is problematic because it means members of the public cannot view the content of the item and comment or react to the item ahead of time. Further, direct introduction is sometimes used for items that are not routine and do not appear to need expeditious consideration.[36] City Council members themselves often receive the text of the item shortly before the meeting.[37] The Civic Federation joins the Better Government Association and the League of Women Voters of Chicago in supporting an amendment to Rule 41.[38]

---

[33] Government Finance Officers Association, "GFOA Best Practice: Measuring the Cost of Government Service," 2002.
[34] Council Office on Financial Analysis, "Analysis of the Annual Proposed Budget," October 7, 2022.
[35] See the Better Government Association's Policy Agenda – City of Chicago 2023: Legislative Transparency; and League of Women Voters of Chicago, "League Pursues Changes to New City Council Rules."
[36] Pris Mims, League of Women Voters of Chicago, "League Still Working to Bring More Transparency to City Council," July 24, 2023.
[37] Jane Ruby, "Letters: Close loophole in City Council rules so public won't be let in the dark about what is being voted on," [Letter to the Editor] *Chicago Tribune*, January 17, 2023.
[38] Bryan Zarou, "BGA Policy Statement: BGA Supports Resolution Requiring 48-Hour Notice for Direct Introductions to City Council Committees," Better Government Association, October 24, 2022.

Post Agenda Items with More than 48-Hour Notice Ahead of Meetings

City Council agenda items are required to be posted publicly 48 hours ahead of when they are taken up for consideration. The City Council frequently fails to do this, instead using direct introduction to bypass the normal process for agenda items or introducing substitute items without the language being made available until after passage. As noted in a letter from the League of Women Voters to alderpersons this year, the 48-hour requirement does not allow for the public to provide meaningful input on policy proposals.[39] Agenda items should be made public at least two days, but ideally longer, before consideration and a vote. The Cook County Board of Commissioners, for example, is required to post meeting agendas **four days** prior to the meeting.[40] The four-day timeframe would provide a much better opportunity for Council members and the public to review agendas and proposed legislation.

Include Detailed Descriptions of Agenda Items

Currently, items of Committee and City Council agendas include very brief descriptions, often only citing the section of the Municipal Code affected, and no other details. Without any details or description, members of the public have no way to know what each agenda item is and what policy changes it makes. In comparison, the Cook County Board of Directors includes a detailed description of every Committee and Board agenda item, usually including the following: the department that introduced the item; the financial impact, broken down by fiscal year; the timeframe, when applicable to contracts or grants; and a summary with a narrative description of the item. The City Council should add additional descriptive details and a summary of each agenda item introduced.

Post Supporting Materials with Agenda Items

Frequently, City Council members receive communications or background materials related to agenda items that members of the public do not have access to. The City should establish a process for supporting materials to be posted through the Clerk's electronic legislative management system to the applicable meeting or agenda item. Supporting materials include copies of presentations, fiscal impact statements, testimony submitted, reports and other official communications that alderpersons receive for City Council and Committee meetings. This is a long-standing process of the Cook County Board pursuant County ordinance,[41] which the City Council should also adopt. We hope to see this become common practice for City Council meetings as the Clerk's Office builds out its electronic legislative management system.

Revise Public Comment Process

During the COVID-19 pandemic, the City Council public comment process was revised to accommodate remote meetings held via videoconference). The public comment period is also

---

[39] Letter from the League of Women Voters of Chicago to the City Council on May 1, 2023: Recommended Changes from the League of Women Voters of Chicago to the Rules of Order and Procedure of The City Council, City of Chicago for Years 2023 – 2027, Passed March 30, 2023, #R2023-502.

[40] Cook County Code of Ordinances, Chapter 2, Article III, Section 2-105.

[41] Cook County Code of Ordinances, Chapter 2, Article III, Section 2-107 and Section 2-109.

limited to 30 minutes. Now that in-person meetings have resumed and the COVID-19 public health emergency has ended, the regular public comment process and public access to meetings should resume. We also encourage the Council to consider expanding the time limit allocated for public testimony. The Civic Federation urges City Council to revisit the public comment procedures and update the instructions on the City Clerk's website. The directions for signing up to testify currently posted online are confusing and do not address in-person testimony.[42] Signing up for remote public testimony requires a complicated call-back process. And there is only a narrow window of time on the morning of meetings when written testimony can be submitted. The City Council should work with the Clerk and the Sergeant-at-Arms to reexamine the public comment process and streamline the sign-up process to make it easier for members of the public to register to testify or submit written testimony.

Work With the Illinois General Assembly to Find Solutions to CTA Funding and Governance

As noted in our concerns, the CTA and RTA are major assets to the region and play an important role in the region's economic health. Moving forward, it is critical that the City take a collaborative approach with the General Assembly, CTA, RTA and other stakeholders to determine a sustainable financial future for regional transit. Given that a majority of the CTA board is appointed by the Mayor subject to approval from the Governor and City Council, it is incumbent on the City to take a leadership position in this process while working together with various communities in the region. Buy-in from the Mayor, City Council and CTA will be essential to make the case for funding to the State. It is additionally important that the leaders of the City and the CTA do not allow short-sighted opposition to governance changes and potential consolidation of governance across the region to become a barrier to much-needed additional funding resources. For many years it has been clear that the siloed nature of transit governance in the region has been an impediment to truly integrated, effective regional transportation.[43] The Chicago Metropolitan Agency for Planning will submit its legislative recommendations to the Illinois General Assembly, per the provisions of Public Act 102-1028 by January 2024 and the General Assembly is expected to develop its own plan for transit funding and governance thereafter. The Civic Federation looks forward to evaluating those proposals.

Expand the Role of the City Council's Office of Financial Analysis

The Civic Federation supported the creation of the Council Office of Financial Analysis (COFA) in 2014 as a means to provide financial information to the City Council independent of the Mayor's Office of Management and Budget. The Federation also supported the expansion of COFA's powers and duties over the years, as well as requirements for all of COFA's reports to be made public. While there have been some improvements in scope and transparency since the Office was created, the Council Office of Financial Analysis needs to be strengthened significantly to make it a meaningful resource to City Council members. With just three budgeted staff

[42] Current instructions can be found on the Chicago City Clerk's website here.

[43] For a summary of several previous studies and an updated evaluation of governance of transit in Northeast Illinois, see the Eno Center for Transportation's Technical Memo on Potential Governance Models for Northeastern Illinois, produced for the Chicago Metropolitan Agency for Planning.

members, COFA lacks the capacity to do much proactive analysis beyond reacting to the budget or special requests for analysis. By comparison, the New York City Independent Budget Office has close to 40 staff positions.[44]

The Civic Federation would like to see the City Council empower COFA to serve as a meaningful asset to the City Council. Several ways the Council could do this is by:

- Increasing COFA's budget and staff numbers;
- Establishing a budget floor, similar to the way the Office of the Inspector General and the Civilian Office of Police Accountability each have a set appropriations floor;
- Ensuring that COFA has access to all of the information it needs to conduct analysis;
- Empowering and encouraging COFA to work with other bodies that serve as resources to City Council such as the Legislative Research Bureau; and
- Expanding the role that COFA plays in providing financial and budget analysis to City Council throughout the year.

Expand Reserves Policy to Establish a Ceiling

The Mayor's budget proposes the use of $414 million in fund balance within the General Fund available from prior year surpluses. The Civic Federation does not oppose the use of fund balance if it is done in accordance with the government's policy or in the context of an emergency, and if there is a plan to replenish the reserve to the minimum level specified in policy. Additionally, fund balance can sustainably be spent down if fund balance levels grow too large and if they are directed toward non-recurring expenditures. While the City of Chicago has a fund balance policy that establishes a fund balance floor, the Civic Federation recommends that the City amend that policy to additionally indicate a level above which excess fund balance in the General Fund may be spent down and used for non-recurring expenses, to pay down liabilities, or to assign for a particular use the following year.

The City of Chicago has a fund balance reserve policy to maintain an unrestricted fund balance of no less than two months or 16.7% of operating expenses, composed of a combination of the following three components: unassigned fund balance within the General Fund; the operating liquidity fund; and asset lease and concession reserves. Developing a fund balance policy to maintain a minimum level of reserves is a best practice recommended by the Government Finance Officers Association. The City does not, however, have a policy indicating the maximum level that should be held in reserve. The Mayor's Office of Budget and Management should consider adding a target ceiling level, and a process for approval of spending down excess fund balance as part of the annual budget process. A good model of such a policy is Cook County's fund balance policy, which identifies both a fund balance floor and a ceiling, and a process for spending excess reserves.[45] The County's floor, similar to the City's policy, is two months of expenditures, and the ceiling is three months of expenditures. The City of Chicago should consider adopting a similar approach.

---

[44] New York City FY2024 Expense, Revenue, and Contract Budget, p. 155E.
[45] Cook County Financial Policies, Fund Diversity and Stabilization/Financial Reserve Policy.

CITY OF CHICAGO FINANCIAL OUTLOOK FOR FY2024

The City of Chicago produces an annual budget forecast each year to evaluate how revenues and expenditures are expected to perform compared to the budget at the end of the current fiscal year, as well as to make projections about the expected budget gap in the next fiscal year. The projections are made for the Corporate Fund, which is the City's general operating fund. The City's FY2024 Budget Forecast was released in September 2023 for the 2024 fiscal year, which begins on January 1.

This section discusses the City's financial outlook for year-end FY2023 and the upcoming FY2024 budget year, and what steps it will take to address budget imbalances and achieve a balanced budget.

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

Prior to the COVID-19 pandemic, the City had made consistent progress on reducing its projected budget gaps each year. The largest projected budget gap in recent years, prior to the COVID-19 pandemic, was $838.2 million in FY2020. However, with the economic downturn and resulting loss of revenue related to COVID-19 in 2020, a year-end budget gap opened up in the FY2020 budget by mid-year totaling a projected $798.8 million. The City planned to close that budget gap and a projected FY2021 gap of $1.2 billion with an enormous debt refinance and restructure of $1.7 billion. However, the City was able to instead utilize revenue replacement funds provided through the American Rescue Plan Act (ARPA) to close those budget gaps. Of the total $1.9 billion in ARPA funds received, the City used 70% of them to close the FY2021, 2022 and 2023 budget gaps. The remaining 30% was used on investments that will be made over a period of several years to address the societal impact of the pandemic through the Chicago Recovery Plan.[46]

FY2022 revenues and expenditures ended up performing better than expected. The FY2023 Budget Forecast initially projected that the 2022 fiscal year would end with a $134 million budget surplus due to better-than-expected economic recovery from the pandemic. This later improved to a projected year-end surplus of $554.8 million based on the FY2024 budget forecast released in April 2023.[47]

---

[46] The City also planned to issue a total of up to $660 million in bonds to support the Chicago Recovery Plan investments.
[47] City of Chicago Mid-Year Budget Forecast, April 2023, p. 24.

FY2023 Year-End Projections

The FY2024 Budget Forecast projected that the current FY2023 fiscal year will end with a budget surplus of $61.7 million. The surplus is the result of revenues exceeding budgeted levels by $19.5 million due to economic improvements and revenues from one-time sources, and expenditures projected to end the year $42.2 million below budget.[48]

FY2024 Projected Deficit

The City is projecting a budget gap of $538 million in FY2024, largely due to increases in pension, personnel and contractual service expenditures, among other factors.[49] Part of the rising personnel expenditures factored into the budget gap are $101 million in salary increases connected to collective bargaining agreement cost of living adjustments.[50] Other drivers of the budget gap included the administration's decision not to increase the property tax based on the rate of inflation, increases costs associated with the migrant crisis and increased pension costs based on updated actuarial calculations.[51]

The City proposes a number of measures to close the budget gap, which are outlined in the table below based on the way the way they are presented in the budget. The City has identified a number of increases in revenue: $186.8 million in improved revenue projections due to increases in tourism-based taxes; $49.5 million in additional TIF surplus revenue; an increase of $50 million in the use of in prior-year unassigned fund balance; and $35 million in revenue enforcement efficiencies. The City has further identified $243.3 million in savings and efficiencies, which include: $112.6 million in operational efficiencies, including savings to be gained from the proposed civilianization of personnel within the Police Department; $89.2 million in bond refunding for lower interest rates that will result in savings; and $41.5 million in personnel savings achieved through adjustments like hiring in the second half of the year.[52]

These savings and revenue increases are offset by $26.6 million in investments across a number of areas, including Home Repair Program expansion, operational support for the homeless shelter system, expansions in mental health services, re-establishing the Department of Environment, additional supports for the Office of Labor Standards and other operational increases. Cumulatively, these savings, revenue sources and investments present a plan for closing the $538 million budget gap, as well as funding the budget investments.

[48] City of Chicago FY2024 Budget Forecast, p. 12.
[49] City of Chicago FY2024 Budget Forecast, p. 15.
[50] Information provided by the City of Chicago Office of Budget and Management, October 25, 2023.
[51] Information provided by the City of Chicago Office of Budget and Management, October 25, 2023.
[52] Information provided by the City of Chicago Office of Budget and Management, October 25, 2023.

Closing the $538 million Budget Gap in FY2024
(in $ millions)

Savings & Efficiencies			Increased Revenue			Investments	
Operational Efficiencies	**$112.6**		Improved Revenue Projections	**$186.8**		Home Repair Program Expansion	**$10.0**
Bond Refunding	**$89.2**		Additional TIF Surplus above the FY2024 Budget Forecast projection	**$49.5**		Homeless Shelter System	**$6.8**
Personnel Savings	**$41.5**		Additional Prior-Year Fund Balance	**$50.0**		Mental Health Services Expansion	**$4.8**
			Revenue Enforcement Collections	**$35.0**		Department of Environment	**$0.9**
						Office of Labor Standards	**$0.6**
						Operational Increases	**$3.5**
Savings & Efficiencies	**$243.3**	**+**	**Increased Revenue**	**$321.3**	**–**	**Investments**	**$26.6**

Source: City of Chicago FY2024 Budget Overview, p. 23.

APPROPRIATIONS

The following section details the City's proposed appropriations for FY2024 compared to the adopted appropriations from FY2020 to FY2023. Adopted appropriations are used for past years because past-year actual expenditures are not presented in the same way that appropriations are shown in the budget documents. The focus of the analysis is appropriations within all local funds, as well as a more detailed breakdown of appropriations within the Corporate Fund, which is the City's general operating fund. All local funds are the funds used by the City for operations, excluding grant and capital funds. Local funds include the Corporate Fund (general operating fund), the four pension funds (Municipal, Laborers, Police and Fire), enterprise funds and several special revenue funds.

Appropriations by Fund: All Local Funds

The City proposes total gross appropriations of $13.8 billion across all local funds in FY2024. This total excludes grant funds and capital appropriations and includes proceeds of debt and transfers between funds totaling $1.5 billion in FY2024, resulting in some double counting. After deducting these transfers and proceeds of debt, the total net appropriations proposed for FY2024 is $12.3 billion.

The total and net appropriations over the five-year period from FY2020 through FY2024 are shown in the table below. Excluding debt proceeds and transfers between funds, the projected net appropriations for FY2024 of $12.3 billion represent an increase of $479.9 million, or 4.1%, from the FY2023 adopted net appropriations of $11.8 billion.

Appropriations within the Corporate Fund will increase by $272.9 million, or 5%, from approximately $5.4 billion in FY2023 to $5.7 billion in FY2024. This is primarily due to increased spending on personnel and pension funds in FY2024.[53]

Pension fund appropriations will increase from approximately $2.7 billion in FY2023 to $2.8 billion in FY2024, an increase of $138.7 million, or 5.2%, partially due to an increase in required contributions across the four funds. This includes an anticipated $35 million in gaming revenue to the Police and Fire pensions from the Bally's Chicago casino.[54] Fiscal year 2024 is the fifth year the City will be making an actuarially calculated contribution to the Police and Fire Funds and the third year it will make an actuarially calculated contribution to the Municipal and Laborers' Fund. In addition, the City proposes a $306.6 million supplemental pension contribution in FY2024, which includes $259.5 million in one-time funding from the Corporate Fund and $47.1 million from enterprise and special revenue funds.[55] For more information on pensions and pension contributions, see p. 57.

---

[53] City of Chicago FY2024 Budget Overview, p. 31.
[54] City of Chicago FY2024 Budget Overview, p. 43.
[55] City of Chicago FY2024 Budget Overview, p. 45.

The special revenue funds, which are used to account for revenue from earmarked taxes and other sources, are designated to finance particular functions. These funds will increase by $38.8 million, or 3.4%, above FY2023 adopted appropriations of $1.1 billion.

