City of Chicago

Annual Financial Analysis
2011

Rahm Emanuel, Mayor

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Letter from the Mayor

Dear Chicagoans,

Thank you for your interest in the 2011 Annual Financial Analysis for the City of Chicago, which was developed by the Office of Budget and Management with input from the members of the Mayor's Council on Economic, Budgetary, and Business Development Issues and other relevant stakeholders.

This document presents an overview of the City's financial condition, and it serves as the starting point for preparing the 2012 budget. Chicago's budget process, however, cannot simply be limited to a one-year review. It must consider both past economic trends and the long-term financial strength of the City. Importantly, this Annual Financial Analysis includes an historical analysis of the City's revenue and expenditures; forward-thinking financial forecasts; and detailed analyses of the City's reserves, capital program, debt and pensions.

The goal of this document is to clearly state the City's financial condition so that all Chicagoans can participate in the discussion about our City's budget and long-term fiscal health. This analysis will also make the City's financial planning process more transparent and accountable to taxpayers.

I look forward to a collaborative process going forward, where Chicagoans work together to shape the financial future of this great city.

Rahm Emanuel
Mayor

Introduction

In his first week in office, Mayor Emanuel issued Executive Order No. 2011-7 directing the Office of Budget and Management to issue a long-term financial analysis that would provide a framework for the development of the City's annual budget.

This Annual Financial Analysis was completed based on the critical understanding that to protect the health and safety of all Chicagoans, strengthen communities and neighborhoods, maintain infrastructure and public spaces, and foster a vibrant local economy, the City must be in strong financial health. The only way to secure and maintain the fiscal health of the City is to evaluate the City's past revenues, expenditures, policies and programs in light of the factors driving the broader economy, and to plan for the future with a clear view of the past, taking an informed and long-term approach to financial planning.

This year's Annual Financial Analysis is divided into two main sections:

- **Financial History Review.** This section describes the revenue that has come into the City's corporate fund, special revenue funds and enterprise funds over the past 10 years, and the ways in which this revenue has been spent. This section pays particular attention to the sources of revenue that have fluctuated with the economy, such as utility, transaction, sales and income taxes, and to those expenses that make up the bulk of the City's operating budget, such as salaries and wages, employee benefits, waste disposal, fuel and electricity.
- **Three-Year Financial Forecast.** This section provides projected revenues and expenditures for 2012 and discusses the anticipated budget gap, which is currently estimated to be $635.7 million. This continuing structural deficit highlights the need to closely evaluate City finances and the way in which City government is run. This section also examines three different scenarios for 2013 and 2014 – a 'current outlook' provides a status quo forecast for the future, a 'positive outlook' provides a view of the future as it might look if revenues experience additional growth, and a 'negative outlook' presents the potential outlook if revenues are stagnant.

The Annual Financial Analysis also includes analyses of five specific areas impacting the City's overall financial strength:

- **Long-Term Asset Lease and Reserve Funds.** This analysis describes the City's historic and present levels of reserve funds, and the manner in which funds generated by the City's long-term lease of the Skyway and the parking meter system have been spent.
- **Capital Investments.** This section describes the City's capital improvement program, details the City's capital uses of its general obligation and other bond proceeds over the past 10 years, and sets forth a capital improvement plan for the next three years.
- **TIF.** This section details revenues from the City's tax increment financing program and the manner in which those funds have been spent over the past 10 years. It also looks forward at the coming three years of projected TIF-related income and programming.
- **Debt.** This section examines the City's total outstanding debt, including general obligation bonds, revenue bonds and short-term debt instruments, and debt service payments, over the past 10 years and the coming three years. It also outlines the general uses of debt proceeds and the implications of the growing debt load on City finances.
- **Pensions.** This section reviews the City's historic contributions to its employee pension funds and its anticipated contributions going forward. It also outlines the sources of revenue that are used to pay the City's pension contributions and the impact of recent legislation on these payments.

This year's Annual Financial Analysis was compiled in the two-and-a-half months since this Administration took office. Because of the compact timeline, and the need to access and

Introduction (continued)

aggregate detailed historical financial information across all of the City's funds, certain sections of this report may not provide the detail that future Annual Financial Analyses will endeavor to provide. Nonetheless, this document provides a base of information as context for the 2012 budget, financing and capital planning processes.

As this Annual Financial Analysis details, the City is facing economic and financial challenges that will require real and meaningful changes to the way in which the City conducts its business. The City will use the information and insights in the following pages as it develops its 2012 budget with an eye towards its long-term fiscal health. Publishing this report provides Chicagoans with access to this information so that they too can evaluate their City's financial and budgetary performance going forward.

Financial History Review

The City organizes its operating budget by funds, each of which is accounted for separately, with its own sources of revenue and types of expenditures. [1] Accordingly, this analysis is divided into the following sections:

- **Corporate Fund**. The corporate fund is the City's general operating fund and supports many essential City services and activities, such as police and fire protection, emergency management, trash collection and public health programs. Corporate revenues come from a variety of taxes, fees, fines and transfers from non-corporate sources.
- **Special Revenue Funds.** The City's special revenue funds are used to account for revenue from specific sources that by law are designated to finance particular functions.
- **Enterprise Funds.** The City's enterprise funds include the water fund, the sewer fund and a separate fund for each of the City's major airports. These funds are self-supporting, in that each fund derives its revenue from charges and associated user fees.
- **Grant Funding**. Grant funding makes up a significant and recurring source of revenue for the City and is utilized to provide a range of City services – from community development and health to infrastructure improvement.
- **Property Tax Funds.** The City receives property tax revenue through its levy and through its TIF program. TIF revenue is utilized in designated TIF districts. The City uses revenue from its property tax levy to pay its employee pension contributions and debt service obligations, as well as to fund the library system.

Importantly, because personnel-related costs have and will continue to have the largest impact on the City's operating budget, this section also includes a detailed review of historical personnel expenses and data.

CORPORATE FUND REVENUE

From 2001 through 2007, corporate fund revenues experienced relatively steady growth. Following the financial crisis in 2008 and the resultant economic downturn, economically-sensitive revenues decreased, and the City began to utilize more one-time sources of revenue. This section will discuss the overall trends in the City's sources of corporate fund revenue and its relative reliance on each over the course of the past 10 years.

Corporate fund revenues come from four main sources:

- **Local tax revenue,** which consists of taxes collected by the City, including utility, transaction, transportation, recreation and business taxes.
- **Intergovernmental tax revenue,** which consists of the City's share of the Illinois state sales and use taxes, income tax, and personal property replacement tax.
- **Non-tax revenue,** which consists of charges for licenses, permits and services; other fees and fines; and the proceeds from land and material sales and leases.
- **Proceeds and Transfers in,** which consist of amounts transferred into the corporate fund from other City funds, proceeds from the property tax levy (in previous years), and, more recently, transfers from the City's asset lease reserve funds.

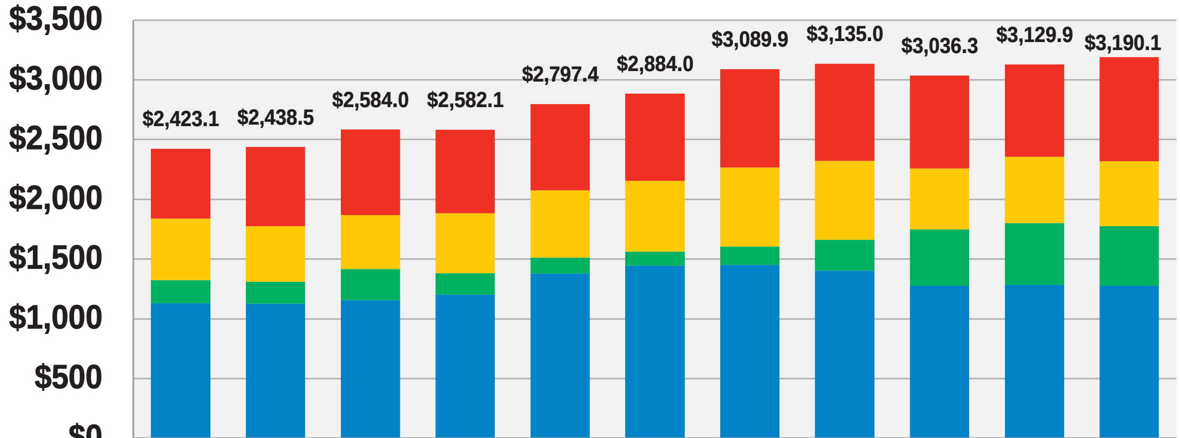
Over the past 10 years, local tax revenues have accounted for 40 to 50 percent of total corporate fund revenues, intergovernmental tax revenues for 10 percent to 21 percent, and non-tax revenues for 24 percent to 28 percent. As economically-sensitive revenues, such as local and intergovernmental tax revenues, have declined in recent years, the City has relied increasingly on non-recurring sources of revenue, such as transfers from its asset lease reserve funds, to balance its budget. Such transfers into the corporate fund have increased over the past 10 years, from as little as 4 percent of total corporate fund revenues in 2006 to as much as 17 percent of total corporate fund revenues in 2010.

[1] The revenue and expenditure information contained herein is based on the City's annual audited financial statements with the exception of 2011 revenues and expenditures. 2011 year-end expenditures and revenues are based on year-end projections using currently available information.

Financial History Review (continued)

Corporate Fund Revenue

(in millions)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YE Est 2011
Non-Tax Revenue	585.5	664.2	717.0	698.2	722.4	730.0	822.6	814.0	777.8	773.3	871.5
Intergovernmental	512.2	463.2	449.2	501.8	563.2	592.2	662.7	659.3	508.6	553.8	544.0
Proceeds & Transfers In	194.5	183.1	261.8	180.1	133.3	115.1	154.5	259.2	474.6	519.0	497.6
Local Taxes	1,130.9	1,128.0	1,156.0	1,202.0	1,378.6	1,446.8	1,450.1	1,402.4	1,275.2	1,283.7	1,277.0
Total	2,423.1	2,438.5	2,584.0	2,582.1	2,797.4	2,884.0	3,089.9	3,135.0	3,036.3	3,129.9	3,190.1

Local Tax Revenue

Local taxes include taxes on public utilities, real estate and other transactions, transportation and certain recreation and business activities. From 2003 through 2006, local tax revenues grew at an average annual rate of 6.5 percent. In 2007, local tax revenue grew 0.2 percent over the prior year, and in 2008 and 2009, these economically-sensitive revenues decreased by 3.3 percent and 9.1 percent, respectively. The 2008 and 2009 declines resulted in reductions of $47.7 million and $127.2 million in local tax revenue during those years. In 2010, local tax revenues increased slightly but were still below 2007 levels. These revenues in 2011 are projected to be slightly over 2010.

Public Utility Taxes

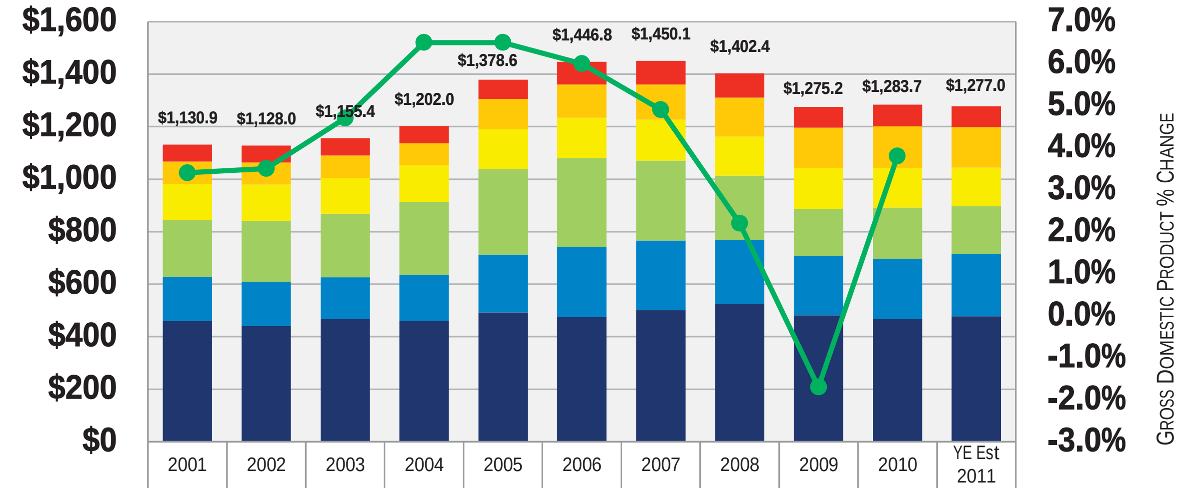
Public utility taxes consist of taxes from the purchase of telecommunications, electricity, natural gas and cable television. Combined public utility taxes have constituted 15 percent to 19 percent of total corporate fund revenues over the past 10 years. In 2001, public utility taxes generated $459.9 million, accounting for 19 percent of total corporate fund revenues. In 2010, public utility taxes generated $467.4 million, accounting for 15 percent of total corporate fund revenues.

In 2001, **telecommunications taxes** generated $162.8 million, accounting for 7 percent of total corporate fund revenues. In 2010, telecommunications taxes generated $139.5 million, accounting for 4 percent of total corporate fund revenues. The makeup of this revenue source has changed over time, reflecting trends in telecommunications. Through 2005, land lines generated the majority of this revenue stream, with cell phone usage taking over as the largest driver of this revenue source in 2005. The recent decline in revenues may be attributed in part to the recent reduction in the use of land lines as more customers choose to have only wireless phones.

FINANCIAL HISTORY REVIEW (CONTINUED)

CORPORATE FUND LOCAL TAX REVENUE

(IN MILLIONS)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YE Est 2011
Business Taxes	64.2	65.2	65.0	66.2	73.3	87.1	89.9	92.3	79.6	83.0	78.4
Recreation Taxes	84.5	83.7	85.9	84.1	115.2	126.1	133.9	148.0	154.0	158.4	154.4
Transportation Taxes	137.4	137.2	136.0	138.1	152.0	152.8	155.2	148.7	155.9	150.7	147.3
Transaction Taxes	216.6	232.2	242.2	278.6	325.2	339.0	304.7	245.1	179.6	195.1	181.3
Home Rule Occupation Tax	168.4	168.1	158.6	174.6	220.6	266.3	265.4	243.5	224.9	229.2	238.1
Public Utility Taxes & Fees	459.9	441.6	467.7	460.6	492.1	475.5	501.0	524.8	481.3	467.4	477.5
Total Local Tax Revenue	1,130.9	1,128.0	1,155.4	1,202.0	1,378.6	1,446.8	1,450.1	1,402.4	1,275.2	1,283.7	1,277.0
GDP % Change	3.4%	3.5%	4.7%	6.5%	6.5%	6.0%	4.9%	2.2%	-1.7%	3.8%	

The City's **electricity use tax** and **electricity infrastructure maintenance fee** are based on the number of kilowatt hours of electricity used. Because electricity is used to cool most homes and buildings, revenues from electricity taxes are highly dependent upon weather conditions and electricity rates. These revenues are also sensitive to the economy and consumer spending patterns. Electricity tax revenues have constituted 6 to 8 percent of total corporate fund revenues over the past 10 years, averaging $188 million each year, with a decline to $180.6 million in 2009 due to the downturn in the economy. In 2001, electricity taxes generated $181.1 million, accounting for 7.5 percent of total corporate fund revenues. In 2010, electricity taxes generated $191 million, accounting for 6 percent of total corporate fund revenues. The increasing use of energy-efficient equipment is expected to slow growth in this revenue source going forward.

The City imposes two natural gas-related taxes. The **natural gas utility tax** is an 8 percent tax imposed on the purchase price of natural gas. The **natural gas use tax** is imposed at a rate of 6.3 cents per therm on entities not subject to the natural gas utility tax. As with electricity taxes, natural gas tax collections are highly dependent upon weather conditions and natural gas prices. In 2001, natural gas-related taxes generated $103.3 million, accounting for 4 percent of total corporate fund revenues. Natural gas prices during 2008 were historically high, averaging 106.2 cents per therm. Prices dropped during 2009 to average 55.1 cents per therm and have remained in this range since that time, with a 2011 year-to-date average of 52.7 cents per therm. In 2010, natural gas-related taxes generated $114.3 million, again accounting for 4 percent of total corporate fund revenues.

Cable television tax revenue, which makes up only a small portion of corporate fund revenue, grew from $12.7 million in 2001 to $22.7 million in 2010. Steady growth can be expected to continue for this revenue source due in part to the rise of on-demand and pay-per-view channels.

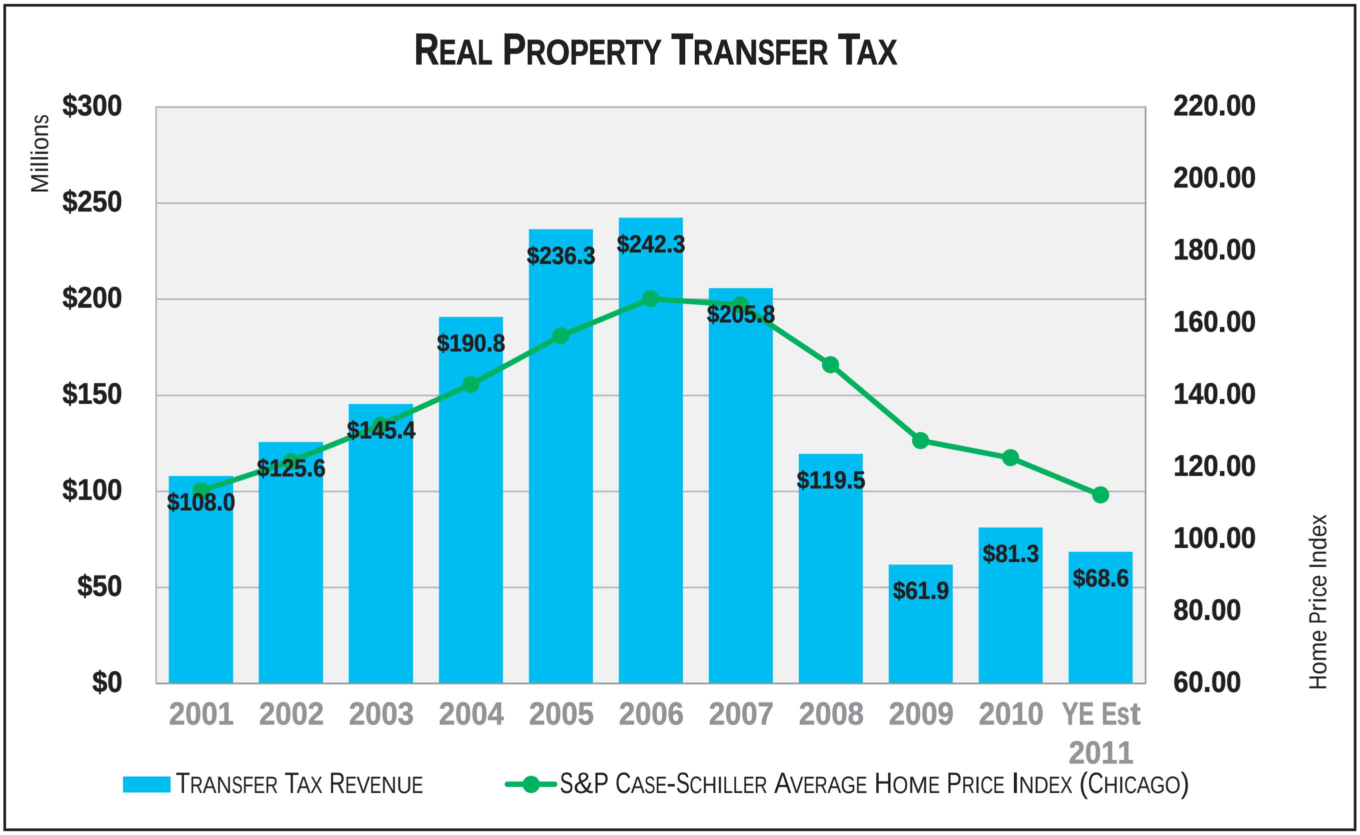
Transaction Taxes

Transaction taxes include taxes on the transfer of real estate, the lease or rental of personal property and the short-term lease of motor vehicles within the City. Combined transaction taxes have constituted 6 percent to 12 percent of total corporate fund revenues over the past 10 years. In 2001,

Financial History Review (continued)

transaction taxes generated $216.6 million, accounting for 9 percent of total corporate fund revenues. In 2010, transaction taxes generated $195.1 million, accounting for 6 percent of total corporate fund revenues.

In the years leading up to the recession, **real property transfer tax** collections reached record levels, increasing from $108 million in 2001 to peak at $242.3 million in 2006. The decline in the real estate market drove these collections down to $61.9 million in 2009. In 2010, there was an increase in real property transfer tax revenue to $81.3 million due to a number of large commercial real estate transactions. The high number of foreclosures and the slow down in new home construction and home sales is expected to limit any growth in this revenue source. Without such large commercial transactions in 2011, it is anticipated that real property transfer tax revenues for 2011 will be 16 percent lower than those for 2010.



FINANCIAL HISTORY REVIEW (CONTINUED)

As with other transaction-driven taxes, collections of **personal property lease transaction taxes** have suffered due to the recessionary economy's impact on personal consumption and tourism, experiencing only slow overall growth. In 2001, taxes on the lease or rental of personal property generated $102.4 million, accounting for 4.2 percent of total corporate fund revenues. In 2010, these taxes generated $108.4 million, accounting for 3.5 percent of total corporate fund revenues. Only minimal growth is expected in 2011.

Transportation Taxes

Transportation taxes include taxes on parking garages, vehicle fuel and hired ground transportation. Since 2001, total transportation tax revenue has increased by 10 percent. In 2010, transportation taxes generated $150.7 million, or 4.8 percent of total corporate fund revenues, and revenues from these taxes are expected to decrease slightly in 2011 to $147.3 million, or 4.6 percent of total corporate fund revenues, primarily the result of higher fuel costs and depressed fuel sales.

Recreation Taxes

Recreation taxes include taxes on amusement activities and devices, the mooring of boats, liquor, cigarettes, non-alcoholic beverages and off-track betting. In 2001, recreation taxes generated $84.5 million, accounting for 3.5 percent of total corporate fund revenues. In 2010, recreation taxes generated $158.4 million, accounting for 5.1 percent of total corporate fund revenues. These taxes are expected to generate $154.4 million in 2011, accounting for 4.8 percent of total corporate fund revenue. **Amusement tax** collections sustained moderate growth through the recession, due in part to the recent success of Chicago's professional sports teams and increasing ticket prices for sporting events, and in part to 1 percent rate increases in each of 2005 and 2009. **Cigarette tax** revenues have fallen in recent years, while **liquor tax** revenue has almost doubled over the past 10 years, from $18.6 million in 2001 to $31.5 million in 2010. The increase in liquor tax revenue has been driven largely by tax rate increases.

Business Taxes

Business taxes consist of taxes on hotel accommodations and the employers' expense tax on companies employing fifty or more employees within city limits. After high growth years in 2005 and 2006, with year-over-year increases of 10.8 percent and 18.8 percent, respectively, total business tax revenues have experienced a net decline in recent years, decreasing by 13.8 percent in 2009 and increasing by only 4.3 percent in 2010. Business taxes are expected to generate $78 million in 2011, accounting for 2.5 percent of total corporate fund revenue.

Revenues from the **hotel accommodations tax** have recently experienced some growth after 18 months of declines coinciding with the recession's impact on tourism, business travel and convention attendance.

Revenues from the **employers' expense tax** have declined in recent years and are expected to further decline due to actions taken by the City Council in 2010 to encourage job creation, which exempt certain employers from the tax and cap the tax rate for other employers.

Intergovernmental Tax Revenue

Intergovernmental tax revenues consist of the City's share of the Illinois state sales and use taxes, income tax and personal property replacement tax. Like local tax revenues, intergovernmental tax revenues have a direct correlation with the overall economy. Year-over-year, intergovernmental tax revenues grew by 11.7 percent in 2004, 12.2 percent in 2005, 5.2 percent in 2006 and 11.9 percent in 2007. However, with the start of the recession, this source of revenue began to decline. Between 2008 and 2009, these revenues dropped by 22.9 percent, or $150.7 million. Between 2009 and 2010, these revenues increased by 8.9 percent, or $45.2 million.

Sales and Use Taxes

Sales and use tax revenue is generated through the **Chicago Home Rule Occupation and Use Tax (HROT)** and the **Municipal Retailer Occupation and Use Tax (MROT)**. The City imposes the HROT on the retail sale of general merchandise, excluding most sales of food and medicine; restaurant purchases; and the purchase of titled and non-titled personal property. Unlike the HROT, the MROT applies to qualifying food and drugs.

Since July of 2010, general merchandise purchases in the City have been subject to a combined sales tax rate of 9.75 percent, 1.25 percent of which is HROT and 1 percent of which is MROT, with the remainder going to the State, the Regional Transportation Authority and Cook County.

