## <u>Where do we go from here? Pensions and Budget History</u>

This is the first in a series of blog posts that will take a longer look at the budget, given the City's current budget concerns.

In December 2024, the City Council approved the 2025 budget with a narrow vote due to some concerns about short-term revenue sources, and long-term pension issues, among other issues.

In January 2025, the City faced a ratings downgrade, which is an unfortunate financial decision that will make borrowing money more expensive for the City.

The audience for these posts are people who wish to think through the City's budget issues; people who like municipal history; people who like public policy; and people with a general curiosity about the City's financial concerns.

These posts are meant to be factual and non-partisan in nature, to fulfill the requirement of completing City services on City time with City resources. For these reasons, these blogs will only engage with primary source documents from the City and City Council, and not include any news or other sources.

### Executive Summary: 2004 and 2025 Budget

In this post, the 2004 budget is compared to the 2025 budget, to assess the City's pension funding, property tax levy, and general "shape" of the government and budget at two specific points in time. Here are the major points:

- 2004 marked one of eleven consecutive years in which the City did not contribute more than $500 million annually to its pensions (2004 – 2014), and in some cases pension contributions did not even keep pace with inflation.

- In 2004, the City only needed to comply with a previous State Law regarding pension contribution requirements, and so it is possible to look at how "climbing the pension payment ramp" has impacted the *shape* of the government.

- In 2004, the City's budget documents suggest that the City either implemented a substantially smaller number of grant funds, or did not track them in the same manner as the current budget documents. For example, while the size of the budget seems extremely large in 2025 (more than $17,000,000,000), more than one quarter of the 2025 budget is comprised of grant funds.

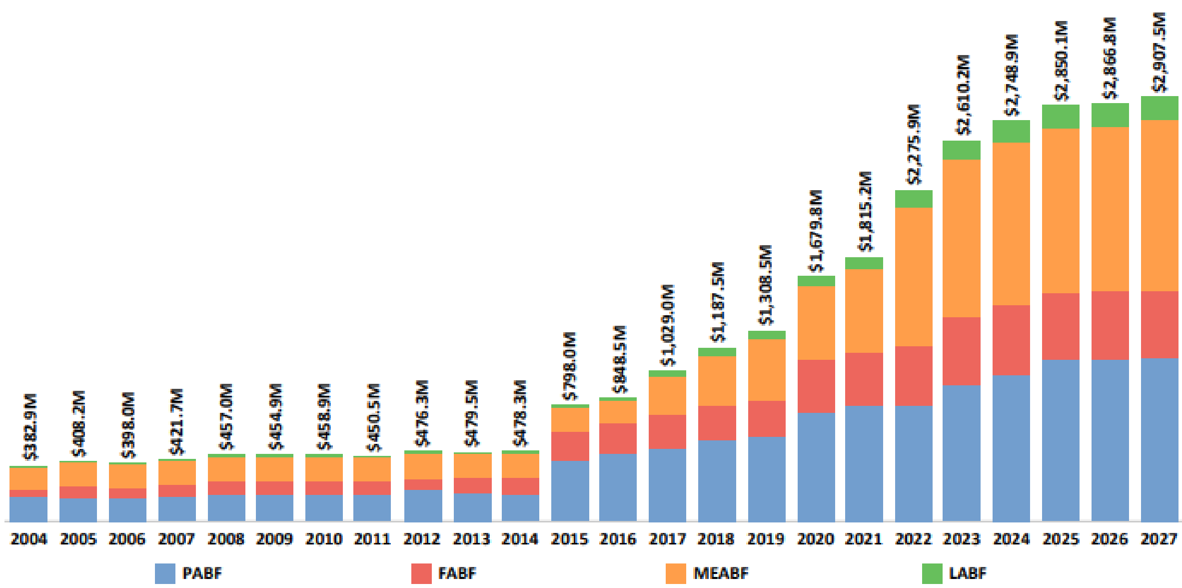
- By studying these budgets, we can assess the balances between front line services, and how those services have changed over time.

    - The biggest changes between 2004 and 2025 budgets are balcnes between important front line and business-like services offered by Streets & Sanitation; Transportation; and Aviation and facilities management.

