

City of Chicago

Quarterly Budget Report



4th Quarter 2016

Mayor Rahm Emanuel

Content and Purpose

This report presents an overview of the City of Chicago's operating revenues for the fourth quarter of 2016, as compared to budgeted amounts, and explains any notable trends or aberrations in these numbers. This report also provides information and updates on major initiatives that are included in the City's budget.

The revenue and expenditure information in this report is organized by fund. For definitions of the City's budgeted funds and revenue sources, please refer to the 2016 Budget Overview and the 2016 Annual Financial Analysis, both are available online. This report focuses on local fund operating revenues and expenditures. This report does not include information on grant funds, debt service funds, or capital expenditures. Information on those areas can be found in the 2016 Budget Overview and the 2016 Annual Financial Analysis.

The purpose of this public report on the City's revenues and expenditures is twofold. First, it ensures that the City is consistently monitoring its revenues and expenditures so that it can proactively respond to unanticipated changes or emerging trends. Second, and equally important, these reports increase the transparency of City finances. The City is ultimately accountable to its residents to use the revenue it brings in efficiently and effectively to provide the highest quality services, and public reporting provides taxpayers with the information they need to hold the City to this standard.

Timeframe and Limitations

The information in this report is the most accurate and up-to-date information available at the time of publication. However, this report is not an audited financial statement and the numbers provided are preliminary and subject to change as the year progresses. No data on revenues and expenditures is final until the City has completed its annual audit and finalized its Comprehensive Annual Financial Report (CAFR), which is released in the summer of each year for the prior fiscal year. It should be noted that the City balances its budget on an annual basis, and that each fund's revenues and expenditures may not align on a quarterly basis. This is the result of the inherent seasonality of many of these revenue streams and expenses, as is further described in the following pages.

With Respect to Revenues: The City regularly monitors and adjusts its revenue projections based on revenue performance to-date and other developments that may affect the City revenues in order to form a more accurate picture of the City's financial position. In connection with this process, the City develops revenue projections for each month. These monthly projections reflect historical patterns, seasonality, and other known factors that may affect certain revenue streams. These projections are used to develop the cumulative quarterly amounts shown in the tables in this report, which represent the amounts that the City expected to receive through the end of the year. The quarterly estimates presented in the tables in this report are the City's current estimates, as of the date of this report, of its actual revenues for the quarter. These numbers remain estimates pending adjustment that will be made as additional information and collections are received by the City. For example, certain revenues are collected and distributed by the State, and there is a time lag when information on the amount of actual collections is provided to the City, and in some case, a delay in when the City receives actual distributions. In addition, a small portion of the fees and fines attributable to a given quarter typically come in later in the year due to delinquencies and distributed payments, and the actual amount of such revenues is not known until all payments are received. For a limited number of revenues, the revenue figures are reported on a cash basis, while the CAFR will include revenues from the revenue recognition period. However, the City does not expect this reporting difference to significantly impact the bottom line revenue figure.

With Respect to Expenditures: Expenditures include funds that are encumbered but may not yet have been spent, such as the full-year cost of property rentals and payments under certain technology maintenance and licensing contracts. The quarterly budget amounts presented in the expenditure tables in this report reflect historical spending patterns as applied to this year's budget, with the exception of transfers to other City funds and healthcare expenditures, which are estimated based on current expectations of year-end expenses and allocated across funds. These figures represent a snapshot of City expenditures at a certain point in time and do not reflect final adjustments made to prepare the City's CAFR.