Financial History Review (continued)

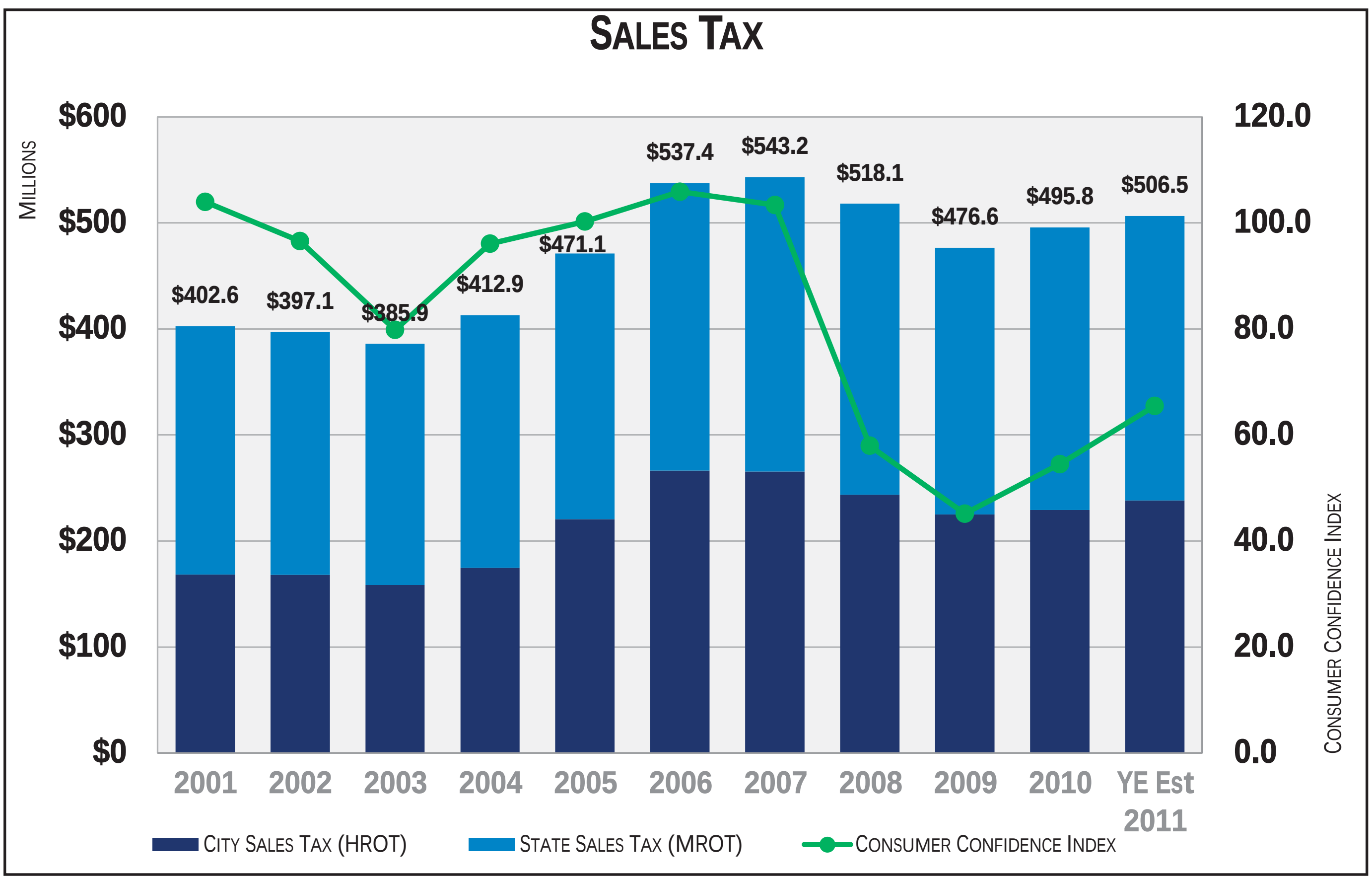
In combination, the HROT and MROT have accounted for an average of approximately 16 percent of total corporate fund revenues over the past 10 years. From 2004 to 2007, HROT and MROT collections grew an average of 9 percent per year. Beginning in the fall of 2008, sales tax receipts began a year-over-year average decline of 8.9 percent each month for the next 17 months. During 2010, a small growth trend has emerged, and sales and use tax revenues are expected to grow in 2011. However, this growth is against a depressed base, and sales and use tax revenues remain well below pre-recession levels. In 2011, revenue from sales and use taxes are expected to be approximately $37 million less, or 7 percent less, than 2007 receipts of just over $543 million.

State Income Tax

State income tax revenues experienced growth in pre-recession years, and dropped with the economy after 2007. In 2010, state income tax revenue contributed $231.5 million to the corporate fund, down from a 2008 peak of $269 million. A further decline in state income tax revenue is anticipated in 2011. This decrease can be attributed to a number of factors - high unemployment rates resulting from the recession, the decline in population under the 2010 Census, the decrease in state distributions and the federal 'depreciation bonus rule', discussed in greater detail below.

Beginning in 2011, income tax distributions were adjusted to account for the population count from the 2010 Census, resulting in a decrease in City income tax revenues by 5.8 percent from 2010 levels.

Effective as of February of 2011, the State's personal income tax rate was increased to 5 percent from 3 percent and the corporate income tax rate was increased to 7 percent from 4.8 percent. However, municipalities did not receive a share of this increase because the State, concurrently with increasing tax rates, reduced the percentage of total income tax receipts that flow into the Local Government Distribution Fund



FINANCIAL HISTORY REVIEW (CONTINUED)

(LGDF).[2] Distributions to the LGDF were decreased from 10 percent of both personal and corporate income tax revenue to 6 percent of personal income tax receipts and 6.86 percent of corporate income tax receipts. If municipalities had received the historic 10 percent local share, the City would receive additional revenue of more than $50 per resident per year in additional revenue during 2011 and in each year going forward.

In addition, the federal 'depreciation bonus rule', which was adopted as part of the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010, has significantly reduced the corporate tax base. The Act provides a 100 percent depreciation bonus for capital equipment placed in service between September 8, 2010 and December 31, 2011, and a 50 percent depreciation bonus for capital equipment placed in service between December 31, 2011 and December 31, 2012. By affecting the State's definition of "income," this legislation is causing further decreases in the City's income tax revenues.

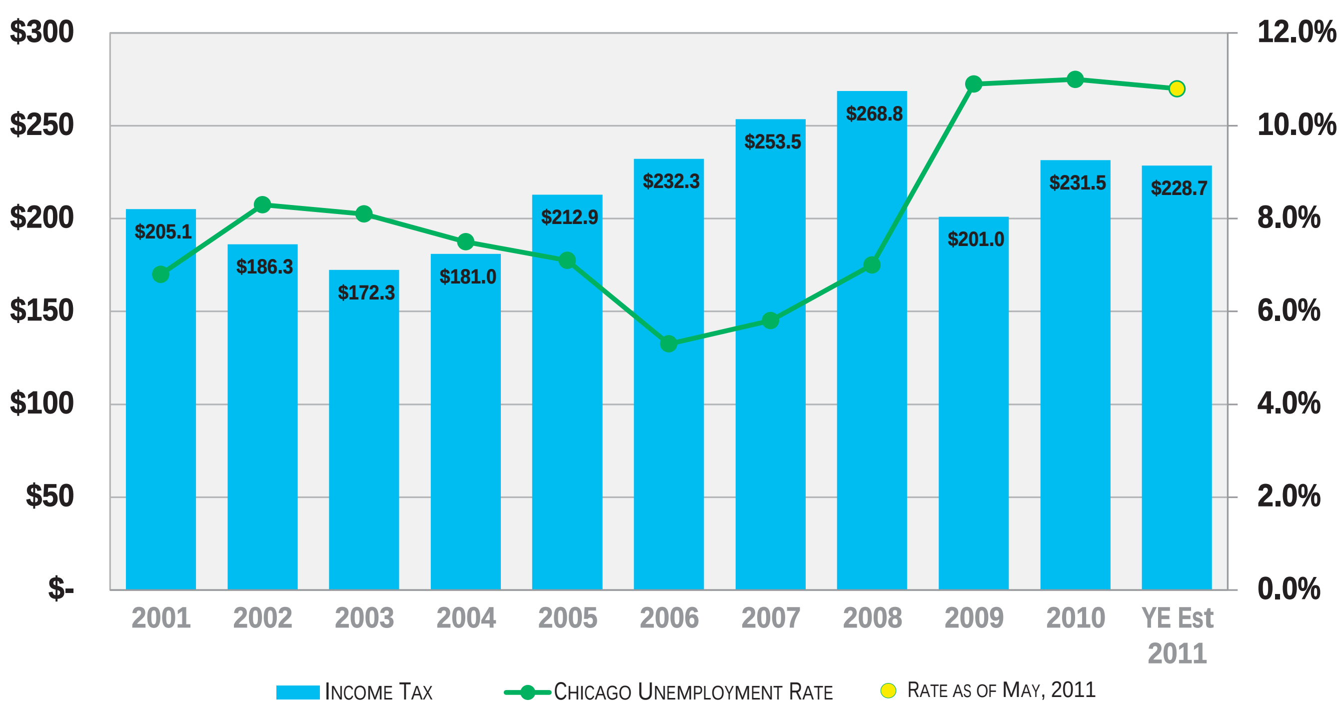
Personal Property Replacement Tax

Personal property replacement taxes (PPRT) are collected by the State and paid to local governments in order to replace revenues that were lost when the State eliminated the authority of local governments to collect personal property taxes on business entities. The corporate fund share of revenue from this tax increased steadily from $64.9 million in 2001 to $109.7 million in 2008, and then declined thereafter to an anticipated $42 million in 2011. A growing portion of PPRT revenue has been used to pay for the City's employee pension contributions, as discussed in more detail in the Pension section of this document.

Non-Tax Revenues

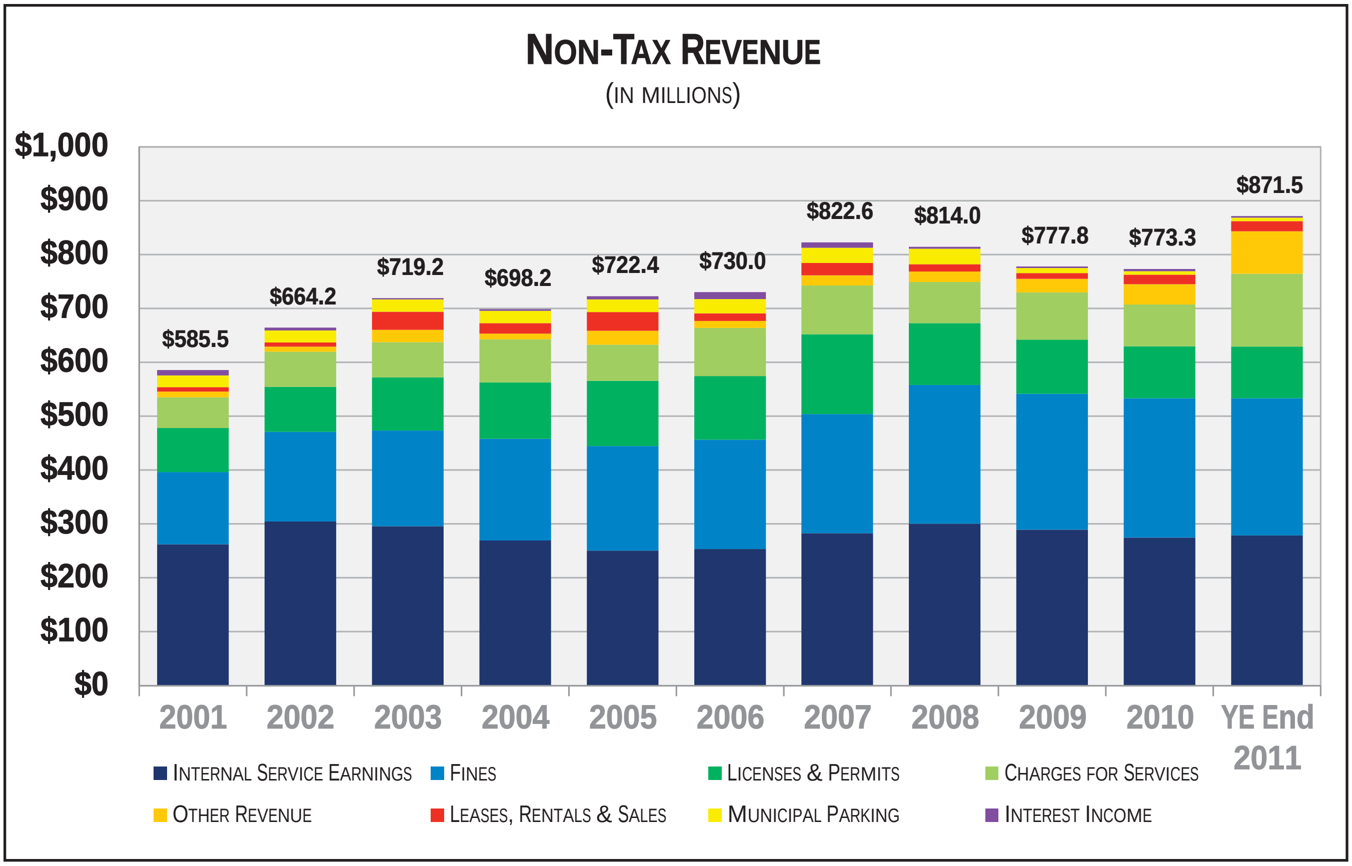
Non-tax revenues consist of revenue from licenses and permits; fines, forfeitures and penalties; various fees for services; leases, rentals and sales; interest and other revenue. Over the past 10 years, non-tax revenue has accounted for 24 to 28 percent of total corporate fund revenues. In 2001, non-tax revenue was $585.5 million, accounting for 24.2 percent of total corporate fund revenues. In 2010, non-tax revenue was $773.3 million, accounting for 24.7 percent

INCOME TAX COMPARED TO UNEMPLOYMENT RATE
(IN MILLIONS)



[2] The LGDF is the fund from which municipalities are paid their share of state income tax revenue.

FINANCIAL HISTORY REVIEW (CONTINUED)



of total corporate fund revenues. Non-tax revenues are typically more stable than tax revenues but are not immune to economic down cycles. Given that these revenues account for roughly a quarter of total corporate revenues, their impact on the City's finances is significant. The 4.5 percent drop in non-tax revenue in 2009 resulted in a $36.2 million decrease in City revenue.

License and Permit Fees

Revenue generated from licenses and permits includes fees for alcohol dealer licenses, business licenses, building permits and various other permits. In 2001, license and permit revenue was $82 million, accounting for 3.4 percent of total corporate fund revenues. In 2010, license and permit revenue was $96.2 million, accounting for 3.1 percent of total corporate fund revenues. License and permit fees are expected to generate $95.7 million in 2011, accounting for 2.9 percent of total corporate fund revenue. Prior to the recession, building permit revenue accounted for the majority of license and permit revenues – contributing $51.4 million in 2007. As construction activity in Chicago declined during the recession, revenue from such permits decreased to $17.3 million in 2010, down 66 percent from the 2007 high. Activity is expected to remain well below peak levels for the immediate future as the real estate market stabilizes and no significant growth is expected. Business license revenue has also declined due to the recession.

Fines, Forfeitures and Penalties

Fines, forfeitures and penalties include parking tickets, red-light camera tickets and fines for items such as building code violations. Revenues in this area have nearly doubled since 2001, from $133.8 million to $258.8 million in 2010, accounting for 8 percent of total 2010 corporate fund revenue. This steady trend upward is the result of the increased use of technology to improve efficiency and maximize collections, including the installation of red-light cameras, the implementation of on-line bill payment systems, and additional parking enforcement field technology, as well as increased fine and penalty rates. Revenue from fines, forfeitures and penalties in 2011 is expected to remain flat due in part to the fact that no new cameras were added this year and motorists have adjusted their behavior in light of existing cameras.

Financial History Review (continued)

Charges for Services

Charges for services include revenues generated by charging for such activities as inspections, public information requests, police and other miscellaneous services. During the past 10 years, revenues generated by these charges have increased at a consistent rate. In 2001, revenues were $56.6 million, increasing to $77.7 million in 2010. Such services are projected to generate $135.3 million in 2011, accounting for 4 percent of total corporate fund revenue.

Leases, Rentals and Sales

Revenues generated by the lease or sale of City-owned land, impounded vehicles and other personal property have doubled from $8.4 million in 2001 to $17.6 million in 2010. Such leases and sales contribute a small part to the City's total revenue, accounting for 0.6 percent of 2011 estimated year-end corporate fund revenue.

Internal Service Earnings

Internal service earnings are transfers to the corporate fund for services provided to other City funds and agencies, such as police, fire and sanitation services provided to the City's enterprise funds. In 2001, internal service earnings revenue was $262.3 million, accounting for 10.8 percent of total corporate fund revenues. In 2010, internal service earnings revenue was $274.6 million, accounting for 8.8 percent of total corporate fund revenues. The 2011 projection for internal service earnings is $278.7 million, accounting for 9 percent of total corporate fund revenue.

Proceeds and Transfers In

Property Taxes

No revenue from the property tax levy currently flows into the City's corporate fund. The use of the City's property tax revenue is discussed in greater detail below.

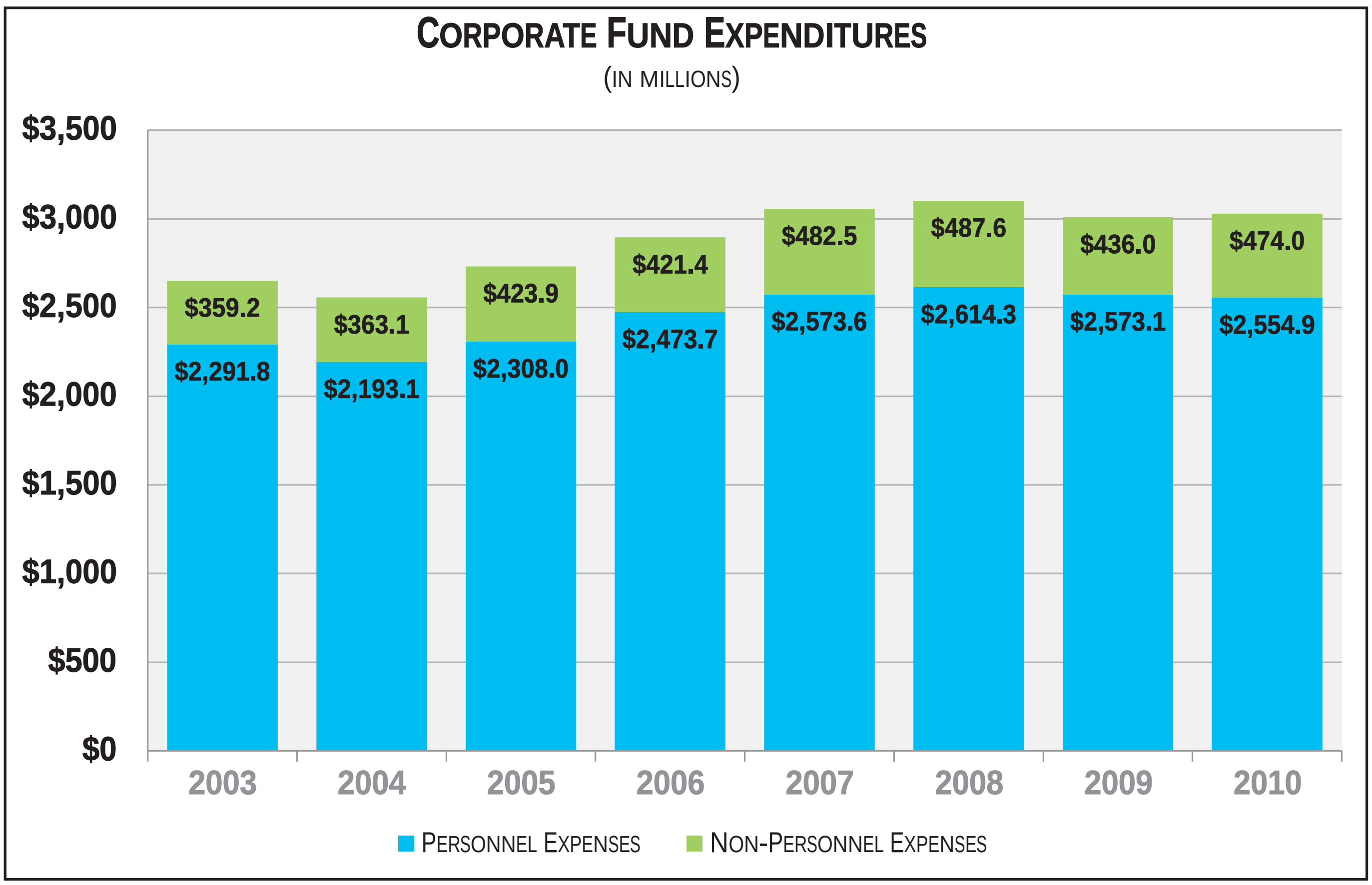
One-Time Revenue Sources

As the recession has negatively impacted economically-sensitive revenues in recent years, the City has been using non-recurring revenue sources to bolster revenues and plug the budget gap. A portion of these funds come from debt refinancing. The most significant of these one-time revenue sources are reserve funds from the City's long-term asset lease transactions and proceeds from short-term borrowing. These issues are discussed in greater detail in the Long-Term Asset Lease and Reserve Funds and the Debt sections of this document.

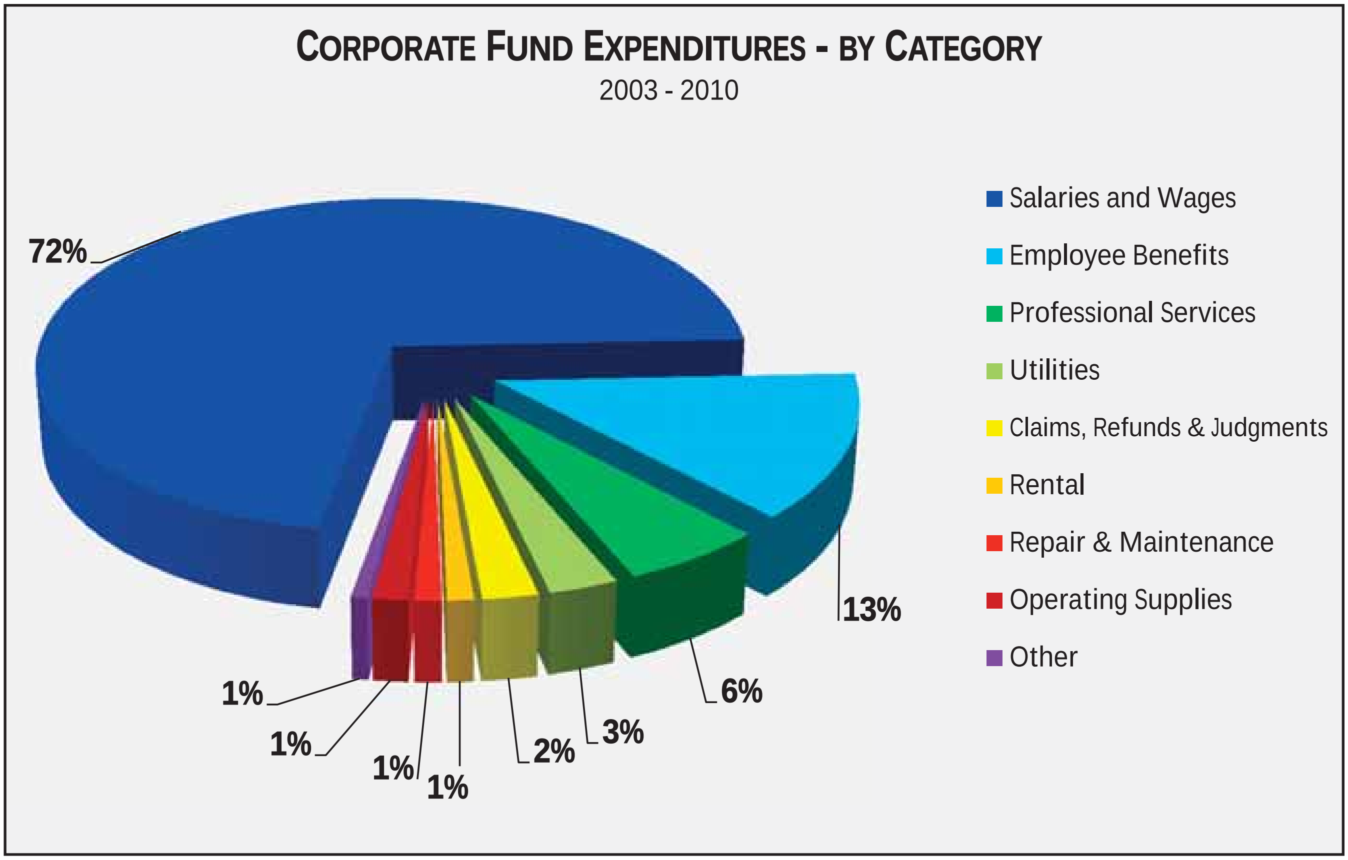
CORPORATE FUND EXPENDITURES

Due to the City's transition to its current accounting system in late 2002, detailed expenditure data is only accessible from 2003 forward. The analysis of the City's expenditures is based on expenditure data beginning with 2003. Total corporate fund expenditures were $ 2.4 billion in each of 2001 and 2002. The 2011 year-end estimates for expenditures are not included in this report because expense classifications in the City's accounting system are different than those in the budget estimates and could not be aligned for purposes of this report. Since 2003, total annual corporate fund expenditures have ranged from a low of $2.6 billion in 2004 to approximately $3 billion in 2008.

The way in which corporate fund dollars are spent has been fairly consistent over the past decade, with the proportion of total spending on different activities remaining relatively constant. Salaries and wages make up the largest portion of corporate fund expenditures, at 72 percent of total 2003 to 2010 expenditures, followed by employee benefits at 14 percent of total 2003 to 2010 corporate fund expenditures, professional services at 6 percent of total 2003 to 2010 corporate fund expenditures, and utilities at 3 percent of total 2003 to 2010 corporate fund expenditures.



FINANCIAL HISTORY REVIEW (CONTINUED)



Personnel

As personnel-related expenses (including salaries, wages, and benefits) are by far the largest portion of the corporate fund's budget (and the overall City budget), these costs and the issues surrounding them are discussed in a separate section, following the discussion of each of the City's funds.

Professional Services

The professional services category of corporate fund expenditures includes a variety of services delivered by contractors and vendors, such as technology support, red-light camera violation noticing, credit card and banking fees, auto parts inventory management, security services and employment testing. Annual corporate fund expenditures for professional services were $139 million in 2003, rising to $191 million in 2007, and decreasing to $179.5 million in 2010, accounting for an average of 6 percent of total corporate fund expenditures during the 2003 to 2010 period.

As government, businesses, and residents increasingly utilize technology to conduct business and communicate, technology-related support costs have increased. In 2003, technology services accounted for 27.4 percent, or $38 million, of all professional services expenses, increasing to 32 percent, or $57.8 million, in 2010.

