



C I T Y O F C H I C A G O

ANNUAL FINANCIAL ANALYSIS 2012

MAYOR RAHM EMANUEL

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LETTER FROM THE MAYOR



Dear Chicagoans,

Thank you for your interest in the City of Chicago's 2012 Annual Financial Analysis. This is the second year that the City has produced this document, which was developed by the Office of Budget and Management as a new, permanent element of the City's budgeting process to help make the City's financial planning process more transparent and accountable to taxpayers.

The 2012 budget made significant progress toward addressing the City's structural deficit, but there is still a lot more work to be done. This Annual Financial Analysis presents an overview of the City's financial condition, and it serves as the starting point for preparing the 2013 budget. Chicago's budget process cannot simply be limited to a one-year view. It must consider both past economic trends and the long-term financial outlook for the City. That's why this document includes an historical analysis of the City's revenues and expenditures; forward-looking financial forecasts; and detailed analyses of the City's reserves, capital program, debt, and pension obligations.

An important reason to provide this information is that it allows all Chicagoans to participate in the discussion about our City's budget and long-term fiscal health. I look forward to a collaborative process going forward, where Chicagoans work together to shape the financial future of this great city.

A handwritten signature in black ink that reads "Rahm Emanuel".

Rahm Emanuel
Mayor

INTRODUCTION

In his first week in office, Mayor Emanuel issued Executive Order No. 2011-7 directing the Office of Budget and Management to issue a long-term financial analysis that would provide a framework for the development of the City's annual budget and guide the City's financial and operational decisions.

Each year, the Annual Financial Analysis is completed based on the critical understanding that to protect the health

and safety of all Chicagoans, strengthen communities and neighborhoods, maintain infrastructure and public spaces, and foster a vibrant local economy, the City must be in strong financial health. The only way to secure and maintain the fiscal health of the City is to take an informed and long-term approach to financial planning, evaluating the City's past revenues, expenditures, policies, and programs in light of the factors driving the broader economy, and planning for the future with a clear view of the past.

This year's Annual Financial Analysis is divided into the following sections:

- **Financial History Review.** This section describes the revenue sources that make up the City's corporate fund, property tax levy, special revenue funds, and enterprise funds over the past 10 years, and the ways in which this revenue has been spent. This section pays particular attention to how the City's sources of revenue have fluctuated with the economy, and to those expenses that make up the bulk of the City's operating budget, such as salaries and wages, employee benefits, contractual services, fuel, and utilities.
- **Three-Year Financial Forecast.** This section provides projected revenues and expenditures for 2013 and discusses the anticipated corporate fund budget gap, which is currently estimated at \$369 million. While the 2012 budget made significant progress towards bringing the City's expenditures in line with its revenues, this continuing structural deficit highlights the fact that there is still work to be done and difficult decisions to be made as the City continues to reinvent government for the good of all Chicagoans. This section also examines three different scenarios for 2014 and 2015 – a 'current outlook', a 'positive outlook', and a 'negative outlook' – each presenting a forecast based on potential future revenues and expenditures.
- **Long-Term Asset Lease and Reserve Funds.** This section describes the City's historic and present levels of reserve funds, and the manner in which funds generated by the City's long-term lease of the Skyway and the parking meter system have been spent.
- **Capital Investments.** This section describes the City's capital improvement program, details the City's capital uses of its bond proceeds over the past 10 years, and sets forth a capital improvement plan for the next five years.
- **TIF.** This section details revenues from the City's tax increment financing program and the manner in which those funds have been spent over the past 10 years. It also looks forward at the coming three years of projected TIF-related income and programming.
- **Debt.** This section examines the City's total outstanding debt, including general obligation bonds, revenue bonds, and short-term debt instruments. It also outlines the City's debt service payments over the past 10 years and the coming three years and the implications of this growing debt load on City finances.
- **Pensions.** Last year's Annual Financial Analysis focused on the impact on the City's operating budget of the increasing cost of pension contributions. This year's analysis provides a more in-depth discussion of the pension system, the growing unfunded liabilities of the City's four pension funds, and the City's proposals for addressing these issues.

The City will use the information and insights in the following pages as it develops its 2013 budget with an eye towards its long-term fiscal health. Publishing this report provides Chicagoans with access to this information so that they too can evaluate the City's financial performance and participate in the discussions that will inform the 2013 budget and shape Chicago's fiscal future.

ANNUAL FINANCIAL ANALYSIS

2012

FINANCIAL HISTORY REVIEW

FINANCIAL HISTORY REVIEW

INTRODUCTION

The City organizes its operating budget by funds, each of which is accounted for separately, with its own sources of revenue and types of expenditures.¹ Accordingly, this analysis is divided into the following sections:

- Corporate Fund. The corporate fund is the City's general operating fund and supports many essential City services and activities, such as police and fire protection, emergency management, trash collection and public health programs. Corporate revenues come primarily from a variety of taxes, fees, and fines.
- Special Revenue Funds. The City's special revenue funds are used to account for revenue from specific sources that by law are designated to finance particular functions, such as road repair, snow removal, and special events and tourism promotion.
- Enterprise Funds. The City's enterprise funds include the water fund, the sewer fund, and a separate fund for each of the City's major airports.

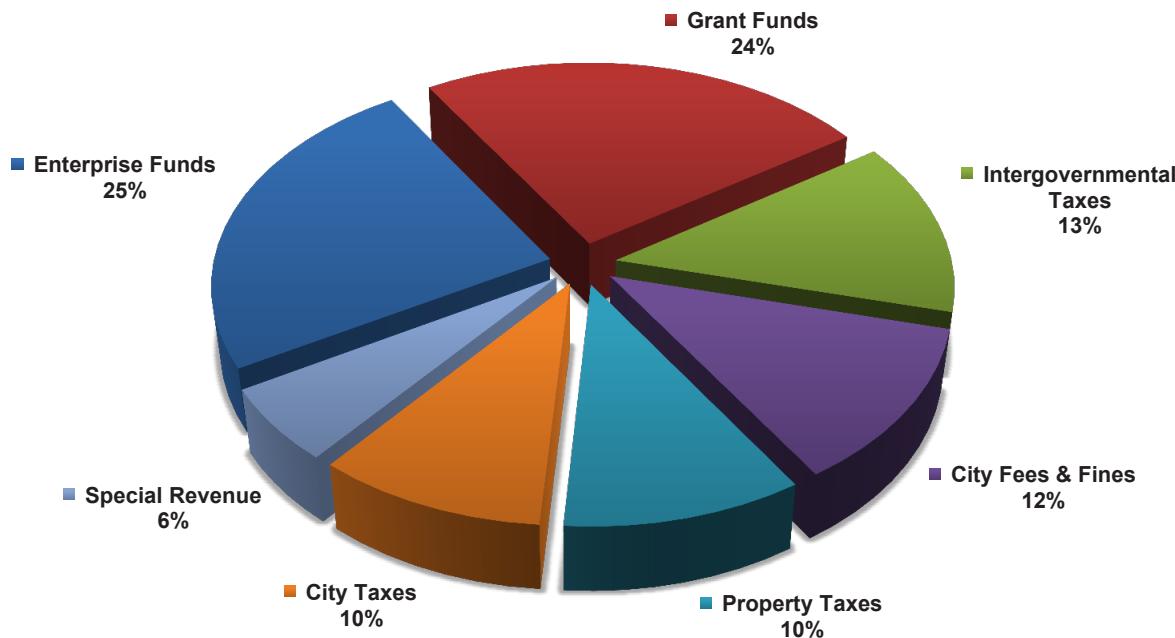
These funds are self-supporting, in that each fund derives its revenue from charges and associated user fees.

- Grant Funds. Grant funding makes up a significant and recurring source of revenue for the City and is utilized to provide a range of City services, from community development and health services to infrastructure improvement.
- Property Tax Funds. The City receives property tax revenue through its levy and through its TIF program. The City uses revenue from its property tax levy to pay its employee pension contributions and debt service obligations, as well as to fund the library system. TIF revenue is utilized for projects in designated TIF districts.

In addition, this document includes an in-depth discussion of workforce-related costs and the major factors that affect these costs, which cut across all funds. These costs have and will continue to have the largest impact on the City's operating budget.

TOTAL CITY RESOURCES

percentage of 2012 budget



¹ The revenue and expenditure information contained herein is based on the City's audited Consolidated Annual Financial Report (CAFR) and the audited Basic Financial Statements for the City's enterprise funds, with the exception of the 2012 year-end estimates, which are projections based on historical patterns, seasonality, to-date performance, and other relevant factors. Accordingly, the 2012 year-end estimates are subject to change and will be adjusted throughout the year as additional information and collections are received. The revenue and expenditure information presented herein for prior years may vary slightly from that printed in the City's CAFR due to accounting adjustments made over time.

FINANCIAL HISTORY REVIEW

CORPORATE FUND REVENUE

This section discusses the overall trends in the City's sources of corporate fund revenue and its relative reliance on each over the course of the past 10 years. Corporate fund revenues come from four main sources:

- Local tax revenue, which consists of taxes collected by the City, including utility, transaction, transportation, recreation, and business taxes.
- Intergovernmental tax revenue, which consists of the City's share of the Illinois state sales and use taxes, income tax, and personal property replacement tax.
- Non-tax revenue, which consists of charges for licenses, permits, and services; fees and fines; the proceeds from land and material sales and leases; and transfers to the corporate fund from the City's special revenue and enterprise funds for services provided to those funds.
- Proceeds and Transfers in, which consist of amounts transferred into the corporate fund from outside sources, including proceeds from financings and transfers from the City's asset lease reserve funds.

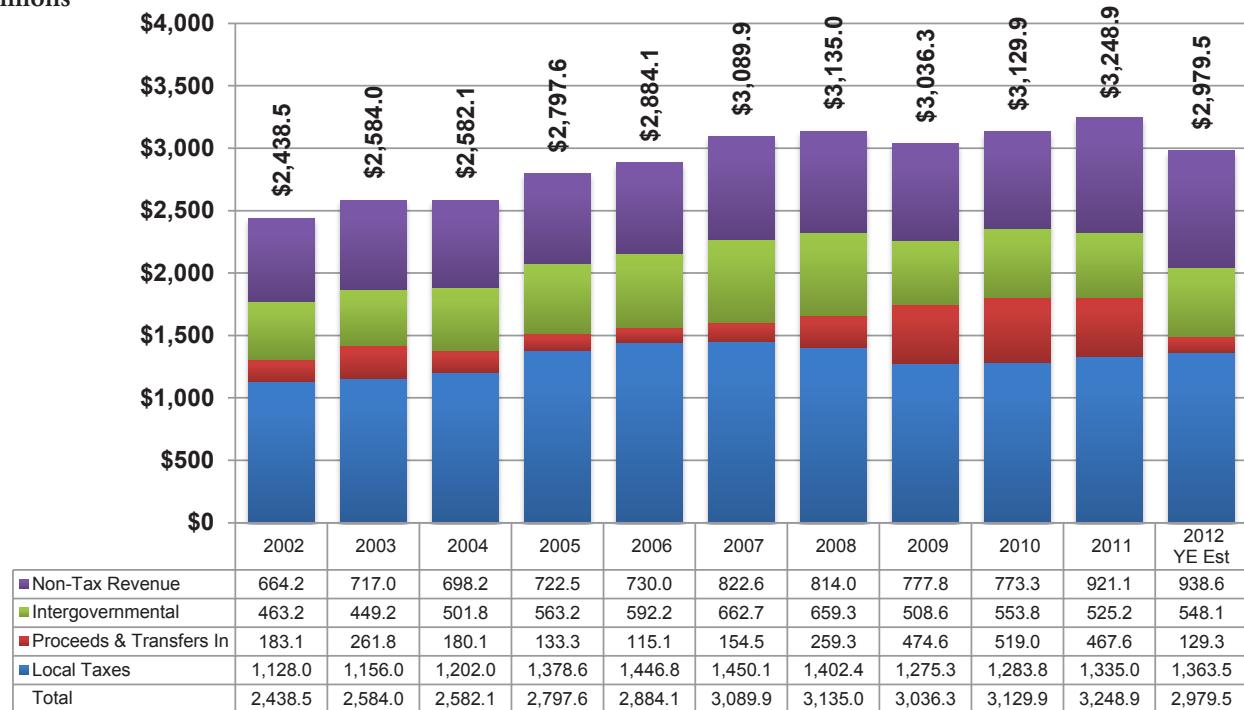
Over the past 10 years, total corporate fund revenues experienced relatively steady growth, with the exception of a decrease following the financial crisis in 2008 and the resultant economic downturn. What is more telling than the aggregate amount of corporate fund revenue, however, are the differences in the sources of this revenue over the years. The relative amounts coming from taxes, non-tax revenues, and other outside sources vary each year, and changed significantly with the onset of the recession in 2008.

Between 2002 and 2007, an average of 47 percent of total corporate fund revenues were derived from local tax revenues. Beginning in 2008, these revenues began to decline both in dollar amount and as a percentage of total revenues. Local tax revenues decreased by \$47.7 million in 2008 and \$127.2 million in 2009, and by 2011 made up only 41 percent of total corporate fund revenues.

Intergovernmental taxes too declined with the overall economy. These income and sales taxes constituted an average of 20 percent of corporate fund revenue between 2002 and 2007, but then dropped sharply, by \$150.7 million, in 2009, and remained at only 16 percent of corporate fund revenues in 2011.

CORPORATE FUND REVENUE

\$ Millions



Data does not include fund balance.

FINANCIAL HISTORY REVIEW

Non-tax revenues are typically more stable than tax revenues and have remained relatively constant as a percentage of total corporate fund revenues over the past 10 years. However, these revenues are not immune to economic down cycles and saw a net decrease of \$49 million between 2007 and 2010, with a slight increase in 2011 due to revenue from the declaration of a TIF surplus.

As economically-sensitive revenues declined, the City did not decrease expenditures to match these shrinking revenues, but instead increasingly relied on transfers into the corporate fund from non-recurring sources of revenue, such as funds from the long-term leases of the Skyway and the parking meter system and proceeds from financing transactions, to balance its operating budget.

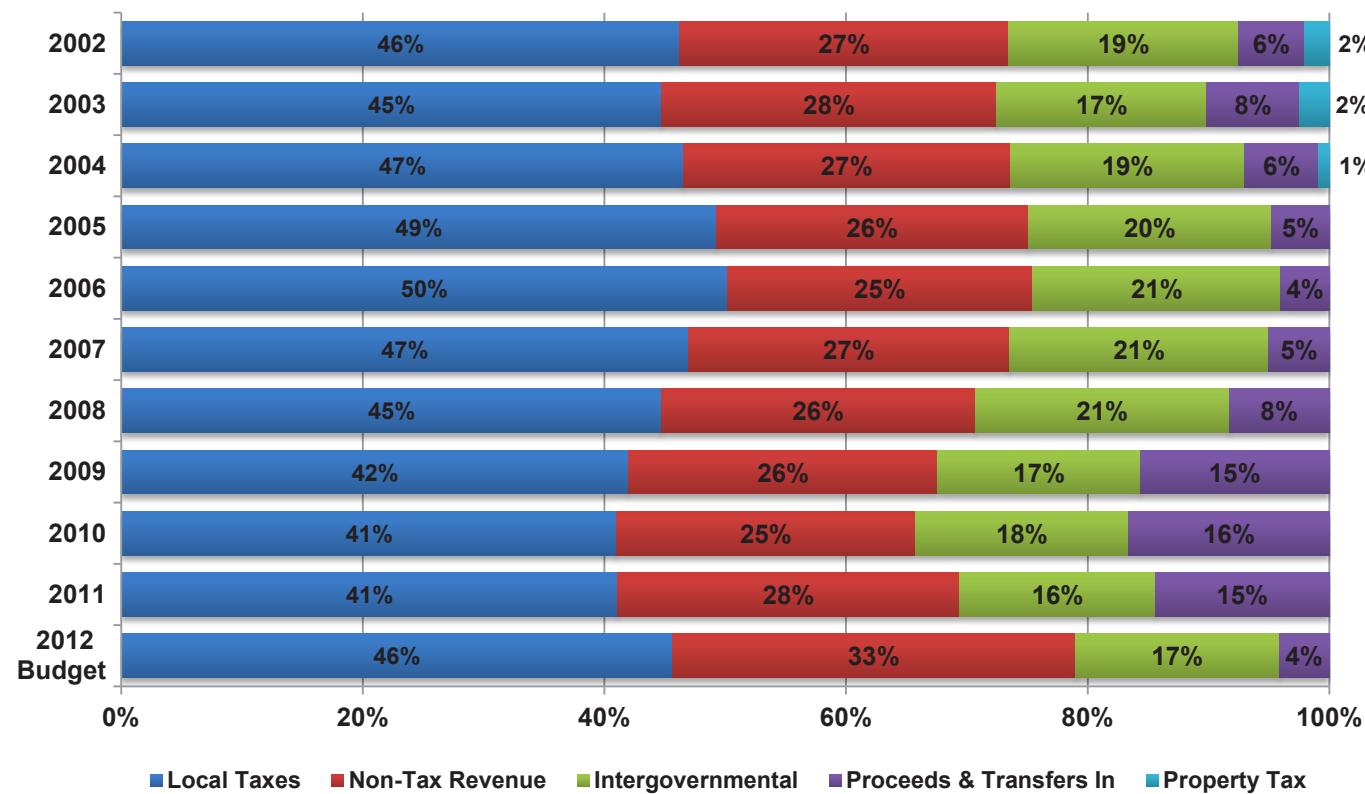
In each of the last 10 years, the City has utilized transfers into the corporate fund from outside sources to a certain extent. Between 2002 and 2007, these transfers constituted of an average of 6 percent of corporate fund revenues each

year, and came largely from general obligation bond interest and other financing transactions. In 2005, the City began to use proceeds from the long-term lease of the Skyway to supplement its corporate fund budget, and in 2008 proceeds from the long-term lease of the parking meter system began to subsidize the operating budget. In the period from 2009 through 2011, an average of \$487 million each year, or 16 percent of corporate fund revenues, came from such one-time resources.

The 2012 budget began the process of aligning expenditures with real revenues by reducing the overall size of the budget through efficiencies and targeted cuts and implementing select revenue increases, such as a congestion fee for downtown parking and a raise in the hotel tax rate. Under the 2012 budget, it is anticipated that 46 percent of corporate fund revenues will come from local taxes, 17 percent from intergovernmental taxes, 33 percent from non-tax revenues, and only 4 percent from other proceeds and transfers into the fund.

CORPORATE FUND REVENUES

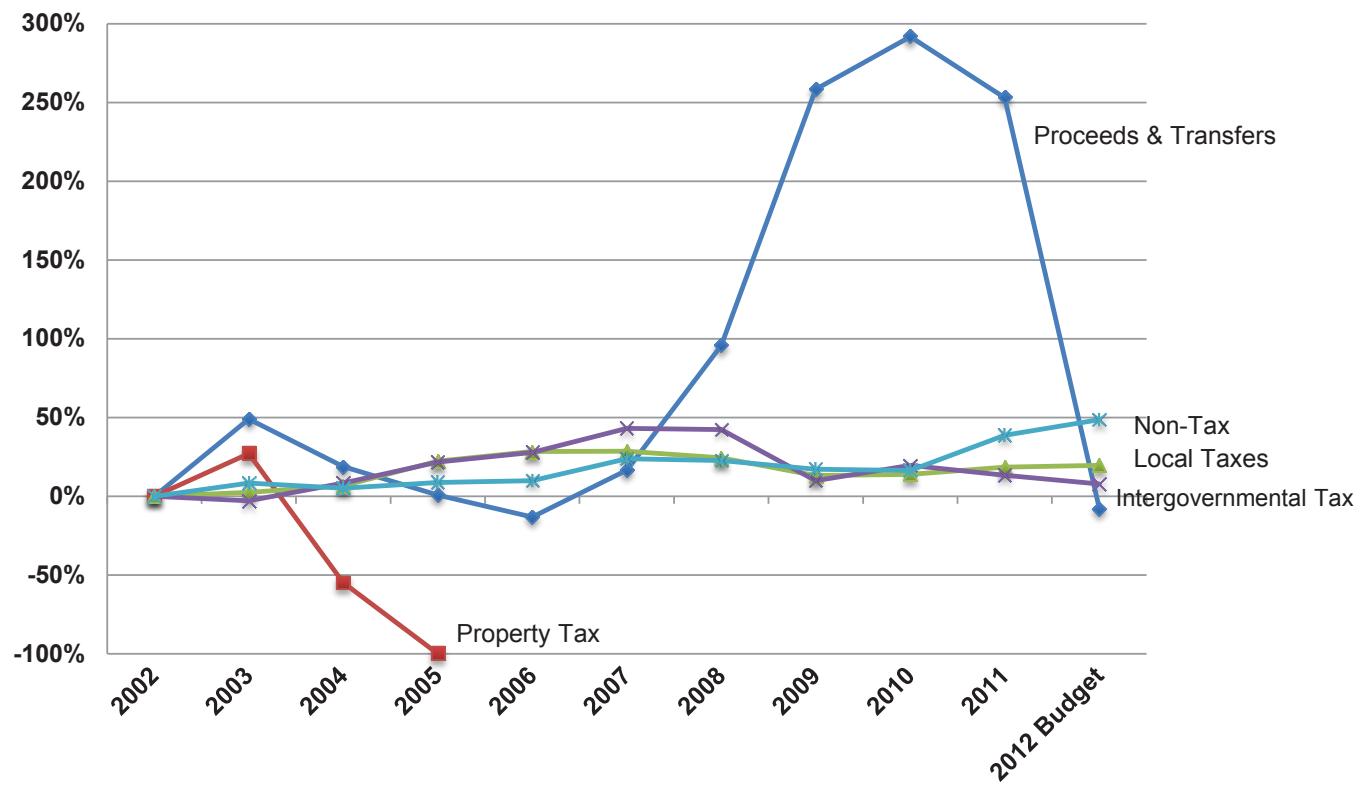
as a percentage of total corporate fund revenue



FINANCIAL HISTORY REVIEW

CHANGE IN CORPORATE FUND REVENUES

percentage change from 2002



Many challenges remain, however, as the City moves into 2013 and beyond. As discussed in greater detail in the following sections of this document, certain expenses, such as pension contributions, salaries and wages governed by collective bargaining agreements, and health care costs, continue to grow. In addition, many of the City's largest revenue sources come from the State and Federal governments. These governments are facing their own fiscal difficulties, which have and will continue to impact the City. For example, in order to balance its own budget, the State has increased diversions of certain existing revenue sources away from the City, as discussed below with respect to personal property replacement taxes.

The City's grant funds, enterprise funds, and special revenues are designated by law for specific purposes, leaving a relatively small segment of City-controlled resources for funding essential City services such as public safety, street repair, and garbage collection. As discussed in the following pages, the City must endeavor to manage these revenues in

an efficient and sustainable manner and control expenditures accordingly.

Following is a more detailed discussion of the individual revenue sources that make up the major categories of corporate fund revenue discussed above, and how each has performed over the course of the last decade.

FINANCIAL HISTORY REVIEW

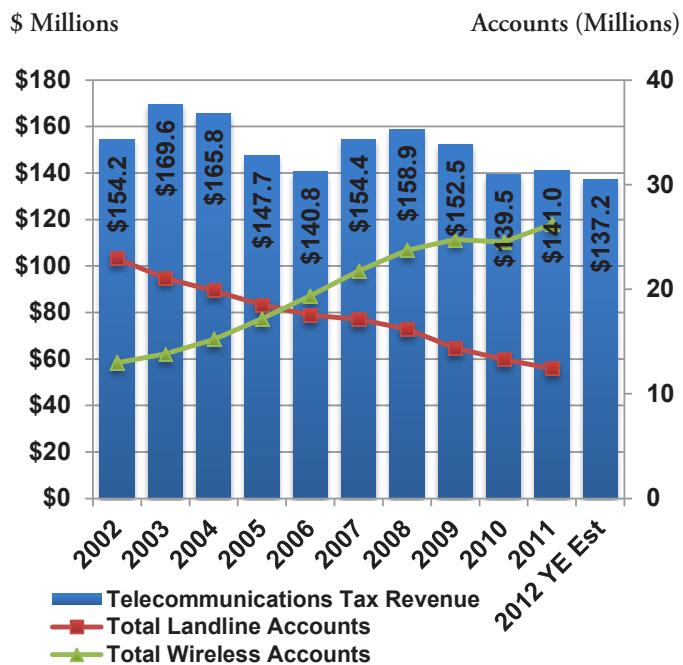
LOCAL TAX REVENUE

Local taxes include taxes on the purchase of utility services, real estate and other transactions, transportation, and certain recreation and business activities.

Public Utility Taxes

Public utility taxes consist of taxes on the purchase of telecommunications services, electricity, natural gas and cable television. Combined public utility taxes have constituted 14 percent to 18 percent of total corporate fund revenues over the past 10 years. In 2002, public utility taxes generated \$441.6 million, accounting for 18 percent of total corporate fund revenues. In 2008, these taxes peaked at \$524.8 million, but dropped during 2009 and 2010 and rebounded only partially in 2011, generating \$467.6 million, or 14 percent of total corporate fund revenues in that year. The reasons for these fluctuations are discussed below with respect to each individual tax. The 2012 year-end estimate for total public utility tax revenue is \$442.0 million.

TELECOMMUNICATIONS TAX REVENUE



Revenue from **telecommunications taxes**, which are levied on charges for telephone services in the city, has declined over the past decade, reflecting trends in the industry and consumer preferences. In 2002, telecommunications taxes generated \$154.2 million, accounting for 6 percent of total

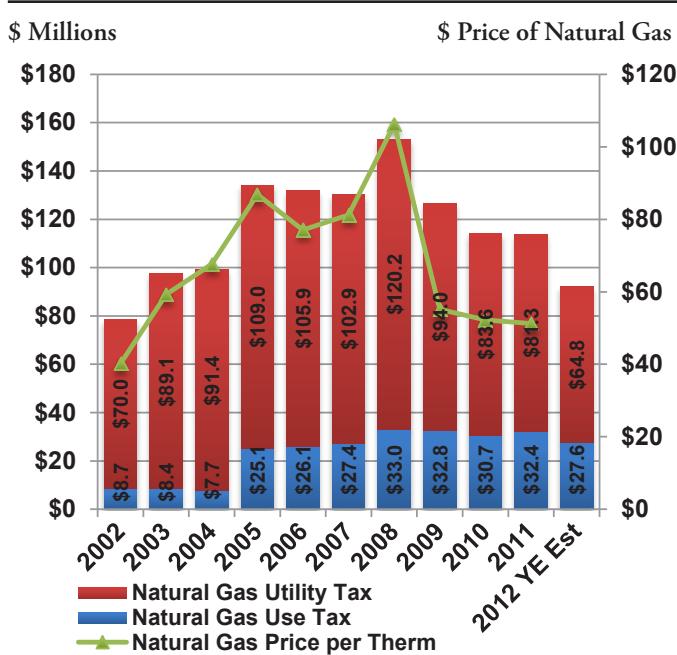
corporate fund revenues. Through 2005, land lines generated the majority of this revenue stream, with cell phone usage taking over as the largest driver of this revenue source in 2006, in which year these taxes generated \$140.8 million. In 2011, telecommunications tax revenue generated \$141 million, accounting for 4 percent of total corporate fund revenues. Telecommunications taxes are expected to yield \$137.2 million in 2012. The overall decline in revenues may be attributed in part to the recent reduction in the use of landlines as more customers choose to have only wireless services, or to use online communication services such as Skype. In addition, Federal law exempts most wireless data services, such as mobile broadband, from taxation, and consequently, growth in the market for such wireless services has not resulted in increased revenues for the City.

The City's **electricity use tax** and **electricity infrastructure maintenance fee** are based on the number of kilowatt hours of electricity used. Because electricity is used to cool homes and buildings, revenues from electricity taxes are highly dependent upon weather conditions, particularly summer temperatures. Electricity rates, conservation efforts, and technological changes that contribute to energy efficiency also significantly affect the amount of electricity used and thus City revenue from these taxes. Electricity tax revenues have constituted 6 to 8 percent of total corporate fund revenues over the past 10 years, averaging \$189.3 million each year. In 2002, electricity taxes generated \$195.3 million, accounting for 8 percent of total corporate fund revenues. In 2011, electricity taxes generated \$188.8 million, accounting for 6 percent of total corporate fund revenues. The increasing use of energy-efficient equipment has slowed growth in recent years and is expected to continue to impact these revenues going forward, with 2012 year-end estimates at \$187.2 million.

The City imposes two natural gas-related taxes. The **natural gas utility tax** is an 8 percent tax imposed on the purchase price of natural gas. The **natural gas use tax** is imposed at a rate of 6.3 cents per therm on entities not subject to the natural gas utility tax. As with electricity taxes, natural gas tax collections are highly dependent upon weather conditions and price. Natural gas is used to heat homes and buildings, and thus colder weather increases consumption and associated tax revenues. In 2002, natural gas-related taxes generated \$78.7 million, accounting for 3 percent of total

FINANCIAL HISTORY REVIEW

NATURAL GAS TAX REVENUE



corporate fund revenues. Natural gas prices during 2008 were historically high, averaging 106.2 cents per therm, and City revenues from related taxes spiked to \$153.2 million in that year. Prices dropped to an average of 55.1 cents per therm during 2009 and again to an average of 51.2 cents per therm in 2011. In 2011, natural gas taxes generated \$113.7 million, accounting for 4 percent of total corporate fund revenues. During the first six months of 2012, the price of natural gas dropped 34 percent from the price for the same period in 2011, resulting in an anticipated drop in revenues from these taxes for this year.

Cable television tax revenue, which makes up only a small portion of corporate fund revenue, grew from \$13.4 million in 2002 to \$24.1 million in 2011, with 2012 year-end estimates at \$25.1 million. Steady growth can be expected to continue for this revenue source due in part to the rise of on-demand and pay-per-view channels.

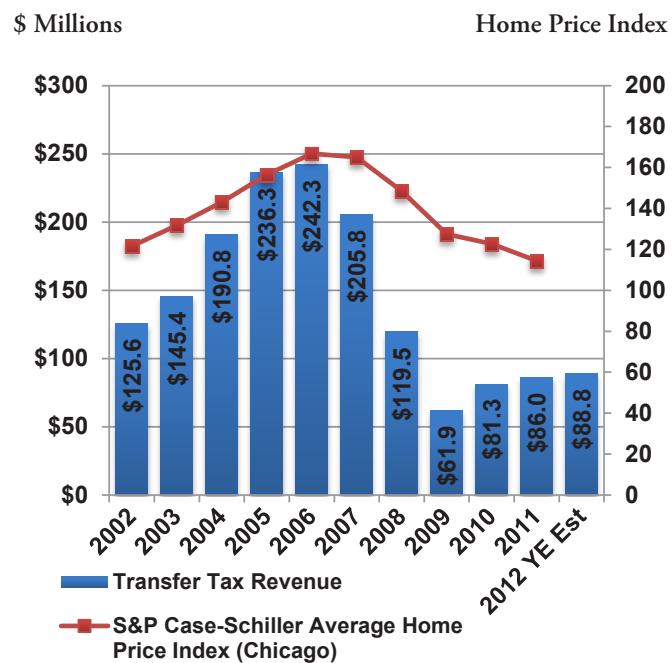
Transaction Taxes

Transaction taxes include taxes on the transfer of real estate, the lease or rental of personal property, and the short-term lease of motor vehicles within the city. Combined transaction taxes have constituted 6 percent to 12 percent of total corporate fund revenues over the past 10 years. Fluctuations in this revenue source closely follow patterns in the economy and the real estate market.

In the years leading up to the recession, **real property transfer tax** collections reached record levels, increasing from \$125.6 million in 2002 to peak at \$242.3 million in 2006. The decline in the real estate market with the overall economy drove these collections down to \$61.9 million in 2009. 2010 and 2011 saw slight increases in real property transfer tax revenue to \$81.3 million and \$86.0 million, respectively, due in part to a number of large commercial real estate transactions. The residential real estate market, however, has been slower to recover, and the S&P/Case-Schiller Home Price Index for Chicago remains down by more than 30 percent from its peak in 2006. The high number of foreclosures, difficulties in securing financing, slow new home construction, and lower home prices continue to depress growth in this revenue source, which remains significantly below pre-recession levels. The City estimates that \$88.8 million in real property transfer tax revenues will come in during 2012.

As with other transaction-driven taxes, collections of **personal property lease transaction taxes** suffered due to the recessionary economy's impact on personal consumption, experiencing only slow overall growth. In 2002, taxes on the lease or rental of personal property generated \$100.0 million, accounting for 4 percent of total corporate fund revenues. In 2008, personal property lease transaction taxes

REAL PROPERTY TRANSFER TAX REVENUE



FINANCIAL HISTORY REVIEW

generated \$119.3 million, with the growth due largely to an increase in the tax rate from 6 to 8 percent in that year. These revenues dropped to \$108.4 million in 2010 but increased again in 2011 to \$123.5 million mostly due to enforcement collections, accounting for 4 percent of total corporate fund revenues. 2012 year-end estimates are at \$122.5 million.

Transportation Taxes

Transportation taxes include taxes on parking garages, vehicle fuel, and hired ground transportation. **Parking garage taxes** have historically made up the largest portion of this category, with rate adjustments in 2005 and 2009 contributing to year-over-year revenue increases in those years from \$69.8 to \$81.7 million and \$85.3 to \$93.1 million, respectively. **Vehicle fuel tax** revenues declined from \$62.7 million in 2002 to \$49.4 million in 2011, due largely to declines in fuel consumption as gasoline prices rose and fuel-efficient vehicles became more prevalent.

In 2011, total transportation tax revenues were \$151.9 million, or 5 percent of total corporate fund revenues. Revenues from these taxes are expected to increase in 2012 to \$174.4 million, or 6 percent of total corporate fund revenues, primarily as a result of the congestion premium on weekday parking in the downtown area, which was implemented as part of the 2012 budget.

