



Chicago City Council
Office of Financial Analysis

2022

REVENUE AND SAVING OPPORTUNITIES



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REVENUE OPTIONS

Gambling Machine Tax

In 2013 Cook County instituted a tax on electronic gambling machines (Gambling Machine Tax). The tax rate is \$1,000 per electronic gambling device per year (example: slot machine) and \$200 per year for video game terminals (example: video poker). The Gambling Machine Tax is estimated to generate \$5.5 million in FY2020, this projection is significantly higher than FY2019 revenue of \$2.2 million as additional machines are brought online. The revenue increase is due to the expansion of Gaming in Illinois.

The FY2020 gambling machine tax revenue estimate is \$5,500,000. The population of Chicago accounts for 52.62% of the population in Cook County (2019 Cook County Population \$5.15 million, 2019 Chicago population \$2.71 million) we can extrapolate the tax revenue allocation for the City of Chicago being \$2,894,100.

Cook County Government. (2020). Revenue Estimate. Retrieved from https://www.cookcountyil.gov/sites/default/files/revenue_estimate_presrec_2020.pdf.

Local Income Tax (Progressive)

Local governments in several states impose a local income tax. Local taxes are in addition to federal and state income taxes. Local income taxes generally apply to people who live or work in the locality. A progressive local income tax rate is based on someone's income level increases. The Local Income Tax revenue could be applied to the City of Chicago's growing pension liability. Indiana, Iowa, and Missouri are three neighboring states that impose local income taxes from 1% to 9%.

The following states charge a local tax:

1. Alabama
2. California
3. Colorado
4. Delaware
5. Indiana
6. Iowa
7. Kansas
8. Kentucky
9. Maryland
10. Michigan
11. Missouri
12. New Jersey
13. New York
14. Ohio
15. Oregon
16. Pennsylvania
17. West Virginia

Saving Options

Special Revenue Fund - Violence Prevention and Mental Health Co-Responder

A Special Revenue Fund should be created for Violence Prevention and Mental Health Co-Responder. The funding source for this Special Revenue Fund should derive from 15% - 25% of the Fines, Forfeitures, and Penalties. Year one of the Special Revenue Fund should start with 15% of the Fines, Forfeitures, and Penalties revenue source. The following years of the Special Revenue Fund should increase by 2% for five years capping the rate at 25%. Based on the 2021 revenue projection of \$381.5 million at 15% this would provide \$57.2 million for the Violence Prevention and Mental Health Co-Responder.

Chicago Police Department (CPD) Liable Policy

The Chicago Police Department (CPD) has a budget of \$82.6 million for legal settlements and judgments. Historically, this has been a long-term problem for the City with little to no means to curtail this issue. In the effort to reduce the long-term issue of legal settlements and judgments with CPD, it is recommended that if a member of the Chicago Police Department is found liable for their actions. The member of the Chicago Police Department found liable in a legal settlement or judgment shall be responsible for 25% of the amount. The liable member of CPD would have some skin in the game and help deter transgressive behavior. Couple with reducing the amount of the City's legal settlements and judgments. The following chart below displays an example of the liable member's payout.

Example:

Legal Settlement/Judgment Amount	Liable Member of CPD 25%
\$100,000	\$25,000
\$500,000	\$125,000
\$1,000,000	\$250,000
\$1,500,000	\$375,000
\$2,000,000	\$500,000
\$2,500,000	\$625,000
\$3,000,000	\$750,000

**Side note, often CPD works 2nd jobs, if they are sued on a second job it appears this also hits CPD legal settlements, if this is true should they be liable for any cost from litigation on a non-CPD assignment, or should they pay a higher percentage than proposed above – this would also encourage them to get additional insurance to cover their liability.

Strategic Sourcing in Government

Strategic sourcing is a procurement process that aligns data collection, spend analysis, market research, negotiation, and contracting. The main goal in strategic sourcing is to leverage a single integrated system to enhance profitability.

The United States Government and Accountability Office (GAO) studied Strategic Sourcing because they believed the GAO was not leveraging its aggregate buying power. Strategic sourcing is a process that

moves from multiple procurement partners to a broader aggregate approach and allows organizations a savings of 10 to 20 percent, this saving would also help control spending. Applying this savings rate to the Federal government would equal more than a \$50 billion cost savings. As a result, the Office of Management and Budget directed agencies to establish the Federal Strategic Sourcing Initiative (FSSI) program to utilize Strategic Sourcing and manage government efforts. The primary goals of FSSI are to 1) strategically source across federal agencies 2) establish mechanisms to increase total savings 3) collaborate with industry to develop optimal solutions 4) share best practices and 5) create a strategic sourcing community of practice.