Debt service fund appropriations will decrease by $66.2 million, or 9.7%, from $680.5 million in FY2023 to $614.3 million in FY2024. 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.[56]

Enterprise fund appropriations, which fund business-type operations and are typically self-supporting and include the two Chicago airports, as well as water and sewer operations, are increasing by 2.8%, or $97.3 million, in FY2024 over the prior year. The increase in water and sewer funds is primarily due to increased water and sewer rates tied to growth in the Consumer Price Index as of June 1, 2023.[57] The increase in appropriations within the airport funds is due to increases in personnel and non-personnel spending at both of the City's airports.[58]

Over the five-year period from FY2020 to FY2024, total net appropriations will increase by 24.5%, from $9.8 billion to $12.3 billion. The largest increases within this timeframe are within the Corporate Fund, which will increase by $1.3 billion, or 29.2%, and the pension funds, which are increasing by $1.1 billion, or 64.5%.

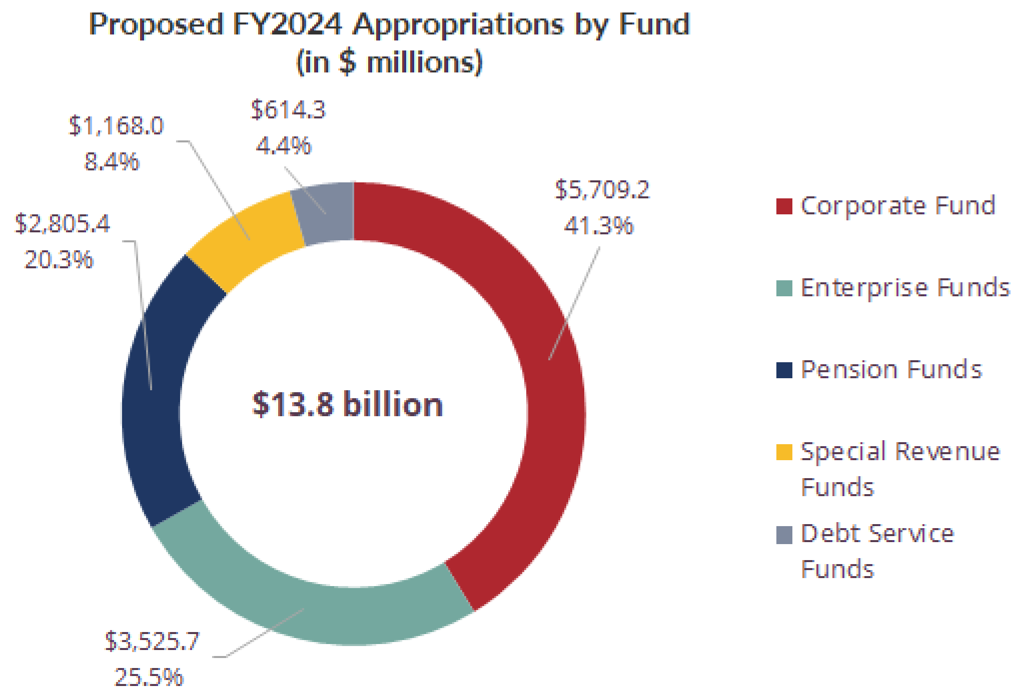
Appropriations by Fund for All Local Funds: FY2020-FY2024
(in $ millions)

	FY2020 Adopted	FY2021 Adopted	FY2022 Adopted	FY2023 Adopted	FY2024 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund	$ 4,419.2	$ 4,037.6	$ 4,887.4	$ 5,436.3	$ 5,709.2	$ 272.9	5.0%	$ 1,290.0	29.2%
Enterprise Funds	$ 3,002.7	$ 3,017.8	$ 3,111.6	$ 3,428.4	$ 3,525.7	$ 97.3	2.8%	$ 523.0	17.4%
Pension Funds	$ 1,705.3	$ 1,870.8	$ 2,332.3	$ 2,666.7	$ 2,805.4	$ 138.7	5.2%	$ 1,100.1	64.5%
Special Revenue Funds	$ 919.2	$ 895.9	$ 974.5	$ 1,129.2	$ 1,168.0	$ 38.8	3.4%	$ 248.8	27.1%
Debt Service Funds	$ 802.0	$ 710.2	$ 777.1	$ 680.5	$ 614.3	$ (66.2)	-9.7%	$ (187.7)	-23.4%
Total Appropriations	**$ 10,848.4**	**$ 10,532.3**	**$ 12,082.9**	**$ 13,341.1**	**$ 13,822.6**	**$ 481.5**	**3.6%**	**$ 2,974.2**	**27.4%**
Less Proceeds of Debt	$ (115.0)	$ (114.6)	$ (114.6)	$ (114.6)	$ (117.1)	$ (2.5)	2.2%	$ (2.1)	1.8%
Less Internal Transfer	$ (885.7)	$ (619.5)	$ (1,345.5)	$ (1,449.3)	$ (1,448.4)	$ 0.9	-0.1%	$ (562.7)	63.5%
Net Appropriations	**$ 9,847.7**	**$ 9,798.1**	**$ 10,622.8**	**$ 11,777.2**	**$ 12,257.1**	**$ 479.9**	**4.1%**	**$ 2,409.4**	**24.5%**

Note: Excludes grant funds.
Source: City of Chicago, FY2020-FY2023 Annual Appropriations Ordinances, Summary E; and FY2024 Budget Recommendations, Summary E, p. 23.

[56] City of Chicago FY2024 Budget Overview, p.42.
[57] City of Chicago FY2024 Budget Overview, p. 37.
[58] City of Chicago FY2024 Budget Overview, pp. 96-97.

The following chart shows the breakdown of total appropriations by fund in the proposed FY2024 budget. The Corporate Fund accounts for the largest portion of appropriations at $5.7 billion or 41.3%. The second-largest appropriation in FY2024 is for the Enterprise Funds at $3.5 billion, or 25.5%. The Pension Funds account for 20.3% of the total, or $2.8 billion. Grant funds are excluded and transfers between funds and the proceeds of debt are **not** netted out due to the way this information is presented in the City's budget document.



Note: Excludes grant funds. Totals do not include deductions for transfers between funds or proceeds of debt.
Source: City of Chicago FY2024 Budget Recommendations, Summary E, p. 23.

Appropriations by Program Area

In the City of Chicago budget, agencies are organized into eight functional program areas.[59] These areas are as follows:

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

[59] City of Chicago FY2024 Budget Overview, p. 8.

The next chart shows the distribution of appropriations across each program area over the five-year period from FY2020 to FY2024, including transfers and debt. Between FY2023 and FY2024, appropriations across nearly all program areas are budgeted to increase, with the exceptions of City Development and Legislative and Elections (included in the "Other" category below).

Finance General accounts for the largest program area spending, representing 57.6%, or $8 billion. Finance General includes cross-departmental expenses such as pension contributions, debt service and employee healthcare-related expenses. This area of spending will see the largest dollar increase between FY2023 and FY2024 by $198.5 million, or 2.6%, due to increased pension payments and contributions to employee healthcare and slightly offset by a reduction in debt service.[60]

After Finance General, public safety is the second-largest area of spending in the City budget, accounting for 19.9% of the total. Public safety spending is projected to increase by $251.9 million, or 10.1%, over the five-year period, from $2.5 billion in FY2020 to nearly $2.8 billion in FY2024. This increase is due to a combination of several factors, including the creation of the Office of Public Safety Administration in FY2020, increased personnel costs for the Chicago Police Department from collective bargaining agreements adopted in FY2022[61] as well as other spending increases.

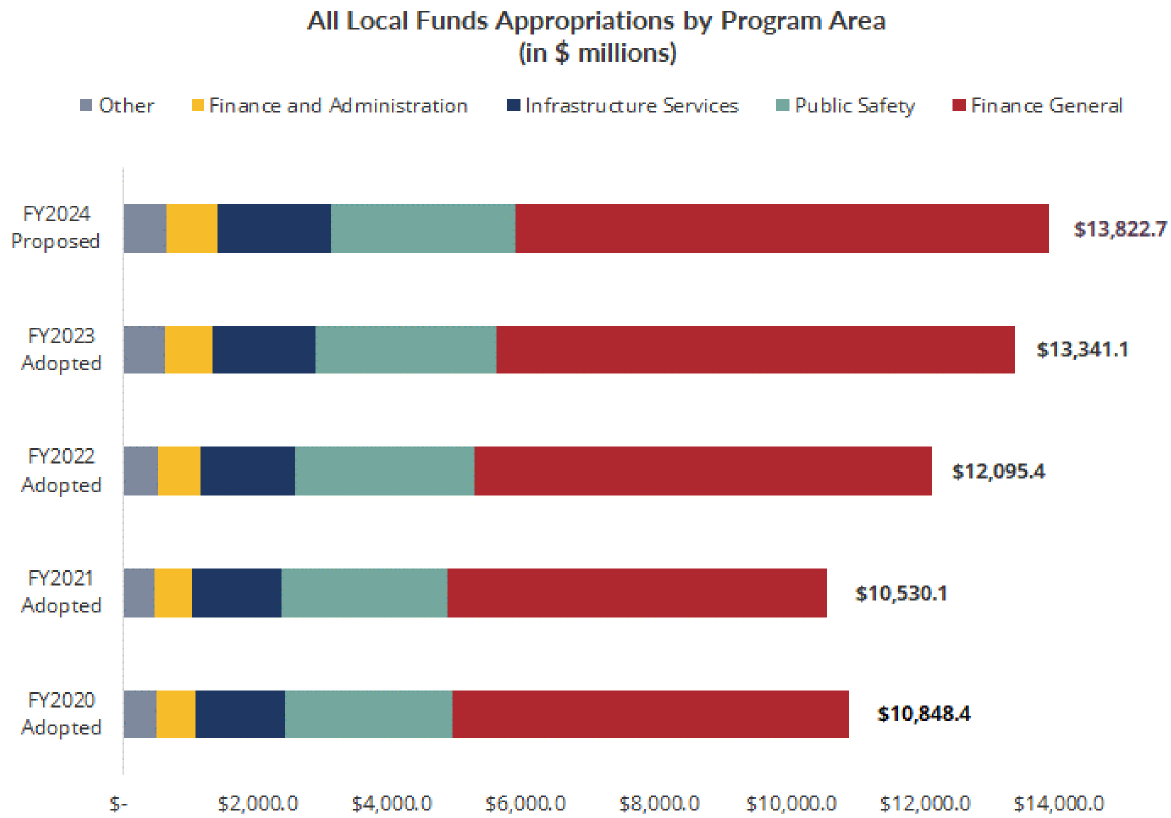
Infrastructure services will increase by $343.7 million, or 25.6%, over the five-year period. This increase is largely due to spending increases in the Chicago Department of Transportation.[62]

Over the five-year period between FY2020 and FY2024, total appropriations across all program areas will increase from $10.8 billion in FY2020 to $13.8 billion in FY2024. This is an increase of $2.9 billion, or 27.4%. Appropriations in every program area will increase over the five-year period. The Finance General area will see the largest dollar increase at nearly $3 billion.

All other program areas combined —community services, city development, regulatory and legislative and elections —make up a much smaller portion of City appropriations, totaling $661.7 million in FY2024. These other program areas will increase by $152.1 million, or 29.8%, over the five-year period.

---

[60] City of Chicago FY2023 Budget Ordinance, Summary E, p. 19; City of Chicago FY2024 Budget Recommendations, Summary E, p. 20.
[61] City of Chicago FY2022 Budget Overview, pp. 117 and 123.
[62] City of Chicago FY2024 Budget Recommendations, Summary E.

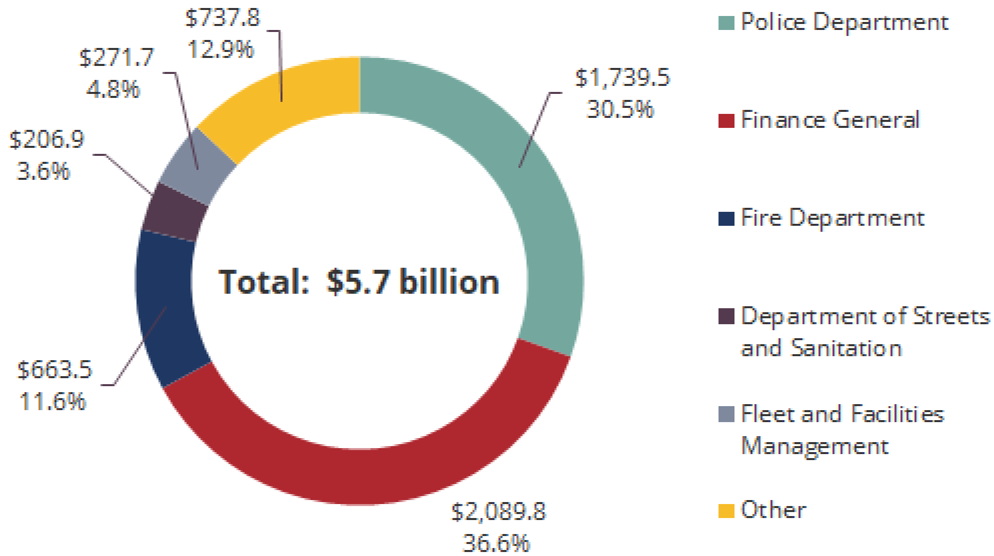


Note: Other category includes Community Services, City Development, Regulatory, and Legislative and Elections program areas.
Source: City of Chicago FY2024 Budget Overview, p. 193.

CORPORATE FUND APPROPRIATIONS BY DEPARTMENT

This section presents more detail on FY2024 proposed appropriations within the Corporate Fund by department, as shown in the chart below. The proposed FY2024 Corporate Fund budget presents an increase of 5%, or 272.9 million, from the FY2023 appropriations of $5.4 billion. Finance General represents the largest portion of the Corporate Fund at 36.6% or $2.1 billion and consists of information technology expenses, employee health insurance benefit costs, contributions to pension funds and long-term debt service cost payments shared across departments. The Police Department represents 30.5%, or $1.7 billion, of the Corporate Fund. All remaining departments make up 32.9% or $1.9 billion of the total Corporate Fund appropriations.

FY2024 Corporate Fund Appropriations by Department (in $ millions)



Note: Other includes the Department of Finance, Department of Transportation, Office of Emergency Management and Communications and additional smaller departments.
Source: City of Chicago FY2024 Budget Recommendations, Summary D, pp.6-7.

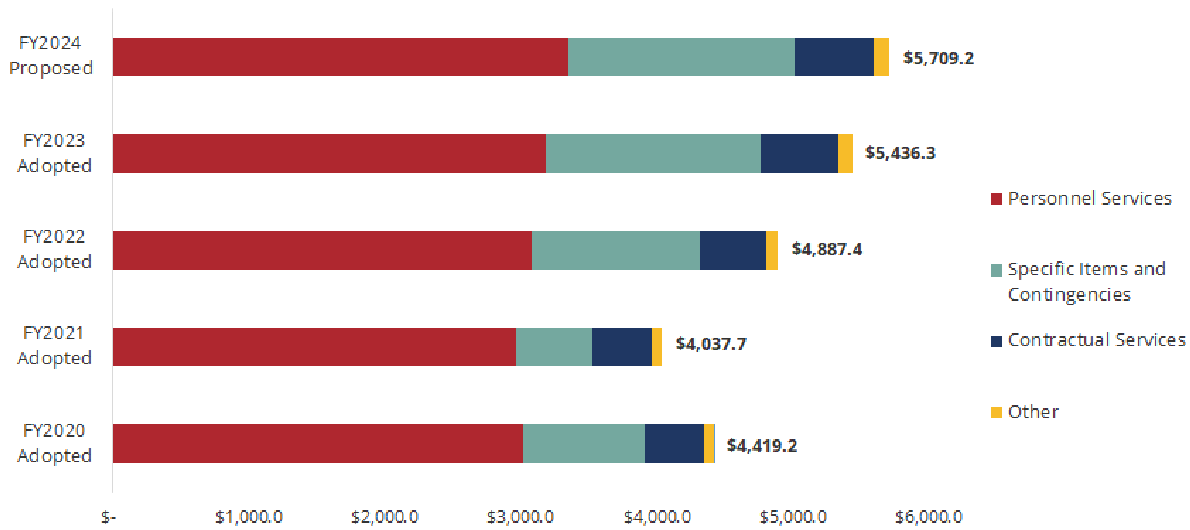
Corporate Fund Appropriation Trends by Object

This section examines appropriations by object within the Corporate Fund over the five-year period from FY2020 to FY2024. The Corporate Fund is the City's general operating fund. Object refers to the following categories: personnel services, contractual services, travel, commodities, equipment, permanent improvement and land, and specific items and contingencies.

