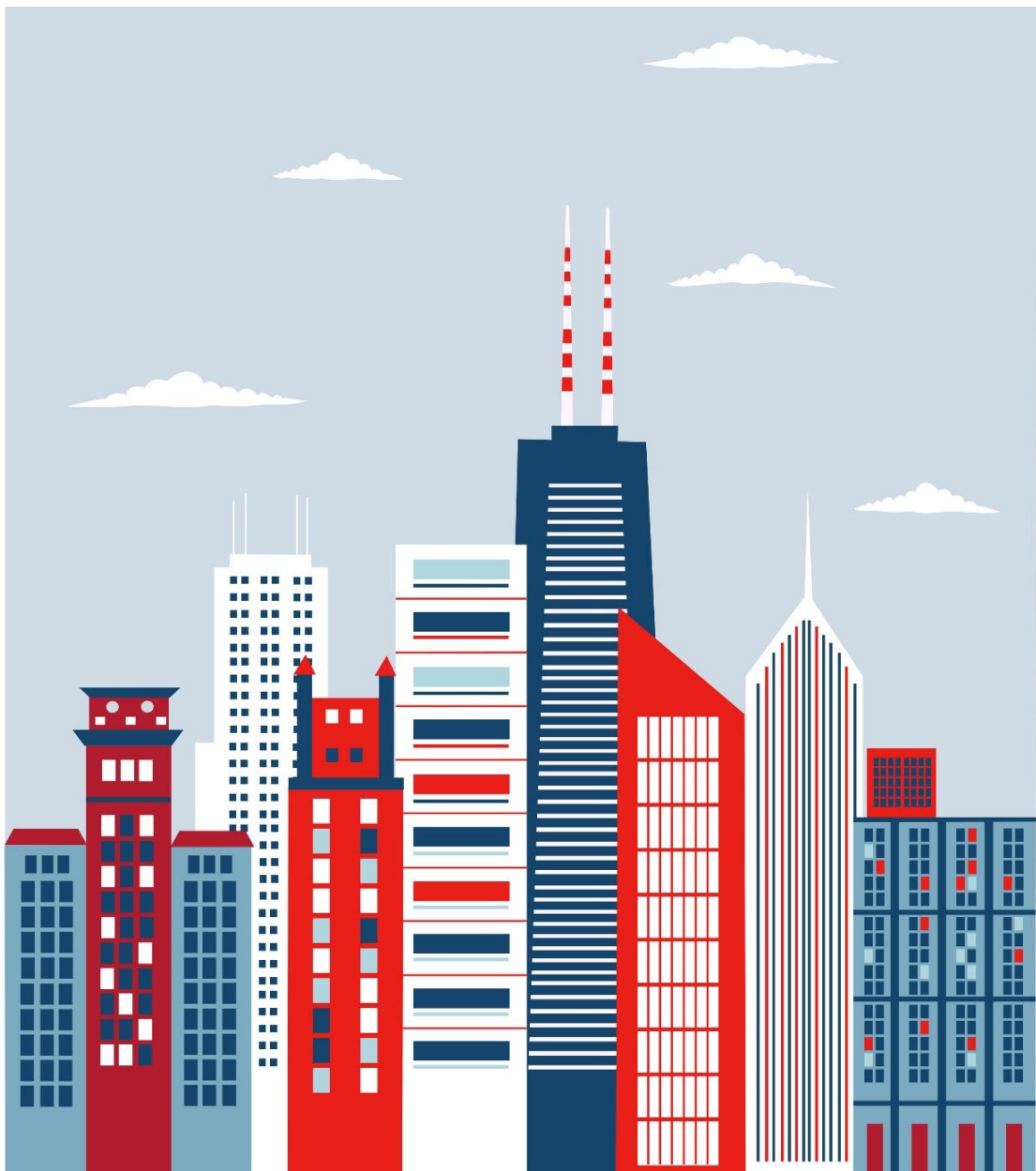




Chicago City Council  
Office of Financial Analysis

# City of Chicago 2022 Budget Analysis



## OVERVIEW

The State of Illinois Municipal Code (65 ILCS 5/) stipulates that the City of Chicago must produce a balanced budget annually. The 2022 City of Chicago budget has a \$733 million corporate fund deficit. The Chicago City Council - Office of Financial Analysis review of the City of Chicago 2022 Budget Recommendation will primarily focus on how the City of Chicago "budget gap" was closed, and the Chicago Recovery Plan.

