The Great Recession's Impact on the City of Chicago

Rebecca Hendrick
Department of Public Administration
University of Illinois at Chicago
hendrick@UIC.edu

Martin Luby
John Glenn School of Public Affairs
Ohio State University
mluby2@uic.edu

Jill Mason Terzakis
Department of Public Administration
University of Illinois at Chicago
jill.mason.terzakis@gmail.com

Authors are in alphabetical order. The order does not reflect level of contribution as all contributed equally

Great Cities Institute
College of Urban Planning and Public Affairs
University of Illinois at Chicago

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Rebecca Hendrick
Department of Public Administration
University of Illinois at Chicago
hendrick@UIC.edu

Martin Luby
John Glenn School of Public Affairs
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Jill Mason Terzakis
Department of Public Administration
University of Illinois at Chicago
jill.mason.terzakis@gmail.com

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1.0 Introduction

Like other cities across the nation, the City of Chicago faces severe negative economic and fiscal pressures caused by the Great Recession. According to the National Bureau of Economic Research, the recession started nationwide in the U.S. in December 2007 and ended in June 2009 and is considered the longest in the post-WWII period (Izzo, 9-20-2010). Also, the recovery thus far has been weak and mixed. What is worse for local governments nationwide is that, unlike prior recessions, this one has affected property taxes through foreclosures and declining property values, although the full effects of the latter will not be known for some time. Assessment practices and formulas for deriving property taxes from assessments in many states often lag and smooth the impact of changes in property values on property taxes. Illinois is no different in this regard, but the reliance of many home rule municipalities—including Chicago—on a tax on real estate transfers fiscally threatens such governments more than in other states that do not give local governments this privilege.

This research describes the Great Recession's impact on the City of Chicago budget and financial decisions about revenues, spending, and borrowing. It describes the economic and fiscal characteristics of the City of Chicago and the condition of its budget prior to the Great Recession in order to help separate budget deficits that existed before the recession from recession driven changes in revenues and expenses. It identifies factors that have contributed to the city's current and future expected deficits and changes in its financial position, and the research discusses how well the city is positioned for dealing with the lasting effects of the recession beyond 2011 and after the completion of stimulus funding in FY 2013.

Section II presents information about the city and the metropolitan region including demographic and economic trends as context for better understanding the city's fiscal environment. This section summarizes the revenue privileges and sources of revenue for the City of Chicago as determined by the State of Illinois, and some of its spending pressures. Similar to many other local and state governments, pensions are a primary source of demand on public resources and are expected to be a drain on government far into the future. Section III describes the fiscal structure of the city (spending, revenue, and debt) and the spending and revenue trends the city has experienced since 2000. It also presents a more detailed analysis of the city's deficits and other financial problems. Section IV section describes the institutional framework for the city's financial decisions focusing on political and intergovernmental institutions, the structure of the city financial system, the budget process as well as other critical financial policy processes. Section V examines the city's early responses to the Great Recession and strategies for resolving financial problems.

Several important observations emerge from our analysis. First, as is the case with other cities and states in the nation, the Great Recession is not solely responsible for the city's current budget deficits or its' long term financial problems. Fiscal policies and practices that existed prior to the recession have contributed greatly to its current financial condition. One such policy is the budgeting of operating deficits and draw-down of its fund balances from 1998 to 2008 which created a significant structural imbalance even prior to the recession[1]. Another is its practice of permitting an accumulation of unfunded pension obligations by making annual pension contributions based upon the statutory formula instead of an actuarially determined contribution. A third fiscal policy is the dedication of property taxes, a more stable revenue source than others, entirely to pensions and debt service. As a result, its general operations are now funded by relatively volatile revenue sources that are sensitive to changes in the economy. However, the revenue structure is also more diversified than what likely exists in other cities.

Second, these fiscal policies are, in part, products of Richard M. Daley's (1989 – present) long-term and broader policy agenda that focuses on public safety, neighborhood investment, and avoiding property tax increases. Public safety expenditures consist largely of personnel related costs, which has reduced the portion of the budget that can be treated as discretionary. Third, unlike many other cities, the City of Chicago has pursued a relatively unique policy of leasing major assets (Chicago Skyway, parking meter services, and Chicago Park District garages) to create large reserves. These reserves were intended to fund operations and obligations for many years, but the city has tapped into them to replace revenues lost during the Great Recession, which has allowed them to continue pursuing the Mayor's broader policy agenda. Although the city has reduced spending for personnel and other objects, the reserves have permitted it to 'kick the can down the road' instead of forcing it to make more difficult and necessary decisions to correct its long-term structural deficit and better position itself for the

[1] The Civic Federation, "City of Chicago FY 2010 Proposed Budget: Analysis and Recommendations," November 18, 2009; page 19

future. At some point, the city will have no more rabbits left in their hat.[2]

2.0 Demographics, Economy, Revenue Bases and Spending Pressure

Compared to all other metropolitan regions in the U.S., the Chicago region was responsible for about four percent of the nation's total gross domestic product in 2008. Its contribution to the U.S. economy ranks third behind the New York metropolitan region that accounts for ten percent and Los Angeles that contributes 5.6 percent. Economic activity in the Chicago region has an impact on the U.S. economy as a whole, and businesses within the City of Chicago are an important driver of the regional economy. Internationally, Chicago is recognized as a "global city" that has moved beyond its history of meat packing and tommy guns to showcase architecture, entertainment, a scenic lakefront, and dominance in the trading of futures and derivatives (The Economist, 3-18-2006a, 3-18-2006b, 3-18-2006c).

Some of the recognized fiscal strengths of the City of Chicago are its diverse economic base, relatively high personal income levels, and its status as a metropolitan regional center (S&P Rating Report 2010). The socio-economic make up of the city and the Chicago metropolitan region determines the composition of all revenue bases from which the city draws all revenues and other factors that affect spending needs. The data in Table 1 provide an overview of these features and trends in these features for the city, metropolitan region, and U.S. since 2000. Tables 2 through 5 present additional information about important fiscal changes relevant to the Great Recession in Chicago and other central cities in this symposium including GDP, unemployment, housing prices and foreclosures.

Figure 1 shows the municipalities in the six-county Chicago metropolitan region to give the reader a better sense of the primary jurisdictions within the region. Note that, except for a very tiny fraction that is in DuPage County, [3] the boundaries of the City of Chicago are almost entirely contained within Cook County which is the largest county in the U.S. As defined by the U.S. Census Bureau, the Chicago Metropolitan Statistical Area consists of eight counties in Illinois, two counties in Indiana, and one county in Wisconsin, with an estimated population of about 9.6 million in 2009. More generally, other sources consider the metropolitan area to consist only of the six counties in northeastern Illinois with an estimated population of 8.4

[2] Some findings and claims in this study are based on extended, open-ended interviews with two high-level financial officers in the City of Chicago and one prior high-level official who left in the city in the early 2000s. The interviews occurred in August, 2010. IRB rules prevent us from identifying these individuals.
[3] The small circle of land that is part of the City of Chicago on the northwest side is O'Hare Airport.

million. These counties are Cook, DuPage, Kane, Lake, McHenry, and Will.

[FIGURE 1 ABOUT HERE]

Table 1 shows demographic and social data for the City of Chicago, the Chicago metropolitan region, and the U.S. as a whole for 2000 (decennial census) and 2006 – 2008 (American Community Survey). According to census data, median age is higher in the U.S. overall and lowest in the City of Chicago, primarily because the senior population is greater in the U.S. compared to the City and region. However, the median age has increased overall in all sectors.   The percentage of Black, Hispanic and other races is much greater in the city than the region and U.S. The proportion foreign born is much greater in the City than the metropolitan or U.S. average. The population in the metropolitan region is wealthier than the city and U.S., and poverty and unemployment is greatest in the city. There are far more owner occupied homes in the region and U.S. than the city, but homes in the city and region are more expensive than the U.S. as a whole. Notice also that the percentage of vacant housing has increased in all sectors since 2000.

[TABLE 1 ABOUT HERE]

Table 2 shows the percentage change in the gross domestic product per capita of Chicago and seven other metropolitan regions (MSAs) from 2001 to 2006, 2006 to 2007, and 2007 to 2008.   The increase in GDP per capita was significantly higher in the New York and Los Angeles regions between 2001 and 2006 than elsewhere and, in Atlanta, GDP actually declined. Chicago's economic growth during that time period is relatively low. Chicago had a modest increase in GDP per capita between 2006 and 2007, especially compared to Phoenix and Atlanta that experienced a decline in economic activity.   Chicago also experienced a modest decline in GDP per capita between 2007 and 2008 similar to other regions, although Boston, New York, and Seattle all experienced modest growth in their economies at that time. Overall, the changes in economic activity in the Chicago region are not as bad as Atlanta and Phoenix, but they are not as strong as Boston and New York.

[TABLE 2 ABOUT HERE]

Although overall economic growth and decline affect the revenues collected by city governments, more direct impacts are likely to exist from conditions that alter the value of the revenue bases from which these governments get their revenues. For instance, increasing unemployment reduces income which lowers the income tax that city governments receive directly (e.g. in Pennsylvania and Michigan) or via their state government, such as in Illinois. Unemployment also reduces disposable income, which lowers family spending, and sales tax collected by Illinois municipalities and distributed to them by state government. Table 3 shows unemployment rates from 2000 to 2009 in the same eight MSAs as Table 2. It shows that trends were similar in all cities, but Chicago experienced relatively high levels of unemployment due to the recession. Unemployment was relatively low in all cities in 2000 and in 2006 and 2007, then increased slightly in 2008, and increased even more in 2009. Los Angeles had the highest unemployment rate in 2009 at 10.9, and Chicago had the second highest at 10.0 with Atlanta at 9.6. Boston and Dallas had the lowest employment rates at 7.8. [4] Chicago is also experiencing higher unemployment than the nation as a whole (9.6%) and the State of Illinois (10.5%). Furthermore, employment in Chicago is expected to lag much of other parts of the country over the next few years.[5]

[TABLE 3 ABOUT HERE]

Table 4 shows the average percent change in house price indices for four quarters from 1997 to 2009, which have an effect on property values and, hence, property taxes collected by city governments. The areas shaded in gray represent periods of relatively high inflation in housing prices that existed between 2000 and 2005 for most metropolitan areas, but all areas except Dallas experienced declines in housing prices by 2008. Boston and New York experienced sustained high inflation between 1999 / 2000 and 2004 / 2006 respectively. Los Angeles experienced hyperinflation in housing prices that was greater than 20 percent in 2004 and 2005, as did Phoenix in 2005 and 2006, although high price increases were more sustained over a longer period of time in Los Angeles than Phoenix. Similar to Atlanta and Dallas, Chicago did not experience long periods of sustained high increase in housing prices. However, it did experience higher levels of decline in housing prices in 2008 and 2009 than either Atlanta or Dallas. By comparison, Los Angeles and Phoenix experienced somewhat dramatic declines in housing prices in 2008 and 2009.

[TABLE 4 ABOUT HERE]

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[4] According to The Civic Federation "City of Chicago FY 2010 Proposed Budget: Analysis and Recommendations," November 18, 2009, page 62, the unemployment rates as of November 2009 for the following comparable cities are as follows: Chicago (12.1%), New York (9.3%), Los Angeles (12.5%), Philadelphia (10.4%), and Houston (9.3%)

[5] The Civic Federation, "City of Chicago FY 2010 Proposed Budget: Analysis and Recommendations," November 18, 2009; page 62

Foreclosures reduce property tax payments immediately compared to the effects of a decline in housing and property values which may lag by three to five years. This is especially true for the City of Chicago and all of Cook County in which the property taxes paid are lagged by one year, and because assessments are calculated using a three-year moving average. Foreclosures also create obligation for municipalities in Illinois to maintain or demolish properties that are foreclosed on and vacant, and Chicago is no exception.[6]

Table 5 shows foreclosures as reported by the region's Woodstock Institute. The first column present foreclosures in counties in the region and different regions of Cook County as a ratio of 1,000 estimated mortgageable properties, and the last two columns present percent change in total foreclosures in these same areas for 2002 to 2005 and 2005 to 2007 respectively. The table shows the extent to which financial conditions associated with the Great Recession increased foreclosures all over the region, but especially in North Cook, Northwest Cook and DuPage County. These areas are some of the wealthiest in the region in terms of personal income and EAV. But, the table also shows that the overall rate of foreclosures is higher in the City of Chicago and South Cook. Both areas have high levels of poverty, and South Cook is one of the poorest in the region.