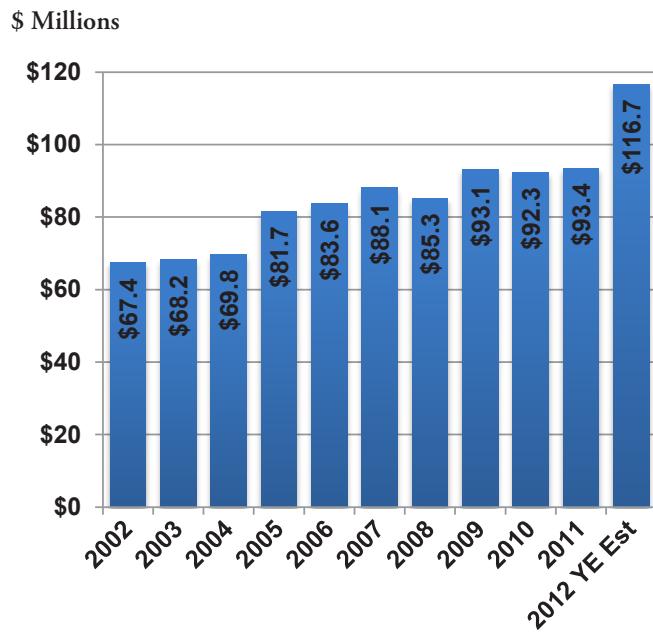
Recreation Taxes

Recreation taxes include taxes on amusement activities and devices, the mooring of boats, liquor, cigarettes, non-alcoholic beverages, and off-track betting. In 2002, recreation taxes generated \$83.7 million, accounting for 3 percent of total corporate fund revenues. By 2011, recreation taxes generated \$159.4 million, accounting for 5 percent of total corporate fund revenues, and the City anticipates that this will increase to \$163.2 million in 2012.

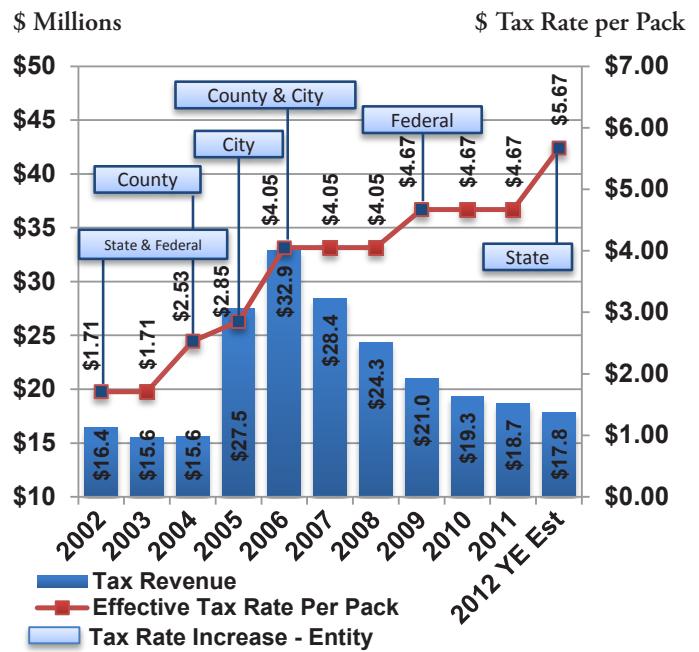
Amusement taxes apply to most large sporting events, theater, and musical performances in the city, and generated \$33.8 million in 2002, growing to \$86.1 million in 2011. These revenues increased due in part to 1 percent rate increases in each of 2005 and 2009, but also vary significantly from year to year based the relative success of Chicago's professional sports teams and ticket prices for such sporting events. The City anticipates \$89.2 million in amusement tax revenue in 2012, due to growth in tourism and revenue from Lollapalooza, which was previously exempt.

Cigarette tax revenues increased from \$15.6 million to \$32.9 million between 2004 and 2006, due largely to increases in the City cigarette tax rate in 2005 and 2006, but have fallen steadily since that time to \$18.7 million in 2011. These declines can be attributed in part to a decline in smoking in the overall population and in part to increases in prices

PARKING TAX REVENUE



CIGARETTE TAX REVENUE AND RATE INCREASES



FINANCIAL HISTORY REVIEW

and tax rates discouraging purchases of cigarettes in the city. **Liquor tax** revenue, in contrast, has increased significantly over the past 10 years, from \$18.4 million in 2002 to \$31.6 million in 2011, due to increases in both activity and the tax rate. Revenue from taxes on the purchase of **non-alcoholic beverages** saw slight year-over-year increases for most of the past decade, with a significant jump in 2008 from \$11.5 million to \$18.8 million, with the addition of a tax on bottled water.

Business Taxes

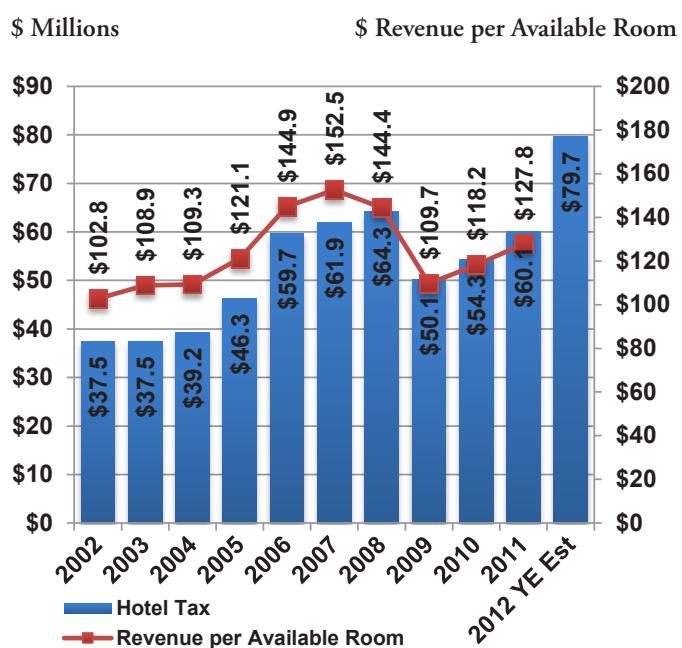
Business taxes consist of taxes on hotel accommodations and the employers' expense tax. After high growth years in 2005 and 2006, with year-over-year increases of 11 percent and 19 percent, respectively, these taxes peaked at \$92.3 million in 2008. Total business tax revenues decreased by 14 percent to \$79.6 million in 2009, due largely to declines in hotel tax revenues, and then increased by 4 percent in 2010 and 6 percent in 2011, ending 2011 at \$88.2 million. Business tax revenues going forward will be impacted by the phasing out of the employers' expense tax, and the increase in the hotel accommodations tax rate, both of which were effective as of 2012.

Revenues from the **hotel accommodations tax** experienced decline beginning in 2009 and continuing into early 2011, coinciding with the recession's impact on tourism, business

travel, and convention attendance. In 2007, the revenue per available room, a key metric that accounts for both occupancy and room price, averaged \$152.50, and hotel tax revenues were \$61.9 million. By 2009, revenue per available room had declined by 28 percent to \$109.70, and hotel tax revenues dropped by 22 percent from 2008 levels to \$50.1 million. The second half of 2011, however, saw hotel sales begin to bounce back, with related tax revenues ending the year at \$60.1 million, and average revenue per available room at \$127.80 for the year. As part of the 2012 budget, the City increased the hotel accommodations tax rate from 3.5 percent to 4.5 percent. Local hotel sales have continued to climb throughout the first half of 2012, indicating that the increase in the tax rate did not negatively impact Chicago's ability to attract conventions and tourists. With the increase in rate, the City expects hotel tax revenues of \$79.7 million in 2012, accounting for 3 percent of total corporate fund revenues.

Revenue from the **employers' expense tax**, which taxes businesses with more than 50 employees at a rate of \$4 per employee per month, has been essentially stagnant for the past decade, averaging \$24 million per year. As part of the 2012 budget, the Mayor delivered on his campaign pledge to phase out this tax as a key component of encouraging business development and job creation in Chicago. This tax was reduced by 50 percent, to \$2 per employee, in 2012, and revenues are expected to decline accordingly to \$15.1 million. The tax will be completely eliminated by mid-2014.

HOTEL ACCOMMODATIONS TAX REVENUE



INTERGOVERNMENTAL TAX REVENUE

Intergovernmental tax revenues consist of the City's share of the Illinois state sales and use taxes, income tax and personal property replacement tax.

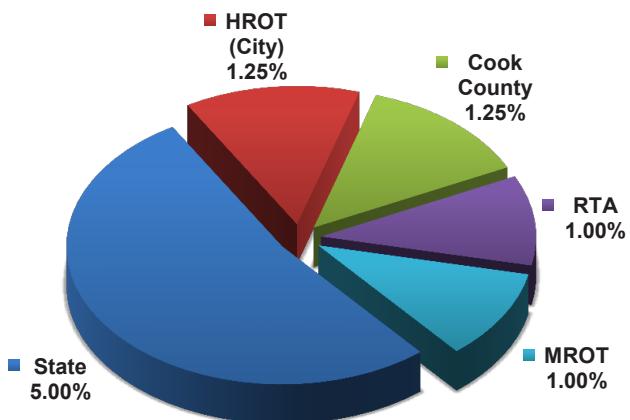
Sales and Use Taxes

Sales and use tax revenue is generated through the Chicago Home Rule Occupation and Use Tax (HROT) and the Municipal Retailer Occupation and Use Tax (MROT). The City imposes the HROT on the retail sale of general merchandise, excluding most sales of food and medicine, restaurant purchases, and the purchase of titled and non-titled personal property. Unlike the HROT, the MROT applies to qualifying food and drug purchases. General merchandise purchases in the City were subject to a combined sales tax rate of 9.75 percent from July of 2010 through the end of 2011. This rate was reduced to 9.50 percent as of January 1,

FINANCIAL HISTORY REVIEW

SALES TAX

composition of total Chicago sales tax rate



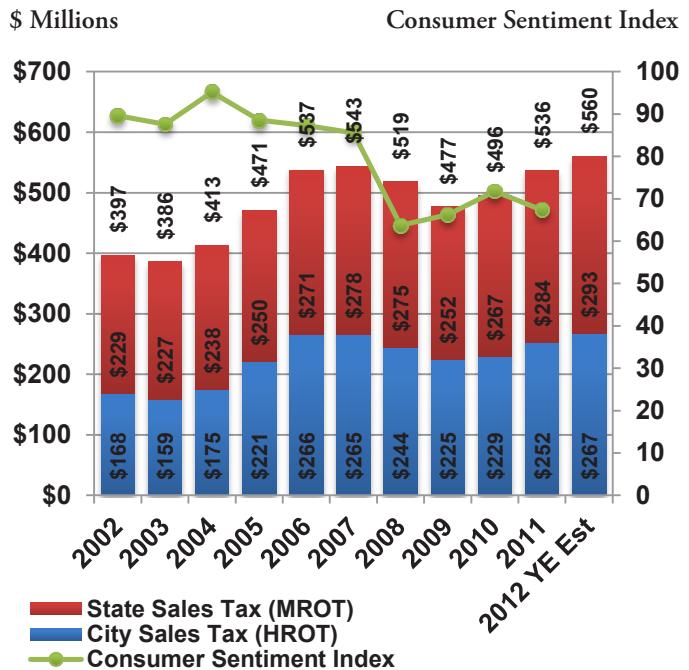
2012, when the County rolled back its portion of the 2010 sales tax increase. 1.25 percent of the combined sales tax rate is attributable to HROT and 1 percent is attributable to MROT, with the remainder going to the State, the Regional Transportation Authority, and Cook County.

In combination, the HROT and MROT have accounted for an average of approximately 16 percent of total corporate fund revenues over the past 10 years. From 2004 to 2007, HROT and MROT collections grew an average of 9 percent per year, peaking at \$543.2 million in 2007. Beginning in the fall of 2008, sales tax receipts began a year-over-year average decline of 8.9 percent each month for the next 17 months, with 2009 revenues at only \$476.6 million. During 2010, a small growth trend emerged, due largely to the State's tax amnesty program. However, this growth was against a depressed base, and sales and use tax revenues remained well below pre-recession levels, finishing 2010 at \$495.8 million. In 2011, revenues from sales and use taxes bounced back to \$536.3 million, as economic conditions improved and consumer spending picked up throughout the year. This trend is expected to continue into 2012, with year-end sales revenue estimates at \$560.2 million.

State Income Tax

Like sales and use taxes, state income tax revenues experienced growth in pre-recession years, and dropped with the economy after 2007. From 2004 to 2007, City income tax revenues grew an average of 10 percent per year, reaching

SALES TAX REVENUE



a high of \$268.8 million in 2008. Income tax revenue dropped 25 percent, to \$201.0 million, in 2009, and then rebounded slightly in 2010 to \$231.5 million.

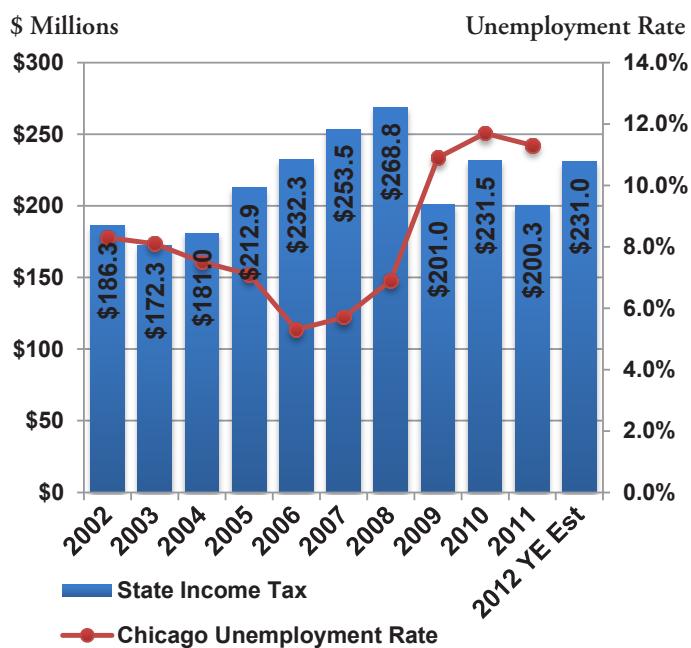
In 2011, continued high unemployment rates, the decline in population under the 2010 Census, a decrease in state distributions, and the federal 'depreciation bonus rule', discussed in greater detail below, all contributed to depressed state income tax revenues. In 2011, the city's unemployment rate peaked at 11.3 percent, and at the same time, income tax distributions to the City from the State were adjusted to account for the population count from the 2010 Census. Chicago's decline in population resulted in a decrease in City income tax revenues by 5.8 percent from 2010 levels.

Effective as of February of 2011, the State's personal income tax rate was increased to 5 percent from 3 percent and the corporate income tax rate was increased to 7 percent from 4.8 percent. However, municipalities did not receive a share of this increase because the State, concurrently with increasing tax rates, reduced the percentage of total income tax receipts that flow into the Local Government Distribution Fund (LGDF).² Distributions to the LGDF were decreased from 10 percent of both personal and corporate income tax revenue to 6 percent of personal income tax receipts and 6.86 percent of

² The LGDF is the fund from which municipalities are paid their share of state income tax revenue

FINANCIAL HISTORY REVIEW

INCOME TAX REVENUE



corporate income tax receipts. If municipalities had received the historic 10 percent local share, the City would have received additional revenue of more than \$50 per resident per year beginning in 2011.

In addition, the federal ‘depreciation bonus rule’, which was adopted as part of the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010, significantly reduced the corporate tax base. The Act provides a 100 percent depreciation bonus for capital equipment placed in service between September 8, 2010 and December 31, 2011, and a 50 percent depreciation bonus for capital equipment placed in service between December 31, 2011 and December 31, 2012. By affecting the State’s definition of “income,” this legislation caused further decreases in the City’s income tax revenues.

In recent years, there has been substantial delay in the State’s distribution of income tax revenues to the City. On average, in 2010 and 2011, monthly payments to the City were received 120 days after the payment amounts were finalized. While this does not affect the aggregate amount of City income tax revenues, it has a negative impact on the City’s cashflow, as amounts received after March cannot be accounted for as revenue for the preceding budget year. In 2011, only 11 months’ worth of income tax payments could be booked as revenue for that year, due to these delays.

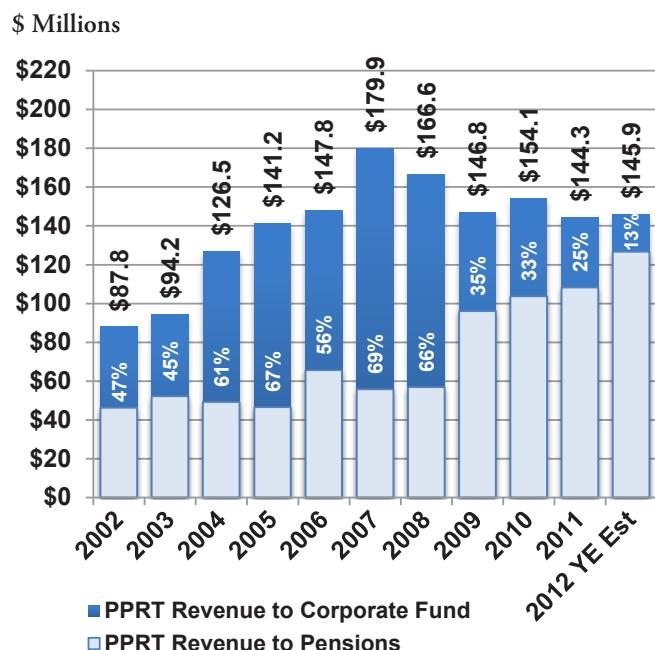
The effects of the economy, the Census, the decrease and delay in state distributions, and the ‘depreciation bonus rule’ resulted in a decline income tax revenues to \$200.3 million in 2011. However, beginning in the second half of 2011 and continuing into 2012, Chicago’s unemployment rate decreased significantly and State personal and corporate income tax collections gained momentum. As a result, income tax revenue to the City is projected to increase to \$231 million in 2012.

Personal Property Replacement Tax

The personal property replacement tax (PPRT) is levied on corporations, partnerships, and utility companies, based on income. The tax is collected by the State and paid to local governments in order to replace revenues that were lost when the State eliminated the authority of local governments to collect personal property taxes on business entities. The City has historically utilized its PPRT revenue in part to support the corporate fund and in part to pay for the City’s employee pension contributions.

Because PPRT is an income-based tax, these revenues generally follow the same patterns as income tax revenues, growing through 2008 and then declining during the recession years. Corporate fund revenue from this tax increased steadily from 41.6 million in 2002 to \$109.7 million in 2008. However, a growing portion of PPRT revenue has been used to pay for

PPRT REVENUE



FINANCIAL HISTORY REVIEW

the City's employee pension contributions, and the amount of PPRT revenue flowing into the corporate fund decreased by more than 67 percent between 2008 and 2011 to \$36.2 million. The City expects that only \$19.2 million in PPRT revenue will flow into the corporate fund in 2012.

In addition to the effect of the economy and the City's increasing pension contributions, PPRT revenue to the corporate fund was affected in 2011 by State legislation that allowed the State to divert PPRT revenue away from municipalities to pay State Board of Education regional superintendents and other regional and local officials. The effects of this legislation are expected to further reduce PPRT revenues for the City in 2012 and going forward.

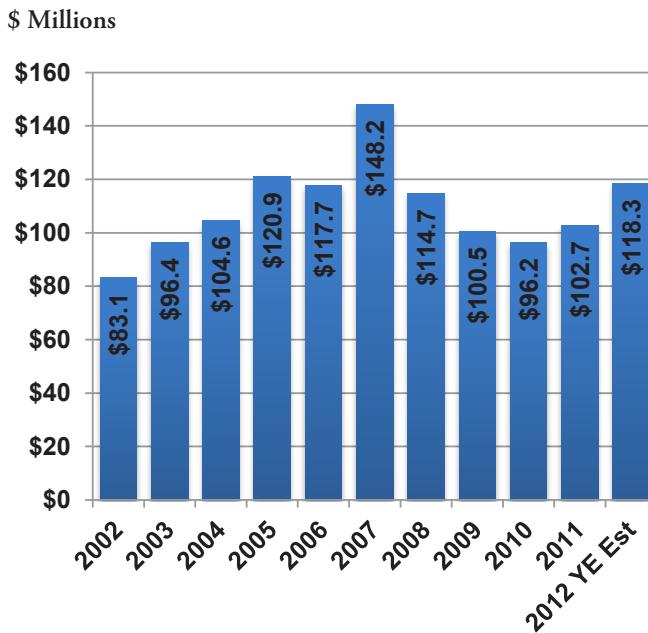
NON-TAX REVENUES

Non-tax revenues consist of revenue from licenses and permits; fines, forfeitures and penalties; fees for services; leases, rentals and sales; interest; and other revenue.

License and Permit Fees

Revenue generated from licenses and permits includes fees for business licenses, building permits, and various other permits. License and permit activity is an indicator of economic health, with more construction commencing and businesses starting up when the economy is strong. In 2002,

LICENSE AND PERMIT FEE REVENUE



license and permit revenue was \$83.1 million, increasing to \$148.2 million in 2007, and then falling to \$102.7 million in 2011. The decrease between 2007 and 2008 was also due in part to the transition to a two-year cycle for business licensing. License and permit fees are expected to generate \$118.3 million in 2012.

Prior to the recession, building permit revenue accounted for a large portion of license and permit revenues – contributing \$51.4 million in 2007. As construction activity in Chicago declined during the recession, revenue from such permits decreased to \$24.5 million in 2011, down 52 percent from the 2007 high. Activity is expected to remain flat in 2012, as the real estate market stabilizes.

Fines, Forfeitures and Penalties

Fines, forfeitures, and penalties include parking tickets, red-light camera tickets, and fines for items such as building code violations. Revenues in this area have increased significantly since 2002, from \$166.2 million to \$263.3 million in 2011, accounting for 8 percent of total 2011 corporate fund revenue. This steady upward trend is the result of the increased use of technology to improve efficiency and maximize collections, including the installation of red-light cameras, the implementation of on-line bill payment systems, and additional parking enforcement field technology, as well as increased fine and penalty rates. Revenue from fines, forfeitures, and penalties are expected to generate \$284.7 million in 2012, with the anticipated increase due in part to improved debt collection initiatives and in part to targeted fine increases for certain neighborhood safety violations.

Charges for Services

Charges for services include revenues generated by charging for such activities as inspections, public information requests, police and other miscellaneous services. In 2002, revenues were \$65.5 million, increasing to \$132.6 million in 2011, due largely to increased reimbursement for police services and improved emergency medical service collections. Such services are projected to generate \$133.0 million in 2012, accounting for 4 percent of total corporate fund revenue.

Leases, Rentals, and Sales

Revenues generated by the lease or sale of City-owned land, impounded vehicles, and other personal property have tripled from \$7.3 million in 2002 to \$ 22.6 million in 2011.

FINANCIAL HISTORY REVIEW

Such leases and sales accounted for 1 percent of total 2011 corporate fund revenue. In 2011, the City implemented an online auction system for the sale of unneeded surplus materials such as fax machine toner, scrap metal, old vehicle parts, and street sweepers. This system, together with increased coordination between City departments and outreach efforts, helped to nearly double the amounts collected from such sales in 2011. These efforts are expected to continue to increase sales income in 2012, with total estimated year-end revenues at \$12.3 million.

Internal Service Earnings

Internal service earnings are transfers to the corporate fund for services provided to other City funds and agencies, such as police, fire, and sanitation services provided to the City's enterprise funds. Such transfers constitute an average of 10 percent of corporate fund revenues, and have ranged from \$250 million to \$300 million over the past decade.

PROCEEDS AND TRANSFERS IN

Property Taxes

No revenue from the property tax levy currently flows into the City's corporate fund, as these funds are used entirely for payment of the City's debt service and pension obligations. The last year that any property tax revenue flowed into the corporate fund was 2004. The use of the City's property tax revenue is discussed in greater detail below.

One-Time Revenue Sources

As discussed above, as the recession negatively impacted economically-sensitive revenues in recent years, the City increasingly used non-recurring revenue sources to bolster revenues and plug the budget gap. A portion of these funds come from debt refinancing, and the most significant of these one-time revenue sources are reserve funds from the City's long-term asset lease transactions and proceeds from financial transactions. These issues are discussed in greater detail in the Long-Term Asset Lease and Reserve Funds and the Debt sections of this document.

CORPORATE FUND EXPENDITURES

Due to the City's transition to its current accounting system in late 2002, detailed expenditure data is only accessible from 2003 forward. Consequently, the following analysis of the City's expenditures begins with the year 2003.

Since 2003, total corporate fund expenditures have ranged from a low of \$2.6 billion in 2004 to a high of \$3.1 billion in 2008. Generally, the use of these funds has been fairly consistent, with the proportion of total spending devoted to different activities and expense types having remained relatively constant. These activities and spending patterns are discussed in detail below.

Spending by City Service³

Public Safety

Each year, the largest portion, approximately 59 percent, of corporate fund spending is dedicated to public safety functions, with police services representing 41 percent, the Fire Department 15 percent, and the Office of Emergency Management and Communications 3 percent, of total corporate fund expenditures. As spending has been reduced in many other areas, public safety has grown as a percentage of the corporate fund budget, from 58 percent in 2003 to 60 percent in 2011.

Infrastructure Services

Infrastructure services provided by the Department of Streets and Sanitation and the Department of Transportation have averaged approximately 9 percent of annual corporate fund expenditures. These funds are used to collect the City's recycling and waste; build, repair, and maintain Chicago's streets, sidewalks, and bridges; and complete the planning and engineering behind this infrastructure.⁴

The City's waste collection and recycling costs have grown steadily in recent years. This growth is largely the result of increasing personnel expenses, which are the largest driver of waste management expenditures and are subject to collective bargaining. Non-personnel expenses related to waste management have decreased every year since 2006, with

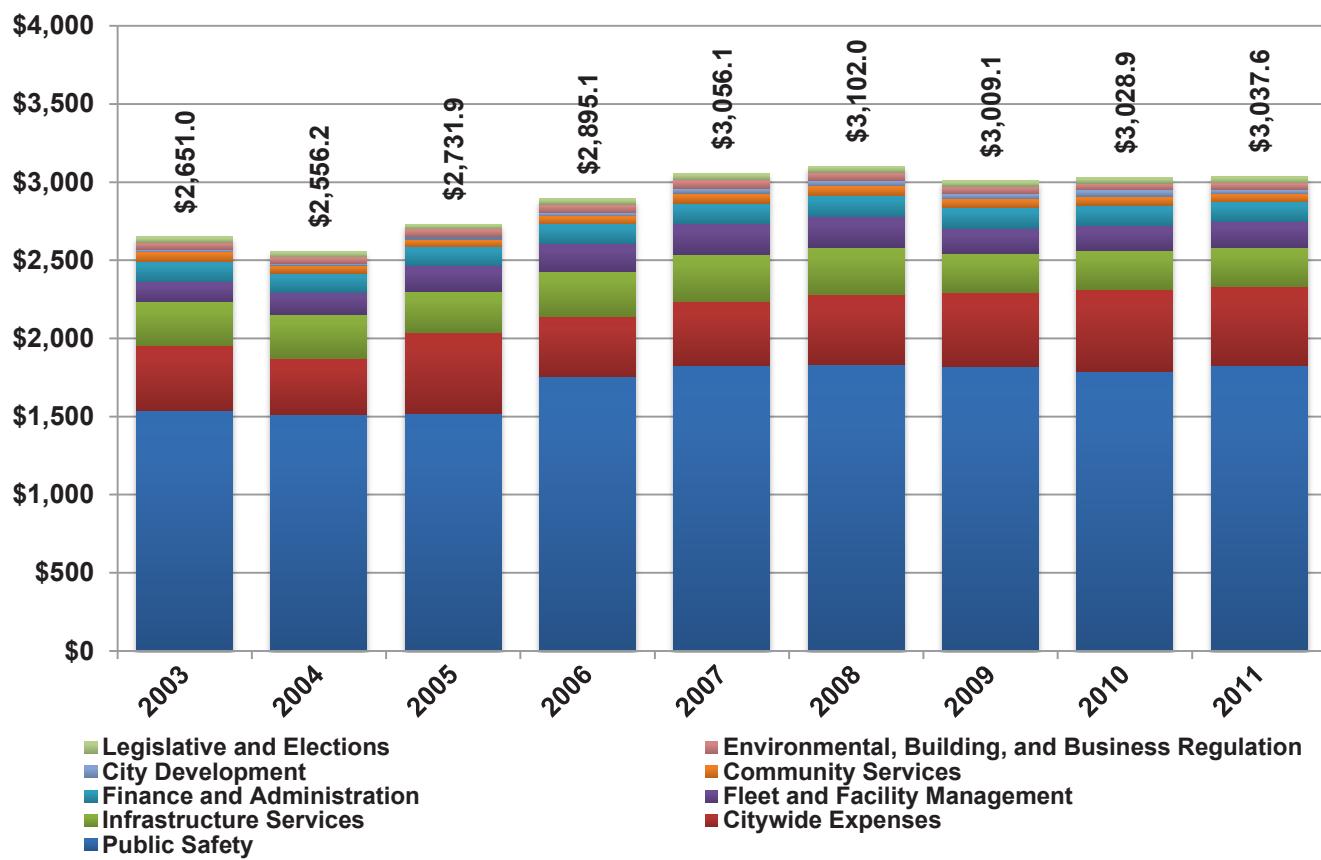
³ Over the years, a number of City departments have been combined or merged into new or existing departments. References in this section to specific existing departments and the resources dedicated to them include predecessor departments and the resources dedicated to those functions in the past.

⁴ Much of the City's major infrastructure construction is funded through State and Federal grants and general obligation bond financing, and thus is not represented as a corporate fund expenditure. These funds and the projects they support are discussed in more detail in the Capital Improvement section of this document.

FINANCIAL HISTORY REVIEW

SPENDING BY CITY SERVICE

\$ Millions



the initial decrease due in part to the end of the Blue Bag program, which resulted in significantly reduced tipping fees and disposal expenditures related to the mechanical sorting of recyclables.

The City's Blue Cart recycling program was rolled out in select communities beginning in 2007. In 2011, the City initiated a competitive bidding process for the provision of recycling services, and today, private companies are delivering recycling services in some parts of Chicago while other neighborhoods are being served by City crews. The City was able to reduce its recycling costs by \$2.2 million during the first six months of implementation.

In 2012, the City began the transition from ward-by-ward to grid-based collection of waste. Under the ward-based system, Chicago's cost of waste collection and disposal was significantly more than in most major metropolitan areas. This move to a

more logical and efficient system is expected to reduce the City's waste collection expenses and provide long-term savings going forward. Grid-based collection is now occurring in a number of neighborhoods, and the remainder of the city will transition to this system throughout the year.

City Development

City development activities, including planning and zoning; the promotion of retail, industrial, and commercial projects; and support for affordable housing, have represented an average of 1 percent of corporate fund expenditures. The Department of Cultural Affairs and Special Events, which manages the promotion of tourism, cultural planning, and coordination of special events, is supported almost entirely by the City's hotel tax and special events fund, discussed in the following section.

FINANCIAL HISTORY REVIEW

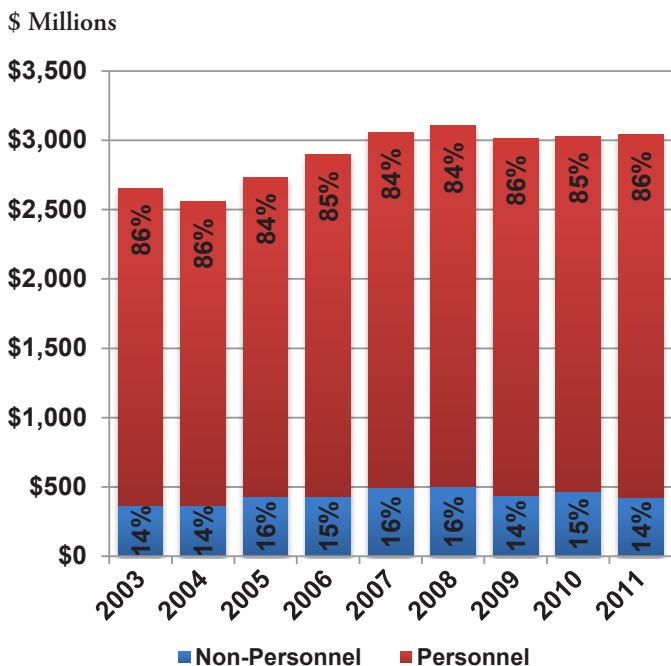
Community Services

Each year, approximately 2 percent of corporate fund resources is dedicated to providing community services through the Department of Family and Support Services, the Department of Public Health, and the Mayor's Office for People with Disabilities. These departments are heavily grant-funded, and receive, on average, an additional \$540 million in grant funding each year in addition to these corporate fund resources. The services provided through these funds are discussed in greater detail in the Grants section of this document.

Environmental, Building, and Business Regulation

On average, environmental regulation and initiatives, together with the regulation of businesses and the building industry has accounted for 2 percent of annual corporate fund spending. This includes the activities of the Department of Buildings, which ensures the safety of residential and commercial buildings in Chicago by enforcing design, construction, and maintenance standards and promoting conservation and rehabilitation through permitting and inspection processes, as well as functions performed by the Department of Business Affairs and Consumer Protection, such as business licensing and support and consumer protection activities, including the regulation of the taxicab industry.

