



CITY OF CHICAGO

COUNCIL OFFICE ON FINANCIAL ANALYSIS (COFA)

August 26, 2019

Chairman Pat Dowell
Committee on Budget and Government Operations
121 N. LaSalle St.
Chicago, IL 60602

Dear Chairman Dowell:

Alderman Osterman asked COFA to answer two questions:

1. What are the amounts and timing of the City of Chicago's required pension contributions under Illinois statutes?
2. What are the forecasts for the City's revenue for the Chicago casino, and what are the earmarked purposes for those revenues?

COFA's responses are as follows:

Required Pension Contributions

Under Illinois Public Acts 99-0506 and 100-0023, The City is required to contribute defined amounts to each of its four pension funds for 2019 and 2020, and it is also required to contribute defined amounts to the MEABF and Laborer's pension funds in 2021 and 2022.

Beginning in 2021, the City's required contribution to the Policemen's and Firemen's funds switches from a defined amount to the Actuarially Determined Contribution (ADC) required to bring the funds assets up to 90% of liabilities over a 35-year period. The required contribution to the MEABF and Laborer's funds switches from defined amounts to the 90%/35-year ADC in 2023.

We cannot know for certain what the ADCs will be two to four years in the future. The table on the following page presents current estimates based on the calculations of the respective funds' actuaries as of December 31, 2018, their last annual reports. There are many factors which could change their projections, the most significant of which is the funds' investment performance. Each of the funds has made assumptions regarding their long-term return on investment, ranging from 6.75% to 7.25%. And, while we can be reasonably confident that their average returns over a thirty-five year period will be close to their projection, the returns over a two to four year period can vary enormously, resulting in variation in the ADCs at that time.

However, we can say with a high degree of confidence that the transitions from defined contributions to ADCs will require contributions to jump sharply in 2021 and to jump sharply again in 2023. Contributions will never return to pre-jump levels, because the ADC is calculated to be a constant annual payment on

the unfunded liability. After the transition to ADC, there will be modest annual increases, because in addition to the ADC, contributions will have to keep pace with current pension expenses.

The projections by the funds' actuaries on the next page's table were based on the assumption that the City will contribute exactly the statutorily required amount from 2019 forward. As you can see, the City actually appropriated \$127 million more than the statutory requirement for 2019. Any contribution above minimum requirements in the early years of the 2019-2057 period will make a significant reduction in required payments, because the early extra payments will earn compound interest. It is the exactly like a homeowner who pays an extra \$1,270 on the first year of a \$290,000 mortgage.

City of Chicago Pension Fund Contributions

Thousands of dollars		Statutory Requirements by City of Chicago fiscal year																
	2018 actual	2019 appropriation	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
MEABF	349,574	471,002	344,000	421,000	499,000	576,000	944,559	960,168	975,735	991,120	1,006,682	1,022,589	1,038,866	1,055,766	1,073,367	1,091,103	1,109,618	1,129,631
Laborer's	47,844	60,000	48,506	60,000	72,000	84,000	131,491	133,623	135,760	138,069	140,449	142,932	145,590	148,234	150,912	153,774	156,472	159,115
Policemen's	589,635	579,000	589,635	579,000	737,527	763,981	785,718	806,254	826,411	845,973	865,945	886,970	908,514	930,459	952,344	974,888	997,996	1,022,631
Firemen's	249,684	248,544	249,690	245,000	371,258	378,587	387,261	397,734	408,823	419,653	429,431	439,756	451,668	463,368	473,139	479,712	486,027	491,985
TOTAL	1,236,737	1,358,546	1,231,831	1,305,000	1,679,785	1,802,568	2,249,029	2,297,779	2,346,729	2,394,815	2,442,507	2,492,247	2,544,638	2,597,827	2,649,762	2,699,477	2,750,113	2,803,362

DEFINED CONTRIBUTION AMOUNTS

ACTUARIALLY DEFINED CONTRIBUTION (ADC) REQUIRED TO INCREASE ASSETS TO 90% OF LIABILITIES OVER A 35-YEAR PERIOD

The statutory requirements are from Illinois Public Act 99-0506 for the Policemen's and Firemen's Funds, and from Public Act 100-0023 for the MEABF and Laborer's funds.