[TABLE 5 ABOUT HERE]

2.1 Revenues

The extent to which recessionary pressures, such as those documented in Tables 1 to 5, become immediate sources of budgetary pressure in a city depends upon its legal ability to tap these resources, the degree the city has tapped into them, and its reliance upon them. In the State of Illinois, whether a local government is home rule is a critical distinction in terms of the revenue options available to it. In Illinois, home rule powers are broadly construed, especially with respect to its ability to increase and impose new taxes and fees, compared to other states with more constraining definitions of home rule powers (Frug and Barron, 2008; Krane et al, 2001). Municipalities in Illinois are granted home rule when their population reaches 25,000 or via referendum. The City of Chicago has utilized its home rule powers to greatly broaden its source of revenues and, as a result, it has a fairly diversified revenue structure. Although this has exposed the city to more volatile and economically sensitive revenues, it has also reduced its

[6] In Illinois the counties are responsible for property assessments, tax collection, and distribution of property taxes to other units of government. Counties are also responsible for sale of properties with delinquent taxes.

dependence on revenue generated by a state that has serious financial problems.

One of the most important privileges for home rule governments is that they are not subject to property tax limitations. Non-home rule governments in Illinois may not raise property tax levies more than the lesser of the rate of inflation or 5 percent. In this case, many non-home governments will raise levies to the maximum amount allowed, irrespective of the changes to property values. Alternatively, home rule governments such as Chicago often behave as if they are non-home rule with respect to increasing property tax levies. In fact, the City of Chicago has a formal policy to this effect that is part of Mayor Daley's agenda mentioned previously.

As demonstrated by the property tax limitations requirements in Illinois, property tax decisions at the local and county level (that determines the amount of property taxes "extended to properties") focus on levies and not the nominal tax rates applied to assessed valuation. Thus, changes in property values may have little effect on property taxes collected by local governments in the state, and the effective *tax rates* on individual properties will rise as property values fall during the recession. As one interviewee quipped, "even if the City of Chicago had one tax payer, we would collect the same levy."

Home rule governments in the State of Illinois and Chicago in particular have the ability to levy many taxes and charges including sales tax, hotel / motel taxes, real estate transfer taxes, and gasoline. Real estate transfer taxes have been especially affected in a negative way by the recent decline of the housing market. According to the Illinois Department of Revenue (IDOR), real estate sales that were taxed increased by 17, 16.6, 33.4 percent each year from 2002 to 2005, but declined by 15 percent from 2006 to 2007 (IDOR Annual Report: Collections and Distributions, biannual). Unfortunately, IDOR greatly reduced its reporting detail on state and local finances after 2007, so no figures are available on these transfers after that date.

Utility taxes are another important source of revenue for both home rule and non-home rule and are levied separately on natural gas, electric, and telecommunications. A municipality in Illinois can impose a tax at a rate up to five percent (eight percent in Chicago) on the gross receipts of businesses that provide natural gas for consumption within its territory. Municipalities also can impose a five percent tax on gross receipts on businesses transmitting messages (telecommunications) within their borders, and an additional infrastructure maintenance fee of up to one percent of gross charges by providers of telecommunications (two percent in Chicago). Finally, municipalities can impose a tax on the privilege of using electricity in its territory. Rates decline with increasing electricity, from 0.61¢ per kwh on the first 2,000 kwh per month to 0.30¢ per kwh on monthly usage over 20 million kwh (Legislative Research Unit, 2009).

With respect to revenue from state government, the vulnerability of the City of Chicago to changes in state grants and aids depends on the risks associated with these revenues, how dependent the city is upon them, and how prepared the city is to compensate for decline in these revenues. Revenues received by the city from state government that go to the general fund, excluding grants, consist of the state income tax, the personal property replacement tax, retailers' occupation (and use) tax (sales tax), and the auto rental tax. As shown in Table 6, in 2009, the city received a total of $506.8 million for state source intergovernmental revenue, representing a total of 19.8%, down slightly from 20.1% in 2005. It is also important to note that, of the four taxes in Table 6, only income tax is distributed based municipal population.[7] The other three taxes are distributed based on the level of resources generated by the tax bases within the city. For instance, the state sales tax revenue distributed to Chicago is determined by the sales receipts generated within the jurisdiction, although the state determines what rate it shares with the city.

[INSERT TABLE 6 ABOUT HERE]

In fiscal 2009, income taxes collected by the state represented 6.6% of the City of Chicago’s general fund revenue. The State of Illinois distributes ten percent of all personal income taxes collected (total state tax rate of three percent) to local governments. Like other states, Illinois experienced greater increases in income taxes collected in the late 1990s due to the capital gains the population was accumulating from the strong bull stock market. The recession of 2001-02 hit Illinois income tax in 2002-03, but not as hard as the Great Recession in 2009 and what is expected for 2010 and beyond (IDOR, Annual Reports). Between 2008 and 2009 total personal and corporate income taxes fell by more than $1.1 billion, or 8%.[8] The state has already raised the prospect of a reduction in income tax distribution to local governments (Kocal 2010).

Personal property tax and auto rental tax together represent a relatively small percentage of general fund revenues for the City of Chicago, but it gets a significant amount of personal

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[7] State motor fuel tax is also distributed by population, but its revenues must be dedicated to transportation purposes.

[8] State fiscal conditions historically lag behind national economic recovery. The year after a recession ends is typically when state budgets are hit hardest, because by then, Medicaid rolls have swelled with the higher numbers of the unemployed who have lost their health insurance (Prah, 6-15-09).

property replacement. This tax was created in 1979 to replace the revenue lost by local governments and school districts when the state abolished the personal property tax on corporations, and is distributed to municipalities according to a complex formula.[9] What is of note, however, is that revenues from this tax fell by nearly 50% between 2008 and 2009 in Chicago.

The sales tax represents the largest proportion of state collected revenues in the general fund. The State of Illinois distributes 16 percent of all state sales tax collected on general merchandise to municipalities (equates to one percent of retail sales) and 100 percent of what is collected on qualifying merchandise such as food and drugs. In fiscal 2009, the City of Chicago received $251.6 million, or 8.3%. The amount of revenues received approximated 2005 nominal levels, when the tax represented 9.0% of general fund revenues. Although trends in sales receipts vary greatly among municipalities based on the number and types of commercial establishments in governments, the State of Illinois overall experienced significant increases of six to eight percent in sales tax receipts on general merchandise and automobiles in the late 1990s, slight declines in 2001 to 2003, and a significant decline of $800 million, or 8% between 2008 and 2009 (IDOR, Annual Reports).

The City of Chicago also receives grant dollars from the State of Illinois and the federal government, and the latter have increased significantly since 2009 as part of the American and Recovery Investment Act (ARRA). The city will receive funding from this program until 2013. Table 7 shows that the amounts the city has received thus far each year as a percentage of all funds (general fund plus all other local funds) have ranged from 28% in 2009 to 23% in 2010 and 32% in 2011.[10] Of this amount ARRA funding specifically has represented roughly 5% of all funds revenues during the past three fiscal years. Furthermore, as illustrated in Table 8, much of the ARRA stimulus monies are dedicated to specific projects and expenditure categories. While some portion of stimulus monies, such as, for example, police hiring may offset fiscal strain on general fund items, the funds cannot be seen as solely discretionary revenues. However, the infusion of ARRA resources has probably eased the impact of the recession on the general fund portion of the budget and permitted the city to continue programs that further its

[9] The amount of replacement tax received by taxing districts is based on their share of personal property tax collections in 1979.

[10] Note: the percentages for Fiscal 2010 are based upon an a total all funds budget of $6.142 billion, actual expenditures were less than budgeted amounts, resulting in a total of $218,194,000 in carryover of funds. As a result, 2010 percentages will be understated.

policy agenda, especially with respect to neighborhood investments and other capital programs.

[TABLES 7 & 8 ABOUT HERE]

Grant dollars and other aid from state-shared revenues (e.g. state sales and income tax) to local governments in Illinois are threatened greatly by the state's own fiscal crises. In fact, Illinois government's financial problems have reached critical level. It is delaying paying what it owes to non profits, vendors, and other governments creating significant revenue shortfalls for these entities. For the City of Chicago, FY revenues ended 1.4%, or $42.7 million below estimates due to $32.3 million in income tax distributions that were not released by the state prior to the end of the fiscal year. The state owed the University of Illinois System $436 million in January of 2010 (Heupel, 2010), and school districts have laid off teachers for the 2010-11 academic year due to a shortage of promised revenue from the state totaling $760 million for the prior school year (Malone, et al., 2010).

The Comptrollers report for July, 2010 noted that Illinois ended the year in the worst fiscal position in its history. At the end of June, 2010 the backlog of unpaid bills and fund transfers stood at $4.712 billion, and the general fund, fund balance was a negative $4.692 billion (Comptrollers Quarterly, 2010). A *Crain's Chicago Business* news article in January, 2010 stated (Merrion et al., 2010) that:

> "While California has an even bigger budget hole to fill, Illinois ranks dead last among the states in terms of negative net worth compared with total expenditures. The state's liabilities, including future pension payments, exceed its unrestricted assets by $39 billion, more than 72 percent of its total expenditures as of mid-2008. Unfunded liabilities and pension debt are projected to reach $95 billion by June 30, 2010.

More recently, an article in the *Bond Buyer* noted that the city took a penalty for the state's financial condition in higher interest rates for revenue bonds it wanted to issue in November, 2010 (Sheilds, 11/3/10).

2.2 Spending

As described previously, the overall legal structure and political environment in a state shape the types and levels of revenue local governments collect. State institutions and actions also can affect the nature of spending pressures experienced by local governments. One of the biggest financial challenges that most state and local governments in the U.S. face is meeting pension and other post-employment benefit (OPEB) obligations. The State of Illinois has exacerbated these pressures on local governments by increasing OPEBs for local employees.

Throughout the 2000s, the state passed legislation enhancing OPEB benefits for employees in many different local retirement systems. For instance, Public Act 94-0719, signed into law in January 2006, doubled the automatic annual cost of living increase for Chicago police retirees born between 1950 and 1954 from 1.5% to 3.0%. Fund actuaries estimate that this change increased the plan's liability by $139.6 million in 2005 (The Civic Federation, 2007). In 2004 municipalities with firefighter pension funds saw their taxpayer contribution requirement increased by a state law that retroactively awarded surviving spouses a benefit equal to 100 percent of a deceased pensioner's annuity (Illinois Municipal League, 2007). The acceleration of benefits which increases liabilities for local government pension funds has been particularly problematic for the City of Chicago's pension funds.

In April of 2010, the Commission to Strengthen Chicago's Pension Funds released its final report. The Commission, formed by Mayor Daley in January of 2008, was comprised of union leaders, pension fund executives and business and civic leaders. The Commission reported that at the end of 2009, the four pension funds covering employees of the City of Chicago and non-teaching employees of the Chicago Public School District had a combined actuarial liability of $25.45 billion and a market value of $10.88 billion, resulting in an unfunded actuarial liability of $14.57 billion with an unfunded ratio of 43%. The Commission reported that as recently as 2000, the funds had an aggregate funding ratio of 83%.[11] By the end of 2002, however, the ratio had fallen to 62% and by the end of 2009 it had fallen to 43%. The Commission found that these funds had suffered from both inadequate contributions by the city and the granting of benefit increases, but the "ratchet effect" was also an important factor.