Another area of increased expense is technical support and maintenance for the red light camera safety program. The program started as a pilot in 2003 and grew to cover 189 intersections in 2010. The cost to support the program has increased to $18.1 million annually, or 10 percent of professional services expenses

Financial History Review (continued)

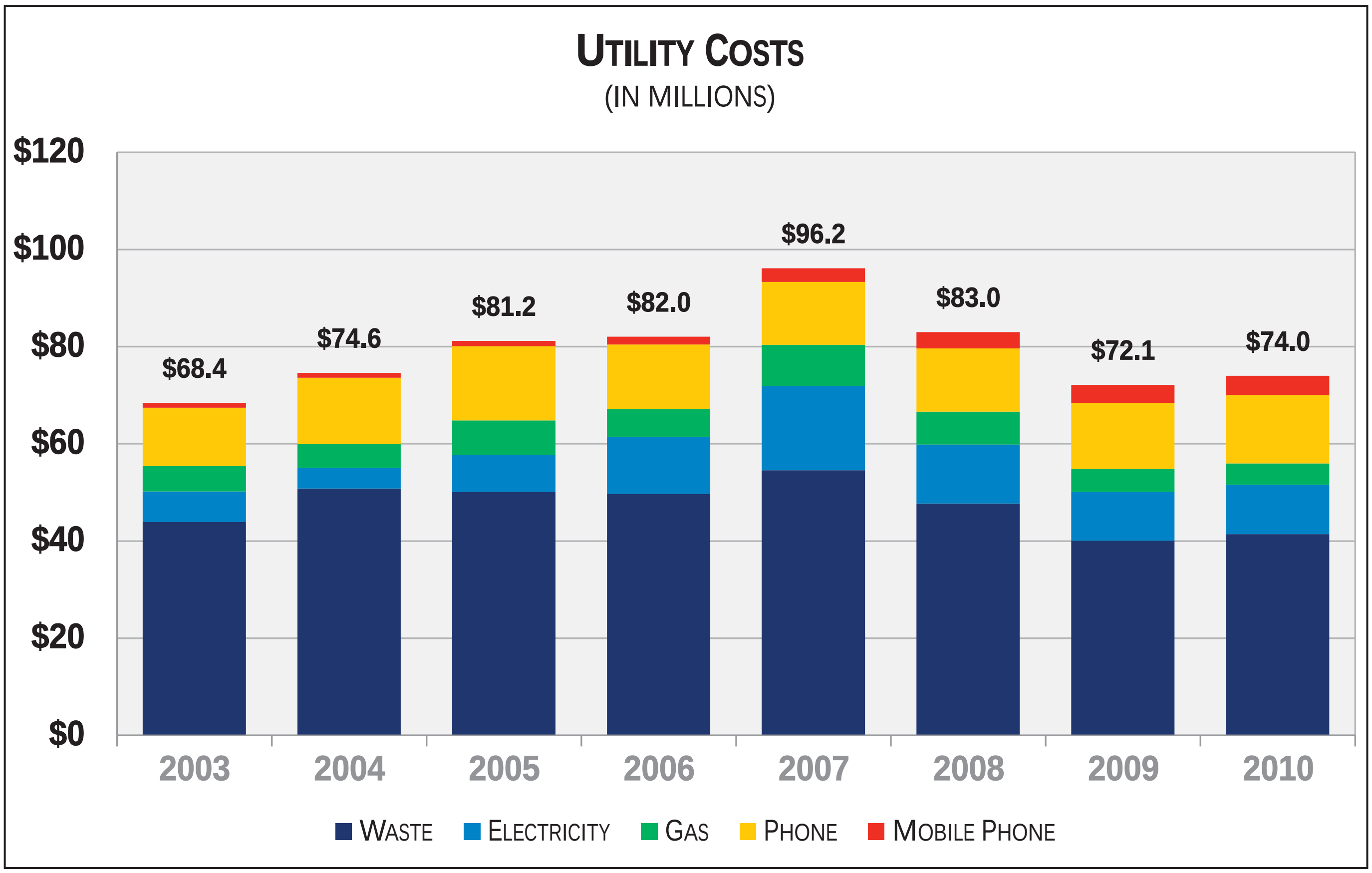
Utilities

The utilities category of corporate fund expenditures includes waste disposal, the gas and electricity necessary to operate City facilities and services, and telephone-related expenses. Annual corporate fund expenditures for utilities went from a low of $68.4 million in 2003 to peak at $96.2 million, or 3.2 percent of total corporate fund costs, in 2007, and then decreased to $74 million in 2010.

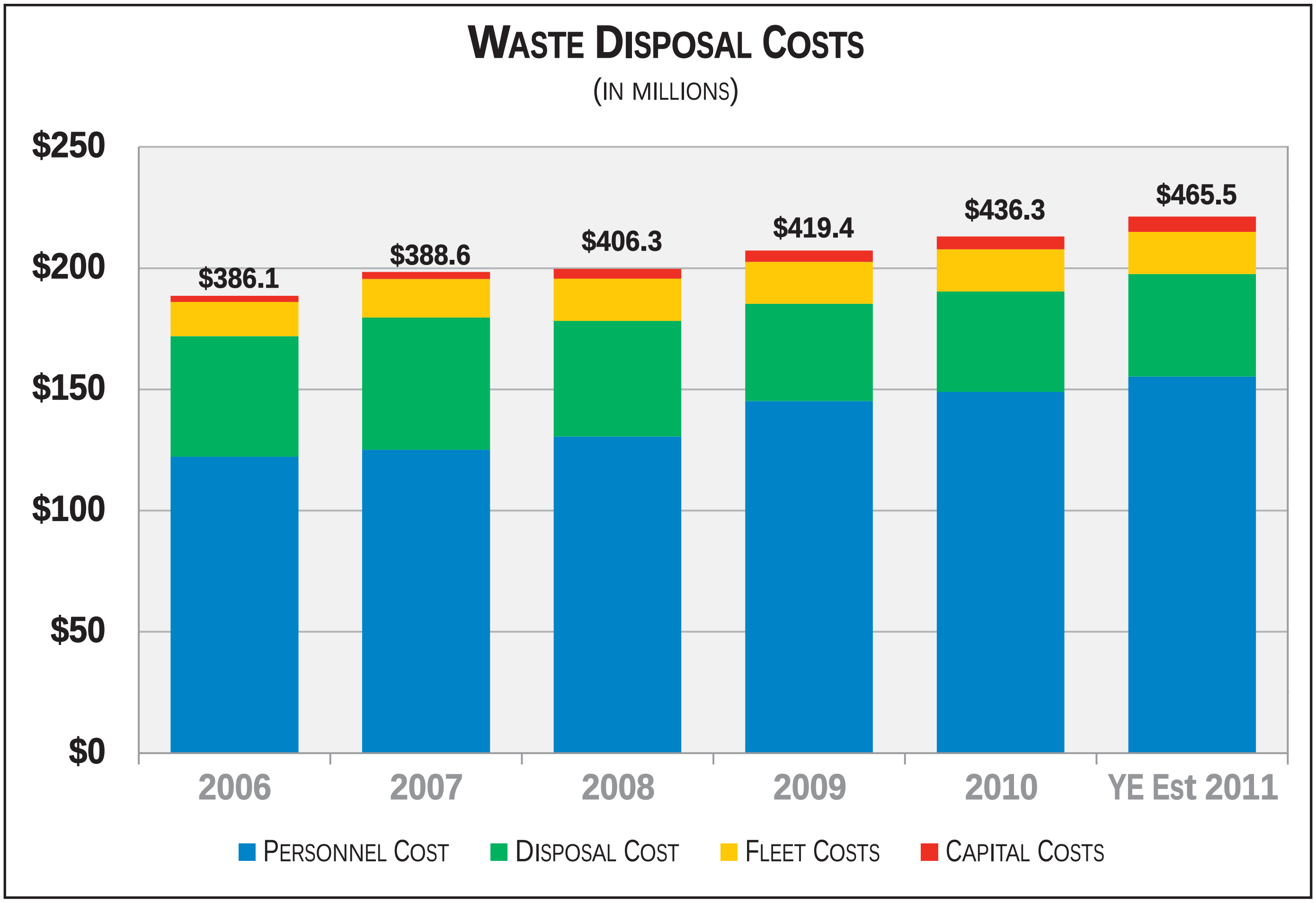
Waste Disposal

Waste disposal costs make up the largest portion of corporate fund utility expenses, accounting for 60 percent of total utility costs between 2003 and 2010. The City began the pilot of its Blue Cart separate collection recycling program in select communities in 2007. The City ended the Blue Bag recycling program and the mechanical sorting of recyclables in 2008, which significantly reduced tipping fees and waste disposal expenditures. Since that time, the City has expanded Blue Cart recycling to 240,000 of the City's 600,000 households.

Non-personnel costs associated with the collection and disposal of household waste have been decreasing every year since 2006. However, personnel costs, the largest driver of expenditures for waste management, which are the subject of collective bargaining, have been increasing every year. In 2006, personnel costs comprised 65 percent of total waste disposal costs, or $122.2 million, increasing to an estimated 73 percent, or $173.2 million, in 2011.



Financial History Review (continued)



Electric and Natural Gas

Corporate fund natural gas and electricity expenses are market driven and have changed in line with pricing and rates. Electricity and natural gas expenditures spiked in 2007 as a result of significant increases in energy and commodity rates. To mitigate the increases, the City curtailed usage, installed more energy-efficient LED traffic signals and street lights, and retrofitted lighting and energy systems at select City facilities. These improvements coupled with decreasing energy rates have led to steady declines in year-over-year energy expenditures since 2007.

Telephone Costs

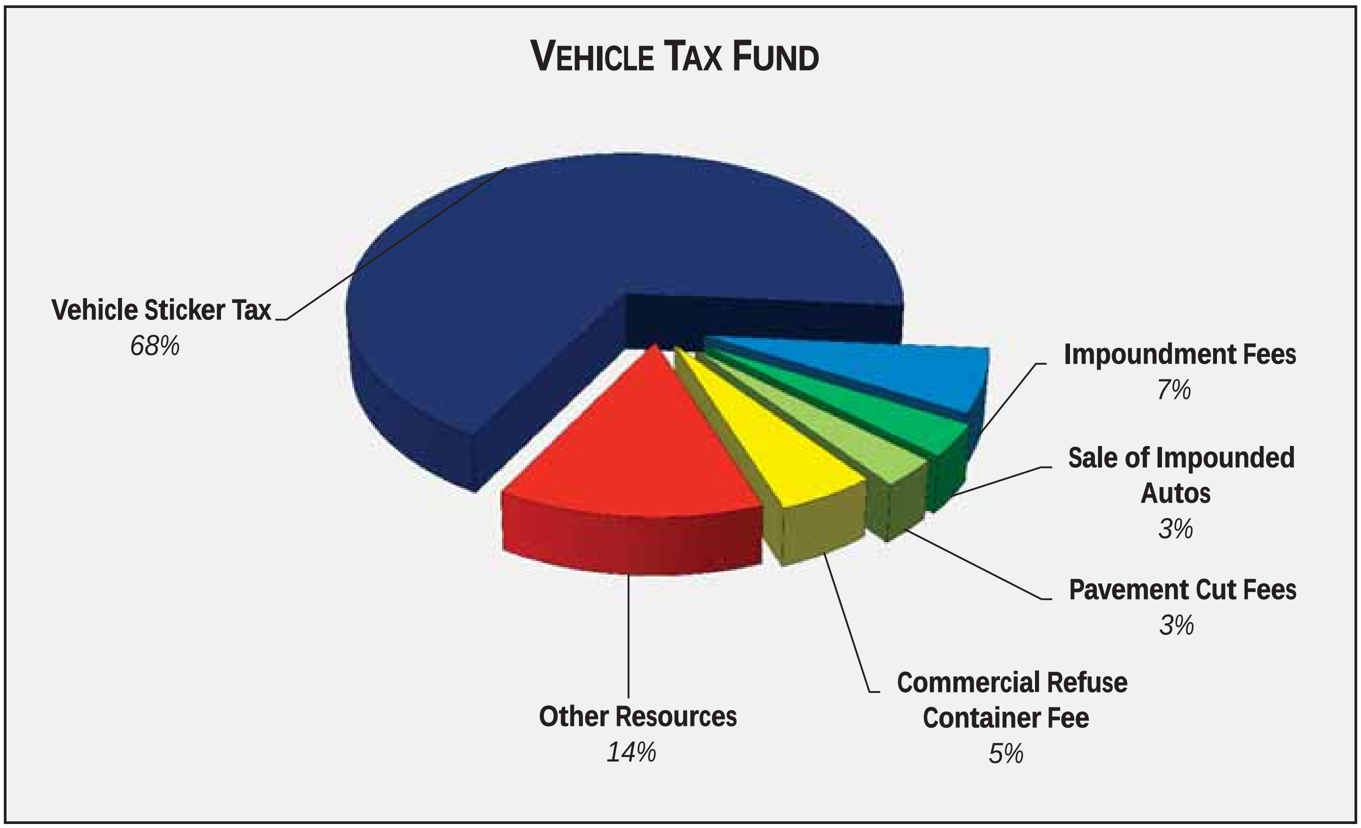
Telephone-related expenses have accounted for 17 percent of total utility expenditures since 2003. While landline usage is decreasing among consumers, City departments generally do not decrease landline usage as a result of increased mobile phone usage; landline phone expenses have remained relatively static, with gradual growth due to minor fee increases, even as mobile phone expenses increase.

SPECIAL REVENUE FUNDS

Vehicle Tax Fund

The vehicle tax fund receives revenue from the vehicle sticker tax, impoundment fees, abandoned auto towing fees, pavement cut fees, commercial refuse container fees, and reimbursements from other local, state and federal funds for maintenance of the public way. This revenue is used to pay for City street repair and maintenance.

Over the past 10 years, the vehicle tax fund has consistently generated between $140 million and $176 million per year. In 2010, sticker sales of over $101 million made up 68 percent of total vehicle tax fund revenues, with impoundment fees contributing an additional $9.7 million, pavement cut fees contributing $4.5 million, commercial refuse container fees contributing $7.6 million, and reimbursements contributing $20.8 million. These 2010 revenues are reflective of the overall 2001 to 2010 period, as vehicle tax revenues and expenditures have remained relatively flat, with only minor variances from year to year. In 2003, vehicle tax fund expenditures were $168.6 million and represented 20 percent of total special revenue fund expenditures. In 2010, vehicle tax fund expenditures were $136.8 million and represented 16 percent of total special revenue fund expenditures.



Financial History Review (continued)

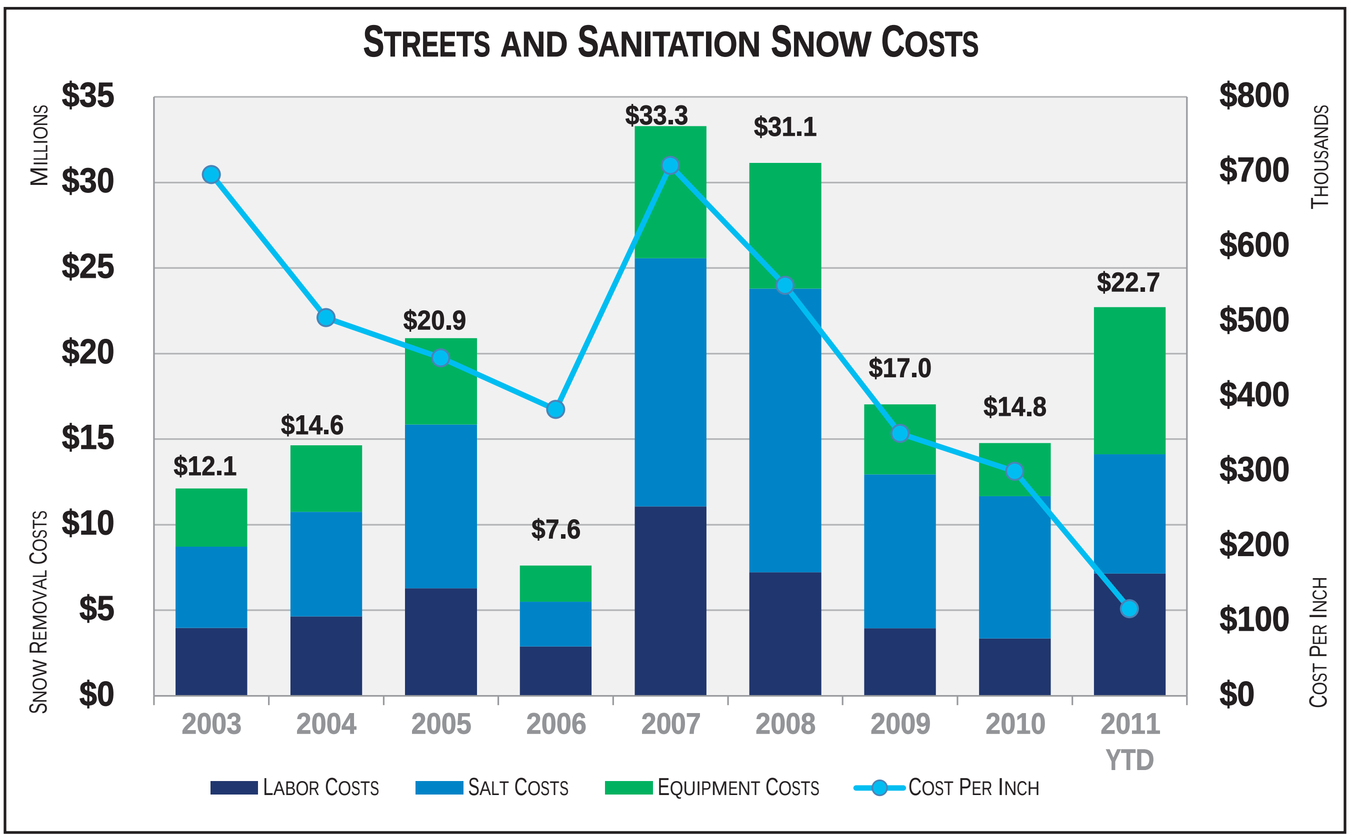
Motor Fuel Tax Fund [3]

Motor fuel tax (MFT) fund revenues are generated through a 19 cent per gallon tax on motor fuel imposed by the State of Illinois, of which the City receives a distributive share. Similar to the vehicle tax fund, MFT revenue is used for street repair and maintenance. MFT, however, also includes a budget for expenditures related to snow removal.

MFT fund annual revenue fluctuates with the price of fuel. The primary cause is the inverse relationship between fuel prices and consumption. In 2010, MFT fund revenues increased because the City received $12.5 million from the State's "Illinois Jobs Now!" plan, which was allocated to the MFT fund. Because of the nature of the plan and the flow of funds, the City expects to receive an additional $12.5 million in 2011.

Historically, MFT fund expenses have outpaced revenues. In five of the past eight years, expenses have been higher than revenues, causing a continued annual deficit. Despite reduced expenditures in 2009 and 2010, the fund continued to carry a negative balance of $39.7 million at the end of 2010.

The primary driver of MFT expenditures is the annual cost of snow removal. The funds required to manage snow removal vary greatly from year to depending on winter weather conditions. The February 2011 snowstorm alone cost the City more than either the 2009 or 2010 annual snow removal expenditures.



[3] The data in this section is derived from budgeted values rather than CAFR data because the accounting for this fund is performed on a project rather than a fund level.

FINANCIAL HISTORY REVIEW (CONTINUED)

In a typical year, about 55 to 60 percent of snow-related expenditures are used to purchase salt for ice control on the City's streets. The remainder of snow-related costs are for labor and equipment. Labor costs declined in 2009 and 2010 as a result of the COUPE amendment that was effective from mid-2009 through mid-2011, as discussed in greater detail in the Personnel section of this document, and may begin to increase with the expiration and after-effects of that agreement.

In 2011, the City budgeted almost $15 million dollars from the MFT fund for snow mitigation. Without accounting for the snowfall through the end of 2011, the City has already spent over $22 million dollars from the MFT fund on snow-related expenses. This overage contributes substantially to the overall fund deficit - $17.54 million, or 48 percent, of the total MFT fund negative balance is attributable to actual snow removal costs that exceed the budget.

Special Events and Hotel Operators' Occupation Tax Fund [4]

The special events and hotel operators' occupation tax fund supports the promotion of tourism in Chicago, with its spending primarily on cultural and recreational activities. It is funded primarily by revenue generated from special events and through the hotel operators' occupation tax. These revenues are largely tied to the City's convention business, the tourism economy and the success of the City's special events. The recession's negative impact on both the hotel industry and the City's special events has affected this fund's revenue. In 2001, special events and hotel operators' occupation tax fund revenue was $11.6 million. This fund's revenue peaked in 2008 at $26.8 million, and was $24.3 million in 2010.

CTA Real Property Transfer Tax Fund

On April 1, 2008, a supplemental tax on real estate transfers was adopted for the purpose of providing financial assistance to the Chicago Transit Authority. Because this fund's revenue is generated through real estate transfers, its revenue levels have remained low due to slow real estate activity. In the three full years since the fund's inception, revenues have ranged from $25.4 million to $32.5 million.

Emergency Communications Fund

The emergency communications fund finances expenditures related to the maintenance and operation of the City's emergency communications and 911 Center.[5] It is funded through the collection of the emergency telephone system surcharge on all billed subscribers of telecommunications services within the City. The surcharge is levied at a rate of $2.50 per month per landline and wireless connection. The fund's revenue increased due to a rate increase from $1.25 to $2.50 in January of 2008. In 2001, total emergency communications fund revenue was $29.9 million. By 2010, that figure had increased nearly three-fold to $72.5 million.

[4] Historically, the two elements were separate funds. The City merged the two funds in 2011 while merging the Department of Cultural Affairs, which oversees the Office of Tourism, with the Mayor's Office of Special Events.

[5] This fund's revenue supports both the emergency communication bond redemption fund and the emergency communications fund.

ENTERPRISE FUNDS

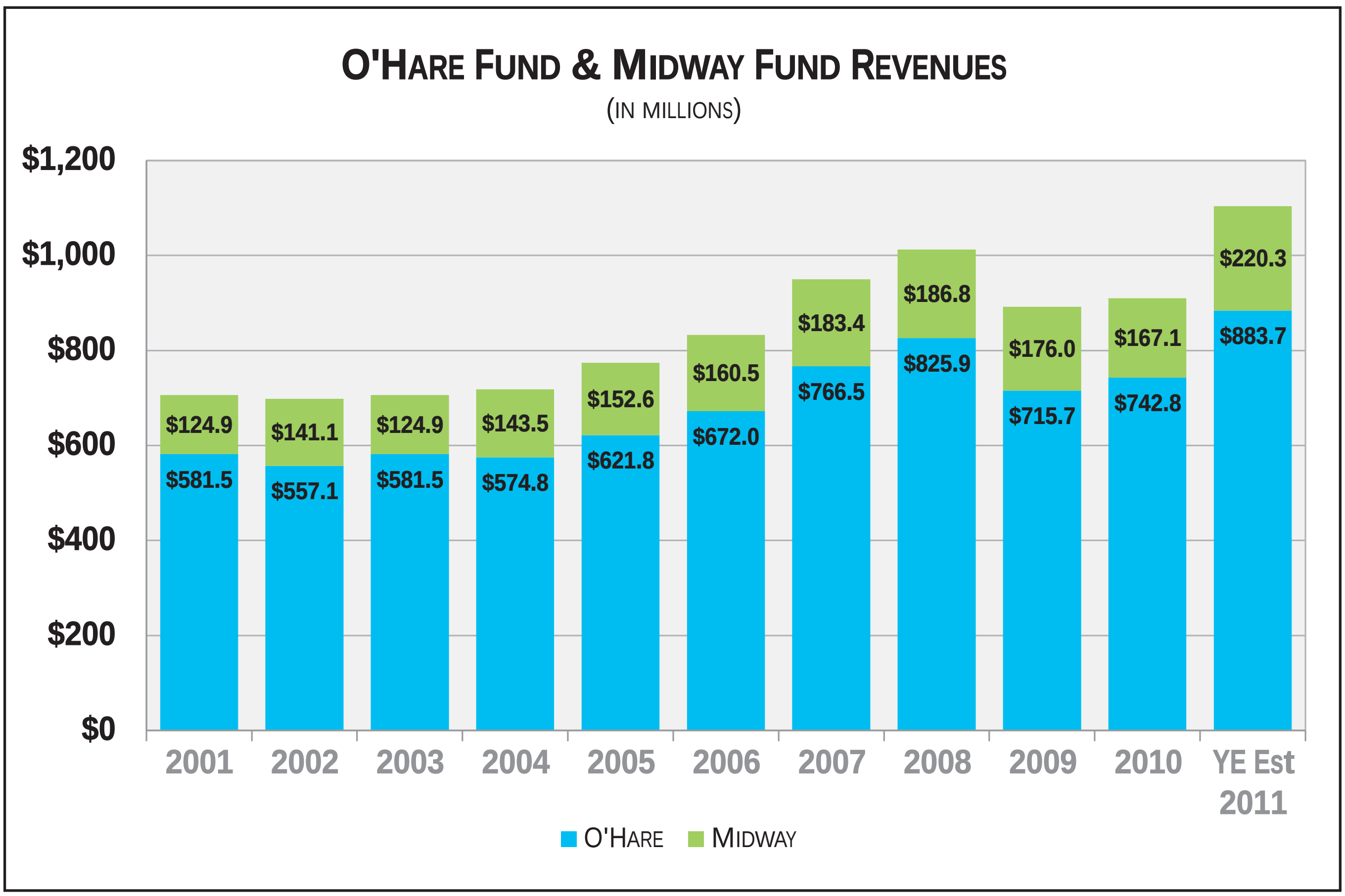
The City's enterprise funds support the operation, maintenance, and capital costs of the City's water and sewer systems and O'Hare and Midway Airports.[6] These funds are self-supporting, in that each derives its revenue from charges and associated user fees.

O'Hare and Midway Airport Funds

The operations of O'Hare and Midway airports are paid for from a combination of airline revenues and non-airline revenues (such as parking and concessions in the terminals). Airline rates and charges (mainly landing fees and terminal rent) are established at each airport essentially on a residual type basis where the airlines are charged the amount that is needed to pay for operating expenses and debt service after taking into account the non-airline revenues. As a result of the residual rate setting mechanism, revenues are only collected to the extent that they are required to pay for each airport's operating expenses.

The airport funds were relatively flat until 2005, when a four-year growth period ensued. However, by year-end 2009, the funds dropped 12 percent from 2008 levels. There was a 2 percent increase in 2010 to close the year with $909.9 million in revenues.

Personnel-related expenses account for a large portion of O'Hare fund expenditures. In 2003, salaries, wages and employee benefits accounted for 25 percent of O'Hare fund expenses. By year-end 2010, that number had decreased to 19.6 percent of O'Hare fund expenses. Despite reductions in personnel costs, overall O'Hare fund expenditures have steadily increased since 2003. Repair and maintenance costs have contributed to this growth. In 2003, repair and maintenance expenses totaled $37.5 million, or 5.9 percent of total O'Hare fund expenditures. Repair and maintenance costs increased to $52.7 million, or 6.3 percent of total O'Hare fund expenditures, in 2010. These increases are a result of higher costs for regular repairs and maintenance and



[6] Prior to the long-term lease of the Skyway in 2005, the City maintained a separate enterprise fund for Skyway revenues and expenses. The reserve funds associated with the proceeds from that lease transaction are discussed in detail in the Long-Term Asset Lease and Reserve Funds section of this document.

FINANCIAL HISTORY REVIEW (CONTINUED)

increased repair and maintenance requirements attendant to the O'Hare Modernization Program.

