City of Chicago

Annual Financial Analysis 2014

Mayor Rahm Emanuel

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Letter from the Mayor

Fellow Chicagoans,

I'm pleased to present the City of Chicago's 2014 Annual Financial Analysis. This document provides an overview of the City's revenues and expenditures and a picture of the City's overall financial health.

We continue to make progress in putting the City's financial house in order. We have reduced the City's operating deficit by more than half. We have balanced the budget three years in a row without raising sales, property, or gasoline taxes. In each of the last three budgets, we have added resources back into the City's rainy day fund. And through a combination of revenue and reform, we have improved the City's long-term financial outlook and made changes that improve the quality of City services. We continue to operate the City of Chicago in a smarter, more streamlined, and more efficient manner. But these improvements will only get us so far. To truly put the City's finances on a solid financial footing, we must find a sustainable solution to our unfunded pension liabilities.

We have made important progress on pension reform by negotiating ground breaking reform for the City's Municipal and Laborer's pension funds, covering more than 52 percent of our unfunded pension liabilities. This protects taxpayers and safeguards the retirement security of 61,000 workers and retirees, while allowing the City to continue to provide the critical services that our residents rely on. However, all of the progress we have made towards repairing the City's finances is at risk if reform is not achieved to address our remaining unfunded pension liabilities through a balanced and long-term solution. I remain confident we can get there.

The information contained in this report will allow Chicagoans to evaluate the City's financial performance and participate in the citywide discussions that will inform the 2015 budget. I welcome the opportunity to engage with all Chicagoans to create a budget for next year that reflects Chicago's values – a commitment to creating jobs and economic development in every neighborhood, reducing gun violence in every community, and investing to give every child a quality education to reach their full potential.

Rahm Emanuel

Rahm Emanuel
Mayor

Annual Financial Analysis 2014

Introduction

Executive Summary

Executive Order No. 2011-7 directs the City of Chicago's Office of Budget and Management to issue, each year, a long-term financial analysis that provides a framework for the development of the City's annual budget and guides the City's financial and operational decisions.

The City's Annual Financial Analysis is 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 plan for the future with a clear view of the past.

This Annual Financial Analysis takes an informed and long-term approach to financial planning, evaluating the City's past revenues, expenditures, policies, and programs in light of conditions driving the broader economy and other factors impacting the City's future finances.

The history and future of each major component of the City's overall finances, as outlined below, are discussed in detail in the following pages. The City's current fiscal outlook shows the continuing pressure placed on City finances by growing wages and long-term obligations, as well as the progress that has been made towards bringing operating expenses in line with revenues and by reforming two of the City's four pension funds. The projected corporate fund budget gap for 2015 is $297.3 million, growing to $587.7 million by 2017. These projected shortfalls do not include obligations to the two unreformed pension funds under current State law.

This Annual Financial Analysis is divided into the following sections:

- **Financial History Review.** This section describes the revenue sources of the City's corporate fund, property tax levy, special revenue funds, and enterprise funds and the ways in which this revenue has been spent over the past 10 years. This section pays particular attention to how the City's sources of revenue have fluctuated with the economy, and to those expenses that make up the bulk of the City's operating budget, such as salaries and wages, employee benefits, and contractual services.
- **Three-Year Financial Forecast.** This section provides projected revenues and expenditures for 2015 and discusses the anticipated corporate fund budget gap, which is currently estimated at $297.3 million. While progress has been made in the past two budgets, this continuing structural deficit highlights the fact that there is still work to be done and difficult decisions to be made. This section also examines three different scenarios for 2016 and 2017 – a 'current outlook', a 'positive outlook', and a 'negative outlook' – each presenting a forecast based on potential future revenues and expenditures and outlining the impact of future debt and pension obligations on City finances.
- **Long-Term Asset Lease and Reserve Funds.** This section describes the manner in which funds generated by the City's long-term lease of the Skyway and the parking meter system have been spent and the City's historic and present levels of reserve funds. Since 2012, only interest earned on reserve funds has been transferred into the City's corporate fund and additional deposits have been made into these reserves.
- **Capital Investments.** This section describes the City's capital improvement program, details the City's capital uses of its bond proceeds over the past 10 years, and summarizes the City's capital improvement plan for the next five 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 projected TIF revenues and programming for the coming years.
- **Debt.** This section examines the City's total outstanding debt, including general obligation bonds, revenue bonds, and short-term debt instruments. It also outlines the City's debt service payments over the past 10 years and the coming three years.
- **Pensions.** This section provides an in-depth discussion of the unfunded liabilities of the City's four pension funds, recent reforms to the pension system, and the resulting impact on City finances.

Primer on City Finances

City Fund Structure

The City organizes its budget by funds, each of which is accounted for separately, and this document is organized in line with that fund structure. Each fund has a specific set of revenue sources, which are utilized to support a specific set of City services and functions. Following is a brief description of the purposes and funding sources for each type of City fund:

- **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, trash collection, and public health programs. Corporate fund revenues come primarily from a variety of local and intergovernmental taxes, fees, and fines.

- **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, such as road repair, snow removal, the library system, emergency management, and special events and tourism promotion.

- **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 Funds.** Grant funding, largely from the state and federal governments, 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 youth services to infrastructure improvement.

- **Property Tax Funds.** The City receives property tax revenue through its levy and through its TIF program. 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. TIF revenue is utilized for projects in designated TIF districts.

- **Capital Funds.** Capital improvements to the City's infrastructure and facilities are funded largely with the proceeds of bond issuances and state and federal grant funds.

- **Reserve Funds.** Reserve funds, such as those established in connection with the long-term lease of City assets, function as an economic safety net to mitigate current and future risks such as unexpected contingencies, emergencies, or revenue shortfalls. These funds are not included in the City's annual operating budget.

Annual Financial Analysis
2014

Financial History Review

The revenue and expenditure information contained herein is based on the City's audited Comprehensive Annual Financial Report (CAFR) and the audited Basic Financial Statements for the City's enterprise funds. The revenue and expenditure information presented herein may vary slightly from that printed in the City's CAFR due to accounting adjustments made over time.

Corporate Fund Revenue

This section discusses the overall trends in the sources of corporate fund revenue and the City's 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; fees and fines; the proceeds from land and material sales and leases; and transfers to the corporate fund from the City's special revenue and enterprise funds for services provided to those funds.
- Proceeds and transfers in, which consist of amounts transferred into the corporate fund from outside sources, including proceeds from financings and transfers from the City's asset lease reserve funds.

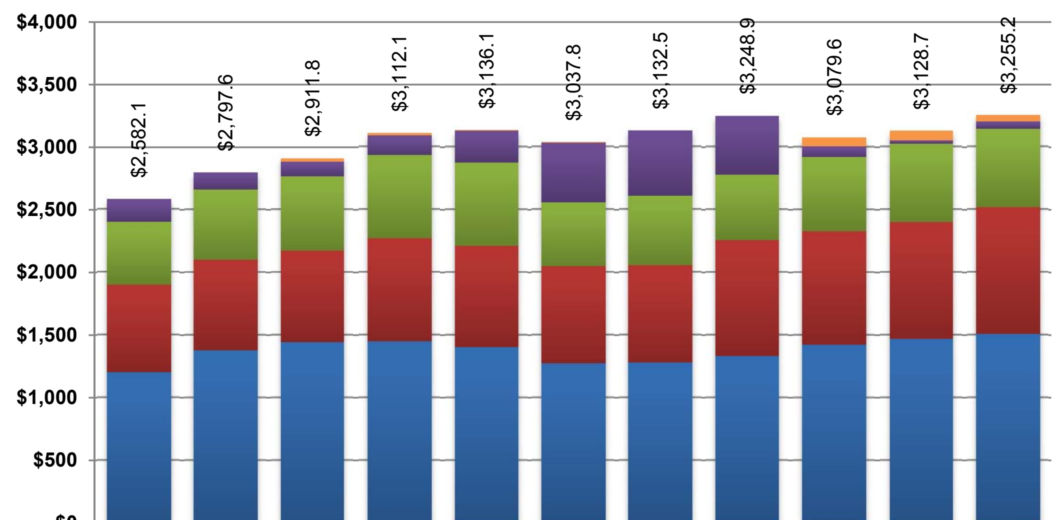
In the years leading up to 2008, total corporate fund revenues experienced relatively steady growth, with the rate of increase picking up from 2005 through 2007. Corporate fund revenues declined in 2009 following the financial crisis and economic downturn and have been recovering since.

What is more telling than the aggregate amount of corporate fund revenue, however, is the difference in the sources of this revenue over the years. The relative amounts coming from taxes, non-tax revenues, and various outside sources differ each year, and changed significantly with the onset of the recession in 2008. Recurring and economically sensitive sources of revenue shrank as a percentage of overall revenues, while the City subsidized its corporate fund budget with transfers from non-recurring sources of revenue such as funds from the long-term lease of the Skyway and the parking meter system and proceeds from financing transactions.

Between 2003 and 2007, an average of 67 percent of total corporate fund revenues were derived from local and

TOTAL CORPORATE FUND RESOURCES BY SOURCE

$ Millions



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 YE Est
Prior Year Available Fund Balance	$-	$-	$27.7	$22.2	$1.1	$1.5	$2.6	$-	$72.3	$77.2	$53.4
Proceeds & Transfers In	$180.1	$133.3	$115.1	$154.5	$259.3	$474.6	$519.0	$467.6	$86.6	$21.0	$57.3
Intergovernmental Taxes	$501.8	$563.2	$592.2	$662.7	$659.3	$508.6	$553.8	$525.2	$587.6	$630.9	$623.5
Non-Tax Revenue	$698.2	$722.5	$730.0	$822.6	$814.0	$777.8	$773.3	$921.1	$907.8	$929.4	$1,012.4
Local Taxes	$1,202.0	$1,378.6	$1,446.8	$1,450.1	$1,402.4	$1,275.3	$1,283.8	$1,335.0	$1,425.3	$1,470.2	$1,508.6
Total	$2,582.1	$2,797.6	$2,911.8	$3,112.1	$3,136.1	$3,037.8	$3,132.5	$3,248.9	$3,079.6	$3,128.7	$3,255.2

intergovernmental tax revenues. Beginning in 2008, these revenues began to decline both in dollar amount and as a percentage of total revenues, decreasing to 59 percent in 2009. By 2011, local and intergovernmental taxes made up only 57 percent of total corporate fund revenues.

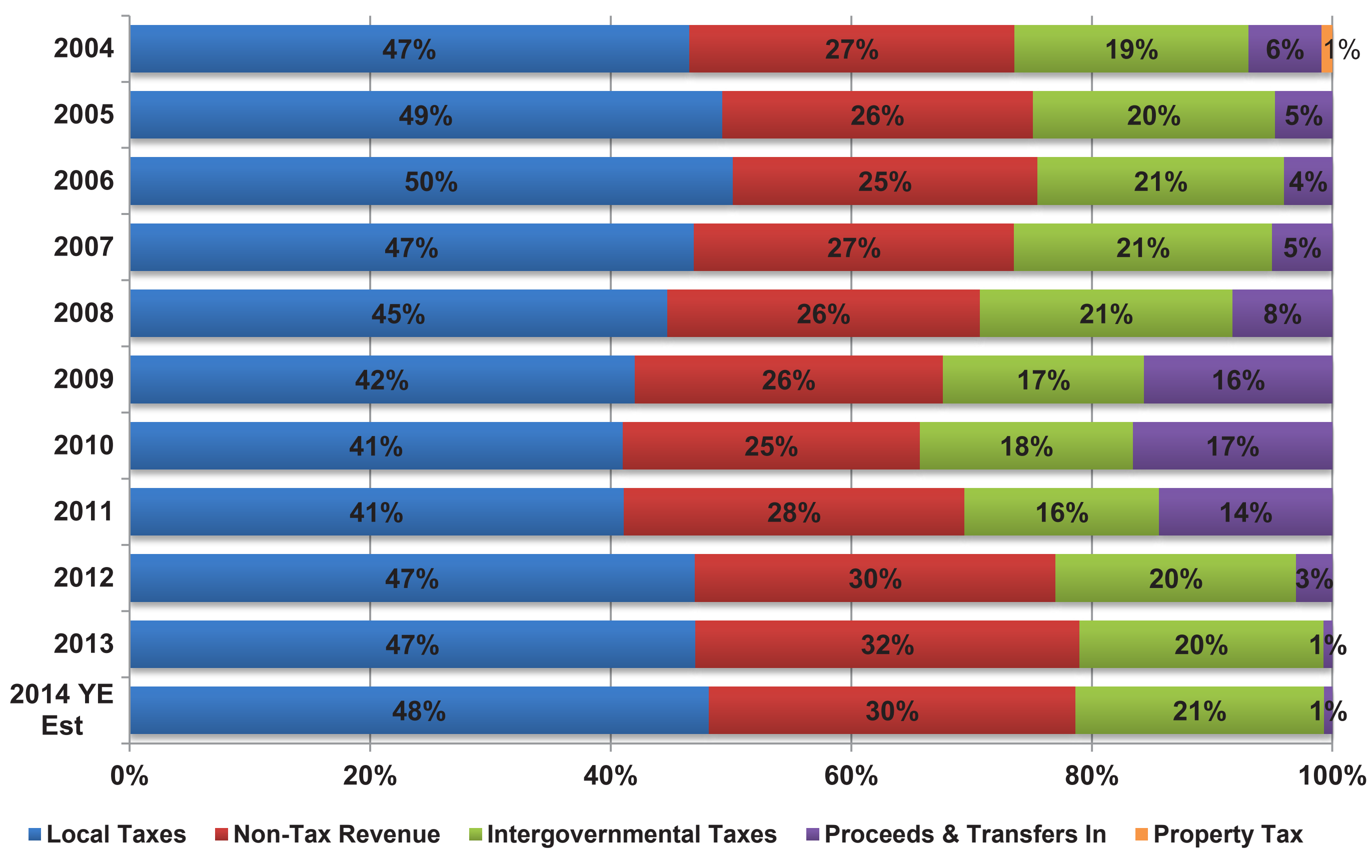
As these economically-sensitive revenues declined, the City did not decrease expenditures to match these shrinking revenues, but instead increasingly utilized transfers into the corporate fund from outside sources. Between 2003 and 2007, such transfers constituted an average of 6 percent of corporate fund revenues each year and came largely from investment income on general obligation bond proceeds and other financing transactions. In 2005, the City began to use proceeds from the long-term lease of the Skyway to supplement its operating budget, and in 2008 proceeds from the long-term lease of the parking meter system also began to subsidize the operating budget. In the period from 2009 through 2011, an average of $487 million each year, or 16 percent of corporate fund revenues, came from such one-time resources.

The 2012 budget began the process of aligning expenditures with real revenues through efficiencies, targeted cuts, and select revenue enhancements. In 2012, 67 percent of corporate fund revenues came from local and intergovernmental taxes, 30 percent from recurring non-tax revenues, and only 3 percent from other proceeds and transfers into the fund. In 2013, 67 percent of corporate fund revenues came from local and intergovernmental taxes, 32 percent from recurring non-tax revenues, and only 1 percent from other proceeds and transfers into the fund, due to new reforms, the lasting effects of changes made in 2012, and continued economic growth.

Following is a more detailed discussion of the individual revenue sources that make up the major categories of corporate fund revenue discussed above and how each has performed over the course of the last decade and is expected to end the current year.

CORPORATE FUND REVENUE

as a percentage of total corporate fund revenue



Local Tax Revenue

Local taxes include taxes on the purchase of utility services, real estate and other transactions, fuel and garage parking, and certain recreation and business activities.

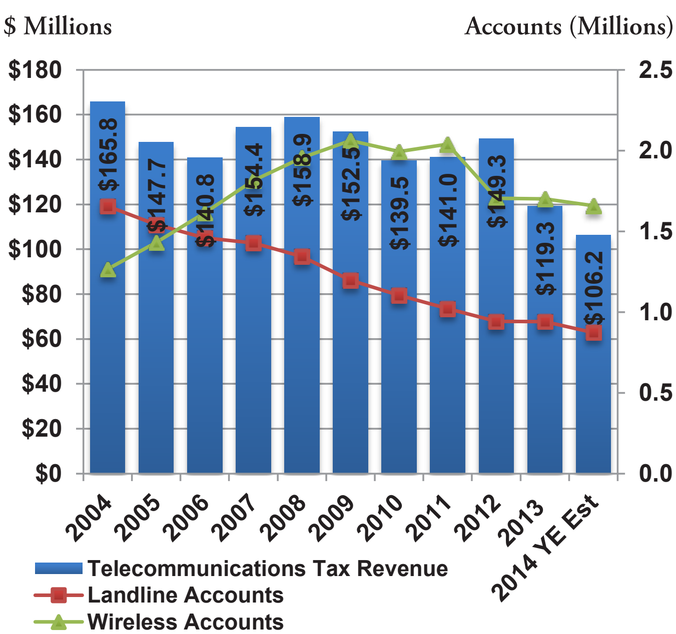
Public Utility Taxes

Public utility taxes consist of taxes on the purchase of telecommunications services, electricity, natural gas, and cable television. These combined taxes have constituted 14 percent to 18 percent of total corporate fund revenues over the past 10 years. In 2004, public utility taxes generated $460.6 million, accounting for 18 percent of total corporate fund revenues. In 2008, these taxes peaked at $524.8 million, dropping to $456.9 million in 2013. The 2014 year-end estimate for total public utility tax revenue is $464.5 million. The reasons for these fluctuations are discussed below with respect to each individual tax.

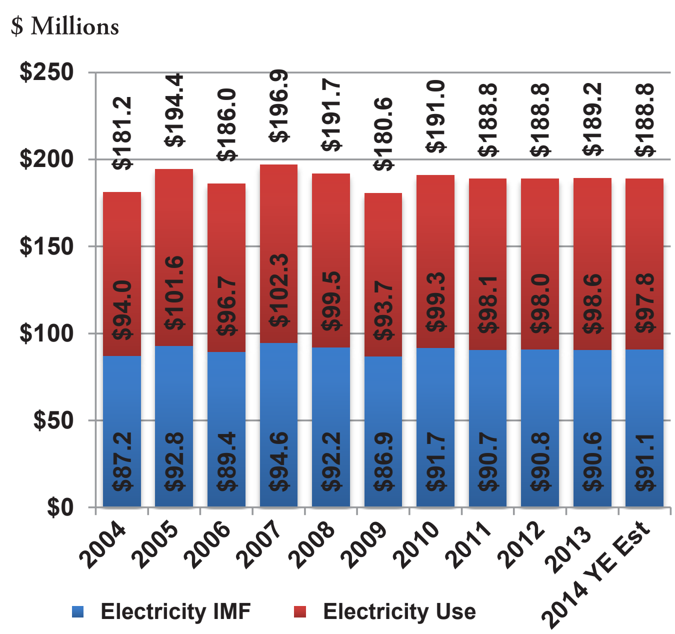
Revenue from **telecommunications taxes**, which are levied on charges for telephone services in the city, has declined over the past decade, reflecting trends in the industry and consumer preferences. In 2004, telecommunications taxes generated $165.8 million, accounting for 6 percent of total corporate fund revenues. Through 2005, landlines generated the majority of this revenue stream, with cell phone usage taking over as the larger driver of this revenue source in 2006. By 2013, telecommunications tax revenue had dropped to $119.3 million, accounting for 4 percent of total corporate fund revenues. The overall decline in revenues was due in part to the continuing reduction in the use of landlines as more customers choose to have only wireless services, and in recent years due also to a decline in the number of wireless accounts as use of online communication services such as Skype or other technologies increases. In addition, federal law exempts most wireless data services, such as mobile broadband, from taxation, and consequently, growth in the market for such wireless services has not resulted in increased telecommunications tax revenues for the City. In 2014, these revenues are expected to drop to $106.2 million, with a portion of the decline from 2013 levels due to credits being paid to certain telecom service providers for taxes charged on services that were later determined to be non-taxable under the federal Internet Freedom Act.

The City's **electricity use tax** and **electricity infrastructure maintenance fee** are charged based on the number of kilowatt hours of electricity used. Revenues from electricity taxes are highly dependent upon weather conditions, particularly summer temperatures, because electricity is used to cool homes and buildings. Electricity rates, conservation efforts, and technological changes that contribute to energy efficiency also affect the amount of electricity used and thus City revenue from these taxes. Electricity tax revenues have

TELECOMMUNICATIONS TAX REVENUE

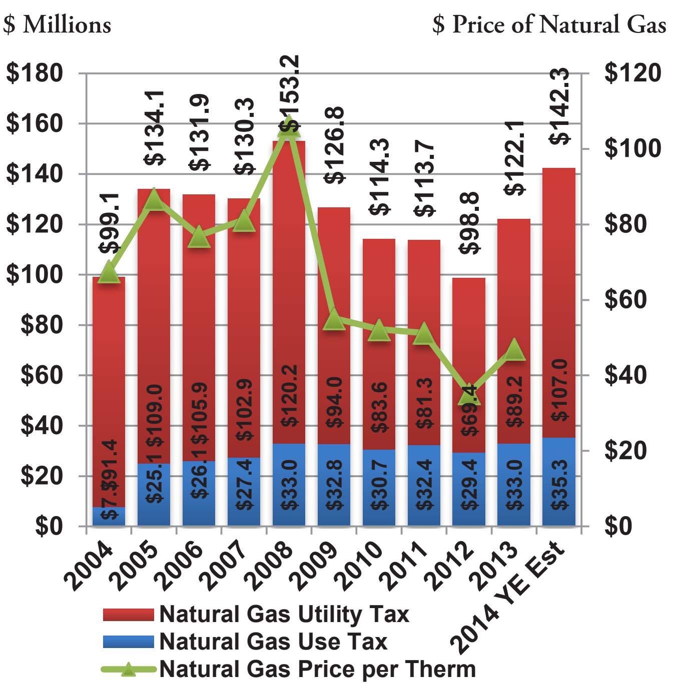


ELECTRICITY TAX REVENUE



FINANCIAL HISTORY REVIEW

NATURAL GAS TAX REVENUE



constituted 6 to 8 percent of total corporate fund revenues over the past 10 years, averaging $188.9 million each year. Electricity tax revenues have held relatively constant in recent years; however, the increasing use of energy-efficient equipment has affected this revenue stream and is expected to continue to impact the growth of these revenues going forward. In 2014, the City expects approximately $188.8 million in electricity tax revenue.

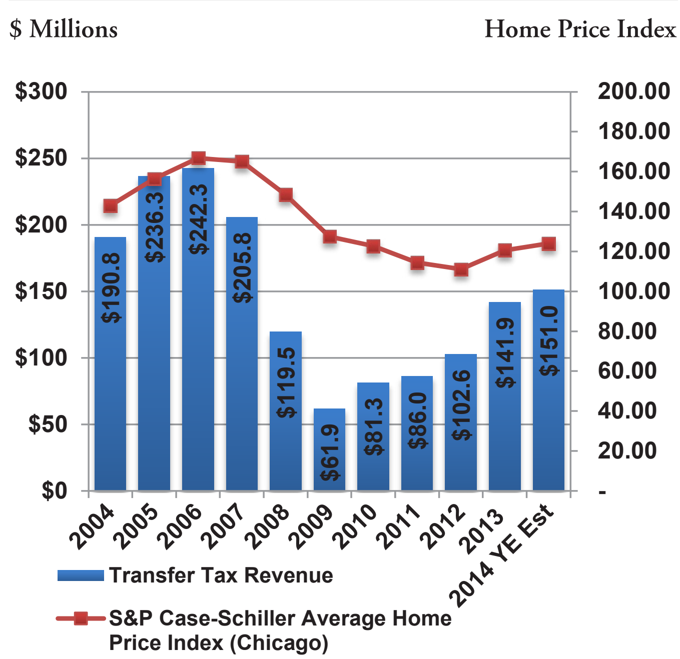
The City imposes two natural gas-related taxes. The **natural gas utility tax** is an 8 percent tax imposed on gross receipts for gas and delivery charges. The **natural gas use tax** is imposed at a rate of 6.3 cents per therm on entities not subject to the natural gas utility tax. As with electricity taxes, natural gas tax collections are highly dependent upon weather conditions and price. Colder weather increases consumption and associated tax revenues, as natural gas is used to heat homes and buildings. Because the natural gas utility tax rate is a percentage of gross revenues as opposed to a per unit rate, these revenues are more directly impacted by price than electricity taxes, which are imposed entirely on a per unit basis. In 2004, natural gas-related taxes generated $99.1 million, accounting for 4 percent of total corporate fund revenues. Natural gas prices during 2008 were historically high, averaging 106.2 cents per therm, and City revenues from related taxes spiked to $153.2 million in that year. Prices dropped to an average of 55.1 cents per therm during 2009 and then to an average of 35.3 cents per therm in 2012, with natural gas taxes generating only $98.8 million in that year. Natural gas prices began to rise in 2013, up more than 30 percent over 2012 in 2013. These rising prices, together with a colder than normal fall and winter and the resulting increase in usage, contributed to natural gas tax revenues of $122.1 million in 2013, 24 percent over 2012 revenues. Year-end estimates for 2014 are $142.2 million, due in part to the severe winter weather and colder than normal spring, as well as to continuing increases in both delivery charges and natural gas prices.

Cable television tax revenue, which makes up only a small portion of corporate fund revenue, grew from $14.5 million in 2004 to $26.2 million in 2013. While changes in viewing technologies have reduced cable television subscription rates, modest growth is expected to continue for this revenue source, due in part to fee increases and the rise of on-demand and pay-per-view channels, with 2014 year-end estimates at $27.2 million.

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

REAL PROPERTY TRANSFER TAX REVENUE

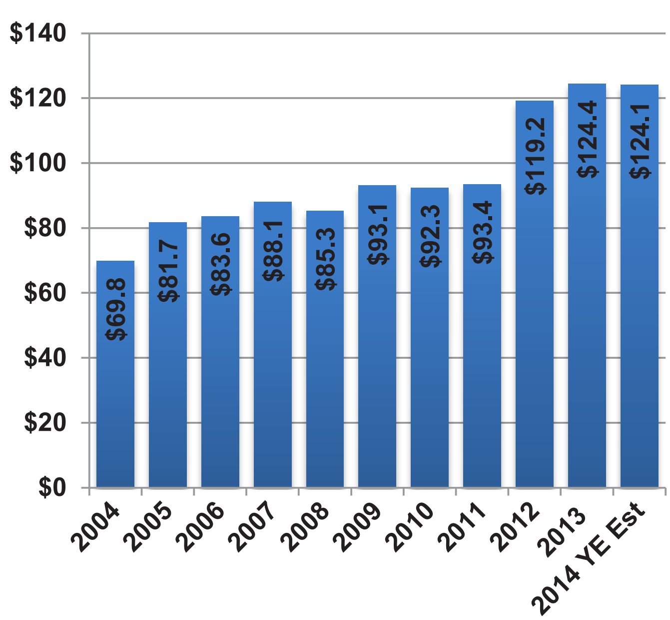


taxes have constituted 6 to 12 percent of total corporate fund revenues over the past 10 years. Fluctuations in these revenue sources track closely with the economy and the real estate market. The 2014 year-end estimate for total transaction tax revenue is $297.4 million, or 10 percent of corporate fund revenues for the year.

In the years leading up to the recession, **real property transfer tax** collections reached record levels, increasing from $190.8 million in 2004 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. While still less than half of pre-recession levels, 2010 and 2011 saw slight increases in real property transfer tax revenue to $81.3 million and $86.0 million, respectively, due in large part to increased commercial real estate activity. The residential real estate market, however, was slower to recover and did not show sustained growth until 2012. By 2013, home sales were up by 19 percent and median home prices up 10 percent from 2012, bringing overall real property transfer tax revenues to $141.9 million last year. During the first six months of 2014, median home prices were up 6 percent over 2013 while home sales decreased by 6 percent due largely to inventory shortages. Overall, however, the recovering housing market, in combination with continued strong commercial real estate activity, is expected to drive real property transfer tax revenues up to an anticipated $151.0 million in 2014.

GARAGE TAX REVENUE

$ Millions



As with other transaction and consumer-driven tax revenues, collections of **personal property lease transaction taxes**, imposed on the lease or rental of personal property at a rate of 8 percent of the lease or rental price, suffered due to the recession's impact on personal and business consumption. In 2004, personal property lease taxes generated $81.4 million, accounting for 3 percent of total corporate fund revenues. In 2008, there was an increase in the tax rate from 6 to 8 percent and personal property lease transaction taxes generated $119.3 million. These revenues dropped to $108.4 million in 2010 but increased again in 2011 to $123.5 million due largely to enforcement efforts. Growth continued into 2012 and 2013 in line with increasing consumer confidence and continued enforcement collections, with lease tax revenues at $140.2 million in 2013, accounting for 5 percent of total corporate fund revenues. 2014 year-end estimates for this revenue source are approximately even with 2013 levels at $140.3 million.

Transportation Taxes

Transportation taxes include taxes on garage parking, vehicle fuel, and hired ground transportation. Total transportation tax revenues grew from $138.1 million, or 5 percent of total corporate fund revenues, in 2004 to $182.5 million, or 6 percent of total corporate fund revenues, in 2013, and are expected to finish 2014 at $182.6 million.

Garage taxes, which are levied on parking garage operators, have consistently made up the largest portion of this category of revenues. Rate adjustments in 2005, 2009, and 2012 contributed to greater revenue growth in those years, with an overall increase from $69.8 million in 2004 to $124.4 million in 2013. Pursuant to a change in state law, the City changed this tax from a tiered rate structure to a percentage-based rate effective July 1, 2013, reducing the effective tax rate for economy parking while increasing the effective rate for premium garages and valet services. The City anticipates $124.1 million in garage tax revenues in 2014.

Vehicle fuel tax revenues declined from $62.8 million in 2004 to $49.1 million in 2013, due largely to declines in fuel consumption as gasoline prices rose, fuel economy standards became more stringent, and fuel-efficient vehicles became more prevalent. Despite this, vehicle fuel tax revenues are expected to increase slightly over 2013 levels in 2014, as the general downward trend is offset by increased demand for diesel with the recovering economy.

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 2004, recreation taxes generated $84.1 million for the City, accounting for 3 percent of total corporate fund revenues. By 2013, this had grown to $169.1 million, accounting for 6 percent of total corporate fund revenues. The City anticipates that overall recreation tax revenue will increase to $184.3 million in 2014. The reasons for these changes are discussed below with respect to each individual tax.

Amusement taxes apply to most large sporting events, theater, and musical performances in the city, and generated $35.4 million in 2004, growing to $96.7 million in 2013. The overall increase in these revenues was due in part to 1 percent rate increases in each of 2005 and 2009. Amusement tax revenues also vary significantly from year to year based on the relative success of Chicago's professional sports teams and ticket prices for such sporting events. The City anticipates $104.4 million in amusement tax revenue in 2014, with the increase due in part to a reduction in the partial exemption from this tax that cable television companies had received in prior years, as well as higher sports team ticket prices and the Blackhawks' playoff appearance.

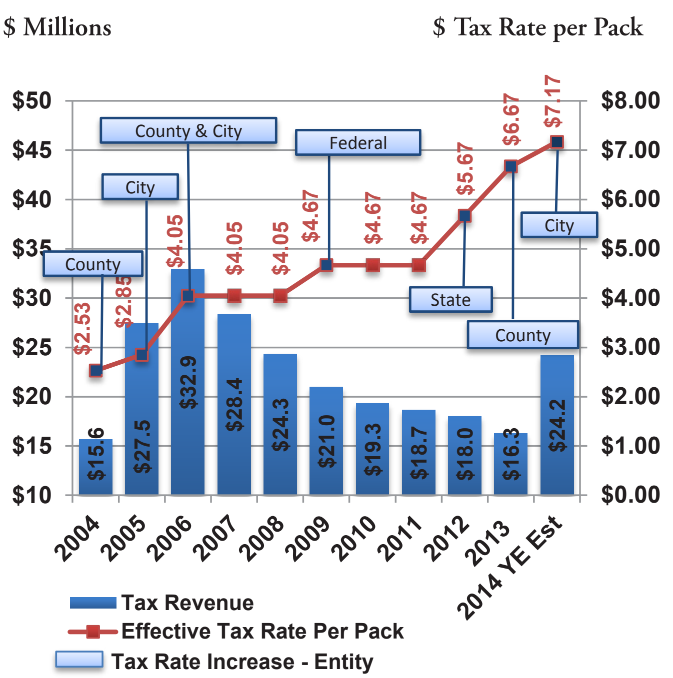
Cigarette tax revenues increased from $15.6 million to $32.9 million between 2004 and 2006, due largely to increases in the City cigarette tax rate in 2005 and 2006, but then fell steadily to $16.3 million in 2013. These declines can be attributed in part to a decline in smoking in the overall population and in part to increases in prices and tax rates discouraging purchases of cigarettes in the city. In 2014, the City cigarette tax rate was increased by 50 cents per pack to $1.18 per pack. Taking into account continued declines in smoking and the price sensitivity of purchases, cigarette tax revenues are expected to end 2014 at approximately $24.2 million.

Liquor tax revenue, in contrast, has increased significantly over the past 10 years, from $18.3 million in 2004 to $32 million in 2013 and an anticipated $32.1 million in 2014, due to increases in both activity and the tax rate. Revenue from taxes on the purchase of **non-alcoholic beverages** saw slight year-over-year increases for most of the past decade, with a significant jump from $11.5 million in 2007 to $18.8 million in 2008, with the addition of the tax on bottled water. The 2014 year-end estimate for non-alcoholic beverage tax revenue is $21.2 million.