## Where do we go from here? Pensions and Budget History

On [page 49 of the 2025 Budget Overview](), it is possible to see the City's historical progression of pension contributions. The graphic is quite startling in its visualization of the City's pension issues, as the *jumps* between 2019 and 2020, 2021 and 2022, and 2022 and 2023 are nearly as large as the *entirety* of a typical annual payment made in the era of 2004, 2005, 2006, and 2007.

Pension Contributions - Historic and Projected




1) The historic contributions presented in this chart differ slightly from amounts presented in previously published documents as a result of differences in the accounting documentation of these contributors. The 2015 and 2016 MEABF and LABF amounts reflect a revised employer contribution amount made by the City after P.A. 98-641 was declared unconstitutional by the Illinois Supreme Court in 2016. All other years, including 2023, represent the amounts found in the annual appropriation ordinance.
2) The projected contributions from 2025 through 2027 for all pension funds are based on the actuarial reports for year ending December 31, 2023. These projections may shift over time based on investment returns, experience studies, and other pension fund changes, including state law changes.
3) The 2023-2027 contributions include required contributions and advance payments.

What was going on in 2004? Luckily for us, in addition to the annual budget statements (published in the City Clerk Journal of the Proceedings for November 19, 2003), the City also publishes its annual Comprehensive Annual Financial Report, which is a legally required audit (hereafter, the CAFR, ACFR, or "the audit").

This will be a selective study of top line items involving the 2004 and 2025 budget, and the 2004 and 2023 audits, respectively, for the simple purpose of assessing the progression of City finances and the extent to which the financial issues faced by the City are being addressed.

## Property Tax Levy and Pension Funded Ratio

On page 14210 of the Journal of the Proceedings for November 19, 2003 (PDF page 821), the City Council passed a property tax levy for 2004. The total levy was $716,624,000 for 2004, which is the equivalent of a 2024 levy of roughly $1.189 billion according to the U.S. Bureau of Labor Statistics Consumer Price Index database

(Series ID CUSR0000SA0, all items in the U.S. city average, all urban consumers, seasonally adjusted).

What is more interesting about the 2004 levy than the amount itself was its proposed purposes.

- In the 2004 budget, less than $127 million was to be levied for the Municipal Employees' and Officers' Annuity and Benefit Fund;

- $0 was to be levied for the Laborers' and Retirement Board Employees' Annuity and Benefit Fund;

- less than $120 million was levied for the Policemen's Annuity and Benefit Fund;

- and less than $53 million was levied for the Fireman's Annuity and Benefit Fund.

That means roughly 40 percent of Chicagoans' portion of their City property tax levy would be budgeted for pension payments in 2004.

By comparison, Substitute Ordinance 2024 – 0013671, which was the 2025 Municipal Code Revenue Ordinance as amended to subsequently include the 2025 Property Tax Levy, demonstrates a property tax levy of $1,806,839,000.

More than the amount, however, I want to focus on the allocation of the levy. For the 2025 budget, less than $177 million is to be levied for the Municipal Employees' Annuity and Benefit Fund; less than $55 million is to be levied for the Laborers' and Retirement Board Employees' Annuity and Benefit Fund; less than $814 million is to be levied for the Policemen's Annuity and Benefit Fund; and less than $367 million is to be levied for the Firemen's Annuity and Benefit Fund.

In 2025, then, more than 78 percent of Chicagoans portion of the City property tax levy is budgeted for pension payments.

What makes these facts interesting about the 2004 Levy is the reported funding levels of the pensions, as published in the 2004 audit.

- On page 12 of the 2004 audit, it is reported that the City's funded ratios for its pensions were as follows: Laborers' and Retirement Board Employees' at 99 percent;

- Municipal Employees' fund at 72 percent;

- Policemen's Annuity and Benefit Fund at 56 percent;

- and the Firemen's Annuity and Benefit Fund at 42 percent.

Entering the 2004 budget, the City viewed the Laborers' and Retirement Board Employees' pension as 99 percent funded, and so the City neglected to make a payment in its favor.

- By 2005, that funded ratio was 94 percent; 92 percent in 2006; 97 percent in 2007; 89 percent in 2008; 81 percent in 2009; and 75 percent in 2010.