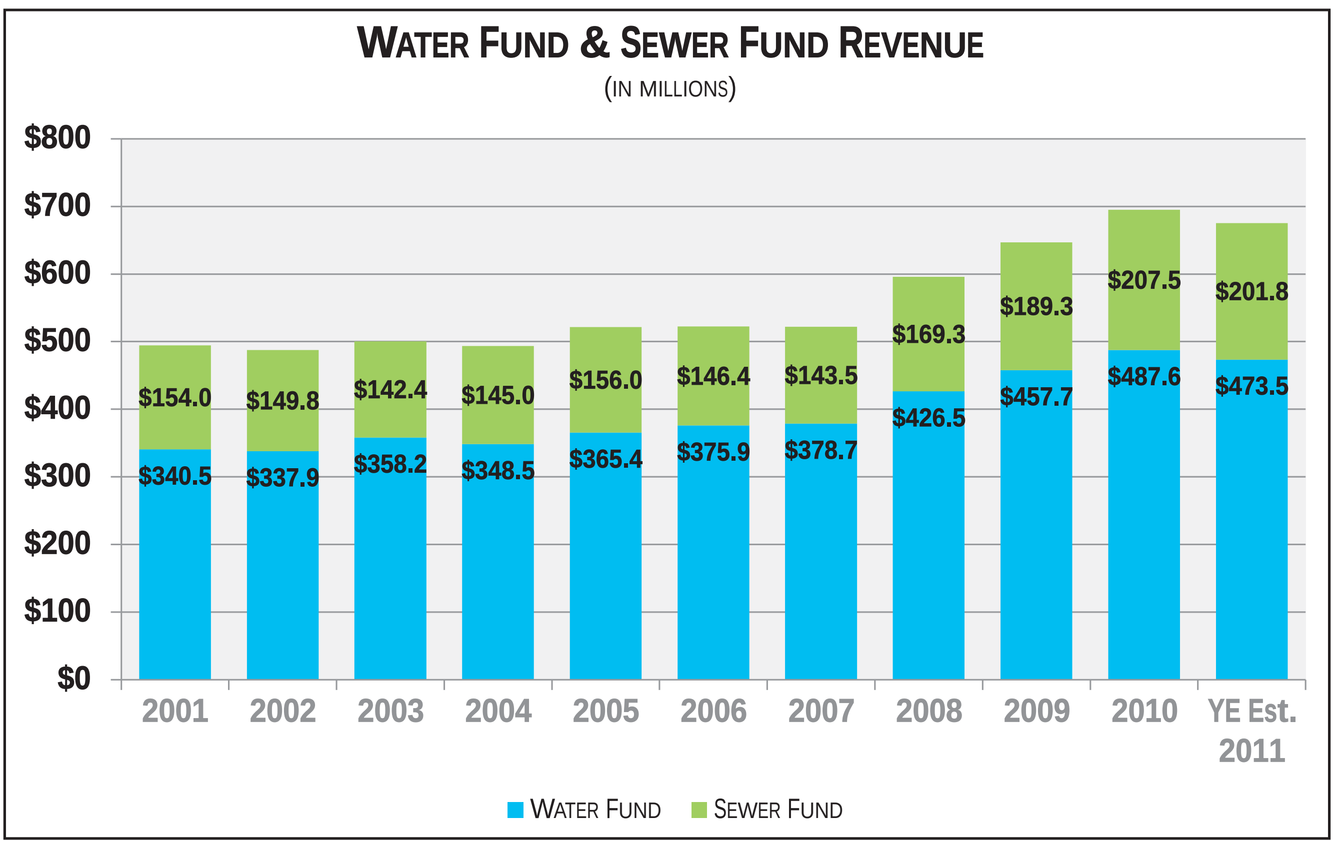
Although on a significantly smaller scale, the Midway fund mirrors the O'Hare fund. Salaries, wages and benefits make up a large part of overall fund expenditures. In 2003, salaries, wages and employee benefits accounted for 24 percent of Midway fund expenses. By year-end 2010, that number had decreased to 15.3 percent of Midway fund expenses, or $34 million. During this same time period, total repair and maintenance costs at Midway steadily increased.

Water and Sewer Funds

The City's water and sewer funds are supported primarily through water usage fees and reimbursements from other funds for work performed by the Department of Water Management. These revenues are used to repair, maintain and improve the City's water and sewer systems. [7]

Both water fund and sewer fund revenues have grown since 2008 due to rate increases – a 15 percent rate increase in 2008, a 15 percent rate increase in 2009, and a 14 percent rate increase in 2010. During the 10-year period from 2001 to 2010, annual water fund revenue increased by $147 million, with an average annual growth rate of 4.2 percent. During the same 10-year period, annual sewer fund revenue increased by $53.5 million, with an average annual growth rate of 3.7 percent.

In the period from 2003 through 2010, water fund personnel costs decreased from 50 percent to 38 percent of total fund expenditures, with the total annual dollar amount remaining relatively constant, averaging $151.2 million during those years. The sewer fund followed a similar pattern, averaging $58.3 million in personnel expenditures each year. As the relative proportion of personnel expenditures has decreased, available revenues have been increasingly used to support, repair and maintain the City's water and sewer infrastructure and to fund capital projects necessary to maintain effective operations.



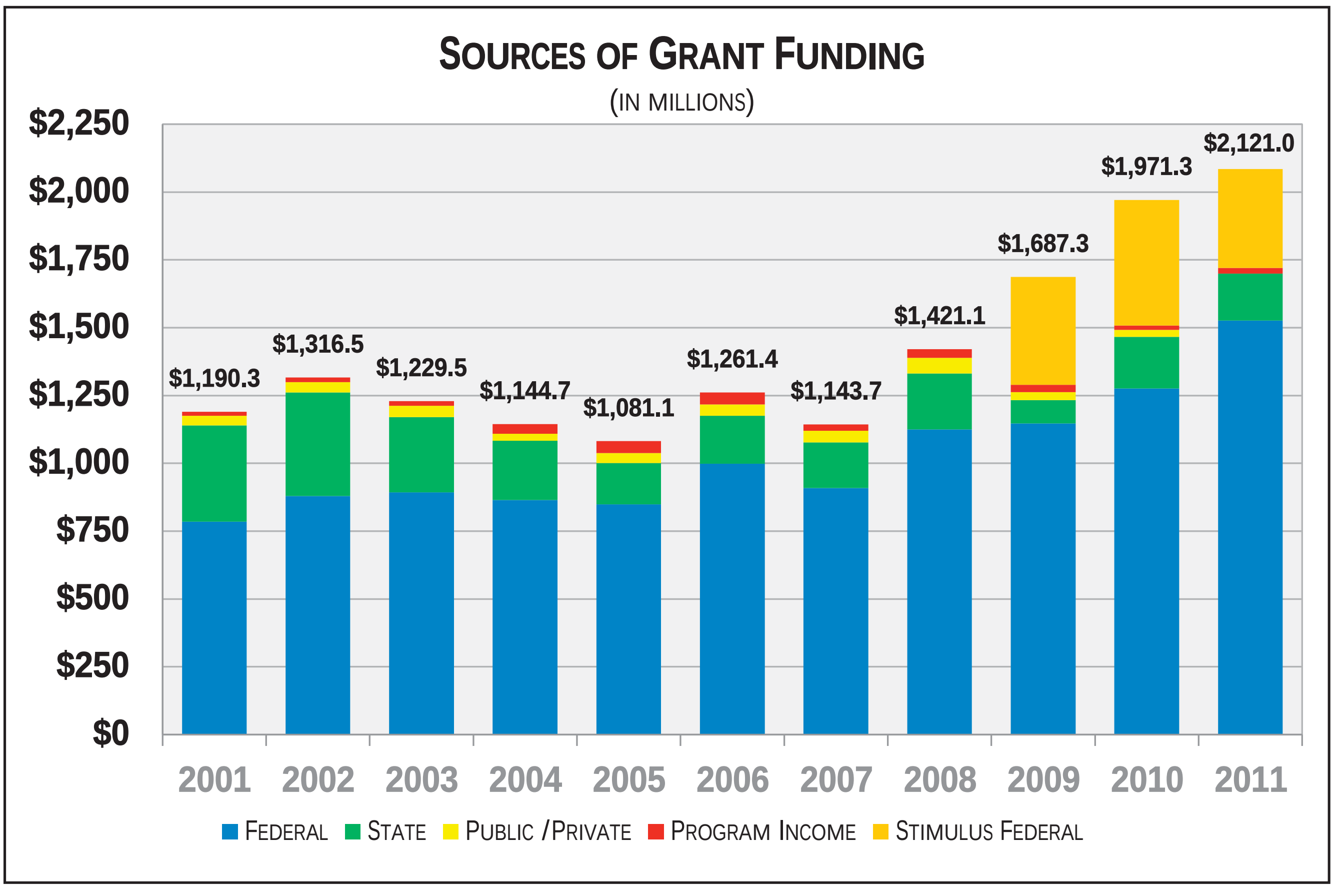
7 When a City resident pays their water bill, a portion of that payment goes into the water fund and a portion goes into the sewer fund.

GRANT FUNDING

Grant funding is a significant and recurring source of revenue for the City, constituting an average of 21 percent of the City's overall budget over the past 10 years. The City receives grant funds from federal and state agencies, foundations, and other private entities, and utilizes these funds to provide essential services, support ongoing programs, and complete capital improvements. The level of grant funding varies with the availability of grants that meet City needs and the City's ability to obtain those grants.

Over the past decade, grant funding has provided an average of $1.5 billion each year, with the level of grant funding in recent years higher due to the inflow of federal stimulus dollars. During this period, the City's grant funding has been composed of approximately 80 percent federal funding, 15percent state funding, and 5 percent program income, private funding and donations. Grant funding has remained relatively stable, with significant increases from 2009 to 2011 due to the American Reinvestment and Recovery Act (ARRA) stimulus funding. ARRA funds are one-time grants and are to be used as supplemental appropriations for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, affordable housing and state and local fiscal stabilization. Smaller year-to-year fluctuations in the City's grant funding are often attributable to the timing of large grant-funded transportation and infrastructure projects.

Grant funds are received on various fiscal year time periods, and many grants awarded to the City are for multi-fiscal years. The numbers in the following graph reflect the total available grant funds in a given year, including any carryover funds from the prior year.[8]

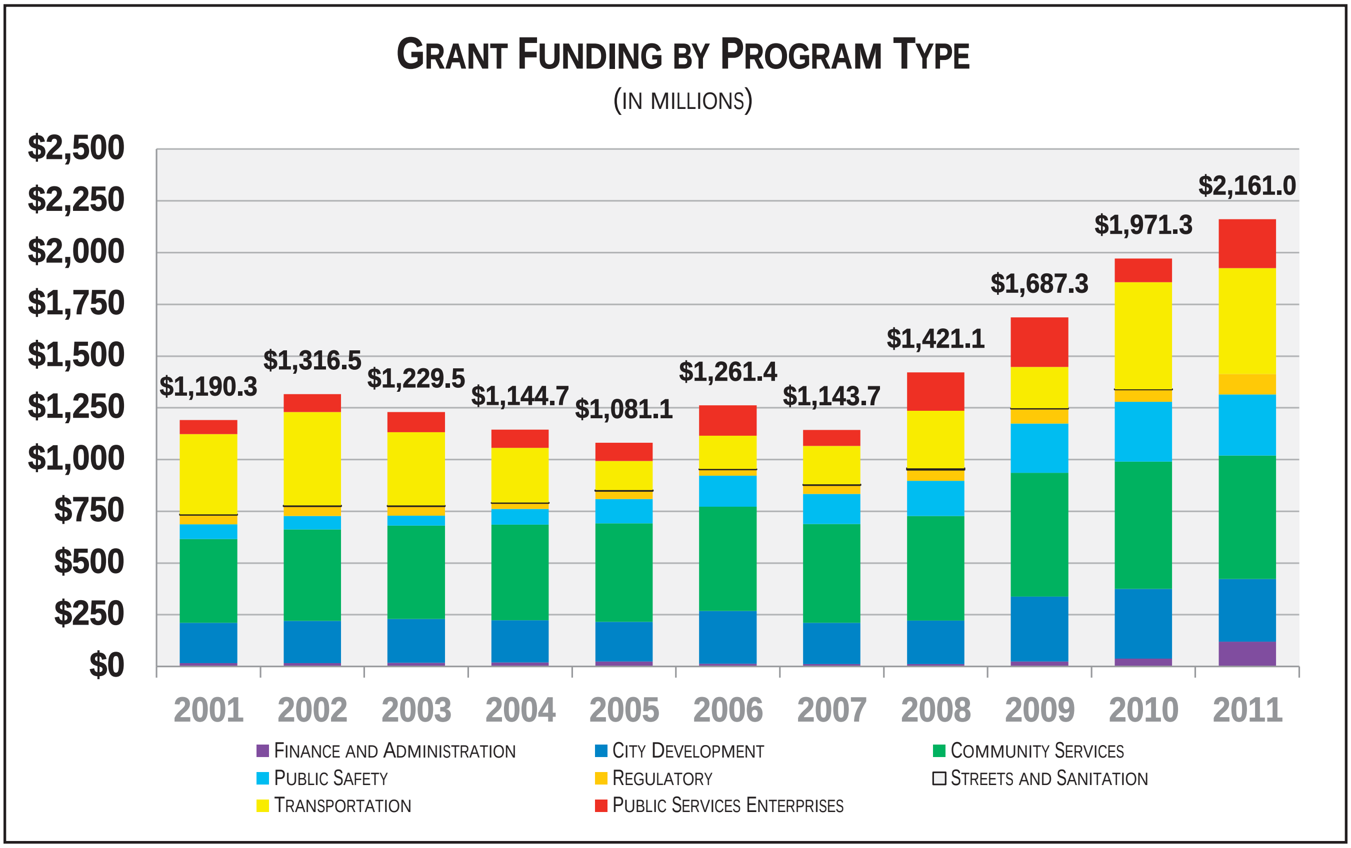


The City categorizes the grants it receives by program areas, and the following graph presents the relative growth of grant-funding by type over the past 10 years.[9]

[8] Due to limitations in available data, 2001 through 2005 reflect the grant funding appropriated in the City's annual budget. For years 2006 through 2010, actual grant funding received is shown.

[9] Due to limitations in available data, 2001 through 2005 reflect the appropriated programmatic usage for each year. For years 2006 through 2010, actual programmatic usage is shown.

Financial History Review (continued)



Finance and Administration

The primary recipients of grant funding in the Finance and Administration category are the Office of Budget and Management, the Department of Innovation and Technology, the Comptroller, the Department of Law and the Department of General Services. Though these departments do not obtain large amounts of grant funding, there was an increase in such funding in 2011 due to ARRA funding for energy efficiency upgrades and lighting retrofits and to new grant opportunities for broadband, high-speed internet and fiber connections.

City Development

In the City Development category, the Department of Housing and Economic Development[10] and the Department of Cultural Affairs and Special Events are the primary recipients of grant funding. The increase in grant funding in 2009 through 2011 was due largely to the receipt of $169 million in Neighborhood Stabilization Program funding to bring vacant foreclosed homes up to code and increase home occupation in target areas, and $89.1 million in HOME Investment Partnership Program funds, which provide financial assistance to affordable housing developers, homebuyers, and community-based organizations.

Community Services

The primary recipients of grant funding in the Community Services category are the Department of Family and Support Services, the Department of Public Health, the Department of Human Relations, the Chicago Public Libraries and the Mayor's Office for People with Disabilities, with programming directed at boosting the economy by creating jobs, increasing vital services provided to communities, fostering workforce development, providing child care, and operating homelessness and prisoner re-entry programs. This category has received the second largest amount of grant funding over the past 10 years, with increases aligning with overall increases in grant funding due to ARRA.

[10] Formerly the Department of Housing, the Department of Planning and the Department of Zoning.

Financial History Review (continued)

Public Safety

Grants to the Office of Emergency Management and Communications, the Police Department, and the Fire Department make up the Public Safety category. Over the years, Public Safety has grown to be the third largest grant-funded area in the City, with grant funding increasing from $71 million in 2001 to an anticipated $294.7 million in 2011. A significant portion of this funding comes from the Urban Areas Security Initiative, which provided $149 million in funding beginning in 2007 to address the planning, organization, equipment and training needs of high-threat, high-density urban areas in building capacity to prevent and respond to acts of terrorism.

Regulatory

The Regulatory departments are the Department of Environment, Department of Buildings, Business Affairs and Consumer Protection and Animal Care and Control. With the exception of the Department of Environment, the departments in this group are not heavily grant-funded. The Department of Environment's grant funding has come largely from ARRA, in areas such as weatherization, electric vehicle support and alternative fuel development.

Infrastructure Services

The Department of Streets and Sanitation and the Chicago Department of Transportation (CDOT) are the primary recipients of grant funding in this category, with CDOT receiving the most grant funds of any City department. Transportation-related grant funding has fluctuated with the need for and ability to obtain grants for large infrastructure projects such as highways, bridges, streetscapes and CTA stations. A significant portion of CDOT's grant funding comes from the federal Congestion Mitigation Air Quality program and is allocated towards projects that will contribute to the attainment of national ambient air quality standards in designated non-attainment areas.

Public Service Enterprise

The Public Service Enterprise category consists of the Departments of Water Management and Aviation, with Aviation the primary recipient of grant funding for its airport improvement programs.

Grant Funding Going-Forward

As ARRA funding comes to a close this year, the City will experience a significant decrease in its federal grant funding. The City also experienced a 16.9 percent cut in its Community Development Block Grant funding in 2011, which will affect the distribution of funding for 2011 and 2012. State grant funding is being reduced as well, specifically with respect to family and human services-related activities. These factors, together with the overall state of the economy and general decreases in funding due to the condition of the state and federal budgets, indicate that grant funding will decrease in 2012 and possibly in the ensuing years as well.

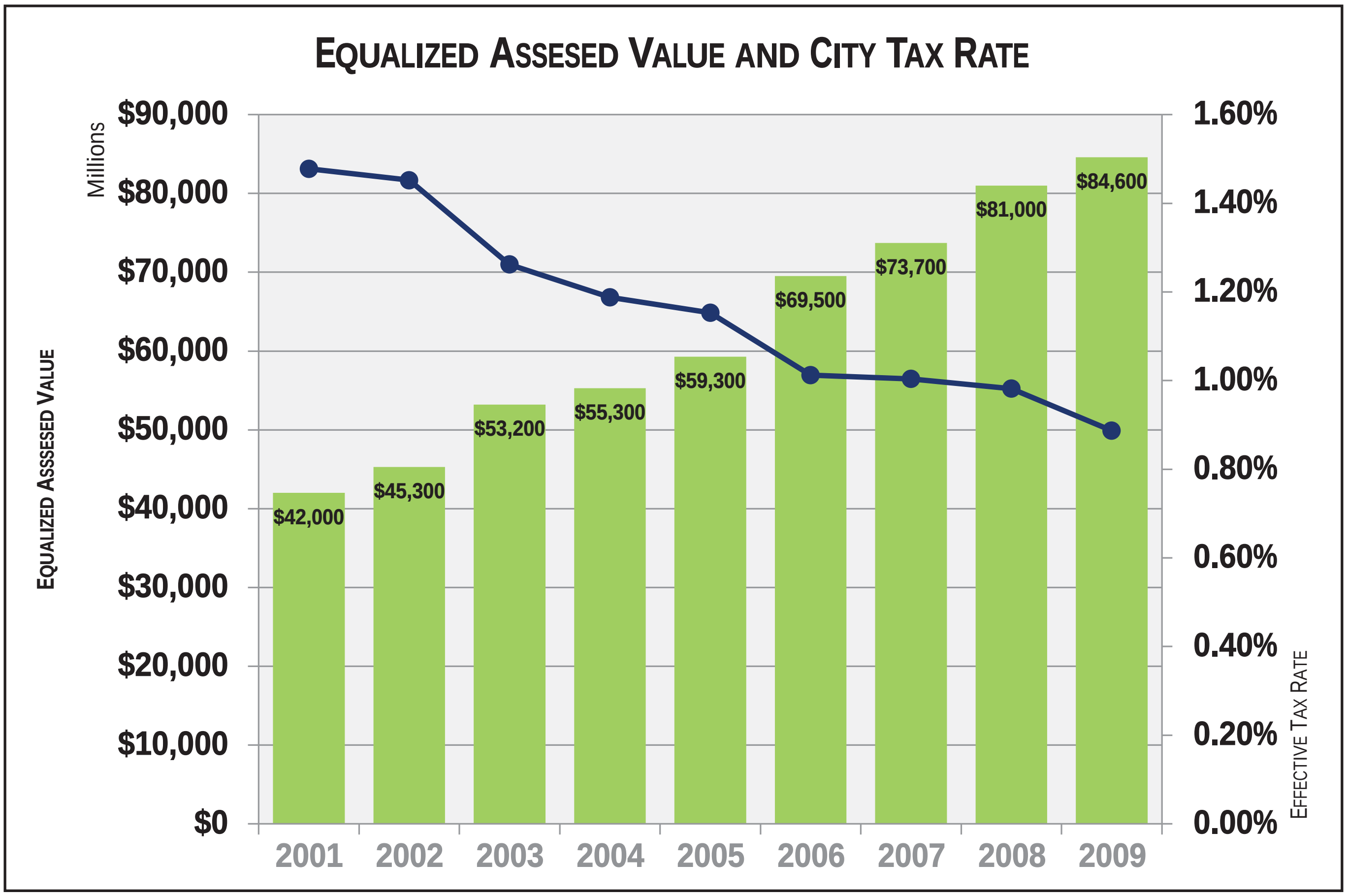
PROPERTY TAX FUNDS

Property taxes are a significant portion of City revenues and one of the most frequently discussed sources of revenue. This section discusses in more detail the way in which property tax revenue is derived and used by the City.

The City's total property tax-derived revenue is made up of two basic components – the City property tax levy and tax increment financing revenue.

City Property Tax Levy

Cook County assesses and collects property taxes and then distributes a proportionate share of the total collections to the City based on the City's levy.[11] While the City is not subject to the state-mandated 5 percent cap on property tax levy increases, the City has operated under a self-imposed property tax cap. Since 2008, the City's property tax levy has been set at $797 million (the "City Levy"). In any given year, the amount of property tax that a property owner pays to the City is determined, in part, by dividing the City's pre-set levy amongst Chicago's tax base (the aggregate assessed value of all property within the city limits).[12] The result is the City tax rate. A property owner's tax bill is thus primarily based on the value of their property as determined once every three years and the amount that the City decides to levy. Despite fluctuations in the market, the aggregate assessed value of property in the city limits has grown steadily over the past decade. As the levy remains constant and the aggregate assessed value of property increases, the effective tax rate charged by the City has decreased. The effective tax rate in 2001 was 1.47 percent. In 2009, this rate decreased to .89 percent.



[11] The City is one of seven taxing districts reflected on City residents' property tax bills. The total Cook County property tax extension is divided amongst these districts, with the City allocated approximately 21 percent of the extension.

[12] More specifically, the tax rate is determined based upon the Equalized Assessed Value (EAV) of all property in the City limits. The EAV is determined by applying a state-mandated equalization factor to assessed property values in order to account for differences between regions.

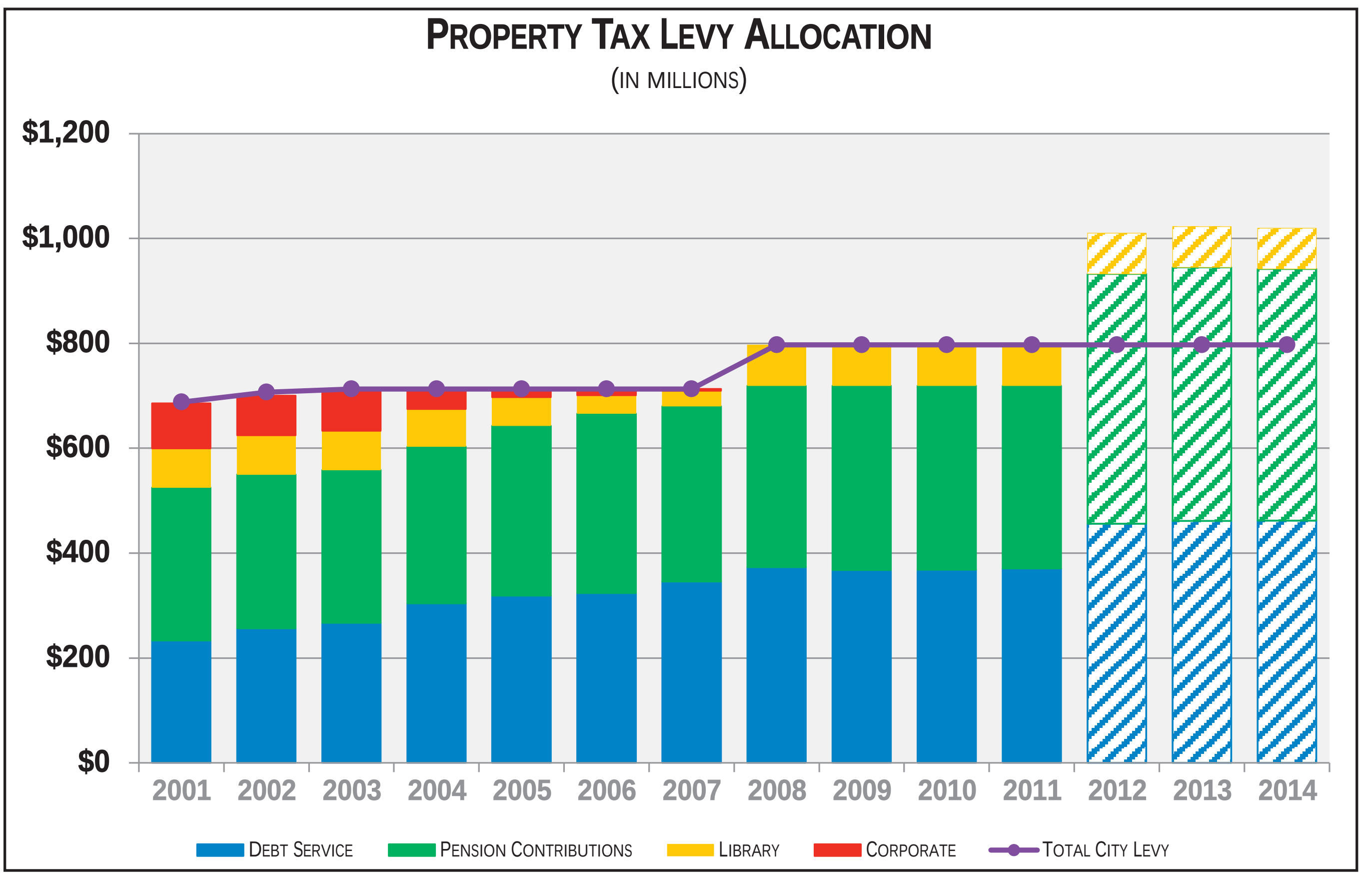
FINANCIAL HISTORY REVIEW (CONTINUED)

The City Levy is divided into two components – a portion that can be used for general City purposes and a portion specifically dedicated to fund the Chicago Public Libraries. Since 2008, the library portion of the levy has been set at $83.4 million (the "Library Levy"), leaving $713.6 million of the City Levy for non-library uses. [13]

The revenue from the City Levy that is not allocated to the library system is utilized primarily to pay the City's debt service and employee pension contributions. [14]

The City pays its pension and debt service costs using revenue generated from property taxes and a portion of the revenue from the Personal Property Replacement Tax (PPRT). From 2004 through 2007, the costs of debt service and pension payments supported by property tax revenue did not exceed the City Levy, and surplus property tax revenue was transferred to the City's corporate fund to support City services and activities. As the City's debt service and pension expenses have grown and the City Levy has remained static, the City's entire property tax revenues are being used to cover these payments. No property tax revenue has flowed into the corporate fund in recent years.