As with other local governments in the U.S., the strong investment market of the late 1990s produced several years of significant gains for city pension funds, but the market decline of 2000 to 2002 created major losses for these funds, as did the market decline that began in during the Great Recession and was propelled by the October crash of 2008. Structural increases in liabilities and low funded ratios mean that the Chicago pension funds will not be able to make sufficient gains and recover even in strong investment markets. If nothing changes, funded ratios will continue to decline during weak investment markets and remain level during strong investment periods (Commission to Strengthen Chicago's Pension Funds, 2010).

[11] It should be noted that the aggregate funding ratios obscure what has been uneven pension funding ratios across funds. For more information, see the Civic Federation's State of Local Pension Funding reports which are prepared annually.

Like most cities, the City of Chicago relies on debt to finance capital spending. Over the last decade, in conjunction with the mayor's expansion of capital projects, the city has aggressively utilized debt to fund its capital improvement program. For non-enterprise funds, the city's general obligation and sales tax debt are paid from property taxes (in the case of general obligation bonds) and sales taxes (in the case of the sale tax bonds). Principal and interest payments on all the city's other debt are paid out of their enterprise funds. The city's capital improvement program is entirely bond financed so any expansion of this program will increase spending for debt service. Most of this debt is made up of general obligation bonds although some of these capital improvements are funded by sales tax bonds.

Table 9 shows the change in the city's debt burden on a per capita basis and as a percentage of property valuation. Between 1999 and 2007, the city's direct debt increased from $924 to $2,005 per capita reflecting the city's sizable and growing economic development activities. As a percentage of the fair market value of the property, the city's debt decreased from 1.90% to 1.81% between 1999 and 2007 demonstrating how the large increase in property values during this period actually outpaced the city's use of debt. In its rating affirmation in May, S&P characterized the city's debt levels as moderate overall debt burden in terms of percent of estimated market value, but high in terms of per capita value (Standard and Poor's, 2010). However, one would expect that this percentage may increase substantially once the 2008 and 2009 property assessments are released reflecting the substantial decline in property valuations over the last couple years.

[TABLE 9 ABOUT HERE]

In sum, the City of Chicago is a significant economic driver in the region and the country as a whole. However, economic growth has stagnated in Chicago even in the years prior to the Great Recession as compared to other peer cities. Moreover, economic growth is likely to be lower coming out of the recession compared to other large cities due to the relatively high unemployment rate that is not expected to decline quickly. The city has used its broad home-rule powers to create a diverse revenue base even though some of these revenues are cyclically sensitive. Nevertheless, for better or worse, intergovernmental revenue from the state and federal government still makes up a substantial part of its total governmental revenues. In addition to the normal expenses incurred and paid by municipal governments (public safety, general government, waste collection, etc), the city is increasingly burdened by pension obligations that are only expected to increase in the future. In addition, based on policy preferences for increased infrastructure investment, debt costs also make up a sizable and increasing portion of the city's all governmental funds budget, which going forward will crowd out spending for other policy priorities.

3.0 Chicago Revenue and Expenditure Structure and Trends

Understanding the revenue structure of the City of Chicago and the trends it has experienced in critical revenue sources will help to focus analysis of the effects of the recession on the city's budget. Table 10 shows the major own-source revenues of the city for the general fund and all governmental funds as a percentage of total own-source revenues in each area as reported in the Comprehensive Annual Financial Report for 2009.[12] Own-source revenues include all revenues that the government generates from resources they own. In this case, all sales tax revenue is considered own-source even though, as explained previously, some of comes from state sales taxes.

Governmental funds include the general fund, all special revenue funds, debt service, capital projects (excluding bond proceeds), and a permanent fund and exclude internal service funds. Although the general fund (also known as the corporate fund) is considered the main operating account, the city funnels many operations through other governmental funds. For instance, the table shows that none of the city's property tax is dedicated to the general fund. Rather, the tax is dedicated to pay pension obligations, bond debt service and library capital improvements. The city's personal property replacement taxes also are dedicated to pensions. Additionally, special revenue funds exist for the use of state motor fuel tax and the city vehicle tax for transportation and highway purposes, and the Chicago Public Library is accounted for in a special revenue fund.

[TABLE 10 ABOUT HERE]

Table 10 shows that the city has a relatively diversified own-source revenue structure with the greatest level of general revenues coming from sales and utility taxes at 24 percent each. For governmental funds as a whole, about 25 percent of revenues come from property taxes, 15 percent comes from utility taxes, 13 percent comes from sales taxes, and 12 percent come from special area taxes (usually special property tax assessments).

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[12] Own-source revenues do not include income and motor fuel taxes from the state as these are distributed based on population. The city's fiscal year is a calendar year, January 1 to December 31.

According to The Civic Federation (7/1/08), Chicago taxes electricity at rates noted in section 2.1, it has maximized its tax on natural gas and telecommunications at eight percent of gross receipts, and seven percent of gross receipts respectively. Chicago home rule sales tax is 1.25 percent on general merchandise. As categorized by the city, transportation taxes are levied on gasoline and parking, and transaction taxes are levied on real estate transfers and leasing of vehicles and personal property. The city also has a wide range of other taxes on recreational, entertainment, and business activities. Charges for services in Table 10 are on health, inspection, safety, parking, and numerous other services, but exclude charges for the city's enterprise activities. The city's main enterprises are water, sewer, Midway Airport, O'Hare Airport, and the Chicago Skyway. They represent a significant source of financial obligations and revenues for the city and should not be overlooked in an assessment of its financial condition and fiscal problems.

Table 11 shows the city's major revenue sources for the general fund and governmental funds as a whole in 2009 and how they are distributed proportionally. Taxes comprise about 67 percent of the general fund and 61 percent of all governmental funds. Grants from the federal and state governments and shared-revenue from the State of Illinois[13] comprise about 11 percent of the general fund and 23 percent of all governmental funds. The high percentage of intergovernmental revenue in governmental funds as a whole compared to the general fund only reflects the importance of these dollars for capital spending and the requirement that these transactions be earmarked and accounted for separately in special revenue funds. Non-tax revenue represents about 22 percent of the general fund and only 16 percent of governmental funds.

[TABLE 11 ABOUT HERE]

Table 12 shows the revenues for the city's main enterprises in 2009 and how these are distributed proportionally. It shows that almost half of the enterprise revenues that the city collects are from O'Hare Airport, nine percent from Midway Airport, and 43 percent of the enterprise revenues collected came from the water and sewer funds combined, which are both administered by the Department of Water Management. The city's only other enterprise is the Chicago Skyway, which is a 7.8-mile toll bridge and road located on the city's southeast side that

[13] State-shared revenue is state income tax and motor fuel tax.

provides the most direct route to downtown Chicago from Indiana and Michigan. [14]

[TABLE 12 ABOUT HERE]

In 2005, the city entered into a 99-year agreement with a private company to lease the Skyway for an upfront payment of $1.82 billion. In exchange, the company received all the revenues generated by the Skyway and acquired limited ability to raise tolls, but now has the financial responsibility to maintain the road. As a result of this exchange, the city receives no revenues nor incurs any expenses from this asset. Then, in December 2008, the city entered into a similar 99-year agreement with a private company to lease the parking meter operations for 99 years, for which the city received nearly $1.15 billion.

Table 13 details the recent trends in revenues for all the city's governmental funds from 1999 through 2009. As expected, the trends show growth in many taxes for some time period between the previous recession in 2001-2002 and the current recession in 2008 when economically sensitive revenue sources experienced significant decreases. Between the high point in 2007 and the end of 2009, the sales tax, transaction tax and state income tax declined by 11.73%, 32.72% and 19.75%, respectively. The steep loss in transaction taxes is due to the severe drop-off in home sales since the start of the recession, which reduced the real estate transfer tax from $242 million in 2006 to an expected $57 million in 2010. From 2008 to 2009, other taxes declined by 4.5%.

[TABLE 13 ABOUT HERE]

Buttressing these declines was city non-tax revenue that enjoyed sizable increases in most of the post 2001-2002 recession and a 19.3% increase in the most recent fiscal year as the city increased charges for services and stepped up efforts to collect fines. The property tax experienced healthy increases in recent years due to a 2008 property tax increase. Utility taxes fluctuated throughout the last ten years but have grown in recent years as weather conditions have been more severe and, thus, utility use has increased. The general fund's revenue performance has mainly mirrored that of the governmental funds in aggregate. Table 14 details how utility taxes have fluctuated but increased between 2007 and 2009 while the sales tax, state income tax and other taxes grew post the 2001-2002 recession, but have seen a precipitous drop since the recession began.

[14] The Chicago Skyway is part of I-90 and links the Indiana Toll Road to the Dan Ryan Expressway. It was leased to Cintra-Macquarie, a Spanish-Australian infrastructure consortium.

[TABLE 14 ABOUT HERE]

Table 15 shows the major expenditure categories of the city for the general fund and all governmental funds as a percentage of total expenditures in each area as reported in the Comprehensive Annual Financial Report for 2009. Public safety includes the Chicago Police Department, the Chicago Police Board, the Independent Police Review Authority, Office of Emergency Management and Communications, and the Chicago Fire Department. General government includes personnel and operating expenses associated with all the other city departments. Employee pensions are amounts set aside for all employees' pensions based on state laws that mandate the city contribute an amount to each pension fund based upon employees' payroll contributions. Streets and sanitation represent expenses associated with garbage pick-up and maintenance of city roadways, and transportation spending is primarily for infrastructure. As discussed previously, property taxes are dedicated to pensions and debt service and so do not comprise much of the general fund budget. Table 15 shows that the city spends the most for public safety, comprising about 62 percent of the general fund budget and 34 percent of the budget for all governmental funds. Spending for general government and streets and sanitation represent about 28 percent and 7 percent of the general fund budget, respectively. Employee pensions comprise 8 percent of the budget of all governmental funds.

[TABLE 15 ABOUT HERE]

Table 16 details the recent trends in expenditures for all the city's governmental funds from 1999 through 2009. Over the last ten years, the largest category of spending, public safety, grew by more than 40 percent between 1999 and 2009. However, spending for this service has grown by only 1.76 percent since 2007. Spending for general government also has grown by more than 40 percent since 1999, but has been flat since 2007. Spending for employee pensions have risen over 30 percent since 1999 and almost 16 percent since 2007. The rest of the spending categories have also experienced sizable growth since 1999, but have been cut since 2007 with the exception of streets and sanitation which experienced a 13 percent reduction in spending over the ten year period and a 20 percent cut since 2007. Spending on debt service has risen almost 62 percent from its 1999 level, and has gone up almost 23percent since 2007 as the city continued to expand capital activities even in the midst of the recent recession.

[TABLE 16 ABOUT HERE]

The city's general fund spending trends have mirrored trends in its governmental funds to some degree. Table 17 shows how general fund public safety and general government spending increased sharply from 2001 to 2009 while experiencing a small reduction since 2007. Similarly, the 'other' spending category shows decreases in funding from 2001 to 2009, and especially since 2007. Unlike governmental funds in total, debt service spending by the general fund only declined substantially during this time period, but this category represents less than 0.20 percent of the general funds budget in 2009.

[TABLE 17 ABOUT HERE]

The increased spending on debt service for all governmental funds is further evidenced in Tables 18 and 19 which show outstanding debt by type and debt service as a percentage of total spending from 2000 to 2009, respectively. Table 18 demonstrates that there was a 91 percent increase, from $3.5 billion to $6.72 billion, in general obligation debt during this time period. This has translated into a significant increase in general obligation debt service expenditures, which have risen over 60 percent since 2000 from $423 million to $679 million (or from 8.5 percent to 10.8 percent of total governmental expenditures) even as interest rates have been at historic lows over a good part of this period. (Also see Table 16.)