Over the five-year period from FY2020 to FY2024, total appropriations will rise by $1.3 billion or 29.2%, primarily due to rising pension contributions and increases in salaries. Specific items and contingencies will see the largest increase between FY2020 and FY2024, of $765.4 million or 85.6%. This category includes pension payments, debt service payments, employee healthcare benefits, payments for judgements and settlements, transfers, reimbursements and non-personnel programmatic expenses.

Personnel Services are projected to increase by $332.5 million, or 11%, from $3 billion in FY2020 to $3.4 billion in FY2024. Personnel Services accounts for salaries and other wage-related expenditures, such as the Fraternal Order of Police contract. In FY2024, personnel expenditures account for 58.7% of the Corporate Fund operating appropriations. Contractual services appropriations represent a projected 36%, or $155.3 million, increase over FY2020 adopted appropriations.

The Other category includes appropriations for Commodities, Travel, Equipment, and Permanent Improvement and Land, with commodities accounting for a vast majority of this category. Over the five-year period, Other appropriations have increased by $36.8 million or 50.2%, from $73.2 million in FY2020 to $110 million in FY2024.



Note: "Other" category includes Commodities, Travel, Equipment, and Permanent Improvement and Land.
Source: City of Chicago FY2020-FY2023 Annual Appropriations Ordinance; City of Chicago FY2024 Budget Recommendations, Summary D.

RESOURCES

This section describes the City of Chicago's resources in the FY2024 budget. Resources refer to revenue from tax and fee sources, including the property tax levy, as well as other sources, such as proceeds of debt, prior year available resources and transfers between funds. Total resources of $16.6 billion are proposed in the FY2024 budget across all funds, including grants. Across all local funds, which exclude grant funds but include all other operating funds (general operating, special purpose, enterprise, debt and pension funds), proposed resources total $13.8 billion. However, this amount includes approximately $1.4 billion in transfers between funds. Net of these transfers, resources within the local funds total $12.4 billion.[63]

The FY2024 budget is the first budget since the COVID-19 pandemic that does not incorporate federal pandemic relief funding for revenue replacement. The City of Chicago received a total allocation of $1.9 billion in American Rescue Plan Act (ARPA) Funds from the federal government. Of that total, $1.3 billion, or 70%, was used as revenue replacement in the City's FY2021, FY2022 and FY2023 budgets. The City spent the last $152.4 million in ARP revenue replacement funds to balance the FY2023 budget. The approximately $567 million in remaining ARP funds were obligated for proposed infrastructure and social service investments as part of

[63] City of Chicago FY2024 Budget Overview, p. 26.

the Chicago Recovery Plan.[64] Along with the ARP funding, the Chicago Recovery Plan was also proposed to be funded with $660 million in bonds. The City issued $523 million in Chicago Recovery Plan debt in December 2022.

In addition to the ARP funds, the City received $447 million in discretionary Coronavirus Relief Funding through the CARES Act. Those funds were used to pay for public health and public safety expenditures that qualified under the Coronavirus Relief Funding criteria, including personnel costs.[65]

FY2024 Proposed Resources for All Local Funds

The City of Chicago proposes total resources of $13.8 billion in FY2024 within all local funds, excluding grant funds. This total includes $117.1 million in proceeds of debt and approximately $1.4 billion in transfers between funds, which results in double-counting revenue. However, the $13.8 billion total is used in this analysis due to the way the City presents information about revenue in the budget documents. Excluding the transfers between funds and proceeds of debt, the total proposed local funds resources are actually $12.3 billion.

All local funds are the funds used by the City for its non-capital operations, including the Corporate Fund (the City's general operating fund), special revenue funds, pension funds, debt service funds and enterprise funds (water, sewer, and Midway and O'Hare airport funds). Local funds exclude the $4.4 billion in grant funds the City expects to have available in FY2024 from federal and State agencies, private foundations and carryover funds from prior years.[66]

The chart below provides an overview of the proposed FY2024 resources for all local funds by source. Grant funds and capital funding are excluded. The largest single source of revenue for the City of Chicago is airport charges at O'Hare and Midway Airports, which are projected to total more than $2 billion in FY2024. The second largest source of revenue is the property tax, which is expected to generate nearly $1.8 billion in FY2024. Revenue from water and sewer fees also makes up a substantial portion of the City's revenue, at $1.4 billion.

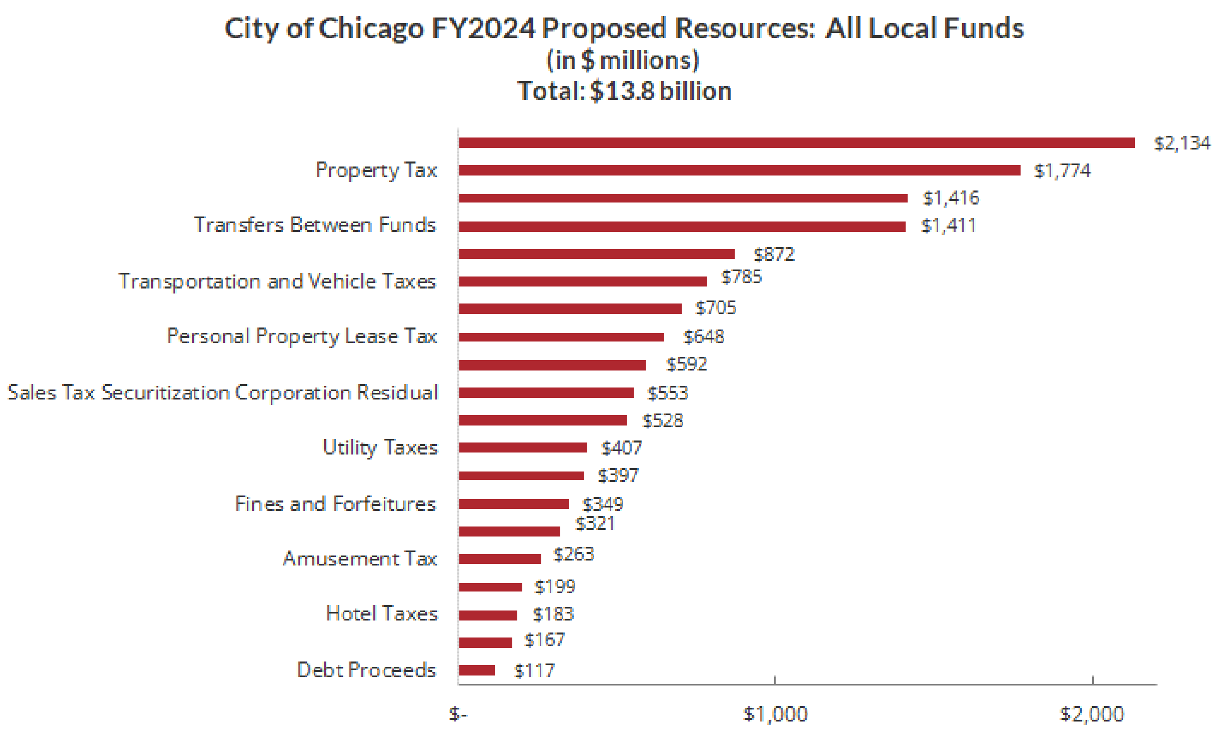
As noted above, the resources as presented here include $1.4 billion in transfers between funds. These transfers include Corporate Fund payments to other funds and transfers from the Enterprise Funds to the four City pension funds. It is important to note that these interfund transfers result in over-counting total resources.

The City also plans to use $705 million in resources available from the prior year. This includes the use of $414.3 million in Corporate Fund prior year balance.

[64] 2023 Chicago Recovery Plan Progress Update, p. 6.
[65] City of Chicago, FY2022 Budget Overview, p. 54-55.
[66] City of Chicago, FY2024 Budget Overview, p. 26.

The City has a plethora of local taxes,[67] as well as fees and fines, as shown in the chart. These include hotel taxes, business taxes, recreation taxes, utility taxes and the emergency communication surcharge on phone bills.

The Sales Tax Securitization Corporation (STSC) residual accounts for the majority of the City's sales tax revenue. In 2018 the City began directing the City of Chicago's share of state-imposed sales taxes to the STSC in order to issue bonds at a higher bond rating and lower cost of borrowing. Any residual revenue not used for debt service is transferred from the STSC to the Corporate Fund. In addition to this sales tax revenue, the City has several sales taxes that are imposed and collected by the City, not the State, which are not deposited into the STSC. These consist of the use tax on non-titled personal property, the use tax on titled personal property on sales outside the six-county area, the restaurant tax and private vehicle use tax.[68] In FY2024, this portion of sales tax is projected to total $96.1 million. It is accounted for within the other local taxes category in the chart.



Note: Total resources of $13.8 billion presented in this chart are gross rather than net, and therefore include transfers between funds and proceeds of bonds.
Source: Civic Federation calculations based on City of Chicago FY2024 Budget Revenue Data (downloadable data set at chicago.gov).

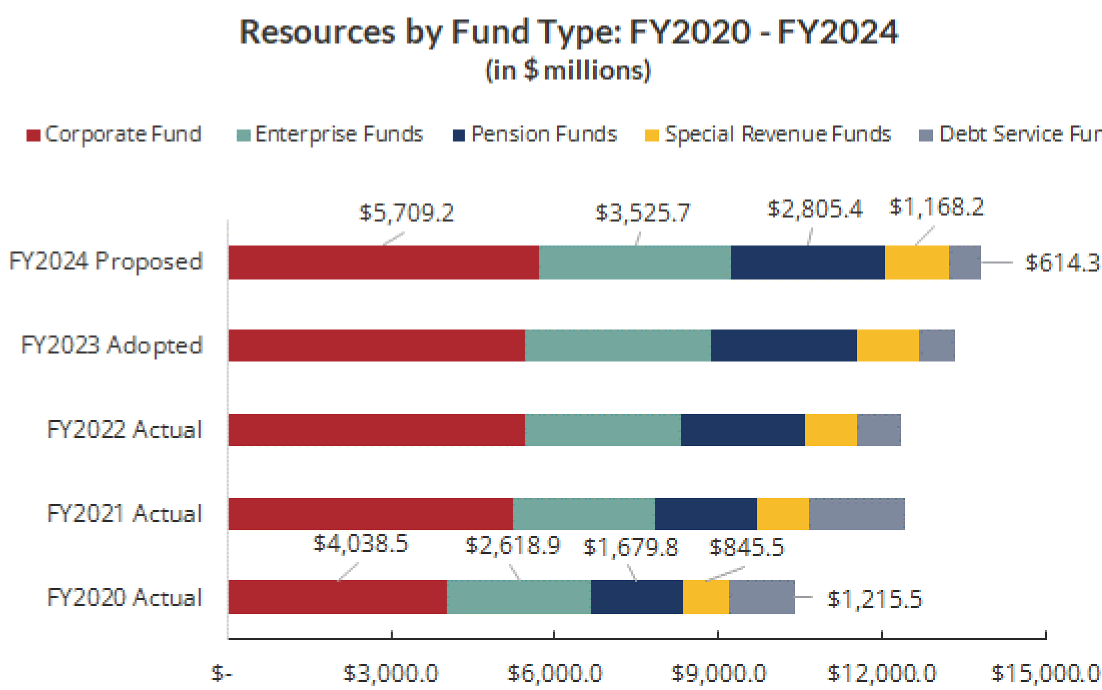
---

[67] For a compilation of taxes in the City of Chicago, see the Civic Federation's most recent consumer taxes report, Consumer Taxes in Chicago: A Compilation of Selected Taxes in Place in the City of Chicago as of January 1, 2023, March 9, 2023.
[68] City of Chicago, FY2024 Budget Overview, p. 27-28.

RESOURCES BY FUND TYPE

The following chart presents resources by fund over the five-year period from FY2020 to FY2024. During this period, the City of Chicago's total resources for all local funds are projected to increase from $10.4 billion to $13.8 billion, which is an increase of $3.4 billion, or 32.9%. Corporate Fund resources will see the largest dollar increase of $1.7 billion, from $4.0 billion to $5.7 billion. This increase in Corporate Fund resources is due to significant increases in all categories of tax and fee resources over the past several years, as well as the planned use of prior year fund balance in FY2024. Revenues were significantly impacted by the COVID-19 pandemic in FY2020, so a notable decline took place that year and many sources have since recovered. Corporate Fund resources are discussed in further detail in the next section.

The pension funds will increase significantly between FY2020 and FY2024, from $1.7 billion to $2.8 billion, or an increase of 67.0%. Enterprise Fund revenues generated from Chicago's airports and water and sewer charges are projected to increase from $2.6 billion in FY2020 to $3.5 billion in FY2024, an increase of 34.6%. Water and sewer rates increase annually based on the rate of inflation. Debt service funding is expected to be $614.3 million in FY2024, which is a significant decline of $601.2 million, or 49.5%, from $1.2 billion in FY2020. The decline is due to past years' inclusion of bond proceeds in addition to corporate fund and property tax revenues that go to pay debt service. The bond proceeds in those prior years went to pay for capital, not debt service.



Source: City of Chicago FY2024 Budget Overview, p. 186-192 and FY2023 Annual Appropriations Ordinance, Summary B.

CORPORATE FUND RESOURCES

The Corporate Fund is the City's general fund for governmental operations. It supports a wide variety of services including public safety, public health, sanitation and transportation. The City proposes a total of $5.7 billion in Corporate Fund resources in FY2024. This is a 5.0%, or $273.1 million, increase from $5.4 billion in the adopted FY2023 budget. The Corporate Fund revenue over the past five years is detailed in the next table.

Tax revenues in the Corporate Fund are expected to total nearly $3.1 billion in FY2024, an increase of 11.1%, from the FY2023 adopted budget. Nearly all tax revenue categories are expected to increase from FY2023 to FY2024, signaling continued economic recovery from the COVID-19 pandemic. Most local tax sources are expected to perform well in the coming year. Transportation taxes, which include taxes on parking, vehicle fuel and ground transportation (taxis and rideshares), are expected to generate $403.1 million, an increase of 9.6% over last year's budget due to the recovery of ridesharing and parking garage usage after the COVID-19 pandemic.[69] Ground transportation tax revenue alone is expected to increase from $165.8 million in FY2023 to $200.5 million in FY2024.[70]

Recreation taxes and business taxes are also projected to increase from the FY2023 budgeted levels. Recreation taxes include the amusement tax and taxes on a number of consumer goods including alcohol, cigarettes and cannabis. Together, these taxes will total $344 million, an increase of $25.9 million, or 8.1%, from the prior year. The increase is primarily from the amusement tax.

Business taxes are also projected to increase in FY2024 from the prior year budget by $26.6 million, or 20.7%. This is primarily due to recovery of the hotel tax, which is expected to increase from $120.1 million as adopted in the FY2023 budget to $144.7 million in FY2024.[71] The large increase is based on the estimated FY2023 year-end hotel tax income of $140.5 million.

Transaction taxes are expected to decline slightly from the FY2023 budget, by $16 million, or 2.0%. This is due to a projected decline in the real property transfer tax due to a slowdown in the real estate market, which will be partially offset by an increase in the Personal Property Lease Tax revenue due to continued enforcement and compliance and increases in the costs of rentals and services.[72]

The majority of sales tax revenue received by the City of Chicago is reflected as a transfer to the Corporate Fund from the Sales Tax Securitization Corporation (STSC). The STSC was established in order for the City to issue debt, backed by sales tax revenue, at a lower credit risk and therefore lower interest cost than other general obligation debt. The City's portion of the state-collected sales tax was sold to the STSC and any remaining revenue not used for debt service

---

[69] City of Chicago, FY2024 Budget Overview, p. 28.
[70] City of Chicago FY2024 Budget Overview, p. 186 and FY2023 Appropriations Ordinance, p. 20.
[71] City of Chicago FY2024 Budget Overview, p. 186 and FY2023 Appropriations Ordinance, p. 20.
[72] City of Chicago, FY2023 Budget Overview, p. 38.

are transferred into the Corporate Fund. This amount is expected to be $552.7 million, which is a decrease of $66.7 million or 10.8% from FY2023, due to the issuance of additional STSC bonds in 2023, which resulted in a $72 million increase in debt service on the bonds.[73] In addition, the City collects some other local sales taxes—the use tax on non-titled personal property, restaurant tax and private vehicle use tax—which are not part of the STSC agreement. These city-collected sales taxes are expected to generate $96.1 million in FY2024, which is a small increase from the prior year.