The graph on this page shows the way in which property tax revenues were appropriated from 2001 through 2011. In each of those years, and to an increasing extent beginning in 2003 and thereafter, a portion of the pension contributions were paid with PPRT revenue and a portion of the long-term debt service was covered using other (non-property tax) funding sources. For the years going forward, the graph presents the total amount of long-term general obligation debt service and estimated employee pension contributions, as well as the Library Levy at its 2008-2011 level. These payments will exceed the levy, and other revenue sources must be redirected to make up this differential.



[13] The City Colleges of Chicago also levy for property taxes, in the amount of $37 million each year. This amount is sometimes discussed as a part of the overall City property tax levy. However, because the City Colleges function as a separate governmental unit and do not receive any additional funding or subsidies from the corporate fund, their levy is not discussed in detail here.

[14] These items are discussed in more detail in the Debt and Pension sections of this document.

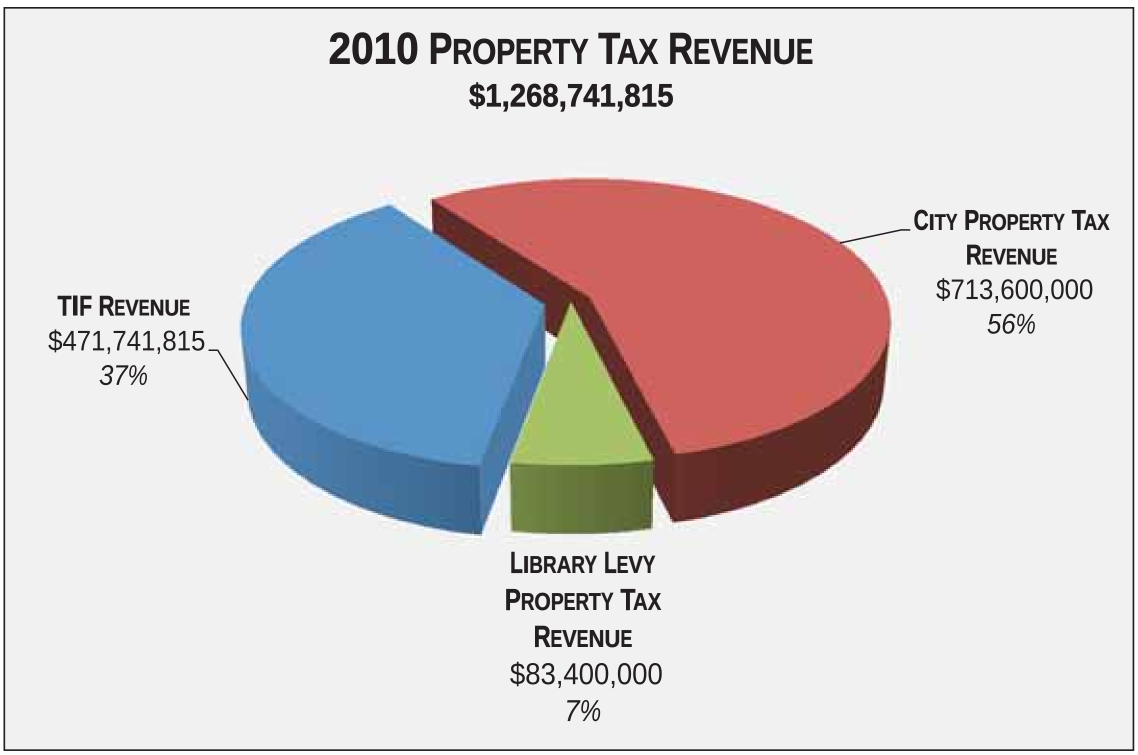
FINANCIAL HISTORY REVIEW (CONTINUED)

Library Levy

Revenue from the Library Levy is used to support the operations of the library system (including utilities, leases, security services, property management and maintenance, and library personnel costs) and to pay debt service on general obligation debt. In addition to the $83.4 million in funding from its dedicated portion of the City Levy, the library system is funded with some revenue from library facility rental and fines, and receives a subsidy from the corporate fund. This subsidy began to increase in 2005 and later decreased with the allocation of the Library Levy in 2008. The library's subsidy was $15.7 million in 2010.

TIF Revenue

Discussion of the City's property tax revenue typically focuses on the City Levy, ignoring substantial amounts of property-tax-derived revenue from the City's Tax Increment Financing ("TIF") program. The TIF program allows the City to capture property tax revenues above the baseline or "frozen" equalized assessed value (EAV) that existed before an area was designated as a TIF district, and use that money (the "tax increment") for community projects, public improvements and incentives to attract private investment to the area. The "frozen" equalized assessed value of the TIF districts is still a part of the tax base for the purposes of the levy, but the City also obtains tax increment revenue beyond that baseline from these districts. This TIF revenue must be re-invested into the TIF district and cannot be used for other general City purposes.



FINANCIAL HISTORY REVIEW (CONTINUED)

PERSONNEL COSTS

Personnel costs comprise the majority of the City's expenses. This section provides information on the City's personnel costs by focusing first on the corporate fund expenditures and then expanding to a general discussion on personnel costs across all funds.

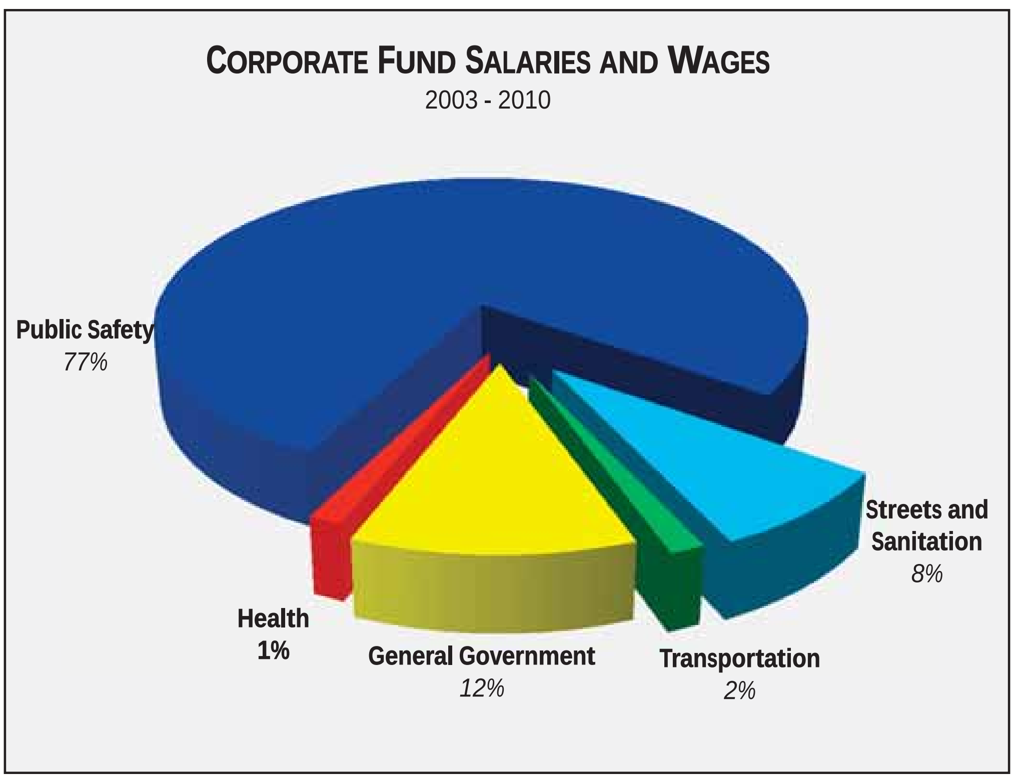
Corporate Fund Personnel

Salaries and wages have historically accounted for an average of 72 percent of total corporate fund expenses. When employee benefit expenses are included, such as healthcare, term life insurance and workers compensation costs, total personnel-related expenses account for an average of 85 percent of corporate fund expenditures.

Total corporate fund personnel costs increased by 11.6 percent between 2003 and 2010, despite the reduction of the corporate fund workforce by more than 2,500 employees during that time. Salaries and wage expenses, which are subject to collective bargaining, increased by 7 percent over that time period with an average salary of $64,000 per employee in 2003 increasing to $75,000 in 2010. The largest share of this increase has been in the cost of benefits which have increased by 37 percent since 2003. When the benefit cost is included, the average cost per employee increases from $74,700 in 2003 to $91,000 in 2010.

The positions in the public safety departments account for the largest portion of personnel expenses on the corporate fund. From 2003 through 2010, public safety personnel costs accounted for an average of 77 percent of the total corporate fund salaries and wage expenses; however, that percentage increased from 75 percent in 2003 to 79 percent in 2010.

In comparison, general government and Streets and Sanitation positions account for an average of 12 and 8 percent, respectively, of total corporate fund salaries and wages over the same time period. As the public safety portion of salary and wages expenses has increased, general government and Streets and Sanitation personnel expenses have decreased. The general government portion of salaries and wages reduced from 13 percent in 2003 to 11 percent in 2010 and Streets and Sanitation reduced from 9 percent in 2003 to 6 percent in 2010.



Financial History Review (continued)

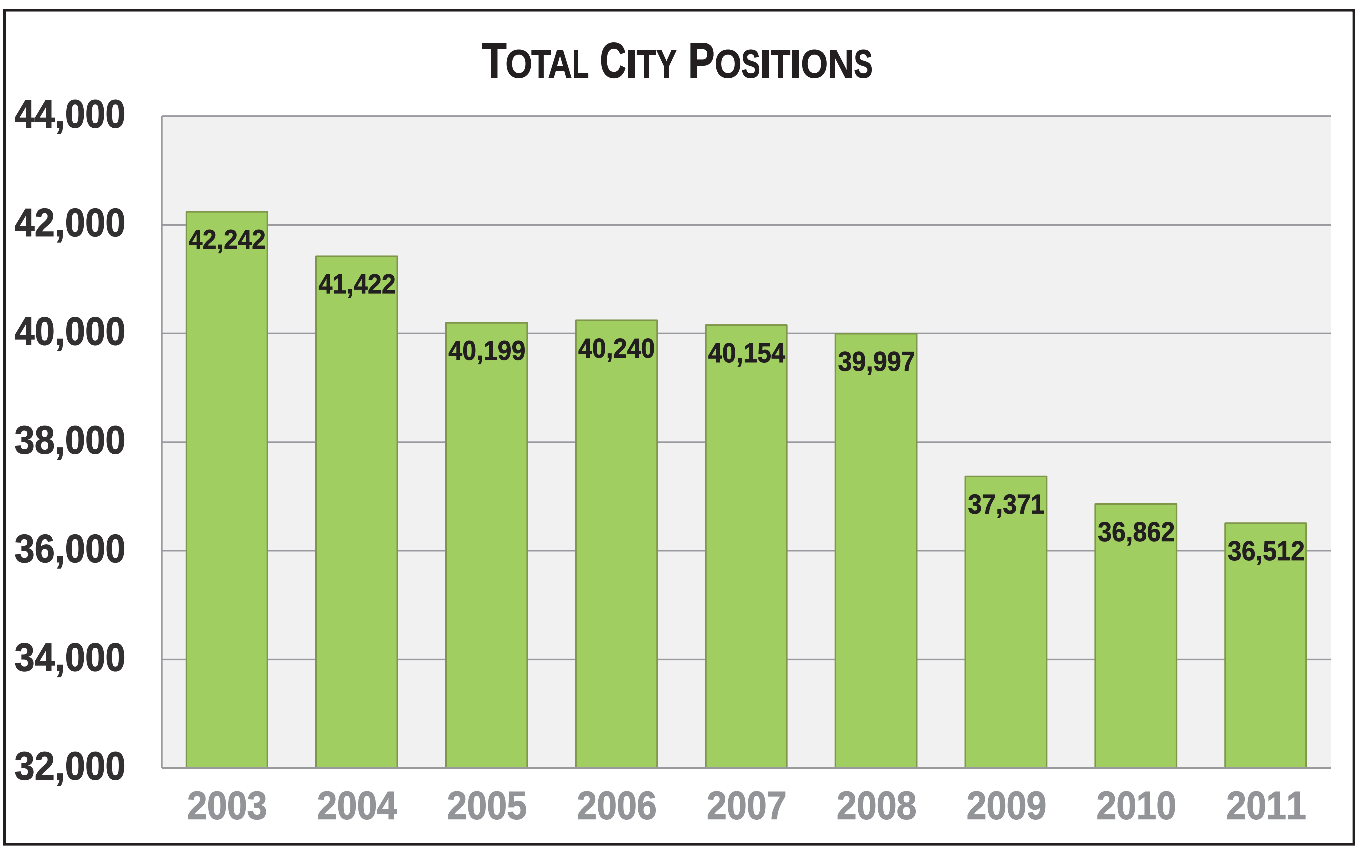
The increased personnel expenses are due in a large part to the salary increases resulting from contractual obligations in the union agreements. The Police and Fire contracts include a 10 percent salary increase from 2007 to 2012. However, due to the timing of the contracts, the financial implication of those increases for both departments is not reflected until the end of 2011. The cumulative salary increase from 2007 to 2010 for the police officers was first included in the 2010 expenditures but the cumulative salary increase for fire personnel is first seen in the 2011 year-end expenditures. The 2012 budget year will include the full 10 percent increase for all of the public safety positions.

In addition to public safety increases, the trade unions and AFSCME received a 16 percent increase from 2007 through 2012 and SEIU received a 10 percent increase from 2007 through 2010. Although the increases for those unions were not delayed, the impact of the increases is a higher personnel cost each year.

Union Workforce

The City is a party to collective bargaining agreements with more than 40 different unions. The two bargaining units representing the largest number of City positions in 2011 are the Fraternal Order of Police and the Chicago Firefighters Union, currently with more than 17,000 combined sworn public safety positions. When the Police Captains, Lieutenants and Sergeants are included in the total, the number of public safety positions is 18,760, an increase from the total of 18,549 in 2003.

The next largest group of positions is associated with the Coalition of Union Public Employees (COUPE) which includes the majority of unions. This group represents 7,305 trades positions in 2011, down from 9,437 positions in 2003. The American Federation of State, County and Municipal Employees (AFSCME) is the third largest group with 4,186 positions in 2011 providing administrative support for the City, a decrease from 6,278 positions in 2003. The fourth largest group is the Service Employees International



Financial History Review (continued)

Union (SEIU) which currently represents 2,396 public safety civilian positions, a reduction of 7 positions when compared to 2003.

Workforce Reductions

The City has steadily decreased its workforce across funds from more than 42,000 in 2003 to 36,500 total positions in 2011, a decrease of approximately 13 percent.

As the overall number of City positions has decreased, the relative proportion of positions represented by a union has grown from 87 percent in 2003 to more than 90 percent today. Since 2003, the number of non-union positions has been reduced by 27 percent, from 5,398 to 3,949, while the number of union positions has been reduced by 12 percent, from 36,844 to 32,563.

One segment of the City workforce that has not experienced reductions during this period is the sworn public safety workforce. This group has increased both in number and as a percentage of the total workforce, and now comprises more than 50 percent of total City employees and 51 percent of the unionized workforce.

Overtime Management

The public safety departments (Police, Fire and OEMC) and infrastructure departments (Streets and Sanitation, CDOT, General Services, Fleet and Water Management) account for more than 98 percent of all overtime expenditures. The City began monitoring, and endeavoring to reduce, overtime spending in 2007. Since the initiation of these efforts, the City has reduced its overtime expenditures across all funds from $124 million in 2007 to $82 million in 2010. Multiple factors facilitated this 34 percent decrease.

In July of 2009, the City entered into a two-year agreement with the COUPE unions under which the unions agreed to earn compensatory time instead of being paid for overtime hours. This agreement reduced overtime costs for the infrastructure departments by 50 percent between 2007 and 2010. During this same period the public safety departments decreased overtime spending by 17 percent between 2007 and 2010.[15]

The expiration of the COUPE agreement in mid-2011 could potentially cause an increase in the City's overtime expenses. To address this expected increase, the City has limited the usage of overtime to critical and public safety activities, such as water main breaks and emergency street repair.

[15] Fire department overtime costs spiked to $20 million in 2008 and $21 million in 2009, but were reduced to $10 million in 2010 after additional hiring was completed to fully man the department.

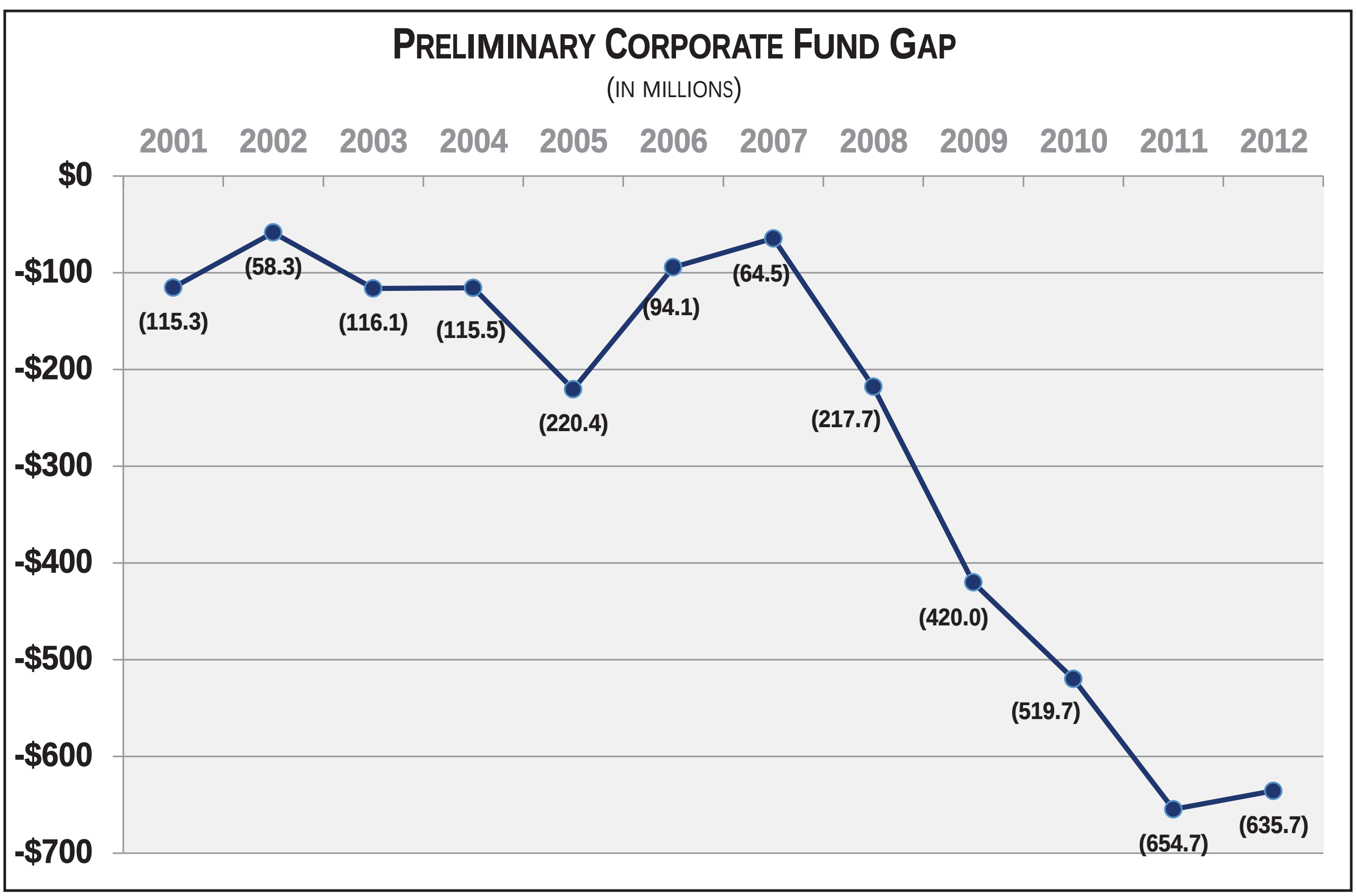
Financial Forecast

Introduction

In past years, the City has issued a preliminary budget at the end of July that set forth the anticipated revenues and expenditures and any shortfall or overage for the following year. This year, in addition to 2012 estimates, the City has prepared revenue and expenditure outlooks for 2013 and 2014, and has provided different scenarios for those coming years. The purpose of these three-year projections is to ensure that the 2012 budget is viewed in a broader context and that decisions about next year are made with an understanding of future conditions and consequences.

This year's forecast focuses primarily on the corporate fund, as this fund not only accounts for most of the basic services provided by the City, but also has experienced an increasing disparity between revenues and expenditures over the past decade. A brief summary of the projections for the special revenue and enterprise funds is included at the end of this section. In future years, the Annual Financial Analysis will include a more complete discussion of the projections for these other funds as well.

The current outlook for fiscal year 2012 projects a budget shortfall of $635.7 million. The negative difference between revenues and expenses estimated by the City in its preliminary budget each year, commonly referred to as the 'gap', has been steadily increasing over time. While the large recession-driven budget shortfalls began in 2008 with an estimated gap of $217.7 million, the City has been experiencing significant preliminary budget gaps for most of the last decade. The earlier gaps were largely filled by expenditure reductions and tax and fee increases. However, in more recent years, the City has relied heavily on one-time revenue sources, the majority of which came from the long-term leases of the Skyway and the City parking meter system, to balance its annual budget. The use of these one-time revenue sources masked the true financial condition of the City. The reality is that the City is operating with a structural deficit – each year, it spends more than it brings in, and this habit is built into the way City government currently functions.



Financial Forecast (continued)

Presented below are the details of the 2012 preliminary estimates, followed by three revenue and expenditure scenarios for the years 2013 and 2014 – a current outlook, a positive outlook, and a negative outlook. These projections are based on historical revenue and expenditure data and estimated 2011 year-end expenses and revenues. As further discussed below, the 2012 estimates also incorporate currently known factors that will affect 2011 year-end and 2012 revenues and expenditures. The expenditure projections assume that no substantive changes are made to City operations or the cost of City services.

CORPORATE 2012 ESTIMATES

The preliminary corporate fund budget estimates for fiscal year 2012 project a shortfall of $635.7 million. This shortfall is almost level with the shortfall predicted at this time last year for fiscal year 2011. The gap between revenues and expenditures has held at this level largely because of a small increase in certain revenues and controls on expenditures starting in 2010 and continuing in 2011.

2011 Year-End Estimates

The total corporate fund revenue is estimated at $3.27 billion for 2011 year-end, including an unreserved fund balance of $81.2 million. The unreserved fund balance is more than $70 million greater than expected due in part to the timing of state income tax payments.[16] Excluding the unreserved fund balance, overall revenues are expected to be 1.9 percent above 2010 revenues. Factors affecting the 2011 year-end revenue estimates include a decline in income tax revenues from 2010 levels as a result of the 2010 Census population count decrease and the reformulation of the Local Government Distribution Fund (LGDF), as further discussed in the Financial Condition Analysis of this document; and a decline in telecommunications taxes as the number of landlines decreases more rapidly than the number of cell phones increase.

The current 2011 year-end expenditures are estimated to be $57.0 million less than the original budget appropriation. These savings are expected despite additional unbudgeted personnel expenses due to the elimination of furlough days and unpaid holidays for the second half of 2011. These additional personnel expenses were offset by efforts put in place by the current administration including a strategic hiring freeze for non-critical employees.

2012 Preliminary Projections

Revenues are expected to decrease from the 2011 year-end estimate of $3.27 billion to $2.66 billion in 2012, a 19 percent decrease. This decrease is almost entirely the result of the elimination of the one-time revenue sources, which made up almost $500 million of 2011 revenues, approximately $330 million of which came from reserve funds established in connection with the Skyway and parking meter lease transactions. In addition to eliminating one-time revenue sources, the City is anticipating a decline in certain tax revenues that form a large portion of the City's revenue base.

A portion of the additional revenue decreases are continuations of declines that began in 2011. Income tax revenues are expected to decline an additional 12 percent in 2012 due in part to the reformulation of the LGDF and reduced 2010 Census counts. Telecommunications taxes are also expected to continue to decline in 2012. Additional factors included in the 2012 revenue estimates include a 25 percent reduction in employer's expense tax revenue in connection with the proposed four-year phase out of that tax beginning in 2012; less revenue from land sales, as a number of large sales of City-owned land occurred in 2011 and such transactions are not anticipated in 2012; and a reduced amount of personal property replacement tax revenue (PPRT), as a larger portion of PPRT revenues is needed for the increased pension contributions, leaving a smaller share, $17 million less than in 2011, for the corporate fund.[17] Other local taxes and non-tax revenues are expected to see a growth rate of

[16] The City had an unreserved fund balance of $81.2 million from 2010 carried into 2011, while the 2011 budget anticipated an unreserved fund balance of only $9.3 million. Of the $81.2 million, a little over $30 million was due to the timing of State income tax receipts. These receipts were included in the 2011 budget but received in the 2010 accounting period, so the actual increase in available funds was approximately $50 million. The 2010 unreserved fund balance has been included in the 2011 year-end estimates.

[17] The personal property replacement tax is allocated to pay for employee pension contributions that exceed property tax revenues allocated to fund employee pension contributions, as further discussed in the Pension Analysis section of this document.

FINANCIAL FORECAST (CONTINUED)

2011 and 2012 Estimated Expenditures and Revenues (in millions)		
	FY 2011-YE	FY 2012
Revenue	$3,271.3	$2,662.0
Expenditure	$3,206.7	$3,297.7
Budget Over/Under	$64.6	($635.7)

1 percent, but this small amount of growth is overshadowed by the decline in income tax, employer's expense tax and personal property replacement tax and other revenues.

Expenditures for the 2012 estimates grow over 2011 expenditures by approximately 2.8 percent. This 2012 projection is based on the 2011 year-end expenditure estimates, adjusted for known changes such as 2012 wage increases required under the City's collective bargaining agreements and the elimination of furlough days and unpaid holidays. No additional cost-savings initiatives are incorporated into these estimates. Cost-savings initiatives are being developed by the City and will be included in the 2012 budget recommendation submitted to the City Council in October.

In light of the timing of this report, it should be noted that these estimates take into account Federal Reserve and International Monetary Fund projections of modest growth in the U.S. economy in 2012 and future years. However, a debt downgrade or failure to raise the debt ceiling could have significant local, national and global repercussions. Credit rating firms have warned that ratings of U.S. debt may be lowered if no credible plan is reached for reining in deficits over the long term. In addition, the nature of the nation's recovery from the financial crisis continues to be uneven – the financial industry and large companies have improved, while housing and labor markets remain weak, and consumer confidence levels remain difficult to predict. Given the level of uncertainty in these areas, this forecast does not attempt to quantify the exact effect of these factors, but rather bases its assumptions on the moderate growth, adjusted for known local effectors.

