CITY OF CHICAGO

MID-YEAR BUDGET FORECAST

APRIL 2023

CHICAGO

MAYOR LORI E. LIGHTFOOT

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LETTER FROM THE MAYOR

Dear Fellow Chicagoans,

In 2019, when I came into office, the City of Chicago faced the largest budget deficit ever, at $838 million. Other challenges were also before us: closing the structural budget deficit while also addressing the pension shortfall, climbing the debt service ramp due to the end of scoop and toss – and doing all of these things without reflexively turning to taxpayers and Chicago's working residents and families for more.

We developed a budgeting philosophy in that first budget cycle: (1) budgets are not just math problems, they are value statements; (2) we would always look internally first to make government work more efficiently before we would ever ask taxpayers to do more; and (3) by making the tough but correct fiscal choices, we would create more opportunities for investments in our city, particularly those neighborhoods that had been without investment for far too long.

And so, we closed that budget deficit for FY2020. When the pandemic caused shutdowns in our economy in 2020, we closed the resulting $1.2 billion deficit for FY2021 using the same philosophies. As we did in all four budgets presented during this Administration. Our fiscal discipline, in the face of these monumental challenges and calls by many to go back to the old ways of budgeting, has allowed us to make generational investments to the benefit of our residents.

First, getting our fiscal house in order has meant meeting our pension obligations. The City has increased its annual pension funding by $1.3 billion over the last four years, the largest pension ramp in the City's history in any four-year period. For the first time in 15 years, the funded ratios for the City's pension funds have increased in FY2021. For the first time in the City's history, all four pension funds were funded on an actuarially calculated basis in FY2022. In FY2023, the City implemented an Advance Pension Funding Policy which increases the City's pension payment to keep net pension liability stable.

During my Administration, we have also climbed the debt service ramp created by the end of scoop and toss. We are now paying down $399 million a year in debt. During my term, I have lowered debt by $747 million, creating financing capacity for the largest investments in the City's history.

This work has also enabled us to make historic investments in economic development, to help our small businesses and stitch back the shredded social safety net. These investments have totaled $8 billion of future investments. Each investment plan is the largest in the City's history, including the Chicago Works Plan, the Chicago Recovery Plan (CRP), and Invest South/West. Within each investment plan, there are programs that are individually the largest investments in the City's history in vacant lot clean-up, tree planting program, homelessness, mental health and violence prevention investments. During my term, the City has ended the digital divide for CPS students through Chicago Connected and created a tenfold increase in small business lending through the Chicago Small Business Resiliency Fund. The City has funded the full electrification of the City's light duty fleet over the next five years. The City has committed to 100% renewable energy which made possible one of the largest municipal power purchase agreements in the US, creating a new solar farm and green jobs in central Illinois. The City issued its inaugural social bond which allowed Chicagoans to invest in their own communities in a way they haven't been able to in at least a decade. Additionally, building on four years of fines and fees reforms has resulted in a more equitable Chicago. These city investments were made possible through applying fiscal discipline, finding internal efficiencies, and applying good tax policy, all in the midst of a pandemic. Fiscal stability pays for City investments.

In FY2023, the City closed one of the smallest budget gaps in 16 years at $127 million. As shown in this Mid-Year Budget Forecast, the City will continue to benefit from these structural solutions that have been created through the lowest sustained budget gaps in the City's history, a projected $85 million in FY2024, all without the impact of any federal funding and adding transparency to the budgeted gaps. There is no federal fiscal cliff for the City's finances.

For the first time in nearly 30 years of pursuit, Springfield authorized and the City Council affirmed a Chicago casino, which is expected to add $2.7 billion of additional financial value to the City, $3.3 billion of additional financial value to the State of Illinois and generate more than 3,000 construction and an additional 3,000 new permanent jobs. For the first time in 40 years, the City has secured a new water customer through the City of Joliet and the Grand Prairie Water Commission which will add nearly $1 billion in financial value for the City.

Since August 2022, the ratings agencies have awarded the City 13 rating upgrades across its various credits, independently validating our long-term commitment to the financial stability and transparency, all while continuing to make necessary and transformative investments in our infrastructure and communities. Additionally, the City maintains three positive outlooks, indicating that the City should continue to see upgrades in 2023-2024 should the City continue along the fiscal path laid during my administration. This validation by the rating agencies will result in approximately $100 million in savings to taxpayers for every $1 billion that is issued. $100 million per year of savings can pay for a new high school, 54 miles of repaved road or 3 new police stations every year, all without raising any new taxes or reducing expenses. Better credit means the cost of borrowing to fund city services will be less and less.

The best way for all of us to hold Chicago accountable for its finances is for the City to continue to improve its transparency around City finances. One of my first actions was to bring the pensions and debt service costs into the corporate fund budget gap projections, one of many transparency actions taken to bring accountability to the true cost of government. This Mid-Year Budget Forecast presented fully loads the forecasted gaps with expected costs.

As you will see within this document, this Mid-Year Budget Forecast contains good news for Chicago taxpayers assuming that the same budgeting philosophies used over the last four years remain in place going forward.

I am proud of the work that we have done to clean up our fiscal house. These efforts will continue to pay dividends well into the future. Thank you, Chicago, for allowing me the privilege of contributing to our City's financial transformation.

Sincerely,

Lori E. Lightfoot

Mayor Lori E. Lightfoot

Disclaimer

The City of Chicago ("City") is pleased to present this Mid-Year Budget Forecast. The purpose of this document is to provide general information about the history and future of major components of the City's overall finances and City budget. Information presented is as of the date of publication or, if such information is dated, as of its date.

Throughout this document, specific items of revenues and/or expenditures are grouped together with other items of revenues and/or expenditures for purposes of presentation. The manner in which such items are grouped and labeled is consistent with the groups and labels in the City's annual appropriation ordinance and not in the City's audited Annual Comprehensive Financial Report ("ACFR"). Therefore, the manner of grouping and labeling herein may not match the manner in which such revenues and/or expenditures are grouped and labeled in the ACFR.

This discussion includes forward-looking statements based on current beliefs and expectations about future events. Those events are uncertain and do not take into account events that may alter actual outcomes; their outcome may differ from current expectations which may in turn significantly affect expected results.

Where information is presented that has come from sources other than the City, the City presents that information only for the reader. Specifically, the projections set forth in the pension section rely on information produced by the Retirement Funds' independent actuaries (unless specifically noted) and were not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information. The City does not verify any of that information. Where the tables present aggregate information, such combined information results solely from the application of arithmetic to the data presented from the source information and may not conform to the requirements for the presentation of such information by the Governmental Accounting Standards Board.

Readers are cautioned not to place undue reliance on the prospective financial information. Neither the City, the City's independent auditors, nor any other independent accountants or actuaries have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and such parties (other than the City) assume no responsibility for, and disclaim any association with, the prospective financial information.

The discussion of City revenues and debt does not include debt and associated revenues which are not reported in the City's ACFR nor in the City's annual budget. These debt and associated revenues consist of (i) conduit debt (debt issued by the City to finance privately owned projects and repayable solely from loan repayments from the project owners) as well as revenues received from such project owners and used to repay the conduit debt; and (ii) special assessment bonds and the special assessments on specified properties in the City which are the sole source of repayment for such bonds.

This Mid-Year Budget Forecast 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 to information in 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.

The information is provided "as is" without warranty of any kind. Neither the City nor any of its agencies nor any of its officers or employees shall be held liable for any use of the information described and/or contained in this document.

13 Rating Agency Upgrades

First upgrades for the City in 5 to 25 years, depending on credit

3 Positive Outlook Upgrades

Indicative of further upgrades expected in 2023-2024

FINANCIAL STABILITY

CREDIT RATINGS

Chicago is in the midst of a financial turnaround on a path toward fiscal stability, as evidenced by 13 rating upgrades and 3 positive outlook upgrades, the first in as much as a quarter century.

The City of Chicago is at a financial crossroads. The fiscal decisions of at least the last twelve years have halted the Chicago financial downturn and started the financial turnaround. This turnaround has been independently verified repeatedly by a number of institutions, but most prominently by the rating agencies. Over the last eight months, the City of Chicago has secured 13 rating upgrades and three positive outlook upgrades. These are the first rating agency upgrades for the City of Chicago in five to 25 years, or as much as a quarter of a century.

Figure 1: General Obligation Bond Rating History

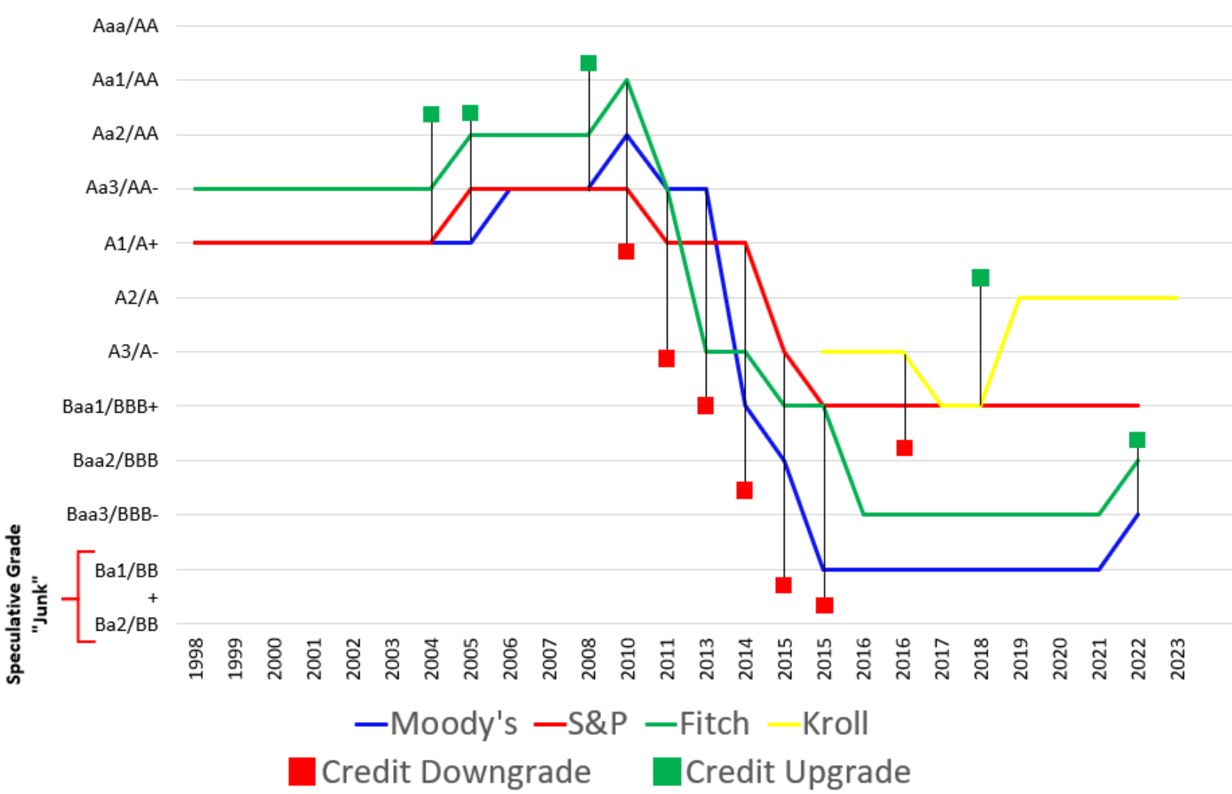


Figure 2: Rating Changes in the last 12 months

	Rating Agency	Rating Action	New Rating[1]	Date	Date of Prior Upgrade	Years Since Last Upgrade
General Obligation	Fitch[2]	1 notch & Positive Outlook	BBB (Positive)	10/21/22	05/11/98	25 years
	Moody's	1 notch	Baa3	11/08/22	04/30/10	12 years
	S&P	Positive Outlook	BBB+ (Positive)	11/10/22	07/27/05	17 years
	Kroll	Positive Outlook	A (Positive)	11/21/22	02/05/18	5 years
O' Hare / Midway	Fitch (ORD GARB)	1 notch	A+	08/17/22	05/26/16	6 years
	S&P (ORD GARB)	1 notch	A+	08/18/22	09/29/15	7 years
	S&P (ORD PFC)	1 notch	A+	08/18/22	09/29/15	7 years
	S&P (MDW GARB)	1 notch	A	02/02/23	01/15/16	7 years
Water / Sewer[3]	Fitch (Water)	1 notch	A	11/04/22	04/30/10	12 years
	Fitch (Sewer)	1 notch	A	11/04/22	04/30/10	12 years
	Moody's (Water)	1 notch	Baa1	11/08/22	04/16/10	12 years
	Moody's (Sewer)	1 notch	Baa2	11/08/22	04/16/10	12 years
	S&P (Water)	1 notch	A+	04/11/23	04/26/10	7 years
	S&P (Sewer)	1 notch	A+	04/11/23	10/12/15	8 years
STSC	Fitch	1 notch	AA	10/21/22	N/A	N/A

[1] Unless otherwise noted, all outlooks are stable.
[2] May 11, 1998 was the inaugural Fitch ratings of the GO credit. Fitch has never previously upgraded the City's GO credit due to improved financial performance since its first inaugural rating.
[3] Second lien ratings. Senior lien is closed.

The next administration will play a critical role in continuing this financial turnaround. Positive outlooks by the rating agencies mean that the City projects to see continued rating upgrades in the next one to two years, or more specifically in late 2023 to early 2024, if it maintains its recent fiscal and budgetary progress, maintains its commitment to structural solutions to the budget, preserves reserves and continues the Advance Pension Funding Policy.

Fitch, S&P and Kroll maintain positive outlooks on the General Obligation credit and note the likelihood of a rating upgrade on the General Obligation Bonds over the next one to two years in their rating reports.

The Positive Outlook…signals the potential for additional positive rating action over a one-to two-year period conditioned on the city's ability to maintain its recent fiscal and budgetary progress.

Fitch Rating Action Commentary
December 21, 2022

"The outlook revision reflects the city's marked improvement in financial position, proactive rapid improvement of its structural operating performance, and progress in addressing the inherent structural imbalance created by chronic pension underfunding and statutory funding methods. Should Chicago preserve financial and operating stability through any potential recessionary pressures and maintain its commitment to advanced pension funding, we believe there is a one-in-three chance of raising the rating over the next two years."

S&P Rating Report
November 10, 2022

"The Positive outlook recognizes the extensive nature of actions taken by the City's management in confronting COVID-19 induced challenges, ongoing revenue improvement and enhanced financial stability, debt reduction, and strengthened pension funding."

Kroll Rating Report
November 21, 2022

FISCAL STABILITY PAYS FOR CITY INVESTMENTS

Why do ratings upgrades, fiscal stability and fiscal discipline matter?
Because fiscal stability pays for City investments.

$100M Savings for Every Credit Upgrade

Fiscal stability pays for City investments that continue to make Chicago competitive and a great place to live without adding further burden to taxpayers. Much like the way improving credit scores lowers the interest rate and monthly payment on mortgage, higher ratings lower the City's borrowing costs and free up dollars to fund City investments. Each rating upgrade the City achieves represents approximately $100 million of interest cost savings on each $1 billion in bonds issued. The City sells approximately $2 billion in bonds each year across its various credits. To illustrate this point, this $100 million of savings per year can pay for a new high school, 54 miles of repaved road or three new police stations every year, all without raising any new taxes or reducing expenses.

Clearing Major Deferred Liabilities: Pensions, Debt and Capital

During the last four years, the City has cleared major deferred liabilities including pensions, debt and capital investments, as discussed later in the document, all in the midst of a pandemic. These liabilities, prior to FY2020 were not tracked in the corporate fund budget gap projections. There were no accommodations for debt service for future capital, the $1.1 billion pension ramp and the $250 million debt ramp that the City climbed over the last four years. This represents a hidden $1.35 billion structural gap that the City has cleared over the last four years. Now, all of these costs are included in the corporate fund budget gap to provide transparency into the total cost of government each year.

Clearing deferred liabilities and incorporating the cost of funding those liabilities in the City's budget gap projections creates financial capacity for the City to build multi-year investment plans. Since 2019, the City has reduced debt outstanding by $747 million and climbed the debt service ramp that was created by the practice of scoop and toss. In FY2023, for the first time in more than twenty years, the City incorporated the full freight of debt service within the budget. This debt service is provided in Exhibit A for the STSC and GO credits which impact the corporate fund budget. Because the City has made this uphill climb to paying the full freight of debt service, starting in FY2023, it has and will pay down debt outstanding to an average cost of $399 million a year through the FY2026 projection period. This paydown of debt creates room for the addition of new debt to pay for capital investments. This capital financing plan is discussed in more detail later in this document.

The City has monetized this fiscal stability by paying for the first installment of $686 million in Chicago Works and Chicago Recovery Plan capital projects all without increasing the City's total debt outstanding. Put simply, fiscal discipline created fiscal stability which creates financial capacity for future City investments.

$8 Billion in Three Capital Investment Plans – Each Largest in the City's History

The City has capitalized on this fiscal stability by passing three investment plans totaling $8 billion, each the largest investment plan of its kind in the City's history. The next administration will have over $8 billion in already dedicated funding to guide these investment plans to make catalytic change for Chicago.

An investment plan of this magnitude takes time to execute. A strategic investment plan should span multiple years in order to provide a systematic approach to investments across the City, leverage individual investments collectively to maximize impact and consider the long-term goals of the City in each investment. Multi-year capital plans also allow the City to build those costs into the out-year financial forecasts. Not only have the City cleared past liabilities, but looking forward, the City is now transparently assuming costs associated with these liabilities in the Mid-Year Budget Forecast as discussed in further detail below.

The Chicago Recovery Plan[1] is a 2022-2026 multi-year plan totaling $1.2 billion, the largest and most progressive social and economic development investment program in the City's history that will also support an accelerated and equitable economic recovery from the pandemic.

The Chicago Works Plan[2] is a 2023-2027 multi-year capital plan totaling $4.5 billion, the largest capital investment plan in the City's history.

