



CITY OF CHICAGO

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ANNUAL FINANCIAL ANALYSIS  
2016

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MAYOR RAHM EMANUEL



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LETTER FROM THE MAYOR



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Dear Fellow Chicagoans,

The City of Chicago's 2016 Annual Financial Analysis provides an overview of the City's revenue and expenditures, and a picture of the City's overall financial health.

The projected shortfall for 2017 is \$137 million – the lowest it has been in nearly a decade and a 75 percent reduction from 2011. This is the result of hard work and difficult decisions, which have put Chicago on path towards long-term financial stability after decades of mismanagement. This progress was not made alone, but through a collaborative process.

Together, over the past five years, we have worked to address the financial challenges we inherited, while continuing to make investments that are vital to the future of Chicago's families and neighborhoods.

To right the City's fiscal ship, we have – and must continue to – focus our financial reforms on several key areas: eliminating the structural deficit, paying down debt, stopping the use of one-time revenues to balance the budget, and eliminating the practice of issuing long-term debt to pay operating costs.

We have reduced the City's structural deficit through belt-tightening across city government, and through a series of reforms and efficiencies. Some of these key reforms continue to generate taxpayer savings over multiple years:

- Keeping the City's total expenditures on employee health care costs stable since 2011;
- Transitioning multiple city services – garbage collection and graffiti removal – to a grid system, boosting service efficiency and saving money;
- Working with our partners in labor to implement reforms such as competitive bidding and apprenticeship programs that have saved \$50 million since 2012;
- Implementing reforms, such as consolidating office space, eliminating duplicative department functions, and eliminating unused phone lines, which have produced \$50 million in savings since 2012;
- Taking steps to eliminate the use of long-term bonds to pay for certain operating expenses; and
- Ending the practice of "scoop and toss" in 2019, for which we took the first step in the 2016 budget by increasing our debt service payments.

The City also has identified balanced funding solutions for three of the four pension funds, and we are working towards a funding reform plan for the Municipal pension funds. We are securing and stabilizing our employee and retiree pension funds, while still protecting Chicago taxpayers from bearing the full burden of growing pension costs in the future.

Getting Chicago's finances back on track is not easy, but by making the tough choices now, we will be able to put our City in a better position – one which allows us to focus on the things that are important and reflect our common values: quality education, economic development in every Chicago neighborhood, and improved public safety in every community. When all is said and done, these must be our ultimate goals, to build a better Chicago.

*Rahm Emanuel*

Rahm Emanuel  
Mayor



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# ANNUAL FINANCIAL ANALYSIS 2016

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## EXECUTIVE SUMMARY





## EXECUTIVE SUMMARY

### **2016 Annual Financial Analysis Available Online**

In previous years the City of Chicago's Annual Financial Analysis (AFA) was distributed in print and the printed version was also available online. The full 2016 AFA is now available through an online platform on the City's website. This AFA provides readers with more detailed information in an interactive format.

This document provides the financial forecast for 2016 and upcoming years.

The full City of Chicago 2016 AFA is available at the following link: [http://www.cityofchicago.org/city/en/depts/obm/supp\\_info/annual-budget-recommendations---documents.html](http://www.cityofchicago.org/city/en/depts/obm/supp_info/annual-budget-recommendations---documents.html)

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# ANNUAL FINANCIAL ANALYSIS 2016

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FINANCIAL FORECAST



## FINANCIAL FORECAST

### INTRODUCTION

This section discusses the City's 2016 year-end estimates, 2017 preliminary revenue and expense projections, and three revenue and expense scenarios for the years 2018 and 2019 – a base outlook, a negative outlook, and a positive 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 2017 budget is formulated within the context of the City's current financial state, and with 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 basic services provided by the City, but also has historically experienced the largest disparity between revenues and expenditures. Projections for the City's major special revenue and enterprise funds are included at the end of this section.

### GENERAL ECONOMIC CONSIDERATIONS<sup>1</sup>

As the U.S. economy continues to grow at a modest pace, Chicago continues to benefit from its increasingly diverse economy. By the end of 2015, there were more than 76,000 businesses in Chicago, compared to fewer than 74,000 just a year earlier. Business growth and expansion has translated into an improved employment picture for Chicago and the metro area. The City's unemployment rate declined to 6.4 percent in 2015 from 7.8 percent in 2014. Preliminary figures for May 2016 suggest continued improvement with an unemployment rate of 6.1 percent and the number of employed reaching a post-recession high of 1.3 million, compared to an unemployment rate of 10.7 percent when Mayor Emanuel took office in May 2011. Approximately 98,000 more Chicagoans are working today than in 2011. In addition, after a decade of losing population, Chicago's population has grown over the past five years, outpacing the growth of other Midwestern cities such as St. Louis, Milwaukee, Detroit, & Cleveland.