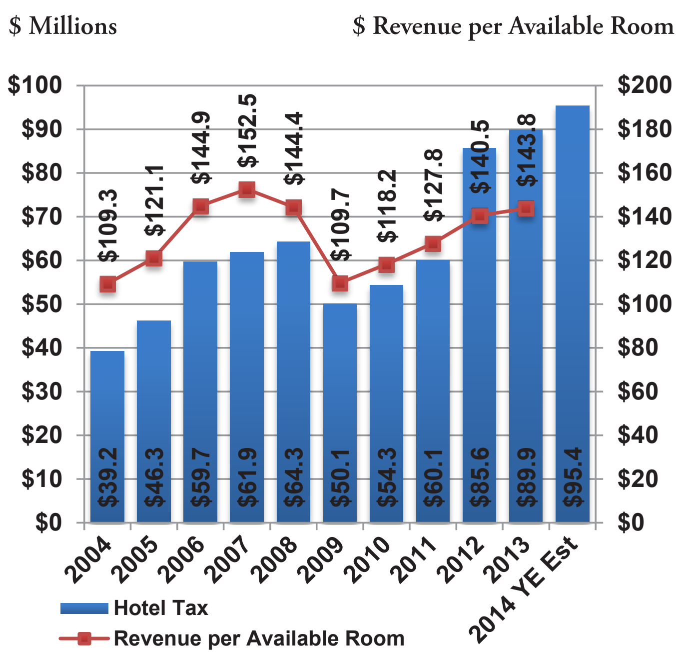
Business Taxes

The City's business tax revenues consist of revenue from taxes on hotel accommodations and the employers' expense tax. After high growth years in the mid-2000s, these taxes peaked

CIGARETTE TAX REVENUE AND RATE INCREASES



HOTEL ACCOMMODATIONS TAX REVENUE



at $92.3 million in 2008 and then decreased by 14 percent to $79.6 million in 2009, reflecting the impact of the economic downturn. In 2010 and 2011, business tax revenues grew slightly but did not return to pre-recession levels. Beginning in 2012, overall business tax revenues showed the effect of both the phasing out of the employers' expense tax and the increase in the hotel accommodations tax rate.

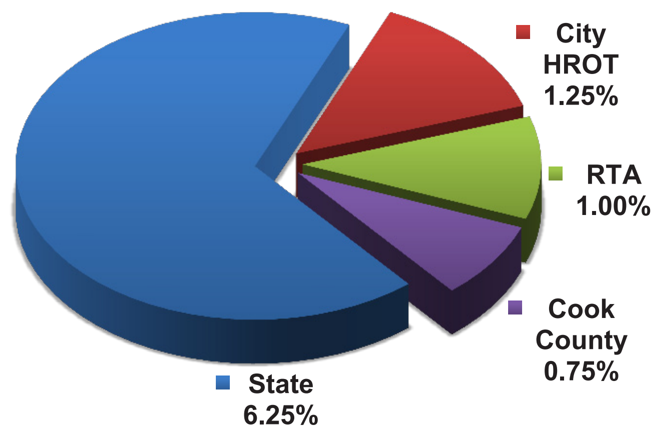
Revenues from the **hotel accommodations tax** experienced a sharp decline in 2009 and remained low into early 2011, coinciding with the recession's impact on tourism, business, and convention-related travel. In 2007, the revenue per available room, a key metric that accounts for both occupancy and room price, averaged $152.5, and hotel tax revenues were $61.9 million. By 2009, revenue per available room had declined by 28 percent to $109.7, and hotel tax revenues dropped by 19 percent to $50.1 million. The second half of 2011, however, saw hotel sales and related tax revenues begin to bounce back, and strong growth continued into 2012 with average revenue per available room at $140.5 for the year and hotel tax revenues at $85.6 million, reflecting both the continued climb in local hotel sales and the increase in the hotel accommodations tax rate from 3.5 percent to 4.5 percent. In 2013, revenue per available room was up 2 percent over 2012 and hotel tax revenues were $89.9 million accounting for 3 percent of total corporate fund revenues. The City anticipates that hotel tax revenues will end 2014 over 2013 levels but below budget, due largely to the severe winter weather's impact on travel to Chicago. 2014 year-end estimates are at $95.4 million, including certain one-time revenue from settlements related to online hotel sales.

As part of the 2012 budget and as a key component of encouraging business development and job creation in Chicago, the Mayor delivered on his campaign pledge to phase out the **employers' expense tax**. This tax, which had historically been levied on businesses with more than 50 employees at a rate of $4 per employee per month, generated an average of $23.4 million per year between 2003 and 2011. This tax was reduced by 50 percent, to $2 per employee, in 2012. Revenue declined accordingly, to $17.9 million in 2012 and $11.3 million in 2013. The tax was completely eliminated at the end of 2013.

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.

COMPOSITION OF TOTAL SALES TAX RATE



Sales and Use Taxes

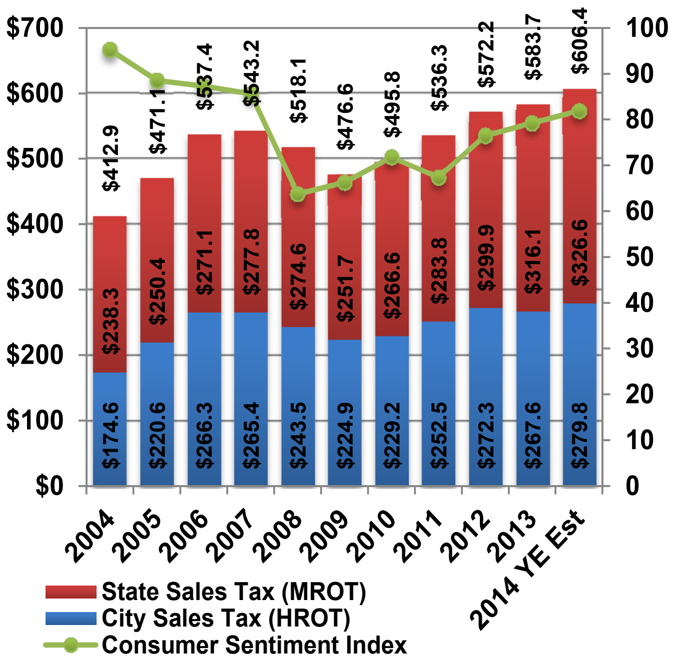
The City's sales and use tax revenue is generated through the Chicago Home Rule Occupation and Use Tax (HROT) and the Municipal Retailer Occupation and Use Tax (MROT). The City imposes the HROT at a rate of 1.25 percent on the retail sale of general merchandise, excluding most sales of food and medicine. The HROT also applies to property purchased for use in the City from a vendor located outside the City at a rate of 1.25 percent for titled personal property and at a rate of 1 percent for non-titled personal property. The MROT is imposed by the State on behalf of municipalities at a rate of 1 percent, which is included in the 6.25 percent State rate shown in the chart above. Unlike the HROT, the MROT applies to qualifying food and drug purchases.

General merchandise purchases in the City are subject to a combined sales tax rate that includes, in addition to the City HROT and the State rate, a Regional Transportation Authority (RTA) and Cook County sales tax. The total combined rate was 9.75 percent from July of 2010 through the end of 2011 but was reduced to 9.25 percent in 2013, when the County rolled back its portion of the 2010 sales tax increase.

Revenue from the HROT and MROT have accounted for an average of approximately 17 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, reaching $543.2 million in 2007. Beginning in the fall of 2008, sales tax receipts began a year-over-year average decline of 9 percent each month for the next 17 months, with revenues dropping to $476.6 million by 2009. During 2010, a small growth trend emerged due largely to the

SALES TAX REVENUE

$ Millions Consumer Sentiment Index



State's tax amnesty program, but it was not until 2012 that revenues reached pre-recession levels again, finishing the year at $572.2 million. Moderate growth continued into 2013 as retail sales numbers continued to improve; however, the amount of sales tax revenue flowing into the corporate fund did not increase proportionately to the overall growth in collections, as an increasing portion of the City's gross sales tax revenue is being used to pay debt service on sales tax bonds issued to fund capital projects. Due to strong retail sales, an estimated $609.4 million in sales tax revenue is expected to flow into the corporate fund in 2014.

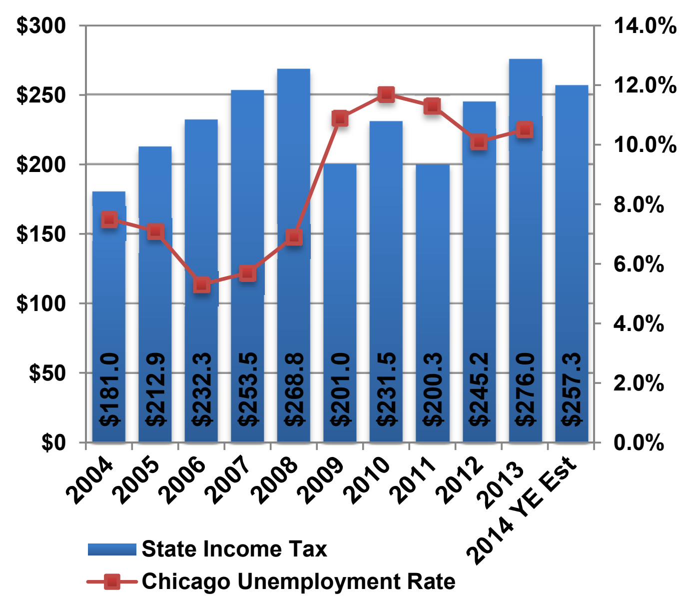
State Income Tax

Like sales and use taxes, income tax revenues experienced growth in pre-recession years and then declined with the economy in the years following 2007. From 2004 to 2007, City income tax revenues grew an average of 10 percent per year, reaching $268.8 million in 2008. Income tax revenue dropped 25 percent to $201.0 million in 2009, rebounded slightly in 2010 to $231.5 million, but then dropped again in 2011 due to a combination of factors, including continued high unemployment rates, the decline in population under the 2010 Census, the federal 'bonus depreciation rule', and a delay in state distributions.[1]

In 2011, the city's unemployment rate peaked at 11.3 percent, depressing income tax revenues. At the same time, income tax distributions to the City from the State were adjusted to account for the population count from the 2010 Census. Chicago's decline in population resulted in a decrease in City income tax revenues by 5.8 percent from 2010 levels. City income tax revenues were also negatively impacted by federal depreciation tax bonuses for capital equipment aimed at incentivizing economic growth. In addition, a significant portion of the drop in City income tax revenues in 2011 was attributable to the timing of distributions from the State. Throughout 2011, there was a substantial delay in the State's distribution of income tax revenues to the City, with monthly payments received an average of 120 days after the payment amounts were finalized. This did not affect the aggregate amount of City income tax revenues, but because payments received after March cannot be accounted as revenue for the preceding budget year, only 11 months' worth of income tax payments could be booked as revenue in 2011.

INCOME TAX REVENUE

$ Millions Unemployment Rate



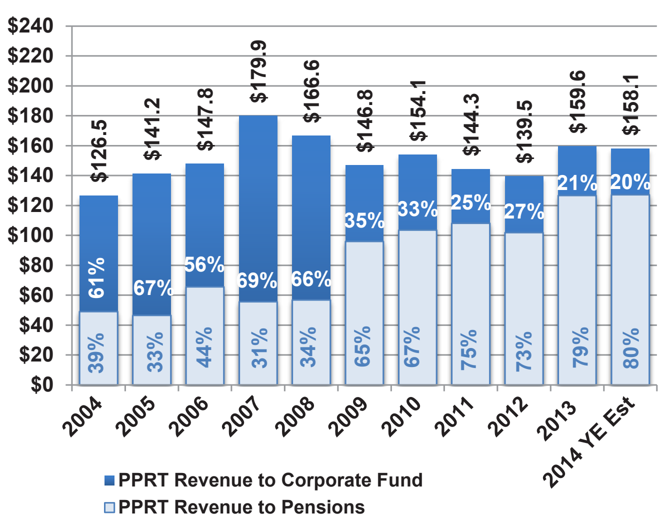
[1] The federal bonus depreciation rule was adopted as part of the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 and significantly reduced the corporate tax base. The Act provided a 100 percent bonus depreciation for capital equipment placed in service between September 8, 2010 and December 31, 2011, and a 50 percent bonus depreciation for capital equipment placed in service between December 31, 2011 and December 31, 2012. By affecting the State's definition of "income," this legislation caused a decrease in the City's income tax revenues.

Also in 2011, the State increased the personal income tax rate from 3 percent to 5 percent and the corporate income tax rate from 4.8 percent to 7 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 (LGDF; the fund from which municipalities are paid their share of state income tax revenue). 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 have received additional revenue of more than $50 per resident per year.

Beginning in the second half of 2011 and continuing into 2014, income tax collections gained momentum with the recovering economy. In addition, in both 2012 and 2013, due to the timing of State distributions to catch up on back payments owed to the City, 13 payments were booked as revenue. 2013 collections were also pushed upward by a one-time surge in payments associated with businesses and individuals selling assets or receiving early dividends or bonuses in anticipation of higher federal tax rates. Consequently, City income tax revenues ended 2013 at the unusually high level of $276.0 million. With only 12 payments and no one-time surge anticipated in 2014, income tax revenues are expected to end the year at $257.3 million.

PPRT REVENUE

$ Millions



Personal Property Replacement Tax

The personal property replacement tax (PPRT) is levied on corporations, partnerships, and utility companies, based on income. The tax is 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 City has historically utilized its PPRT revenue in part to support the corporate fund and in part to pay for the City's employee pension contributions.

Because PPRT is an income-based tax, these revenues have generally followed the same patterns as income tax revenues, growing through 2008 and then declining during the recession years. However, the anticipated uptick in these revenues with the recovering economy has been negated in part by legislation enacted by the State in 2011 that allows the State to divert PPRT revenue away from municipalities to pay State Board of Education regional superintendents and other state officials. These diversions reduced net PPRT revenues to the City beginning in 2011.

Corporate fund revenue from this tax is also being impacted by the City's growing pension obligations. As a growing portion of PPRT revenue was used to pay for pension contributions, the amount of PPRT revenue flowing into the corporate fund decreased by 70 percent between 2008 and 2013, from $109.7 million to $32.9 million, and the City expects that $30.9 million in PPRT revenue will flow into the corporate fund in 2014.

Non-Tax Revenues

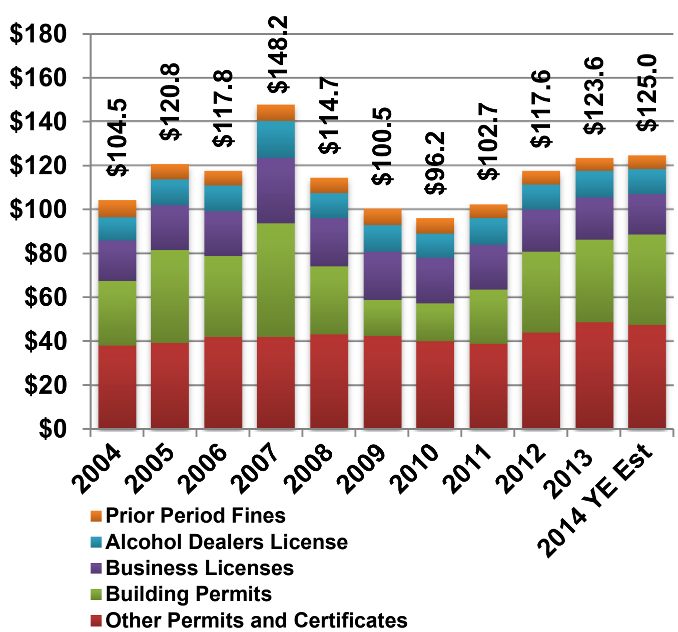
Non-tax revenues consist of revenue from licenses and permits; fines, forfeitures and penalties; fees for services; leases, rentals, and sales; interest; and other revenue.

License and Permit Fees

License and permit-related revenue is generated through fees for business licenses, building permits, and various other licenses and permits. License and permit activity often reflects economic health, with more construction commencing and businesses starting up when the economy is strong. In 2004, license and permit revenue was $104.6 million, increasing to $148.2 million, or 5 percent of corporate fund revenues, in 2007, and then falling to $96.2 million and 3 percent of corporate fund revenues in 2010.

LICENSE AND PERMIT FEE REVENUE

$ Millions



The sharp decrease between 2007 and 2008 was also due in part to the transition to a two-year cycle for business licensing. Since 2010, license and permit fee revenues have increased slightly each year and are expected to generate $125.0 million in 2014, back up to 4 percent of corporate fund revenues.

Prior to the recession, building permit revenue accounted for the largest portion of overall 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 $24.5 million in 2011, down 52 percent from the 2007 high. Permit activity and related revenues began to recover in 2012 and increased again in 2013. As the real estate market continues to rebound, anticipated building permit revenue is expected to grow to $41.2 million in 2014.

Fines, Forfeitures, and Penalties

Fines, forfeitures, and penalties include parking tickets, red-light and speed camera tickets, and fines for items such as building code violations. These revenues have increased steadily over the past decade, from $188.5 million in 2004 to $313.5 million in 2013, accounting for 10 percent of total 2013 corporate fund revenue. This steady upward trend is in part the result of the increased use of technology, including the implementation of on-line bill payment systems and additional parking enforcement field technology. Increases in fine and penalty rates and improved debt collection have also impacted overall fine, forfeiture, and penalty revenues. In 2014, fines, forfeitures, and penalties are expected to generate $360.7 million, with the anticipated increase due in part to the addition of automated speed enforcement devices to protect children and pedestrians near schools and parks, as well as collection efforts by the City and a proposed increase in fines for certain street violations and fees for the storage of impounded vehicles.

Charges for Services

Charges for services include revenues generated by charging for activities such as inspections, public information requests, police services, and other services for private benefit. In 2004, these activities generated $80.0 million, increasing to $119.9 million in 2013, due largely to increased reimbursement for police services and improved emergency medical service collections. Such services are projected to generate $121.7 million in 2014, 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 account for a small percentage of overall corporate fund revenue. In recent years, the City has implemented an online auction system for the sale of unneeded surplus materials and equipment, increasing the efficiency of this process and enhancing opportunities for coordination between City departments.

These revenues vary from year to year based on the inventory of City property to be leased or sold and the market for such property, and have ranged from $34.5 million to $10.7 million per year over the past decade. In 2013, lease and sale income was $19.0 million, in line with historic averages. The City anticipates that total lease and sale revenues will increase to $20.3 million in 2014, with the primary driver being the City's contract for street furniture advertising.

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. Such transfers constitute an average of 10 percent of corporate fund revenues, and have ranged from $250 million to $307 million over the past 10 years.

Proceeds and Transfers In

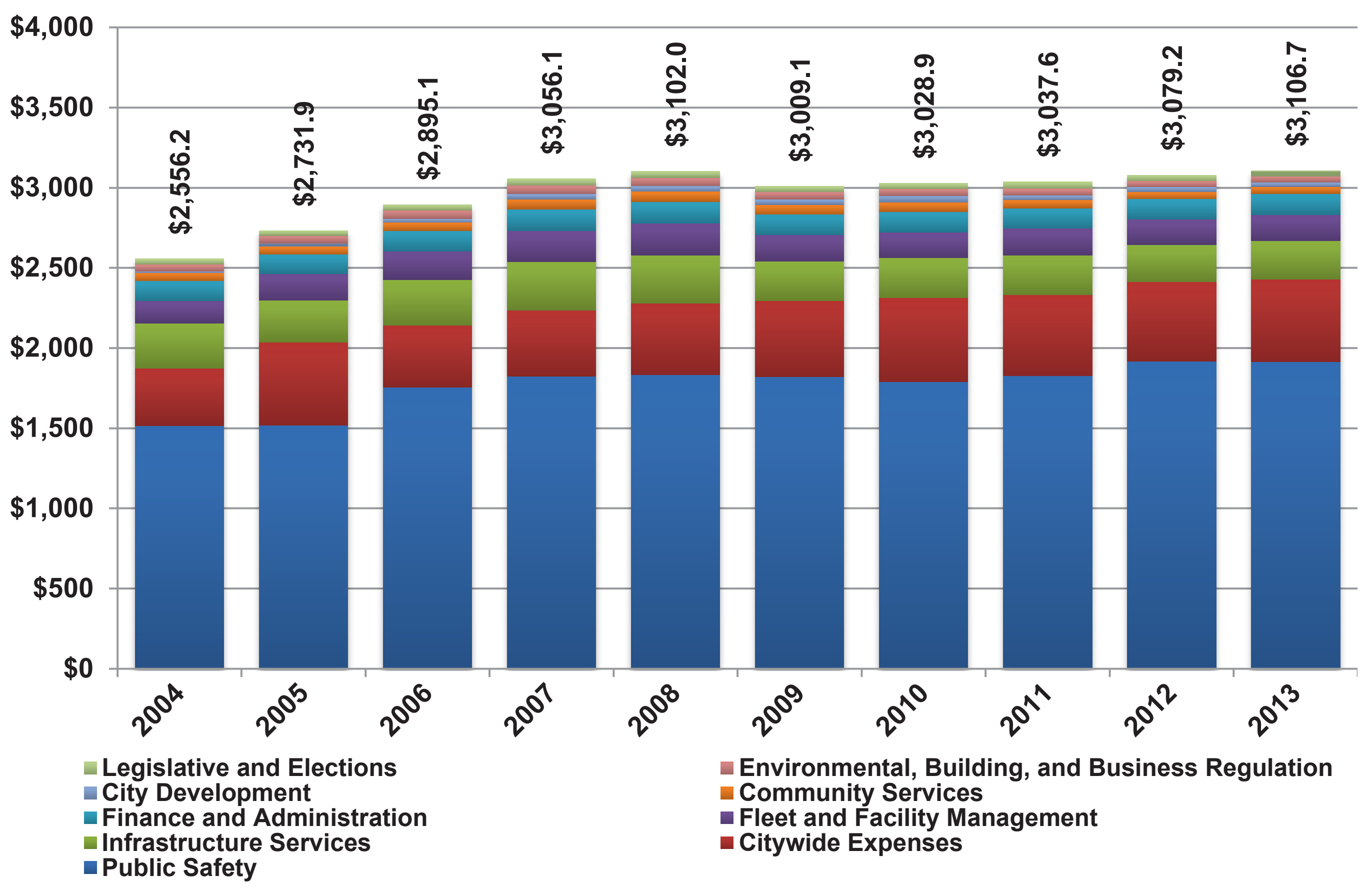
Between 2003 and 2007, transfers into the corporate fund from outside sources constituted an average of 6 percent of corporate fund revenues each year, and came largely from investment income on general obligation bond proceeds and other financing transactions. In 2005, the City began to use proceeds from the long-term lease of the Skyway, and in 2008 proceeds from the long-term lease of the parking meter system began to subsidize the operating budget. As the recession negatively impacted economically-sensitive revenues beginning in 2008, the City increasingly used such non-recurring revenue sources to fill the annual corporate fund budget gap. In the period from 2009 through 2011, an average of $487 million each year, or 16 percent of corporate fund revenues, came from non-recurring revenue sources. Beginning with the 2012 budget, the City made significant progress towards aligning expenses with real revenues, phasing out the use of reserve funds to subsidize the operating budget and reducing the overall use of proceeds and transfers to less than 1 percent of total corporate fund revenues in 2013.

Corporate Fund Expenditures

Since 2004, total corporate fund expenditures have ranged from a low of $2.56 billion in 2004 to a high of $3.11 billion in 2013. Generally, the relative proportion of total corporate fund spending devoted to different activities and expense types has remained fairly consistent over the years. These activities and spending patterns are discussed in detail below.

SPENDING BY CITY SERVICE

$ Millions



Spending by City Service [2]

Public Safety

Each year, the largest portion of corporate fund spending is dedicated to public safety functions, with police services representing an average of 41 percent, the Fire Department 16 percent, and the Office of Emergency Management and Communications 3 percent, of total corporate fund expenditures. As spending has been reduced in other areas, public safety has grown as a percentage of the corporate fund budget, from 58 percent in 2004 to 62 percent in 2013.

Infrastructure Services

Infrastructure services provided by the Department of Streets and Sanitation and the Department of Transportation have averaged approximately 9 percent of annual corporate fund expenditures over the past 10 years. These funds are used to collect the City's recycling and waste; trim trees and remove graffiti; build, repair, and maintain Chicago's streets, sidewalks, and bridges; and complete the planning and engineering behind this infrastructure. Much of the City's major infrastructure construction is funded through state and federal grants and general obligation bond financing, and thus is not represented as a corporate fund expenditure. These funds and the projects they support are discussed in more detail in the Capital Investments section of this document.

The City's waste collection and recycling costs grew steadily from 2006 through 2011, largely as a result of increasing personnel expenses, which are the principal driver of waste management expenditures and are subject to collective bargaining. Over the past two years, the City has implemented changes that increase the efficiency of its waste collection and recycling programs at the same time as improving the quality of these services.

In 2012, the City began the transition from ward-by-ward to grid-based collection of waste. Under the ward-based system, Chicago's cost of waste collection and disposal was significantly more than in most major metropolitan areas. The transition to a more efficient system of garbage collection with borders based on main streets and natural boundaries was completed in April of 2013. This change resulted in savings of approximately $18 million annually, enabling the City to redirect resources to support other essential services.

In October 2013, the City completed its rollout of citywide recycling, with 600,000 households across Chicago now receiving recycling services. This expansion was made possible by the savings generated through both the transition to grid-based garbage collection and the managed competition for recycling services. The managed competition was implemented in late 2011, with private companies delivering recycling services in some parts of Chicago while other neighborhoods are served by City crews. As a result, the total annual cost for citywide recycling was approximately 37 percent less than the program would have cost without the competition.

City Development

City development activities, including planning and zoning; the promotion of retail, industrial, and commercial projects; and support for affordable housing, have represented an average of 1 percent of corporate fund expenditures since 2004. A significant portion of these activities is funded through state and federal grants and thus not represented as a corporate fund expenditure; these funds and the projects they support are discussed in more detail in the Grants section of this document. The Department of Cultural Affairs and Special Events, which manages the promotion of tourism, cultural planning, and the coordination of special events, is supported almost entirely by the City's hotel tax and special events fund, discussed in the following section.

Community Services

Each year, approximately 2 percent of corporate fund resources are dedicated to providing community services through the Department of Family and Support Services, the Department of Public Health, and the Mayor's Office for People with Disabilities. These departments are heavily grant-funded, and receive, on average, over $500 million in grant funding each year in addition to these corporate fund resources. The services provided through these funds are discussed in greater detail in the Grants section of this document.

Environmental, Building, and Business Regulation

On average, the regulation of businesses and the building industry, together with environmental initiatives, has accounted for 2 percent of annual corporate fund spending. This includes the activities of the Department of Buildings, which ensures the safety of residential and commercial buildings in Chicago by enforcing

[2] Over the years, a number of City departments have been combined or merged into new or existing departments. References in this section to specific existing departments and the resources dedicated to them include predecessor departments and the resources dedicated to those functions in the past.

design, construction, and maintenance standards and promoting conservation and rehabilitation through permitting and inspection processes, as well as functions performed by the Department of Business Affairs and Consumer Protection, such as business licensing and support and consumer protection activities, including the regulation of the local taxicab industry.

Fleet and Facility Management, Finance, and Administration

The support functions necessary to provide essential City services, including accounting, contract management, legal advice, administrative services, and technology and systems expertise, consistently account for 4 percent of the corporate fund budget. An additional 6 percent of the corporate fund budget is dedicated to managing the repair and maintenance of City vehicles and facilities, from police cars to libraries to fire stations to street sweepers.

Citywide Expenses

Citywide expenses include employee benefits and other costs that are budgeted separately from the City's operational departments. These expenses, which have constituted an average of 16 percent of corporate fund spending over the past decade, are largely personnel-related and are discussed in greater detail in the Workforce section of this document.

Spending by Expense Type

Personnel

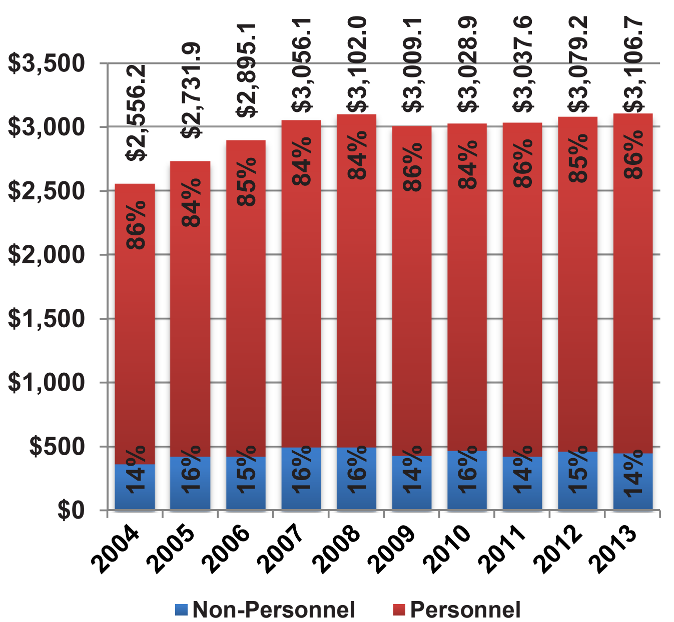
Across all departments and City services, personnel-related expenditures have and will continue to make up the largest portion of the corporate fund budget, with 73 percent of total 2004 to 2013 corporate fund expenditures on salaries and wages, and an additional 10 percent of corporate fund expenditures during those years on employee healthcare costs. These personnel-related expenses and the trends and factors that affect them are discussed on a citywide basis in the Workforce section of this document.

Contractual Services

Contractual service expenditures include the cost of information technology systems, maintenance, and licensing; tipping fees for waste disposal; property rental; custodial services for City facilities; and landscaping, engineering, and other professional service contracts. On average, contractual services account for 10 percent, or approximately $293 million, of corporate fund expenditures each year. Between 2003 and 2007, corporate fund contractual services spending grew an average of approximately 7 percent each year. Spending then declined at an average rate of 2 percent each year between 2007 and 2012, increasing slightly again in 2013.

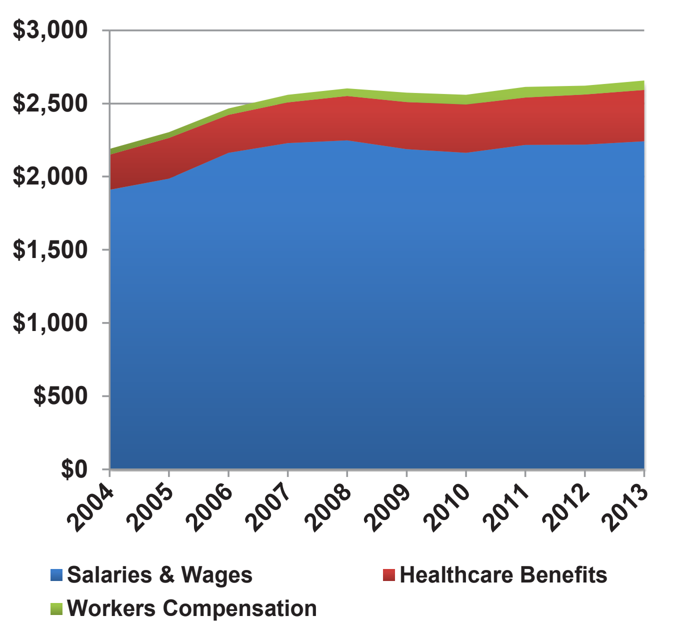
CORPORATE FUND EXPENDITURES

$ Millions



PERSONNEL EXPENDITURES

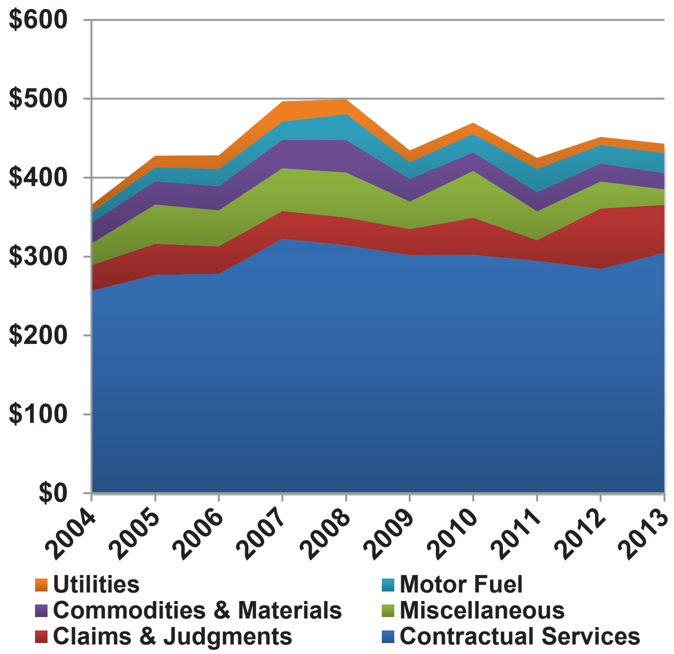
$ Millions



Financial History Review

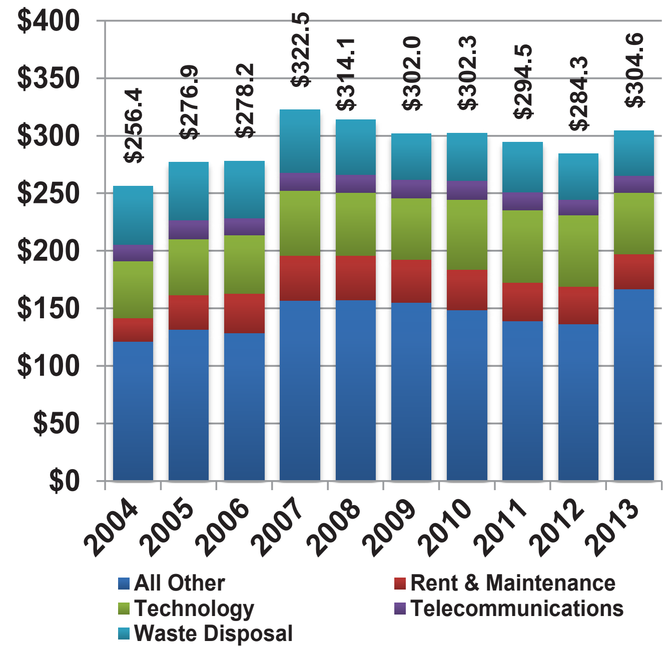
NON-PERSONNEL EXPENDITURES

$ Millions



CONTRACTUAL SERVICES EXPENDITURES

$ Millions



As government, businesses, and residents increasingly utilize technology to conduct business and communicate, the City's technology-related costs have increased. In 2004, technology-related costs were $49.3 million, increasing to $53.3 million in 2013.[3] Similarly, as telephone usage has shifted from landline to mobile over the past decade, the City's telecommunication expenditures have reflected this shift in technology, with more spending on mobile communication and less on landline based systems. Due to effective management of these costs, the City's telecommunication costs remain approximately level with 2004 expenditures at $14.6 million.