Non-tax revenues, including fines and forfeitures and charges for services are expected to increase in FY2024 from the prior year. Slight declines are expected within licenses and permits and leases, rentals and sales. Interest and other revenue includes surplus Tax Increment Financing (TIF) revenue of $100.1 million, plus an additional $41.0 million from sweeping aging revenue accounts into the Corporate Fund.[74] It also includes a $175 million reimbursement from Chicago Public Schools to cover a portion of the City's annual contribution to the Municipal Employees Pension Fund, approximately half of which are CPS employees.

In addition to the tax and non-tax revenue sources, the City is planning to use $414.3 million in prior year available resources (unrestricted fund balance, or current net assets) in FY2024. Of this amount, $259 million will be transferred to the pension funds to make a supplemental pension payment.[75] The remaining fund balance will be used to balance the budget.

[73] Information provided by the City of Chicago Budget Office, October 25, 2023.
[74] City of Chicago FY2024 Budget Overview, p. 29.
[75] City of Chicago FY2024 Budget Overview, p. 30.

Corporate Fund Resources: FY2020-FY2024 (in $ millions)

Tax Revenue	FY2020 Actual	FY2021 Actual	FY2022 Actual	FY2023 Adopted	FY2024 Proposed	$ Change FY2023-FY2024	% Change FY2023-FY2024
City + State Sales & Use Taxes	$ 58.7	$77.7	$93.9	$90.1	$96.1	$ 6.0	6.7%
Utility Tax & Franchise Fees	$ 391.4	$408.0	$432.9	$406.5	$407.3	$ 0.8	0.2%
State Income Taxes (including PPRT)	$ 487.2	$747.4	$972.2	$643.4	$872.1	$ 228.7	35.5%
Transaction Taxes	$ 477.5	$679.4	$803.9	$811.8	$795.7	$ (16.1)	-2.0%
Transportation Taxes	$ 193.9	$255.7	$333.2	$367.9	$403.1	$ 35.2	9.6%
Recreation Taxes	$ 178.1	$239.4	$314.9	$318.4	$344.3	$ 25.9	8.1%
Business Taxes	$ 31.9	$72.5	$138.6	$128.2	$154.8	$ 26.6	20.7%
Other Intergovernmental*	$ 3.5	$5.7	$7.1	$6.2	$6.2	$ (0.0)	-0.6%
Total Tax Revenue	**$ 1,822.2**	**$2,485.8**	**$3,096.7**	**$2,772.5**	**$3,079.6**	**$ 307.1**	**11.1%**
Non-Tax Revenue							
Fines & Forfeitures	$ 230.6	$316.0	$307.6	$302.2	$347.9	$ 45.7	15.1%
Licenses & Permits	$ 107.8	$115.6	$113.5	$123.6	$115.3	$ (8.3)	-6.7%
Charges for Services	$ 317.9	$328.9	$397.0	$363.6	$430.5	$ 66.9	18.4%
Leases, Rentals & Sales	$ 11.3	$15.5	$35.0	$32.0	$24.8	$ (7.2)	-22.4%
Municipal Parking	$ 7.1	$7.4	$7.0	$7.7	$7.7	$ 0.0	0.3%
Interest and Other**	$ 591.0	$506.1	$512.9	$746.8	$708.5	$ (38.3)	-5.1%
Total Non-Tax Revenue	**$ 1,265.7**	**$1,289.5**	**$1,373.0**	**$1,575.8**	**$1,634.7**	**$ 58.9**	**3.7%**
Other Resources							
Sales Tax Securitization Corporation	$ 475.7	$640.6	$567.3	$619.4	$552.7	$ (66.7)	-10.8%
Proceeds & Transfers In	$ 474.8	$28.1	$17.1	$94.0	$28.0	$ (66.0)	-70.2%
American Rescue Plan Revenue Replacement	$ -	$ 782.2	$385.0	$152.4	$0.0	$ (152.4)	-100.0%
Prior Year Unrestricted Fund Balance	$ -	$0.0	$0.0	$222.1	$414.3	$ 192.2	86.5%
Total Corporate Fund Resources	**$4,038.4**	**$5,226.2**	**$5,439.1**	**$5,436.2**	**$5,709.3**	**$ 273.1**	**5.0%**

*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, FY2024 Budget Overview, p. 186-187; FY2023 Annual Appropriations Ordinance, pp. 20-22 .

PROPERTY TAX LEVY

The property tax levy is the amount of property tax revenue a taxing district requests from taxpayers annually. A levy must be filed with the County Clerk by a certain date each year so that the Clerk has sufficient time to calculate tax rates for that tax year, which residents pay in the following calendar year. The property tax levy for the upcoming fiscal year—FY2024—is payable in 2025, and the levy for the current fiscal year—FY2023—is payable in 2024.

Property tax revenue is not used for Corporate Fund general operating purposes.[76] The City of Chicago levies property taxes for the following purposes: 1) to support payments to the City's four pension funds; 2) to pay the City's debt service obligations; 3) to help the Chicago Public Library fund debt service payments on long-term borrowing through bonds, which are issued for the Department's general obligations on capital projects and short-term borrowing;[77] and 4)

[76] FY2004 was the last year that any of the City property tax levy was used for the Corporate Fund.
[77] 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.

property tax levied on behalf of City Colleges of Chicago for General Obligation Bonds to fund City Colleges capital projects. The City is not levying a property tax for City Colleges in 2024 because there is no debt service owed on the bonds from 2024 through 2026.

The City's proposed FY2024 gross property tax levy is approximately $1.8 billion. The distribution of the $1.77 billion levy across the four property-tax supported purposes as follows:

- $1.4 billion allocated to pension funding;
- $239.7 million allocated to City of Chicago debt service funding. While not shown as a separate line item in the budget, the City transfers this portion of property tax funding to Chicago Public Schools per an intergovernmental agreement in which the City helps pay for bonds to fund the school district's capital needs. The Intergovernmental Agreement (IGA) has been in place since 1995. The amount contributed to CPS for debt service increased from $18.8 million that first year to $91.0 million in FY2008, and to $142.3 million in FY2020 (it will remain at this level through FY2031 per the debt service schedule);[78] and
- $122.0 million allocated to Chicago Public Library bonds.

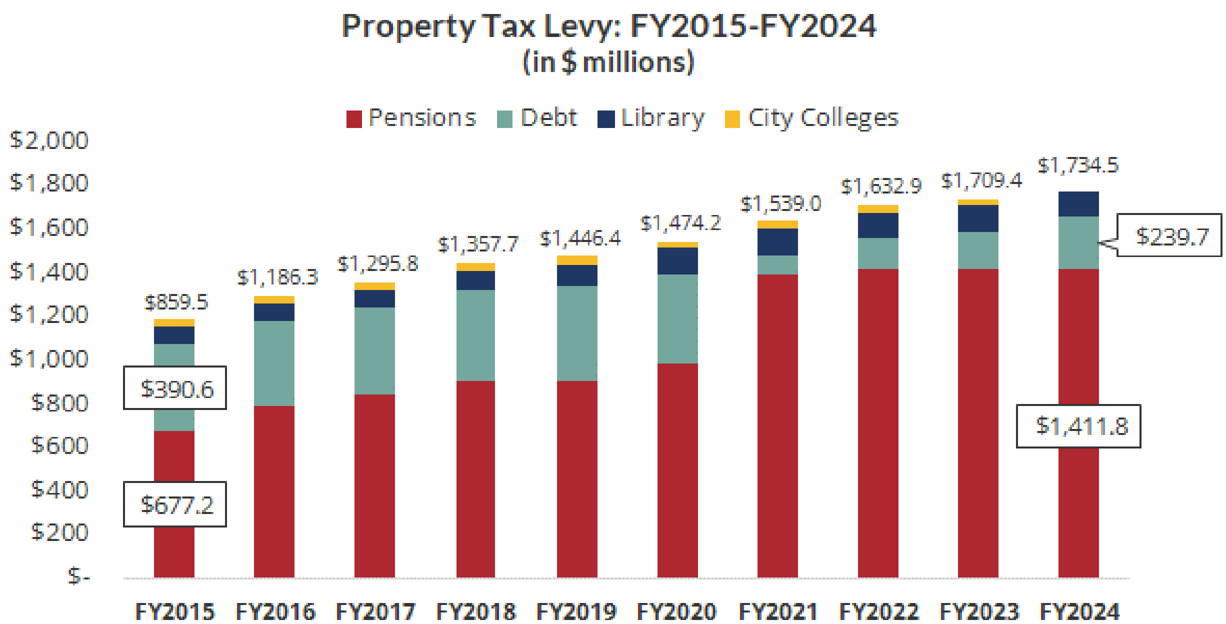
The City of Chicago previously levied a property tax of about $30 million on behalf of City Colleges of Chicago, which is a separate unit of government. This levy is suspended while no debt service is due on City Colleges Capital Appreciation bonds for the next three years, and instead will be directed to the levy dedicated to funding for debt service on general obligation bonds in FY2024.[79]

The distribution of the budgeted gross property tax levy over the ten-year period from FY2015 to FY2024 is shown in the graph below. The levy has grown by about 50% since FY2015, from $1.2 billion to $1.8 billion. Much of the increase is driven by the need to fund pensions as the amount of property tax revenue allocated to pensions has grown over the past ten years from $677.2 million in FY2015 to $1.4 billion in FY2024. In 2015 the City instituted a significant property tax increase to address the City's pension funding crisis. The increase was passed by the City Council in October 2015 as an amendment to the FY2015 property tax levy as part of the FY2016 budget adopted in order to pay for increases in statutorily required pension contributions to the Police and Fire pension funds phased in over the four-year period. Pension funding now accounts for 80% of the City's total property tax levy.

The amount of property tax revenue directed to debt service has decreased as the portion of the levy directed to pensions has increased. In FY2015, the debt service levy was $390.6 million compared to $239.7 million in FY2024. The decrease in the property tax allocation for debt funding that took place in FY2021 was made possible by savings from refinancing bonds issued by the City and the Sales Tax Securitization Corporation (STSC).[80] The debt service allocation

[78] Board of Education of the City of Chicago, Unlimited Tax General Obligation Refunding Bond Official Statement, Series 2007A, p. 42.
[79] Information provided by the City of Chicago Budget Office, October 25, 2023.
[80] City of Chicago, FY2021 Budget Overview, p. 56.

from the property tax levy is increasing in FY2024 from the prior year, however, by $65.3 million from $174.4 million in FY2023.



Source: City of Chicago, Annual Appropriation Ordinances FY2015-FY2023, Summary B; and FY2024 Budget Recommendations, Summary B, p. 2.

The proposed FY2024 property tax levy represents an increase of $39.1 million, or 1.0%, from the adopted FY2023 levy of $1.73 billion. This year-over-year increase is from new property growth based on development and levying for expiring TIF districts.[81] The City is not imposing a general inflation-based property tax increase in 2024, as was past practice under the previous mayoral administration.[82]

Tax Increment Financing Districts

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

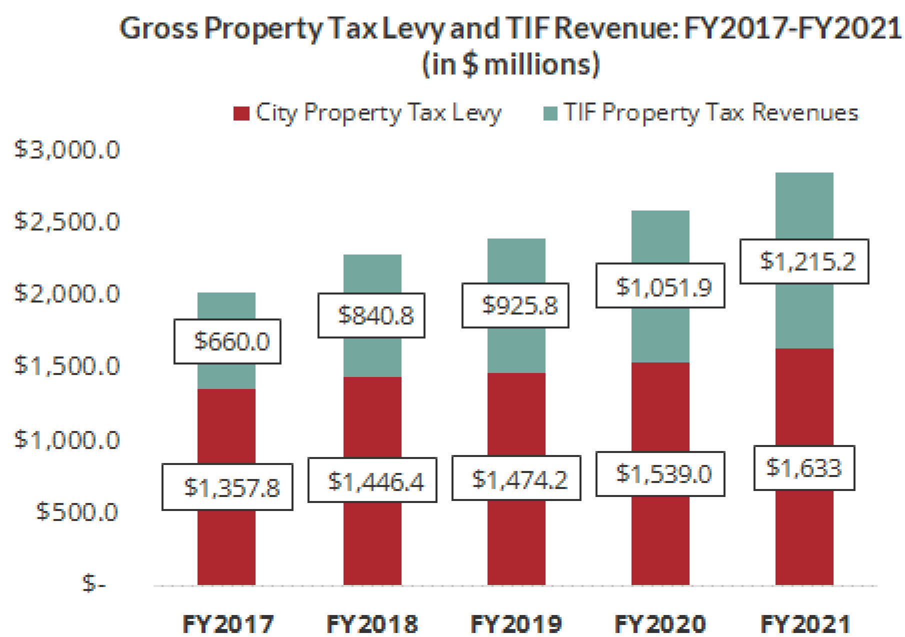
[81] City of Chicago FY2024 Budget Overview, p. 47.

[82] In 2020, as part of the FY2021 budget approval, the City Council approved an ordinance that would index the property tax levy to increase by the rate of inflation in order to pay for rising annual pension contributions (Chicago Municipal Code Chapter 3-92-075). This first took effect in 2021 and was applied again in 2022. The City did not, however, apply the automatic increase in the 2023 budget, when inflation levels reached a historic high, because of growth in other revenue sources.

base EAV to generate their property tax revenue. However, revenues generated from the incremental growth in property tax value over the frozen baseline amount are used to pay for redevelopment costs. The City of Chicago has 124 TIF districts.[83] TIFs accounted for 15.7% of the total taxes billed for all taxing districts in the City of Chicago in 2021.[84]

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

The following chart shows the TIF revenues generated in the City of Chicago in addition to the City's property tax levy over the five-year period from FY2017 through FY2021, the most recent year with TIF revenue data available. TIF revenue increased from $660 million in FY2017 to $1.2 billion in FY2021, an increase of 84.1%.



Source: City of Chicago, Annual Appropriation Ordinances FY2017-FY2021, Summary B; and Cook County Clerk TIF Reports 2017-2021, City of Chicago Summary, available at https://www.cookcountyclerk.com/service/tif-reports.

Unused TIF funds can be declared as a "surplus" by the City of Chicago and distributed back to taxing bodies based on their share of the property tax bill distribution across all government units. The City plans to declare a TIF surplus of $433.8 million for 2024, $226 million of which will go to Chicago Public Schools, and $100 million of which will go to the City's Corporate Fund.[85] The FY2024 TIF surplus is the largest ever declared by the City. TIF surpluses declared by

[83] City of Chicago FY2024 Budget Overview, p. 46.
[84] Cook County Clerk, 2021 TIF Report, Executive Summary, p. 2.
[85] City of Chicago, FY2024 Budget Overview, p. 46.

the City of Chicago have continued to increase significantly over time, from $65.2 million in 2014.[86]

PERSONNEL

This section describes the City of Chicago's personnel levels and personnel appropriations proposed for FY2024 compared to budgeted personnel and appropriation levels in past years.

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

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

BUDGETED POSITIONS

The City of Chicago is proposing a total of 35,049 full-time equivalent positions within all Local Funds in the proposed FY2024 budget, compared to 34,710 FTE positions adopted in the FY2023 budget. This represents an increase of 339 positions, or 1.0%. Within grant funds, the City proposes 1,680 FTE positions, which brings the total FTEs across all funds to 36,729. The FTE positions shown in this section only include the Local Funds (Corporate, Special Purpose Funds, Pension Funds and Enterprise Funds).

The largest FTE increase between FY2023 and FY2024 will occur within the Infrastructure Services program area, which includes the Departments of Streets and Sanitation, Transportation, Aviation and Water Management. Infrastructure Services are proposed to grow by 169 FTE positions, or 2.0%. The increase is due in large part to the addition of 81 positions in

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

the Department of Aviation, plus additional smaller increases in positions across the Department of Streets and Sanitation and the Department of Transportation.[87]

The program area of Community Services is also requesting a smaller increase of 94 FTEs in FY2024. The largest increase within this program area is for the Department of Public Health, with smaller FTE increases for the Department of Family and Support Services and the Mayor's Office For People With Disabilities.[88]

Public Safety, which accounts for the largest number of positions in the City of Chicago budget, is proposed to have a total of 20,582 FTE positions in FY2024. This represents a decrease of 43 FTEs, or 0.2%, from the prior year.