CORPORATE FUND EXPENDITURES



Finance and Administration

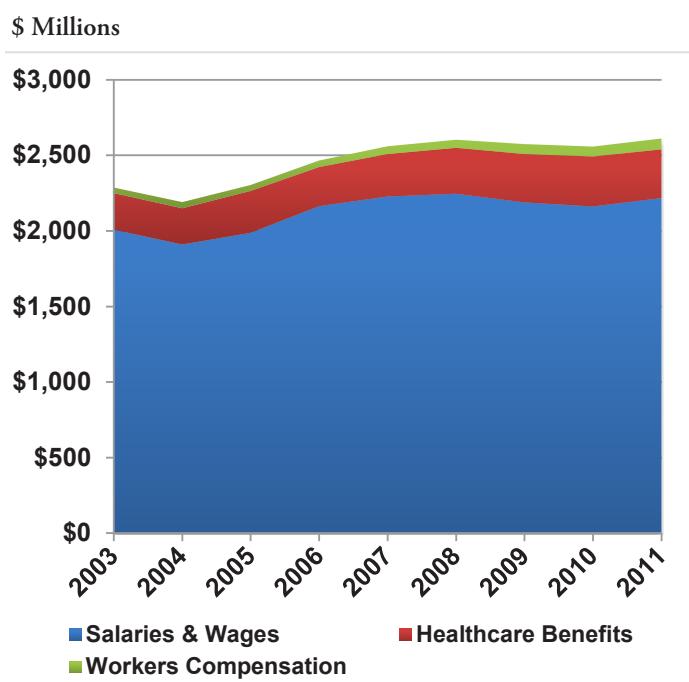
The support functions necessary to provide essential City services, including accounting, contract management, legal advice, administrative services, and technology and systems expertise, consistently accounts for 5 percent of the corporate fund budget, and an additional 6 percent of the corporate fund budget is dedicated to managing the repair and maintenance of City vehicles and facilities.

Spending by Expense Type

Personnel

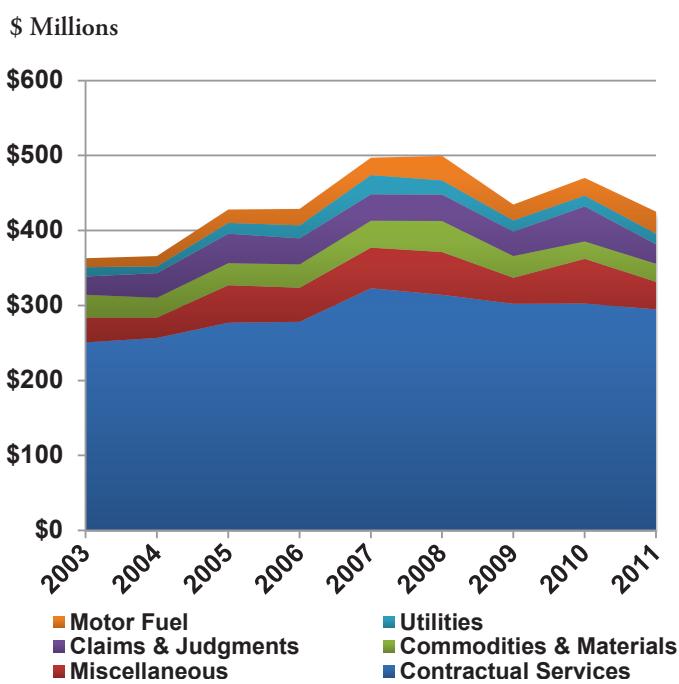
Across all departments and City services, personnel-related expenditures have and will continue to make up the largest portion of the corporate fund budget, with 73 percent of total 2003 to 2011 expenditures on salaries and wages, and an additional 10 percent of corporate fund expenditures during those years on employee healthcare costs. These personnel-related expenses and the trends and factors that affect these costs are discussed on a citywide basis in the Workforce section of this document.

PERSONNEL EXPENDITURES



FINANCIAL HISTORY REVIEW

NON-PERSONNEL EXPENDITURES

*Contractual Services*

Contractual services account for 10.0 percent, or approximately \$300 million, of corporate fund expenditures each year. On average, between 2003 and 2007, corporate fund contractual services spending grew an average of about 6.5 percent each year, with spending then declining at an average annual rate of 2.2 percent between 2007 and 2011. These contractual service expenditures include information technology systems, maintenance, and licensing costs; tipping fees for waste disposal; property rental; custodial services for City facilities; and landscaping, engineering, and other professional service contract costs.

As government, businesses, and residents increasingly utilize technology to conduct business and communicate, technology-related costs have increased. In 2003, technology services accounted for 18.2 percent, or \$45.6 million, of all contractual services expenses, increasing to 21.4 percent, or \$63.1 million, in 2011.⁵ Similarly, as mobile communication becomes increasingly essential to conducting City business, telephone-related expenses have increased from \$13 million in 2003 to \$15.8 million in 2011. Tipping fees for waste disposal peaked in 2007 at \$54.6 million and have decreased since that time, as discussed above. In 2003 and 2004, the

City received a rent abatement for one of its largest rental properties, resulting in lower than normal property rental and building services expenses, averaging \$20.2 million, or 8 percent of contractual services expenses, in those years. These expenses increased in 2005 with the end of that abatement, and grew thereafter with the increasing price of rent and cost of building services, and by 2008 were \$38.9 million, or 12.4 percent of contractual services expenses. These costs have decreased slightly since that time as the City has decreased the number of properties that it leases, and constituted \$33.2 million of corporate fund expenditures in 2011.

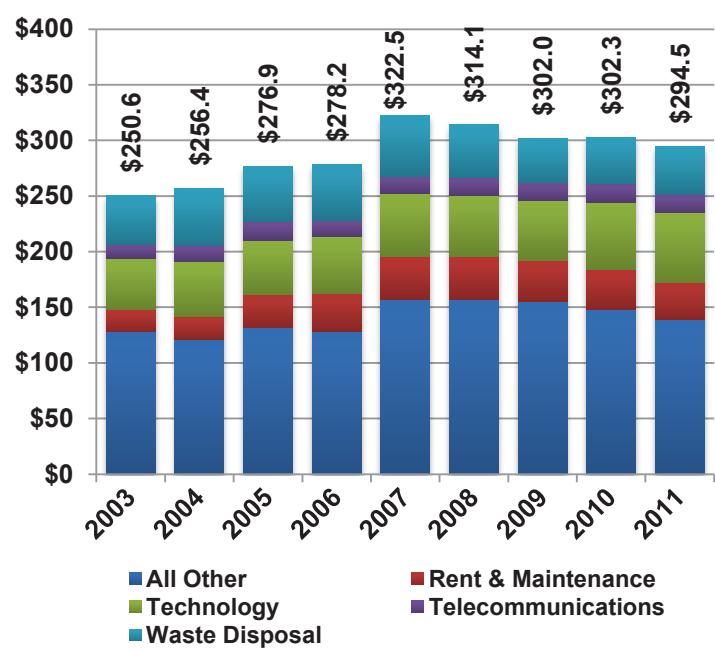
Beginning in late 2011, the City began a comprehensive review of its contracts to identify opportunities for renegotiation, consolidation, and centralization across departments to improve pricing, reduce redundancies, and increase economies of scale. The City anticipates identifying savings of up to \$25 million in 2012 as a result of these efforts, with as much or more to accrue in 2013.

Commodities and Materials

Expenditures for commodities and materials followed a similar pattern to those for contractual services, but

CONTRACTUAL SERVICES EXPENDITURES

\$ Millions



⁵ In addition to corporate fund resources, the City utilizes short-term debt instruments known as equipment notes to finance certain information technology expenses, as further discussed in the Debt section of this document.

FINANCIAL HISTORY REVIEW

on a much smaller scale. On average, commodities and materials have recently accounted for less than 1 percent, or approximately \$24.0 million, of corporate fund expenditures each year. Between 2003 and 2008, corporate fund spending on commodities and materials grew at a rate of approximately 6.5 percent each year, then declining at an average annual rate of 16.5 percent between 2008 and 2011, as spending was reduced on items such as office supplies, small tools, electrical supplies, and repair parts for vehicles and other equipment.

Utilities

Market prices have been the primary driver of the City's utility expenditures, which have made up 0.36 percent to 0.85 percent of annual corporate fund expenditures since 2003. Rising energy prices drove up the cost of electricity and natural gas between 2004 and 2007. In order to reduce its utility costs, energy use, and environmental footprint, the City has undertaken a number of initiatives in recent years to improve its energy efficiency. Specifically, the City has installed more energy-efficient LED traffic and street lights and retrofitted lighting and energy systems at various City properties. In addition to these measures, the City also signed a multi-year price agreement for electricity in 2010, which has helped lock-in lower energy prices. As a result of these initiatives and broader price trends, corporate fund

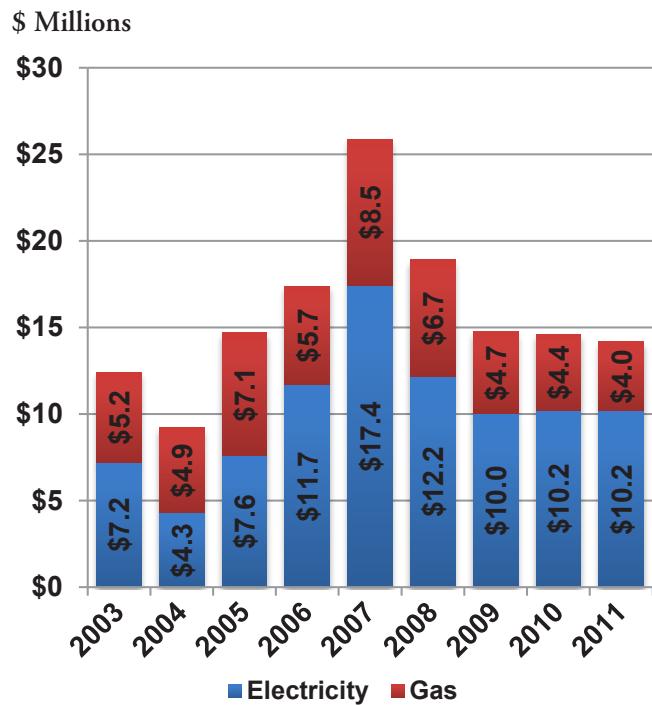
utilities expenditures declined from \$26 million in 2007 to a seven-year low of \$14 million in 2011.

Motor Vehicle Fuel

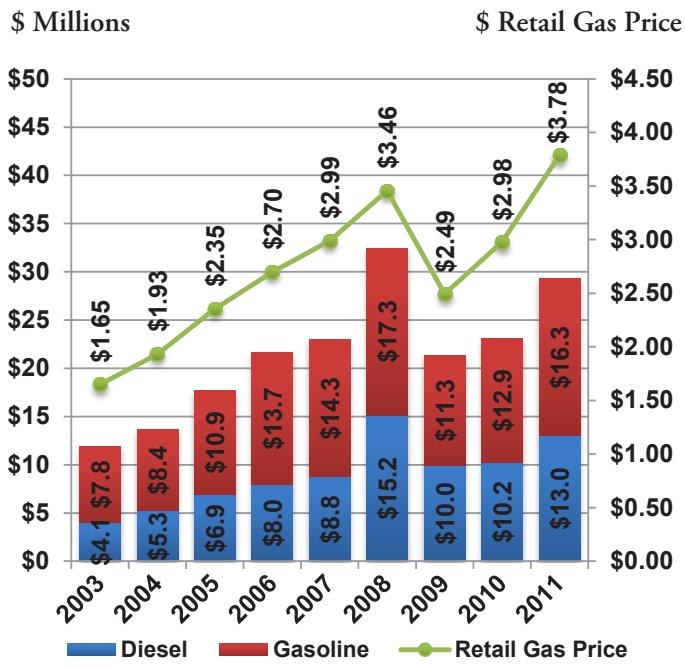
Steadily rising fuel prices and significant spikes in the oil market have caused City fuel expenditures to increase, much as they have increased gasoline prices for Chicago families. On average, between 2003 and 2008, the City's corporate fund motor fuel expenditures grew at a rate of 22 percent per year, rising from \$12 million in 2003 to \$33 million in 2008. In 2009, declining fuel prices brought the City's expenditures back down to \$21 million, but fuel expenditures climbed again in 2010 and grew to \$29 million in 2011.

In recognition of steadily rising fuel prices and the environmental impact of its gasoline and diesel fuel usage, the City has implemented a number of initiatives to reduce the City's vehicle fleet and curtail fuel usage. In 2011, the City ended its shared lease program, contracted with Zipcar to provide City employees with access to short-term vehicles, and began utilizing Zipcar reservation technology to facilitate the efficient use of City pool vehicles. The City has also increased the proportion of its fleet that operates on alternative fuel. Currently, the City utilizes over 2,200 electric, hybrid, and alternative fuel vehicles, including police vehicles, light-duty trucks for street work, and larger trucks for completing electrical work and tree trimming.

UTILITY EXPENDITURES



MOTOR FUEL EXPENDITURES



FINANCIAL HISTORY REVIEW

Settlements and Judgments

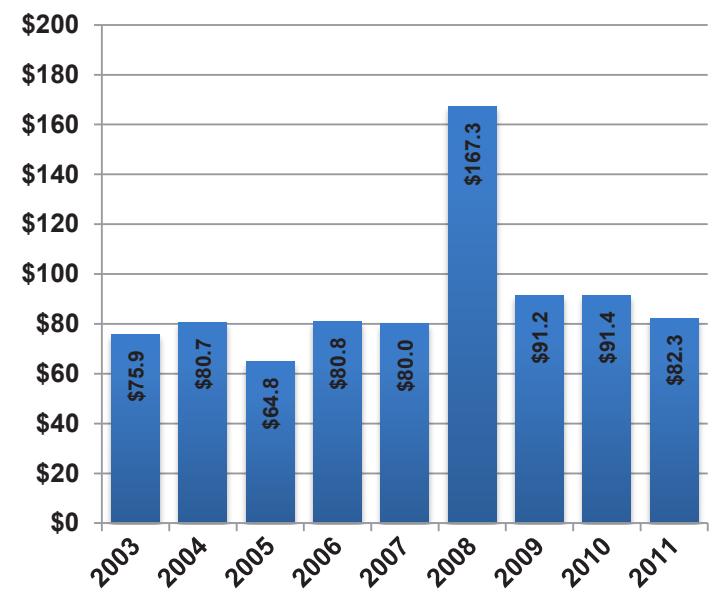
Each year, the City uses both corporate fund resources and bond proceeds to pay for expenses incurred in connection with claims and judgments against the City. Expenses in excess of the amount budgeted on the corporate fund are paid with bond proceeds. The amounts presented in the table below and discussed in this paragraph represent the City's total claim and judgment-related expenses, including both local fund and bond-supported expenses.

The City's total claim and judgment-related expenses, which have ranged from \$64.8 million to \$167.3 million over the past 10 years, vary from year-to-year depending upon the volume and nature of claims filed and settled, the value of judgments entered, and the extent to which the City utilizes outside legal counsel to address these claims. Claims related to one year are often not settled until years later, and judgments are often paid out over a number of years, so the distribution of expenses is not necessarily representative of the events or activities of that year. On average, over the past decade, approximately 70 percent of the City's claim and judgment expenses each year have been attributable to police-related litigation. There has recently been a reduction in the number of intentional police misconduct cases filed against the City, from over 550 in 2009 to just over 250 in each of 2010 and 2011.

Each year, the City utilizes outside counsel as special counsel to represent the City in unique matters in which there is no in-house expertise, when there are insufficient in-house resources, or where there is a conflict that requires separate

SETTLEMENT & JUDGMENT EXPENSES

\$ Millions



representation. The annual cost of these outside legal resources has averaged \$22 million over the last eight years. In 2011, the City took measures to reduce these costs by right-sizing the number of in-house attorneys and engaging some of the top law firms in Chicago to handle matters on a pro-bono basis. The right-sizing of the Law Department will result in a reduction of more than \$3 million in outside counsel expenses in 2012, and the engagement of pro bono counsel saved approximately \$4 million in legal fees in the past year.

FINANCIAL HISTORY REVIEW

SPECIAL REVENUE FUNDS

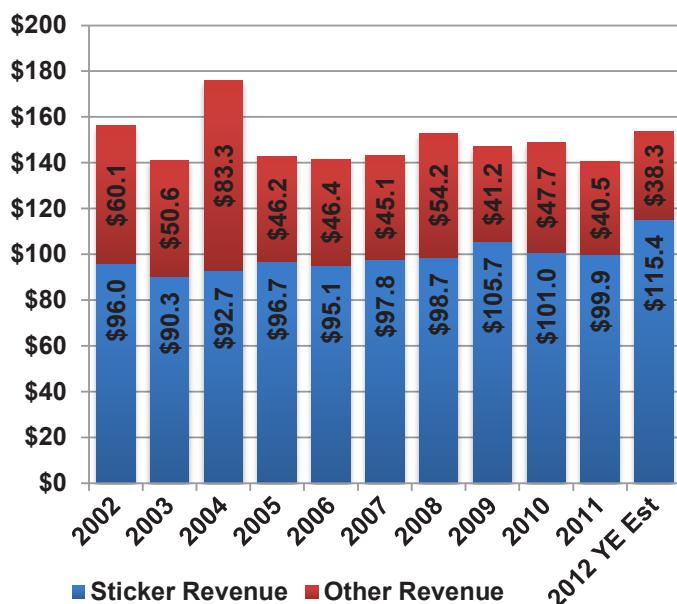
Vehicle Tax Fund

The vehicle tax fund receives revenue from vehicle sticker sales, impoundment fees, abandoned auto towing fees, pavement cut fees, commercial refuse container fees, grants and other funds for the maintenance of the public way from the State and Federal government, and reimbursements from other City funds. This revenue is used to pay for street repair and maintenance throughout Chicago.

Since 2002, revenue from impoundment fees has averaged \$13.2 million per year, pavement cut fees \$3.8 million per year, and commercial refuse container fees \$6.4 million per year, without significant fluctuation from year to year. Proceeds from the sale of City vehicle stickers have consistently made up the largest part of total vehicle tax fund revenue, gradually increasing from \$96 million in 2002 to \$99.9 million in 2011; these revenues also grew as a percentage of total fund revenue, from 62 percent in 2002 to 71 percent in 2011, as the amount of State, Federal, and other funds flowing into the fund decreased.

VEHICLE STICKER REVENUE

\$ Millions



The City expects to receive \$115.4 million in revenue from vehicle sticker sales in 2012, with the increase due to the increase in the price of vehicle stickers as part of the 2012 budget. Prior to this increase, the price of vehicle stickers for large passenger vehicles, including most SUVs and some heavier cars, had been increased in 2004 and 2008, but the sticker price for all other passenger vehicles, including mid-sized and small cars, had not been increased since 2000. The additional \$15 million in vehicle sticker revenue that will flow into this fund in 2012 due to the increase in vehicle sticker fees will be used for infrastructure repair and maintenance, with a portion going to fill additional potholes and pave streets.

Over the past 10 years, annual resources available to the vehicle tax fund have generally ranged from \$119 million to \$145 million, and for much of the past decade, this fund has operated at a deficit, as revenues, in particular those from State, Federal, and other City funds, consistently came in below budgeted levels, and street repair and maintenance expenses outpaced those revenues. A negative fund balance was carried over into each year from 2002 through 2010, peaking with a negative balance of \$33.8 million carried into 2008. This amount has decreased each year since 2008 as the City has worked to more realistically assess the resources that will flow into the fund and manage spending accordingly. A positive balance of \$14.3 million will be carried into 2012, and the City will continue to budget this fund in a manner that prevents the build-up of operating deficits like those seen in prior years.

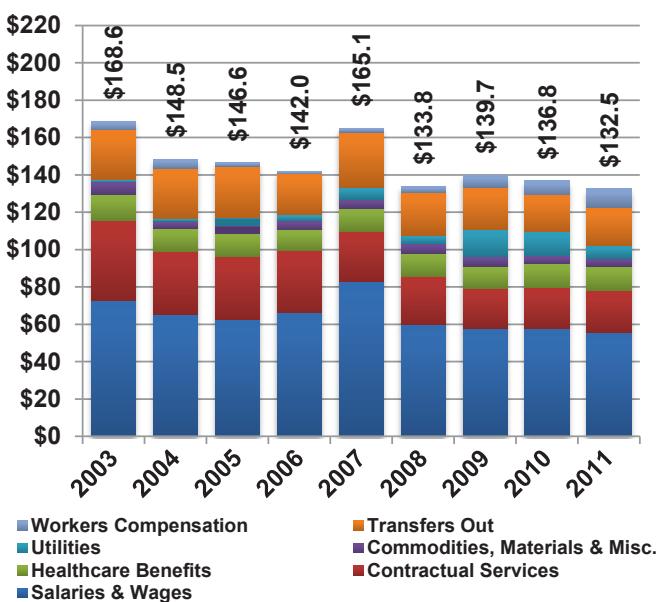
Vehicle tax fund expenditures are dependent on the amount, type, and cost of performing street repair and maintenance activities in a given year. Year-to-year variations in total expenditures also reflect the resources available to complete such work. For example, over-spending in 2003 and 2007 resulted in significant deficits carried into the following year, reducing the resources available in that year, as is evident in the drop in spending in each of 2004 and 2008. The City's efforts to stabilize this fund are apparent in more recent years, in which spending has been relatively constant and more closely in line with revenues.

Spending on contractual services has steadily decreased since 2003, due in part to decreases in tipping fees for waste

FINANCIAL HISTORY REVIEW

VEHICLE TAX FUND EXPENDITURES

\$ Millions



disposal. The vehicle tax fund in the past supported the disposal of waste deposited on the public way from a variety of sources, including waste from street sweeping, refuse from receptacles on commercial streets, litter remaining on the public way following parades and special events, and debris from vacant lots, underpasses, viaducts, and expressway frontages. Over the course of the past decade, most of these activities have been moved onto the corporate fund, with only street sweeping and vacant lot cleaning left on the vehicle tax fund after 2008. Utility expenses for street light electricity decreased after 2010, when the City signed a multi-year price agreement for electricity, which helped lock-in lower energy prices. Workers' compensation costs on the vehicle tax fund increased in recent years as the City more accurately allocated the cost of claims associated with street repair and maintenance work supported by this fund; the City's efforts to reduce its overall workers' compensation costs are discussed in the Workforce section of this document.

Motor Fuel Tax Fund

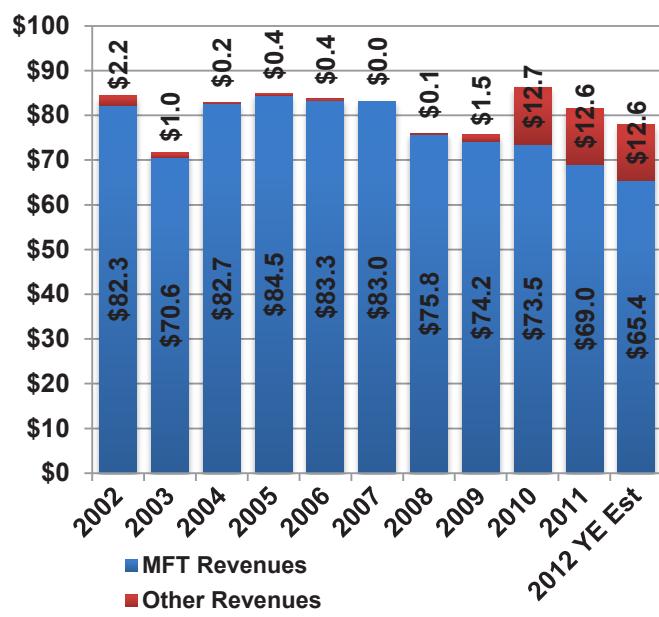
Motor fuel tax fund (MFT fund) revenues are generated primarily through a 19 cent per gallon tax on motor fuel (21.5 cents per gallon on diesel) imposed by the State, of which the City receives a distributive share. Similar to the vehicle tax fund, MFT fund revenue is used for street repair and maintenance. The MFT fund, however, also has a budget for expenditures specifically related to winter weather events.

Annual motor fuel tax revenue fluctuates with the price of fuel and the overall economy. Increases in the cost of fuel tend to result in declines in usage – people drive less when the price of gas is high. People also tend to tighten spending on gas during economic downturns. Consequently, revenues from motor fuel taxes have decreased in recent years as the price of fuel has increased and the recession affected consumer sales. Motor fuel tax revenue decreased from \$83.0 million in 2007 to \$69.0 million in 2011, and is expected to decrease further in 2012. In 2010 and 2011, the City received \$12.5 million from the State's "Illinois Jobs Now!" plan, which was allocated to the MFT fund. Based on the State's budget for this fiscal year, the City expects to receive these funds until 2014.

The MFT fund has been operating at a deficit for seven of the past 10 years, with expenditures from the fund often greater than revenues coming in from motor fuel taxes. This deficit has been the result of a number of factors, including the sensitivity of motor fuel tax revenues to the price of gas and the economy, and the inherent difficulty of predicting fund expenditures due to the volatility of Chicago weather. The fund carried a negative balance of \$35.6 million into 2009, \$39.8 million into 2010, and \$10.4 million into 2011. By realistically estimating revenues and assessing the City's ability to control these expenses, it is projected that this deficit will be eliminated in 2012. The City estimates

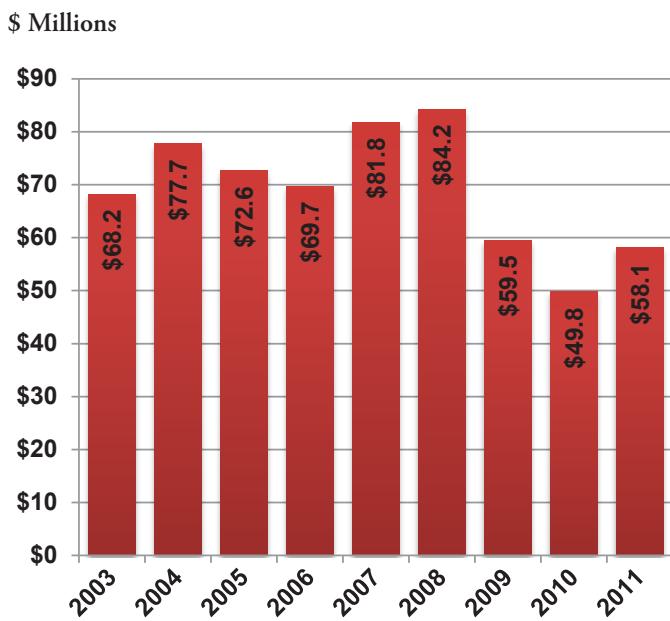
MOTOR FUEL TAX REVENUE

\$ Millions



FINANCIAL HISTORY REVIEW

MFT FUND EXPENDITURES



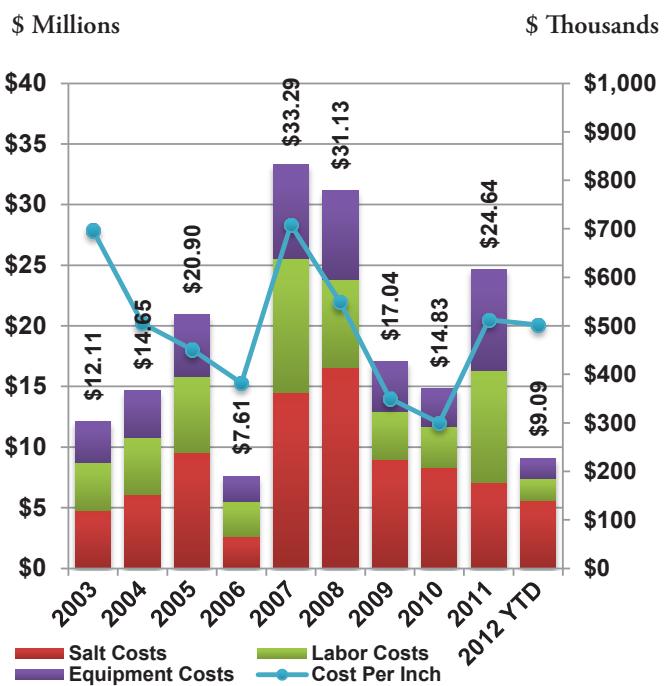
that this fund will finish the year with a positive balance of \$1.7 million. This balance will assist in mitigating the effect on this fund of future unpredictable weather events or fluctuations in the price of fuel, building up reserves for high snow years.

Expenditures for this fund cannot be categorized like those for other funds because accounting for this fund is performed on a project rather than a fund level. Projects supported by this fund include street lighting electricity, street and traffic light maintenance, bridge and pavement maintenance, and snow and ice removal. Similar to the vehicle tax fund, year-to-year variations in total motor fuel tax fund expenditures reflect the resources available to complete such projects. In addition, a portion of these funds is transferred to the CTA to support the Chicago transportation system.

A primary driver of MFT fund expenditures is the annual cost of snow and ice removal. The funds required for these activities vary greatly from year to year depending on winter weather conditions. For example, the February 2011 snowstorm alone cost the City more than was spent on snow removal during the entire year in 2009 or 2010.

In a typical year, about 55 to 60 percent of winter weather-related expenditures are used to purchase salt for ice control

WINTER WEATHER COSTS



on city streets. In the past year, the City has implemented a new management paradigm for salt purchasing, which realizes savings by starting the winter with less salt on the ground and exercising contractual rights to have salt vendors perform just-in-time deliveries. The remainder of the City's winter weather costs are for labor and equipment. Labor costs declined in 2009 and 2010 as a result of the COUPE amendment that was effective from mid-2009 through mid-2011, under which certain unions agreed to earn compensatory time in lieu of overtime pay, enabling the City to temporarily reduce labor costs by not paying overtime rates for employees working on snow removal. Labor costs increased again in 2011 with salary increases under collective bargaining agreements and the expiration and after-effects of the COUPE amendment.

Special Events and Hotel Operators' Occupation Tax Fund⁶

The special events and hotel operators' occupation tax fund supports the promotion of tourism in Chicago, with its spending primarily on cultural and recreational activities. It is funded primarily through the hotel operators' occupation tax, a State-authorized tax imposed on hotel operators at a rate of 1 percent of gross receipts, and revenue from

⁶ Historically, the two revenue sources were separate funds. The City merged the two funds in 2011 while merging the Department of Cultural Affairs, which oversees the Office of Tourism, with the Mayor's Office of Special Events.

FINANCIAL HISTORY REVIEW

recreation fees in connection with special events. These revenues are tied to the City's convention business, tourism, and the success of the City's special events. The recession's negative impact in each of these areas affected this fund's revenue.

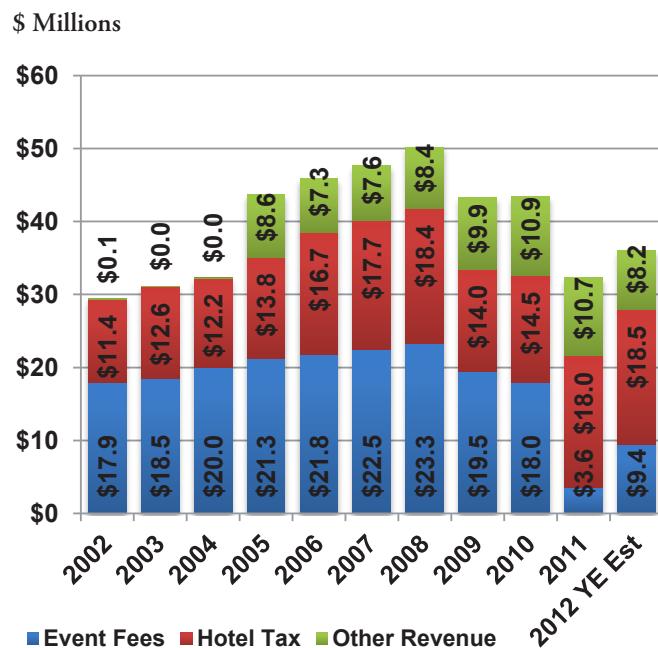
Both hotel operators' occupation tax revenues and recreation fee revenues saw a general pattern of growth between 2002 and 2008, from \$11.4 million to \$18.4 million and from \$17.9 million to \$23.3 million, respectively, followed by a drop in 2009 with the downturn in the economy. Hotel tax revenues began to pick up again in 2011, and is anticipated to be \$18.5 million in 2012. Revenue from special events recreation fees decreased significantly in 2011 because the operation of the Taste of Chicago was transferred to the Chicago Park District for that year. At this time, recreation fee revenue is projected to increase to \$9.4 million in 2012.

Expenditures from this fund reflect the City's changing approach to events and tourism promotion, as well as broader factors that have affected City spending generally. Major fluctuations in the amounts spent on special events and tourism-related activities can be tied to specific changes in City operations. The almost 50 percent increase in special events and tourism expenditures in 2006 was due in large part to the movement of expenses associated with the operation and management of Millennium Park from

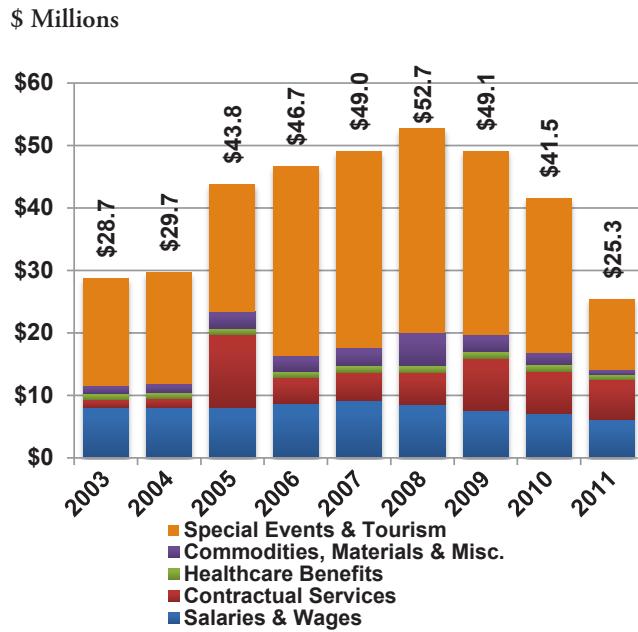
the corporate fund to this fund. Special events and tourism expenditures then decreased by more than 50 percent, from \$24.7 million to \$11.3 million, between 2010 and 2011, due to the transfer of the Taste of Chicago to the Chicago Park District, as well as the decision not to fund the Chicago Convention and Tourism Bureau, a non-City entity that previously received City funding to conduct its activities. In 2012, the Taste of Chicago returned to City operation and the Chicago Convention and Tourism Bureau was merged with the tourism portion of the Chicago Office of Tourism and Culture to form Choose Chicago, which will focus on promoting travel to Chicago.