[TABLES 18 & 19 ABOUT HERE]

The prior discussion of the revenue bases, spending pressures, and use of debt by the City of Chicago provides context to the budgetary challenges that the city faced both before and during the Great Recession. Even when the national and regional economy was growing relatively robustly from 2005 through 2007, the city faced sizable annual budget deficits. Table 20 shows deficits in total dollars and as a percentage of the general fund and all funds for fiscal years 2006 to 2010 and projected deficits for 2011. For fiscal year 2008, the projected budget deficit was based on a slowdown in the economy but not recessionary conditions. The annual projected budget deficits during the period of time before the Great Recession (i.e., 2006 to 2008) show deficits ranging from 3.09% to 6.76% of the general fund budget, and from 1.65% to 3.65% of all funds. Thus, the city had a sizeable structural budget deficit even before the recession began that has exacerbated its current financial problems.

[TABLE 20ABOUT HERE]

By 2009, however, the general fund budget deficit further grew to $469 million or 16.71

percent of the size of the total general fund and 7.85 percent of the size of all governmental funds. In 2010, the general fund budget deficit increased by 11 percent to $520 million, and is estimated to increase another 26 percent to $654 million! Unfortunately, the City does not provide long-term estimates of their budgets past the upcoming budget year (2011), so it is not possible to evaluate its longer-term financial position as it relates to projected budget deficits. In addition, unlike many states and the federal government, the city council and other city-related fiscal watchdogs do not provide their own independent estimation of revenues and expenses to provide alternative estimates of the current deficit.

The city's increasing use of debt has only exacerbated its current financial deficit. As shown in Table 21, its debt burden has increased since the onset of the recession. Between 2008 and 2009, debt burden per capita increased from $2,115 to $2,371 or from 8.32% to 8.45%. Over the longer term, and as described in Section III, the city's debt burden has increased dramatically from $924 per capita in 1999 to $2,371 per capita in 2009. Along with this increase in debt burden has come increased debt service costs which have "eaten away" at the property tax, the primary repayment source for the city's general obligation debt. From 1999 to 2009, the city has increased its general obligation debt outstanding by 91% from $3.5 billion to $6.72 billion, which has translated into an increase in general obligation debt service expenditures from $423 million to $679 million. Property tax revenues to pay debt service are revenues the city cannot use to pay general fund expenses.

[TABLE 22 ABOUT HERE]

The City of Chicago enjoys a diversified tax revenue structure which hedges its exposure to significant changes to one or more revenue sources. Taxes make up over 78% of the budget while non-tax revenues amount to about 22% of all revenues. Compared to the national average, the city relies more on taxes vis-à-vis non-tax revenue thus providing it an opportunity to raise fines and user charges in the future. Since the largest portion of these tax revenues are the cyclically sensitive revenue sources like the income and sales tax, the city has realized a significant downturn in city revenues during the Great Recession while enjoying only modest increases during the years prior to the recession. Public safety and streets and sanitation constitute a great majority of city expenses. In aggregate, expenditures grew substantially over the last ten years although growth has been curbed significantly in the last two years during the recession. Debt costs have also skyrocketed over this ten year period and have increased even during the recession. The budget structure and decisions related to raising revenue, spending resources and issuing debt led to a structural budget deficit in the years prior to the recession which has only been exacerbated in the last two years.

4.0 Political /Institutional Background, Budgetary Process, and Policy

To understand the financial problems the City of Chicago is facing because of the recession it is very important to understand the political context and policies of Richard M. Daley. By charter the city is best described as a weak mayor form of government, however, power and authority have become more centralized in the mayor's office since 1955 by formal and extralegal methods (Holli, 2005). Responsibility for initiating the budget was removed from the council and placed in the mayor's office in 1956 during Richard J. Daley's (1955 – 1976) administration, and the office was given veto power over ordinances and appropriations (Fuchs, 1992). Chicago and Cook County are predominately Democratic, and R.J. Daley's control over the Democratic Party ward organizations also allowed him to dominate the city council and expand his authority during his administration (Mayfield, 2005).[15]

In a move to reform city government, elections for mayor, council members, and the other two elected offices (Clerk and Treasurer) became non-partisan in 1995 by state statute and the primary system was dropped. Despite this change, R.M. Daley was able to use some aspects of his father's democratic machine to gain support from council members, and he was able to reduce independent sources of council authority using methods such as professionalization of staff and centralizing ward services in his office (Mayfield, 2005).[16] Also, his brother John P. Daley is a Cook County Commissioner (chair of the audit and finance committee) and the 11th Ward Democratic Committeeman in the city. The mayor's power over the city council also has been strengthened by his ability to appoint council members. Between 1989 and 1998 he appointed 17 of the 50 city council members (Simpson, 2001, 288), some of which were necessitated by the member's removal from office due to convictions of corruption. A total of 14 council members, one city clerk, and one city treasurer have been convicted of corruption during his tenure (Diaz, 2010).

R.M. Daley is considered to be a leader that is "more in the CEO or city manger mold

[15] Eighty-two 82 percent of the population in the city that voted in the 2004 presidential election voted for Kerry, and about 60 percent voted for Kerry in the areas of Cook County outside of the city (Cook County Clerk records downloaded in 2006)

[16] Streets and sanitation services are still organized by council wards.

than an old-style political boss" (Simpson, 2001, 261). In fact, the interviews identified numerous managerial, administrative, and programmatic reforms to make the city run more efficiently and effectively, but the governing approach is still best described as political rather than administrative or corporate (Frederickson et al., 2004). Many appointments in the rank and file and contracts issued are based on patronage and political considerations, as demonstrated by the Hired Truck Scandal in 2004 (over 40 people indicted) and, more recently, violations of the Shakman Decree throughout city government.[17] The prior high-ranking city official also talked about how the culture of government is tied more to secrecy, closed-door politics, and particularistic interests than transparency, openness, and inclusiveness.[18]

Evidencing the strong managerial control of R.M. Daley, the council has been described as a rubber stamp for most of the mayor's initiatives, including the budget, as constituency services in their own wards appear to be their main concern (Simpson, 2001; Fuchs, 1992, 215). To the extent that Daley provides funds for council members to achieve their objectives in their wards, the mayor gains control over broader budgetary objectives and the council shows little interest in being an active participant in the budget process (Fuchs, 1992, 218). Interviews also revealed that, in general, the council also has little professional staff to help them with budget matters or provide alternative input on technical matters related to the budget or other administrative and service areas. The exception is the Committee on Finance, which handles the property tax levy. It had a staff of 23 people and a budget of $2.1 million as of 2009. None of the other committees have separate staff, including the Committee on Budget and Government Operations (City of Chicago, 2010 Budget, Program and Budget Summary).

Procedurally, budget directors and other chief executives are known to meet separately with city council members on policy matters instead of fighting it out in hearings on the council floor. The administration and mayor are known to solve problems and diffuse opposition in the council before formal votes are taken to win as close to unanimous as possible (Simpson, 2001, 281-282). However, the City of Chicago has 50 council members, which is a lot even by the standards of central cities (Los Angeles has 15 and New York has 51), making it more difficult for council members to establish organized opposition to the mayor compared to cities with

[17] A court order established in 1983 that made it unlawful to take any political factor into account in hiring public employees (with exceptions for positions such as policy making) (Fross, 2004)

[18] In fact, both of the high-level officials interviewed asked that this manuscript be approved by the Chief of Staff's office before it is presented and published.

smaller councils. It also focuses council members' interests on a smaller number of constituents with a narrower range of interests.

Another contextual factor to consider here is the mayor's relationship to the other governments that deliver services and levy property taxes in the city. Examination of city property tax bills shows 12 other taxing districts in addition to the City of Chicago. These districts include a region-wide water reclamation district, Chicago Park District (CPD), Cook County, Cook County Forest Preserve District, Chicago Public Schools (CPS), and Chicago Community College District (CCCD). Other entities, such as the Regional Transit Authority (RTA), the Chicago Transit Authority (CTA), and the Metropolitan Pier and Expansion Authority (MPEA) have sales tax authority within the City. Although these entities (CPD, CPS, CCCD, CTA, and MPEA) and the Chicago Housing Authority are completely separate financially from the City (e.g. they issue their own debt and financial reports), the mayor appoints all members or some portion of board members of these organizations and the CEOs of the CPD, CPS, and CTA. In some cases, these appointments are made without council approval.

4.1 Budgeting and Financial Management

The city's CFO, who is appointed by the mayor, oversees the Finance Department (also called the Office of the Comptroller), the Office of Budget and Management (OBM), and the Department of Revenue. The Office of the Treasurer, which has an elected head, is the other primary financial management office in city government. The OBM is responsible for preparing and executing the annual budget, which is on the same cycle as a calendar year. The office is responsible for the city's performance management program, which has received the Distinguished Budget Presentation Award from the Government Finance Officers Association (GFOA) since 1994. It is also responsible for the capital improvement program (CIP), and grants administration. The Finance Department manages the city's cash flow, debt portfolio, vendor payments, employee payroll and benefits, financial reporting, and risk management and insurance activities. Their website contains comprehensive policy statements on debt management, swaps and investments, and financial reporting. In fact, their comprehensive annual financial report also has received GFOA's Certificate of Achievement for Excellence in Financial Reporting. The Revenue Department is responsible for collecting the city's revenues and managing accounts receivables, and the Treasurer's Office is responsible for the city's long-term (e.g. pensions) and short-term investments. Standard's & Poor characterize the city's financial management as “good” indicating that sound financial practices exist in most areas, according to industry standards, although officials might not formalize or regularly monitor all of them (Standard and Poor’s, 2010).

The budget process begins sometime in the early part of the prior fiscal year and is initiated by the primary financial officers of the city who are the CFO and directors of OBM, Finance, and Revenue. The departments must submit preliminary revenue estimates and expense requests to the OBM in early summer, and heads of operating departments (called commissioners) are brought in to testify and justify their requests prior to that. One of the interviewees described the budget process as a hybrid between a top-down and bottom-up approach with OBM establishing priorities and ceilings for spending in some cases, but allowing for departmental wishes under other conditions. For instance, in 2010 they gave departments a “soft ceiling,” but asked them to cut vacant positions and make cuts to non-personal items.

In accordance with municipal code, the city must file the proposed Preliminary Budget with the City Clerk by July 31, and the mayor holds public hearings on the Preliminary Budget in August. The mayor must submit his Proposed Budget to the council by November 15. OBM works with the council to develop the Proposed Budget prior to that date, and also works with the council earlier to develop the Preliminary Budget. OBM holds at least one public hearing on the Proposed Budget in October. The council considers the budget during the last half of November and holds its own public hearing in order to pass the final budget by December 31 (which becomes the Annual Appropriations Ordinance that goes into effect January 1).

In conjunction with the budget documents, the City of Chicago produces a Program and Budget Management report that presents detailed information on the funding sources, number of budgeted positions, budget allocations by personnel and non-personnel objects, and the major services and program areas for each department. Each department also reports target and actual performance measures for the past five years in this document. Based on our interviews, it is unclear the extent to which these measures are used in the budgeting process. However, the final item of the report, called the department turnover figure, which is the budgeted savings attributed to managing hiring and mid-year resignations, is likely to be useful in dealing with the recession. For instance, one budget strategy cited in the instructions to city departments for the FY2010 budget year is to find savings through vacated positions vacated. The turnover figure in this report facilitates this practice. As discussed in the next section, the city achieved a total savings in the 2010 budget of $18 million by cutting vacant positions.

The city also annually updates its 5-year CIP. A draft CIP is issued in March of the prior fiscal year, and is released in July just before the new fiscal year begins. According to the city's website, project priorities are established by departments according to project needs and funding, and with input from citizens and alderman. The mayor created a Capital Improvement Advisory Committee in 1990 with 12 members chosen from for-profit, non-profit, and government organizations for purposes of reviewing and making recommendations on the CIP. But, as noted by all three interviewees, capital improvements figure prominently in the agenda of the Daley administration. One interviewee believed that Daley considers this policy and its effects to be part of his legacy. Thus, the city's CIP probably reflects executive priorities as much or more than public or programmatic priorities.