Invest South/West[3] is the City's economic development plan which allocates more than $2.2 billion of investment commitments from City and non-City funds to fund 12 key commercial corridors in 10 communities on Chicago's South and West Sides.

[1] https://www.chicago.gov/city/en/sites/chicago-recovery-plan/home.html

[2] https://www.chicago.gov/city/en/depts/cdot/supp_info/chicagoworks.html#:~:text=Chicago%20Works%20Capital%20Improvement%20Plan,%2C%20equity%2C%20and%20cost%20effectiveness

[3] https://www.chicago.gov/city/en/sites/invest_sw/home.html

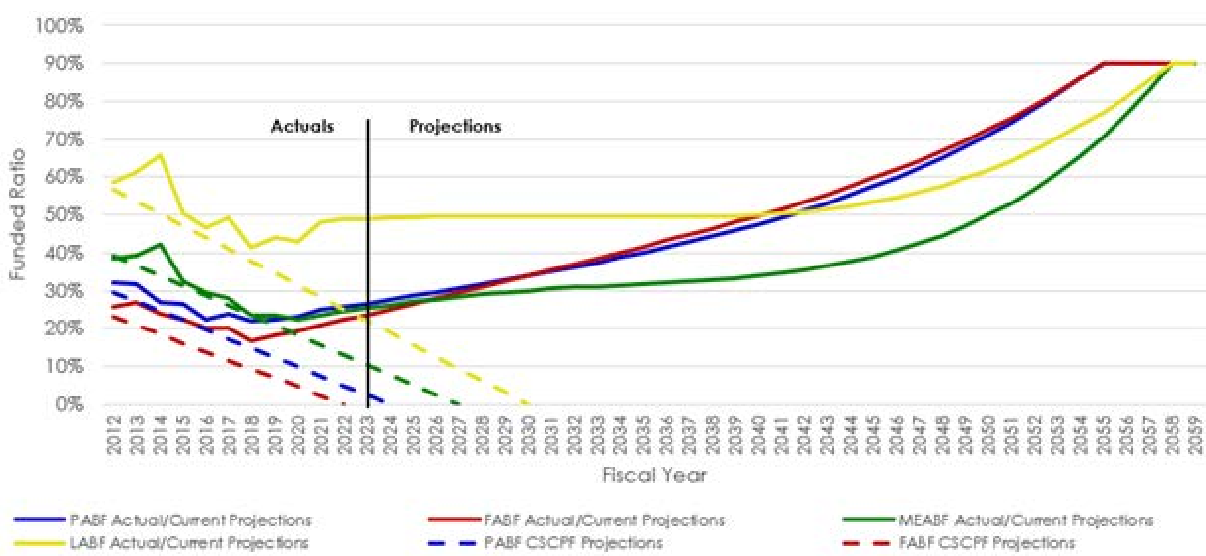
MEASURING FINANCIAL HEALTH

There are four financial metrics which are core barometers of the City's fiscal health and the City's financial turnaround: pensions, debt, reserves and structural balance.

Pensions

Every conversation about the City's financial health starts with pensions. In 2010, Mayor Daley created the Commission to Strengthen Pensions, which projected that the City would see its first pension fund reach insolvency by 2022 (see Figure 3 below). Instead, in 2022, for the first time in the City's history, the City contributed an actuarially calculated contribution for all four pensions funds. In 2021, for the first time in 15 years, the funded ratios of all four pension funds rose.

Figure 3: Comparison of Pension Fund Funded Ratios from CSCPF Study v. Actual/Current Projection

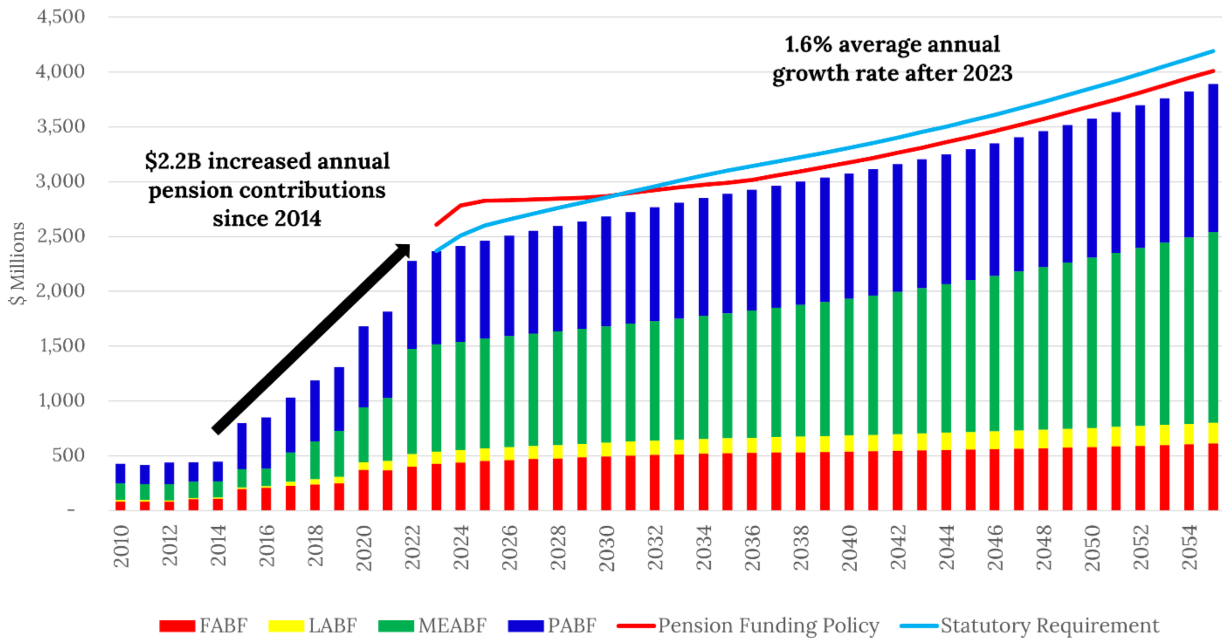


The City for many years funded pensions at a multiplier of payroll which significantly underfunded pensions (see Exhibit C for more details). The result of this historical underfunding has been a massive climb of a necessary pension ramp to forestall the insolvency of the City's four pension funds and preserve the retirements of City and Chicago Public Schools essential workers.

Between 2014 and 2023, the City increased its pension contributions by $2.2 billion, $1.3 billion of which occurred in the last four years (see Figure 4 below). In 2023, the City made a voluntary advance pension contribution of $242 million above the statutorily required contribution.

Notably, now that the City has climbed this extraordinary ramp since 2014, the actuaries project a 1.6% average annual growth rate in the pension contribution, given actuarial assumptions in investment performance, member experience, and current statutory framework for benefits and funding. If the pension funds meet their investment targets, pension expense will go from the City's most volatile and fastest growing expense to its most stable and predictable.

Figure 4: Historical Budget Pension Contribution vs Pension Policy & Statutory Requirement



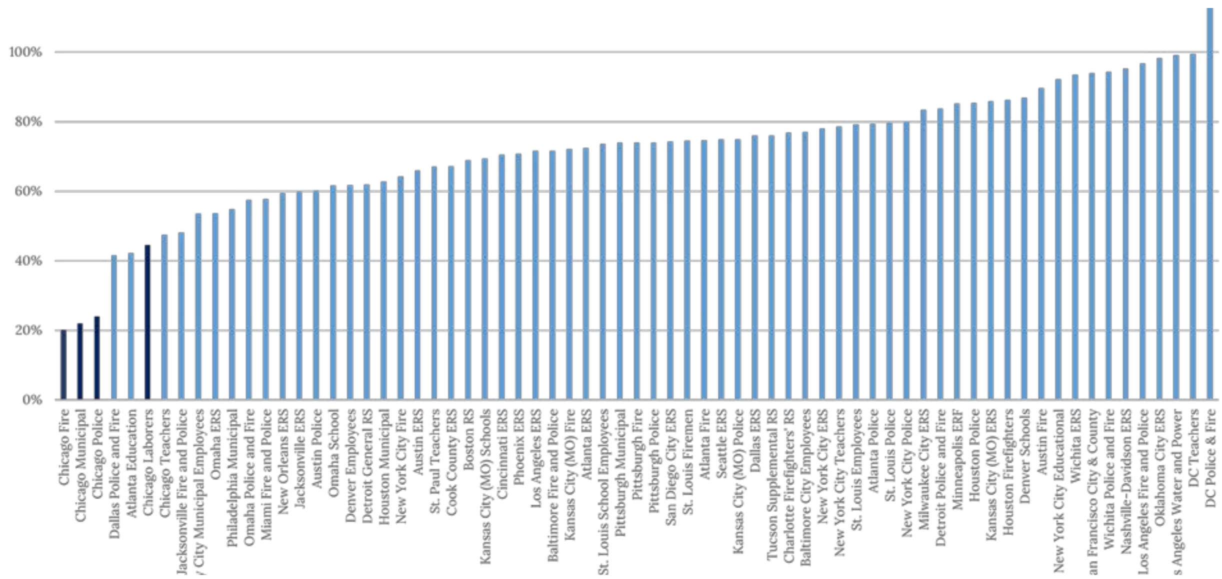
The City has also implemented a new debt and pension management policy which requires the City to make an advance pension payment that would keep the net pension liability of the City stable and requiring that an advance contribution be made on the first business day of each year.

This policy implementation was cited by all major credit rating agencies as a major credit factor in the City's GO credit upgrades (see Exhibit D for the policy). The City's actuarial analysis estimates that the new Advance Pension Funding Policy will save the City $2.6 billion in future pension costs. The City has begun to pay off its pension credit card and is saving on actuarial interest of nearly $3 billion.

Not surprisingly, as the City dedicated more funds to pensions, the funded ratio, or the percentage of assets to total liabilities, rose. The funded ratio is a metric for the solvency and financial health of the pension funds. The State statutory requirement for the annual employer pension contribution targets a 90% funded ratio by 2055/2058. Figure 3 visualizes the turnaround of the City's pension funded ratios as a result of these increased contributions.

Even with the recent progress on pension funding, however, the City of Chicago still has the lowest funded ratios of any large city in the country (see Figure 5). The City's pension funds are at an average 23% funded ratio and an extended economic downturn and poor investment performance in FY2022 could have created near-term solvency issues for the pension funds in their ability to pay pensions.

Figure 5: 2021 Funded Ratios: Chicago vs Comparables



In order to continue its progress and secure the retirements of the hardworking City workers who provide essential services to residents, the City must continue to increase its pension contributions. The City had approximately 48,776 retirees across the City's four pension funds and 52,388 active members who were contributing to the pension funds as of December 31, 2021. Approximately 23% of these members are police officers and 63% are MEABF members, including Chicago Public School ("CPS") non-teacher employees. Total active members in the MEABF fund are comprised of 60.5% CPS employees and 39.5% City employees.

Figure 6: Pension Plan Membership by Pension Fund (FY2021)

	Retirees	Active Members	Inactive / Entitled to Benefits	Total
PABF	14,260	12,126	940	**27,326**
FABF	5,265	4,735	154	**10,154**
LABF	3,568	2,602	1,473	**7,643**
MEABF	25,683	32,925	21,304	**79,912**
Total	**48,776**	**52,388**	**23,871**	**125,035**[1]

[1] Source: Pension Fund 2021 Actuarial Reports

Advance Pension Funding Policy

It is critical that the City continues on the path of fully funding its pensions in order to secure the retirements of city workers who have kept our city safe, clean and provided essential city services, but also in order for the City to remain an investment grade credit and maintain its current bond ratings.

In FY2023, the City voluntarily climbed the next pension ramp by increasing the annual pension contribution by $242 million or nearly a quarter of a billion dollars. By policy, this payment was made on the first day of the 2023 fiscal year.

More importantly, the City established the Advance Pension Funding Policy (see Exhibit D) which will continue these contributions. The policy establishes a set level of the contribution which ensures that the net pension liability will remain stable. This level is called the tread water level by Moody's. The establishment and expected continuation of the Advance Pension Funding Policy was the trigger for Moody's decision to return the City's rating back to investment grade from junk status and one of the largest contributing factors to Fitch's decision to upgrade the City by one notch.

Further, had the City not made the $1.3 billion increase in pension contributions from FY2019-FY2023, the City could not have made the $242 million climb in FY2023 to get to the Moody's tread water level which secured the rating upgrades.

Figure 7 below provides an actuarial analysis showing that after the City covers the $242 million increased pension advance from FY2023, and the estimated $141 million increase in FY2024 for the FY2022 investments losses, the pension contributions are projected to stabilize going forward. Starting in FY2031, the City's pension advance will start to generate savings to the City in every year out to 2058. Put another way, rather than borrowing from the City's pension credit card at a 6.75-7.25% actuarial interest rate,

> "The upgrade to 'BBB' … rating reflects Chicago's improved pension funding practices, its commitment to maintaining a sound reserve position, and ability to institute structural budget measures that improve its capacity to respond to future cyclical challenges… The 'BBB' rating remains well below the sector median, incorporating several key risks including Chicago's constrained expenditure profile given the heavily unionized nature of its workforce and exceptionally high carrying costs for debt and pensions, a history of sizable budget gaps and dependence on one-time gap closing measures, and a revenue base highly sensitive to economic setbacks."
>
> Fitch Ratings
>
> October 21, 2022

> "With the adoption of its fiscal 2023 budget, the city has implemented a new policy that calls for, at a minimum, pension contributions designed to keep the reported net pension liability… from growing… Adoption of the policy follows the elimination of a number of other debt-based budget relief measures that Chicago had relied on, marking a decisive shift away from an era where the city balanced budgets at the cost of a deteriorating balance sheet."
>
> Moody's
> November 8, 2022

continuing the advance pension payment policy will create approximately $2.6 billion in reduced pension payments over time – money for City investments.

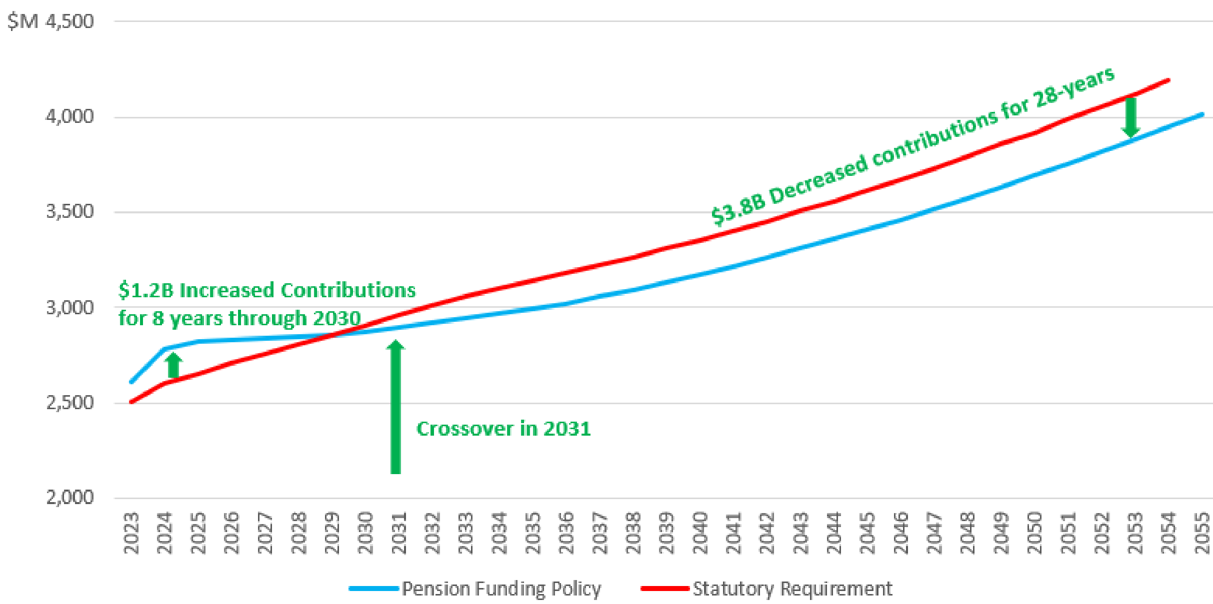
Figure 7: Employee Contribution YoY Increase

	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028
Annual Contribution								
Statutory Contribution	$1,815M	$2,276M	$2,367M	$2,507M	$2,580M	$2,618M	$2,656M	$2,695M
Advance Payment	-	-	$242M	$275M	$245M	$212M	$181M	$150M
Total	**$1,815M**	**$2,276M**	**$2,609M**	**$2,783M**	**$2,825M**	**$2,830M**	**$2,837M**	**$2,845M**
YoY Increase								
Advance Payment[1]			$242M	$33M	($30M)	($33M)	($31M)	($31M)
Investment Loss/ Statutory Increase			$91M	$141M	$73M	$38M	$39M	$38M
Total	**$135M**	**$461M**	**$333M**	**$174M**	**$43M**	**$4M**	**$8M**	**$7M**

The statutory requirement only requires a targeted 90% funding ratio by 2055 for PABF and FABF and by 2058 for MEABF and LABF and has no formal target of reaching full funding. Prior to the Advance Pension Funding Policy, the City's net pension liability was projected to increase for at least another 10 years through 2031. With the new Advance Pension Funding Policy, the contributions will be sized to at least keep the net pension liability stable. Put simply, the City was projected to continue borrowing on the pension credit card for at least another 10 years and now will at least keep that total credit card balance stable while decreasing future monthly payments by $2.6 billion over time.

[1] Advance Payment is for all funds, including the Corporate Fund and Enterprise Funds.

Figure 8: Projected Contributions Under Advance Funding Policy



In addition to saving $2.6 billion in actuarial interest, the new Advance Pension Funding Policy also puts more liquidity into the City's pension funds to prevent asset sales in a down investment market to pay benefits. Because of the low funded ratios, the City's pension funds have been forced to liquidate assets to pay benefits. For example, according to its audited financial statements, MEABF liquidated portfolio assets by approximately $321.3 million, $366.3 million, and $471.1 million in fiscal years 2021, 2020, and 2019, respectively, in order to meet benefit obligations. An added benefit of the Advance Pension contribution paid on the first day of the year is that it prevents these forced asset sales.

