City of Chicago

Annual Financial Analysis 2015

Mayor Rahm Emanuel

Table of Contents

This Annual Financial Analysis is intended to provide a framework in connection with development of the City's annual budget process. **It has not been prepared to give information for making decisions on buying or selling securities and should not be relied upon by investors in making investment decisions.** With respect to any bonds, notes, or other debt obligations of the City, please refer for information only to the City's ordinances and notifications of sale and the related disclosure documents, if any, or continuing disclosure filings, if any, for such bonds, notes, or other debt obligations.

Letter from the Mayor

Dear Fellow Chicagoans,

This City of Chicago's 2015 Annual Financial Analysis provides an overview of the City's revenues and expenditures and a picture of the City's overall financial health.

Next year's projected operating shortfall is $233 million – the lowest it has been since 2008 – and that is a reflection of the hard work we have done to methodically shore up the City's finances, ending the practice of balancing the budget with gimmicks, and putting resources back into the City's rainy day fund.

At the same time, we have cut red tape, and saved millions of dollars through managed competition, better technology, reforms and other efficiencies.

Still, Chicago is facing enormous financial challenges today. Essential investments in City services and infrastructure are threatened by decades of mounting pension liabilities and debt obligations.

Over the past four years, we have begun the hard work of addressing these legacy liabilities in an effort to right our city's fiscal ship, while continuing to make investments important to Chicago's families and neighborhoods.

Despite the work of the past four years, we start this year's budget process with a $426 million deficit, which includes the $233 million operating shortfall, as well as a $93 million increase in pension payments, and $100 million in debt repayments as we work to end the practice of scoop and toss. As in the past, we will continue to look for savings and efficiencies everywhere we can. But there is no doubt that this year's budget will require difficult choices. This is in large part because of exponentially increasing pension costs—primarily the $328 million incremental payment for police and fire pensions alone.

A solution to our fiscal situation will require an "all hands on deck" approach – elected officials and residents alike – and a willingness to consider new ideas. Already, many aldermen have put forward constructive proposals to cut costs and raise revenues. In the weeks ahead, we will be holding multiple town hall meetings to solicit ideas and suggestions from residents across our city. Solving Chicago's fiscal challenges must be a collaborative process in which all voices are heard.

I am hopeful that the information in this report will enable Chicagoans to fully participate in the upcoming discussions on the 2016 budget. Despite our significant challenges, I look forward to working with residents from every part of our city to create a budget for next year that reflects our common values: creating jobs and economic development in every neighborhood; reducing the flow of illegal guns so that every community experiences a basic level of safety; and investing to give every child a quality education. Whatever temporary challenges we face, those must remain our ultimate goals.

Rahm Emanuel

Rahm Emanuel
Mayor

Annual Financial Analysis 2015

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 to foster a vibrant local economy, the City must be in strong financial health. To secure and maintain its fiscal health, the City must 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, in particular pension contributions, as well as the progress that has been made towards bringing operating expenses in line with revenues. The projected corporate fund structural budget gap for 2016 is $232.6 million, growing to $436.3 million by 2018. These projected shortfalls are in addition to increased obligations to the four pension funds under State law and payments needed for the City's debt service.

The Annual Financial Analysis is divided into these 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 how the City's sources of revenue have fluctuated with the economy over the past 10 years. It also provides detail on the expenses which make up the bulk of the City's operating budget, such as salaries and wages, employee benefits, and contractual services and trends in those expenditures over the last ten years.
- **Three-Year Financial Forecast.** This section provides projected revenues and expenditures for 2016 and discusses the anticipated corporate fund budget gap, which is currently estimated at $232.6 million. While progress has been made in the past four 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 2017 and 2018 – a current, or 'base 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.
- **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 net pension liabilities of the City's four pension funds, recent changes 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 specific 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 funds come primarily from the state and federal governments, and make up a significant and recurring source of revenue for the City. These funds are used to support a range of City services, including community development, youth services, and 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 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 primarily funded 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, and revenue shortfalls. These funds are not included in the City's annual operating budget.

Annual Financial Analysis
2015

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:

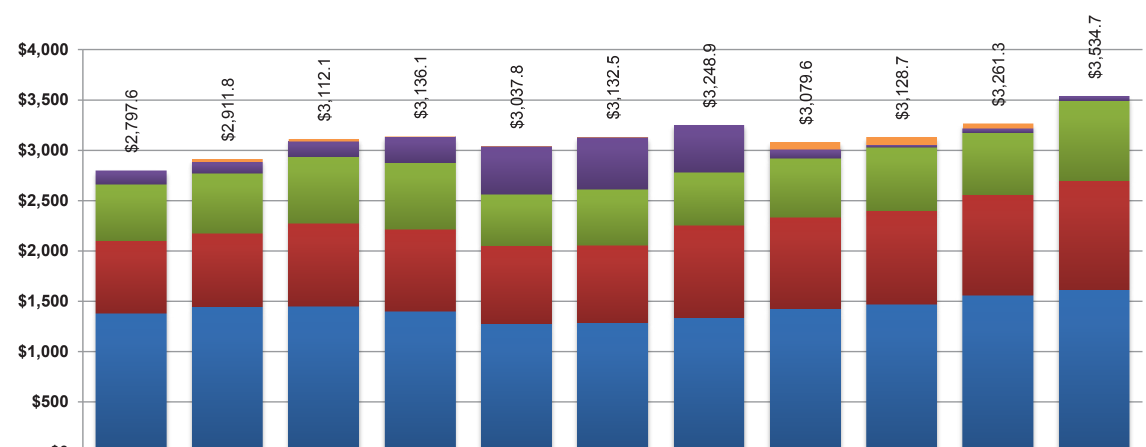
- Local tax revenue, which consists of taxes collected by the City, including utility, transaction, transportation, recreation, and business taxes.
- Intergovernmental tax revenue, which consists of the City's share of the Illinois state sales and use taxes, income tax, and personal property replacement 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.
- Proceeds and transfers in, which consist of amounts transferred into the corporate fund from outside sources, including proceeds from financing transactions and transfers from the City's asset lease reserve funds.

In the years leading up to 2008, total corporate fund revenues experienced steady growth. Corporate fund revenues declined in 2009 following the financial crisis and economic downturn and have been recovering since.

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.

TOTAL CORPORATE FUND RESOURCES BY SOURCE

$ Millions



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015 YE Est
Prior Year Available Fund Balance	$-	$27.7	$22.2	$1.1	$1.5	$2.6	$-	$72.3	$77.2	$45.5	$-
Proceeds & Transfers In	$133.3	$115.1	$154.5	$259.3	$474.6	$519.0	$467.6	$86.6	$21.0	$39.7	$41.6
Intergovernmental Taxes	$563.2	$592.2	$662.7	$659.3	$508.6	$553.8	$525.2	$587.6	$630.9	$619.1	$796.3
Non-Tax Revenue	$722.5	$730.0	$822.6	$814.0	$777.8	$773.3	$921.1	$907.8	$929.4	$998.0	$1,082.6
Local Taxes	$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	$1,559.0	$1,614.2
Total	$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	$3,261.3	$3,534.7

Financial History Review

Between 2005 and 2007, an average of 69 percent of total corporate fund revenues came from local and 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.

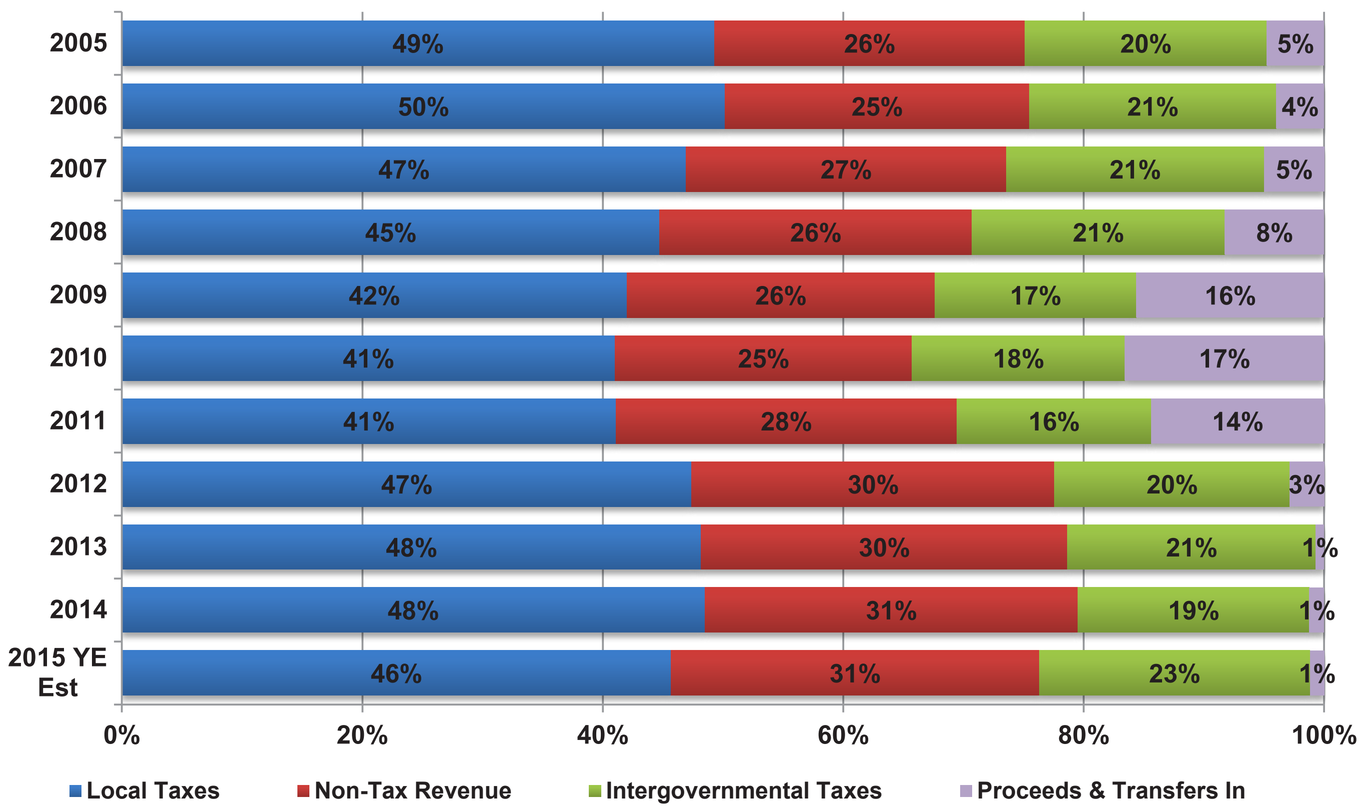
As these economically-sensitive revenues declined, the City did not decrease expenditures to match these shrinking revenues, but instead increasingly utilized transfers into the corporate fund from outside sources. In the period from 2009 through 2011, an average of $487 million each year, or 16 percent of corporate fund revenues, came from one-time resources such as the proceeds for the long term leases of the Skyway and the parking meter system.

The 2012 budget began the process of aligning expenditures with real revenues through efficiencies, targeted cuts, and select revenue enhancements. From 2012 through 2014, an average of 68 percent of corporate fund revenues came from local and intergovernmental taxes, 30 percent from recurring non-tax revenues, and only two 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, 2015 continues this trend, and 68 percent of corporate fund revenues are estimated to come from local and intergovernmental taxes, 31 percent from recurring non-tax revenues and one percent from proceeds and transfers in the fund.

Following is a more detailed discussion of the individual revenue sources that make up the major categories of corporate fund revenue discussed above. This financial history review examines how each revenue source has performed over the course of the last decade and an estimate of how each source will perform through the end of 2015.

CORPORATE FUND REVENUE

as a percentage of total corporate fund revenue



Financial History Review

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.

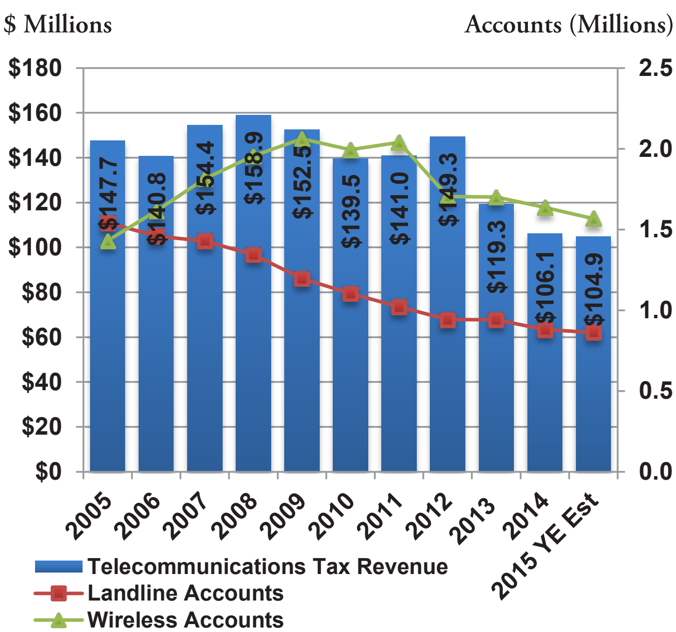
Public Utility Taxes

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 2005, public utility taxes generated $492.1 million, accounting for 18 percent of total corporate fund revenues. These taxes peaked at $524.8 million in 2008, before dropping to $473.5 million in 2014. The 2015 year-end estimate for total public utility tax revenue is $449.4 million. The reasons for these fluctuations are discussed below with respect to each individual tax.

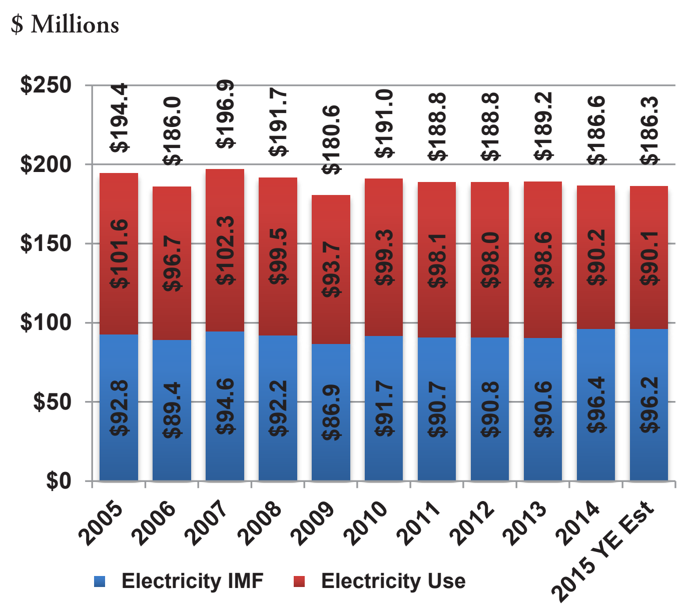
Revenue from **telecommunications taxes**, which are levied on charges for telephone services in the city, has declined over the past decade, reflecting trends in the industry and consumer preferences. In 2005, telecommunications taxes generated $147.7 million, accounting for five percent of total corporate fund revenues. Through 2005, landlines generated the majority of this revenue stream, with cell phone usage taking over as the large driver of this revenue source in 2006. By 2014, telecommunications tax revenue dropped to $106.1 million, accounting for three percent of total corporate fund revenues. The overall decline in revenues was due in part to one-time credits being paid to certain telecom service providers for taxes charged on non-taxable services. Also, the increased use of online communication services such as Skype and other technologies and reduced use of landlines and wireless accounts caused revenues to decline. Lastly, federal law exempts most wireless data services, such as mobile broadband, from taxation, and consequently, the expansion of such wireless services has not resulted in increased telecommunications tax revenues for the City. In 2015, these revenues are expected to decrease to $104.9 million.

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 constituted six to seven percent of total corporate fund revenues over the past 10 years, averaging $189.5 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

TELECOMMUNICATIONS TAX REVENUE

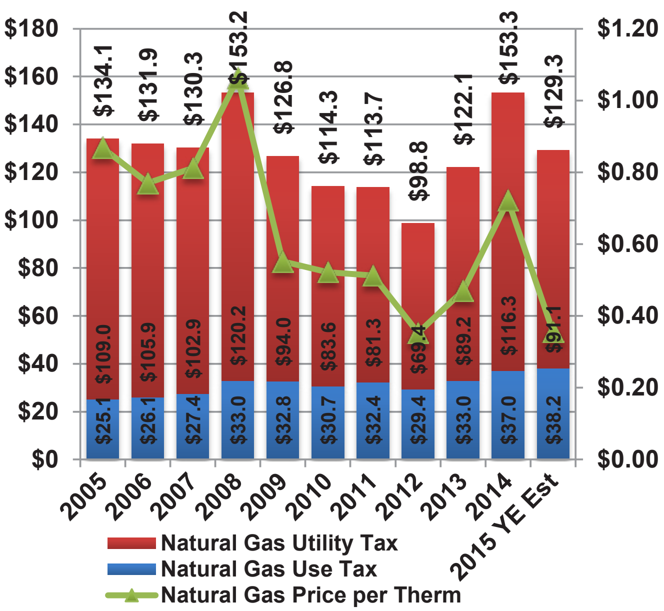


ELECTRICITY TAX REVENUE



NATURAL GAS TAX REVENUE

$ Millions $ Price of Natural Gas



and is expected to continue to impact the growth of these revenues going forward. In 2015, a cool summer combined with the overall trend toward energy efficiency is expected to slightly decrease electricity tax revenues to $186.3 million.

The City imposes two natural gas-related taxes. The **natural gas utility tax** is an eight 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 2005, natural gas-related taxes generated $134.1 million, accounting for five 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 and by 2014, reached 72.2 cents per therm. Together with severely cold weather and the resulting increase in usage, natural gas tax revenues rose to $153.3 million in 2014. Year-end estimates for 2015 are $129.3 million, reflecting moderate winter weather and lower gas prices.

Cable television tax revenue, which makes up only a small portion of corporate fund revenue, grew from $15.9 million in 2005 to $27.5 million in 2014. 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 2015 year-end estimates at $28.9 million.

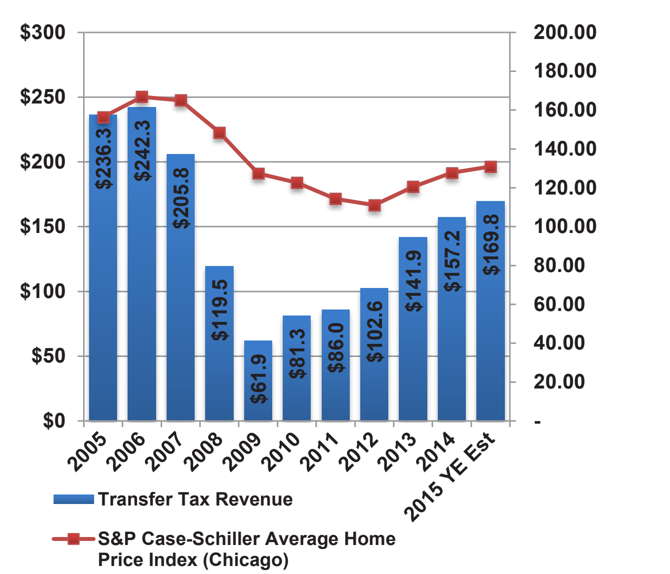
Transaction Taxes

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 taxes have constituted six 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 2015 year-end estimate for total transaction tax revenue is $345.4 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, peaking at

REAL PROPERTY TRANSFER TAX REVENUE

$ Millions Home Price Index

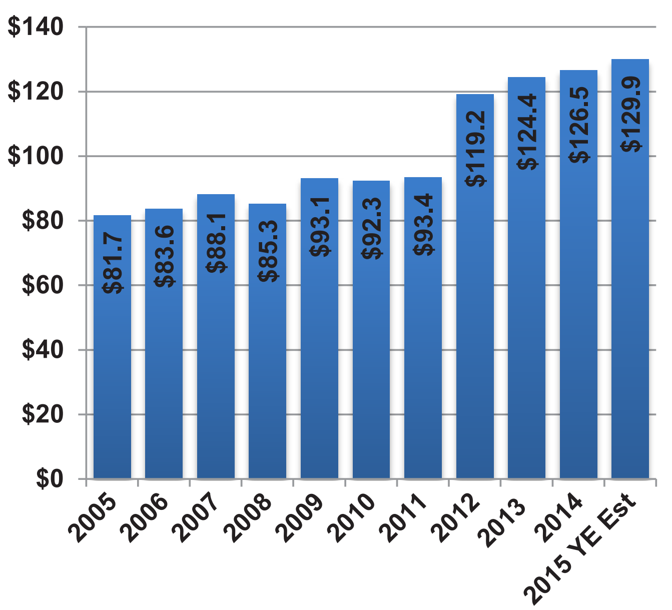


$242.3 million in 2006. The decline in the real estate market drove these collections down to $61.9 million in 2009. While still less than half of pre-recession levels, 2010 and 2011 saw slight increases in real property transfer tax revenue to $81.3 million and $86.0 million, respectively, due in large 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. During 2014, median home prices were up 11 percent over 2013 while home sales decreased by seven percent due largely to inventory shortages. 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 $169.8 million in 2015.

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 current rate of nine percent of the lease or rental price, suffered due to the recession's impact on personal and business consumption. In 2005, personal property lease taxes generated $82.5 million, accounting for three percent of total corporate fund revenues. In 2008, there was an increase in the tax rate from six to eight percent and personal property lease transaction taxes generated $119.3 million. These revenues dropped to $108.4 million in 2010 but rose again from 2011 through 2014 in line with increasing consumer confidence and continued economic recovery, with lease tax revenues at $152.6 million in 2014, accounting for five percent of total corporate fund revenues. With the tax increasing from eight to nine percent and an amendment imposing the tax on hourly car sharing, 2015 year-end estimates for this revenue source will rise to $168.9 million.

GARAGE TAX REVENUE

$ Millions



Transportation Taxes

Transportation taxes include taxes on garage parking, vehicle fuel, and hired ground transportation. Total transportation tax revenues grew from $152.0 million, or five percent of total corporate fund revenues, in 2005 to $185.1 million, or six percent of total corporate fund revenues, in 2014, and are expected to finish 2015 at $191.1 million.

Garage taxes are levied on parking garage operators. Rate adjustments took place in 2005, 2009, and 2012, and pursuant to a state law change in 2013, the City changed this tax from a tiered flat rate structure to a percentage-based rate, reducing the effective tax rate for economy parking while increasing the effective rate for premium garages and valet services. In 2015, the weekday rate was increased from 20 percent to 22 percent and the weekend rate from 18 percent to 20 percent. The resulting increase in revenues of $10 million is dedicated to road maintenance and repair in the Vehicle Tax Fund. Additionally, the City started imposing the garage tax of 20 percent on the full amount charged by valet service in 2015. Based on these changes and the modest price increases imposed by the garage operators, the City anticipates $129.9 million in garage tax revenues in 2015.

Vehicle fuel tax revenues declined from $61.0 million in 2005 to $48.2 million in 2014, due partly to more stringent fuel economy standards and the prevalence of fuel-efficient vehicles. Vehicle fuel tax revenues are expected to increase slightly in 2015 to $49.2 million, as the general downward trend is temporarily offset by increased demand for motor fuel 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 2005, recreation taxes generated $115.2 million for the City, accounting for four percent of total corporate fund revenues. By 2014, this grew to $193.7 million, accounting for six percent of total corporate fund revenues. The City anticipates that overall recreation tax revenue will increase to $214.5 million in 2015. 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 $53.1 million in 2005, growing to $112.9 million in 2014. The overall increase in these revenues was due in part to one percent rate increases in 2005 and 2009, and a phase-out of the partial exemption from this tax that cable television companies had received in prior years. Amusement tax revenues vary significantly from year to year based on the relative success of Chicago's professional sports teams and ticket prices for such sporting events. 2015 is the first year that special seating areas such as skyboxes are taxed at the full rate. As a result of this change, rising ticket prices, and the Blackhawks' post-season performance, the City anticipates $135.6 million in amusement tax revenue in 2015.

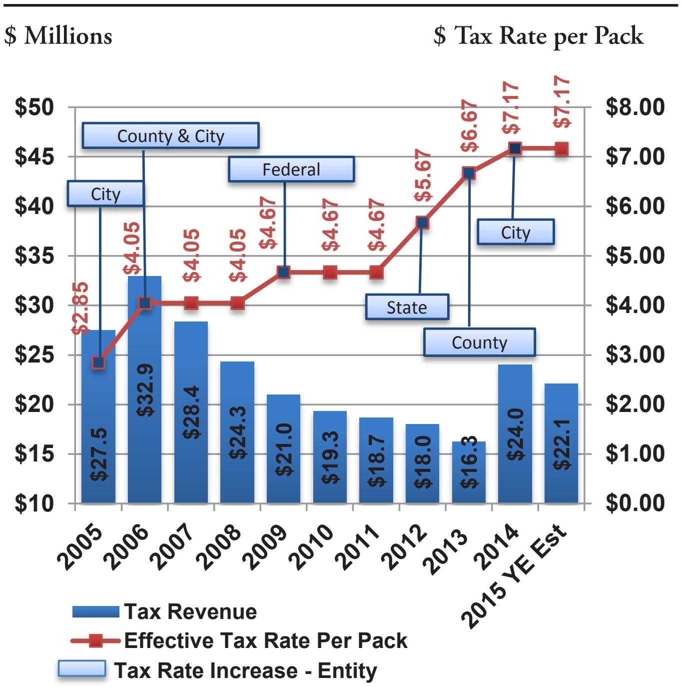
Cigarette tax revenues were $27.5 million in 2005 and $32.9 million in 2006, due largely to increases in the City cigarette tax rate in those years. Cigarette tax revenues then fell steadily each year to $16.3 million in 2013. These declines can be attributed in part to a decline in smoking in the overall population and in part to a cross-border effect. In 2014, the City cigarette tax rate was increased by 50 cents to $1.18 per pack, bringing revenues back up to $24.0 million. Assuming continued declines in smoking and the price sensitivity of purchases, cigarette tax revenues are expected to end 2015 at approximately $22.1 million.