The following table shows the total number of FTE positions proposed in the FY2024 budget across each of the program areas compared to the number of FTEs in the FY2023 adopted budget.

Budgeted FTE Positions: FY2023-FY2024

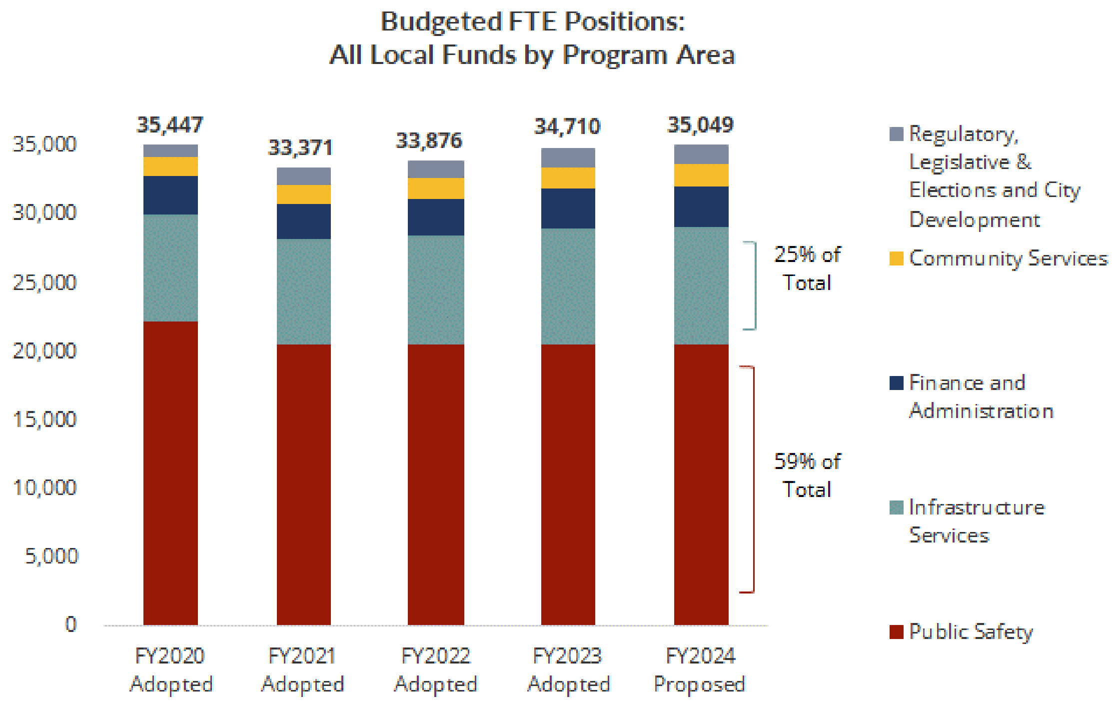
Function	FY2023 Adopted	FY2024 Proposed	# Change FY2023-FY2024	% Change FY2023-FY2024
Public Safety	20,625	20,582	-43	-0.2%
Infrastructure Services	8,433	8,602	169	2.0%
Finance and Administration	2,883	2,923	40	1.4%
Community Services	1,489	1,583	94	6.3%
Regulatory	657	722	65	9.9%
Legislative and Elections	333	334	1	0.3%
City Development	290	303	13	4.5%
Total	**34,710**	**35,049**	**339**	**1.0%**

Source: City of Chicago, FY2024 Budget Overview, p. 195.
Note: FTE positions presented in this table are for all Local Funds and exclude grant-funded positions.

The following graph shows budgeted FTE positions over the five-year period from FY2020 through FY2024 across all local funds. The number of budgeted FTEs has decreased from 35,447 in FY2020 to 35,049 in the FY2024 budget proposal, which is a decline of 398 FTEs, or 1.1%. The decline in total positions citywide is due to a reduction in Public Safety personnel. Over this five-year period, the number of budgeted Public Safety FTEs decreased by 1,637, or 7.4%. However, this reduction was partially offset by increases in FTEs across all other program areas. For example, Infrastructure Services will see an increase of 779 FTEs, or 10.0%, and the

[87] City of Chicago, FY2024 Budget Overview, p. 195.
[88] City of Chicago, FY2024 Budget Overview, p. 195.

Community Services and Finance Administration departments will each see an increase of 164 FTE positions over this period.



Source: City of Chicago, FY2024 Budget Overview, p. 195; FY2023 Budget Overview, p. 202; FY2022 Budget Overview, p. 206; FY2021 Budget Overview, p. 200; and FY2020 Budget Overview, p. 194.
Note: FTE counts in this chart exclude grant funds.

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

Overall, Public Safety program area positions are set to decline by 1,637, or 7.4%, from 22,219 in FY2020 to 20,582 in FY2024. The largest decreases in FTEs over this five-year period are within the Office of Emergency Management and Communications (OEMC) and the Police Department. OEMC will see a decrease in budgeted positions of 979 FTEs, or 50.3%. This decrease is primarily due to the City transferring approximately 900 crossing guard positions to the Chicago Public Schools budget in 2021. However, in FY2024 the City is also planning to increase the number of student-as-trainees and add full-time clinicians within the Office of Emergency Management and Communications, which explains the small increase from FY2023.[89] The Chicago Police Department (CPD) will also see a sizeable reduction of 662 FTE positions, or 4.5%. The majority of the decrease within CPD took place between FY2020 and FY2021 due to the department eliminating vacant positions in order to produce budget savings in FY2021. The new Community Commission for Public Safety and Accountability, which was

[89] City of Chicago, FY2024 Budget Overview, p. 111.

established in 2022, is budgeted for 29 positions in FY2024 and is an increase of 6 FTEs from the prior year.

FTE Positions within the Public Safety Program Area by Department: All Local Funds

Department	FY2020 Adopted	FY2021 Adopted	FY2022 Adopted	FY2023 Adopted	FY2024 Proposed	# Change FY2020-FY2024	% Change FY2020-FY2024
Chicago Police Department	14,581	13,963	13,970	14,005	13,919	**(662)**	**-4.5%**
Fire Department	5,148	5,114	5,130	5,134	5,134	**(14)**	**-0.3%**
Office of Emergency Management and Communications	1,947	1,044	945	958	968	**(979)**	**-50.3%**
Office of Public Safety Administration	390	329	333	349	373	**(17)**	**-4.4%**
Civilian Office of Police Accountability	151	140	150	154	157	**6**	**4.0%**
Community Commission for Public Safety and Accountability	0	0	14	23	29	**29**	**0.0%**
Police Board	2	2	2	2	2	**0**	**0.0%**
Total Public Safety	**22,219**	**20,592**	**20,544**	**20,625**	**20,582**	**(1,637)**	**-7.4%**

Source: City of Chicago, FY2024 Budget Overview, p. 195; FY2023 Budget Overview, p. 202; FY2022 Budget Overview, p. 206; FY2021 Budget Overview, p. 200; and FY2020 Budget Overview, p. 194.

PERSONNEL SPENDING

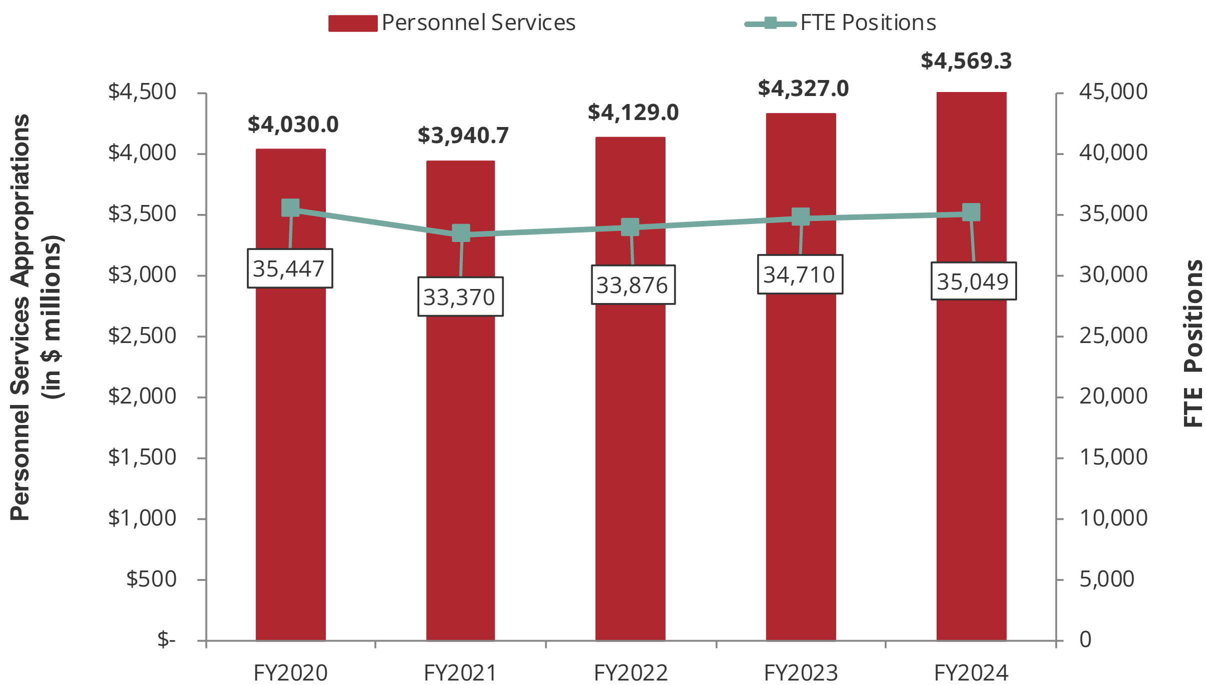
Personnel services spending in the proposed FY2024 budget totals $4.5 billion. This accounts for approximately one-third (33.1%) of the City's total appropriations of $13.8 billion proposed for FY2024 across all local funds. This $13.8 billion total includes transfers between funds and proceeds of debt that are not netted out, which results in some double counting.[90] Personnel services covers salaries, other compensation costs, and certain benefits such as healthcare. However, it excludes pension costs, which make up a significant portion of the City's appropriations. Employer pension contributions are accounted for in a non-personnel line item within the Finance General category of the budget. Finance General combines cross-departmental expenses including IT costs, employee benefits, contributions to employee pension funds and long-term debt service payments. Within Finance General, the City is budgeting for $2.8 billion in pension payments.[91]

Budgeted personnel services appropriations over the five-year period from FY2020 through FY2024 are shown in the graph below, along with the budgeted number of FTE positions. While the number of personnel positions will decrease by 1.1% over this period, budgeted spending on personnel services is projected to increase by 13.4%, from $4.0 billion to $4.6 billion.

[90] City of Chicago, FY2024 Budget Recommendations, p. 16.
[91] City of Chicago, FY2024 Budget Overview, p. 44.

The increase in personnel spending in the two-year period from FY2023 to FY2024, from $4.3 billion to $4.6 billion, represents an increase of $242.3 million, or 5.6%. This increase incorporates salary and wage increases pursuant to collective bargaining agreements as well as healthcare, overtime pay, and unemployment compensation, which are major drivers of personnel services spending.

Personnel Services Appropriations and Budgeted FTE Positions: All Local Funds FY2020-FY2024



Source: City of Chicago, Annual Appropriation Ordinances, FY2020-FY2023, Summary D; FY2024 Budget Recommendations, Summary D; City of Chicago FY2021 Budget Overview, p. 200; FY2022 Budget Overview, p. 206; FY2023 Budget Overview, p. 202; and FY2024 Budget Overview, p. 195.

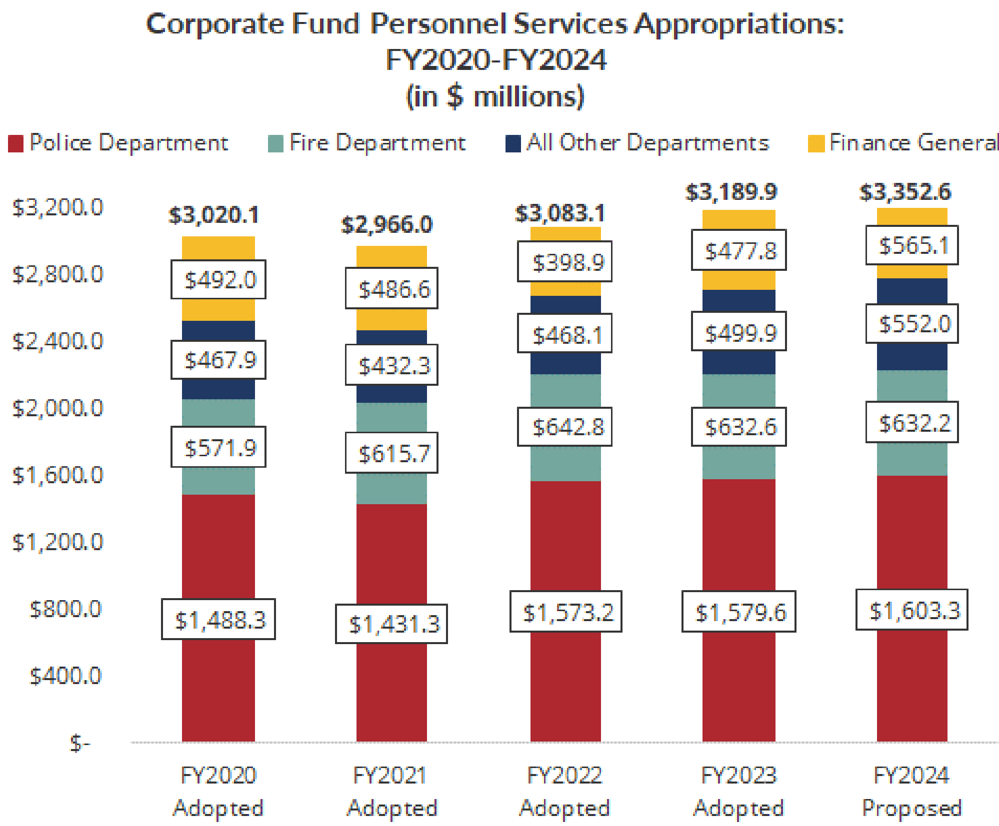
Corporate Fund Personnel Services Appropriations

The FY2024 proposed budget includes a total of $3.4 billion in Personnel Services appropriations within the Corporate Fund, the City's general operating fund. Personnel Services appropriations include salaries and some benefits such as healthcare but exclude employee pension costs. Corporate Fund appropriations for Personnel Services represent 58.7% of total proposed Corporate Fund appropriations across all categories of spending, totaling $5.7 billion.

The Chicago Police Department accounts for the largest departmental expenditure on personnel in the Corporate Fund. The Police Department represents approximately 50% of Corporate Fund Personnel Services appropriations. The second largest departmental spending is the Fire Department at $632.2 million in FY2024. Together, the Police Department and Fire

Department account for $2.2 billion of the $3.3 billion in Personnel Services appropriations within the Corporate Fund. All other departments combined account for $552.0 million in Personnel Services appropriations in the FY2024 proposed budget. Healthcare and other benefits accounted for within the Finance General budget category account for $565.1 million.

Personnel Services appropriations across these four categories for the five-year period from FY2020 to FY2024 are shown in the chart below. Over this five-year period, total Corporate Fund Personnel Services appropriations will grow by 11.0%, from $3.0 billion in the FY2020 adopted budget to $3.4 billion in the FY2024 proposed budget. Police Department appropriations will grow by 7.7% over this period and the Fire Department by 10.5%. Personnel cost increases are largely tied to salary and wage increases in collective bargaining agreements.



Source: City of Chicago, FY2024 Budget Recommendations, Summary D; and Annual Appropriations Ordinances, FY2020-FY2023, Summary D.

