

COFA Annual Budget Options Report

Cost Savings, Revenue Enhancement, and Efficiencies

City of Chicago

Fiscal Year 2024

City of Chicago
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TO THE CHICAGO CITY COUNCIL

The City's Annual Budget Option Report is organized into three sections: revenue optimization strategies, cost savings, and efficiencies, as well as other considerations. The report provides cost-saving reforms and recommendations for the City to consider.

In the revenue optimization section, we discuss three different methods: congestion pricing, collection optimization, and a City Income tax. Congestion pricing is the idea of charging drivers for driving during peak hours to encourage a change in behavior and avoid traffic congestion. New York will be implementing congestion pricing, and studies show that it could generate \$1 billion annually. Collection optimization involves an attempt to recoup part of the \$6.4 billion in unpaid bills using analytics. In addition, implementing an amnesty program and using technology to make payments easier should also be considered. The City's income tax has been discussed for a long time and could reduce reliance on property and sales tax. According to a study by the Inspector General's office in 2011, a 1% municipal income tax can yield \$500 million. However, the city income tax is not a perfect solution, as arguments include the impact on corporate income if applied, and the disincentive to work or live in the City. The next section of the report discusses cost savings and efficiency.

The following initiatives were discussed to improve cost savings and efficiency: gainsharing, modernizing emergency response, ambulance fees, and promoting diversity in CFD hiring. Gainsharing is an incentive program that aims to identify cost-saving measures and enhance employee performance. Modernizing emergency response focuses on addressing the disparity in resource allocation between fire suppression and emergency medical services, ensuring a more balanced investment that aligns with community needs and enhances overall efficiency. The introduction of ambulance fees will help align resources within CFD to EMS and contribute to the city's fiscal health. Additionally, promoting diversity in CFD's hiring practices will help address the lack of inclusivity and representation within the department, with a focus on using EMS as a gateway to achieve this goal.

The last section of the report discusses other recommendations for the City to consider including a Migrant contingency plan, reassessment of the tax increment financing, Tier 2 pension benefit changes, and additional ward staff.

The Annual Budget Options Report is mandated by the Chicago Municipal Code Chapter 2-53 for the City Council Office of Financial Analysis (COFA).

REVENUE OPTIMIZATION STRATEGIES

CONGESTION PRICING

Chicago has a variety of transportation options for travelers and residents as well. Chicago's public transit includes the Chicago Transit Authority (CTA) providing train and bus services throughout the city. The city also boasts ride share, taxi, and bike-share travel options. The average one-way commute in Chicago takes 34.6 minutes.¹

Chicagoans either drive their car alone to work, carpool with others, bike, walk, or take mass transit. Currently, 47.4% of Chicago commuters drive their car to work, 7.5% carpool with others, 1.5% cycle, 5.9% walk, and 23.4% take mass transit.² The city's busiest interstate highways are I-90/I-94, I-290, I-294, and I-80. The best time to drive to mitigate congested roadways is 5 am and 2:30 pm before the morning and evening rush.

