2020 Budget Survey & Town Hall FAQ as of September 13, 2019

Office of Budget and Management
City of Chicago

Why are the pensions so underfunded?

Historically, the amounts required by the State to be paid by the City and its employees were not adjusted to account for growth in long-term expenses, resulting in decreasing funds available to pay for future retirement benefits. This decrease in funding was made worse by lost investments resulting from the recessions in the early and late 2000’s. This left the pension funds in dire shape and it was projected that the funds would be unable to make payments beginning in the 2020’s.

To address this crisis, between 2011 and 2017, the City worked with the State legislature to change the State law by increasing the contributions made by new employees, as well as decreasing the retirement benefits owed to new employees. The City was also required to increase its annual contribution.

Because of these changes, the City’s contribution to all four funds will increase to an amount that more accurately accounts for expenses, so that the contribution made by the City and its employees will move the pension funds towards a more secure future. These new requirements are projected to increase the City’s contribution by $940 million across all four funds by 2022.

The City is proactively working to solve this issue by identifying structural funding sources for pensions. Most recently, the City worked with Springfield legislators to allow a casino in Chicago – a measure that could help fund police and fire pensions for years to come.

Can we cut pension benefits? Why can’t we just stop giving employees pensions or move to a 401K?

Mayor Lightfoot believes that securing retirement benefits for working people is essential to our City's future, and that pensions are a promise that must be kept. In 2020, the Police and Fire Pensions will be funded on an actuarially-calculated statutorily required contribution for the first time. Additionally, 2020 represents the third year of statutory contribution increases in the Municipal and Laborers Pension Funds. Moving to an actuarily-calculated contribution takes into account the City’s future obligations owed. While the City’ contributions today will only lead to stronger pension funds and better retirement benefits for the City’s workers tomorrow, they will indeed require higher annual payments by the City. With that in mind, Mayor Lightfoot is looking ahead to find solutions that will allow us to continue meeting our pension obligations and achieve long term financial stability to strengthen Chicago for its future.

Between 2011 and 2017, the City worked with the State Legislature to change the State law and increase the amounts paid by new employees, decrease the retirement benefits owed to new employees, and increase the City’s contributions to the pension funds. Similar to retirement plans you may have through your workplace, both the City (the employer) and its employees make contributions to the funds. In exchange for these contributions and meeting many other requirements, City employees receive monthly payments upon retirement. These contributions, and the benefits paid, are set in State law and are further protected by the State constitution.

Any changes to these benefits would require a State constitutional amendment, and would only impact new employee benefits moving forward. If a change were made to end pension eligibility for new employees, or to move new employees from a pension-based system to a different model such as a 401k, these employees would not be contributing to the existing pension plans. City employees currently pay between 8.5 - 11.5% of each paycheck to the pension fund for which they are a member.

Municipal pensions are constitutionally protected benefits, and the City believes the pensions are a promise. In order to keep that promise, the City has worked with Springfield to change state law to change the benefits and amounts paid by new employees. Moving forward, we are looking for a variety of revenues to help fund pension obligations without impacting benefits to retirees.

The City pays a lot of money to cover lawsuits and settlements. What can be done to reduce or limit the amounts paid for these lawsuits?
Mayor Lightfoot created the City's first-ever Office of Enterprise Risk Management, and appointed Tameka Puckett to serve as Chief Risk Officer. In this role, she will implement a comprehensive enterprise risk management strategy to oversee and mitigate the cost of claims, judgments, and liabilities for the City. In addition to working to increase safety and efficiency throughout all city operations, the new risk management function is expected to reduce operational costs to the City.

There is so much money in TIFs across the City. Why don't we use TIF to fix the budget crisis?
Tax Increment Financing (TIF) is a tool utilized to promote development in neighborhoods. The designation and use of TIF is dictated by State law, and typically, the funds can only be used for infrastructure or economic development related costs.

When an area is declared a TIF district, the amount of property tax the area generates is set as a base equalized assessed value (EAV) amount. As property values increase, all property tax growth above that amount can be used to fund redevelopment projects within the district. The increase, or increment, can be used to pay back bonds or pay upfront costs, or can be used on a pay-as-you-go basis for individual projects. Once the 23-year life span of a TIF is concluded, the full assessed property tax is included in the City of Chicago total EAV. This does not increase the total amount levied, meaning, the City's total property tax levy remains the same.