Capital improvements and economic development also are very important political tools for this administration. First, physical investments are very visible to the public and stakeholders. In most cases, they have a positive impact on citizens' lives, especially invested homeowners, and powerfully demonstrate administrative progress and effective government. Put simply, they generate votes. Second, the administration seems to use capital improvements as a mechanism to satisfy and gain support from council members. The CIP includes the Aldermanic Menu Program which gave each council member $1.32 million dollars in 2009 to spend on infrastructure projects in their wards ($66 million for all council members). The menu provides the aldermen with a list of repair and upgrade projects for streets, alleys, curbs, sidewalks, traffic signals, lighting, and painting for them to select and prioritize. According to one interviewee, this program has been around for a long time, and it is likely an entrenched part of the relationship between the mayor and the council. It also appears to be an important source of his influence over them.

One council member (Joe Moore, 49th ward) also used a somewhat unique process to identify projects to pursue in his ward, which is contrary to how such matters usually are decided by city officials (Issacs, 9/16/2010). As an example of participatory budgeting, which is not often applied in the US, the alderman put his entire menu up for a vote by ward residents in 2010. Only one percent of residents in the ward participated (1,652), which led to opinions as to whether the effort was successful. However, while definitely the exception rather than rule, it demonstrates the extent to which voters' opinions can be applied directly to budgetary outcomes.

The city performs all revenue and expenditure estimation internally, although it relies on information and insights from the State of Illinois for taxes that overlap the city and state jurisdictions (such as the income and sales tax). The budget department also may meet with prominent economists in the region and members of the Chicago Federal Reserve Bank in developing its estimates. Nevertheless, all the final revenue and expenditure estimates are by OBM. This approach may have allowed the city to become “lazy” in their revenue estimates in the late 1990s and early 2000s, as one interviewee claimed, which instigated the city’s structural deficits.

Institutionally, the city’s process for revenue and expenditure estimation mostly reflects the political approach to local governing rather than the corporate/administrative approach. That is, the city does not rely on politically neutral, sophisticated models (e.g., dynamic revenue estimation models) or external input but rather on the intuition and expertise of individuals who have worked in the budget department for many years. Moreover, it does not make any expenditure or revenue estimates past the following year’s budget, which is necessary for long-term financial planning. Thus, the focus of financial and budgetary decisions reflects the short-term timeline preferred by many elected officials, and the decision makers tend to experienced and trusted members of the mayor’s administration.[19] .

On the policy side, the budgetary priorities of Daley administration that were mentioned by the people interviewed also have affected how the city has handled the recession. These priorities include a high level of quality of life services to the neighborhoods (e.g. garbage pick-up and rat elimination), strong police services, and improved education. On the financial side, the policies of the administration are to fund capital improvements with debt, in conjunction with TIFs, and not raise property taxes, especially more than the non-home rule property tax limitations. To some extent, all these policies, including the emphasis on improving and developing capital infrastructure, has reduced the city’s ability to lower spending and increase a primary (and relatively stable) revenue source. Most of the public safety budget is for personnel, which is not as easily cutback during a recession as other spending such as capital maintenance and development. Additionally, Daley’s focus on building Chicago increases priorities to spend money for capital purposes when most governments would be cutting back in these areas. It

[19] It should be noted that, in the aggregate, revenue estimates have come in very close to actual amounts between 2005 and 2008 although estimates on individual items have varied much more.

also increases pressure to raise debt that reduces the discretionary portion of future budgets.

How the City of Chicago handles the recession in the future will likely change from how it has handled it thus far because on September 7, 2010, Mayor Daley announced that he would not seek a seventh term of office. The election of a new mayor marks the beginning of a new era in leadership for city that goes back to the mayor's father. The announcement occurred just prior to the public hearings scheduled to commence on September 9th in advance of the presentation of the proposed budget to City Council in October. The 2011 budget will be the last of a total of twenty budgets guided by the priorities of this powerful mayor.

5.0 Responses to the Great Recession

The City of Chicago has responded to the Great Recession in several ways. First it has drawn heavily upon the reserves generated from the privatization transactions with respect to the long term lease of the Skyway and parking meters. These funds provided $350 million for the 2010 budget year alone. Second, the city has augmented revenues and undertaken some belt tightening measures. However, the reserves have permitted it to avoid more difficult revenue and spending decisions necessary to correct the structural deficits. As a result, its responses thus far can be characterized as being at the edges rather than dramatic changes to revenue or spending priorities.

Tables 22 and 23 list some of the measures the city took in the 2009 and 2010 budgets with respect to increasing revenues and decreasing expenditures respectively. The items are listed in order of the general type of measure, the specific measure taken, and the budget year. Amounts provided in the budget are shown when available. The order of presentation suggests the hierarchical pattern of fiscal responses identified by Levine and others (1978, 1980, 1981) as moving from less difficult and intrusive strategies that *delay* major changes to government policy, structure, and services to progressively more difficult and intrusive strategies they classify *stretching and resisting* then *cutting and smoothing*.

Table 22 shows that, in addition to drawing upon the Skyway and parking meter reserves, the City of Chicago closed one TIF district (out of 160 total TIF districts) releasing $8 million dollars for its use. The table also shows the increases to ongoing revenues can be characterized as increasing fees, fines, and other less visible revenues, which are actions characteristic of stretching and resisting. For example, the city increased the theatre amusement tax from 4% to 5% and all other amusement taxes from 8% to 9%. It also increased user and permit fees to recover cost, such as safety related charges for services, residential parking permits, and parking licenses. Notably, more aggressive measures, such as additional increases to property taxes have been avoided. As observed throughout this paper, this fiscal choice is consistent with the themes of the administration.

[TABLE 22 ABOUT HERE]

Table 23 identifies actions the city has taken to reduce expenditures. These strategies can be grouped according to whether they target personnel or non-personnel expenditures and, within the personnel category, union and non-union workers. This table shows that the strategy of not filling vacant positions that had been used in past years to smooth mid-year revenue losses became more aggressive with the permanent elimination of 200 vacant positions. Other stretching and smoothing strategies are evident from the city's renegotiation of non-personnel contracts, reductions in contractual services, and elimination of fuel costs. These measures yielded $46 million in total. More aggressive personnel reductions included renegotiating union contracts to save a total of $75 million over the course of budget years 2009 and 2010. In total, the city's 2009 budget reduced personnel by approximately 2,100 across all departments through layoffs of approximately 430 employees, voluntary severance, and elimination of vacant positions. The city also executed a major restructuring that combined nine departments into four.

[TABLE 23 ABOUT HERE]

Although some of the more aggressive strategies appear to yield high savings, as claimed by the administration, one interviewee stated that the union concessions included an agreement not to lay off union workers for a period of two years, which counters the savings effect. Additionally, the Commission to Strengthen Chicago's Pension Funds noted in its report that voluntary severance programs have added to the long term pension liabilities (Commission to Strengthen Chicago's Pension Funds, 2010). It is also important to note that the reductions of personnel for budget years 2009 and 2010 follow a five year period of reductions in the full-time equivalent positions, from 2006 to 2010, that began long before the Great Recession. As Table 24 shows, the total full-time equivalent positions included in the recommended budget declined from 40,312 to 36,900, a decrease of 3,412, or 8.5%.

[TABLE 24 ABOUT HERE]

In addition to increasing revenues and cutting expenses, the city has relied extensively on reserve funds to close their budget gaps since the onset of the Great Recession and before.

Between 1998 and 2007, the city's unreserved general fund balance declined from $177 million (8.2% of operating expenditures) to $4.6 million (0.2% of operating expenditures). The near depletion of general fund reserves gave the city incentive to look to alternative sources of revenue that would further delay more aggressive responses and resist major changes to services and administrative policies. The city's solution was to lease two major enterprises for a very long time in exchange for a significant infusion of revenue. As discussed in section 3.0, the city leased both the Skyway (2005) and its parking meter operations (2008) for $1.82 and $1.15 million dollars, respectively. The plan was to use the money from both deals to provide long-term and medium-term reserves from which the city could drawn down over time as a means of stabilizing the city's revenues over the long and intermediate term. In the case of the Skyway, the City of Chicago also used a portion of the proceeds to retire old Skyway bonds and pay for various infrastructure improvements throughout the city.

Tables 25 and 26 detail both the proposed and actual drawdown of these reserve funds the city created to manage the proceeds of the two leases. In the case of the Skyway, the city set up a permanent $500 million reserve fund and a $375 million mid-term reserve which was to be drawn down to zero between 2004 and 2009. The Skyway long-term reserve is still fully in place with investment earnings. The mid-term reserve had a balance of $75 million as of the end of 2009. Comparing the actual and proposed drawdown of these funds, the city has used them as expected with actually a slightly slower drawdown of the mid-term reserve than what was originally proposed.

The parking meter lease is a different matter however. The city placed these proceeds in a permanent $400 million reserve fund and a $350 million mid-term reserve fund which was to be drawn down to zero between 2008 and 2012. As of June 2010, the mid-term parking meter reserve fund had a balance of $103 million while the long-term reserve had a balance of $53 million. The city has expedited its spending in both of these funds over its proposed drawdown schedule. In the case of the mid-term reserve, as of the end of 2010, the balance was expected to be $150 million but as of June 2010, such balance was only $103 million. For the long-term parking reserve fund, the balance was expected to be $400 million as of the end of 2010 with the current balance only $58 million. In sum, the city has used approximately $400 million more in these reserve funds than planned as a means of addressing its budget shortfalls over the last two years.

[TABLE 25 ABOUT HERE]

[TABLE 26 ABOUT HERE]

The city has also created one shot revenues through debt refinance activities in response to the Great Recession. In the 2008, 2009 and 2010 budget cycles, the city refinanced its bonds taking the savings upfront while extending the final maturity of its debt. The city restructured its debt to realize $40 million and $34 million in savings in 2008 and 2009, respectively. In the 2010 budget, the city planned a much larger bond restructuring to provide $118 million in savings. These transactions were a combination of economic and non-economic refinancings. That is, the refinancing of some of old debt provided present value savings while other bonds were only refinanced to provide short-term budgetary relief through the extension of its final maturity. For the portion of the transactions that were non-economic, the city basically traded short-term debt service savings for an increase in debt service in the future. However, in the case of both the economic and non-economic refinancings, the decision to take the savings up front effectively served as a one-time revenue source.

6.0 Conclusion

As the city continues through the budgetary process for fiscal 2011, it appears to have weathered the fiscal stress brought on by the recession so far based on our assessment of its overall financial position at the close of FY2009 and the estimates for FY2010. The administration has been able to draw upon sizable reserves, which has allowed it to avoid more severe measures, although many belt tightening measures have been implemented. The city has a broad and diverse economic base and a diversified tax base. However, the fiscal structure of its general fund and, hence, the general operations of the city are exposed to a great deal of volatility from economically sensitive revenues. Moreover, its revenues may be vulnerable to further reductions in the near term and long term due to the State of Illinois' current fiscal crisis. The city's critically underfunded pensions will need to be addressed which will add to the fiscal pressure on city finances in the long term. These pressures could be applied sooner rather than later to the extent that the city implements the recommendations of the Commission to Strengthen Chicago's Pension Funds to avoid significant payments in the future and law suits brought on behalf of the pension beneficiaries. Other reductions in expenditures will be difficult as the majority of such expenses are in public safety and streets and sanitation, two expenditure categories citizens relay on and are averse to cutting. Moreover, the city has recently renegotiated union contracts for police and firefighters which will lead to contractually guaranteed future increases in personnel costs not reflected in the current year's budget.