CORPORATE 2013-2014 OUTLOOK

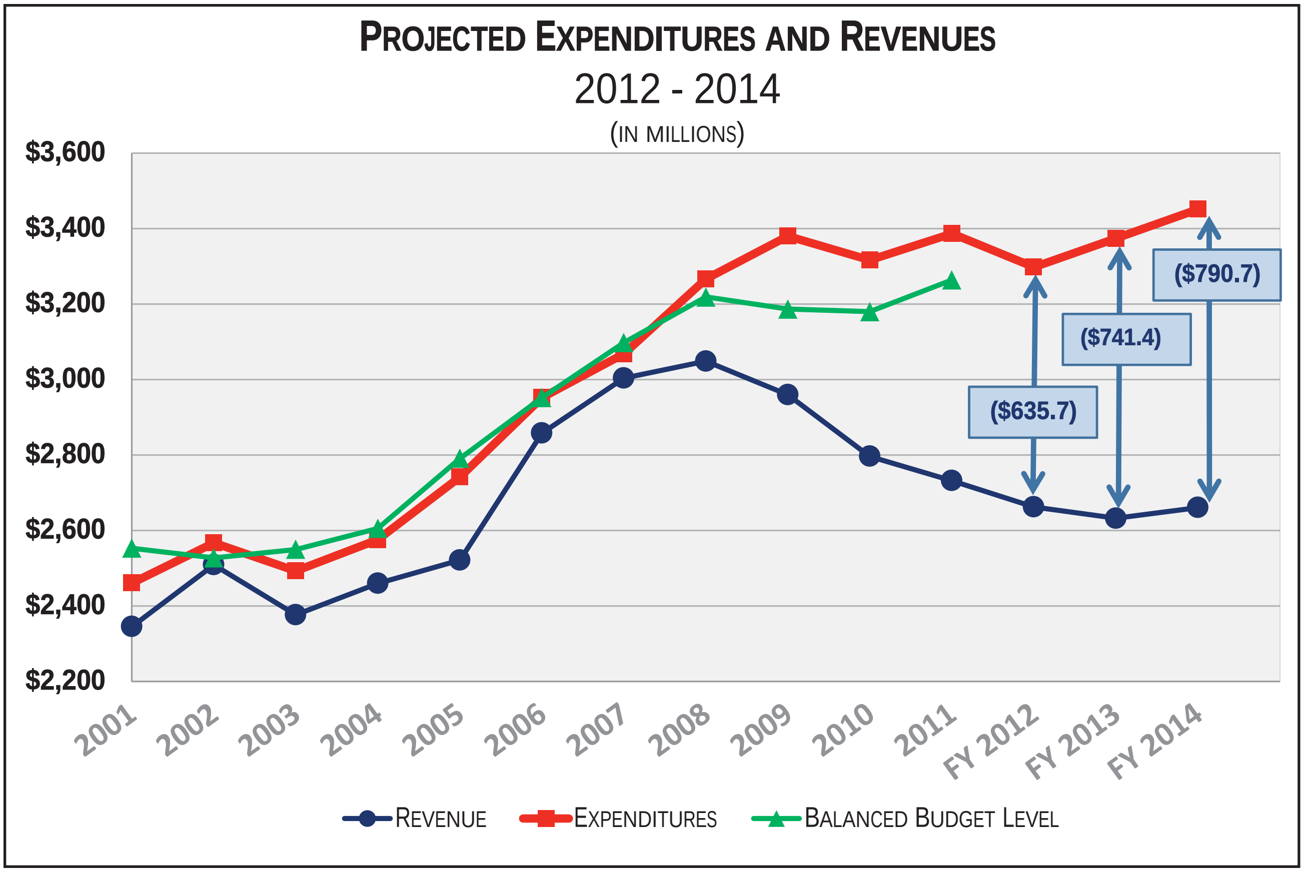
This section presents three different revenue scenarios for the years 2013 and 2014, and projects anticipated budget gaps based on each of these scenarios. For each scenario the expenditures are grown at the 10-year average historical rate of approximately 2.3 percent, which was determined by averaging the actual growth rates in corporate fund expenditures for each of the prior ten years.

The **current outlook** assumes net revenue growth at 1.3 percent in 2013 and 1.1 percent in 2014. The projections are based on the same considerations as presented above, with respect to the 2012 estimates, in which small increases in some revenues are offset by the decline in income taxes and business taxes and decreases in the corporate fund share of personal property replacement tax.

The **negative outlook** assumes that following 2012, revenues are stagnant in 2013 and 2014. This outlook presents zero-growth projections for economically-sensitive revenues, including utility, transaction, transportation, recreation, hotel and sales taxes. No growth is projected in non-tax revenue sources, such as land sales, licenses, permits, fines and service earnings.

2013 and 2014 Estimated (in millions)		
	FY 2013	FY 2014
Current Outlook	($741.4)	($790.7)
Positive Outlook	($728.0)	($767.6)
Negative Outlook	($781.2)	($863.8)

Financial Forecast (continued)



The **positive outlook** assumes that the limited 2012 revenue growth continues and increases, with net revenue growth of 1.9 percent in 2013 and 1.4 percent in 2014. This scenario continues to account for declines in income tax and employers' expense tax, but projects growth in other areas. This positive outlook projects increased rates of growth in economically-sensitive revenues, such as public utility taxes, recreation taxes, hotel taxes and sales taxes. Certain revenue streams that are not expected to grow at increasing rates in 2013 and 2014, such as transaction taxes, transportation taxes and revenue from licenses, permits, fines and service earnings, are held at 2012 growth levels.

Even under optimistic revenue projections, the City will continue to experience a sizable annual budget shortfall. This makes evident the City's long-standing structural deficit – it costs more to operate the City than the City receives in revenues, and the City has been using one-time revenue sources to fill the resulting gap. Absent significant changes to the City's expenditures and cost structure, revenues would have to grow at an average rate of 20 percent over the course of the next three years to eliminate the City's deficit.

OUTLOOK FOR SPECIAL REVENUE AND ENTERPRISE FUNDS

Special Revenue

The vehicle tax fund has carried a negative unreserved fund balance since 2001. However, by the end of 2011 the fund expenditures are expected to be closely in line with revenue projections at $143.9 million. Overall, this fund's resources have been growing at an average rate of 2 percent over the past five years, and if that trend continues, the 2013 and 2014 year-end fund revenues are projected to be $146.8 million and $149.7 million, respectively.

The City's portion of state motor fuel tax receipts has decreased at an average rate of 2.3 percent since 2005. This revenue loss was offset in 2010 and 2011 by the receipt of $12.5 million from the State's Illinois Jobs Now! Program. Given the uncertainty of this supplemental funding, the current resource forecast for this fund is stable at $72.1 million in 2012, 2013 and 2014.

Financial Forecast (continued)

Enterprise Funds

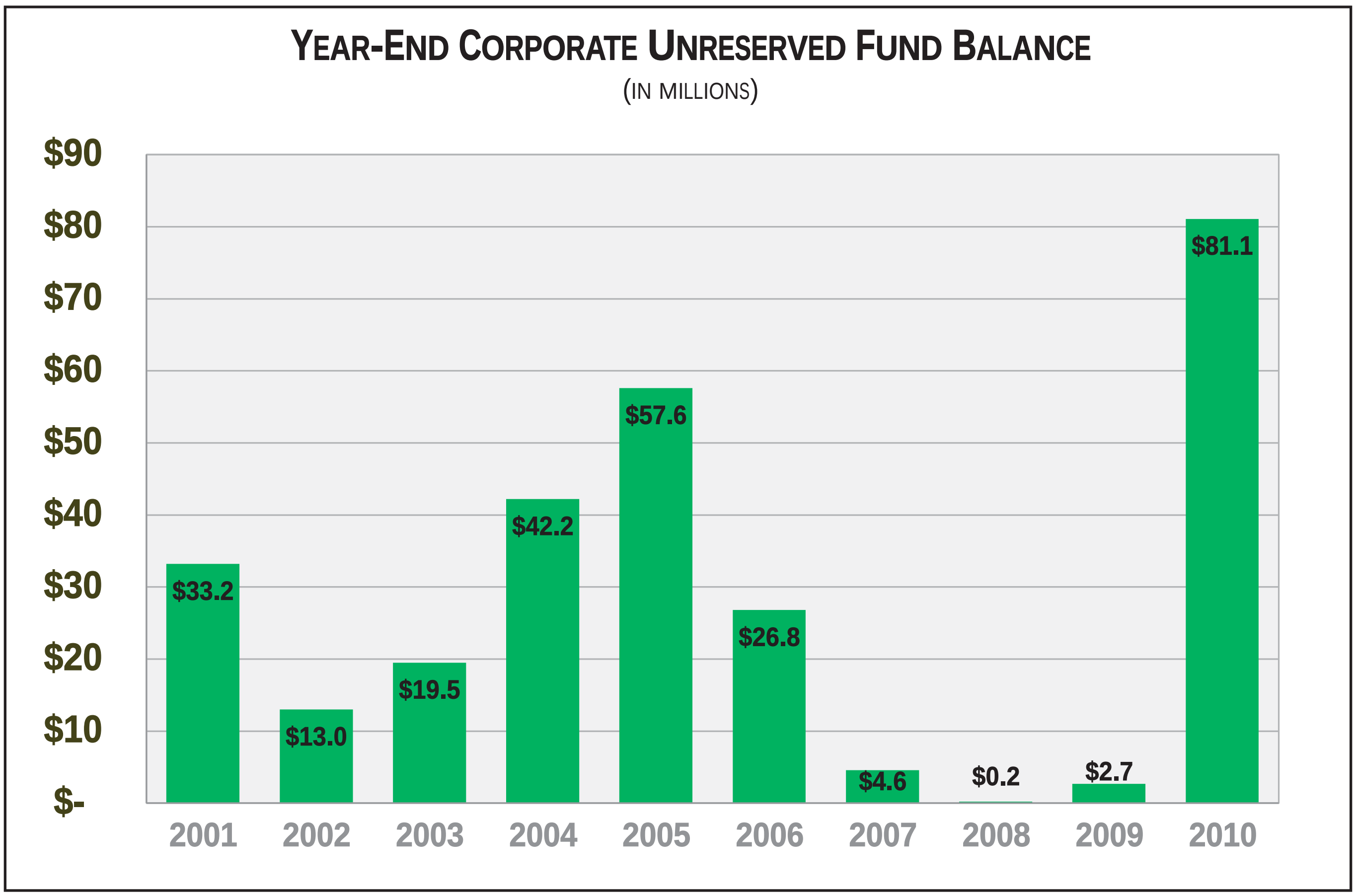
The 2011 year-end estimates for water fund and sewer fund revenues are expected to decline from 2010 levels. These revenues will remain level if population and usage habits remain constant. However, increased conservation efforts and the installation of additional meters may result in a decline in revenues. The City's O'Hare and Midway Airport funds have experienced year-over-year growth for the past 10 years. Preliminary revenue estimates for these two funds combined, assuming conservative growth in 2012, 2013 and 2014, are $1,140, $1,189.8 million and $1,240.7 million, respectively.

Long-Term Asset Lease And Reserve Funds

The City currently maintains a number of separate reserve funds – those established in connection with the long-term lease of City assets, those representing the City's corporate fund balance, and water and sewer fund rate stabilization reserve funds. This section discusses the use of all proceeds from the City's long-term asset leases, as well as the City's various reserve fund levels. [18]

Corporate Fund Reserves

The City's unreserved corporate fund balance (the unencumbered assets over liabilities at year-end) has varied significantly over the past 10 years, with a low of $200,000 in 2008 and a high of $81.1 million in 2010. The large unreserved fund balance at the end of 2010 was due in part to the receipt of approximately $30 million in income tax proceeds from the State that the City did not expect to receive until 2011 and thus had not budgeted in 2010. In recent years, the City has used the prior year's unreserved corporate fund balance to pay for operating expenses during the following year, so no significant corporate fund reserve balances have accumulated.



[18] Like the City's corporate fund, the Midway and O'Hare Airport Funds also end each year with an unreserved fund balance, however, these self-contained funds will not be discussed in this section.

LONG-TERM ASSET LEASE AND RESERVE FUNDS (CONTINUED)

WATER AND SEWER RATE STABILIZATION FUNDS

Each year, all or a portion of both the water fund's and the sewer fund's unrestricted net assets (similar to the corporate fund's balance, the available assets over liabilities) are deposited into a rate stabilization fund. These funds are reserved to ensure that the fund remains financially solvent in the case of a catastrophic event, in which case the funds would be used to finance operations for a short period until a rate increase is enacted. The water fund rate stabilization fund has been relatively stable since 2003. The sewer rate stabilization fund has steadily increased over time, with $11.1 million deposited in 2010. There are currently $61.4 million and $25.6 million in the water and sewer rate stabilization funds, respectively.

ASSET LEASE RESERVES

Midway Airport Security Funds

In 2008, the City entered into an agreement with a private company for the long-term lease of Midway Airport. The private company failed to consummate the transaction and surrendered its $126.1 million security deposit to the City in 2009. $13.1 million of this amount was used to pay various fees associated with the proposed lease transaction, $33 million was used to pay off existing debt, and $40 million was transferred to the corporate fund for use in 2009. The remaining $40 million was placed in a reserve fund, and in accordance with timelines established at that time, $20 million was transferred to the corporate fund in 2010 and $20 million will be transferred to the corporate fund during 2011.

Skyway and Parking Meter Lease Funds

In 2005, the City entered into a 99-year lease of the Chicago Skyway, under which a private company was granted the right to operate and collect tolls from the Skyway. In return, the City received an upfront payment of $1.83 billion. Approximately $850 million of this amount was used to pay off existing debt (including $446.3 million to refund the Skyway bonds outstanding at the time of the transaction). In 2009, the City entered into a 75-year lease of its metered parking system, under which a private company was granted the right to operate and collect revenue from the parking meter system and the City received an upfront payment of $1.15 billion. Each of these transactions resulted in the establishment of a long-term reserve fund, a mid-term reserve fund and a human infrastructure fund. An additional "budget stabilization" fund was established in connection with the parking meter lease transaction.

Long-Term Reserves

The City established a $500 million long-term reserve with a portion of the proceeds of the Chicago Skyway lease. The principal of this reserve fund was intended to supplement corporate fund reserves, with interest earnings to be used for City operating expenses. These funds have been utilized as planned - the principal balance remains $500 million and the earned interest has been transferred to the corporate fund each year, with the dollar amount of the transfer reflecting variations in interest rates.

The City established a $400 million long-term reserve with the proceeds of the parking meter lease. This fund was created to replace revenues that would have been generated from parking meters by transferring interest earnings on the fund to the corporate fund (initially intended to generate $20 million each year based on a 5 percent interest rate earnings assumption), with the principal remaining intact at $400 million. However, starting in 2009, the City began utilizing reserve funds to subsidize the City's operating budget. In 2009, $20 million was transferred to the corporate fund, and $160 million was used for City operating expenses in 2010.[19] The 2011 budget includes a $140 million transfer from this fund for operating purposes. Utilizing these funds has reduced the principal balance substantially below the initial deposit of $400 million and will thus substantially reduce the interest earnings generated to replace lost parking meter revenue for the duration of the lease.

[19] $210 million was transferred to the corporate fund from the parking meter long-term reserve fund in 2010, however, due to expense savings and revenues exceeding original budget projections, the amount needed was reduced by $50 million, which was transferred back into the long-term reserve fund in May of 2011.

Long-Term Asset Lease And Reserve Funds (continued)

Mid-Term Reserves and Budget Stabilization Fund

The City also established mid-term reserve funds of $375 million and $325 million, respectively, with the Skyway and parking meter leases. Both of these funds were created to supplement corporate fund revenues. The Skyway mid-term reserve fund has been drawn upon as scheduled, such that the full amount will be used and the fund will be depleted the end of 2011.[20] The parking meter mid-term reserve fund has been drawn on an accelerated schedule and will also be depleted at the end of 2011. [21]

The parking meter budget stabilization fund consisted of an initial deposit of $326.4 million. This fund was established to assist the City in weathering the economic downturn that enveloped the nation at the time of the closing of the parking meter lease transaction. The principal in this fund was fully utilized by the end of 2010. A small amount (approximately $1 million) of interest remains in the fund.

Human Infrastructure Reserve Funds

The City set aside a portion of the proceeds from both the Skyway and the parking meter lease transactions to be used to fund programs to improve the quality of life in City neighborhoods. The initial deposit into each of these human infrastructure funds was $100 million. The principal of the Skyway human infrastructure fund was fully utilized by the end of 2009, and the remaining interest in the fund (approximately $5 million) will be transferred to the corporate fund for use in 2011. The current principal balance of the parking meter human infrastructure fund is $76.2 million, $32 million of which will be transferred to the corporate fund for use in 2011.

Expenditures from these funds have been used for a variety of programs aimed at providing resources to the City's businesses, homeowners and residents most in need, including:

- Training and employing currently unemployed Chicagoans in technology sector jobs
- Providing home-delivered meals to senior citizens
- Enabling the continued development of multi-family affordable housing
- Offering rent and home-heating subsidies to low income families
- Funding after-school and summer educational, recreational and job-training programs for youth
- Increasing access to capital and other resources for small businesses
- Maintaining shelter, food and supportive services for the City's homeless, seniors, and at-risk population

Asset Lease Funds Going Forward

At the end of 2011, the aggregate principal balance in the City's asset lease reserve funds will be approximately $624 million. The majority of this amount is the $500 million in the Skyway long-term reserve fund. A total of $44 million remains in the parking meter human infrastructure fund, and $80 million remains in the parking meter long-term reserve fund. The ordinance establishing the parking meter long-term reserve fund directs that an annual $20 million transfer be made to the corporate fund to replace lost parking meter revenue. The ordinance instructs that if interest earnings are less than $20 million (as will be the case now that the principal has been significantly depleted), principal must be transferred to total $20 million. Thus, the remaining balance in this fund must be drawn accordingly, barring any change to this ordinance.

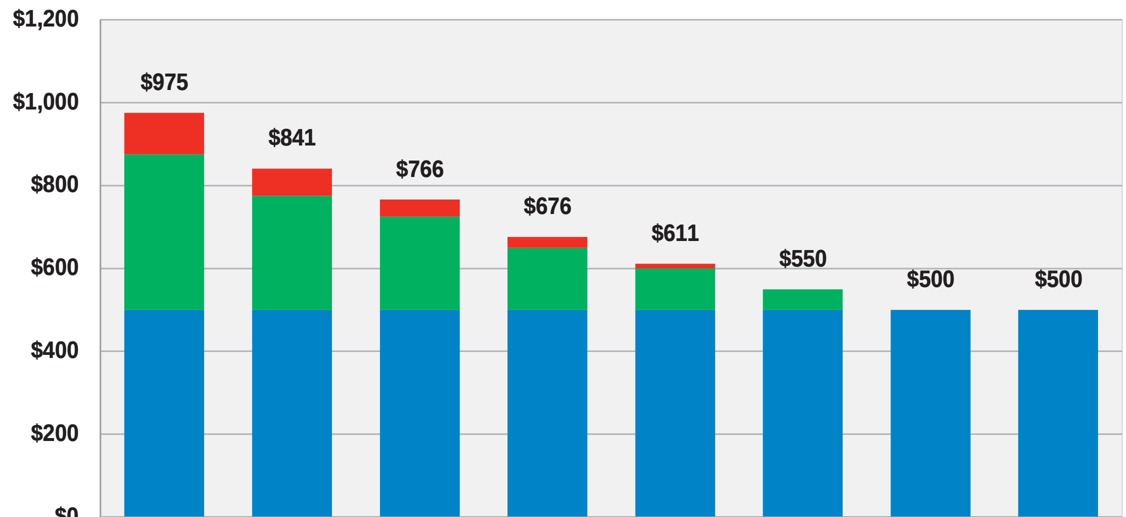
[20] The principal of the Skyway mid-term reserve fund was fully drawn by the end of 2010, and the approximately $50 million in interest generated by this fund will be transferred to the corporate fund in 2011.

[21] The ordinance establishing the parking meter mid-term reserve fund set forth the intention to utilize $150 million of these funds in 2009, $50 million in 2010, $50 million in 2011 and $100 million in 2012. However, $150 million was used in 2009 and $100 million in 2010, and the principal balance of the fund is currently $75 million. That $75 million was used in 2009 and $100 million in 2010, and the principal balance of the fund is currently $75 million. That $75 million, together with any interest generated on the fund, will be transferred to the corporate fund in 2011. The 2011 budget includes an $82.8 million transfer from the parking meter mid-term reserve fund, however, due to lower than expected interest rates, this amount may be up to $3 million less than budgeted.

LONG-TERM ASSET LEASE AND RESERVE FUNDS (CONTINUED)

SKYWAY RESERVE FUNDS PRINCIPAL BALANCE

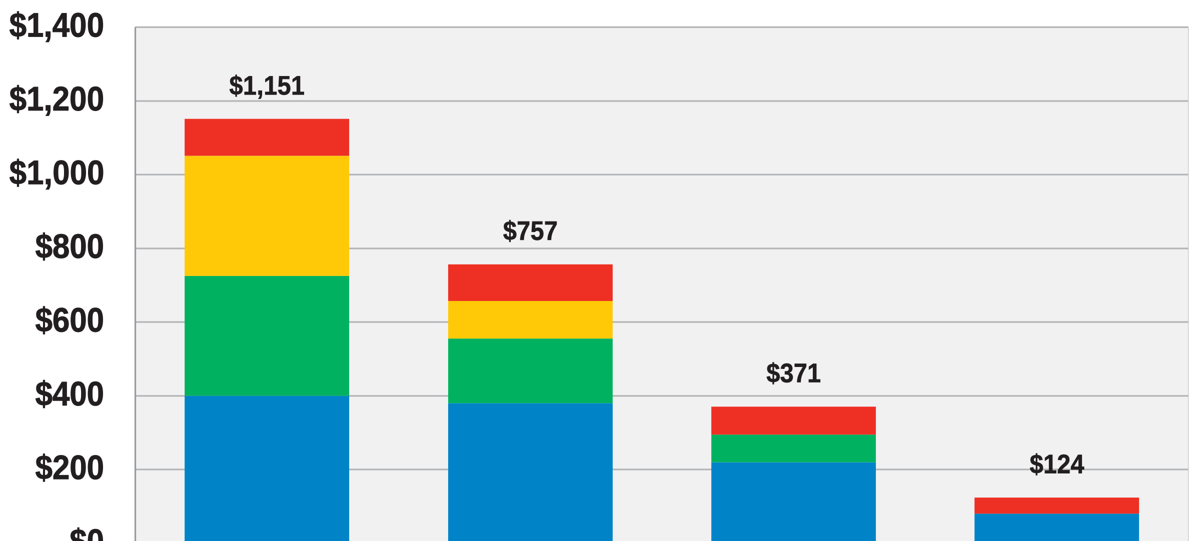
(IN MILLIONS)



	Deposit	2005	2006	2007	2008	2009	2010	2011 Budget
Human Infrastructure	100	66	41	26	11	-	-	-
Mid-Term	375	275	225	150	100	50	-	-
Long-Term	500	500	500	500	500	500	500	500
Total	975	841	766	676	611	550	500	500

PARKING METER RESERVE FUNDS PRINCIPAL BALANCE

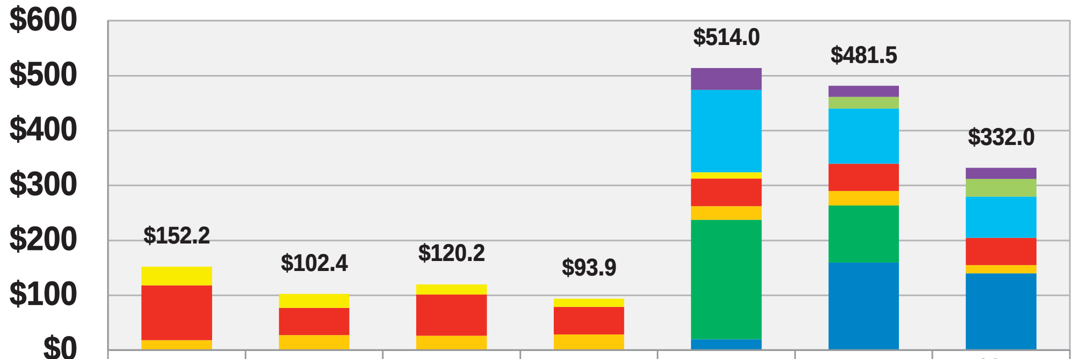
(IN MILLIONS)



	Deposit	2009	2010	2011 Budget
Human Infrastructure	100	100	76	44
Budget Stabilization	326	102	-	-
Mid-Term	325	175	75	-
Long-Term	400	380	220	80
Total	1,151	757	371	124

Long-Term Asset Lease And Reserve Funds (continued)

Asset Lease Funds Annual Transfers to Corporate Fund
(in millions)



	2005	2006	2007	2008	2009	2010	2011 Budget
Midway Security	-	-	-	-	40.0	20.0	20.0
PM Human Infrastructure	-	-	-	-	-	21.5	32.0
PM Mid-Term	-	-	-	-	150.0	100.0	75.0
Skyway Human Infrastructure	34.0	25.0	18.7	15.0	11.3	-	-
Skyway Mid-Term	100.0	50.0	75.0	50.0	50.0	50.0	50.0
Skyway Long-Term	18.2	27.4	26.5	28.9	25.1	26.2	15.0
PM Budget Stabilization	-	-	-	-	217.6	103.8	-
PM Long-Term	-	-	-	-	20.0	160.0	140.0
Total	152.2	102.4	120.2	93.9	514.0	481.5	332.0

As outlined above, in recent years, the City has drawn on its long-term and mid-term reserves to fund ongoing operating expenditures and has failed to accumulate any significant reserves from its corporate fund balance. Each year, the City conducts a preliminary budget exercise that predicts the gap between expenditures and revenues for the following year. These predicted gaps for 2009, 2010 and 2011 were $420 million, $519.7 million, and $654.7 million, respectively. In each of those years, the entire corporate fund balance from the prior year was utilized, and large amounts of one-time reserve funds (such as those from asset lease transactions) were transferred to subsidize operating expenses.

Maintaining reserves, whether from corporate fund balances or other sources, provides an important economic safety net for unexpected contingencies, emergencies or revenue shortfalls, and is an important indicator of a municipality's fiscal health.

Capital Investments

The City's capital improvement program funds the replacement, improvement and construction of City infrastructure and facilities. Capital projects involve improvements with useful lives greater than one year, such as roads, sewer and water lines, buildings, bike paths and green spaces.[22] Funding for the capital improvement program comes from general obligation bond issues, revenue bond issues (largely for water and sewer and some road-related improvements), tax increment financing, state and federal funding, private funding through public/private ventures and special assessments such as the shared sidewalk program.

General obligation bonds are the primary source of City-controlled funds for capital improvements and the only source that is financed through property taxes. Motor fuel tax bonds are used for the construction of road-related improvements such as streets, lighting and traffic signals and are financed through taxes on fuel. Because these two funding sources are the most relevant to City residents as taxpayers and as users of City infrastructure, the discussion of the City's capital program over the past 10 years will focus on the use of these funds. Water and sewer bond funds are discussed briefly in this section as well, and TIF funding is addressed in a separate section of this document. State and federal funding for capital improvements will be discussed only on a going-forward basis.

