Chicago City Council
Office of Financial Analysis

2020

OVERVIEW AND ANALYSIS OF ANNUAL COMPREHENSIVE FINANCIAL REPORT CITY OF CHICAGO

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The Annual Comprehensive Financial Report, or ACFR, is the new name for the Comprehensive Annual Financial Report, or CAFR, and was adopted by the Governmental Accounting Standards Board (GASB) in 2021. The prior acronym, CAFR, sounds very much like an offensive term directed at Black South Africans. Subsequently, the name has been changed to ACFR. The report is used by cities and local governments to provide the public with their financial records each year while complying with GASB guidelines. The ACFR presents a comprehensive picture of the reporting entities' financial condition, depicting how funds are spent, and how funds are allocated throughout the year. The City of Chicago's ACFR is a narrative overview and analysis of the financial activities of the City for the fiscal year ending December 31, 2020. The City of Chicago shall be referenced as the City for the purpose of this overview and analysis.

OVERVIEW OF ACFR'S BASIC FINANCIAL STATEMENTS

This section is intended to serve as an introduction to the City's basic financial statements, which include the following components: (1) government-wide financial statements; (2) fund financial statements, and (3) notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position presents the financial position of the City and its component units. This statement is required to present all financial and capital resources using an economic resources measurement focus and the accrual basis of accounting. For a government body, a statement of activities is like a traditional income or change statement. It is fairly straightforward and lists the revenues and expenses of the government, and, in some cases, the difference between them to show the balance. It is a quick reference to see financial condition of the government.

The financial statements show the City's liabilities and deferred inflows of the City exceeded assets and deferred outflows at the end of the fiscal year (FY) 2019 by a net deficit of $28,421.5 million. The net deficit is comprised of $4,492.3 million in net investment in capital assets and $4,478.4 million in net position restricted purposes, offset by an unrestricted deficit of $37,392.2 million. The impact of the COVID-19 global pandemic reduced the net deficit in 2020 by $1,037.5 million, due to the reduction of non-critical expenditures for both government and business-type activities, and an increase in capital grant contributions and upfront grants funding for the COVID-19 pandemic response efforts. The change in net position for FY 2020 increased primarily due to the COVID-19 pandemic. There is still concern for Chicago taxpayers, stakeholders, and bond rating agencies. The City continues to have a lingering pension issue, as well as projected deficits for FY2021. By using the surplus funds from business-type activities, the risk posed is one of driving other funds into deficits. In light of the present pandemic, multiple Enterprise Fund revenues are projected to be lower than the original projection. The reliance on other funds to balance the budget is neither a fiscally responsible nor a sustainable practice.

Fund Financial Statements

These statements present information about major funds individually and non-major funds in aggregate for governmental and proprietary fund types.

To determine which category the fund falls into, one must ask the question, does it relate to the functions of a typical government? If yes, then it falls under governmental funds, which are used to record and balance cash, data, and liabilities for all activities. Police, fire, other emergency services, and more all fall under this fund type.

Governmental funds include the following:

General Fund
A general fund is the chief operating fund for the entire government. The general fund in part serves as a catch-all fund for resources that are not required or designated for another fund. For example, the tax money generated by the United States federal government goes into the general fund.

Special Revenue Funds
Special revenue funds are used to track the revenue from specific sources restricted to certain purposes. It is the most commonly used fund and is typical for the funding of libraries, schools, and parks. Citizens can see the revenue generated for the building and/or maintenance of these specific sources.

Debt Service Fund
A debt service fund is used to repay long-term debt issued to finance specific government projects. This includes both the principal and interest amounts paid.

Capital Projects Fund
The capital projects fund accounts for financial resources related to the construction of major capital projects or facilities. Capital projects tend to include work on long-lived facilities like libraries or government buildings.

Explanation of Government Funds by Major Groups

There are three major groups of government funds: governmental, proprietary, and fiduciary. In accounting, an account belonging in this fund is often due to the fact it does not fit in other designations.

Governmental Funds

A governmental fund is a grouping used in accounting for *tax-supported* activities completed by the federal government. Its opposite is a proprietary fund, which accounts for *business-like* activities conducted by the government. There are several government fund types, each of which maintains a balance sheet. Under the umbrella of a government fund, a branch demonstrates it spent the money it was allocated correctly through the maintenance of a balance sheet.