While the reserves have helped absorb some of the fiscal shocks that have occurred, these reserves are being depleted. Because the city's rating is dependent to some extent upon the maintenance of these reserves, the city could be impacted negatively from drawdown in advance of depletion. Moreover, the heavy reliance on such reserves has only exacerbated the structural deficit that has plagued the city for almost a decade, which will have to be addressed at some point. Debt costs have been increasing and although they remain moderate relative to the property tax base, they are high on a per capita basis, which constitutes a burden in an environment of high unemployment and decreasing household income. To what extent does the city have additional resources that it can draw from in 2011 and beyond? Two potential sizable future revenue sources are unspent TIF funds and the privatization of Midway Airport[20]. However, both of these measures are controversial and there is considerable uncertainty how much revenue could be generated to the city from these actions. The city is in interesting times as it deals with what is, hopefully, the end of the Great Recession and what will be the beginning of a new political era.

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[20] On September 20, 2008, the City accepted a $2.5 billion bid to lease Midway airport for 99 years. After paying off debt, the city would have $1.2 billion for its own use. However, the city was not able to successfully close this transaction as the bidder was not able to procure financing.

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TABLE 1

DEMOGRAPHIC AND SOCIAL INFORMATION

	CITY OF CHICAGO		**CHICAGO METRO AREA[1]**		**USA**	
	2000	**2006-2008**	**2000**	**2006-2008**	**2000**	**2006-2008**
Median age	31.5	33.9	33.9	35.5	35.3	36.7
% < 18 yrs old	26.2	24.2	26.9	25.8	25.7	24.5
% > 65 yrs old	10.3	10.4	10.9	10.9	12.4	12.6
% White	42	39.9	66.8	64.5	75.1	74.3
% Black	36.8	34.6	18.6	17.7	12.3	12.3
% Asian	4.3	4.9	4.2	5.2	3.6	4.4
% other race	13.6	18.6	10.0	NA	5.5	5.8
% Hispanic	26	27.8	16.4	19.5	12.5	15.1
% foreign born	21.7	21.6	16.0	17.6	11.1	12.5
Per capita income	20,175	26,814	24,581	30,567	21,587	27,466
Median hhld income	38,625	46,767	51,046	61,300	41,994	52,175
% persons below poverty	19.6	20.7	10.5	11.6	12.4	13.2
% unemployed civilian labor	10.1	9.5	6.3	7.2	5.8	6.4
% high school degree	71.8	78.1	81.1	85.2	80.4	84.5
% bachelor degree	25.5	30.2	28.9	32.4	24.4	27.4
% homes owner occpd	43.8	49	65.2	68.7	66.2	67.1
Median value owner occpd	132,400	285,200	159,000	262,000	119,600	192,400
% vacant housing	7.9	13.9	5.3	9.1	9	12
Violent crime rate[2, 4]	1,631	NA	NA	NA	507	455
Property crime rate[2, 4]	5,959	4,632	NA	NA	3,618	3,212

NOTES: (1) The Chicago metropolitan statistical area as defined by the U.S. Census Bureau. (2) The population and crime rate estimates are based on 2008 data only, rather than the mean of 2006-2008 data. (3) Figures reported in 2008 inflation-adjusted dollars. (4) Represents the crime rate per 100,000 residents.
SOURCES: Federal Bureau of Investigation, Tables 1, 6, 8, and 29 of the Uniform Crime Reporting (UCR) Program, accessed at: http://www.fbi.gov/ucr/00cius.htm and http://www.fbi.gov/ucr/cius2008/data/table_01.html. The U.S. Census Bureau Fact Sheets based on the Census 2000 Demographic Profile Highlights (Summary File 1 and File 3), 2008 American Community Survey 1-Year Estimates and the 2006-2008 American Community Survey 3-Year Estimates Data Profile Highlights, accessed at: http://factfinder.census.gov/. The Bureau of Labor Statistics, CPI Inflation Calculator, accessed at http://www.bls.gov/data/inflation_calculator.htm

TABLE 2

PERCENT CHANGE REAL GDP PER CAPITA FOR METROPOLITAN AREAS (millions of chained dollars, 2001)

	% change GDP, 2001-2006	% change GDP, 2006-2007	% change GDP, 2007-2008	% change population, 2000-2008
Atlanta	-2.2	-0.7	-3.3	26.8
Boston	7.0	2.7	1.0	3.5
Chicago	5.9	1.2	-1.1	4.6
Dallas	4.6	1.4	-0.8	22.1
Los Angeles	16.8	1.1	-0.3	3.3
New York	11.4	3.5	2.2	3.5
Phoenix	8.5	-1.8	-3.7	31.8
Seattle	6.2	3.8	0.5	10.3

All industries, BEA (http://www.bea.gov/regional/gdpmetro/) and population estimates, US Census Bureau

TABLE 3

UNEMPLOYMENT RATES

	Atlanta	Boston	Chicago	Dallas	Los Angeles	New York	Phoenix	Seattle
2009	9.6	7.8	10.0	7.8	10.9	8.8	8.5	8.7
2008	6.2	4.8	6.2	5.0	6.9	5.2	5.3	4.9
2007	4.5	4.1	4.9	4.3	4.8	4.4	3.4	4.1
2006	3.1	3.3	3.6	4.0	4.4	4.6	4.7	5.3
2005	5.3	4.5	5.9	5.2	5.0	4.9	4.1	5.0
2004	4.7	5.0	6.2	5.8	6.0	5.7	4.5	5.7
2003	4.8	5.7	6.8	6.6	6.4	6.6	5.2	6.8
2002	4.9	5.3	6.7	6.5	6.3	6.5	5.6	6.7
2001	3.6	3.6	5.5	4.7	5.3	4.9	4.2	5.4
2000	3.1	2.6	4.3	3.6	4.9	4.4	3.3	4.3

Bureau Labor Statistics, unemployment rates for large metropolitan areas: http://www.bls.gov/lau/#tables

TABLE 4
AVERAGE PERCENT CHANGE IN MSA-LEVEL HOUSE PRICE INDEXES FOR FOUR QUARTERS

	Atlanta	Boston	Chicago	Dallas	Los Angeles	New York	Phoenix	Seattle
2009	-4.2	-3.6	-7.3	0.5	-10.7	-5.5	-17.6	-8.9
2008	-1.5	-4.0	-3.8	2.2	-16.7	-3.8	-15.2	-2.5
2007	2.6	-3.4	1.8	3.4	-1.1	1.2	-1.0	8.2
2006	3.4	0.5	7.3	3.2	16.2	9.6	21.6	16.3
2005	5.0	9.0	10.4	3.2	23.9	15.8	32.5	15.0
2004	3.9	11.5	9.6	2.2	25.4	14.8	11.6	8.9
2003	3.5	10.5	6.2	2.7	14.5	10.2	5.0	4.2
2002	4.6	13.2	7.3	3.8	13.0	11.8	5.2	4.8
2001	7.8	12.8	6.9	6.8	9.7	10.8	6.8	6.8
2000	6.5	15.4	7.6	6.2	7.8	11.6	7.0	8.2
1999	6.6	11.7	4.5	5.8	7.2	7.7	6.2	8.6
1998	6.6	7.8	3.5	5.4	9.3	5.6	6.1	9.6
1997	4.6	4.8	3.0	2.9	1.6	2.0	5.0	6.1

Federal Housing Finance Agency, City/MSA HPI Data, http://www.fhfa.gov/Default.aspx?Page=216

TABLE 5

FORECLOSURES IN THE CHICAGO METROPOLITAN REGION

	Foreclosures per 1000 est. mortgageable properties, 2007	Percent change in total foreclosures 2002-2005	Percent change in total foreclosures 2005-2007
Chicago	24.4	-24.3%	85.0%
Cook County	NA	-20.1%	77.4%
North Cook	7.2	-24.2%	154.5%
Northwest Cook	9.8	-12.4%	99.1%
West Cook	16.6	-13.7%	83.1%
Southwest Cook	11.2	-19.9%	68.4%
South Cook	36.4	-13.8%	45.1%
DuPage County	9.4	-20.5%	105.0%
Kane County	16.0	-4.5%	96.1%
Lake County	13.0	-13.2%	70.5%
McHenry County	13.2	-0.4%	68.9%
Will County	16.6	-13.1%	78.9%
6-County Region	16.8	-17.7%	79.4%

Woodstock Institute, 2008

TABLE 6
GENERAL FUND STATE REVENUES, CITY OF CHICAGO, 2005 - 2009 (in thousands)

	2005	2006	2007	2008	2009	As a % of General Fund Revenues 2005	As a % of General Fund Revenues 2009
State Income Tax	$ 212,900	232,280	253,529	268,827	201,025	7.6%	6.6%
Personal Property Replacement Tax	94,562	82,279	124,198	109,718	50,795	3.4%	1.7%
Retailers' Occupation Tax	250,421	271,104	277,849	274,620	251,670	9.0%	8.3%
Auto Rental Tax	3,237	3,737	3,782	3,831	3,385	0.1%	0.1%
Total State Revenue	561,120	589,400	659,358	656,996	506,875	20.1%	19.8%
Total General Fund Revenues	2,797,407	2,911,708	3,112,070	3,314,976	3,037,734		

City of Chicago CAFR, Schedule A-1, Budgetary Basis

TABLE 7

ANNUAL GRANT FUNDING, CITY OF CHICAGO, 2009 and 2010 (in millions)

	2009		2010		2011	
	Amount	**As a % of All Funds**	**Amount**	**As a % of All Funds**	**Amount**	**As a % of All Funds**
Federal Programs not including ARRA	1,124	18.82%	951	15.49%	1,481	23.50%
Federal ARRA Stimulus Program	396	6.63%	158	2.58%	338	5.36%
State Government Agencies	82.5	1.38%	171	2.78%	166	2.64%
Public and Private Agencies	27.7	0.46%	16	0.26%	27	0.43%
Federal Community Development Block Grants	6.9	0.01%	94	1.52%	1	0.01%
Other Grant Program Income	20	0.33%	10	0.16%	19	0.30%
Total	1,657	27.75%	1,400	22.79%	2,030	32.23%

Source for 2009 Amounts: 2010 City of Chicago Budget
Source for 2010 Amounts and 2011 Estimates: 2011 Preliminary Budget Estimates

TABLE 8

2011 ARRA ESTIMATES, DETAIL

	2011
Community Development Block Grant	666,000
BTOP	110,111,000
BTOP	4,415,000
BTOP	8,975,000
ARRA Energy Efficiency Conservation BG	7,500,000
Tax Credit Assistance Program	1,585,000
Tax Credit Exchange	7,157,000
Neighborhood Stabilization Program 2·	73,506,000
ARRA-Community Development Block Grant- Recovery	3,201,000
ARRA Energy Efficiency Conservation Block Grant	2,000,000
ARRA Supplemental Immunization Funding Carryover	500,000
Head Start COLA/QI···	8,217,000
Homelessness Prevention and Rapid Re-housing Program	32,897,000
Justice Assistance Grant (ICJIA)	437,000
Chronic Disease Nutrition Project (Go Slow Whoa)	250,000
Prisoner Re-Entry Program	40,000
Chronic Disease Self Management···	110,000
Early Learning Mentors Coach	225,000
Byrne Justice Assistance Grant·····	26,500,000
COPS Hiring	12,000,000
Transit Security	3,500,000
Campaign to Break the Code of Silence	499,000
Port Security Grant Program	2,000,000
Firefighters Station Construction	4,800,000
Urban & Community Forestry Program Stimulus	797,000
Chicago Area Alternation Fuels Deployment Project	15,000,000
Energy Efficiency and Conservation Block Grant	3,099,000
Community Development Block Grant- Recovery	7,517,000
Total	337,504,000