Liquor tax revenue, in contrast, has increased significantly over the past 10 years, from $19.6 million in 2005 to $32.1 million in 2014 and an anticipated $32.3 million in 2015, due to increases in activity and an increase in the tax rate in 2008. 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 2015 year-end estimate for non-alcoholic beverage tax revenue is $22.1 million.

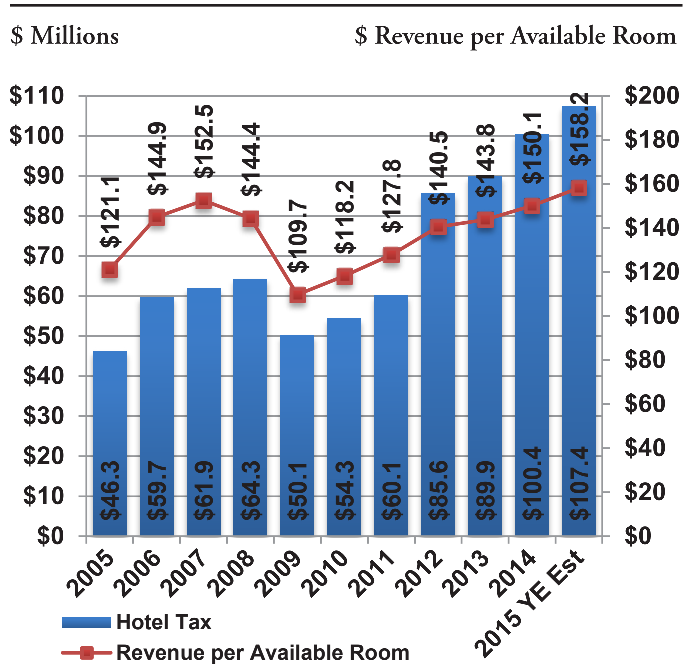
Business Taxes

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

CIGARETTE TAX REVENUE AND RATE INCREASES



HOTEL ACCOMMODATIONS TAX REVENUE



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 $152.50, and hotel tax revenues were $61.9 million. By 2009, revenue per available room had declined by 28 percent to $109.70, and hotel tax revenues dropped by 19 percent to $50.1 million. The second half of 2011, however, saw hotel occupancy and room price begin to recover. Strong growth continued into 2012 with average revenue per available room at $140.50 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 2014, revenue per available room was up four percent over 2013 and hotel tax revenues were $100.4 million accounting for three percent of total corporate fund revenues. Starting in 2015, the City required website facilitators such as Airbnb to collect the hotel tax on transactions that occur through their websites. With positive economic trends boosting revenue per available room and room demand, the City anticipates $107.4 million from the hotel tax for 2015. Additionally, a one-time settlement related to online hotel bookings is anticipated to increase revenues by $10 to $20 million.

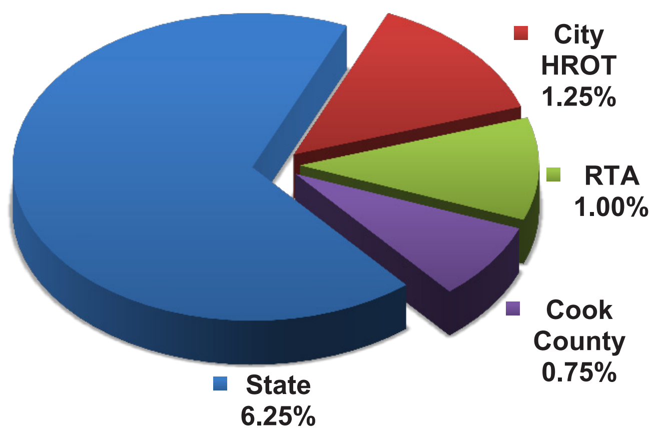
Intergovernmental Tax Revenue

Intergovernmental tax revenues consist of the City's share of the Illinois state sales and use taxes, income tax, and personal property replacement tax. Total intergovernmental revenues changed from $563.2 million, or 20 percent of total corporate revenues, in 2005 to $619.1 million, or 19 percent, in 2014. They are expected to end 2015 at $796.3 million, or 23 percent.

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).

COMPOSITION OF TOTAL SALES TAX RATE



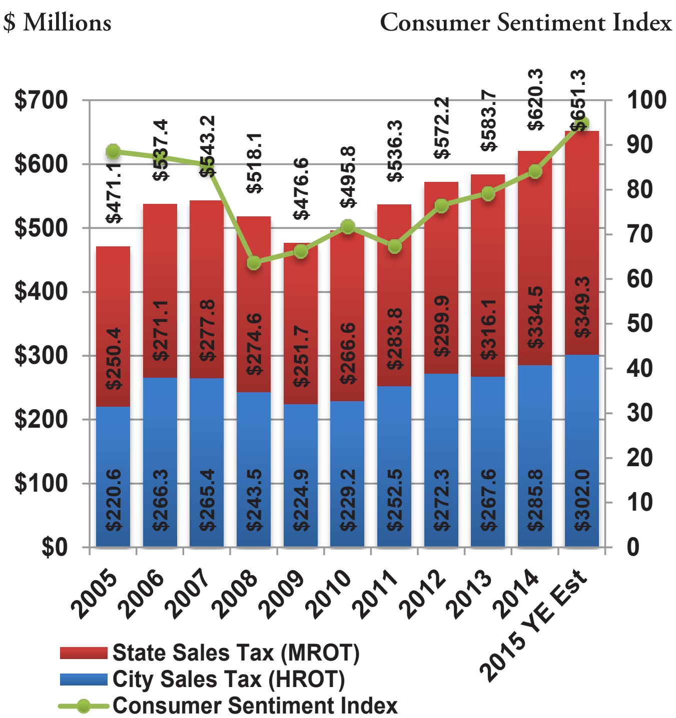
The City imposes the HROT at a rate of 1.25 percent on the retail sale of general merchandise, excluding most sales of food and medicine. The HROT also applies to tangible personal property purchased for use in the City from a vendor located outside the City at a rate of 1.25 percent for titled personal property and at a rate of one percent for non-titled personal property. The MROT is imposed by the State on behalf of municipalities at a rate of one 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 is currently 9.25 percent. The rate will increase to 10.25 percent on January 1, 2016, as a result of a one percent increase imposed by Cook County.

Revenue from the HROT and MROT have accounted for an average of approximately 18 percent of total corporate fund revenues over the past 10 years. HROT and MROT collections grew from $471.1 million in 2005 to $543.2 million in 2007. When the recession started in 2008, sales tax receipts fell five percent from the year before and fell again by nine percent in 2009, with revenues dropping to $476.6 million by 2009. It was not until 2012 that revenues reached pre-recession levels again, finishing the year at $572.2 million. Healthy growth continued into 2014 as retail sales

[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.

SALES TAX REVENUE



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 used to pay debt service on sales tax bonds issued to fund capital projects. Due to the improving economy combined with large conventions and special events, such as the NFL draft and the Grateful Dead concerts, strong retail sales are expected to generate $651.3 million in sales tax revenue in 2015.

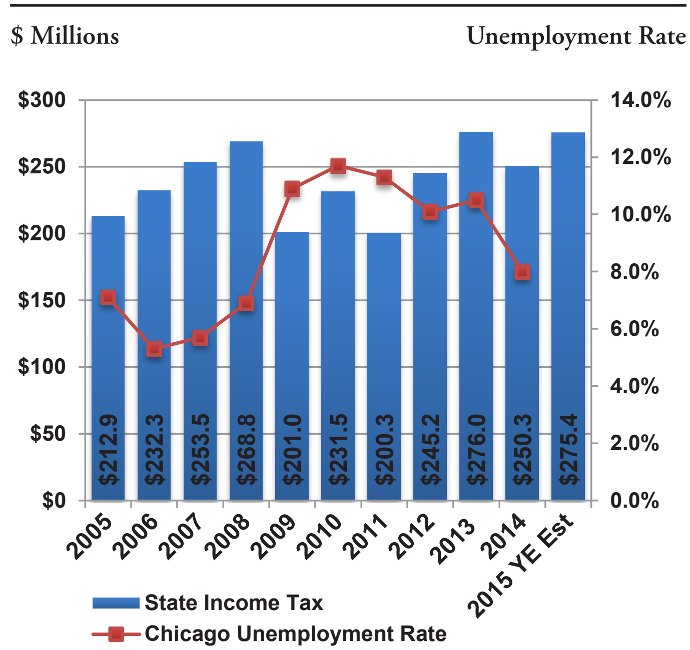
State Income Tax

Like sales and use taxes, income tax revenues experienced growth in pre-recession years and then declined with the economy in the years following 2008. From 2005 to 2008, City income tax revenues grew an average of eight 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, 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.

Also in 2011, the State increased the personal income tax rate from three percent to five percent and the corporate income tax rate from 4.8 percent to seven 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

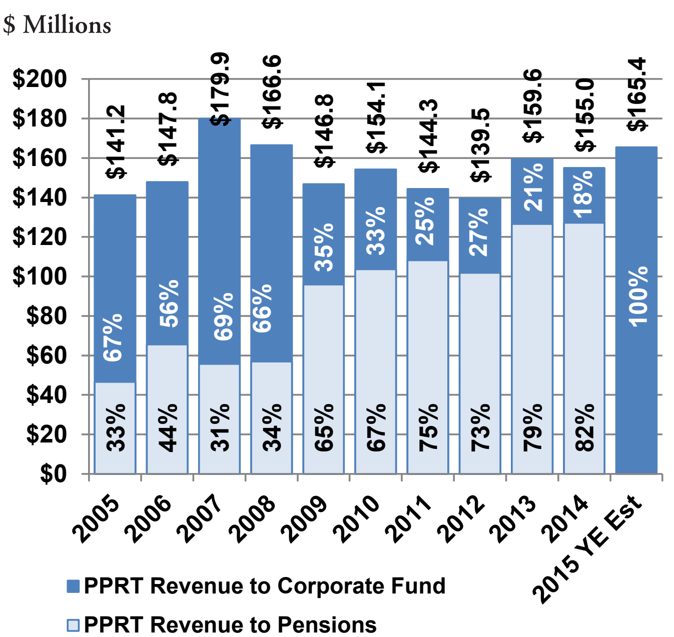


income tax revenue to six percent of personal income tax receipts and 6.86 percent of corporate income tax receipts. If municipalities had received the historic 10 percent local share, the City would have received additional revenue of more than $50 per resident per year.

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 in 2014, income tax revenues ended the year at $250.3 million.

In 2015, the income tax rate increase sunsetted, and thus the individual income tax rate decreased from five percent to 3.75 percent and the corporate income tax rate to decrease from seven percent to 5.25 percent. To maintain the income tax revenue sharing with local government at the same level as before, the State increased the percentage of total income tax receipts that flow into the LGDF. Distributions to the

PPRT REVENUE



LGDF were increased from six percent to eight percent for individual income tax and from 6.86 percent to 9.14 percent for corporate income tax receipts.

2015 income tax receipts benefited from the LGDF rate changes in two ways. First, final 2014 income tax payments due in spring 2015 were based on five percent and seven percent tax rates for individuals and corporations, respectively, but applicable LGDF rates are higher and therefore more allocations went to the LGDF. Second, because of higher capital gains, 2014 final income tax payments through tax returns were higher than anticipated. These factors combined with the improving labor market are expected to boost 2015 income tax receipts to $275.4 million, an increase of $25.1 million or 10 percent over 2014 collections.

Personal Property Replacement Tax

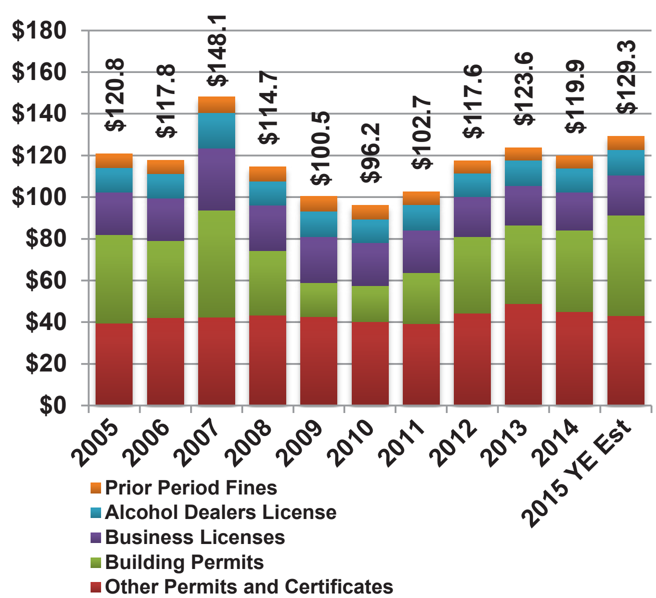
The personal property replacement tax (PPRT) is levied on corporations, partnerships, and utility companies. The tax is collected by the State and paid to local governments in order to replace revenues that were lost when the State eliminated the authority of local governments to collect personal property taxes on business entities. The City historically paid a certain percent of the City's employer pension contribution from PPRT revenues and after satisfying this payment, the remaining balance of PPRT was deposited into the corporate fund. This practice ended in 2015, with all PPRT revenues recorded in the corporate fund and pension contributions made directly from the corporate fund and recorded as expenses to the corporate fund. The change appears to have increased the corporate fund revenues and expenditures; however, this is simply an appropriation change which more clearly reflects the allocation of pension expenses.

PPRT revenues have followed the fluctuation in corporate profits, growing significantly through 2008 and then declining during the recession years. Since 2011, the State increasingly has shifted its general expenditures to PPRT funds, diverting PPRT revenues away from municipalities. These diversions reduced net PPRT revenues to the City by approximately $10.6 million in 2015. In spite of the diversion, PPRT revenues are estimated to grow from $155.0 million in 2014 to $165.4 million in 2015 due primarily to growth in tax payments related to capital gains.

Financial History Review

LICENSE AND PERMIT FEE REVENUE

$ Millions



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 2005, license and permit revenue was $120.8 million, increasing to $148.2 million, or five percent of corporate fund revenues, in 2007, and then falling to $96.2 million and three percent of corporate fund revenues in 2010. 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 $129.3 million in 2015, four 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 and 2014. As the real estate market continues to rebound, anticipated building permit revenue is expected to grow to $48.3 million in 2015.

Fines, Forfeitures, and Penalties

Fines, forfeitures, and penalties include parking tickets and fines for items such as building code violations. These revenues have increased steadily over the past decade, from $194.5 million in 2005 to $338.3 million in 2014, accounting for 11 percent of total 2014 corporate fund revenue. This steady upward trend is attributed, in part, to 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 2015, fines, forfeitures, and penalties are expected to generate $338.7 million.

Charges for Services

Revenues from charges for services are generated by charging for activities such as inspections, public information requests, and other services for private benefit. In 2005, these activities generated $67.2 million, increasing to $134.6 million in 2014, due largely to increased reimbursement for police services and improved emergency medical service collections. Such services are projected to generate $122.3 million in 2015, accounting for three percent of total corporate fund revenue. The decline in revenues is due to the anticipated loss of certain scheduled reimbursements.

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 2014, lease and sale income was $24.1 million, in line with historic averages.

The City anticipates that total lease and sale revenues will increase to $25.6 million in 2015, 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, such as police, fire, and sanitation services, provided to other City funds and agencies. Such transfers constitute an average of nine percent of corporate fund revenues, and have ranged from $250 million to $307 million over the past 10 years. Internal service earnings are expected to grow from $305.7 million in 2014 to $353.3 million in 2015 as a result of the 911 surcharge increase from $2.50 to $3.90.

Proceeds and Transfers In

Between 2005 and 2007, transfers into the corporate fund from outside sources constituted an average of five 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 began phasing out the use of reserve funds to subsidize the operating budget. From 2012 through 2015, the City made significant progress towards aligning expenses with real revenues and reducing the overall use of proceeds and transfers-in. In 2012, three percent of total corporate revenues were proceeds and transfers-in. This dropped to one percent in both 2013 and 2014. The 2015 year-end estimate for proceeds and transfers-in is $41.6 million, or one percent, of total corporate revenues.

Corporate Fund Expenditures

Since 2005, total corporate fund expenditures have ranged from a low of $2.73 billion in 2005 to a high of $3.24 billion in 2014. 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 [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 three 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 56 percent in 2005 to 60 percent in 2014.

Infrastructure Services

Infrastructure services provided by the Department of Streets and Sanitation and the Department of Transportation have averaged approximately nine 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, TIF, 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.

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 one percent of corporate fund expenditures since 2005. These activities are mostly funded through state and federal grants and thus are not represented as corporate fund expenditures. This funding 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.

[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.

Community Services

Each year, approximately two 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 this funding are discussed in greater detail in the Grants section of this document.

Environmental, Building, and Business Regulation

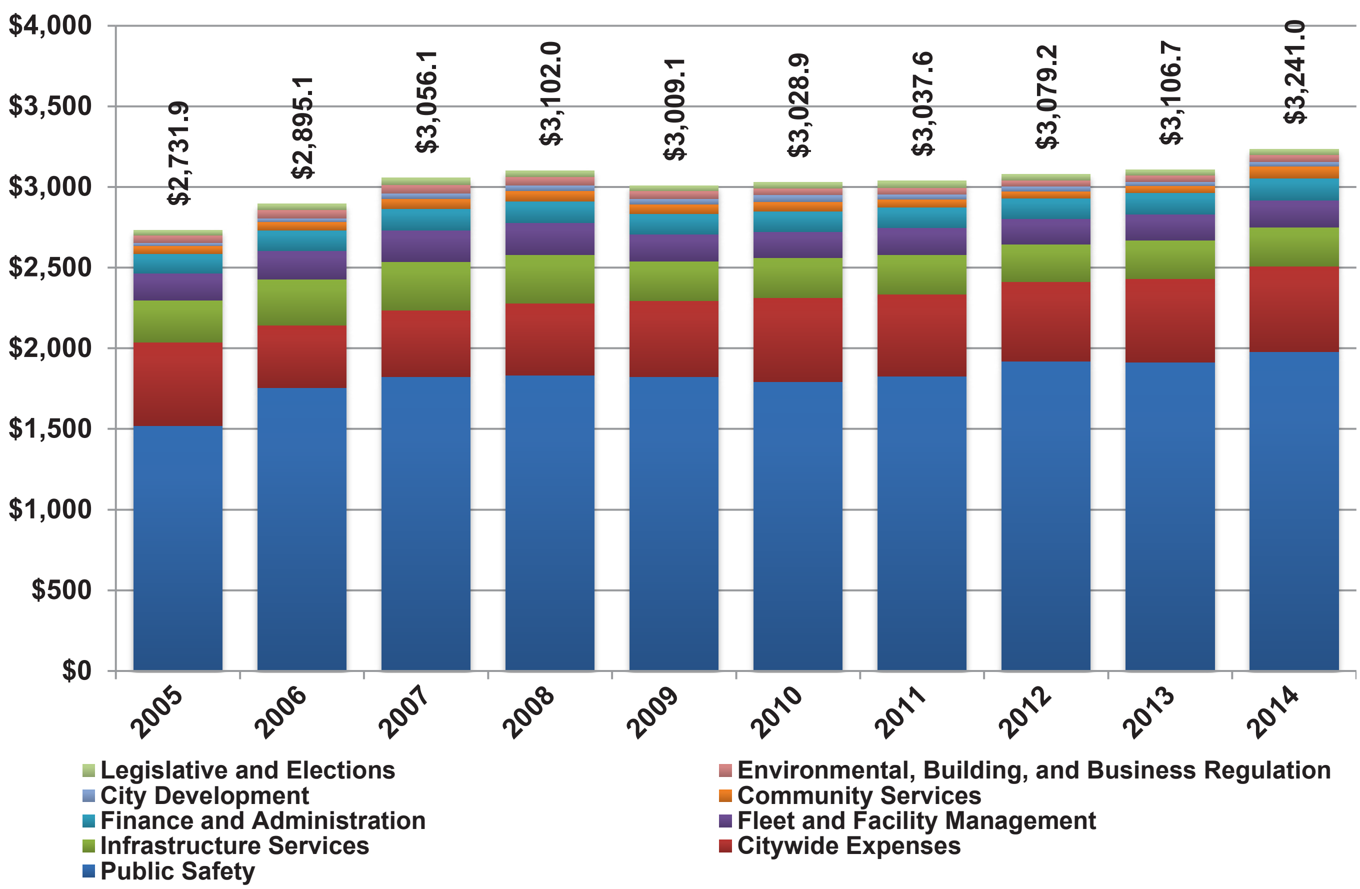
On average, the regulation of businesses and the building industry, together with environmental initiatives, has accounted for two percent of annual corporate fund spending. This includes the activities of the Department of Buildings, which ensures the safety of residential and commercial buildings in Chicago by enforcing 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 four percent of the corporate fund budget. An additional six percent of the corporate fund budget is dedicated to managing the repair and maintenance of City vehicles and facilities, such as police cars, libraries, fire stations, and street sweepers.

SPENDING BY CITY SERVICE

$ Millions



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. From 2005 to 2014, 73 percent of total corporate fund expenditures were on salaries and wages, and an additional 10 percent of corporate fund expenditures during those years were for 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

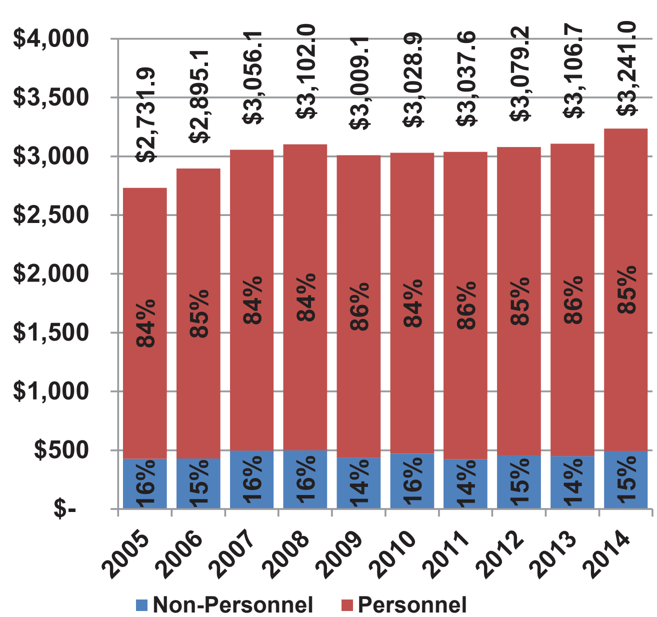
Contractual service expenditures include the cost of information technology systems, maintenance, and licensing; tipping fees for waste disposal; property rental; custodial services for City facilities; and landscaping, engineering, and other professional service contracts. On average, contractual services account for 10 percent, or approximately $302 million, of corporate fund expenditures each year. Between 2004 and 2014, corporate fund contractual services spending grew an average of approximately three percent each year.

As government, businesses, and residents increasingly utilize technology to conduct business and communicate, the City's technology-related costs have increased. In 2005, technology-related costs were $48.7 million, increasing to $61.1 million in 2014.[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 2005 expenditures at $15.7 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 between 11 and 20 percent of the City's contractual services expenses over the past decade,

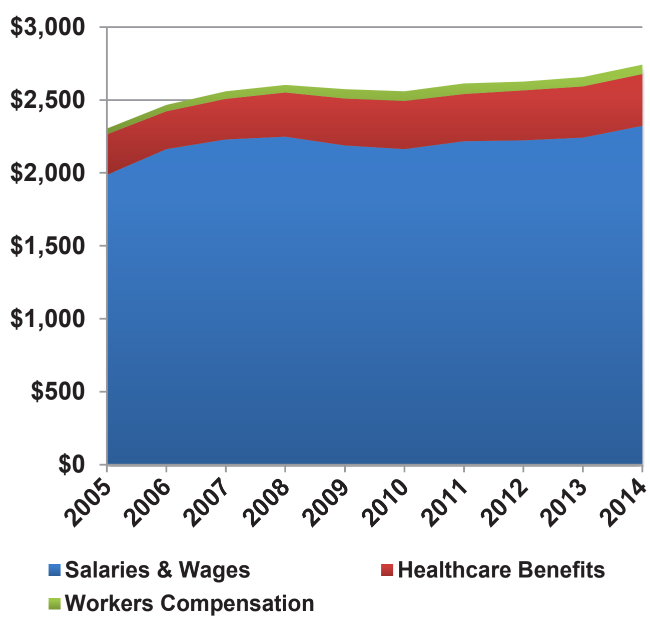
CORPORATE FUND EXPENDITURES

$ Millions



PERSONNEL EXPENDITURES

$ Millions

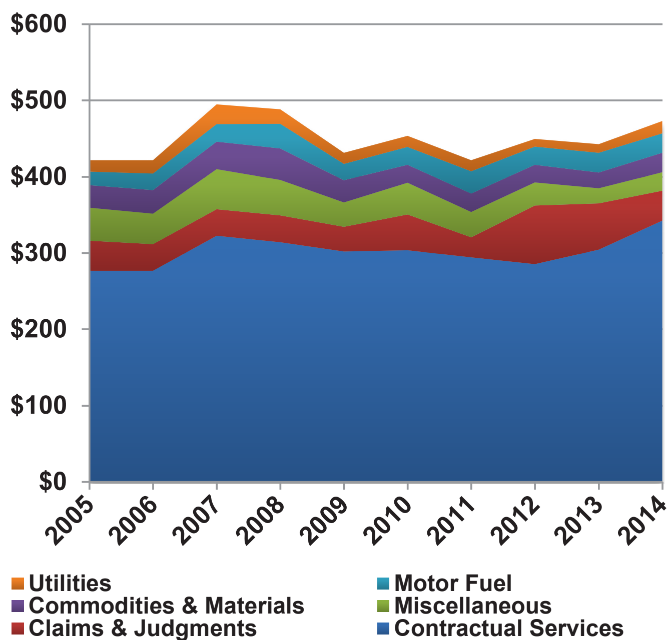


[3] In addition to corporate fund resources, the City utilizes proceeds of general obligation bonds to finance certain information technology expenses, as further discussed in the Debt section of this document.