Overlying these specific changes to special events and tourism expenses are general trends. Both revenues to this fund and expenditures from this fund are highly economically sensitive; people are less likely to travel and spend money on recreational events during recessionary periods, and City spending on related activities is likely to be cut when budgets are tightened. Accordingly, personnel costs, as well as spending on items such as commodities and materials, saw increases in the years leading up to 2008, followed by reductions in the post-recession years.

EVENT FEE & HOTEL TAX REVENUE



SPECIAL EVENTS AND HOTEL TAX FUND EXPENDITURES



FINANCIAL HISTORY REVIEW

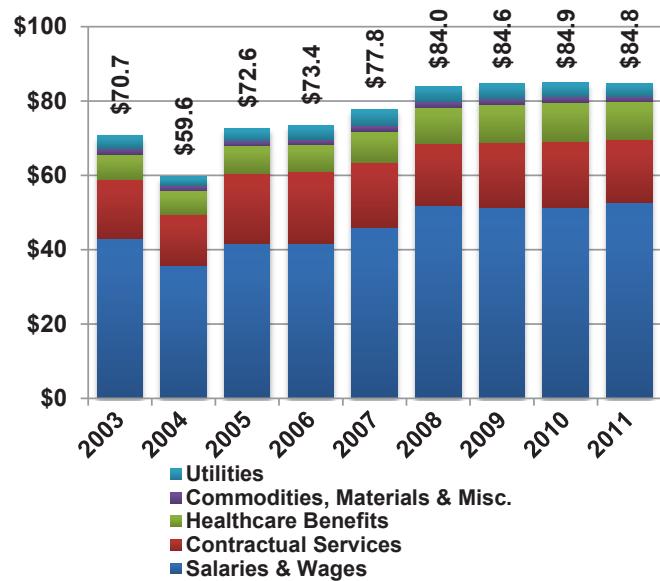
Library Funds

The City maintains segregated funds to support the maintenance and operations of the Chicago Public Library system and its central, regional, and branch locations. Revenue to these funds comes primarily from property taxes and an annual subsidy from the City's corporate fund. Since 2008, an \$83.4 million portion of the City's property tax levy has been dedicated to the library system.⁷ The corporate fund subsidy began to increase in 2005 and later decreased with the allocation of the library's portion of the property tax levy in 2008. The library fund's subsidy was decreased to approximately \$9.0 million in 2012, in line with savings and targeted cuts that affected the entire corporate fund. The remainder of revenue to this fund comes from income from the rental of library facilities, library fines, interest earnings, and transfers in from other funds.

Library fund expenditures have been affected by many of the general trends affecting overall City spending, as well as certain library-specific factors. Total library fund expenditures decreased in 2004, largely as a result of cost savings initiatives in connection with Citywide budget reductions, including layoffs, early retirement incentives,

LIBRARY FUND EXPENDITURES

\$ Millions



⁷ The City's overall property tax levy is discussed in greater detail in the Property Tax section of this document. Each year, \$5.7 million of the library's \$83.4 million portion of the levy is used to pay pension contributions for employees of the library system, and \$4.3 million of the library levy is used to pay debt service related to capital improvements to library facilities.

⁸ OEMC is not funded exclusively through the emergency telephone system surcharge but receives funding from corporate and other revenue sources as well. Corporate fund resources are used to fund 911-related expenses above revenue from the emergency telephone system surcharge, and corporate and grant funds support the other functions of the OEMC, including traffic management, homeland security, and administration.

restrictions on hiring, and tightened contractual spending. However, in 2005, overall fund expenditures increased back above 2003 levels as spending restrictions loosened and a number of branch openings, renovations, and expansions were completed.

As in the corporate fund, personnel costs make up the largest portion of library fund expenses, and these costs have increased, due in part to salary increases under collective bargaining agreements and the growing cost of healthcare, as discussed in the Workforce section of this document. Spending on contractual services has remained relatively constant in recent years, and consist largely of property rental costs for library facilities that are not City-owned and property maintenance and building services expenses for the Harold Washington Library Center and branch libraries.

CTA Real Property Transfer Tax Fund

In 2008, a supplemental tax on real estate transfers was adopted for the purpose of providing financial assistance to CTA, and this fund was established to receive the proceeds from that tax, which is then transferred to the CTA. Because this fund's revenue is generated through real estate transfers, revenue levels have remained relatively stagnant due to slow real estate activity. In the three full years since the fund's inception, revenues have ranged from \$25.4 million to \$35.2 million, and 2012 revenues are expected to come in at \$35.5 million.

Emergency Communications Funds

The City maintains segregated funds to support the maintenance and operation of the Office of Emergency Management and Communications (OEMC) and to pay debt service on bonds issued to fund the construction of the City's 911 call center.⁸ Revenue to these emergency communications funds comes through the collection of the emergency telephone system surcharge on all billed subscribers of telecommunications services within the City. The surcharge was levied at a rate of \$1.25 per month per landline and wireless connection until 2008, in which year the rate was increased to \$2.50 and revenues increased

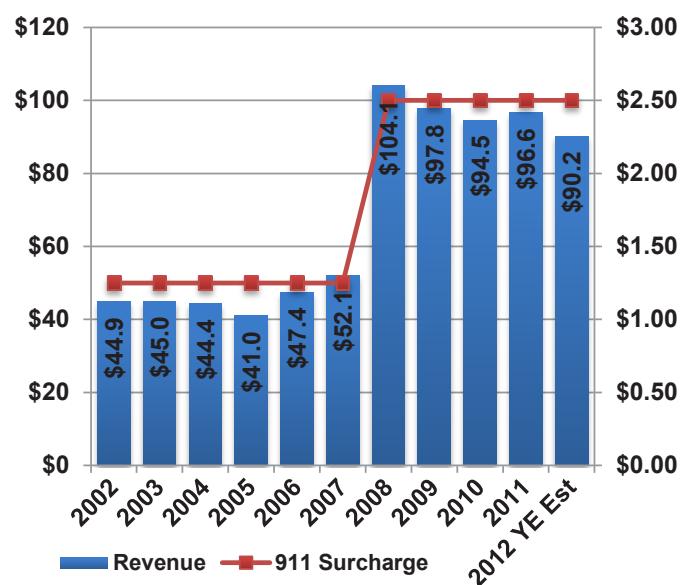
FINANCIAL HISTORY REVIEW

accordingly. Total revenue to this fund has, however, been negatively affected by the recent reduction in the use of landlines as more customers choose to have only wireless services, as discussed above with respect to corporate fund telecommunications tax revenues. In addition, beginning in 2012, the emergency telephone system surcharge on prepaid wireless services such as calling cards and 'pay-as-you-go' phones was changed from \$2.50 per transaction to a rate of 7 percent of the cost of the service, pursuant to State legislation. This change in combination with declining landlines is expected to further reduce revenues to the emergency communications funds, with \$90.1 million expected in 2012, down from a peak of \$104.1 million in 2008.

Each year, the City uses a portion of the revenue from the emergency telephone system surcharge to pay debt service due on 911 call center bonds, and then transfers the remaining revenue to the corporate fund to be used for expenses specifically related to the 911-related operations of the OEMC.

EMERGENCY COMMUNICATIONS SURCHARGE

\$ Millions



FINANCIAL HISTORY REVIEW

ENTERPRISE FUNDS

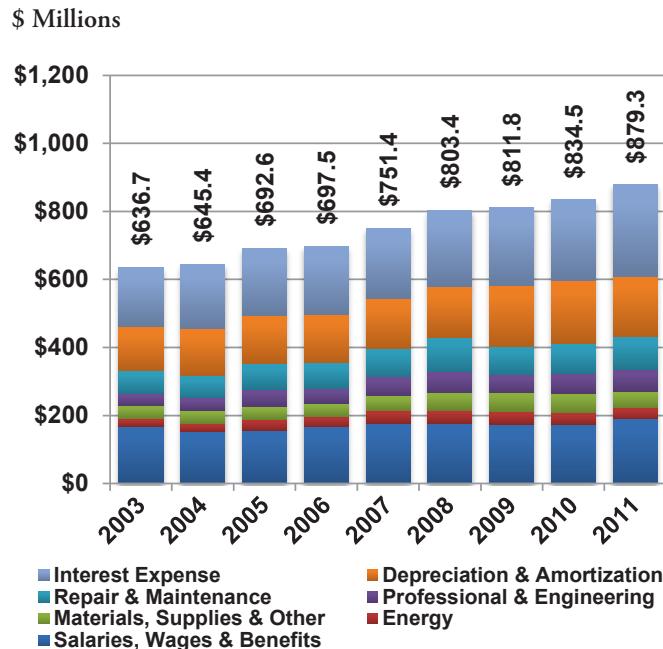
The City's enterprise funds support the operation, maintenance, and capital programs of the City's water and sewer systems and O'Hare and Midway Airports.⁹ These self-supporting funds operate like commercial enterprises, in that each pays expenses with revenue derived from charges and user fees for the services it supports.

O'Hare and Midway Airport Funds

O'Hare and Midway airport operations are funded through landing fees, terminal rent, and other fees paid by airlines, as well as non-airline sources, such as charges for parking and revenues from concessions in the terminals. The amount that the airlines pay each year is established at each airport essentially on a residual basis – the airlines are charged the amount that is needed to pay for operating expenses and debt service after taking into account non-airline revenues. While capital improvement costs are budgeted separately from the City's corporate and special revenue funds, capital investment costs for the City's airports are included in the overall budgets of these self-supporting funds.

Airport fund revenues and expenditures reflect capital improvement programs at the airports and the health of

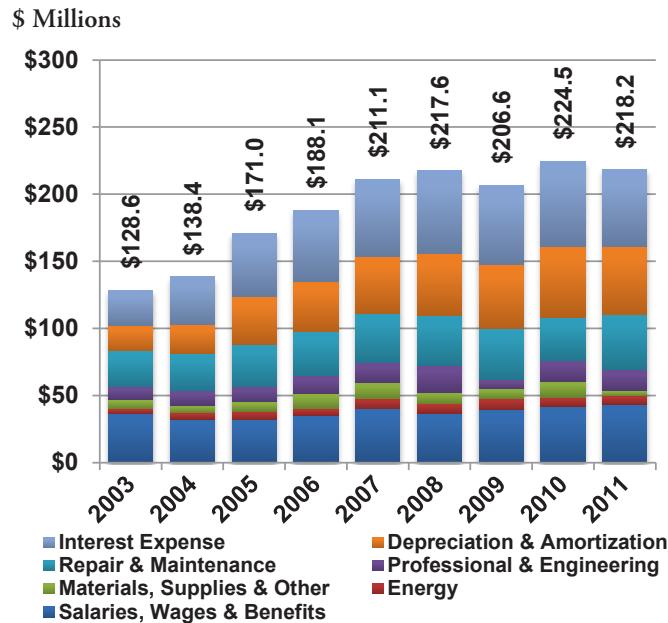
O'HARE AIRPORT FUND



the travel industry, as well as factors that impact Citywide expenses. Both the O'Hare fund and the Midway fund grew steadily over the past decade, with a slowing in this growth between 2008 and 2009, as the overall economy contracted. The O'Hare fund grew at an average annualized rate of 4.1 percent, from \$636.7 million in 2003 to \$879.3 million in 2011, and the Midway fund grew at an average annualized rate of 6.8 percent, from \$128.6 million in 2003 to \$218.2 million in 2011. Both funds are expected to increase again in 2012, to \$932.5 million and \$223.7 million, respectively.

This overall growth is in part a function of growth at the airports, including expansions, renovations, and increased services. As capital improvement projects such as the O'Hare Modernization Program move forward, interest payments on bonds issued to fund those projects increase, and depreciation expenses associated with those improvements increase in later years. On average, since 2003, interest payments on bonds issued to fund capital improvements at the airports has constituted 29 percent of total O'Hare fund expenses and 27 percent of total Midway fund expenses. In addition, expansions and improvements require greater spending on professional and engineering services, as well as increased repair, maintenance, and other operational needs for the added space or facilities. Energy costs for the airports have followed similar patterns as seen in utility and

MIDWAY AIRPORT FUND



⁹ Prior to the long-term lease of the Skyway in 2005, the City maintained a separate enterprise fund for Skyway revenues and expenses. The reserve funds associated with the proceeds from that lease transaction are discussed in detail in the Long-Term Asset Lease and Reserve Funds section of this document.

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fuel costs on the corporate fund, as discussed in that section of this document, in line with market prices and efficiency initiatives.

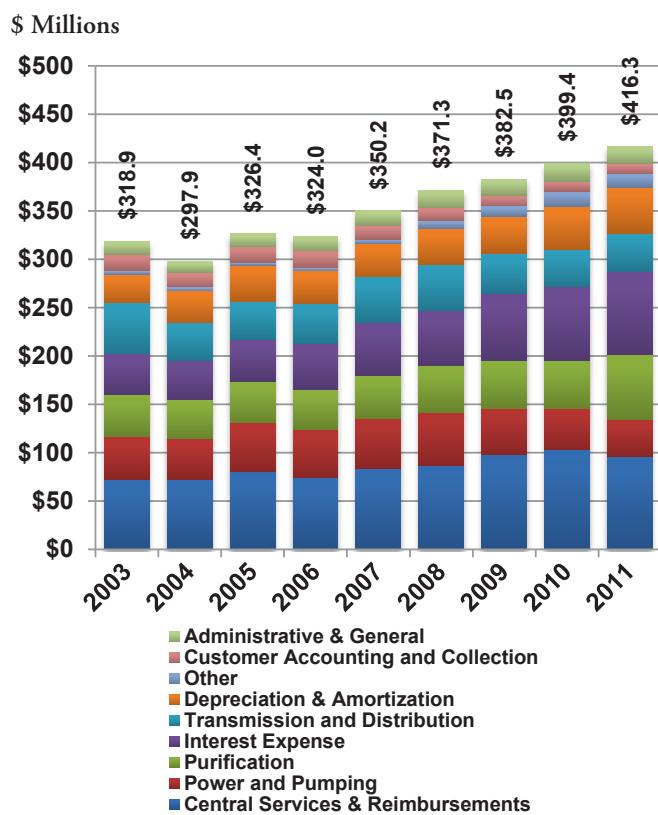
Salaries, wages, and employee benefits make up the largest portion of the aviation funds' operating expenses, and have increased due to many of the same factors affecting overall City personnel costs, including salary and wage increases under collective bargaining agreements and the increasing cost of healthcare. Personnel expenses grew at an average annualized rate of 1.6 percent for the O'Hare fund, from \$167.9 million in 2003 to \$190.8 million in 2011, and an average annualized rate of 2.2 percent for the Midway fund, from \$36.6 million in 2003 to \$43.6 million in 2011.¹⁰ However, during the same years, these expenses decreased as a percentage of total aviation fund expenses, from 27 percent in 2003 to 21 percent in 2011.

Water and Sewer Funds

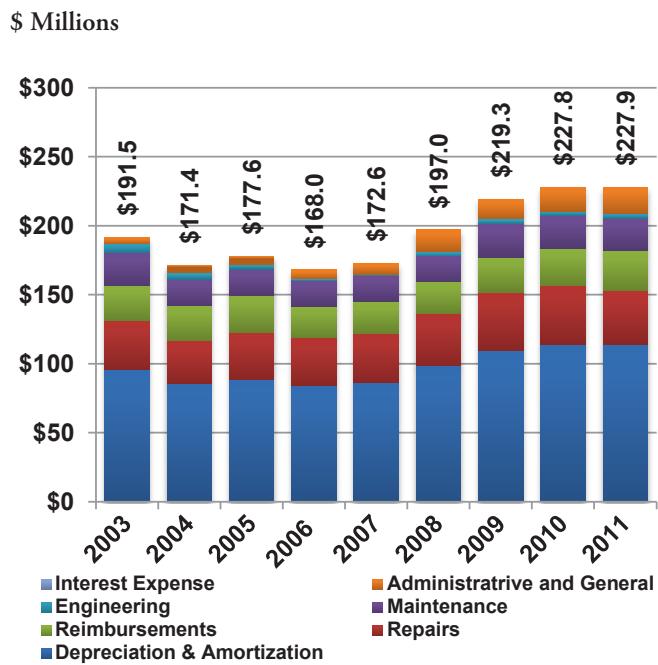
The City's water and sewer funds are supported primarily through water usage fees.¹¹ These revenues are used to repair, maintain, and improve the City's water and sewer systems. Like the City's aviation funds, capital investment costs for the City's water and sewer systems are included in the budgets of the water and sewer funds. Overall water and sewer fund expenditures are affected by capital improvement programs, the repair and maintenance needs of the systems, and general factors that impact Citywide expenses.

Total fund expenditures were relatively steady from 2003 through 2006, with a slight drop in operating costs in 2004 attributable in part to early retirement incentives and reductions in personnel expenses. Increases in operating expenses since 2006 reflect increases in personnel expenses and increased spending on repair and maintenance of the systems. However, much of the growth that began in 2007 has been due to increased interest expenses, which grew at an average rate of 14 percent per year, from \$74.3 million in 2006 to \$141.5 million in 2011, following water and sewer revenue bond issuances in 2006, 2008, and 2010. Proceeds from these bonds are used for the construction and repair of water and sewer lines and related facilities, as further discussed in the Capital Investment section of this document.

WATER FUND



SEWER FUND



¹⁰ There was a greater than average increase in personnel expenses on the O'Hare fund in 2011, due to retroactive payments required under collective bargaining agreements.

¹¹ When a resident pays their water bill, a portion of that payment goes into the water fund and a portion goes into the sewer fund.

FINANCIAL HISTORY REVIEW

In recent years, the City has spent millions of dollars each year to patch its aging water and sewer systems and to clean up after the failures of this system, which have resulted in flooding, street cave-ins, and other expensive inconveniences. The City spent \$22 million in 2010 and \$20 million in 2011 repairing leaks in the water and sewer systems and restoring the streets, sidewalks, and other infrastructure damaged as a result of these leaks; these numbers do not include the expenses incurred by businesses and homeowners to repair damage to their property caused by flooding and related issues.

In order to address the underlying causes of these system failures, the 2012 budget included a rate increase of from 0.373 cents per gallon to 0.474 cents per gallon for water and sewer services. This rate will increase to 0.762 cents per gallon over the next three years. These increases will enable the City to begin an accelerated capital program that will bring Chicago's water and sewer systems up to date. Details about the repairs and upgrades that will be completed as a part of this program can be found in the Capital Improvement section of this document. This rate increase brings Chicago in line with national averages for water fees, and will not only protect health and safety by ensuring the delivery of clean water today and in the future, but will also boost the economy by creating jobs and prevent the need for higher fees later by curbing the further deterioration of these systems.

FINANCIAL HISTORY REVIEW

GRANT FUNDING

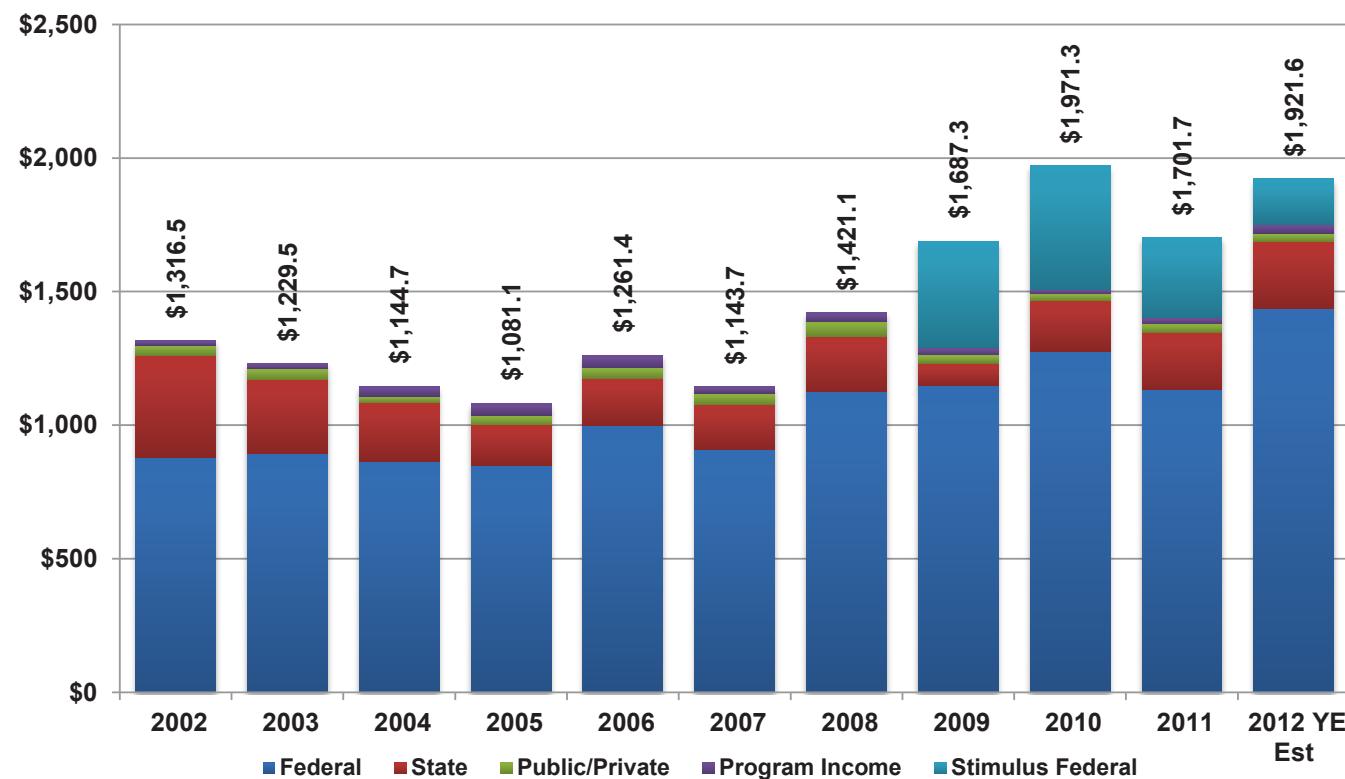
Grant funding is a significant and recurring source of revenue for the City, constituting an average of 20 percent of the City's annual budget over the past 10 years. The City receives grant funds from federal and state agencies, foundations, and other private entities, and utilizes these funds to provide essential services, support community programs, and complete capital improvements. The level of grant funding in any given year varies with the availability of grants that meet City needs and the City's ability to obtain those grants.

Sources of Grant Funding: 2002 - 2011

Grant funding has provided an average of \$1.40 billion each year over the past decade. Funding increased in 2009 through 2011 due to the inflow of Federal American Reinvestment and Recovery Act (ARRA) stimulus funding.¹²

GRANT FUNDING SOURCES¹³

\$ Millions



¹² ARRA funding consists of one-time grants to be used for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, affordable housing, and state and local fiscal stabilization.

¹³ Due to limitations in available data, 2002 through 2005 reflect the grant funding appropriated in the City's annual budget. For years 2006 through 2011, actual grant funding received is shown.

Smaller year-to-year fluctuations in the City's grant funding are often attributable to the timing of large grant-funded transportation and infrastructure projects. During this period, the City's grant funding has been composed of approximately 81 percent federal funding (including ARRA funding), 15 percent state funding, and 3 percent private funding and donations. In addition, certain of the City's grant-funded programs generate income from user fees or sales, such as charges for health services or payments on home rehabilitation loans. Such income is directed back towards grant programming and has averaged \$28 million, or 2 percent of total grant funding, per year.

Grant funds are received on various fiscal year time periods, and many grants awarded to the City are for multiple fiscal years. The numbers in the following graph reflect the total available grant funds in a given year, including any carryover funds from the prior year.

FINANCIAL HISTORY REVIEW

Uses of Grant Funding: 2002 - 2011

Grants support a wide variety of City services and functions. The following graph presents the relative amount of grant funding dedicated to different program types over the past 10 years, and each program category is further described below. The relative proportion of grant funds dedicated to each category has remained fairly consistent from year to year.

Finance and Administration

The primary recipients of grant funding in the Finance and Administration category are the Office of Budget and Management, the Department of Innovation and Technology, the Department of Finance, and the Department of Law. Though these departments do not receive large amounts of grant funding, there was an increase in such funding in 2011 due to ARRA funding for broadband, high-speed internet, and fiber connections. Funding in this area is expected to significantly decrease after 2012 due to the phase out of ARRA.

City Development

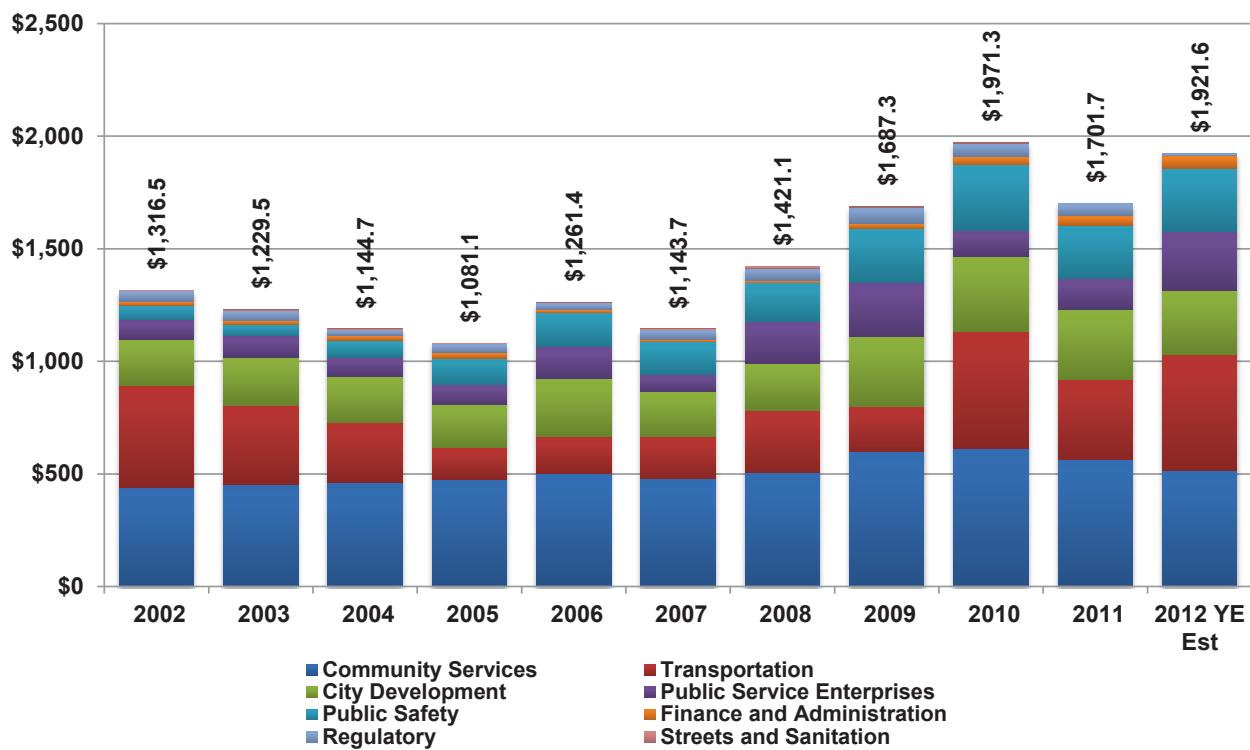
In the City Development category, the Department of Housing and Economic Development and the Department of Cultural Affairs and Special Events are the primary recipients of grant funding. Grant funding in this area increased in 2009 through 2011 due largely to the receipt of \$169 million in Neighborhood Stabilization Program funding to bring vacant foreclosed homes up to code and increase home occupation in target areas, and additional HOME Investment Partnership program funds, which provide financial assistance to affordable housing developers, homebuyers, and community-based organizations. Funding for the HOME program was reduced by 51 percent during 2011 and 2012, contributing to an overall decrease of 9 percent in City Development funding.

Community Services

The primary recipients of grant funding in the Community Services category are the Department of Family and Support Services, the Department of Public Health, the Chicago

GRANT FUNDING USES¹⁴

\$ Millions



¹⁴ Due to limitations in available data, 2002 through 2005 reflect the appropriated programmatic usage for each year. For years 2006 through 2011, actual programmatic usage is shown. For 2012, anticipated grant funding is presented.

FINANCIAL HISTORY REVIEW

Public Libraries, and the Mayor's Office for People with Disabilities. Community Services programming is directed at boosting the economy by creating jobs, increasing vital services for residents, fostering workforce development, providing child care, and operating homelessness and prisoner re-entry programs. This category has received the largest amount of grant funding over the past three years, largely due to ARRA, and as ARRA funds decrease, funding for Community Services are expected to decline accordingly.

Public Safety

Grants to the Office of Emergency Management and Communications, the Police Department, and the Fire Department make up the Public Safety category. Over the years, Public Safety has grown to be the third largest grant-funded area in the City, with grant funding increasing from \$65.6 million in 2002 to an anticipated \$280.0 million in 2012. A significant portion of this funding comes from the Urban Areas Security Initiative, which provided \$149 million in funding beginning in 2007 to address the planning, organization, equipment and training needs of high-threat, high-density urban areas in building capacity to prevent and respond to acts of terrorism.

Regulatory

Regulatory grant funding consists largely of funding for conservation or environmental programs such as weatherization, electric vehicle support, and alternative fuel development. Small amounts of grant funding are also dedicated to initiatives within the Department of Buildings, the Department of Business Affairs and Consumer Protection, and Animal Care and Control, though these departments are not heavily grant-funded.

Infrastructure Services

The Department of Streets and Sanitation and the Chicago Department of Transportation (CDOT) are the primary recipients of grant funding in this category, with CDOT receiving the most grant funds of any City department. Transportation-related grant funding fluctuates depending on the number of larger infrastructure projects, such as highways, bridges, streetscapes, and CTA stations, that are underway, as well as the availability of State and Federal funds for such projects. A significant portion of CDOT's grant funding comes from the federal Congestion Mitigation

Air Quality program and is allocated towards projects that will contribute to the attainment of national ambient air quality standards in designated non-attainment areas.

Public Service Enterprise

The Public Service Enterprise category consists of the Departments of Water Management and Aviation, with Aviation the primary recipient of federal grant funding for its airport improvement programs.

Grant Funding Going Forward

The majority of ARRA funding will come to an end after 2012, and as ARRA is phased out, the City expects to see its federal funding decrease to pre-2009 levels. In addition, other federal and state grant funding is decreasing as those governments face their own budgetary restrictions. The greatest cuts at both the state and federal level have been to funding for family and human services activities. For example, in 2011 and 2012, the City's allocation of the federal Community Development Block Grant (CDBG), which funds human service activities such as homelessness, youth, and senior programs, was reduced by more than 22 percent, or \$18.7 million. During the same years, the City's Housing Investment Partnership Grant, a federally-funded grant supporting the creation of housing opportunities, was reduced by 51 percent.

The City's ability to effectively utilize grant funds has increased with its improved processes for flagging, reviewing, and preventing the under-utilization of grant funds, implemented in June 2011. As a result of these efforts, these dollars, otherwise at risk of being left unspent or returned to the grantor, will be used for City programs and services. In addition, the City is now in the process of implementing a series of initiatives aimed at optimizing grant revenue through coordinated, multi-departmental grant application efforts; augmenting the tools and training options available to the City's delegates; and increasing oversight of delegates to ensure that the highest quality services are being provided.

FINANCIAL HISTORY REVIEW

PROPERTY TAX FUNDS

Property taxes make up a significant portion of City revenues and one of the most frequently discussed sources of revenue. This section discusses in detail the way in which property tax revenue is derived and used by the City. The City's total property tax-derived revenue is made up of two basic components – the City property tax levy and tax increment financing revenue. As further discussed below, beginning in 2012, the City captured expiring tax increment and put these property tax dollars towards essential City services.

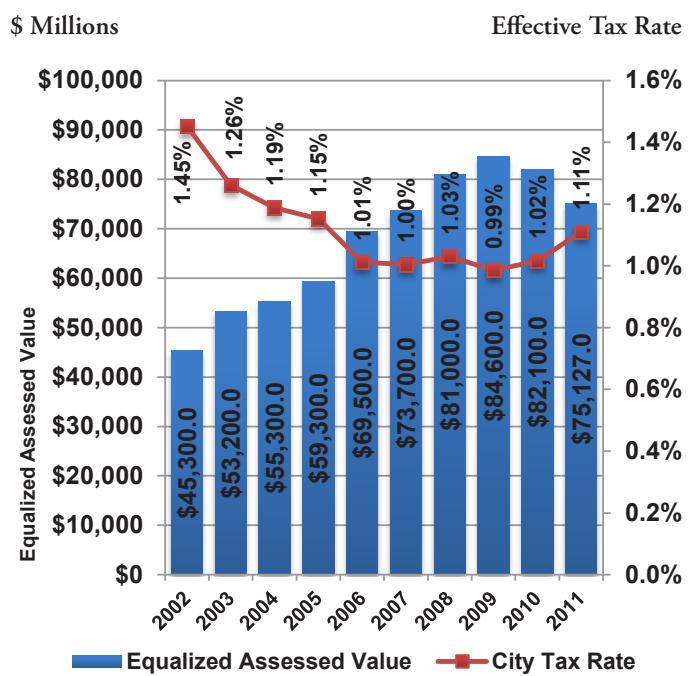
City Property Tax Levy

The City is one of several taxing districts reflected on a Chicago resident's property tax bill. The amount of property taxes collected by Cook County is divided among these districts, with the City allocated approximately 20 percent of the total bill.