Tipping fees for waste disposal (the price charged for the delivery of solid waste to landfill, recycling, or other disposal facilities) have accounted for 13 percent to 20 percent of the City's contractual services expenses over the past decade, peaking in 2007 at $54.6 million and decreasing since that time. The initial decrease was due in part to the end of the blue bag recycling program, which resulted in significantly reduced fees related to the mechanical sorting of recyclables.

In 2003 and 2004, the City received a rent abatement for one of its largest rental properties, resulting in lower than normal property rental and building services expenses in those years - averaging $20.2 million, or 8 percent of corporate fund contractual services expenses. These expenses increased in 2005 with the end of that abatement and grew thereafter with increasing rental and building services costs, growing to $38.9 million, or 12.4 percent of contractual services expenses, in 2008. Since 2008, rental and related expenses have decreased to $30.6 million as the City reduces the number of properties that it leases.

At the end of 2013, the City's lease at 33 N. LaSalle expired. Instead of renewing this lease at a cost of more than $4 million annually, the City undertook a major consolidation and reorganization of City office space. Significant improvements to City Hall are being completed in conjunction with the consolidation, enabling the City to maximize the utilization of this City-owned space and reduce long-term rental expenses while grouping similar departmental functions together in order to increase efficiencies and facilitate beneficial coordination. The City estimates that the cost of the consolidation and City Hall renovation will total approximately $12 million, which will be paid for with the lease savings and fully recouped within three years. Additional space consolidations are scheduled to

[3] In addition to corporate fund resources, the City utilizes proceeds of general obligation bonds to finance certain information technology expenses, as further discussed in the Debt section of this document.

occur over the course of the next year, with City operations moving from three currently leased locations. The City estimates that the cost of these relocations and related renovations will total approximately $12 million and yield anticipated annual savings of $3.7 million once complete.

Commodities and Materials

Expenditures for commodities and materials followed a similar pattern as those for contractual services, but on a much smaller scale. On average, commodities and materials have accounted for approximately 1 percent, or $28.4 million, of corporate fund expenditures each year. Between 2004 and 2008, corporate fund spending on commodities and materials grew at an average rate of 7 percent each year. These expenditures then decreased at an average annual rate of 12 percent between 2008 and 2013, as spending was reduced on items such as office supplies, small tools, electrical supplies, and repair parts for vehicles and other equipment.

Utilities

Market prices have been the primary driver of the City's utility expenditures, which have made up 0.33 percent to 0.85 percent of annual corporate fund expenditures since 2004. The significant year-over-year increases between 2004 and 2007 shown in the chart below were due largely to rising energy prices, which drove up the City's electricity and natural gas costs. As energy prices decreased in 2008, so did the City's utility expenditures.

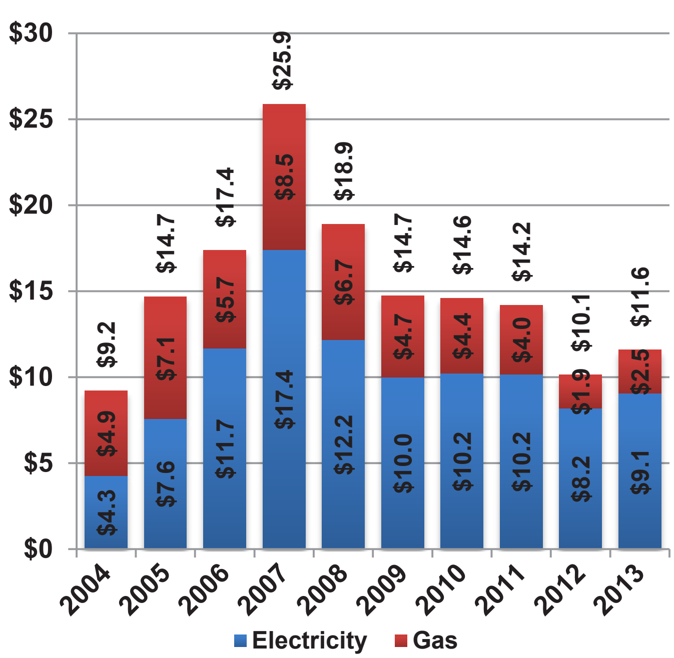
In order to reduce its utility costs, energy use, and environmental footprint, the City has undertaken a number of initiatives in recent years to improve its energy efficiency. Specifically, the City has installed more energy-efficient LED traffic and street lights and retrofitted lighting and energy systems at various City properties. Improved use of technology and monitoring has enabled the City to ensure that building system controls are calibrated and operating as intended and to more effectively analyze trends to inform decisions on energy purchasing. In addition to these measures, the City also signed a multi-year price agreement for electricity in 2010, which helped lock-in lower energy prices. These initiatives, together with broader trends in the market, including record low natural gas prices in 2012, resulted in a decline in corporate fund utilities expenditures from $25.9 million in 2007 to $10.1 million in 2012, increasing slightly in line with rebounding natural gas prices to $11.6 million in 2013.

Motor Fuel

Similar to utility costs, market prices have been the primary driver of the City's fuel expenditures over the past decade. Spikes in the oil market have affected City costs, much as they have increased gasoline prices for Chicago families. Between 2004 and 2008, the City's corporate fund motor fuel expenditures grew at an average rate of 23 percent per

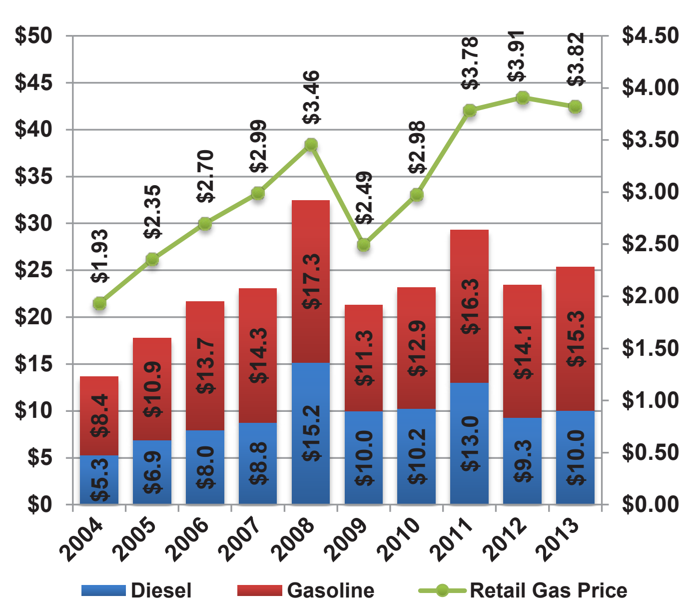
UTILITY EXPENDITURES

$ Millions

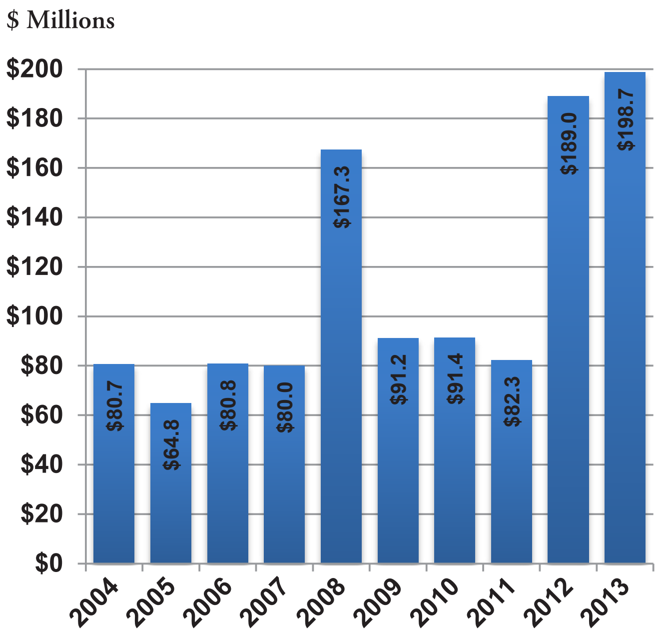


MOTOR FUEL EXPENDITURES

$ Millions $ Retail Gas Price



SETTLEMENT & JUDGMENT EXPENSES



year, rising from $12 million in 2004 to $33 million in 2008. In 2009, declining prices brought corporate fund fuel expenditures back down to $21 million, but fuel expenditures climbed again in 2010 and grew to $29.7 million in 2011, declining slightly in 2012 and 2013.

In recognition of steadily rising fuel prices and the environmental impact of its gasoline and diesel fuel usage, the City has implemented a number of initiatives in recent years to reduce the City's vehicle fleet and curtail fuel usage. In 2011, the City ended its shared lease program, contracted with Zipcar to provide City employees with access to short-term vehicles, and began utilizing Zipcar reservation technology to facilitate the efficient use of City pool vehicles. The City has also increased the proportion of its fleet that operates on alternative fuels. Currently, the City utilizes over 2,300 electric, hybrid, and alternative fuel vehicles, including police vehicles, light-duty trucks for street work, and larger trucks for completing electrical work and tree trimming.

Settlements and Judgments

Each year, the City uses both corporate fund resources and bond proceeds to pay for expenses incurred in connection with claims and judgments against the City. Expenses in excess of the amount paid from the corporate fund are paid with bond proceeds. The amounts presented in the chart on this page represent the City's total claim and judgment-related expenses, including both local fund and bond-funded expenses.

The City's total claim and judgment-related expenses, which have ranged from $64.8 million to $198.7 million over the past 10 years, vary from year-to-year depending upon the volume and nature of claims filed and settled, the value of judgments entered, and the extent to which the City utilizes outside legal counsel to address these claims. Claims related to one year are often not settled until years later, and judgments are often paid out over a number of years, so the distribution of expenses is not necessarily representative of the events or activities of that year. For example, settlements and judgments in cases related to the conduct of former police commander Jon Burge contributed to higher payments in both 2008 and 2013, and relatively high expenses in 2012 were attributable in part to the verdict of the Lewis case regarding the disparate impact of a test administered to applicants to the Chicago Fire Department in 1995, which resulted in the payment of $51.5 million to plaintiffs, $11.7 million in additional pension contributions, and $8.1 million in legal costs for the City.

On average, over the past decade, between 60 and 70 percent of the City's claim and judgment expenses each year have been attributable to police-related litigation. There has been a reduction in recent years in the number of intentional police misconduct cases filed against the City, from over 550 in 2009 to an average of 265 cases per year for the past four years.

Each year, the City utilizes outside legal counsel to represent the City in unique matters in which there is no in-house expertise, when there are insufficient in-house resources, or where there is a conflict that requires separate representation. The annual cost of these outside legal resources has averaged $24.5 million over the last eight years. In 2011, the City took measures to reduce these costs by right-sizing the number of in-house attorneys and engaging some of the top law firms in Chicago to handle matters on a pro-bono basis. The right-sizing of the Law Department has resulted in the reduction of outside counsel engagements, reducing expenses over the long-term, and the engagement of pro bono counsel has saved approximately $12.1 million in legal fees over the past two years.

Special Revenue Funds

Vehicle Tax Fund

The vehicle tax fund receives revenue from vehicle sticker sales, impoundment fees, abandoned auto towing fees, pavement cut fees, commercial refuse container fees, and state and federal grants for the maintenance of the public way. These funds are used to pay for street repair and maintenance throughout Chicago.

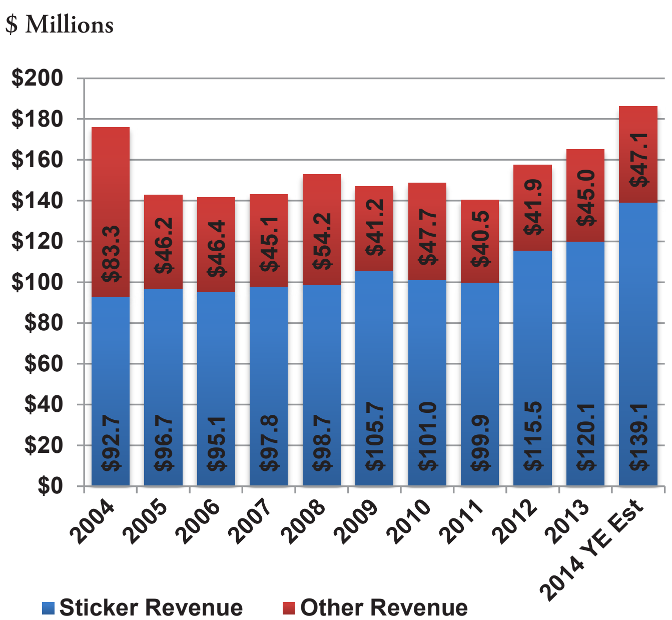
Proceeds from the sale of City vehicle stickers have consistently made up the largest part of total vehicle tax fund revenue, gradually increasing from $92.7 million in 2004 to $99.9 million in 2011 and then increasing to $115.5 million in 2012 with the increase in the price of vehicle stickers. These revenues also grew as a percentage of total fund revenue, from 53 percent in 2004 to 73 percent in 2013. In 2014, the City transitioned to year-round sticker sales, and vehicle owners were given the option of purchasing stickers valid for periods of one month up to 24 months with pricing on a pro rata basis. Because many owners chose to purchase stickers valid for 12 months or longer, year-end estimates are significantly above budget, with sticker sales and related revenues expected to reach $139.1 million in 2014.

Since 2004, revenue from impoundment fees has averaged $12.0 million per year and revenue from the sale of impounded autos averaged $5.5 million per year. Revenue from pavement cut fees averaged $5.9 million per year for much of the past decade but increased significantly in 2012 and 2013 due in part to an increased number of infrastructure projects undertaken by local utilities.

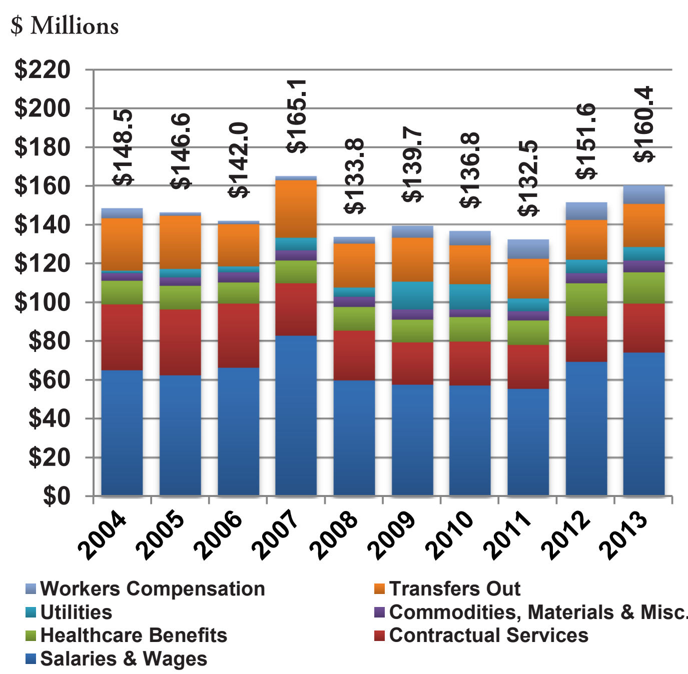
Over the past 10 years, annual resources available to the vehicle tax fund have ranged from $119 million to $185 million, and for much of the past decade, this fund operated at a deficit, as revenues, in particular those from state, federal, and other City funds, consistently came in below budgeted levels, and street repair and maintenance expenses outpaced those revenues. A negative fund balance was carried over into each year from 2004 through 2010, with the largest deficit, a negative balance of $33.8 million, carried into 2008. This deficit decreased each year after 2008 as the City worked to more realistically assess the resources that will flow into the fund and manage spending accordingly. A positive balance was carried into both 2013 and 2014, and the City will continue to budget this fund in a manner that prevents the build-up of operating deficits like those seen in prior years.

Vehicle tax fund expenditures are dependent on the amount, type, and cost of performing street repair and maintenance activities in a given year. Year-to-year variations in total expenditures also reflect the resources available to complete such work. For example, over-spending in 2007 resulted in

VEHICLE TAX FUND REVENUE



VEHICLE TAX FUND EXPENDITURES



a significant deficit being carried into 2008, reducing the resources available in that year, as is evident in the drop in spending in 2008. The City's efforts to stabilize this fund are apparent in more recent years, in which spending has been relatively constant and more closely in line with revenues. The growth in expenses in 2012 and 2013 mirrors the increase in revenues with the vehicle sticker price increase and improving car sales.

Similar to the corporate fund, the relative proportion of total spending devoted to different activities and expense types on this fund has remained fairly consistent over the years. Spending on contractual services steadily decreased between 2004 and 2009, due in part to decreases in tipping fees for waste disposal - in the past, the vehicle tax fund supported the disposal of waste deposited on the public way from a variety of sources, including waste from street sweeping, refuse from receptacles on commercial streets, litter remaining on the public way following parades and special events, and debris from vacant lots, underpasses, viaducts, and expressway frontages. Over the course of the past decade, a greater portion of these activities have been moved onto the corporate fund, resulting in a corresponding decrease in contractual waste disposal expenses on the vehicle tax fund. Overall spending on contractual services on this fund have held at an average of $23.5 million per year since 2009. In contrast, workers' compensation costs on the vehicle tax fund increased in recent years as the City more accurately allocated the cost of claims associated with the street repair and maintenance work supported by this fund.

Motor Fuel Tax Fund

Motor fuel tax fund (MFT fund) revenues are generated primarily through a 19 cent per gallon tax on motor fuel (21.5 cents per gallon on diesel) imposed by the State, of which the City receives a distributive share. Similar to the vehicle tax fund, MFT fund revenue is used for street repair and maintenance. The MFT fund, however, also has a budget for expenditures specifically related to winter weather events.

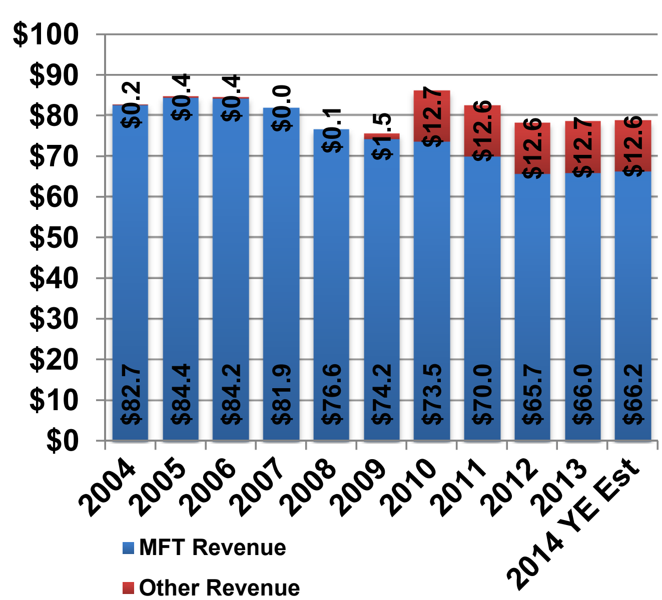
Annual motor fuel tax revenue has steadily decreased over the past decade as vehicle fuel economy standards have become more stringent and as the price of fuel has increased. Increases in the cost of fuel tend to result in declines in usage – people drive less when the price of gas is high. In addition, people tend to tighten spending on gas during economic downturns. Consequently, revenues from motor fuel taxes decreased as the recession affected consumer spending and as the price of fuel has increased. The movement towards more fuel efficient vehicles has also impacted fuel consumption in recent years. Motor fuel tax revenue decreased from $82.7 million in 2004 to $66 million in 2013. Diesel fuel purchases have picked up with the recovering economy in 2014, and it is anticipated that motor fuel tax revenue will hold approximately even with 2013 levels in 2014. From 2010 through 2014, the City received $12.5 million each year from the State's "Illinois Jobs Now!" program, which was allocated to the MFT fund.

Over the past decade, annual expenditures from the MFT fund have often been greater than revenues coming in from motor fuel taxes, with the fund operating at a deficit for six of the past 10 years. This deficit was the result of a number of factors, including the sensitivity of motor fuel tax revenues to the price of gas and the economy, as well as the inherent difficulty of predicting fund expenditures due to the volatility of Chicago weather. The fund carried a negative balance of $35.6 million into 2009, $39.8 million into 2010, and $10.4 million into 2011. By realistically estimating revenues and assessing the City's ability to control these expenses, this deficit was eliminated and the City carried a positive balance into each of 2012, 2013, and 2014. Carryover such as this assists in mitigating the effect of future fluctuations in the price of fuel or unpredictable weather events, building up reserves for high snow years.

Historic expenditures for this fund cannot be categorized

MOTOR FUEL TAX FUND REVENUE

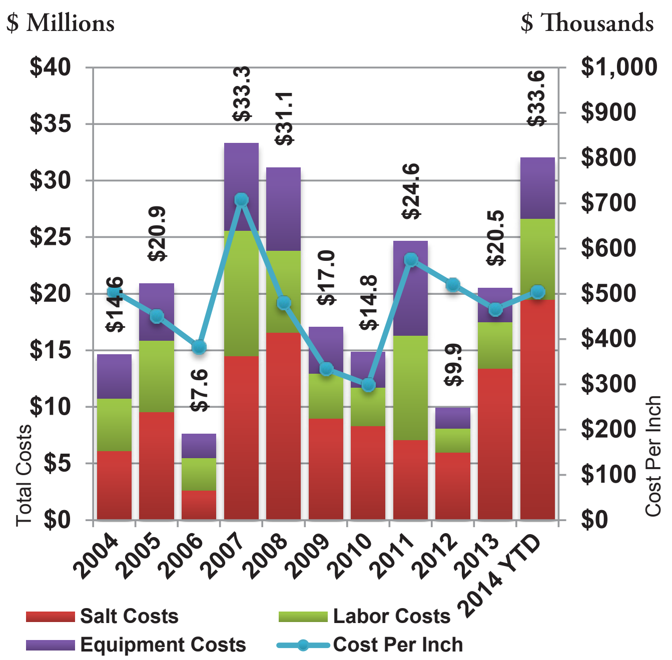
$ Millions



like those for other funds because accounting for this fund is performed on a project rather than a fund level. Similar to the vehicle tax fund, year-to-year variations in total motor fuel tax fund expenditures reflect both annual needs and the resources available to complete projects. Projects supported by this fund include street and traffic light maintenance, bridge and pavement maintenance, and snow and ice removal. In addition, a portion of these funds is transferred to the CTA to support the Chicago transportation system.

Debt service on motor fuel tax revenue bonds, the proceeds of which fund the construction of road-related improvements, is also paid out of this fund. In 2013, the City pledged motor fuel tax revenue to the federal government for a low interest rate loan through the U.S. Department of Transportation's Transportation Infrastructure Finance Innovation Act (TIFIA) program to fund the expansion of the Chicago Riverwalk, which is discussed in the Capital Investment section of this document. Beginning in 2014, in addition to motor fuel tax revenue, revenue from fees charged to tour boat operators in the city and other revenues related to the new Riverwalk will secure the City's motor fuel tax revenue bonds.

WINTER WEATHER COSTS



A primary driver of MFT fund expenditures is the annual cost of snow and ice removal. The funds required for these activities vary greatly from year to year depending on winter weather conditions. For example, the February 2011 snowstorm alone cost the City more than was spent on snow removal during the entire year in 2009 or 2010, while 2012 expenditures were $1.3 million under budget as a result of warmer temperatures and less snowfall. The extreme winter weather through the start of 2014 pushed the City's snow and ice removal expenditures above the full-year budget for these costs; reserves carried over from low snow years are utilized to cover such increased expenses.

In a typical year, about 55 to 60 percent of winter weather-related expenditures are used to purchase salt for ice control on city streets. The remainder of the City's winter weather costs are for labor and equipment. Labor costs declined in 2009 and 2010 as a result of the Coalition of Union Public Employees (COUPE) amendment that was effective from mid-2009 through mid-2011, under which certain unions representing non-sworn employees agreed to earn compensatory time in lieu of overtime pay, enabling the City to temporarily reduce labor costs by not paying overtime rates for employees working on snow removal. Labor costs increased again in 2011 with salary increases under collective bargaining agreements and the expiration of the COUPE amendment.

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

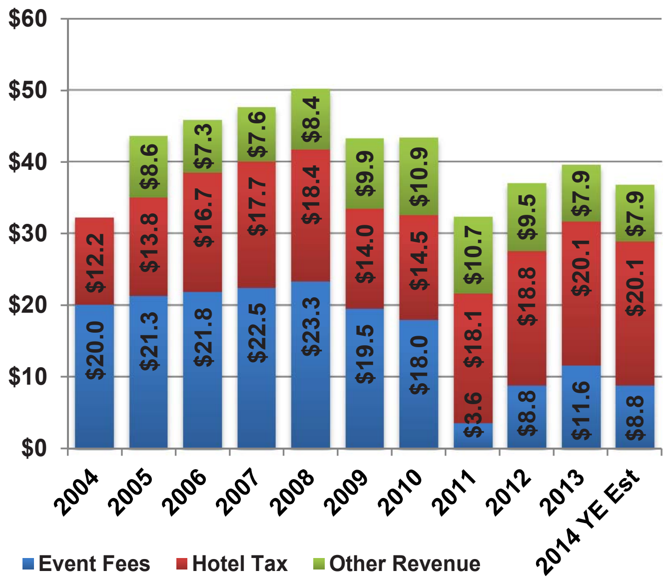
The special events and hotel operators' occupation tax fund supports the promotion of tourism and cultural and recreational activities in Chicago. These activities are funded primarily through the hotel operators' occupation tax, a State-authorized tax imposed on hotel operators at a rate of 1 percent of gross receipts, revenue from special events and related recreation fees, and revenue from the City's contract for street furniture maintenance and advertising.

This fund's revenues are tied to local convention business, tourism to Chicago, and the success of the City's special events. The recession's negative impact on each of these affected the fund's revenue during those years. Both hotel operators' occupation tax revenues and recreation fee revenues saw a general pattern of growth between 2004 and

[4] Historically, these two revenue sources were accounted for in 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.

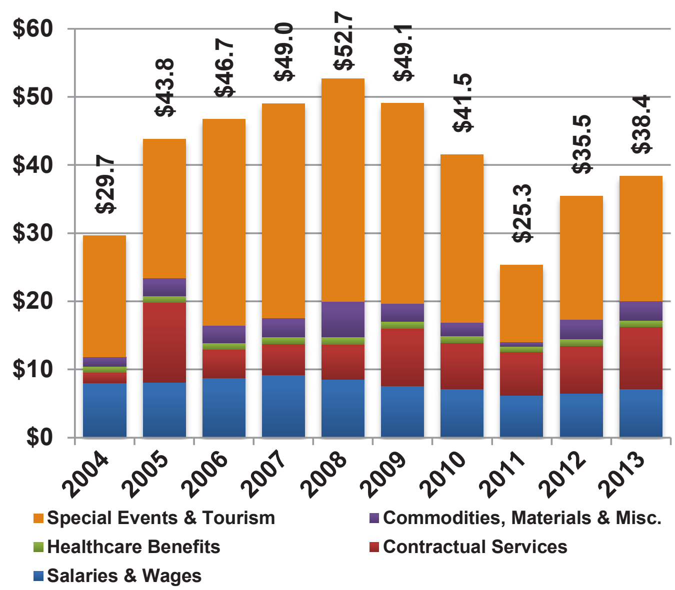
SPECIAL EVENTS AND HOTEL TAX FUND REVENUE

$ Millions



SPECIAL EVENTS AND HOTEL TAX FUND EXPENDITURES

$ Millions



2008, from $12.2 million to $18.4 million and from $20.0 million to $23.3 million, respectively, followed by a drop in 2009 with the downturn in the economy. Hotel tax revenue began to pick up again in 2011, reaching $20.1 million in 2013 and expected to hold approximately even with 2013 levels in 2014, as normal growth patterns were interrupted by the severe winter weather's impact on travel to Chicago.

Revenue from special events recreation fees decreased in 2011 because the operation of the Taste of Chicago was transferred to the Chicago Park District for that year. With the return of the Taste of Chicago to City operation, recreation fee revenue was $8.8 million in 2012 and grew to $11.6 million in 2013 with stronger than anticipated ticket sales for the Taste of Chicago as well as revenue related to the celebration event following the Blackhawks' playoff victory.[5] Recreation fee revenues are expected to end 2014 at approximately $8.8 million, below 2013 levels due in part to the weather-related cancellation of one day of the Taste of Chicago festival.

Expenditures from this fund reflect the City's evolving approach to events and tourism promotion, as well as broader factors that have affected City spending generally. Major fluctuations in the amounts spent on special events and tourism-related activities can be tied to specific changes in City operations. The almost 50 percent increase in special events and tourism expenditures in 2006 was due in large part to the movement of expenses associated with the operation and management of Millennium Park from the corporate fund to this fund. Special events and tourism expenditures then decreased by more than 50 percent between 2010 and 2011, from $24.7 million to $11.3 million, due to the transfer of the Taste of Chicago to the Chicago Park District and the end of funding for the Chicago Convention and Tourism Bureau (CCTB), a non-City entity that had previously received City funding to conduct its activities. In 2012, the Taste of Chicago returned to City operation and the CCTB was merged with the tourism portion of the Chicago Office of Tourism and Culture to form Choose Chicago, which focuses on promoting travel to Chicago and receives City funding. These developments resulted in growth in this fund in 2012 and 2013.

Overlying these specific changes to special events and tourism expenses are broader trends. Both revenues to this fund and expenditures from this fund are highly economically sensitive; people are less likely to travel and spend money on recreational events during recessionary periods, and City spending on related activities is likely to be cut when

[5] At the same time as the Taste of Chicago was returned to City management in 2012, the festival was reduced in length from ten to five days; accordingly, revenues did not return to 2010 levels.

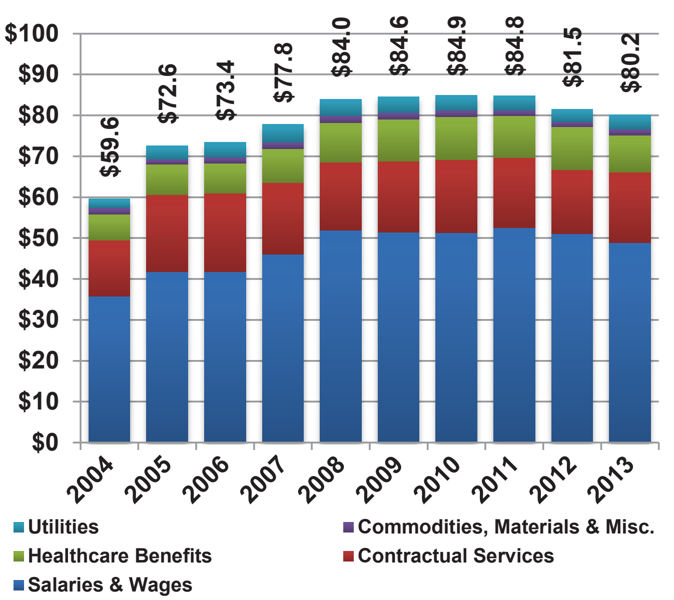
budgets are tightened. Accordingly, personnel costs, as well as spending on items such as commodities and materials, saw increases in the years leading up to 2008, followed by reductions in the post-recession years.

Library Funds

The City maintains a segregated fund to support the maintenance and operations of the Chicago Public Library system and its central, regional, and branch locations. Revenue to this fund comes primarily from property taxes and an annual subsidy from the City's corporate fund. The corporate fund subsidy to the library system averaged $26.5 million between 2005 and 2008 and then decreased with the allocation of the library's portion of the property tax levy in that year. Since 2008, the library fund's corporate subsidy has averaged approximately $12.4 million each year. The portion of the City's property tax levy dedicated to the library system, originally $83.4 million, increased to $83.9 million in 2013 and $86.5 million in 2014 as the City captured EAV from new property and expiring TIFs, as further discussed in the Property Tax section of this report. As property tax revenue to the library fund increased, the corporate subsidy to the fund decreased, and is budgeted at $5.4 million in 2014. The remainder of revenue to the library fund comes primarily from library fines, interest earnings, and income from the rental of library facilities. Library fund expenditures have been affected by many of the general trends affecting overall City spending, as well as certain library-specific factors. Total library fund expenditures decreased in 2004, largely as a result of cost savings initiatives in connection with Citywide budget reductions, including layoffs, early retirement incentives, restrictions on hiring, and tightened contractual spending. However, in 2005, overall fund expenditures increased back above 2003 levels as a number of branch openings, renovations, and expansions were completed.

LIBRARY FUND OPERATING EXPENDITURES[6]

$ Millions



As in the corporate fund, personnel costs make up the largest portion of library fund expenses, and while slight decreases were seen in 2012 and 2013, these costs have generally increased over the past 10 years, due in part to salary increases under collective bargaining agreements and the growing cost of healthcare. Contractual services expenditures have remained relatively constant in recent years, and consist largely of property rental costs for library facilities that are not City-owned and property maintenance and building services expenses for the Harold Washington Library Center and branch libraries.

CTA Real Property Transfer Tax Fund

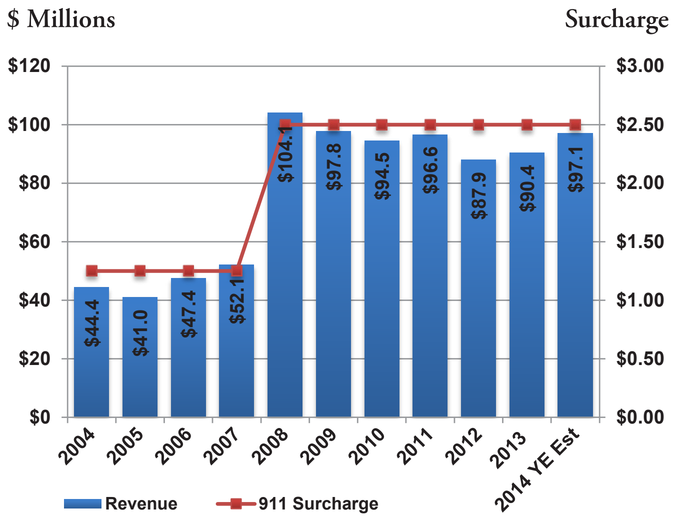
In 2008, a supplemental tax on real estate transfers was adopted for the purpose of providing financial assistance to the CTA and this fund was established to receive the proceeds from that tax, which are then transferred to the CTA. Because this fund's revenue is generated through real estate transfers, it has followed the same trends as other economically sensitive and transaction-based tax revenues. Revenues remained relatively stagnant due to slow real estate activity during the first three years following this fund's inception, averaging $29.5 million annually. In 2012, revenues increased to $40.8 million, and revenues are expected to increase to $59.8 million in 2014.