On Monday, September 20, 2021, the City of Chicago rolled out its 2022 Budget Recommendation totaling \$16.7 billion. The 2022 budget recommendation is 30% greater than the 2021 budget. The City of Chicago was allocated \$1.887 billion from the Local Fiscal Recovery Fund (LFRF) for expenditures incurred beginning March 2021 through December 2024 as components of the American Rescue Plan (ARP). The American Rescue Plan - Local Fiscal Recovery funding is providing \$385 million to cover City services. The City suffered \$1.5 billion of lost revenue — \$885 million in 2020 and \$570 million in 2021 — that is eligible under U.S. Treasury guidance for ARP funding to replace pandemic-related losses. The City will declare a total TIF surplus of \$271.6 million with \$67 million staying with the City and \$150 million going to Chicago Public Schools.

For 2021, there are one-time payments toward recovery initiatives of \$5.75 million and a Chicago Police Department retro payment of \$99.8 million. There is \$13 million planned for the refinancing of the former Michael Reese Medical Center debt to align with payments when revenues from the sale are anticipated. This is noted as a contract savings of \$25 million, reflected in the specific 0140 budgets for 2022.

The budget gap was closed with \$300 million of various cost savings and efficiencies related to fiscal management, cost recovery, healthcare, and personnel savings. For the third consecutive year, the City has found more than \$100 million in savings using that ambiguous assurance of efficiencies - \$141 million in 2020, \$263 million in 2021, and now \$131 million in 2022. Similarly, \$63 million in purportedly improved revenue projections will also help cover part of the budget gap. This maneuver is also another repetition from years past. However, the budget does raise the property tax levy based on previously approved capital spending and an annual increase tied to inflation and a new property coming on to the tax rolls—the one-time source coming from a tax-increment surplus declaration of \$24.9 million. The City will see \$22 million in 2022 debt service savings from a planned \$1.2 billion refinancing, although the bulk of savings, \$232 million, is being taken upfront this year to help cover the \$272 million retroactive price tag of a new police contract.

### **Pension and Borrowing**

The budget recommendation includes a \$77 million increase in the City's property tax levy. The increase comprises \$23 million tied to an increase in the Consumer Price Index. The rising property tax levy also accounts for \$25 million to pay down debt from the 2020 \$3.7 billion capital bond, which will fund the City's five-year 'Chicago Works' infrastructure plan. It also includes \$28.6 million expected from expired tax-increment financing districts and new development. Recurring revenue streams are projected to yield another \$63 million from natural tax revenue growth and \$18.6 million in expected property tax growth from new properties coming online.

A state-imposed requirement caused the City to increase funding for its pension funds. The City's pension expenses will surge from \$1.8 billion to \$2.3 billion. This year's budget makes the full \$2.3 billion payment owed to its four pension funds, by \$461 million. This increase constitutes the first year of contributions to all four City pension funds in an actuarially based year.

The City's collective net pension liabilities stand at \$32.96 billion. The funded ratios range from a low of 18.97% for firefighters to a high of 44.42% for the laborer's fund, 22.96 for the municipal fund at 22.96%, and 22.21% for the police fund.

The City's debt service will rise from \$400 million to \$784 million in 2022. The City will be amortizing \$200 million to \$300 million of principal annually. For years, previous administrations scooped and tossed debt service.

The budget also repays \$450 million of short-term borrowing incurred by the City last December to absorb 2020 pandemic hits during the wait for a possible new stimulus package passed by the federal government upon the Biden administration taking office in January 2021. The City is also planning on interim O'Hare Airport financing this year. The City has approximately \$400 million of bonds callable in 2024. The City is rated Ba1 by Moody's Investors Service, which recently revised the outlook to stable from negative, and A rating by Kroll Bond Rating Agency, which recently revised the outlook.