The following table provides more detail by department within the Corporate Fund for Personnel Services appropriations between the FY2023 adopted budget and the FY2024 proposed budget. Overall, Personnel Services appropriations are proposed to increase by 5.1% from the prior year. The largest increase is within the Finance General category, proposed to increase by 18.3%, or $87.3 million, from $477.8 million in FY2023 to $565.1 million in FY2024. This increase is due to a $72 million increase in scheduled wage adjustments, a $23.8 million increase in the cost of medical care claims and a $2.0 million increase in workers' compensation claims.[92]

Compared to total Corporate Fund appropriations, the increase in Personnel Services from FY2023 to FY2024 is smaller than the overall Corporate Fund spending increase. Total Corporate Fund appropriations are expected to increase by 5.0%, or $272.9 million, which is primarily due to an increase in pension appropriations in the FY2024 budget, including supplemental pension allocations of $259.6 million in the Corporate Fund.[93]

Corporate Fund Personnel Services Appropriations: FY2023-FY2024 (in $ millions)

Department	FY2023 Adopted	FY2024 Proposed	$ Change FY2023-FY2024	% Change FY2023-FY2024
Police Department	$ 1,579.6	$ 1,603.3	$ 23.7	1.5%
Fire Department	$ 632.6	$ 632.2	$ (0.4)	-0.1%
Other Public Safety*	$ 45.2	$ 51.0	$ 5.7	12.6%
Assets, Information and Services**	$ 95.2	$ 90.1	$ (5.1)	-5.4%
Streets and Sanitation	$ 89.9	$ 99.7	$ 9.8	10.9%
Department of Finance	$ 38.2	$ 42.7	$ 4.5	11.8%
City Council	$ 22.9	$ 24.5	$ 1.7	7.3%
Transportation	$ 22.3	$ 23.9	$ 1.6	7.4%
All Other Departments	$ 186.2	$ 220.1	$ 33.9	18.2%
Finance General	$ 477.8	$ 565.1	$ 87.3	18.3%
Total Personnel Services	**$ 3,189.9**	**$ 3,352.6**	**$ 162.7**	**5.1%**
Total Corporate Fund	**$ 5,436.3**	**$ 5,709.2**	**$ 272.9**	**5.0%**
Personnel Services as a % of Total Corporate Fund	**58.7%**	**58.7%**		

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

**The Department of Assets, Information and Services merged in FY2020 to include the prior Department of Fleet and Facility Management and the Department of Innovation and Technology. As of FY2023, the Department of Assets, Information and Services is now the Department of Fleet and Facility Management (FFM).

Source: City of Chicago FY2023 Annual Appropriation Ordinance, Summary D; and FY2024 Budget Recommendations, Summary D.

[92] City of Chicago FY2024 Budget Recommendations, p. 296.
[93] City of Chicago FY2024 Budget Overview, p. 192.

RESERVES

This section describes the City of Chicago's fund balance and other reserve funds. Fund balance is a term used to describe the net assets of a governmental fund and serves as a measure of budgetary reserves.[94] While the terms "reserves" and "fund balance" are often used interchangeably, they have different meanings:

Reserves is a budgetary policy term that describes available, liquid resources, such as cash and investments outside the budget, to be used if budgeted funds are insufficient in the event of an emergency or another unplanned shortfall.

Fund balance is an accounting term referring to the difference between assets and liabilities, or the net position of governmental funds calculated according to generally accepted accounting principles set by the Governmental Accounting Standards Board (GASB). GASB Statement No. 54 has established five components of fund balance.[95] The first two, *Nonspendable* and *Restricted* fund balance, are resources that cannot be spent because of legal or contractual restrictions. The remaining three components—*Committed*, *Assigned* and *Unassigned* fund balance—involve constraints that can be lifted by the government and used for any purpose. *Committed* fund balance are funds designated for a specific purpose through formal action of the decision-making authority. *Assigned* fund balance reflects the intended purpose of a government's use of funds and can be modified without the same constraints as committed fund balance. It is often used to assign appropriated fund balance to fill the gap between appropriations and estimated revenues for the following year. The remaining surplus of net resources after funds have been identified in the other four categories is the *Unassigned* fund balance.[96] The *Committed, Assigned* and *Unassigned* components of fund balance together represent the **unrestricted fund balance** that could potentially be used for any operating purposes if needed.

GFOA Best Practices on Fund Balance

The Government Finance Officers Association (GFOA) provides guidelines on the appropriate level of fund balance that governments should maintain. GFOA has for many years recommended that general purpose governments maintain an unrestricted fund balance in their general fund of at least two months of general fund operating revenues or expenditures. Two months of operating expenditures or revenues is approximately 16.7%. GFOA notes, however, that an unrestricted fund balance lower than the recommended minimum may be appropriate for large governments, such as states and large cities or counties, because they can often better predict contingencies and they typically have diverse revenue streams.[97] GFOA's

---

[94] Government Finance Officers Association, Fund Balance Guidelines for the General Fund.
[95] Governmental Accounting Standards Board, Statement No. 54 of the Governmental Accounting Standards Board: Fund Balance Reporting and Governmental Fund Type Definitions, February 2009.
[96] Governmental Accounting Standards Board, Statement No. 54 of the Governmental Accounting Standards Board: Fund Balance Reporting and Governmental Fund Type Definitions, February 2009.
[97] Government Finance Officers Association, Fund Balance Guidelines for the General Fund,

longstanding guidance notes that several factors should be considered when establishing a fund balance policy including revenue predictability, expenditure volatility, potential exposure to one-time disasters, the potential drain on general fund resources from other funds, bond ratings and borrowing costs, and funds that are already committed or assigned for specific purposes.[98]

However, the GFOA recognizes that its best practice guidance on reserve levels may not be individualized enough to optimize a government's reserves based on local risk factors such as financial and economic disruptions, public health emergencies, public safety challenges and severe weather events. To address these issues, GFOA recently released updated recommendations that governments use risk analysis techniques to optimize the use of their reserves beyond adhering to traditional reserve standards. This approach can allow governments to tailor their reserve needs to their particular circumstances rather than following a "one size fits all" policy. The GFOA therefore recommends that governments establish a fund balance policy that uses risk-based analysis to consider the government's specific circumstances and that defines a minimum and maximum level of reserves. The GFOA also recommends that governments consider reserves in combination with self-insurance or commercial insurance.[99]

City of Chicago Unrestricted Fund Balance

This section examines the City's Corporate Fund (i.e., General Fund) unrestricted fund balance as a percentage of general operating expenditures based on audited data from the City's most recent Annual Comprehensive Financial Reports. This ratio is a measure of whether a government is maintaining adequate levels of fund balance to mitigate current and future risks and ensure stable tax rates.[100]

The table below presents the City's unrestricted fund balance over the ten-year period from FY2013 through FY2022, the latest year for which audited financial data is available. During this period, the unrestricted fund balance ratio rose substantially from 4.6% to 30.5%. In terms of dollars, the unrestricted fund balance rose from $142.3 million to nearly $1.3 billion, a 351.0% increase. The increase was attributed primarily to the recovery of revenues that had been negatively impacted by the COVID-19 pandemic, as well as decreases in expenditures that were transferred to grant funds received to be used for COVID-19 related responses.[101] The fund balance increased significantly between FY2021 and FY2022, by $633.2 million, primarily due to the continued recovery of revenues that were impacted by the COVID-19 pandemic and decreases in expenditures from FY2021 due to one-time retroactive payments that were made to public safety employees during 2021.[102]

---

[98] Government Finance Officers Association, Fund Balance Guidelines for the General Fund.
[99] For more details about the GFOA's updated reserves guidance, see the Civic Federation's blog post, "GFOA Recommends Governments Rethink Their Reserve Policies," September 15, 2023.
[100] Government Finance Officers Association, Fund Balance Guidelines for the General Fund.
[101] City of Chicago FY2021 Annual Comprehensive Financial Report, p. 19.
[102] City of Chicago FY2022 Annual Comprehensive Financial Report, p. 18.

The City's unrestricted fund balance of $1.3 billion in FY2022 consisted of $956.2 million that was assigned for specific purposes and $307.3 million in unassigned fund balance. The City's fund balance ratio of 30.5% is much higher than the GFOA's recommendation of 16.7%. The City plans to use a portion of the excess FY2022 fund balance to make advance supplemental payments to the four Chicago pension funds. These supplemental contributions total approximately $260 million in FY2023 and $306.6 million in FY2024.

Unrestricted Corporate Fund
Fund Balance Ratio: FY2013-FY2022

Year	Unrestricted Corporate Fund Balance		Corporate Fund Operating Expenditures		Ratio
FY2013	$	142,269,000	$	3,109,074,000	4.6%
FY2014	$	116,780,000	$	3,231,258,000	3.6%
FY2015	$	191,404,000	$	3,433,102,000	5.6%
FY2016	$	245,852,000	$	3,473,208,000	7.1%
FY2017	$	262,416,000	$	3,454,858,000	7.6%
FY2018	$	306,864,000	$	3,597,453,000	8.5%
FY2019	$	307,651,000	$	3,752,341,000	8.2%
FY2020	$	327,716,000	$	3,668,057,000	8.9%
FY2021	$	641,495,000	$	4,683,948,000	13.7%
FY2022	$	1,263,449,000	$	4,138,804,000	30.5%

Sources: City of Chicago, Comprehensive Annual Financial Reports FY2013-FY2022, Balance Sheet - Governmental Funds and Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds and Note 13: Expenditure of Funds and Appropriation of Fund Balances.

City of Chicago's Fund Balance Policy

In 2016, the City of Chicago established a new Fund Stabilization policy to maintain a sufficient fund balance to mitigate financial risks and revenue shortfalls. The policy is aimed at maintaining a reasonable rainy-day fund while avoiding the build-up of unneeded cash reserves.[103]

The City's policy is to maintain an unrestricted fund balance of no less than two months or 16.7% of operating expenses,[104] composed of resources from three sources:

1) **Unassigned Fund Balance:** As noted above, this portion of unassigned fund balance is part of the unrestricted fund balance. The unassigned fund balance in FY2022 was $307.3 million;
2) **Operating Liquidity Fund:** This fund was created in 2016 to allow the City to manage liquidity issues associated with the timing of revenue collections.[105] Between FY2015 and

[103] Communication with City of Chicago Office of Management and Budget, October 10, 2016.
[104] City of Chicago FY2024 Budget Overview, p. 176.
[105] City of Chicago FY2024 Budget Overview, p. 177.

FY2019, the City set aside a total of $30 million of unassigned fund balance into this Fund, while in FY2020 and FY2021, it contributed $5.0 million per year;[106] and

3) **Asset Lease and Concession Reserves:** These reserves account for leftover revenue generated from agreements to lease the Chicago Skyway and the parking meter system. There was a total of $622.8 million in the asset lease reserves as of FY2022.[107]

Therefore, the City calculates fund balance differently than the GFOA does because the City's calculation includes only a portion of unrestricted fund balance, plus resources, in addition to its unrestricted Corporate Fund balance. The table below shows the City of Chicago's calculation of fund balance amounts and ratios. The fund balance per the City's stabilization policy was $935.1 million in FY2022, a ratio of 20.0% of expenditures. The ratio in each year examined is above 16.7%. Therefore, the Budget Stabilization Funds meet the City's own fund balance policy.

City of Chicago Calculation of Fund Balance Ratios: FY2018-FY2022

Year	Subtotal: City Fund Balance Sources	Corporate Fund Operating Expenditures	Ratio
FY2018	$ 819,364,000	$ 3,597,453,000	22.8%
FY2019	$ 909,351,000	$ 3,752,341,000	24.2%
FY2020	$ 955,016,000	$ 3,668,057,000	26.0%
FY2021	$ 1,052,795,000	$ 4,683,948,000	22.5%
FY2022	$ 935,089,000	$ 4,683,948,001	20.0%

Sources: City of Chicago, Comprehensive Annual Financial Reports FY2017-FY2021, Balance Sheet - Governmental Funds and Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds and Note 13: Expenditure of Funds and Appropriation of Fund Balances; and City of Chicago FY2024 Budget Forecast, p. 41.

[106] City of Chicago FY2024 Budget Forecast, p. 41.
[107] City of Chicago FY2024 Budget Forecast, p. 41.

PENSION FUNDS

This section examines the budgetary impact of the City of Chicago's contributions to its four pension funds: Municipal Employees, Laborers', Police and Fire. An analysis of the fiscal health indicators of these pension funds, including the funded ratios, unfunded liabilities and investment returns can be found on the Civic Federation's website.[108] Additional descriptive information about the City's pension benefits and history can be found in past budget analyses.[109]

PENSION CONTRIBUTIONS IN THE FY2024 CITY OF CHICAGO BUDGET

The City of Chicago's four pension funds are severely underfunded. A combination of statutory underfunding, benefit enhancements, investment losses, optimistic assumptions and other long-term problems have all contributed to their abysmal financial condition. Benefits for new employees were reduced in 2011 along with most other public pension plans in the State of Illinois, but later attempts to reduce benefits for current employees in order to shore up the funds' financial condition were struck down by the Illinois Supreme Court.[110] City and State leaders subsequently turned to changing statutory funding laws in an attempt to prevent the funds from becoming insolvent.

In 2016 the City of Chicago's four pension funds began transitioning per State law to 40-year funding plans. The plans started with five-year ramps of growing annual contributions set by state statute before transitioning to a 35-year schedule of actuarially calculated contributions that increase their funded ratios to 90%. The Police and Fire funds started their ramps in FY2015 and transitioned to actuarially calculated funding in FY2020, and the Municipal and Laborers' funds started their ramps in FY2017 and transitioned to actuarially based funding in FY2022. Since all four funds are now funded on an actuarially calculated basis, annual contributions from the City will adjust according to the financial needs of the funds, but the length of the funding schedule and its backloaded nature mean that the City's statutory contributions will not be sufficient to reduce the unfunded liability between 2028 and 2035.[111] It is because of this shortfall from the "tread water" payment that the City made a supplemental contribution in FY2023 and plans to do so again in FY2024 and through FY2026.

The FY2024 total proposed contribution to the City's four pension funds is approximately $2.8 billion, as shown in the following chart. The two largest funds, the Municipal and Police Funds,

---

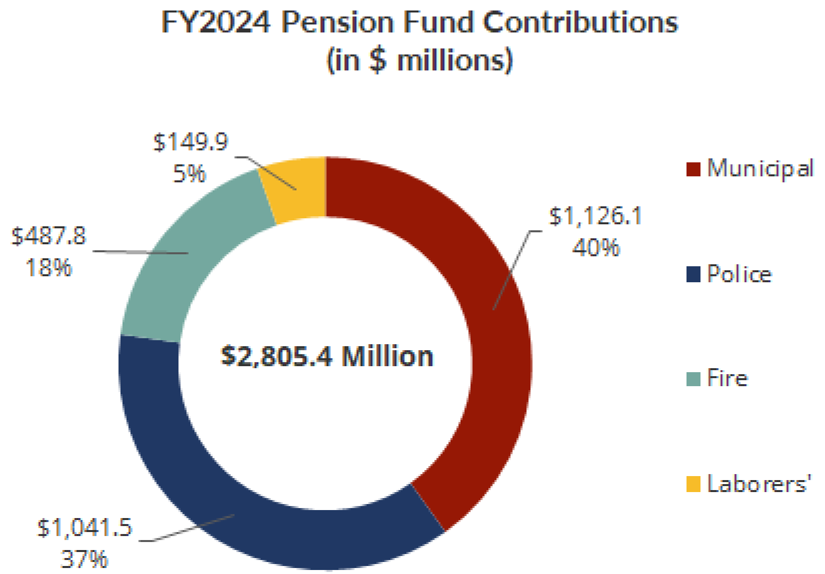
[108] See the Civic Federation's blog, "How the Chicago Pension Funds Fared in 2022," October 6, 2023.

[109] See for example Civic Federation, "City of Chicago Proposed Budget: Analysis and Recommendations," November 16, 2020, pp. 68-73. Available at https://www.civicfed.org/ChicagoFY2021.

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

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

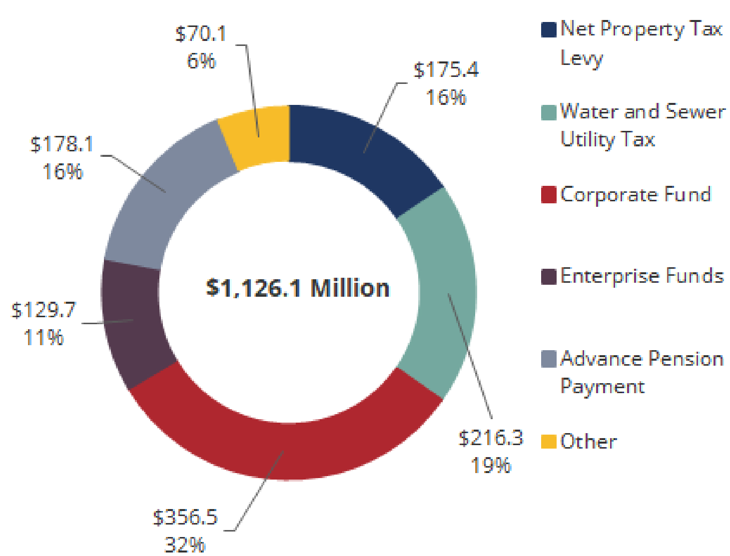
receive the largest portion of the annual funding at 77% or nearly $2.2 billion. As noted above, the City is making supplemental contributions to the pension funds beyond the requirements in its statutory funding formula of $306.6 million.