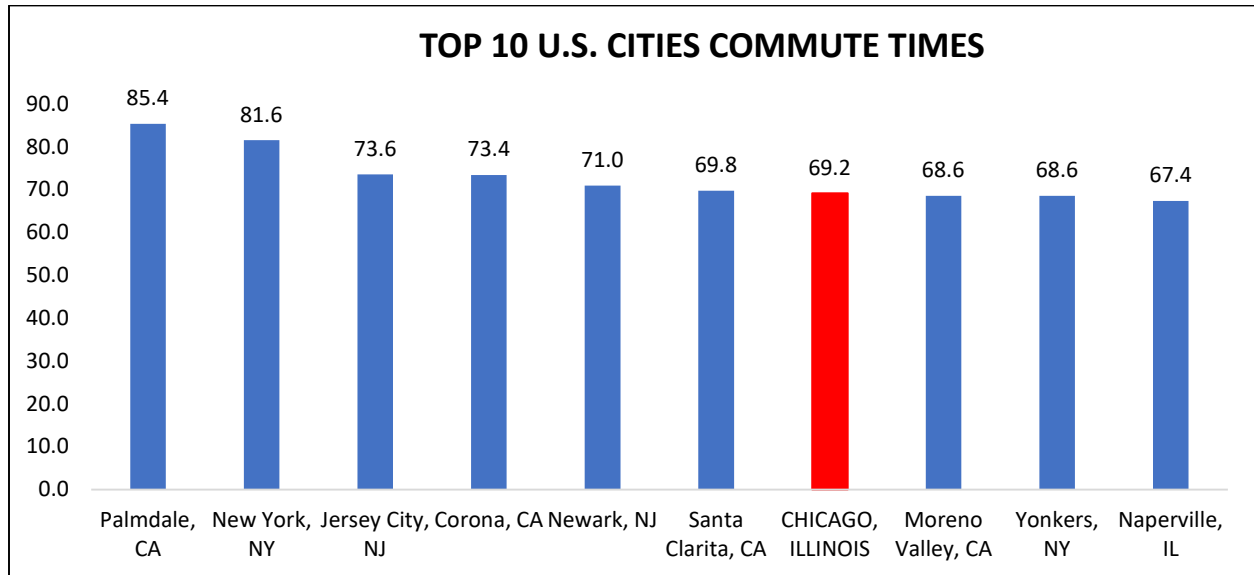
Congestion pricing has been tested in New York's Business District. The draft report recommended toll enforcement between 5 am – 9 pm on weekdays and 9 am - 9 pm on weekends.³ New York has the second highest commute time in the United States with an average round-trip commute of 81.6 minutes, 26.1 percent of those commuters have more than a 2-hour round-trip commute.⁴ Chicago ranks as the seventh highest commute time in the U.S. with an average round-trip of 69.2 minutes and 16.2 percent exceeding two hours round trip commuting.

¹ Commuting in Chicago, IL [Commuting in Chicago, IL \(bestplaces.net\)](https://www.bestplaces.net/commuting-in-chicago-il)

² Commuting in Chicago, IL [Commuting in Chicago, IL \(bestplaces.net\)](https://www.bestplaces.net/commuting-in-chicago-il)

³ CBS New York, Congestion pricing draft report. [Congestion pricing draft report obtained by CBS New York shows \\$15 toll for most drivers entering Manhattan's Central Business District \(msn.com\)](https://www.cbs26.com/news/congestion-pricing-draft-report-obtained-by-cbs-new-york-shows-15-toll-for-most-drivers-entering-manhattan-s-central-business-district)

⁴ The top ten US cities where workers have the longest commutes. [Top 10 US cities where workers have the longest commutes \(cnbc.com\)](https://www.cnbc.com/2018/07/26/top-10-us-cities-where-workers-have-the-longest-commutes.html)



Source: The top 10 US cities where workers have the longest commutes. <https://www.cnn.com/2019/01/22/the-top-10-us-cities-where-workers-commute-the-longest-.html>

Congestion pricing is an option that eases traffic congestion, speeds up travel times, reduces pollution, and provides a funding stream for infrastructure investments and public transport. Consumers intuitively understand differential pricing; we anticipate paying a premium for airline

tickets at peak travel times and hotel rooms during times of high demand. Congestion pricing operates in the same way. It forces users (commuters) to think about the cost of making a trip – it is a behavioral economic strategy to encourage people to evaluate their travel patterns.

Congestion pricing is a method of charging users for the use of public resources that are congested due to high demand. It is an effective way to utilize market forces to minimize the waste caused by traffic congestion. Currently, congestion pricing is implemented in New York, studies have shown a positive correlation between higher income and car usage. For Chicago, further analysis would be necessary to determine whether congestion pricing is a feasible option. It is crucial to ensure that any such program is equitable and does not disproportionately affect low-income commuters.

Congestion pricing is a fee for drivers driving during peak hours to encourage them to change their behavior and avoid congested roads. The U.S. Department of Transportation views it to use market forces to reduce the negative effects of traffic congestion. The aim is to make the transportation system more efficient and work better for everyone.

