

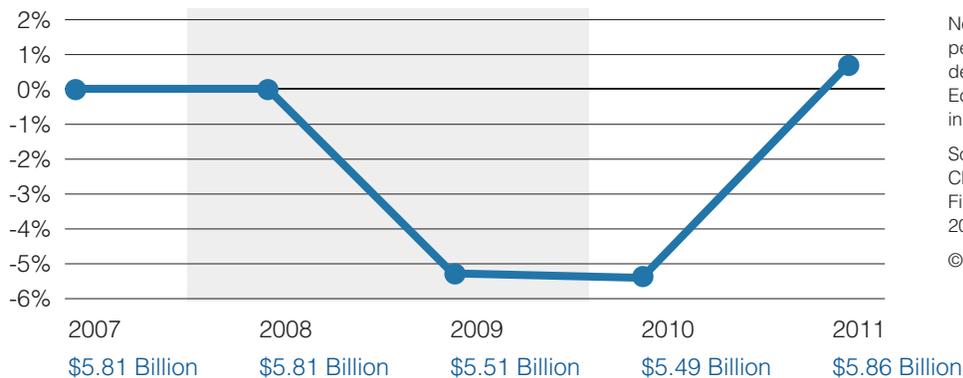
Chicago

Chicago rebounded strongly in 2011 after a late revenue dip

Although Chicago experienced prolonged effects from the Great Recession, with revenue declining from 2008 to 2010, the city bounced back dramatically in 2011, surpassing its previous peak. Total revenue was up \$366 million from the 2010 low on the strength of property taxes and intergovernmental aid. (See Figure 1.) Despite a commensurate increase in operating spending after earlier cuts, the city was able to replenish its reserve fund after years of drawdowns. Still, financial hurdles remain, and retirement obligations present a challenge for the city's fiscal future.¹

FIGURE 1

Chicago Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Chicago's Comprehensive Annual Financial Reports for fiscal 2007-11.

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As revenue declined, budget gaps prompted one-time measures and spending cuts

The Great Recession hit nearly all of Chicago's revenue categories. Although property and sales taxes and intergovernmental aid are key elements of the city's revenue, Chicago's assortment of other taxes, including a real estate transaction tax and a levy on city taxis and private transportation companies, was the biggest driver of the revenue declines. These collections dropped \$216 million between 2008 and the low point in 2010. Total intergovernmental aid decreased \$56 million during the same period despite passage of the

American Recovery and Reinvestment Act. Revenue from a local sales tax of 1.25 percent also fell \$33 million after adjusting for inflation.² Increases of \$41 million in miscellaneous nontax revenue and \$10 million in property tax revenue offset some of the declines but could not stem a \$317 million loss overall.

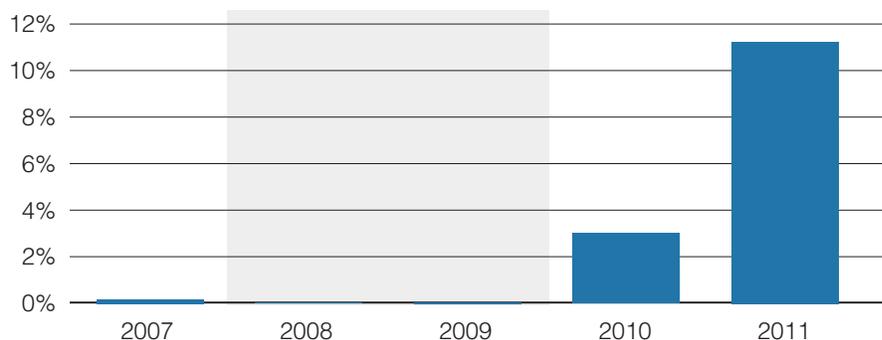
The losses, which hit in 2008 when the city had essentially no reserves remaining, prompted leaders to consider new revenue sources, including leases of publicly owned infrastructure. Having leased four downtown parking garages in 2006, Chicago leased the parking meter system in 2009 as a stopgap measure.³ In addition, the city reduced total operating spending \$607 million from 2008 to 2010, including an 8 percent cut in the number of full-time equivalent positions.⁴ In 2009, the City Council approved furloughs for nonunion workers as an alternative to layoffs, a move it estimated would save more than \$14 million.⁵ Cuts in debt service payments and public works and transportation were the largest, with most other spending categories also reduced.⁶

After a revenue rebound, Chicago did not restore all spending levels but did fund reserves

In 2011, rebounding revenue allowed the city to reverse some of the cuts enacted during and after the recession. Every revenue category grew from 2010 to 2011, led by property taxes (a \$120 million increase) and intergovernmental aid (a \$96 million increase). Operating spending in 2011 grew \$334 million from the year before, including increases of \$236 million for general government and \$204 million for public works and transportation. Social services spending, however, did not bounce back with revenue. Citywide, full-time equivalent employment decreased by 441 positions from 2010 to 2011.⁷ At the same time, reserves grew to more than \$300 million, or 11 percent of general fund revenue. (See Figure 2.)

FIGURE 2

Chicago Reserve Funds as a Percent of Total General Fund Revenue, 2007-11



Note: Reserve funds are represented by the unreserved general fund balance as a percent of total general fund revenues. Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research.