This liquidity constraint of the pension funds was further exacerbated in 2022 by the delay of the second installment property tax due date, which would have required the pension funds liquidate assets of $512.7 million in a down investment market at an average 12% loss. The City advanced funds towards the pension contribution to prevent these asset sales in 2022 and saved the pension funds $87.5 million in investment losses.

Asset sales for liquidity purposes are detrimental to the pension funds for a number of reasons. First, the pension funds cannot earn as much when they have to sell assets to pay for benefits. When the City's pension fund assets are required to remain liquid to cover benefit payments, it shortens the duration of those investments and requires the pension funds to invest in lower yielding asset classes. Further, selling assets in a down market means that the City will never recover the current investment losses should the market performance return due to a broader economic recovery. In addition to preventing an increase in the City's net pension liability, the $242 million advance pension contribution will avoid an estimated $30 million in market losses due to asset liquidations.

Future Pension Funding Goals

The next pension ramp for the City to consider climbing is the Actuarially Determined Contribution (ADC). ADC is a contribution policy that actuaries or outside pension experts may recommend an employer should be paying annually into its pension fund to keep contributions stable and fund the benefit over a specified period of time. By and large the biggest difference between the advance pension funding policy and an ADC for the City is targeting a 100% funded ratio rather than 90%.

Although all four funds are paying an actuarially "calculated" contribution, the City is still $330 million short of funding the ADC in FY2024 assuming the level estimated in Advance Pension Funding Policy and $606 million short assuming the statutory requirement.

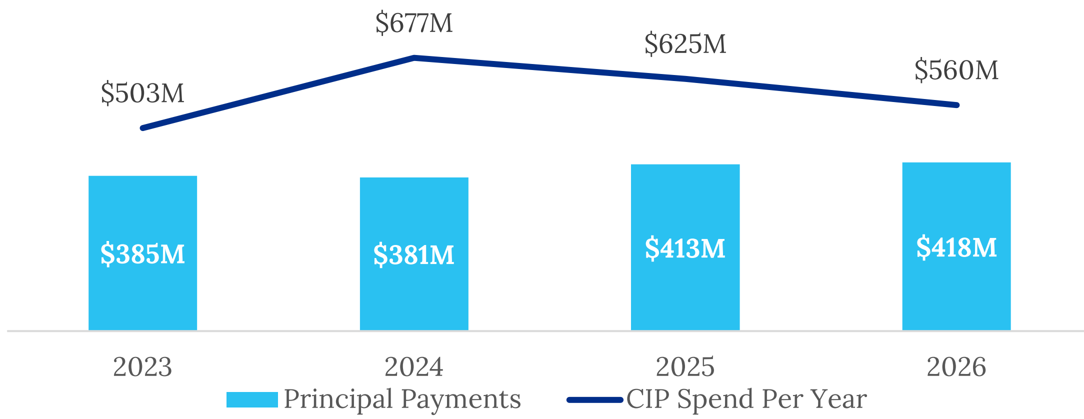
Debt and One-Time Measures

For decades, the City used debt financings to create near term budgetary relief. This included using bonds to restructure near-term debt longer to create near-term budgetary relief (also known as scoop and toss restructurings where future annual debt service increases and/or final maturity of the bonds are extended), pay for settlements and judgments, and pay for operating expenses rather than long-lived infrastructure assets to match the life of the bonds (e.g., working capital). Other one-time measures that the City used included the sale of assets for large upfront payments, including the sale of the parking meters, Skyway, Millennium Parking Garages, draining of reserves, employee furloughs, among other measures.

Much like taking out a mortgage or selling your home to pay for groceries, these transactions generated big upfront payments to pay for near-term budgetary needs with no ongoing structural streams of revenues to sustainably continue the near-term budgetary expenditures.

In FY2023, for the first time since at least the 1990s, the City began carrying within the budget the full annual debt service of its outstanding debt without the impact of scoop and toss or other one-time measures. In addition to climbing the pension ramp, the climbing of this debt ramp is a significant deferred liability cleared for the City. Put simply, the City will pay an average $399 million of principal a year for the next four years, which means that it reduces it total debt outstanding. Even more importantly, the City can issue an average $399 million of debt per year to fund capital investments going forward without increasing the City's debt load.

Figure 9: Projected Future Principal Payments and Capital Expenditures



This is the core of how fiscal stability pays for investments. Because the City implemented fiscal discipline to clear major deferred liabilities, it can now afford to borrow to make investments in capital infrastructure and deferred maintenance, yet another deferred liability cleared. This has been the City's strategy for funding Chicago Works and the CRP without increasing the total debt burden outstanding. Subsequently, the City sold bonds which funded $686 million in projects and provide the Chicago Works and CRP with committed funding through FY2023, all without increasing total debt outstanding.

Going forward through the FY2026 projection period, the City anticipates $2.2 billion in capital needs not yet funded through bonds, amortizing $1.2 billion in principal, for a net $1 billion of increased borrowing through FY2026. This amounts to $333 million in annual increased borrowing for the City which is an appropriate steady state investment for the City of Chicago.

Reserves

Over the last four years, the City has increased its reserves by 31% and was able to prevent any use of reserves. The City currently projects $1.1 billion in long-term reserves at the end of FY2023 or 20% of FY2023 operating expenditures. These reserve increases were made possible through 10 consecutive years of surpluses and are at their highest levels since 2009.

Reserves are an important "savings account" for the City to prepare for a rainy day. Had the federal government not provided $1.9 billion in stimulus funding, this reserve would be insufficient for the economic fall-out from the pandemic in which the City lost $1.2 billion in revenues, much less the stimulus funding needed to keep parts of the Chicago economy and community from failure.

Reserves are measured as a percentage of operating expenditures. The Government Finance Officers Association (GFOA) recommends two months or 16.7% of operating expenses as a reasonable reserve target for local governments. For the City, the rating agencies have called for a higher level of reserves due to the extraordinarily high pension liability the City carries as compared to its peers. The City's policy requires 16.7% of operating expenses although the City has practically targeted over 20-25% in order to offset the higher pension costs.

The City also maintains a rainy day fund, known as the Operating Liquidity Fund. The Operating Liquidity Fund is now $50 million. The FY2023 budget caught up on the payments missed during the pandemic at the historical level of approximately $5 million a year. As noted earlier, the City has increased reserves by 31% over the last four years, a practice that goes beyond reassigning fund balance. Past practice has been to re-assign unassigned fund balance to assigned fund balance for this operating fund. However, Operating Liquidity Fund, unassigned fund balance and concession reserves together make up the total reserves for the City and in order to actually increase the reserves, the City needs to appropriate dollars to increasing the Rainy Day Fund. The Mid-Year Budget Forecast assumes that the City includes a $5 million a year appropriation to the Operating Liquidity Fund within the budget to continue this practice of actually adding to the City's reserves annually and keeping pace with the percentage targets of a budget that grows with inflation.

The City also maintains a financial policy of not appropriating more than one percent of the value of the annual Corporate budget from the prior year's audited unassigned fund balance in the current budget year. This prior year unassigned fund balance has been assumed annually although has not been taken out of fund balance in at least the last four years.

As the City's operating expenditures continue to increase based on Cost Of Living Adjustments (COLAs) for personnel and inflation, so should the City's reserves. To provide an order of magnitude, a 20% reserve target for the projected FY2024 $5.337 billion operating fund budget that grows at 3% annually would require a $32 million increase to reserves a year to continue to meet the 20% target.

Further, most economists project that a mild recession is on the horizon. In its baseline projections for major revenues for the City of Chicago, analysis from Ernst and Young includes two quarters of negative real gross domestic product (GDP) growth starting with the third quarter of 2023. More than half of the National Association of Business Economics March 2023 policy survey panelists expected a recession in 2023, with 37 percent expecting the US to enter one in the third or fourth quarter of this year. Recently released minutes from the Federal Open Market Committee's March 2023 meeting also note that staff at the Federal Reserve project a mild recession starting late in 2023 given recent banking-sector developments. Echoing this sentiment, the IMF's Word Economic Outlook related on April 11, 2023 indicated an elevated risk of a global slowdown given the recent financial sector turmoil as well as persisting high inflation.

All of the rating agencies note this potential recessionary environment as well as its impact on local unemployment and other economic indicators as a credit challenge facing the City over the next number of years. The City has implemented recession proofing by assuming recessionary level GDP and Consumer Price Index growth assumptions in its revenue forecasting, the two main base assumptions that feed various revenue forecasts. These assumptions are discussed more in detail later in this document and are generally conservative. Importantly, reserves also provide resilience against an economic downturn.

Structural Balance

Fiscal discipline must be exercised every year.
The City requires approximately $100-150 million of structural solutions annually.

Structural balance is defined as a point where the City's budgeted revenue growth is expected to match expense growth. Importantly, structural balance takes the continued exercising of fiscal discipline and finding new structural solutions to address structural growth in revenues every year, especially in this current high inflationary environment.

Because the City's largest revenue source, property taxes, is a fixed dollar levy, there is a structural imbalance of revenue to expense growth. As a result, the City's budget requires approximately $100 – 150 million of structural solutions annually. To the extent that $100-150 million of structural solutions are not found in a certain fiscal year, then $200-300 million of solutions are required in the following year, $300 – 450 million in the following year, and so on. Put another way, structural gaps compound on each other if not addressed annually and create an exponential financial challenge in short order.

Conversely, structural solutions reduce gaps for years to come. In the forecasted budget gaps in this Mid-Year Budget Forecast, if $ 85 million of structural solutions are found in FY2024, the City will only experience a $39 million gap in FY2025. If $39 million of structural solutions are found in FY2025, the City will only experience a $21 million structural gap in FY2026. These are never before seen budget gaps in the City's history.

The $100-150 million of structural solutions represent approximately 1-2% of the corporate fund, debt service, pensions and library budget of $8.8 billion. This is as a result of natural cost inflation on expenses, 62% of which represent personnel cost increases (FY2024 projection). Personnel costs generally rise based on COLAs and is projected to rise at 4% between FY2023 and FY2024. On the revenue side, although City corporate fund revenues excluding property taxes have historically risen on average at 3%, the City's property tax revenue is a fixed dollar levy and represents 19.7% of total corporate fund, debt service, pension, and library revenue of $8.8 billion (library operations are funded by a property tax levy). The property tax is the City's single largest source of revenue and is the only revenue source that has no natural inflationary, volumetric or valuation-based increase. In FY2021, the City passed an ordinance to increase the property tax based on CPI in order to keep pace with the rise in expenses.

Since Mayor Lightfoot took office, the City has reduced its structural gap from $838 million in FY2020 to $127.9 million in FY2023, despite having suffered the most severe economic fallout since the great depression due to the pandemic. This was as a result of the $1.2 billion in structural solutions put in place during the Mayor's term as noted in previous budget books. Further, as shown in this Mid-Year Budget Forecast, these gaps are projected to be at their lowest sustained levels through the FY2026 projection period.

The work of setting the City on a sound financial path has been in the works for at least the last 12 years. These accomplishments across multiple administrations all served to meaningfully move the needle forward as it relates to the City's financial turnaround

FINANCIAL TRANSPARENCY

Financial transparency allows all financial stakeholders to hold the City accountable to fiscal discipline and even more importantly to communicate the true cost of providing government services.

Importantly, financial transparency begets financial transparency and financial transparency becomes more precise over time. Over the last 4 years, the City has furthered this financial transparency by including pensions and debt service in the corporate fund gap, rationalizing certain budget lines such as settlements and judgments and including investments losses in out-year projections. Previous gap estimates didn't include these costs within the corporate fund budget gap projections. For example, the 2018 Annual Financial Analysis (AFA) projected a $252 million corporate fund gap in FY2020 and $362 million corporate fund gap in FY2021. With the addition of debt service, pensions and a more rational settlements and judgments budget based on historical actuals, the City's budget gaps were closer to $865M in FY2020 and $999M in FY2021. The majority of this increased gap was due to an incremental $501M and $637M of pension and debt service costs for FY2020 and FY2021 respectively.

In FY2020, the City increased the settlements and judgments budget by $87 million to accommodate a more rational assumption for actual spend rate. As noted in more detail below, the City now also includes investment performance assumptions from the pension funds in it budget gap projections.

Other transparency measures the City implemented includes monthly revenue reporting, interim quarterly financial reporting to City Council as well as enhanced budget community engagement. This includes town halls with the Mayor in attendance, one pagers translated in multiple languages, small group meetings with community groups, and department participation in town halls to help connect residents to City services.

The City has the opportunity to continue to improve this financial transparency going forward as well. Importantly, most best practices financial reporting includes 5-year financial forecasts (the City currently implements a 3-year financial forecast) and a public disclosure of a financial plan which closes projected gaps in both the current and future budget years. Communicating a financial plan allows a more fulsome financial stakeholder conversation around the imprint of the values statements that is the annual City of Chicago budget.

FEDERAL FUNDING

Federal Funding and Fiscal Cliff

Federal funding did not close the $1.35 billion pension and debt structural gap over the four years, much less the pre-existing corporate fund budget gaps. One-time federal funding was largely used to match one-time revenue loss in the depth of the pandemic along with an allocation of funding toward CRP, as was required by the federal funding rules. The breakdown of the use of federal funding is highlighted below.

- The City received $1.9 billion in American Rescue Plan (ARP) funds from the federal government.
- $1.3 billion of one-time federal funding was used match one-time revenue loss in FY2020-2023 due to the pandemic.
- In FY2023, the City expects to end the year with a $143 million surplus as well as making a voluntary $242 million advance pension funding contribution, despite the $152 million of federal funds applied toward revenue recovery in FY2023 based on the federal funding rules.
- $567M of federal funding was used for investments within the CRP and will provide funding for these investments through the FY2026 projection period. Further, many of these investments are one-time in nature, while those that are expected to continue is estimated to run at approximately $60-90 million in annual spend, depending on how these programs are administered in the next administration. $60-90 million is within the normal range of investments that the City absorbs and manages in every budget cycle, as was the case in the City's FY2023 budget.

The FY2024-2026 budget gaps presented in this Mid-Year Budget Forecast assume no benefit from federal funding for revenue replacement. While the federal funding was essential to supporting the City with one-time COVID revenue loss and investments to support an equitable economic recovery from the pandemic (as it was required to by federal law) it was not used to address the City's underlying structural gap.

MID-YEAR BUDGET FORECAST

UPDATED BUDGET FORECAST AND FINANCIAL PLAN

Figure 10 below includes the City's current financial plan for the three-year projection period. The City is projecting the lowest set of budget gaps of the last 12 years and as noted earlier, includes the impacts of the additional transparency and full accounting of all the City's liabilities such as pension, debt, and capital needs.

Figure 10: Income Statement

	2022 BUDGET AS AMENDED	2022 YEAR-END ESTIMATES	2023 BUDGET ORDINANCE	2023 YEAR-END ESTIMATES	2024 PROJECTED	2025 PROJECTED	2026 PROJECTED
Revenues							
Local Non-Tax Revenue	$1,495.9M	$1,360.8M	$1,575.8M	$1,550.1M	$1,590.6M	$1,590.2M	$1,597.4M
Proceeds and Transfers In	$1,048.9M	$962.0M	$865.8M	$759.6M	$566.4M	$578.9M	$592.9M
Intergovernmental Revenue	$536.2M	$979.2M	$649.6M	$924.5M	$876.3M	$878.9M	$882.8M
Local Tax Revenue	$1,767.5M	$2,116.1M	$2,123.0M	$2,122.7M	$2,153.2M	$2,183.4M	$2,194.1M
Prior Year Assigned Available Resources	$51.4M	$0.0M	$222.1M	$222.1M	$65.6M	$66.0M	$66.4M
Total Revenue	**$4,899.9M**	**$5,418.2M**	**$5,436.3M**	**$5,579.1M**	**$5,252.1M**	**$5,297.4M**	**$5,333.6M**
Expenditures							
Commodities and Materials	$82.9M	$76.5M	$96.4M	$96.4M	$101.2M	$104.3M	$107.4M
Contingencies	$0.2M	$0.1M	$0.2M	$0.2M	$0.2M	$0.2M	$0.2M
Contractual Services	$486.9M	$440.5M	$569.8M	$569.8M	$598.3M	$616.2M	$634.7M
Equipment	$1.6M	$1.1M	$2.2M	$2.2M	$2.4M	$2.5M	$2.6M
Financial Costs	$613.5M	$630.7M	$623.7M	$623.7M	$462.2M	$489.0M	$521.6M
Pension Costs	$329.2M	$329.2M	$644.9M	$644.9M	$559.7M	$552.0M	$543.1M
Permanent Improvements	$0.0M	$0.0M	$0.0M	$0.0M	$0.0M	$0.0M	$0.0M
Personnel Services	$3,083.1M	$3,017.1M	$3,189.9M	$3,189.9M	$3,303.5M	$3,347.8M	$3,359.3M
Specific Items and Projects	$258.2M	$326.4M	$301.2M	$301.2M	$301.2M	$301.2M	$301.2M
Transfers and Reimbursements	$43.2M	$40.8M	$6.4M	$6.4M	$6.4M	$6.4M	$6.4M
Travel	$1.2M	$1.0M	$1.5M	$1.5M	$1.5M	$1.5M	$1.5M
Total Expenses	**$4,899.9M**	**$4,863.4M**	**$5,436.3M**	**$5,436.3M**	**$5,336.7M**	**$5,421.2M**	**$5,478.1M**
SUBTOTAL		**$554.8**	**$0.0**	**$142.8**	**($84.5M)**	**($123.8M)**	**($144.5M)**
Additional Expenditures and Transfers							
Pension Advance Payment					$241.0M	$214.7M	$185.8M
Transfer to Rainy Day Fund					$5.0M	$5.0M	$5.0M
Additional Reserves							
FY 2022-2023 Fund Balance Reserve					$246.0M	$219.7M	$190.8M
SUBTOTAL					**$0.0**	**$0.0**	**$0.0**
GAP (REVENUES LESS EXPENDITURES)					**($84.5M)**	**($123.8M)**	**($144.5M)**

2022 Anticipated Corporate Fund Year End Estimates

Given the date of this publication, it should be noted that figures presented as part of the City's 2022 Year End Estimates are not audited numbers as the City is currently in the process of completing the 2022 Annual Comprehensive Financial Report (ACFR).