One way to implement congestion pricing is to add new priced lanes, toll non-carpool vehicles using high-occupancy vehicle lanes or charge a fee to enter congested areas. In New York, electronic tolling will be used to charge drivers for entering certain areas during peak hours to reduce traffic congestion and increase revenue. It is estimated that congestion pricing in New York will generate \$1 billion annually.

COFA Recommendations

COFA is recommending that the City should take into consideration the Congestion pricing model. New York has already implemented this model and its projected benefit is \$1 billion annually. Chicago can also benefit from the reduction of traffic and air pollutants. However, the City must assess the impact on low-wage earners traveling to the City.

COFA believes that the congestion pricing model requires further analysis of implementation cost, impact on low-income commuters, and access points of implementation.

AMNESTY PROGRAM (OPTIMIZING COLLECTIONS)

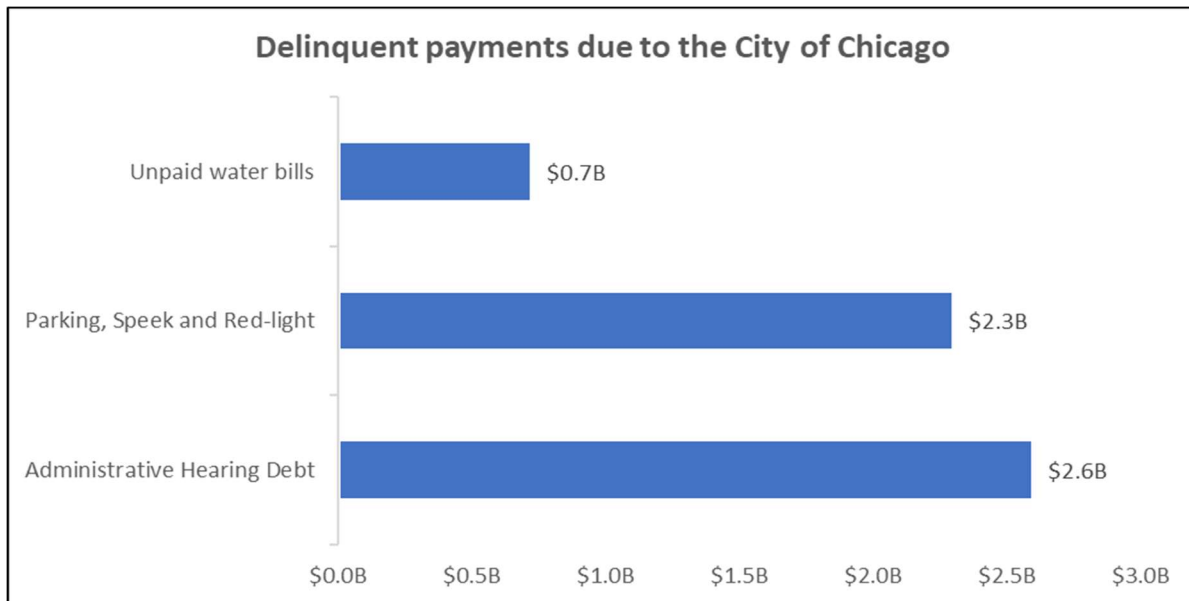
- Administrative Debt Relief Program - 2023
- Clear Path Relief Program - 2022
- Sticker Amnesty Relief Program – 2019

The City of Chicago is owed more than \$6.4 billion in unpaid fees, fines, and other debts since 1990.⁵ Categorically the delinquent payments include almost \$2.9 billion in administrative debt, \$2.3 billion in old parking, speed, and red-light camera tickets, and \$723 million in unpaid water

⁵ Chicago City Hall is owed billions of dollars it hasn't manage to collect. [Chicago City Hall is owed billions of dollars it hasn't managed to collect - Chicago Sun-Times \(suntimes.com\)](https://www.suntimes.com/story/news/politics/economy/2019/07/01/chicago-city-hall-owed-billions-dollars-hasnt-managed-collect/1115458001/)

bills of which \$433 million are active accounts.⁶ The City should optimize collections to minimize leakage and increase collection rates. As a first step, an analysis should be completed to review the more recent debt (past year) and the City should aggressively seek payment. The analysis can identify the percentage of past-due customers that have the wherewithal to pay and secure payment. Sixty percent of the unpaid water bills belong to customers with active accounts, the same analytics should be completed to determine customers with the wherewithal to pay and aggressively secure payment. In addition, implementing an amnesty program for overdue bills could generate additional revenue. The City has successfully instituted amnesty programs in the past and brought in significant revenue of \$7 million to \$9 million.⁷ Payment plans should also be continued to reduce leakage and increase collections.