City reserves of approximately \$1 billion will hold steady, including fund balances. The City will replenish \$30 million in 2021 but will not make an annual \$5 million contribution to the rainy-day fund in 2022. The City will tap short-term credit lines — an existing one from JPMorgan and another is in the works — to raise initial funds for both the \$3.7 billion multi-year capital budget approved in 2020, which depends on \$1.6 billion of new borrowing over several years and the newly proposed \$660 million that will not be drawn entirely in 2022. A total of \$1.8 billion of borrowing is expected through 2025 for capital and the recovery plan.

### **Finance General**

The Finance General category represents cross-departmental expenses, such as information technology systems, employee benefits, contributions to employee pension funds, and long-term debt service payments. Following are the Finance General appropriations proposed for the 2022 budget:

#### **General Financing Gap Initiatives**

- A one-time Chicago Police Department retro payment that was budgeted in 2021 resulting in a decrease of \$99.8 million.
- Driven by increased projected costs in healthcare claims and prescriptions, Finance General increased by \$12 million.
- Deferred compensation match increase by \$4 million for Laborers and Coupe contracts.
- Finance General increased by Chicago Police Department entry and promotional exam costs of \$6 million.
- The Joint Public Safety Center's materials and supplies will be coming online in 2022, warranting an \$800,000 increase.
- An increase in insurance payments for settlement and judgment cases went up by \$7.9 million.
- Changes to existing grants requiring an increased match, and new anticipated grant matches. These grants include required increases for the COPS Hiring Grant (\$6.7 million increase); new Body Worn Camera Grant (\$700,000); new Port Security grants (\$562,000); new ArtWorks and DCASE private grants (\$600,000), reflecting \$8.6 million total increase.
- Corporate fund subsidies to other Funds: Fund 346 (CPL); Fund 355 (DCASE); Fund 0996 (AHOF), and Fund 0B41 (NOF) for a total increase of \$24 million.
- Reduction of one-time recovery initiatives that were included in the 2021 budget, a reduction of \$5.75 million.

- 2021 contract savings which are now reflected in the specific 0140 budgets for 2022, a reduction of \$25 million.
- Decrease due to refinancing Michael Reese debt to align with payments when revenues from the sale are expected, reduction of \$13 million

<b>FINANCE GENERAL</b>	
Program Summary and Description	2022 Funding
<b>PENSION FUNDS</b>	<b>\$2,332,330,000</b>
<ul style="list-style-type: none"> <li>• For payment to employee annuity and benefit funds</li> </ul>	
<b>LOSS IN COLLECTION OF TAXES</b>	<b>\$11,902,218</b>
<ul style="list-style-type: none"> <li>• For anticipated loss in collection of the property tax levy.</li> </ul>	
<b>FINANCE GENERAL</b>	
<b>Employee Benefits:</b>	<b>\$446,545,805</b>
<ul style="list-style-type: none"> <li>• For payment of employee and annuitant benefits.</li> </ul>	
<b>Workers' Compensation</b>	<b>\$71,530,800</b>
<ul style="list-style-type: none"> <li>• For payment of claims under workers' compensation, excluding such claims for the public safety and aviation departments.</li> </ul>	
<b>Payment of Judgments</b>	<b>\$54,572,419</b>
<ul style="list-style-type: none"> <li>• For payment of judgments, settlements, and outside counsel related to non-public safety litigation</li> </ul>	
<b>Debt Service</b>	<b>\$2,440,270,228</b>
<ul style="list-style-type: none"> <li>• For payment of principal and interest on outstanding bonds, notes, and other debt instruments.</li> </ul>	
<b>Other Citywide Expenditures</b>	<b>\$590,646,746</b>
<ul style="list-style-type: none"> <li>• For other Citywide expenditures that do not fall within any single department's budget, including insurance premiums, accounting, and auditing expenses, Citywide IT systems and maintenance, and matching funds for grants.</li> </ul>	

## GAP ANALYSIS

The City of Chicago was allocated \$1.887 billion from the Local Fiscal Recovery Fund ("LFRF") for expenditures incurred (subject to ARP criteria) beginning March 2021 through December 2024. The 2022 City budget faced a \$733 million deficit to the Corporate Fund. The proposed total Corporate for 2022 is \$4.9 billion.