Consumer spending, aided by wage growth and low inflation, continues to help drive the economy at the local and national levels. The U.S. gross domestic product (GDP) grew at an annual rate of 1.1 percent in the first quarter of 2016 following 1.4 percent growth in the fourth quarter of 2015. The 2016 figure is much improved over the first quarter of 2015 when GDP decreased at an annual rate of 0.2 percent. Growth in the first quarter of 2016 was helped by consumer spending and home sales, among other things. GDP is projected to end 2016 around 2.0 percent over 2015, and is forecasted to grow in a range between 1.6 and 2.4 percent for 2017 through 2019.

Chicago, like the rest of the country, has benefited from consumers having more disposable income, which has translated into auto purchases and leases, home purchases, more leisure activities and travel. The housing market continues to gain strength locally. Home prices continue to appreciate and home sales through the first half of 2016 are 4.0 percent higher than the same period of 2015. Low fuel prices and air fares have increased airline travel with both of Chicago's airports seeing increased passenger volume in 2015 compared to 2014. Domestic travel to Chicago passed 50 million visitors for the first time in 2015, posting a 4.6 percent increase over 2014.

While the City continues to anticipate modest but steady growth in the coming years, lingering state-level and national-level issues may cause a short-term contraction of the local and national economy. Additionally, certain international events could have an effect on corporate and business growth, which could affect certain economically-sensitive taxes locally.

These broader economic factors are accounted for in the following projections. The 2017 projections and the base outlook for 2018-2019 present what is currently viewed as the most likely scenario. The positive and negative outlooks for 2018 and 2019 provide insight into how changes in the economy and other related factors could affect the City's finances over the next three years.

<sup>1</sup> The economic considerations in this section are developed from sources including the Board of Governors of the Federal Reserve ([www.federalreserve.gov](http://www.federalreserve.gov)), the Federal Reserve Bank of Chicago ([www.chicagofed.org](http://www.chicagofed.org)), the Bureau of Economic Analysis ([www.bea.gov](http://www.bea.gov)), the Bureau of Labor Statistics ([www.bls.gov](http://www.bls.gov)), Illinois Office of Budget and Management ([www.illinois.gov/budget](http://www.illinois.gov/budget)), U.S. Energy Information Administration ([www.eia.gov](http://www.eia.gov)), and World Business Chicago ([www.worldbusinesschicago.com](http://www.worldbusinesschicago.com)).

## FINANCIAL FORECAST

2016 CORPORATE FUND  
YEAR-END ESTIMATES**2016 Year-End Revenues**

The total corporate fund resources for 2016 are estimated to end this year slightly above budgeted levels at \$3,571.5 million. Major categories of revenue and trends are discussed below, and more detail for each revenue source is included online in the Revenue section.

The City's total revenues for 2016 are projected to end on target, although certain revenues are projected to end substantially under budget due to factors unrelated to Chicago's economy. These revenues include utility taxes and the personal property replacement tax (PPRT). Utility tax revenues are expected to come in 2.6 percent or \$11 million below budgeted amounts. The decline is driven by continuing low prices for natural gas, the mild winter, and the cooler than normal spring and early summer. Electricity tax, cable television tax, and telecommunication tax revenues are projected to end even with the 2016 budgeted amounts.

In addition to the decline in utility tax revenue, the City estimates that it will receive \$40 million less in PPRT revenue in 2016 than budgeted. This reduction is due primarily to a misclassification of income taxes by the State of Illinois in 2014 and 2015 that resulted in the overpayment of PPRT revenues to local governments. The State adjusted downward its PPRT payments to local government earlier this year to reflect amounts that are owed. Local governments will be required to reimburse the State beginning in 2017.

In addition, the State increased its diversion of PPRT from local governments to pay for State obligations under its fiscal year 2017 "stop gap" budget. The decrease in PPRT revenue

for 2016 is discussed further online in the Revenue section.

The City's other economically-sensitive tax revenues continue to show growth and are expected to end 2016 at, or above, budget. Real property transfer tax revenues are forecasted to increase by 17.5 percent, or \$28 million over budget, due in large part to the transfer of the ownership interest in the Skyway and the transfer of the concession interests in the Millennium Park garages. Sales tax is expected to end the year even with budgeted expectations and income tax is expected to see a 1.0 percent decline of \$2.73 million.