Emergency Communications Funds

The City maintains two segregated funds to support the 911 and emergency preparedness related functions of the Office of Emergency Management and Communications (OEMC) - one fund for operational expenses and one fund to pay debt service on bonds issued for the construction of the City's 911

[6] In 2014, $5.3 million of the library's portion of the levy is budgeted to pay pension contributions for employees of the library system and $4.3 million of the library levy is allocated to pay debt service related to capital improvements to library facilities. These expenses are not included in the chart of operating expenses presented here.

EMERGENCY COMMUNICATIONS SURCHARGE REVENUE



call center. Revenue to these emergency communications funds comes through the collection of the emergency telephone system surcharge on all billed subscribers of telecommunications services in Chicago. Each year, the City uses a portion of the revenue from the emergency telephone system surcharge to pay debt service due on 911 call center bonds, and then transfers the remaining revenue to the corporate fund to be used for expenses specifically related to the 911 and emergency preparedness related activities of OEMC.

The emergency telephone system surcharge is currently levied at a rate of $2.50 per month per landline or wireless connection and 7 percent of the cost of prepaid wireless services. The last increase in the surcharge was in 2008, prior to which the surcharge was $1.25 per landline or wireless connection. Total revenue from the surcharge has been negatively affected by the reduction in the use of landlines as more customers choose to have only wireless services and the more recent reduction in the number of wireless accounts, as discussed above with respect to corporate fund telecommunications tax revenues. In addition, beginning in 2012, the emergency telephone system surcharge on prepaid wireless services such as calling cards and 'pay-as-you-go' phones was changed from $2.50 per transaction to the rate of 7 percent of the cost of the service, pursuant to state legislation. This change further reduced revenues to the emergency communications funds, which are down from a peak of $104.1 million in 2008 to $90.4 million in 2013.

The emergency telephone system surcharge is authorized by state law and the allowable rate for the surcharge is set by state law. The authorization for the surcharge on wireless connections, which is the source of most of the City's surcharge revenue, was set to expire on July 1, 2014. The City sought to extend this authorization to ensure a continued source of funding for Chicago's 911 and emergency services, and the state enacted a reauthorizing bill in June 2014. In addition to reauthorizing the surcharge for wireless lines, this legislation allows the City to increase its surcharge rate. As of the print date of this document, a proposed ordinance is before City Council to increase the surcharge to $3.90 per month on landlines and wireless connections (as of September 1, 2014) and 9 percent on prepaid wireless services (as of October 1, 2014). It is projected that the proposed increase in the surcharge would generate an additional $10 million during the last four months of 2014 and almost $40 million in 2015.

Currently, the cost of the City's 911 and emergency preparedness functions exceeds revenue from the surcharge, and general corporate fund resources are used to make up this shortfall. In 2013, the City had approximately $140 million in such expenses, outpacing surcharge revenues by approximately $50 million. With the proposed increase in the surcharge rate, the corporate fund subsidy for these functions could be significantly reduced or eliminated, and the corporate fund revenue made available to fund other activities.

Financial History Review

Enterprise Funds

The City's enterprise funds support the operation, maintenance, and capital programs of the City's water and sewer systems and O'Hare and Midway Airports.[7] These funds operate like commercial enterprises, in that each pays expenses with revenue derived from charges and user fees for the services it supports. While general capital improvement costs are budgeted separately from the City's corporate and special revenue funds, capital costs for the City's enterprise funds are included in the overall budgets of these self-supporting funds.

O'Hare and Midway Airport Funds

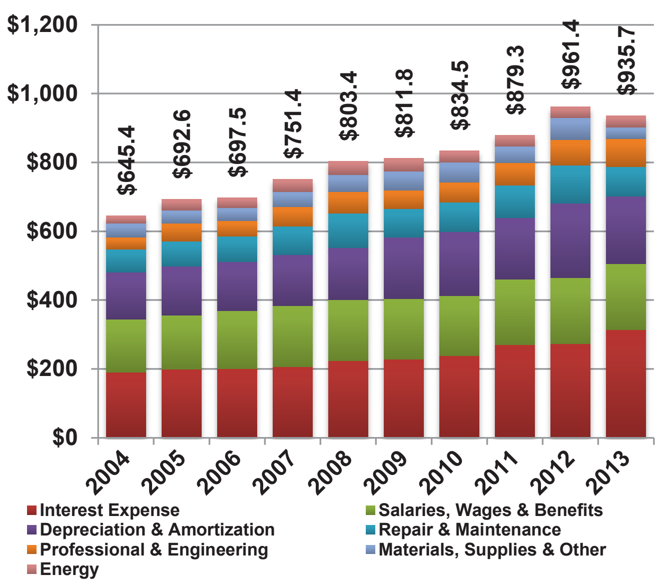
O'Hare and Midway airport operations are funded through landing fees, terminal rent, and other fees paid by airlines, as well as non-airline sources, such as charges for parking and revenues from concessions in the terminals. The amount that the airlines pay each year is established at each airport essentially on a residual basis – the airlines are charged the amount that is needed to pay for operating expenses and debt service after taking into account non-airline revenues.

Aviation fund revenues and expenditures are impacted by the schedule of capital improvement programs at the airports and the health of the travel industry, as well as by factors that impact Citywide expenses. Both the O'Hare fund and the Midway fund grew steadily over the past decade, with a slowing in this growth between 2008 and 2009, as the overall economy contracted. The O'Hare fund grew at an average annual rate of approximately 4.3 percent, from $645.4 million in 2004 to $935.7 million in 2013, and the Midway fund grew at an average annual rate of approximately 5.6 percent each year, from $138.4 million in 2004 to $219.8 million in 2013.

This overall growth is in part a function of growth at the airports, including expansions, renovations, and increased services. As capital improvement projects such as the O'Hare Modernization Program move forward, interest payments on bonds issued to fund those projects increase, and depreciation expenses associated with those improvements increase in later years.[8] On average, since 2004, interest payments on bonds issued to fund capital improvements at the airports has constituted 29 percent of total O'Hare fund expenses and 27 percent of total Midway fund expenses.

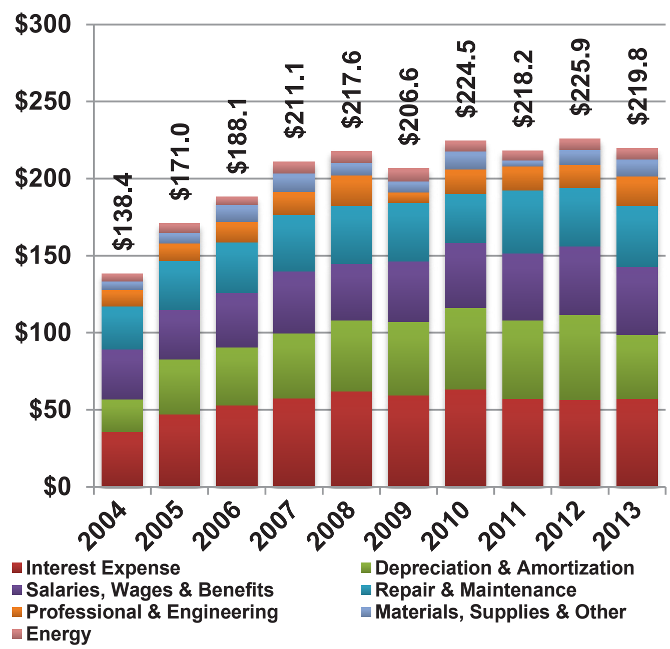
O'HARE AIRPORT FUND

$ Millions



MIDWAY AIRPORT FUND

$ Millions



[7] 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.

[8] The decrease in depreciation and amortization expenses in 2013 for both O'Hare and Midway was largely the result of changes in governmental accounting and reporting standards that impacted the financial statements of these funds beginning in 2013.

Financial History Review

These expansions and improvement projects also require increased spending on professional and engineering services, and result in increased repair, maintenance, and other operational needs for the added space or facilities.

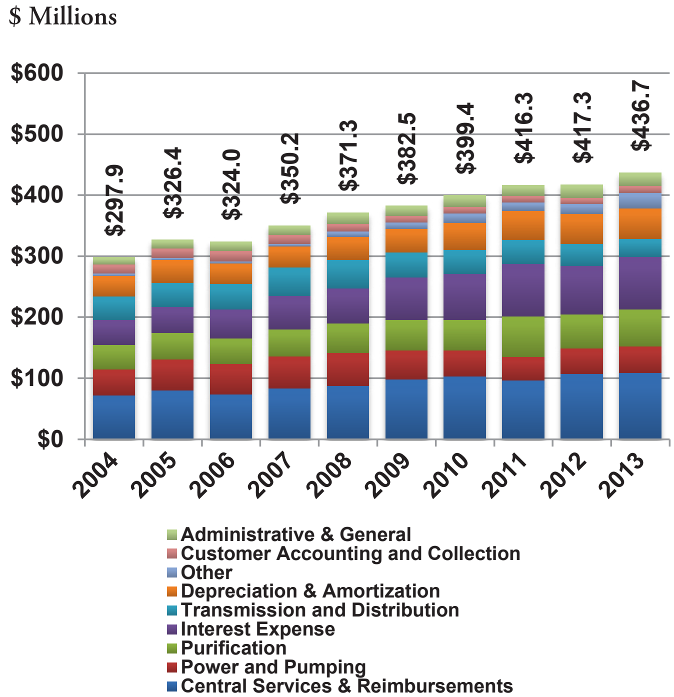
Salaries, wages, and employee benefits make up the largest portion of the aviation funds' operating expenses and have increased due to many of the same factors affecting overall City personnel costs, including salary and wage increases under collective bargaining agreements and the increasing cost of healthcare. Personnel expenses for both the O'Hare and Midway funds grew at an average rate of 3.7 percent between 2004 and 2013, with a greater than average increase in personnel expenses on the O'Hare fund in 2011 due to retroactive payments required under collective bargaining agreements. However, during the same years, personnel expenses decreased as a percentage of total aviation fund expenses, from 24 percent in 2004 to 20 percent in 2013, as aviation fund interest payments and depreciation costs increased. Energy expenses for the airports have followed similar patterns as seen in Citywide utility and fuel costs, reflecting market prices and efficiency initiatives.

Water and Sewer Funds

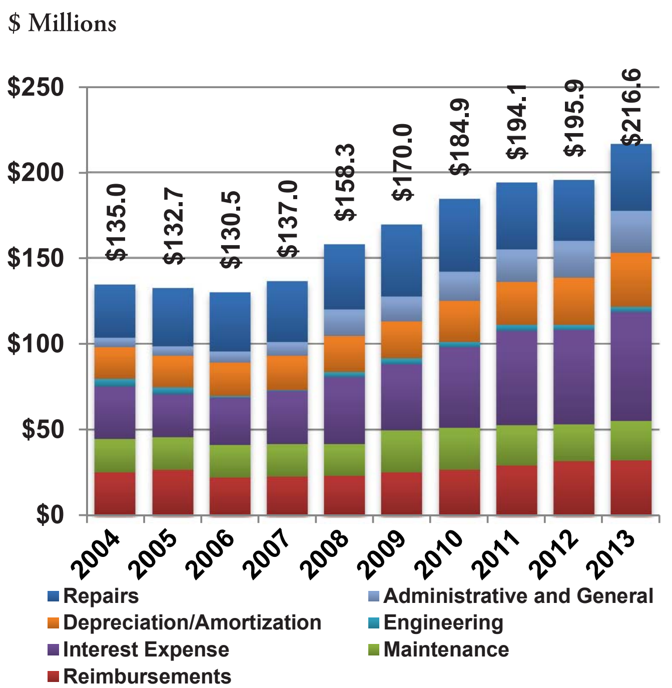
The City's water and sewer funds are supported primarily through water and sewer user fees - the revenue obtained from water bills and the sewer surcharge on water bills.[9] These revenues are used to repair, maintain, and improve the City's water and sewer systems. Overall water and sewer fund expenditures are affected by capital improvement programs, the repair and maintenance needs of the systems, and general factors that impact Citywide expenses.

Total fund expenditures were relatively steady from 2004 through 2007. Increases in operating expenses since 2007 reflect increases in personnel expenses and increased spending on the repair and maintenance of the systems. However, much of the overall fund growth since 2007 has been due to increased interest expenses, which grew at an average rate of 10 percent per year, from $85.5 million in 2007 to $150.0 million in 2013, following water and sewer revenue bond issuances in 2006, 2008, 2010, and 2012. Water and sewer revenue bonds will also be issued in 2014. Proceeds from these bonds are used for the construction and repair of water

WATER FUND



SEWER FUND



[9] The water fund and sewer fund are segregated funds separate from each other. Water fund revenue is used to support the water system, and sewer fund revenue is used to support the sewer system.

and sewer lines and related facilities, as further discussed in the Capital Investment section of this document.

During the period from mid-2010 through mid-2013, the City spent more than $65 million repairing leaks in the water and sewer systems and restoring the streets, sidewalks, and other infrastructure damaged as a result of those leaks. These numbers do not include the expenses incurred by businesses and homeowners to repair damage to their property caused by flooding or other expensive inconveniences caused by failures of water and sewer systems. In order to address the underlying causes of these system failures, the 2012 budget included a water rate increase from 0.201 cents per gallon to 0.251 cents per gallon, increasing to 0.381 cents per gallon over the next three years. Sewer rates increased from 86 percent to 100 percent of the water bill during this same period. These increases have enabled the City to undertake an accelerated capital program that will bring Chicago's water and sewer systems up to date. Details about the repairs and upgrades being completed as a part of this program can be found in the Capital Investment section of this document. This rate increase brings Chicago in line with national averages for water and wastewater fees, and the improvements funded will not only protect health and safety by ensuring the delivery of clean water today and in the future, but will also boost the economy by creating jobs and prevent the need for higher fees later by curbing the further deterioration of these systems.

Grant Funding

Grant funding is a significant and recurring source of revenue for the City, constituting an average of 25 percent of the City's annual 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 community programs, and complete capital improvements.

Sources of Grant Funding: 2004 - 2013

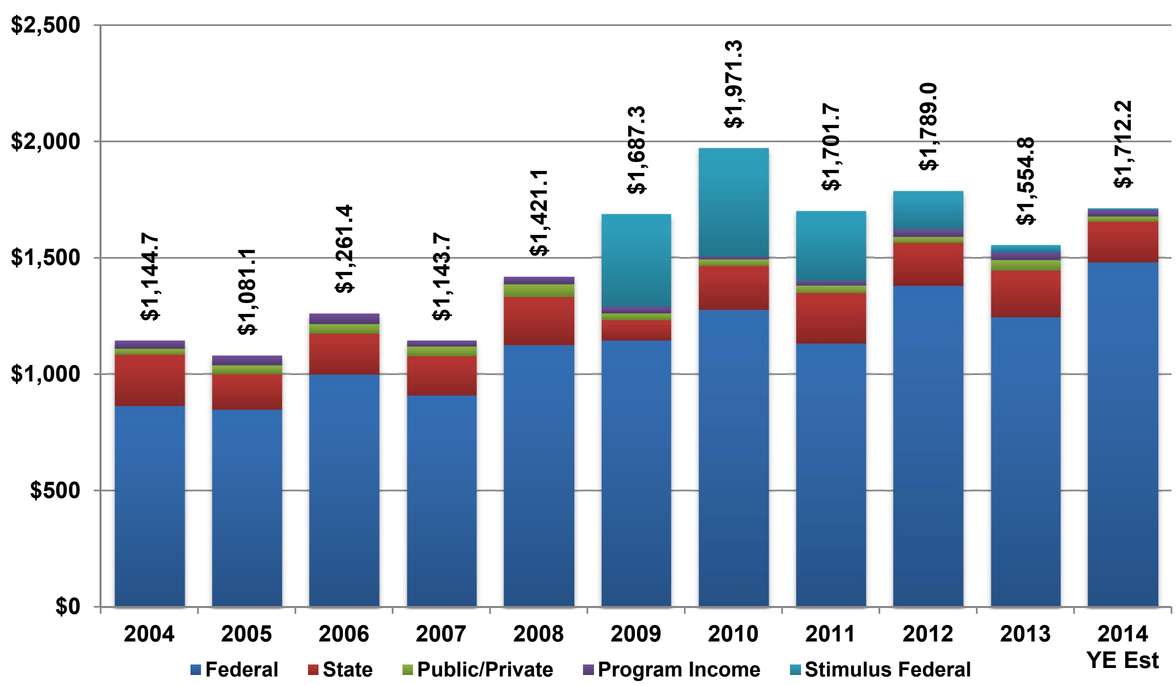
Grant funding has provided an average of $1.48 billion each year over the past decade. The level of grant funding varies from year to year with the availability of grants that meet City needs and the City's ability to obtain those grants. In recent years, the City's overall level of grant funding has been significantly impacted by the influx and then reduction of stimulus funding from the Federal American Reinvestment and Recovery Act (ARRA).[10] Small year-to-year fluctuations in the City's grant funding are often attributable to the timing of large grant-funded transportation and infrastructure projects.

During the 2004 through 2013 period, the City's grant funding has been composed of approximately 83 percent federal funding (including 9 percent in ARRA funding), 12 percent state funding, and 3 percent private funding and donations. In addition, certain of the City's grant-funded programs generate income from user fees or sales, such as charges for health services or payments on home rehabilitation loans. Such income is directed back towards grant programming and has averaged $31.1 million, or 2 percent of total grant funding, per year.

Grants are received on varying fiscal year time periods and may be awarded for multiple years, depending on the goals and fiscal calendar of the grantor. For example, grants from the federal government often follow an October to September fiscal year and are intended to be used to support programs for an extended period of time. State grants typically follow a July to June fiscal year. The City allocates grant funds in adherence with grantor timetables and specifications. Therefore, although grant dollars are awarded in a certain year, grants that are intended for use over a longer period of time may not necessarily be fully used in that year. The City budgets the

GRANT FUNDING SOURCES[11]

$ Millions



[10] ARRA funding consists of one-time grants to be used for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, affordable housing, and state and local fiscal stabilization.

[11] Due to limitations in available data, 2004 and 2005 reflect the grant funding appropriated in the City's annual budget. For years 2006 through 2013, actual grant funding received is shown. For 2014, anticipated grant funding is presented.

entire grant award in the year it is anticipated, and amounts remaining at the end of that year are carried over into the next year's budget. The charts in this section reflect the total available grant funds in a given year, including any carryover funds from the prior year.

Uses of Grant Funding: 2004 - 2013

Grant funding supports a wide variety of City services and functions. The graph below presents the amount of grant funding dedicated to different program types over the past 10 years, and each program category is further described below.

Finance and Administration

The Office of Budget and Management, the Department of Innovation and Technology, the Department of Finance, and the Department of Law each receive grant funds to fulfill finance and administration functions for the City. During the past decade, an average of $26.8 million per year, or 2 percent of the City's total grant funding, has been dedicated to these functions. Though these departments do not receive large amounts of grant funding, there was an increase in 2011 and 2012 due to ARRA funding for broadband, high-speed internet, and fiber connections. In 2013, funding returned to pre-stimulus levels.

City Development

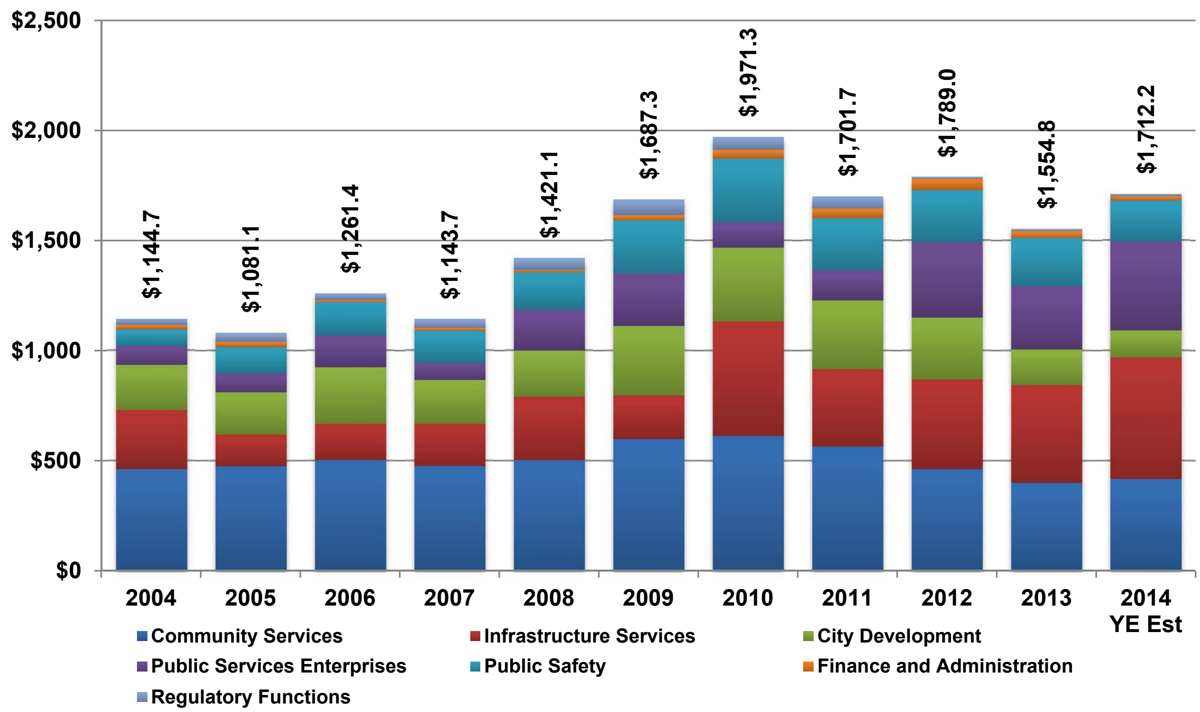
The Department of Housing and Economic Development and the Department of Cultural Affairs and Special Events are the primary recipients of grant funding for city development functions. During the past 10 years, an average of $246.5 million per year, or 17 percent of the City's total grant funding, has been dedicated to city development uses. Grant funding in this area decreased with the end of ARRA funding. The City received $169 million in Neighborhood Stabilization Program (NSP) funding between 2009 and 2011 to bring vacant foreclosed homes up to code and increase home occupation in target areas. NSP entitlement funding will be fully expended in 2014.

Community Services

Grant funding supports many of the community services provided through the Department of Family and Support Services, the Department of Public Health, the Chicago Public Libraries, and the Mayor's Office for People with

GRANT FUNDING USES[12]

$ Millions



[12] Due to limitations in available data, 2004 and 2005 reflect the allocated programmatic usage of appropriated funds for each year. For years 2006 through 2013, allocated programmatic usage of actual grant funding received is shown. For 2014, allocated programmatic usage of anticipated grant funding is presented.

Disabilities. During the past 10 years, an average of $506.6 million per year, or 34 percent of the City's total grant funding, has been dedicated to community services.

Community services programs are directed towards a wide range of activities, including boosting the economy by creating jobs, increasing vital services for residents, fostering workforce development, providing child care, and operating homelessness and prisoner re-entry programs. As ARRA funds decreased, grant funding for community services has declined.

Public Safety

Collectively, the Office of Emergency Management and Communications, the Police Department, and the Fire Department have received an average of $187.8 million per year, or 13 percent of the City's total grant funding, over the past decade. Over the years, grant funding for these public safety departments has grown significantly, from $48.1 million in 2003 to $217.4 million in 2013. A significant part of this funding comes from the Urban Areas Security Initiative, which has provided $349.6 million in funding since its initiation to address the planning, organization, equipment, and training needs of high-threat, high-density urban areas in preventing and responding to acts of terrorism.

Regulatory Functions

The majority of the City's regulatory grant funding is for conservation or environmental programs such as weatherization, electric vehicle support, and alternative fuel development, and is managed largely by the Department of Fleet and Facilities Management. In addition, small amounts of grant funding are dedicated to initiatives within the Department of Buildings, the Department of Business Affairs and Consumer Protection, and Animal Care and Control. During the past 10 years, an average of $39.8 million per year, or 3 percent of the City's total grant funding, has been dedicated to regulatory functions.

Infrastructure Services

The Department of Streets and Sanitation and the Chicago Department of Transportation (CDOT) receive grant funding to repair, maintain, and construct City infrastructure. During the past 10 years, an average of $297.6 million per year, or 20 percent of the City's total grant funding, has been dedicated to infrastructure services.

CDOT receives the most grant funding of any City department, as many of the major City transportation-related projects are funded through state or federal grants. In addition, 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. Grant funding for infrastructure work fluctuates from year to year depending on the number of larger infrastructure projects, such as highways, bridges, streetscapes, and CTA stations, that are underway, as well as the availability of state and federal funds for such projects.

Public Service Enterprises

The Department of Aviation is the primary recipient of public service enterprise grant funding, due largely to its grant-funded airport improvement programs, including the O'Hare Modernization Program. During the past 10 years, an average of $151.5 million per year, or 10 percent of the City's total grant funding, has been dedicated to the public service enterprises, with more than 99 percent of that amount for the Departments of Aviation and the remainder to the Department of Water Management (DWM). As with all infrastructure grants, funding levels fluctuate from year to year based on the type and size of projects undertaken at the airports.

Grant Funding Going Forward

Between 2009 and 2012, federal stimulus programs such as ARRA increased the amount of grant funding the City received. With the reduction of federal stimulus funds, recent federal and state budgetary restrictions, and the impact of the federal sequester, the City saw its overall grant funding decrease to pre-2009 levels in 2013. Between 2012 and 2013, the City received a $136.2 million reduction in grant funding from the federal government. This was due to a combination of a return to pre-stimulus funding levels and the end of certain grant programs. The largest reduction in federal funds was experienced by the Department of Aviation that saw funding cut by $55 million due to a reduction in the Airport Improvement Program grant, which fluctuates from year to year. Despite the recent downward trend, the City anticipates receiving increased federal funding in 2014, mostly due to an increase to the funding CDOT receives for highway and infrastructure improvements. In addition, the City will see the restoration of $6.5 million to the Head Start program that was cut in 2013.

In the past five years, community services and city development grants saw the largest reduction in funding, a total decrease of $349.5 million from 2009 to 2013. This was due largely to the end of stimulus funding that had increased federal awards for these areas starting in 2009, such as the Neighborhood Stabilization Program, discussed in the city development section above. In addition, for a number of years now, some of the most important grants received by the City, such as the Community Development Block Grant (CDBG) and the HOME Investment Partnership Grant (HOME) have seen reductions in funding due to decreased federal spending. Since 2010, CDBG funding has been reduced by 20 percent (or $17.8 million) and HOME funding by 50 percent (or $16 million). Community services and city development grant funding is anticipated to decrease by an additional $20.7 million by the end of 2014.

In contrast to community services and city development grant funding, grant funding for the City's infrastructure departments remained relatively stable in 2013, and an increase of 23 percent is anticipated in 2014 despite the loss of $25 million in state grant funding for arterial street resurfacing.

To mitigate the aggregate decrease in grant funding in the past couple of years, the City used resources from its human infrastructure funds, which were established in connection with the long-term lease of the Chicago Skyway and parking meter system, to augment and maintain spending in community services and city development. However, these human infrastructure funds will be fully spent by the end of 2014. Despite this and the likely continued reduction in federal grant dollars, the City continues to provide essential services and ensure that the residents who rely on these services receive the assistance they need.

Property Tax Funds

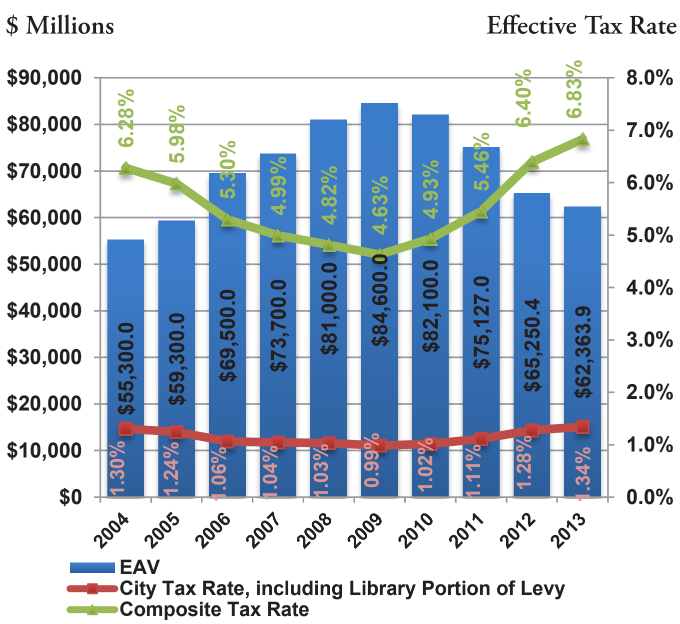
The City's total property tax-derived revenue is made up of two basic components – the City property tax levy and tax increment financing (TIF) revenue. Revenue from the City's levy can be used for general citywide services or expenses. TIF revenue, however, must be utilized for specific types of expenses in specific areas. This section discusses each of these sources of property tax revenue and how it is used by the City.

City Property Tax Levy

The City is one of several taxing districts reflected on a Chicago resident's property tax bill. A taxing district is a unit of government with the authority to levy for property taxes. In addition to the City, examples of taxing districts in Chicago that appear on a typical property tax bill are the Metropolitan Water Reclamation District, Cook County, Chicago Public Schools, and the Chicago Park District. Currently, approximately 20 percent of a property taxpayer's total bill is allocated to the City, and approximately 55 percent is allocated to the Chicago Public Schools.

Cook County administers and collects property taxes on behalf of all taxing districts in the amount of each district's levy. A taxing district's levy is simply the amount of property tax revenue that the district requests for the year.[13]

EQUALIZED ASSESSED VALUE AND TAX RATES



The County determines the amount billed to an individual taxpayer on behalf of a taxing district based on the taxing district's levy, the value of the property in the taxing district, and the value of the taxpayer's property. In Cook County, the market value of a property is adjusted based on the property type and a state equalizer; this is referred to as the equalized assessed value (EAV).

The County divides the district's levy by the district's aggregate EAV (subtracting the value of any property tax exemptions and incremental EAV for property located in a TIF), in order to determine the district's tax rate, which, for the City, was 1.344 percent in 2013.

$$\text{District's Tax Rate} = \frac{\text{District's Requested Levy}}{\text{Aggregate EAV of the District}}$$

The County determines a tax rate for each district, and the sum of these tax rates for all taxing districts is the composite property tax rate, or the total rate that a taxpayer sees on their property tax bill. The 2013 composite property tax rate for a taxpayer in Chicago was 6.832 percent.

This composite tax rate is applied to the EAV of each taxpayer's property, and the result is the dollar amount that the taxpayer must pay in a given year.[14]

Composite Tax Rate X EAV of Taxpayer's Property = Amount of Property Taxes Owed

Property values are reassessed by the County every three years, based on three prior years of sales. Chicago's aggregate EAV, which reflects the taxable value of all property located in the city limits, grew steadily for much of the past decade, but declined in recent years due to the recession. As the City's levy remained relatively constant and the aggregate EAV of property in the city limits increased during the early to mid-2000s, the property tax rate for Chicago taxpayers steadily decreased. The City tax rate, including the library portion of the levy, was 1.380 percent, with a 6.433 percent composite rate, in 2003. By 2009, the City rate had decreased by almost one-third to 0.986 percent, with the composite rate down to 4.627 percent. However, in recent years, EAVs have

[13] For many districts, this levy amount is limited by State legislation that places a cap on the amount that the district can request and extend. The City, however, is not subject to this State-mandated cap on the amount that it levies.

[14] Property tax bills are sent and paid one year in arrears, so the bills received by taxpayers in 2014 reflect 2013 tax rates and valuations.

decreased with the decline in the real estate market brought on by the recession. Between 2010 and 2012, the city's EAV declined 23 percent from 2009 levels, and in 2013, the EAV decreased by an additional 4 percent. This is reflected in the 2013 City property tax rate and the composite tax rate of 1.344 percent and 6.832 percent, respectively. Due to the timing of reassessment by the County, it is likely that EAVs will decline further as valuations continue to reflect recessionary sales, further increasing tax rates.

None of this fluctuation in EAVs and tax rates, however, has an impact on the amount of property tax revenue the City receives in a given year. The City's property tax revenue is simply the amount that it requests in each year's levy. The City's levy has remained relatively constant over the past decade, with the exception of an increase in 2008 dedicated to the library system. In addition, in recent years, the City has captured increases in EAV due to the addition of new property through construction and economic development, which generates additional revenue without increasing property taxes for existing taxpayers.

