



**Chicago City Council
Office of Financial Analysis**

2022 Budget Forecast & Second Quarter Report Analysis

2022 Budget Forecast for City of Chicago

The following sections review the financial forecast for the 2021 Corporate Fund Year-End Estimates and the 2022 Corporate Fund projections. Projected estimates for the Corporate Fund for 2021 indicate budgeted revenue will exceed expenses by \$210.1 million. The revenue and expense estimates reflect current projections as of August 2021. Total Corporate Fund revenues are projected to be higher than budgeted levels to end 2021. The increase in part is due to the pace of economic recovery from COVID-19.

The 2021 Corporate Fund Expenditures are projected to end the year below budget by \$32.5. Key drivers for the 2021 year-end projected expenditure reduction include reductions in personnel costs and contractual services. The City also has additional obligations of \$1.2 billion for public safety retroactive wage commitments, principal repayment on short-term borrowing to cover COVID-related revenue losses in 2020, and 2021 COVID-related cancellation of a planned refinancing.

The 2022 Corporate Fund Projections estimate a 2022 Corporate Fund gap of \$733 million. The increase is driven by an increase in tax revenue due to the anticipated continued recovery from the impact of COVID. Corporate fund revenues are expected to increase \$179.7 million from the 2021 budgeted amount.

The 2022 expenditures are projected to increase by 912.8 over 2021 budget levels. This increase is driven by personnel, pension, and debt obligations.

Potential gap closing solutions, according to the 2022 Budget Forecast, include American Rescue Plan, or ARP, revenue replacement and other non-quantifiable solutions, such as department efficiencies, financial reforms, and exploring new revenue sources. Will these solutions be tracked to validate the impact? The City is proposing to apply \$782.2 million of the ARP revenue replacement for 2021 eligible operating expenses. The City had a \$500 million refinancing option to offset the 2021 shortfall, and this amount is allowable under stop-loss reimbursement factor, or SLRF, provisions to address the shortfall. The other amount \$282 million may be better utilized elsewhere and the \$450 million short-term debt for the 2020 shortfall should be absorbed. The anticipated FOP contract has a shortfall of \$274.3 million, which can be covered with refunding and from the Corporate Fund. The 2022 Corporate Fund projections have moved downward from \$1,498.6M to \$733.0M, a significant drop. What was the main driver for the huge reduction? Overall, the City has options to cover a tough year. However, it is still difficult to ascertain the length of the COVID economic impact. Therefore, it will be wise to proceed cautiously.

The Amended Obligations should not be included in the 2022 Budget Forecast, but instead integrated into the 2022 Budget Recommendation. As the American Rescue Plan funding has been added to the 2022 Budget Hearings and Approval process, it would have been appropriate to present the Amended Obligations of Public Safety Retroactive Payments \$274.3M, 2021 COVID Revenue Loss Addressed Through Debt \$500.0M, and 2020 COVID Revenue Loss Addressed Through Debt \$450.0M in the 2022 Budget Recommendation. The optics of including the Amended Obligations in the forecast is inept and presumes that the Chicago City Council would perfunctorily approve the Amended Obligations.

Corporate Budget Second Quarter Report

The initial Quarterly City Council Budget Report published by the City of Chicago Office of Budget and Management (OBM) forwarded to the Chicago City Council on Tuesday, August 17, 2021, contained calculation errors. The corrected version was also issued on Monday, August 30, 2021, hence raising questions regarding the accuracy and impact of the 2022 City of Chicago Forecast Projection. In the 2021 Budget Forecasted, the 2022 deficit was projected at \$1,498.6M. Yet, the current deficit is \$733M. Granted, projections tend to fluctuate from year to year. Nonetheless, a change of 49% difference is a severe change. OBM leadership must evaluate the forecasting methodology to ensure accurate calculations for future reports and forecasts.