2022 Year-End Revenues

2022 Year End revenue estimates are anticipated to exceed budget by $554.8 million. The largest drivers of this increase are the Personal Property Lease Tax (PPLT), the State Income Tax, and the Personal Property Replacement Tax.

PPLT is estimated to end the year $178 million over budget, aided by audit and compliance activity as well continued growth in the Software as a Service (SaaS), Infrastructure as a Service (IaaS), and the Platform as a Service (PaaS) computing models otherwise known as cloud computing services. PPLT saw double-digit growth pre-pandemic and continued to see double digit growth during the pandemic due to the increased reliance on cloud services and computer leases, as well as a tax rate increase in 2021.

The State Income Tax and the Personal Property Replacement Tax are estimated to end the year $441 million over budget. These excess collections follow a similar trend seen by the State of Illinois in its two most recent fiscal years. Driven by several legislative changes including PA 102-0700 which amended the Illinois Income Tax Act and PA 101-1001 which increased the state minimum wage, the State saw income tax collections exceed budget expectations through its fiscal year 2022 and 2023. These changes included the closure of certain corporate loopholes, which improved collections from certain corporations. Further, while some of these revenues were one-time retroactive payments, the City has made adjustments in its revenue projections for these one-time payments.

2022 Year-End Expenditures

The 2022 Corporate Fund expenditures are currently projected to end the year below budget by $20.4 million. The 2022 Year End projections for Personnel Services are expected to end 2022 under budget by $66 million driven by attrition. These savings are partially offset by higher than expected expenses in other areas such as overtime.

Additionally, due to the increase from Emergency Medical Transport reimbursement collected, expenses as part of the State's match for this revenue has mainly driven the overage in the Specific Items and Projects category.

Assigned Fund Balance

In years with revenue collections in excess of budget, the City works to maintain fund balance reserves to mitigate future risks and preserve financial stability. Given current 2022 Year End estimate projections for the growth in FY2022 revenues coupled with the expected expenditure savings, the City is assigning excess resources of $554.8 million specifically to fund the Pension Advance for FY2024, FY2025 and FY2026, as well as depositing to the Rainy Day Fund.

2023 Anticipated Corporate Fund Year End Estimates

2023 Year-End Revenue

2023 Year End revenue collections are estimated to exceed budget by $143 million. The State Income Tax, as well as the Personal Property Replacement Tax make up most of this increase and follow the same trends as discussed above in the 2022 year-end estimates.

2023 Year-End Expenditures

Given the timing of this publication at the end of the first quarter of 2023, all expenditure assumptions have been left to the 2023 Budget Appropriation amounts. Further analysis and year end estimates will be provided at the time of the 2024 Budget Forecast.

Assigned Fund Balance

Similar to 2022 Year End Estimates, the expectation is that the City will see some level of surplus for 2023 based on current revenue trends. Current revenue projections already show that revenues will exceed budget by approximately $143 million. The excess resources estimated for 2023 will also be assigned to pay the required Pension Advance amount.

2024 – 2026 CORPORATE FUND OUTLOOK

As noted earlier, the FY2024 - FY2026 corporate fund outlook provides a conservative projection for the City's out-year budget gaps. This projection includes a number of assumptions that have never been in the City's previous budget forecasts, including adjusting the projected advance pension contribution for expected investment returns, including the sweeping of aging revenue accounts, debt service funding for future bond issues, and a one year delay in casino revenues. The updated Mid-Year Budget Forecast also includes new transparency measures such as details on the growth assumptions supporting the various revenue and expenditures projections.

Figure 11

Category	Description
Pensions	Full funding of advance pension funding policy above the statutorily required contribution
	12% investment loss in 2022 (FY2024); 0% in 2023 (FY2025) and actuarial rate thereafter
	No assumptions around future state legislative actions on pension benefits
	CPS MEABF based on actuarial valuation and CPS independent report
Federal Funding	Federal funds available through FY2026 to fund CRP investments.
	Expected annual investments thereafter starting in FY2027 range from $60-90 million which falls within the range of investments made during the regular annual budgeting process
Property Taxes	Increases based on CPI generates $43M - $87M a year
	$272M annual TIF surplus, $68M per year or 25% is returned to the City; other taxing bodies will also receive their percentage
ESA/PPA	City entered into ESA that supported the largest US municipal Power Purchase Agreement (PPA); Created budget certainty for 49% of the City's electricity budget and 100% of electricity purchased sustainably
Personnel	Collective Bargaining Agreements (CBAs) assume terms of negotiated settlements, assumes salary study findings which will bring non-union employees to market rate
Debt Service and Capital Funding	Full funding of Chicago Works and Chicago Recovery Plan through 2026
	Bond debt service based on expected capital spend and included in out-year budget gaps
	$35M, $35M and $39M of incremental debt service in FY24, FY25, and FY26, respectively
Casino	Casino revenues budgeted on a one year delay to cover for any project delays
Revenues	Base case revenue projections assume recessionary environment
	CPI: Oxford Economics forecast
	GDP: 0.5-1% real growth in out-years, lower than rating agency projections that assume likely recession
	Sweeping of Aging revenue accounts for an average $18M per year

2024-2026 Revenue Assumptions

Baseline revenue assumptions in this Mid-Year Budget Forecast assume a recessionary environment beginning in FY2023. The City's revenue projections are largely influenced by assumptions for GDP and CPI, which are provided below as well as compared to other forecasts for both indicators.

Figure 12: GDP

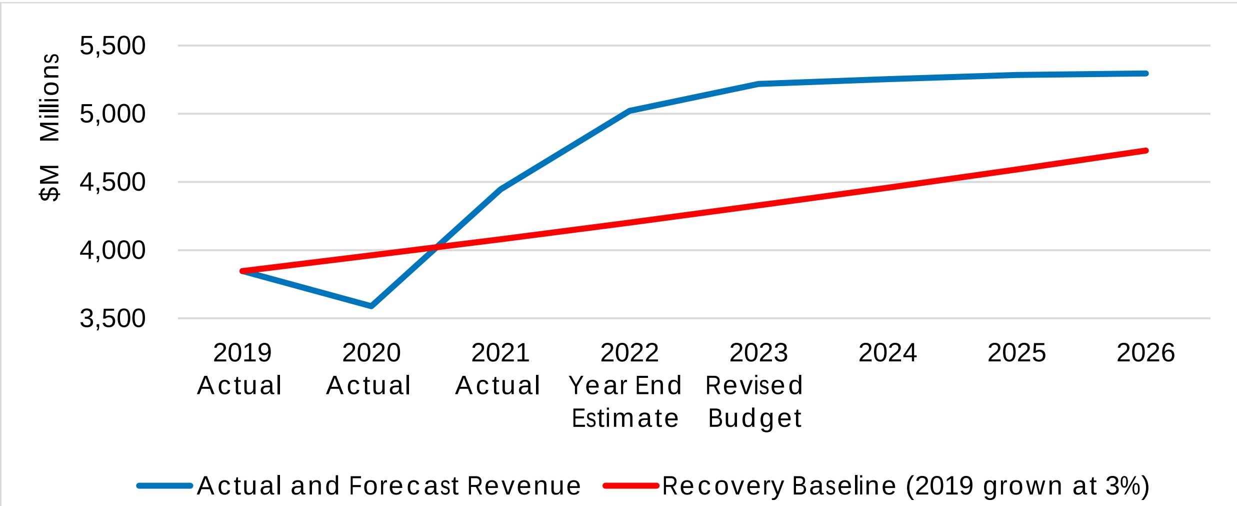
	FY2023	FY2024	FY2025	FY2026
CBO	0.3%	1.8%	2.7%	2.4%
Federal Reserve Consensus	0.4%	1.2%	1.9%	1.8%
S&P	0.2%	1.6%	1.9%	
Fitch	0.2%	1.6%		
E&Y - State of Illinois	0.2%	0.4%	1.7%	1.7%
Moody's - Chicago MSA	1.2%	1.4%	2.2%	2.2%
E&Y - Chicago	0.6%	0.3%	1.7%	1.7%

Figure 13: Inflation

	FY2023	FY2024	FY2025	FY2026
CBO	4.8%	3.0%	2.2%	2.1%
Federal Reserve Consensus	3.3%	2.5%	2.1%	2.0%
S&P	3.7%	1.6%	1.4%	
Fitch	3.6%	2.7%		
E&Y - State of Illinois	4.2%	2.8%	2.2%	2.2%
Moody's - Chicago MSA	3.3%	2.4%	2.1%	2.0%
E&Y - Chicago	4.0%	2.9%	2.3%	2.2%

The City's aggregate revenue recovery profile is similar to projections at the time of FY2023 budget, except that income taxes, PPRT, and Personal Property Lease Tax have performed much stronger than originally projected as a result of an accelerated economic recovery in 2022. This revenue performance for these particular revenue streams have increased the baseline from the FY2023 budget.

Figure 14: City's Aggregate Revenue Recovery Profile



Importantly, the City does not assume that this improved revenue is sustainable in the long-run for income taxes in particular, and as seen in the specific Income Tax and PPRT revenue recovery profiles below, includes a reduction in the projected income and PPRT revenues for FY2024 and then a tapering for FY2025 and FY2026. This tapering to a recessionary growth rate is consistent with the Illinois Municipal League's (IML) projections and assumes a conservative 0.5% - 1% growth assumption for GDP, depending on the revenue stream, as well as a number of other economic projections that the City tracks.

Figure 15: Income Tax: $388M, 7% of Budget

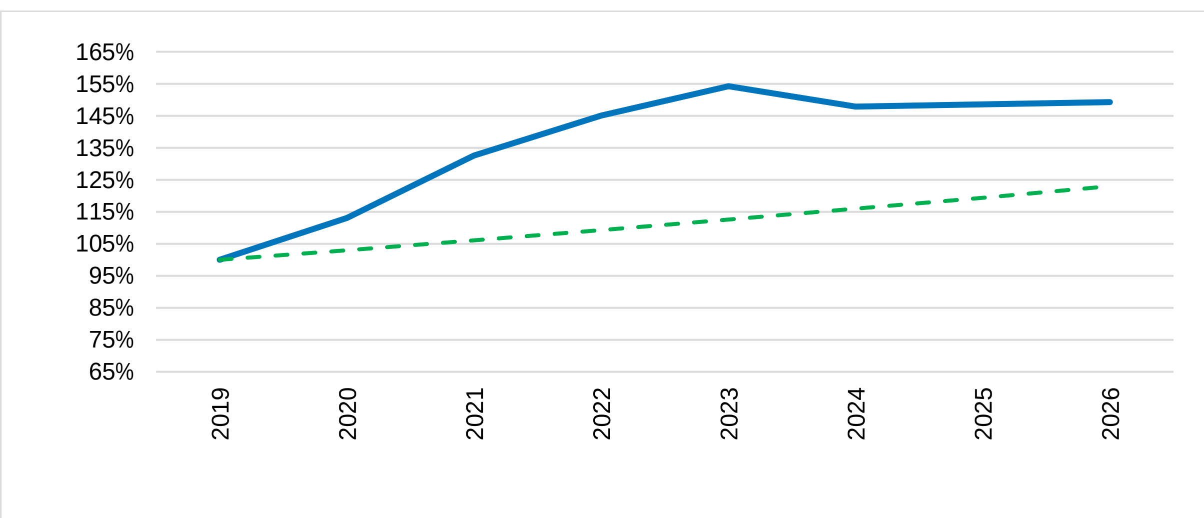
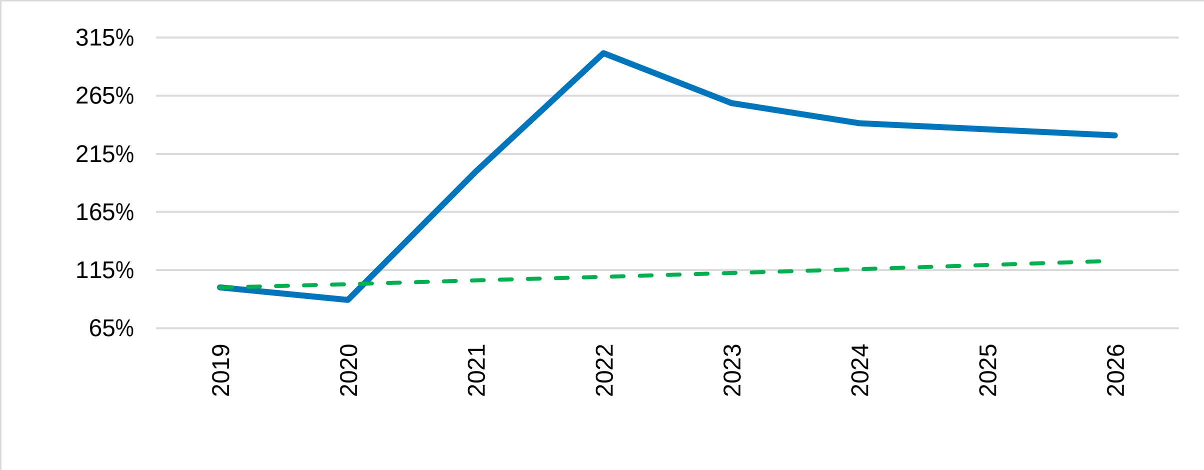


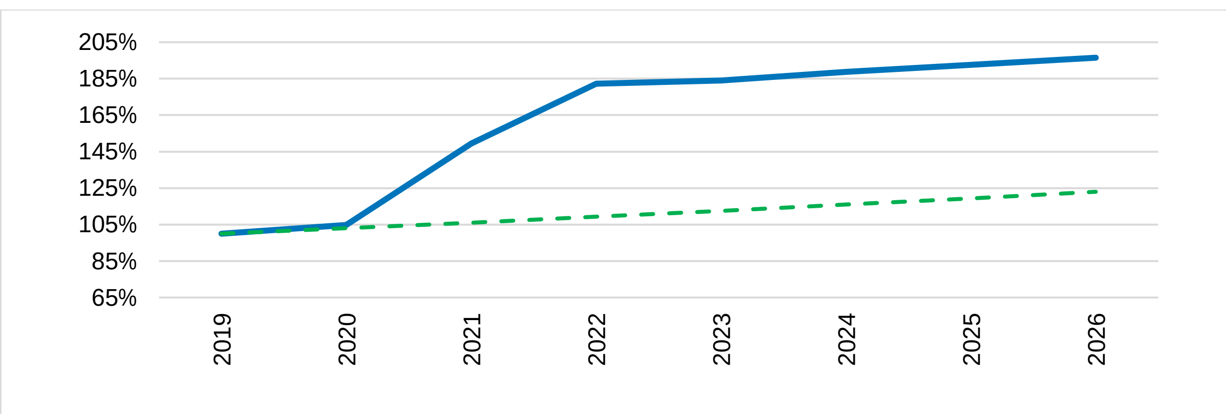
Figure 16: Personal Property Replacement Tax: $266M, 5% of Budget



Within the PPRT assumptions, the City has also assumed a $10 million deficiency in the hotel tax revenues collected by Illinois Sports Facilities Authority (ISFA) which will be intercepted from the City's PPRT. This adds to the 2022 deficiency of $27.4 million, which totals $39 million in cumulative deficiencies. According to 35 ILC 145/6, the State of Illinois is required to repay this deficiency to the City of Chicago when hotel tax revenues have returned. Hotel tax revenues historically grew at an average of 8% a year, pre-pandemic, from 2010 to 2019.

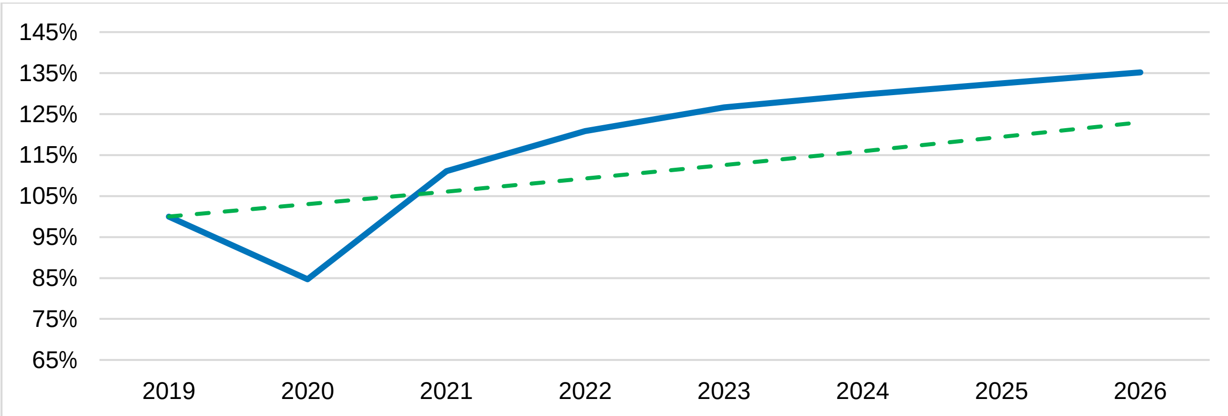
As noted in the FY2022 year-end performance discussion, the City has seen a significant growth in Personal Property Lease Tax. This tax saw an average 17% annual growth rate in the five years before the pandemic and continues to see strong growth both during and after the pandemic.