Financial History Review

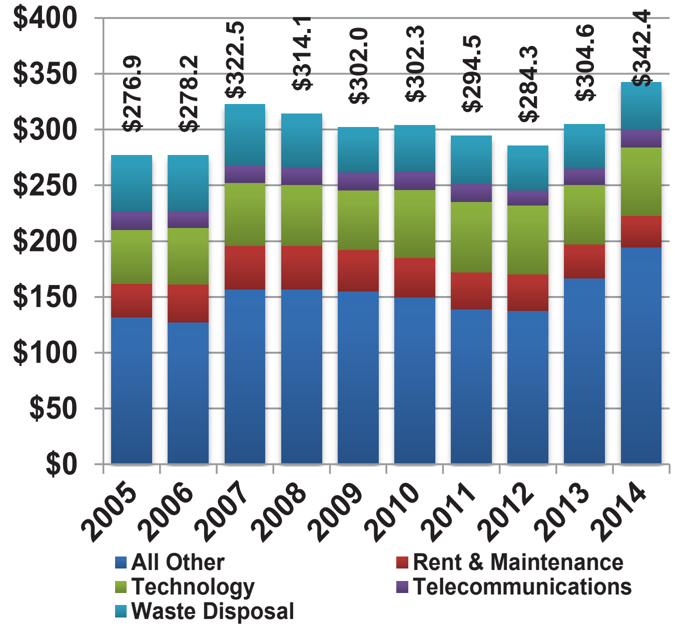
NON-PERSONNEL EXPENDITURES

$ Millions



CONTRACTUAL SERVICES EXPENDITURES

$ Millions



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 expenditures related to the mechanical sorting of recyclables.

Property rental and building services in 2005 were $30.0 million and grew thereafter with increasing rental and building services costs, to $38.9 million, or 12.4 percent of contractual services expenses, in 2008. Since 2008, rental and related expenses have steadily decreased to $28.3 million as the City reduces the number of properties that it leases. The City is maximizing the utilization of City-owned space, such as City Hall, and reducing long-term rental expenses while grouping similar departmental functions together in order to increase efficiencies and facilitate beneficial coordination. Space consolidations in the past year include City operations moving from two previously leased locations to City-owned facilities, as well as a facility where the City does not pay rent. Space consolidations are on-going and the City estimates that, once complete, the cost of these relocations and related renovations will be fully recouped with lease savings within three years.

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 one percent, or $28.3 million, of corporate fund expenditures each year. Between 2005 and 2008, corporate fund spending on commodities and materials grew at an average rate of 12 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. In 2014, expenditures increased to $25.5 million due to costs of repair parts for vehicles and other equipment.

Utilities

Market prices have been the primary driver of the City's utility expenditures. The significant year-over-year increases between 2005 and 2007 shown in the chart on the next page 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, in 2014, the City implemented Retrofit 1, a self-funding comprehensive energy efficiency program that reduces utility costs. Under the program, sixty municipal buildings are being retrofit, including projects to replace lighting, energy systems, and windows. This and other energy efficiency 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. Expenditures increased to $16.1 million in 2014 due to the extreme cold weather driving up heating needs as natural gas prices continued to rebound.

Motor Fuel

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 individuals and businesses. Between 2005 and 2008, the City's corporate fund motor fuel expenditures grew at an average rate of 23 percent per year, rising from $17.8 million in 2005 to $32.5 million in 2008. In 2009, declining prices brought corporate fund fuel expenditures back down to $21.5 million, but fuel expenditures climbed again in 2010 and continued to grow to $29.4 million in 2011. 2012 saw a drop to $23.6 million, and in 2013 and 2014, fuel expenditures slightly increased, ending 2014 at $25.3 million.

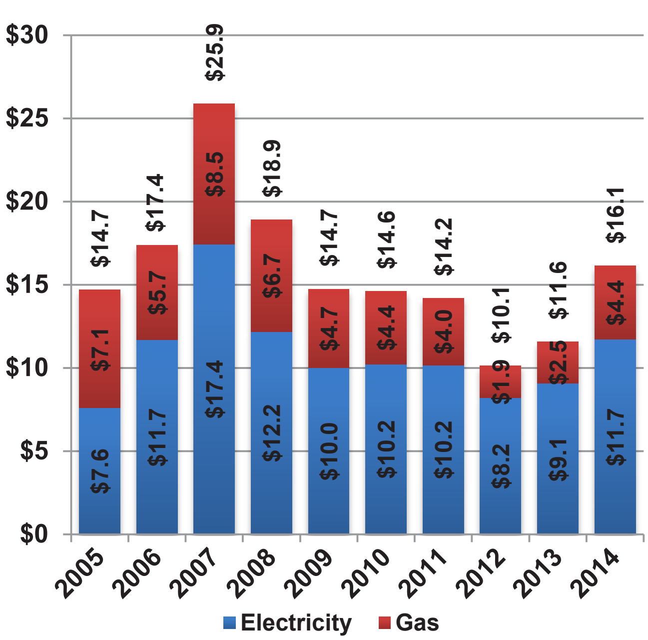
In recognition of fluctuating fuel prices and the environmental impact of its gasoline and diesel fuel usage, the City has implemented a number of initiatives in recent years to reduce the City's vehicle fleet and curtail fuel usage. The City has increased the proportion of its fleet that operates on alternative fuels. Currently, the City utilizes over 2,600 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. The City has more than tripled the purchase of alternative fuels from $64,000 in 2005 to $244,000 in 2014. In 2011, the City also ended its shared lease program, and contracted with Zipcar to provide City employees with access to short-term vehicles, utilizing Zipcar reservation technology to facilitate the efficient use of City pool vehicles.

Settlements and Judgments

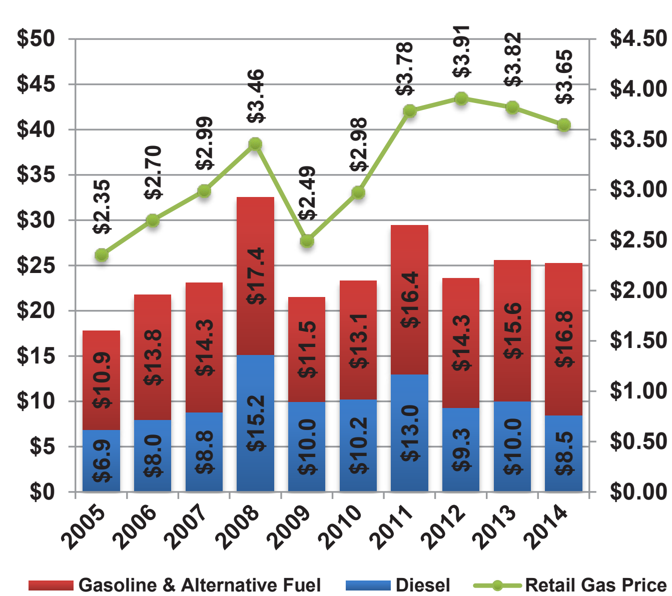
Each year, the City uses both corporate fund and enterprise fund resources, as well as bond proceeds, to pay for expenses incurred in connection with claims and judgments against the City. Expenses in excess of the amount paid from the local funds are paid with bond proceeds. The amounts presented in the chart on the following 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

UTILITY EXPENDITURES



MOTOR FUEL EXPENDITURES



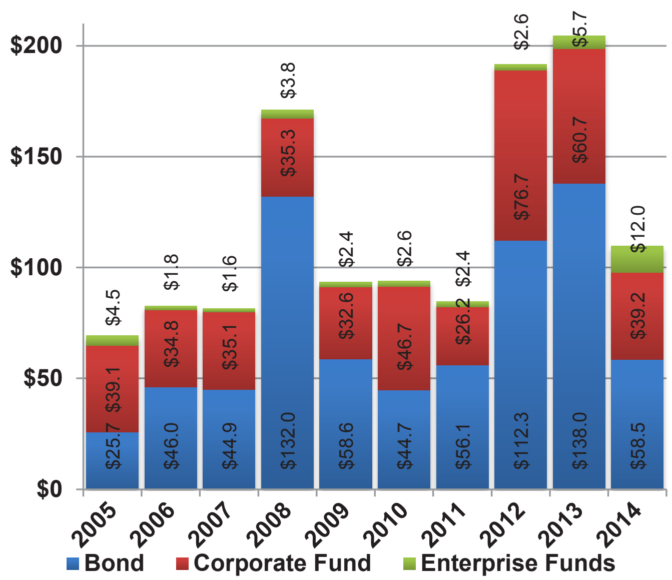
have ranged from $69.3 million to $204.4 million over the past 10 years, vary from year-to-year depending upon the volume and nature of claims filed and settled, the value of judgments entered, and the extent to which the City utilizes outside legal counsel to address these claims. Claims related to 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, in 2014, $65.7 million in payments were for cases filed before 2011.

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 270 cases per year over the past five 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 $25.7 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 $12.6 million in legal fees over the past three years.

SETTLEMENT & JUDGMENT EXPENSES

$ Millions



Financial History Review

Special Revenue Funds

Vehicle Tax Fund

The vehicle tax fund receives revenue from vehicle sticker sales, impoundment fees, abandoned auto sale fees, pavement cut fees, and $10 million from the garage tax for the maintenance of the public way. These funds are used to pay for street repair and maintenance throughout Chicago.

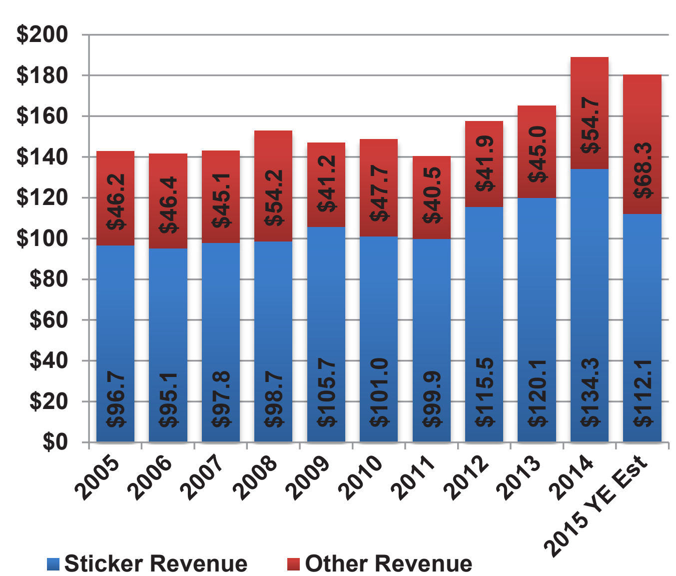
Proceeds from the sale of City vehicle stickers have consistently made up the largest part of the vehicle tax fund revenues, increasing from $96.7 million in 2005 to $115.5 million in 2012 and then increasing to $120.1 million in 2013 with an increase in the price of vehicle stickers. These revenues also grew as a percentage of total fund revenue, from 68 percent in 2005 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, sticker sales had a one-time boost, reaching a record high of $134.3 million in 2014. The high number of more expensive long-term stickers purchased in 2014 is anticipated to decrease revenues to $112.1 million for 2015, as sales that would otherwise have occurred in 2015 took place in 2014.

Revenue from impoundment fees averaged $14.0 million per year during 2005 and 2009. Due to strict enforcement and fewer infractions, this revenue started declining in 2010, ranging between $8.5 million and $9.7 million for the past five years. The 2015 estimate for impoundment fees is $8.9 million. Revenue from the sale of impounded autos averaged $5.1 million per year for the past ten years. Because of falling scrap metal prices and fewer abandoned vehicles, revenue from the sale of impounded autos is estimated to decrease to $3.5 million in 2015. Pavement cut fees averaged $5.0 million per year for much of the past decade but increased to $12.6 million on average since 2012 due to numerous infrastructure projects undertaken by local utilities. Pavement cut fees are expected to stay at $12.5 million in 2015. Additionally, $10 million in new revenues from a garage tax rate increase will flow into the vehicle tax fund in 2015 and be used for street and pothole repair.

For much of the past decade, the vehicle tax 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 2005 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

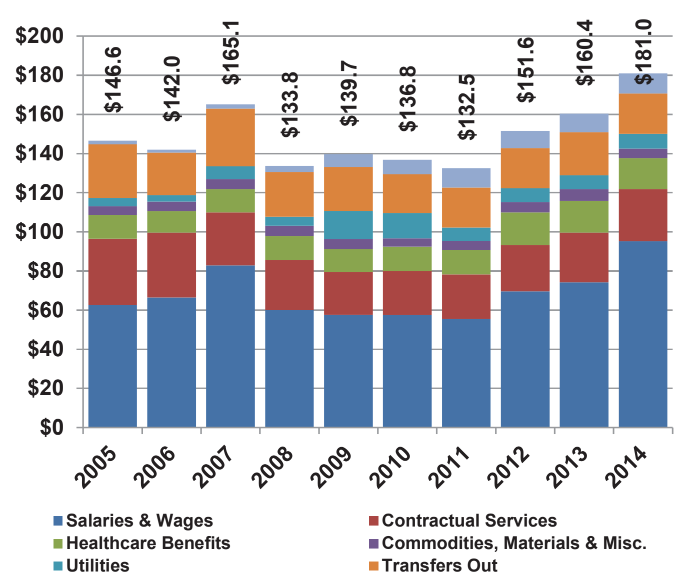
VEHICLE TAX FUND REVENUE

$ Millions



VEHICLE TAX FUND EXPENDITURES

$ Millions



Financial History Review

fund and manage spending accordingly. A positive balance was carried into 2013, 2014, and 2015, 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 a significant deficit being carried into 2008, reducing the resources available in that year, as is evident in the drop in spending in 2008. In recent years, the City has worked to stabilize this fund, keeping spending relatively constant and more closely in line with revenues. The growth in expenses in 2012, 2013, and 2014 mirrors the increase in revenues with the vehicle sticker price increase and improving car sales.

Similar to the corporate fund, most expenditures from this fund are driven by personnel costs. The relative proportion of total spending on different activities and expense types in this fund has remained fairly consistent over the years. Spending on contractual services steadily decreased between 2005 and 2009, due in part to certain costs being moved onto the corporate fund. Overall spending on contractual services in this fund have held at an average of $24.1 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. 2014 personnel costs are largely driven by overtime, as the extreme winter weather caused excessive road damage and necessitated emergency repairs.

Motor Fuel Tax Fund

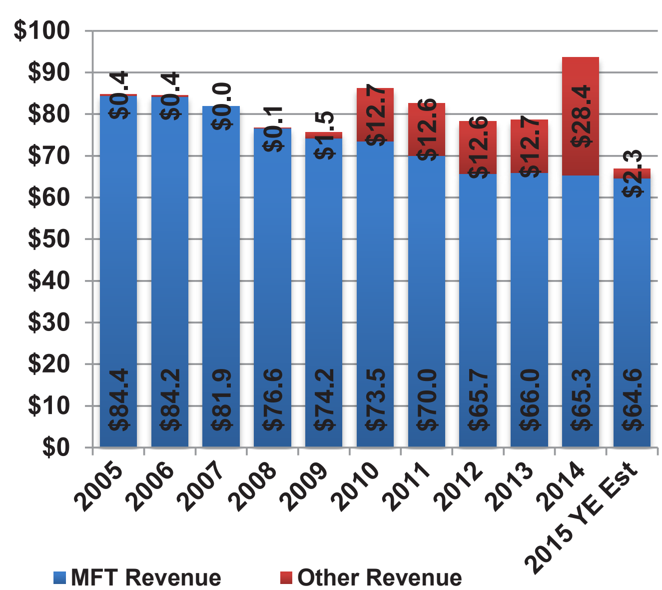
Motor fuel tax (MFT) revenues are generated primarily through a 19 cent per gallon tax on gasoline and 21.5 cents per gallon tax on diesel imposed by the State, of which the City receives a population-based distributive share. Similar to the vehicle tax fund, MFT fund revenue is used for street repair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

Annual MFT revenue has steadily decreased from $84.5 million in 2005 to $65.3 million in 2014 as vehicle fuel economy standards have become more stringent and, at least through June 2014, as the price of fuel increased. Starting July 2014, however, oil prices decreased from $105 per barrel to $61 per barrel by June 2015; leading to an increase in driving. Additionally, since 2014, diesel fuel consumption has increased with the recovering economy. These two factors are expected to mitigate the historical trend and increase 2015 MFT revenues to $67.8 million. However, the Illinois legislature swept $50 million from the State MFT funds in April 2015 to fill the budget gap in the State General Revenue Fund, which reduced the Chicago share by $3.2 million. As a result, MFT revenue for 2015 is projected to decrease to $64.6 million. From 2010 through 2014, the City received $12.5 million each year, and an additional $12.5 million supplement in 2014, from the State's "Illinois Jobs Now!" program, which was allocated to the MFT fund. That program terminated at the end of 2014.

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 four 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

MOTOR FUEL TAX FUND REVENUE

$ Millions



into each of 2012, 2013, 2014, and 2015. Carryover such as this mitigates, in part, 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 like those for other funds because accounting for this fund is performed on a project level rather than a fund level. Similar to the vehicle tax fund, year-to-year variations in total MFT 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.

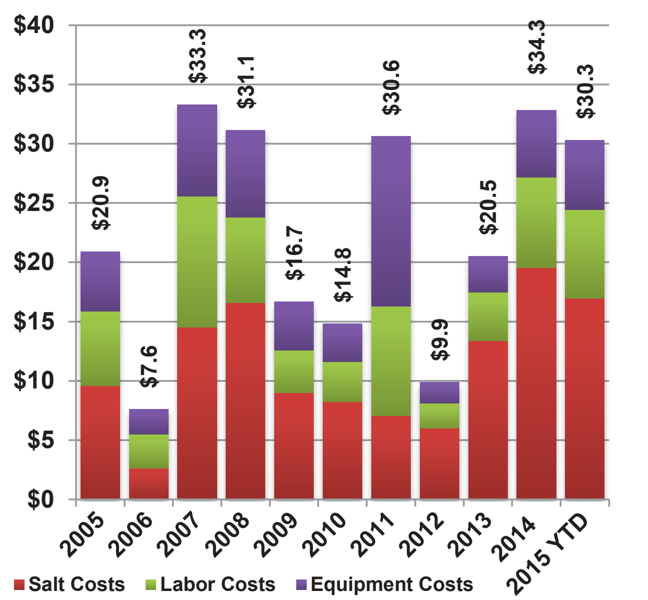
Debt service on MFT revenue bonds, the proceeds of which fund the construction of road-related improvements, is also paid out of this fund. In 2013, the City pledged MFT revenue to the federal government for a low interest rate loan through the U.S. Department of Transportation's Transportation Infrastructure Finance Innovation Act (TIFIA) program to fund the expansion of the Chicago Riverwalk, which is discussed in the Capital Investment section of this document. In addition to MFT revenue, in 2014, revenue from fees charged to tour boat operators and, beginning in 2015, revenues related to vendors along the new Riverwalk, are being used to secure the City's Riverwalk TIFIA bonds. This is indicated in the chart on the previous page, under "Other Revenue."

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, 2012 expenditures were $1.3 million under budget as a result of warmer temperatures and less snowfall. Yet, extreme winter weather in 2014 pushed the City's snow and ice removal expenditures above the full-year budget and reserves carried over from low snow years were utilized to cover the increased expenses. The beginning of 2015 also had severe weather and pushed expenses above budget.

In a typical year, the purchase of salt for ice control on city streets accounts for approximately 55 to 60 percent of winter weather-related expenditures. 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.

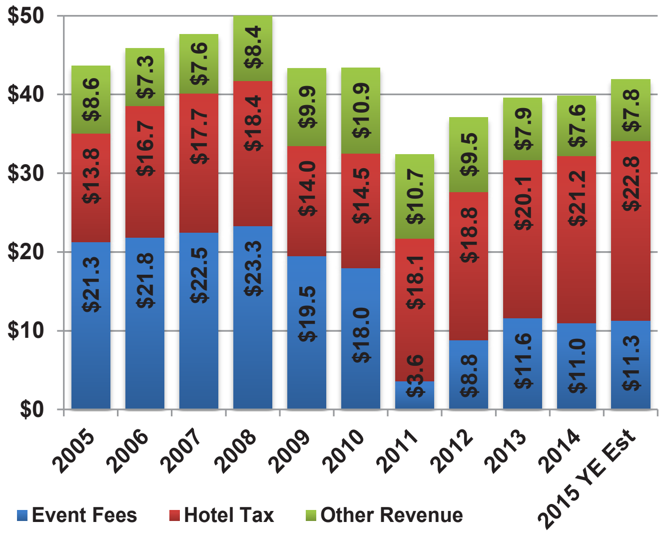
WINTER WEATHER COSTS

$ Millions $ Thousands



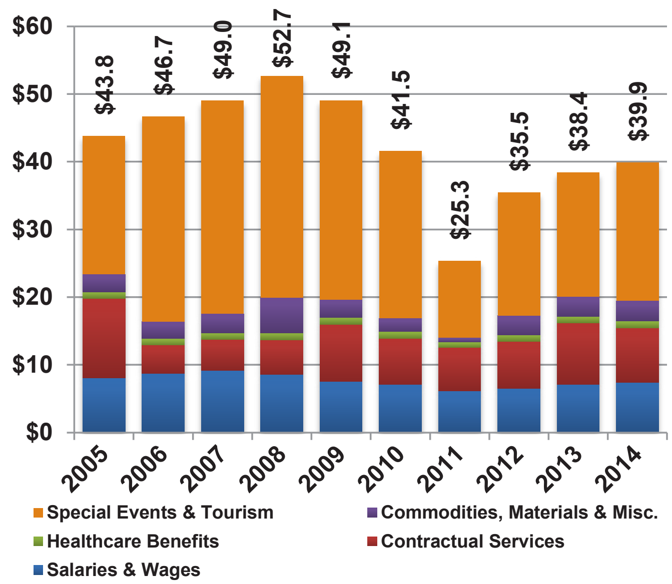
SPECIAL EVENTS AND HOTEL TAX FUND REVENUE

$ Millions



SPECIAL EVENTS AND HOTEL TAX FUND EXPENDITURES

$ Millions



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 tax imposed on hotel operators at a rate of one 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 2005 and 2008, from $13.8 million to $18.4 million and from $21.3 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 $21.2 million in 2014 and expected to grow to $22.8 million in 2015, as Chicago has secured more large convention bookings than in previous years.

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 $11.0 million in 2014 with stronger than anticipated ticket sales for the Taste of Chicago, even with a weather-related cancellation of one day of the festival.[5] Recreation fee revenues are projected to grow to $11.3 million in 2015 due primarily to revenues related to the celebration event following the Blackhawks' Stanley Cup victory.

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

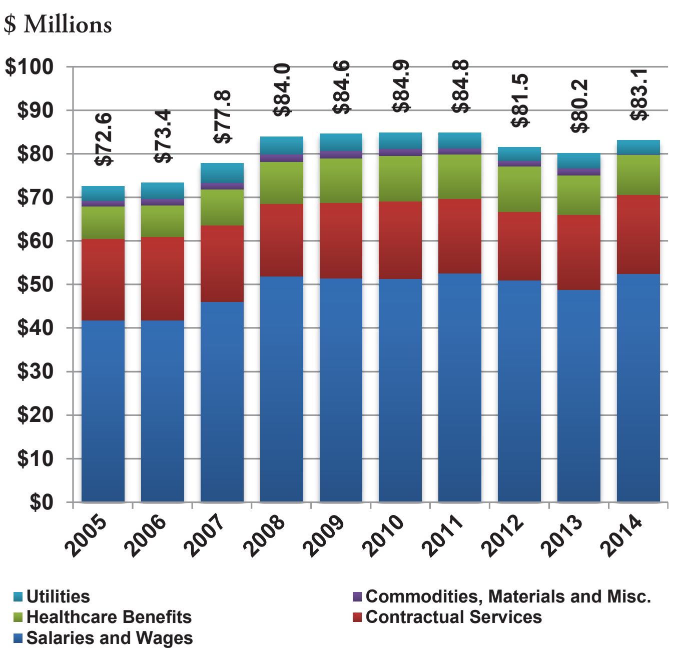
[4] Historically, these two revenue sources were accounted for in separate funds. The City merged the two funds in 2011 while merging the Department of Cultural Affairs, which oversees the Office of Tourism, with the Mayor's Office of Special Events.

[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.

the corporate fund to this fund. Special events and tourism expenditures 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 elimination 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. Choose Chicago receives City funding from the hotel operators occupation tax fund and from the City's aviation funds.

Overlying these specific changes to special events and tourism expenses are broader trends. Revenues 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 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 FUND OPERATING EXPENDITURES[6]



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 portion of the City's property tax levy dedicated to the library system, $86.5 million in 2014 increased to $87.2 million in 2015 as the City captured EAV from new property and expiring TIFs, as further discussed in the Property Tax section of this report. As the library fund expenses increased, the corporate subsidy to the fund increased, from $5.0 million in 2014 to $7.5 million in 2015. The remainder of revenue to the library fund comes primarily from library fines, interest earnings, and income from the rental of library facilities, totaling $3.0 million in 2015.