Personal property lease tax revenues are expected to end 16.8 percent, or \$29.8 million, above budget due to greater than previously anticipated compliance by the technology industry. As discussed further in the online AFA, the City lowered the personal property lease tax rate and waived taxes penalties and interest for years prior to 2015 for certain cloud software and infrastructure. Transportation-related taxes, including the garage tax and ground transportation tax, are anticipated to finish 2016 near budget at \$238 million.

Non-tax revenues are expected to end 1.6 percent below the 2016 budget caused in part by declines in building permit fee revenues and land sales which are not anticipated to close until 2017. Declines in certain tax and non-tax revenues are expected to be partially offset by improved investment returns on the reserve and liquidity funds, which are transferred to the corporate fund. Interest earnings on these funds are expected to end the year 65 percent, or \$17 million, above budget.

**2016 Year-End Expenditures**

Corporate fund expenditures are currently expected to end the year at \$3,548.7 million, or 1.0 percent, below

2016-2017 PROJECTED EXPENDITURES  
AND REVENUES

\$ Millions

	2016 YE Est.	2017 Projected
Revenue	\$3,571.5	\$3,513.0
Expenditure	\$3,548.7	\$3,650.6
<b>Budget Surplus/(Deficit)</b>	<b>\$22.8</b>	<b>(\$137.6)</b>

FINANCIAL FORECAST

the budgeted level of \$3,570.8 million. 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 2016.

The year-end expenditure projections reflect a minor variation from the 2016 budget due to small adjustments in certain expense categories. Fuel costs for diesel and gasoline are lower than budgeted due to fuel hedging and favorable market prices. In addition, contractual expenses are down slightly as compared to budget as the result of small across the board savings. Lastly, various commodity and material expenses are projected to end the year below budget, primarily due to the milder winter weather and the corresponding reduction in salt purchases.

While corporate fund expenses and revenues are currently projected to end 2016 below budget, 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, and the City will continue to closely monitor its revenues and expenses

2017 CORPORATE FUND PROJECTIONS

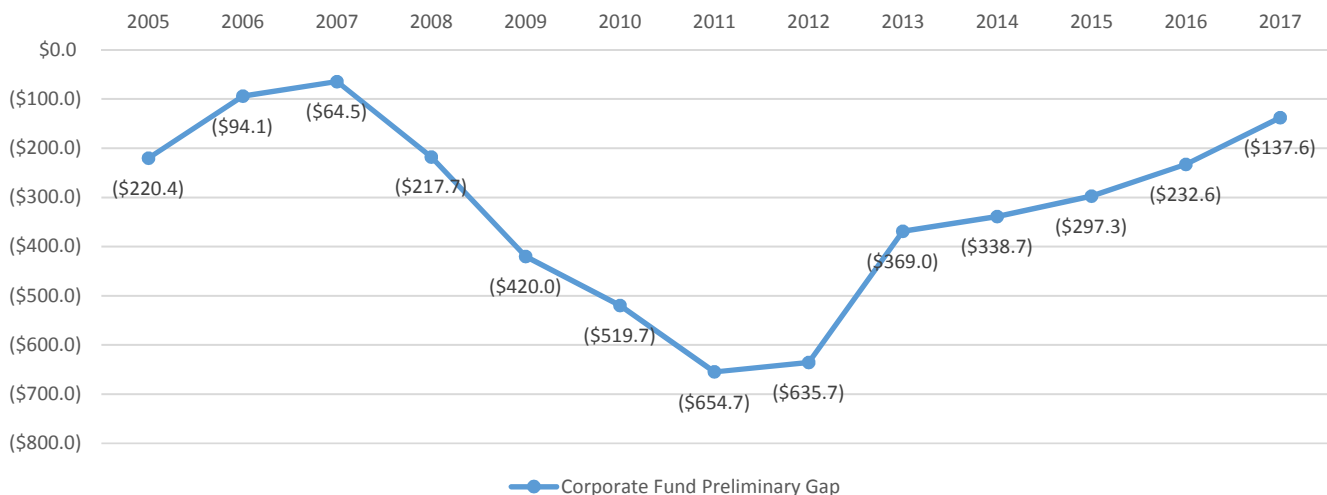
The difference between revenues and expenditures anticipated by the City in its preliminary corporate fund budget estimates each year is commonly referred to as the ‘gap.’ Based on current revenue and expenditure projections, the City estimates a 2017 corporate fund gap of \$137.6 million.