Initially, the FSSI program managed little spending through strategic sourcing but reported significant savings. In 2011, the program managed \$339 million through several governmental initiatives and reported \$60 million in savings (18%). There is a renewed focus on maximizing efficiencies in the procurement process to realize cost savings. In government, procurement is generally decentralized therefore the government is not fully leveraging its aggregate buying power and could benefit from the adoption of strategic sources practices to obtain the most advantageous terms and conditions for its procurements.

The United States General Service Administration (GSA) also used the FSSI program. The FSSI Office Supplies solution was the result of a collaborative team effort among sixteen federal agencies. Benefits of the office supply strategic sourcing include purchasing alignment with existing agency procurement practices, economies of scale, consolidating orders with the new delivery order discounts and save as discounts are triggered on individual orders, provide ease of ordering, point of sale compliance, ensuring that purchase card users automatically receive the agreed-upon price and simplifying data collection and allowing agencies and departments to better manage expenditures and measure cost avoidance. Although the information presented is from the Federal government, the benefits can be seen in any governmental agency. For the City of Chicago, if we look at how much was spent on Commodities which include office supplies, repair parts for City vehicles, small tools and equipment as well as the cost of utilities and motor fuel it would total approximately \$71 million, anticipated savings from strategic sourcing is between 10 – 20%, using this scenario the City would save between \$7 – 14 million, significant cost savings. Strategic sourcing allows agencies to consolidate their purchasing power and develop channels of supply at the lowest total cost. Strategic sourcing processes aim for continuous improvement and re-evaluation of the purchasing activities of an agency.

Sources:

GAO, Report to Congressional Committees, Strategic Sourcing, September 2012. Retrieved from: <https://www.gao.gov/assets/gao-12-919.pdf>

GSA, U.S General Services Administration, Federal Strategic Sourcing Initiative (FSSI).

Retrieved from: <https://www.gsa.gov/buying-selling/purchasing-programs/federal-strategic-sourcing-initiative-fssi>

City of Chicago, 2021 Budget Overview (Financial Summaries). p.48.

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Telecommuting – Cost-Benefit of Lease Rightsizing