The estimated future statutory contributions are from the 2018 Actuarial Valuation Reports of the respective funds: Policemen's Annuity and Benefit Fund of Chicago, p. 19; Firemen's Annuity and Benefit Fund of Chicago, p. 18, Laborer's and Retirement Board Employees' Annuity and Benefit Fund of Chicago, p. 23; Municipal Employees' Annuity and Benefit Fund of Chicago, p. 46.

Note that Policemen, Firemen and Laborers attribute contributions to the year before those contributions are counted in the City's expenditures (e.g., the City reports that it is required to contribute \$72 million to the Laborers' in 2021, while the Laborers' refer to the same requirement by stating that the City is required to contribute \$72 million in 2020). However, the MEABF reports contributions in the same year that the City does.

City Casino Revenues

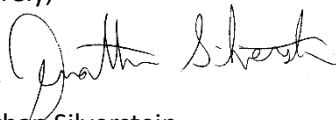
COFA is basing its estimates for Casino revenues on the *City of Chicago Casino Financial Feasibility Analysis*, prepared by Union Gaming Analytics [hereafter “UGA”], and released on August 13, 2019.

UGA estimated that under the current tax structure, as established by Illinois Public Act 101-31, the casinos would generate \$500-580 million per year in tax revenues, once it reaches full-scale operations by 2024. They also estimate that the casino operator would pay \$520-\$528 million in one-time fees. The study did not specify how much of this revenue would be received by the City of Chicago, but COFA has determined that the City would receive the 33^{1/3}% AGR Tax (Adjusted Gross Receipts, i.e., gross receipts less winnings paid out), which would be earmarked for contribution to the police and fire pension funds. The City would also receive the amusement tax and portions of the admissions, hotel, food and beverage taxesⁱ for the Corporate Fund. Based on that, and the estimates presented in Figure 36 of the UGA report,ⁱⁱ COFA estimates that by 2024, the City’s annual revenues would be as follows:

City of Chicago 2024 Annual Tax Revenue by Proposed Casino Location (\$ millions)	Harborside	Reese	Pershing	Roosevelt	US Steel
Police & Fire Pensions	230	269	261	233	218
Corporate Fund	9.6	11.3	11.1	9.6	9.4

However, UGA stated that those revenues would likely never materialize under the current tax and fee structure, because the project would not generate enough revenue for debt coverage or return on equity to attract investors, given UGA’s assumption of \$750 million in total development costs. UGA did state that the project could be feasible with a much lower tax burden. Additionally, the study found that a casino located in a more “tourist-centric location” would generate 43-53% greater revenue. They did not provide financial projections for such a location, as was outside the scope of their contract, but the report concludes that even that location would likely fail the financial feasibility test, given the tax and fee structure and its much higher development costs.

Sincerely,



Jonathan Silverstein
Council Office of Financial Analysis

cc: The Honorable Alderman Harry Osterman, Brian Freedman, Renee Barrera

ⁱ The State imposes a graduated admissions tax according to the number of patrons. UGA estimates the tax would amount to \$3 per patron. Under PA 101-31, the State would remit \$0.70 per patron to the City. Since $0.70/3=0.2333$, we estimate that the City would receive 23.3% of admissions tax revenue.

UGA stated that the State hotel tax was 6% and the City's hotel tax is 11.4%, which is not correct. But, UGA was clearly focused on determining whether the casino would be financially viable and not on the fiscal impact of individual taxing bodies, so their numbers work for that purpose. The total of all hotel taxes is 17.39%, very close to their 17.4% total.

The actual breakdown is: State 6.17%, Chicago 5.58%, 2.5% for the Metropolitan Pier and Exposition Authority, 2.14% for the Illinois Sports Facilities Authority (Guaranteed Rate Field and Soldier Field), and 1% for Cook County. Since $5.58/11.4=0.489$, we assumed that the City would receive 48.9% of the revenue UGA estimated under the category of "Hotel Tax to City 11.4%."

The City's tax on restaurant food and beverage is 2.5%, and the total tax on restaurant food and beverage is 10.5%. Since $2.5/10.5=0.238$, we estimate that the City would receive 23.8% of all food and beverage tax revenues.

ⁱⁱ *City of Chicago Casino Financial Feasibility Analysis*, prepared by Union Gaming Analytics, 8/13/19, p. 48