The City has implemented a TIF surplus policy where each year, TIF funds that have not been allocated to a project are declared a surplus and returned to the County Clerk. Since 2011, the City has surplused more than $1.2 billion in unallocated TIF funds. The surplus must be returned to the County Clerk to be redistributed proportionately back to the taxing bodies, which means the City of Chicago receives 25 percent of the total surplus. The City has received approximately $300 million in TIF surplus since 2011 which has provided assistance with funding necessary City services. The City continues to look for ways to maximize the benefit of TIF in the neighborhoods, while also maximizing potentially available surplus annually.

More information regarding TIF can be found on the City's website at https://www.chicago.gov/city/en/depts/dcd/provdrs/tif.html

Property taxes are so high. What can be done to avoid raising property taxes again?
For 2019, the total levy for residents in the City of Chicago equaled $5.8 billion. There are various taxing bodies that all have their own portion of the levy. The City's portion of the total levy equaled 25 percent in 2018, or $1.44 billion.

Of the 2018 levy, more than 64 percent of it went to pay the City's pension contributions, 30 percent was utilized for long term debt, and 7% went to the libraries. In 2019, property taxes represented about 19 percent of the City's total revenue.

The Civic Federation conducts a study on Chicago metropolitan area effective tax rates each year. The most recently released report from January 9, 2019, looked at estimated effective property tax rates in the six-county region of northeastern Illinois between 2007 and 2016, the most recent year for which data is available. The study found the following:

- The City of Chicago had an effective residential tax rate of 1.69% in 2016, the lowest of the 12 selected Cook County communities for residential properties. The rate increased from 1.66% the prior year.
- Over the ten-year period between 2007 and 2016, the residential effective tax rate in Chicago increased by 35.3% from 1.25% to 1.69% of full market value.

The City is sensitive to the increasing cost of living and is working diligently to identify a diverse set of structural solutions to close the budget gap. While all options are currently on the table, the frequent feedback regarding property tax costs has been noted both by the Mayor and her team.

What is the status of the LaSalle Street Tax (Financial Transactions Tax)?
Currently, all options are on the table and the City is identifying areas for efficiencies and reductions, while evaluating all available revenues. Some options require State legislative approval, such as the expansion of sales tax.

Why don't we tax cannabis to generate revenue?
The City is expecting to receive some revenue in 2020 from cannabis, however, based on the implementation in other states, the first year after legalization requires significant start-up time from the industry, which will result in lower tax revenues received.

Mayor Lightfoot is working to grow the industry in a safe and equitable way that will ensure this new and emerging industry creates opportunity for our communities while helping address our revenue needs.

Why not implement a City Income Tax?
As the City explores a number of potential revenue solutions, we are undertaking an inclusive process designed to gain input directly from all stakeholder groups to find long-term solutions to stabilize our finances. While a City income tax would generate revenue, it would require State approval.

Will the City commit any Real Estate Transfer Tax (RETT) increase to affordable housing and homelessness?
Mayor Lightfoot has been clear that the challenges surrounding homelessness must be addressed through a collaborative process that will increase affordable housing citywide and expand resources committed to prevention efforts. The City remains engaged with the Chicago Coalition for the Homeless and the broader advocacy community, and we share their vision of addressing homelessness through a comprehensive strategy that will create stronger services and expand housing options. Though the City faces significant financial challenges, we will continue to work closely with the City Council, the state and residents to address both our immediate structural issues, as well as drive efforts to bring homelessness to an end in the City of Chicago.

What can be done to address the high personnel costs?
Ninety percent of our workforce is covered by a collective bargaining agreement, which include contractual wage increases the City is obligated to honor. We continue to work with all employee representatives to ensure the City will continue to deliver timely and cost-effective services for our community.

Why aren't you addressing education in the survey or at the Town Halls?
The City of Chicago is a distinct taxing body that is separate from Sister Agencies such as Chicago Public Schools, Chicago Transit Authority and Chicago Park District. Each Sister Agency has its own budget and oversight.