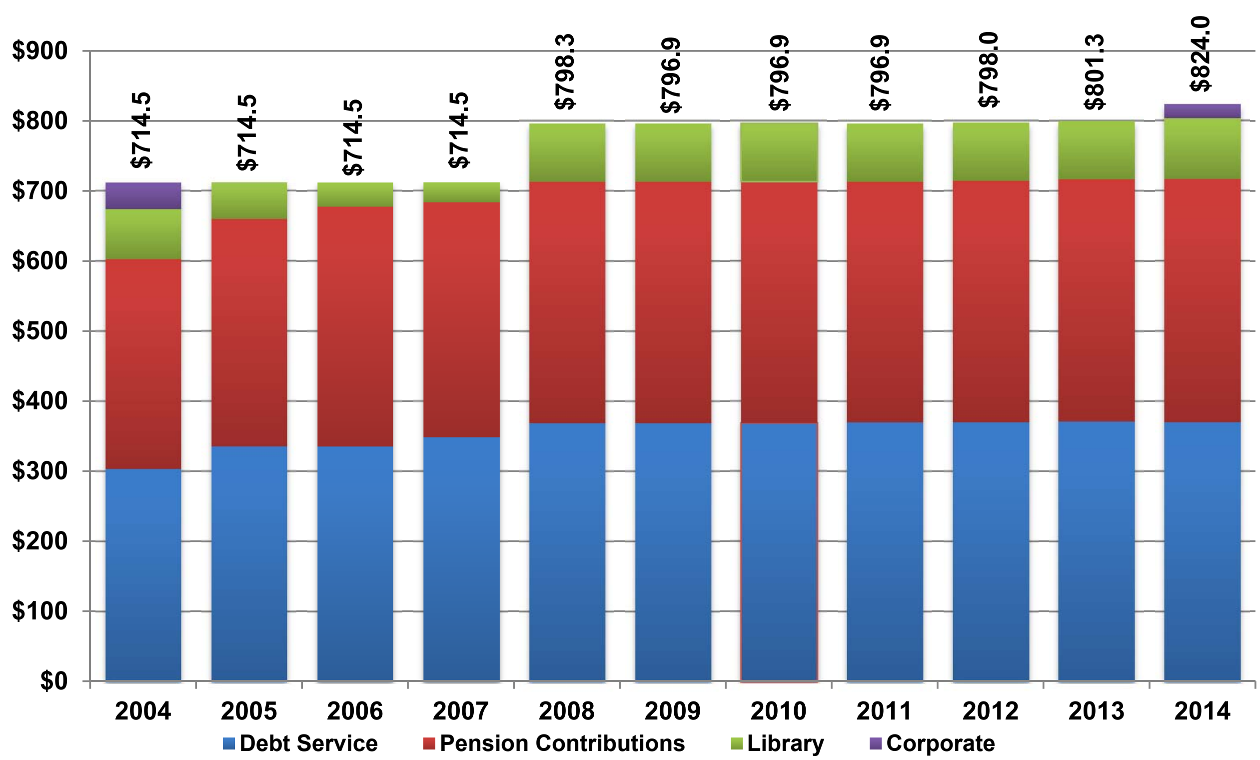
Use of City Levy Revenues

The City levy is divided into two components – a portion used for general City purposes and a portion specifically dedicated to fund the Chicago Public Libraries.[15] In 2008, the library portion of the levy was set at $83.4 million. The use of the library portion of the City levy is discussed in greater detail in the Special Revenue Fund section of this document.

The revenue from the City levy that is not allocated to the library system has been utilized primarily to pay the City's debt service and employee pension contributions. In the past, 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 increased, these costs have outgrown the City's property tax levy. The

PROPERTY TAX REVENUE AND ALLOCATION

$ Millions



[15] An additional $37 million portion of the City's levy is dedicated to the payment of bonds issued in 1999 and 2007 by the City on behalf of the City Colleges of Chicago. 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, this portion of the City's levy is not discussed in detail here. The City also adopts a separate levy each year to pay debt service on bonds issued to fund the construction and improvement of buildings for Chicago Public Schools (CPS). In 2013, this levy was $94.7 million. Because CPS functions as a separate governmental unit, this levy is not discussed in detail here.

Financial History Review

2013 PROPERTY TAX REVENUE

$ Millions

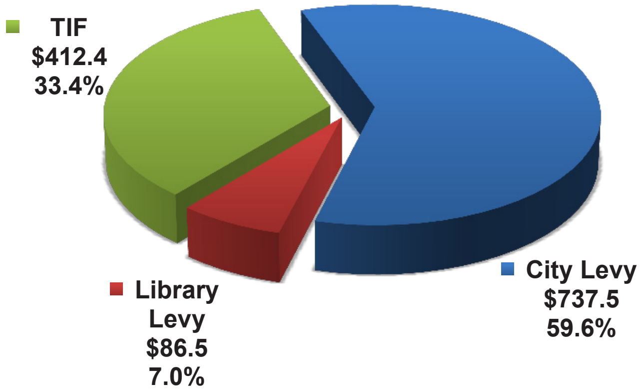


chart on the prior page shows the way in which property tax revenues were appropriated from 2004 through 2014. In each of those years, and to an increasing extent each year, a portion of the pension contributions were paid with PPRT revenue and a portion of the long-term debt service was covered using other resources. The City's debt and pension obligations will continue to grow going forward, and other revenue sources must be redirected to cover these costs. The City's pension and debt obligations are discussed in greater detail in the last two sections of this document.

TIF Revenue

Discussion of the City's property tax revenue has historically focused on the City levy; however, substantial amounts of property-tax-derived revenue also comes through the City's TIF program. Chicago's TIF program began in 1984 with the goal of promoting business, industrial, and residential development in areas of the City that struggled to attract or retain housing, jobs, or commercial activity. The program is governed by a state law that allows municipalities to capture property tax revenues derived from the EAV growth above the base EAV that existed before an area was designated as a TIF district, and to use that money (the tax increment) for community projects, public improvements, and incentives to attract private investment to the area. The baseline EAV at the time the TIF district was designated is still a part of the tax base for the purposes of the levy, but revenue from the incremental EAV beyond that baseline must be reinvested into the area and cannot be used for other general City purposes. The intention is that the effective use of tax increment helps expand the tax base, thus increasing the amount of tax increment generated in the district for re-investment within the district, ultimately increasing the property tax base after the TIF district has ended. Beginning with the most recent tax bill distributed by the Cook County Clerk, taxpayers in a TIF district can see the percentage of their property tax payment that is dedicated to the TIF.

When a TIF district expires or terminates, the incremental EAV of the district becomes a part of the aggregate EAV that is available to all taxing districts. Taxing districts, including the City, have the ability to recover their portion of the revenue from the incremental EAV by adding it to their levy following a TIF district's dissolution. By doing so, the City increases the resources available to support citywide expenses without increasing the tax burden on Chicago residents. This practice, which was recommended in the report of the TIF reform panel, yielded $1.1 million from three TIF districts in 2012, $3.3 million from 12 TIF districts in 2013, and $16.6 million from six districts in 2014.

Historic and anticipated TIF revenue and the use of these funds, as well as the City's ongoing TIF reform initiatives, are discussed in detail in the TIF section of this document.

City Workforce

The services that the City provides – from police protection to fire fighting to street paving to library assistance – are made possible by City employees. The City workforce is made up of front-line service providers like police and librarians, as well as employees providing the logistical, planning, and administrative support necessary to deliver those essential services. The costs associated with this workforce comprise the majority of the City's expenses.

Personnel-related expenditures, including salaries and wages, health care, overtime pay, workers' compensation, and unemployment compensation, vary from fund to fund with a Citywide average of 79 percent of total expenditures across all local funds over the past 10 years. Salaries and wages alone accounted for an average of 67 percent of City expenses each year over the past 10 years, with employee healthcare accounting for an average of 10 percent each year. Historically, this proportion has been higher in the corporate fund, with personnel-related expenses averaging of 85 percent of corporate fund expenditures.

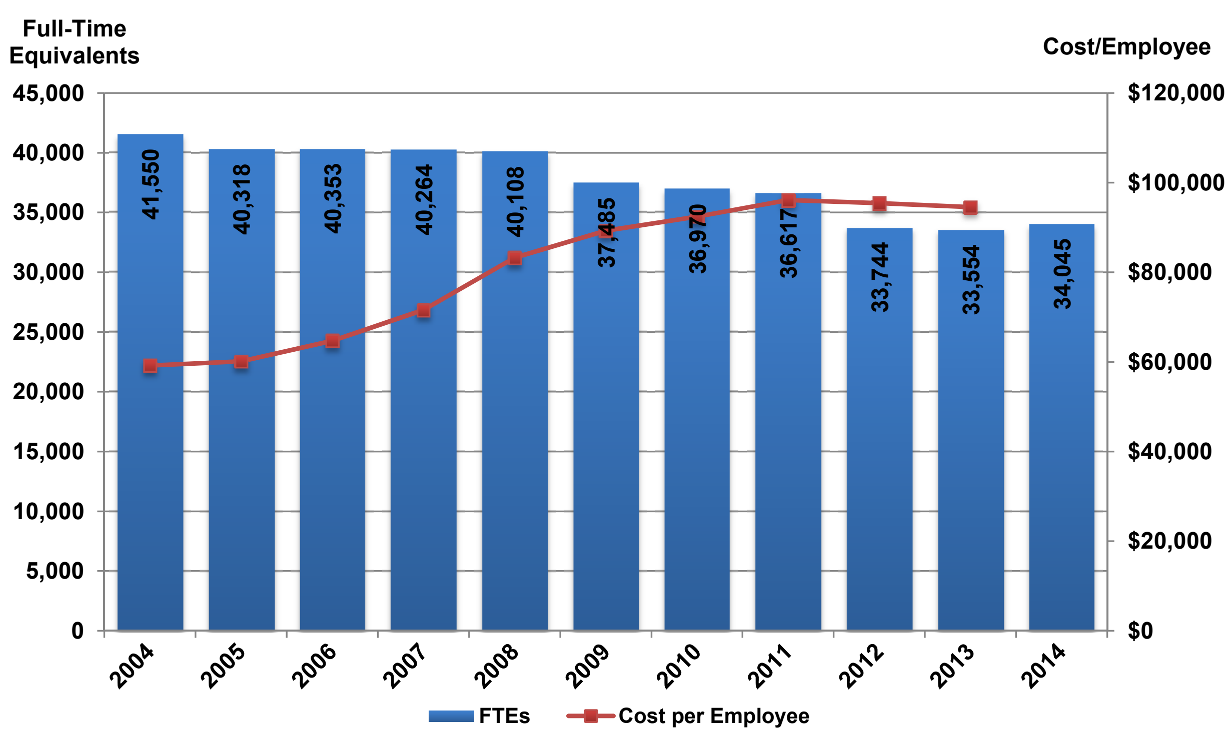
The public safety departments account for the largest portion of personnel expenses on the corporate fund, and have not experienced reductions to the extent that other segments of the workforce have in recent years. From 2004 through 2013, public safety salaries and wages accounted for an average of 77 percent of total corporate fund salary and wage expenses, with that percentage increasing from 76 percent in 2004 to 81 percent in 2013. Today, public safety positions make up 61 percent of the City workforce, up from 54 percent in 2004.

The City has steadily decreased its workforce across all funds from 39,654 positions (41,550 full-time equivalents, or FTEs) in 2004 to 32,280 positions (34,045 FTEs) in 2014, a decrease of approximately 17 percent, or 6,834 positions (7,505 FTEs). However, despite this reduction in the workforce, the City's total personnel costs increased by 21 percent between 2004 and 2013, with salary and wage expenses increasing by 17 percent and healthcare costs by 43 percent. The City's average annual cost per employee increased from $59,714 in 2004 to $94,551 in 2013.

Union Workforce

The increase in personnel expenses over the past decade has been due primarily to salary increases resulting from contractual obligations under collective bargaining

CITY WORKFORCE AND COST PER EMPLOYEE



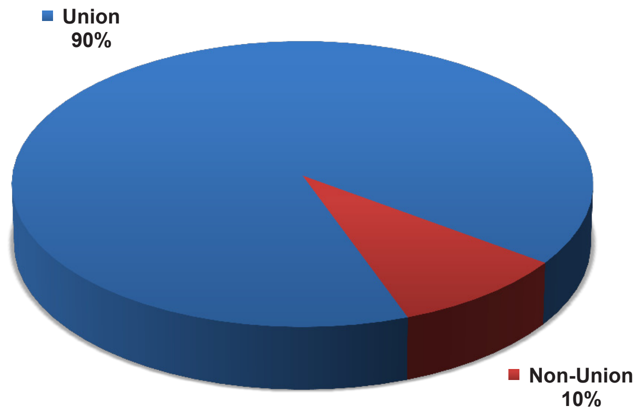
agreements with the unions that represent the vast majority of City employees. Today, 90 percent of City positions are represented by a union, up from 87 percent in 2004. As the overall number of City positions has decreased, the relative proportion of union positions has increased. Since 2004, the number of non-union positions, which are primarily management positions, has been reduced by 37 percent, from 4,967 to 3,135 (5,230 to 3,371 FTEs), while the number of union positions has been reduced by 14 percent, from 34,687 to 29,685 (36,319 to 30,674 FTEs).

The City is party to collective bargaining agreements with more than 40 different unions. The two bargaining units representing the largest number of City positions are the Fraternal Order of Police and the Chicago Firefighters Union, currently with 16,065 combined sworn public safety positions. When police captains, lieutenants, and sergeants are included, the number of unionized public safety positions comes to 17,507.

The next largest group of positions is associated with the Coalition of Union Public Employees (COUPE), which currently represents 6,640 trades positions (7,129 FTEs). The American Federation of State, County, and Municipal Employees (AFSCME) is the fourth largest group, representing 3,505 positions (3,679 FTEs) that provide administrative support for City government and services, and the Service Employees International Union (SEIU) currently represents 1,912 public safety civilian positions (2,238 FTEs), such as traffic control aides, detention aides, and police communication operators.

The collective bargaining agreements with each of these unions include regular salary increases, resulting in higher personnel costs each year.[16] During the period from 2003 through 2006, collective bargaining agreements with COUPE and AFSCME provided average salary increases of more than 3 percent each year, and those with the police and fire unions provided average salary increases of more than 4 percent each year. The most recent collective bargaining agreement with the largest police union provided a 10 percent salary increase between 2007 and 2012, and an agreement with the fire union providing an 11 percent increase between 2012 and 2017 was ratified by the union in June 2014. The most recent collective bargaining agreement with COUPE included a 16 percent increase between 2007

2014 CITY WORKFORCE, UNION VS. NON-UNION



and 2012 followed by a 2 percent each year from 2013 through 2017. An agreement with AFSCME providing a 10 percent increase over five years was ratified by the union in June of 2014. The current SEIU agreement, which was finalized in August 2012, includes a 6 percent increase between 2011 and 2016. Agreements were reached with the unions representing police sergeants, lieutenants, and captains in late 2013 and early 2014, each providing an 8 percent salary increase between 2012 and 2016.

These increases are in addition to the raises based on time in service that most employees receive. Historically, non-union positions received salary increases equal to those negotiated for civilian positions; however, since 2009, non-represented positions as a group have not received any increases beyond normal step increases for time in service. A number of the City's collective bargaining agreements are currently pending negotiation or ratification, including the agreement with the police union.

Healthcare Costs

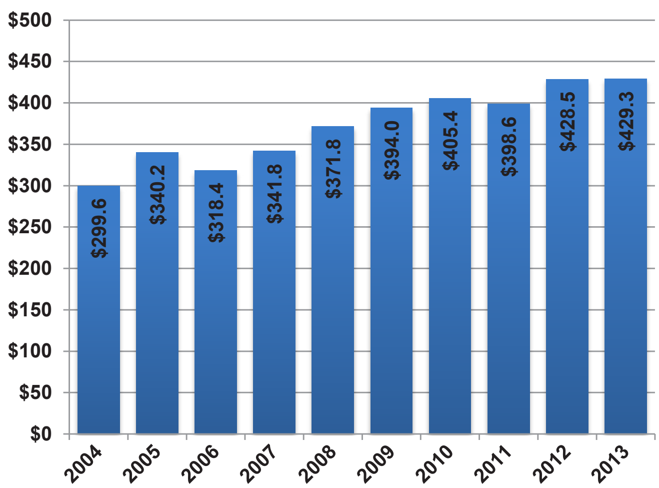
A significant share of the City's budget is spent on healthcare coverage, including medical, dental, and vision care, for current City employees, City retirees, and the spouses and dependents of both. Like many other large cities and private sector companies, the City self-funds its health plans, meaning that it generally pays for covered healthcare services rather than pay premiums to a third-party insurer. Due to the large number of covered individuals, it is generally more cost-effective for the City to self-fund such expenses.

[16] These salary increases affect negotiated rate positions only; wages for most positions paid on an hourly basis increase pursuant to the prevailing rate.

Between 2004 and 2013, the City's healthcare costs rose from $299.6 million to $429.3 million, with only two exceptions to the overall pattern of growth shown in the chart below. The decrease in costs from 2005 to 2006 was due in large part to significant plan design changes, including adjustments to the formula for employee healthcare contributions. The slight decrease in 2011 was in part the result of more aggressive negotiations with providers and the pursuit of certain reconciliations and one-time reimbursements owed to the City.

CITYWIDE HEALTHCARE COSTS

$ Millions



The significant net increase over the past decade can be attributed to several main factors – the makeup of the City's workforce and retiree population, the increased utilization of prescriptions and health care services, the rising cost of healthcare services, and changing state and federal coverage requirements.

Between 2004 and 2013, the aggregate number of covered lives under City healthcare plans decreased by more than 10 percent, from 131,674 to 118,378. However, during that same time period, the number of active City employees enrolled decreased by approximately 14 percent while the number of retirees enrolled increased by approximately 4 percent. With this change in the makeup of covered lives came an increase in the average age of beneficiaries of City healthcare plans, and older individuals generally require larger annual healthcare expenditures. In addition, as life expectancies increase, the duration of coverage lengthens, further increasing the City's healthcare expenditures. In 2014, the City began a three-year phase out of City funding for healthcare benefits for certain retirees, with anticipated savings of $24 million in 2014 and additional savings in 2015 and going forward.

National industry trends have also driven the City's costs upward. The per capita cost of healthcare in the U.S. has risen significantly over the past decade, and as more specialty medications and more expensive technologies are utilized with greater frequency, costs increase. A full analysis of industry-wide trends is beyond the scope of this report; however, between 2004 and 2013, the consumer price index for medical care increased by more than 38 percent, and the City's increasing healthcare expenditures correspond with this growing price of healthcare nationwide.

The healthcare industry is currently in a state of significant flux; however, the City expects that the trends seen in recent years will continue into the future, as the demographics of beneficiaries continue to shift and the per-employee cost of providing healthcare continues to increase.

In order to contain these costs in the long-term and improve the overall health and well-being of its workforce, in 2012, the City implemented a wellness program for employees and their families. The City's wellness program provides a wide range of services and utilizes individualized assessments and screenings to ensure that participants are engaged in programs most appropriate for their needs. By encouraging employees and their families to proactively address areas of immediate concern, such as hypertension, high cholesterol, smoking, and diabetes, the City aims to reduce the healthcare costs that such conditions often necessitate if left untreated. In 2013, 91 percent of those eligible to participate enrolled in the program, making it the largest municipal wellness program in the country.

Overtime Management

Since 2004, the City's public safety, infrastructure, and public service enterprise departments have accounted for 96 percent of Citywide overtime expenditures. Between 2007 and 2011, the City's overtime expenditures across all funds decreased by 27 percent. Multiple factors facilitated this decrease, with the primary driver being the 2009 agreement with the COUPE unions, under which the unions agreed to earn compensatory time instead of being paid for overtime hours. The COUPE agreement expired in mid-2011. In 2012 and 2013, total overtime expenses for the City increased from 2011 levels. Increases were seen in infrastructure services overtime costs, attributable in part to the expiration of the COUPE agreement, and in public safety department overtime, due in part to the decision to increase police hours on the streets.

The City continues to strategically manage the usage of overtime. In making decisions regarding overtime management, the City evaluates the cost of utilizing overtime to provide critical City services in relation to the cost of hiring additional employees. Because there are significant incremental costs associated with hiring new employees, including healthcare benefits and pension contributions, in many cases utilizing overtime hours is a preferable alternative because it is more cost effective. Decisions are made based on the seasonality, type, and long-term consistency of the work that must be completed.

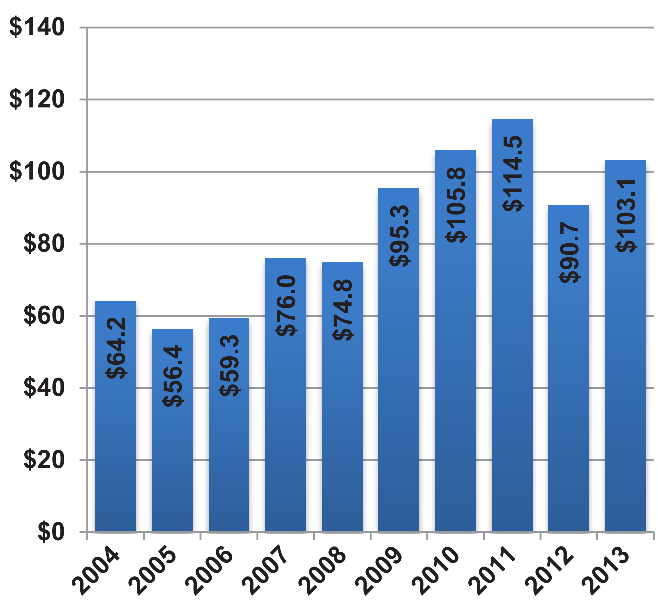
Workers' Compensation

The City's workers' compensation costs rose from $64.2 million to $114.5 million between 2004 and 2011, and then decreased to $90.7 million in 2012 increasing to $103.1 million in 2013 as the cost per claim grew. These costs include medical expenses, payments for lost time, and the costs of case resolution associated with employees who are injured while on duty working for the City. A number of factors contributed to the growth in workers' compensation costs over the past decade. As discussed above, medical costs nationwide have risen significantly over the past decade, increasing the cost of treating injured employees. In addition, salaries and wages have increased, driving up the price of lost time that must be compensated by the City. Furthermore, due to the downturn in the economy, employees who cannot return to their original position due to their injuries have been less able to find other employment, increasing the length of lost time that must be compensated and thus the total cost of such payments.

Over the past two years, the City has identified a number of opportunities to reform the policies and practices surrounding workers' compensation to reduce these costs. The City has re-assessed its medical billing review process, worked to increase investigations to prevent fraud and implement successful return-to-work programs for injured employees, and pursued more active case management, all of which contributed to decreased costs since 2011.

CITYWIDE WORKERS' COMPENSATION

$ Millions



Annual Financial Analysis 2014

Financial Forecast

Financial Forecast

INTRODUCTION

This section includes a discussion of the City's 2014 year-end estimates, 2015 preliminary budget projections, and three revenue and expenditure scenarios for the years 2016 and 2017 – a base outlook, a positive outlook, and a negative outlook. These projections are based on historical revenue and expenditure data, current economic trends and conditions, and other known factors that are anticipated to have an impact on the City's finances. The purpose of this analysis is to ensure that the 2015 budget is formulated with a clear understanding of the City's current financial state and an informed view of future conditions and the long-term fiscal consequences of today's decisions.

This 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 historically experienced the largest disparity between revenues and expenditures. A summary of the projections for the City's major special revenue and enterprise funds is included at the end of this section.

GENERAL ECONOMIC CONSIDERATIONS

Both nationally and locally, key economic indicators suggest sustained moderate growth in the coming year. Anticipated patterns of growth have returned after the U.S. G.D.P. contracted by 2.9 percent in the first quarter of 2014 as severe weather impacted economic activity across the country. G.D.P. is projected to rebound by more than 3 percent during the second half of the year, ending 2014 at 2 percent over 2013, with economists projecting continued economic expansion at a moderate pace of 3 percent in 2015. In the first quarter of 2014, home prices were 6.6 percent higher than in the first quarter of 2013, though nationwide home sales have been impacted by lending and inventory constraints. Retail sales in June were 4.1 percent above June 2013, but the Consumer Sentiment Index came in below 2013 levels, reflecting continued caution by consumers impacted by weak wage growth. However, at the same time, the national unemployment rate declined to its lowest level since September 2008 and stock market indicators hit record highs, indicating that the steady recovery of the U.S. economy continues.

Locally, economic trends have mirrored many of these national trends – impacted by severe winter weather but showing overall growth. During the first five months of 2014, the volume of home sales in Chicago declined but the median home price rose by 19.4 percent over the same period last year, and first quarter commercial real estate sales were at their highest since 2008. In addition, Chicago's main service industries have grown over the past year, and in May, the city's unemployment rate was 2.2 percentage points below the rate in May 2013. Tourism and business travel to Chicago also remain strong, with a 4.2 percent increase from 2012's record numbers to 48.3 million visitors in 2013.

These broader economic factors are accounted for in the following projections. The 2015 projections and the base outlook for 2016-2017 present what is currently viewed as the most likely scenario. The positive and negative outlooks for 2016-2017 provide insight into how changes in the economy and other related factors could affect the City's finances over the next three years.

2014 CORPORATE FUND YEAR-END ESTIMATES

2014 Year-End Revenues

Total corporate fund resources for 2014 are estimated to end the year at $3.26 billion. This includes $53.4 million carried over from prior years, which was included in the 2014 budget and is attributable in part to the effective controls, cuts, and initiatives implemented during the course of 2012 and 2013.

Corporate fund revenues are expected to finish 2014 approximately 1 percent, or $35 million, below 2014 budgeted revenues. These year-end estimates reflect utility tax revenues driven upward by the extreme winter weather, as well as growth in many of the City's economically sensitive transaction-based tax revenues such as sales and real property transfer taxes, offset by below budget revenues from major non-tax categories such as fines and penalties. Major categories of revenue and trends are discussed below, and year-end estimates for each individual revenue source are discussed in the Financial History Review section of this document.

Financial Forecast

Utility tax revenues are expected to come in more than 3 percent above budget for the year as natural gas usage spiked with the colder than normal winter and spring. These increases offset the continued decline in telecommunications tax revenue due in part to changing consumer preferences and in part to the payment of certain credits to telecom service providers for taxes charged on services that were later determined to be non-taxable.

Transportation-related taxes, including the garage tax and vehicle fuel tax, are anticipated to finish 2014 just below budget, as parking garages saw less traffic during the first and second quarters due to the weather. In addition, fuel prices have remained relatively high, and people tend to drive and park less when gas prices are high.

The City's economically-sensitive transaction-based taxes are expected to finish 2014 strong across the board. Real property transfer tax revenues are expected to come in more than 8 percent above budget for the year as the commercial real estate market continues to perform well and growth in housing prices continues to catch up with the growth in housing sales seen in 2012 and 2013. Growth is also projected for the City's sales tax and lease tax revenues, as consumer confidence improves with the labor and housing markets; these consumer-driven taxes are expected to outperform budgeted expectations by 2 percent and 1 percent, respectively.

Income tax revenues, however, are expected to end 2014 approximately 2 percent below budget, due in part to the after effect of the one-time surge in payments in 2013 associated with businesses and individuals selling assets or receiving early dividends in anticipation of higher federal tax rates, which pushed up into 2013 certain collections that would otherwise have been expected in 2014. No revenue will be received from the employers' expense tax, which was completely eliminated as of January 1, 2014, fulfilling the Mayor's pledge to phase out the tax as a key component of encouraging business development and job creation.

Hotel tax revenue grew over 2013, bolstered by revenue from settlements related to online hotel sales, but is expected to fall short of 2014 budgeted projections, due in part to the impact of the extreme winter weather on travel to the city. Amusement tax revenues are estimated to end the year just over budget, impacted by ticket price increases and playoff appearances by the Bulls and Blackhawks. Amusement tax revenues also reflect the 2014 reduction in the partial exemption from this tax that cable television companies had received in prior years.

The City's non-tax revenues are expected to end the year approximately 6 percent below budget. The majority of this decline is in revenues from fines and penalties, which are projected to end the year significantly below budget due to the phased roll-out of automated speed enforcement in select locations near parks and schools in order to increase compliance and the greater than anticipated effectiveness of the program, with changed driver behavior resulting in lower than expected rates of violation. In addition, revenue from business licenses and other licenses and permits as well as income from the lease or rental of City-owned property are expected to end 2014 just below budget.

2014 Year-End Expenditures

Corporate fund expenditures are currently expected to end the year approximately 1 percent below budget at $3.26

2014-2015 PROJECTED EXPENDITURES AND REVENUES

$ Millions

	2014 YE Est.	2015 Projected
Revenue	$3,255.3	$3,218.4
Expenditure	$3,255.0	$3,515.7
Budget Surplus/(Deficit)	**$0.3**	**($297.3)**

billion. These estimates are based on year-to-date spending, incorporating payroll trends, market pricing for relevant commodities, and any known changes or events that have or are anticipated to occur during the remainder of 2014.

The year-end projection reflects increased overtime costs related to the severe winter weather as well as overages in public safety overtime costs. It is anticipated that these overtime expenses will be offset by reduced healthcare costs and certain strategic contractual and personnel savings.

It is currently projected that the City's corporate fund will finish the year with expenses approximately even with revenues. However, numerous factors impact the City's revenues and expenditures, and these estimates may change as the year progresses. Decisions are made throughout the course of the year in response to new or changing needs and citywide priorities. The City will continue to closely monitor its revenues and expenses, and updates will be published in the City's quarterly budget reports.

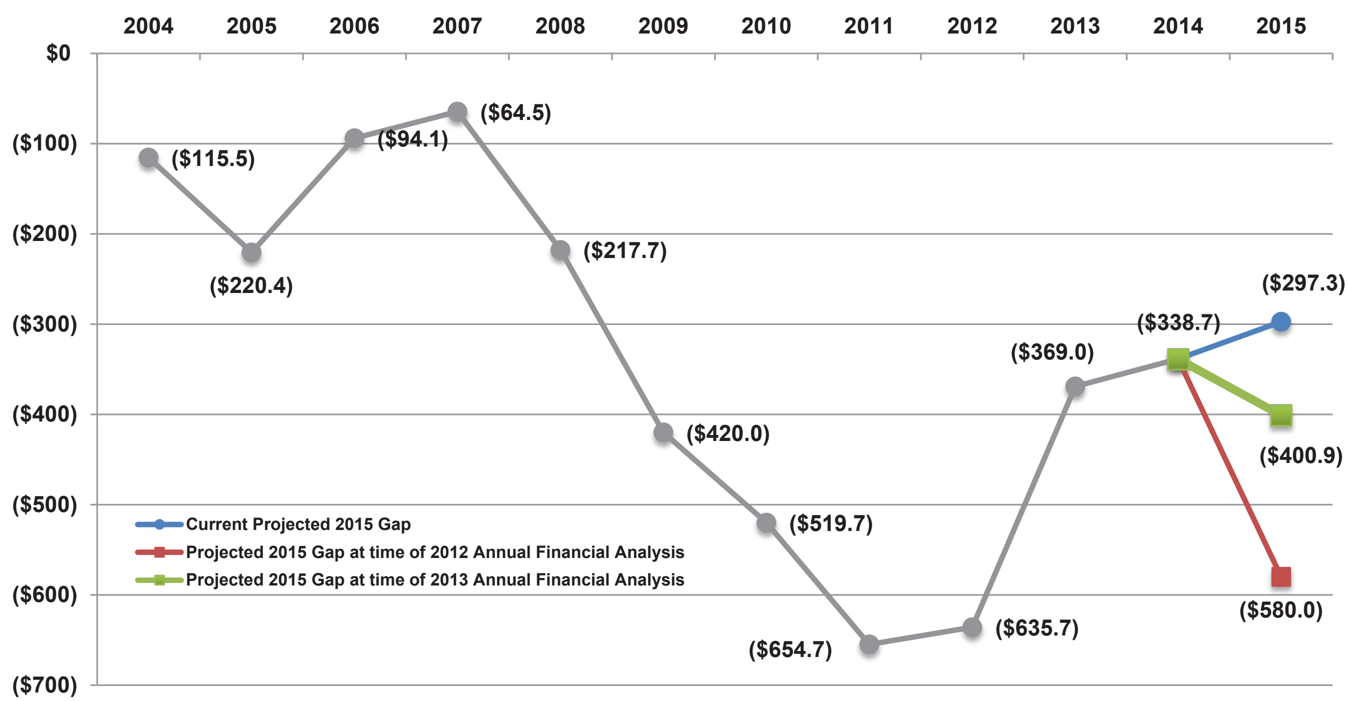
2015 CORPORATE FUND PROJECTIONS

The difference between revenues and expenditures anticipated by the City in its preliminary corporate fund budget estimates each year is commonly referred to as the 'gap'. Based on current revenue and expenditure projections, the City estimates a 2015 corporate fund gap of $297.3 million.

This projected gap is much smaller than those seen during the recession years and substantially less than was projected for 2015 in the City's 2012 and 2013 Annual Financial Analysis, but still a significant shortfall. The decreasing size of the gap is the result of the recovering economy's impact on revenues, as well as the real and lasting changes made as part of the past three budgets. Initiatives such as the introduction of managed competitions for City services, the transition to grid-based garbage collection, the review and renegotiation of major contractual costs, and reforms that have reduced the City's healthcare costs have all decreased the City's structural deficit, bringing the City's expenses more closely

CORPORATE FUND PRELIMINARY GAP

$ Millions



in line with revenues. However, growing salaries and wages and the cost of funding the City's pension funds continues to place pressure on the City's corporate fund, as evidenced by the persistent existence of a budget shortfall.

2015 Projected Corporate Fund Revenues

Corporate fund resources are projected to decrease by approximately 1 percent from 2014 year-end estimates to $3.22 billion in 2015. This assumes that no surplus will be carried over from prior years into 2015 (corporate fund resources for 2014 include $53.4 million carried over from prior years). Overall 2015 estimates reflect continued economic growth and a return to normal trends in revenues impacted by the severe weather in 2014.

Utility tax revenues are expected to decline from 2014 in 2015. A decrease in anticipated energy tax revenues is the driving factor behind this decline, assuming that natural gas and electricity usage return to normal levels with more normal weather. Despite the continuing decline in the number of landlines, telecommunications tax revenues are expected to increase slightly from 2014 levels as credits due to telecom service providers decrease from 2014 levels, and cable television tax revenues are projected to continue to grow with industry expansion.

Garage tax revenues are expected to rebound from low 2014 levels as more normal weather results in a return to normal parking trends. Vehicle fuel tax revenues, however, are expected to decline slightly in 2015 as consumption is impacted by the increasing price of fuel and more stringent fuel economy standards.

Moderate growth is projected for many of the City's largest and most economically sensitive sources of revenue, with some sources showing additional year-over-year growth to account for depressed consumer activity during the extremely cold months of 2014. Real property transfer tax revenues are projected to increase again in 2015 as the housing market continues to improve and commercial sales remain strong. Growth over 2014 is also expected for both sales and lease tax revenues, reflecting increased consumer confidence and business-related leasing with the continued recovery from the recession, as well as more normal weather patterns.