Library fund expenditures have been affected by many of the general trends affecting overall City spending, as well as certain library-specific factors. As in the corporate fund, personnel costs make up the largest portion of library fund expenses. 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 two years following this fund's inception, averaging $29.5 million annually. Reflecting the improving economy and the recovery in the real estate market since 2010, these revenues started growing significantly from $32.7 million in 2010 to $63.1 million in 2014. Revenues

[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.

are expected to reach $67.9 million in 2015.

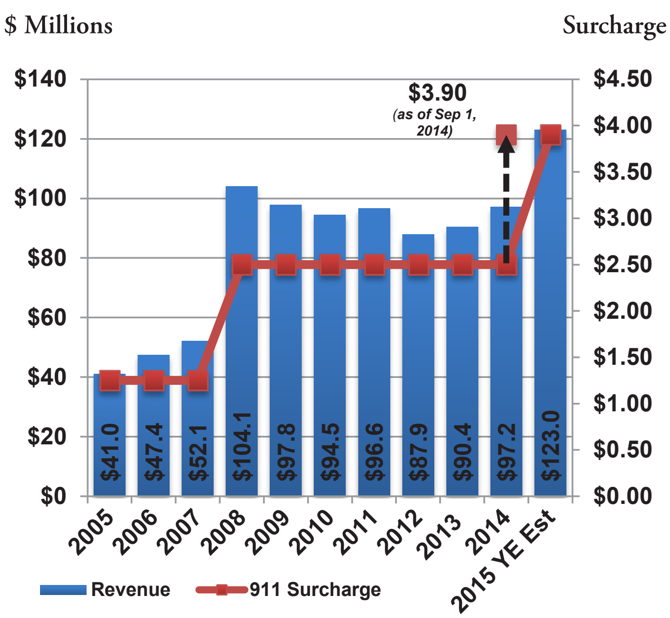
Emergency Communications Funds

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 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 authorized by state law and the allowable rate for the surcharge is set by the state. Since September 2014, the current surcharge is levied at a rate of $3.90 per month per landline or wireless connection and since October 2014, nine percent of the cost of prepaid wireless services. Prior to these increases, the rate was $2.50 and seven percent, respectively. Total revenue from the surcharge, prior to the rate increase, was negatively affected by the reduction in the use of landlines as more customers chose 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. Because of the rate increases, the 911 surcharge is estimated to generate $123.0 million in 2015, an increase of $25.8 million over the 2014 collection of $97.2 million. Out of the $123.0 million, $22.3 million is used to pay for emergency communication bonds.

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 for this shortfall. In 2014, the City had approximately $148 million in such expenses, outpacing surcharge revenues by approximately $50 million. With the increase in the surcharge rate, the corporate fund subsidy for these functions has been significantly reduced, and the corporate fund revenue made available to fund other activities.

EMERGENCY COMMUNICATIONS
SURCHARGE REVENUE



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. 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 paid for from operating revenues are included in the overall budgets of these self-supporting funds.

O'Hare and Midway Airport Funds

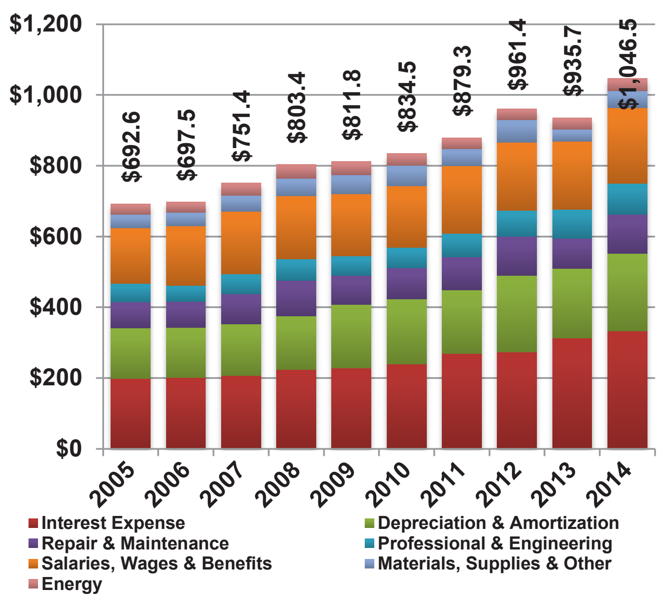
O'Hare and Midway airport operations are funded through landing fees, terminal rent, and other fees paid by airlines, as well as non-airline sources, such as charges for parking and revenues from concessions in the terminals. The amount that the airlines pay each year is established at each airport on 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 factors that impact Citywide expenses. Both the O'Hare fund and the Midway fund grew steadily over the past decade, with growth slowing between 2008 and 2009, as the overall economy contracted. The O'Hare fund grew at an average annual rate of approximately 4.8 percent, from $692.6 million in 2005 to $1.05 billion in 2014, and the Midway fund grew at an average annual rate of approximately 4.2 percent each year, from $171.0 million in 2005 to $242.6 million in 2014.

This overall growth is in part a function of growth at the airports, including expansions, renovations, and increased services. As capital improvement projects move forward, interest payments on bonds issued to fund those projects increase, and depreciation expenses associated with those improvements increase in later years.[7] On average, since 2005, interest payments on bonds issued to fund capital improvements at the airports has constituted 30 percent of total O'Hare fund expenses and 27 percent of total Midway fund expenses. These expansions and improvement

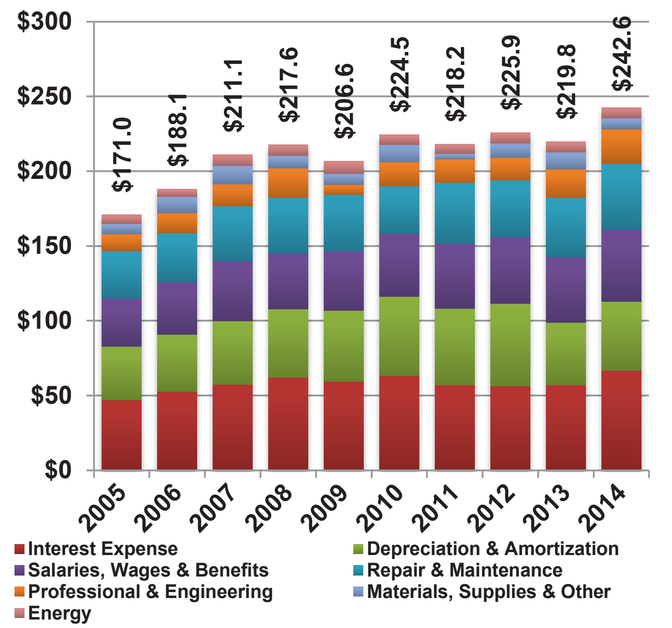
O'HARE AIRPORT FUND

$ Millions



MIDWAY AIRPORT FUND

$ Millions



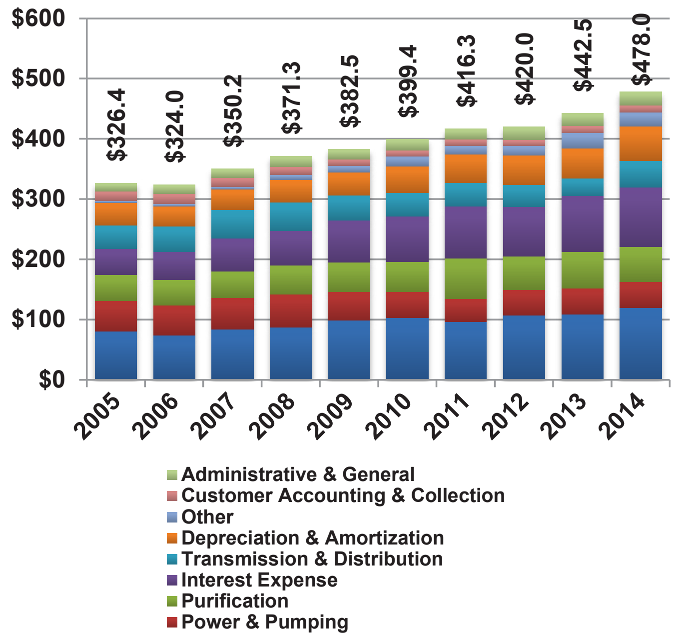
[7] The decrease in depreciation and amortization expenses in 2013 for both O'Hare and Midway was largely the result of changes in governmental accounting and reporting standards that impacted the financial statements of these funds beginning in 2013.

projects also require increased spending on professional and engineering services, and result in increased repair, maintenance, and other operational needs.

Salaries, wages, and employee benefits make up the next 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, the increasing cost of healthcare, and increasing pension costs. Personnel expenses for both the O'Hare and Midway funds grew at an average rate of 3.7 percent between 2005 and 2014, 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 22 percent in 2005 to 20 percent in 2014, 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 FUND

$ Millions



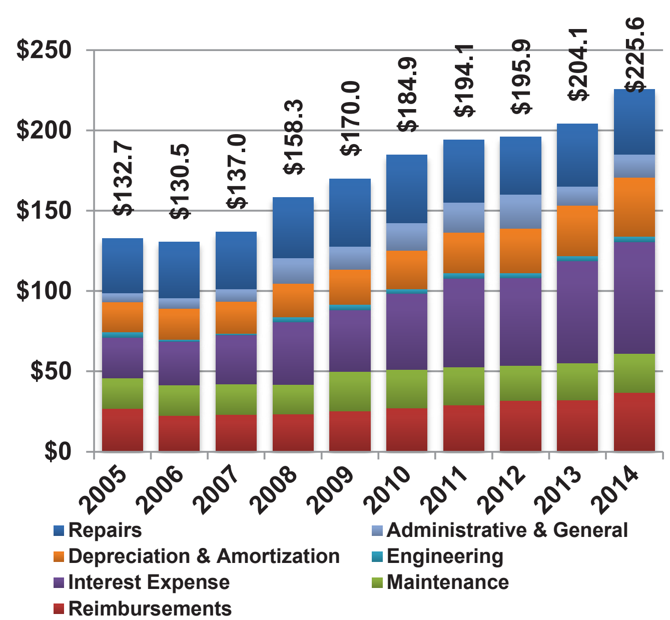
Water and Sewer Funds

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.[8] 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 2005 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 $168.4 million in 2014, following water and sewer revenue bond issuances in 2008, 2010, 2012, and 2014. Proceeds from these bonds are used for the construction and repair of water

SEWER FUND

$ Millions



[8] 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. The amount indicated for 2013 in the Sewer fund is an adjustment from the 2014 Annual Financial Analysis, due to a change in accounting principles, enacted in 2014. The amount indicated in 2012 and 2013 in the Water fund is a retroactive adjustment as well, due to changes in governmental accounting and reporting standards that impacted the financial statements of these funds.

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 by January 1, 2015. 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 brings Chicago's water and sewer systems in a state of good repair. 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 brought Chicago's water and sewer fees in line with national averages, and the improvements funded will protect health and safety by ensuring the delivery of clean water today and in the future.

Grant Funding

Grant funding is a significant and recurring source of revenue for the City, constituting an average of 22 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, enhance public safety capabilities, and complete capital improvements.

Sources of Grant Funding: 2005 - 2014

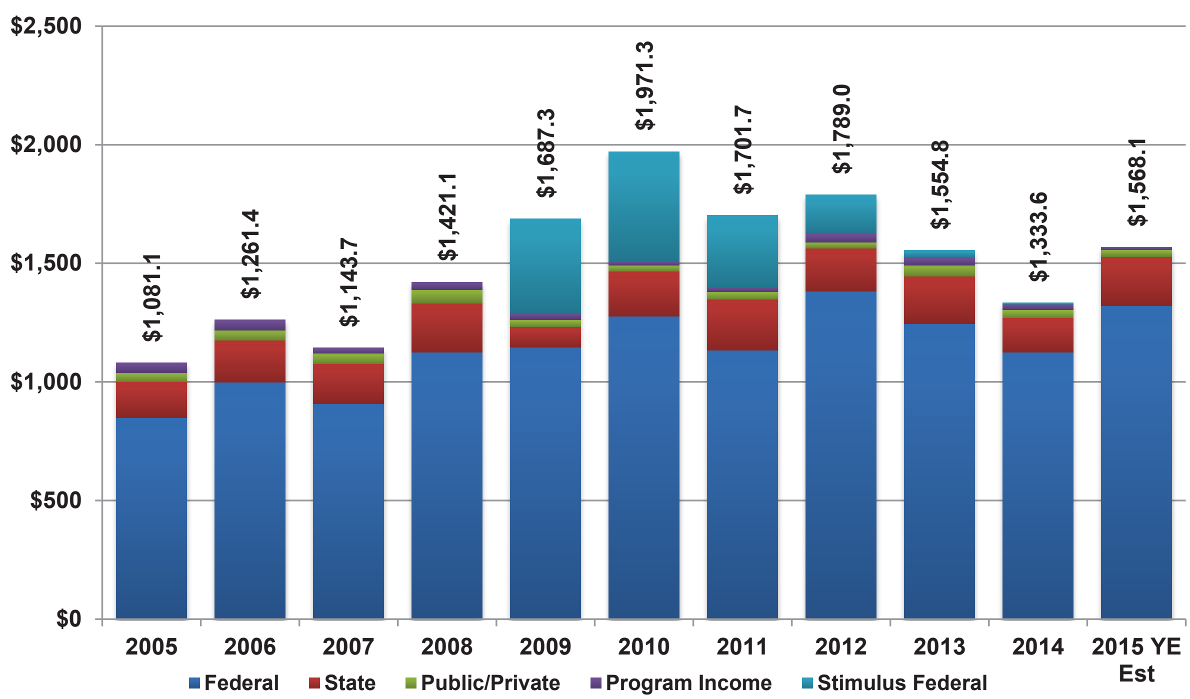
Grant funding has provided an average of $1.49 billion each year over the past decade. The level of grant funding varies from year to year with the availability of grants that meet City needs and the City's ability to obtain those grants. In recent years, the City's overall level of grant funding was significantly impacted by the stimulus funding from the Federal American Recovery and Reinvestment Act (ARRA), which expired in 2013.[9] 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 2005 through 2014 period, the City's grant funding has been composed of approximately 84 percent federal funding (including nine percent in stimulus funding), 12 percent state funding, and two percent private funding and donations. In addition, certain City grant-funded programs also 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 $29.8 million, or two 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

GRANT FUNDING SOURCES[10]

$ Millions



[9] 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.

[10] Due to limitations in available data, 2005 reflects the grant funding appropriated in the City's annual budget. For years 2006 through 2014, actual grant funding received is shown. For 2015, anticipated grant funding is presented.

that are intended for use over a longer period of time may not necessarily be fully used in that year. The City budgets the entire grant award in the year it is anticipated to be awarded, 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: 2005 - 2014

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

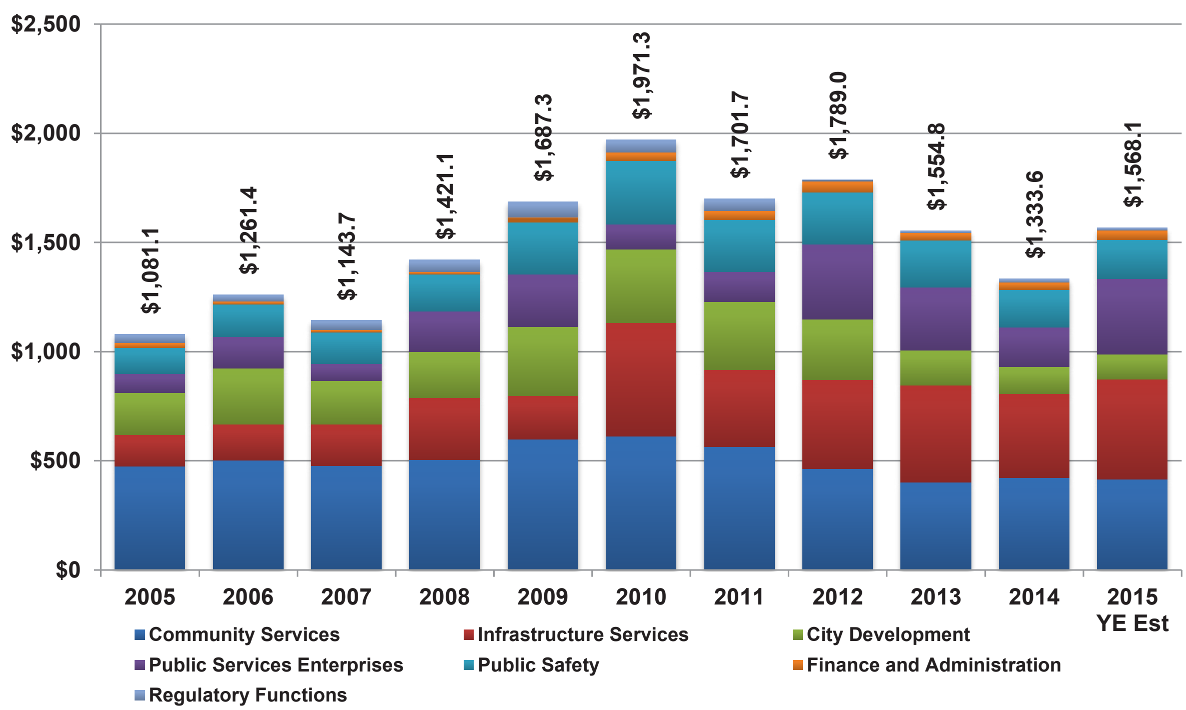
The Office of Budget and Management, the Department of Innovation and Technology, the Department of Finance, and the Department of Law each receive grant funds to fulfill finance and administration functions for the City. During the past decade, an average of $28.2 million per year, or two percent of 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 federal stimulus funding for broadband, high-speed internet, and fiber connections. In 2014, this program category received a slight increase from Disaster Recovery grant funding and from private funding for Chicago Lives Healthy, the City's wellness program.

City Development

The Department of Planning and 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 $238.4 million per year, or 16 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 federal stimulus funding. The City received $169.0 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. In 2014, the Department of Planning and Development received $10.5 million in Disaster Recovery grant funding, to assist home owners and renters impacted by the floods of 2013.

GRANT FUNDING USES[11]

$ Millions



[11] 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.

Financial History Review

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 Disabilities. During the past 10 years, an average of $502.7 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 federal stimulus funds ended, grant funding for community services also declined.

Public Safety

Collectively, the Office of Emergency Management and Communications, the Police Department, and the Fire Department have received an average of $197.4 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, from $118.5 million in 2005 to $171.4 million in 2014. A significant part of this funding comes from the Urban Areas Security Initiative (UASI) Grant Program, which has provided $349.6 million in funding since its inception in 2003 to address the planning, equipment, training, and exercise needs of high-threat, high-density urban areas in preventing and responding to acts of terrorism. 2014 funding in this program area was down from 2013 due to reduced carryover as a result of the grant program going from a three-year to a two-year timeframe.

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. Smaller 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 $38.6 million per year, or three percent of the City's total grant funding, has been dedicated to regulatory functions.

Infrastructure Services

The Department of Streets and Sanitation and the Department of Transportation (CDOT) receive grant funding to repair, maintain, and construct City infrastructure. During the past 10 years, an average of $309.4 million per year, or 21 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 at least in part 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 $179.8 million per year, or 12 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 Department 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 and water management facilities.

Grant Funding Going Forward

Between 2009 and 2012, federal stimulus programs increased the amount of grant funding the City received. With the expiration of federal stimulus funds and the impact of the federal sequester, both in 2013, as well as recent federal and state budgetary restrictions, the City saw its overall grant funding decrease to pre-2008 levels in 2014. Between 2013 and 2014, the City received a $221.3 million reduction in total grant funding. This was due to a combination of a return to pre-stimulus funding levels and the end of certain grant programs. Despite the recent downward trend, the City anticipates receiving increased federal funding in 2015, mostly due to an increase to the funding CDOT receives for highway and infrastructure improvements. Under the State's fiscal year 2016 - which began on July 1, 2015 - State funding is anticipated to decrease across all areas, especially in the Community Service area, with severe reductions in Health and Disabilities funding; however, the State budget has not yet been released at the time of this publication.

In the past five years, community services and city development grants saw the largest reduction in funding, with a total decrease of $404.6 million from 2010 to 2014. 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 previously in the city development section. In addition, for the last several years, 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 allocations. Since 2010, CDBG funding has been reduced by 20 percent (or $17.8 million) and HOME funding by 48.5 percent (or $15.6 million). Community services and city development grant funding is anticipated to decrease by an additional $15.3 million by the end of 2015.

Similar to community services and city development grant funding, grant funds for the City's infrastructure departments decreased in 2014 by 13 percent, or $58 million. This reduction is due to the timing of approvals for the infrastructure projects at the state level, which pushed certain projects into 2015. As a result, 2015 funding is estimated to increase by $71 million dollars.

To mitigate the aggregate decrease in grant funding, 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 were fully spent by the end of 2014. Despite this and any future reduction in federal or state 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

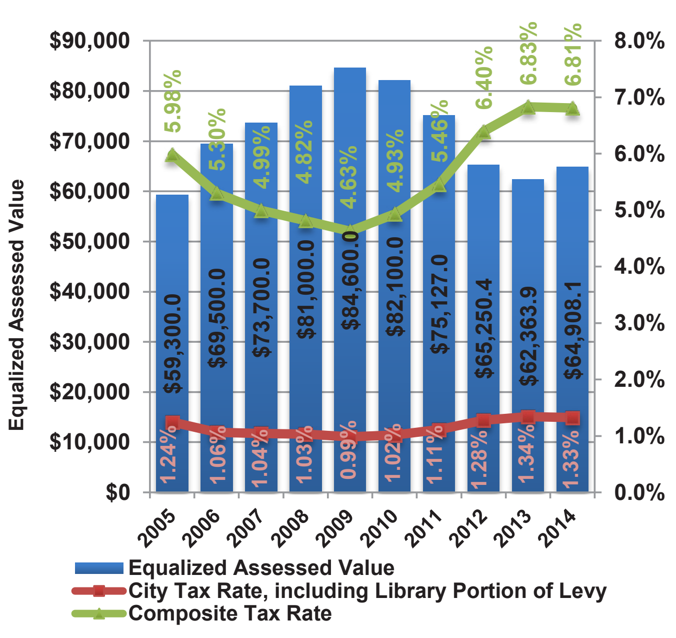
The City's total property tax-derived revenue is made up of two basic components – the City property tax levy and tax increment financing (TIF) revenue. Revenue from the City's levy can be used for general citywide services or expenses. TIF revenue, however, must be utilized for specific types of expenses 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 19.5 percent of a property taxpayer's total bill is allocated to the City, and approximately 53.8 percent is allocated to the Chicago Public Schools.

EQUALIZED ASSESSED VALUE AND TAX RATES

$ Millions Effective Tax Rate



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.[12]

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 1.327 percent in 2014.

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

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 typical 2014 composite property tax rate for a taxpayer in Chicago was 6.808 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.[13]

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 from 2005 to 2009, but declined starting in 2010 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 mid-2000s, the property tax rate for Chicago taxpayers steadily decreased. The City tax rate, including the library portion of the levy, was 1.243 percent, with a 5.981 percent composite rate, in 2005. By 2009, the City rate had decreased to 0.986

[12] 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.

[13] Property tax bills are sent and paid one year in arrears, so the bills received by taxpayers in 2015 reflect 2014 tax rates and valuations.

percent, with the composite rate down to 4.627 percent. However, after 2009, the aggregate EAV 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 four 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. In 2014, with the improving economy and rebounding real estate market, the aggregate EAV began to climb again, up four percent from 2013 to $46.9 billion.

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, economic development, and expiring TIFs, which generates additional revenue without increasing property taxes for existing taxpayers.

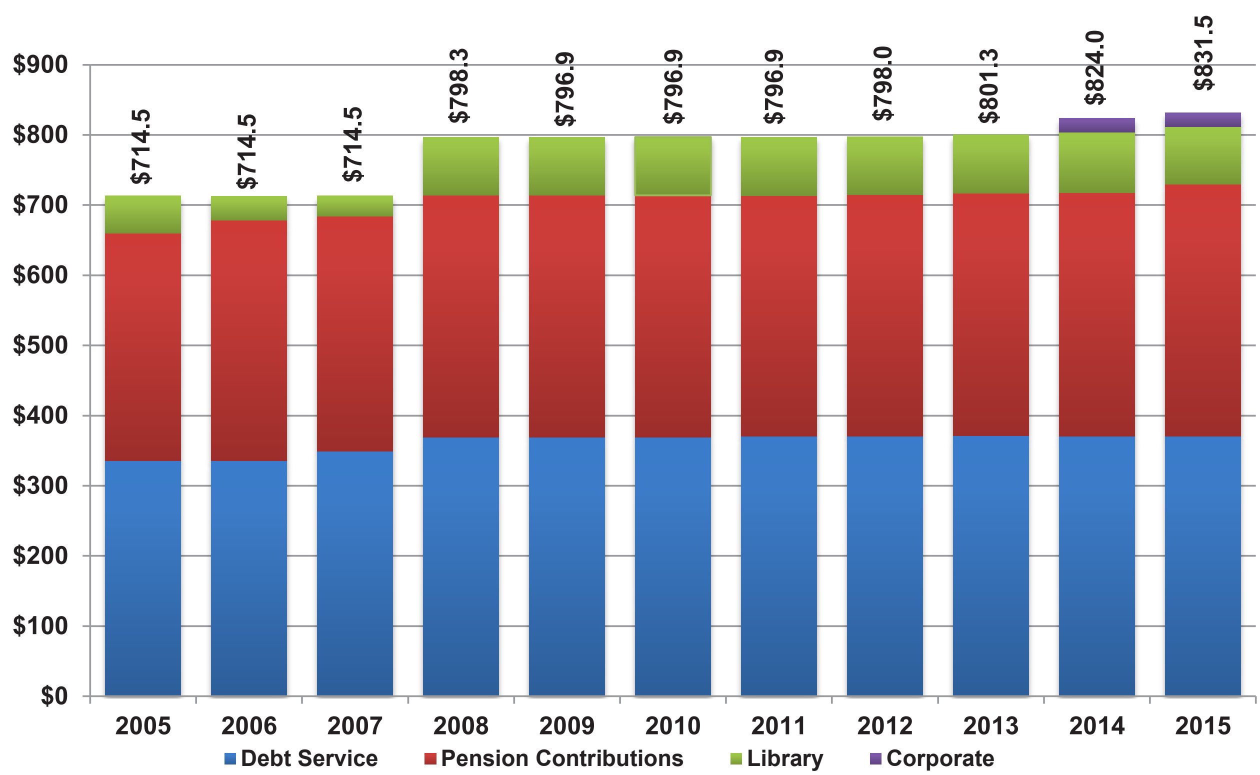
Use of City Levy Revenues

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.[14] 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



[14] 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 adopted a separate levy to pay debt service on bonds issued to fund the construction and improvement of buildings for Chicago Public Schools (CPS). In 2014, this levy was $94.8 million. Because CPS functions as a separate governmental unit, this levy is not discussed in detail here.

chart on the prior page shows the way in which property tax revenues were appropriated from 2005 through 2015. 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 by refinancing portions of the debt. 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. Taxpayers in a TIF district can see the percentage of their property tax payment that is dedicated to the TIF on their tax bills.