The County determines the amount that will be billed to an individual taxpayer on behalf of a taxing district based on the taxing district's levy, the aggregate equalized assessed value (EAV) of the property in the district, and the EAV of the taxpayer's property:

- A taxing district's levy is simply the amount of property tax revenue that the district requests for the year. For many districts, this levy amount is limited by State legislation that places a cap on the amount that the district can request. The City, however, is not subject to this State-mandated cap on the amount that it levies. Instead, the City operates under a self-imposed property tax cap.
- A taxing district's aggregate EAV is determined by applying a state-mandated equalization factor to the aggregate assessed property values in the district minus the value of any property tax exemptions and incremental EAV for property located in a TIF. Property values are reassessed by the County every three years. The City's aggregate EAV, which reflects the taxable value of all property located in the City's limits, grew steadily for much of the past decade, but declined in recent years due to the recession.
- The County then divides the district's levy by the district's aggregate EAV in order to determine the district's tax rate. This tax rate is applied to the EAV of each taxpayer's property, and the result is the dollar amount that the taxpayer sees on their property tax bill in a given year.

EQUALIZED ASSESSED VALUE AND CITY TAX RATE



As the City's levy remained relatively constant and the aggregate EAV of property in the city limits increased, the property tax rate for Chicago taxpayers steadily decreased. This tax rate was 1.452 percent in 2002. By 2009, the rate had decreased by almost one-third to 0.986 percent. Beginning in 2010, however, the City's EAV began to reflect the decline in the market brought on by the recession. In 2010, the City's EAV declined 3 percent from 2009 levels, and in 2011, the EAV decreased by an additional 8.5 percent. As the EAV went down, the City tax rate began to increase again, bringing the 2011 City property tax rate to 1.110 percent, still significantly below the 2002 rate but up from 2009.

It is anticipated that the City's aggregate EAV will decline further as a result of the 2012 reassessment of property values by the County; if this occurs, tax rates will increase accordingly.¹⁵ The County is currently about halfway through its 2012 reassessment of Chicago properties, and in Lake Township and Rogers Park Township, where assessments

¹⁵ Property tax bills are sent and paid one year in arrears, so the bills received by taxpayers in 2012 reflect 2011 tax rates and valuations.

FINANCIAL HISTORY REVIEW

have already been completed, the median residential assessed value decreased by 18 percent and 21 percent, respectively. Additionally, beginning with the second installment of 2013 taxes, the maximum “homeowner exemption” is due to decrease from \$12,000 to \$6,000 of EAV.

Use of City Levy Revenues

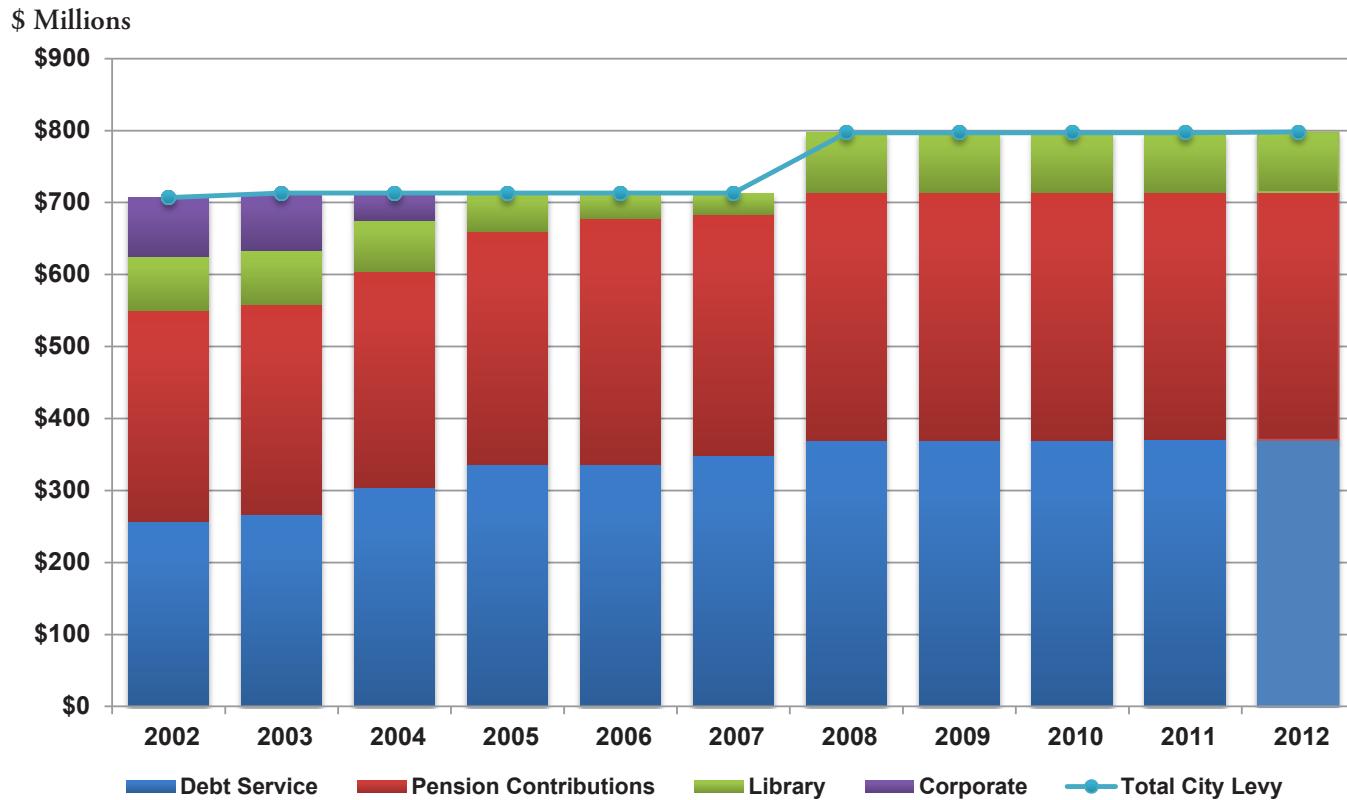
The City levy is divided into two components – a portion that can be used for general City purposes and a portion specifically dedicated to fund the Chicago Public Libraries. Since 2008, the library portion of the levy has been set at \$83.4 million, leaving \$713.6 million of the City levy for non-library uses.¹⁶ The use of the library portion of the City levy is discussed in greater detail in the Special Revenue Fund section of this document.

The revenue from the City levy that is not allocated to the library system is utilized primarily to pay the City’s debt service and employee pension contributions. From 2004

through 2007, surplus property tax revenue was transferred to the City’s corporate fund to support City services and activities. As the City’s debt service and pension expenses have grown, all of the City’s property tax revenues are being used to cover these payments, and no property tax revenue has flowed into the corporate fund in recent years.

The chart on this page shows the way in which property tax revenues were appropriated from 2002 through 2012. In each of those years, and to an increasing extent each year, a portion of the pension contributions were paid with PPRT revenue and a portion of the long-term debt service was covered using other (non-property tax) funding sources. For the years going forward, the total amount of long-term general obligation debt service and employee pension contributions will continue to exceed the levy, and other revenue sources must be redirected to make up this differential. A significant increase in pension contributions will occur in 2015 due to recently enacted State legislation, as further discussed in the Pension section of this document.

PROPERTY TAX LEVY ALLOCATION

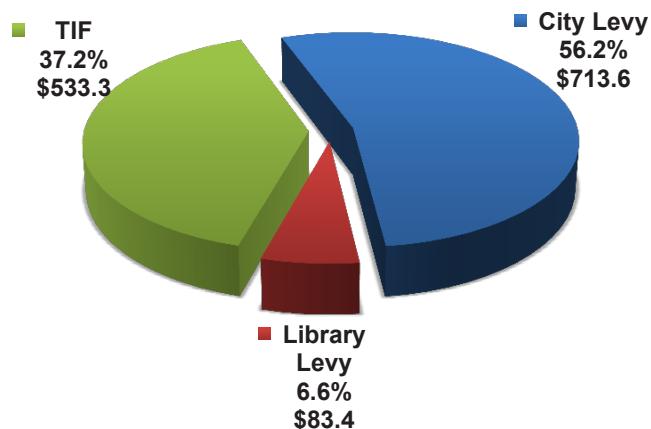


¹⁶ The City Colleges of Chicago also levy for property taxes, in the amount of \$37 million each year. This amount is sometimes discussed as a part of the overall City property tax levy. However, because the City Colleges function as a separate governmental unit and do not receive any additional funding or subsidies from the corporate fund, their levy is not discussed in detail here.

FINANCIAL HISTORY REVIEW

2011 PROPERTY TAX REVENUE

\$ Millions

***TIF Revenue***

Discussion of the City's property tax revenue has historically focused on the City levy, ignoring substantial amounts of property-tax-derived revenue from the City's tax increment financing ("TIF") program. The TIF program allows the City to capture property tax revenues above the baseline EAV that existed before an area was designated as a TIF district, and use that money (the "increment") for community projects, public improvements, and incentives to attract private investment to the area. The baseline EAV at the time the TIF district was designated is still a part of the tax base for the purposes of the levy, but the City also obtains incremental revenue beyond that baseline from these districts, which must be reinvested into the TIF district and cannot be used for other general City purposes. Historic and anticipated TIF revenue and the use of these funds are discussed in detail in the TIF section of this document.

When a TIF district expires, the full incremental EAV of the district returns to the aggregate EAV that is available to all taxing districts. In 2012, the City recovered its share of the expiring incremental EAV from the Chatham Ridge, Chinatown Basin, and West Ridge/ Peterson districts and utilized these property tax dollars to fund critical City services. By doing so, the City increases the resources available to support City services without increasing the tax burden on Chicago residents. This practice yielded \$1.1 million in 2012, and has the potential to provide additional funds in future years. The City has the ability to recover incremental EAV in the year following a TIF district's expiration.

FINANCIAL HISTORY REVIEW

CITY WORKFORCE

Almost every service that the City provides – from police protection to fire fighting to street paving to library assistance – is made possible by City employees. The City workforce is made up of front-line service providers like police and librarians, as well as employees providing the logistical, planning, and administrative support necessary to deliver those essential services. The costs associated with this workforce comprise the majority of the City's expenses.

As discussed in the preceding sections, the proportion of total expenditures that is personnel-related, including salaries and wages, health care, overtime pay, workers' compensation, and unemployment compensation, varies from fund to fund, with a historic average of 85 percent in the corporate fund. The proportion is significantly lower for the City's enterprise funds, as financing costs for capital projects are included in the overall budgets of these self-supporting funds. On a Citywide basis, across all local funds, an average of 74 percent of expenditures over the past nine years has been personnel-related. Salaries and wages have historically accounted for an average of 63 percent of City expenses each year, with employee health care accounting for an average of 9 percent each year.

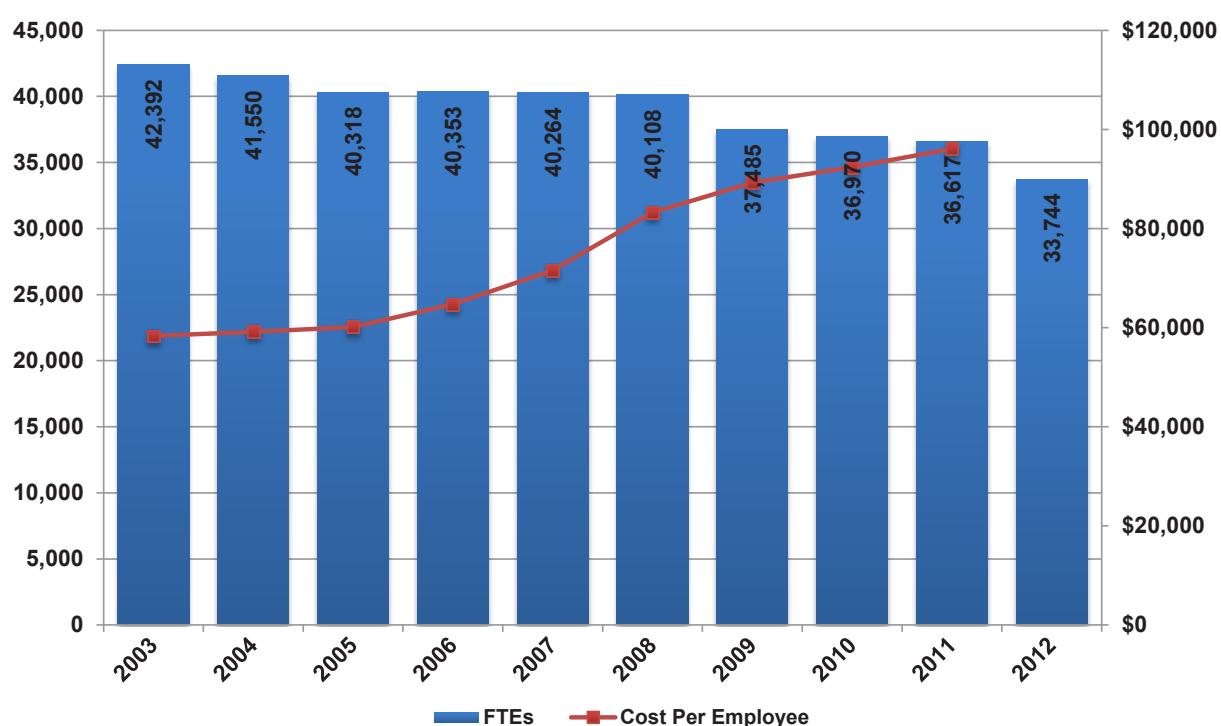
The public safety departments account for the largest portion of personnel expenses on the corporate fund, and have not experienced reductions to the extent that other segments of the workforce have. From 2003 through 2011, public safety salaries and wages accounted for an average of 76 percent of total corporate fund salary and wage expenses, with that percentage increasing from 74 percent in 2003 to 78 percent in 2011. Today, public safety positions make up 61 percent of the City workforce, up from 54 percent in 2003.

The City has steadily decreased its workforce across all funds from 40,506 positions (42,392 FTEs) in 2003 to 32,326 positions (33,744 FTEs) in 2012, a decrease of approximately 20 percent, or 8,180 positions (8,648 FTEs). However, despite this reduction in the workforce, the City's total personnel costs increased by 14 percent during that same time, with salary and wage expenses increasing by 11 percent and healthcare costs by 29 percent between 2003 and 2011. The City's average annual cost per employee increased from \$58,299 in 2003 to \$96,082 in 2011.

Union Workforce

The increase in personnel expenses over the past decade has been due in large part to salary increases resulting

CITY WORKFORCE AND COST PER EMPLOYEE



FINANCIAL HISTORY REVIEW

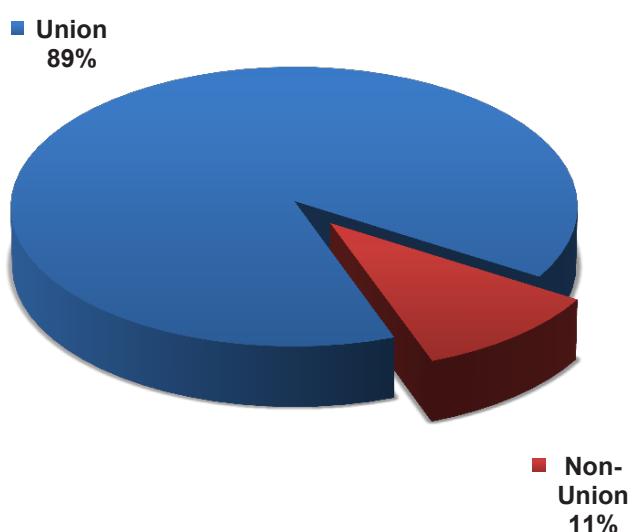
from contractual obligations under collective bargaining agreements with the unions that represent the vast majority of City employees. Today, 89 percent of City positions are represented by a union, up from 87 percent in 2003. As the overall number of City positions has decreased, the relative proportion of union positions has increased. Since 2003, the number of non-union positions, which are primarily management positions, has been reduced by 36 percent, from 5,142 to 3,316 (5,397 to 3,562 FTEs), while the number of union positions has been reduced by 18 percent, from 35,364 to 29,010 (36,994 to 30,183 FTEs).

The City is party to collective bargaining agreements with more than 40 different unions. The two bargaining units representing the largest number of City positions are the Fraternal Order of Police and the Chicago Firefighters Union, currently with 16,033 combined sworn public safety positions. When police captains, lieutenants, and sergeants are included, the number of unionized public safety positions comes to 17,486; this is a decrease from 18,549 in 2003, due in part to the elimination of a large number of vacant positions in the 2012 budget. Many of these positions had remained unfilled for many years, diverting resources from critical services.

The next largest group of positions is associated with the Coalition of Union Public Employees (COUPE), which currently represents 5,959 trades positions (6,863 FTEs), down from 8,442 positions (9,587 FTEs) in 2003. The American Federation of State, County, and Municipal Employees (AFSCME) is the fourth largest group, representing employees that provide administrative support for the City. Membership in AFSCME decreased from 5,843 City positions (6,278 FTEs) in 2003 to 3,529 positions (3,583 FTEs) in 2012. The Service Employees International Union (SEIU) currently represents 1,893 public safety civilian positions (2,097 FTEs), such as traffic control aides, detention aides, and police communication operators, a reduction of 467 positions (310 FTEs) from 2003.

The collective bargaining agreements with each of these major unions include regular salary increases, resulting in higher personnel costs each year. During the period from 2003 through 2006, collective bargaining agreements with COUPE and AFSCME provided average salary increases of more than 3 percent each year, and those with the police and fire unions provided average salary increases of more than

2012 CITY WORKFORCE, UNION VS. NON-UNION



4 percent each year. The most recent collective bargaining agreements with the police and fire unions included a 10 percent salary increase between 2007 and 2012. Those with COUPE and AFSCME included a 16 percent increase between 2007 and 2012. The last SEIU agreement included a more than 9 percent increase between 2007 and 2010. These increases are in addition to the raises based on time in service that most employees receive. Historically, non-union positions received salary increases equal to those negotiated for civilian (non-sworn) positions; however, since 2009, non-represented positions have not received any such increases.

A number of the City's collective bargaining agreements are currently pending negotiation, including those with SEIU, the police and fire unions, police captains, lieutenants, and sergeants, AFSCME, aviation sergeants, supervising police communication officers, and the unions representing City nurses.

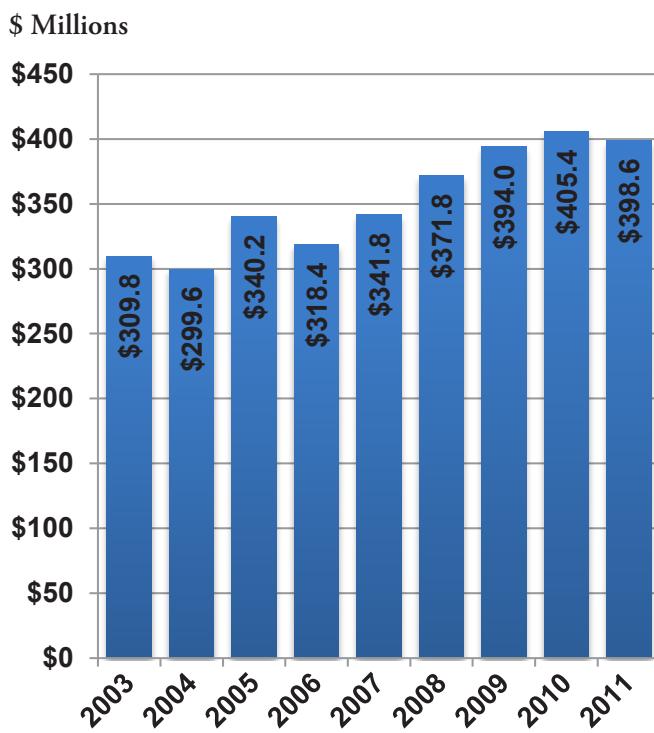
Healthcare Costs

A significant share of the City's budget is spent on healthcare coverage, including medical, dental, and vision care, for current City employees and City retirees. Specifically, this pool of covered lives includes City employees, City retirees, and the spouses and dependents of both. Like many other large cities and private sector companies, the City self-funds its health plans, meaning that it generally pays for covered healthcare services rather than pay premiums to a third-party insurer. Due to the City's large pool of covered lives, it is generally more cost-effective for the City to self-fund such expenses.

FINANCIAL HISTORY REVIEW

Between 2003 and 2010, the City's healthcare costs rose from \$309.8 million to \$405.4 million. The decrease in costs from 2005 to 2006 was due in large part to significant plan design changes, including adjustments to the formula for employee healthcare contributions. Healthcare costs decreased slightly in 2011 to \$398.6 million, largely as a result of savings generated through initiatives implemented during the second half of 2011, including increased coordination with

CITYWIDE HEALTHCARE COSTS



the City's sister agencies, proactive management of claims, and insurance premium reconciliations.

The significant net increase over the past decade can be attributed to several main factors – the makeup of the City's workforce and retiree population, the increased utilization of prescriptions and health care services, the rising cost of healthcare services, and changing State and Federal coverage requirements.

Between 2003 and 2011, the aggregate number of covered lives under City healthcare plans decreased by almost 10 percent, from 134,626 to 121,392. However, during that same time period, the number of active City employees enrolled decreased by approximately 20 percent while the number of retirees enrolled increased by approximately 11

percent. With this change in the makeup of covered lives came an increase in the average age of beneficiaries of City healthcare plans, from 40 in 2003 to 47 in 2011, and older individuals generally require larger annual healthcare expenditures. In addition, as life expectancies increase, the duration of coverage lengthens, further increasing the City's healthcare expenditures.

U.S. industry trends have also driven the City's costs upward. According to industry experts, the per capita cost of healthcare in the U.S. rose 42 percent between 2003 and 2011. Further, as more specialty medications and more expensive technologies are utilized with greater frequency, costs increase. A thorough analysis of industry-wide trends is beyond the scope of this report, but the City's increasing healthcare expenditures clearly correspond with the growing price of healthcare nationwide.

The healthcare industry is currently in a state of significant flux; however, the City expects that the trends seen in recent years will continue into the future, as the demographics of beneficiaries continue to shift and the per-employee cost of providing healthcare continues to increase. In order to contain these costs and improve the overall health and well-being of its workforce, the City is in the process of implementing a citywide wellness program. The program will provide a wide range of services and utilize individualized assessments and screenings to ensure that participants are engaged in programs most appropriate for their needs. Personal well-being plans will include regular check-ins and health coaching, and will provide programs to motivate healthy practices. By encouraging employees and their families to proactively address areas of immediate concern, such as hypertension, high cholesterol, smoking, and diabetes, the City aims to reduce the healthcare costs that such conditions often necessitate if left untreated. The program will be the largest, most comprehensive government wellness program ever introduced, and is the result of collaboration between the City and major labor unions. It is expected to save \$20 million in 2012, and millions more in the coming years.

FINANCIAL HISTORY REVIEW

Overtime Management

Since 2003, the City's public safety departments and infrastructure departments have accounted for 96 percent of Citywide overtime expenditures. The City has decreased its overtime expenditures across all funds by 27 percent since 2007 through its efforts to monitor and reduce overtime. Multiple factors facilitated this decrease, including improved management and allocation of staff, as well as the 2009 agreement with the COUPE unions, under which the unions agreed to earn compensatory time instead of being paid for overtime hours. The COUPE agreement expired in mid-2011, and the City has continued to strategically manage the usage of overtime to limit spending.

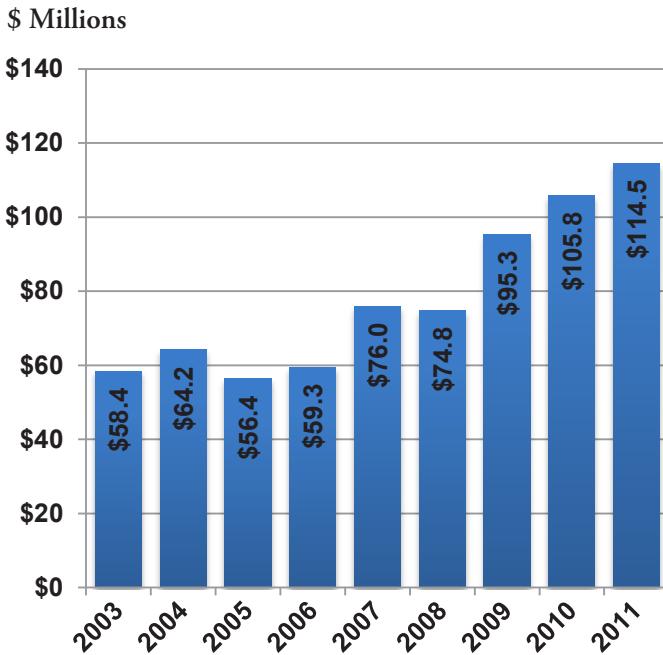
In making decisions surrounding overtime management, the City evaluates the cost of utilizing overtime to provide critical City services in relation to the cost of hiring additional employees. Because there are significant incremental costs associated with hiring new employees, including healthcare benefits and pension contributions, in many cases utilizing overtime hours is a preferable alternative because it is more cost effective. Decisions are made based on the seasonality, type, and long-term consistency of the work that must be completed.

Workers' Compensation

Between 2003 and 2011, the City's workers' compensation costs rose from \$58.4 million to \$114.5 million. These costs consist of the costs associated with employees who are injured while on duty working for the City, including medical expenses, payments for lost time, and the costs of case resolution. A number of factors have contributed to this growth. Nationwide, medical costs have risen significantly over the past decade, increasing the cost of treating injured employees. As discussed above, salaries and wages have also increased, driving up the price of lost time that must be compensated by the City. In addition, due to the downturn in the economy, employees who cannot return to their original position due to their injuries have been less able to find other employment, increasing the length of lost time that must be compensated and thus the total cost of such payments.

The City has identified a number of opportunities to reform the policies and practices surrounding workers' compensation to reduce these costs going forward. A Division of Environmental Health and Safety Compliance has been established in the Department of Fleet and Facility Management, which will formulate and implement policies and initiatives to guide day-to-day operations to provide a safe and healthy work environment. In addition, the City is increasing investigations to prevent fraud, assessing its medical billing and review process, and working to develop a successful return-to-work program for injured employees.

CITYWIDE WORKERS' COMPENSATION



ANNUAL FINANCIAL ANALYSIS

2012

FINANCIAL FORECAST

FINANCIAL FORECAST

INTRODUCTION

This section includes a discussion of the City's 2012 year-end estimates, 2013 preliminary budget projections, and three revenue and expenditure scenarios for the years 2014 and 2015 – a base outlook, a positive outlook, and a negative outlook. These projections are based on historical revenue and expenditure data, current economic trends and conditions, and other known factors that are anticipated to have an impact on the City's finances. The purpose of this analysis is to ensure that the 2013 budget is formulated with a clear understanding of the City's current financial state and an informed view of future conditions and the long-term fiscal consequences of today's decisions.

This forecast focuses primarily on the corporate fund, as this fund not only accounts for most of the basic services provided by the City, but also has experienced the largest disparity between revenues and expenditures over the past decade. As discussed below, the projected 2013 corporate fund shortfall is \$369 million, significantly less than in recent years, but still a substantial deficit. A summary of the projections for the City's major special revenue and enterprise funds is included at the end of this section.

GENERAL AND ECONOMIC CONSIDERATIONS

As this report is being released, economic indicators that had been improving during late 2011 and early 2012 are beginning to slow. The June forecast from the Fed lowered expectations for economic growth and employment, projecting that the economy would grow by only 1.9 to 2.4 percent this year, a half percentage point slower than projected in April. In addition, the economic turmoil in Europe continues to threaten global financial security.

The local economy has generally shown signs of improvement over the past year. Chicago's unemployment rate fell by 1.7 percentage points, more than any comparable city, between May of 2011 and May of 2012. However, there remain areas of weakness, and national and international factors will inevitably affect Chicago. These broader economic factors are accounted for to the extent possible in the following projections; however, given the level of uncertainty surrounding the economy, it is difficult to

predict and quantify the exact impact of such factors. The 2013 projections and the base outlook for 2014-2015 present what is currently viewed as the most likely scenario. The positive and negative outlooks for 2014-2015 provide insight into how changes in the economy, as well as other relevant factors, might affect the City's finances over the next three years.

It should also be noted that the following corporate fund forecasts do not directly address the City's growing debt service obligations and pension payments, as these expenses are accounted for in separate City funds and discussed in detail in the following sections of this document. However, the City's debt and pension contributions inevitably affect the City's overall finances. In particular, the large spike in pension payments that will occur in 2015 under State legislation cannot be paid with the revenue sources currently used to fund these contributions. The City's property tax levy has historically been the primary revenue source for the payment of pension obligations, with the balance coming from PPRT revenue. The City's statutory pension contributions will increase from an estimated \$467 million in 2014 to \$1.2 billion in 2015. In order to cover the cost of these contribution requirements, the City would need to either drastically reduce core City services, or increase its property tax levy accordingly, significantly increasing the bill of every Chicago taxpayer.

2012 CORPORATE FUND YEAR-END ESTIMATES

2012 Year-End Revenues

Total corporate fund resources for 2012 are estimated at \$3.12 billion. This includes \$143.5 million carried over from 2011, which was included in the 2012 budget and is attributable in part to the effective controls, cuts, and initiatives implemented during the course of 2011.

Corporate fund revenues are expected to finish the year 0.8 percent above 2012 budgeted revenues. These year-end estimates reflect increases in many of the City's economically sensitive and tourism-driven revenues, offset by declines in certain other revenues. Major categories of revenue and trends are discussed below, with year-end estimates for each individual revenue source discussed in the Financial History Review section of this document.

FINANCIAL FORECAST

Utility taxes are expected to come in significantly below budget in 2012, driven in large part by the unseasonably warm winter and spring and decreases in natural gas prices, which during the first seven months of the year were down 35 percent from the same period in 2011. As a result, year-end estimates for natural gas tax revenues are 20 percent below budgeted amounts. Telecommunications and electricity tax revenues have also performed below budget, though electricity may bounce back slightly if the unusually high temperatures continue through the summer. Parking taxes are anticipated to come in slightly below budget, due in part to increases in fuel prices, as people tend to drive and park less when gas prices are high.

Amusement and hotel tax revenues, in contrast, are expected to finish the year 1 percent and 7 percent above budget, respectively, as Chicago's tourism and convention business grows. Revenue per available room in the city during the first six months of the year was up 11 percent from the same period last year, and hotel occupancy up 6 percent. Similarly, recreation tax revenues are expected to finish the year slightly above budget, with strong liquor and non-alcoholic beverage sales, driven in part by the early warm weather and increased festival attendance, offsetting the decline in cigarette tax revenues that is anticipated due to the State's increase in its cigarette tax rate.

Year-to-date sales tax revenues have also been strong; however, recent nationwide economic news signals that consumer sales may slow during the second half of the year. On balance, the City anticipates that sales tax revenues will come in 5 percent above budget for the year. Despite declines in home values, real property transaction taxes are expected to finish the year 20 percent above budgeted levels,

due to large commercial transactions during the first half of the year.

As first quarter corporate profits grew and the city unemployment rate fell, income tax revenues are projected to come in almost 17 percent above budgeted levels. PPRT revenues, which are also income-based, are expected to perform similarly.

The City estimates that non-tax revenues will finish the year slightly below budget, as revenues from business license and permit issuances, as well as certain fines, are down from budgeted levels. These decreases will be offset in part by above-budget revenues from charges for City services and income from the rental, lease, and sale of City-owned property.

2012 Year-End Expenditures

2012 year-end expenditures are currently estimated at \$3.09 billion, approximately \$8 million less than 2012 budgeted expenditures. These estimates are based on year-to-date spending, incorporating payroll trends, market pricing for relevant commodities, and any known changes or events that have or are anticipated to occur during the course of 2012.

As is apparent in the very small variance from 2012 budgeted expenditures, spending has been largely in line with expectations for the year. There is, however, an increase in estimated year-end fuel expenses due to increased prices; it is anticipated that this overage will be offset by greater than expected healthcare savings.

2012-2013 ESTIMATED EXPENDITURES AND REVENUES

\$ Millions

	2012 YE Est.	2013 Projected
Revenue	\$3,123	\$2,835
Expenditure	\$ 3,090	\$3,204
Budget Surplus/(Deficit)	\$33	(\$369)

FINANCIAL FORECAST

It is currently projected that the City's corporate fund will finish the year with a \$33 million surplus; however, these projections are based on revenues and expenditures for the first half of the year and are likely to change as the year progresses. The City will continue to monitor these revenues and expenditures, and updates will be published in the City's quarterly budget reports.

2013 CORPORATE FUND PROJECTIONS

The difference between revenues and expenditures estimated by the City in its preliminary corporate fund budget estimates each year, commonly referred to as the 'gap', has been steadily increasing over time. While the large recession-driven budget shortfalls began in 2008 with an estimated gap of \$217.7 million, the City has been experiencing significant preliminary budget gaps for most of the last decade. The earlier gaps were largely closed by expenditure reductions and tax and fee increases. However, in more recent years, the City relied heavily on one-time revenue sources, the majority of which came from the long-term lease of the City's Skyway

and parking meter system, to balance its annual budget. The use of these one-time revenue sources masked the City's structural deficit – each year, the City was spending more than it brought in, and this habit was built into the way City government functioned.