REVENUE CORPORATE FUND, $ Millions	2014 YE Est.	2015 Projected
Tax Revenue		
Utility Taxes and Fees	$464.5	$447.3
Transaction Taxes	297.4	309.2
Transportation Taxes	182.6	185.0
Recreation Taxes	184.3	187.6
Business Taxes	100.0	100.0
Sales and Use Taxes	609.4	630.9
Income Tax, PPRT & Other Intergovernmental	294.0	304.0
Total Tax Revenue	**2,132.2**	**2,164.0**
Non-Tax Revenue		
Licenses and Permits	125.0	126.6
Fines, Forfeitures and Penalties	360.7	354.5
Charges for Services	121.7	123.6
Municipal Parking	6.4	6.4
Leases, Rentals and Sales	20.3	20.8
Reimbursement, Interest & Other	378.3	389.7
Total Non-Tax Revenue	**1,012.4**	**1,021.6**
Proceeds and Transfers In	**57.3**	**32.8**
Total Revenue	**3,201.9**	**3,218.4**
Appropriated Prior Year Fund Balance	53.4	0.0
Total Projected Resources	**$3,255.3**	**$3,218.4**

Financial Forecast

EXPENDITURES CORPORATE FUND, $ Millions	2014 YE Est.	2015 Projected
Salaries and Wages	$2,320.1	$2,443.1
Healthcare Benefits	377.8	404.2
Worker's Compensation	63.1	66.6
Contractual Services	358.1	365.0
Commodities and Materials	23.9	24.4
Utilities	16.1	16.6
Motor Fuel	27.1	29.0
Claims, Refunds, Judgments, and Legal Fees	32.1	57.2
Miscellaneous	26.9	31.7
Transfers Out	10.1	10.0
Additional Municipal and Laborer's Pension Contribution	-	67.9
Total Projected Expenditures	**$3,255.3**	**$3,515.7**

The City's income tax revenues are expected to grow in 2015 due to the expanding labor market and the resulting increases in wages. The temporary increase in the income tax rate enacted by the State in 2011 is set to expire in 2015; however, the proportion of these collections distributed to the City is scheduled to increase concurrent with the decrease in the tax rates, with net impact to the City intended to be revenue neutral.

Hotel tax revenues are expected to hold even with 2014 levels, which were elevated due to one-time revenue from settlements related to online hotel sales. Amusement taxes are projected to increase by more than 4 percent, as sports team ticket prices, cable fees, and concert attendance continue recent upward trends. Other recreation tax revenues are also expected to continue in line with recent trends in 2015, with moderate increases in liquor and non-alcoholic beverage sales offsetting declines in cigarette tax revenues due to changing consumer patterns and decreasing sales in the city.

The City's non-tax revenues are expected to increase slightly from 2014 levels. Revenue from business license fees will increase over 2014 due to the two-year renewal cycle for licenses, while permit-related revenue is expected hold approximately even with 2014. Revenue from fines, forfeitures, and penalties is projected to decrease slightly as automated speed enforcement near parks and schools continues to impact driver behavior, reducing rates of violation.

The 2015 budget projections also include the anticipated $50 million in additional revenue from the proposed increase in the emergency telephone system surcharge, as discussed on page 30. This includes the anticipated revenue from both 2014 and 2015 due to the proposed increase and appears as reimbursement revenue in the table on the previous page, as it must be received into a segregated fund and then transferred to the corporate fund for use exclusively for 911 and emergency preparedness-related purposes. This revenue will make available other general corporate revenues to make increased payments to the Municipal and Laborer's pension funds, as discussed below.

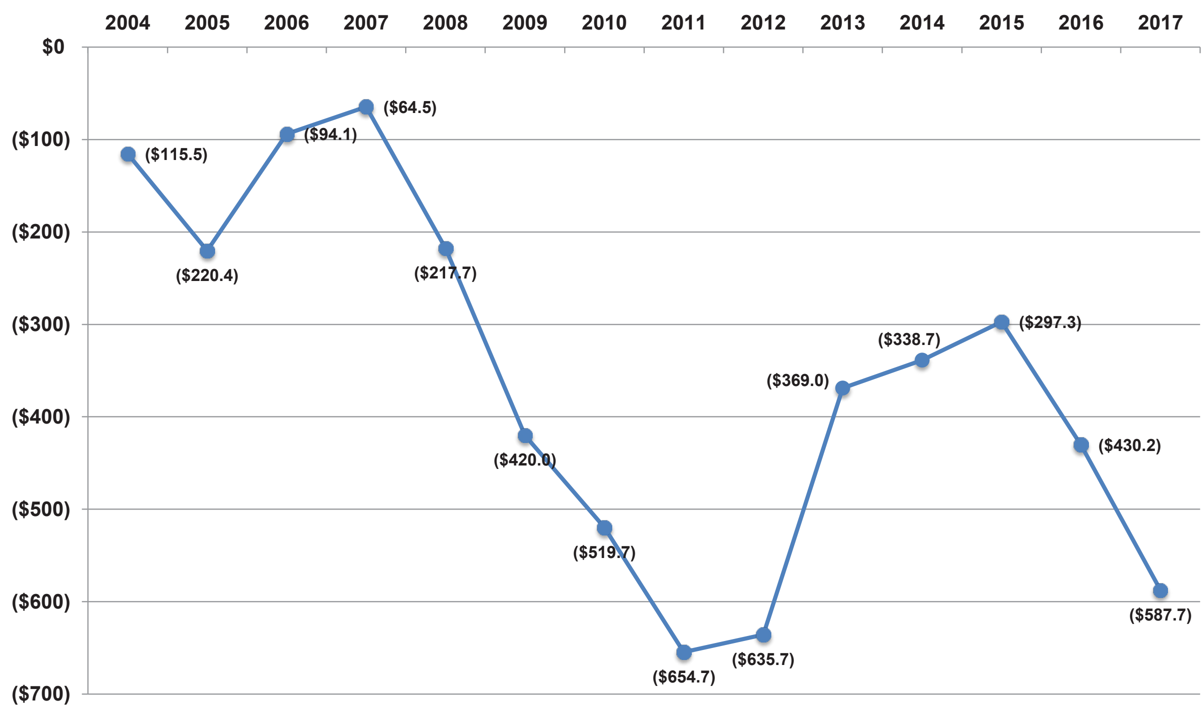
2015 Projected Corporate Fund Expenditures

2015 expenditure projections grow over 2014 anticipated year-end expenditures by approximately $260 million, or 8 percent, to $3.52 billion. These projections are based on 2014 year-end estimates, adjusted for anticipated growth trends and known changes, such as normal increases in contractual services and commodities and materials costs, additional energy expenses to accommodate potential increases in gas prices and street light electricity costs, increased salaries and wages under collective bargaining agreements, and costs associated with the coming year's election cycle.

As has been the case throughout the past decade, the bulk of the projected increase in expenses in 2015 is in personnel costs. Between 2004 and 2013, the number of employees on the corporate fund decreased by 16 percent. During that same period, however, corporate fund salary and wage expenditures increased by more than 17 percent and healthcare costs by more than 46 percent. These costs will continue to drive corporate fund increases in the coming years. The 2015 projection for these expenses assume that the number of employees on the corporate fund will remain approximately even with 2014 while salary and wage costs

2015-17 PROJECTED GAP

$ Millions



will grow in line with negotiated collective bargaining agreements and healthcare expenses will grow in line with historical patterns and market trends.

The size of the City's budget shortfall is increased by pension obligations under current state law. Benefits and contributions for each of the four pension funds in which City employees participate are governed by the Illinois Pension Code, and each of these funds is significantly underfunded. To address this unfunded liability, the City worked with unions and state lawmakers to develop a balanced approach to reform for the Municipal and Laborer's pension funds. Legislation was enacted in June 2014 that adjusts benefits and increases payments in a manner that protects both Chicago's taxpayers and the retirement security of City employees. This reform legislation will increase City contributions to the funds in coming years, beginning with a $90 million increase in 2015, an estimated 75 percent of which will be allocated to the corporate fund. The 2015 corporate fund gap reflects these increased pension contributions to the Municipal and Laborer's pension funds.[17] Current State law would also increase required payments to the Police and Fire pension funds by more than $500 million in the first year, and the City continues to pursue reform for these funds that will allow the City to secure employee retirements, protect taxpayers, and continue to provide vital services to residents. Pension reform and the issues surrounding the City's future pension obligations are discussed in detail in the Pension section of this document.

These expenditure projections assume that no substantive changes are made to City operations or the cost of City services. No cost-savings initiatives are incorporated into these estimates. Cost-savings initiatives are being developed by the City and will be included in the 2015 budget recommendation submitted to the City Council in October.

2016-2017 CORPORATE FUND OUTLOOKS

The following three scenarios project budget gaps for the years 2016 and 2017 for the City's corporate fund based on different revenue and expenditure outlooks. Even under optimistic projections, the City will continue to experience

[17] Because the City's contributions have historically been paid largely with property tax proceeds, contributions have been budgeted and discussed in terms of the levy year. The payments to the funds are then made in the following year, when property tax collections are received.

2016-2017 PROJECTED GAP

$ Millions

	2016	2017
Positive Outlook	($247.5)	($331.3)
Base Outlook	($430.2)	($587.7)
Negative Outlook	($729.2)	($1,019.3)

Statutory obligations to the Police and Fire pension funds would increase the projected operating budget gap under all outlooks by more than $500 million, with the estimated obligations growing each year.

a sizable operating budget shortfall in these years. In addition, the City's pension obligations will continue to increase through budget years 2016 and 2017 and beyond. Estimated contributions to the recently reformed Municipal and Laborer's pension funds are included in the projected operating budget gaps presented in this forecast. Statutory obligations to the Police and Fire funds would increase each year's projected operating budget gap by more than $500 million, with the estimated obligations growing each year.

Further, while the City's debt service obligations will experience growth in line with anticipated issuances over the coming years, general obligation debt service obligations that impact the corporate fund will increase significantly from current levels in future years due to growth from anticipated issuances and the way in which the City's debt is structured.

Base Outlook

The base outlook projects corporate fund revenue growth of approximately 1.5 percent over the prior year in both 2016 and 2017, resulting in total corporate fund revenues of $3.26 billion and $3.31 billion, respectively. Many economically sensitive revenues have now returned to pre-recession levels, and a conservative approach is taken in these projections in line with the assumption that the economy will continue to experience only moderate growth going forward.

These projections are based on the continuation of similar trends as discussed above with respect to 2015 for most revenue sources, including recreation and amusement taxes, transportation-related taxes, sales and lease taxes, and most non-tax revenues. Adjustments have been made to account for anticipated variations in some cases. A slightly lower rate of growth in real property transfer tax revenue is expected in 2016 and 2017, as the market stabilizes following rapid growth during the recovery years. Utility taxes are expected to return to normal growth trends. Hotel tax revenues are projected to grow with increased occupancy and revenue per available room, and income tax revenues are projected to increase at approximately 2.5 percent each year in line with an improving labor market.

Corporate fund operating expenditures are projected to outpace corporate fund revenue growth during this period, at an average annual rate of 5.3 percent, to $3.69 billion in 2016 and $3.90 billion in 2017. Under this base outlook, most categories of expenditures, including contractual services, worker's compensation, motor fuel, and utilities, are assumed to grow at their long-term historical average rates. Less predictable expenditures, such as settlement and judgment-related and other miscellaneous expenses, are held roughly flat in line with recent corporate fund annual averages. Salary and wage and healthcare expenditures, by far the largest portion of the City's operating expenses, are projected based on the assumption that the number of full-time equivalent positions will remain approximately flat, or, put differently, that no significant hiring, layoffs, or vacancy eliminations will occur, and that the costs associated with those positions will experience growth in line with long-term historical trends. In addition, under the reform plan for the City's Municipal and Laborer's pension funds, contributions will increase by approximately $50 million in 2016 and $75 million in 2017, and the corporate fund portion of these payments is incorporated into the projected gaps for those years.

Under this scenario of realistic revenue projections and modest growth in expenditures, the City's corporate fund operating expenses surpass anticipated revenues by $430.2 million in 2016 and $587.7 million in 2017. Police and Fire fund pension costs would increase these projected gaps by more than $500 million each year.

Financial Forecast

Negative Outlook

The negative outlook presents a picture of City finances in the context of relatively stagnant economic conditions and incorporates the occurrence of other factors that have the potential to negatively affect City finances. Under this scenario, revenues decrease by approximately 1 percent from the prior year in both 2016 and 2017, resulting in total corporate fund revenues of $3.10 billion in 2016 and $3.07 billion in 2017. This assumes that utility tax revenues decline as natural gas and electricity tax revenues are negatively impacted by pricing and energy conservation efforts, and as telecommunications tax revenues fall more sharply as data services replace telecommunications subscriptions. This outlook also assumes that fuel prices remain high and fuel efficiency efforts increase, reducing transportation tax revenues. A tepid economy and cautious consumer sentiment would also lead to tightened spending on retail goods, entertainment, and tourism, resulting in stagnant amusement, hotel, sales, and lease tax revenues. In addition, if unemployment remains elevated or wage growth stalls, income tax revenues would likely experience only slight increases in 2016 and 2017. These same factors, together with tightened lending, would impact the real estate market, and while this outlook projects some growth in real property transfer tax revenue, it is at a slower rate than the current pace. Similarly, the pace of new business and building starts would slow with the economy, leaving license and permit fee revenues relatively flat, and collection rates for fines and penalties may decrease, contributing to overall non-tax revenues that decline from 2014 levels.

Assuming a similarly negative outlook for expenditures, in which City spending increases more rapidly over the next three years, corporate fund operating expenditures would significantly outpace revenues, growing at an average annual rate of almost 8 percent to $3.83 billion in 2016 and $4.08 billion in 2017. Under this scenario, most categories of expenditures are grown at the rate seen during their fastest period of historical growth in the past decade, which generally occurred during the pre-recession years. Projected salary and wage and healthcare expenditures assume that the number of full-time equivalent positions will be held constant, as in the base case scenario, but that the cost of these positions grows at an increased rate, illustrating the potential effects of costly collective bargaining agreements or market changes that increase the cost of healthcare.

Under the negative outlook, the City's operating budget shortfall, including increased contributions to the City's Municipal and Laborer's pension funds, would grow to $729.2 million in 2016 and $1.02 billion in 2017. Police and Fire fund pension costs would increase these projected gaps by more than $500 million each year.

Positive Outlook

The positive outlook assumes that the economy and related revenues grow at a slightly faster pace over the next three years and that other factors shift in ways that bolster City finances. Under this scenario, revenues increase by approximately 2.8 percent over 2015 levels in 2016, and then by 2.7 percent over 2016 levels in 2017, resulting in total corporate fund revenues of $3.38 billion in 2016 and $3.48 billion in 2017. This scenario assumes that natural gas prices and cable fees increase and that the decline in telecommunications tax revenue slows, contributing to greater overall utility tax revenue. Under these projections, positive economic movement leads to greater growth in areas where moderate growth was predicted under the base outlook. Hotel, garage, recreation, and amusement tax revenues all grow as the economy expands and tourism increases. Sales and lease tax revenues would grow with increasing consumer confidence; and eased restrictions on lending and increased inventory would contribute to continued strong growth in the housing market, further increasing real property transfer tax revenues. In addition, as wages, employment rates, and corporate profits improve with the economy, income tax revenues increase. Non-tax revenues would also pick up as more new businesses are formed and additional building construction is undertaken, increasing license and permit-related revenues, and as fine and penalty revenues increase slightly with improved collection rates.

Under this positive outlook, the City is able to limit its future spending to an average annual growth rate of approximately 4 percent, with total corporate fund expenditures growing to $3.63 billion in 2016 and $3.81 billion in 2017. Under this outlook, expenditures for motor fuel and utilities remain flat at current levels, assuming both favorable pricing and successful energy efficiency efforts. Spending on costs such as contractual services and commodities and materials grow very slightly over current levels, and corporate fund settlement and judgment-related expenses remain at historical annual averages. This scenario again assumes the number of full-time equivalent positions is held constant, but that salaries and wages experience a lower rate of growth and continued reforms contain healthcare costs going forward.

Under this outlook, the City would see smaller but still substantial operating shortfalls of $247.5 million in 2016 and $331.3 million in 2017, including increased contributions to the City's Municipal and Laborer's pension funds. Police and Fire fund pension costs would increase these projected gaps by more than $500 million each year.

Conclusion

Even under optimistic projections, the City will continue to experience a sizable annual operating budget shortfall for several years. This makes evident the need to continue the difficult process of reforming government to bring operating costs in line with revenues in 2015 and beyond. The City's finances are further strained by the legacy costs of debt and pension obligations. The reform achieved for the City's Municipal and Laborer's pension funds ensures retirement security for members of those funds on a funding ramp that acknowledges the impact of required payments on the City's finances. The City continues to pursue reform for the Police and Fire pension funds as well; however, such action must occur at the State level, as the City's pension funds are governed by state law, as discussed in detail in the final section of this document.

OUTLOOK FOR SPECIAL REVENUE FUNDS

Vehicle Tax Fund

The City anticipates that revenue from the sale of vehicle stickers will finish 2014 at $139.1 million, significantly above budgeted expectations of $120.1 million for the year, and then decrease significantly to $109.0 million in 2015. These anticipated fluctuations are due to the transition to year-round sales that occurred in June of 2014. As part of the transition, vehicle owners were given the option of purchasing stickers valid for periods of one month up to 24 months with pricing on a pro rata basis, and many owners chose to purchase stickers valid for 12 months or longer. The high number of more expensive long-term stickers purchased in 2014 decreases revenue expectations for 2015, as sales that would otherwise have occurred in 2015 took place in 2014.

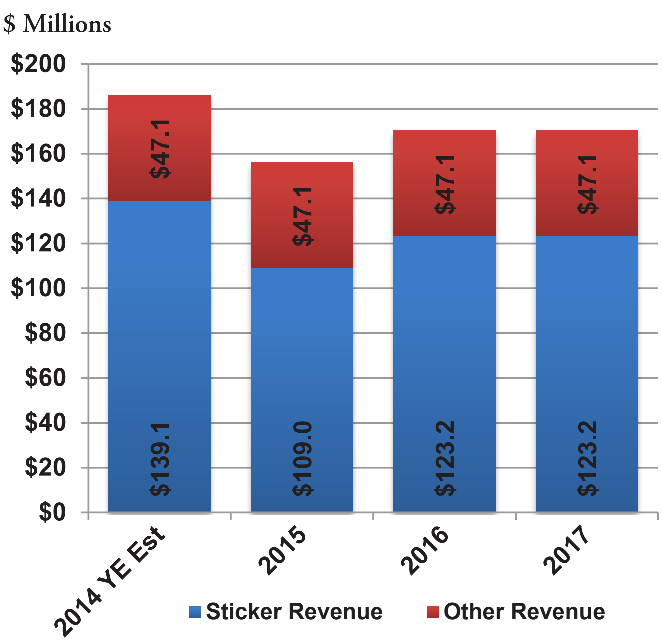
Sticker sales are expected to regularize in 2016 and 2017, with anticipated revenues in 2016 impacted by the scheduled CPI adjustment. City ordinance provides that the price of vehicle stickers be adjusted every other year based on the current CPI. Other revenues to this fund, including impoundment fees, abandoned auto towing fees, pavement cut fees, and commercial refuse container fees, are expected to remain approximately even with 2014 levels through 2017.

Motor Fuel Tax Fund

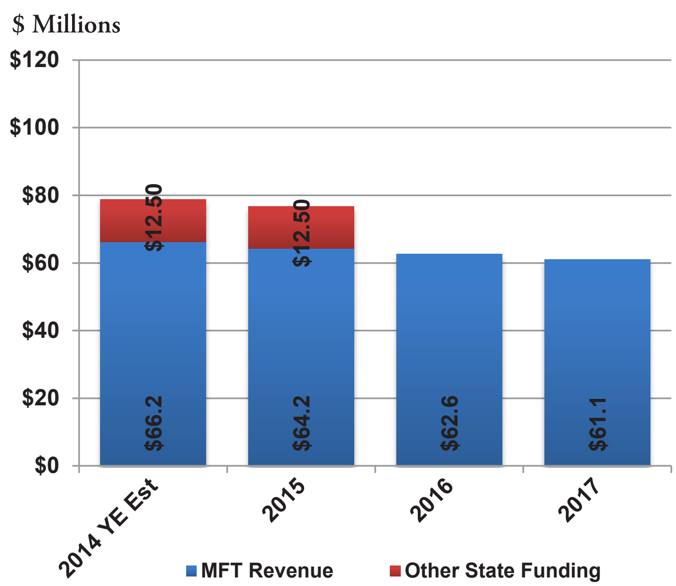
It is projected that the City's revenues from motor fuel taxes will end 2014 at $66.2 million, almost 7 percent over budgeted expectations for the year and approximately even with 2013 levels. This marks a pause in the downward trend seen in fuel tax revenues in recent years as fuel consumption declined with rising gasoline prices and more fuel efficient vehicles. The strong 2014 revenue projections are attributable in part to an increased demand for diesel with the recovering economy. Projections for 2015 through 2017 assume that long-term trends will reemerge and continue to drive declines in motor fuel tax revenues.

In addition, the State's "Illinois Jobs Now!" program will end after 2014. Funds received by the City through this program flowed into the motor fuel tax fund beginning in 2010, providing approximately $12.5 million each year. In 2015, the City expects to receive approximately $12.5 million in funds for infrastructure and other transportation improvements through the Illinois Department of Transportation, which will flow into the motor fuel tax fund. However, this is not a multi-year allocation, and as a result, the motor fuel tax fund's overall revenues are expected to decrease in 2016 as this state funding ends.

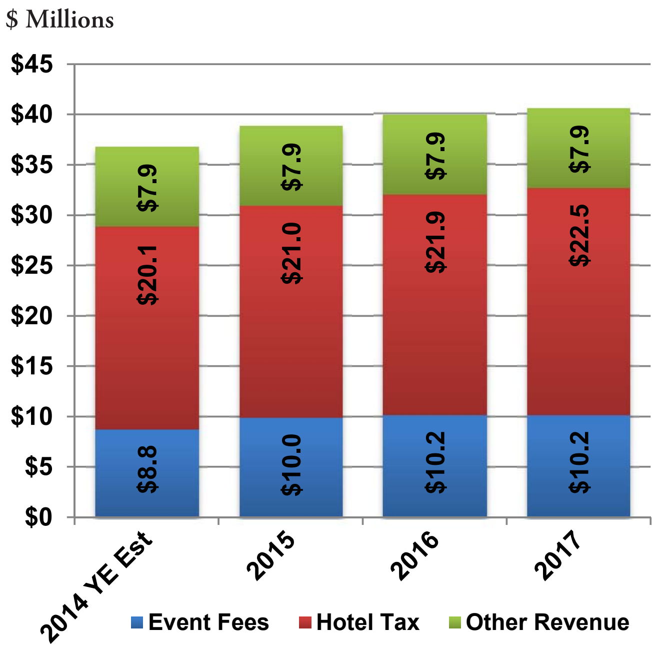
PROJECTED VEHICLE TAX FUND REVENUE



PROJECTED MOTOR FUEL TAX FUND REVENUE



PROJECTED SPECIAL EVENTS AND HOTEL OPERATORS' OCCUPATION TAX FUND REVENUE



Special Events and Hotel Operators' Occupation Tax Fund

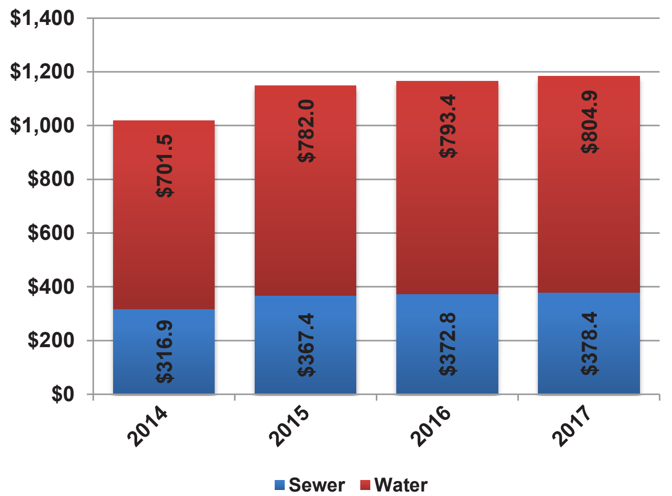
Both hotel tax revenue and revenue from special events and recreation fees have been impacted by severe weather during the course of 2014. Revenue from the hotel operators' occupation tax, a State-authorized tax imposed on hotel operators, was impacted by the winter weather's negative affect on travel to Chicago, and are projected to end the year at $20.1 million, down from budgeted expectations of $22.0 million. The City's special events and festivals generally out-performed budgeted expectations to-date in 2014; however, the cancellation of one day of the Taste of Chicago due to storms offset these increases, resulting in anticipated year-end revenues just below budget.

Projections anticipate that normal patterns of growth will reemerge going forward. Industry forecasts predict growth in both occupancy and revenue per available room over the next three years, and hotel tax revenues to this fund are projected to experience steady growth as tourism, convention, and business travel to Chicago continues to increase. Special event and recreation fee revenue is similarly expected to grow with the economy and tourism, increasing the resources available to fund cultural and recreational activities in the city.

FINANCIAL FORECAST

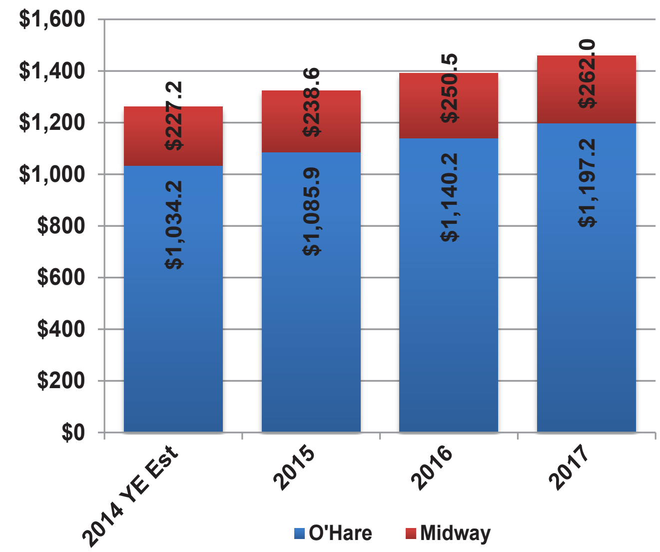
PROJECTED WATER AND SEWER FUND RESOURCES

$ Millions



PROJECTED AVIATION FUND RESOURCES

$ Millions



OUTLOOK FOR ENTERPRISE FUNDS

Water and Sewer Funds

Revenues to the water and sewer funds are expected to increase over the next three years in line with the rate increase enacted as part of the 2012 budget. The repairs and upgrades funded with the revenue from these rate increases are discussed in the Capital Investment section of this document. These three-year projections also account for anticipated population changes and collection rates, as well as the likelihood of increased conservation efforts and meter installations over the coming years.

Aviation Funds

The 2015 estimates for the O'Hare and Midway Airport funds anticipate that revenues, which are set at a level necessary to pay debt service and support the operations of the airports, will increase from 2014 levels by approximately 5 percent to $1,085.9 million and $238.6 million, respectively. The City projects that similar growth will continue into 2016 and 2017 as the airports move forward with capital projects and other improvements necessary to accommodate increased tourism and business travel.

Annual Financial Analysis 2014

Long-Term Asset Lease And Reserve Funds

Long-Term Asset Lease And Reserve Funds

Introduction

Reserves, commonly referred to as 'rainy day funds', are funds that the City sets aside as an economic safety net to mitigate current and future risks such as unexpected contingencies, emergencies, or revenue shortfalls. These funds are not included in the City's annual operating budget.

The City maintains a number of separate reserve funds – a water rate stabilization fund, a sewer rate stabilization fund, and a series of reserve funds established in connection with the long-term lease of City assets. The asset lease reserve funds function as the City's general, or corporate fund, reserves. This section discusses the City's various reserve funds, as well as the use of proceeds from the City's long-term asset leases. The historical use of these asset lease funds to subsidize the City's operating budget is discussed in greater detail in the Financial History Review section of this document.

Water and Sewer Rate Stabilization Funds

The City's water fund and sewer fund both maintain rate stabilization funds. These funds are reserved to ensure that the City's water and sewer systems would remain financially solvent in the case of a catastrophic event, in which case the funds would be used to finance operations and make necessary repairs for a short period. A decision is made each year regarding the amount that will be deposited into the rate stabilization funds based on the resources available and the appropriate level of reserves for the water and sewer funds.

The balance of the water rate stabilization fund was relatively constant, at just over $50 million, from 2003 through 2009. In 2010, approximately $10 million was deposited into the fund to bring its balance to just over $60 million, and the fund remained at this level through 2011. $13.5 million was deposited into the fund in each of 2012 and 2013, bringing the fund's balance to approximately $88 million.

In 2003, the balance of sewer rate stabilization fund was approximately $8 million. By 2010, the balance had increased to over $25 million, and the fund remained at that level through 2011. Following the 2012 and 2013 deposits, this fund's balance was approximately $33 million.

Asset Lease Reserves[18]

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 that year. The remaining $40 million was transferred to the corporate fund in two $20 million transfers, one in 2010 and the second in 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. Both 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 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

[18] In legal terms, the City's parking meter agreement is a concession and not a lease; however, for ease of reference the term lease is used in this document for both the Skyway and parking meter agreements.

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.

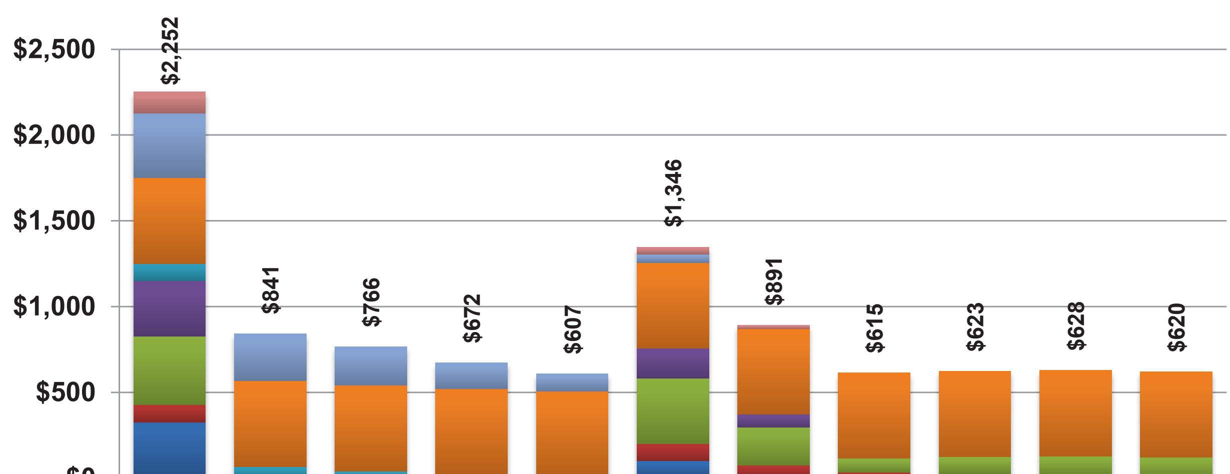
The City established a $400 million long-term reserve with the proceeds of the parking meter lease. This fund was created to replace revenues that would have been generated from parking meters by transferring interest earnings on the fund to the corporate fund, with the principal remaining intact at $400 million. The fund was initially intended to generate $20 million each year based on a 5 percent interest rate earnings assumption. However, starting in 2009, the City began utilizing these long-term reserve funds to subsidize the City's operating budget. In 2009, $20 million was transferred to the corporate fund, and in 2010, $160 million was used for City operating expenses. The 2011 budget included a $140 million transfer from this fund for operating purposes. Utilizing these funds reduced the principal balance substantially below the initial deposit and accordingly reduced the interest earnings generated by the fund. The original ordinance establishing the fund directed that an annual transfer of $20 million be made from the fund into the corporate fund to replace lost meter revenue. However, in order to maintain these important reserves, the City amended the ordinance in 2012 to state that only interest generated from the fund, and not principal, must be transferred for this purpose. In addition, the City began to rebuild these reserves with a $20 million deposit into the fund in 2012, a $15 million deposit in 2013, and a $5 million deposit budgeted in 2014.

Mid-Term Reserves and Budget Stabilization Fund

The City also established mid-term reserve funds of $375 million and $325 million, respectively, with proceeds from 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, with the principal depleted in 2010 and the approximately $50 million in accumulated interest transferred from this fund to the corporate fund in 2011. The parking meter mid-

ASSET LEASE FUND BALANCES[19]

$ Millions

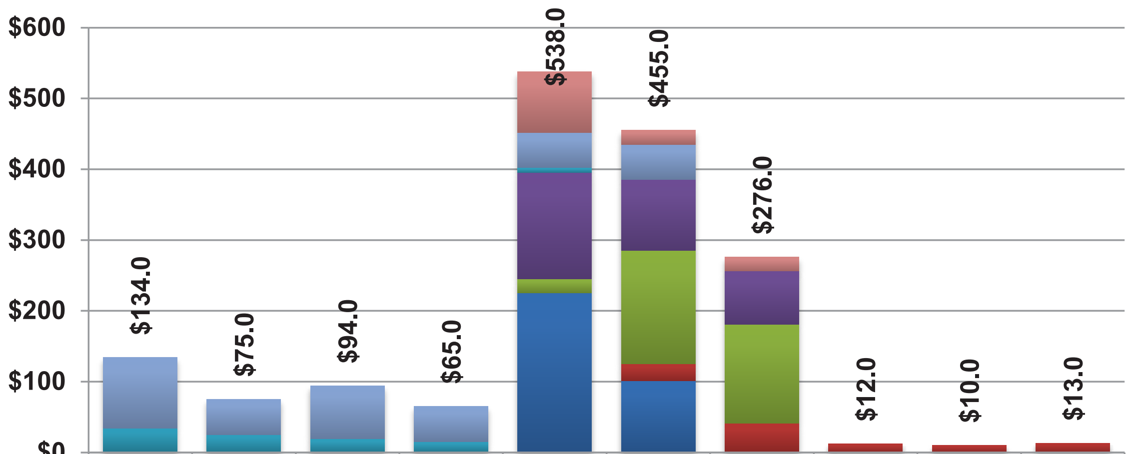


	Deposit	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 Budget
Midway Security	$126					$40	$20	$0	$0	$0	$0
Skyway Mid-Term	$375	$275	$225	$150	$100	$50	$0	$0	$0	$0	$0
Skyway Long-Term	$500	$500	$500	$500	$500	$500	$500	$500	$500	$500	$500
Skyway Human Infrastructure	$100	$66	$41	$22	$7	$0	$0	$0	$0	$0	$0
PM Mid-Term	$325					$175	$75	$0	$0	$0	$0
PM Long-Term	$400					$380	$220	$80	$100	$115	$120
PM Human Infrastructure	$100					$100	$76	$35	$23	$13	$0
PM Budget Stabilization	$326					$101	$0	$0	$0	$0	$0
Total	$2,252	$841	$766	$672	$607	$1,346	$891	$615	$623	$628	$620

[19] The amounts in these charts represent the principal of the respective funds; interest is not included in either the fund balance or the transferred amounts.