Planning for capital improvements is an ongoing and forward-looking process – the City must consistently review its capital priorities and evaluate whether to repair and improve existing assets or construct and acquire new assets based on the relative cost effectiveness and service implications of each option. Long term operating and maintenance costs of capital assets must be considered in determining whether to invest in such assets, and such costs must be included in operating budget forecasts. Continued investment in the City infrastructure and facilities is critical to support and enhance neighborhoods, stimulate the economy and provide City services.

LOCAL BOND FUNDED CAPITAL OUTLAY: 2001-2011

From 2001 to 2011, the City utilized funds generated by the issuance general obligation bonds and motor fuel tax bonds (together, "local bonds") to fund $2.8 billion of its capital program. [23]

The high level of activity in 2001 through 2003 coincides with the issuance of the Neighborhoods Alive bonds, a supplemental general obligation bond series issued over four years (beginning in 2000) and used primarily to fund the construction of municipal facilities such as libraries and police and fire stations. A series of motor fuel tax bonds was also issued in 2003, the proceeds of which funded various road-related projects. The increase in bond-financed capital outlay in 2008 reflects a large library bond issuance in that year, as well as a second issuance of motor fuel tax bonds.

Aldermanic Funds

Each year, a portion of the local bond funding available for capital improvements is allotted to each Alderman. These funds may be spent at the Aldermen's discretion for a specific menu of improvements in their respective wards. Over the past five years, these funds have been used primarily for sidewalks, residential street resurfacing, street lighting and curb and gutter replacement, with portions of these funds contributed to the Park District ($11.5 million), Chicago Public Schools ($2.5 million) and the Chicago Transit Authority ($500,000).

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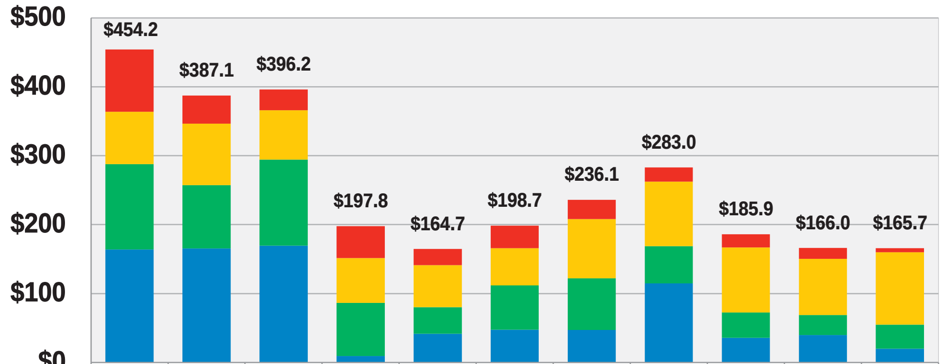
[22] The capital programs for Midway and O'Hare Airports will not be discussed in this section, as these aviation programs are funded through revenue generated by the operation of the airports, both for capital and operating activities.

[23] General obligation bonds have also funded a limited number of other uses, which are discussed separately in the Debt section of this document. The Greening category includes the City's campus park program, greenways, medians, trees, fountains, community gardens, community centers, neighborhood parks, wetlands and natural areas and streetscaping projects. Facilities include City buildings and operating facilities, police and fire stations, health clinics, senior and libraries. The Infrastructure category includes street construction and maintenance, viaducts, alleys, lighting, ramps, sidewalks, bridge improvements, traffic signals, bike lanes, shoreline work, environmental remediation and demolition. (It should be noted that state and federal funds are also used to a large extent for infrastructure-type projects. The expenditures presented here do not include those funds.) Aldermanic Funds are the portion of local bond capital funding provided to aldermen to be spent at their discretion for improvements in their respective wards.

Capital Investments (continued)

Capital Uses of General Obligation Bonds
(in millions)

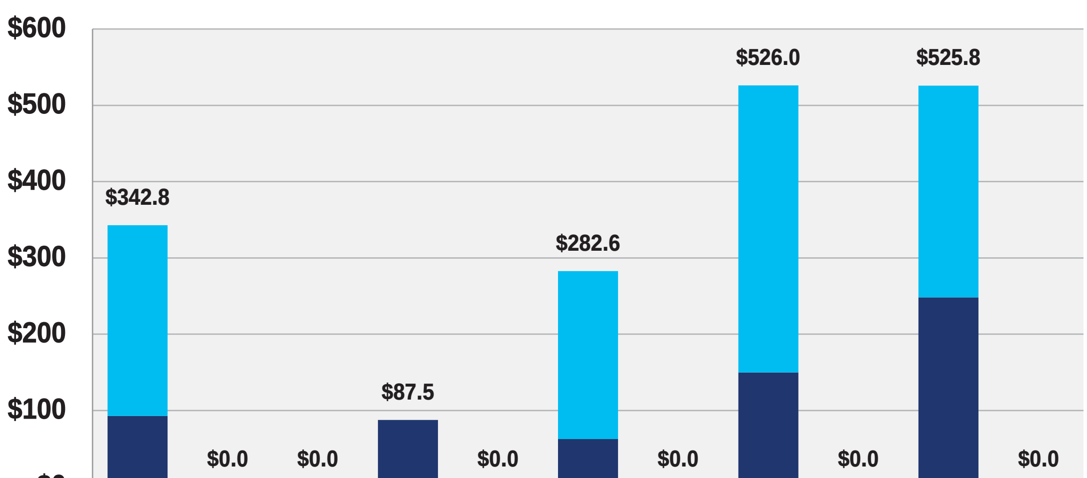


	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Greening	90.4	40.4	30.4	46.5	23.3	32.7	28.0	20.7	19.0	15.7	5.8
Aldermanic Funds	76.0	89.3	71.4	64.7	61.2	54.2	85.9	93.4	94.4	81.4	105.0
Infrastructure	123.7	92.1	124.9	77.2	38.6	64.3	74.8	54.0	36.8	28.9	35.0
Facilities	164.0	165.3	169.5	9.4	41.6	47.4	47.3	114.9	35.8	40.0	19.9
Total	454.2	387.1	396.2	197.8	164.7	198.7	236.1	283.0	185.9	166.0	165.7

WATER AND SEWER BOND FUNDED CAPITAL OUTLAY: 2001-2011

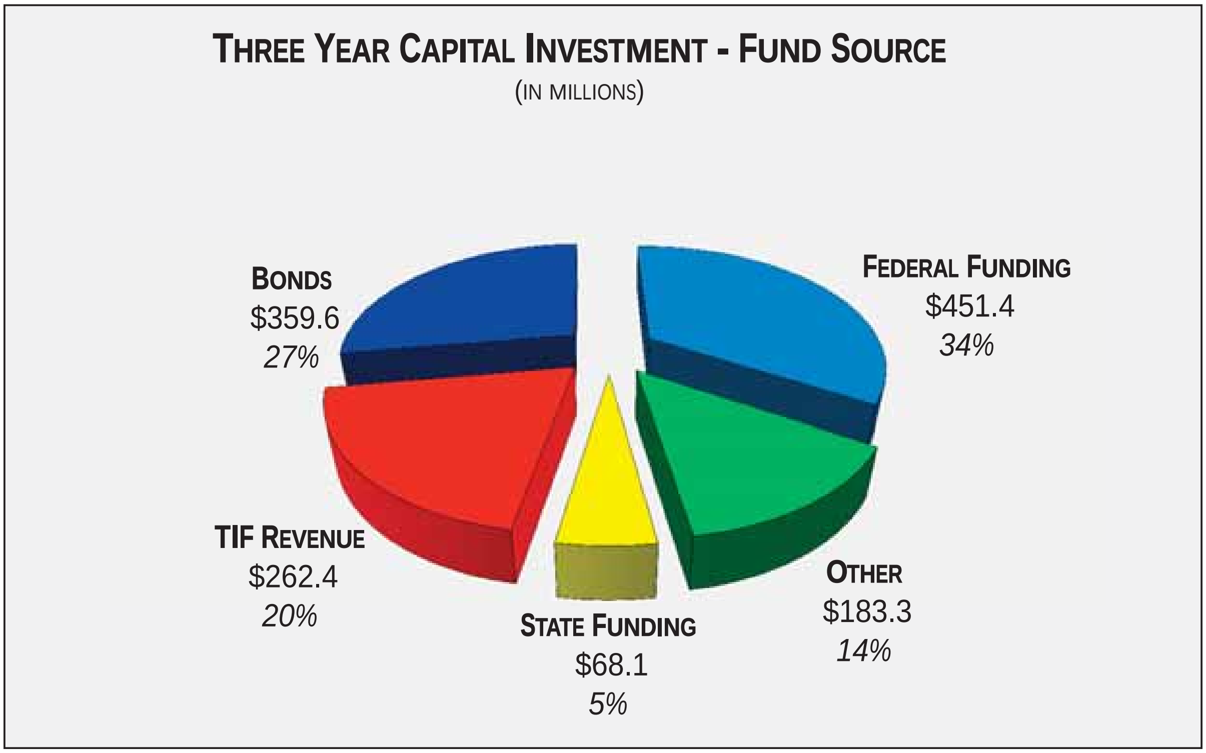
Water and sewer revenue bonds are issued every other year, and are funded with revenue obtained from water bills and the sewer surcharge on water bills. Proceeds from these bonds are used for the construction and repair of water and sewer lines and related facilities. The graph below presents the amount of funds generated by the issuance water and sewer revenue bonds over the past 10 years.

Water and Sewer Bond Issuances
(in millions)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Water	250.0	-	-	-	-	220.0	-	376.0	-	277.6	-
Sewer	92.8	-	-	87.5	-	62.6	-	150.0	-	248.2	-
Total	342.8	-	-	87.5	-	282.6	-	526.0	-	525.8	-

CAPITAL INVESTMENTS (CONTINUED)



CAPITAL FUNDING GOING FORWARD

Local bond-funded capital improvements have generally decreased over the past 10 years as the debt service associated with past bond issuances has grown and the City has made efforts to cut overall costs. This trend is likely to continue into the future, given fiscal realities. In addition, a substantial portion of the City's local bond funds are committed to projects undertaken with other agencies or mandated by law, such as support for the Chicago Housing Authority's Plan for Transformation, shoreline revetment work in conjunction with the Army Corps of Engineers, and the mandatory construction of accessible ramps pursuant to ADA regulations. [24]

In light of the City's limited funding and existing obligations, it has become more and more important to direct the capital funds that are available to the highest priority and most necessary capital improvements, and to utilize these funds efficiently. The City will strive to do so by actively prioritizing and scheduling its capital improvements, fostering a holistic view of its capital program such that all capital resources are directed towards the City's highest needs, and coordinating amongst City departments and with outside utilities to streamline construction and lower costs. The City will also strive to move "working capital" expenses, such as median and facility maintenance, irrigation and plantings, out of its capital budget and into its annual operating budget.

[24] The City has committed $58 million over 10 years to construct streets and related infrastructure in connection with the CHA's Plan for Transformation, and together with the Chicago Park District a portion of the $57 million dedicated to completing shoreline work with the Corps of Engineers. Federal law mandates that each time any street work is done in the vicinity of a City intersection, crossings at that intersection be upgraded to comply with ADA standards; the City has spent an estimated $130.1 million on such ADA-mandated improvements since 2001.

Capital Investments (continued)

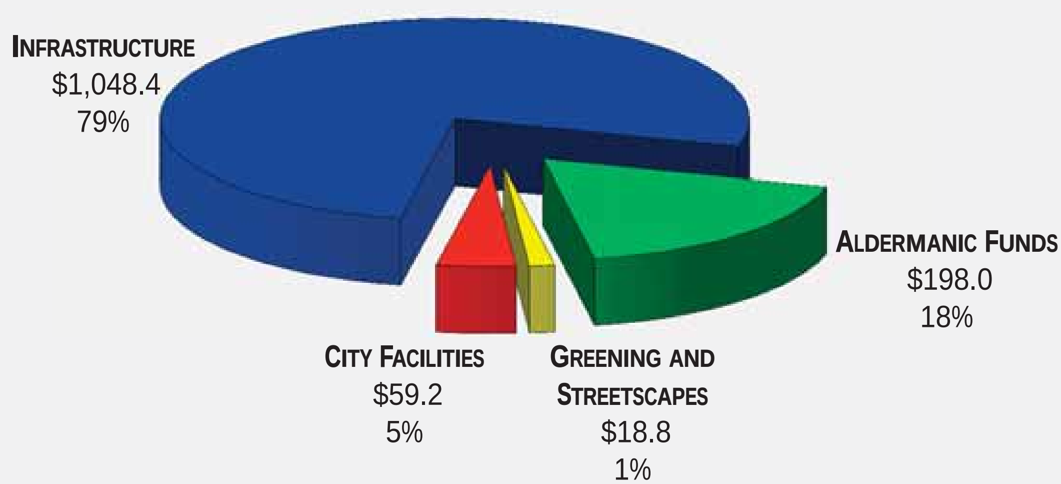
Capital Improvement Program: 2012 - 2014

The City's capital improvement program recommends a total of \$2.3 billion in capital improvements over the next three years, with \$990 million of that amount funded by water and sewer revenue bonds and directed toward water and sewer facilities. General obligation bond funds will account for 27 percent (\$359 million) of capital funding over this period, federal and state sources for 39 percent (\$520 million), and TIF funding for 20 percent (\$262 million). These funds will be used for greening and streetscapes (\$18.8 million), City facilities (\$59.2 million), City infrastructure (\$1 billion), and alderman-selected projects (\$243 million). [25]

Major capital projects commencing during the next three years include:

- Significant upgrades to the Division Street Bridge at the North Branch of the Chicago River (\$18 million), the Chicago Avenue Bridge at the Chicago River crossing (\$15.4 million) and the Torrence Avenue Bridge over the Calumet River (\$32.4 million)
- Continuation of the multi-phase rebuilding of Wacker Drive from Randolph Street to Congress Street with the third and final component, between Monroe and Van Buren Streets (\$100 million)
- Construction of the new Edgewater Branch of the Chicago Public Library (\$13 million)
- Improvements to the North Branch Riverfront Trail, including an under-bridge connection at Addison Street and a pedestrian/bike bridge over the Chicago River near Grace Street (\$7.1 million)
- Continued work, in conjunction with the Chicago Park District, on the critical Shoreline Project, with the next phase directed at the 45th Street to 51st Street and Fullerton Avenue shore revetments (City share of \$40 million).

Three Year Capital Investment Forecast - Project Type
(in millions)



[25] These projections assume that working capital expenses have been transferred to the City's operating budget, and that the City is able to proactively direct a portion of each year's TIF revenues and surplus toward essential capital projects.

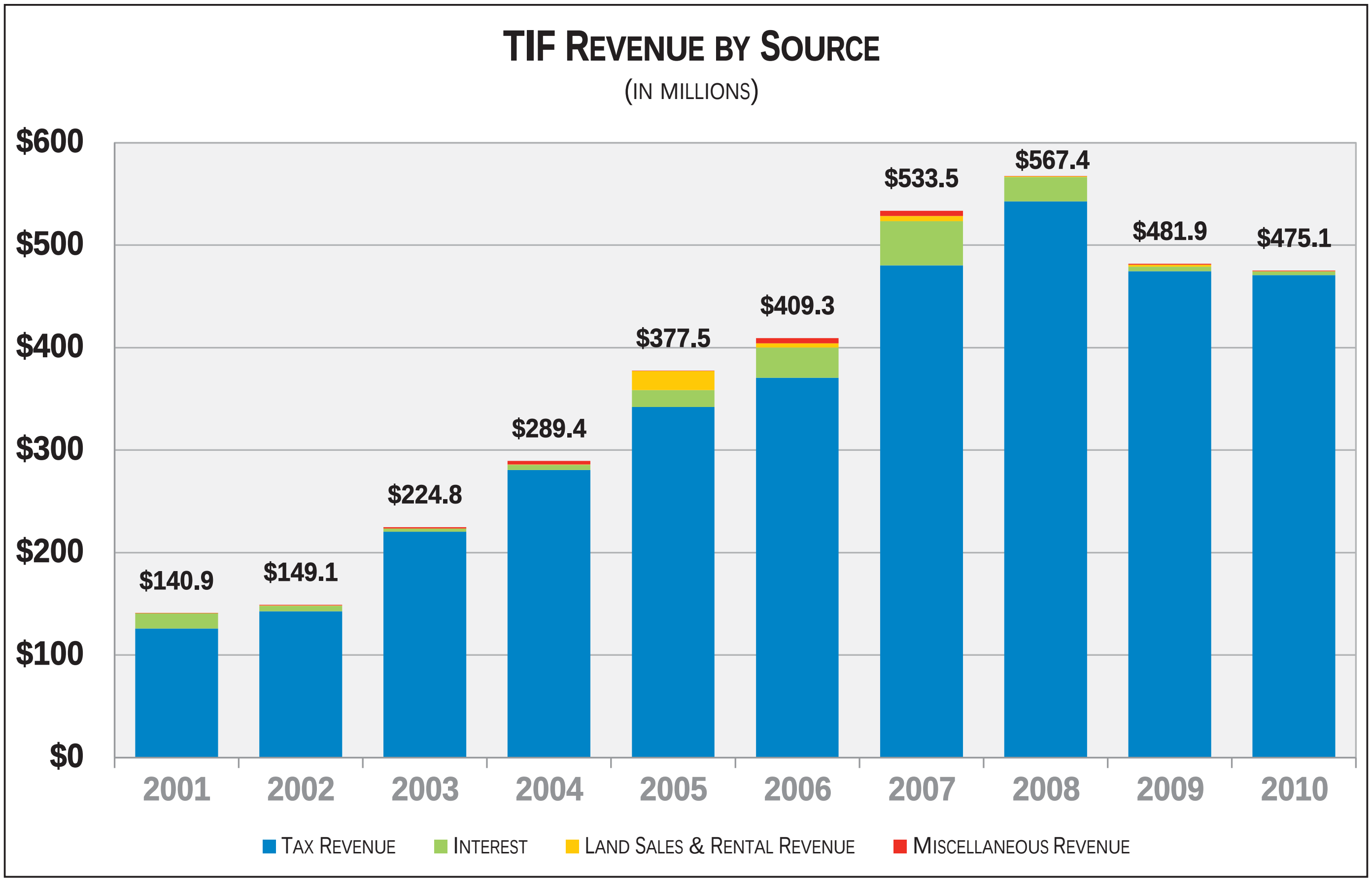
TIF

BACKGROUND AND BASIS OF THE TIF PROGRAM

Chicago's Tax Increment Financing (TIF) program began in 1984 with the goal of promoting business, industrial and residential development in areas of the City that have struggled to attract or retain housing, jobs or commercial activity. The program is governed by Illinois state law and allows the City to capture property tax revenues above the base Equalized Assessed Value (EAV) that existed before an area was designated as a TIF district, and use that money (the "tax increment") for community projects, public improvements and incentives to attract private investment to the area. The intention is that the effective use of tax increment funds helps expand the tax base, thus increasing the amount of tax increment generated in the district for re-investment within the district and ultimately increasing the property tax base after the TIF district has ended.

TIF REVENUE: 2001-2010

At the start of 2001, the City had 103 TIF districts, 95 of which generated incremental tax revenue. Between 2001 and 2010, the City created 70 new TIF districts, repealed three districts pursuant to state law and terminated three others. Five districts have expired to date – two prior to 2010 and three at the end of 2010. The City received incremental property tax collections from 154 of its 165 TIF districts in 2010, totaling $469.4 million. The graph below presents the total revenue received by the City's TIF districts over the past 10 years.[26] The first TIF district to expire was the largest TIF district designated to date, the Central Loop TIF district, and the expiration of that district in 2008 explains the large decline in TIF revenues for 2009.



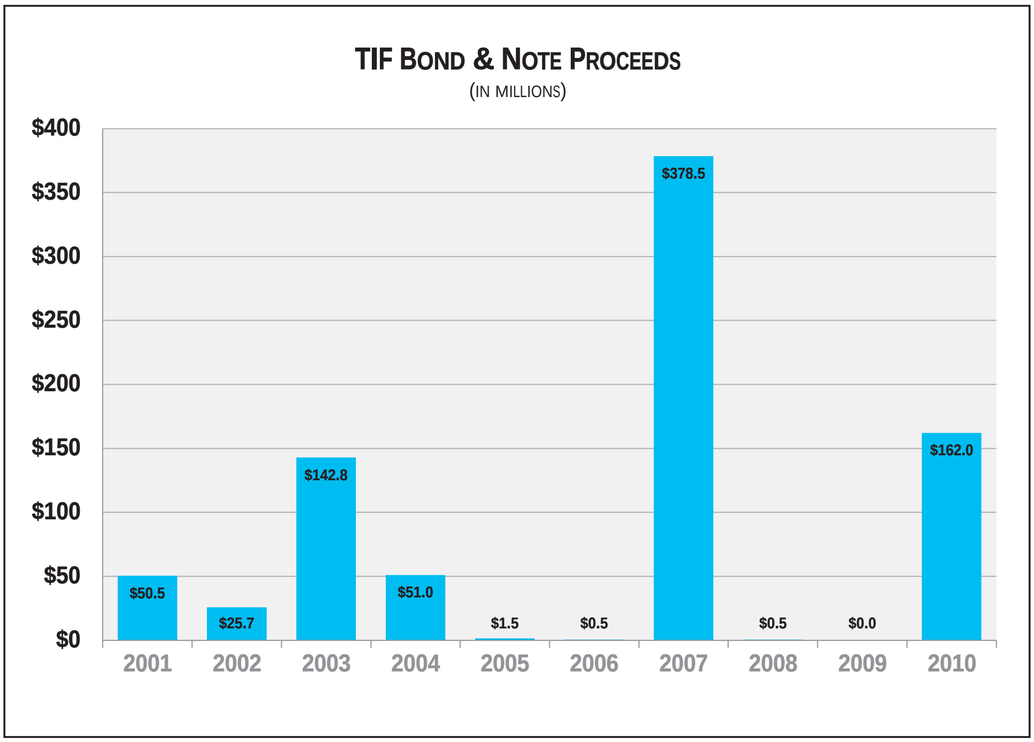
[26] The amounts in the graph represent the increment from taxes levied in the prior year, as this revenue is collected during the subsequent year. Note that the Tax Revenue amounts include not only property tax increment dollars, but also a portion of the sales taxes collected in certain of the TIF districts. Such "sales tax increment" contributed approximately $1.3 million to $2.5 million each year during the 2001 to 2010 period. Sales tax increments were authorized in a limited number of TIFs and have been disallowed in new TIFs since 1999.

TIF (continued)

TIF Project Bonds and Notes

The City has funded certain TIF projects by issuing bonds and notes, the proceeds of which are used to pay for TIF-eligible improvements in the districts. The debt service on these bonds and notes is then paid with subsequent TIF revenue. Such financing allows the City to undertake larger projects sooner than having to wait for annual TIF revenues to accumulate. The graph below shows the years in which bonds were issued and the amounts thereof.

As reflected in the graph the City issued bonds for large TIF projects in the Near South (2001), Chatham Ridge (2002), Central Loop (2003) and Pilsen Industrial Corridor (2004). In 2007 and 2010, the City issued bonds as part of the Modern Schools Across Chicago program (MSAC). MSAC is a part of the Chicago Public Schools (CPS) capital improvement program established to fund the construction and renovation of 23 schools over 7 years. A portion of MSAC (for schools in TIF districts) has been funded with TIF dollars, with the City committed to providing $515.2 million in TIF funds over the life of the program, approximately $341.5 million of which has already been paid out.[27]



[27] The majority of this amount will be funded with bonds, with approximately $40 million in TIF revenue contributed directly.

TIF (continued)

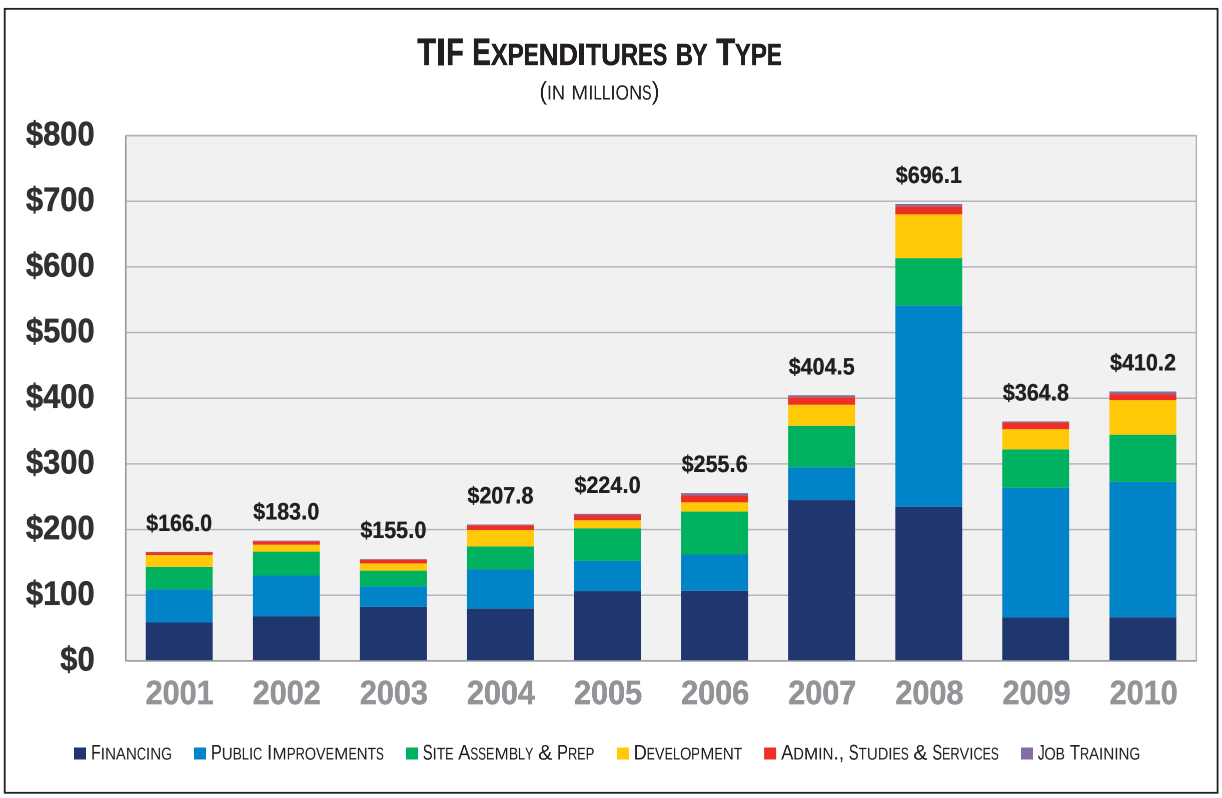
TIF EXPENDITURES: 2001-2010

Between 2001 and 2010, the City spent over $3 billion in TIF funds (including the proceeds of bonds financed with TIF revenue) on a range of projects in TIF districts across the City. The graph below sets forth the way in which these funds were spent, detailed by the type of expenditure.[28]

Approximately 35 percent, or $1.07 billion, were expended directly for public improvements and job creation efforts. Approximately 36 percent, or $1.1 billion, of the expenditures during this period were for debt service to finance public projects. Almost half of the $3 billion in expenditures occurred between 2008 and 2010. During that time, significantly more TIF funding went towards public improvements, while the relative amount spent on debt service declined. The increase in public improvement spending was driven by MSAC. The decrease in debt service was due in large part to the expiration of the Central Loop TIF and the retirement of outstanding debt associated with that TIF.