- Of course, these figures only demonstrate the decline in funded ratio in half of the time period during which the City made relatively flat pension contributions (2004 – 2014, as demonstrated in the 2025 Budget Forecast.

The pension contributions of the early 21st Century were plagued by several factors:

- first, State of Illinois law had yet to require an actuarial contribution, and so there was arguably an outdated legal formula used to calculate pension payments for approximately 20 years (since State Law was amended in 1998, informing the early 21st Century payments);

- second, the City itself barely followed inflation in its own payments, regardless of what any law established as a requirements;

- and, of course, then the issues of the financial crisis hit.

This was a trifecta of institutional factors that informed the City's pension funding dilemma.

A simple look dividing the 2004 – 2014 and 2015 – 2025 pension contributions demonstrates the vast difference in approach now required by State Law:

*(this space intentionally left blank for tables below)*

*Tables One and Two*
(sources: 2025 Budget Forecast, U.S. Bureau of Labor Statistics)

Comparison of Pension Payments with Inflation
(in millions of $)

| Year | Contribution | Inflation | Difference |
|---|---|---|---|
| 2004 | $382.9 | $382.9 | n.a. |
| 2005 | $408.2 | $395.8 | $12.4 |
| 2006 | $398.0 | $421.4 | ($23.4) |
| 2007 | $421.7 | $409.4 | $12.3 |
| 2008 | $457.0 | $437.8 | $19.2 |
| 2009 | $454.9 | $455.5 | ($0.6) |
| 2010 | $458.9 | $462.3 | ($3.4) |
| 2011 | $450.5 | $473.3 | ($22.8) |
| 2012 | $476.3 | $459.8 | $16.5 |
| 2013 | $479.5 | $483.3 | ($3.8) |
| 2014 | $478.3 | $487.2 | ($8.9) |

Comparison of Pension Payments with Inflation
(in millions of $)

| Year | Contribution | Inflation | Difference |
|---|---|---|---|
| 2015 | $798.0 | n.a. | n.a. |
| 2016 | $848.5 | $808.1 | $40.4 |
| 2017 | $1,029.0 | $866.6 | $162.4 |
| 2018 | $1,187.5 | $1,054.1 | $133.4 |
| 2019 | $1,308.5 | $1,209.0 | $99.5 |
| 2020 | $1,679.8 | $1,324.8 | $355.0 |
| 2021 | $1,815.2 | $1,758.5 | $56.7 |
| 2022 | $2,275.9 | $1,960.3 | $315.6 |
| 2023 | $2,610.2 | $2,369.9 | $240.3 |
| 2024 | $2,748.9 | $2,686.4 | $62.5 |
| 2025 | $2,850.1 | $2,803.9 | $46.2 |

The City's audits demonstrate how the funded ratio progressively deteriorated over time, prior to the new actuarially required accounting:

*Table Three*

Comparison of Pension Funded Ratio, by Fund

| | Old System | | New System | |
|---|---|---|---|---|
| Pension | 2005 | 2014 | 2021 | 2023 |
| Municipal Employees' | 68% | 41% | 23% | 22% |
| Laborers and Retirement Board Employees' | 94% | 64% | 46% | 39% |
| Policemen's Annuity and Benefit | 51% | 26% | 24% | 22% |
| Firemen's Annuity and Benefit | 42% | 23% | 21% | 22% |

2005 ACFR, page 9
2014 ACFR, page 85
2021 ACFR, page 94
2023 ACFR, page 99

**Budget Size and Grants**

The general structure of the budget is similar over the last 20 years, as the City essentially divides its main functions into governmental services and business and enterprise functions. The budget therefore includes infrastructure development bonds as well as the front line services we typically engage with on a daily basis (police, fire, communications, sanitation, etc.).

One major change between budgetary processes over the last 20 years is the extent to which the City now administers grant programs. The “shape” of grants is also quite different.

- For example, in the 2004 budget, page 14120 of the November 19, 2003 (PDF page 731), Journal of the Proceedings demonstrates a Community Development Block Grant Entitlement of $102.49 million;
- plus $14.289 million in reallocation of unspent balances;
- $3.151 million in land sales;
- $1.5 million in health center revenues;
- $5.562 million in revenue from loan repayments;
- and less than $1 million in other miscellaneous revenues.