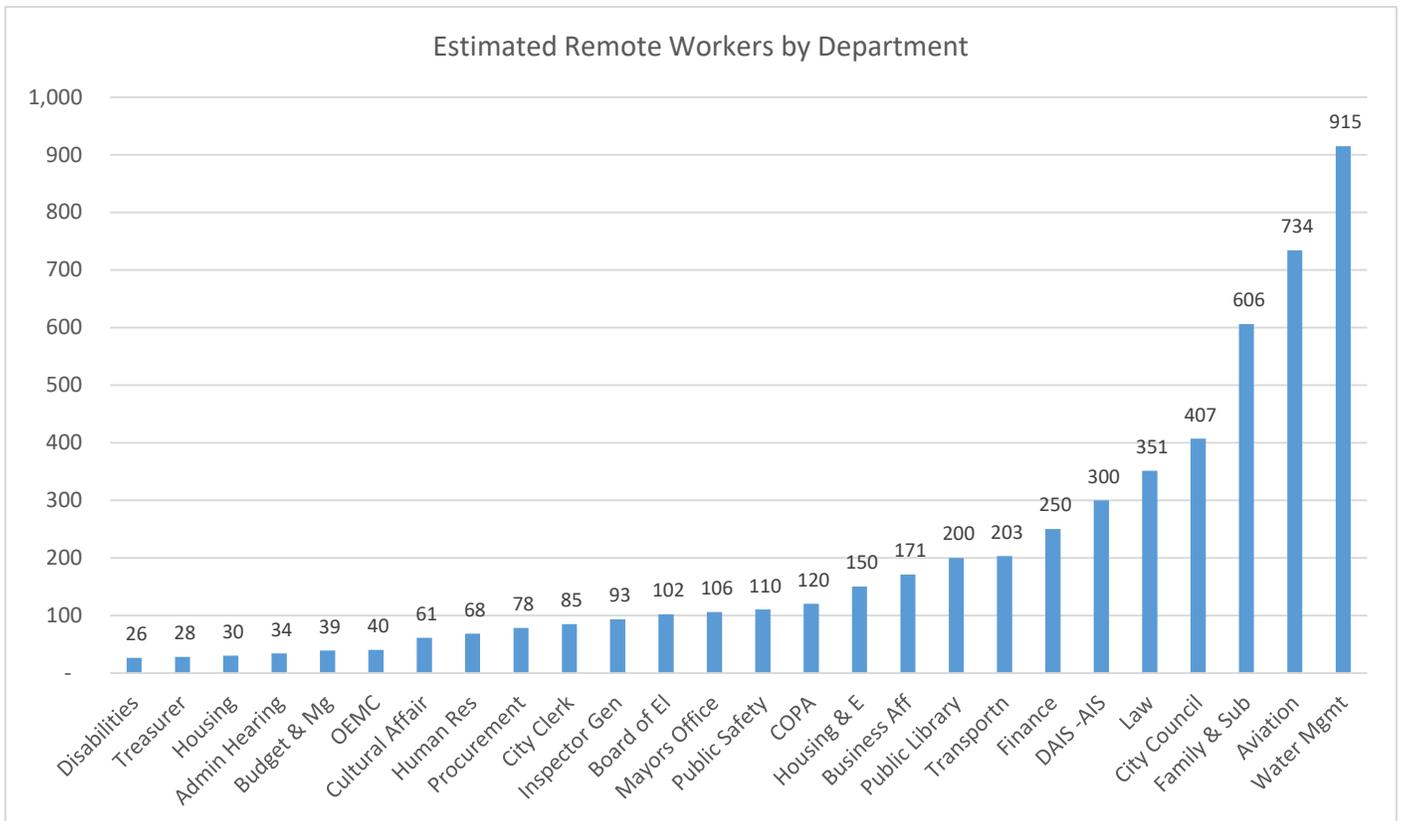
The COVID-19 pandemic has shed light on the working environment. The COVID-19 pandemic closure forced many companies to consider ways employees can work remotely. Although organizations were thrust into teleworking, having the abundance of technology made it feasible. There have been unexpected benefits from having employees work remotely. According to the IQAir (World Quality Air Report) report, the slowdown of economic activity during the pandemic has the potential to reduce fine particulate air pollution by as much as 60%.