Under certain circumstances, the City may transfer TIF revenue from one district to another, immediately adjacent, TIF district for a specific project. Such transfers have traditionally been used for larger projects, such as schools or parks. Between 2001 and 2010, a total of $231.4 million was transferred between TIFs. Such inter-TIF transfers undergo an approval process similar to that for TIF projects, and information regarding proposed transfers is made available on the City's website prior to transfer.

Generally speaking, over the past 10 years, TIF revenues have exceeded TIF expenditures, allowing TIFs to accumulate balances. The total unallocated balance of tax increment revenue was approximately $501 million at the end of 2009 and $868 million at the end of 2010. These funds can be used to front-fund future projects and to meet the short- and long-term obligations of the City's TIFs, however, the City must ensure that this funding is effectively utilized on a timely basis.



[28] TIF expenditures have been categorized as follows: Financing consists of debt service on bonds and notes; Public Improvement includes construction of and improvements to schools, parks and open spaces, and infrastructure such as streets, sidewalks, and lighting; Site Preparation includes property assembly, demolition, environmental and relocation costs; Administration includes the cost of studies, program administration and professional services; Development includes construction of low income housing, rehabilitation of existing homes and buildings, and reimbursements to private developers for interest expenses on approved redevelopment projects; and Job Training consists of the cost of employment training programs.

TIF (continued)

Funding Provided to Sister Agencies and Private Developers

Over the life of the TIF program, the City has provided $548 million in TIF funds to CPS for school-related projects (including MSAC, as discussed above); $72.7 million in TIF funds to the Park District for 10 park and open space projects; and $98.7 million in TIF funds for CTA-related projects such as track and station renovations.

The City has spent a total of approximately $637.6 million in TIF revenue on projects undertaken in collaboration with private developers. The City estimates that, on balance, private developers spend five dollars for each such TIF dollar spent by the City.

TIF FUNDING AND PROGRAMMING: 2011-2014

Tax increment revenue is expected to increase over the next three years as newer TIFs start to generate more property tax revenue (six TIFs were created in 2010 and are expected to receive their first increment collection this year) and as properties are reassessed as part of the Cook County triennial reassessment cycle. Though these increases will be slightly offset by slow economic growth and higher delinquency rates in property tax payments, the City still anticipates collecting $463 million in tax increment revenue in 2011, increasing to over $508 million in 2013.

The use of TIF funds for public improvements is expected to decline over the next three years as MSAC winds down, while financing expenditures are expected to increase from 2010 levels. These inverse trends result from the fact that most of the TIF-funded MSAC construction and renovation has now been completed, but debt service on the bonds issued to fund these school improvements will increase (due to the 2010 issuance). Aggregate debt service is expected to cost $81.7 million in 2011 compared to $66.1 million in 2010.

TIF is an important tool for capital investment and economic development in our City. In order to ensure that the approximately $500 million in annual TIF revenue is used in the most efficient and transparent manner, the City has appointed a panel of experts charged with developing a comprehensive policy regarding the use of TIF funds, including standards for future investments and measurable performance criteria. The recommendations of this panel will be incorporated into the 2012 budget and affect the overall TIF program going forward.

DEBT

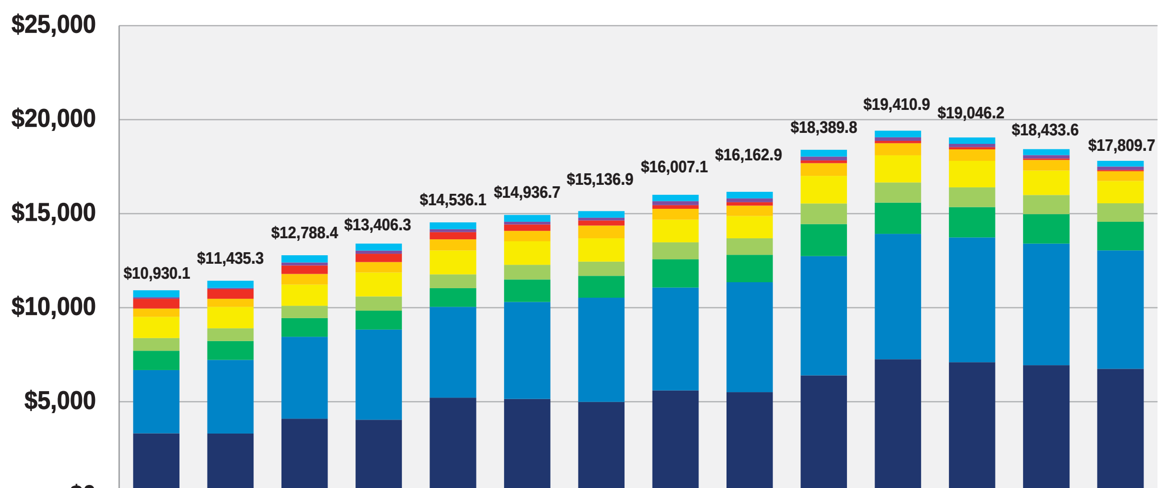
LONG-TERM DEBT

The City finances operating and capital expenditures through the issuance of bonds. Each type of bond is paid from a particular source of revenue.

- General Obligation Bonds are funded with property tax revenue and are issued annually to pay for capital projects and equipment, settlements and judgments and certain employment and pension obligations. [29]
- Non-Property Tax Funded General Obligation Bonds make up a small subset of the City's General Obligation Bonds. These bonds are funded with other sources of revenue (such at the 911 call surcharge) and are used for specific related purposes (such as the construction of the City's 911 call center).
- Sales Tax Revenue Bonds are funded with sales tax revenue and used to pay for general City infrastructure projects.
- Motor Fuel Tax Revenue Bonds are funded with motor fuel tax revenue and issued to pay for road and highway projects.
- TIF Bonds are funded with TIF revenue and issued to pay for redevelopment projects in TIF districts, as discussed in greater detail in the TIF section of this document.
- Water and Wastewater Revenue Bonds are funded with revenue from water bills and related user fees and are issued every other year to pay for capital projects for the water and sewer systems, respectively.
- O'Hare and Midway Revenue Bonds are funded with revenue from airport operations and are issued to pay for terminal and airfield improvements.

LONG TERM OUTSTANDING DEBT

(IN MILLIONS)



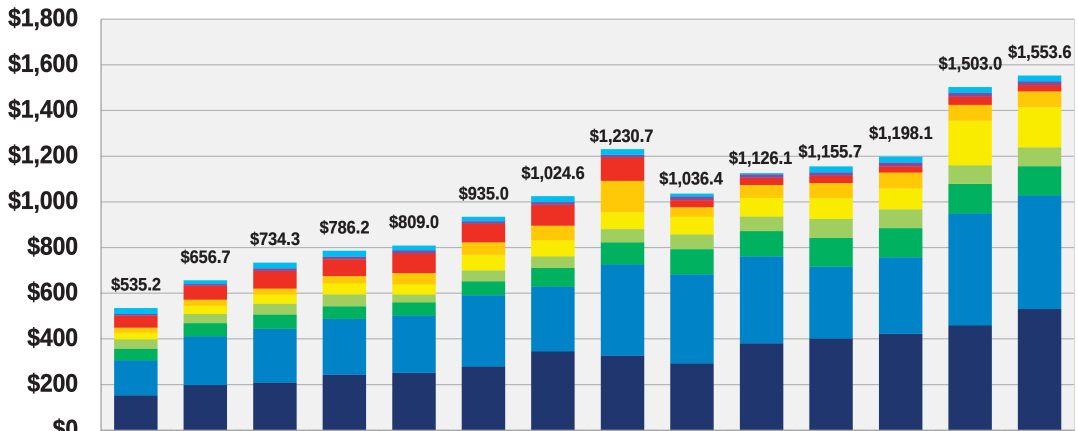
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Sales Tax Revenue Bonds	380.0	388.1	381.2	373.8	363.1	361.2	352.6	343.5	355.6	355.1	344.4	333.1	321.2	308.7
Motor Fuel Tax Revenue Bonds	69.6	66.1	162.2	159.7	155.7	151.4	146.9	208.9	203.9	198.6	193.0	187.2	181.0	174.5
TIF Bonds Revenue Bonds	520.4	500.8	449.0	448.0	387.3	334.8	271.5	194.9	174.8	153.3	130.4	110.5	80.8	65.5
Non Property Tax Funded G.O. Bonds	441.1	432.0	559.5	549.3	587.2	555.6	672.5	575.8	551.7	675.6	643.0	604.9	565.1	523.2
Midway Revenue Bonds	1,129.2	1,145.4	1,138.8	1,279.5	1,272.1	1,258.5	1,244.0	1,207.4	1,184.8	1,461.5	1,439.2	1,415.7	1,292.0	1,182.0
Wastewater Revenue Bonds	683.7	669.4	654.4	747.5	732.0	770.5	754.9	901.4	877.4	1,099.4	1,071.9	1,043.1	1,012.8	981.0
Water Revenue Bonds	1,016.5	1,002.1	984.1	1,003.8	990.5	1,192.9	1,164.1	1,498.7	1,459.9	1,697.7	1,655.8	1,612.3	1,571.1	1,528.7
Property Tax Funded G.O. Bonds	3,369.3	3,915.0	4,362.0	4,796.5	4,834.7	5,161.3	5,535.8	5,473.8	5,849.0	6,344.8	6,673.4	6,633.7	6,467.8	6,294.2
O'Hare Revenue Bonds	3,320.4	3,316.4	4,097.2	4,048.3	5,213.5	5,150.4	4,994.5	5,602.7	5,505.9	6,403.8	7,259.8	7,105.7	6,941.9	6,751.9
Total	10,930.1	11,435.3	12,788.4	13,406.3	14,536.1	14,936.7	15,136.9	16,007.1	16,162.9	18,389.8	19,410.9	19,046.2	18,433.6	17,809.7

[29] This category includes all "Equipment Notes" (discussed in greater detail later) issued after 1998, when such notes began to be issued through the City's regular General Obligation Bonds. Also included in this category of bonds are the bonds issued by the City on behalf of the City Colleges of Chicago in 1999 and 2007, for which the City is reimbursed by City Colleges. Debt Service payments for Property Tax Funded General Obligation Bonds correspond to the levy collection year, not the year the payments are levied and budgeted. Property taxes are collected in the year following the levy.

Debt (continued)

Long Term Debt Service Payments

(in millions)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Sales Tax Revenue Bonds	26.7	16.4	26.0	26.3	22.4	19.4	25.9	25.2	13.1	5.2	26.6	26.7	26.6	26.6
Motor Fuel Tax Revenue Bonds	7.2	7.2	10.5	10.8	12.3	12.3	12.3	11.2	15.6	15.6	15.6	15.6	15.6	15.6
TIF Bonds Revenue Bonds	52.5	61.8	77.5	74.2	86.3	80.5	91.1	102.5	31.6	31.8	31.5	27.2	35.9	27.2
Non Property Tax Funded G.O. Bonds	21.2	26.8	27.0	32.0	49.7	55.2	63.6	136.9	41.7	56.1	66.2	69.4	69.4	69.6
Midway Revenue Bonds	30.3	35.6	39.3	47.7	44.5	67.7	71.1	74.4	77.2	81.8	90.6	91.4	194.4	176.0
Wastewater Revenue Bonds	40.8	39.6	47.9	52.3	34.7	48.0	49.8	58.1	64.3	63.8	82.3	82.3	82.4	82.4
Water Revenue Bonds	50.6	58.6	62.6	56.1	57.4	60.6	81.5	96.5	110.2	110.1	127.3	128.5	128.9	129.0
Property Tax Funded G.O. Bonds	153.1	213.2	235.4	243.4	250.3	312.5	284.4	399.7	390.4	381.2	314.3	334.7	491.1	496.4
O'Hare Revenue Bonds	152.9	197.5	207.9	243.4	251.2	278.8	344.7	326.2	292.3	380.5	401.2	422.3	458.5	530.8
Total	535.2	656.7	734.3	786.2	809.0	935.0	1,024.6	1,230.7	1,036.4	1,126.1	1,155.7	1,198.1	1,503.0	1,553.6

The City's debt level has increased steadily over the past 10 years, reaching a high in 2011 of approximately $19 billion.[30] Excluding debt issued for O'Hare and Midway airports, that is repaid from user fees imposed on airlines, debt paid primarily by residents of the City totals approximately $10.6 billion in 2011. The bulk of this debt was used to fund capital projects across the City, but portions have also been used for "working capital" expenses such as median maintenance, irrigation and plantings; to make retroactive salary and pension payments to police and fire forces (resulting from union contract re-negotiations); and to pay for settlements and judgments against the City. Of the $3.93 billion in long-term General Obligation Bonds issued from 2001 through 2011, $566 million was used to pay for police and fire salaries and pensions and $525.5 million was used to pay settlements and judgments against the City.

This pattern of increasing long-term debt load is not financially sustainable. As discussed above in the Financial Forecast section, a substantial portion of the City's property tax dollars are already being used to pay debt service. Even if no new long-term debt is issued, and assuming no refinancings, the City's debt service payments will continue to increase through 2014.

[30] The amounts presented in the charts in this section do not include the issuance of any new bonds, however, Property Tax Funded General Obligation Bonds account for an expected partial refunding of payments due in 2011 and 2012. The spike in debt service payments in 2008 was due to the commencement of payments of principal on the City Colleges bonds and the maturation of bonds issued in connection with the Central Loop TIF.

Debt (continued)

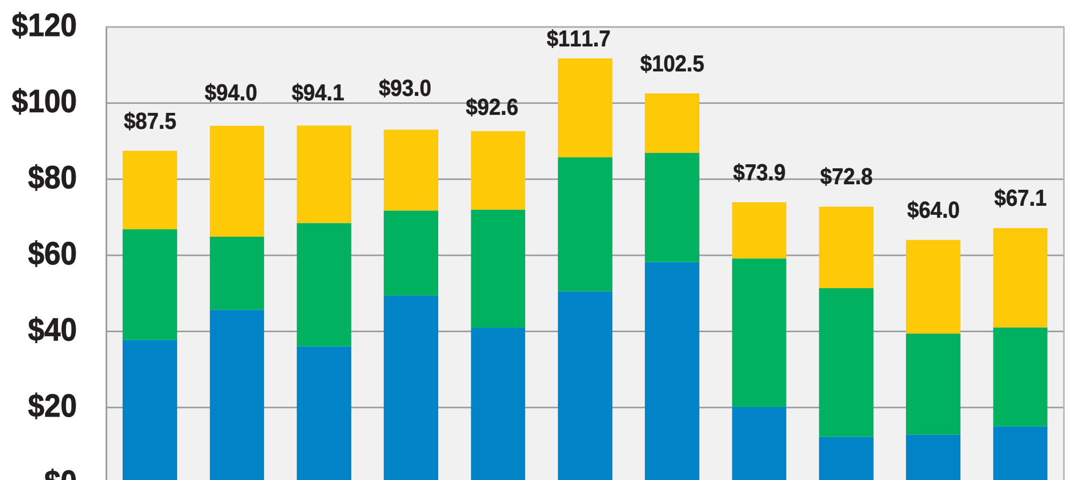
SHORT-TERM DEBT

In addition to the long-term bond debt discussed in greater detail above, the City issues certain types of shorter-term debt to address various operating, liquidity and capital needs.

- General Obligation Tender Notes are issued to satisfy cash flow needs of the City on a limited basis, specifically, to fund building and site maintenance and operations for the City's libraries for a short period of time until property tax revenues are collected. The use of Tender Notes has decreased significantly in recent years (such notes were previously utilized to provide working capital for general corporate fund and library needs), as the property tax revenue necessary to back these Notes has been instead allocated to the payment of long-term debt service and pension contributions.
- Commercial Paper Notes are used as an interim financing mechanism for Corporate, Water, O'Hare and Midway fund projects until long-term bonds are issued.
- Equipment Notes are used to finance certain capital equipment purchases, and are funded with property taxes (as part of the General Obligation Bond issuance discussed below). The average bond life of an Equipment Note is commensurate with the equipment purchased, usually seven to eight years. The use of Equipment Notes has generally decreased in recent years as debt service associated with past bond issuances has grown and the City has made efforts to cut overall costs. The graph below presents this overall decrease, as well as the general categories of equipment purchased. [31]

Equipment Notes

(In Millions)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Technology Equipment	20.6	29.1	25.6	21.2	20.6	26.0	15.6	14.8	21.5	24.6	26.1
Vehicles	29.0	19.2	32.4	22.4	31.0	35.3	28.6	39.0	39.0	26.6	26.0
Other Equipment	37.8	45.7	36.1	49.4	41.0	50.5	58.2	20.1	12.3	12.8	15.0
Total	87.5	94.0	94.1	93.0	92.6	111.7	102.5	73.9	72.8	64.0	67.1

[31] Other Equipment includes items such as car boots, fire safety equipment, traffic cameras and similar equipment.

Pensions

City employees participate in one of four defined benefit pension plans – the Laborers' and Retirement Board Employees' Annuity and Benefit Fund (LABF), the Firemen's Annuity and Benefit Fund (FABF), the Policemen's Annuity and Benefit Fund (PABF), and the Municipal Employees' Annuity and Benefit Fund (MEABF). These pension funds and contributions under each are regulated by State law. Each City employee contributes a statutorily-determined amount to their pension during each year that they are employed by the City. The City then contributes a statutorily-determined multiple of the employee contribution, with the multiplier varying by pension fund.[32] The statutory framework for the pension funds is not based on actuarial assumptions and does not result in funding the plans at actuarially-recommended levels. This report does not discuss the pensions and their funding status in great detail as these issues have been the subject of numerous reports.[33] Instead, the focus is primarily on the impact of the increasing cost on the City's operating budget.

State-Mandated Pension Contributions

(as a % of pay, as of 2011)

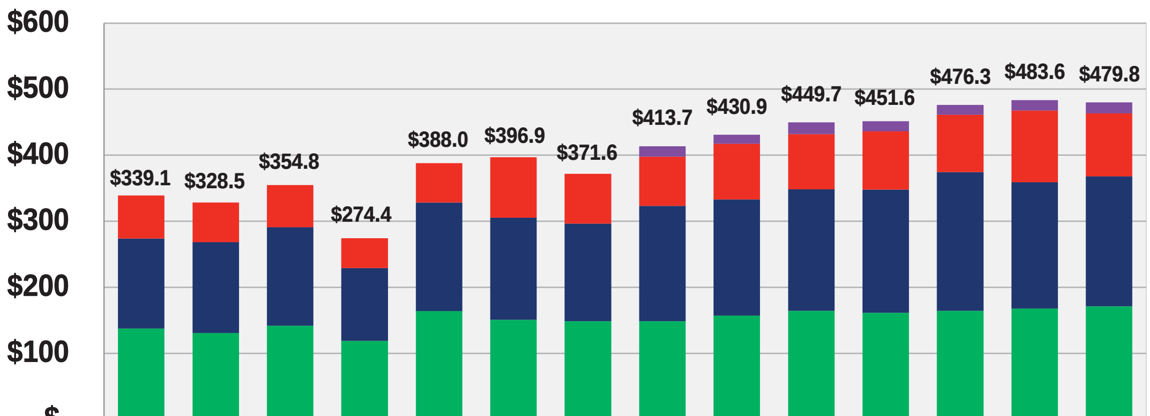
	FABF	PABF	LABF	MEABF
Employee Contribution	9.13%	9.00%	8.50%	8.50%
City Multiplier	2.26	2	1	1.25
City Contribution	20.62%	18.00%	8.50%	10.63%
Total Contribution	**29.75%**	**27.00%**	**17.00%**	**19.13%**

HISTORIC AND ANTICIPATED PENSION CONTRIBUTIONS

The graph on this page presents the City's pension contributions over the past 10 years and the City's anticipated statutory pension contributions for 2011 through 2014 (based on actuarial estimates).[34]

City Pension Contributions

(in millions)



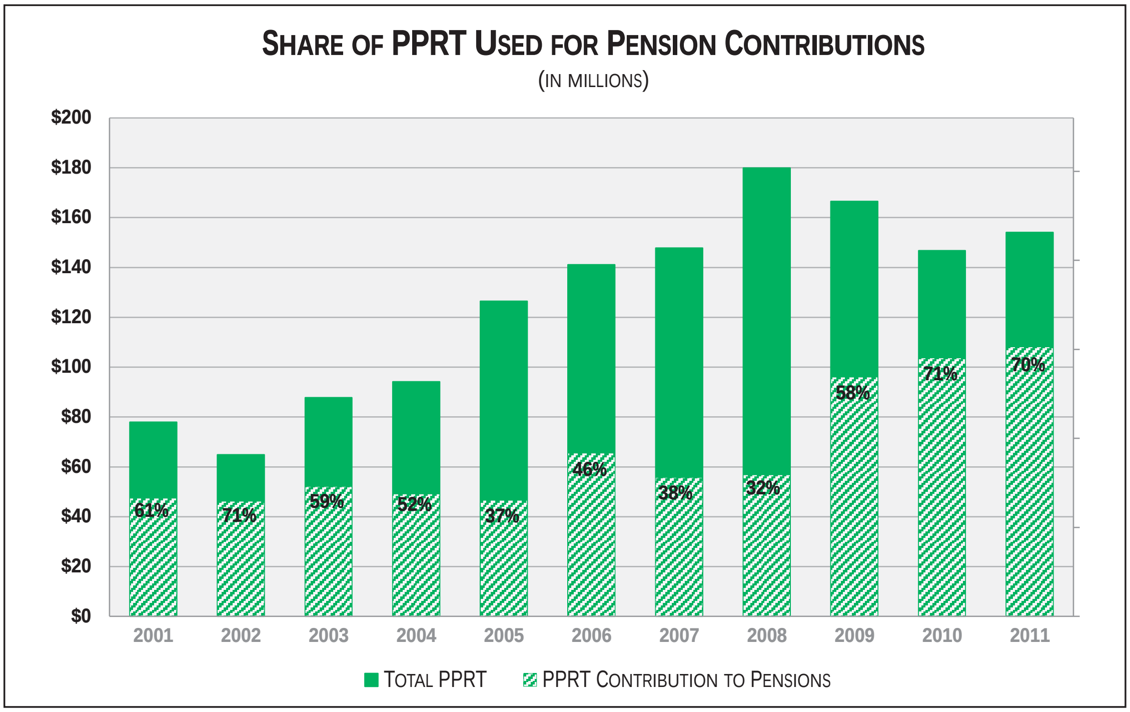
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
LABF	0	0	0	0	0	0	0	16.1	13.4	17.9	15.6	14.9	16.0	16.6
FABF	65.1	60.1	64.1	45.4	59.8	91.5	75.3	74.6	84.3	83.6	88.0	87.1	108.4	95.1
PABF	136.2	138.0	149.0	110.1	164.4	154.7	147.9	174.4	176.2	183.8	186.7	210.2	191.2	196.9
MEABF	137.7	130.5	141.7	118.8	163.9	150.8	148.5	148.7	157.0	164.3	161.3	164.2	167.9	171.2
TOTAL	339.1	328.5	354.8	274.4	388.0	396.9	371.6	413.7	430.9	449.7	451.6	476.3	483.6	479.8

Pensions (continued)

In recent years, City pension contributions have steadily increased. Though the City has made significant staff reductions, the growth of its pension contributions has not slowed, largely because the staff reductions did not significantly affect police and fire forces or payroll, which constitute a majority of the City's workforce and receive a higher statutory rate of pension contribution from the City.

The City's enterprise and grant funds reimburse the City's corporate fund for pension contributions required for enterprise and grant-funded employees. However, the reimbursement is only at the statutorily required levels and not at the level necessary to cover the fill pension costs associated with these employees. In addition to making pension contributions for City employees, the City also makes pension contributions on behalf of the non-teacher employees of CPS because non-teacher CPS employees are covered by the MEABF.[35] In 2011, the City will contribute approximately $60.4 million to this fund on behalf of CPS employees and will be reimbursed approximately $7.5 million by CPS.

The City's pension contributions are primarily paid with revenue from property taxes, with the balance coming from Personal Property Replacement Tax (PPRT) revenue.[36] As the City's pension contributions have grown, the amount of property tax and PPRT revenue available to the corporate fund for general use has decreased over time. For example, the amount of PPRT revenue flowing into the corporate fund decreased by more than 50 percent between 2007 and 2010.



[32] The City's annual contribution is based on the contribution made by the employee two years prior. For example, in 2011, the City is matching (at the applicable rate) the contribution made by the employee in 2009.

[33] See among others, the Commission to Strengthen Chicago's Pension Funds, Final Report, Volume 1, Report and Recommendations, April 30, 2010; Chicago's Underfunded Pension Plans; A Report to the Commercial Club, April 2010.

[34] The statutory requirement bases City contributions entirely on payroll and not on actuarial assumptions.

[35] Prior to 1989, the City levied taxes for purposes related to CPS. When the state law was changed and CPS was given the authority to levy property taxes, the pension contributions remained with the City.

[36] For example, in 2011, the City is required to contribute $456.1 million to its pension funds; approximately $343 million will be funded with property tax revenue and the balance will primarily come from PPRT revenue.

Pensions (continued)

Unfunded Contributions

As discussed above, State law requires that the City make contributions to its pension funds at statutory rates. These statutorily-determined contributions are less than the amounts that would be required to fully fund the City's future pension contributions. Thus, though the City makes its statutory contributions each year, there is a growing amount of unfunded pension payments. The City's accrued unfunded actuarial payments under the four pension funds was estimated to be over $15 billion at the end of 2010.

Recent Pension Legislation

In 2010, the State enacted legislation that revised its pension benefit regulations for all four of Chicago's pension funds.[37] The new legislation had two primary impacts:

1. It created reduced benefit tiers that applied to all new employees hired on or after the effective date of the legislation, January 1, 2011. This has the impact of reducing the pension contributions associated with these employees
2. It established new funding requirements for the FABF and PABF, which will require substantial increases in contributions starting in 2015 and through 2040.[38] This requirement will increase the City's statutory contribution by over $550 million in 2015, and by more thereafter.

These changes will be accounted for in the City's financial and budget planning process going forward.

[37] Public Acts 96-0889 and 96-1495.

[38] While the 2010 legislation did not change the funding policies for MEABF or LABF, it is expected that these funds will be similarly addressed in the future.