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 2011 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. There are no TIFs expected to end in 2015.

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 69 percent of total local funds over the past 10 years. The average is higher, 80 percent, in the corporate and special revenue funds. Salaries and wages alone accounted for an average of 59 percent of City local fund expenses each year over the past 10 years, with employee healthcare accounting for an average of nine 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.

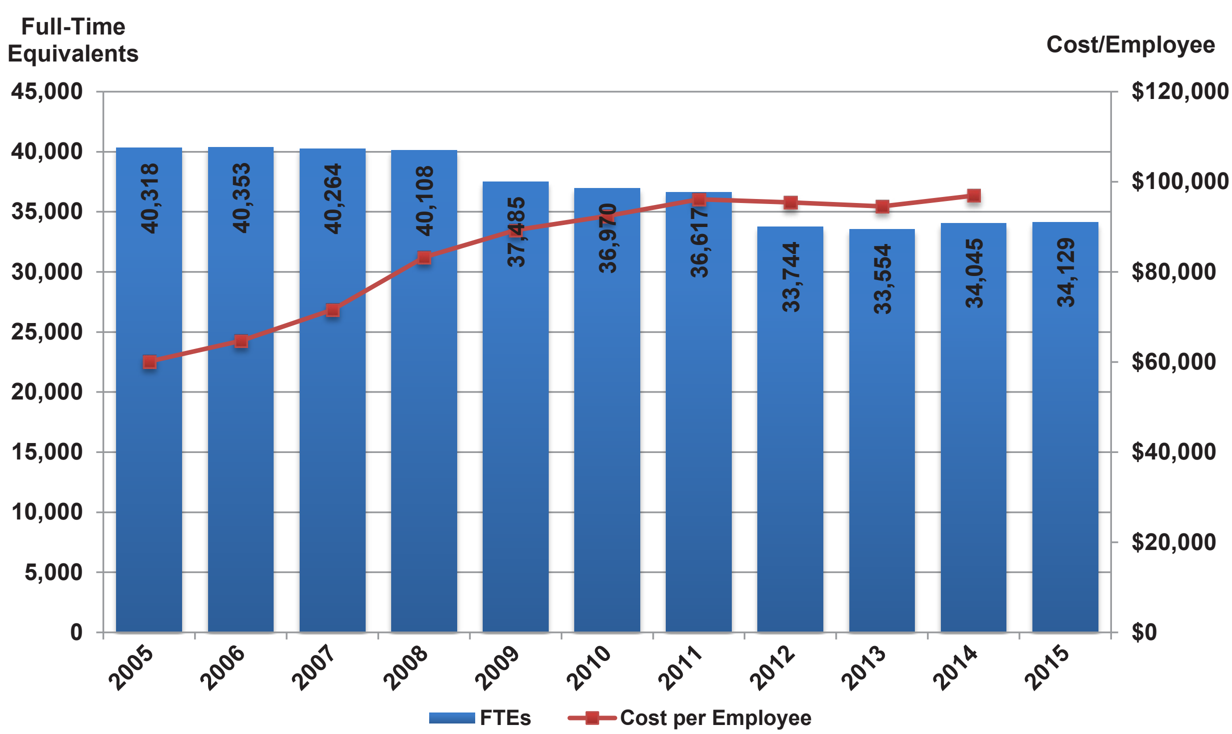
The public safety departments account for the largest portion of personnel expenses on the corporate fund, and have not experienced reductions to the extent that other segments of the workforce have over the past 10 years. From 2005 through 2014, public safety salaries and wages accounted for an average of 78 percent of total corporate fund salary and wage expenses, with that percentage increasing from 73 percent in 2005 to 81 percent in 2014. Today, public safety positions make up 60 percent of the City workforce, up from 56 percent in 2005.

The City has steadily decreased its workforce across all funds from 38,366 positions (40,318 full-time equivalents, or FTEs) in 2005 to 32,959 positions (34,129 FTEs) in 2015, a decrease of approximately 14 percent, or 5,407 positions (6,189 FTEs). However, despite this reduction in the workforce, the City's local fund personnel costs increased by 20 percent between 2005 and 2014, with salary and wage expenses increasing by 17 percent and healthcare costs by 29 percent. The City's average annual cost per employee increased from $60,114 in 2005 to $96,922 in 2014.

Union Workforce

The increase in personnel expenses over the past decade has been due primarily to salary increases resulting from

CITY WORKFORCE AND COST PER EMPLOYEE



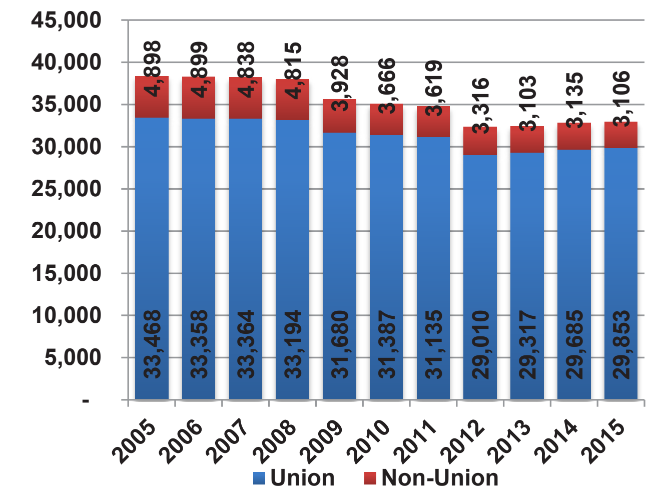
contractual obligations under collective bargaining agreements with the unions that represent the vast majority of City employees. As the overall number of City positions has decreased, the relative proportion of union positions has increased. Ninety-one percent of budgeted City positions are represented by a union, up from 87 percent in 2005. Since 2005, the number of non-union positions has been reduced by 37 percent, from 4,898 to 3,106 (5,171 to 3,340 FTEs), while the number of union positions has been reduced by 11 percent, from 33,468 to 29,853 (35,146 to 30,789 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 16,096 combined public safety positions. When police captains, lieutenants, and sergeants are included, the number of unionized public safety positions comes to 17,539.

The next largest group of positions is associated with the Coalition of Union Public Employees (COUPE), which currently represents 6,754 trades positions (7,315 FTEs). The fourth largest group is the American Federation of State, County, and Municipal Employees (AFSCME), representing 3,479 positions (3,650 FTEs) that provide administrative support for City government and services, and the fifth largest is the Service Employees International Union (SEIU) currently representing 1,967 public safety civilian positions (2,717 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.[15] During the period from 2003 through 2006, collective bargaining agreements with COUPE and AFSCME provided average salary increases of more than three percent each year, and those with the police and fire unions provided average salary increases of more than four percent each year. The most recent collective bargaining agreement with the Fraternal Order of Police provided an average annual salary increase of just over two percent between 2012 and 2017 and was ratified by the union in November 2014. An agreement with the fire union providing the same average annual salary 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 and 2012 followed by a two percent increase each year from 2013 through 2017. An agreement with AFSCME providing an average annual salary increase of two percent for five years was ratified by the union in June 2014. The current SEIU agreement, which was finalized in August 2012, includes a six 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 a two percent salary increase per year between 2012 and 2016.

2015 CITY WORKFORCE, UNION VS. NON-UNION



These increases are in addition to 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, between 2009 and 2015, non-represented positions did not receive any increases beyond normal step increases for time in service. In 2015, a three percent cost-of-living increase was provided to certain non-union positions that are paid less than the highest AFSCME position.

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 pays for covered healthcare services rather

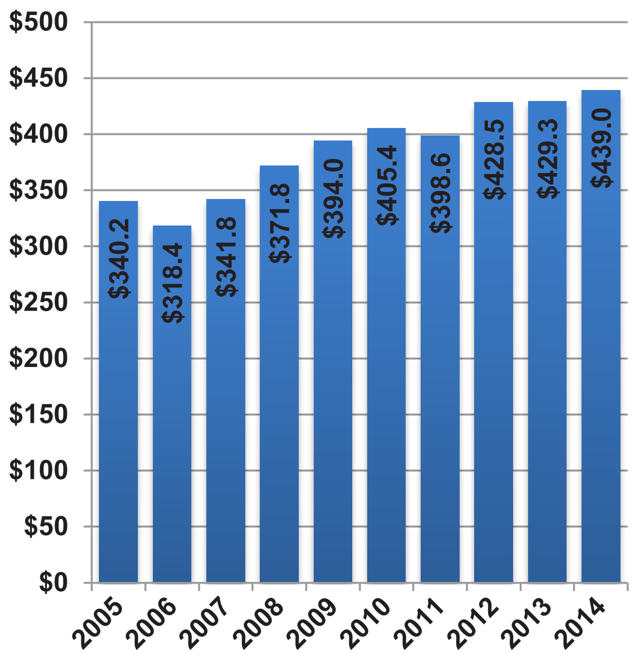
[15] These salary increases affect negotiated rate positions only; wages for most positions paid on an hourly basis increase pursuant to the prevailing rate.

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.

Between 2005 and 2014, the City's healthcare costs rose from $340.2 million to $439.0 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 plan design changes, including adjustments to the formula for employee healthcare contributions in 2005. The slight decrease in 2011 was in part the result of more aggressive negotiations with providers and the pursuit of reconciliations and one-time reimbursements owed to the City.

CITYWIDE HEALTHCARE COSTS[16]

$ Millions



The significant net increase over the past decade can be attributed to several 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 2005 and 2014, the aggregate number of covered individuals under City healthcare plans decreased by more than 8.4 percent, from 130,230 to 119,233. However, during that same time period, while the number of active City employees enrolled decreased by approximately 16 percent, the number of retirees enrolled increased by approximately five percent. The change in the makeup of covered individuals resulted in an increase in the average age of beneficiaries of City healthcare plans, with older individuals generally requiring 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, and when compared to 2013 expenditures, achieved a savings of $22 million in 2014 and anticipated savings of $43 million in 2015.

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 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 2005 and 2014, the consumer price index for medical care increased by more than 34 percent. 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, the City provides various programs, including the wellness program, which has a participation rate exceeding 85 percent. The City also provides various disease and chronic care programs to assist employees and their families in proactively managing health conditions.

Overtime Management

Since 2005, 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

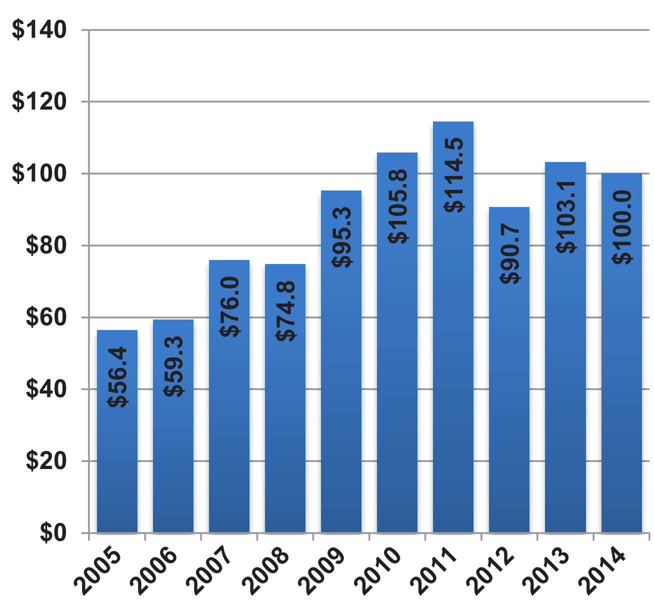
[16] Citywide healthcare costs in this chart do not include administrative costs. This is because the CAFR categorizes these costs under contractual services. However, the administrative costs associated with healthcare are generally budgeted and normally referred to as healthcare expenses.

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. Between 2012 and 2014, 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 multiple seasons of severe weather. Also, increases in public safety department overtime were due in part to the decision to increase police hours on the streets as well as fulfilling obligations from collective bargaining agreements.

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 and long-term 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 cost effective. Decisions are made based on the seasonality, type, and long-term consistency of the work that must be completed.

CITYWIDE WORKERS' COMPENSATION

$ Millions



Workers' Compensation

The City's workers' compensation costs rose from $56.4 million to $114.5 million between 2005 and 2011. Since 2011, workers' compensation costs have been lower, with 2014 costs totaling $100.0 million. 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, the downturn in the economy meant employees who could not return to their original position due to their injuries were 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 three 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.

Annual Financial Analysis 2015

Financial Forecast

Financial Forecast

INTRODUCTION

This section discusses the City's 2015 year-end estimates, 2016 preliminary budget projections, and three revenue and expenditure scenarios for the years 2017 and 2018 – 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 2016 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, which 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[17]

At both the national and local level, key economic indicators suggest uneven but sustained moderate growth in the current and coming years. The U.S. gross domestic product (GDP) - the broadest measure of economic output - contracted by 0.2 percent in the first quarter of 2015 due primarily to severe winter weather, lower exports due to a strong dollar, and the collapse in oil sector investment. The GDP is projected to rebound in the remaining quarters, ending 2015 at 2.4 percent over 2014, and is forecast to range between 2.1 and 2.9 percent for 2016 through 2018. Economic expansion this year and over the next few years will be driven primarily by increases in consumer spending, business investment, and residential housing market investment.

Personal consumption expenditures have been uneven, rising by only 1.8 percent from January through March. However, the labor market has been gaining strength and driving the unemployment rate down, and these expenditures are forecast to grow at two percent for the coming three years. The consumer price index is expected to be 0.3 percent in 2015 and to rise 2.3 percent for the coming years as the economy strengthens and oil prices increase. Real business investment is expected to increase by 4.3 percent in 2015, 5.9 percent in 2016, and smaller amounts in subsequent years. With better prospects for jobs and wages as well as greater access to mortgage credit, residential investment is projected to grow by 11 percent in 2015 and 13 percent in 2016, despite the negative effect of an expected rise in interest rates. Moreover, Europe is emerging from its recession and Asian economies are improving, which provides a boost for U.S. economic activities.

Locally, economic trends have mirrored many of these national trends. During the first five months of 2015, home sales in Chicago increased by seven percent over 2014 and home prices rose significantly, signaling the recovery of the housing market. The Chicago commercial real estate market has also shown great strength in 2015. Reflecting the improving labor market, the City's unemployment rate dropped from 7.7 percent in April 2014, to 6.5 percent in April 2015. In addition, Chicago's main service industries grew over the past year, and tourism and business travel to Chicago continues to grow. With relatively low oil prices and improving employment, Chicago's economy is expected to expand moderately through 2018.

These broader economic factors are accounted for in the following projections. The 2016 projections and the base outlook for 2017-2018 present what is currently viewed as the most likely scenario. The positive and negative outlooks for 2017-2018 provide insight into how changes in the economy and other related factors could affect the City's finances over the next three years.

2015 CORPORATE FUND YEAR-END ESTIMATES

2015 Year-End Revenues

The total corporate fund resources for 2015 are estimated to end this year at budgeted levels of $3.53 billion. This includes no carry over from prior years. Major categories of revenue and trends are discussed below, and year-end estimates

[17] The economic considerations in this section are developed from sources including Blue Chip Economic Indicators report, the Congressional Budget Office's "The Budget and Economic Outlook: 2015-2025" (www.cbo.gov), the Bureau of Economic Analysis (www.bea.gov), and the Bureau of Labor Statistics (www.bls.gov).

for each revenue source are discussed in the Financial History Review section.

Utility tax revenues are expected to come in 0.5 percent below budget for the year as natural gas prices fell and the summer has been unusually cool. Telecommunications tax revenue continued to decline due in part to changing consumer preferences.

Reflecting the improving economic conditions, the City's economically-sensitive taxes have shown improvement over last year's collections and are anticipated to exceed budgeted expectations across the board. Real property transfer tax revenues are forecasted to come in more than seven percent above budget as the commercial real estate market continues to gain strength and the residential market rebounds. The lease tax is expected to come in five percent above budget, eleven percent above the 2014 actual amount, while the City's sales taxes are expected to grow five percent above the 2014 actual amount, one percent above budget. The positive performance in these consumer-driven taxes occurs as consumer confidence grows and the labor and housing markets improve.

Transportation-related taxes, including the garage tax and vehicle fuel tax, are anticipated to finish 2015 two percent above budget, as the economic recovery and lower gas prices encourage higher consumption of motor fuel.

Income tax revenues are expected to end 2015 approximately five percent above budget. When state income tax rates decreased on January 1, 2015, the State simultaneously increased the allocation rates for local governments so that the tax rate reduction didn't negatively impact the revenue sent to municipalities. Because final 2014 income tax payments due in Spring 2015 were based on the old, higher tax rates but applicable allocation rates were higher, municipalities received greater allocations. In addition, the final tax payments were higher than anticipated due to higher capital gains in 2014. These factors combined with the improving labor market are projected to boost 2015 income tax revenues by $20.8 million or five percent above the budgeted level.

Hotel tax revenue has grown significantly over 2014, due to an increase in the number of conventions and growth in tourism. Amusement tax revenues are estimated to end the year seven percent over budget, impacted by ticket price increases. Amusement tax revenues also reflect the 2015 elimination of a tax exemption that cable television companies 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 below budget due to changes in the automated enforcement program. In addition, revenue from service fees and other licenses and permits are expected to end 2015 below budget.

2015 Year-End Expenditures

Corporate fund expenditures are currently expected to end the year at the budgeted level of $3.53 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 2015.

The year-end projection reflects increased overtime costs related to the severe winter weather as well as increases in public safety overtime costs. It is anticipated that these

2015-2016 PROJECTED EXPENDITURES AND REVENUES[18]

$ Millions

	2015 YE Est.	2016 Projected
Revenue	$3,534.7	$3,462.5
Expenditure	$3,534.5	$3,695.2
Budget Surplus/(Deficit)	**$0.2**	**($232.6)**

[18] While the motor fuel tax fund and vehicle tax fund are self-contained funds, any shortfalls in these funds are absorbed by the corporate fund and are accounted for in the corporate fund gap.

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 publish updates in the City's quarterly budget reports.

2016 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 2016 fund gap of $232.6 million.

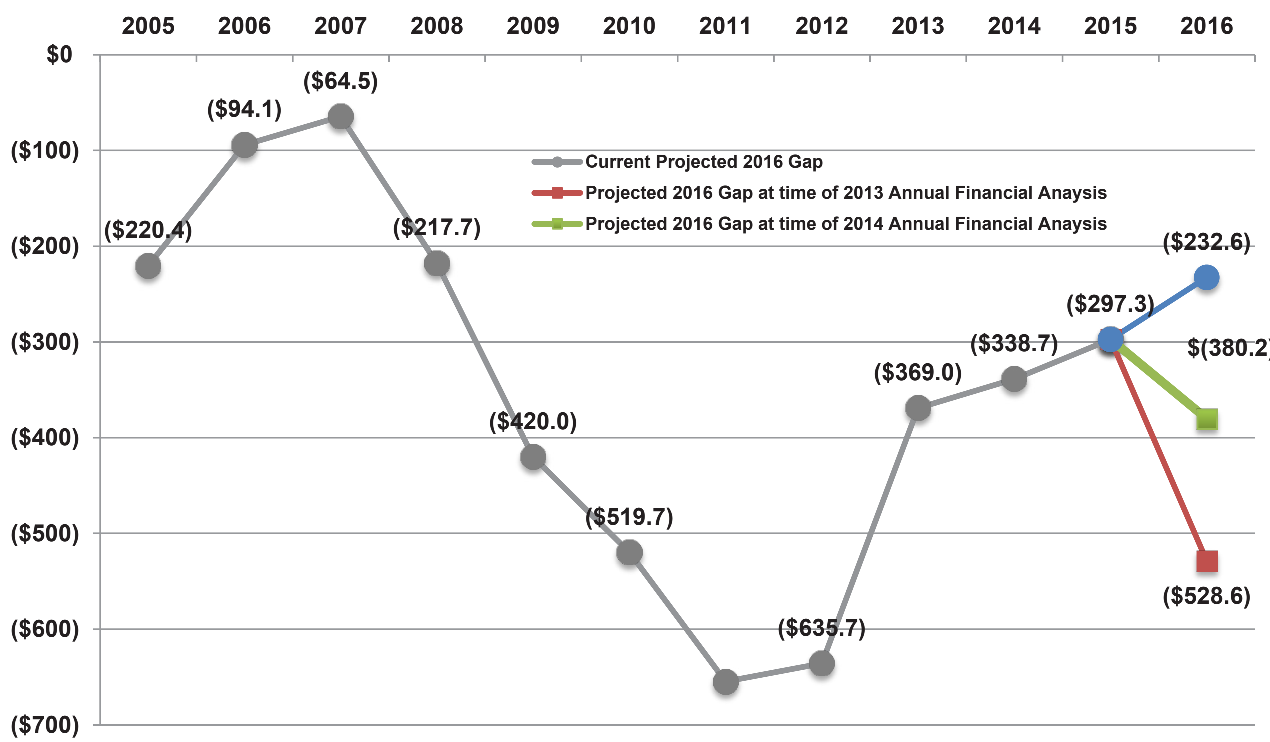
This projected gap is the lowest since 2008 and is substantially less than was projected for 2016 in the City's 2013 and 2014 Annual Financial Analysis. The decreasing size of the gap is a result of the recovering economy's impact on revenues, as well as real and lasting changes made in the past four budgets. Initiatives, such as consolidating IT systems and software licenses, lease consolidations, the implementation of energy efficiency programs, and the sale of excess City-owned land, have decreased the structural budget. However, growing salaries and wages, the cost of funding the City's pension funds, and growing debt obligations continue to place pressure on the City's corporate fund, as evidenced by the persistent existence of a budget shortfall.

2016 Projected Corporate Fund Revenues

Corporate fund resources are projected to decrease by two percent to $3.46 billion in 2016 from 2015 year-end estimates. Revenue from taxes are anticipated to grow slightly in 2016 above the 2015 level; however, these gains are offset by a reduction in non-tax revenues, resulting in an overall decrease in revenues.

CORPORATE FUND PRELIMINARY GAP[19]

$ Millions



[19] The graph excludes $50 million for the increase in Municipal and Laborer's pension fund contribution that was included in the 2014 Annual Financial Analysis for the 2016 projected gap, as the effect of pension changes is now discussed separately in this section.

Financial Forecast

Utility tax revenues are expected to decline in 2016 due to the continued decreases in telecommunication tax revenues and the weather-based assumption for natural gas, which is predicting the winter of 2016 to be milder than the winter of 2015. The projected reduction in these two taxes is larger than the gains from electric tax revenues, which is also driven by weather. Cable television tax revenues are projected to grow slightly as cable companies increase customer rates and pay-per-view use rises.

Revenues from the City's largest and most economically sensitive sources are projected for moderate growth. Sales taxes are expected to grow at a rate of four percent through 2016 as the labor market and consumer confidence figures continue to improve. Lease-tax revenues are forecast to grow by three percent over 2015 in line with increasing consumer confidence and continued economic recovery. Although the housing market has recovered significantly, real property transfer tax revenues are projected to decrease by seven percent in 2016 due to several unusually large commercial building transfers in 2015. Hotel tax revenues are expected to grow two percent over the 2015 level as the number of conventions and the booking of hotel rooms increase slightly in 2016. Amusement taxes are projected to increase by three percent reflecting general growth in cable fees and ticket prices for sports and concerts.

Under transportation tax revenues, garage tax revenues are expected to grow slightly over the 2015 level, while vehicle fuel tax revenues are expected to remain at the 2015 level as increased demand for motor fuel will offset the downward trend caused by stringent fuel economy standards. Ground-transportation tax revenues are forecast to grow as the use of ride-share services increases.

The City's income tax revenues are expected to decrease slightly in 2016. In 2015, the City benefited from a one-time event of higher allocations for municipalities, which will not recur in 2016. Although wage and corporate profits anticipate modest growth which aligns with the moderate economic assumption, this growth is not large enough to offset the loss of the one-time benefit the City experienced in 2015.