The Second Quarter Budget report data is insufficient. Adequate data are not provided to make any business decision or an in-depth analysis. The budget quarterly analysis should provide additional details on why there are any discrepancies in budget vs. actuals in the report, present corrective action to address budget changes and plans if revenues do not meet projections, trend analysis of the report's data on the budget cycle, explanations of why revenues and expenditures are at certain levels, identification of areas to improve or be cautious of based on the reports. The timeliness of the report is also critical for making decisions and preparing a meaningful analysis. The Office of Budget and Management provides a revenue report by the 10th of each month, consequently, an expenditure report/quarterly should be produced by 10th – 15th of every month.

The report covers the period January through June 2021 and is an overview of the City's Operating Corporate Fund. No data on revenues or expenses are final until the annual audit is finalized. The City of Chicago balances the budget annually. Monthly revenues are estimated based on expected revenue and historical averages. A reporting change in revenue reporting in this report includes cash received during the reporting period, constituting a precedent without any rationale or explanation offered. The report compares prior-year month actuals 2020, 2021 Budget and Month Collections, and YTD (year to date) Actuals. The comparison between budgeted and collections can provide a snapshot of economic conditions that may impact the forecast much like comparing budget to actuals.

Total revenue collections exceeded the same period budgeted amount by 6.5% or \$88,845. Local tax collected was 4.7% higher than the YTD budgeted amount. State taxes and revenues collections were 50% higher than the budgeted amount for the same period. Proceeds and transfers collections were higher than budgeted by 15.1%. Local non-tax collections were lower than the budgeted amount by 6.7% in large part due to fines, forfeitures, and penalties.

Expenditures YTD through June 2021 were 43.9% of the budgeted amount. Community Services and City Development were the only areas that exceeded 50% of the 2021 Budget amount for the same period. All other areas were under 50% for the period ending June 2021.

Total collections exceeded budget for the first two quarters of 2021. However, it accounts for only 37% of the 2021 annual budget. Note that seasonality, timing, and the impact of the pandemic all impact revenue streams. If the impact of the pandemic continues longer than anticipated, the City of Chicago may continue to see fluctuations in revenue streams that would impede a full recovery.

Revenue Report	2021 Annual Budget	2020 YTD Actuals	YTD Budgeted 2021	YD Collections 2021	Difference	Percent
LOCAL TAX						
Utility Tax	\$ 390,803	\$ 144,699	\$ 148,851	\$ 145,305	\$ (3,546)	-2.4%
Chicago Sales Tax	\$ 63,639	\$ 11,554	\$ 12,189	\$ 13,373	\$ 1,184	9.7%
Transaction Tax	\$ 478,129	\$ 175,911	\$ 188,912	\$ 240,273	\$ 51,361	27.2%
Transportation Tax	\$ 308,693	\$ 106,032	\$ 107,978	\$ 93,422	\$ (14,556)	-13.5%
Recreation Tax	\$ 223,911	\$ 88,572	\$ 80,977	\$ 77,209	\$ (3,768)	-4.7%
Business Tax	\$ 66,122	\$ 16,682	\$ 17,551	\$ 12,796	\$ (4,755)	-27.1%
TOTAL LOCAL TAX	\$ 1,531,297	\$ 543,450	\$ 556,458	\$ 582,378	\$ 25,920	4.7%
STATE TAXES / REVENUES						
Income Tax	\$ 262,279	\$ 90,667	\$ 101,347	\$ 139,188	\$ 37,841	37.3%
Personal Property Replacement Tax	\$ 147,000	\$ 58,837	\$ 61,115	\$ 106,218	\$ 45,103	73.8%
Auto Rental Tax	\$ 3,332	\$ 578	\$ 636	\$ 477	\$ (159)	-25.0%
State Reimbursements	\$ 2,000	\$ 530	\$ 729	\$ 327	\$ (402)	-55.1%
TOTAL STATE TAXES / REVENUES	\$ 414,611	\$ 150,612	\$ 163,827	\$ 246,210	\$ 82,383	50.3%
PROCEEDS AND TRANSFERS						
Reserve Fund Interest	\$ 19,000					
Sales Tax Corporation Residual	\$ 570,179	\$ 131,966	\$ 112,172	\$ 129,074	\$ 16,902	15.1%
Other Proceeds and Transfers	\$ 23,000					
TOTAL PROCEEDS AND TRANSFERS	\$ 612,179	\$ 131,966	\$ 112,172	\$ 129,074	\$ 16,902	15.1%
LOCAL NON-TAX						
Licenses, Permits, and Certificates	\$ 119,200	\$ 54,990	\$ 59,838	\$ 53,828	\$ (6,010)	-10.0%
Fines, Forfeitures, and Penalties	\$ 381,500	\$ 110,812	\$ 176,851	\$ 144,328	\$ (32,523)	-18.4%
Charges for Service	\$ 277,900	\$ 78,052	\$ 84,706	\$ 107,027	\$ 22,321	26.4%
Municipal Parking	\$ 7,600	\$ 3,383	\$ 3,713	\$ 3,990	\$ 277	7.5%
Leases, Rentals, and Sales	\$ 39,300	\$ 3,943	\$ 7,358	\$ 3,728	\$ (3,630)	-49.3%
Interest	\$ 6,500	\$ -				
Internal Service Earnings	\$ 410,732	\$ 117,602	\$ 125,055	\$ 122,990	\$ (2,065)	-1.7%
Other Revenue	\$ 125,820	\$ 69,134	\$ 87,400	\$ 72,670	\$ (14,730)	-16.9%
TOTAL LOCAL NON-TAX	\$ 1,368,552	\$ 437,917	\$ 544,921	\$ 508,561	\$ (36,360)	-6.7%
TOTAL REVENUE	\$ 3,926,639	\$ 1,263,945	\$ 1,377,378	\$ 1,466,223	\$ 88,845	6.5%