The Budget gap was solved with a combination of solutions of \$298.2 million in savings and efficiencies and \$491.1 million in additional resources. The savings and efficiencies consist of \$46.2 million in personnel savings, \$21.6 million in healthcare savings, \$99 million in cost recovery, bolstered by \$131.4 million in fiscal management improvements.

In the 2022 budget recommendation, the City plans to invest \$56.3 million in building a better Chicago by increasing safety and opportunities while providing fiscal relief. The investment plan consists of \$24.3 million in fund support, \$15 million in enhanced City services, \$3.4 million in Community Commission for Public Safety and Accountability, and \$13.6 million in operational increases. ARP funding provided the 2022 leverage and available federal financial assistance with an additional \$159 million in structural solutions to close the budget gap.

### American Rescue Plan - Local Fiscal Recovery

The City of Chicago created the Local Fiscal Recovery Fund (LFRF) through the passage of the American Rescue Plan Act. This creates a once-in-a-generation opportunity to rightfully address the City of Chicago's most pressing social, economic, and public safety challenges. The investment strategies focus on investing in families and neighborhoods, public safety, and Chicago's economic engine.

The Thriving and Safe Communities initiatives will provide (i) urgent financial support to families; (ii) access to summer and after-school programs for youth; (iii) public health services, including mental health, maternal health, and access to healthy food; (iv) increased access to educational opportunities for low-income youth and families; (v) violence reduction strategies and support for victims of violence, and (vi) housing support for those at-risk of homelessness. Investments in these areas seek to address the root causes of community violence to create safer communities and allow families to thrive.

Equitable Economic Recovery initiatives will provide communities support in the form of long-term investments through workforce support, place-based development, improvements to the City's infrastructure and ability to supply services to residents, and funding for arts and culture to drive economic growth and build wealth in historically underserved areas.

Essential Government Services funds will be used to cover costs for City departments for the provision of essential government services. Essential Government Services entail responsibility for parks and recreation services, police and fire departments, housing services, emergency medical services, transportation services (including public transportation), and public works (streets, sewers, snow removal, signage, and so forth).

The following matrix breaks out the American Rescue Plan - Local Fiscal Recovery Fund \$1,886.6 million.

<b>American Rescue Plan - Local Fiscal Recovery Fund \$1,886.6 million</b>		
<b>Thriving &amp; Safe Communities</b>	Assistance to Families	\$126.0 million
	City Priorities for Health and Wellness	103.0 million
	Violence Prevention	85.0 million
	Environmental Justice	9.0 million
	Homelessness Support Services	32.0 million
	Youth Opportunities	65.0 million
<b>Equitable Economic Recovery</b>	Arts and Culture	16.0 million
	Community Development	30.0 million
	City Digital Infrastructure	10.0 million
	Small Business and Workforce Support	71.0 million
	Tourism and Industry Support	20.0 million
<b>Essential Government Services</b>	Essential City Services	1,319.6 million

## Budget Sustainability

The Budget Sustainability for the 2022 City of Chicago Proposed Budget has three (3) categories: Investments - \$56.3 million; Savings and Efficiencies - \$298.2 million, and Increased Revenue \$491.1 million.

Investments are parsed by Fund Support \$24.3 million, Enhanced City Services \$15 million, Community Commission for Public Safety and Accountability \$3.4 million, and Operational increases \$13.6 million. The Fund Support category has a one-time impact, while Enhanced Services and Community Commission for Public Safety and Accountability has the potential for sustainability if the cost will be integrated into future budgets.