The \$137.6 million gap for 2017 is the lowest projected gap since 2007, and is substantially smaller than was projected for 2017 in the 2014 and 2015 Annual Financial Analysis. This decrease is the direct result of sustainable and balanced revenue growth, coupled with lasting savings and reforms made in the past five budgets. Savings initiatives focused on health care cost reductions, lease consolidations, and energy efficiency programs which decreased the City’s structural deficit year-over-year. The City achieved this progress while at the same time phasing out the use of one-time revenue sources that had been used to balance the budget in the past.

For the first time since 2011, the gap for the coming year is put forward without separate consideration of the City’s pension funds. As of July 29, 2016, the City has identified a permanently reoccurring source to fund three of its four pension funds. In the fall of 2015, the City adopted a four-year property tax increase that provides funding for the

CORPORATE FUND PRELIMINARY GAP

\$ Millions



## FINANCIAL FORECAST

City’s pension contributions to the Police and Fire pension funds through 2018. A small additional payment is needed in 2019 which is incorporated in the 2019 projections.

In May 2016, the City and labor leaders representing the employees who participate in the Laborers’ pension fund reached an agreement in principal on funding and benefit reforms that secures the retirements of employees and retirees, while protecting Chicago taxpayers from bearing the full amount of future pension costs. The City will use additional corporate fund revenue available as a result of the increase in the 911 surcharge to make these increased pension contributions.

Because the City secured ongoing and sustainable revenue sources that match the growing contributions for these three pension funds, this liability does not impact the City’s 2017 budget gap. Further, increases in pension contributions necessary to stabilize the Municipal pension

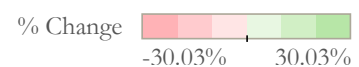
fund are not included in the 2017 budget shortfall, as any increase in contribution will be coupled with a dedicated revenue source. Prior to the adoption of the 2017 budget, the City anticipates reaching a funding plan and reform agreement with the Municipal pension fund following the same framework as was achieved with the Laborers’ pension fund. See the Pension section of the online AFA for further discussion of the City’s efforts to stabilize and fund its four pension funds.

Following is a detailed outline of the City’s operating revenue and expenditure projections for 2017. These expenditure and revenue projections assume that no substantive changes are made to City operations or to the cost of City services. No cost-saving initiatives are incorporated into these estimates; as happens each year, revenue and expense initiatives are being developed by the City and will be included in the 2017 budget recommendation submitted to the City Council in October.

### REVENUE – CORPORATE FUND

\$ Millions

		YE Est 2016	Projected 2017
Tax Revenue	Business Taxes	\$113.9	\$114.7
	Income Tax, PPRT & Other Intergovernmental	\$398.6	\$368.9
	Recreation Taxes	\$218.0	\$220.6
	Sales and Use Taxes	\$677.8	\$696.8
	Transaction Taxes	\$402.5	\$389.9
	Transportation Taxes	\$238.3	\$234.0
	Utility Taxes and Fees	\$429.7	\$437.0
	<b>Total</b>	<b>\$2,478.8</b>	<b>\$2,461.9</b>
Non-Tax Revenue	Charges for Services	\$112.3	\$111.9
	Fines, Forfeitures and Penalties	\$348.9	\$349.1
	Leases, Rentals and Sales	\$33.3	\$43.3
	Licenses, Permits and Certificates	\$117.4	\$121.0
	Municipal Parking	\$8.4	\$8.4
	Reimbursement, Interest & Other	\$429.4	\$386.4
	<b>Total</b>	<b>\$1,049.7</b>	<b>\$1,020.1</b>
Proceeds and Transfers In	Proceeds and Transfers In	\$43.0	\$31.0
	<b>Total</b>	<b>\$43.0</b>	<b>\$31.0</b>
<b>Grand Total</b>		<b>\$3,571.5</b>	<b>\$3,513.0</b>





FINANCIAL FORECAST

**2017 Projected Corporate Fund Revenues**

Corporate fund resources are projected to decrease from 2016 year-end estimates, and 2016 budget, by 1.6 percent or \$58 million to \$3,513.0 million in 2017, largely due to further expected declines in PPRT revenue. The 2017 PPRT estimates are anticipated to decline an additional \$34.6 million, making these revenues 27 percent below the 2016 year-end expectations as the State further decreases PPRT payments to recoup overpayments in previous years.

Economically sensitive tax revenues are anticipated to increase in 2017 above the 2016 level. Sales tax revenues are expected to grow at a rate of almost 3.0 percent through 2017 as consumer confidence figures continue to improve. Compliance levels for the personal property lease tax are projected to remain high, causing revenues to grow 4.5 percent on top of the growth in 2016 revenues.