Figure 17: Personal Property Lease Tax, $585M, 11% of Budget



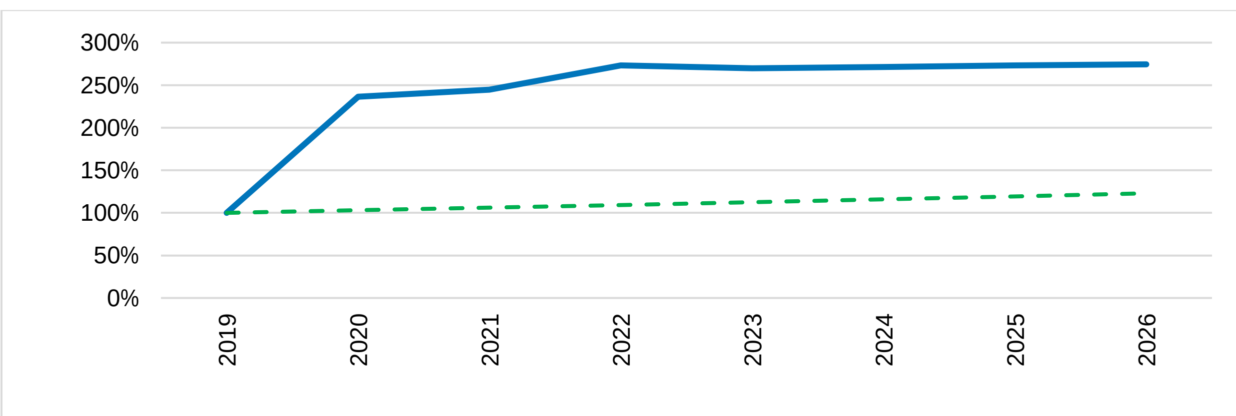
Sales taxes have also seen strong growth, both by way of the impact of stimulus on the economy and the impact of inflation on prices. In 2022, the City saw strong sales tax revenue performance, which was also driven by continued compliance from changes in State legislation directing remote retailers to collect and remit Illinois sales taxes starting in 2021. These short-term drivers of growth are projected to taper in line with Oxford Economics inflationary projections, as the City begins to experience pressure from recessionary impacts.

Figure 18: Sales Tax



In the FY2020 budget, the City worked with the State of Illinois to maximize ambulance reimbursement through the Ground Emergency Medical Transportation program (GEMT). This was projected to generate $133 million in incremental revenues assuming a $2,537 reimbursement rate. In 2021, the City received $210 million. The FY2023 budget represents a $199 million increase over the FY2019 revenues for GEMT. Further, the City is working to secure additional reimbursements for other emergency transportation services which would generate additional ongoing revenues to the City.

Figure 19: Charges for Services (including GEMT): $364M, 7% of Budget



This Mid-Year Budget Forecast adjusts revenue expectations from these sources to align with estimates published in the State of Illinois Proposed Fiscal Year 2024 Operating Budget. Lastly, the City has compared its revenue projections for income taxes with others and the projections are comparable to the State of Illinois, have been an independent forecast conducted by Ernst & Young for the City and as well as the Illinois Municipal League's (IML) projections.

Certain revenues have lagged expected pre-pandemic recovery levels. In particular, taxes which indicate a base level of business activity (e.g., business licenses, permits and fees), revenues which are indicators of work from home activity (e.g., parking tax, utility tax and vehicle fuel tax), as well as tourism-based taxes (e.g., hotel tax), continue to lag pre-pandemic levels (2019 adjusted for 3% annual growth which is the 20 year average for City revenue growth). The recovery profiles for these lagging revenue streams are provided below.

Overall, the City's lagging revenues represent about $192 million of total revenue potential for the City should it return to pre-pandemic levels. Conversely, should these revenue losses represent permanent loss to the Chicago economy or loss that takes a significant number of years to recover, this would represent a long-standing loss to the City's tax base for which the City will need to find alternative structural sources to cover to prevent future budget gaps, especially when the outsized revenue performance of the City's overperforming revenues return back to historic norms.

The City must track the economic recovery of its return to work for office workers, its tourism industry and overall business activity closely as well as ensure appropriate investments in this fragile post pandemic recovery period. The City's nearly $800 billion Gross Regional Product is one of the City's most powerful financial tools for paying for city services, and ensuring its speedy post pandemic recovery will be important for the City to remain competitive to other cities. The impact of these activities will impact this set of lagging revenues in the portfolio of City revenues and the ability for the City to maintain structural balance in the out-years.

Additional Revenue Assumptions

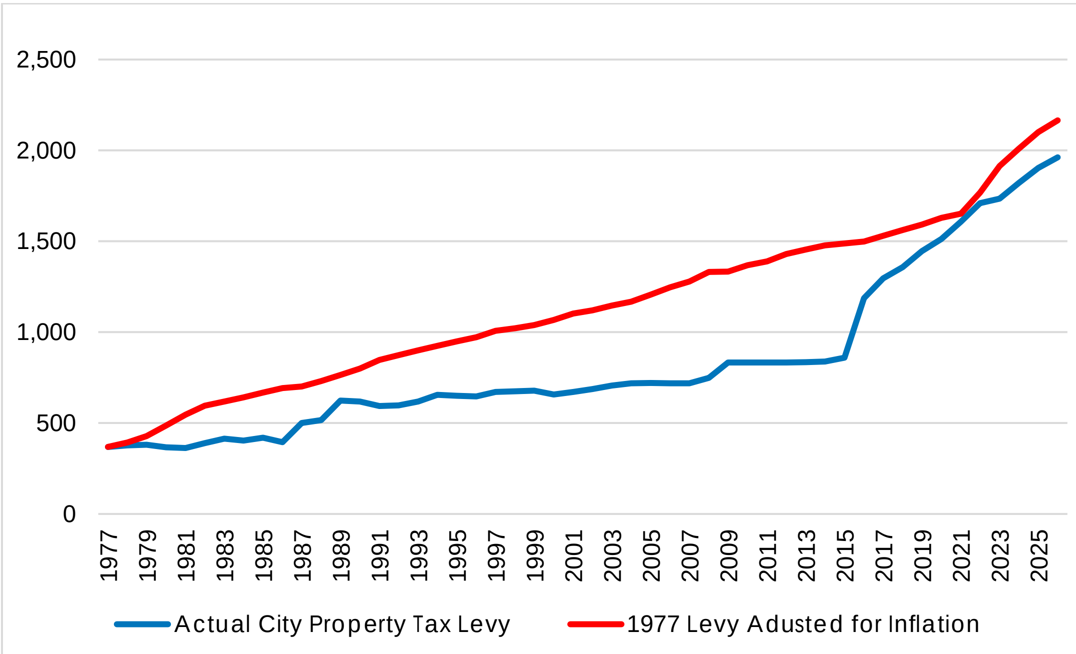
Property Tax

Property taxes, which account for approximately $1.7 billion, are the City's largest revenue source, equivalent to 19.7% of the corporate fund, library, debt service and pension budgets. Property taxes are also the only revenue source that does not rise based on inflation, consumption or real estate value. Each administration has its own path to choose when it comes to revenue and tax policy. However, the basic tenant of a structurally balanced budget is that revenue increases are set to match expense increases. If the City chooses not to take property taxes based on an inflationary impact, it must have an alternative structural revenue source or expenditure decrease in order to ensure that structural balance persists. To the extent that the structural solution does not come to fruition, not only must the City then make up for the structural loss in one year, but then it needs to catch up twofold the following year in order to continue to keep up with inflationary increases on expenses.

For the City of Chicago, this isn't hypothetical financial policy, this is our financial history. As discussed earlier, inflationary costs increased the budget, but property taxes, the City's largest revenue source were held relatively flat. This created a growing and unmanageable structural imbalance.

As shown in Figure 3 below, had the City increased property taxes at CPI since 1977, it would have ended up at the same tax levy in 2023 as where the City actually ended up. However, in the meantime, the City engaged in damaging one-time financial practices such as selling City asset sales (e.g., Chicago parking meters, Skyway, parking garages), bad borrowing practices (scoop and toss for operating expenses, borrowing for settlement and judgements), underfunding pensions and putting in jeopardy retirements of City workers, draining reserves, among other practices. As a result of these practices, the City suffered 14 rating downgrades over 7 years, increasing its borrowing costs and decreasing its ability to make investments in the City. Most importantly, Chicagoans were not given the benefit of predictability and stability in its property taxes and were required to bear steep increases in the property taxes in a short amount of time to allow the City to right its financial ship.

Figure 20: Property Tax Levy Adjusted for Inflation since 1977



This downward cycle has now stopped. It has taken the City 12 years to execute this financial turnaround and continued fiscal discipline is incredibly important to make sure the City's taxpayer dollars go back into investments in the City for the long-run rather than expensive borrowings. Every single rating agency as well as many financial groups discusses the combination of political will and revenue raising for the City as noted in the following excerpts.

"Chicago plans to address the forecasted budget deficits with various plausible gap-closing measures, including the continuation of COLA-based property tax levy increases ... The city reports $1.2 billion in structural budget solutions from 2020-2022, including several revenue enhancements that highlight the broad revenue flexibility of the City. Fitch views this flexibility as an important fiscal tool albeit one subject to considerable political influence."

Fitch Rating Report
October 21, 2022

S&P notes in the section on what could cause them to downgrade the City from the positive outlook the City received just a month ago:

"Downside Scenario: We could revise the outlook to stable under a variety of circumstances, including: ...deviation from the actuarially determined pension contribution or movement away from the city's new policy regarding advance pension fund contributions; weakening in reserve or liquidity positions; ... increasing evidence of political resistance to raise revenues or cut expenditures."

Standard and Poor's
November 10, 2022

The rating report is titled in the headline: "Political will to raise revenue... will drive financial trajectory."

"Chicago will be on a path to improved financial operations if the city has the political will to continue raising taxes... While the city benefits from few legal restrictions on tax increases, the political will to implement them involves balancing competing interests...Political will of city council and mayor is a key factor."

"The city council's willingness to increase the levy has varied over time."

Moody's Rating Report
July 29, 2021

"This automatic adjustment in the City of Chicago's property tax levy is really good fiscal policy, because it maintains the value of that revenue source on a year-to-year basis, after accounting for inflation. Because of that, it does not actually constitute a tax "increase," given that all this adjustment does is keep the property tax levy constant over time in real terms. And that is needed to ensure tax revenue maintains the same level of purchasing power from one fiscal year into the next. It also results in the public paying the same amount in taxes from one year into the next, in real, inflation-adjusted terms."

The Center for Business and Tax Accountability
October 13, 2021

"The Civic Federation is generally able to support tax increases when they are justified and tied to a specific use or spending plan. We recognize the need for increases in stable sources of funding given the City's ever-increasing expenses and financial obligations."

Civic Federation

CPS MEABF Contribution

In FY2020, the City began to climb a pension ramp for the Municipal Employees Annuity Benefit Fund (MEABF), which increased the City's annual statutory pension contribution from $576 million in 2021 to $1,013 million in 2024, nearly half a billion dollars over 4 years.

However, MEABF is a multi-employer pension fund in which 61% of the active members are CPS employees and only 39% of active members are City employees. Put simply, MEABF is largely a CPS pension fund for which the employer contribution is largely paid for by the City.

Charging CPS for its share provides cost transparency as well as ties the accountability and funding for rising pension costs to the same governing body that decides on these pension benefits. When those ties are broken, as they have been, there is no accountability for future cost growth. If CPS decides on pension benefits for its employees, including salary levels and hiring, it also should be responsible for funding those benefits.

The City has assumed a $250 million contribution in its FY2023 budget which CPS anticipates including in its FY2024 budget. This $250 million is $45 million short of the $291 million owed by CPS. In FY2024, CPS' share of the projected $1,013 million MEABF statutory employer contribution is projected to be $304 million, with the remaining $709 million being the City's contribution for its own employees. Further, the MEABF voted to lower its actuarial rate from 7% to 6.75% in March 2023, which is expected to increase the annual employer contribution by $6 million in FY2024. The budget gaps in this Mid-Year Budget Forecast assumes that CPS contributes $250 million from the pending CPS FY2024 budget as well the full CPS share in FY2025 and FY2026.

Figure 21: CPS MEABF Contribution (based on City Fiscal Year)

	FY2022	FY2023	FY2024	FY2025	FY2026
MEABF Pension Payment	$960.0M	$976.0M	$1,013M	$1,034M	$1,051M
City Share	$88.3M	$40.8M	$0.0M	$0.0M	$0.0M
CPS Share	$272.7M	$290.8M	$304.1 M	$306.5M	$309.1M
CPS Actual Payment	$175.0M	$250.0M	To Be Determined by CPS		

Tax Increment Financing Surplus

In each of the TIFs, reserves are established in order to ensure sufficient funds are available for committed project spend should the TIF collections fall short of the TIF revenues projections. This reserve policy was set by Executive Order 2013-3, Declaration of TIF Surplus Funds in TIF Eligible Areas, on November 8, 2013. To the extent that such reserve is not used, the balances are then surplused for the benefit of the taxing bodies in the following fiscal year during the budget process.

The City projects $272 million to be declared as a surplus annually in FY2024, FY2025 and FY2026, respectively. Such a surplus is annually returned to the taxing bodies that they came from of which the City will receive $68 million.

To the extent that these monies are used for economic development, rather than TIF surplus, then the operating budget forecast for the City would see a reduction of corporate fund TIF surplus revenues and an alternative corporate fund source would be needed to fill in the gap. Further, the Chicago Public Schools, Chicago Park District and Chicago City Colleges budgets would also need to find an alternative funding source for the TIF surplus

Sweeping of Aging Revenue Accounts

The out-year forecast assumes sweeping of aging revenue accounts which are conducted annually to reconcile certain miscellaneous funds. These are funds for which the accounting has been reconciled (e.g., special deposits, land sales, among other funds) and for which certain funds remain and are annually swept into the general fund. Below are the projections on the availability of these funds which have been assumed in the Mid-Year Budget Forecast.

Figure 22: Aging Revenue Account Projections

	FY2023	FY2024	FY2025	FY2026
Beginning of Year Balance	$53M	$27M	-	-
Revenues	$7M	$5M	$5M	$5M
Budgeted Appropriation	($33M)	($32M)	$5M	$5M
End of Year Balance	$27M	-	-	-

Casino

For the first time in three decades of pursuit since Mayor Daley first announced intentions to bring a casino in the late 1990s, the City has now secured approval of a casino operator from City Council. The temporary casino is expected to open in the second quarter 2023, with the permanent casino expected to open in the second quarter of 2026. The City is expected to generate $200 million in revenues annually when the casino reaches a steady state. Overall, the casino is expected to generate $3 billion in additional financial value to the City and $3 billion in additional financial value to the State to fund statewide capital projects. Figure 23 below provides expected temporary casino revenues which are assumed in the out-year forecasts. Casino revenues are conservatively assumed to impact budget the year after their projected generation. For example, the $40M in casino revenues generated through the upfront payment by Bally's on June 15, 2022 was assumed in the FY2023 budget. The anticipated opening of the temporary casino in second quarter of 2023 is budgeted in

FY2024. Revenues generated from the anticipated opening of the permanent casino in the first quarter of 2026 is budgeted in the out-year projection FY2027.

The following website has additional information on the casino. https://www.chicago.gov/city/en/sites/chicago-casino/home.html

Figure 23: Casino Projected Revenues

Bally's Tribune						
	2023	**2024**	**2025**	**2026**	**2027**	**2028**
City Impact						
Upfront/Fixed Payments	$40.0M	$4.0M	$4.0M	$4.0M	$4.0M	$4.0M
Gaming Revenues	$12.8M	$34.4M	$36.1M	$107.3M	$129.6M	$140.4M
Slot Machines	$8.1M	$24.2M	$25.5M	$77.4M	$93.0M	$100.6M
Table Games	$3.1M	$8.3M	$8.7M	$25.0M	$30.8M	$33.8M
Admin/Other	$1.6M	$1.9M	$1.9M	$4.9M	$5.7M	$6.0M
Other Taxes	$7.2M	$7.8M	$7.9M	$21.5M	$27.5M	$35.5M
Property Taxes	$3.2M	$3.2M	$3.2M	$12.3M	$16.8M	$21.5M
Parking Tax	$3.8M	$4.4M	$4.5M	$7.8M	$9.0M	$9.4M
Restaurant	$0.2M	$0.2M	$0.2M	$0.9M	$1.0M	$1.2M
Hotel Taxes	-	-	-	$0.5M	$0.6M	$3.4M
Other Property Taxes						
CPS	$6.8M	$6.8M	$6.8M	$26.1M	$35.8M	$45.7M
Other Entities	$2.9M	$2.9M	$2.9M	$11.0M	$15.0M	$19.2M
Other Taxing Bodies Impact						
Other	-	-	-	$0.2M	$0.2M	$1.0M
ANNUAL IMPACT	**$69.7M**	**$55.8M**	**$57.7M**	**$170.1M**	**$212.0M**	**$245.8M**

Fines and Fees Reforms

Over the past four years, the City has taken a more equitable approach to implementing fines and fees reforms and has reduced the City's dependency on one-time regressive revenues to fund City programs. Since 2019, these programs have saved residents and businesses over a quarter of a billion dollars of debt without significantly impacting the City's revenue structure.

Figure 24: Fines and Fees

Initiatives	**Debtor Savings**
City Sticker Ticket Debt Relief (2019)	$11.0M
Ended Driver's License Suspension (2021)	$14.0M
Vehicle Immobilization (Boot) Reforms (2020)	$34.6M
Vehicle Impoundment Program (VIP) (2020)	$129.0M
Utility Billing Relief Program (UBR) (2020)	$35.6M
Clear Path Relief Program (CPR) (2022)	$30.4M
Administrative Debt Relief Program (ADR) (2023)	$8.0M
Total	**$262.6M**

The Utility Billing Relief ("UBR") Program was the first comprehensive debt relief program offered by the City that reduced current water, sewer and water-sewer tax charges by 50 percent as well as wiped out past due debt upon successful completion of one year of the Program. Although this program has saved individuals over $35 million in debt, the Program has not negatively impacted revenues for the Water and Sewer funds, while allowing residents to unburden themselves of debt for necessities.

The Clear Path Relief ("CPR") Program was the first vehicle debt relief program that offered writing off past due debt three years or older upon successful completion of one year of the Program. In addition, during the 12-month enrollment period, any new eligible tickets would be reduced by 50 percent if paid on time. Also introduced with CPR, the Fix-It defense allows all motorists who receive a ticket for an expired or missing license plate or City Sticker to come into compliance within 30 days of a violation and have that ticket dismissed. This program started in April 2022 as a pilot program and will expire on December 31, 2023. Since the inception of CPR, the City has waived $28.1 million in past due debt, $2.0 million in Fix-It tickets, and $0.3 million in reduction of tickets by 50 percent for over 56,000 motorists.

