

COFA Mid-Year Budget Forecast Analysis

City of Chicago

2023

May 1, 2023

City of Chicago
Council Office of Financial Analysis
Kenneth P. Williams, Sr., Chief Administrative Officer

2 N. LaSalle St, Ste M550
Chicago, IL 60602
cofa@cityofchicago.org



OVERVIEW

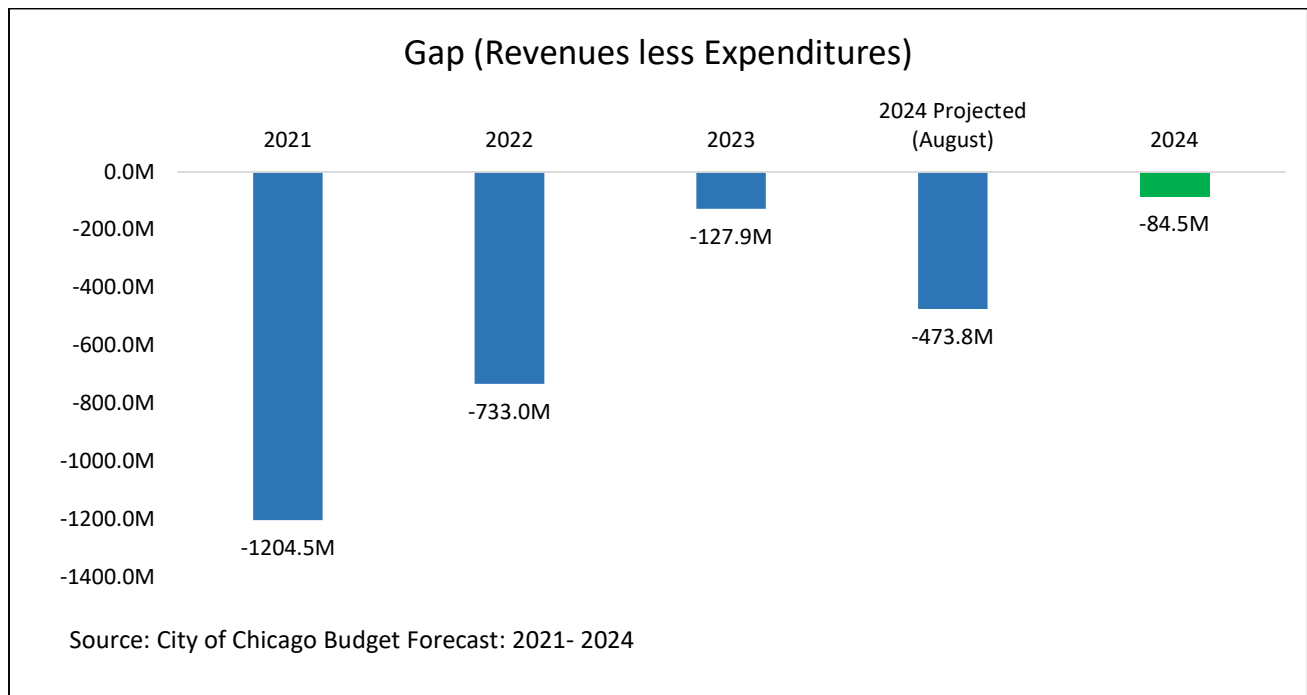
The Lightfoot administration has released a Mid-Year Budget Forecast that presents a more favorable financial picture of the City's finances with minimal shortfalls. For FY2024 the mid-year projection is (84.54M) compared to (\$473.8M) projected only eight months ago. The out years FY2025 and FY2026 are also better than expected at (\$123.8M) and (\$144.5M) respectively. This presents a conundrum for the Johnson administration; should he tie property taxes to rate of inflation, should he pay over the actuarial limits on pensions, or should he forge ahead with his initiatives.

The Mid-Year Budget Forecast included property tax increases (tied to inflation), meeting pension obligations (and implementing an Advance Pension Funding Policy), rating agency upgrades, and paying down debt. The Mid-Year also benefited from increased revenue, particularly income taxes.

The City Council Office of Financial Analysis (COFA) has prepared the following summary and analysis regarding the Mid-Year Budget Forecast.