Utility tax revenues are expected to return to levels consistent with the 2016 budget on the expectation 2017 will bring more typical winter weather and natural gas tax revenue will increase over 2016 revenues. Other utility taxes are projected to remain flat or experience small fluctuations.

Recreation tax revenues, including amusement tax, along with business tax revenues from the hotel tax are expected to show modest growth. Transportation taxes are expected to decline by 1.8 percent primarily due to uncertainty

around the impact that new regulations will have on ground transportation tax revenues from the rideshare industry.

Even though real property transfer tax revenues are projected to decrease by nearly 12 percent in 2017 compared to 2016 year-end, they are expected to grow over the 2016 budget by almost 4.0 percent. The decline from year-end is due to one-time increases from the transfer of ownership interests in the Skyway and Millennium Park garages.

Non-tax revenues are expected to decrease 2.8 percent from 2016 year-end estimates, primarily because one-time revenues, such as funds recovered by sweeping aging revenue accounts, are not included in these projections. The City has been sweeping unused funds from aging and dormant accounts since 2014, and this practice will continue, with any such amounts incorporated into the City’s 2017 budget recommendation. Revenue from land sales is anticipated to increase as the result of closings that are expected to be delayed from 2016 into 2017.

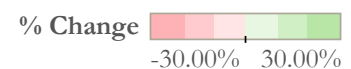
**2017 Projected Corporate Fund Expenditures**

The 2017 expenditures are forecasted to grow by approximately \$80 million over the 2016 budget to \$3,650.6 million. These projections are based on 2016 estimates, adjusted for anticipated growth trends and known changes such as normal increases in contractual services, commodities and materials costs, and increased salaries and

**EXPENDITURES – CORPORATE FUND**

\$ Millions

		YE Est 2016	Projected 2017
Expenditures	Personnel Services	\$2,338.5	\$2,415.2
	Benefits	\$470.6	\$475.6
	Contractual Services	\$296.4	\$306.3
	Commodities and Equipment	\$75.6	\$85.2
	Claims, Refunds, Judgments, and Legal Fees	\$51.3	\$50.0
	Delegate Agencies and Other Program Costs	\$82.5	\$83.4
	Reimbursements and Financial Expenses	\$91.0	\$91.9
	Miscellaneous	\$6.3	\$6.5
	Transfers Out	\$22.6	\$22.6
	Pension	\$114.0	\$114.0
<b>Grand Total</b>	<b>\$3,548.7</b>	<b>\$3,650.6</b>	



## FINANCIAL FORECAST

wages under collective bargaining agreements.

The majority of the projected expense increases for 2017 are personnel costs, primarily wages. The 2017 projection for these expenses assumes the same number of employees as 2016 with wages growing based on required contractual wage and prevailing rate increases. Health care costs are held flat in 2017 over 2016 due to the final phase-out of retiree health care and other initiatives designed to reduce growth in the cost of the City's health care plan.

As discussed above, the City has identified revenue sources to make the increased contributions to Laborers', Police, and Fire pension funds. The funding and reform plan for the Municipal pension fund will include a dedicated revenue source for increased contributions, thus the 2017 projected gap does not reflect a deficit for these three funds.

In addition to addressing the 2017 operating deficit, the City will also take the next step in its plan during 2017 to end the practice of "scoop and toss" by 2019. The City took the first step in 2016 by increasing its debt service payments, and over this four year period, the City will increase its corporate funded general obligation debt service payments by \$400 million. In 2017, the City will further increase the amount of debt service it pays.

## 2018-2019 CORPORATE FUND OUTLOOKS

The following three scenarios project budget gaps for the years 2018 and 2019 for the City's corporate fund based on different revenue and expenditure outlooks.

While the City shows growth in the gap for 2018 and 2019, these numbers are based on the assumption that no substantive changes are made to City operations or the cost of City services as part of the 2017 budget and beyond.

Over the past five budgets, savings initiatives have steadily decreased the corporate fund gap and the out-year projected budget gaps. For example, as part of the 2015 AFA the City projected a \$436.3 million base outlook gap for 2018 and this year the 2018 projected base outlook gap is half of that at \$233.2 million. The chart above shows the improving future year projections since 2011.

As discussed above, the City adopted a funding plan for three of its four pension funds and expects to identify a dedicated funding source for the reform of the fourth pension fund. As a result, the increased pension contribution requirements do not increase the budget shortfall for 2018 under any of the outlooks. In 2019, the contribution requirements for the Police and Fire pension funds will increase by a \$32 million, and this amount is included in the 2019 gap for all three outlooks.