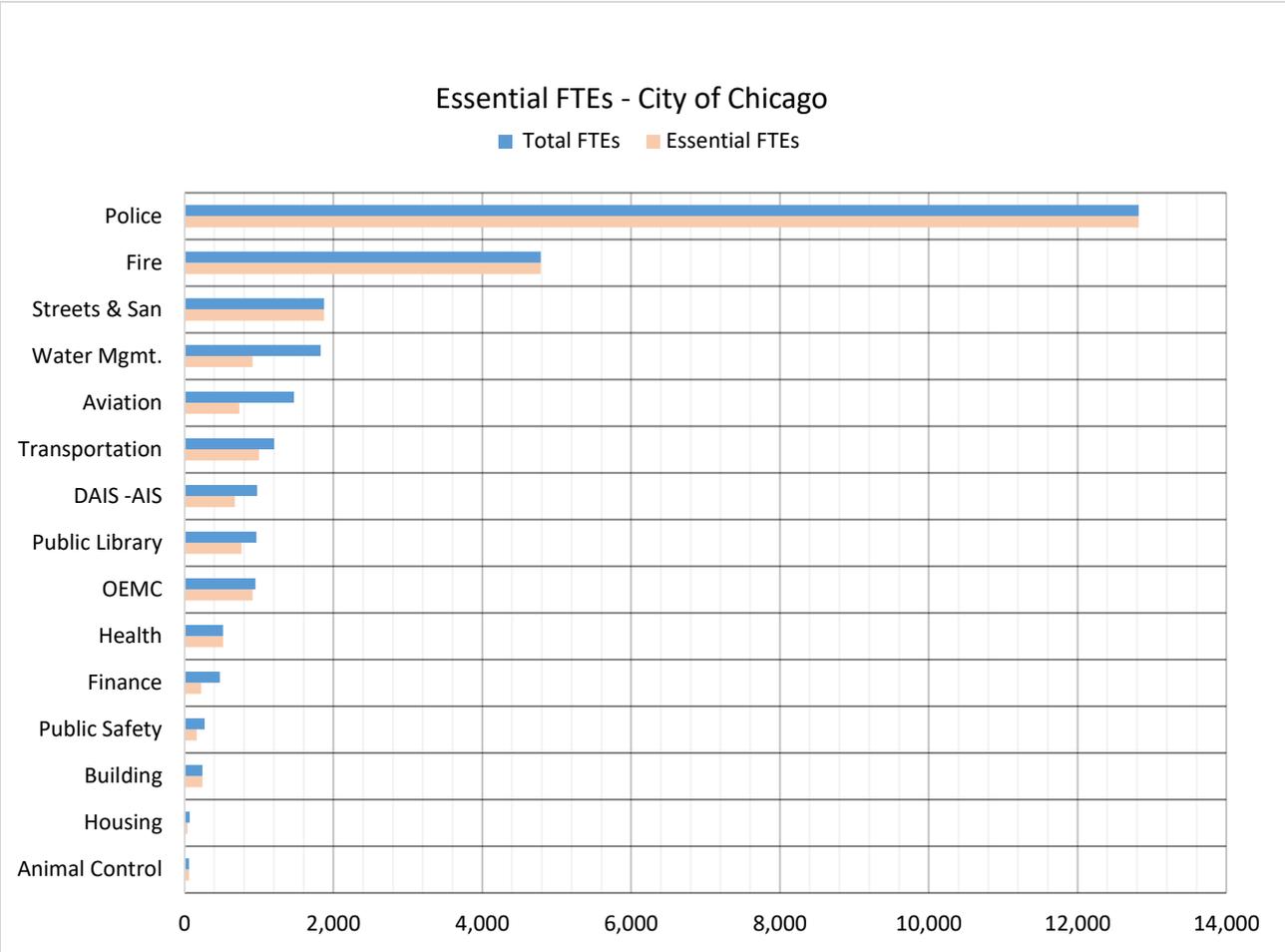
Many established businesses have documented savings due to telecommuting. Sun Microsystems identified cost savings of \$68 million a year in its real estate cost, while Dow Chemical has saved over 30% on non-real estate costs. According to Global Workplace Analytics, almost 6 out of 10 employers identify cost savings as a major benefit of employees working remotely. Benefits associated with telecommuting include improved employee retention, telecommuting provides employees with flexibility and enhanced work-life balance with organizations seeing an improvement in employee retention. Another benefit is increased productivity, a Stanford study found that remote workers are 13% more productive compared to their in-office counterparts. Reduction in absenteeism also benefits organizations and allows employees to fit their work around any personal obligations thus reducing absenteeism.

Telecommuting is not a panacea and isn't a good fit for everyone, employees may have reservations about working from home; fearing career progression by working remotely, local issues (some homeowner associations and communities prohibit home offices), and tax implications (employees are unable to write off home office expenses if they are W2 employees). Employers must address data security issues and employment law concerns (OSHA – accidents in teleworkers' homes). Having remote workers offers organizations several benefits, but it does have drawbacks. How much are organizations saving from having remote workers?

Organizations that don't pay employees office space and supplies can save significantly. A study from Global Workplace Analytics showed that if a company allowed an employee to work just half of the time it would save on average \$11,000 per employee, if full time the organization would recognize a cost savings of \$22,000 per employee per year. In addition, each employee would save between \$2,000 and \$7,000 per year working from home. When telecommuting is aggregated across the country for businesses there is a \$700 billion national savings in a year and a greenhouse gas reduction of the entire state of New York. What would that mean for the City of Chicago?

The City of Chicago is unique in that many of the employees are essential, from the Police, Fire, Streets & Sanitation, Water Management, and Transportation, a large part of OEMC, PSA, Finance, and Building. What we have done for this analysis is look at all departments and made the best guess at the number of essential employees and those that can utilize teleworking (chart below). According to the City of Chicago Current Employee Names, Salaries, and Position listed we have 31,034 employees. We have identified 25,727 as essential based on job title and function and 5,307 identified as potential remote workers. (The 5,307 is a placeholder, any potential remote employee would be identified through the department) If those 5,307 telecommute part-time (2 or 3 days per week) the annual cost savings would be \$58,377,000. If those same 5,307 telecommute full time the annual savings would be \$116,754,000. If the number is higher than 5,307 the saving will increase per employee by \$11,000.