ENCUMBRANCES & EXPENDITURES REPORT	ENCUMBRANCES & EXPENDITURES THROUGH JUNE		Percentage Spent
	2021 BUDGET	2021 (millions)	
FINANCE AND ADMINISTRATION	\$ 9.91	\$ 4.29	43.3%
0001- Office of the Mayor	\$ 2.92	\$ 1.32	45.2%
005 - Office of Budget and Management	\$ 3.80	\$ 1.66	43.7%
025 - City Clerk	\$ 64.94	\$ 25.65	39.5%
027 - Department of Finance	\$ 1.61	\$ 0.72	44.7%
030 - Department of Administrative Hearing	\$ 7.77	\$ 2.94	37.8%
031 - Department of Law	\$ 29.82	\$ 12.95	43.4%
033 - Department of Human Services	\$ 6.20	\$ 2.66	42.9%
035 - Department of Procurement Services	\$ 6.12	\$ 2.49	40.7%
038 - Department of Assets, Information and Services	\$ 229.92	\$ 121.63	52.9%
TOTAL FINANCE AND ADMINISTRATION	\$ 363.01	\$ 176.31	48.6%
INFRASTRUCTURE SERVICES			
081 - Department of Streets and Sanitation	\$ 170.13	\$ 82.90	48.7%
084 - Chicago Department of Transportation	\$ 45.17	\$ 17.27	38.2%
TOTAL INFRASTRUCTURE SERVICES	\$ 215.30	\$ 100.17	46.5%
PUBLIC SAFETY			
051 - Office of Public Safety	\$ 30.63	\$ 11.26	36.8%
055 - Police Board	\$ 0.56	\$ 0.16	28.6%
057 - Chicago Police Department	\$ 1,556.83	\$ 748.82	48.1%
058 - Office of Emergency Management and Communications	\$ 10.67	\$ 5.42	50.8%
059 - Chicago Fire Department	\$ 644.44	\$ 300.17	46.6%
060 - Civilian Office of Police Accountability	\$ 13.31	\$ 5.31	39.9%
TOTAL PUBLIC SAFETY	\$ 2,256.44	\$ 1,071.14	47.5%
COMMUNITY SERVICES			
041 - Department of Public Health	\$ 57.34	\$ 36.15	63.0%
045 - Commission of Human Relations	\$ 1.07	\$ 0.40	37.4%
048 - Mayors Office for People With Disabilities	\$ 1.87	\$ 0.94	50.3%
050 - Department of Family and Support Services	\$ 95.39	\$ 71.12	74.6%
TOTAL COMMUNITY SERVICES	\$ 155.67	\$ 108.61	69.8%
LEGISLATIVE AND ELECTIONS			
015 - City Council	\$ 27.76	\$ 11.84	42.7%
039 - Board of Election Commissioners	\$ 13.91	\$ 4.44	31.9%
TOTAL LEGISLATIVE AND ELECTIONS	\$ 41.67	\$ 16.28	39.1%
CITY DEVELOPMENT			
021 - Department of Housing	\$ 9.99	\$ 7.22	72.3%
054 - Department of Planning and Development	\$ 11.91	\$ 4.92	41.3%
TOTAL CITY DEVELOPMENT	\$ 21.90	\$ 12.14	55.4%
REGULATORY			
003 - Office of Inspector General	\$ 7.91	\$ 3.37	42.6%
067 - Department of Buildings	\$ 21.35	\$ 9.63	45.1%
070 - Department of Business Affairs and Consumer Protection	\$ 19.45	\$ 10.15	52.2%
073 - Chicago Animal Care and Control	\$ 7.02	\$ 2.85	40.6%
077 - License Appeal Commission	\$ 0.19	\$ 0.06	31.6%
078 - Board of Ethics	\$ 0.87	\$ 0.37	42.5%
TOTAL REGULATORY	\$ 56.79	\$ 26.43	46.5%
099 - FINANCE GENERAL	\$ 926.87	\$ 263.46	28.4%
TOTAL FINANCE GENERAL	\$ 926.87	\$ 263.46	28.4%
GRAND TOTAL	\$ 4,037.65	\$ 1,774.54	43.9%