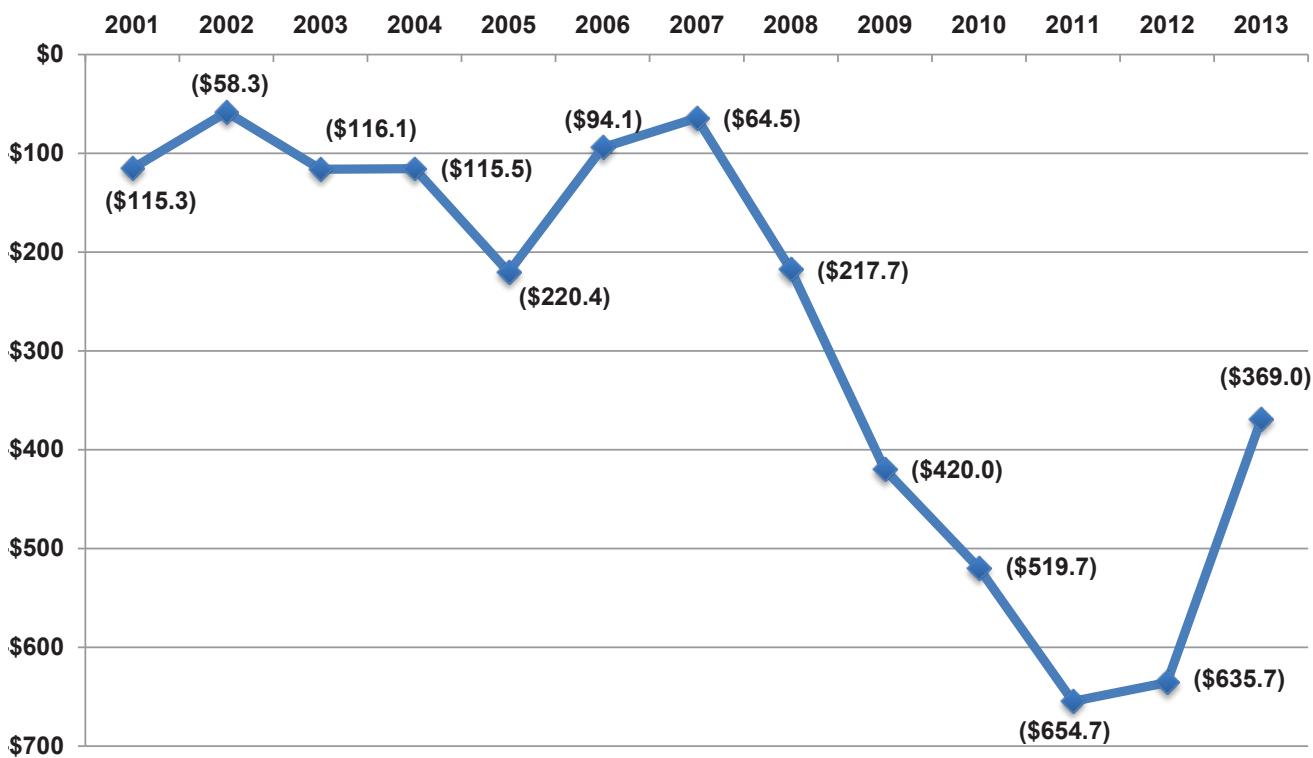
The 2013 corporate fund gap is estimated at \$369 million, approximately half of what it was during the worst recession years, but still a significant shortfall. The decreasing size of this shortfall is representative of the real and lasting changes made as part of the 2012 budget to bring spending in line with revenues. However, the persistent existence of a substantial corporate fund gap makes clear that many of the challenges underlying the structural deficit remain, as the City continues down the road to true fiscal sustainability.

Corporate Fund Revenues

Revenues to the corporate fund in 2013 are projected to decrease 9 percent from the 2012 year-end estimate of \$3.12 billion to \$2.83 billion in 2013. These estimates reflect the continuation of many of the trends seen in 2011 and 2012 and take a conservative approach to growth in

CORPORATE FUND PRELIMINARY GAP

\$ Millions



FINANCIAL FORECAST

certain areas. These projections also account for known factors such as increasing pension and debt obligations that will divert resources from the corporate fund. In addition, these projections assume that the City will not carry over any balance from 2012 into 2013.

The 2013 projections anticipate that natural gas tax revenues will experience slight growth but remain below 2012 budget levels, as natural gas prices will likely remain lower than historic prices, even as they stabilize. Telecommunications tax revenues are expected to continue their downward trend as the number of landlines decreases at a faster rate than the number of wireless accounts increase. These two factors are expected to drive down overall utility tax revenues in 2013, even as cable television taxes are expected to grow with the industry. Vehicle fuel taxes are also expected to decline in 2013, based on historical patterns that indicate that high gas prices and the growing number of fuel efficient vehicles will result in decreased fuel usage.

Amusement and hotel tax revenues are expected to grow, reflecting increases in tourism and business travel, with a number of new hotels slated to open and a strong convention calendar in 2013. Recreation tax revenue trends seen in 2012 are expected to carry into 2013, with moderate increases in liquor and non-alcoholic beverage sales offsetting declines in cigarette tax revenues.

Total City sales tax revenues are expected to increase slightly in 2013, reflecting slow but steady growth in the economy; however, the proportion of this revenue flowing into the corporate fund will decrease as debt service payments on the City's sales tax revenue bonds increase in 2013. Real property transfer tax revenues are projected to increase only slightly from 2012 levels, as the housing market remains fragile.

The 2013 projections anticipate that income tax revenues will continue to grow, though at a slower pace than in 2012. PPRT revenue to the corporate fund will decrease in 2013, as a larger portion of these revenues is needed for increased pension contributions, leaving a smaller share, approximately \$15 million less than in 2012, for the corporate fund.¹⁷

As the streamlining and rationalization of the City's licensing structure reduces the complexity of processes and

the number of licenses required for Chicago businesses, overall revenue from license fees is expected to decrease in 2013, contributing to a decrease of approximately 4 percent in non-tax revenues from 2012 levels.

Corporate Fund Expenditures

2013 expenditure projections grow over 2012 budgeted expenditures by approximately \$106 million, or 3.4 percent, to \$3.20 billion. These projections are based on the 2012 year-end estimates, adjusted for known changes such as wage increases required under the City's collective bargaining agreements, increased utility and fuel expenses to accommodate the potential continued increase in gas and fuel prices, and the citywide expansion of recycling.

These expenditure projections assume that no substantive changes are made to City operations or the cost of City services. No cost-savings initiatives are incorporated into these estimates. Cost-savings initiatives are being developed by the City and will be included in the 2013 budget recommendation submitted to the City Council in October.

2014-2015 CORPORATE FUND OUTLOOKS

The following three scenarios project budget gaps for the years 2014 and 2015 based on different revenue and expenditure outlooks.

Base Outlook

The base outlook projects corporate fund revenue growth of 0.7 percent in 2014, followed by a decrease of 0.7 percent in 2015, resulting in total corporate fund revenues of \$2.85 billion in 2014 and \$2.83 billion in 2015. These projections are based on the continuation of similar trends as presented above with respect to 2013 for most revenue sources, including utility taxes, recreation and amusement taxes, hotel taxes, sales taxes, and most non-tax revenues. However, adjustments have been made to account for anticipated variations in some cases. Slight growth over 2013 levels are projected for real property transfer tax revenues, anticipating some improvement in the housing market and growth in commercial transactions in line with historical averages

¹⁷ The personal property replacement tax is allocated to pay for employee pension contributions that exceed property tax revenues allocated to fund employee pension contributions, as further discussed in the Pension section of this document.

FINANCIAL FORECAST

2014-2015 PROJECTED GAP

\$ Millions

	2014	2015
Positive Outlook	(\$331)	(\$360)
Base Outlook	(\$466)	(\$580)
Negative Outlook	(\$655)	(\$851)

regularized over time. Revenue from the employer's expense tax will decrease by an additional 50 percent in 2014 as the phase out continues, and this tax will be completely eliminated by 2015. Following growth in 2013, income tax revenues are projected to decrease slightly in 2014 and then remain flat in 2015. In addition, beginning in 2015, PPRT revenue will no longer flow into the corporate fund due to the significant jump in pension payments in that year, as further discussed in the Pension section of this document.

While corporate fund revenues are projected to remain essentially constant at 2013 levels during 2014 and 2015, corporate fund expenditures are projected to grow 3.0 percent during the same period, to \$3.32 billion in 2014 and \$3.41 billion in 2015. Under this base outlook, most categories of expenditures, including contractual services, healthcare, motor fuel, and utilities, are assumed to grow at their long-term historical average.¹⁸ Less predictable expenditures, such as settlement and judgment-related expenses, are held roughly flat at their historic annual average. Salary and wage expenditures, by far the largest portion of corporate fund expenses, are projected based on the assumption that the number of full-time equivalent positions will remain approximately flat, or, put differently, that no significant hiring, layoffs, or vacancy eliminations will occur, and that salaries and wages for those positions will experience moderate growth in line with long-term historical trends.

Under this scenario of realistic revenue projections and modest growth in expenditures, the City's corporate fund gap would grow to \$466 million in 2014 and \$580 million in 2015.

Negative Outlook

The negative outlook presents a picture of City finances in the context of worsening economic conditions and the occurrence of other factors that have the potential to negatively affect City finances. Under this scenario, revenues experience a decline of 3.7 percent in 2014, followed by an additional decrease of 1.8 percent in 2015, resulting in total corporate fund revenues of \$2.73 billion in 2014 and \$2.68 billion in 2015. This assumes a continued decline in utility tax revenues as natural gas prices continue to fall and data services replace telecommunications subscriptions. This outlook also assumes that fuel prices remain high and transportation tax revenues decrease accordingly, as people choose to drive and park less, and opt to purchase more fuel efficient vehicles. A slowing economy and cautious consumer sentiment would also lead to tightened spending on retail goods, entertainment, and tourism, leading to stagnant amusement, hotel, and sales tax revenues. Similarly, real property transfer tax revenues would fall with house prices, and the level of large commercial transactions would remain flat, not providing the injection that they have in recent years. Under these negative projections, income tax revenues experience only a slight increase in 2013, and decrease in 2014 and 2015 for a net decrease of 2 percent by the end of 2015. This outlook also incorporates the possibility that a slow economy will decrease new business and building starts, further decreasing license and permit fee revenues, and that fines from ticket issuances continue to decline, contributing to an overall decline in non-tax revenues.

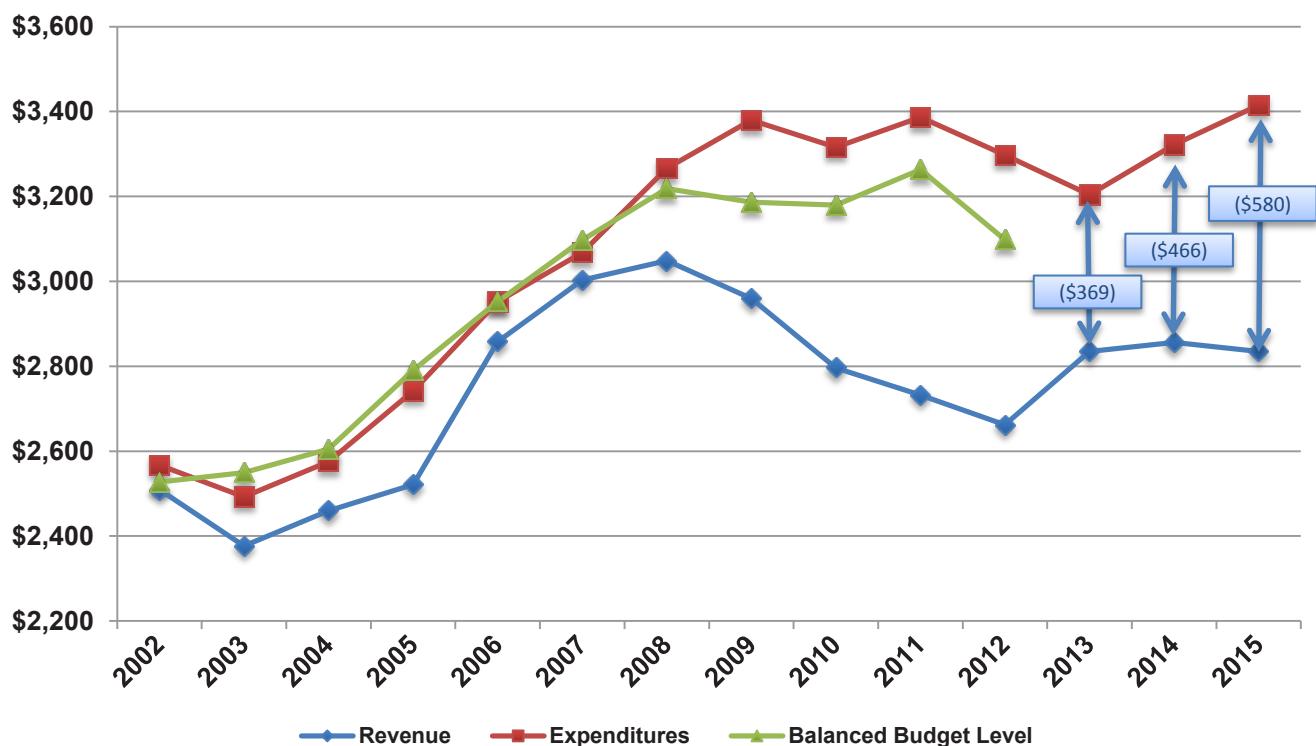
Assuming a similarly negative outlook for expenditures, in which the City is unable to control its spending over the next three years, corporate fund expenditures would significantly outpace revenues, growing at an annualized rate of 4.9 percent

¹⁸ Long-term historical averages and growth rates are calculated based on the years 2003 through 2011, the years for which the City has detailed and accessible expenditure data.

FINANCIAL FORECAST

PROJECTED EXPENDITURES AND REVENUES 2013-2015

\$ Millions



to \$3.34 billion in 2014 and \$3.53 billion in 2015. Under this scenario, most categories of expenditures are grown at the rate seen during their fastest period of historical growth in the past decade, which generally occurred during the pre-recession years. Less predictable cost categories are held at their 2003-2011 peak levels. Salary and wage expenditures are projected assuming that the number of full-time equivalent positions will be held constant, as in the base case scenario, but that salaries and wages grow at pre-recession rates, illustrating the potential effects of costly collective bargaining agreements or similar contingencies. Under the negative outlook, the City's annual budget gap would grow to \$655 million in 2014 and \$851 million in 2015.

Positive Outlook

The positive outlook assumes that the economy improves at a slightly faster pace over the next three years, and that other market factors shift in ways that bolster City revenues. Under this scenario, revenues increase 3.1 percent over 2013 levels in 2014, and then by 0.7 percent in 2015, resulting in total corporate fund revenues of \$2.92 billion in 2014 and \$2.94 billion in 2015. These projections assume that

positive economic movement will lead to greater growth in areas where moderate growth was predicted under the base outlook, such as real property transfer, amusement, beverage, hotel, and sales tax revenues. In addition, this scenario assumes that natural gas prices stabilize and fuel prices decrease, and that utility and transportation taxes increase accordingly. Total PPRT revenues would increase in line with income taxes, but pensions will continue to have a negative effect on the portion of these revenues flowing into the corporate fund. Non-tax revenues are held relatively constant under this scenario with a slight uptick in license and permit issuance fees as well as a boost from additional interest earned on the City's reserve funds.

Under the positive outlook, the City is able to more effectively control its future spending, leading to a projected annual growth rate of 1.5 percent, with total corporate fund expenditures growing to \$3.25 billion in 2014 and \$3.30 billion in 2015. Under this outlook, expenditures for most categories, such as contractual services, healthcare, motor fuel, and utilities, remain flat at 2012 levels. More volatile categories are generally held at their historical annual

FINANCIAL FORECAST

averages. This scenario assumes a small reduction in the number of full-time equivalent positions each year, and that salaries and wages for the remaining positions experience moderate growth in line with long-term historical trends.

Under this outlook, the City would see smaller but still substantial gaps of \$331 million in 2014 and \$360 million in 2015.

Conclusion

Even under optimistic projections, the City will continue to experience a sizable annual budget shortfall for several years. This makes evident the City's long-standing structural deficit. The difficult process of reforming government to address this deficit began last year, and must continue into 2013 and beyond.

OUTLOOK FOR SPECIAL REVENUE FUNDS

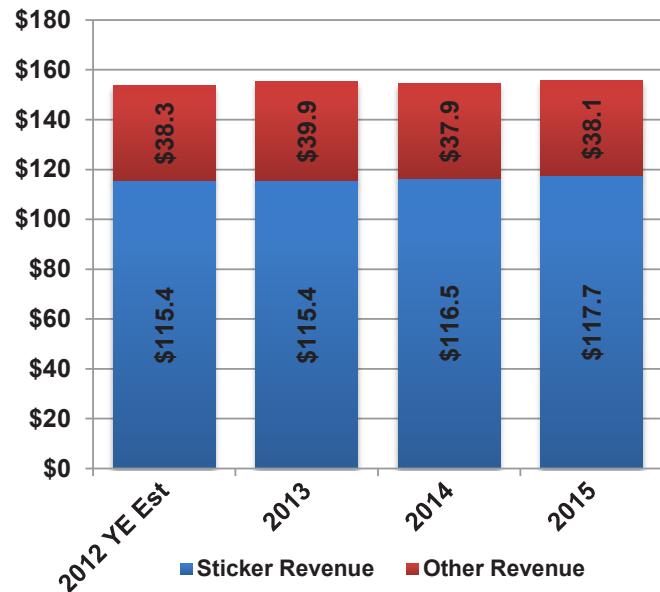
Vehicle Tax Fund

The City anticipates that revenue from the sale of vehicle stickers will hold steady with 2012 year-end estimates in 2013, at approximately \$115.4 million. It is projected that sticker sales will increase by 1 percent in each of 2014 and 2015, to \$116.5 and \$117.7 million, respectively, as vehicle registrations increase in line with historical trends. These slight increases in vehicle sticker revenues are offset by an anticipated decrease in revenues from pavement cut fees, which are expected to return to historic averages following above-normal revenues in 2012 and 2013 due to increased utility-related pavement cut activity. Overall revenues to this fund are expected to remain relatively constant at 2012 levels through 2015.

As discussed in the Financial History Review section of this document, this fund has been operating at a deficit for much of the past decade. The City anticipates that this fund will end 2012 with a positive balance, due to efforts to more accurately estimate revenues and manage spending accordingly. Going forward, the City will continue to balance this fund while utilizing its resources to complete street repair and maintenance throughout Chicago as efficiently and effectively as possible.

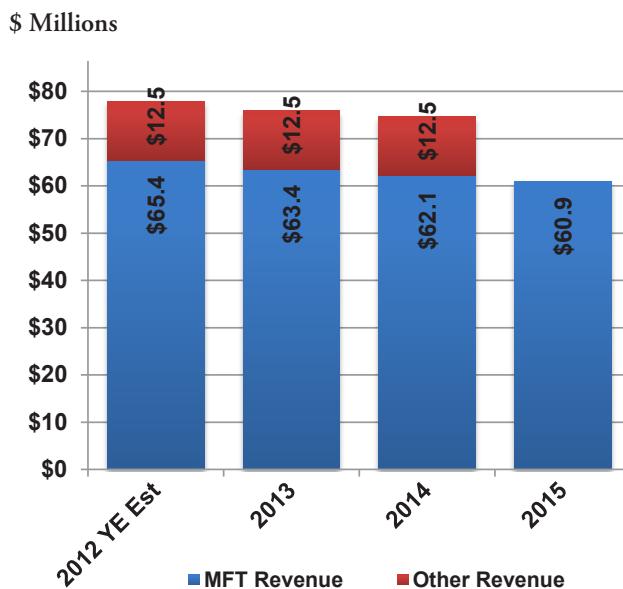
PROJECTED VEHICLE TAX FUND REVENUES

\$ Millions

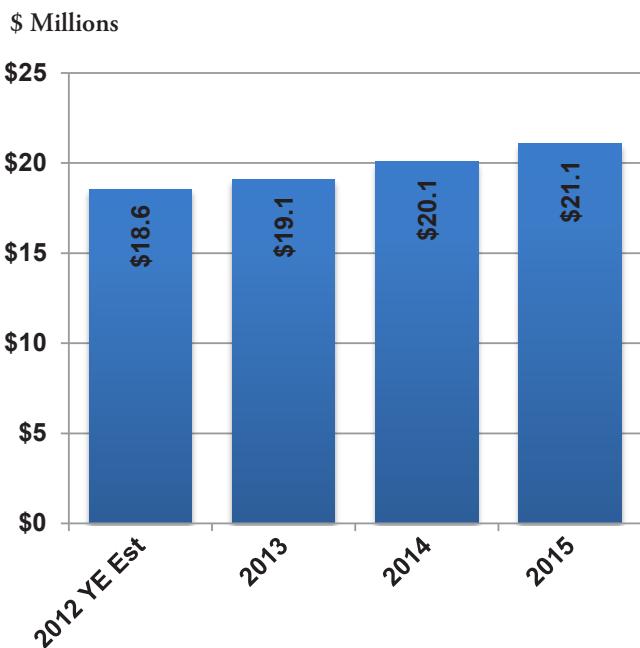


FINANCIAL FORECAST

PROJECTED MOTOR FUEL TAX FUND REVENUES



PROJECTED HOTEL TAX REVENUE

***Motor Fuel Tax Fund***

It is estimated that the City's revenues from motor fuel taxes will end 2012 approximately 4 percent below budget and 5 percent below 2011 levels. These anticipated decreases are due to the continuation of trends seen in recent years as the price of fuel increased, the recession affected consumer sales, and fuel efficient vehicles became more common. Projections for the next three years assume that the declines in fuel usage driven by these factors will continue, and that motor fuel tax revenues will decrease accordingly.

In addition, the State's "Illinois Jobs Now!" program is scheduled to end after 2014. Funds received by the City through this program have flowed into the motor fuel tax fund since 2010, providing approximately \$12.5 million each year. The fund's overall resources are expected to decrease in 2015 as a result of the end of this program.

As discussed in the Financial History Review section of this document, expenditures from this fund are highly weather dependent, and can vary significantly from year-to-year with variations in the number and type of snow storms, as well as other weather events. Though this fund has operated at a deficit in recent years, it is anticipated that the fund will finish 2012 with a positive balance, and the City will continue to realistically estimate revenues and assess expenses in order to balance this fund going forward.

Special Events and Hotel Operators' Occupation Tax Fund

Tourism, convention, and business travel to Chicago has grown consistently over the past year. Industry forecasts predict that this growth will continue into the coming years, with a strong convention calendar, revenue per available room increasing by 7 to 10 percent each year, and hotel occupancy rates increasing through 2015. Based on these industry estimates, the City anticipates that hotel tax revenues will experience steady growth over the next three years, increasing the resources available to fund cultural and recreational activities.

Emergency Communications Funds

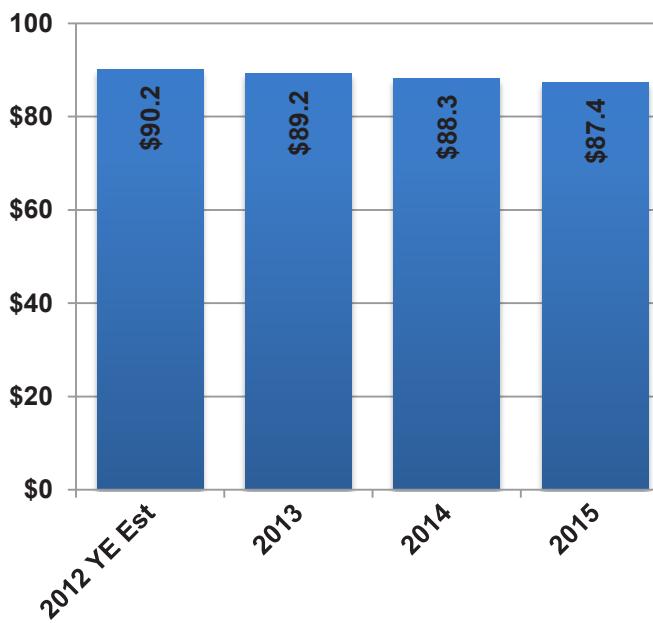
The City estimates that total revenue to this fund will finish the year approximately 6 percent below budgeted levels, and that revenues from the emergency telephone system surcharge will decline slightly each year through 2015 as the number of landlines decreases more rapidly than the number of wireless accounts increases.

These funds will be used to support 911-related expenses of the OEMC, including paying debt service on bonds issued to construct the City's 911 call center. To the extent these expenses outpace revenues from the surcharge, costs will be covered with corporate and grant funding.

FINANCIAL FORECAST

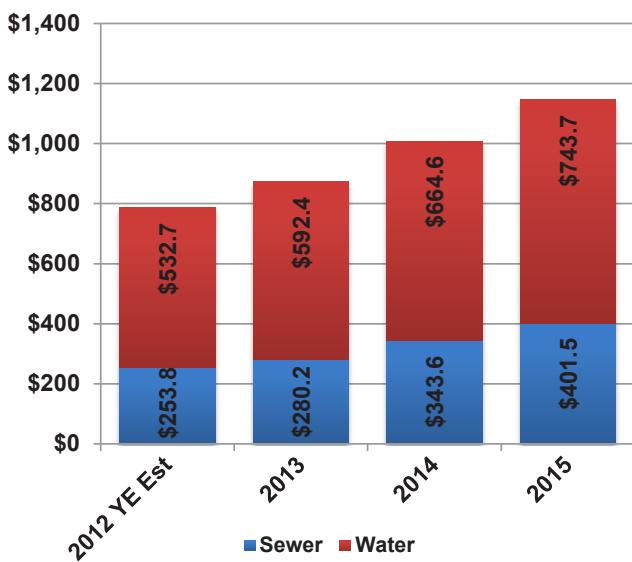
PROJECTED EMERGENCY COMMUNICATIONS SURCHARGE REVENUE

\$ Millions



PROJECTED WATER AND SEWER FUND RESOURCES

\$ Millions



OUTLOOK FOR ENTERPRISE FUNDS

Water and Sewer Funds

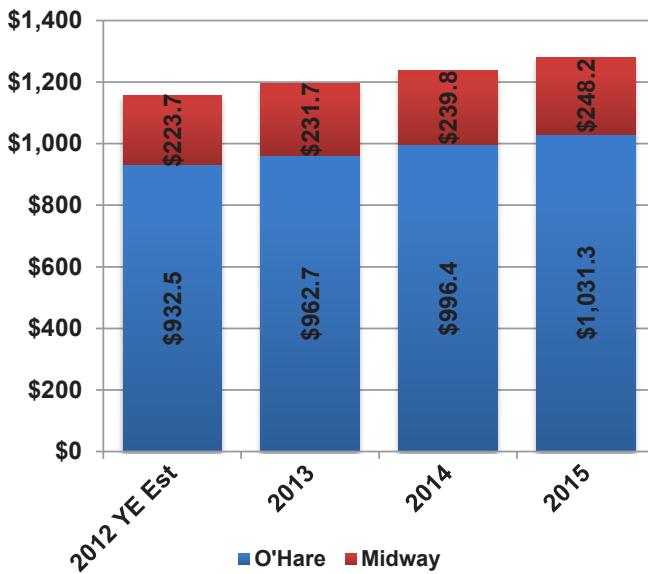
Revenues to the water and sewer funds are expected to increase over the next three years in line with the rate increase enacted as part of the 2012 budget. The repairs and upgrades that will be funded with the revenue from these rate increases are discussed in the Capital Investment section of this document. These three-year projections also account for anticipated population changes, as well as the likelihood of increased conservation efforts and meter installations over the coming years.

Aviation Funds

The 2013 estimates for the O'Hare and Midway Airport funds anticipate that revenues, which are set at a level necessary to pay debt service and support the operations of the airports, will increase from 2012 levels by 3.2 percent to \$962.7 million and by 3.5 percent to \$231.7 million, respectively. The City projects that similar growth will continue into 2014 and 2015 as the airports move forward with capital projects and other improvements necessary to accommodate increased tourism and business travel.

PROJECTED AVIATION FUND RESOURCES

\$ Millions



ANNUAL FINANCIAL ANALYSIS

2012

LONG-TERM ASSET
LEASE AND RESERVE FUNDS

LONG-TERM ASSET LEASE AND RESERVE FUNDS

INTRODUCTION

Reserves, commonly referred to as ‘rainy day funds’, provide an important economic safety net to mitigate current and future economic risks such as unexpected contingencies, emergencies, or revenue shortfalls. A municipality’s level of reserves is an important indicator of its fiscal health.

The City maintains a number of separate reserve funds – a water rate stabilization fund, a sewer rate stabilization fund, and a series of reserve funds established in connection with the long-term lease of City assets. These asset lease reserve funds function as the City’s general, or corporate fund, reserves. These reserves have been depleted in recent years as principal from the funds has been transferred to the corporate fund to subsidize the City’s operating budget. The 2012 budget begins to rebuild these funds by depositing \$20 million back into the City’s long-term reserves, demonstrating that the City is making real progress towards fiscal sustainability.

This section discusses the City’s various reserve funds, as well as the use of proceeds from the City’s long-term asset leases. The use of these asset lease funds to subsidize the City’s operating budget is discussed in greater detail in the Financial History Review section of this document.

WATER AND SEWER RATE STABILIZATION FUNDS

The City’s water fund and sewer fund both maintain rate stabilization funds. These funds are reserved to ensure that the City’s water and sewer systems would remain financially solvent in the case of a catastrophic event, in which case the funds would be used to finance operations and make necessary repairs for a short period. A decision is made each year regarding the amount that will be deposited into the rate stabilization funds based on the resources available and the appropriate level of reserves for the water and sewer funds.

The balance of the water rate stabilization fund was relatively constant, at just over \$50 million, from 2003 through 2009. In 2010, approximately \$10 million was deposited into the

fund to bring its balance to just over \$60 million, and the fund remained at this level through 2011. The balance of the sewer rate stabilization fund has steadily increased over time. In 2003, the balance of the fund was approximately \$8 million. By 2010, the balance had increased to over \$25 million, and the fund remained at that level through 2011.

ASSET LEASE RESERVES

Midway Airport Security Funds

In 2008, the City entered into an agreement with a private company for the long-term lease of Midway Airport. The private company failed to consummate the transaction and surrendered its \$126.1 million security deposit to the City in 2009. \$13.1 million of this amount was used to pay various fees associated with the proposed lease transaction, \$33 million was used to pay off existing debt, and \$40 million was transferred to the corporate fund for use in 2009. The remaining \$40 million was placed in a reserve fund, and in accordance with timelines established at that time, \$20 million was transferred to the corporate fund in 2010, and the final \$20 million was transferred to the corporate fund in 2011.

Skyway and Parking Meter Lease Funds

In 2005, the City entered into a 99-year lease of the Chicago Skyway, under which a private company was granted the right to operate and collect tolls from the Skyway. In return, the City received an upfront payment of \$1.83 billion. Approximately \$850 million of this amount was used to pay off existing debt, including \$446.3 million to refund the Skyway bonds outstanding at the time of the transaction. In 2009, the City entered into a 75-year lease of its metered parking system, under which a private company was granted the right to operate and collect revenue from the parking meter system and the City received an upfront payment of \$1.15 billion. Both of these transactions resulted in the establishment of a long-term reserve fund, a mid-term reserve fund, and a human infrastructure fund. An additional “budget stabilization” fund was established in connection with the parking meter lease transaction.

LONG-TERM ASSET LEASE AND RESERVE FUNDS

Long-Term Reserves

The City established a \$500 million long-term reserve with a portion of the proceeds of the Chicago Skyway lease. The principal of this reserve fund was intended to supplement corporate fund reserves, with interest earnings to be used for City operating expenses. These funds have been utilized as planned - the principal balance remains \$500 million and the earned interest has been transferred to the corporate fund each year, with the dollar amount of the transfer reflecting variations in interest rates.

The City established a \$400 million long-term reserve with the proceeds of the parking meter lease. This fund was created to replace revenues that would have been generated from parking meters by transferring interest earnings on the fund to the corporate fund (initially intended to generate \$20 million each year based on a 5 percent interest rate earnings assumption), with the principal remaining intact at \$400 million. However, starting in 2009, the City began utilizing

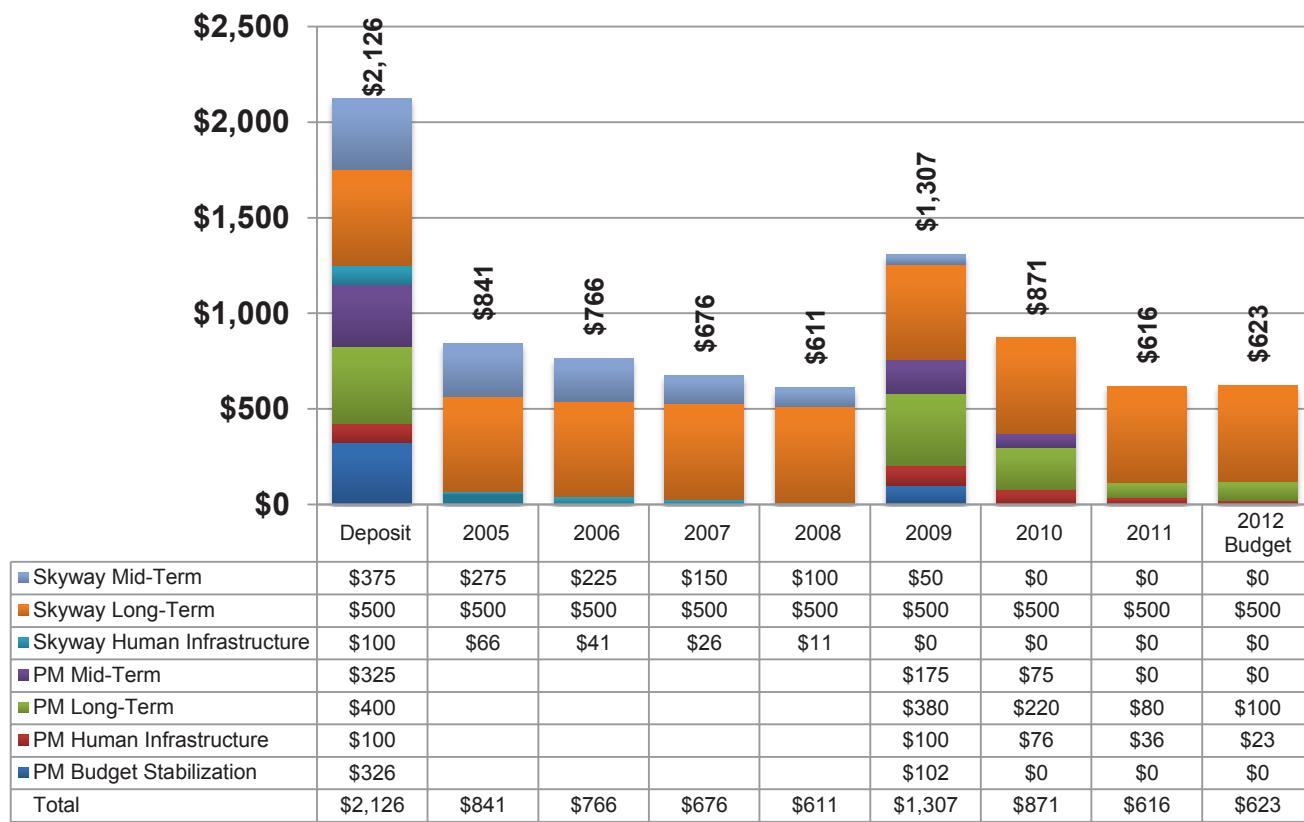
reserve funds to subsidize the City's operating budget. In 2009, \$20 million was transferred to the corporate fund, and \$160 million was used for City operating expenses in 2010. The 2011 budget included a \$140 million transfer from this fund for operating purposes. Utilizing these funds reduced the principal balance substantially below the initial deposit of \$400 million and thus substantially reduced the interest earnings generated to replace lost parking meter revenue for the duration of the lease. The 2012 budget includes a \$20 million deposit into this long-term reserve fund.