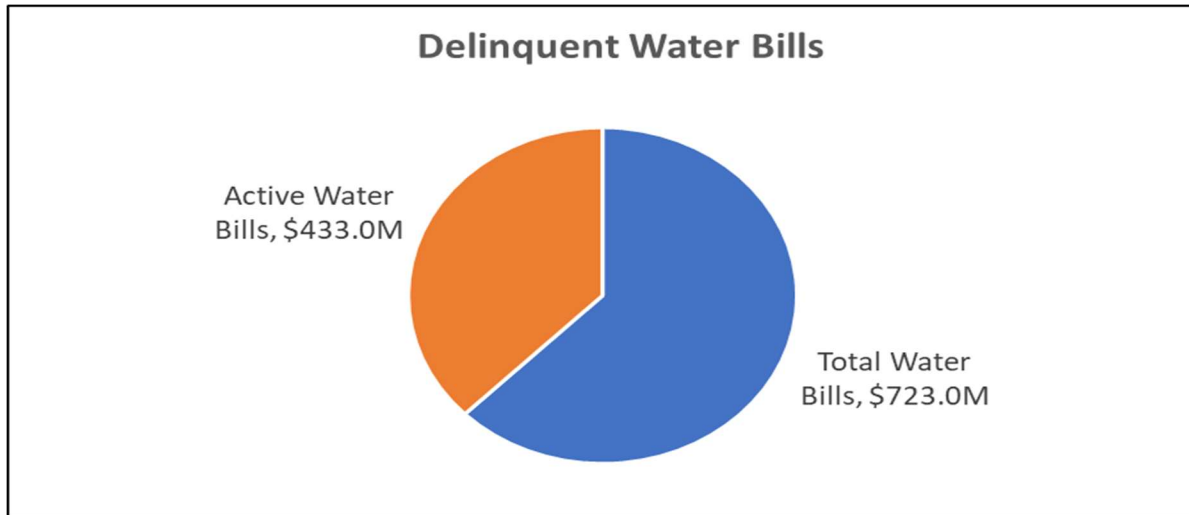
Making payments easier can also help optimize collections and increase revenue. Some cities have already used technology to allow payment of parking tickets via text. The Department of Motor Vehicles (DC DMV) in the DC area makes the “DC DMV” easily accessible allowing customers to complete several transactions from their mobile device without visiting the DMV.⁸ By making it easier to pay, the barrier to payment can be lowered, and revenue can be increased.



⁶ Chicago City Hall is owed billions of dollars it hasn't manage to collect. [Chicago City Hall is owed billions of dollars it hasn't managed to collect - Chicago Sun-Times \(suntimes.com\)](https://www.suntimes.com/story/news/politics/2017/05/11/chicago-city-hall-is-owed-billions-of-dollars-it-hasn-t-managed-to-collect/1027117001/)

⁷ McKinsey & Company. Unlocking the full potential of city revenues.

⁸ DC DMV Mobile App. <https://dmv.dc0gov/node/1528486>



Source: Sun-Times article: Chicago City Hall is owed billions of dollars it hasn't managed to collect

COFA Recommendations

COFA recommends the optimization of collections to recoup revenue. COFA recommends a robust analysis of uncollectible accounts, particularly those with active accounts to secure payment. COFA also recommends consideration for an amnesty program and consideration for utilizing technology for customer payments. Payments plans are already on the table and should be continued.

CITY OF CHICAGO INCOME TAX

The possibility of the City of Chicago instituting a city income tax has been discussed before.