TRANSFERS TO CORPORATE FUND[19,20]

$ Millions



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 Budget
Midway Security	$0	$0	$0	$0	$86	$20	$20	$0	$0	$0
Skyway Mid-Term	$100	$50	$75	$50	$50	$50	$0	$0	$0	$0
Skyway Long-Term	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Skyway Human Infrastructure	$34	$25	$19	$15	$7	$0	$0	$0	$0	$0
PM Mid-Term	$0	$0	$0	$0	$150	$100	$75	$0	$0	$0
PM Long-Term	$0	$0	$0	$0	$20	$160	$140	$0	$0	$0
PM Human Infrastructure	$0	$0	$0	$0	$0	$24	$41	$12	$10	$13
PM Budget Stabilization	$0	$0	$0	$0	$225	$101	$0	$0	$0	$0
Total	$134	$75	$94	$65	$538	$455	$276	$12	$10	$13

term reserve fund was drawn on an accelerated schedule and was also fully spent at the end of 2011. 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, $100 million was used in 2010, and the remaining principal balance of $75 million, together with any interest generated on the fund, was transferred to the corporate fund in 2011.

The parking meter budget stabilization fund was established to assist the City in weathering the national economic downturn occurring at the time of the closing of the parking meter lease transaction. $326.4 million was initially deposited into the fund and the principal was fully utilized by the end of 2010. A small amount (approximately $600,000) of interest remained in the fund and was transferred to the parking meter long term reserve fund in 2012.

Human Infrastructure Reserve Funds

The City set aside $100 million of the proceeds from each of the Skyway and the parking meter lease transactions to be used to fund programs to improve the quality of life in Chicago neighborhoods. The principal of the Skyway human infrastructure fund was fully utilized by the end of 2009, and the remaining interest in the fund was utilized in 2011. The principal balance of the parking meter human infrastructure fund as of year-end 2013 was approximately $13 million, all of which is budgeted for human infrastructure programs in 2014.

Proceeds 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:

[20] The transfers presented in this chart include amounts utilized to cover transaction costs for the respective lease. The amount transferred from the Skyway mid-term reserve fund in 2005 includes $50 million transferred upon the closing of the transaction in 2004. The amount transferred from the parking meter mid-term reserve fund in 2009 includes $50 million that was transferred from the fund into the corporate fund and $100 million that was used to redeem commercial paper that the City issued in December of 2008 to advance the proceeds of the parking meter lease transaction. Amounts transferred from the human infrastructure funds include amounts transferred directly to delegate agencies providing services.

- 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; and
- Maintaining shelter, food, and supportive services for the City's homeless, seniors, and at-risk populations.

Asset Lease Funds Going Forward

At the end of 2013, the aggregate principal balance in the City's asset lease reserve funds was approximately $628 million. The majority of this amount is the $500 million in the Skyway long-term reserve fund, with an additional $13 million in the parking meter human infrastructure fund and $115 million in the parking meter long-term reserve fund.

The 2012 budget phased out the practice of transferring principal from these reserves to subsidize the City's operating budget. Only the interest earned on the long-term reserve funds will be transferred to the corporate fund on a going-forward basis. In addition, as discussed above, the City has begun to rebuild these funds by depositing $35 million into the City's long-term reserves over the past two years, with an additional $5 million deposit planned for 2014.

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Capital Investments

Capital Investments

Introduction

The City's capital improvement program funds the replacement, improvement, and construction of the City's 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. Funding for the capital improvement program comes from general obligation bonds, motor fuel tax revenue bonds, water and sewer revenue bonds, state and federal funding, tax increment financing, and private funding through public/private ventures.

Planning for capital improvements is an ongoing and forward-looking process. The City consistently reviews its capital priorities and evaluates 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.

Capital Investment: 2004-2013

This discussion of the City's capital program over the past 10 years focuses on capital improvements funded through:

- General obligation bonds, which are financed through property tax revenue and are used for a variety of City infrastructure and facility projects.
- Motor fuel tax revenue bonds, which are financed through taxes on fuel and are used for the construction of road-related improvements such as streets, lighting, and traffic signals.
- Water and sewer bonds, which are financed through water and sewer user fees, respectively, and are used for the construction and repair of water and sewer lines and related facilities.

State and federal grant funding for capital improvements and capital funding for Midway and O'Hare Airports are discussed only on a going-forward basis. TIF funding is addressed in the following section of this document.

Local Bond-Funded Capital Outlay

From 2004 to 2013, the City utilized proceeds from the issuance of general obligation bonds and motor fuel tax revenue bonds (together, local bonds) to fund $1.85 billion in capital improvements. These bonds are utilized to support a wide variety of project types, including:[21]

- Greening, such as green ways, medians, trees, fountains, community gardens, neighborhood parks, wetlands, and other natural areas.
- Facilities, such as the improvement and construction of City buildings and operating facilities, police and fire stations, health clinics, senior centers, and libraries.
- Infrastructure, such as the construction and maintenance of streets, viaducts, alleys, lighting, ramps, sidewalks, bridge improvements, traffic signals, bike lanes, streetscapes, and shoreline work.
- Aldermanic menu projects, which are selected by members of City Council, each of whom is allotted $1.32 million of general obligation bond funding to be spent at their discretion on a specific menu of improvements in their respective wards. Over the past eight 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 ($13.5 million), Chicago Public Schools ($2.6 million), and the Chicago Transit Authority ($500,000).

The increase in bond-financed capital outlay in 2008 reflects a large library bond issuance in that year to fund capital projects for the Chicago Public Library system, as well as a second issuance of motor fuel tax revenue bonds, the proceeds of which funded various road-related projects. Local bond-funded capital improvements generally decreased in more recent years as the debt service associated with past bond issuances has grown and the City has made efforts to cut overall costs.

Water and Sewer Bond-Funded Capital Outlay

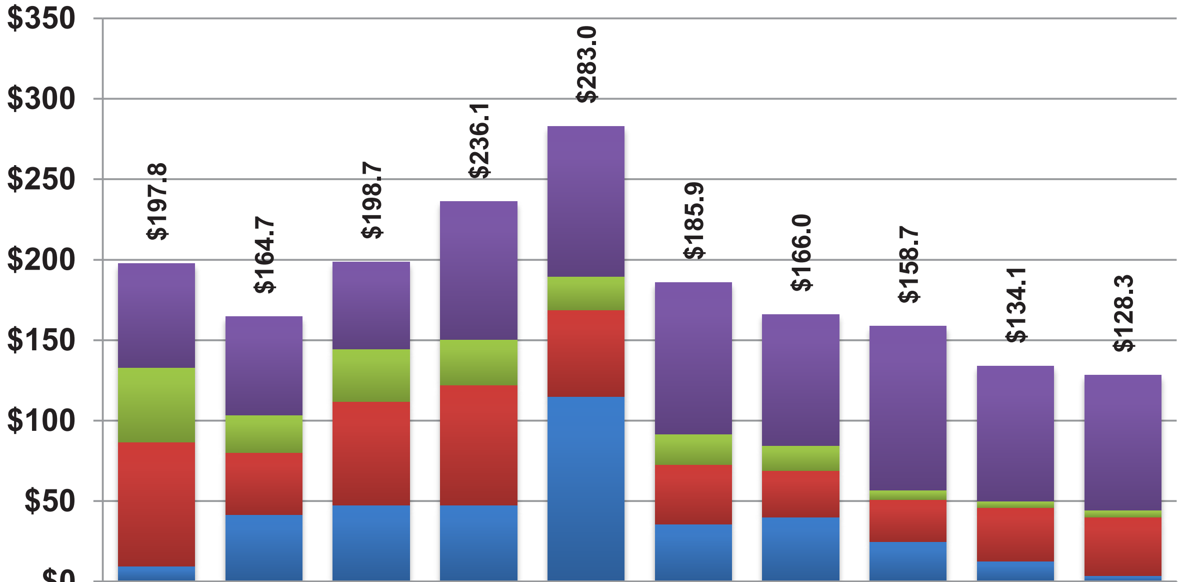
From 2004 to 2013, the City issued $2.1 billion in water and sewer revenue bonds, with fluctuations in the amount of issuances reflecting water and sewer system needs and repair priorities. Water and sewer revenue bonds are issued every other year.

[21] General obligation bonds have also funded a limited number of other uses, which are discussed separately in the Debt section of this document.

CAPITAL INVESTMENTS

CAPITAL USES OF LOCAL BOND FUNDING

$ Millions



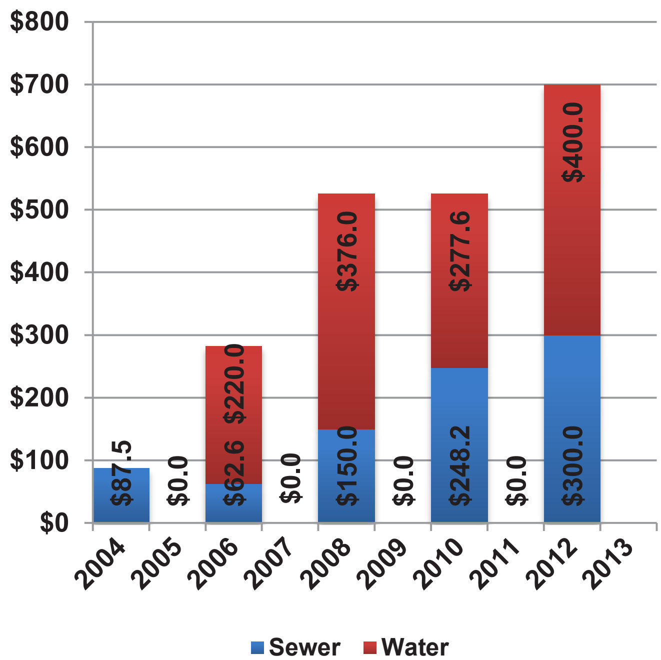
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Aldermanic Funds	$64.7	$61.2	$54.2	$85.9	$93.4	$94.4	$81.4	$102.0	$84.0	$84.0
Greening	$46.5	$23.3	$32.7	$28.0	$20.7	$19.0	$15.7	$5.8	$4.2	$4.4
Infrastructure	$77.2	$38.6	$64.3	$74.8	$54.0	$36.8	$28.9	$26.0	$33.1	$36.3
Facilities	$9.4	$41.6	$47.4	$47.3	$114.9	$35.8	$40.0	$24.9	$12.7	$3.6
Total	$197.8	$164.7	$198.7	$236.1	$283.0	$185.9	$166.0	$158.7	$134.1	$128.3

An aggressive program to modernize and rebuild much of the City's water and sewer infrastructure was initiated in 2012 to address the deteriorated state of the City's water and sewer systems, which was costing taxpayers tens of millions of dollars each year.

Through the end of 2013, the Department of Water Management has replaced 175 miles of water main and 43 miles of sewer main, lined 142 miles of sewers and 43,000 catch basins, installed 36,631 water meters in single-family homes across the city, and continued construction on major pumping station improvements, including the first of four steam pumping station conversions to electricity. This work will improve service, save money, promote sound environmental and water stewardship, and ensure a fresh and affordable supply of water for future generations.

WATER AND SEWER BOND ISSUANCES

$ Millions



Capital Investments

Capital Improvement Program: 2014 - 2018

The City's capital improvement program includes a total of $8.70 billion in planned capital improvements over the next five years. The charts in this section present the anticipated sources of capital funding and the proposed uses of capital funding for this five-year period. Details regarding the allocation, funding source, timing, and scope of each planned capital improvement project are available on the City's website.

Major capital projects moving forward during the next five years include:

- Construction of the Navy Pier Flyover, an elevated path for safer walking and biking along the Lakefront Trail near Navy Pier, one of the most heavily used portions of the trail; the 16-foot wide flyover will reduce crossing conflicts between pedestrians, cyclists, and cars going to and from the Navy Pier area and improve public access to the lakefront.

- The 606 elevated park and trail system, including the new Bloomingdale Trail bike path, transforming a 2.7 mile stretch of unused elevated railway line into a multi-use linear park with five connected ground-level neighborhood parks.

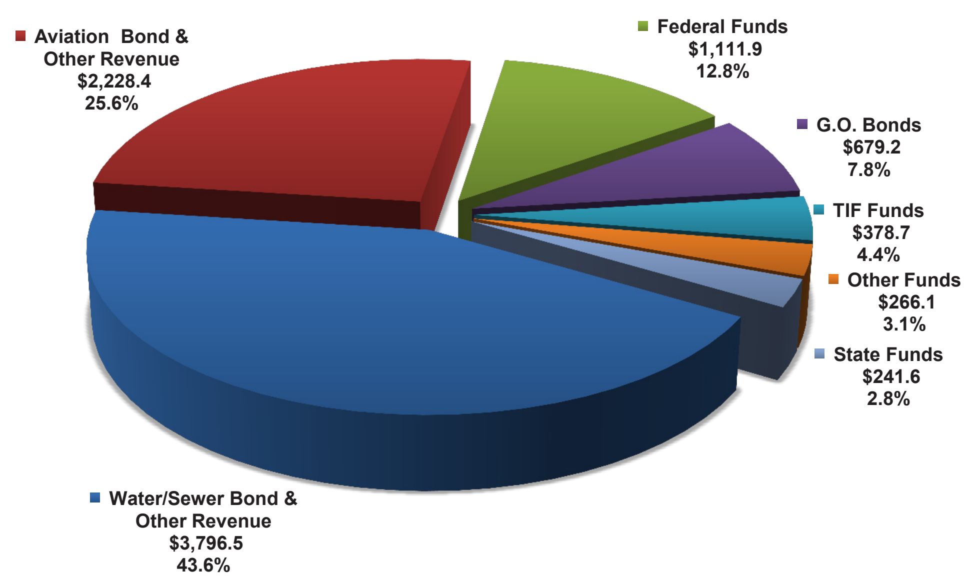
- A new elevated CTA station at Washington and Wabash serving the Brown, Green, Orange, Pink and Purple lines; this station will replace two century-old stations, providing increased passenger convenience, improving train speeds, decreasing operating costs, and enhancing accessibility for all riders.

- Continuation of the long-term rehabilitation of the City's aging water and sewer system; this decade-long initiative will replace 880 miles of century-old water pipes, reline or rebuild more than 750 miles of sewer lines, reline 140,000 sewer structures, and upgrade four of the original steam-power pumping stations.

- The Chicago Riverwalk, spanning west from State Street and incorporating recreational, educational, restaurant, and commercial components, which will be funded in part through a loan from the U.S. Department of Transportation's Transportation Infrastructure Finance Innovation Act program.

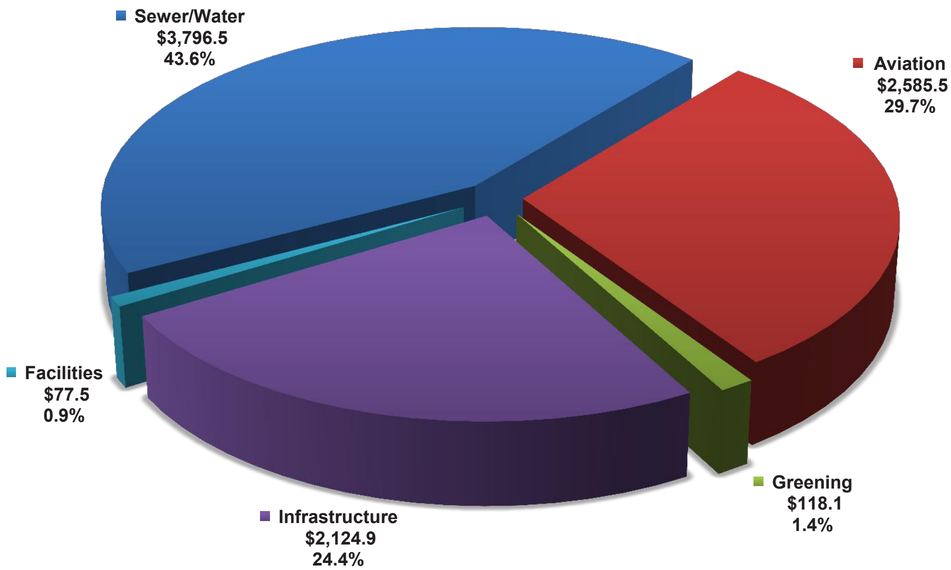
CAPITAL FUNDING SOURCES, 2014-2018

$ Millions



CAPITAL FUNDING USES, 2014-2018

$ Millions



Annual Financial Analysis 2014

TIF

TIF

Introduction

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 struggled to attract or retain housing, jobs, or commercial activity. The program is governed by a state law allowing municipalities to capture property tax revenues derived from the incremental equalized assessed value (EAV) above the base EAV that existed before an area was designated as a TIF district (the tax increment) and use that money 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 for taxing districts.

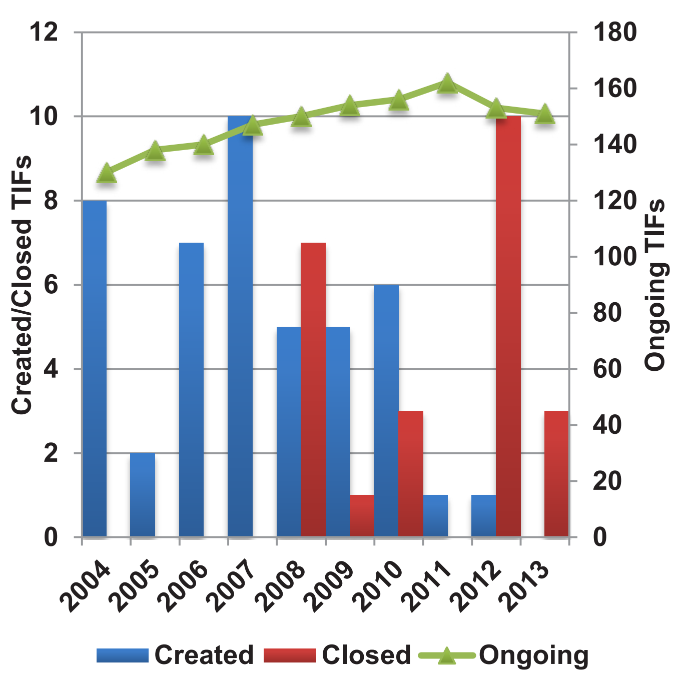
TIF Revenue

TIF Revenue 2004-2013

At the start of 2004, the City had 130 TIF districts, 118 of which were generating incremental tax revenue. Between 2004 and 2011, the City created 44 new TIF districts, one new district was created in 2012, and no districts were created in 2013. During the 2004-2013 period, the City repealed five districts pursuant to state law and terminated 11 others. In most cases, the statutory term of a TIF is 24 years, and eight districts have expired to date.

TIF DISTRICTS CITYWIDE

total districts and number created and closed[22]



In 2013, the City received incremental property tax collections from 147 of its 154 TIF districts, totaling $412.4 million. The chart on the next page presents the total revenue received by the City's TIF districts over the past 10 years. The total amount of TIF revenue grew steadily from 2004 through 2008 as new TIFs were added and as property values in TIF districts increased in line with the trend seen in property values citywide. The first TIF district to expire was the largest TIF district designated to date, the Central Loop TIF. The expiration of that district in 2008 explains the decline in TIF revenues in 2009.

The increase in revenues seen in 2011 is attributable in part to the increase in the composite tax rate in that year. As explained in the Property Tax Funds section of this document, the composite tax rate in Chicago increased as property values began to reflect the decline in the real estate market brought on by the recession.[23] In each TIF district, the amount of TIF revenue depends on the amount of incremental EAV in the district and the composite tax rate, which is applied to that EAV. In 2011, on a citywide basis, the increase in the tax rate outweighed any decrease in EAV in the city's TIF districts, resulting in increased TIF revenues. In 2012, however, the relative impact of the decrease in EAVs began to outweigh the impact of the increase in the tax rate, and overall TIF revenues decreased. This trend continued into 2013, and 2013 TIF revenue was also impacted by the expiration of the Near West and Stockyards Industrial Commercial TIFs and the termination of the 89th/State TIF.

TIF Revenue Going Forward

Property values in some parts of the City are slowly recovering while values in other areas continue to decline. However, due to the method of reassessment used by the

[22] Closings occur on December 31 of the year in which they are shown, and surplus revenue is generally returned and incremental EAV becomes available to taxing districts in the following budget year.

[23] Property values are reassessed by the County every three years, based on three prior years of sales. Due to the timing of reassessment, EAVs did not begin to reflect recessionary sales and valuations immediately following the economic downturn. When EAVs decrease and levies stay relatively the same, tax rates increase.

TIF

County, assessments for the upcoming years will continue to include years in which property values were depressed. Consequently, citywide EAV will continue to decrease or stagnate before starting to reflect the positive growth currently being seen in the real estate market. Citywide EAV peaked in 2010 at $84.6 billion and has since declined to approximately $62.4 billion, a 26 percent decrease.

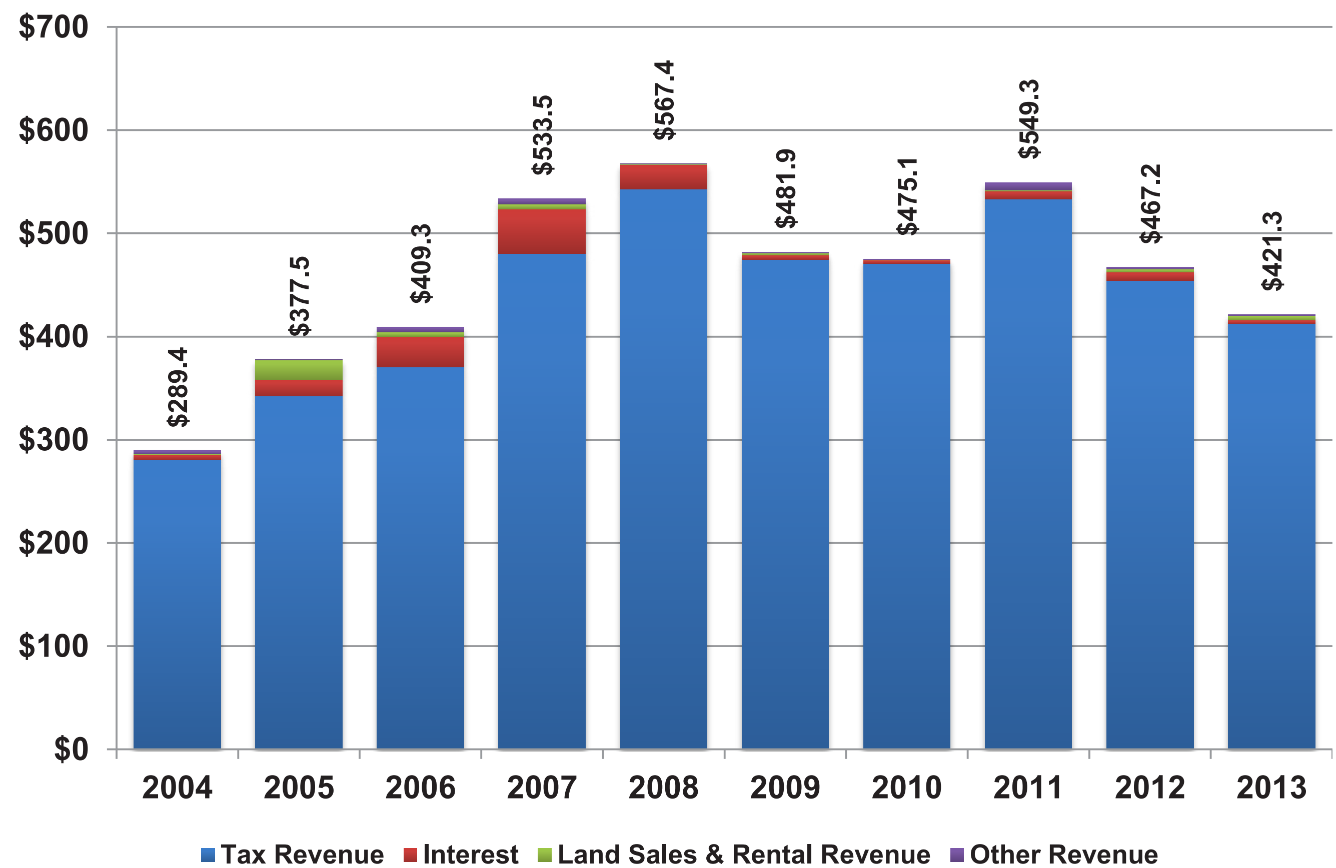
The EAV in TIF districts dropped by $1 billion in 2012 and by another $2.6 billion in 2013, mirroring the downward trend seen in EAVs citywide. Declining EAVs will continue to impact revenue in a significant number of TIFs across the city in the coming years. These declines translate into less revenue to fund public projects and developments in affected TIF districts. Newer TIFs created just before the recession are particularly vulnerable to declining EAVs, as they have a high base EAV and little incremental EAV.

In the upcoming years, some TIFs will not generate any revenue because the EAV of the district has fallen below the district's base EAV, and a number of TIFs will have obligations in connection with past or ongoing projects that exceed anticipated TIF revenues. To address these anticipated shortfalls, the City is holding back current revenues in certain TIF districts to be utilized to meet future obligations in the affected TIF districts.

Eight TIF districts are set to expire over the next three years – 95th Street & Stony Island, Near South, and Roosevelt/Homan in 2014; Sanitary Drainage & Ship Canal and Read/Dunning in 2015; and Stockyards Southeast Quadrant Industrial in 2016 – unless extended pursuant to state law and City ordinance. These expirations will reduce total TIF revenues accordingly. Two new TIF districts were created in 2014 – 107th/Halsted and Foster/California – and

TIF REVENUE BY SOURCE[24]

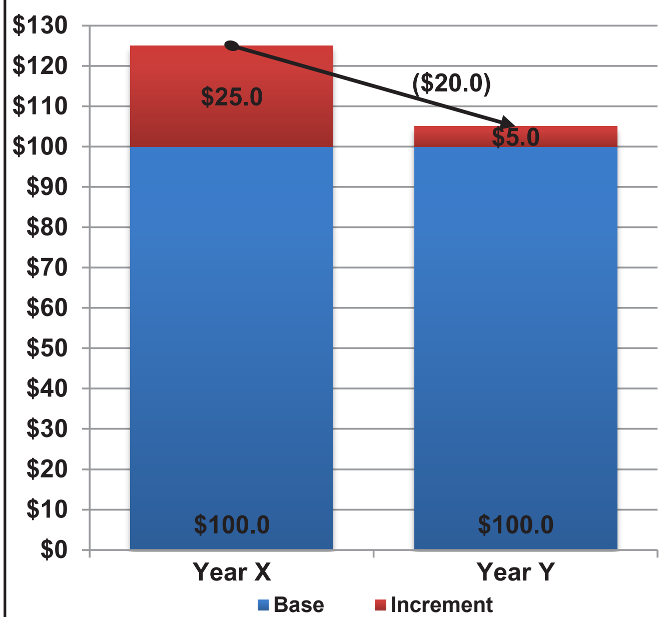
$ Millions



[24] The amounts in the chart 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 small amount of sales tax increment revenue collected in certain TIF districts. Sales tax increments were authorized in a limited number of TIFs and have been disallowed in new TIFs since 1987. Sales tax increment revenue contributed approximately $1.4 million to $2.5 million to total TIF revenues each year during the 2004 to 2013 period.

EXAMPLE OF REDUCED EAV
ON TIF INCREMENT

$ Millions



TIF revenue is especially sensitive to declines in property values, as the amount of revenue that a TIF generates depends on the incremental EAV in the district (the EAV above the base EAV that existed before the area was designated as a TIF district). The incremental EAV, and thus TIF revenues, absorb the impact of a decline in property values before the decline impacts any of the base EAV. For example, assume a TIF district's total EAV in Year X is $125 million, of which $100 million is base EAV and $25 million is incremental EAV. If in Year Y the total EAV declines to $105 million, then the base EAV will remain at $100 million while the incremental EAV is reduced to $5 million.

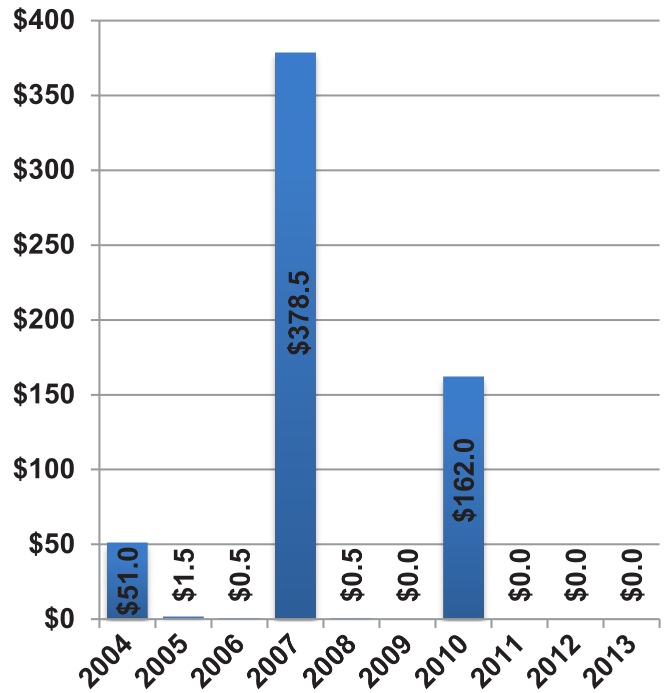
these districts will begin to generate incremental property tax revenue in future years.

TIF Project Bonds and Notes

The City has issued bonds and notes financed with future TIF revenues to fund certain TIF projects. The proceeds of bonds and notes are used to pay for TIF-eligible improvements in the districts, and the debt service is then paid with subsequent TIF revenue. Such financing allows the City to undertake larger projects sooner, rather than having to wait for annual TIF revenues to accumulate. The chart above shows the years in which bonds were issued and the amounts thereof.

TIF BOND ISSUANCES

$ Millions



As reflected in the chart, the City issued bonds for TIF projects in the Pilsen Industrial Corridor district in 2004. In 2007 and 2010, the City issued bonds as part of the Modern Schools Across Chicago program (MSAC), which is discussed in more detail below.

TIF Expenditures

Between 2004 and 2013, the City spent $3.6 billion in TIF funds (including the proceeds from bonds issued to fund TIF projects) on a range of projects in TIF districts across Chicago. Expenditure data for these years, categorized at a high level into financing, public improvement, site preparation, administration, development, and job training costs, can be found online in the audited annual financial reports for each TIF.

In order to increase transparency and enhance the usefulness of TIF data, the City is in the process of re-categorizing TIF commitments into more meaningful groupings. This process has been completed for commitments dating back to 2009, and the chart below presents TIF funds committed during that period as follows:

- Infrastructure, includes the construction, repair, and maintenance of City streets, sewers, bridges, bike lanes, and other critical infrastructure.

- Sister Agencies, includes projects undertaken by Chicago Public Schools, Chicago Park District, and CTA, as further described below.

- Planning and Administration, includes the cost of studies, program administration, and professional services for the TIF program.

- City Facilities, includes the construction and maintenance of City facilities such as libraries, police stations, and fire stations.

- Economic Development, includes redevelopment projects throughout the city.

- SBIF/NIP/TIF Works, includes Small Business Improvement Funding, Neighborhood Improvement Program funds, and job training programs.

- Residential Development, includes the construction of low income and affordable housing, the rehabilitation of existing homes, and funding provided to the Chicago Housing Authority.

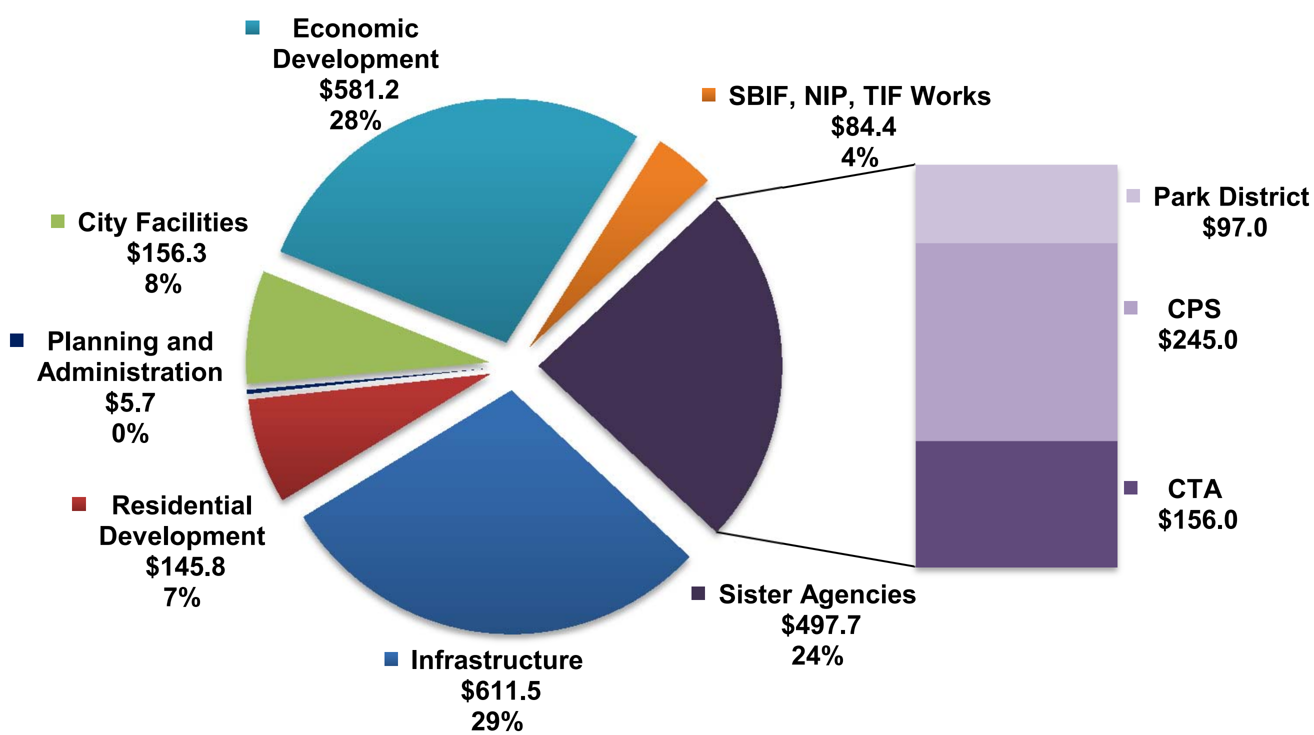
TIF Funding Provided to Sister Agencies

Since the start of its TIF program, the City has provided or is committed to providing $1.27 billion to CPS for school-related projects, $352.2 million to the Park District for park and open space projects, and $290.7 million to the CTA for track and station renovations and related projects.