Savings and Efficiencies have four (4) categories: Personnel Savings \$46.2 million; Healthcare Savings \$21.6 million; Improved Fiscal Management \$131.4 million, and Cost Recovery \$99 million. The Savings and Efficiency category items all have a one-time impact and are not sustainable.

Increased Revenues has four (4) categories: American Rescue Plan for Essential Services \$385 million; Additional TIF surplus \$24.9 million; New Property Growth \$18.6 million, and Improved Revenue Projections \$62.6 million. The only item with the potential for sustainability in this category is the New Property Growth, and this is dependent on the rate change with variables of the market and the economy.

The bulk of increased revenue comes from the ARP \$385 million, the absence of which would have made closing the gap challenging. The saving/efficiencies, increased revenue, and investments need to have additional detail. What is the detail of Fund support? What has enhanced City services? What mechanisms are in place to track the savings and efficiencies? How will we know if the goal was achieved? Will the increased revenues also have a tracking mechanism in place to ensure we reached our revenue goals?

It is critical to ensure the savings and efficiencies are real, given the precedent of claims of improved fiscal management subsequently proven unfounded. The City has been mired in a financial hole for years, and the COVID-19 global pandemic further exposed the problem. When the federal money is gone, Chicago will be left with higher debt and funding issues. This is the budget of equity. The City's poor, minority and marginalized residents will suffer most if Chicago ends up borrowing more, slashing services, and raising taxes borne of a misstep. At this point, the City cannot afford a misstep.

Category	Activity	Amount	Sustainability
<b>Investments \$56.3 million</b>	Fund Support	\$24.3 million	No – One Time Impact
	Enhanced City Services	\$15 million	Yes – Cost will have to be integrated into future Corporate Budgets
	Community Commission For Public Safety And Accountability	\$3.4 million	Yes – Cost will have to be integrated into future Corporate Budgets
	Operational Increases	\$13.6 million	No – One Time Impact
<b>Savings and Efficiencies \$298.2 million</b>	Personnel Savings	\$46.2 million	No – One Time Impact
	Healthcare Savings	\$21.6 million	No – One Time Impact
	Improved Fiscal Management	\$131.4 million	No – One Time Impact
	Cost Recovery	\$99 million	No – One Time Impact
<b>Increased Revenues \$491.1 million</b>	American Rescue Plan For Essential Services	\$385 million	No – One Time Impact
	Additional TIF Surplus	\$24.9 million	No – One Time Impact
	New Property Growth	\$18.6 million	Yes – Rate will fluctuate depending on market and economy
	Improved Revenue Projections	\$62.6 million	No – One Time Impact

## **SWOT Analysis**

SWOT Analysis presents a simple, highly useful framework for analyzing the organization's strengths, weaknesses, opportunities, and threats (SWOT). The following is a SWOT Analysis for the City's 2022 Budget Recommendation.

The SWOT analysis is used to evaluate the position of the City of Chicago's 2022 Budget and to develop strategic planning. The analysis assesses internal and external factors that impact the City as well as current and future potential. The 2022 Budget proposal includes a one-time \$1.9 billion ARP funding to rebuild Chicago into a safer, stronger, and more prosperous city for all Chicago residents. The 2022 budget is nearly 60% higher than the pre-COVID 2019 budget and is set to implement an equity agenda. The internal strengths and weaknesses, or variables, of the City of Chicago, are some elements controllable and changeable by City action.

Recall that the State of Illinois Municipal Code (65 ILCS 5/) requires the City to produce a balanced budget. Therefore, the appropriated expenditures must not exceed the number of estimated resources. The 2022 balanced budget is an internal strength since resources have been identified to match appropriated expenditures. Another strength recognized in the SWOT analysis is the ARP funding of almost \$1.9 billion. ARP funding can be used to address increased expenditures and replenish lost revenue due to the pandemic. In addition, the funds can be used to mitigate further economic harm. The City of Chicago can use the funding to respond to the COVID-19 emergency and its economic effects by providing aid directly to households, small businesses, non-profits, and hard-hit industries like tourism and hospitality. ARP funds are prohibited for pension payments and offsetting revenue shortfalls caused by tax cuts occurring on or after March 3, 2021. This gives the City flexibility to implement programs to rebuild Chicago with programs related to community service, increasing funding for public safety and mental health, which are all internal strengths in the SWOT analysis and support successful outcomes.