In 2023, the City implemented the Administrative Debt Relief ("ADR") Program which provides relief for administrative hearings ("AH") debt, including but not limited to violations issued by the Departments of Streets and Sanitation, Health, Police, Buildings, and Business Affairs and Consumer Protection. The first phase of the program was open to all individuals and businesses and provided a waiver of interest, costs and fees with payment of 100 percent of the fine amount. The second phase of the program, launched in early April 2023, provides additional relief for individuals experiencing financial hardship. Participants in this program will get 50 percent of the fine amount waived in addition to the benefits listed above. Since the inception of the ADR program, the City has waived $8 million in debt and closed over 28,000 dockets.

2024-2026 Expenditure Assumptions

Out year expenditures assumptions for the Corporate Fund are budgeted based on the Office of Budget and Management's (OBM) practice of regular inter-year updates from such departments. Cost inflators are assumed by category of spend while other categories are held flat each year.

The largest expense of the Corporate Fund comes from Personnel Services which is expected to grow 4% in FY2024 over FY2023. In 2021, the City paid $396 million in retroactive COLA payments to fund the long-delayed police collective bargaining agreement. This was the largest retroactive payment in the City's history, $254 million of which was funded solely through debt refinancing savings (with no future increases in debt service) and the first tender in the City's history, but also $42 million through the 2021 budget. The reason for this large retroactive payment was the City's historical practice of not budgeting for COLA increases in unsettled contracts. At the time of settlement in 2021, the police contract was 4 years past expiration of the previous contract. Under Mayor Lightfoot's tenure, the City negotiated an 8-year agreement with 2-2.5% COLA increases. Further, in 2020, the City began the practice of budgeting for anticipated contract increases beyond the term of the contract. Unsettled contracts are budgeted at terms consistent with the terms of settled contracts. Including COLA assumptions for personnel growth is a budgeting best practice and one of the many transparency budgeting measures the City put in place to prevent future massive one-time retroactive payments.

Large retroactive payments in the past have been paid from bond issues which, similar to scoop and toss restructurings, increases debt service for future generations of Chicagoans to pay for current costs.

Further, the terms of the current American Federation of State, County and Municipal Employees (AFSCME) contract to be ratified are assumed in the Mid-Year Budget Forecast. These contracts have been negotiated at 3% - 3.25% with a CPI floor and cap in FY2024-2026 along with a bonus pay of $1,000 and $2,000 in FY2024 and FY2025, respectively. The Mid-Year Budget Forecast assumes these costs from these contracts and related adjustments to other contracts.

The Mid-Year Budget Forecast also assumes the implementation of the recommendations from the Citywide salary study for non-union employees. Salary compression by non-union employees has caused vacancy and retention issues which increases hiring costs and succession inefficiencies in City operations.

Contractual services and commodities are projected to grow at a 5%, 3% and 3% growth rate for FY2024, FY2025 and FY2026, respectively. Specifically for commodities, the City entered into a Power Purchase Agreement (PPA) on July 28, 2022, which is the largest PPA executed by a municipality in the country. This PPA will source 62% of the City's electricity from new green renewable solar energy from a solar farm created in Illinois and create new Illinois jobs. City will purchase 100% of its electricity renewably through either new green renewable energy from the solar farm or through the purchase of RECs on the market.

The PPA locks in a fixed price for the next 12 years from FY2025 – 2036, which generates budgetary certainty and reduces growth on the cost of electricity purchase within the commodities budget. In FY2023, the electricity budget was $67.5 million. 90% of the FY2024 electricity energy purchase is already hedged with 62% hedged for FY2025 – FY2027 at a lower price than the FY2024 purchase due to the fixed price contract in the PPA. The benefits of this budgetary stability have not been included in the Mid-Year Budget Forecast as City does not kick off its annual FY2024 budgeting process with departments until the summer and represents a gap closing opportunity for FY2024.

Further, within the City's Chicago Recovery Plan and the most recent inaugural social bond issue, the City has funded the full electrification of the City's light duty fleet which is projected to be completed by 2026. This electrification is not only funded by City bonds but also supported by funding from the Federal BIL funding. This electrification is expected to generate savings on fuel purchasing going forward which is an additional efficiency that has not yet been assumed in the Mid-Year Budget Forecast and represents a gap closing opportunity within the projection period.

Financial costs are largely made up of corporate funded debt service, settlements and judgments and other required expenditures such as matching grants. The table below provide the breakdown of these costs.

Figure 25: Financial Costs

	FY2024	FY2025	FY2026
Debt Service	$252.1M	$278.9M	$311.5M
Settlements and Judgments	$141.9M	$141.9M	$141.9M
Other	$68.2M	$68.2M	$68.2M
Total	**$462.2M**	**$489.0M**	**$521.6M**

Additional Expenditure Assumptions

Pension Investment Performance

The estimated pension costs will vary based on the annual investment performance of the pension funds, the demographic experience (e.g. mortality, retirements, membership, etc.) of each fund and the timing of any experience studies, the current actuarial interest rates assumed by each funds and a number of other actuarial assumptions. The estimated pension costs also assume no legislation passed by the State changing pension benefits for the City's pension funds.

The out-year forecast assumes a 12% investment loss in 2022, based on the latest information provided by the pension funds. This loss is in line with the investment losses of other funds across the state and country in 2022. FY2022 investment losses are certified by the pension funds to the City in FY2023 and included in the City's FY2024 budget. The impact on the FY2024 budget of FY2022 investment losses is assumed to be a $141 million increase in the annual City employer pension contribution.

In FY2023, the investment market continues to be volatile and 2023 investment returns are estimated at 2.6% through February, based on the latest financial information provided by the pension funds. The out-year forecast assumes 0% investment return for FY2023, which would translate into an increased pension contribution of $73 million for Budget Year FY2025. The Mid-Year Budget Forecast assumes the actuarial rate in FY2026 and beyond.

Figure 26: Pension Fund Investment Performance (as of December 31, 2022)

	PABF	FABF	MEABF	LABF	Total
FY2019	16.3%	20.4%	16.4%	17.8%	**17.1%**
FY2020	12.3%	11.7%	9.3%	14.5%	**11.3%**
FY2021	13.8%	14.2%	14.0%	11.8%	**13.7%**
FY2022	(12.4%)	(14.3%)	(11.7%)	(13.2%)	**(12.1%)**
Actuarial Rate	**6.75%**	**6.75%**	**7.0%**	**7.25%**	

In 2021, the State passed a bill which doubled the COLA provided to FABF retirees which increased the City's net pension liability by $823 million and increased its annual employer contribution by $18 million. This increase did not come with an associated funding source. Any increase in future pension costs not tied to a funding source are not included in the City's Mid-Year Budget Forecast. As S&P notes, this is considered a credit risk to the City's ratings.

> "Governance structure risks are also evident in Chicago's relationship with Springfield, the state capital. The state has from time to time passed legislation creating mandates or otherwise altering the city's budgetary responsibilities and expenditures... We could revise the outlook under a variety of circumstances, including ... changes related to Illinois that lead to significant unexpected disruption in expenditures."
>
> S&P Rating Report
> November 10, 2022

Capital Plan Funding and Debt Service

The Mid-Year Budget Forecast assumes full funding for the Chicago Works plan and the Chicago Recovery Plan. Recent City bond issues have secured funds for both programs through FY2023. Debt service arising from future bond issues to finance these programs is included in the out-years budget gaps which is a new practice in this Mid-Year Budget Forecast to bring transparency to the costs of these investment plans. This debt service cost is assumed to be absorbed by the corporate fund with no additional property taxes assumed to be applied toward these capital investments.

As noted previously, the Chicago Works plan is the largest capital investment plan in the City's history and is a multi-year plan to address Chicago's capital infrastructure needs. Figure 27 below provides the current capital spend projections for Chicago Works and Chicago Recovery Plan as well as the assumptions around debt issuance and debt service. The City estimates that the five-year Chicago Works plan will address 57% of the City's deferred maintenance needs. Annual capital maintenance is required of any organization, much less new capital investment. The City now has a multi-year investment plan which allows for improved execution of the investment plan as well as planned funding for the plan. The Mid-Year Budget Forecast now for the first time assumes funding for these required future capital investments in a steady state.

Figure 27: Capital

	FY2023	FY2024	FY2025	FY2026
Capital Needs Paid by Future Bonds	$503M	$804M	$700M	$602M
Future Bond Issues		$706M	$697M	$639M
Assumed Debt Service on Future Bonds		**$35M**	**$70M**	**$108M**

As noted earlier, the City funded the 2020-2023 phase of the capital plan without increasing the City's debt burden. The City reduced its debt outstanding by $747 million from FY2020-2022. This reduction in debt was due to more active cash flow management, including the creation of internal cash flow forecasting around capital, as well as climbing the debt ramp due the end of scoop and toss and allows the City to pay down an average $399 million through FY2026. In FY2023, the City issued bonds to fund $686 million of new projects, to replace this reduction in debt and funded the Chicago Works and CRP through FY2023.

The out-year forecast assumes an annual bond issuance of between $683 million and $840 million, sold at an assumed 5% interest rate. As noted in Figure 27, these bond issues generate $35 million, $35 million and $39 million of annual incremental debt service per year.

The City of Chicago cannot be the only funding source for capital investment in the City. Federal and State funding sources have been and must continue to make investments in the Chicagoland economy, the economic engine of the state of Illinois. The City has been very active in advocating for infrastructure projects across the City and continues to engage in productive dialogue with the Federal Government and the State around capital projects that can come out of federal infrastructure and stimulus dollars or the Rebuild Illinois Capital Plan to help support these capital infrastructure projects.

Closing the Out-Year Structural Gaps

As noted in the section on structural balance, to the extent that the projected $85 million FY2024 budget gap is addressed through structural solutions, the FY2025 budget gap will be $39 million and the FY2026 budget gap will be $21 million. As has also been discussed throughout this document, there are areas of potential opportunity for gap closing.

- Actual FY2023 Pension Investment Performance. To the extent that the pension funds achieve investment performance at the actuarial rate of 6.75-7.25%, depending on the fund, then this will generate $71 million of structural relief to the City's budget. This alone would address all but $21 million of the budget gap.
- Continued Efficiencies and Annual Departmental Budgeting Process. The City generates efficiencies annually through the continuation of reforms kicked off by Mayor Lightfoot's administration. Work continues along worker's compensation reforms, procurement reforms, hiring efficiencies and an over $300 million investment in Information Technology efficiencies which will streamline governmental operations by modernizing the City's systems and reducing redundant City operations. The City also conducts an annual budgeting process with departments that results in efficiencies.
- Commodities Budget. As noted in the expense section earlier, the City has locked-in a fixed price for electricity purchase which represents approximately half of the commodities budget. This will allow the City to lower the cost curve and growth rate of the City's electricity purchase. Further, the projected budget does not include the effects of the full-scale electrification of the City's light duty fleet that the City funded in the inaugural social bond. There are several tax credits and federal funding opportunities that will likely help support this effort going forward as well.

ENTERPRISE FUNDS

WATER/SEWER

The City of Chicago maintains the largest conventional water purification plant in the world, the Jardine Water Purification Plant, and the 8th largest, the Sawyer Water Purification Plant. The Department of Water Management provides water to over 5 million customers across the State, or 41% of the State's population.

Despite its dominance as a water supplier, the City lost Niles and Morton Grove in 2019 followed by Lincolnwood in 2021 as water supply customers to Evanston, which together represented approximately $8 million in annual water revenues. In 2022, the cities of Homewood and Flossmoor left Harvey, a Chicago customer, as its water supplier to take water from Hammond, Indiana through Chicago Heights.

In order to stabilize the competitive water landscape, the City approached the City of Joliet as Joliet searched for an alternative water supply to the underground aquifers that are running dry and which currently provide Joliet's water. In January 2021, the City of Joliet selected the City as top candidate to negotiate a water supply agreement as its water supplier. To support this effort, the City Council approved a preliminary water supply contract with Joliet in December 2020 and again in February 2021. In April 2023, the City Councils of Chicago and Joliet expect to approve a final water supply contract between the City and Joliet. Notably, since selecting Chicago as its water provider, Joliet has joined together with five other communities in the southwest suburbs to form the new Grand Prairie Water Commission to receive Lake Michigan water from the City.

This transaction is the first new water supply contract adding a new customer for the City in 40 years and will solidify the competitive landscape for the City, strengthening its position as the premier water provider to northeastern Illinois. Further, it will generate $30 million of increased water revenues annually, which over the life of the Joliet contract represents nearly $1 billion in new financial value to the City. Further, as a result of the City's leadership on regional collaboration and American Water Works Association (AWWA) rate conversion, the towns of Oswego, Montgomery and Yorkville decided to join DuPage Water Commission that purchases water from the City, thus generating up to $10 million in additional annual water revenues for Chicago.

As a part of the Joliet transaction, the City is beginning a process of converting its wholesale customer rate setting to the AWWA M1 rate setting methodology. This rate setting methodology effectively charges each customer for the portion of the water system that they use and provides more transparency to the process of rate setting. The overall wholesale rate is expected to remain stable over time and there is no expected change to the Chicago residential retail rate as a result of the conversion. AWWA rate setting methodology is considered the gold standard for rate setting methodologies and is utilized by a number of large regional water suppliers, including Great Lakes Water Authority (Detroit), Metropolitan Water District of Southern California (LA & SD), Dallas Water Utilities, Houston Water, and Milwaukee Water Works.

Perhaps the most important development to arise from the addition of Joliet as a water supply customer is the regional collaboration that has been fostered with Joliet and all of the

City's regional customers. Mayor Lightfoot has upheld regionalism as a core value of her administration. This regional collaboration has led to the creation of the Chicago Water Partners Advisory Council (CWPAC), an advisory council that will give the City's regional water partners a seat at the table. This advisory council, which serves as an important voice in giving feedback to the City on water operations and will foster stronger regional collaboration toward better water supply in the region.

Since the start of her administration, Mayor Lightfoot has tackled the City's pending lead service line replacement liability head on. In 2020, she kick-started Phase I of LSLR, and funded 3 lead service line replacement programs to explore most efficient methods of lead service line replacement and address highest need replacements immediately. The City has also developed a finance plan that will pay for the lead service line replacements for at least the next 20 years without increasing retail residential water rates beyond the current CPI growth. Federal Funding applied toward lead service line replacement is expected to be used for private side replacement to support the program.

The City has also modernized its water and wastewater bond covenants for the first time in 19 years. These amendments include closing the senior liens for sewer and water revenue bonds, creating a residual fund at the bottom of the waterfall which allow for more flexible use of excess funds to support all system needs, improved coverage requirements to meet market standards, the creation of an indentured rate stabilization fund, and the implementation of a days cash on hand policy, among a number of other improvements. These amendments to the bond covenants allow the City to clarify the parameters of the credit to support the borrowing needed to fund the lead service line replacement program as well as modernize the bond covenants to current market standards.

The sewer system now has a stable financial path, with sufficient debt service coverages going forward while providing for ongoing deferred maintenance needs going forward.

The combination of the Joliet transaction, the additional regionalism which will solidify the Chicago water supply community, AWWA conversion, the lead service line replacement finance plan, and the modernization of the indentures all led to 6 upgrades of the water and sewer system by Moody's, S&P and Fitch, the first time in 7-12 years for both credits.

O'HARE/MIDWAY

O'Hare is in the midst of O'Hare 21, a $12.1 billion airport modernization, one of the largest airport investment programs in the country, which remains on track for completion by 2032. The opening of Terminal 5, with 10 new gates providing 25% more gate capacity at the terminal, is one of the reasons Fitch and S&P upgraded O'Hare's credit rating in 2022. It reflects the continued confidence the rating agencies have in the Chicago Department of Aviation's ability to finance and construct the O'Hare 21. O'Hare maintained its dominance in 2022 as the fourth-busiest airport in the world by enplanements and the second busiest airport in the world by aircraft operations.

The new Airline Use and Lease Agreement (AULA) that was negotiated with the airlines and became effective in 2018 provided additional credit support by laying the foundation for improved financial metrics, including higher debt service coverage, as well as collective airline support for O'Hare 21.

O'Hare was one of only three large hub airports not to be downgraded by S&P during an airport industry wide series of downgrades due to the pandemic and the severe downturn in passenger traffic. Further, O'Hare is one of only two airports to come out of the pandemic with two higher ratings than it had going into the pandemic, demonstrating its resilience and importance in the industry. Together O'Hare and Midway have received four upgrades since August 2022, the first upgrades in 6-7 years.

Midway has experienced one of the strongest traffic recoveries in the nation from the pandemic, with year-to-date enplanements through February at 107% of the same period in 2019. Midway also recently completed a series of concession improvements and TSA security checkpoint improvements which enhance the customer experience.