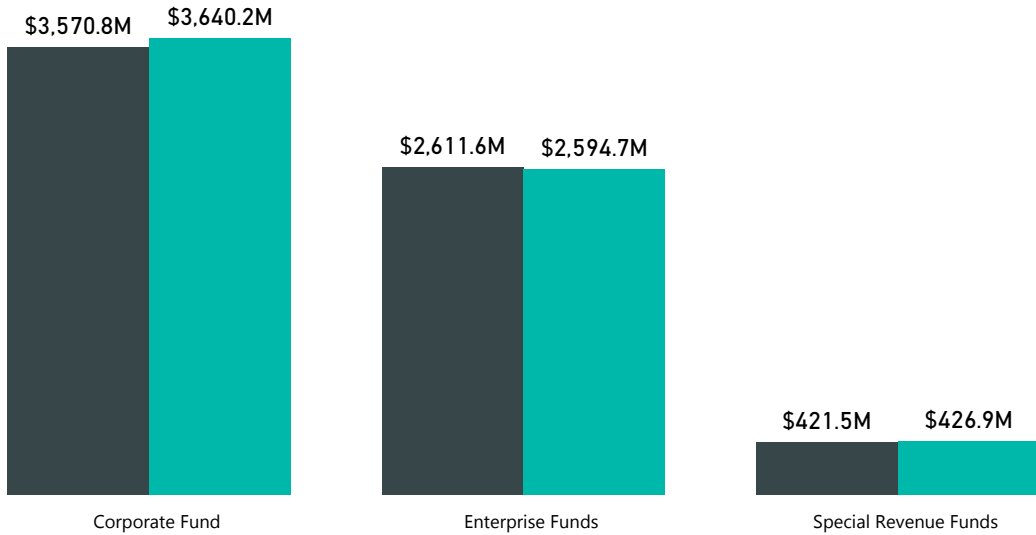
Summary of Local Funds

The City's local funds are comprised of the corporate fund, enterprise funds, and special revenue funds. These funds are the primary funds the City utilizes to support citywide operations from public safety to garbage collection and water and sewer services.

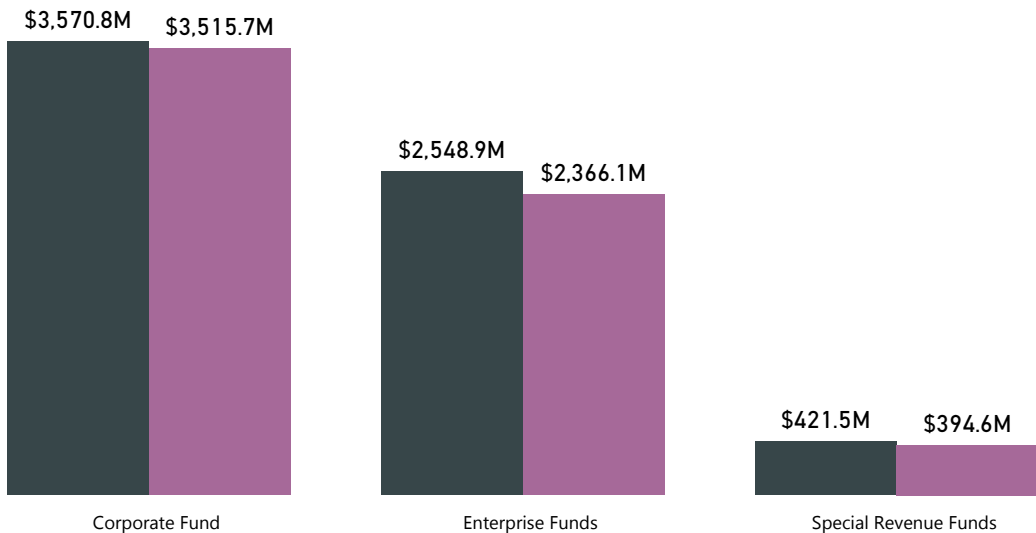
Overall, local fund revenues ended the fourth quarter with positive growth and were 1.9 percent above budgeted expectations. While certain revenue, such as recreation taxes and transaction taxes, continued to show strong growth, these gains were offset by under performance in other areas.

Local fund fourth quarter expenditures ended 4.0 percent below budgeted expectations.

Revenue - Q4 ● Budget ● Estimate



Expenditures - Q4 ● Budget ● Estimate



Revenue - Corporate Fund

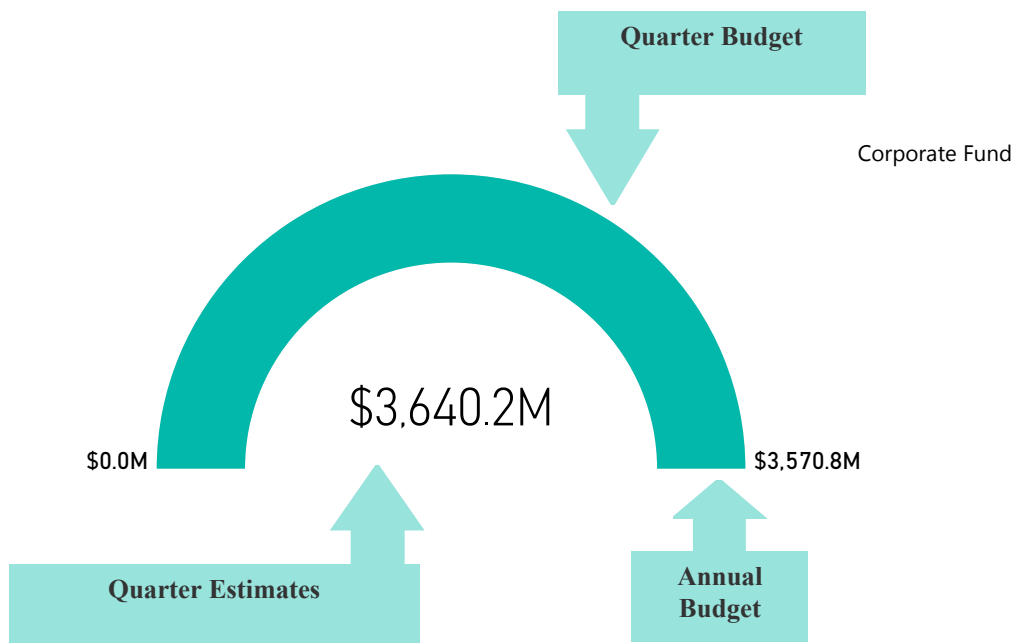
Corporate fund revenues ended the year two percent above budgeted expectations. This is a result of many of the City's economically-sensitive revenues, such as transaction taxes and recreation taxes, ending the fourth quarter significantly above budgeted expectations. But these gains are partially offset by under performance in certain tax and non-tax revenues and the ongoing reduction in personal property replacement tax (PPRT) distribution to the City from the State of Illinois.