In addition, as discussed above and consistent with 2016 and 2017, the City will need to identify additional resources in 2018 and 2019 to continue its plan to eliminate "scoop and toss" in 2019.

### *Base Outlook*

The base outlook projects corporate fund revenue growth of approximately 1.0 percent over the prior year in both 2018 and 2019, resulting in total corporate fund revenues of \$3,539 million and \$3,575 million, respectively. As in past years, a conservative approach is taken in these projections under 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 2017, including sales tax, transaction taxes, and local non-tax revenue. Real property transfer tax revenue is expected to grow by 3.0 percent in both 2018 and 2019. Utility taxes are expected

## 2018-2019 PROJECTED OPERATING GAP

\$ Millions

	2018	2019
Positive Outlook	(\$102.1)	(\$144.1)
Base Outlook	(\$233.2)	(\$324.2)
Negative Outlook	(\$581.1)	(\$780.1)

## FINANCIAL FORECAST

## 2018-2019 PROJECTED GAP, PREVIOUS AND CURRENT AFA'S

\$ Millions

FY	2012	2013	2014	2015	2016	2017	2018	2019
2011 AFA	(\$635.7)	(\$741.4)	(\$790.7)					
2012 AFA		(\$369.0)	(\$466.0)	(\$580.0)				
2013 AFA			(\$338.7)	(\$400.9)	(\$528.6)			
2014 AFA				(\$297.3)	(\$430.2)	(\$587.7)		
2015 AFA					(\$232.6)	(\$334.9)	(\$436.0)	
2016 AFA						(\$137.6)	(\$233.2)	(\$324.2)

to decrease slightly both years as telecommunication taxes continue their downward trend. Hotel tax revenue is expected to grow by 3.0 percent in 2018 and 2.0 percent in 2019 as Chicago's tourism and convention industry continues to grow.

Lastly, PPRT is expected to grow 7.0 percent over 2017 estimates as the State recoups its final overpayments in 2018 and more PPRT is anticipated to flow to local governments. However, PPRT is not expected to return to its pre-2016 level in 2018 or 2019.

Corporate fund operating expenditures are projected to outpace corporate fund revenue growth during this period, due largely to normal growth in wages and other personnel costs. The average annual rate of increase of 3.3 percent is expected to increase overall expenditures to \$3,772 million in 2018 and \$3,900 million in 2019.

Under this base outlook, most categories of expenditures, including motor fuel, settlements and judgments, and other miscellaneous expenses, are assumed to grow at their long-term, historically average rates. Salary and wages and health care 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 and that the costs associated with these positions will experience growth in line with long-term, historical trends.

### *Negative Outlook*

The negative outlook presents a picture of City finances under relatively stagnant economic conditions in which revenues remain mostly flat in 2018 and 2019, resulting in total corporate fund revenues of \$3,452 million in 2018 and \$3,451 million in 2019.

Slow economic growth coupled with cautious consumer sentiment would limit spending on retail goods, entertainment, and tourism, impacting sales, amusement, hotel, and lease tax revenues. This outlook assumes rises in unemployment or stagnating wage growth, resulting in nominal increases in income tax revenues for 2018 and 2019. These same economic factors would impact the real estate market, and while this outlook projects modest growth in real property transfer tax in 2018, it projects no growth in 2019. This outlook assumes that utility tax revenue declines slightly, largely driven by telecommunication tax revenues decreasing by 4.3 percent each year as data services replace landlines and by an 8.0 percent decline below the base outlook in natural gas tax revenues driven by low natural gas prices. The negative outlook also assumes that fuel prices rise and fuel efficiency efforts increase, holding transportation tax revenues stagnant. Non-tax revenue would decline at a faster rate as the pace of new business and building would slow with the economy.

Under this scenario, City spending would increase more rapidly over the next three years, corporate fund expenditures would grow at an average annual rate of nearly five percent to \$4,033 million in 2018 and \$4,231 million in 2019. Most categories of expenditures are assumed to grow at the rate seen during their fastest period of historical growth in the past decade, which generally occurred during pre-recession years. Projected salary and wage expenditures assume that the number of full-time equivalent positions will be held constant but the cost of these positions grows at an increased rate.

Under the negative outlook, the City's operating budget shortfall would grow to \$581 million in 2018 and \$780 million in 2019.

### *Positive Outlook*

The positive outlook assumes that the economy and related revenues grow at a slightly faster rate over the next three years

FINANCIAL FORECAST

with total corporate fund revenues increasing by approximately 1.5 percent per year to \$3,637 million in 2018 and \$3,693 million in 2019.