MID-YEAR BUDGET FORECAST

The City of Chicago presented its Mid-Year Budget Forecast outlining the operating revenue and expenditure projections for the City’s overall finances and budget as shown in the Mid-Year Budget Forecast. The City boast benefitting from its structural solutions that have been created through a time in the City’s history of the lowest sustained budget gaps and a projected \$85 million gap in FY2024 without the impact of any federal funding.¹



The chart above shows the gaps in FY2021 – 2024. Note the most recent 2024 projection in August 2022 FY2024 had a gap of -473.8M for FY2024 causing a financial lift of \$390 million dollars in eight months when comparing the Mid-Year budget forecast. Embedded in the assumptions by the Lightfoot administration is that the city’s property tax levy will rise to match the cost of living. This policy initiative to align the property tax levy with the cost of living was implemented by the Lightfoot administration in 2020 but proved a political conundrum and scrapped during the recent 2023 mayoral election. The newly elected Mayor promises not to increase property taxes for Chicagoans, but without a property tax increase the 2024 budget gap would be approximately \$90 million higher.² Raising the property tax levy is the most effective way to raise revenue and make certain expenses do not outpace cost.

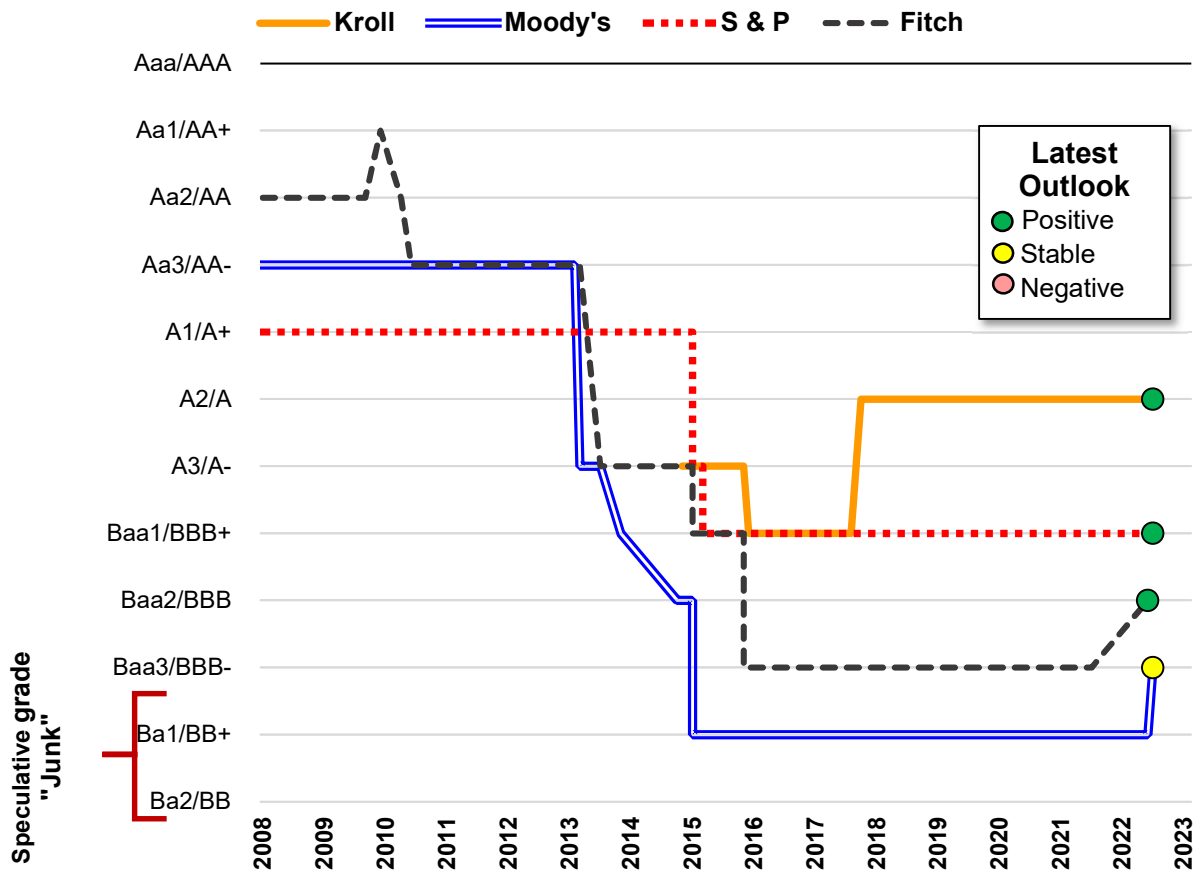
The Lightfoot Administration believes that the City is in a financial turnaround, and they are projecting the lowest sustained budget gaps in decades. The financial improvement

has also been acknowledged independently by the rating agencies giving three positive outlooks and thirteen upgrades over the last eight months.³