The total grant funds available were $127.756 million, which is the equivalent of more than $212 million of grant funds in 2024.

By contrast, the City's grant funds are 20 times larger in 2025. Many residents raise the question about why the City's budget is so large now, and the answer largely rests on the issue of properly resolving the City's underfunded pensions by climbing the actuarial pension ramp, and grant funds.

- In 2025, the City has budgeted more than $4.6 billion in grant funds, including $108 million in Community Development Block Grant; $352 million in COVID-19 grant funds;
- $312 million in American Rescue Plan Act Local Fiscal Recovery Fund grants;
- $122 million in local public and private grants;
- plus more than $3.7 billion in State and Federal grants in addition to these programs.

Outside of pension administration, the shape of budgetary programs has dramatically changed in the last 20 years.

Among other line items, in the 2025 budget the largest grant allocations are used by:

- the Department of Transportation for infrastructure development purposes ($1.129 billion);
- the Department of Family and Support Services for a wide range of social services ($849 million);
- the Chicago Department of Aviation ($850 million);
- public safety purposes ($357 million);
- epidemiology ($251 million) and other public health programs (another $493 million);
- and $292 million for city development programming administered by departments of Housing, Cultural Affairs and Special Events, and Planning and Development.

By reading the November 19, 2003, Journal of the Proceedings side by side with the 2025 Budget Recommendations, it is possible to fully demonstrate the "shape" of the budget. Table Four is a selective survey of the Corporate Fund and Grant Funds, demonstrating:

- The estimated total of all grant funds (in 2004 Budget, it appears that Community Development Block Grant fund is the only grant fund included in the Proceedings)

- The estimated total of pension funds
- Major general financing requirements, frequently included under the “Finance General” category in the budget.
- Government Function by Category:
    - Finance and Administration departmental functions
    - “Legislative and Elections” functions (City Council and Board of Election Commissioners)
    - City Development departmental functions
    - Community Services departmental functions
    - Public Safety departmental functions
    - Regulatory departmental functions
    - Departmental functions that are now grouped under the “Infrastructure” category (it is believed that these departments are Streets & Sanitation; Transportation; Aviation; and Water Management. PDF page 27, 2025 budget).

What is important to note here is the sheer size of grants in the 2025 budget, versus the 2004 budget. It appears in the November 19, 2003 Journal of Proceedings that the grant ordinances only pertain to Community Development Block Grant, whereas in 2025 the City includes many different public and private grant sources within its grant fund section. This is an area that needs more in-depth research. In 2025, grants comprised more than 25% of the budget, versus 2% in 2004.

Because of the sheer size of grant funds in the 2025 budget, even though the sheer nominal size of property tax levy and other funding sources has increased beyond inflation (by more than $5 billion), these funding sources comprise a smaller percentage of the 2025 budget than the 2004 budget.

In 2004, property taxes funded 13% of the City budget, versus 10% of the budget in 2025; in 2004 non-grant, non-property tax sources funded 84% of the City budget, versus 65% in 2025.