2011 Preliminary Budget Estimates, includes both 2010 carryover and 2011 estimates

TABLE 9

ANNUAL DEBT BURDEN, CITY OF CHICAGO, 1999-2007

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Equalized Direct Debt Burden	7.58%	8.75%	9.20%	10.14 %	10.59 %	9.62%	9.27%	9.14%	8.35%
Equalized Total Debt Burden	23.73 %	24.82 %	25.05 %	25.97 %	26.36 %	23.59 %	22.97 %	22.21 %	19.72 %
FMV Direct Debt Burden	1.90%	1.90%	2.00%	2.11%	2.15%	1.95%	1.79%	1.64%	1.81%
FMV Total Debt Burden	5.94%	5.40%	5.46%	5.40%	5.34%	4.79%	4.43%	3.99%	4.28%
Direct Debt per Capita	924	1,069	1,285	1,470	1,657	1,766	1,769	1,872	2,005
Total Debt per Capita	2,893	3,030	3,502	3,764	4,126	4,331	4,385	4,549	4,734

The Civic Federation, "City of Chicago FY 2010 Proposed Budget: Analysis and Recommendations," November 18, 2009; City of Chicago 2009 CAFR

TABLE 10

MAJOR OWN-SOURCE REVENUE, CITY OF CHICAGO: GENERAL AND ALL GOVERNMENTAL FUNDS (in thousands), 2009

	General Fund	% of Total Revenue	All Governmental	% of Total Revenue
Property Tax	0	0.0%	806,010	20.5%
Utility Tax	481,275	23.84%	579,101	14.74%
Sales Tax	476,557	23.60%	503,952	12.83%
Transportation Tax	155,851	7.72%	333,199	8.48%
Transaction Tax	179,641	8.90%	205,026	5.22%
Special Area Tax	0	0.0%	487,909	12.42%
Other Taxes	236,980	11.74%	250,982	6.39%
Licenses and Permits	100,458	4.98%	100,458	2.56%
Fines	252,483	12.51%	267,891	6.82%
Investment Income	3,011	0.15%	31,520	0.80%
Charges for Services	96,705	4.79%	124,557	3.17%
Miscellaneous	36,031	1.78%	238,126	6.06%
Total Own Source Revenue	2,018,992	100%	3,928,731	100%

Table 3, 2009 CAFR; Exhibit 4, 2009 CAFR

TABLE 11

MAJOR REVENUE SOURCES, CITY OF CHICAGO: GENERAL AND ALL GOVERNMENTAL FUNDS (in thousands), 2009

	In General Fund	As a % of Total General Fund	In All Governmental Funds	As a % of All Governmental Funds
Total Taxes	1,530,304	67.34%	2,915,197	61.00%
Federal/State Grants & Shared Revenue	253,534	11.16%	1,101,083	23.04%
Non-Tax Revenue [1]	488,688	21.50%	762,552	15.96%
Total Revenues	2,272,526	100.0%	4,778,832	100.0%

Table 3, 2009 CAFR; Exhibit 4, CAFR
1: Fines, licenses, permits, charges (not enterprise), and miscellaneous from Table 6

TABLE 12

ENTERPRISE REVENUES, CITY OF CHICAGO (in thousands), 2009

	Amount	As a % of Total Enterprise Revenues
Water	410,213	30.25%
Sewer	175,163	12.92%
Midway Airport	122,301	9.02%
O'Hare Airport	624,443	46.05%
Chicago Skyway	0	0.00%
Investment Earnings	15,024	1.11%
Miscellaneous	8,941	0.66%
Total Revenues	1,356,085	100%

Table 2, 2009 CAFR
Note: Chicago Skyway revenue in 2004 was $41,191,000

TABLE 13

PERCENT CHANGE IN MAJOR REVENUE SOURCES: GOVERNMENTAL FUNDS, 1999 – 2009

	1999 - 2000	**2000 - 2001**	**2001 - 2002**	**2002 - 2003**	**200 3- 2004**	**2004 - 2005**	**2005 - 2006**	**2006 - 2007**	**2007 - 2008**	**2008 - 2009**	**2007 - 2009**
Property Tax	3.3%	-3.4%	3.4%	10.0%	-10.6%	13.4%	-9.9%	-0.6%	10.3%	10.4%	21.8%
Utility Tax	5.8%	4.4%	-3.1%	4.9%	-1.5%	6.8%	-3.2%	5.8%	14.0%	-8.0%	4.9%
Sales Tax	6.7%	-1.3%	-2.6%	-1.2%	6.6%	13.1%	12.0%	2.1%	-3.9%	-8.1%	-11.7%
Transaction Tax	6.9%	7.8%	7.2%	4.3%	15.0%	16.7%	4.2%	-10.1%	-9.6%	-25.6%	-32.7%
Other Taxes	5.4%	-3.5%	-0.3%	2.3%	-0.6%	24.3%	13.5%	5.0%	7.1%	-4.5%	2.3%
Non-tax [1]	8.3%	3.8%	14.1%	9.8%	7.9%	3.8%	-2.4%	13.4%	-1.2%	19.3%	17.9%
Special Area Tax	21.3%	31.4%	13.5%	52.9%	27.8%	22.0%	8.0%	30.4%	13.2%	-11.7%	-0.05%
State Income Tax	10.7%	-6.4%	-13.0%	-2.6%	6.1%	25.2%	7.4%	14.0%	0.4%	-20.1%	-19.7%
Transportation Tax	15.0%	-3.0%	4.3%	2.5%	-2.7%	5.0%	-0.1%	-1.6%	-3.3%	3.7%	0.2%
Federal/State Grants	16.6%	24.0%	19.0%	-11.3%	-11.8%	-5.3%	2.1%	-5.0%	1.9%	-5.5%	-3.7%
TOTAL REVENUES	9.8%	4.6%	4.9%	1.2%	-1.2%	9.1%	2.7%	5.2%	2.0%	-4.5%	-2.6%

Table 3, 2009 CAFR and Table 1, 2005 CAFR
1: Fines, licenses, permits, charges (not enterprise), and miscellaneous.

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TABLE 14

PERCENT CHANGE IN MAJOR REVENUE SOURCES: GENERAL FUND, 2001-2009

	2001 - 2002	2002 - 2003	200 3- 2004	2004 - 2005	2005 - 2006	2006 - 2007	2007 - 2008	2008 - 2009	2007 - 2009
Utility Tax	-4.0%	5.9%	-1.5%	6.8%	-3.4%	5.4%	4.8%	-8.3%	3.94%
Sales Tax	-1.3%	-2.8%	7.0%	14.1%	14.1%	1.1%	-4.6%	-8.0%	-12.27%
Other Taxes [1]	3.0%	2.3%	7.0%	17.4%	5.9%	-3.0%	-7.2%	-10.3%	-16.73%
Non-Tax Revenue [2]	13.4%	8.0%	-2.7%	3.5%	1.1%	12.7%	-1.0%	-4.4%	-5.44%
State Income Tax	-15.6%	-5.9%	20.5%	19.0%	2.3%	20.1%	0.2%	-33.5%	-33.33%
Federal/State Grants	-18.3%	13.7%	-56.0%	6.1%	35.6%	20.1%	-30.3%	-27.0%	-49.08%
TOTAL REVENUES	1.2%	3.0%	3.4%	10.9%	3.9%	6.0%	-2.0%	-10.9%	-13.0%

From Table 6, 2009 CAFR and Table 3, 2005 CAFR
1: Transportation, transaction, and other taxes from Table 6
2: Includes internal service, fines, licenses, permits, charges (not enterprise), investment income, and miscellaneous from Table 6

TABLE 15

EXPENDITURES, CITY OF CHICAGO: GENERAL AND ALL GOVERNMENTAL FUNDS (in thousands), 2009

	General Fund	% of Total Expenditures	All Governmental	% of Total Expenditures
Public Safety	1,862,914	61.81%	1,913,711	33.87%
General Government	857,626	28.45%	1,663,990	29.45%
Employee Pensions	0	0.00%	430,915	7.62%
Streets and Sanitation	219,485	7.28%	300,131	5.31%
Transportation	26,976	0.90%	261,948	4.64%
Health	41,044	1.36%	177,812	3.15%
Cultural and Recreational	700	0.02%	107,604	1.90%
Other	354	0.01%	7,676	0.14%
Debt Service	4,978	0.17%	786,335	13.92%
Total Expenditures	3,014,077	100%	5,650,122	100%

Table 4, 2009 CAFR; Exhibit 4, 2009 CAFR

TABLE 16

PERCENT CHANGE IN EXPENDITURE CATEGORIES: GOVERNMENTAL FUNDS, 1999 – 2009

	1999 - 2000	2000 - 2001	2001 - 2002	2002 - 2003	200 3-2004	2004 - 2005	2005 - 2006	2006 - 2007	2007 - 2008	2008 - 2009	1999-2009	2007-2009
Public Safety	1.69%	2.95%	2.73%	8.83%	-0.96%	2.08%	14.85%	1.58%	0.61%	1.14%	40.49%	1.76%
General Government	6.75%	4.31%	7.19%	5.42%	-7.90%	19.27%	-5.98%	8.35%	9.34%	-7.81%	41.95%	0.81%
Employee Pensions	-0.21%	3.36%	-3.20%	8.01%	-15.50%	29.43%	2.29%	-6.37%	11.31%	4.16%	30.96%	15.95%
Streets and Sanitation	-1.38%	5.58%	-0.42%	-0.39%	-0.98%	-3.76%	4.14%	6.69%	1.36%	-21.56%	-13.0%	-20.49%
Transportation	21.27%	59.06%	16.60%	-9.88%	-26.83%	-28.25%	10.39%	9.45%	25.13%	-21.73%	25.92%	-2.07%
Health	25.11%	11.94%	8.93%	-2.01%	2.94%	-7.21%	4.21%	12.48%	-5.46%	-3.68%	52.40%	-8.93%
Cultural and Recreational	8.14%	1.01%	-5.81%	-2.24%	-4.87%	22.52%	4.93%	8.70%	8.42%	-8.55%	32.57%	-0.85%
Other	86.29%	-42.44%	-12.58%	2.85%	-4.61%	-7.94%	-2.88%	-51.42%	227.15%	-47.00%	-30.7%	-73.39%
Debt Service	4.27%	6.76%	-0.90%	23.77%	-6.74%	36.37%	-16.39%	-9.42%	61.42%	-23.89%	61.59%	22.87%
TOTAL EXPENDITURES	6.5%	3.4%	8.2%	2.0%	-6.1%	7.5%	9.1%	-2.8%	12.1%	-8.3%	33.7%	2.8%

Table 4, 2009 CAFR and Table 4, 2008 CAFR

TABLE 17

PERCENT CHANGE IN EXPENDITURE CATEGORIES: GENERAL FUND, 2001 – 2009

	2001 - 2002	2002 - 2003	200 3-2004	2004 - 2005	2005 - 2006	2006 - 2007	2007 - 2008	2008 - 2009	2001 - 2009	2007 - 2009
Public Safety	5.59%	10.30%	-1.66%	0.37%	15.37%	3.45%	0.60%	0.34%	38.49%	0.94%
General Government	-6.88%	13.39%	-8.31%	27.73%	-11.32%	9.82%	3.29%	-3.56%	19.98%	-0.39%
Other[1]	-6.25%	-4.58%	-1.86%	-6.79%	8.83%	6.56%	1.84%	-18.96%	-21.67%	-17.46%
Debt Service	-5.06%	-12.06%	13.48%	-32.84%	-8.25%	-1.97%	-23.26%	-6.39%	-58.89%	-28.17%

Table 4, 2009 CAFR and Table 3, 2005 CAFR

[1]Other includes Health, Streets and Sanitation, Transportation, Cultural and Recreational, and Other expenditures

TABLE 18

OUTSTANDING GOVERNMENTAL FUNDS DEBT BY TYPE, CITY OF CHICAGO, 2000-2009

	Net GO	Tax Increment Allocation	Motor Fuel and Sales Tax Revenue	Installment Purchase Agreement	Capital Leases
2000	3,514,827	508,663	458,945	17,500	
2001	3,867,808	532,811	449,520	16,400	
2002	4,622,933	519,646	454,220	15,200	
2003	5,301,013	471,846	543,380	13,800	31,332
2004	5,572,447	470,688	533,530	12,400	32,263
2005	5,534,355	407,709	518,800	10,900	309,813
2006	5,789,477	351,776	512,585	9,200	278,861
2007	6,296,225	285,363	499,555	7,500	245,685
2008	6,308,684	204,811	552,345	5,500	207,065
2009	6,721,880	179,871	559,417	3,500	169,282