The Inspector General's office estimated in 2011 that a 1% municipal income tax could raise approximately \$500 million.⁹ The current administration has yet to endorse a city income tax, but a plan that remains on the table would levy a 3.5% tax on household incomes above \$100,000 and could yield \$2 billion in new revenue for Chicago without touching property taxes or impacting its poorest residents.¹⁰

The benefits of a city income tax would be it would reduce the need to increase other tax streams (property or sales taxes), and as the economy grows it will yield greater amounts due to the elasticity of the revenue source. A city income tax would contribute to revenue diversification by decreasing reliance on property taxes, and nonresidents who work in the city will help pay for municipal services used by those nonresidents. Arguments against the city tax include:

⁹ The Civic Federation. <https://www.civiced.org/civic-federation/blog/city-chicago-income-tax>

¹⁰ How a Chicago income tax could solve the city's revenue problem, without touching property taxes.

<https://abc7chicago.com/mayor-brandon-johnson-chicago-mansion-tax-property/13530561/#:~:text=Johnson%20has%20not%20endorsed%20a,residents%20or%20touching%20property%20taxes.>

Arguments against a local income tax include disincentive to work, live, or do business in a city imposing another tax, more residents fleeing to avoid the tax, and if applied to corporate income it may negatively impact economic development. In addition, the 2017 federal tax reform act limits deduction of local taxes, increasing the burden on taxpayers.¹¹ Lastly, local income taxes can move the tax burden to nonresidents who do not fully utilize city services,¹²

Implementation of a Chicago municipal income tax would require the passage of legislation by the Illinois General Assembly or a constitutional amendment authorizing local option income taxes.¹³ Many issues would need to be addressed for a Chicago income tax to become a reality. In 2011, approximately 4,943 local governmental jurisdictions in 17 states imposed local option income taxes.¹⁴

COFA Recommendation

The City Council Office of Financial Analysis (COFA) has a neutral position on the City's income tax and believes that any new taxes should be tied to a long-term financial plan to balance the City's budget and stabilize the City's finances. The Illinois Constitution provides that home rule units of governments such as the City of Chicago may only enact a local income tax if authority is granted by the General Assembly.¹⁵

CREATE NEW REVENUE STREAMS, REVIEW FEE STRUCTURE

The city of Chicago has the authority to introduce new types of service fees, fines, and charges to create new revenue streams. However, before introducing any new revenue streams, a comparative analysis should be conducted to ensure that the current fee structure is fair. In a 2018 interview, former Inspector General Joseph Ferguson was asked about the fee structure in Chicago. The Office of Inspector General (OIG) then requested a comprehensive list of all fees from the Office of Budget Management (OBM). Additionally, the City did not regularly review or update fees, nor did the public have an opportunity to comment on them.

After examining the current fee structures, the city can consider exploring new methods to generate additional revenue. One such approach could be to charge higher fees for expedited services such as licenses or permits, which would result in an additional revenue stream. The next section will identify opportunities for cost savings and increased efficiency to further improve the City's financial position.

¹¹ The Civic Federation. <https://www.civiced.org/civic-federation/blog/city-chicago-income-tax>.

¹² How a Chicago income tax could solve the city's revenue problem, without touching property taxes. <https://abc7chicago.com/mayor-brandon-johnson-chicago-mansion-tax-property/13530561/#:~:text=Johnson%20has%20not%20endorsed%20a,residents%20or%20touching%20property%20taxes>.

¹³ The Civic Federation. <https://www.civiced.org/civic-federation/blog/city-chicago-income-tax>

¹⁴ The Civic Federation. <https://www.civiced.org/civic-federation/blog/city-chicago-income-tax>

¹⁵ The Civic Federation. <https://www.civiced.org/civic-federation/blog/city-chicago-income-tax>

COST SAVINGS AND EFFICIENCIES

This section outlines cost-saving recommendations and areas for improving efficiencies that the City may consider. These areas include gainsharing, modernization of emergency response, ambulance revenues, and CFD diversity and hiring.