According to Global Workplace Analytics organizations stand to save approximately \$11,000 per employee per year, based on telecommuting 2.5 days per week. The City of Chicago should champion telecommuting some of the reasons include:

Increased productivity – published research shows that telecommuters work harder than office-based employees. Research does show that home-based work is less effective if the workers perform routine and repetitive tasks.

Improving retention rates – higher job satisfaction and job loyalty reduces attrition rates, which in turn leads to lower hiring and training costs.

Reducing Salaries – A study by Global Workplace Analytics shows if given the choice 36% of employees would take the option to telecommute over a pay raise. Offering to telecommute reduces the need to offer increased financial incentives and makes the City more attractive to new hires.

Reducing time off – Telecommuters are less likely to call in sick than office-based. On average sick days cost employers around \$1,800 per employee each year, reducing these costs can make an impact.

Lowering Stress – Telecommuters are happier resulting in less stress and less time off work.

Cutting Trivial Absences – Personal things like home deliveries may require taking a day off, an hour dental appointment, or a burst pipe – this can all be avoided.

Reducing Office space – Office space is expensive in Chicago, office-based employees must also factor in the cost of utilities, janitorial services, and insurance.

Attracting the best team members – Offering telecommuting as an option is a draw for potential hires, the result is that organizations that offer to telecommute can attract top talent which leads to better performance and a more productive environment.

Cost Savings – Average cost savings is \$11,000 per employee per year if they telecommute 2.5 days per week.

One can easily see the advantage of telecommuting for the City of Chicago, technology can address any misgivings (tracking employees, collaborating with team members). The cost savings do not account for any additional cost an employer might incur to support remote work, but since the pandemic, the infrastructure is already in place. COVID-19 will not be the last or the only thing to impact the future of work. There will be new events placing organizations into challenging situations. By being strategic in our preparation and execution we will be prepared and reap the benefits. If the City of Chicago had a telecommuting policy for those identified non-essential employees (5,307), telecommuting 2.5 days per week would yield cost savings for the City of \$58,377,000, and that's worth consideration.

What is office hoteling?

Office hoteling is a reservation-based style of office management where employees schedule their use of workspaces (including desks, cubicles, equipment, and conference rooms) before they arrive at the office. Just as they would make reservations at their favorite hotel, employees use a mobile app to find and reserve space, then check-in upon arrival.

Workplaces have been adopting flexible space strategies like office hoteling for years, but the pandemic solidified the business case for these new ways of working.

A hoteling office space gives employees the flexibility to choose where they want to sit, depending on the work they're doing that day and who they may need to collaborate with.

7 benefits of office hoteling in the workplace

- An office hoteling system improves the employee experience
- A hoteling office space ensures fair access to office resources
- It encourages collaboration and teamwork

- Office hoteling improves space utilization
- It reduces overhead costs
- Hoteling office spaces are easier to clean
- It supports an agile workforce

Implement office hoteling, a need to update both policies and technology. It is essential a clear policy that outlines expectations, including which employees are required to be in the office based on the work they do and when. employees may need to reserve desks at least a day in advance. Office hoteling software is essential for managing these reservations. The best solutions for office hoteling are mobile and easy for employees to use. They should also integrate with the systems your workplace already uses, including space management software.

Telecommuting – Reduction Leasing Opportunities

The City’s leases at the DePaul Center and 2 N. LaSalle are locations that could potentially be considered telecommuting. The City’s lease at the DePaul Center is up at the end of 2023. The following departments operate at this location: CDPH, Finance, and AIS/BoIT. The Finance, AIS/BoIT, and a portion of CDPH are planned to come to 2 North when that lease expires. The following departments work at 2 N. LaSalle location: COFA, Law, AIS, CDOT, Housing, Police Board, and CDA. These departments would be ideal to partake in telecommuting as departments grow and additional space is needed. Through telecommuting, the City can consolidate workspace and reduced lease space. The City can save \$1,938,000 in leasing costs by implementing a telecommuting program.

Address	Dept.	Exp.	Landlord	2021 Annual Rent	Sq. Ft.	Prop Type
333 S. State	Multiple	12/23/2023	DePaul University	\$1,938,000.00	175,057	Bldg Space
2 N. LaSalle	Multiple	7/31/2035	North LaSalle Financial Associates, LLC	\$8,940,899.64	222,825	Bldg Space

Sources:

Cost and Benefits. Global Workplace Analytics. Retrieved from: <https://globalworkplaceanalytics.com/resources/costs-benefits#toggle-id-11>.

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