The City's non-tax revenues in 2016 are expected to decrease by seven percent from 2015 levels. This decrease is primarily

REVENUE CORPORATE FUND, $ Millions	2015 YE Est.	2016 Projected
Tax Revenue		
Utility Taxes and Fees	$449.4	$441.0
Transaction Taxes	345.4	338.9
Transportation Taxes	191.1	191.8
Recreation Taxes	214.5	217.0
Business Taxes	111.8	113.9
Sales and Use Taxes	651.3	676.4
Income Tax, PPRT & Other Intergovernmental	447.0	441.9
Total Tax Revenue	**2,410.5**	**2,420.9**
Non-Tax Revenue		
Licenses and Permits	129.3	137.1
Fines, Forfeitures and Penalties	338.7	330.1
Charges for Services	122.3	112.6
Municipal Parking	7.0	6.6
Leases, Rentals and Sales	25.0	31.2
Reimbursement, Interest & Other	460.3	390.7
Total Non-Tax Revenue	**1,082.6**	**1,008.3**
Proceeds and Transfers In	**41.6**	**33.3**
Total Revenue	**3,534.7**	**3,462.5**
Appropriated Prior Year Fund Balance	0.0	0.0
Total Projected Resources	**$3,534.7**	**$3,462.5**

Financial Forecast

EXPENDITURES CORPORATE FUND, $ Millions	2015 YE Est.	2016 Projected
Salaries and Wages	$2,436.5	$2,517.4
Healthcare Benefits	379.0	413.7
Worker's Compensation	66.8	66.1
Contractual Services	360.1	382.6
Commodities and Materials	27.2	30.0
Utilities	17.2	16.7
Motor Fuel	26.9	24.8
Claims, Refunds, Judgments, and Legal Fees	43.8	63.0
Miscellaneous	26.0	30.6
Transfers Out	10.8	10.1
Pension Contribution	140.2	140.2
Total Projected Expenditures	**$3,534.5**	**$3,695.2**

seen in the reimbursement, interest, and other category. It is due to the sweeping of dormant accounts in 2015, which brought in non-recurring revenues. Similar account balances will not be available for sweeping in 2016. The decrease in non-tax revenues is slightly offset by increases in licenses and permits, and in particular, revenue from building permits, which are anticipated to increase due to the improving residential and commercial real estate markets.

2016 Projected Corporate Fund Expenditures

2016 expenditure projections grow over 2015 anticipated year-end expenditures by approximately $160 million, or five percent, to $3.70 billion. These projections are based on 2015 year-end estimates, adjusted for anticipated growth trends and known changes, such as normal increases in contractual services, commodities and materials costs, and additional energy expenses due to anticipated increases in gas prices, street light electricity costs, and increased salaries and wages under collective bargaining agreements.

Similar to the past decade, the majority of the projected increases in expenses in 2016 are personnel costs. These costs will continue to drive corporate fund expenses in the coming years. The 2016 projection for these expenses assumes the same number of employees on the corporate fund as 2015 with salaries growing consistent with historic rates and healthcare expenses growing in line with market trends.

The size of the City's budget shortfall is increased by pension obligations under current and proposed state law. For the Municipal and Laborer's pension funds, pension reform legislation, P.A. 98-0641, was enacted by the State in June of 2014. This reform legislation increases City contributions to the funds, beginning with a $90 million increase included in the 2015 budget, 79 percent of which was allocated to the corporate fund. Although P.A. 98-0641 was overturned in the Circuit Court of Cook County in July of 2015, the increased pension contributions have been included in the 2016 projections, as the City is appealing this decision to the Illinois Supreme Court. Assuming that Illinois Supreme Court upholds P.A. 98-0641, the City will be required to make these increased pension payments to the Municipal and Laborer's pension funds.

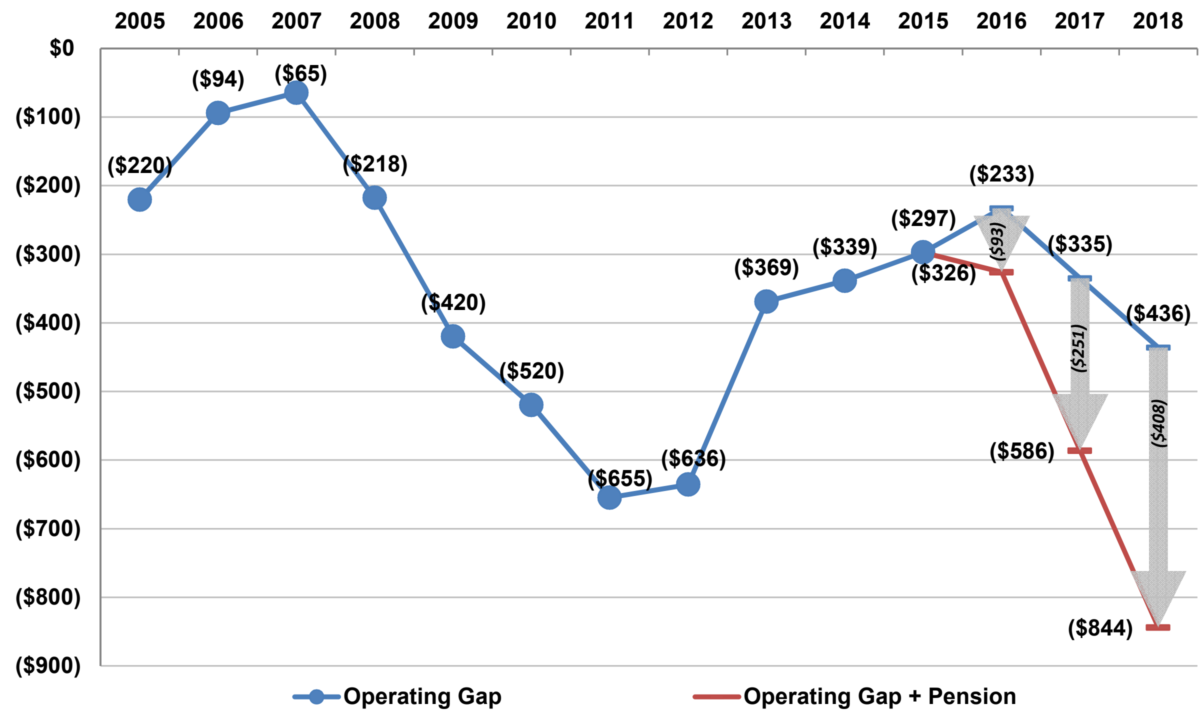
In addition, proposed State law, SB0777, would require the City to make an additional contribution to the Police and Fire pension funds of $328 million in 2015. This is significantly less than the $549 million increase in contributions required under current state law. The increased contributions for Police and Fire pension funds were not included in the 2015 budget as the City was pursing pension reform when the budget was adopted. The additional increase in the 2016 contribution for all four pension funds is $93 million and will continue to grow. Pension reform and the issues surrounding the City's future pension obligations are discussed in detail in the Pension section of this document.[20]

In April of 2015, the City outlined a roadmap to address its outstanding debt. One of the key reforms is to end the practice of "scoop and toss" by 2019. This refinancing technique, used since 2007, allowed the City to meet short-term obligations by pushing off debt into the future but at a higher long-term cost. Starting with the 2016 budget,

[20] 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.

2016-18 PROJECTED GAP

$ Millions



the City will put an additional $100 million toward debt service, working to end "scoop and toss."

Based on the pension and debt reforms mentioned above, an additional increase of $193 million – incremental contributions of $93 million to the four pension funds and debt service payments of $100 million increases the estimated gap for 2016 to $425.6 million.

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, though they are being developed by the City and will be included in the 2016 budget recommendation submitted to the City Council in September.

2017-2018 CORPORATE FUND OUTLOOKS

The following three scenarios project budget gaps for the years 2017 and 2018 for the City's corporate fund based on different revenue and expenditure outlooks. Even under optimistic projections, the City will continue to experience a sizable operating budget shortfall in these years. In addition, the City's pension obligations will continue to increase through budget years 2017 and 2018 and beyond.

Estimated contributions to the reformed Municipal and Laborer's pension funds and proposed changes to the Police and Fire funds would increase 2017's projected budget gap by more than $251 million, and 2018's gap by more than $408 million, with the estimated obligations growing each year. Further, general obligation debt service payments that impact the corporate fund will increase significantly from current levels in future years due to the elimination of "scoop and toss" by 2019, as discussed above.

Base Outlook

The base outlook projects corporate fund revenue growth of approximately one percent over the prior year in both 2017 and 2018, resulting in total corporate fund revenues of $3.50 billion and $3.53 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 moderate growth going forward.

These projections are based on the continuation of similar trends as discussed above with respect to 2016 for most revenue sources, including recreation and amusement taxes, transportation-related taxes, sales and lease taxes, and some non-tax revenues. A healthy rate of growth in real property transfer tax revenue is expected in 2017 and 2018, as the

2017-2018 PROJECTED OPERATING GAP

$ Millions

	2017	2018
Positive Outlook	($82.6)	($132.4)
Base Outlook	($334.9)	($436.3)
Negative Outlook	($577.3)	($801.4)

Estimated contributions to the pension funds and additional funding for debt service are not included this chart. These additional amounts are discussed in the 2017-2018 Corporate Fund Outlooks section.

market stabilizes following rapid growth during the recovery years. Utility taxes are expected to remain mostly flat. 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 two 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 3.5 percent, to $3.77 billion in 2017 and $3.90 billion in 2018. Under this base outlook, most categories of expenditures, including worker's compensation, motor fuel, settlement and judgment-related, and other miscellaneous expenses, are assumed to grow at their long-term historical average rates. Less predictable expenditures, such as commodities and materials, contractual services, and utilities are projected at a two percent growth rate. 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 plans for the City's pension funds, incremental contributions will increase by approximately $158 million in 2017 and an additional $156 million in 2018. Debt service incremental payments will increase by an additional $180 million in 2017 and an additional $175 million in 2018, mainly due to the elimination of "scoop and toss" by 2019.

Under this scenario of realistic revenue projections and modest growth in expenditures, the City's corporate fund operating expenses surpass anticipated revenues by $334.9 million in 2017 and $436.3 million in 2018.

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 remain mostly flat in 2017 and in 2018, resulting in total corporate fund revenues of $3.42 billion in 2017 and $3.43 billion in 2018. This assumes that utility tax revenues decline slightly as 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 rise and fuel efficiency efforts increase, holding transportation tax revenues stagnant. A tepid economy and cautious consumer sentiment would also lead to tightened spending on retail goods, entertainment, and tourism, resulting in flat amusement, hotel, sales, and lease tax revenues. In addition, if unemployment rises or wage growth stalls, income tax revenues would likely experience only slight increases in 2017 and 2018. These same factors, together with tightened lending, would impact the real estate market, and while this outlook projects growth in real property transfer tax revenue, it is offset by losses in other transaction taxes. Additionally, the pace of new business and building starts would slow with the economy, leaving license and permit fee revenues flat then dropping, and collection rates for fines and penalties may decrease, contributing to overall non-tax revenues that decline from 2016 levels.

If 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 six percent to $3.94 billion in 2017 and $4.17 billion in 2018. 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 would grow to $577.3 million in 2017 and $801.4 million in 2018. Also, the negative outlook assumes that pension reform is upheld for the Municipal and Laborer's pension funds and proposed changes to the Police and Fire pension funds are not signed into law. The increased contributions to the City's four pension funds would increase these projected gaps by more than $291 million in 2017 and an additional $411 million in 2018, and the gap in debt service payments by an additional $180 million in 2017 and an additional $175 million in 2018, mainly due to the elimination of "scoop and toss" by 2019.

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 1.7 percent over 2016 levels in 2017, and then by 1.5 percent over 2017 levels in 2018, resulting in total corporate fund revenues of $3.61 billion in 2017 and $3.66 billion in 2018. 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 decrease at a lower rate as new businesses are formed and additional building construction is undertaken, increasing license and permit-related revenues, and as fine and penalty revenues drop less severely 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 three percent, with total corporate fund expenditures growing to $3.63 billion in 2017 and $3.73 billion in 2018.

Under this outlook, expenditures for motor fuel and utilities remain flat at current levels, assuming favorable pricing. 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 $82.6 million in 2017 and $132.4 million in 2018. The positive outlook assumes that SB0777 is signed into law and pension reform for Municipal and Laborer's pension funds is upheld. The increased contributions to the City's four pension funds would incrementally increase these projected gaps by $158 million in 2017 and an additional $156 million in 2018, and the gap in debt service payments by an additional $180 million in 2017 and an additional $175 million in 2018, mainly due to the elimination of "scoop and toss" by 2019.

Conclusion

Even under optimistic projections, the City will continue to experience an 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 2016 and beyond. The City's finances are further strained by the legacy costs of debt and pension obligations, as discussed in detail in those sections of this document.

Outlook for Special Revenue Funds

Vehicle Tax Fund

The City anticipates that revenue from the sale of vehicle stickers will finish 2015 at $112.1 million, $3.1 million above budgeted expectations of $109.0 million but $22.2 million below the 2014 actual collection of $134.3 million. In 2016, revenue is projected to increase to $121.2 million. 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.

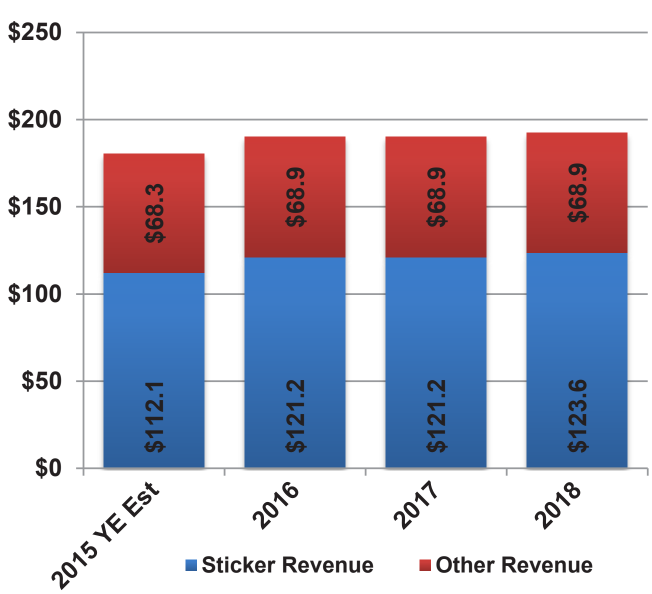
Sticker sales are expected to regularize in 2016 and 2017, with anticipated revenues in 2016 impacted by the scheduled CPI adjustment. City ordinance provides that the price of vehicle stickers be adjusted every other year based on the current CPI. The Vehicle Tax Fund will receive $10 million of new revenues from the parking tax rate increases enacted for 2015. Other revenues to this fund, including impoundment fees, pavement cut fees, and reimbursements, are expected to remain approximately even with 2015 levels through 2018.

Motor Fuel Tax Fund

It is projected that the City's revenues from motor fuel taxes will end 2015 at $64.6 million. Public Act 99-0002, passed by the General Assembly and signed by the Governor in March 2015, allowed the State to transfer $50 million from the State Motor Fuel Tax Fund to the General Revenue Fund to alleviate the State's budget shortfalls. As a result, Chicago lost $3.2 million of this revenue in April 2015, which caused 2015 revenues to be lower than 2014. The downward trend seen in fuel tax revenues in recent years, caused by the increased use of fuel efficient vehicles, was mitigated in 2014 and 2015 as falling gasoline prices increased driving and fuel consumption. The strong 2014 and 2015 revenue projections are also attributable in part to an increased demand for diesel with the recovering economy. Projections for 2016 through 2018 assume that long-term trends will reemerge and continue to drive declines in motor fuel tax revenues. The chart below includes only motor fuel tax revenues. Revenues from other sources used to pay debt service are not included.

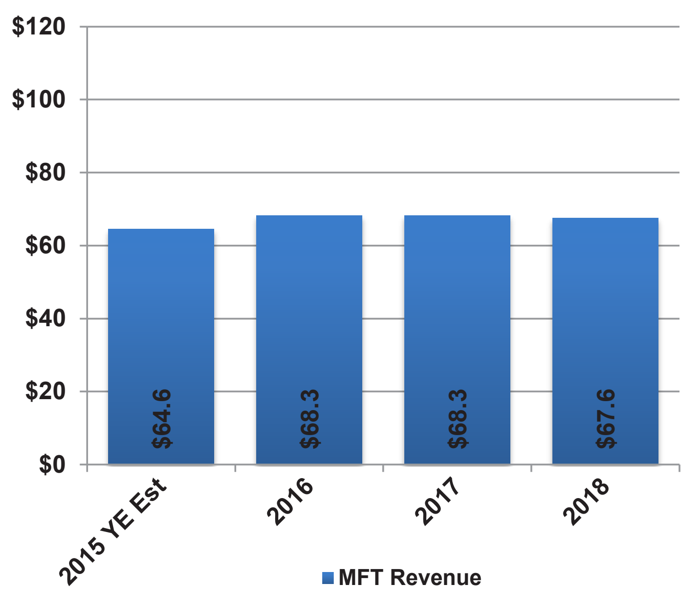
PROJECTED VEHICLE TAX FUND REVENUE

$ Millions



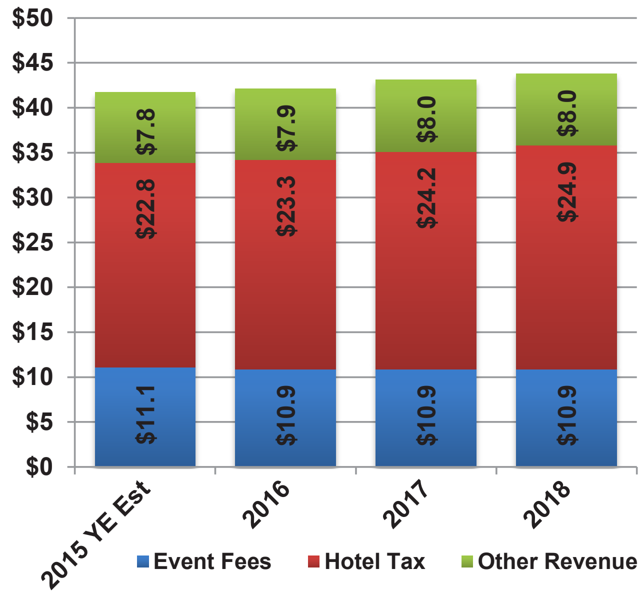
PROJECTED MOTOR FUEL TAX FUND REVENUE

$ Millions



PROJECTED SPECIAL EVENTS AND HOTEL OPERATORS' OCCUPATION TAX FUND REVENUE

$ Millions



Special Events and Hotel Operators' Occupation Tax Fund

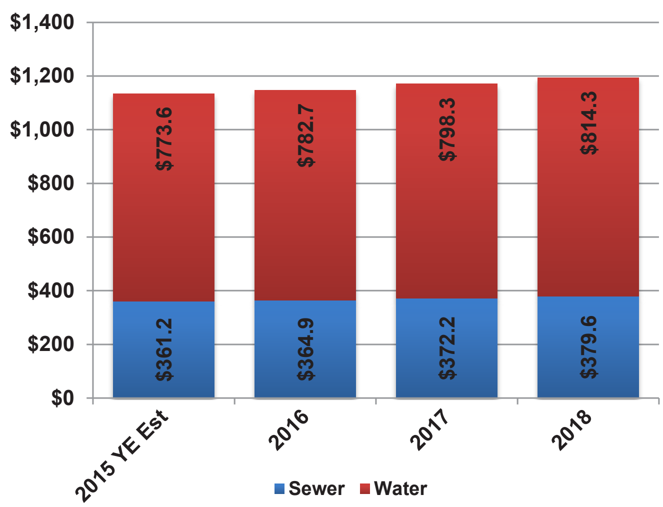
Due to the increased number of conventions and growth in tourism, hotel tax revenue is projected to perform significantly better in 2015 compared to 2014 when Chicago had severe winter weather. Revenues from the hotel operators' occupation tax, a State-authorized tax imposed on hotel operators, are projected to end the year at $22.8 million, $1.7 million higher than budgeted expectations of $21.1 million. The City's special events and festivals are expected to generate $11.1 million for 2015.

Industry forecasts predict a slight increase in both occupancy and revenue per available room in 2016, while normal patterns of growth will reemerge in 2017 and 2018, as tourism, convention, and business travel to Chicago continues to increase. Hotel tax revenues to this fund are projected to grow two percent in 2016, four percent in 2017, and three percent in 2018. Special event and recreation fee revenue is expected to remain flat.

Financial Forecast

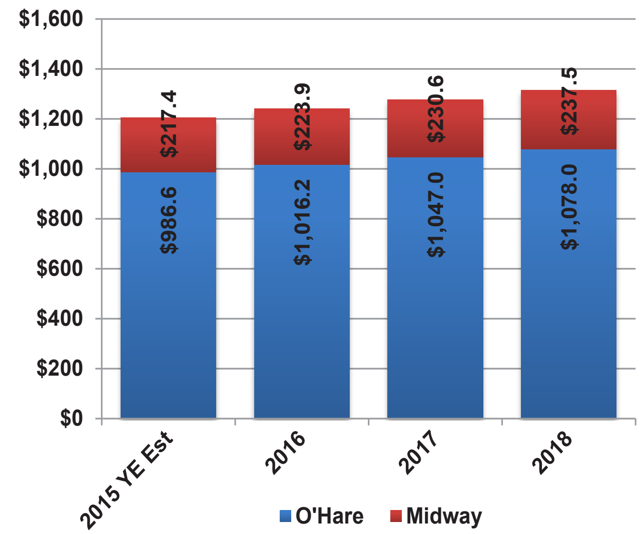
PROJECTED WATER AND SEWER FUND RESOURCES

$ 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 by the rate of inflation over the next three years based on the current ordinance. 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 2016 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 2015 levels by approximately three percent to $1,016.2 million and $223.9 million, respectively. The City projects that similar growth will continue into 2017 and 2018 as the airports move forward with capital projects and other improvements necessary to accommodate increased tourism and business travel.

Annual Financial Analysis
2015

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 will 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. In each of 2012 and 2013, $13.5 million was deposited into the fund, bringing the fund's balance to approximately $88 million, where it remained throughout 2014.

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. This balance remained constant throughout 2014.

Asset Lease Reserves[21]

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

[21] 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.

Long-Term Asset Lease And Reserve Funds

for City operating expenses. These funds have been utilized as planned - the principal balance remains $500 million and the earned interest has been transferred to the corporate fund each year, with the dollar amount of the transfer reflecting variations in interest rates.

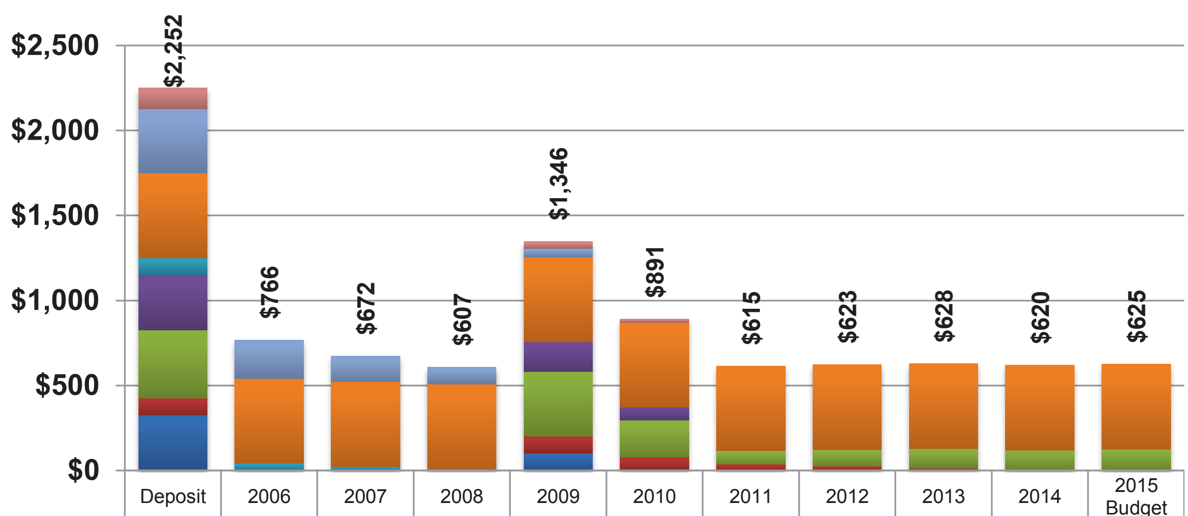
The City established a $400 million long-term reserve with the proceeds of the parking meter lease. This fund was created to replace revenues that would have been generated from parking meters by transferring interest earnings on the fund to the corporate fund, with the principal remaining intact at $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, a $5 million deposit in 2014, and a $5 million deposit budgeted in 2015.

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

ASSET LEASE FUND BALANCES[22]

$ Millions

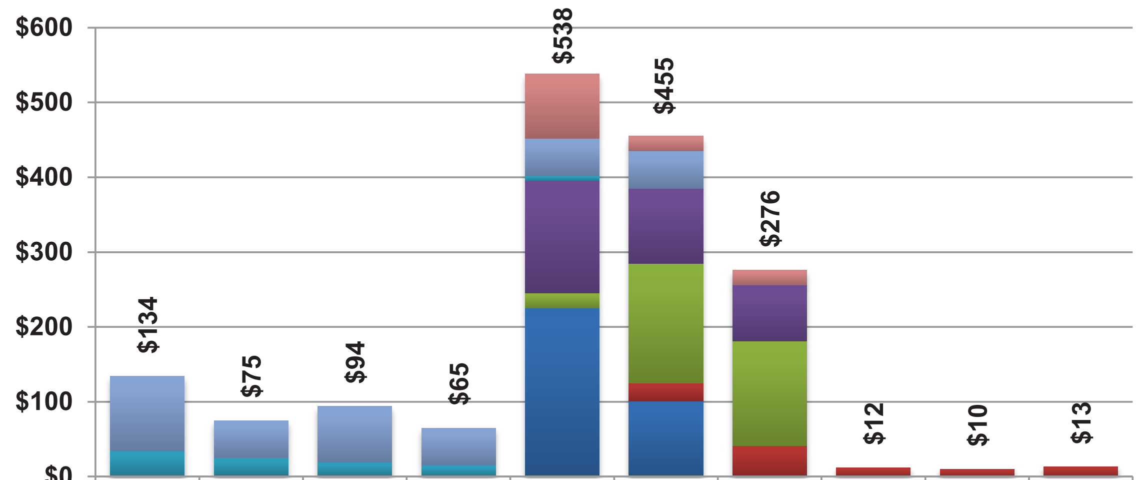


	Deposit	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015 Budget
Midway Security	$126				$40	$20	$0	$0	$0	$0	$0
Skyway Mid-Term	$375	$225	$150	$100	$50	$0	$0	$0	$0	$0	$0
Skyway Long-Term	$500	$500	$500	$500	$500	$500	$500	$500	$500	$500	$500
Skyway Human Infrastructure	$100	$41	$22	$7	$0	$0	$0	$0	$0	$0	$0
PM Mid-Term	$325				$175	$75	$0	$0	$0	$0	$0
PM Long-Term	$400				$380	$220	$80	$100	$115	$120	$125
PM Human Infrastructure	$100				$100	$76	$35	$23	$13	$0	$0
PM Budget Stabilization	$326				$101	$0	$0	$0	$0	$0	$0
Total	$2,252	$766	$672	$607	$1,346	$891	$615	$623	$628	$620	$625

[22] The amounts in these charts represent the principal balance of the respective funds; interest and fair market value adjustments required by accounting standards are not included in either the fund balance or the transferred amounts.