Internal weaknesses recognized in the SWOT analysis include non-compliance with COVID and ARP funding. There are very few guidelines describing approved relief funds distribution methods for local municipalities. Regardless, the City of Chicago must maintain compliance with the requirements of this one-time funding stream. Chicago pension debt continues rising. The City owes over \$30 billion to the four-employee pension funds representing police officers, firefighters, municipal employees, and laborers, according to the 2020 Certified Annual Financial Report. The pension issue is a weakness and remains underfunded. Another internal weakness is the lack of a long-term financial solution plan. The City's 2022 budget is setting up various new programs and will have millions in additional program expenses and higher debt without a plan for the way to pay them. The one-time revenue and savings solutions are yet another internal weakness. Again, more detail is needed, and a tracking mechanism should be in place to track the progress of each. Staffing for new programs is an internal weakness related to the lack of a long-term financial plan. Once the staffing is in place, how will the staffing and programs be sustained? Closely related to staffing for new programs is the implementation plan for new programs and the lack of performance measures. If it cannot be tracked, how can progress or failure be identified? Borrowing is also identified as an internal weakness. Borrowing is not free, and the cost to patch a budget deficit now with higher debt repayment later will fall to the taxpayers.

External factors are threats and opportunities. Threats are elements in the environment that could cause trouble in meeting the City's objectives. Opportunities are elements in the environment that the City can exploit to its advantage. External threats would include another COVID outbreak or another variant that is not responsive to the current vaccinations. This could potentially wreak more havoc than the initial outbreak, depending on the severity. Inflation is another external threat: Inflation creates uncertainty, and, when the cost of living increases rapidly, organized labor applies pressure to keep wages current with

inflation levels. The economic downturn is another threat and often causes spending cuts and increased taxes. Another external threat is bond rating decline: When the bonds are downgraded (credit rating lowered), the bond price declines, investors sell off and this drives up borrowing costs for the City. External strengths for the 2022 Budget SWOT include Federal Government providing more stimulus dollars, which would inject dollars to possibly help plug budgetary gaps. Three closely related external strengths: a decrease in the COVID rate, the majority of individuals vaccinated, and vaccination developed for children under 12. These factors would allow for a faster recovery and economic growth. And lastly, a favorable bond rating would be a strength, as it would entice investors. There is a correlation between bond ratings and interest rates. A favorable bond rating indicates the credit quality and the ability to pay the bond's principal and interest timely.

The analysis has laid out the strengths, weaknesses, opportunities, and threats to better aid the City of Chicago is making a sound business decision on the upcoming 2022 Budget.