Under these projections, there is greater growth in areas where more moderate growth was predicted under the base outlook. Transaction taxes, sales tax, utility tax, and recreation tax revenues grow as the economy expands, tourism increases, and consumer confidence and spending increase. In addition, as wages, employment rates, and corporate profits improve, income tax revenues increase. The recent declines in non-tax revenues would slow as new businesses are formed and additional building construction is undertaken, increasing license and permit-related revenues.

Under this positive outlook, the City is able to limit its future spending to an average annual growth rate of approximately 2.6 percent, with total corporate fund expenditures growing to \$3,739 million in 2018 and \$3,837 million in 2019. The number of full-time equivalent positions is held constant and wages experience a lower rate of growth, while healthcare costs hold flat. Favorable pricing is assumed for motor fuel and utilities, keeping these expenses flat at current levels. Spending on contractual services and commodities and materials grows very slightly over current levels, and corporate fund settlement and judgment-related expenses remain at historical annual averages.

Under a positive outlook, the City would see smaller shortfalls of \$102 million in 2018 and \$144 million in 2019.

OUTLOOK FOR SPECIAL REVENUE FUNDS

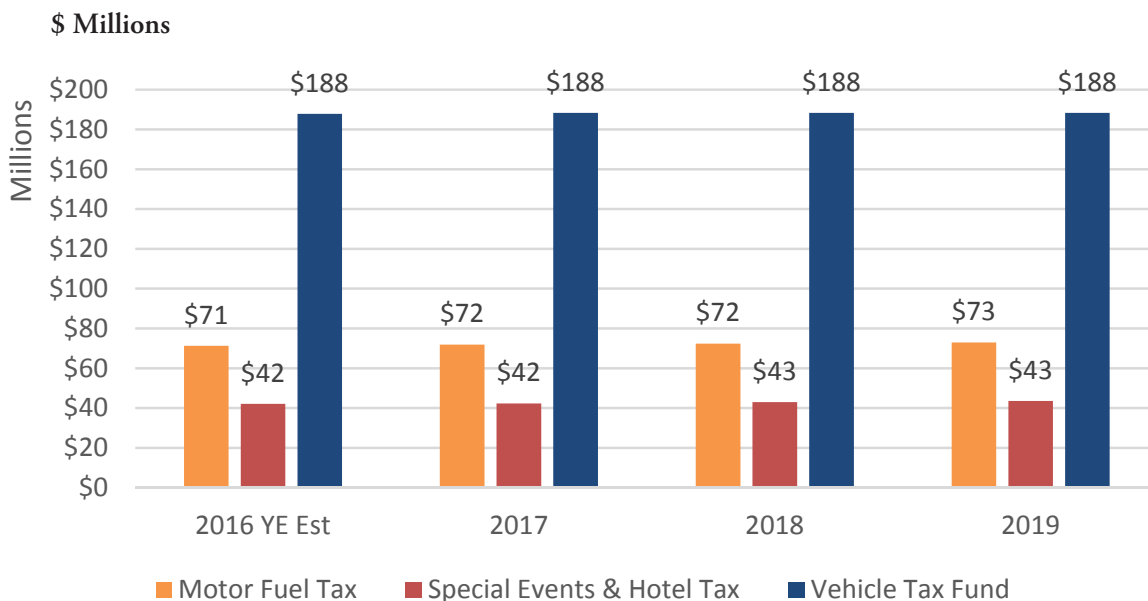
Vehicle Tax Fund

The City anticipates revenue from the sale of vehicle stickers and other vehicle tax fund related revenues will finish 2016 at \$187.7 million, which is \$4.4 million below budgeted expectations.

In June of 2014, the City Clerk’s office transitioned the sale of vehicle stickers to year-round. As part of this 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. With this change, more expensive long-term stickers were purchased in 2014, causing revenue collection in that year to increase by nearly 12 percent over 2013 revenue figures to \$134.3 million. Therefore, sales that would otherwise have occurred in 2015 took place in 2014, decreasing 2015 revenue by 11.3 percent compared to 2014.

The year-end revenue estimate for vehicle stickers is \$123.3 million, which is \$2.1 million above budgeted expectations, but this is offset by lower than expected revenue in pavement

PROJECTED SPECIAL REVENUE FUNDS



FINANCIAL FORECAST

cut fees and revenue from selling abandoned vehicles.

Projected fund revenue for 2017, 2018 and 2019 reflect the expected normalization of sticker sales along with the ongoing price adjustment for CPI that occurs every two years. Other revenues to this fund, including impoundment fees, pavement cut fees, and reimbursements, are expected to remain approximately even with 2016 levels through 2019.