TRANSFERS TO CORPORATE FUND[22,23]

$ Millions



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
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

$50 million in accumulated interest transferred from this fund to the corporate fund in 2011. The parking meter mid-term reserve fund was drawn on an accelerated schedule and was also fully spent in 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 remaining balance of the parking meter human infrastructure fund was used in 2014; thus, there is a $0 balance as of year-end 2014.

Asset Lease Funds Going Forward

At the end of 2014, the aggregate principal balance in the City's asset lease reserve funds was approximately $620

[23] 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 paid directly to delegate agencies or vendors providing services.

Long-Term Asset Lease And Reserve Funds

million.[24] The majority of this amount is the $500 million in the Skyway long-term reserve fund, with an additional $120 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 $40 million into the City's long-term reserves between 2012 and 2014, with an additional $5 million in 2015.

[24] The amount represents the aggregate principal balance of the funds; interest and fair market value adjustments required by accounting standards are not included.

Annual Financial Analysis 2015

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, 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: 2005-2014

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 2005 to 2014, the City utilized proceeds from the issuance of general obligation bonds and motor fuel tax revenue bonds (together, local bonds) to fund $1.79 billion in capital improvements. These bonds are utilized to support a wide variety of project types, including:[25]

- 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 nine 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 ($18.1 million), Chicago Public Schools ($4.2 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

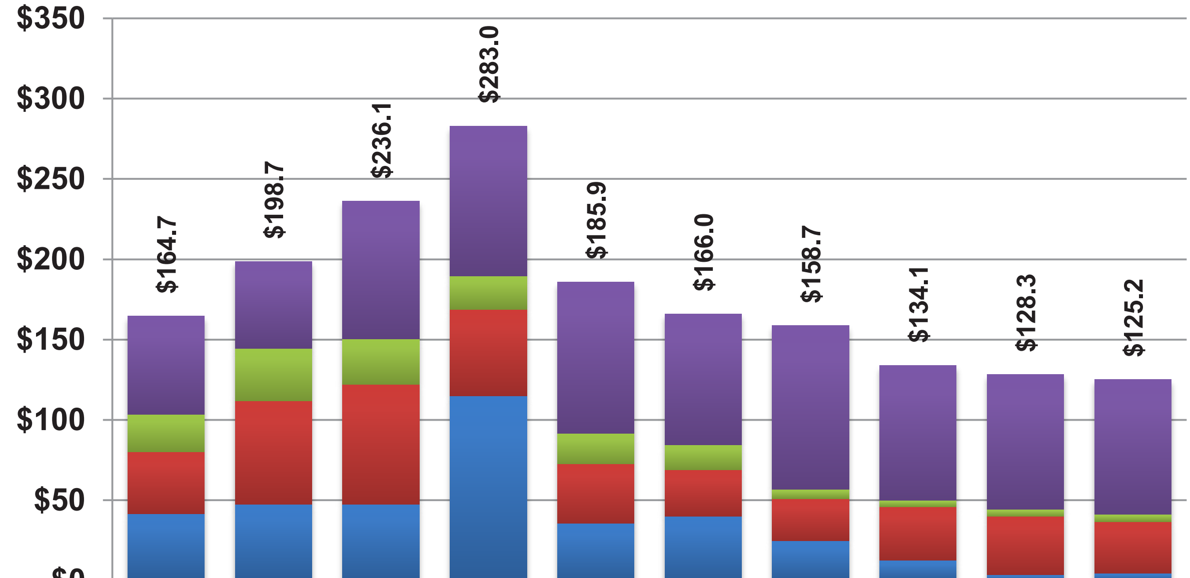
From 2005 to 2014, the City issued $2.8 billion in water and sewer revenue bonds, with fluctuations in the amount of issuances reflecting water and sewer system needs and repair priorities. Water and sewer revenue bonds are issued every other year.

[25] 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



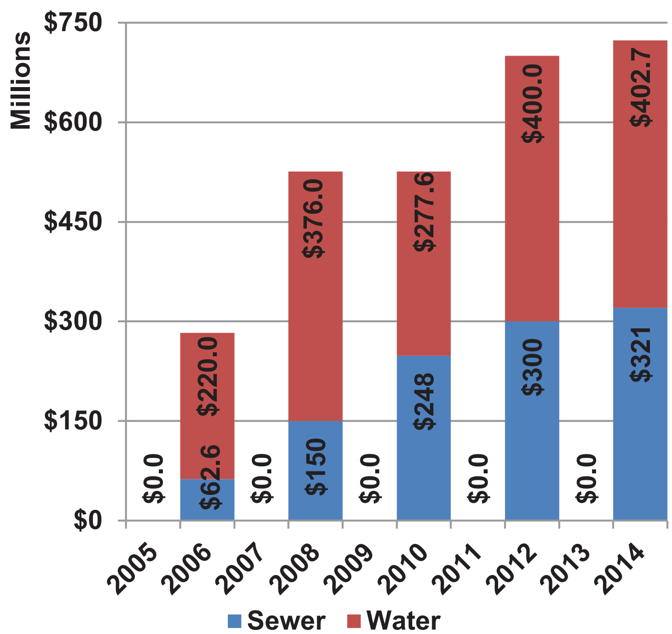
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Aldermanic Funds	$61.2	$54.2	$85.9	$93.4	$94.4	$81.4	$102.0	$84.0	$84.0	$84.0
Greening	$23.3	$32.7	$28.0	$20.7	$19.0	$15.7	$5.8	$4.2	$4.4	$4.6
Infrastructure	$38.6	$64.3	$74.8	$54.0	$36.8	$28.9	$26.0	$33.1	$36.3	$32.0
Facilities	$41.6	$47.4	$47.3	$114.9	$35.8	$40.0	$24.9	$12.7	$3.6	$4.6
Total	$164.7	$198.7	$236.1	$283.0	$185.9	$166.0	$158.7	$134.1	$128.3	$125.2

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 2014, the Department of Water Management has replaced 260 miles of water main and 64 miles of sewer main, lined 197 miles of sewers and 57,000 catch basins, installed 59,582 water meters in single-family homes and non-metered two flats 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: 2015 - 2019

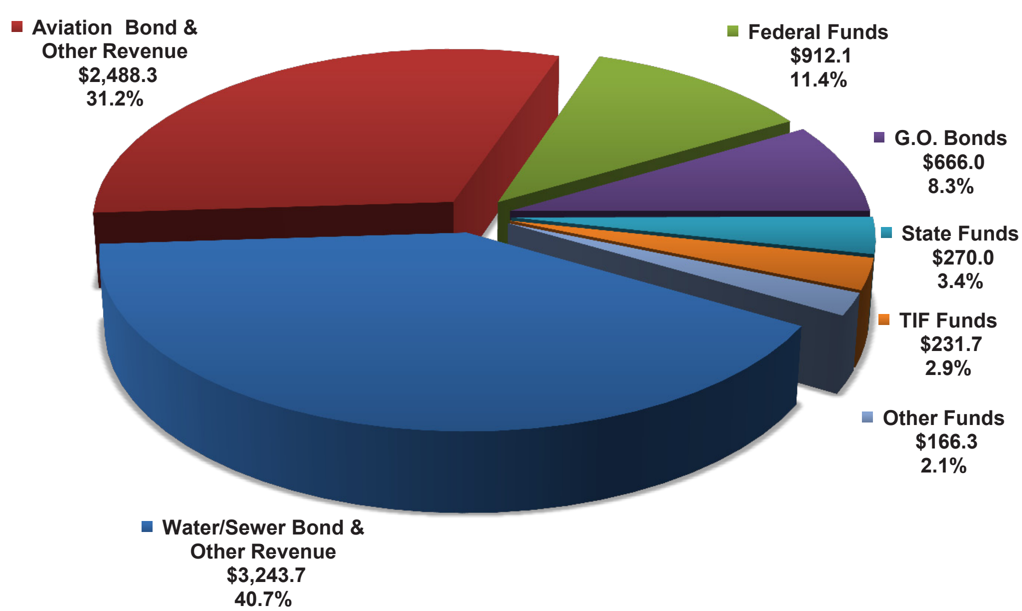
The City's capital improvement program includes a total of $7.98 billion in planned capital improvements over the next five years. The charts in this section present the anticipated sources of capital funding and the proposed uses of capital funding for this five-year period. Details regarding the allocation, 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:

- Reconstruction and realignment of the intersections of Damen, Elston and Fullerton Avenues – relieving congestion and improving safety at one of the city's most crash-prone intersections; the project will realign and reconstruct Elston Avenue and its intersections with Damen and Fullerton Avenues to improve safety and reduce congestion in the area.
- The Loop Link project, scheduled for substantial completion by the end of 2015; the project will modernize the Loop's transit infrastructure, making bus travel faster and more reliable for the roughly 30,000 bus commuters that travel across the corridor and at Union Station each day; two lanes will be dedicated for cars and trucks and protected bike lanes will be installed eastbound on Washington, westbound on Randolph and in both directions on Clinton.
- 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, located along the main branch of the Chicago River; this will be a continuous walkway and recreational amenity connecting the lakefront with the heart of downtown; the newest section, from State to LaSalle has opened; the final phase of the Riverwalk will extend from State Street to Lake Street; the Chicago Riverwalk incorporates recreational, educational, restaurant, and commercial components, and is funded in part through a loan from the U.S. Department of Transportation's Transportation Infrastructure Finance Innovation Act program.

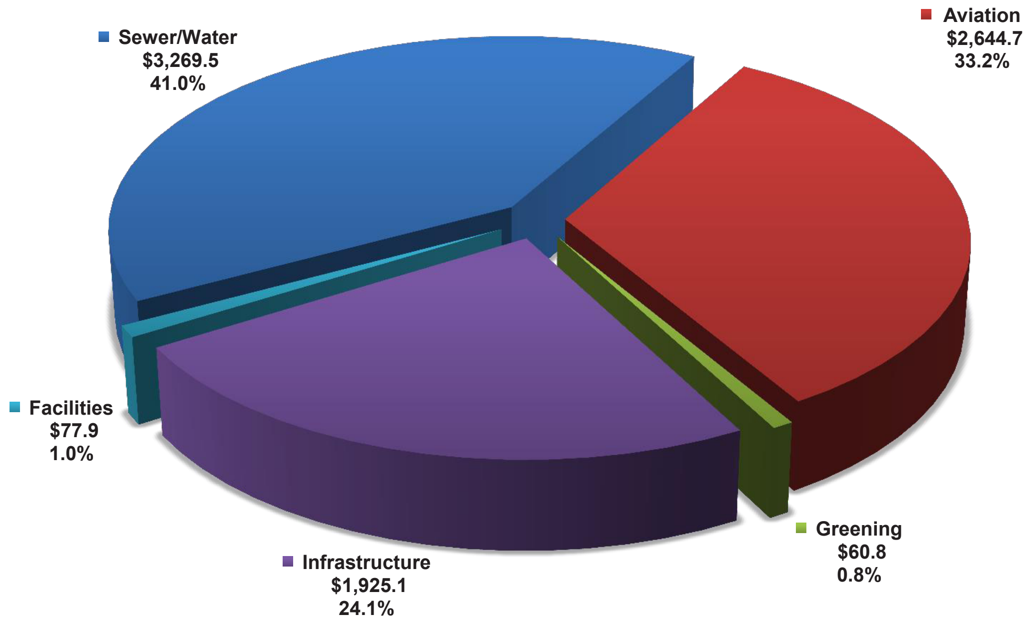
CAPITAL FUNDING SOURCES, 2015-2019

$ Millions



CAPITAL FUNDING USES, 2015-2019

$ Millions



- Shoreline stabilization at the Fullerton Avenue Beach; a part of the Chicago Shoreline Protection Project, a partnership between the City, the Chicago Park District and the U.S. Army Corps of Engineers, the project at the Fullerton Avenue Beach will make the Theater on the Lake facility even more convenient and attractive to residents; the shoreline restoration will replace the existing failed revetment with a steel and concrete revetment designed to manage waves and create new parkland, adding approximately 5.8 acres of park space in an area that is regularly congested.

Annual Financial Analysis
2015

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

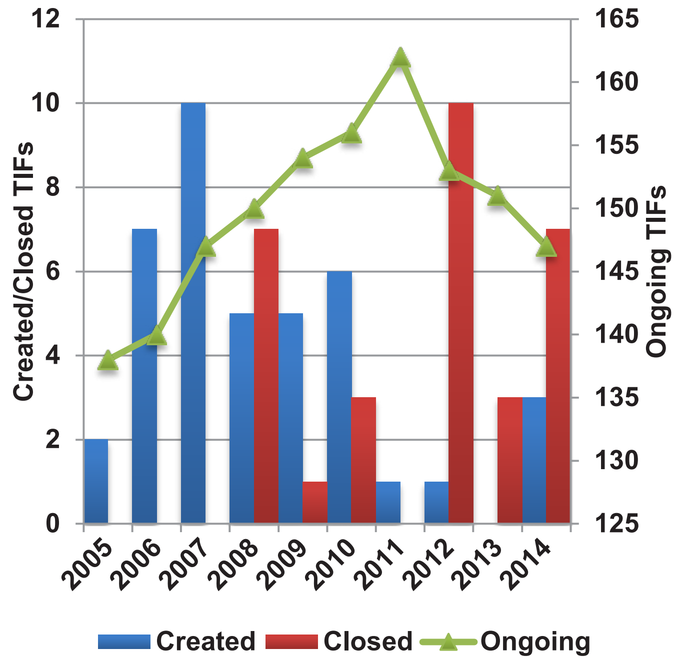
TIF Revenue 2005-2014

At the start of 2005, the City had 138 TIF districts, 130 of which were generating incremental tax revenue. Between 2005 and 2011, the City created 36 new TIF districts. From 2012 to 2014, four new TIFs were created. During the 2005-2014 period, the City repealed five districts pursuant to state law and terminated 15 others. In most cases, the statutory term of a TIF is 24 years, and 11 districts have expired to date.

During 2014, the City received incremental property tax revenue from 142 of 154 TIF districts, totaling $401.6 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 2005 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.

TIF Districts Citywide

total districts and number created and closed[26]



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.[27] 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 which also saw overall revenue impacted by the closing of 10 TIFs in the prior year. Revenue in 2014 was again impacted by further EAV declines as well as the expiration of the Near West and Stockyards Industrial Commercial TIFs and the termination of the 89th/State TIF in 2013. Similarly revenue for 2015 is expected to decline due to the closing of six TIF districts in 2014, most notably the Near South TIF.

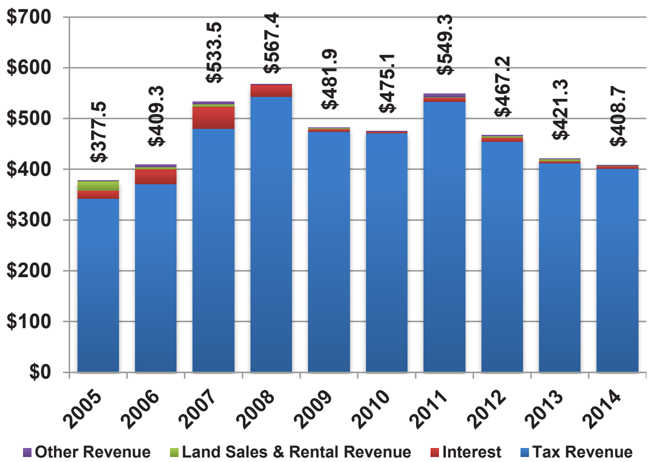
[26] Closings occur during the year in which they are shown, and surplus revenue is generally returned and incremental EAV becomes available to taxing districts in the following budget year.

[27] 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

TIF REVENUE BY SOURCE[28]

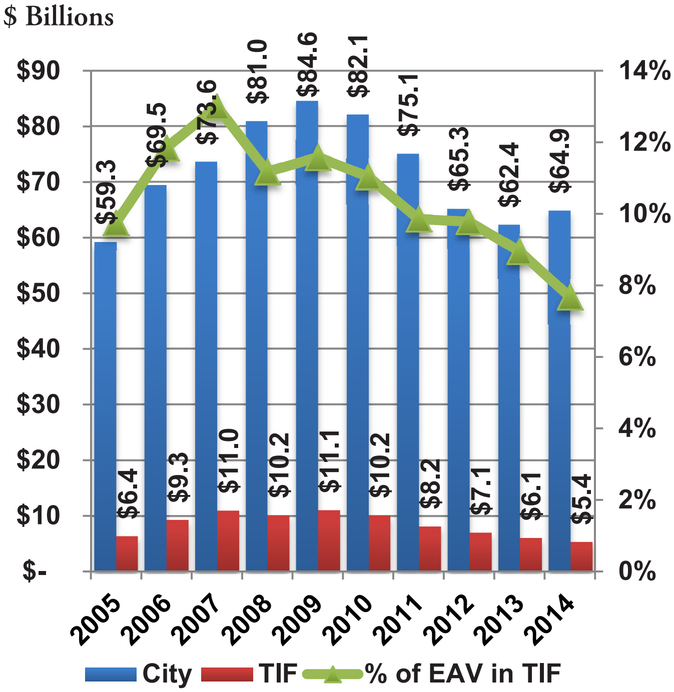
$ Millions



Property values in parts of the City are rebounding while values in other areas are slower to recover. As the chart below shows, citywide EAV peaked in tax year 2009 at $84.6 billion and declined 26 percent, to $62.4 billion by 2013. It has since grown to $64.9 billion in 2014.

EAV CITYWIDE AND IN TIF DISTRICTS, BY TAX YEAR

$ Billions



The amount of EAV in TIFs has been declining since 2009. The decline reflects the general decline in property values during the recession as well as the closing of 20 TIF districts since 2012. From 2013 to 2014 TIF EAV declined nearly 12 percent due largely to the expiration of the Near South TIF, which helped boost the growth in the City's EAV over the same period.

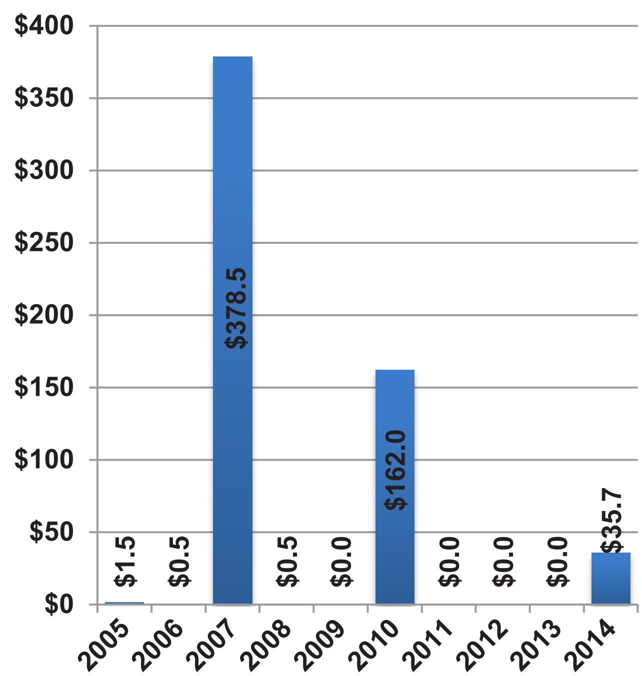
Three new TIF districts were created in 2014 – 107th/Halsted, Foster/California, and Washington Park – and these districts are expected to generate incremental property tax revenue in future years.

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 below shows the years in which bonds were issued and the

TIF BOND ISSUANCES

$ Millions



[28] 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 $1.06 million to total TIF revenues each year during the 2005 to 2014 period.

amounts thereof. 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. The City issued bonds in the Pilsen Industrial Corridor district in 2004. These bonds were refunded in 2014, in the amount of $35.7 million. The proceeds paid for improvements at Juarez Community Academy High School.

TIF Expenditures

Between 2005 and 2014, the City spent $4.0 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.

The chart on the following page presents TIF funds committed 2009 to-date 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, rehabilitation of homes, and funds for 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 $1.26 billion to CPS for school-related projects, $369.4 million to the Park District for park and open space projects, and $476.5 million to the CTA for track and station renovations and related projects.

TIF funding provided to CPS for school-related projects has benefitted 91 schools in 54 TIF districts citywide. This funding supports capital work at schools in TIF districts, including Amundsen High School, Budlong Elementary, Clemente High School, Franklin Elementary, Hope College Preparatory High School, and Tilden High School, among others. 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 $781.4 million in TIF funds to MSAC over the life of the program.[29]

TIF funding provided to the Park District for parks and open-space projects has benefited 73 parks in 43 TIF districts citywide to date, including Hadiya Pendleton Park, the Morgan Park Sports Center, Dvorak Park, Steelworkers Park, and the Quad Communities Arts and Recreation Center.

The CTA has received TIF funding for station and track improvements, as well as other transit projects, in 17 TIF districts citywide to date. Major projects include the Loop Link (bus rapid transit service), a new Cermak Green Line Station, rehabilitation of the Medical District Blue Line Station, the Quincy Station rehabilitation, and track improvements along sections of the Blue Line O'Hare Branch from Damen to Clinton.

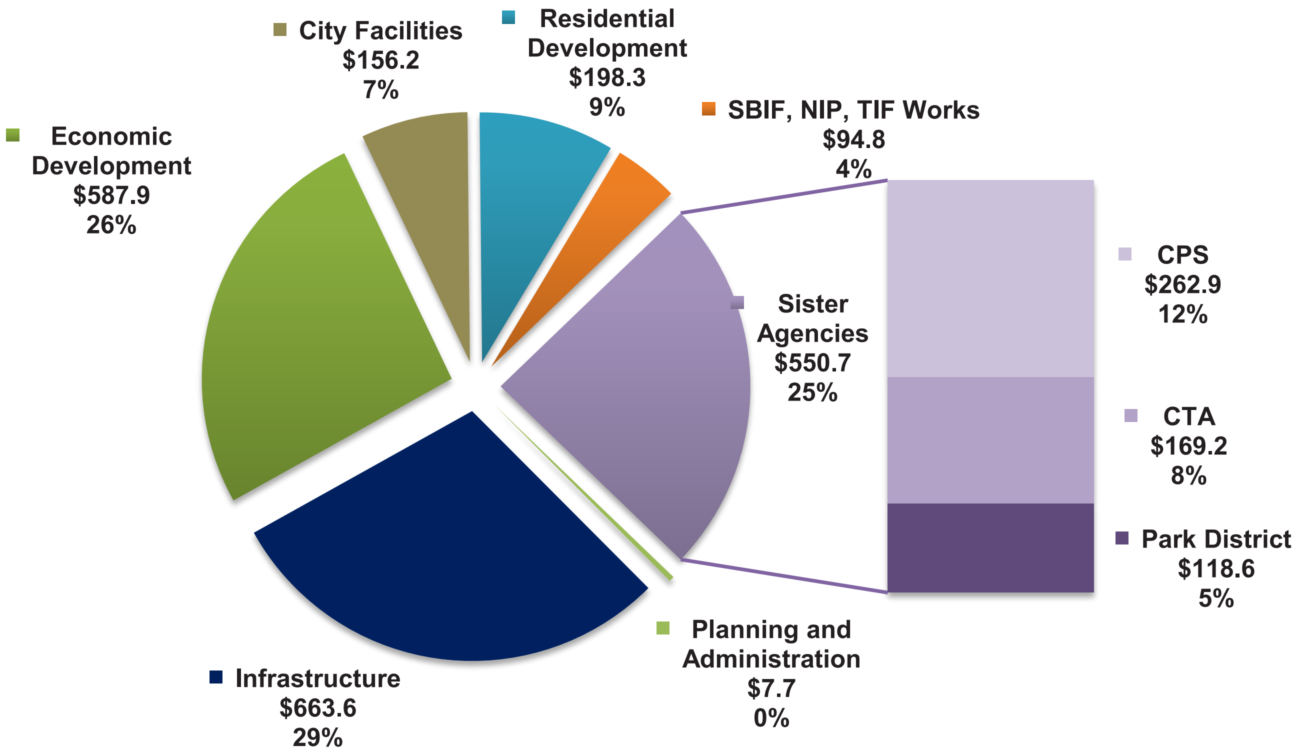
Under certain circumstances, the City may transfer TIF revenue from one district to an immediately adjacent TIF district, or to pay costs involving public property adjacent to certain TIF districts, for a specific project. Transfers have been used to pay debt service on bonds issued to fund school construction, including MSAC projects, as well as to fund major Chicago Park District projects and CTA track and station improvements. Between 2005 and 2014, a total of $560.3 million was transferred between TIFs.