GAINSHARING

Gainsharing is an incentive program designed to reward employees for participating in or initiating cost-saving measures. Different companies have adapted the gainsharing model to meet their individual requirements. Some have cross-functional teams that regularly meet to identify cost-cutting initiatives. The advantage of gainsharing is that it helps a company improve performance levels, reduce costs, and align individual efforts with organizational goals.

A gainsharing program can significantly reduce expenses by allowing employees who are most closely involved in daily operations to contribute ideas. This program would directly connect performance management, planning, monitoring, development, and rewards. Additionally, research has demonstrated that gainsharing improves employee performance.¹⁶

MODERNIZING EMERGENCY RESPONSE

In the dynamic realm of emergency response services, the Chicago Fire Department (CFD) is at the forefront but finds itself at the crossroads of adapting to the evolving modern demands of its community. An analysis of the Department's annual budget reveals a notable disparity in resource allocation between fire suppression and emergency medical services (EMS). Within the overall budget of \$783.9 million, a substantial portion of \$613.7 million is designated for fire suppression, while only \$105.5 million is allocated for EMS. Notably, the data highlights a significant mismatch between resource distribution and the nature of emergency calls. According to the Mayor's Office of Budget and Management (OBM), the call data provided between 2019-2022 details an average of approximately 74% of total emergency dispatches regarding EMS, and 26% to fire incidents.¹⁷ This disparity prompts a thoughtful examination of the current allocation strategy, encouraging a strategic realignment to better address the pressing needs of Chicago's residents. COFA suggests a more balanced and cost-saving investment in future fiscal years that aligns with the actual demands of the CFD, ensuring optimal efficiency and effectiveness in emergency responses.

However, CFD faces a challenge in modernizing resource allocation, shifting emphasis from fire suppression to EMS, a move constrained by existing collective bargaining agreements. The current Section 16.4 of the collective bargaining agreement mandates minimum manning requirements for fire suppression and rescue to be maintained at levels consistent with previous contracts.¹⁸ Notably,

¹⁶ AIHR. <https://www.aihr.com/hr-glossary/gainsharing/>

¹⁷ J. Nudelman (Personal Communication, December 21, 2023).

¹⁸ City of Chicago. (2023) Collective Bargaining Agreements. *BU 87 Chicago Fire Fighters Union, Local No. 7*. www.Chicago.gov

EMS and ambulance manning are stipulated to require one Paramedic and one Ambulance Commander in each of eighty or more ambulances daily. However, this arrangement presents a dilemma during EMS-related dispatches when an ambulance is unavailable.¹⁹ In such situations, fire suppression trucks, engines, and squad companies respond with EMS personnel but cannot transport patients in medical emergencies. The provisions of the collective bargaining agreements present a barrier to the CFD's efforts to align resource allocation with the evolving demands for effective emergency response. Addressing this issue requires a careful review and potential reexamination of these agreements to facilitate a more flexible and responsive allocation of resources, ensuring the CFD can better meet the diverse needs of the community.

AMBULANCE FEE REVENUES

Redirecting resources within the CFD toward EMS not only aligns with the community's needs but also proves advantageous for generating funding for the City. The fact that approximately 74% of total emergency dispatches are related to EMS underscores the critical nature of these services. The Office of Budget and Management (OBM) noted in the 2023 budget that \$278 million in revenue to the Corporate Fund was anticipated from ambulance fees and supplemented Medicaid ambulance fees. However, the actual year-end estimates for 2023 surpass the budgeted amount by approximately \$75.6 million, contributing a total of \$353.6 million to the Corporate Fund.²⁰ The financial surplus in ambulance fees underscores the potential for strategically allocating resources towards EMS, not only enhancing emergency response capabilities but also serving as a valuable revenue-generating mechanism for the city. This dual benefit positions the CFD to meet community needs effectively while contributing significantly to the city's fiscal health.