APPENDIX

EXHIBIT A: GO AND STSC PROJECTED DEBT SERVICE

	GO Bonds		STSC Bonds		Total GO & STSC Bonds	
BY	Principal	Interest	Principal	Interest	Principal	Interest
2024	$222.4M	$286.9M	$179.2M	$221.4M	$401.6M	$508.3M
2025	$224.4M	$277.5M	$191.8M	$218.2M	$416.2M	$495.7M
2026	$233.6M	$267.4M	$208.1M	$209.2M	$441.7M	$476.6M
2027	$242.3M	$256.7M	$233.4M	$199.5M	$475.7M	$456.2M
2028	$266.2M	$247.1M	$230.1M	$188.4M	$496.3M	$435.4M
2029	$214.8M	$235.2M	$280.8M	$177.4M	$495.6M	$412.6M
2030	$266.4M	$222.9M	$281.2M	$164.3M	$547.6M	$387.2M
2031	$301.1M	$210.5M	$268.2M	$151.9M	$569.3M	$362.4M
2032	$294.6M	$195.7M	$288.3M	$139.8M	$582.9M	$335.4M
2033	$378.9M	$180.3M	$272.0M	$126.8M	$651.0M	$307.1M
2034	$426.9M	$163.4M	$213.8M	$115.2M	$640.8M	$278.6M
2035	$440.9M	$140.4M	$214.0M	$106.1M	$654.9M	$246.5M
2036	$433.6M	$113.5M	$220.3M	$97.1M	$653.9M	$210.6M
2037	$339.2M	$90.0M	$240.9M	$87.9M	$580.2M	$177.9M
2038	$284.2M	$71.9M	$217.7M	$78.2M	$501.9M	$150.1M
2039	$236.6M	$55.4M	$244.8M	$69.3M	$481.4M	$124.6M
2040	$206.9M	$42.1M	$244.9M	$59.4M	$451.7M	$101.5M
2041	$174.8M	$30.4M	$207.0M	$49.7M	$381.9M	$80.1M
2042	$122.0M	$20.9M	$202.8M	$41.2M	$324.8M	$62.1M
2043	$47.8M	$14.2M	$150.4M	$32.7M	$198.2M	$46.9M
2044	$50.4M	$11.7M	$151.2M	$26.0M	$201.6M	$37.7M
2045	$53.2M	$9.0M	$158.2M	$19.3M	$211.4M	$28.2M
2046	$56.1M	$6.1M	$165.5M	$12.2M	$221.6M	$18.4M
2047	$59.2M	$3.2M	$109.8M	$4.9M	$169.0M	$8.0M

EXHIBIT B: INVESTMENTS 2019-2023

$4.5B Chicago Works

- The City released a $3.7B 5-year capital plan in 2020, including authorization for $1.6B of GO bonds - for the first time, the City implemented a needs-based approach to prioritizing capital projects across the City including conducting a citywide assessment of capital needs
- In FY2023, the City increased Chicago Works to $4.5B for 2023-2027 and authorized an additional $1.7B of GO bonds to finance the next 2023-2024 of the capital plan
- Chicago Works catches up on capital deferred maintenance and sets City on a steady state replacement schedule
- The 5-year capital plan is expected to address 57% of the City's annual deferred maintenance needs for facilities, fleet & equipment, bridges, street resurfacing traffic signals, and lighting.
- The City's goal is to finance 5% of the City's capital assets a year to reach a steady state of replacement

$1.2B Chicago Recovery Plan

- The most progressive investment plan in the City's history
- CRP is projected to generate 7,000 jobs and create $26M in incremental tax revenues
- $400M in investments that address the root causes of violence
- 27x increase in mental health - Chicagoans served has increased from 2,500 to over 70,000
- Increase in anti-violence investments from $0 in 2019 to $52M, now proportional to a City of our size
- $1 billion in affordable housing investments, seeded through $157M in City funds, creating 4,000 new affordable housing units
- The largest investment in the City's history
- 3,000 vacant lot cleanup/reduction and one of the largest clean-up programs across the country
- The Green Recovery Agenda, including the largest tree-planting in the City's history including 75,000 trees planted over five years as well as a decarbonization of City's vehicle fleet that will reduce fuel costs and carbon footprint

CHICAGO RECOVERY PLAN

$1B Invest South/West

- Mayor Lightfoot's signature economic development initiative - levering $1B of investment commitments from City sources and $1.2 billion of additional private and non-profit investments to fund 12 key commercial corridors in 10 communities on Chicago's South and West Sides

- INVEST South/West collectively supports infrastructure development, improved programming for residents and businesses, and policies that impact each of the community areas surrounding these corridors to create lasting impact
- This place-based approach to community investment builds upon successes seen in Pullman, where significant economic development investment not only created jobs but also turned around a declining population trend

EXHIBIT C: HISTORIC PENSION FUNDING METHODOLOGY

Prior to 2015 the City's statutorily required contribution for all four pension funds was a fixed multiplier of employee contributions. The multiplier was based off every $1.00 an employee contributed, below is a table with the final multiplier values and the year they were implemented.

Table 1

Pension Fund	Multiplier	Implementation Year
PABF	2.00	1982
FABF	2.26	1982
LABF	1.00	1999
MEABF	1.25	1999

For example, from 1982-2015 the City's employer contribution to PABF was $2.00 per every $1.00 that a PABF member paid in. This arrangement created a disconnect between the funding of the pensions (contributions) and the expenditures of the funds (actual cost of benefits).

This disconnect resulted in chronic underfunding beginning in the early 2000s and continuing into 2010's. In 2010 the City of Chicago released the final report of the Commission to Strengthen Chicago's Pension Funds, this report reflected the dire state of the pension funds with projections estimating that PABF and FABF would be insolvent within 12-14 years.

This spurred multiple legislative efforts eventually resulting in the passage of Public Act 99-506 (in 2016) and 100-0023 (in 2017), which would require city contributions be sufficient so that each fund is 90% funded by end of 2055 for PABF/LABF and 2058 for LABF/MEABF. These acts allowed for a 5-year "ramp" to full contribution funding.

In 2022, the City successfully climbed the pension ramp and contributed the full, actuarially determined, amounts to all four pension funds for the first time in its history.

EXHIBIT D: PENSION ADVANCE FUNDING POLICY

In 2022, the City adopted the Pension Management Policy which would ensure advance pension payments be made in addition to the statutory contributions already budgeted for. This advance payment prevents further growth of the City's unfunded pension liabilities.

Rating agencies have noted the policy in recent upgrades as a key contributor to the City's improved ratings. A November 10th rating report from S&P Global Ratings reads, "The city also recently revised its debt and pension policy to require advance annual deposits to the pension funds starting in 2023 in addition to the statutory requirement; these contributions will keep the pension funds from experiencing negative amortization and will also address negative fund performance." The report goes even further stating that a key driver of the upgrade was "… largely based on the expanded debt and pension policy, as well as the city's demonstrated ability to execute the type of financial discipline that will be required under the new policy."

Pension Management Policy

Purpose

This Pension Management Policy (the "Pension Policy") establishes guidelines for the funding of the City's employer contributions to the City's pension funds, the Municipal Employees' Annuity and Benefit Fund of Chicago ("MEABF"); the Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago ("LABF"); the Firemen's Annuity and Benefit Fund of Chicago ("FABF"); and the Policemen's Annuity and Benefit Fund of Chicago ("PABF", and collectively, the "Pension Funds").

Scope and Authority

This Pension Policy provides guidelines on the management of the City's financial obligations to the Pension Funds. This Pension Policy will be periodically reviewed as conditions warrant.

Annual Advance Payment

Starting in fiscal year 2023, the City will annually budget for an advance pension contribution which, in addition to the statutorily required contribution, and in the determination of the CFO, will not increase the total net pension liability of the City's four pension funds based on best efforts projections and information available at the time of budget. This total net pension liability calculation will be based on the GASB 67/68 calculation of net pension liability included annually in the City's Annual Comprehensive Financial Report and will include components of said calculation including interest cost derived from unfunded liability, normal cost, administrative costs, employee contributions and market value of the assets of the fund. The advance contribution shall be paid in the first business day of the fiscal year in which such contributions are budgeted.

The CFO will be responsible for the administration of the Advance Pension Funding Policy and determining that all certifications and actuarial assumptions have been confirmed and address the objectives of the pension policy

The City will at all times budget at least the statutory contribution required in each budget year, notwithstanding the above annual Advance Pension Funding Policy above.