**Motor Fuel Tax Fund**

It is projected that the City’s revenues from motor fuel taxes will end 2016 at approximately \$71.3 million. Despite a long-term trend of declining revenue from fuel taxes, revenues are expected to increase slightly over the next few years as consumers continue to take advantage of low fuel prices. Although fuel prices are expected to increase slightly in 2017 as excess supply is absorbed and production becomes more aligned with current demand, the increase is not expected to impact demand.

While the chart on the previous page only reflects motor fuel tax revenues, revenues from other sources used to pay debt service are expected to continue to grow in the coming years. 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. While MFT revenue is pledged as a source of Riverwalk debt service payments, revenue from concessions and tour boat operations currently are sufficient to make the loan payments.

**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 experience modest growth in 2016. The year-end estimate for 2016 for hotel tax revenue increases by two percent over 2015 revenues to \$23.3 million. The City’s special events and festivals are expected to generate \$10.8 million for 2016.

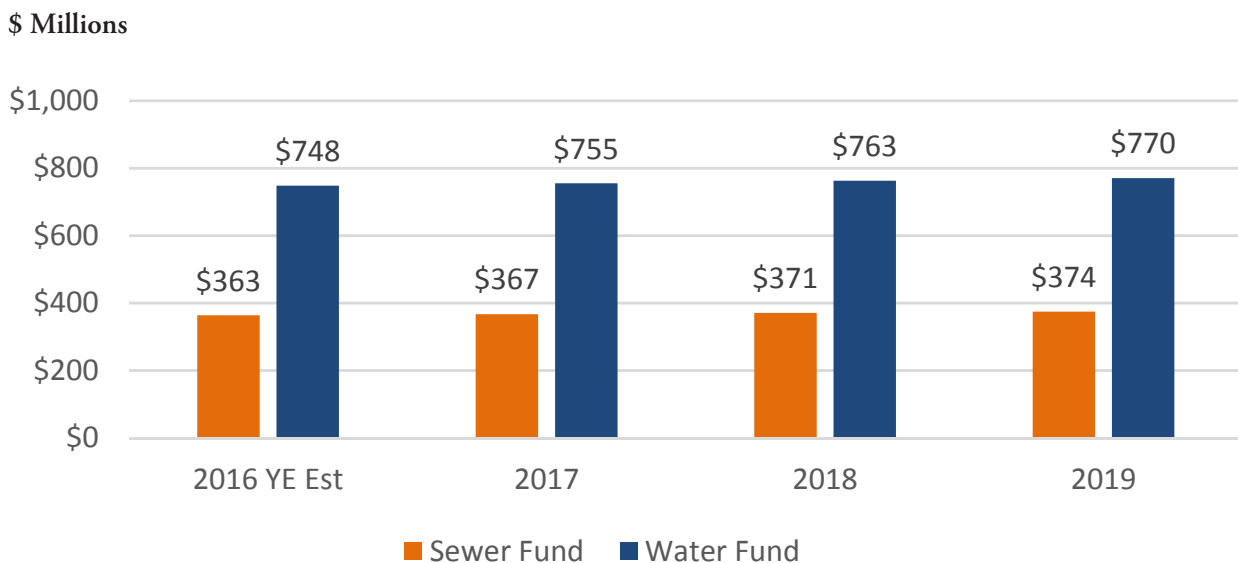
Industry forecasts continue to predict continued normal patterns of growth in tourism, convention, and business travel. Based on this forecast, the City anticipates growth in both occupancy and room rates, and hotel tax revenue is projected to have steady annual growth through 2019, while event fees are expected to remain flat through 2019.

OUTLOOK FOR ENTERPRISE FUNDS

**Water and Sewer Funds**

Revenues to the water and sewer funds are expected to increase at the rate of inflation over the next three years, based

PROJECTED WATER FUND AND SEWER FUND REVENUES



## FINANCIAL FORECAST

on the current ordinance. The repairs and upgrades funded with the revenue from these rate increases are discussed in the Capital section of the online AFA. These three-year projections also account for anticipated population changes and collection rates, as well as the likelihood of increased conservation efforts and meter installation over the coming years.

***Aviation Funds***

Estimates for the O'Hare and Midway Airport funds anticipate that revenue, which are set at a level necessary to pay debt service and support the operations of the airports, will increase from 2016 levels by approximately 4.0 percent for O'Hare Airport and 4.0 percent for Midway Airport in 2017. The City projects that similar growth will continue into 2018 and 2019 as the airports move forward with large scale capital projects and other improvements necessary to accommodate increased tourism and business travel.





CITY OF CHICAGO  
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