Fiscal stability pays for City investments without adding additional burdens to taxpayers. Each rating upgrade the City achieves represents approximately \$100 million interest cost savings on each \$1 billion dollar bond issued. The City sells approximately \$2 billion in bonds each year, that \$2 billion translates into \$200 million of interest cost savings. Interest savings that can be used to pay for a school, repaved roads, or new police stations without increasing taxes or reducing expenses.⁴

The graph below presented by COFA highlights the recent rating actions by four agencies and is objectively good for the City of Chicago. The throughline in the recent rating and outlook adjustments COFA would like to highlight was the City's decision to make an advanced payment towards future pension obligations. The agencies view the City's decision to address future pension obligations as critical to the City's long-term financial health and rating upgrades.

City of Chicago - General Obligation Bond Rating History



SOURCE: Fitch Ratings; Kroll Bond Rating Agency; Moody's Corporation; S&P Global Ratings
 NOTES: S&P and Kroll gave Chicago's GO Bonds an outlook of **Positive** in their latest issued reports. Fitch also gave Chicago's GO Bonds an outlook of *Positive* in their latest report, while Moody's gave an outlook of *Stable*. Ratings and outlooks as of November 14, 2022.



The City has also cleared major deferred liabilities including pensions, debt, and capital and provided transparency in the budget. Over the past four years the City has climbed a \$1.1 billion pension ramp and a \$250 million debt ramp which represents a \$1.35 billion structural gap cleared.⁵

The City is on a trajectory to pay down debt outstanding at an average cost of \$399 million per year through the FY2026 projection period.⁶ This paydown creates capacity for new debt to pay for capital investments.

The Pension liability plays a critical role in the financial health of Chicago. In 2022, the City contributed an actuarially calculated contribution for all four pension funds. In 2023 the City made a pension contribution of \$242 million above the statutory requirement. The new debt and pension management policy requires the City to make an advance pension

payment on the first business day of the year, the new Advance Pension Funding policy is set to save the City \$2.6 billion in future pension costs.⁷

The City also maintains a rainy-day fund, known as the Operating Liquidity Fund; the Fund is currently \$50 million.⁸ The FY2023 budget caught up with missed payments during the pandemic and is funding at \$5 million per year. According to the current Administration federal funding did not close the \$1.35 billion pension and debt structural gap over the past four years. According to the Lightfoot administration the one-time federal funding was used to match one-time revenue losses related to the pandemic to the tune of \$1.3 billion.⁹

The city spent nearly \$1.1 billion in federal COVID-19 relief funds in 2021 and 2022 and used another \$152.4 million in 2023 to shore up the city’s pandemic-devasted budgets. That cash injection helped the city end 2021 with a surplus of \$318 million according to the city’s annual financial report.¹⁰ The amount of funds from the Chicago Recovery Plan that will carry over to the new Johnson administration has yet to be identified.

ASSUMPTIONS FOR MID-YEAR FORECAST

Assumptions built into this forecast include property taxes based on inflation, consumption, or real estate value. If the current administration does not take property taxes based on inflationary implications other structural revenue sources or expenditure decreases must be considered to maintain structural balance. Therefore, if the property taxes are not increased based on inflation, the \$85 million projected will certainly be higher. Another assumption built in the mid-year budget forecast assumes that Chicago Public Schools (CPS) will contribute \$250 million from the pending CPS FY2024 budget as well as the full CPS share in FY2025 and FY2026.¹¹ This assumption is based on CPS contributing its share of the MEABF statutory employer contributions. (see chart below)

CPS MEABF Contribution (based on City Fiscal Year)

	FY2022	FY2023	FY2024	FY2025	FY2026
MEABF Pension Payment	\$960.0M	\$976.0M	\$1,013M	\$1,034M	\$1,051M
City Share	\$88.3M	\$40.8M	\$0.0M	\$0.0M	\$0.0M
CPS Share	\$272.7M	\$290.8M	\$304.1M	\$306.5M	\$309.1M
CPS Actual Payment	\$175.0M	\$250.0M	To be Determined by CPS		

The mid-year budget forecast is also based on a casino opening in Chicago that is expected to generate \$200 million in annual revenues. Overall, the casino is expected to generate \$3 billion in additional financial value to the City and State.¹² The casino revenue is expected to impact the budget a year after it is generated, therefore based on this