Mid-Term Reserves and Budget Stabilization Fund

The City also established mid-term reserve funds of \$375 million and \$325 million, respectively, with proceeds from the Skyway and parking meter leases. Both of these funds were created to supplement corporate fund revenues. The Skyway mid-term reserve fund has been drawn upon as scheduled, with the full amount depleted at the end of 2011 when approximately \$50 million was transferred from this

ASSET LEASE FUND BALANCES¹⁹

\$ Millions

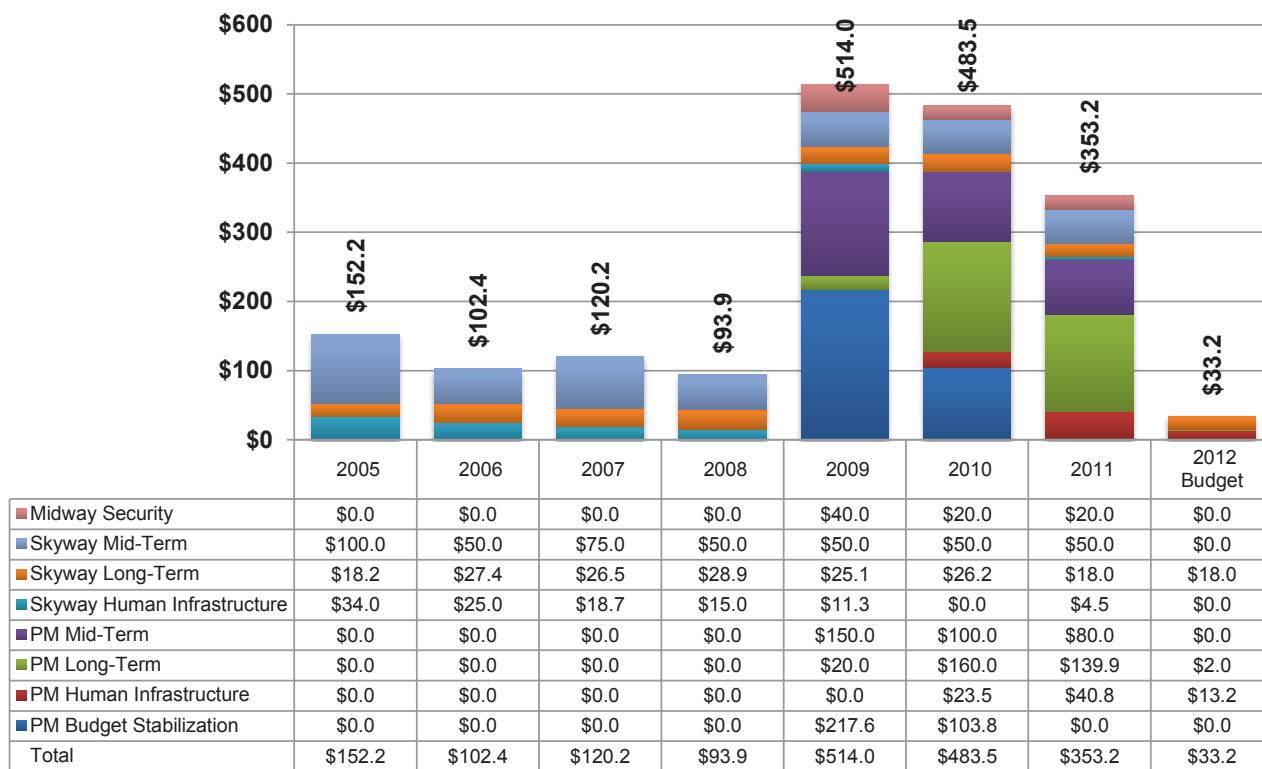


¹⁹ The amounts in this chart represent the principal balances of the respective funds, with the exception of the human infrastructure funds, for which interest is included.

LONG-TERM ASSET LEASE AND RESERVE FUNDS

TRANSFERS TO CORPORATE FUND²⁰

\$ Millions



fund to the corporate fund. The parking meter mid-term reserve fund has been drawn on an accelerated schedule and was also fully spent at the end of 2011. The ordinance establishing the parking meter mid-term reserve fund set forth the intention to utilize \$150 million of these funds in 2009, \$50 million in 2010, \$50 million in 2011, and \$100 million in 2012. However, \$150 million was used in 2009 and \$100 million in 2010, and the remaining principal balance of \$75 million, together with any interest generated on the fund, was transferred to the corporate fund in 2011.²¹

The parking meter budget stabilization fund consisted of an initial deposit of \$326.4 million. This fund was established to assist the City in weathering the national economic downturn occurring at the time of the closing of the parking meter lease transaction. The principal in this fund was fully utilized by the end of 2010. A small amount (approximately \$600,000) of interest remained in the fund and was transferred to the parking meter long term reserve fund in 2012.

Human Infrastructure Reserve Funds

The City set aside \$100 million of the proceeds from each of the Skyway and the parking meter lease transactions to be used to fund programs to improve the quality of life in Chicago neighborhoods. The principal of the Skyway human infrastructure fund was fully utilized by the end of 2009, and the remaining interest in the fund (approximately \$4.5 million) was utilized in 2011. The balance of the parking meter human infrastructure fund as of year-end 2011 was \$36.4 million, \$13.2 million of which is budgeted for human infrastructure programs in 2012.

Proceeds from these funds have been used for a variety of programs aimed at providing resources to the City's businesses, homeowners, and residents most in need, including:

- Training and employing currently unemployed Chicagoans in technology sector jobs;

²⁰ The amount transferred from the Skyway Mid-Term fund in 2005 includes \$50 million transferred upon the closing of the transaction in 2004. Amounts transferred from the human infrastructure funds may include amounts transferred directly to delegate agencies providing services.

²¹ In 2009, \$50 million was transferred directly into the corporate fund. The additional \$100 million was used to redeem commercial paper that the City issued in December of 2008 to advance the proceeds of the parking meter lease transaction.

LONG-TERM ASSET LEASE AND RESERVE FUNDS

- Providing home-delivered meals to senior citizens;
- Enabling the continued development of multi-family affordable housing;
- Offering rent and home-heating subsidies to low income families;
- Funding after-school and summer educational, recreational, and job-training programs for youth;
- Increasing access to capital and other resources for small businesses;
- Maintaining shelter, food, and supportive services for the City's homeless, seniors, and at-risk populations.

Asset Lease Funds Going Forward

At the end of 2011, the aggregate principal balance in the City's asset lease reserve funds was approximately \$623 million. The majority of this amount is the \$500 million in the Skyway long-term reserve fund, with an additional \$23 million in the parking meter human infrastructure fund and \$100 million in the parking meter long-term reserve fund.

The 2012 budget phases out the practice of transferring principal from these reserves to subsidize the City's operating budget. Only the interest earned on the long-term reserve funds will be transferred to the corporate fund on a going-forward basis, and as discussed above, the City began to rebuild these funds by depositing \$20 million into the City's long-term reserves in 2012.

ANNUAL FINANCIAL ANALYSIS

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CAPITAL INVESTMENTS

CAPITAL INVESTMENTS

INTRODUCTION

The City's capital improvement program funds the replacement, improvement, and construction of the City's infrastructure and facilities. Continued investment is critical to support and enhance neighborhoods, stimulate the economy, and provide quality City services.

Capital projects involve improvements with useful lives greater than one year, such as roads, sewer and water lines, buildings, bike paths, and green spaces. Funding for the capital improvement program comes from general obligation bond issues, motor fuel tax revenue bond issues, water and sewer revenue bonds, state and federal funding, tax increment financing, private funding through public/private ventures.

Planning for capital improvements is an ongoing and forward-looking process – the City consistently reviews its capital priorities and evaluates whether to repair and improve existing assets or construct and acquire new assets based on the relative cost effectiveness and service implications of each option. Long term operating and maintenance costs of capital assets are considered in determining whether to invest in such assets, as such costs must be included in operating budget forecasts.

CAPITAL INVESTMENT: 2002-2011

The City's capital improvement program invested a total of \$16.9 billion in capital improvements during the 10 year period from 2002 through 2011. General obligation bonds are the primary source of City-controlled funds for capital improvements and the only source of citywide capital funding that is financed through property taxes. Motor fuel tax bonds are used for the construction of road-related improvements such as streets, lighting and traffic signals and are financed through taxes on fuel. Water and sewer bond funds are used for the repair and improvement of the City's water and sewer systems and are financed through water and sewer user fees.

Because these funding sources are the most relevant to City residents as taxpayers and as users of City infrastructure, the discussion of the City's capital program over the past 10 years will focus on the use of these funds.²² TIF funding is addressed in a separate section of this document. State and federal funding for capital improvements will be discussed only on a going-forward basis.

Local Bond-Funded Capital Outlay

From 2002 to 2011, the City utilized proceeds from the issuance of general obligation bonds and motor fuel tax bonds (together, "local bonds") to fund \$2.4 billion of its capital program. These bonds are utilized to support a wide variety of projects and improvements, including:²³

- Greening, such as the City's campus park program, greenways, medians, trees, fountains, community gardens, community centers, neighborhood parks, wetlands and natural areas, and streetscaping projects.
- Facilities, such as City buildings and operating facilities, police and fire stations, health clinics, senior centers, and libraries.
- Infrastructure, such as street construction and maintenance, viaducts, alleys, lighting, ramps, sidewalks, bridge improvements, traffic signals, bike lanes, shoreline work, environmental remediation, and demolition.
- Aldermanic menu projects, which are selected by aldermen, each of whom is allotted \$1.32 million of general obligation bond funding to be spent at their discretion on a specific menu of improvements in their respective wards. Over the past six years, these funds have been used primarily for sidewalks, residential street resurfacing, street lighting and curb and gutter replacement, with portions of these funds contributed to the Park District (\$11.5 million), Chicago Public Schools (\$2.4 million), and the Chicago Transit Authority (\$500,000).

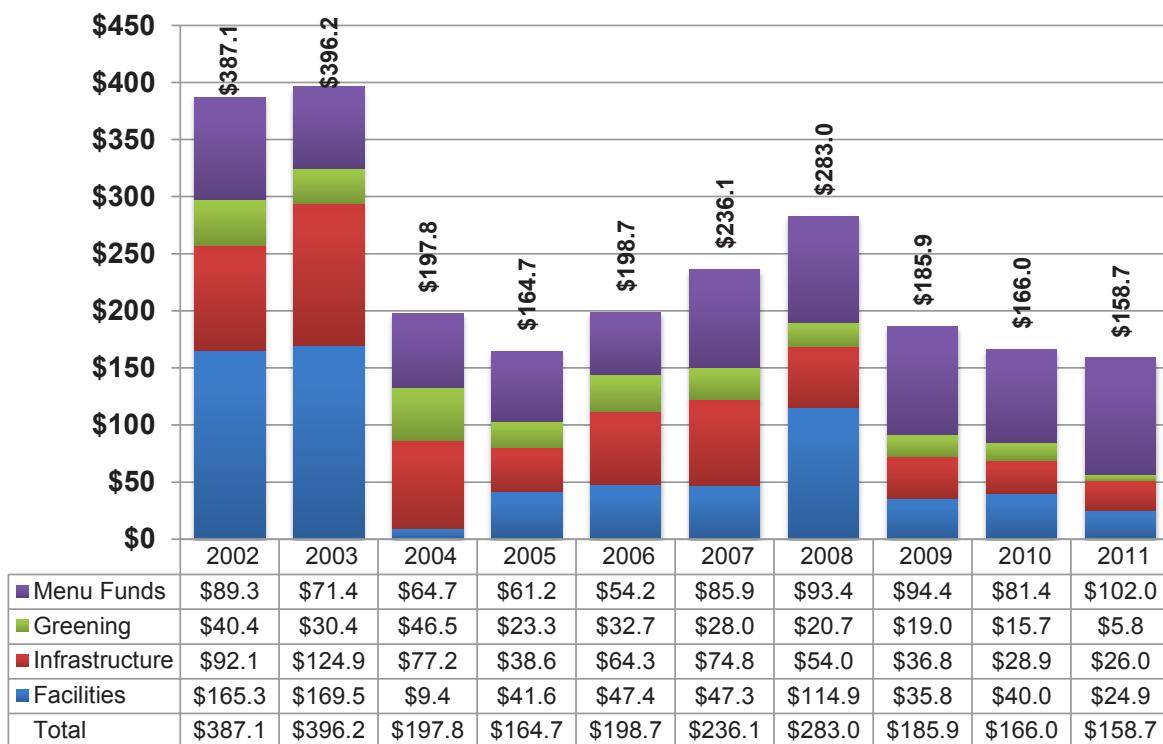
²² The capital programs for Midway and O'Hare Airports will not be discussed in this section, as these aviation programs are funded through revenue generated by the operation of the airports, both for capital and operating activities.

²³ It should be noted that a substantial portion of the City's local bond funds are committed to projects undertaken with other agencies or mandated by law, such as support for the Chicago Housing Authority's Plan for Transformation, shoreline revetment work in conjunction with the Army Corps of Engineers, and the mandatory construction of accessible ramps pursuant to ADA regulations. The City has committed \$62.5 million over 10 years to construct streets and related infrastructure in connection with the CHA's Plan for Transformation, and together with the Chicago Park District a portion of the \$62.2 million dedicated to completing shoreline work with the Corps of Engineers. Federal law mandates that each time any street work is done in the vicinity of a City intersection, crossings at that intersection be upgraded to comply with ADA standards; the City has spent an estimated \$144.0 million on such ADA-mandated improvements since 2002. General obligation bonds have also funded a limited number of other uses, which are discussed separately in the Debt section of this document.

CAPITAL INVESTMENTS

CAPITAL USES OF LOCAL BOND FUNDING

\$ Millions



Motor fuel tax bonds are used for the construction of road-related improvements such as streets, lighting, and traffic signals, and are financed through taxes on fuel.

The high level of activity in 2002 and 2003 coincides with the issuance of the Neighborhoods Alive bonds, a supplemental general obligation bond series issued over four years (beginning in 2000) and used primarily to fund the construction of municipal facilities such as libraries and police and fire stations. A series of motor fuel tax bonds was also issued in 2003, the proceeds of which funded various road-related projects. The increase in bond-financed capital outlay in 2008 reflects a large library bond issuance in that year, as well as a second issuance of motor fuel tax bonds. Local bond-funded capital improvements generally decreased over the past 10 years as the debt service associated with past bond issuances has grown and the City has made efforts to cut overall costs.

Water and Sewer Bond-Funded Capital Outlay

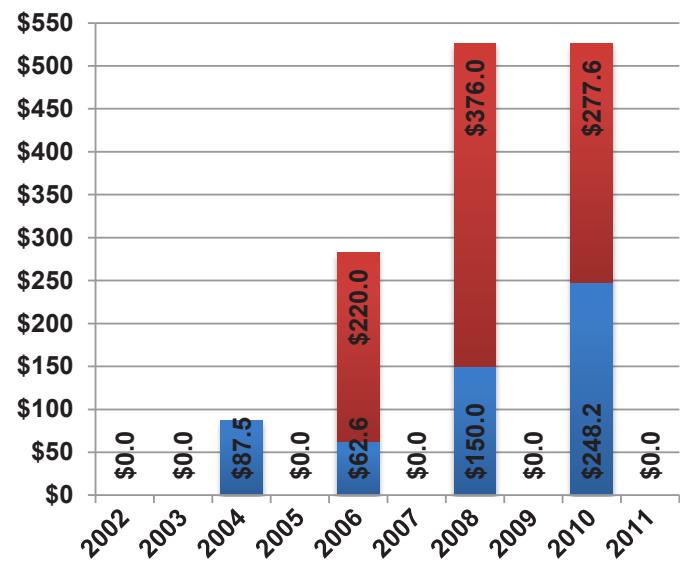
Water and sewer revenue bonds are issued every other year, and are funded with revenue obtained from water bills and the sewer surcharge on water bills. Proceeds from these bonds are used for the construction and repair of water and

sewer lines and related facilities.

From 2002 to 2011, the City issued \$1.4 billion in water and sewer revenue bonds. Fluctuations in funding reflect the

WATER AND SEWER BOND ISSUANCES

\$ Millions



CAPITAL IMPROVEMENT PROGRAM ANALYSIS

City's choices regarding water and sewer system needs and repair priorities. The City's aggressive program to modernize and rebuild much of its water and sewer infrastructure over the next decade is discussed below.

CAPITAL IMPROVEMENT PROGRAM: 2012 - 2016

The City's capital improvement program recommends a total of \$7.7 billion in capital improvements over the next five years. The charts in this section present the anticipated sources of capital funding and the proposed uses of capital funding for this five-year period. Details regarding the allocation, funding source, timing, and scope of each capital improvement project planned through 2016 are available on the City's website.

Major capital projects commencing during the next five years include:

- Significant upgrades to the City's bridges, including the completion of the reconstruction of the Wacker Drive bridge between Monroe Street and Van Buren Street and the large scale rehabilitation of the Oakwood Boulevard Metra line viaduct (\$377 million);

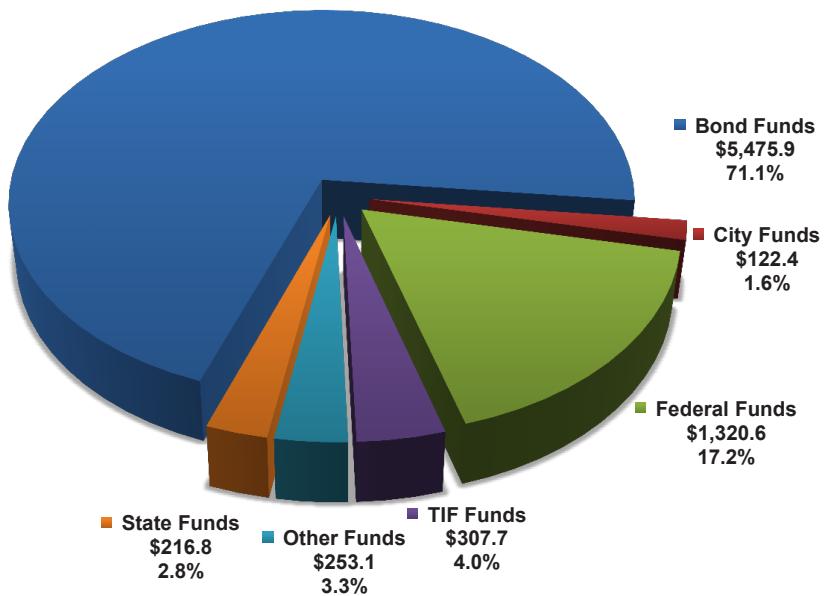
- Numerous street improvements, including the resurfacing of many of the City's main arterial streets (\$376 million);
- The completion of the Bloomingdale Trail/Bike Path, transforming a 2.65 mile stretch of unused elevated railway line into a multi-use linear park and bike path (\$51.6 million);
- Reconstruction of the Clark and Division Street subway station (\$102 million) and the Washington and Wabash elevated station (\$80 million), and a new station and track upgrades at the Cermak Road Green Line stop (\$50 million).

The City will complete more than \$3 billion in capital improvements to its water and sewer system over the next five years, as it embarks on a much-needed overhaul of its aging water and sewer system. Currently, the deteriorated state of the City's water and sewer system costs tens of millions of dollars each year to fix broken pipes, close and repair streets, and mitigate flood damage. The City spent \$22 million in 2010 and \$20 million in 2011 repairing leaks in the water and sewer systems and restoring the streets, sidewalks, and other infrastructure damaged as a result of these leaks.

The comprehensive rehabilitation of the City's water and sewer system in order to address these issues is a decade-long

CAPITAL FUNDING SOURCES, 2012-2016²⁴

\$ Millions

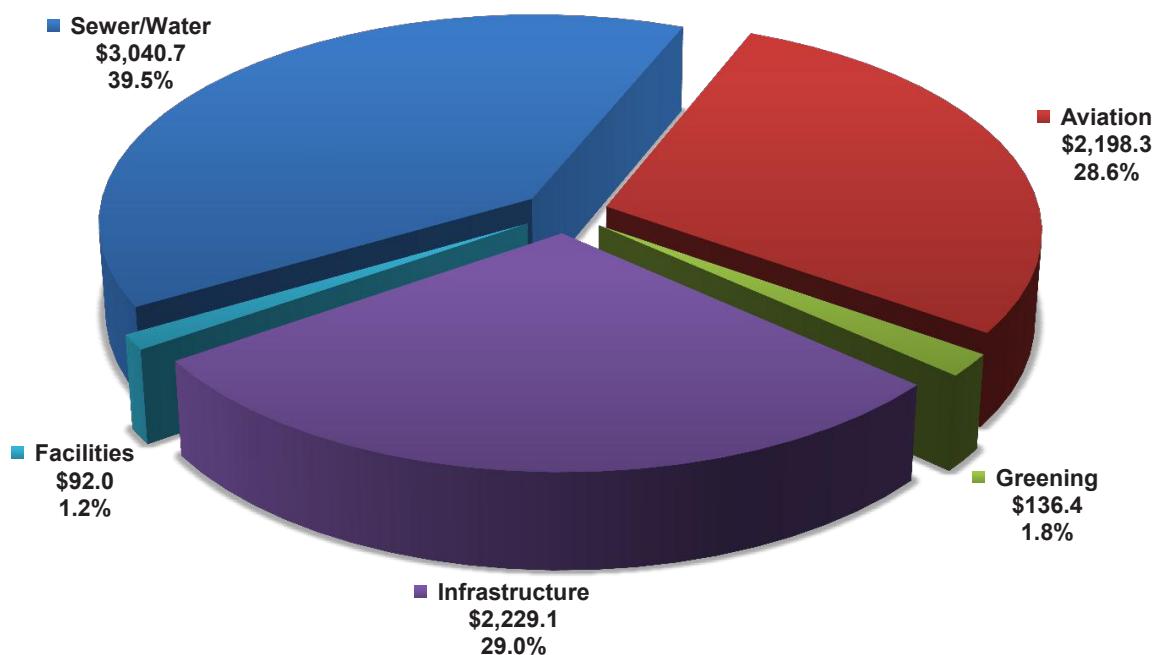


²⁴ Of the \$5.5 billion in bond funds for capital improvements, approximately 56 percent are proceeds from water and sewer revenue bonds and 31 percent are proceeds from aviation revenue bonds.

CAPITAL INVESTMENTS

CAPITAL FUNDING USES, 2012-2016

\$ Millions



project and will be accomplished through an accelerated schedule that will replace 880 miles of century-old water pipes, reline or rebuild more than 750 miles of sewer lines, reline 140,000 sewer structures, and upgrade four of the original steam-power pumping stations. These upgrades, funded with proceeds from water and sewer revenue bonds, will ultimately save the City money, create jobs, and protect the health and safety of Chicagoans by ensuring the delivery of clean water today and in the future.

BUILDING A NEW CHICAGO: A COMPREHENSIVE CAPITAL PLAN

The City, like all state and local governments, is constantly pressed to do more with less, as it faces increasingly limited resources and budgetary pressure. At the same time, it is critical to Chicago's long-term competitiveness and economic development that the City invest in a strong and modern infrastructure. With these realities in mind, Mayor Emanuel announced in March of this year the three-year "Building a New Chicago" program for the comprehensive revitalization of City infrastructure. This program aims to bring a new level of coordination to the City's capital

planning process, maximize efficiency in the utilization of capital funds, and tap new sources of funding to minimize the impact on taxpayers. This program will affect nearly every aspect of the city's infrastructure and create 30,000 jobs over the next three years.

Increased Coordination in Infrastructure Planning

A cornerstone of Building a New Chicago is increased coordination between City departments, sister agencies such as the CTA and CHA, and private sector utilities. Opening the lines of communication between these entities to share information on long-term plans and construction schedules will enable the City to lower expenses and reduce the inconvenience to residents that is often associated with infrastructure work.

In the past, failure to communicate has resulted in streets being repaved in the summer, only to be torn up the next spring to repair water pipes or replace cable. Going forward, if gas mains, water pipes, or other underground infrastructure are being replaced in areas where streets are in need of repair, and vice versa, the projects will be planned to occur in coordination. This synchronized mapping and scheduling

CAPITAL INVESTMENTS

of capital improvements will streamline construction and reduce costs.

Reform of the Aldermanic Menu Process

Another important element of the Building a New Chicago program is the reform of the aldermanic menu process. As part of the effort to direct capital dollars towards priority projects, the City, led by the Department of Water Management, compiled detailed ward-by-ward information on the City's most critical infrastructure needs, mapping streets, curbs, and sidewalks in need of repair; water pipes and sewer mains due for replacement or relining; problematic street lights, and other similar capital needs. This process was data-driven, based on information regarding infrastructure repair; and it identified areas of immediate or ongoing concern, as well as points of coordination among City departments, sister agencies, and the utility companies. The City's infrastructure departments then met with each alderman during the first quarter of 2012 to share this information so that aldermen could utilize it to inform their menu selections and establish coordinated neighborhood improvement goals.

The Chicago Infrastructure Trust

This year, the Mayor introduced and the City Council approved an ordinance that made Chicago the first city in the country to establish an Infrastructure Trust. Like similar models established in other countries, the Trust will pool private investments, providing a new financing tool for public projects. The Trust will be led by a five-member, independent board of directors that includes leaders in finance, government, the private sector, and labor.

The Chicago Infrastructure Trust will provide financing to transformative projects that will produce a return on investment through improved services for residents, economic growth and job development, and reductions in the cost of government. For each project, the Trust will customize a financing structure leveraging private sector resources alongside initial capitalization, bond financings, and grants. Individual projects will then repay both the Trust and the private sector investors, depending on how each project is structured. The first project being considered by the Trust is Retrofit Chicago, a retrofitting of select City-owned buildings, including CPS facilities. That project will be paid for through energy use reductions and other related savings realized from the retrofits.

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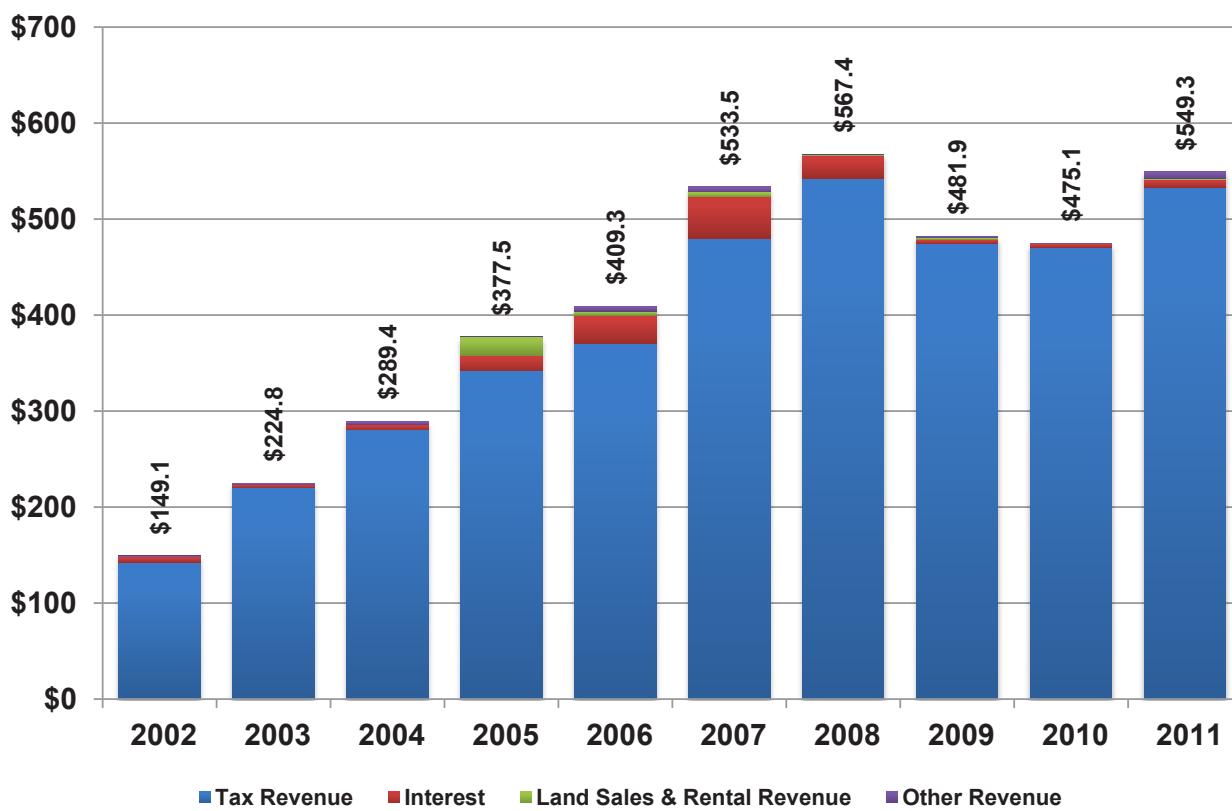
TIF

INTRODUCTION

Chicago's Tax Increment Financing (TIF) program began in 1984 with the goal of promoting business, industrial, and residential development in areas of the City that struggled to attract or retain housing, jobs, or commercial activity. The program is governed by Illinois state law and allows the City to capture property tax revenues above the base equalized assessed value (EAV) that existed before an area was designated as a TIF district, and use that money (the "tax increment") for community projects, public improvements, and incentives to attract private investment to the area. The intention is that the effective use of tax increment funds helps expand the tax base, thus increasing the amount of tax increment generated in the district for re-investment within the district, ultimately increasing the property tax base after the TIF district has ended.

TIF REVENUE BY SOURCE

\$ Millions



²⁵ The amounts in the graph represent the increment from taxes levied in the prior year, as this revenue is collected during the subsequent year. Note that the tax revenue amounts include not only property tax increment dollars, but also a small amount of "sales tax increment" revenue collected in certain TIF districts. Sales tax increments were authorized in a limited number of TIFs and have been disallowed in new TIFs since 1999. Sales tax increment revenue contributed approximately \$447,700 to \$2.5 million to total TIF revenues each year during the 2002 to 2011 period.

TIF

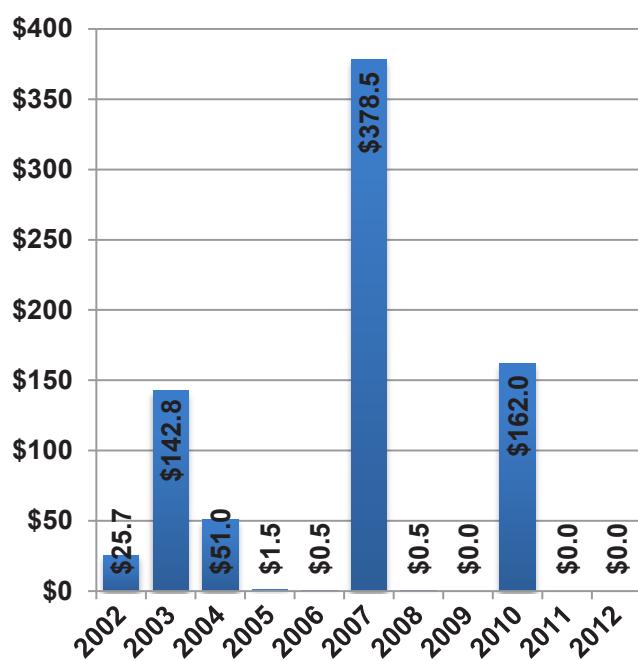
TIF Project Bonds and Notes

The City has funded certain TIF projects by issuing bonds and notes, the proceeds of which are used to pay for TIF-eligible improvements in the districts. The debt service on these bonds and notes is then paid with subsequent TIF revenue. Such financing allows the City to undertake larger projects sooner, rather than having to wait for annual TIF revenues to accumulate. The graph below shows the years in which bonds were issued and the amounts thereof.

As reflected in the graph, the City issued bonds for large TIF projects in the Near South district in 2001, the Chatham Ridge district in 2002, the Central Loop district in 2003, and the Pilsen Industrial Corridor district 2004. In 2007 and 2010, the City issued bonds as part of the Modern Schools Across Chicago program (MSAC). MSAC is a part of the Chicago Public Schools capital improvement program established to fund the construction and renovation of 23 schools over seven years. A portion of MSAC (for schools in TIF districts) has been funded with TIF dollars, with the City committed to providing \$515.2 million in TIF funds over the life of the program, approximately \$479.2 million of which has already been paid out.