Transaction tax revenue ended the year 32 percent above budget due to strong commercial real estate activity, multiple large property transfers, and greater compliance with the personal property lease tax. In 2016, the City incentivized compliance with the personal property lease tax by offering amnesty for companies that owe prior years' taxes on cloud software and cloud infrastructure services. The one-time amnesty payments and a growing number of businesses paying the lease tax put revenue from this tax 43 percent or \$76.6 million above budgeted expectations. This revenue growth helped to offset reductions in other tax and non-tax revenues. The City expects transaction tax revenue to decrease in 2017 compared to 2016 as the one-time amnesty expires.

Recreation taxes are up 14 percent through the end of 2016 primarily due to growth in amusement tax revenue. Amusement tax revenue ended the year \$30.6 million above budget, with this growth attributed to the Cubs' playoff performance and World Series win. In addition, popular theater performances, including Hamilton, and greater compliance with the City's amusement tax ordinance and rulings helped drive growth through December 2016. Nearly all recreation taxes saw revenue growth above budgeted expectations in 2016.

Overall utility tax revenue collection was nearly 2.0 percent or approximately \$8 million below budgeted expectations. Despite an uptick in revenue during the fourth quarter of 2016, revenue losses in gas and natural gas taxes throughout the year contributed to the utility tax revenue ending the year below budget. Revenue from telecommunications tax and electricity taxes helped to offset reductions in gas and natural gas revenue ending the year \$2.2 million and \$1.6 million above budget expectations, respectively.

While many economically-sensitive tax revenues were above budgeted expectations through the end of the year, sales and use tax revenue finished \$6.5 million or 1.0 percent below budget. The City is experiencing a softening in its local sales tax revenue (Home Rule Occupation Tax), while the municipal share of State sales tax (Municipal Retailers' Occupation and Use Tax) continues to see growth. The City continues to monitor sales tax revenue to determine if an increase in online purchasing which are subject to the State sales tax, but not the City's sales tax, is driving this reduction.