Source: Pew calculations from Chicago's Comprehensive Annual Financial Reports for fiscal 2007-11.

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Managing the future: Pension and retiree health care pose a threat to Chicago's long-term fiscal health

Spending commitments, demand for services, and revenue performance are among the key factors that will affect Chicago's future fiscal health. Long-term obligations that can be analyzed using the data available are pensions and retiree health care and other benefits.

Although the city improved its outlook by taking advantage of lower interest rates to refinance much of its variable-rate debt, in keeping with its debt management policy, its unfunded retirement obligations pose a long-term fiscal threat.⁸ At the end of 2010, assets covered less than half of total liabilities in the city's four pension plans.

Mayor Rahm Emanuel's administration pledged to work with the state to improve the situation. In testimony before the Illinois General Assembly in May 2012, Emanuel laid out a pension-reform plan that would raise the retirement age for public workers and freeze annual cost-of-living increases.⁹

The city's 2010 obligation for long-term retiree health care was \$869 million, but, like 16 of the 30 cities examined, Chicago did not fund it.¹⁰ In January 2013, Emanuel appointed a four-member task force to find ways of controlling growing retiree health care costs. The task force recommended trimming benefits, reducing support for dependents, and replacing city-funded plans for certain retirees with coverage provided under the Affordable Care Act.¹¹

In March 2013, Moody's downgraded Chicago's credit rating, citing Illinois' fiscal struggles and the need for stronger pension reform. It issued a further downgrade in July because of the expected strain of increased pension contributions in coming years.¹²

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 State of Illinois, *Locally Imposed Sales Taxes Administered by the Department of Revenue*, 2, <http://tax.illinois.gov/publications/LocalGovernment/ST-62.pdf>.

3 City of Chicago, *Comprehensive Annual Financial Report, for the Year Ended December 31, 2006* (2006), 65, http://www.cityofchicago.org/dam/city/depts/fin/supp_info/CAFR/2006/CAFR2006.pdf; City of Chicago, *Comprehensive Annual Financial Report, for the Year Ended December 31, 2009* (2009), 16, http://www.cityofchicago.org/content/dam/city/depts/fin/supp_info/CAFR/2009/CAFR2009.PDF.

4 City of Chicago, *Comprehensive Annual Financial Report, for the Year Ended December 31, 2010* (2010), 170, http://www.cityofchicago.org/dam/city/depts/fin/supp_info/CAFR/2010/CAFR2010.pdf.

5 Chicago City Council, *City Clerk Journal of Proceedings, Reports of Committees* (July 29, 2009), 66459, http://docs.chicityclerk.com/journal/2009/july29_2009/july29_2009_Finance.pdf; and Phil Rogers and B.J. Lutz, "City Council Approves Furlough Days" (July 28, 2009), WMAQ-TV, retrieved April 11, 2013, <http://www.nbcchicago.com/news/business/City-Council-Approves-Furlough-Days.html>.

6 Chicago does not finance or run its public school system, although the school board is appointed by the mayor. The school district's fiscal challenges, which resulted in announced school closures in early 2013, have no direct financial implications for the city's budget and thus were not included in this analysis; Judy Keen, "Chicago school closings ignite furor and fears," *USA Today* (March 29, 2013), <http://www.usatoday.com/story/news/nation/2013/03/28/fears-of-gang-fights-cloud-chicago-school-closings/2029411>.

7 City of Chicago, *Comprehensive Annual Financial Report, for the Year Ended December 31, 2011*, 172, http://www.cityofchicago.org/content/dam/city/depts/fin/supp_info/CAFR/2011/CAFR_2011.pdf.

8 City of Chicago, *Debt Management Policy for the City of Chicago* (2007), http://www.cityofchicago.org/dam/city/depts/fin/Bonds/debt_mgmt_policy.pdf.

9 Chicago Mayor Rahm Emanuel, testimony, House Committee on Personnel and Pensions (May 8, 2012), <http://www.ilga.gov/house/transcripts/htrans97/09700132.pdf>; Fran Spielman and Dave McKinney, "Rahm's Pension Reform: Freeze Retiree Pay Hikes, Up Retirement Age," *Chicago Sun-Times* (May 8, 2012), <http://www.suntimes.com/news/cityhall/12396286-418/rahm-emanuel-taxes-in-chicago-will-soar-without-pension-reforms.html>.

10 For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

11 City of Chicago, Retiree Healthcare Benefits Commission, *Report to the Mayor's Office on the State of Retiree Healthcare* (2013), http://www.cityofchicago.org/content/dam/city/depts/fin/supp_info/Benefits/RHBC/ReportToMayor/RHBC_Report_to_the_Mayor.pdf.

12 Hal Dardick and Rafael Guerrero, "State Woes Hurt City's Credit Rating," *Chicago Tribune* (March 15, 2013), http://articles.chicagotribune.com/2013-03-15/news/ct-met-illinois-legislature-pension-reform-0315-20130315_1_pension-reform-pension-finances-pension-debt; and Tim Jones and Amanda J. Crawford, "Moody's Cuts Chicago Rating Amid Crime, Pension Liability," *Bloomberg* (July 18, 2013), <http://www.bloomberg.com/news/2013-07-18/moody-s-cuts-chicago-rating-amid-crime-pension-liability.html>.