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MAYOR LIGHTFOOT AND CITY OF CHICAGO FINANCE TEAM PRESENT MID-YEAR BUDGET FORECAST

City projects $85M budget gap in FY2024 and lowest sustained budget gaps in decades for FY2024-2026

CHICAGO — Mayor Lori E. Lightfoot, with Chief Financial Officer Jennie Bennett, Budget Director Susie Park, and Comptroller Reshma Soni, today released the 2022-2026 Mid-Year Budget Forecast, which provides a comprehensive, forward-looking analysis of the City's year-end estimates, future revenues, expenditures, and budget process.

The Mid-Year Budget Forecast shows the sustained financial progress that Mayor Lightfoot has made in achieving structural balance in the City's finances. The Mid-Year Budget Forecast projects an $85M budget gap for FY2024 as well as relatively low gaps of $124M for 2025 and $145M for 2026. To the extent that the FY2024 budget gap is addressed with all structural solutions, the FY2025 budget gap will be $39M. To the extent that the FY2025 budget gap is structured with all structural solutions, the FY2026 budget gap will be $21M.

"This updated Mid-Year Budget Forecast is proof of the work my administration has done to bring about the City's financial turnaround," said Mayor Lightfoot. "As a result, we can now project the lowest sustained budget gaps in decades, following on a very low $127M budget gap in FY2023. And this financial turnaround has been acknowledged independently by the rating agencies through 13 upgrades and three positive outlooks over the last eight months."

These are the first rating agency upgrades for the City of Chicago in 6 to 25 years — or as much as a quarter of a century. Positive outlooks by the rating agencies mean that the City projects to see continued rating upgrades in the next one to two years, or more specifically in late 2023-2024, if it maintains its recent fiscal and budgetary progress, maintains its commitment to structural solutions to the budget, preserves reserves, and continues the Advance Pension Funding Policy.

In FY2022, all four funds were funded on an actuarial calculated basis for the first time in the City's history. For the first time in 15 years, the City's four pension funds saw funded ratios increase in FY2021. In FY2023, the City made a voluntary advance pension contribution of $242M, or nearly a quarter of a billion dollars, and implemented a policy to establish annual employer contributions to keep net pension liability stable. The City has increased its annual employer contribution by $1.3B over the last four years, the largest ramp up of City pensions in any 4-year period in history.

The City has reduced debt by $747M over the last four years and, for the first time in more than 20 years, is now expected to pay down $300M to 400M a year in debt. This increased financial capacity allowed the City to finance the first tranche of the Chicago Works Plan and Chicago Recovery Plan through FY2023 without increasing the City's debt load.

Some of these solutions include the authorization of the first casino in 30 years, which is expected to generate $3B in financial value for the City and $3B for the State, or nearly $200M in annual casino revenues in a steady state. The City also secured the first new water supply contract with the City of Joliet, which is expected to generate nearly $1B of financial value or $30M of annual water revenues.

Further, the Mid-Year Budget Forecast assumes no federal funding is available for budget gap closing in FY2024-2026.

"We've gotten to this structural balance by clearing the decks of large liabilities like pensions, debt and capital, executing on transactions that support the City's financial position like casinos and the Joliet water supply contract, and implementing over $1.2B in structural solutions, all in the midst of the pandemic," said Jennie Huang Bennett, Chief Financial Officer for the City. "There is also no federal funding cliff for the City. The majority of the one-time federal funding was applied toward one-time pandemic revenue loss in FY2021-2023 and the very low sustained out-year budget gaps assume no federal funding is available."

Further, this budget forecast has significantly augmented the transparency measures taken since the start of Mayor Lightfoot's administration. One of the first actions the Mayor took in the FY2020 Budget Forecast was to include pensions and debt service in the projected corporate fund budget gap. Moreover, the Mayor agreed to make quarterly interim financial reports to the City Council and has greatly enhanced community engagement around the budget process.

"Transparency has been a part of the budgeting process since day one of Mayor Lightfoot's administration," said Susie Park, Budget Director. "The budget gaps are the lowest sustained budget gaps in the City's history, while still including all known expenditures such as debt service, pension investment losses, and conservative recessionary revenue assumptions."

The Mid-Year Budget Forecast takes this transparency even further. The budget gaps are fully loaded with a number of expected costs that had not been in previous Budget Forecasts, all while projecting very low sustained budget gaps through the FY2026 projection period. These include debt service for future capital plans, updated pension investment assumptions based on the latest market performance information, and anticipated growth for personnel costs. The Chicago economy continues to show an accelerated recovery which has supported the stability of the City's finances, along with the impact of stimulus and inflation on City revenues. Year-end estimates for FY2022 and the updated budget forecast for FY2023 project a surplus of $554M and $142M, respectively. The City's improved revenue performances tracks to the State and many other municipalities nationally and is in large part due to overperformance of income taxes, personal property replacement tax (PPRT), and personal property lease tax.

The City has assigned the 2022 surplus in the fund balance to create a Pension Advance Fund that will help to pay for advanced pension payments from FY2024-FY2026 above the statutory requirement to stabilize the funded ratios of the four pension funds. This one-time money will help build a bridge toward the structural revenues expected from the casino in FY2027. This surplus will also be used to make continued contributions to the City's Rainy Day Fund, also known as the Operating Liquidity Fund.

Fiscal stability through fiscal discipline has also enabled the City to make historic investments in economic development to help small businesses and repair the social safety net. These investments have totaled $8B of future investments. Each investment plan is the largest in the City's history, including the Chicago Works Plan, the Chicago Recovery Plan, and INVEST South/West. Within each investment plan, there are programs that are individually the largest investments in the City's history in vacant lot clean-up, tree planting program, homelessness, mental health, and violence prevention investments.

The City issued its inaugural social bond, allowing Chicagoans to invest in their own communities. Additionally, building on four years of fines and fees reforms has resulted in a more equitable Chicago.

"Over the past four years, the City has been able to create and sustain equitable financial outcomes through investments that positively impact all areas of the city, fines and fees reforms, and better tax enforcement efforts to ensure all businesses pay their fair share without burdening those individuals and businesses who would be impacted the most," said Reshma Soni, City Comptroller. "This was possible due to the strong fiscal practices that we have implemented to stabilize our finances."

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