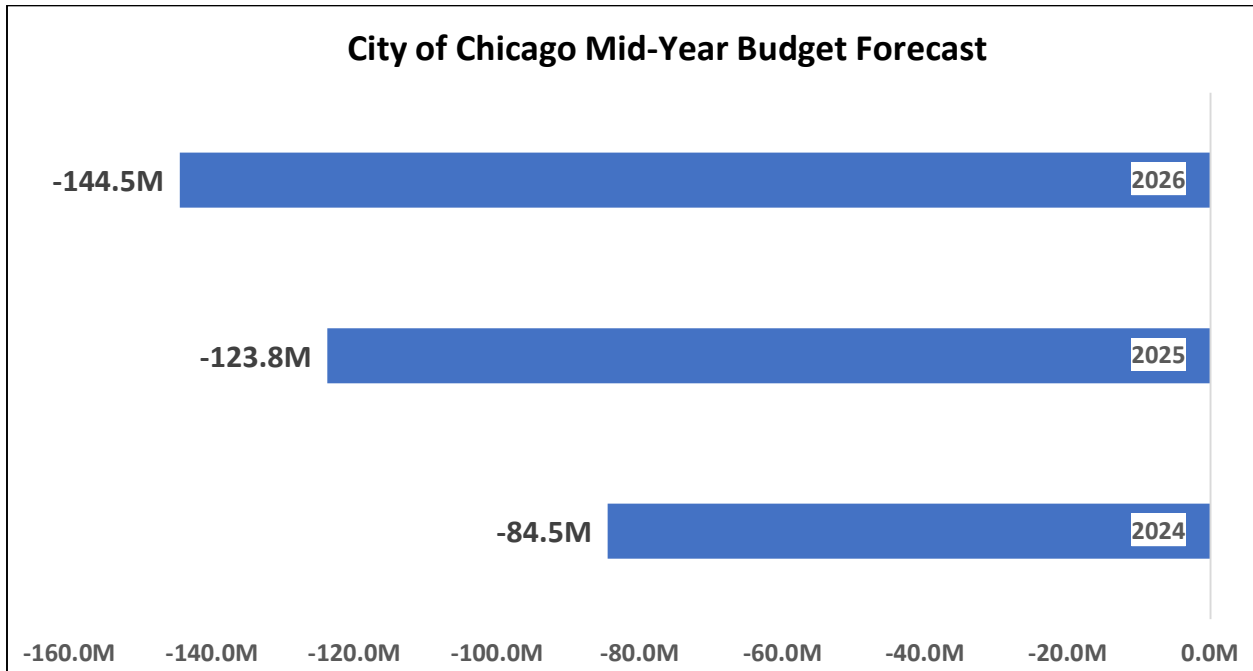
assumption the \$40M revenue received as an upfront payment on June 14, 2022, was assumed in the FY2023 budget. Below is a schedule of Casino projected revenues.

Casino Projected Revenue (in millions)

	2023	2024	2025	2026	2027	2028
City Impact						
Upfront / Fixed Payments	\$ 40.0	\$ 4.0	\$ 4.0	\$ 4.0	\$ 4.0	\$ 4.0
Slot Machines	\$ 8.1	\$ 24.2	\$ 25.5	\$ 77.4	\$ 93.0	\$ 100.6
Table Games	\$ 3.1	\$ 8.3	\$ 8.7	\$ 25.0	\$ 30.8	\$ 33.8
Admin / Other	\$ 1.6	\$ 1.9	\$ 1.9	\$ 4.9	\$ 5.7	\$ 6.0
Gaming Revenues	\$ 12.8	\$ 34.4	\$ 36.1	\$ 107.3	\$ 129.5	\$ 140.4
Property Taxes	\$ 3.2	\$ 3.2	\$ 3.2	\$ 12.3	\$ 16.8	\$ 21.5
Parking Tax	\$ 3.8	\$ 4.4	\$ 4.5	\$ 7.8	\$ 9.0	\$ 9.4
Restaurant	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.9	\$ 1.0	\$ 1.2
Hotel Taxes	\$ -	\$ -	\$ -	\$ 0.5	\$ 0.6	\$ 3.4
Other Taxes'	\$ 7.2	\$ 7.7	\$ 7.9	\$ 21.5	\$ 27.5	\$ 35.5
Other Property Taxes						
CPS	\$ 6.8	\$ 6.8	\$ 6.8	\$ 26.1	\$ 35.8	\$ 45.7
Other Entities	\$ 2.9	\$ 2.9	\$ 2.9	\$ 11.0	\$ 15.0	\$ 19.2
Other Taxing Bodies Impact						
Other	\$ -	\$ -	\$ -	\$ 0.2	\$ 0.2	\$ 1.0
ANNUAL IMPACT	\$ 69.7	\$ 55.8	\$ 57.7	\$ 170.1	\$ 212.0	\$ 245.8