Month-End Close Process: Timeliness, Relevance, and Best Practices

Waiting 30 plus days to receive a report is unfavorable. There is a school of thought that a report should tell a story and be a tool for decision-making. Even in companies with an established month-end close, the process should be reviewed on an ongoing basis to allow for improvement in accuracy and timing.

The goal of Generally Accepted Accounting Principles (GAAP) is to provide financial information that is accurate, reliable, and consistent. As financial statements are only valuable when prepared accurately, two elements of accuracy are relevance and reliability. One of the determinants of relevance is timeliness. Timeliness is important simply because financial info provided late is no longer useful nor relevant in decision-making. Timely information and data provide the means to chart entity growth, response to the market, ability to make decisions, and gauge performance against that of competitors.

Overall, the financial reporting function is the crux of an organization. However, monthly financial statements are one of the most strategic tools for an organization: They give management and stakeholders a picture of the financial health of an organization, as well as provide info for decision-making and planning. The month-end close process serves as a roadmap to generating financial statements. This roadmap is very integral, as it must be accurate, timely, efficient, and allow time for review and reconciliation. The stronger the month-end close process directly correlates with the increased accuracy of the financial statements. Simply put, financial statements are only valuable when they are prepared accurately and within a reasonable time period after the month has ended.

An organized, timely month-end close indicates that an entity has a documented protocol to record, review and reconcile financial information. While there may be variations and allowances for size of company, industry, etc., the American Productivity and Quality Center (APQC) posits that the top 25% of performers close their month in 4.8 days or less, the median is 6 days, and the bottom 25% close in 10 days or month. The City falls in the bottom 25% by close in a month.

When an organization examines its month-end close process, these are some best practices to develop, enhance, and/or overhaul:

- Establish a goal/timeline. Who are the end-users? What data would management and other stakeholders (i.e., board, investors, etc.) need to make decisions? When do they need this information? Consider key dates such as outside reporting, board/management meetings, tax reporting, etc.
- Create a standardized, repeatable process. Please consider all areas of the organization, even those outside of finance that directly impacts financial data. This process should be documented with clear cut-offs and due dates. Also, the process should incorporate internal controls.
- Allow time for review. Is there enough time in the close process to allow for manager review? Are there proper levels of review for major components (i.e., manager review of accounts payable transactions)? Is there a proper method to not only identify but also correct errors?
- Proper reconciliation. Are all major accounts reconciled within the close period? Are there proper levels of review?
- Report review. Prior to finalizing the reports, who reviews the reports? Who ensures that there is time for analysis? What reporting tools are in place to ensure that management views necessary and requested information?