### 2022 Budget SWOT MATRIX

INTERNAL FACTORS	
STRENGTHS (+)	WEAKNESSES (-)
<ul style="list-style-type: none"> <li>• 2022 Balance Budget</li> <li>• ARP Funding</li> <li>• Investment in program and community service</li> <li>• Increase funding to Public Safety</li> <li>• Investment in essential government services</li> <li>• Increase funding for Mental Health</li> <li>• Human Capital Information (Employees)</li> <li>• Improves decision making</li> <li>• Equity inclusion</li> <li>• Hollywood of the Midwest</li> <li>• Combating structural racism</li> </ul>	<ul style="list-style-type: none"> <li>• One time revenue and saving solutions</li> <li>• Absence of a long-term financial solution plan</li> <li>• Pension deficit</li> <li>• Non – compliance with COVID and ARP funding requirements</li> <li>• Many vacant positions for existing and new programs</li> <li>• Take 90 – 120 days to hire for a position</li> <li>• Lack of a strategic plan and program development for new initiatives</li> <li>• Lack of performance measures/Return on Investment (ROI)</li> <li>• Multiple-year practice of scooped-and-tossed debt service.</li> <li>• Multiple-year practice of Borrowing</li> <li>• Drill down detail for Investments and Savings/Cost Efficiencies.</li> <li>• Accountability: Audits, Program Evaluation</li> <li>• Competing Demands</li> </ul>
EXTERNAL FACTORS	
OPPORTUNITIES (+)	THREATS (-)
<ul style="list-style-type: none"> <li>• Federal Government provide additional funding</li> <li>• COVID rate decrease</li> <li>• Economy improves</li> <li>• The majority (75%) of the population becoming vaccinated</li> <li>• Vaccination developed for children under 12</li> <li>• Bond-rating upgrade</li> </ul>	<ul style="list-style-type: none"> <li>• COVID outbreak continues/New variants</li> <li>• Economic Inflation</li> <li>• Economic downturn</li> <li>• Bond-rating downgrade</li> <li>• Natural Disaster</li> <li>• Cyber Attacks</li> <li>• Competitive Job Market</li> <li>• Federal government shutdown</li> <li>• Chicago Bears move leave Chicago</li> </ul>



## **FINDINGS AND CONCERNS**

The projected \$733 million budget gap was closed with primarily one-time initiatives and \$159 million of recurring and cost savings. The savings and efficiencies identified in the 2022 budget total \$298.2 million, \$131.4 million of the total reflects improved fiscal management. There is scarce information on how the City will achieve the \$131.4 million in efficiencies. This has been promised in previous budgets: \$263 million in 2021, and \$141 million in 2020. Another identified savings in healthcare cost reflecting \$21.5 million reductions in healthcare cost, once again offering few specifics on method for achieving this goal. The recommended budget anticipates a \$99 million cost recovery savings, identifying a \$25 million reduction from sweeping old accounts. Yet, the remainder of the cost recovery savings has not been identified. The \$298.2 million savings and efficiencies have very little detail. Therefore, it cannot be tracked and verified. The savings and efficiencies gains appearing in the budget recommendation are less than transparent. There is a lack of performance measures and status reporting to identify when the savings and efficiencies are achieved.

The City receiving the ARP funds in May 2021 is a once-in-a-generation opportunity. Due diligence would suggest the allocation of the ARP funds occur separately from the 2022 annual budget. The ARP funding could have been presented during the summer months for approval to accelerate the implementation of programs and spending of funds throughout the City, especially amidst a labor shortage, lack of developed programs, strategic plans, and implementation plans.

A strong, broad budget narrative was presented by the City. However, it lacked specifics and details. This, in turn, limits accountability, and measurement of budget initiatives related to investments, cost-saving, and revenue. The budget recommendation format and layout lack clarity and conciseness. The budget recommendation is not user-friendly, and readability can be challenging. The budget recommendation needs to pivot away from primarily focusing on the Corporate Fund to All Funds, moving to a department-driven budget that lists all the funds that support a department. The budget book would become a more user-friendly document to the Council, taxpayers, and stakeholders. This provides clarity, and better transparency--no longer flipping through multiple budget books trying to connect the dots.

The assessment evaluates the set (or subset in this case) of indicators based on their impact on the six core dimensions:

1. The credibility of the budget – The budget is realistic and is implemented as intended.
2. Comprehensiveness and transparency – The budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public.
3. Policy-based budgeting – The budget is prepared with due regard to government policy.
4. Predictability and control in budget execution – The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds.
5. Accounting, recording, and reporting – Adequate records and information are produced, maintained, and disseminated to meet decision-making control, management, and reporting purposes.
6. External scrutiny and audit – Arrangements for scrutiny of public finances and follow-up by the executive are operating.

Performance measurement is essential for fostering organizational improvement. The significance of having an effective performance measurement process has only grown as organizations large and small realize that long-term success depends on reaching goals with limited failure in today's highly competitive market world. The importance of performance measurement is not always easy to justify, but it is necessary for performance improvement in the long run. Effective performance measurement helps an

organization identify their strengths and weaknesses, top high performers, areas for improvement, and helps set benchmarks with historical data.