Source: <https://www.chicago.gov/city/en/sites/chicago-casino/home.htm>

The largest expense of the Corporate Funds comes from Personnel Services, the Mid-Year budget forecast assumes the implementation of the recommendation from the Citywide salary study for non-union employees.¹² The compression of salaries increases hiring cost due to vacancies and retention issues with non-union employees, therefore including recommendations for non-union employees will prove to be more cost effective. Strong revenue performances are seen in the income taxes, PPRT, and Personal Property Lease Tax categories, this in large part is due to a stronger than expected accelerated economic recovery. The revenue performance from these revenue streams was the main driver for the sunnier forecast. The mid-year budget forecast did not assume the improved revenue was sustainable and projections are in line with other government data.



Source: City of Chicago Mid-Year Budget Projections



FINDINGS AND CONCERNS

Surprisingly, the outgoing administration is projecting the City finances to be in better shape than expected in future years. In August 2022, the FY2024 projection was (\$473.8M), eight months later the projection was reduced to (\$85.4M) and out years FY2025 and FY2026, being (\$123.8M) and (\$144.5M) respectively. Some of the assumptions that went into the mid-year budget projections include rating agency upgrades, property tax levy tied to inflation, advance pension payments, casino, water purchase agreement, and a slowdown in new debt.

Property tax increases tied to the Consumer Price Index were suspended this year and the incoming administration does not want a property tax increase. The use of city budget surpluses to pay down pension debt may not be welcomed by the new administration. They may want to pay the minimum actuarially required amount and use the other funds for other initiatives. The casino projected revenue may be a bit ambitious; many external variables can impact casino revenue; crime, another COVID variant, or an economic downturn. Although the mid-term incorporated the recent decline in the stock market, the uncertainty that looms may negatively impact the budget with market volatility and international conflict being of great concern.

The Council of Financial Analysis (COFA) believes that the mid-year budget projection is ambitious and should be viewed with caution. The current administration can be commended for clearing major deferred liabilities, advance pension funding policy, policy for reserves, and financial transparency. However, at this point, many things can happen to change the trajectory of Chicago's finances.

Endnotes

¹City of Chicago Mid-Year Budget Forecast.

C:/Users/424805/Documents/MidYearBudgetForecast.pdf

²Chicago Faces \$85M Budget Shortfall in 2024, Says Lightfoot While Defending her Financial Legacy. <https://news.wttw.com/2023/04/18/chicago-faces-85m-budget-shortfall-2024-says-lightfoot-while-defending-her-financial>

³Illinois News, Mayor Lightfoot, and City of Chicago Finance Team Present Mid-Year Budget Forecast. <https://www.newslocker.com/en-us/region/illinois/mayor-lightfoot-and-city-of-chicago-finance-team-present-mid-year-budget-forecast/view/>

⁴City of Chicago. Mid-Year Budget Forecast.

<file:///C:/Users/424805/Documents/MidYearBudgetForecast.pdf>

⁵City of Chicago. Mid-Year Budget Forecast.

<file:///C:/Users/424805/Documents/MidYearBudgetForecast.pdf>

⁶City of Chicago. Mid-Year Budget Forecast.

<file:///C:/Users/424805/Documents/MidYearBudgetForecast.pdf>

⁷City of Chicago. Mid-Year Budget Forecast.

<file:///C:/Users/424805/Documents/MidYearBudgetForecast.pdf>

⁸City of Chicago. Mid-Year Budget Forecast.

<file:///C:/Users/424805/Documents/MidYearBudgetForecast.pdf>

⁹City of Chicago. Mid-Year Budget Forecast.

<file:///C:/Users/424805/Documents/MidYearBudgetForecast.pdf>

¹⁰ WTTW, Chicago Faces \$85M Budget Shortfall in 2024, Says Lightfoot While Defending her Financial Legacy. <https://news.wttw.com/2023/04/18/chicago-faces-85m-budget-shortfall-2024-says-lightfoot-while-defending-her-financial>

¹¹City of Chicago. Mid-Year Budget Forecast.

<file:///C:/Users/424805/Documents/MidYearBudgetForecast.pdf>

¹²City of Chicago. Mid-Year Budget Forecast.

<file:///C:/Users/424805/Documents/MidYearBudgetForecast.pdf>