Can we charge the suburbs more for water to increase revenue?
The City is committed to a fair and transparent rate setting mechanism for all water customers, regardless of whether they are city or suburban water users. The Mayor believes that water is a basic human right and is not a source of budgetary relief for the City.

The courts have ruled that the City must charge all customers the same rate for water, so if the City increases rates for the suburbs, it must raise rates for Chicagoans as well.

How will this budget address racial inequity in the City?
The Mayor has hired a Chief Equity Officer to oversee equity initiatives across the City. The Chief Equity Officer is engaged in a variety of initiatives, and is a key member of the Mayor's policy team, who will be working with all departments and City agencies to ensure the City views all policy making with an equity lens by building consensus around ways we can help make policies work for residents across the city and of all income levels.

Why aren't you addressing property tax assessments?
Property tax assessments are managed by Cook County Assessor, Fritz Kaegi. However, the City is committed to working with the Assessor to improve the assessment process and ensure an equitable and fair property tax assessment.

Why is there so much overtime spending?
Each year, the City budgets for anticipated overtime spending in certain departments such as the Chicago Police Department, the Chicago Fire Department and the Department of Streets and Sanitation. Much of the City's overtime is driven by responding to weather events or ensuring

staffing for public safety. The City is working to identify opportunities for reducing overtime by looking for efficiencies in how departments effectively manage and deploy their workforce. The City recently implemented new overtime management tools over the last year, in order to provide departments with more data-driven ways to manage staffing and overtime. The City will continue to work with departments to determine the best strategy for better managing staffing needs to ultimately reduce overtime without impacting the level of service.

What can be done to more adequately fund Animal Care and Control (ACC)?
Each year, the City engages in a budget process that begins with each department submitting budget requests to the Office of Budget and Management (OBM). OBM and the department work together on the budget to identify any potential savings and efficiencies, as well as needs for the next year. In addition to Corporate Funds, ACC continues to seek grants and private funding to also support special initiatives.

What government redundancies can be eliminated?
The City is currently undergoing an extensive review of all programs and initiatives to identify efficiencies and redundancies for the 2020 Budget which will be released in late October.

Can we privatize City services to save money?
The City routinely assesses opportunities to privatize City services that could result in significant financial benefits without having an adverse impact on services to residents. Before privatization can occur, the City must meet any obligations codified in collective bargaining agreements and the City's privatization ordinance.

The City's privatization ordinance requires any substantial privatization of City services to meet certain criteria including the following: provide at least 90 days for public and City Council review; schedule a public hearing on every proposed privatization in addition to a City Council committee meeting; engage one or more independent advisors to monitor and assess a proposed deal and issue a report to City Council; include contractor-funded City oversight of the transaction and ensure that the asset be returned in good condition at the lease's end; and ensure that 10 percent of the proceeds of very large and very long-term leases be set aside in an intergovernmental trust fund for benefit of future Chicago residents, invested by the City Treasurer which is not allowed to be touched for at least half the duration of the lease.

In 2019, the City contracted with a third party to administer the self-insured workers' compensation program that was once managed by the Committee on Finance. This will allow for the City to benefit from industry best practices that will result in savings.

What can we do to tax visitors and suburbanites that come to the City but don't contribute?
The City has various taxes that are paid by visitors to the City, including sales tax, amusement tax, hotel tax, and restaurant tax, among others. Visitors are also a benefit to the City's economy as a whole, with more than 57.7 million visitors to Chicago in 2018. The City has been experiencing a decades long trend of increasing tourism. That said, the City recognizes that visitors also benefit from City resources supported by resident taxpayer dollars and is also looking for ways to ensure that revenue sources are diverse and impact a variety of stakeholders.

How has the City supported the Chicago Torture Justice Center?

The Chicago Torture Justice Center (CTJC), located in the City's Englewood Health Clinic at 641 West 63rd Street, is a program that is designed to directly engage persons impacted by the Jon Burge settlement in mental health and recovery support services. The program is intended to meet the needs of direct victims of police torture and their extended family and support system. The program also seeks to meet the mental health, case management and wellness needs of other persons who self-report as surviving police and institutional violence.

The Chicago Department of Public Health has funded the CTJC for four years: 2016 ($150K), 2017 ($287K), ($287,500), and 2019 ($287,500).