TIF funding provided to CPS for school-related projects has benefitted 79 schools in 41 TIF districts citywide to date. This funding supports capital work at schools in TIF districts, including Back of the Yards College Preparatory High School, William Jones College Preparatory High School, Hernandez Middle School, Westinghouse High School, Albany Park Academy, Mather High School, Lindblom Math & Science Academy, West Ridge Elementary, Prieto Elementary, Skinner Elementary, South Shore High School, National Teachers Academy, Senn High School, Chase Elementary, Jose De Diego Elementary, Juarez High School, Simeon High School, Ames Elementary, Walter Payton College Preparatory High School, Barack Obama College

TIF COMMITMENTS, 2009-2014 to date

$ Millions



TIF

Preparatory High School, and Coonley Elementary School. A significant portion of the TIF funds provided by the City to CPS has been through MSAC, a capital improvement program established to fund the construction and renovation of 23 schools over seven years. The City has committed to providing $763.1 million in TIF funds to MSAC over the life of the program.

TIF funding provided to the Park District for parks and open-space projects has benefited 68 parks in 41 TIF districts citywide to date, including Ping Tom Park, Bartelme Park, Clark Park, Jesse White Field House, Morgan Park Sports Center, Ronan Park, Garfield Park, Taylor-Lauridsen Park, Women's Park and Gardens, Ward Park, the West Ridge Nature Center, Seward Park, Stanton Park, Fred Anderson Park, West Haven Park, Fuller Park, Heritage Green Park, and Livingston Field.

The CTA has received TIF funding for station and track improvements, as well as other transit projects, in 17 TIF districts citywide to date. Stations include the Cermak Green Line Station, the Morgan Green Line Station, the Medical District Blue Line Station, the Quincy Station, the Bryn Mawr Red Line Station, the Harrison Red Line Station, and the Roosevelt Station. Track improvements include the 18th Street Connector and the Blue Line O'Hare Branch from Damen to Clinton.

Under certain circumstances, the City may transfer TIF revenue from one district to an immediately adjacent TIF district for a specific project. Such transfers have traditionally been used for larger projects, such as schools or parks. Inter-TIF transfers have been used to pay debt service on bonds issued to fund school construction and renovations, including MSAC projects, as well as to fund major Chicago Park District projects and CTA track and station improvements. Between 2004 and 2013, a total of $438.8 million was transferred between TIFs. Information regarding proposed transfers is made available on the City's website prior to transfer.

TIF Surpluses and Closings

Surplus Declaration

Under certain circumstances, the City will declare a portion of the funds in an active TIF as surplus, returning the proportionate share of the funds to the applicable local taxing districts. Such surplus declaration occurs during the budget process and is pursuant to a policy to consistently return unneeded TIF revenues to the taxing districts according to set criteria, as recommended by the TIF reform panel.

For the past three years, the City has made a practice of declaring TIF surpluses on a regular basis. In November of 2013, the Mayor issued Executive Order No. 2013-3 to formalize and expand this practice. Under the Executive Order, the City will declare a surplus in TIF districts that are older than three years, were not created for single redevelopment projects, are not transferring funds to other TIF districts to pay MSAC debt service costs, and have a balance of at least $1 million. The amount of the surplus will be at least 25 percent of the available cash balance in the TIF, after accounting for current and future project commitments and contingencies, revenue volatilities, tax collection losses, and tax liabilities.

TIF SURPLUS

$ Millions, declared and from TIFs closed in prior years

	2009	2010	2011	2012	2013	2014
Declared	$0.0	$0.0	$188.0	$82.9	$25.0	$39.1
Expiration	$15.4	$0.02	$15.1	$13.7	$8.4	$25.4
Repeal	$2.3	$0.0	$73.3	$0.0	$0.5	$0.0
Termination	$6.9	$0.02	$0.0	$0.0	$9.6	$0.6
Total	**$24.6**	**$0.04**	**$276.4**	**$96.6**	**$43.5**	**$65.1**

The table above indicates the amount of money returned to local taxing districts since 2009 as surplus, either from existing TIF districts through the declaration of a surplus or from those that have closed through expiration, termination, or repeal. During this time, the City has received approximately 20 percent, the Park District approximately 6 percent, and CPS approximately 52 percent of all surplus dollars, with slight yearly variations based on each taxing district's applicable share of the tax rate.

TIF

The City's TIFs had an aggregate balance of $1.72 billion at the close of 2013, decreasing to $1.69 billion in active TIFs at the start of 2014. However, $1.67 billion of this balance is reserved for payments due in connection with committed projects, including a portion that is reserved to fund project costs in TIF districts where revenues are declining, in the event that annual revenues are insufficient to pay future obligations.

TIF Closings

There are a number of ways in which TIF districts come to a close:

- A TIF district expires automatically after 23 or 24 years, depending on when it was established.
- The City can terminate a TIF district before its planned expiration if it has achieved its initial goals or if an extended period of inactivity or lack of investment has indicated that additional development is unlikely.
- The City must repeal a TIF district if no substantial redevelopment activity has been initiated during the first seven years of the district's existence.

As part of ongoing reforms to the City's TIF program, the City closed ten TIF districts at the end of 2012 - one expired, seven were terminated, and two were repealed. In 2013, two expired and one was terminated. The City continues to evaluate the performance of each TIF district and will consider additional terminations as appropriate going forward, in accordance with the recommendations of the TIF reform panel.

After a TIF district ends, surplus funds are returned to the taxing districts, and the incremental EAV of the district becomes a part of the aggregate EAV that is available to all taxing districts. Taxing districts, including the City, have the ability to recover their portion of the revenue from the incremental EAV by adding it to their levy following a TIF district's dissolution. Amounts recovered through this practice are not subject to the State-mandated property tax cap that applies to certain taxing districts, including CPS. This practice is further discussed in the Property Tax section of this document.

Additional TIF Informational Resources

Much more information on the City's TIF program is available online. The amount of data and information available to the public regarding the TIF program has steadily increased in recent years. Currently, the following information can be found on the City's website:

- A redevelopment plan for each TIF district. The redevelopment plan provides the basis for designating an area a TIF, including the area's history, the existing land use at the time the TIF was designated, and the factors that qualified the area as eligible for tax increment financing. The plan also states the goals and objectives for the TIF and outlines the redevelopment budget.
- Redevelopment agreements (RDAs). An RDA exists for each project in a TIF that involves a private developer. The RDA includes the name of the developer and the terms of the agreement, the amount of TIF assistance, and the start and end dates of the agreement.
- Annual financial reports. These documents include the audited financial statements required by state statute. Each year, one such report must be submitted to the State Comptroller for each TIF district.
- Projection reports. These reports provide estimates of TIF revenues and obligations, including encumbered amounts, over a five-year period for each district generating incremental tax revenue.
- The TIF portal. This online portal provides an interactive map-based view of TIF districts by ward and the projects located in each TIF.
- TIF policy guidelines and applications for TIF assistance.
- Maps of the City's TIF districts by geographic area, as well as of each individual TIF district.

In addition, through the City's data portal, detailed financial information is provided in a searchable format, including the data used to create the projection reports noted above; balance sheets showing detailed statements of revenues, expenditures, and changes in fund balances over the previous year; and over 10 years of revenue and expenditure data for each district.

Annual Financial Analysis 2014

Debt

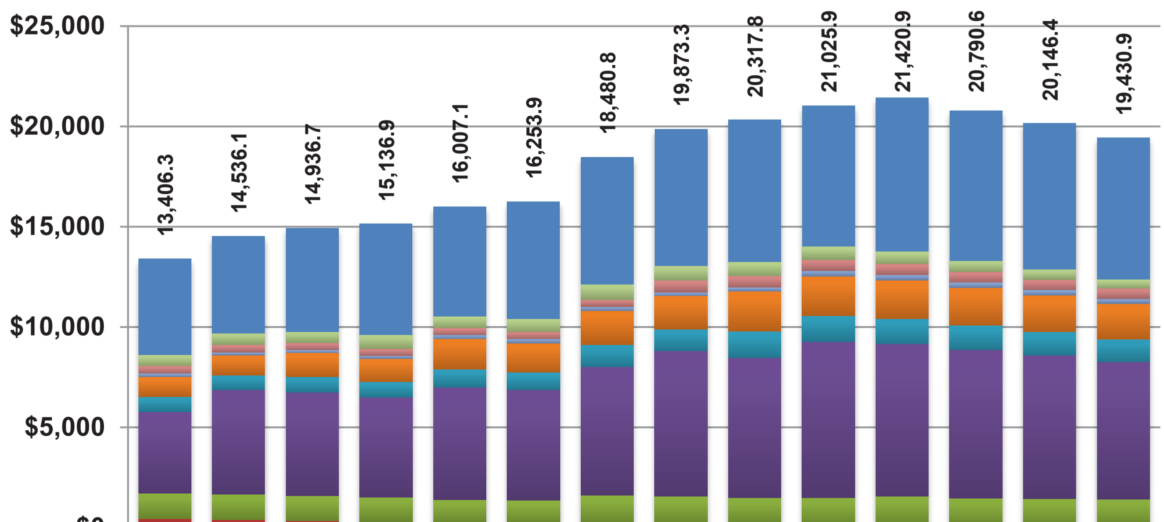
Long-Term Debt

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

- Property tax funded general obligation bonds, funded with property tax revenue, are issued annually to pay for capital projects and equipment, settlements and judgments, and certain working capital expenses.[25]
- Other general obligation bonds, which make up a small subset of the City's general obligation bonds, are secured by the City's general obligation pledge but are funded with other sources of revenue and issued to pay for specific purposes. For example, revenue from the 911 call surcharge is used in part to fund bonds for the construction of the City's 911 call center.
- Sales tax revenue bonds, funded with sales tax revenue, are issued to pay for general City infrastructure projects.
- Motor fuel tax revenue bonds, funded with motor fuel tax revenue, are issued to pay for road and highway projects.[26]
- TIF bonds, funded with TIF revenue, are issued to pay for redevelopment and infrastructure projects in TIF districts.

OUTSTANDING LONG-TERM DEBT[27]

$ Millions



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Property Tax Funded G.O. Bonds	$4,796	$4,835	$5,161	$5,536	$5,474	$5,849	$6,345	$6,818	$7,078	$7,005	$7,658	$7,476	$7,282	$7,072
Non-Property Tax Funded G.O. Bonds	$549	$587	$556	$672	$576	$643	$767	$734	$696	$656	$614	$561	$504	$440
Sales Tax Revenue Bonds	$374	$363	$361	$353	$343	$356	$355	$577	$566	$554	$542	$528	$515	$501
Motor Fuel Tax Revenue Bonds	$160	$156	$151	$147	$209	$204	$199	$193	$187	$282	$268	$263	$259	$254
Water Revenue Bonds	$1,004	$991	$1,193	$1,164	$1,499	$1,460	$1,698	$1,656	$2,012	$1,971	$1,928	$1,885	$1,832	$1,777
Sewer Revenue Bonds	$747	$732	$771	$755	$901	$877	$1,099	$1,072	$1,320	$1,284	$1,248	$1,209	$1,169	$1,126
O'Hare Revenue Bonds	$4,048	$5,214	$5,150	$4,995	$5,603	$5,506	$6,404	$7,260	$6,971	$7,781	$7,591	$7,398	$7,143	$6,843
Midway Revenue Bonds	$1,279	$1,272	$1,258	$1,244	$1,207	$1,185	$1,461	$1,439	$1,383	$1,413	$1,506	$1,414	$1,400	$1,384
TIF Bonds	$448	$387	$335	$272	$195	$175	$153	$124	$106	$80	$65	$56	$44	$34
Total	$13,406	$14,536	$14,937	$15,137	$16,007	$16,254	$18,481	$19,873	$20,318	$21,026	$21,421	$20,791	$20,146	$19,431

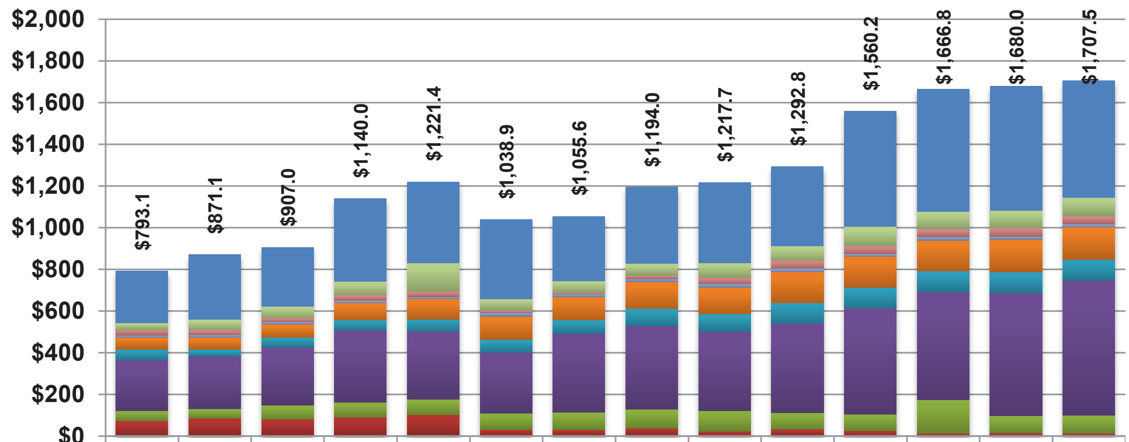
25 This category includes bonds issued by the City on behalf of the City Colleges of Chicago in 1999 and 2007.

26 In 2013, the City pledged motor fuel tax revenue to the federal government for a low interest rate loan through the U.S. Department of Transportation's Transportation Infrastructure Finance Innovation Act (TIFIA) program to fund the expansion of the Chicago Riverwalk. Beginning in 2014, in addition to motor fuel tax revenue, revenue from fees charged to tour boat operators in the city and other revenues related to the new Riverwalk will secure the City's motor fuel tax revenue bonds.

27 The amounts presented in this section do not include the issuance of any new bonds. Debt service payments are shown net of capitalized interest and Build America Bond subsidy payments.

LONG-TERM DEBT SERVICE PAYMENTS[27]

$ Millions



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Property Tax Funded G.O. Bonds	$250	$312	$284	$400	$390	$381	$311	$368	$386	$381	$555	$588	$597	$562
Non Property Tax Funded G.O. Bonds	$32	$50	$55	$64	$137	$53	$56	$56	$69	$70	$92	$84	$85	$89
Sales Tax Revenue Bonds	$26	$22	$19	$26	$25	$13	$5	$15	$33	$39	$39	$39	$39	$38
Motor Fuel Tax Revenue Bonds	$11	$12	$12	$12	$11	$16	$16	$16	$16	$16	$12	$16	$15	$16
Water Revenue Bonds	$56	$57	$61	$82	$96	$110	$110	$127	$128	$148	$148	$148	$155	$155
Sewer Revenue Bonds	$52	$35	$48	$50	$58	$64	$64	$82	$82	$100	$100	$100	$100	$100
O'Hare Revenue Bonds	$243	$251	$279	$345	$326	$292	$380	$401	$383	$428	$511	$519	$589	$647
Midway Revenue Bonds	$48	$45	$68	$71	$74	$77	$82	$91	$97	$80	$78	$160	$83	$88
TIF Bonds	$74	$86	$80	$91	$103	$32	$32	$38	$24	$32	$27	$13	$15	$13
Total	$793	$871	$907	$1,140	$1,221	$1,039	$1,056	$1,194	$1,218	$1,293	$1,560	$1,667	$1,680	$1,707

- Water and sewer revenue bonds, funded with revenue from water and sewer fees, are issued every other year to pay for capital projects for the water and sewer systems, respectively.

- O'Hare and Midway revenue bonds, funded with revenue from airport operations, are issued to pay for airfield and terminal improvements and related facilities.

The City's debt level increased steadily for much of the past 10 years, reaching approximately $21 billion in 2013. The bulk of this debt was used to fund capital projects across the City, but portions have also been used to pay 'working capital' expenses such as median maintenance, irrigation, and plantings; retroactive salary and pension payments (resulting from union contract re-negotiations); and costs incurred in connection with settlements and judgments against the City. In recent years, the City has made progress in moving away from the practice of funding such working capital expenses with bond proceeds, instead paying for more of these costs with regular operating revenues.

In addition, a portion of the City's general obligation bond issuance is used to finance certain equipment purchases, such as technology equipment, vehicles, fire safety equipment, and similar items. The use of general obligation bond proceeds for the purchase of equipment has generally decreased in recent years - peaking in 2006 at $111.7 million and decreasing to $67 million in 2013 - as the City has made efforts to cut overall costs.

Debt service paid primarily with taxpayer dollars (excluding debt payments for O'Hare and Midway airport improvement programs, which are paid with user fees imposed on airlines) totaled approximately $784.5 million in 2013. This amount is anticipated to increase to $972.0 million in 2014. Even if no new long-term debt is issued, and assuming no refinancings, these debt service payments will continue to increase through 2017. The City uses refunding and restructuring as part of its debt management strategy, and as discussed in the Financial Forecast section of this document, a substantial portion of the City's property tax dollars are used to pay this debt service.

Debt

Short-Term Debt

In addition to the long-term debt discussed above, the City issues certain types of short-term debt to address various operating, liquidity, and capital needs, including:

- Commercial paper notes are issued to satisfy cash flow and liquidity needs of the City on a limited basis; for example, commercial paper notes are issued to fund building and site maintenance and operations for the City's libraries for a short period until property tax revenues are collected.
- Commercial paper notes are used as an interim financing mechanism for corporate, water, O'Hare, and Midway fund projects for a period of time until long-term bonds are issued or paygo funding is utilized; this reduces the City's debt expense prior to bond issuance.
- During the period between 2005 and 2011, approximately $29.3 million in commercial paper was issued to fund the maintenance and operation of Millennium Park; the City allocated $2 million in 2013 and $5.5 million in 2014 towards paying off this Millennium Park debt and plans to continue to allocate funds each year going forward to making such payments.
- Short-term financing is being used to fund the consolidation and reorganization of City offices and the renovation of portions of City Hall in order to better facilitate the day-to-day functions of City departments, increase the City's utilization of its owned space, and save money on lease expenses. Through the end of 2013, the City leased multiple floors at 33 N. LaSalle Street at an annual cost of $4.4 million. The City did not renew that lease for 2014 but instead shifted departments from that space to City Hall or other City office space. The total cost of the consolidations and renovations is estimated at $12 million, which will be recouped within the first three years with these lease savings.

Annual Financial Analysis 2014

Pensions

PENSIONS

THE CITY'S PENSION FUNDS

Illinois State law establishes retirement plans for all public employees in the State, including those employed by the City. The basis of these retirement plans are pension funds, into which employees and their employers contribute, and from which retirement benefits are paid. Employee and employer contributions are invested by the pension funds in a variety of stocks and other assets. The return on these investments, together with the cumulative amount of employee and employer contributions into the pension fund, make up the total assets of the fund. Once an employee has served a certain number of years and reached a certain age (these requirements vary depending upon the fund), they can retire and begin to receive retirement benefits paid out of these assets.

City employees participate in one of four such defined-benefit pension plans:[28]

- the Municipal Employees' Annuity and Benefit Fund (MEABF), which covers most civil servant employees of the City, as well as non-teacher employees of the Chicago Public School system;
- the Laborers' and Retirement Board Employees' Annuity and Benefit Fund (LABF), which covers City employees who are members of certain unions;
- the Firemen's Annuity and Benefit Fund (FABF), which covers the City's sworn firefighters and paramedics; and
- the Policemen's Annuity and Benefit Fund (PABF), which covers the City's sworn police officers, captains, lieutenants, and sergeants.

These pension funds and the contributions and benefits under each are governed by the Illinois Pension Code.

THE UNFUNDED PENSION LIABILITY

A pension fund is said to be 'fully funded' when its total assets are sufficient to cover the projected future benefits that the Pension Code requires be paid to members of the fund. If the fund's total assets are not sufficient to cover the future benefits, it is said to have an 'unfunded liability.' The unfunded liability is the difference between the fund's total assets and the discounted present value of those future benefits. Currently, all four of the City's pension funds carry significant unfunded liabilities, as shown in the table below.

FUNDING STATUS OF CITY PENSION FUNDS

$ Millions, as of December 31, 2013

	Total Assets	Accrued Actuarial Liability	Unfunded Liability[29]	Funded Level
MEABF	$5,422	$13,856	$8,435	39%
LABF	$1,458	$2,391	$933	61%
FABF	$1,117	$4,089	$2,973	27%
PABF	$3,265	$10,081	$6,815	32%
Total	**$11,262**	**$30,417**	**$19,156**	**37%**

The current funding status of the pension funds is the result of the statutory framework on which the pension system is based and the political and economic factors that have acted upon that framework.

Statutory Framework

Currently, under the Illinois Pension Code, each City employee contributes a statutorily-determined percentage of their pay to their pension during each year that they are employed by the City, and the City then contributes a statutorily-determined multiple of the employee contribution, with the multiplier varying by pension fund.[30] These contributions are not calculated in relation to the actual cost of future benefits.

STATE-MANDATED PENSION CONTRIBUTIONS

as a percentage of pay, as of 2014

	FABF	PABF	LABF	MEABF
Employee Contribution	9.125%	9.00%	8.50%	8.50%
City Multiplier	2.26	2.00	1.00	1.25
City Contribution	20.62%	18.00%	8.50%	10.63%
Total Contribution	**29.75%**	**27.00%**	**17.00%**	**19.13%**

[28] Separate pension funds exist for employees of the Chicago Transit Authority, the Chicago Park District, and teachers at the Chicago Public Schools. Those pension funds are not discussed in this document, as this Annual Financial Analysis does not address the finances of the City's sister agencies.

[29] The unfunded liability is determined on an actuarial basis. It is an as-of-date calculation, which assumes a certain discount rate and considers the present value of the liability for benefits earned through the valuation date.

[30] The City's annual contribution is based on the contribution made by the employee two years prior. For example, in 2014, the City is matching (at the applicable rate) the contribution made by the employee in 2012.

In addition, this funding framework is static; the contribution percentages do not change to adjust for changes in the economy affecting returns on pension fund investments, changes in the demographics of retiring employees, or changes in the benefits promised to employees. As each of these factors changed over the years, the contribution formula remained the same, contributing to today's unfunded liability. Following is a discussion of the impact of each of these factors.

Legislation has been enacted that will change this statutory funding framework in the coming years, as discussed in the Pension Reform section below.

Economic Downturns

Two major economic events significantly affected the health of the City's pension funds. When the dot-com bubble burst in 2000, the assets of the pension funds shrank significantly due to market losses. From 2000 to 2002, the four funds went from approximately 87 percent funded to approximately 62 percent funded, due primarily to investment losses. Investment performance improved in the mid-2000s, but this growth was on a smaller pool of money due to prior losses, so even in years with high investment returns, the overall funding levels remained at around 61 to 66 percent. Then, in 2007 and 2008, the real estate-driven market crash took the City's pension funds, collectively, from approximately 62 percent funded to approximately 38 percent funded.

COLAs and Changes in Benefits

Over time, additional benefits have accrued under or been written into the Pension Code. Most notably, automatic annual adjustments, sometimes referred to as 'cost-of-living' adjustments (COLAs), written into the Pension Code significantly increased the cost of benefits. These COLAs provide annual increases in pension payments regardless of the extent to which the cost-of-living actually increases. Legislation passed by the State in 2010 eliminated these automatic COLAs for employees hired on or after January 1, 2011, for all four funds and instead tied COLAs to the consumer price index (CPI).[31] Employees hired prior to 2011 and participating in the FABF or PABF receive annual COLAs at a simple rate (either 3 percent or 1.5 percent) based on the original annuity payment to the retiree. Prior to the enactment of P.A. 98-0641, which is discussed in the Pension Reform section below, employees hired before 2011 and participating in the LABF or MEABF received an annual COLA at a 3 percent compound rate, meaning that each year their benefits payment would increase 3 percent over the prior year's benefits payment.

Legislative changes to the Pension Code also increased the total cost of benefits owed, though to a lesser degree than the automatic COLAs. Among other changes, certain benefit minimums were raised, the definition of pensionable pay was made more inclusive, and some healthcare benefits were increased.

Workforce and Retiree Demographics

In addition to investment losses and benefit increases, the makeup of the City's workforce and retirees has added to the unfunded liability. The statutorily-set employee and employer contribution percentages did not change to account for shifts in basic demographic factors such as the lifespan of retirees, and as retirees live longer, they collect benefits longer and the projected future benefit costs of the pension funds increase. Adding to this, as the City took measures to incentivize early retirement to help balance the City's budget, employees retired and thus stopped paying into the pension funds and started collecting from the pension funds sooner than would otherwise have been expected. This affected the pension funds' balances on both sides - contributions decreased while benefit costs increased.

Conclusion

Each year, employees and the City contributed the statutorily-required amounts into the pension funds, but these statutorily-required contributions fell far short of covering the future benefits that were accrued. Demographics changed, benefits were enhanced, and a series of severe economic events occurred over the course of the past 15 years. The system was not set up to automatically adjust for investment losses or the growing cost of benefits, and lawmakers did not take action to address the situation with changes to benefits, increases in contribution requirements, or both. The result of this disconnect is a total unfunded pension liability of $19.2 billion across the four pension funds.

[31] P.A. 96-0889 and P.A. 96-1495.

Pension Reform[32]

Any changes to pension contributions or benefits, including the funding framework that resulted in the current unfunded liability, require legislative action at the State level.

Municipal and Laborers' Pension Funds

In order to address the substantial unfunded liability of the MEABF and LABF, the City worked with almost 30 unions to develop a balanced approach to reform that adjusts benefits and increases payments in a manner that protects both Chicago's taxpayers and the retirement security of City employees. The City then engaged with State legislators to pass the necessary amendments to the Pension Code, which were signed into law by the Governor in June 2014.

Under P.A. 98-0641, MEABF and LABF retirees will receive a simple COLA of either 3 percent or half of CPI, and will begin receiving a COLA one year later than they otherwise would have. There will also be three 'pause years' in 2017, 2019, and 2025, during which members will not receive a COLA. However, retirees receiving an annuity of less than $22,000 will receive a COLA of not less than 1 percent regardless of the CPI, even in pause years. Employee contributions will gradually increase over the course of five years, by 0.5 percent of pensionable pay each year, and then decrease once the funds have reached financial health.

The City's employer contributions will increase on a 'funding ramp' that will lead to actuarially-based payments. Under the current 'multiplier' funding framework, the City matches employee contributions at a rate of 1:1 for LABF and 1.25:1 for MEABF. These rates will increase each year for the next five years, reaching 2.8:1 for LABF and 3.05:1 for MEABF, after which the City will contribute each year the actuarially required amounts necessary to bring the funds to 90 percent funded in 40 years. Under the P.A. 98-0641 funding ramp, the City's total contribution to the MEABF and LABF will increase from $177.7 million budgeted in 2014 to an anticipated $266.7 million in 2015 (payable in 2016), and then grow by an average of 22 percent each year until reaching an estimated actuarially-based contribution of $590.2 million in 2019 (payable in 2020).[33]

Without these reforms, the MEABF would have exhausted its assets in or around 2025, with the LABF following in or around 2027. As a result of the reforms, these two funds are instead expected to reach financial health by 2055, on a funding ramp that acknowledges the impact of these payments on City finances.

Police and Fire Pension Funds

Comparable reforms have not been achieved for the PABF and FABF. Pursuant to legislation passed by the State in 2010 (P.A. 96-1495), the City's 2015 contribution (payable in 2016) will be based on an actuarially-determined amount sufficient to bring the PABF and FABF to 90 percent funded by 2040. This legislation does not include any reform to benefits for then-current employees or employee contribution levels, and it does not provide a funding ramp that acknowledges the impact of drastically increased pension payments on City finances.

Without reform, P.A. 96-1495 puts retirees, taxpayers, and critical City services at risk. Under the law, the City's required contribution to the PABF and FABF will spike to an anticipated $839.0 million in 2015 (payable in 2016), an increase of almost $550 million from the City's 2014 budgeted contributions for these funds. To put this into context, this amount is equal to the annual cost of keeping almost 4,000 police officers on the street or approximately 3,450 firefighters on duty; this amount could fund the resurfacing of almost 12,500 city blocks, and is more than six times the annual operating budget for the entire Chicago Public Library system.

Historic and Projected Pension Contributions

The chart on the next page sets forth the City's historic contributions and anticipated contributions through 2020. Because the City's contributions have historically been paid largely with property tax proceeds, contributions have been budgeted in the levy year and paid to the funds in the following year, when property tax collections are received. Contributions are presented here in terms of the levy year.

Over the past decade, City pension contributions increased

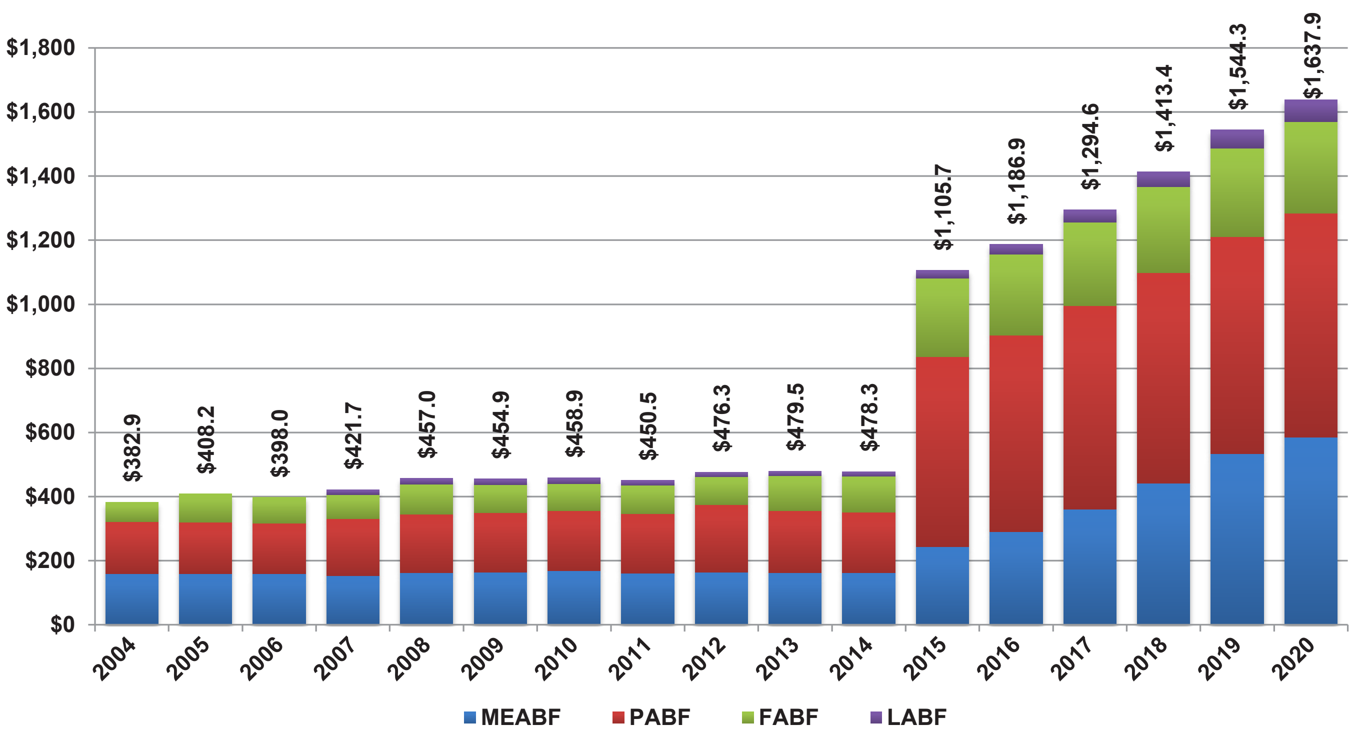
[32] The projections in this section assume an average annual rate of return on assets of 7.50 percent for the LABF and MEABF, 8.00 percent for the FABF, and 7.75 percent for the PABF.

[33] Because the City's contributions have historically been paid largely with property tax proceeds, contributions have been budgeted and discussed in terms of the levy year. The payments to the funds are then made in the following year, when property tax collections are received.

steadily, at an average annual rate of approximately 2 percent. This growth in pension payments despite overall workforce reductions can be attributed to the fact that staff reductions did not significantly affect police and fire payroll, which constitute a majority of the City's workforce. Police and fire employees have higher average salaries and receive a higher statutory rate of pension contribution from the City. The substantial growth in contributions going forward is largely a factor of P.A. 98-0641 and P.A. 96-1495, as discussed above.

HISTORIC AND PROJECTED PENSION CONTRIBUTIONS[34]

$ Millions, by levy year



[34] All projections are provided by the pension funds and are based on actuarial assumptions regarding future conditions, which are subject to numerous political, economic, and other factors; while reported projections are the best estimates available at this time, these should be viewed as approximate. The historic contributions presented in this chart differ slightly from amounts presented in prior years' Annual Financial Analysis as a result of differences in the accounting documentation of these contributions.

City of Chicago
Mayor Rahm Emanuel

www.cityofchicago.org