Source: FY2024 City of Chicago Budget Overview, p. 44.

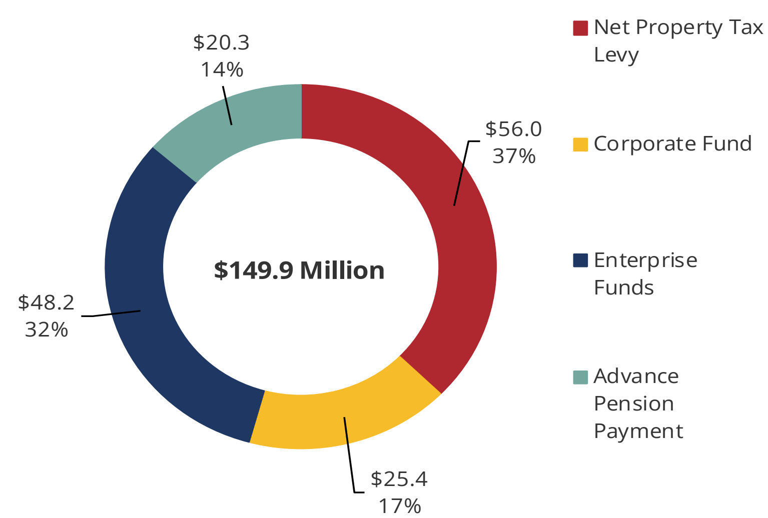
The City of Chicago uses several revenue sources to make its pension contributions: property taxes, contributions from the Corporate and Enterprise funds, a dedicated water and sewer tax for the Municipal Fund and other sources. The following charts show the breakdown of those sources for each fund. The supplemental pension payments are shown as “Advance Pension Payment” and “Casino Advance Payment” in the charts below. Casino tax revenue is projected to generate $35 million for the Police and Fire pension funds in FY2024. The property tax is the single largest source of revenue for the pensions at $1.4 billion or 50.3% of total pension funding.

FY2024 Municipal Fund Sources of Revenue (in $ millions)



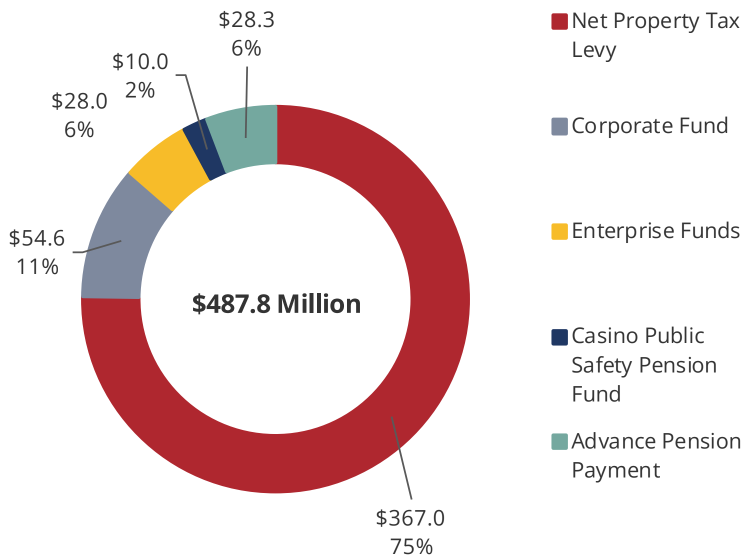
Source: FY2024 City of Chicago Budget Recommendations, p. 38.

FY2024 Laborers' Fund Sources of Revenue (in $ millions)



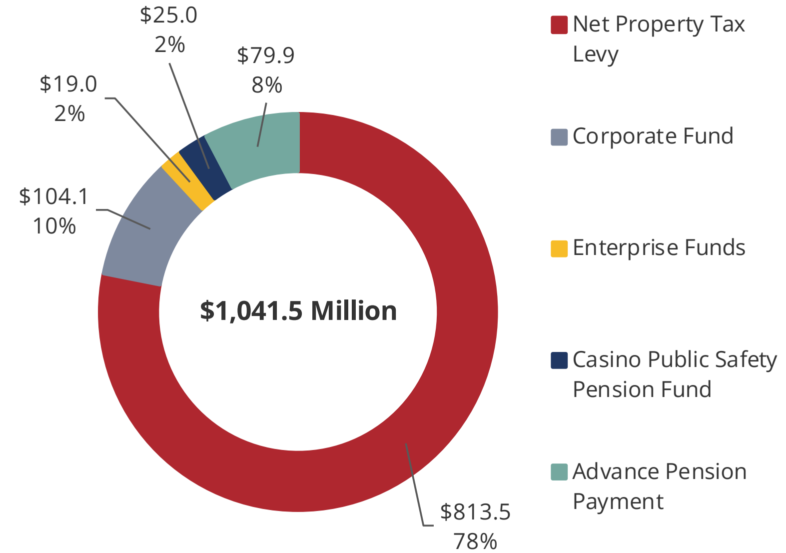
Source: FY2024 City of Chicago Budget Recommendations, p. 39.

FY2024 Fire Fund Sources of Revenue (in $ millions)



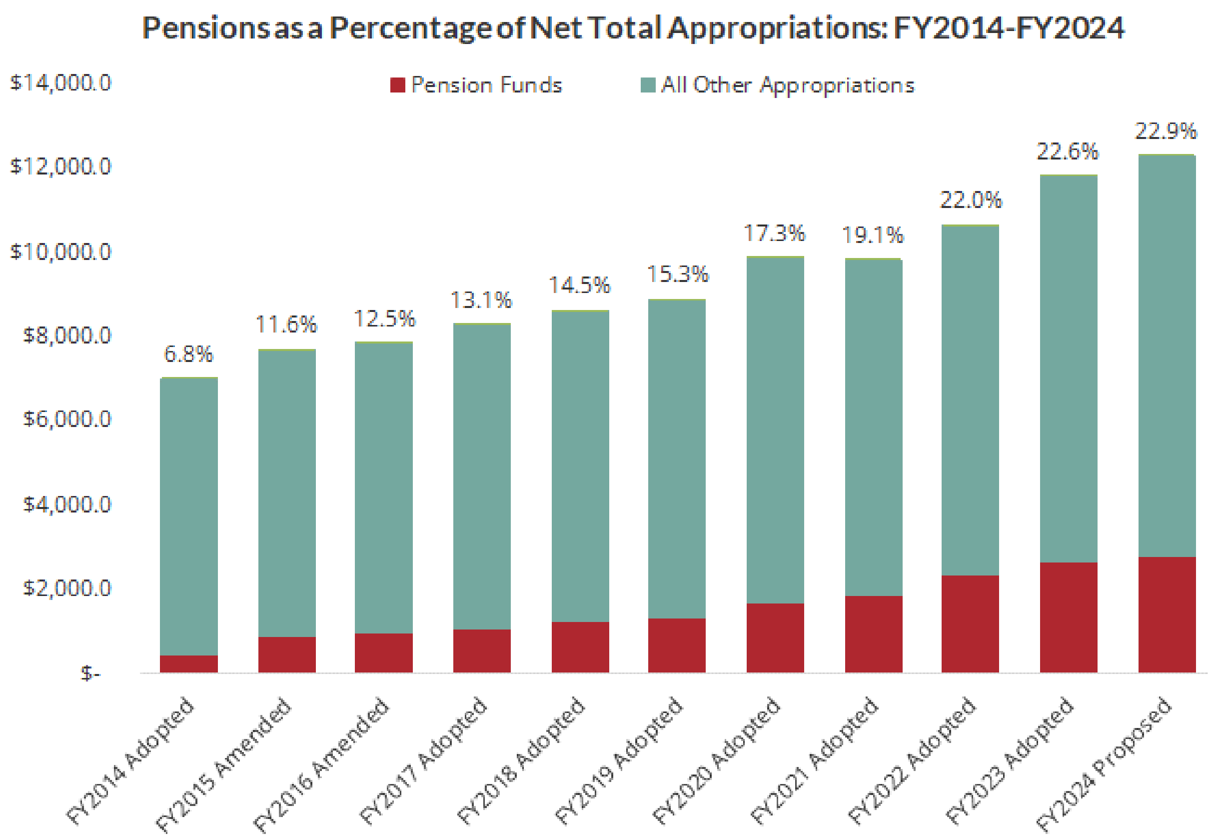
Source: FY2024 City of Chicago Budget Recommendations, p. 40.

FY2024 Police Fund Sources of Revenue (in $ millions)



Source: FY2024 City of Chicago Budget Recommendations, p. 39.

Prior to the implementation of the 40-year funding plans, the City's pension funds were funded based on a multiple of what employees contributed two years prior, which did not adjust according to each fund's actuarial funding needs. The "multiple" of employee contributions was determined annually by the City and what they would contribute to the pension funds based on the amount of employee payroll deductions that were made two years prior to the funds.[112]FY2015 was the first year of the actuarial ramp-up in contributions to the Police and Fire pension funds. Prior to that year, pensions made up $478.3 million, or 6.8%, of the City's spending in FY2014. As shown in the following chart, at the start of the transition of the funding schedule, pensions made up $885.7 million, or 11.6%, of the City's FY2015 spending. The following year that increased to $978.3 million, or 12.5%. The percentage of the budget going to pensions has increased over the following years, reaching 22.9% in FY2024.[113]



Source: City of Chicago Budgets, FY2014-FY2024.

In order to analyze how insufficient past years' contributions have been, it is useful to compare the City's actual contributions to an objective measure of how much the City would need to contribute in order to pay off its unfunded liability over a set period of time. That measure, the

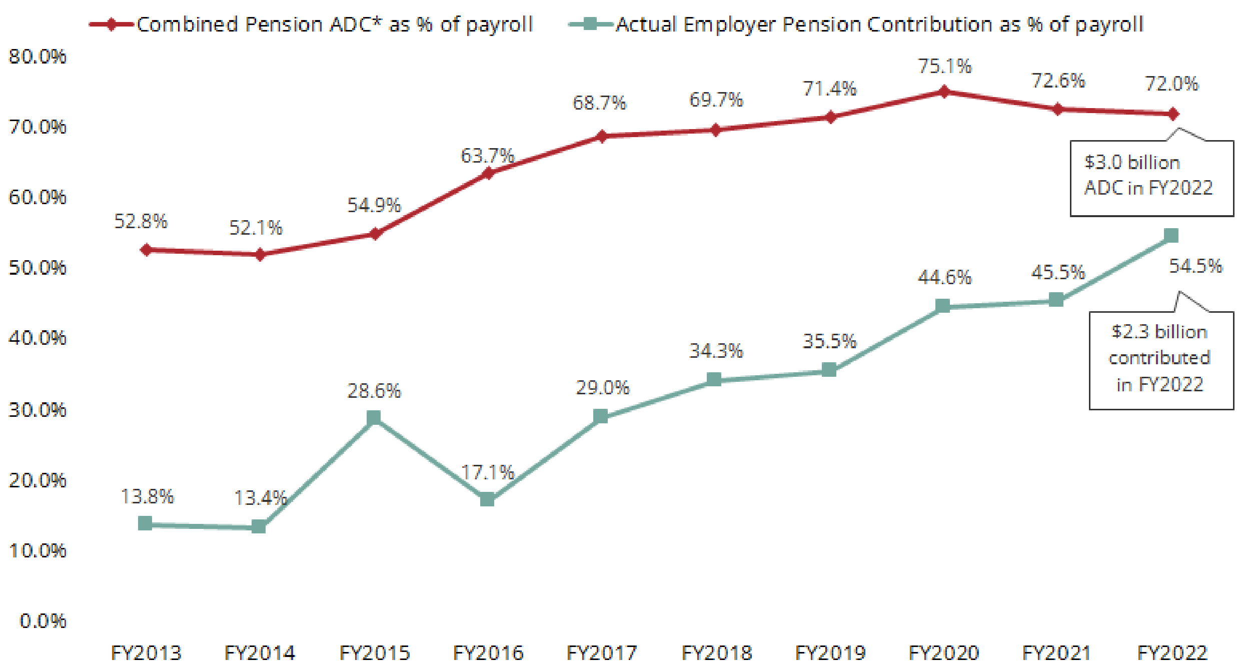
---

[112] See the Civic Federation's blog, "Chicago Municipal and Laborers' Pension Funding Changes Approved as Part of State Budget," August 1, 2017.
[113] For a historical and projected pension contribution chart, see City of Chicago, 2024 Budget Overview, p. 54.

Actuarially Determined Contribution (ADC), is a reporting requirement of the Governmental Accounting Standards Board and is reported in each pension fund's annual actuarial reports.

The following chart compares the City's statutory contribution to its four pension funds, as a percentage of payroll, to the ADC. The spread between the two amounts grew from a shortfall of 39.0 percentage points, or $1.3 billion, in FY2013 to a gap of 38.7 percentage points in FY2014, before falling to a gap of 26.3 percentage points in FY2015 due to higher employer contributions for the Police and Fire Funds. The gap increased again in FY2016 to 46.6 percentage points due to the City decreasing its contributions that year to make up for over-contributions in FY2015. The shortfall improved over the next several years, to 17.5% in FY2022, or $733.5 million. 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 17.5% of payroll, or $733.5 million, in FY2022.

Actuarially Determined Contribution* vs. Actual Employer Contribution: FY2013-FY2022

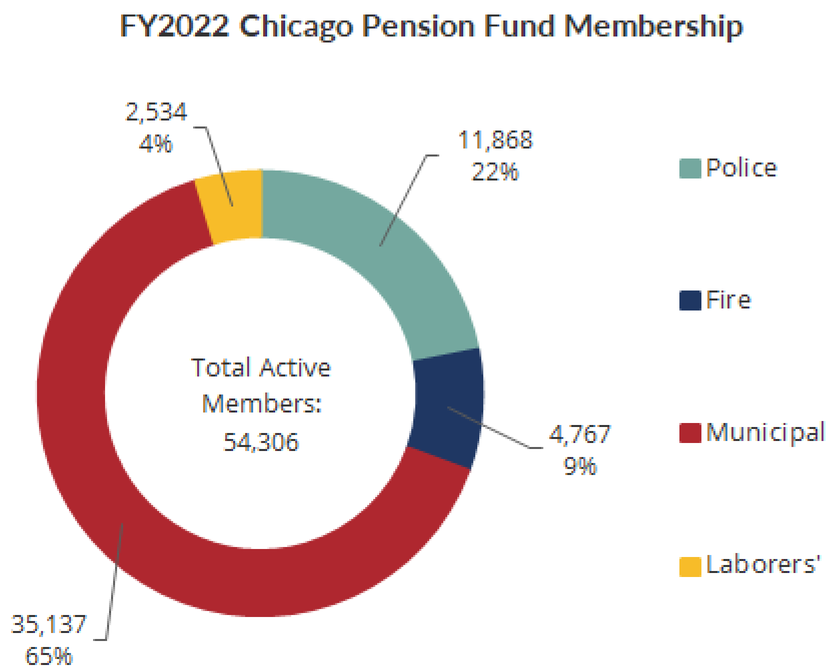


*Annual Required Contribution in FY2014 and prior.
Sources: FY2013-FY2022 Actuarial Valuations for the Police, Fire, Municipal and Laborers' pension funds.

Pension Fund Membership

In FY2022 there were 54,306 employees participating in the four pension funds. The Municipal Fund constitutes 65% of total active employee membership. However, roughly half of the 35,137 active Municipal Fund members are not City employees, but rather are non-teacher employees of Chicago Public Schools. Approximately 45.0% of all active members of all four pension funds belong to Tier 1 and 55.0% belong to Tier 2 or 3. The Municipal Fund is the only fund whose members are majority Tier 2 or 3 members with approximately 59.8% in those tiers. The Laborers' Fund has the lowest percentage of Tier 2/3 members at approximately 44.0%.

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



Note: More than half of the Municipal Fund members are non-teacher employees of the Chicago Public Schools.
Sources: FY2022 Actuarial Valuations for the Police, Fire, Municipal and Laborers' pension funds.

Every fund except the Municipal Fund has more annuitants and beneficiaries than active employees. The ratio of actives to annuitants ranges from 0.70 in the Laborers' Fund, to 0.90 and 0.81 for the Fire and Police Funds, to 1.34 for the Municipal Fund. A low ratio of active employees to annuitants means there are fewer employees paying into the fund and more retirees taking annuity payments out of the fund. This can be a signal of distress for mature and underfunded pension plans like the four Chicago funds, where additional employer contributions will be needed to make up the difference.