CFD DIVERSITY IN HIRING

Furthermore, CFD confronts a challenge that extends beyond emergency response protocols—a notable lack of diversity within its ranks as noted in the FY 24 Committee on the Budget and Government Operations hearings. The barriers to entry on the fire suppression side may act as a deterrent for many aspiring candidates, inadvertently limiting the Department's ability to fully represent the diversity of the communities it serves. However, there is an opportunity on the EMS front, where the entry barriers are notably lower. Recognizing this, the CFD has the potential to strategically leverage the EMS side as a gateway to foster greater diversity within its workforce. By addressing the hurdles that disproportionately impact diversity on the fire suppression side, the department can focus on promoting inclusivity and representation within the EMS sector. This approach aligns with the broader goals of equal opportunity and positions the CFD to understand better and respond to the varied needs of a diverse community. To enhance effectiveness and

¹⁹ City of Chicago. (2023) Collective Bargaining Agreements. *BU 87 Chicago Fire Fighters Union, Local No. 7*. www.Chicago.gov

²⁰ J. Nudelman (Personal Communication, December 21, 2023).

community trust in emergency response efforts, the Chicago Fire Department can work towards transforming its workforce to reflect the city's diverse demographics.

OTHER CONSIDERATIONS – MIGRANT CONTINGENCY PLAN / REASSESS TIF

MIGRANT CONTINGENCY PLAN

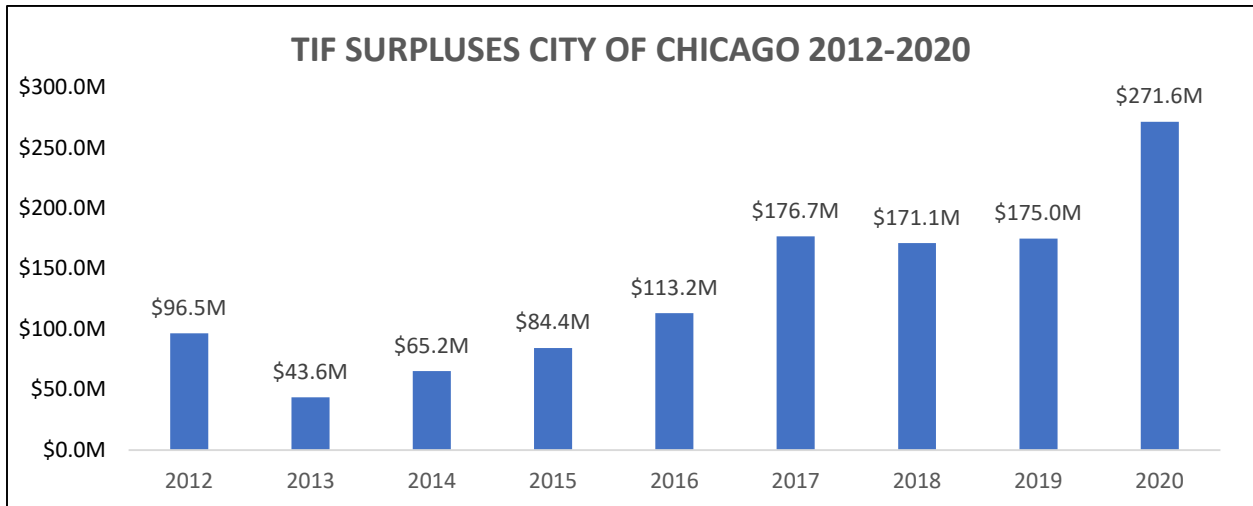
This section offers additional considerations for the City. These areas include the development of a contingency plan for Migrant issues, reassessment of tax increment financing and Tier 2 Pension benefits.

Since August 31, 2022, over 30,000 immigrants have arrived in Chicago from the southern border. There is little information available about these immigrants before their arrival, and the frequency and number of arrivals are unprecedented. Therefore, it is important to create a contingency plan in case we don't receive funding from State or Federal authorities. Without financial support from these agencies, it will be difficult for Chicago to sustain the influx of migrants. Although the current budget has allocated \$150 million for the new arrivals, the administration recognizes that this amount will not be enough, and they will seek additional funding from State and Federal agencies.