EXHIBIT E: REVENUE RECOVERY PROFILE - CHARTS

Figure 28: Licenses, Permits and Certificates: $124M, 2% of Budget

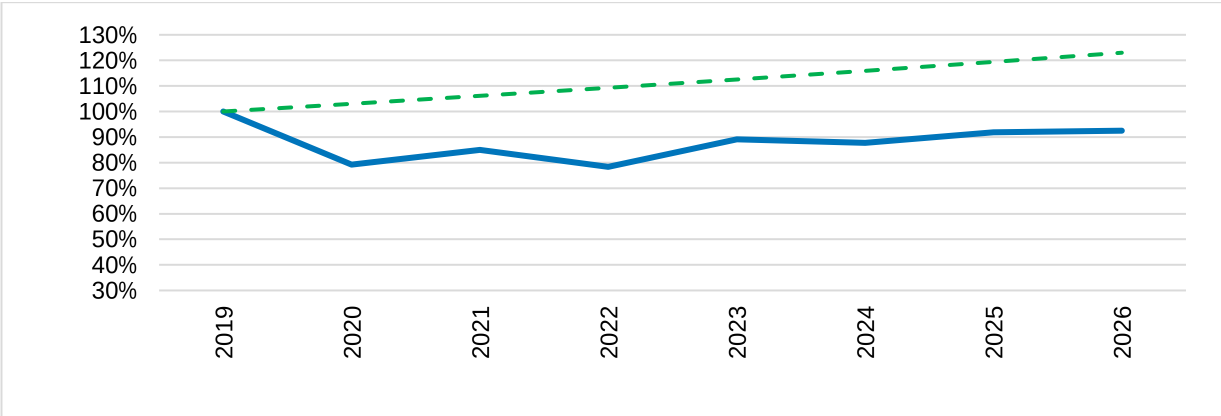


Figure 29: Fines, Forfeitures and Penalties: $302M, 6% of Budget

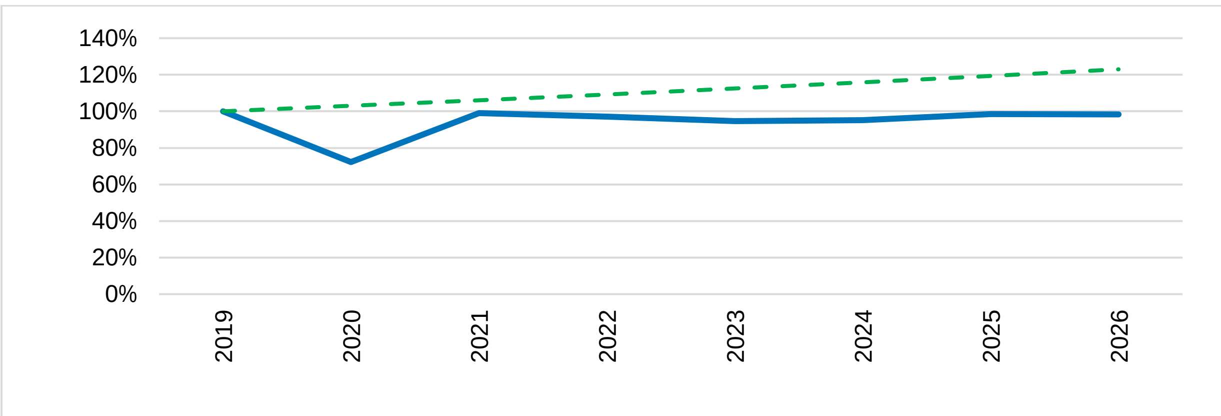


Figure 30: Leases, Rentals and Sales: $32M, 1% of Budget

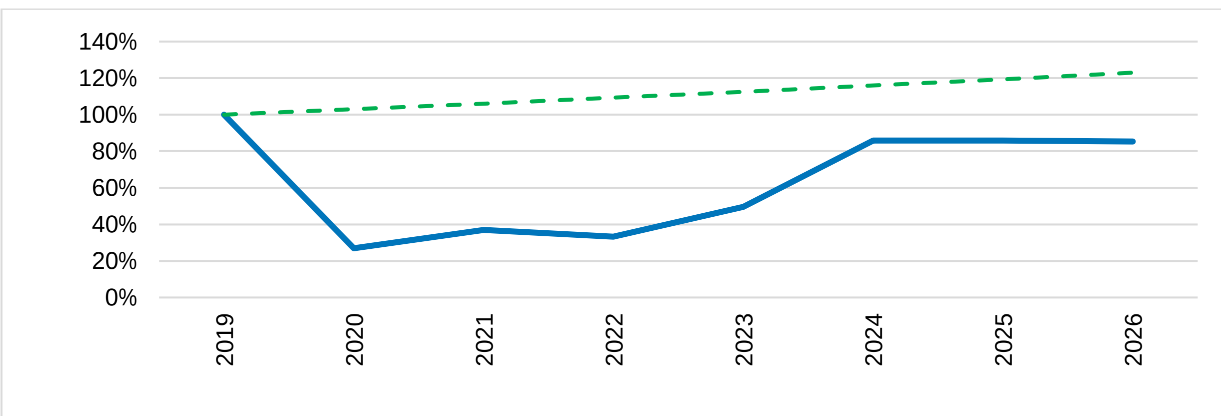


Figure 31: Hotel Taxes: $120M, 2% of Budget

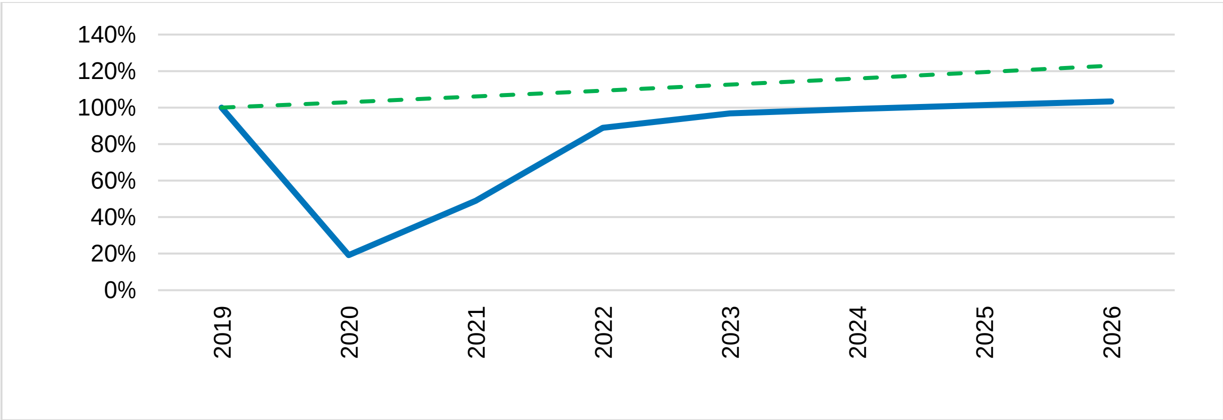


Figure 32: Utility Taxes and Fees: $406M, 8% of Budget

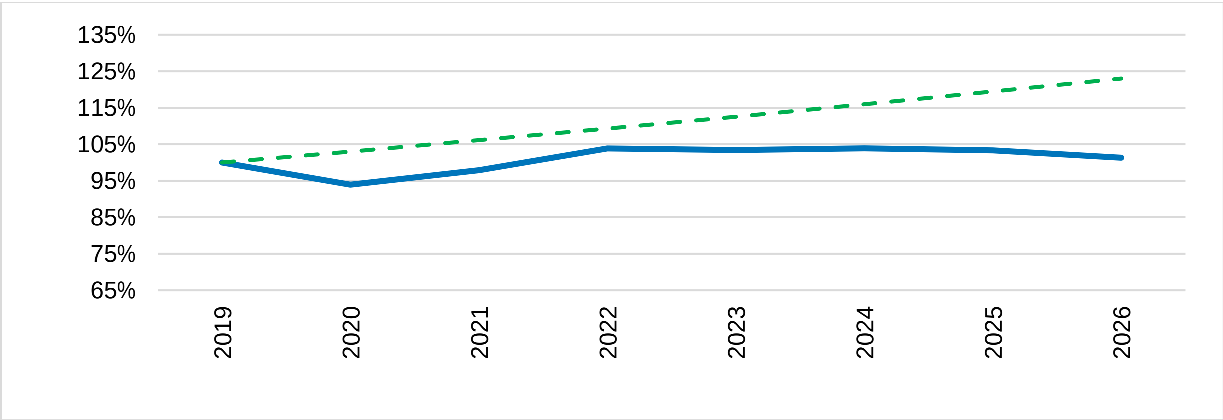


Figure 33: Parking Garage Tax: $136M, 3% of Budget

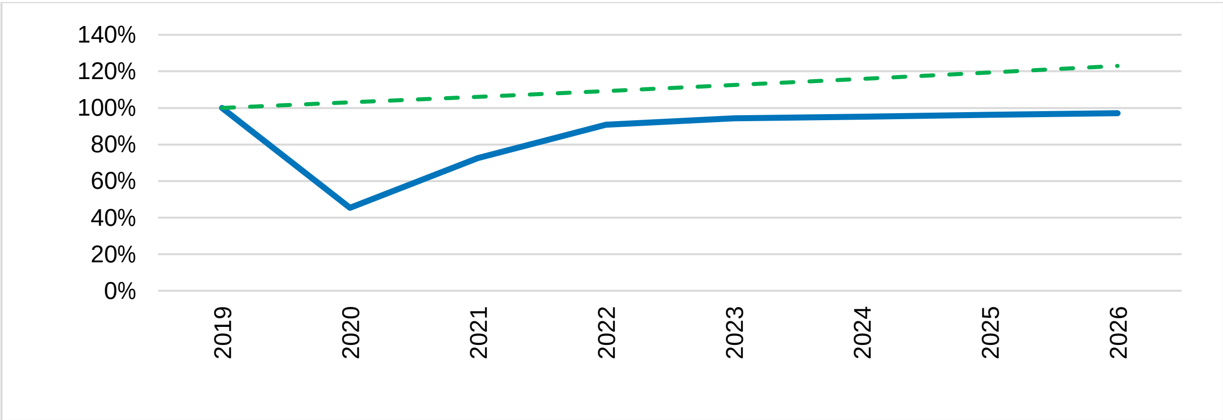


Figure 34: Real Property Transfer Tax: $221M, 4% of Budget

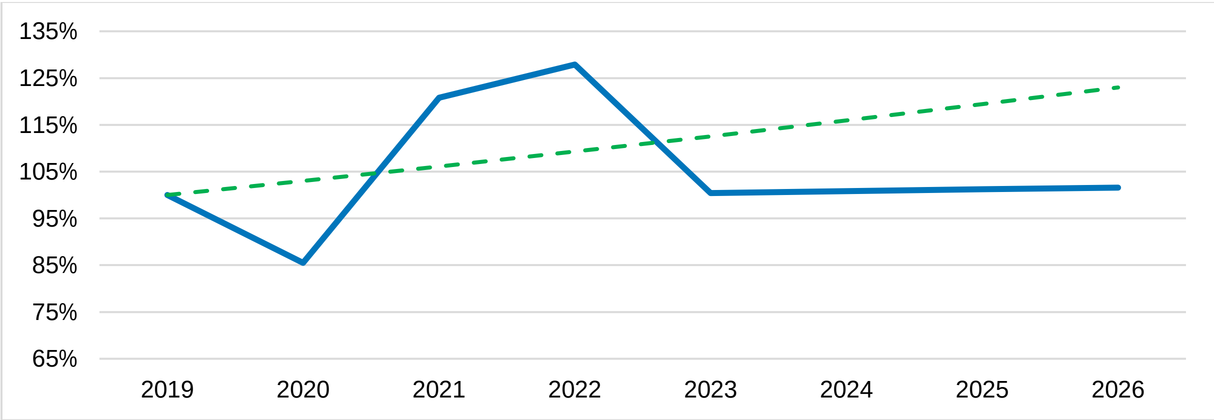


Figure 35: Ground Transportation Tax: $166M, 3% of Budget

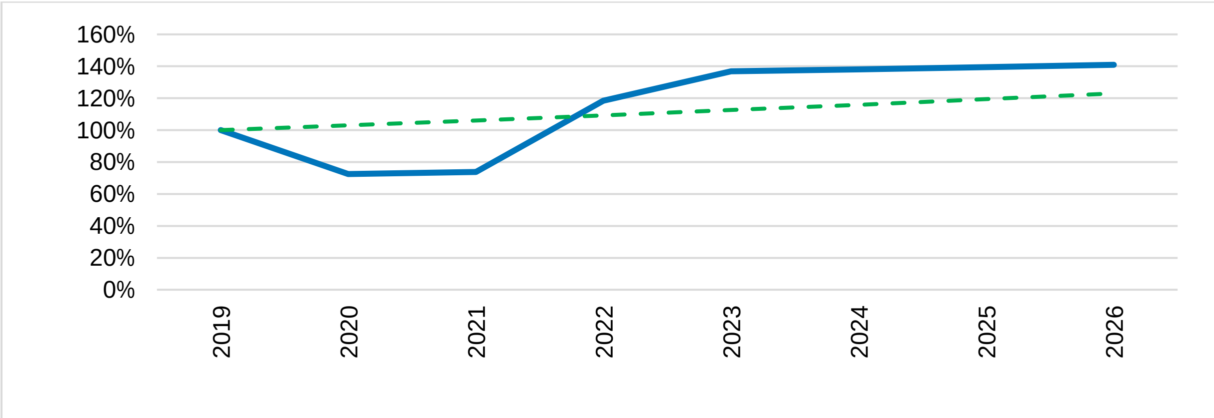


Figure 36: Amusement Taxes: $233M, 4% of Budget

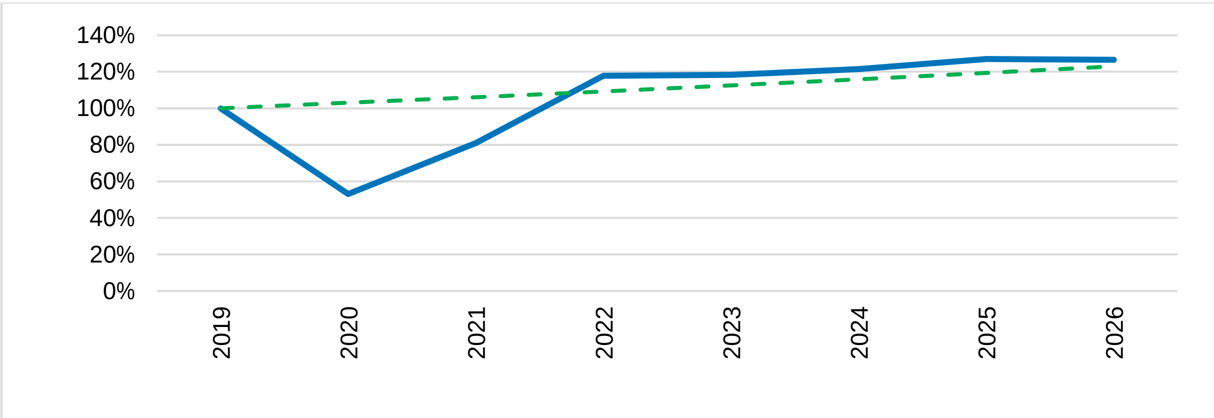


Figure 37: Municipal Parking: $8M, 0.1% of Budget

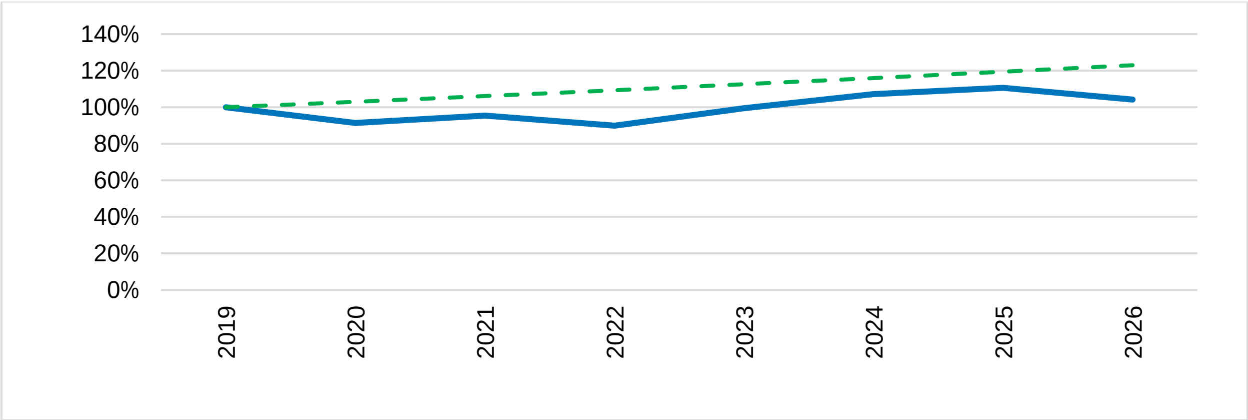


Figure 38: Vehicle Fuel Tax: $66M, 1% of Budget

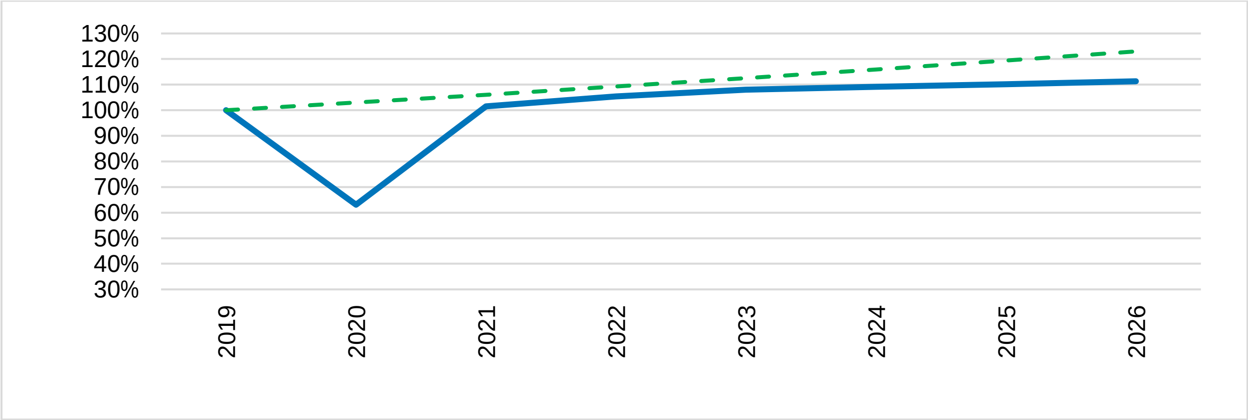


Figure 39: Real Property Transfer Tax: $221M, 4% of Budget

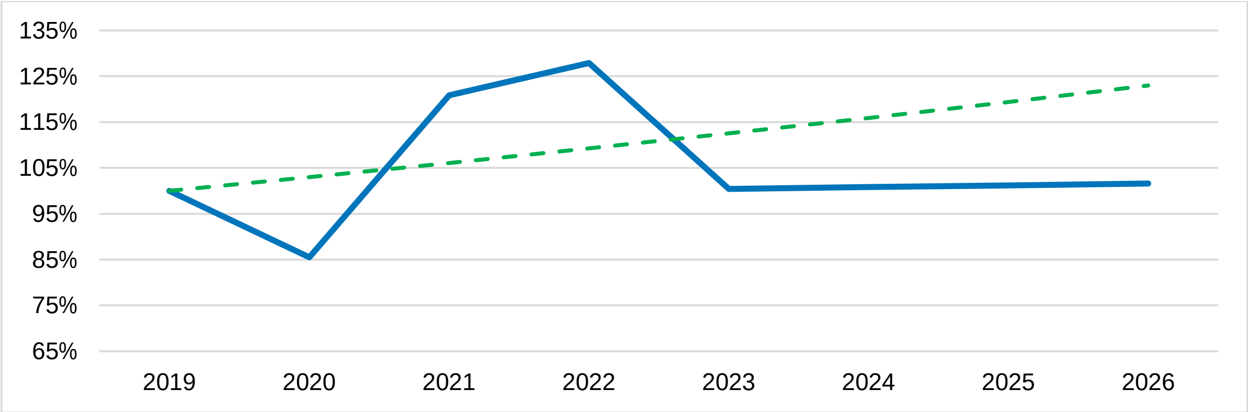


Figure 40: Ground Transportation Tax: $166M, 3% of Budget

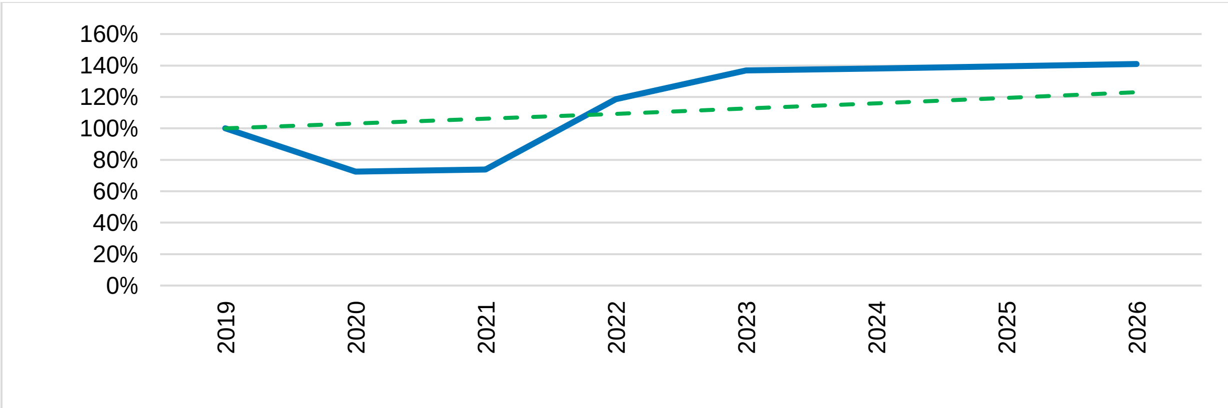


Figure 41:Amusement Taxes $233M, 4% of Budget

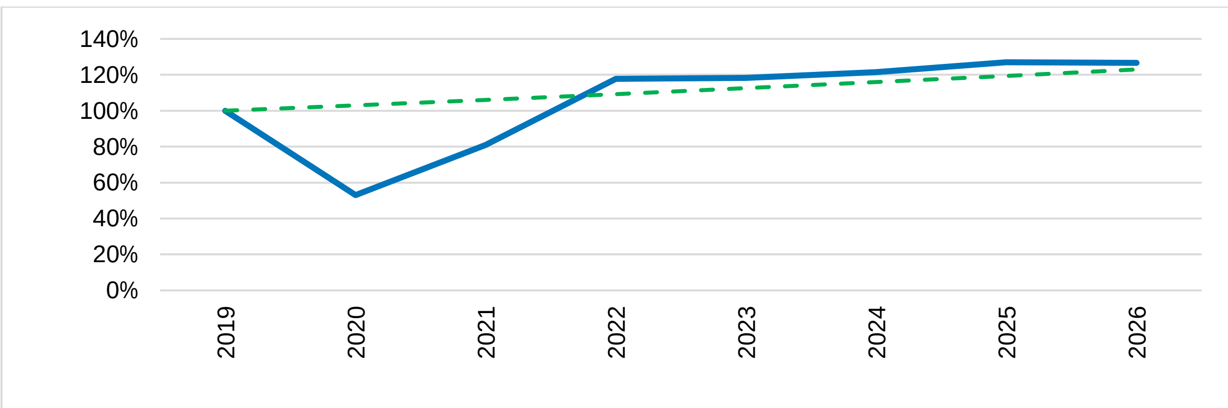


Figure 42: Charges for Services: $365M, 7% of Budget

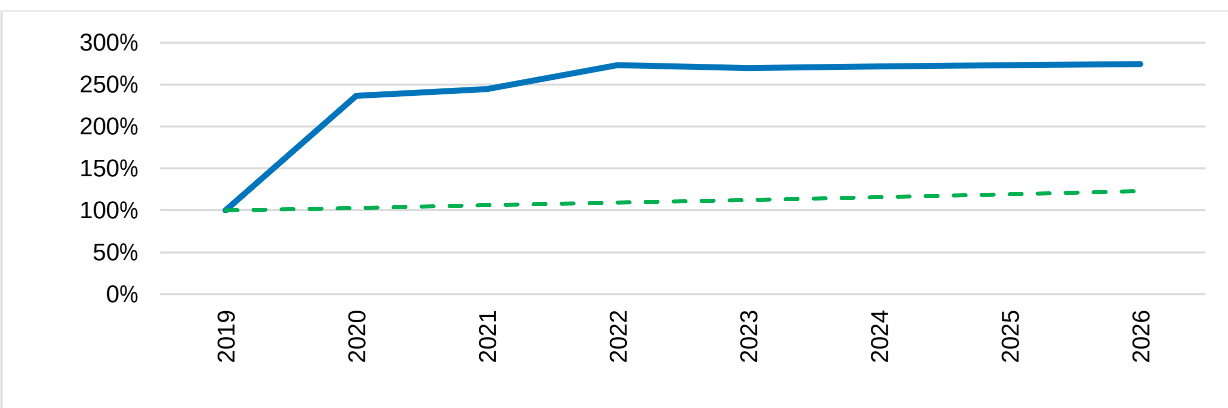


Figure 43: Licenses, Permits and Certificates: $124M, 2% of Budget

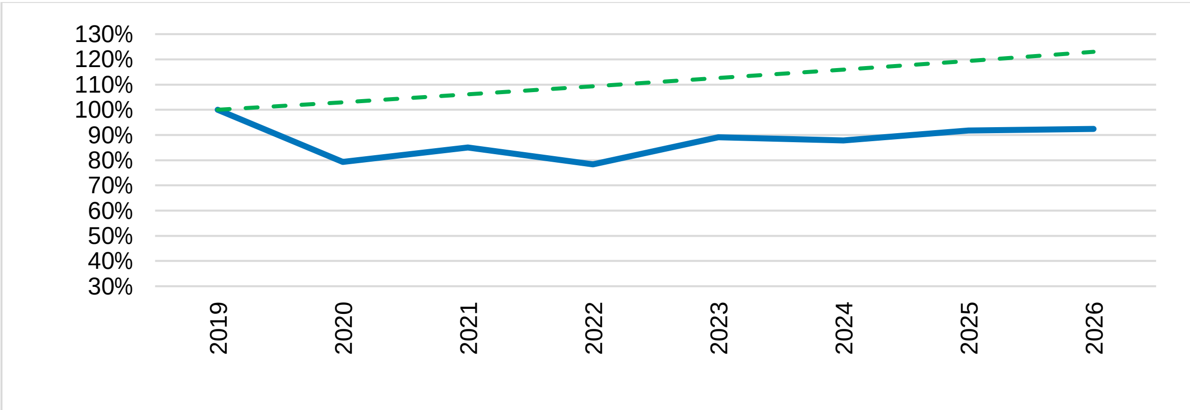
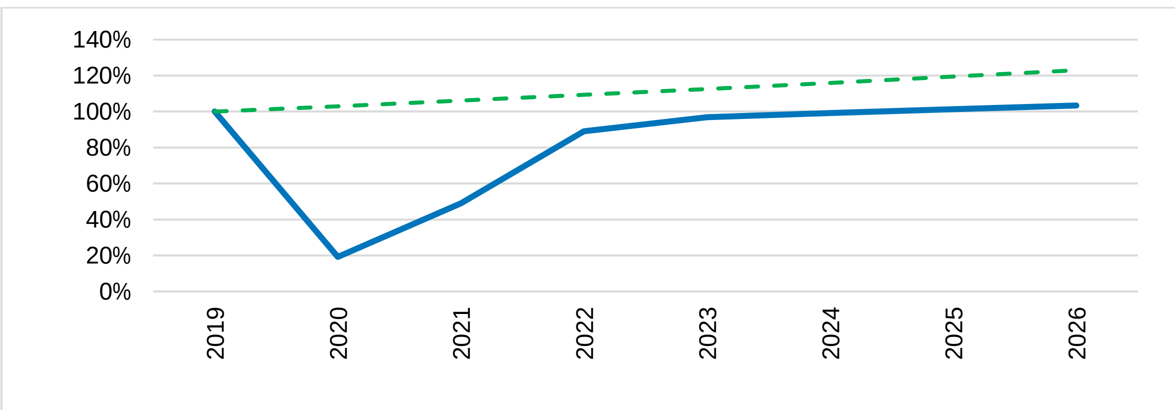


Figure 44: Hotel Taxes: $120M, 2% of Budget



CHICAGO

MAYOR LORI E. LIGHTFOOT