TIF BOND ISSUANCES

\$ Millions



TIF EXPENDITURES: 2001-2011

Between 2002 and 2011, the City spent over \$3.2 billion in TIF funds (including the proceeds of bonds financed with TIF revenue) on a range of projects in TIF districts across the city. The graph below details the way in which these funds were spent, with expenditures categorized as follows:

- Financing, which consists of debt service on bonds and notes.
- Public Improvements, including the construction of and improvements to schools, parks, and open spaces, and infrastructure such as streets, sidewalks, and lighting.
- Site Preparation, which includes property assembly, demolition, environmental, and relocation costs.
- Administration, including the cost of studies, program administration, and professional services.
- Development, which includes construction of low income housing, rehabilitation of existing homes and buildings, commercial developments, and reimbursements to private developers for approved redevelopment projects.
- Job Training, which consists of the cost of employment training programs.

During this period, approximately 36 percent, or \$1.16 billion, in TIF funds were spent on public improvements, and approximately 35 percent, or \$1.1 billion, of the expenditures during this period were for debt service to finance public projects. More than half of the total amount of TIF investment between 2002 and 2011 was spent between 2008 and 2011, with the increase in public improvement spending driven largely by MSAC. During that time, there was a decrease in debt service due in large part to the expiration of the Central Loop TIF and the retirement of outstanding debt associated with that TIF.

Under certain circumstances, the City may transfer TIF revenue from one district to another, immediately adjacent, TIF district for a specific project. Such transfers have traditionally been used for larger projects, such as schools or parks. Between 2002 and 2011, a total of \$272.4 million was transferred between TIFs. Such inter-TIF transfers undergo

TIF

an approval process similar to that for TIF projects, and information regarding proposed transfers is made available on the City's website prior to transfer.

Generally speaking, over the past 10 years, TIF revenues have exceeded expenditures, allowing TIFs to accumulate balances. The City's TIFs had an aggregate balance of \$1.67 billion at the close of 2011. \$62.9 million was declared as surplus during the 2012 budget process and returned to the relevant taxing districts. This surplus declaration was the result of a new policy to consistently return unneeded TIF revenues to the taxing districts according to set criteria, as recommended by the TIF reform panel. Approximately \$1.4 billion was reserved for payments on projects in future years.

Funding Provided to Sister Agencies and Private Developers

Over the life of the TIF program, the City has provided \$607.5 million in TIF funds to CPS for school-related

projects (including MSAC, as discussed above), \$72.7 million in TIF funds to the Park District for park and open space projects, and \$109.2 million in TIF funds for CTA-related projects such as track and station renovations.

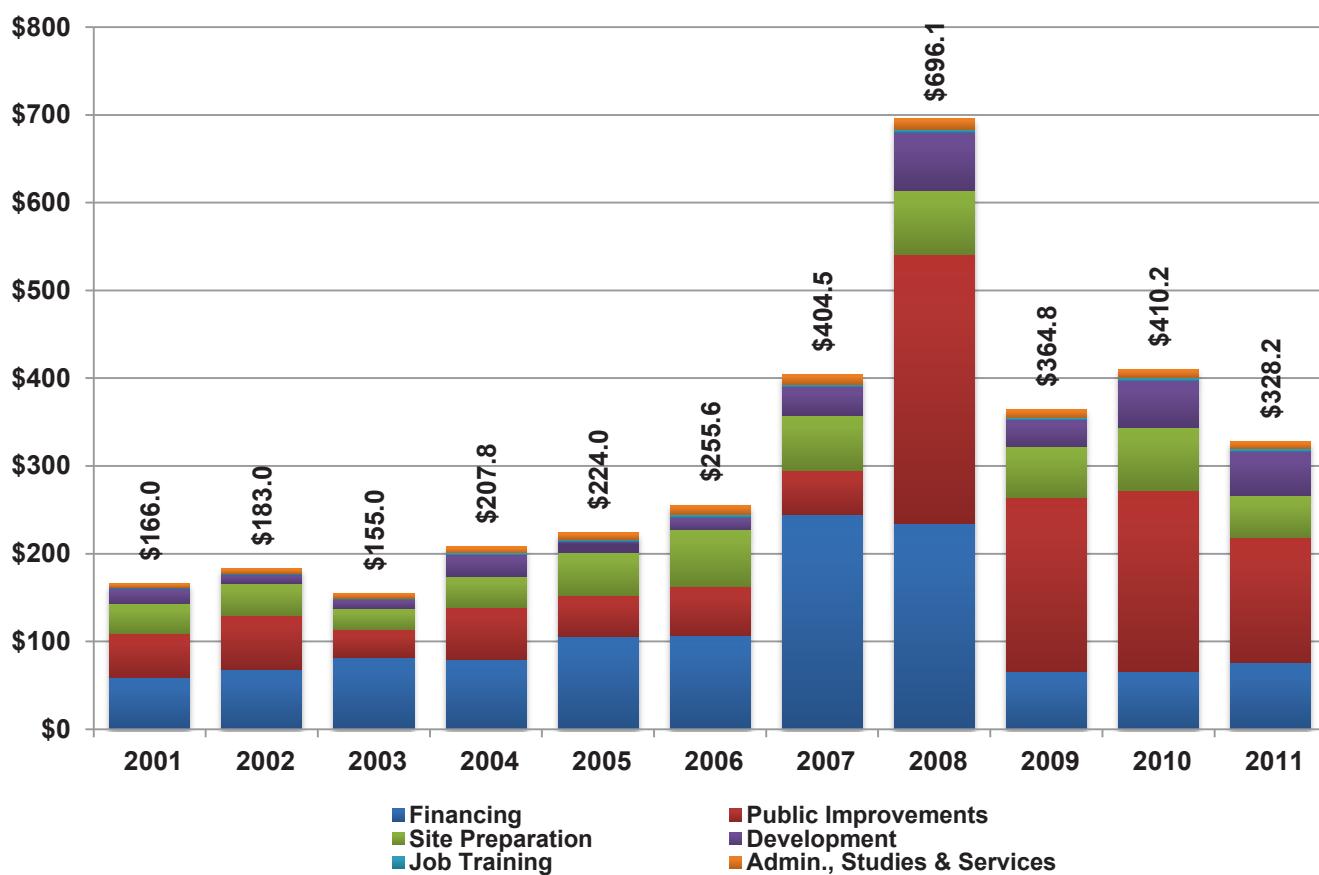
The City has spent a total of approximately \$689.4 million in TIF revenue on projects undertaken in collaboration with private developers. The City estimates that, on balance, private developers spend five dollars for each such TIF dollar spent by the City.

TIF PROGRAM GOING FORWARD

The tax base in the City's TIF districts is expected to decline this year and next - a reflection of the continued decline in property values across the city. The smaller tax base in TIFs will result in less tax increment revenue from individual TIFs than in past years. In addition, a number of TIF districts are set to expire over the next three years, which will reduce program-wide revenues and expenditures.

TIF EXPENDITURES

\$ Millions



TIF

The use of TIF funds for active public improvements is expected to decline from previous years as MSAC winds down. While most of the school construction and renovation projects have been completed, debt service on the bonds issued to fund the school improvements will continue. Aggregate debt service payments are expected to total \$77.7 million in 2013.

TIF Reform and the Findings of the TIF Panel

TIF is an important tool for capital investment and economic development. In order to ensure that the City's TIF revenue is used in an efficient and transparent manner, in May of 2011, the Mayor appointed a panel of experts charged with developing a comprehensive set of recommendations regarding the use of TIF funds and the accountability of the TIF program. This panel issued a report in August of 2011 that set forth their findings.

Based on the recommendations made by the TIF panel, the City has:

- Begun the process of aligning TIF investments with the City's multi-year economic development plan, ensuring these taxpayer dollars are spent on high-impact projects in line with City priorities.
- Instituted the practice of posting online, prior to City Council consideration, assessment reports regarding every proposed private development TIF project, which outline the project's ability to create jobs and provide a return on investment for the City.
- Made the decision to move auditing of TIF private development projects to the Department of Finance, which will hire independent auditors to perform random audits on developers to ensure they meet their obligations.
- Charged the TIF Task Force with verifying the value of every proposed TIF deal at the beginning of the negotiation process with a developer.

- Released an RFP to build an online TIF database, which will provide public access to performance data and track all projects centrally, facilitating the evaluation and management of TIF projects.
- Published on the City website new TIF policy guidelines, in line with the recommendations of the TIF panel, governing the eligibility and use of TIF funds for private development.

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DEBT

DEBT

LONG-TERM DEBT

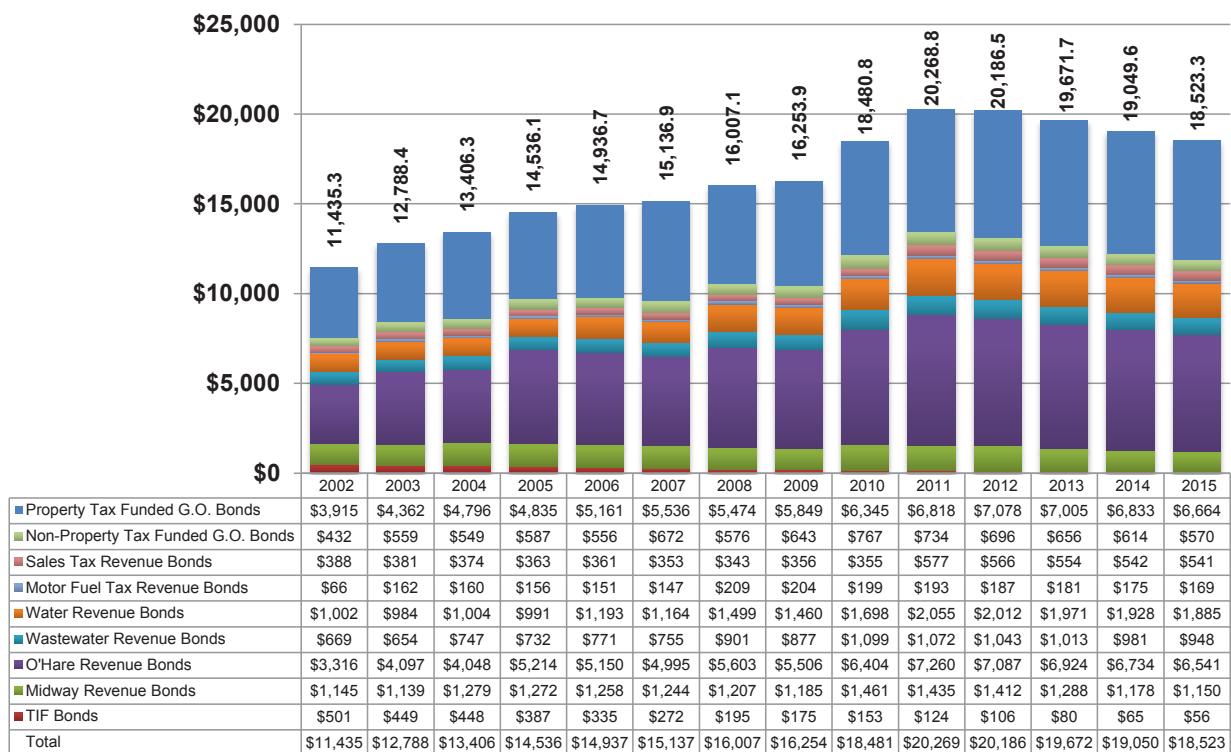
The City finances certain of its operating and capital expenditures through the issuance of bonds. Each type of bond is paid from a particular source of revenue.

- General obligation bonds are funded with property tax revenue and are issued annually to pay for capital projects and equipment, settlements and judgments, and certain employment and pension obligations.²⁶
- Non-property tax funded general obligation bonds make up a small subset of the City's general obligation bonds. These bonds are funded with other sources of revenue and are used for specific related purposes. For example, revenue from the 911 call surcharge is used to fund bonds for the construction of the City's 911 call center.

- Sales Tax Revenue Bonds are funded with sales tax revenue and used to pay for general City infrastructure projects.
- Motor fuel tax revenue bonds are funded with motor fuel tax revenue and issued to pay for road and highway projects.
- TIF bonds are funded with TIF revenue and issued to pay for redevelopment projects in TIF districts, as discussed in greater detail in the TIF section of this document.
- Water and wastewater revenue bonds are funded with revenue from water bills and related user fees and are issued every other year to pay for capital projects for the water and sewer systems, respectively.
- O'Hare and Midway revenue bonds are funded with revenue from airport operations and are issued to pay for terminal and airfield improvements.

OUTSTANDING LONG-TERM DEBT²⁷

\$ Millions

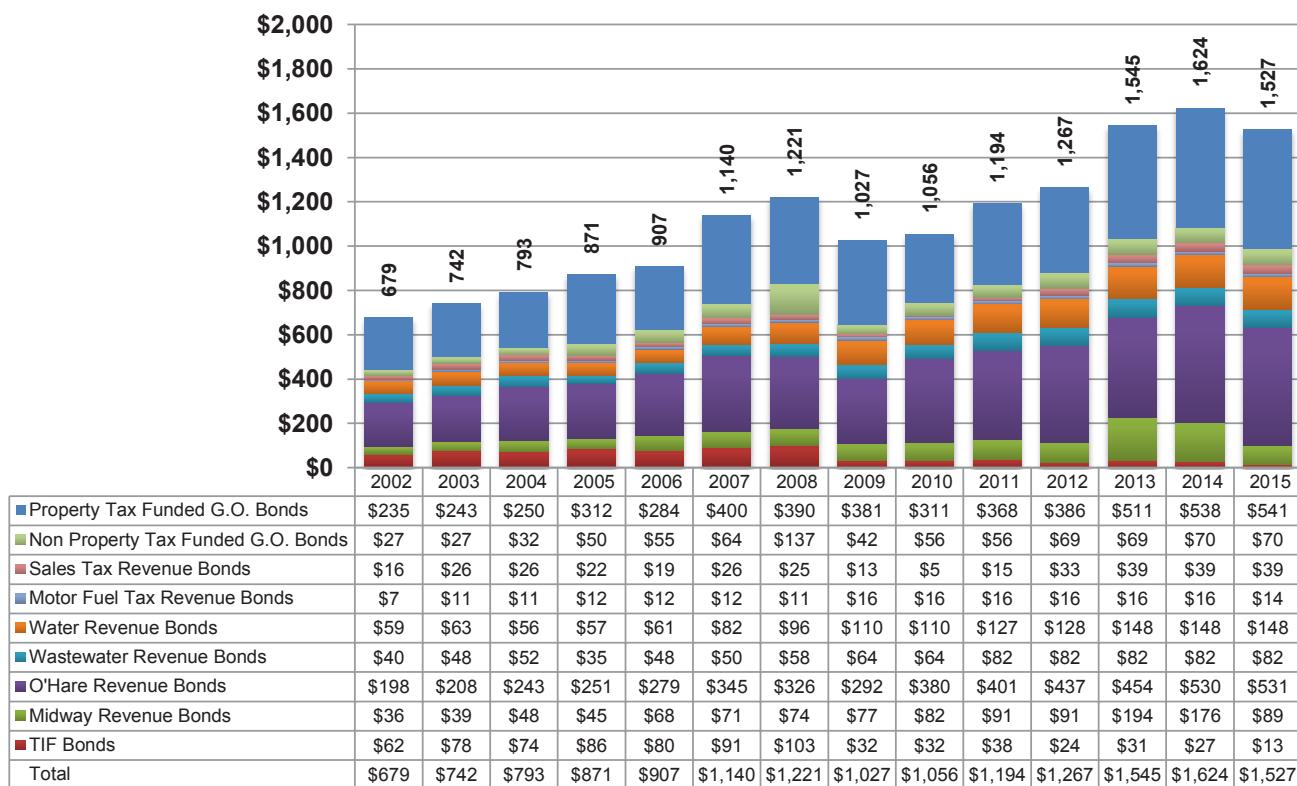


²⁶ This category includes all 'equipment notes' (discussed in greater detail below) issued after 1998, when such notes began to be issued through the City's regular general obligation bonds. Also included in this category of bonds are the bonds issued by the City on behalf of the City Colleges of Chicago in 1999 and 2007, which is paid from the City Colleges portion of the City's property tax levy.

²⁷ The amounts presented in the charts in this section do not include the issuance of any new bonds.

DEBT**LONG-TERM DEBT SERVICE PAYMENTS**

\$ Millions



The City's debt level has increased steadily over the past 10 years, reaching a high in 2012 of approximately \$20.2 billion. Excluding debt issued for O'Hare and Midway airports, which is repaid from user fees imposed on airlines, debt service paid primarily by residents of the City totaled approximately \$738 million in 2012. The bulk of this debt was used to fund capital projects across the City, but portions have also been used for "working capital" expenses such as median maintenance, irrigation and plantings; to make retroactive salary and pension payments to police and fire forces (resulting from union contract re-negotiations); and to pay costs incurred in connection with settlements and judgments against the City. Of the \$3.29 billion in long-term general obligation bonds issued from 2002 through 2012, \$566 million was used to pay for retroactive police and fire salaries and pensions and \$615.5 million was used to pay settlements and judgments against the City.

As discussed above in the Financial Forecast section, a substantial portion of the City's property tax dollars are already being used to pay debt service. Even if no new long-term debt is issued, and assuming no refinancings, the City's

debt service payments will continue to increase through 2015.

SHORT-TERM DEBT

In addition to the long-term bond debt discussed above, the City issues certain types of shorter-term debt to address various operating, liquidity, and capital needs.

- General obligation tender notes are issued to satisfy cash flow needs of the City on a limited basis to fund building and site maintenance and operations for the City's libraries for a short period of time until property tax revenues are collected. The use of tender notes has decreased significantly in recent years (such notes were previously utilized to provide working capital for general corporate fund and library needs), as the amount of property tax revenue flowing into the corporate fund decreased.

DEBT

- Commercial paper notes are used as an interim financing mechanism for corporate, water, O'Hare and Midway fund projects for a period of time until long-term bonds are issued.
- Equipment notes are used to finance certain capital equipment purchases, and are funded with property tax revenues as part of the general obligation bond issuance discussed above. Technology equipment, vehicles, fire safety equipment, and similar items make up the majority of equipment note-funded purchases. The average bond life of an equipment note is commensurate with the life of the equipment purchased, usually seven to eight years. The use of equipment notes has generally decreased in recent years, as debt service associated with past bond issuances has grown and the City has made efforts to cut overall costs. Issuances peaked in 2006 at \$111.7 million, and have decreased to \$68 million in 2012.

ANNUAL FINANCIAL ANALYSIS

2012

PENSIONS

PENSIONS

THE CITY'S PENSION FUNDS

Illinois State law establishes retirement plans for all public employees in the State, including those employed by the City. The basis of these retirement plans are pension funds, into which employees and their employers contribute, and from which retirement benefits are paid. City employees participate in one of four such defined-benefit pension plans:²⁸

- the Municipal Employees' Annuity and Benefit Fund (MEABF), which covers most civil servant employees of the City, as well as non-teacher employees of the Chicago Public School system;
- the Laborers' and Retirement Board Employees' Annuity and Benefit Fund (LABF), which covers City employees who are members of certain unions;
- the Firemen's Annuity and Benefit Fund (FABF), which covers the City's sworn firefighters and paramedics; and
- the Policemen's Annuity and Benefit Fund (PABF), which covers the City's sworn police officers, captains, lieutenants, and sergeants.

These pension funds and the contributions and benefits under each are regulated by the Illinois Pension Code. Each City employee contributes a statutorily-determined amount to their pension during each year that they are employed by the City. The City then contributes a statutorily-determined multiple of the employee contribution, with the multiplier varying by pension fund.²⁹

These contributions are then invested by the pension funds in a variety of stocks, equities, and other assets, in accordance with the Illinois Pension Code. The return on these investments, together with the cumulative amount of employee and City contributions into the pension fund, make up the total assets of the fund. Once an employee has served a certain number of years and reached a certain age (these requirements vary depending upon the fund), they can retire and begin to receive retirement benefits paid out of these assets.

STATE-MANDATED PENSION CONTRIBUTIONS

as a percentage of pay, as of 2012

	FABF	PABF	LABF	MEABF
Employee Contribution	9.125%	9.00%	8.50%	8.50%
City Multiplier	2.26	2.00	1.00	1.25
City Contribution	20.62%	18.00%	8.50%	10.63%
Total Contribution	29.75%	27.00%	17.00%	19.13%

²⁸ Separate pension funds exist for employees of the Chicago Transit Authority, the Chicago Park District, and teachers at the Chicago Public Schools. Those pension funds are not discussed in this document, as this Annual Financial Analysis does not address the finances of the City's sister agencies.

²⁹ The City's annual contribution is based on the contribution made by the employee two years prior. For example, in 2012, the City is matching (at the applicable rate) the contribution made by the employee in 2010. Because the City's contributions are paid largely with property tax proceeds, contributions are budgeted in the levy year, and paid to the funds in the following year, when property tax collections are received.

PENSIONS

THE UNFUNDED PENSION LIABILITY

A pension fund is said to be ‘fully funded’ when its total assets are sufficient to cover the projected future benefits that the Pension Code requires it pay to the employees that contributed into the fund. If the fund’s total assets are not sufficient to cover the future benefits, it is said to have an ‘unfunded liability.’ The unfunded liability is the difference between the fund’s total assets and the value of the future benefits it must pay.³⁰ At present, all four of the City’s pension funds carry significant unfunded liabilities, as shown in the table below.

FUNDING STATUS OF CITY PENSION FUNDS

\$ Millions, as of December 31, 2011

	Total Assets	ACCURED ACTUARIAL LIABILITY	UNFUNDED LIABILITY	FUNDING LEVEL
MEABF	\$5,053	\$12,239	\$7,240	41%
LABF	\$1,314	\$2,153	\$839	61%
FABF	\$994	\$3,852	\$2,858	26%
PABF	\$3,176	\$9,522	\$6,347	33%
Total	\$10,313	\$27,820	\$17,284	38%

The current status of the pension funds is the result of the statutory framework on which the pension system is based, and the political and economic factors that have acted upon this framework. As discussed above, the Illinois Pension Code mandates that each participating employee contribute a percentage of their pay each year, and that the City contribute a fixed multiplier of that same percentage. This formula is static; the contribution percentages do not change to adjust for changes in the economy affecting returns on pension fund investments, changes in the demographics of retiring employees, or changes in the benefits promised to employees. As each of these factors changed over the years, the contribution formula remained the same, and this failure to react to these realities contributed to today’s unfunded liability.

Economic Downturns

Two major economic events significantly affected the health of the City’s pension funds. When the dotcom bubble burst in 2000, the assets of the pension funds covering City employees shrank significantly due to market losses. Overall, from 2000 to 2002, the four funds went from approximately 87 percent funded to approximately 62 percent funded, due primarily to investment losses. Investment performance improved in the mid-2000’s, but this growth was on a much smaller pool of money, so even in years with high investment returns, the overall funding level remained at around 61 to 66 percent.

Then, in 2007 and 2008, the real estate-driven market crash took the City’s pension funds, collectively, from approximately 62 percent funded to approximately 38 percent funded. With this low base of assets on which to earn interest, it is virtually impossible that investment returns alone will be sufficient to restore the funds to health – for the MEABF, for example, it would require a consistent annual return on investment of over 12 percent a year for the next 50 years to bring the fund back to financial stability.

Changes in Benefits

Over time, additional benefits have accrued under or been written into the Illinois Pension Code. As benefits grew, contribution percentages remained the same or decreased – an imbalance that further increased the unfunded liability. Amongst other changes, the definition of pensionable pay was made more inclusive, certain benefit minimums were raised, and some healthcare benefits were increased.

In addition, automatic cost-of-living adjustments written into the Pension Code have significantly increased the cost of benefits. These adjustments provide annual increases in pension payments regardless of whether or to what extent the cost-of-living actually increases. Legislation passed by the State in 2010 eliminated these automatic cost-of-living adjustments for employees hired on or after January 1, 2011, for all four funds, and instead tied cost-of-living adjustments to the consumer price index.³¹ However, all employees and retirees hired before that date continue to receive the automatic annual increases, which vary by fund, with FABF

³⁰ The unfunded liability is determined on an actuarial basis. It is an as-of-date calculation, which assumes a certain discount rate and considers the present value of the liability for benefits earned through the valuation date.

³¹ P.A. 96-0889 and P.A. 96-1495.

PENSIONS

and PABF under one scheme and MEABF and LABF under another. Employees hired prior to 2011 and participating in the FABF or PABF receive annual cost-of-living adjustments at a simple rate (either 3 percent or 1.5 percent) based on the original annuity payment to the retiree. Employees hired prior to 2011 and participating in the LABF and MEABF receive annual cost-of-living adjustments at a 3 percent compound rate, meaning that each year, year after year, their benefits payment increases 3 percent over the prior year's benefits payment.

Workforce and Retiree Demographics

In addition to investment losses and benefit increases, the makeup of the City's workforce and retirees has added to the unfunded liability. The statutorily-set contribution percentages have not changed to account for shifts in basic demographic factors such as the lifespan of retirees, and as retirees live longer, they collect benefits longer, and the projected future benefits costs of the pension funds increase. Adding to this, as the City took measures to incentivize early retirement to help balance the City's budget, employees retired – and thus stopped paying into the pension funds and started collecting from the pension funds – sooner than would otherwise have been expected. This affected the pension funds' balance on both sides; contributions decreased while benefit costs increased.

Conclusion

In summary, a series of severe economic events occurred over the course of the past twelve years, but the pension system's funding mechanisms were vulnerable from the very beginning. The system was not set up to automatically adjust for investment losses or increased benefit payments, and lawmakers did not take action to address the situation with cuts to benefits or increases in contribution requirements. The result of this disconnect is a total unfunded pension liability of \$17 billion across the four pension funds. This unfunded liability will grow to \$25 billion by the start of 2017 if nothing is done to address the situation, and the MEABF will likely exhaust its assets in 2025-2026, with the LABF following in 2029-2030.³²

EFFECT OF THE UNFUNDED LIABILITY ON CITY FINANCES

Throughout the life of the pension funds, each year, employees and the City have contributed the statutorily-required amounts into these funds. For the reasons discussed above, the statutorily-required contributions, even as they steadily grew, fell far short of covering the future benefits that are owed to retirees.

Pursuant to legislation passed by the State in 2010, beginning in 2015, the City will be statutorily required to contribute an actuarially-determined amount sufficient to bring the PABF and FABF to a 90 percent funding level by 2040.³³ No such legislation has been passed with respect to the LABF or MEABF. The chart at the bottom of the following page sets forth the City's historic contributions and statutorily-required contributions through 2020 under current law, accounting for the recently enacted PABF and FABF funding requirements. The chart at the top of the following page shows what the City's required contributions would be if funding requirements similar to those established for the FABF and PABF were enacted for the LABF and MEABF.

Even under current law, without any requirement to fully fund the LABF or MEABF, the City's total required contributions will grow from an anticipated \$476 million in 2012 to \$1.20 billion in 2015, and increase steadily to \$1.35 billion in 2020. If similar funding requirements were established for the LABF and MEABF, the City's required contributions would grow to \$1.85 billion in 2015, and to \$2.10 billion in 2020.

To put these amounts into context, the additional pension contributions that will be required in 2015 under current law is equal to the annual cost of keeping almost 4,400 police officers on the street or over 3,800 firefighters on duty; this amount could fund the resurfacing of over 16,000 city blocks, and is more than twice the annual operating budget for Midway airport. The City's current property tax levy is \$797 million. The levy has historically been the primary revenue source for the payment of pension obligations, with the balance coming from PPRT revenue. Already, as the City's pension contributions have grown, the amount of property tax and PPRT revenue available to the corporate

³² These projections assume that the pension funds will earn an average annual rate of return on assets of 8 percent.

³³ P.A. 96-1495.

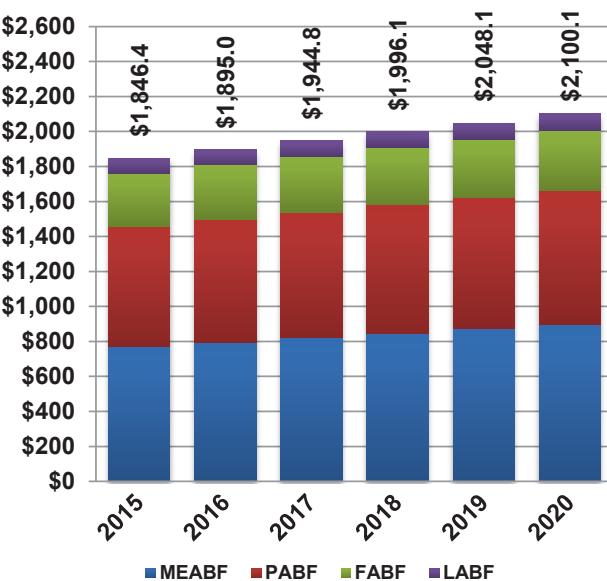
PENSIONS

fund for general use has decreased over time.³⁴ The amounts required to fully fund the pension system would far outpace these revenues. The City would need to increase its 2015 property tax levy accordingly, significantly increasing the bill of every Chicago taxpayer, in order to cover these costs.

This situation puts the retirees, the taxpayers, and every service that the City currently provides at risk. The amounts required to fully fund the City's pension funds under the current system cannot be paid using existing revenue sources without drastically reducing critical City services, including public safety services. Because of the legislation passed by the State legislature in 2010, the City is faced with three basic options - institute large tax increases, aggressively reduce City services, or seek fundamental reform of the pension system.

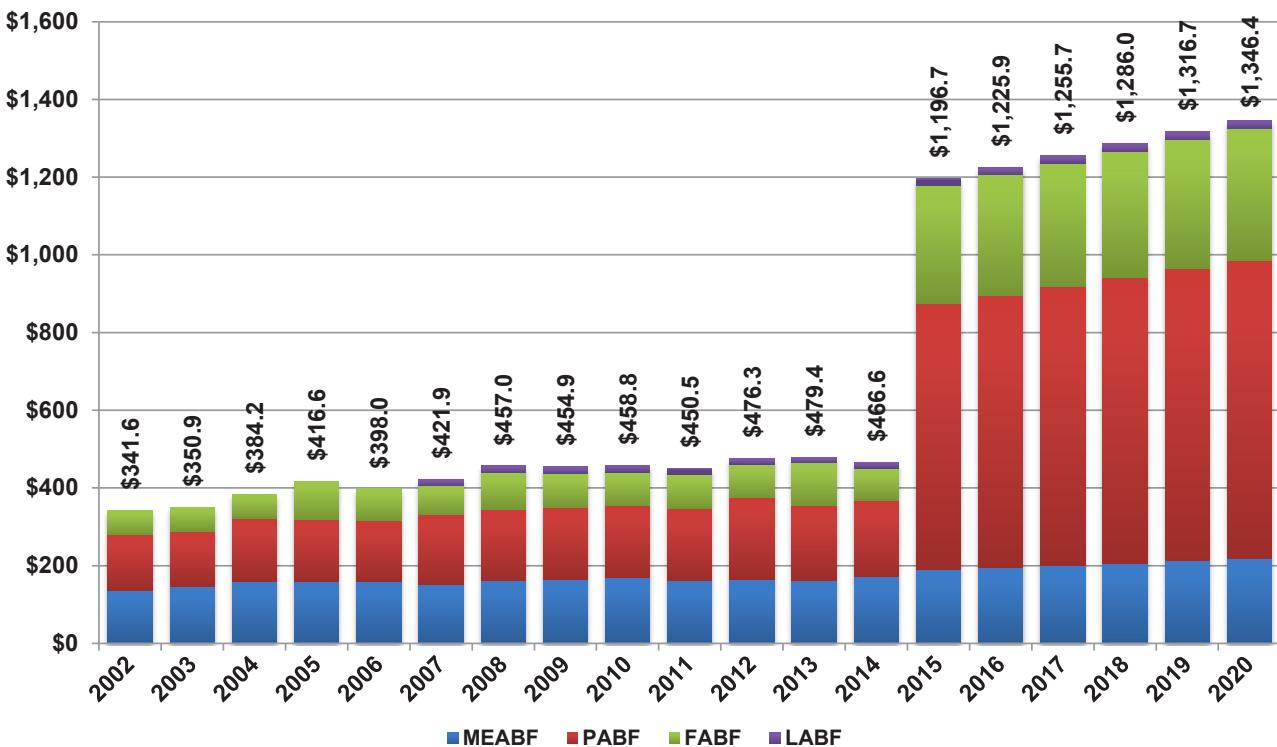
ALL FUNDS 90 PERCENT FUNDING

\$ Millions



HISTORIC AND PROJECTED PENSION CONTRIBUTIONS³⁵

\$ Millions



³⁴ In recent years, City pension contributions have steadily increased. Though the City has made significant staff reductions, the growth of its pension contributions has not slowed, largely because the staff reductions did not significantly affect police and fire payroll, which constitute a majority of the City's workforce and receive a higher statutory rate of pension contribution from the City. The amount of PPRT revenue flowing into the corporate fund decreased by more than 70 percent between 2007 and 2011 due to increasing pension contributions.

³⁵ All projections are based on actuarial assumptions regarding future conditions, which are subject to numerous political, economic, and other factors; while reported projections are the best estimates available at this time, these should be viewed as approximate.

PENSIONS

PENSION REFORM

Given the size of the unfunded liability and the dollar amount that would be required to fully fund, even over many years, tax increases and service reductions cannot be the complete answer. The solution to the pension problem needs to be comprehensive and coordinated, and because the City's pensions are governed by State law, the solution will necessarily include changes to those laws. Governor Quinn and State legislators put forward a number of proposals to address the overall pension issue during the Spring 2012 session, but action has yet to be taken.

Mayor Emanuel traveled to Springfield in early 2012 to deliver a series of pension reform proposals to State legislators. The Mayor's proposal acknowledges that major changes must be made in order to protect both the interests of Chicago taxpayers and the retirement security of its workforce. Cost-of-living adjustments at the current rate are unsustainable. Increased employee contributions need to be phased in, and retirement ages are out of line with reality and do not account for longer life expectancies. In addition, the Mayor's proposal includes offering more retirement security choices to new employees, in line with private sector practices. The City will remain actively involved in discussions with the Governor and State legislators to ensure that balanced and responsible reform of the pension system occurs.



CITY OF CHICAGO
MAYOR RAHM EMANUEL