Proprietary Funds

This fund source operates as a business. They pertain to providing goods or services to the general public. It covers the services which are important, but not essential to the way a government runs. An enterprise fund is a proprietary fund. Thus, it is used for services the public received on a person-by-person basis. The City's has the following Enterprise Funds (Net Income for FY2020 indicated below):

- O'Hare Airport Fund $285 million
- Water Fund $270 million
- Sewer Fund $96 million
- Midway Airport Fund $32 million

Fiduciary Funds

In January 2017, the GASB issued Statement No. 84 Fiduciary Activities. GASB 84 defines four generic types of fiduciary funds:

Pension and Other Employee Benefits Trust Funds, or OPEB Funds, are used to accumulate resources to fund pension and OPEB plans either as defined in GASB Statement No. 67 or 74, or a qualifying trust.

Investment Trust Funds are used to report the external portion of investment pools held in a qualifying trust. In this case, the 'qualifying trust' definition does not include the irrevocable contribution criteria as it does for Pension and OPEB trusts.

Private-Purpose Trust Funds are those funds held in a qualifying trust (same definition as Investment Trust Funds) that are not required to be reported in Pension (and other employee benefits) or Investment Trust Funds. These funds are used for specific purposes, such as endowments or scholarship funds that were originally defined by the person or organization that gave the funds to the government.

Custodial Funds are used to report fiduciary activities that are not required to be reported as another fiduciary fund type. In practical terms, this equates to what was historically reported in agency funds.

Financial Analysis of the City as a Whole

Net Position - The difference between an entity's assets plus deferred outflows of resources and its liabilities plus deferred inflows of resources represents its *net position*. The net position has the following three components: 1) the difference between entity assets plus 2) deferred outflows of resources and its liabilities plus 3) deferred inflows of resources. The City's liabilities and deferred inflows exceeded assets by $28,421.5 million on December 31, 2020. In 2020, the City invested $4,492.3 million in capital assets, i.e., land, buildings, roads, bridges, etc. less any related debt used to acquire those assets that are still outstanding. The downside is that the assets are not available for future spending. The City's investment in its capital assets is reported net of the related debt. To repay the related debt, the City will use other resources. Subsequently, the capital assets cannot be used to liquidate these liabilities and deferred inflows. The City's net position, $4,478.4 million, represents resources that are subject to external restrictions on how they may be used.

Governmental Activities

Revenues for all governmental activities in 2020 were $8,178.9 million, an increase of $53.6 million from 2019. Approximately 38 percent of the City's revenues were derived from taxes other than property taxes, which decreased by $497.8 million (13.8%). In addition, other revenues decreased by $49.1 million (8.3%), primarily due to the lower interest rates of 2020 driving income reductions, fair market value adjustment, and miscellaneous revenues.

Expenses for governmental activities in 2020 were $7,838.8 million, a decrease of $837.4 million (9.7%) over 2019. The amount that taxpayers paid for these governmental activities through City taxes was $4,577.5 million. $850.3 million of this cost was paid by those who directly benefited from the programs, and $1,289.3 million was paid by other governments and organizations that subsidized certain programs with grants and contributions.

The net position of the City's governmental activities decreased $342.6 million to a deficit of $30,333.5 million primarily due to decreases in general government and public safety expenses, offset by grant and unrestricted contributions.

The City paid $1,461.8 million for the ‘public benefit’ portion with other revenues (federal and state aid, interest, and miscellaneous income). These expenditures were primarily for responding to the COVID-10 pandemic, notably testing, vaccination efforts, housing and rental assistance, and public safety. Although the total net position of business-type activities was $1,912.0 million, these resources cannot be used to make up for the deficit in net position in governmental activities. The City generally can only use this net position to finance the continuing operations of the water, sewer, Skyway, and airport activities.

Business-Type Activities

Total revenues of the City’s business-type activities decreased by $83.5 million in 2020 mostly from a decrease in charges for services, rental income, and other general revenues impacted by the COVID-19 pandemic.

- The Water Fund's total operating revenues decreased by $7.8 million ($1.0%) from 2019 primarily due to an increase in doubtful accounts of $9.1 million (44.6%) resulting from a reduction in collected water charges from prior years’ accounts receivable and the implementation of the Utility Billing Relief program, allowing customers to apply for relief of past-due utility balances.
- The Sewer Fund's total operating revenues decreased in 2020 by $17.1 million (4.9%) primarily due to a decrease in pumpage and penalty relief from the Utility Billing Relief program. In 2020 there was a 2.45% rate increase.
- Chicago O’Hare International Airport’s total operating revenues for 2020 decreased by $347.9 million (27.8%) from 2019 due to drastically reduced passenger flight and passenger activity as a result of the impact of COVID-19 pandemic on travel and tourism.
- Chicago Midway International Airport’s total operating revenues in 2020 decreased by $39.8 million (17.5%) from 2019 due to drastically reduced flights and passenger traffic as a result of the COVID-19 pandemic.