REASSESSMENT OF TAX INCREMENT FINANCING

Tax Increment Financing (TIF) is an economic tool used to promote development in areas that are considered blighted. The revenue generated within a TIF district is intended to fund redevelopment costs and debt service on bonds that finance improvements within the district. According to the Civic Federation, about one out of every four properties in the City is in a TIF district.²¹ However, there is growing concern that the City is relying too heavily on surplus TIF funds to close budgetary deficits. The repeated accumulation of surplus TIF funds may suggest that the district doesn't need the revenue for redevelopment projects, or that the plans are unachievable. Therefore, it may be necessary to analyze the situation and consider a TIF 'carve-out'. The graph below shows the trend of Tax Increment Financing surpluses between 2012 and 2020.

²¹ The Civic Federation. <https://www.civicfed.org/civic-federation/blog/how-city-chicago-uses-tax-increment-financing-surplus>



*Projected

Source: City of Chicago 2018 Annual Financial Analysis, City of Chicago 2019 Budget Overview.

TIER 2 PENSION BENEFIT CHANGES

The Illinois General Assembly is anticipated to continue exploring options to address the Safe Harbor issue within the pension system that derived from the enactment of the Tier 2 pension system in 2011. The Tier 2 system changed the calculation of the defined benefits for new employees for the purpose of lowering the financial liability gradually over time. The Safe Harbor issue specifically pertains to the Social Security replacement plan, which requires a minimum benefit level equivalent to Social Security for pensioners exempt from contributing to Social Security. This requirement applies to public employee pension systems classified as Social Security replacement plans, including those for public safety and teachers. The challenge arises as, since 2011, the Social Security Wage Base has consistently outpaced the growth of the Tier 2 pensionable salary cap.²² Ongoing legislative efforts seek to address this misalignment and ensure fair and sustainable pension benefits for public employees affected by the Safe Harbor issue.

The Governor signed PA 103-0579 into law following the 2023 fall legislative veto session creating an alternative formula for Tier 2 firefighters' final average salary calculation. This alternative formula uses 48 consecutive months over the last 60 months of employment to calculate their final average salary, as opposed to the previous calculation of 96 consecutive months within the last 120 months of employment.²³ This change will likely increase the calculated final average salaries thus increasing the individuals' pension payments. According to the Fireman's Annuity &

²² Civic Federation. (2023, November). *Tier 2 Pensions and the Safe Harbor Issue: Explained*. www.civicfed.org

²³ Illinois General Assembly. (January 2024). PA103-0579. www.ilga.gov

Benefit Fund of Chicago's 2022 actuarial valuation, the fund has \$5.7 billion in unfunded liabilities, with a funding ratio of 20.8%. ²⁴

COFA Recommendations

COFA aligns with the Civic Federation in urging Mayor Johnson's working group on pensions to present their recommendations to the Illinois General Assembly before broader benefit enhancements are enacted (Civic Fed FY 24 proposed budget). The emphasis on deliberately addressing the Safe Harbor issue is crucial, given the protection of pension benefits under the Illinois Constitution and subsequent court rulings. As these benefits cannot be reduced in the future, it is imperative that any changes are approached with careful consideration to ensure their long-term viability and adherence to the legal requirements. This collective call underscores the significance of a thoughtful and informed approach to pension reform, balancing the need for fiscal responsibility with the commitment to safeguarding the pension rights of public employees.

ADDITIONAL WARD STAFF

While the inclusion of an additional ward staffer in the FY 24 budget may not directly contribute to cost savings, COFA acknowledges and understands the importance of this request, especially considering the advocacy from several Alders leading up to the budget's passage. Recognizing the needs and priorities voiced by the Alders, COFA supports the decision to allocate resources for additional ward staff, emphasizing the significance of responsive and well-supported ward offices in addressing the localized needs of constituents. Due to a strong rapport with ward staff, constituents often rely on them as their main point of contact to navigate through different levels of government, especially in the face of staffing shortages and resource constraints in other departments. This understanding reflects a commitment to enhancing the efficiency and effectiveness of city services, even if it does not result in immediate cost savings.

²⁴ Firemen's Annuity & Benefit Fund of Chicago (2023, November). *Fall 2023 Report to Participants*. www.fabf.org