For more information about the City's four pension funds, see the Civic Federation's blog post from October 2023.[114] The blog post analyzes trends in membership as well as the funds' fiscal health indicators, including the funded ratio, unfunded actuarial accrued liability, and investment rates of return based on the most recent FY2022 actuarial reports.

---

[114] Civic Federation, "How the Chicago Pension Funds Fared in 2022," October 6, 2023.

CHICAGO DEBT AND BOND RATINGS

This section of the analysis provides summary information about debt service trends over time, recent debt issues, the City of Chicago's current bond ratings and Sales Tax Securitization Corporation debt. The last capital improvement plan (CIP) the City issued was for fiscal years 2022 through 2026. The next capital improvement plan the City will issue is the 2024-2028 Capital Improvement Program that will be published in mid-2024.[115]

The FY2024 City budget includes approximately $90 million in debt refinancing savings as one of its gap closing measures. Plans for the refinancing will be presented to the rating agencies in early 2024.[116] According to the City, the debt refinancing will not involve a "scoop and toss" structure.[117]

DEBT SERVICE TRENDS

The ratio of debt service expenditures as a percentage of total expenditures is frequently used by rating agencies to assess governmental debt burden. Debt service payments at or exceeding 15-20% of all appropriations are considered high by the rating agencies.[118]

Chicago total debt service appropriations in FY2024 are projected to be 17.0% of total local fund net appropriations, or $2.1 billion out of expenditures equaling $12.2 billion. The City will appropriate $492.3 million in general obligation debt service alone in FY2024.[119]

---

[115] Information provided by Chicago Office of Budget and Management, October 25, 2023.

[116] Justin Laurence, Greg Hinz and Leigh Giangreco, "Johnson begins playing defense after unveiling $16.6 billion budget," *Crain's Chicago Business*, October 13, 2023.

[117] Information provided by Chicago Office of Budget and Management, October 23, 2023.

[118] Standard & Poor's Public Finance Criteria 2007; and Moody's, General Obligation Bonds Issued by U.S. Local Governments, October 9, 2009.

[119] City of Chicago FY2024 Budget Overview, p. 42.

Since FY2020, debt service appropriations have risen by 7.5%, while total net appropriations have increased by 23.9%. The debt service ratio has averaged 20.0% over the five-year period analyzed. Thus, Chicago's debt service ratio is high, reflecting the City's large debt burden.

Debt Service Appropriations as a Percentage of Total Net Appropriations: FY2020-FY2024

Year	Debt Service	Total Net Appropriation	Ratio
FY2020	$ 1,938,788,156	$ 9,893,783,000	19.6%
FY2021	$ 1,956,178,697	$ 9,773,719,000	20.0%
FY2022	$ 2,440,370,228	$ 10,619,499,000	23.0%
FY2023	$ 2,383,853,128	$ 11,773,473,000	20.2%
FY2024	$ 2,085,100,586	$ 12,257,088,000	17.0%
Five-Year $ Increase	**$ 146,312,430**	**$ 2,363,305,000**	
Five Year % Increase	**7.5%**	**23.9%**	

Source: City of Chicago Budget Recommendations: FY2020-FY2024 Distribution of Proposed Appropriations by Function and Organization Units table.

Recent Bond Issues

A summary of the most recent City of Chicago bond issues is presented below:

- The City intended to issue $519.8 million in Midway Airport senior lien revenue refunding bonds in late October 2023.[120]
- The Chicago Sales Tax Securitization Corporation issued $219.1 million in revenue bonds in September 2023. This included a $176.8 million second lien refunding issue and a $42.2 million refunding issue.[121]
- The Sales Tax Securitization Corporation issued $740.5 million in bonds in January 2023. Of this total amount, $159.9 million were two issues of social bonds, $217.1 million were two refunding bond issues and $363.5 million were taxable refunding bonds.[122]
- In August 2023, Chicago issued $171.8 million in Chicago O'Hare Airport Customer Facility Charge Senior Lien Refunding bonds.[123]
- In May 2023, the City issued $576.4 million in water revenue bonds. Of that amount, $254.2 million were second lien water revenue project bonds and $322.2 million were refunding bonds. As of this date the City has no outstanding senior lien bonds.[124]

---

[120] City of Chicago, Preliminary Official Statement, Chicago Midway Airport $519,750,000 Senior Lien Airport Revenue Refunding Bonds, October 13, 2023.
[121] City of Chicago. Sales Tax Securitization Corporation $219,085,000 Bond Issue, September 22, 2023.
[122] City of Chicago. Sales Tax Securitization Corporation $740,456,000 Bond Issue, January 20, 2023.
[123] City of Chicago. $576,415,000 Water Revenue Bond Issue, May 3, 2023
[124] City of Chicago. $171,800,000 O'Hare Airport Customer Facility Charge Refunding Bond Issue, August 16, 2023.

- The City also issued $452.6 million in second lien wastewater revenue bonds in May 2023. This issue included $260.1 million in wastewater transmission bonds and $192.5 million in refunding bonds.[125]
- The City issued $523.8 million in general obligation bonds in December 2022 to finance projects in the Chicago Works program and Chicago recovery plan.[126]

Bond Ratings

The table below summarizes the credit ratings as of October 2023 for various types of City bonds.

City of Chicago Credit Ratings (as of October 2023)

Type of Bonds	Moody's	Standard & Poor's	Fitch	Kroll
General Obligation Bonds				
General Obligation Bonds	Baa3	BBB+	BBB+	A
Revenue Bonds				
O'Hare Airport				
Senior Lien General Airport Revenue Bonds	A2	A+	A+	A+
Passenger Facility Charge Revenue Bonds	A2	A+	A	Not Rated
Customer Facility Charge	Baa1	BBB	Not Rated	Not Rated
Midway Airport				
First Lien - Revenue Bonds	A2	A	Not Rated	Not Rated
Second Lien - Revenue Bonds	A3	A	A	A
Water				
Junior Lien - Revenue Bonds	Baa1	A+	A	AA
Wastewater				
Senior Lien - Revenue Bonds	Baa1	A	Not Rated	Not Rated
Junior Lien - Revenue Bonds	Baa2	A +	A	AA-
Sales Tax Securitization Corporation				
Sales Tax Securitization Bonds	N/A	AA-	AA+	AAA
Second Lien - Sales Tax Securitization Bonds	N/A	AA-	AA-	AA+

Sources: City of Chicago FY2022 Annual Comprehensive Financial Report, p. 30; https://www.cityofchicagoinvestors.com/ohareairportbonds/i1411; and https://www.salestaxsecuritizationcorporation.com/stsc-il/i3228; Fitch Ratings at https://www.fitchratings.com/research/us-public-finance/fitch-upgrades-chicago-il-idr-go-to-bbb-outlook-stable-19-10-2023.

Ratings Changes in 2022 and 2023

The City of Chicago has received several upgrades from credit rating agencies over the past year, for both the City's long-term general obligation debt and other debt. City debt primarily consists of general obligation debt secured by a full faith and credit pledge of revenues, revenue debt secured by earmarked taxes and fees, Sales Tax Securitization Corporation (STSC)

---

[125] City of Chicago. $452, 575,000 Wastewater Transmission Revenue Bond Issue, May 4, 2023.
[126] City of Chicago. $523,800,000 General Obligation Bond Issue, December8, 2022.

debt, and tax increment financing debt paid for by taxes on incremental value increases of property values in TIF districts. The recent rating upgrades were primarily due to the City's improved economic and revenue conditions as it emerged from the depths of the COVID-19 pandemic. The upgrades also reflect the City's efforts to reduce liabilities by making additional payments for its pension funds.

Several of the rating upgrades were the first in well over a decade. The last time Fitch had upgraded the City's general obligation debt was over 25 years ago.

The credit rating increases are significant not only because they signal improved financial stability, but also because they save the City money over time. According to the City, every credit rating upgrade represents $100 million in interest cost savings on each $1 billion in bonds issued.[127]

The following are brief summaries of credit upgrades from Fitch, Standard and Poor's, Moody's and Kroll for Chicago's long-term general obligation and revenue debt in 2022 and 2023, to date.

Fitch Ratings Changes

On October 19, 2023, Fitch Ratings upgraded City of Chicago general obligation debt to BBB+ from BBB with a stable outlook and its Sales Tax Securitization Corporation sales tax bonds to AA+ from AA with a stable outlook. The rating for second lien STSC sales tax bonds was affirmed at AA-. The upgrades were based on reductions in the amount of Chicago's long-term liabilities, growth in the City's economic resource base and improved debt management practices.[128]

On November 4, 2022, Fitch Ratings upgraded the City's $1.5 billion in outstanding second lien sewer revenue bonds one notch to A from A- with a positive outlook.[129] The rating agency based its decision on an assessment that the system's operating costs were low, it had moderate life cycle needs and the sewer system's finances were stable. On the same day, Fitch also upgraded the City's $1.8 billion in outstanding second lien water revenue bonds one notch to A from A- with a positive outlook.[130] Fitch found that Chicago's water system provided an essential service with very low operating costs and moderate life cycle needs, and that it possessed a strong financial profile.

On October 21, 2022, Fitch Ratings upgraded the City of Chicago's general obligation bonds to BBB from BBB-. This was Fitch's first upgrade of Chicago general obligation bonds in 25 years due to the City's improved financial condition, rather than a change in the rating agency's methodology. Fitch also upgraded Chicago Sales Tax Securitization Corporation's bonds to AA from AA-. Both issues received a positive outlook. The reason for the upgrade was the City's

---

[127] City of Chicago 2024 Budget Forecast, April 2023, p. 10.
[128] Fitch Ratings, Fitch Upgrades Chicago, IL's IDR and GO's to 'BBB+'; Outlook Stable, October 19, 2023.
[129] Fitch Upgrades Chicago, IL's Second-Lien Sewer Revs to 'A'; Outlook Positive, November 4, 2022.
[130] Fitch Ratings. Fitch Upgrades Chicago, IL's Second Lien Water Revenues to 'A'; Outlook Positive, November 4, 2022.

commitment to improving its pension funding, maintaining strong reserves and implementing structural budget measures that have improved its ability to respond to future cyclical economic changes.[131]

In August 2022, Fitch Ratings upgraded the rating on $8.5 billion in outstanding general revenue airport bonds to A+ from A. The credit upgrade was based on O'Hare Airport's improved financial performance and stable debt service coverage levels as well as progress that had been made on the airport's expansion and improvement plans. [132]

Standard & Poor's Ratings Changes

In April 2023, S&P upgraded City of Chicago water second lien revenue bonds and sewer second lien revenue bonds. Both issuances were raised one notch to A+ from A. The rating agency cited as reasons for the upgrade the City's improved financial situation as well as its transition to using the American Water Works Association's cost-of-service rate methodology for suburban customers rather than a uniform rate structure.[133]

S&P upgraded Chicago Midway Airport revenue bonds to A from A- with a stable outlook in February 2023. The upgrade reflected S&P's assessment that activity at Midway Airport had recovered to a large extent from the effects of the COVID 19 pandemic and their expectation that the airport would continue to have stable and adequate financial performance.[134]

On November 10, 2022, Standard and Poor's affirmed Chicago's general obligation bond rating of BBB+ and revised the rating outlook from Stable to Positive. The outlook change was based on S&P's evaluation that the City had significantly improved its financial stability in recent years, including its commitment to increase pension funding.[135]

In August 2022, S&P raised its rating for Chicago's outstanding senior lien general O'Hare International Airport revenue bonds to A+ from A. It also increased the rating on O'Hare's outstanding standalone passenger facility charge revenue bonds to A+ from A. The upgrades were based on increased passenger traffic and improved enterprise operations, according to an S & P Global Ratings summary on Chicago O'Hare International Airport dated August 18, 2022.[136]

---

[131] Fitch Ratings, Fitch Upgrades Chicago, IL's GO Bonds to 'BBB' and Rates $757MM GO Bonds 'BBB'; Outlook Positive, October 21, 2022.
[132] Fitch Ratings, Fitch Rates Chicago O'Hare (IL) Airport Rev Bonds at 'A+', Upgrades Outstanding: Outlook Stable, August 17, 2022.
[133] Office of the Mayor, "City of Chicago Secures Two More Rating Upgrades for the City's Water and Sewer Credits," April 12, 2023.
[134]Chicago Department of Aviation, S&P Upgrades Midway Airport Ratings for Passenger Recovery, February 6, 2023.
[135]

City Council Office of Financial Analysis, Bond Rating Analysis: Rating & Outlook Changes for Chicago GO Bonds, November 28, 2022.
[136] S & P Global Ratings, Summary: Chicago O'Hare International Airport, August 18, 2022.

In June 2022, S&P revised the outlook to positive from stable for Chicago's customer facility senior lien Series 2013 bonds and affirmed its BBB long term and underlying ratings for these bonds. The action was based on improved rental car activity as the City recovered from the COVID-19 pandemic.[137]

S&P revised the outlook from stable to positive in January 2022 for the City of Chicago's first lien and second lien general airport revenue bonds issued for Midway International Airport. At the same time, it affirmed its A- rating on these bonds. The outlook change was based on the improved economic situation at Midway Airport as air traffic activity reached 87% of September 2019 levels.[138]

Moody's Ratings Changes

Moody's Investors Service upgraded Chicago's general obligation unlimited tax bonds one notch, to Baa3 from Ba1, in November 2022. The upgrade was based on the City's substantial increase in pension funding; its improved budgetary management, including a willingness to raise revenue to address the City's ongoing structural deficit; and the elimination of budget gimmicks and pension cost deferrals. At the same time, Moody's also upgraded its rating on Chicago's water revenue bonds from Baa2 to Baa1, the rating on senior lien sewer revenue bonds from Baa2 to Baa1 and the rating on the junior lien sewer revenue bonds from Baa3 to Baa2. All ratings have a stable outlook.[139]

Kroll Ratings Changes

Kroll Bond Rating Agency changed the outlook of Chicago's outstanding general obligation bonds from stable to positive in November 2022 and affirmed its A rating of those bonds. The reasons for the positive outlook included the City's COVID-19 management strategies, improved revenues, enhanced financial stability, reduction of debt and increased pension funding. At the same time, Kroll assigned an A rating with a positive outlook to the City's Series 2023A and Series 2023B general obligation bonds.[140]

Sales Tax Securitization Corporation (STSC)

In 2017, the City entered into an Assignment, Purchase and Sale Agreement with a new Sales Tax Securitization Corporation (STSC). The STSC is a special purpose nonprofit corporation that is a blended component unit of the City. The entity is a lockbox designed to intercept sales tax revenue in order to protect bondholders in the event of bankruptcy. The STSC is governed by a

---

[137] S & P Global Ratings, Chicago O'Hare International Airport Bond Rating Outlook Revised to Positive on Improved Rental Car Activity, June 11, 2022.
[138] S & P Global Ratings, Chicago Midway International Airport Bond Rating Outlook Revised to Positive from Stable on Improving Enplanements, January 20, 2022.
[139] Office of the Mayor, "City of Chicago Secures First Moody's Investment Grade Upgrade In 12- Years," November 8, 2022.
[140] Kroll Bond Rating Agency, City of Chicago Rating Summary, November 21, 2022.

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.[141]

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

The benefit of having the Sales Tax Securitization Corporation is that the City can issue debt, backed by sales tax revenue, at a lower credit risk and therefore lower interest cost than other general obligation debt. The City had a total of $4.6 billion outstanding in STSC debt as of December 31, 2022.[142]

In FY2023, the City estimates that $420.5 million will be needed to pay STSC debt services and operating expenses. All remaining sales tax revenues will be paid to the City as the holder of the residual certificate. As of 2023, Chicago no longer has any non-enterprise debt that is not paid for with property taxes other than the STSC.[143] In FY2024, the City anticipates that the residual revenue transferred to the City from the STSC will total approximately $552.7 million, a reduction from $619.4 million in FY2023.[144] The decrease in the residual is due to the issuance of additional STSC debt in January 2023 and September 2023.[145]

[141] City of Chicago FY2022 Annual Comprehensive Financial Report, p. 52-53.
[142] City of Chicago FY2022 Annual Comprehensive Financial Report, p. 29.
[143] City of Chicago FY2024 Budget Overview, p. 42.
[144] City of Chicago FY2024 Budget Overview, p. 30.
[145] Information provided by Chicago Office of Budget and Management, October 25, 2023.