Financial Analysis of the City’s Funds

- The General Fund is the chief operating fund for the City and ended 2020 with a total fund balance of $359.5 million.
- The General Fund expenditures on a budgetary basis were $407.5 million less than budgeted expenditures primarily due to an increase in COVID-19 response-related grant funding that allowed the transfer of expenditures from the General Fund to the respective grant fund to fund COVID-19 response initiatives.
- *Changes in fund balance - The City’s governmental funds decreased by $3.9 million in 2020.*

General Fund Budgetary Highlights

- The City's 2020 General Fund Budget of $4,507.7 million was approved by City Council on November 26, 2019.
- General Fund revenues ended the year $405.4 million below the 2020 Final General Fund Budget primarily as a result of the COVID-19 pandemic.
- Expenditures were $407.5 million less than budgeted amounts as a result of favorable variances in general government expenditures.

Capital Asset and Debt Administration

Capital Assets - The City's capital assets for its governmental and business-type activities as of December 31, 2020, amounted to $28,094.5 million (net of accumulated depreciation). These capital assets include land, buildings and system improvements, machinery and equipment, roads, highways and bridges, and property, plants and equipment.

Debt

At the end of the current fiscal year, the City had $6,646.8 million in General Obligation Bonds, $500.0 million in General Obligation Line of Credit and $107.4 million in General Obligation Certificates and Other Obligations outstanding. Other outstanding long-term debts are as follows: $3,655.8 million in Sales Tax Securitization Corporation Bonds (STSC Bonds); $179.1 million in Motor Fuel Tax Revenue Bonds; $12.1 million in Tax Increment Financing Bonds; and $15,620.3 million in Enterprise Fund Bonds and long-term obligations

Enterprise Fund Revenue Bonds and Notes - The City's total assets increased by $891.0 million. This increase primarily relates to a $350.2 million increase in cash and cash equivalents from COVID-19 grant funding and $492.7 million increase in property tax receivable, accounts receivable and due from other governments.

The City's General Obligation Bonds and Notes outstanding decreased by $654.3 million during the current fiscal year due to payments on General Obligation Bonds and other debt and refunding of $1,620.7 million, offset by $466.5 million General Obligation Bonds and $500.0 million of line of credit issued in 2020.

In January 2020, Fitch Ratings assigned an AA- rating, and Kroll Bond Rating Agency assigned an AA+ rating to the Sales Tax Securitization Corporation's second lien sales tax securitization bonds. The subsequent July 2020 ratings from Fitch Ratings downgraded their ratings on the City's Water to A- from AA- and Wastewater Revenue Bonds (second lien) to A- from AA- as part of a change in their rating methodology. For Sales Tax Securitization Corporation Bonds, the City's deferred outflows increased by $1,189.3 million, due to the issuance of the Sales Tax Securitization Corporation (STSC) Bonds related to future sales tax revenues. Deferred inflows decreased by $1,825.2 million primarily due to changes in assumptions for pension activities.

The City's total liabilities increased by $2,867.9 million primarily due to an increase in long-term liabilities, issuance of STSC Bonds, and the increase in net pension liability and other post-employment benefits.

Economic Factors and Financial Concerns

Regional, national, and global economies play a major role in the City's finances and economic outlook. The COVID-19 global pandemic had a significant impact on economic conditions both globally and locally and will likely continue into the coming year with new variants identified resulting in case surges. The City of Chicago 2021 Budget Forecast anticipates a $783.0 million revenue shortfall, compared to the 2020 budget for FY 2021. This shortfall may be mitigated through a combination of expenditure reductions, increasing revenue policies, and assistance from the federal government.

The City must develop a sound financial strategy to better manage governmental activities to reduce the reliance on business-type activities and to mitigate future risk. The economic downturn coupled with the growing net pension liability and uncertainty about the duration of the pandemic warrants reassessment of the City's future financial positions. This negative outlook will affect the City's ability to borrow, and ongoing unfavorable bond ratings will continue, ultimately negatively impacting taxpayers and City services.