[29] The 2014 Annual Financial Analysis listed the City's commitment to MSAC at $763.1 million and accounted for the projected full value of an interest subsidy on Build America Bonds that were issued in connection with the MSAC 2010 series. The interest subsidy was reduced as part of the 2013 Balanced Budget and Emergency Deficit Control Act. Further annual reductions are expected through 2024. The rate of future reductions is unknown at this time therefore the subsidy is not accounted for in future debt service payments.

TIF

TIF COMMITMENTS, 2009-2015 to date

$ Millions



TIF Surpluses and Closings

Surplus Declaration

On an annual basis, 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 Executive Order No. 2013 -3, a policy to consistently return unneeded TIF revenues to the taxing districts according to set criteria.

In July of 2015, the Mayor proposed an ordinance which will codify Executive Order No. 2013-3. Under the Executive Order and the proposed ordinance, the City declares 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 is 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.

The City's TIFs had an aggregate balance of $1.38 billion in active TIFs at the start of 2015. However, $1.29 billion of this balance is reserved for payments due in connection with committed projects and projects in development.

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.

The table below indicates the amount of money returned to local taxing districts since 2010 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.

As part of ongoing reforms to the TIF program, the City has terminated 12 TIF districts and repealed two districts since 2011, including the termination of the following districts in 2014: 45th/Western Industrial Park Conservation Area, 134th and Avenue K, Kostner Avenue and the West Pullman Industrial Park Conservation Area. In addition six districts have expired since 2012, including the following districts in 2014: 95th Street and Stony Island, Near South, and Roosevelt-Homan. 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.

TIF SURPLUS

$ Millions, declared and from TIFs closed in prior years

	2010	2011	2012	2013	2014	2015
Declared	$0.0	$188.0	$82.9	$25.0	$39.1	$39.5
Expiration	$0.02	$15.1	$13.7	$8.4	$25.4	$44.3
Repeal	$0.0	$73.3	$0.0	$0.5	$0.0	$0.0
Termination	$0.02	$0.0	$0.0	$9.6	$0.6	$0.5
Total	**$0.04**	**$276.4**	**$96.6**	**$43.5**	**$65.1**	**$84.3**

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
2015

Debt

Debt

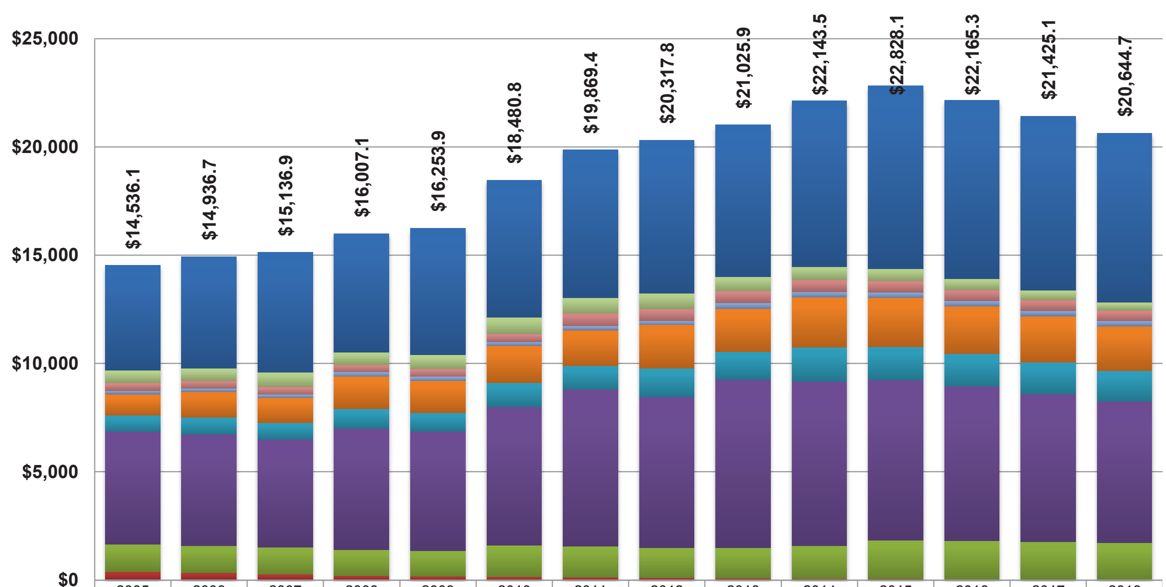
Long-Term Debt

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.

- 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.[30]
- 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.[31]
- TIF bonds, funded with TIF revenue, are issued to pay for redevelopment and infrastructure projects in TIF districts.

OUTSTANDING LONG-TERM DEBT[32]

$ Millions



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Property Tax Funded G.O. Bonds	$4,834.7	$5,161.3	$5,535.8	$5,473.8	$5,849.0	$6,344.8	$6,818.2	$7,077.6	$7,004.8	$7,658.2	$8,436.7	$8,245.3	$8,036.9	$7,809.3
Non-Property Tax Funded G.O. Bonds	$587.2	$555.6	$672.5	$575.8	$642.7	$766.6	$734.0	$695.9	$656.1	$614.2	$560.9	$503.6	$439.6	$372.3
Sales Tax Revenue Bonds	$363.1	$361.2	$352.6	$343.5	$355.6	$355.1	$577.3	$566.0	$554.1	$541.6	$528.5	$514.7	$500.7	$486.1
Motor Fuel Tax Revenue Bonds	$155.7	$151.4	$146.9	$208.9	$203.9	$198.6	$193.0	$187.2	$282.1	$267.7	$262.7	$258.6	$254.3	$249.8
Water Revenue Bonds	$990.5	$1,192.9	$1,164.1	$1,498.7	$1,459.9	$1,697.7	$1,655.8	$2,011.8	$1,970.6	$2,296.1	$2,248.5	$2,189.4	$2,128.2	$2,064.7
Sewer Revenue Bonds	$732.0	$770.5	$754.9	$901.4	$877.4	$1,099.4	$1,071.9	$1,319.5	$1,284.5	$1,583.4	$1,540.1	$1,494.7	$1,447.2	$1,397.5
O'Hare Revenue Bonds	$5,213.5	$5,150.4	$4,994.5	$5,602.7	$5,505.9	$6,403.8	$7,259.8	$6,970.9	$7,781.0	$7,591.4	$7,398.5	$7,143.1	$6,843.3	$6,542.8
Midway Revenue Bonds	$1,272.1	$1,258.5	$1,244.0	$1,207.4	$1,184.8	$1,461.5	$1,435.3	$1,383.2	$1,412.6	$1,520.9	$1,791.6	$1,766.0	$1,736.6	$1,699.9
TIF Bonds	$387.3	$334.8	$271.5	$194.9	$174.8	$153.3	$124.0	$105.7	$80.1	$70.0	$60.7	$50.0	$38.2	$22.2
Total	$14,536.1	$14,936.7	$15,136.9	$16,007.1	$16,253.9	$18,480.8	$19,869.4	$20,317.8	$21,025.9	$22,143.5	$22,828.1	$22,165.3	$21,425.1	$20,644.7

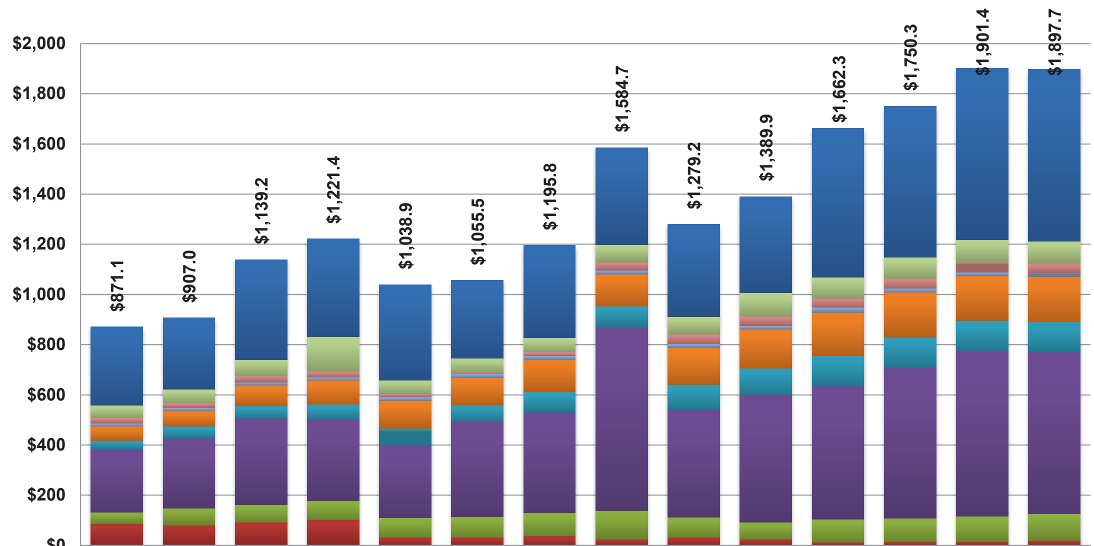
[30] This category includes bonds issued by the City on behalf of the City Colleges of Chicago in 1999 and 2007.

[31] 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.

[32] 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[32]

$ Millions



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Property Tax Funded G.O. Bonds	$312.5	$284.4	$399.7	$390.4	$381.2	$310.6	$367.8	$386.7	$367.7	$383.7	$592.9	$601.6	$684.4	$684.7
Non Property Tax Funded G.O. Bonds	$49.7	$55.2	$63.0	$136.9	$53.3	$56.1	$57.1	$69.4	$69.5	$92.2	$84.0	$85.3	$88.9	$89.1
Sales Tax Revenue Bonds	$22.4	$19.4	$25.9	$25.2	$13.1	$5.2	$15.5	$32.6	$38.5	$39.8	$36.9	$39.4	$38.8	$38.9
Motor Fuel Tax Revenue Bonds	$12.3	$12.3	$12.3	$11.2	$15.6	$15.6	$15.6	$15.6	$15.6	$12.6	$22.0	$15.5	$15.5	$15.5
Water Revenue Bonds	$57.4	$60.6	$81.5	$96.5	$110.2	$110.1	$127.3	$128.2	$147.7	$156.7	$171.5	$179.2	$179.3	$179.3
Sewer Revenue Bonds	$34.7	$48.0	$49.8	$58.1	$64.3	$63.8	$82.3	$82.3	$99.8	$105.0	$119.0	$119.0	$119.1	$119.3
O'Hare Revenue Bonds	$251.2	$278.8	$344.7	$326.2	$292.3	$380.5	$401.2	$731.9	$428.0	$507.4	$531.9	$602.3	$659.4	$645.2
Midway Revenue Bonds	$44.5	$67.7	$71.1	$74.4	$77.2	$81.8	$90.6	$113.7	$80.4	$69.0	$91.5	$94.5	$101.8	$108.0
TIF Bonds	$86.3	$80.5	$91.1	$102.5	$31.6	$31.8	$38.4	$24.3	$32.0	$23.5	$12.6	$13.4	$14.1	$17.8
Total	$871.1	$907.0	$1,139.2	$1,221.4	$1,038.9	$1,055.5	$1,195.8	$1,584.7	$1,279.2	$1,389.9	$1,662.3	$1,750.3	$1,901.4	$1,897.7

- 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.[33]

The City's debt level increased steadily for much of the past 10 years, reaching approximately $22 billion in 2014. The bulk of this debt was used to fund capital projects across the City, but historically portions were used to pay "working capital" expenses such as tree planting, garbage carts, retroactive salary payments (resulting from union contract re-negotiations), and costs incurred in connection with settlements and judgments against the City.

In the past four years, the City moved away from the practice of funding working capital expenses with long-term bond proceeds and instead pays for more of these costs with regular operating revenues. Retroactive salary payments due to union contract renegotiations, tree planting, garbage carts, technology licenses and other working capital expenses are funded out of the operating budget. In addition, over the past four years the share of payments for settlements and judgements coming from operating funds has increased.

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 $70 million in 2014 - as the City has made efforts to cut overall costs.

In 2014 and 2015, the City took steps to reduce taxpayer risk from swaps and general obligation and sales tax variable rate debt. In spring of 2015, the City terminated all of its remaining general obligation and sales tax swaps at a cost of approximately $200 million. In addition, the variable rate

[33] In 2013, the City pledged Customer Facility Charge revenue collected from rental car customers at the airports 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 construction of a multi-use car facility. The City has also pledged the facility rents to be paid by rental car companies for use of the facility.

Debt

debt portfolio of over $900 million associated with these swaps was converted to fixed rate debt.

Debt service paid primarily with taxpayer dollars (excluding debt payments for O'Hare and Midway airport improvement programs, which are paid from airline fees and charges) totaled approximately $813.5 million in 2014. This amount is anticipated to increase to $1,039.0 million in 2015. Even if no new long-term debt is issued, and assuming no refinancings, these debt service payments will continue to increase through 2018. As discussed in the Property Tax section of this document, a substantial portion of the City's property tax dollars are used to pay debt service. The City uses refunding and restructuring as part of its debt management strategy. For general obligation debt, starting in 2016, the City will begin eliminating the refinancing practice known as "scoop and toss." This practice will be completely phased out by 2019 and is discussed further in the Financial Forecast section.

On May 12, 2015, Moody's lowered its rating on the City's general obligation bonds to below investment grade due to the ruling on State pension reform, which is discussed in the Pension section. Future debt issuances are expected to be more expensive due to higher interest rates caused by the downgrade.

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 and/or bank lines of credit are used to satisfy interim cash flow and liquidity needs of the City; for example, commercial paper notes are issued to fund operations for the City's libraries for a short period until property tax revenues are collected. In 2014 and 2015, the City issued commercial paper notes and borrowed from lines of credit totaling $681 million. The City drew on a portion of its lines of credit to pay the fees associated with terminating the swaps, as discussed above, prior to converting the associated variable rate debt to fixed rate debt. The majority was used to temporarily pay off certain legacy liabilities. The lines of credit were paid off and the obligations were converted to fixed rate general obligation debt in July of 2015.
- Commercial paper notes are used as a short-term mechanism for corporate, O'Hare, and Midway fund projects for a period of time until long-term bonds are issued; 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, $5.5 million in 2014, and $2.25 million in 2015 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 facilities to maximize efficiency in the day-to-day functions of City departments, increase the City's utilization of its owned space, and save money on lease expenses. The City undertook its first phase of consolidation in 2012 and has paid off over $8 million of the short term financing using the proceeds from lease savings. An additional phase of consolidations is underway in 2015 and new lease savings of at least $2 million a year will pay off the short term financing used to pay for renovations and relocations of this phase.

Annual Financial Analysis
2015

Pensions

Pensions

The City's Pension Funds

Illinois State law establishes retirement plans for public employees in the State, including those employed by the City. Employees and employers contribute to the retirement plan in order for employees to receive benefits when they retire. Contributions are allocated to a pension fund, which makes investments that accrue over time. The cumulative amount of the contributions and return on investments 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:[34]

- 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 the Laborers' union;
- 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 (Pension Code).

The Net Pension Liability

A pension fund is said to be 'fully funded' when its total assets are sufficient to cover the projected future benefits paid to current members of the fund. If the fund's net position is not sufficient to cover the total pension liability, it is said to have a 'net pension liability.'[35] The net pension liability is the difference between the fund's total pension liability and the net position of those funds. Currently, all four of the City's pension funds carry significant net pension liabilities.

FUNDING STATUS OF CITY PENSION FUNDS

$ Millions, as of December 31, 2014

	(A) Total Pension Liability	(B) Plan Net Position	Net Pension Liability	(B) as % of (A)
MEABF	$12,307	$5,179	$7,128	42%
LABF	$2,163	$1,388	$775	64%
FABF	$4,513	$1,036	$3,477	23%
PABF	$11,773	$3,062	$8,711	26%
Total	**$30,756**	**$10,665**	**$20,091**	**35%**

Under the 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. Until the 2015 budget, the City contributed a statutorily-determined multiple of the employee contribution, with the multiplier varying by pension fund.[36] These contributions were not related to the actual cost of future benefits or the actuarial needs of the pension funds.

The current funding status of the pension funds is the result of the statutory framework on which the pension system is based and the legislative and economic factors that have acted upon that framework, as discussed further in this section.

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

[34] 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.

[35] Due to the implementation of a new accounting standard by the pension funds in 2014, net pension liability is reported instead of unfunded liability.

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

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.

Automatic Increases and Changes in Benefits

Over time, additional benefits have accrued under or been written into the Pension Code. Most notably, automatic annual increases written into the Pension Code significantly increased the cost of benefits. These automatic increases 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 increases for employees hired on or after January 1, 2011, for all four funds and instead tied cost-of-living adjustments (COLAs) to the consumer price index (CPI).[37] Employees hired prior to 2011 and participating in the FABF or PABF receive annual increases at a simple rate (either three percent or 1.5 percent) based on the original annuity payment to the retiree. Prior to the enactment of P.A. 98-0641, discussed in the next section, employees hired before 2011 and participating in the LABF or MEABF received an annual increase at a three percent compounded rate, meaning that each year their benefits payment would increase three 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 increases. Among other changes, certain benefit minimums were raised and the definition of pensionable pay was made more inclusive.

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 net pension 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 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 net pension liability of $20.1 billion across the four pension funds, as of the end of 2014.

Pension Reform

In May of 2015, the Illinois Supreme Court affirmed the decision of a lower court that the State Pension Reform Act, P.A. 98-0599, is unconstitutional because it included a reduction in benefits for current employees. The State Pension Reform Act would have allowed for certain cost-savings and other reforms to the State's largest pension plans. These included changes to the employer and employee contribution formula, COLAs, retirement ages, and employee contributions. The decision on P.A. 98-0599 has impacted the City's efforts at pension reform.

Municipal and Laborers' Pension Funds

In order to address the substantial net pension liability of the MEABF and LABF, the City worked with almost 30 unions to develop balanced legislation that adjusts benefits and increases payments in a manner that protects both Chicago's taxpayers and the retirement security of City employees.

Under the law enacted in June 2014, P.A. 98-0641, MEABF and LABF retirees receive a simple COLA of the lesser of three percent or half of CPI applied to their original annuity and begin receiving a COLA one year later than they otherwise

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

would have. For those already retired, their annuity would be as of December 31, 2014. There will also be three 'pause years' in 2017, 2019, and 2025, during which members will not receive a COLA. However, retirees receiving an annual 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 are gradually increasing over the course of five years, by 0.5 percent of pensionable pay each year beginning in 2015, and then decreasing once the pension fund has reached financial health.

The City's employer contributions are increasing on a 'funding ramp' that will lead to actuarially-based payments no later than the 2020 budget year. The rates at which the City matches employee contributions, the 'multiplier,' 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 by the end of 2055. Under the P.A. 98-0641 funding ramp, the City's total contribution to the MEABF and LABF increased from $177.7 million budgeted in 2014 to $266.7 million in 2015, and will grow by an average of 22 percent each year until reaching an estimated actuarially-based contribution of $622.9 million in 2020.[38] As a result of the reforms, these two funds are expected to reach financial health, defined as 90 percent funded, by 2055, on a funding ramp that acknowledges the impact of these payments on City finances and its ability to provide services to residents.

In December of 2014, shortly before P.A. 98-0641 was to take effect, two lawsuits were filed in the Circuit Court of Cook County challenging its constitutionality. On, July 24, 2015, the Circuit Court found P.A. 98-0641 unconstitutional on the basis that provisions of the act diminished benefits for MEABF and LABF beneficiaries, and was therefore unconstitutional based on the Illinois Supreme Court decision on P.A. 98-0599. The City plans to appeal this decision to the Illinois Supreme Court. Without P.A. 98-0641, the unfunded liability of these two funds would continue to increase by $2.48 million per day, or $900 million per year. MEABF will reach insolvency by 2026 and LABF will reach insolvency by 2029.

Police and Fire Pension Funds

In 2010, legislation passed by the state (P.A. 96-1495) altered the City's contribution, starting in year 2015, removing the multiplier and replacing it with an actuarially-determined amount sufficient to bring the PABF and FABF to 90 percent funded by 2040. This legislation imposes a significant financial burden on the City, does not include any reform to employee contribution levels, and it does not provide a funding ramp that acknowledges the impact of drastically increased pension payments on City finances and its ability to provide services.

Given the decision on P.A. 98-0599 by the Illinois Supreme Court, benefit reforms are not possible for the PABF and FABF. On May 31, 2015, the Illinois General Assembly approved SB0777, which would extend the target date for 90 percent funding from 2040 to 2055, similar to other public safety pension provisions throughout the state. SB0777 will eliminate multipliers for the City contribution requirement and provides statutorily required amounts to be contributed each year until 2020, after which the City contribution will be actuarially calculated to achieve 90 percent funding by 2055. It does not change current benefit levels nor does it change the employee contribution rate for PABF or FABF, so employee contributions will only increase with payroll. This bill has been passed by the Illinois legislature but has not yet been sent to the Governor for signature.

Pension Contributions

Over the past decade, City pension contributions increased steadily, at an average annual rate of approximately two percent. This growth in pension payments despite overall workforce reductions can be attributed to benefit enhancements and 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.

For MEABF and LABF, P.A. 98-0641 preserves the previous formula of the City contributing a multiple of employee contributions, but increases that multiple each year until

[38] 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.

2020, after which the City contribution will be actuarially calculated to achieve 90 percent funding by 2055.

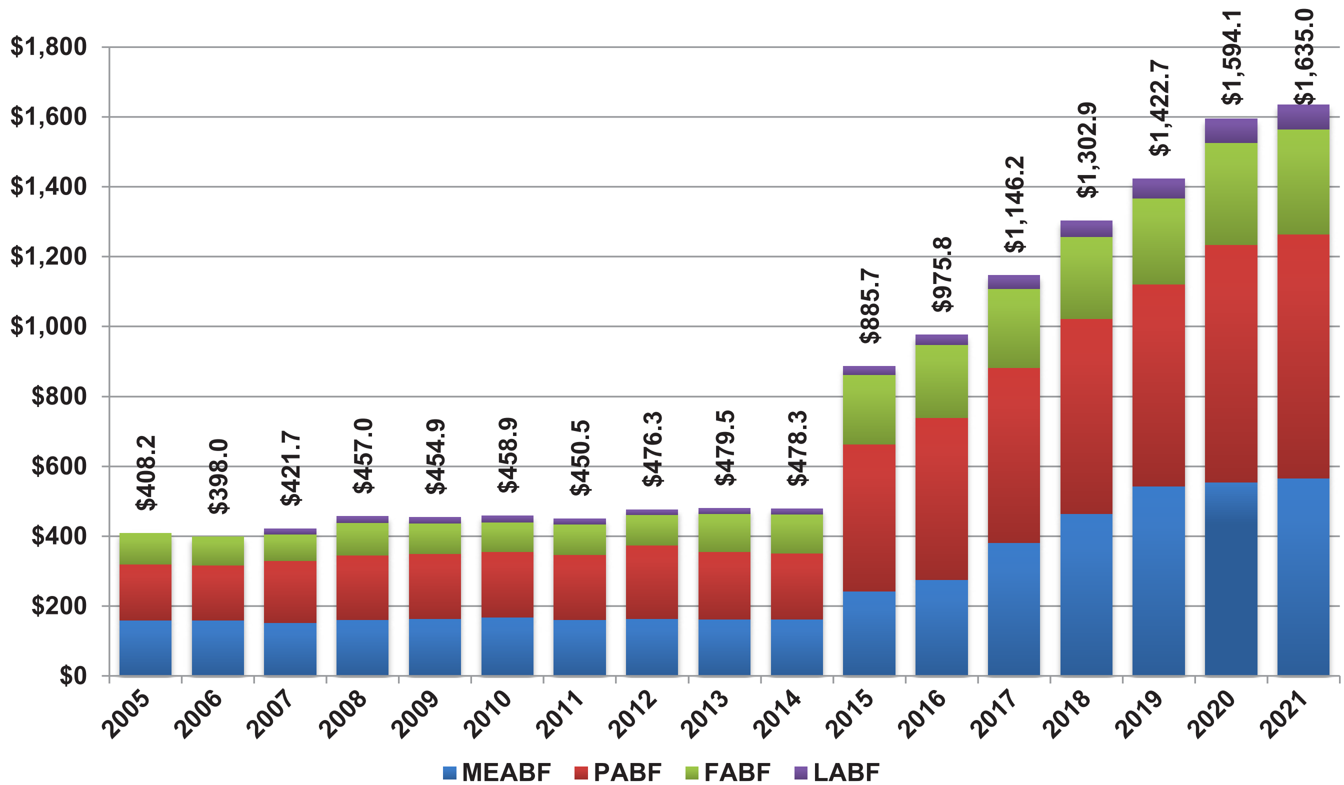
The total City pension contribution for 2015 is budgeted at $557 million. When the 2015 budget was adopted in November of 2014, pension funding changes for PABF and FABF had not been finalized. Therefore, only the increase in contribution for MEABF and LABF based on P.A. 98-0641 was included in the 2015 budget; the $549 million increase in pension contribution required under P.A. 96-1495 was not included.

Assuming SB0777 is enacted, the City will be required to budget an additional $328 million for City pension contributions for the 2015 budget year. This will bring the total required City pension contribution to $885 million for budget year 2015. If SB0777 is not signed into law, the City contributions will be significantly higher for PABF and FABF. The City's 2015 contribution for PABF and FABF will increase by $549 million.

The chart on the next page sets forth the City's historic contributions and anticipated contributions through 2021, assuming that P.A. 98-0641 remains in place and SB0777 is enacted. 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.

HISTORIC AND PROJECTED PENSION CONTRIBUTIONS[39]

$ Millions, by levy year



[39] All projections are provided by the pension funds and are based on actuarial assumptions regarding future conditions, which are subject to numerous legislative, 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

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