*(intentionally left blank to format table below)*

*Table Four*

Comparison of 2004 and 2025 Budget Recommendations

| **General Financing Requirements** | **2004 Budget** | **Inflation** | **2025 Budget** | **2004 % of Budget** | **2025 % of Budget** |
|---|---|---|---|---|---|
| Pension Funds | $382,861,000 | $635,549,260 | $2,919,034,371 | 7.2% | 15.6% |
| Loss in Collection of Taxes | $21,010,000 | $34,876,600 | $15,799,000 | 0.4% | 0.1% |
| Employee Benefits | $367,376,363 | $609,844,763 | $757,736,930 | 6.9% | 4.0% |
| Compensation and Insurance | $7,822,675 | $12,985,641 | $75,813,630 | 0.1% | 0.4% |
| Payment of Judgments | $29,800,000 | $49,468,000 | $51,565,433 | 0.6% | 0.3% |
| City Relief | $13,837,000 | $22,969,420 | $0 | 0.3% | 0.0% |
| Debt Service | $908,834,523 | $1,508,665,308 | $2,113,976,947 | 17.0% | 11.3% |
| Other | $355,204,364 | $589,639,244 | $1,968,108,111 | 6.7% | 10.5% |
| **Grant Funds** | **2004 Budget** | **Inflation** | **2025 Budget** | **2004 % of Budget** | **2025 % of Budget** |
| All Grant Funds | $127,756,495 | $212,075,782 | $4,691,693,000 | 2.4% | 25.0% |
| **Government Functions** | **2004 Budget** | **Inflation** | **2025 Budget** | **2004 % of Budget** | **2025 % of Budget** |
| Finance and Administration | $378,808,473 | $628,822,065 | $798,404,809 | 7.1% | 4.3% |
| City Council | $20,834,234 | $34,584,828 | $36,619,458 | 0.4% | 0.2% |
| Board of Election Commissioners | $10,961,704 | $18,196,429 | $28,507,734 | 0.2% | 0.2% |
| City Development | $52,835,170 | $87,706,382 | $173,442,842 | 1.0% | 0.9% |
| Community Services | $97,122,091 | $161,222,671 | $373,663,270 | 1.8% | 2.0% |
| Public Safety | $1,534,616,268 | $2,547,463,005 | $2,829,069,764 | 28.8% | 15.1% |
| Regulatory | $53,238,361 | $88,375,679 | $96,463,883 | 1.0% | 0.5% |
| Streets and Sanitation | $355,207,606 | $589,644,626 | | 6.7% | |
| Transportation | $104,180,164 | $172,939,072 | | 2.0% | |
| Public Service Enterprises | $512,918,226 | $851,444,255 | | 9.6% | |
| Infrastructure | | | $1,815,188,798 | | 9.7% |
| **Non - Grant, Non-Property Tax** | **$4,490,844,222** | **$7,454,801,409** | **$12,246,555,980** | **84.2%** | **65.3%** |
| Property Tax | $716,624,000 | $1,189,595,840 | $1,806,839,000 | 13.4% | 9.6% |
| **All Grants** | **$127,756,495** | **$212,075,782** | **$4,691,693,000** | **2.4%** | **25.0%** |
| All Reimbursements & Proceeds | $332,464,000 | $551,890,240 | $1,439,613,611 | 6.2% | 7.7% |

Now that this basic shape of the budget is front of mind, it is worth comparing some specific departmental lines. These departments need more research:

- The 2004 department of Streets & Sanitation funded the equivalent of $590 million in 2025 dollars, whereas the full 2025 Streets & Sanitation budget was $350 million. *A future post is proposed in which the specific functions of Streets &*

*Sanitation are studied over time, to determine if they moved to another department or were cut.*

- The 2004 department of Transportation funded the equivalent of $173 million in 2025 dollars, whereas the 2025 budget proposed a CDOT budget above $232 million. *It is worth comparing historical functions, to determine if CDOT expanded in its functions, or absorbed functions from other departments.*

- In 2004, the departments under "Public Service Enterprises" were Water Management ($468 million in 2025 dollars) and Aviation ($491 million in 2025 dollars). In 2025, the proposed DWM budget was $401 million, whereas the Aviation budget was more than $832 million. *It is worth studying the Department of Aviation to determine the extent of the budget increase in this department, especially given the importance of Chicago's airports for the regional economy.*

In terms of percentage share of "infrastructure functions," here is how these infrastructure and public service enterprise functions compare in terms of percentage of this category's services:

- Aviation comprises 46% of this category's funds in 2025, compared with 29% in 2004.

- Water Management comprises 22% of this category's funds in 2025, compared with 27% in 2004.

- Streets & Sanitation comprises 19% of this category's funds in 2025, compared with 34% in 2004.

- Transportation comprises 13% of this category's funds in 2005, compared with 10% in 2004.

It is worth studying these functions further, because infrastructure departments maintain the City's assets, which can indeed be balanced against the City's liabilities.

It is worth studying further, how much of these changes are occurring due to additional debt; how much of these changes can be ascribed to services cuts; how much of the Aviation increase can be attributed to positive infrastructure development (such as modernization).

It is important to study these budget functions, because understanding how services have historically changed can help us to understand how services can be improved in 2025 and onward.

Streets & Sanitation and Infrastructure include the most common service requests our office hears, so we want to ensure that the City budget reflects the importance of these services.