City of Chicago 2009 CAFR

TABLE 19

RATIO OF GO DEBT SERVICE EXPENDITURES TO TOTAL GOVERNMENTAL EXPENDITURES, CITY OF CHICAGO, 2000-2009

	GO Debt Service Expenditures	Total Governmental Expenditures	Ratio of GO Debt Service Expenditures to Total Governmental Expenditures
2000	422,879	4,995,572	8.5%
2001	448,881	5,164,360	8.7%
2002	446,247	5,585,538	8.0%
2003	544,495	5,698,047	9.6%
2004	487,524	5,349,877	9.1%
2005	466,064	5,749,894	8.1%
2006	475,055	6,274,363	7.6%
2007	411,273	6,098,521	6.7%
2008	731,171	6,839,389	10.7%
2009	679,003	6,269,395	10.8%

City of Chicago 2009 CAFR

TABLE 20

ANNUAL PROJECTED BUDGET DEFICITS, CITY OF CHICAGO: GENERAL FUND (in millions), 2006-2011

	General Fund Deficit	General Fund	All Funds	GF Deficit as a % of General Fund	GF Deficit as a % of All Funds
2006	114	2,889	5,238	3.94%	2.17%
2007	94	3,040	5,669	3.09%	1.65%
2008	217	3,207	5,936	6.76%	3.65%
2009	469	3,188	5,970	14.71%	7.85%
2010	520	3,079	6,147	16.88%	8.45%
2011	654				

Civic Federation Reports, 2009, 2010, and City of Chicago 2011 Preliminary Budget

TABLE 21

ANNUAL DEBT BURDEN, CITY OF CHICAGO, 2008-2009

	2008	2009
Equalized Direct Debt Burden	8.32%	8.48%
Equalized Total Debt Burden	18.54%	19.02%
FMV Direct Debt Burden	N/A	N/A
FMV Total Debt Burden	N/A	N/A
Direct Debt per Capita	2,115	2,371
Total Debt per Capita	4,715	5,319

Civic Federation Report, 2009; City of Chicago 2009 CAFR

TABLE 22

REVENUE STRATEGIES TO REDUCE BUDGET DEFICITS: 2006-2008

Type of Strategy	Specific Action	Estimated Amount (in millions)	Budget Year
Increase income, sales, property, business or other tax rates.	▪ Increased parking tax from $2.25 to $3.00 per day	**n/a**	**2009**
Introduce or increase luxury taxes	▪ Increased theatre amusement tax from 4% to 5% ▪ Increased other amusement tax from 8% to 9%	**n/a**	**2009**
Introduce new user charges or increase user fees	▪ Increased user and permit fees to recover cost (includes safety related charges for services, residential parking permits, certain public vehicle licenses and investigation fees.)	**n/a**	**2009**
One time tax revenue sources	▪ Closure of TIFs	**$8**	**2010**
	▪ Borrow from parking meter reserve fund	**$250**	**2010**
	▪ Advance 2012 parking meter mid-term annuity	**$100**	**2010**

Source: 2010 Budget Overview and Revenue Estimates
Source for tax increases and increases to user charges and fees: 2009 CAFR

TABLE 23

SPENDING STRATEGIES TO REDUCE BUDGET DEFICITS: 2006-2008

Type of Strategy	Specific Action	Estimated Amount	Budget Year
Eliminate vacant positions	▪ Cut 220 Vacancies	**$18**	**2010**
Cut wages for non-union	▪ Achieved non-union payroll savings	**$10** **$20**	**2009** **2010**
Renegotiate union agreement	▪ Re-negotiated union agreement	**$25** **$50**	**2009** **2010**
Reduce wage increases (non-union)	▪ Eliminated cost of living increases for non-union personnel	**$6**	**2010**
Cut positions	▪ Executed layoffs of 431 positions in July of 2009		**2010**
Furlough Days or governmental Shutdown Days	▪ Implemented 6 government shut down days per year	**$168**	**2008 - 2009**
Organization Restructuring	▪ Eliminated 5 Departments		**2008-2010**
Cut or eliminate contributions to pension liabilities	▪ Pension contributions based upon statutory formula, not actuarial determined contributions	**n/a**	**n/a**
Reduction of non-personnel targeted expenditures	▪ General spending cuts and contract re-negotiations ▪ Reductions in contractual services ▪ Fuel cost savings ▪ Equipment rental savings ▪ Real estate lease negotiations	**$25** **$8.9** **$8.7** **$1.8** **$1.3**	**2009** **2010** **2010** **2010** **2010**
Debt Financing and restructuring	▪ Created one shot revenues through debt finance activities	**$40** **$34** **$118**	**2008** **2009** **2010**

2010 Budget Overview and Revenue Estimates and 2009 CAFR

TABLE 24

FULL-TIME EQUIVALENT POSITIONS BY AGENCY, 2006-2010

Agency	FY 2006 Recommended	FY 2010 Recommended	# Change	% Change
Finance & Administration	3,197	2,837	-360	-11.3%
Legislative & Elections	371	357	-14	-3.8%
City Development	601	245	-356	-59.2%
Community Services	3,935	3,065	-870	-22.1%
Public Safety	22,640	22,323	-317	-1.4%
Regulatory	1,014	828	-186	-18.3%
Streets & Sanitation	3,577	2,608	-969	-27.1%
Transportation	862	1,022	160	18.6%
Public Services Enterprises	4,115	3,615	-500	-12.2%
Total	40,312	36,900	-3,412	-8.5%

Civic Federation Report, 2009; City of Chicago 2009 CAFR

TABLE 25

PROPOSED AND ACTUAL DRAWDOWN SCHEDULE OF SKYWAY RESERVE FUNDS: 2004-2012

	2004	2005	2006	2007	2008	2009	2010	2011	2012	June 30 2010 Ending Balance
Proposed Drawdown Schedule										
Skyway Mid-Term Reserve	50	100	50	75	50	50	0	0	0	0
Skyway Long-Term Reserve	0	0	0	0	0	0	0	0	0	500
Actual Drawdown Schedule										
Skyway Mid-Term Reserve	50	50	50	75	50	50	25			74.5
Skyway Long-Term Reserve	0	0	0	0	0	0	0			513.2

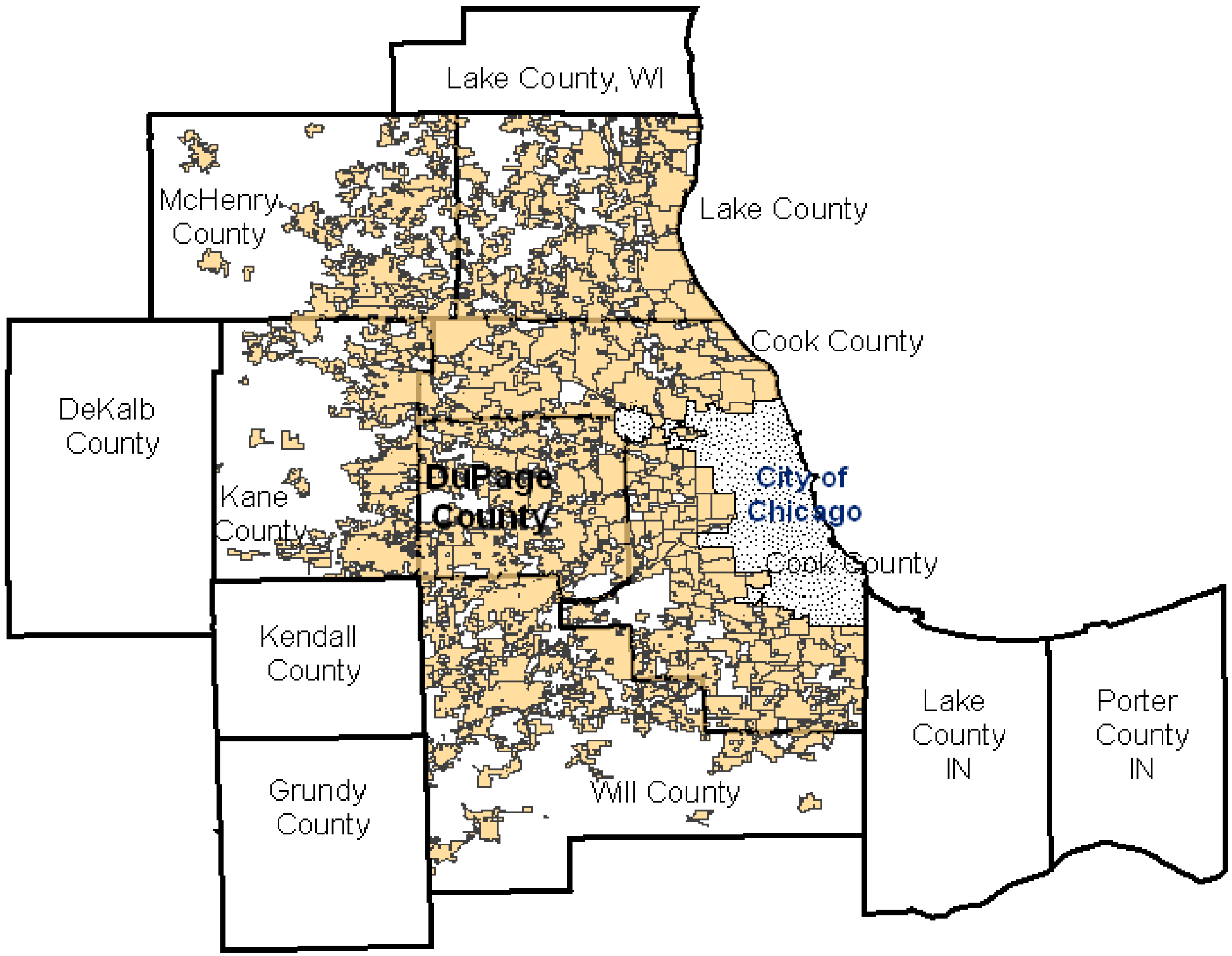
TABLE 26

PROPOSED AND ACTUAL DRAWDOWN SCHEDULE OF PARKING METER RESERVE FUNDS: 2008-2012

	2008	2009	2010	2011	2012	FY 2010 Ending Balance
Proposed Drawdown Schedule						
Parking Meter Mid-Term Reserve	100	50	50	50	100	150
Parking Meter Long-Term Reserve	0	0	0	0	0	400
Actual Drawdown Schedule						
Parking Meter Mid-Term Reserve	100	50	75			103.2
Parking Meter Long-Term Reserve	0	217.63	51.18			53.187

FIGURE 1

CHICAGO METROPOLITAN AREA: MUNICIPALITIES AND COUNTIES



APPENDIX

MSA's included in Tables 3 and 4

Atlanta-Sandy Springs-Marietta, GA

Boston-Cambridge-Quincy, MA-NH

Chicago-Naperville-Joliet, IL-IN-WI

Dallas-Fort Worth-Arlington, TX

Los Angeles-Long Beach-Santa Ana, CA

New York-Northern New Jersey-Long Island, NY-NJ-PA

Phoenix-Mesa-Scottsdale, AZ

Seattle-Tacoma-Bellevue, WA

Chicago-Naperville-Joliet, IL-IN-WI Metropolitan Statistical Area

- Chicago-Naperville-Joliet, IL Metropolitan Division
  - Cook County, IL
  - DeKalb County, IL
  - DuPage County, IL
  - Grundy County, IL
  - Kane County, IL
  - Kendall County, IL
  - McHenry County, IL
  - Will County, IL
- Lake County-Kenosha County, IL-WI Metropolitan Division
  - Lake County, IL
  - Kenosha County, WI
- Gary, IN Metropolitan Division
  - Lake County, IN
  - Porter County, IN