The Budget Quarterly Report should incorporate performance measures, status updates, and completion rate status. Each budget initiative should have a scorecard detailing the goal, implementation plan, deliverable, and resources required. The Annual Budget Forecast should provide the prior budget year performance measure report card.

### **Challenges**

The economic challenges loom large. Pension costs are skyrocketing, squeezing city budgets by more each year and forcing lower public investments than what is necessary to address crime, youth joblessness, homelessness, worker skill shortages, and a declining quality of municipal services. Only constitutional pension reform would avail the funds necessary to improve the quality of services, uplift the City's most vulnerable residents and return the City to its glory days. The City needs new private and public investments more than ever to help Chicagoans that are currently feeling the pinch to find good-paying jobs. Chicago needs the Illinois General Assembly (ILGA) to act before pension reform can become a reality. Until state lawmakers get serious about providing relief, the City's leader must demand reform. In 2023, pension funding will be driven by an actuarial schedule. The actuarial schedule may make it easier to budget pension cost

### **Labor Shortage**

Despite having a young, highly skilled population with relatively higher COVID-19 vaccination rates, Chicago ranks second to last—behind only San Francisco—among the 20 largest metropolitan statistical areas, or MSAs, in jobs recovered from pandemic losses. Chicago area is still missing 50% of COVID-related job losses. The bad news is that Chicago property taxes are set to increase again, despite payrolls in the Chicago area remaining down approximately 340,000 jobs, or 7%, relative to the pre-pandemic period. Chicago faces violent crime, corruption, and the City's latest budget suggesting that employment growth in the City is likely to remain stuck in neutral.<sup>i</sup>

Five Factors Driving the Labor Shortage: The COVID-19 pandemic didn't cause the labor shortage, but it certainly amplified the tightened labor market and accelerated the future state of work, particularly for blue-collar workers. Other factors that contribute to labor challenges include the increase in e-commerce, demographic shifts, the evolution of the gig economy, lack of access to and high cost of childcare, and pandemic relief and unemployment benefits.<sup>ii</sup>

Nearly 90 percent of 1,200 employers surveyed by the Society for Human Resource Management (SHRM) said they were struggling to fill open positions this summer, and 73 percent reported a decrease in applications for those hard-to-fill positions. There is not actually a labor shortage—defined as not enough available workers to fill open jobs—because there are 9.5 million people classified as unemployed and looking for work, and 9.2 million job openings. The number of people looking for jobs even grew in June, according to the Bureau of Labor Statistics.<sup>iii</sup>

SHRM also polled 1,000 unemployed Americans who were laid off or left their jobs during the pandemic—the majority of whom worked hourly jobs in industries heavily impacted by the health crisis, such as foodservice and retail. The top reason for remaining unemployed, cited by 42 percent of respondents, was not having received any responses to jobs for which they've applied.

Additional primary reasons for continued unemployment included fear of being exposed to COVID-19 (32 percent), being offered less pay than their previous job (29 percent), and preparing for a career shift (17 percent). Those who voluntarily left their job during the pandemic are more likely to say they are using

this time to prepare for a career shift than those who were laid off from their jobs. Just 11 percent of respondents said the expanded unemployment benefits made it possible to be more selective about a new job, and 9 percent said they're earning more through unemployment benefits than they would with a job.

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<sup>i</sup> <https://www.chicagobusiness.com/orphe-divounguy-economy/chicago-lags-other-cities-job-gains-coming-out-covid>

<sup>ii</sup> <https://www.supplychainbrain.com/blogs/1-think-tank/post/33614-why-the-us-labor-shortage-isnt-going-away-anytime-soon>

<sup>iii</sup> <https://www.shrm.org/resourcesandtools/hr-topics/talent-acquisition/pages/labor-shortages-the-disconnect-solutions-unemployment-benefits-childcare-covid-fear.aspx>