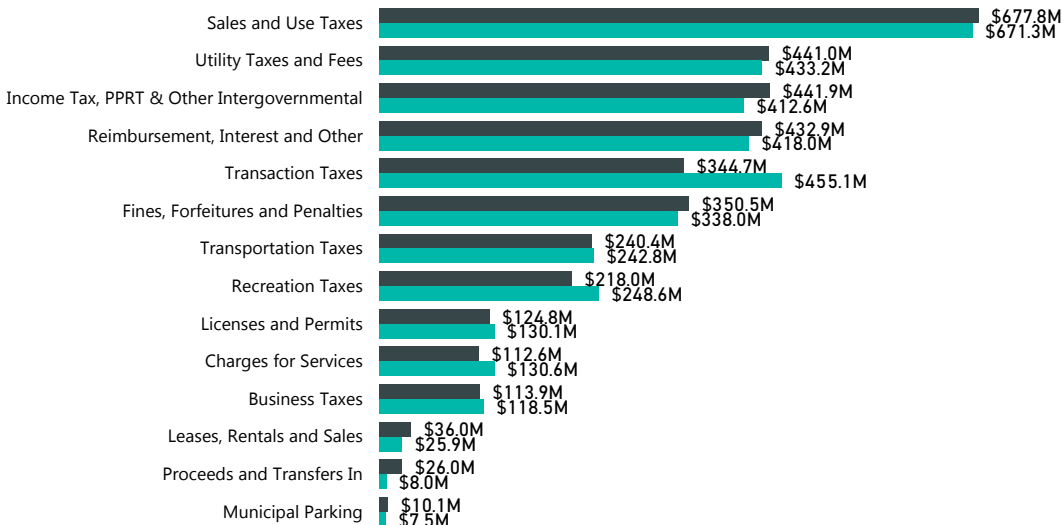
Revenue - Corporate Fund

In 2016, the City received income tax distributions from the State of Illinois at 11.3 percent less than 2015. This is due to ongoing reductions in PPRT disbursements from the State. PPRT finished the fourth quarter 10 percent below budgeted expectations. The Illinois Department of Revenue (IDOR) informed the City and other local taxing districts in April 2016 that IDOR misclassified \$168 million in income tax as PPRT; thereby, increasing the disbursement to the local taxing districts between April 2014 and March 2016. To correct this error, the State began reducing future distributions to Chicago for the remainder of 2016. The State also started recouping prior overpayments in July 2016 with the process expected to continue through 2017. The City is also monitoring declines in income tax revenue at the State level, because despite employment and wage gains, individual income tax revenue ended the year below budgeted expectations.

Non-tax revenue ended the year 1.6 percent below budgeted expectations due to smaller than projected revenue in municipal parking, fines and forfeitures and land sales. These losses were offset, in part, by revenue above budgeted expectations from licenses and permits and charges for services.

		Corporate Fund - \$ Millions	
		2016	
Category	Sub-Category	Budget	Estimate
Tax Revenue	Business Taxes	\$113.9	\$118.5
	Income Tax, PPRT & Other Intergovernmental	\$441.9	\$412.6
	Recreation Taxes	\$218.0	\$248.6
	Sales and Use Taxes	\$677.8	\$671.3
	Transaction Taxes	\$344.7	\$455.1
	Transportation Taxes	\$240.4	\$242.8
	Utility Taxes and Fees	\$441.0	\$433.2
	Total		\$2,477.8
Proceeds and Transfers In	Proceeds and Transfers In	\$26.0	\$8.0
	Total	\$26.0	\$8.0
Non-Tax Revenue	Charges for Services	\$112.6	\$130.6
	Fines, Forfeitures and Penalties	\$350.5	\$338.0
	Leases, Rentals and Sales	\$36.0	\$25.9
	Licenses and Permits	\$124.8	\$130.1
	Municipal Parking	\$10.1	\$7.5
	Reimbursement, Interest and Other	\$432.9	\$418.0
Total		\$1,067.0	\$1,050.1
Total		\$3,570.8	\$3,640.2

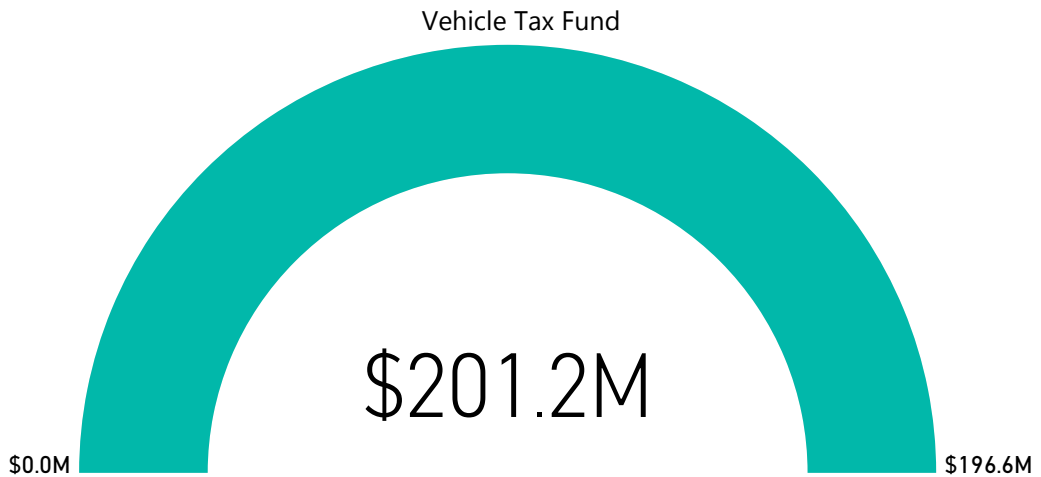
Q4 ● Budget ● Estimate



Vehicle Tax Fund

Vehicle tax fund revenues were over 2.0 percent or \$4.6 million above budgeted expectations. Vehicle sticker sales were \$10.6 million above revenue expectations, due to improved enforcement resulting in a significant number of first-time sticker purchases and revenue from one-time penalties. This increase was offset partially by lower than expected annual revenues from pavement cuts, auto impoundments, and the sale of impounded vehicles as scrap metal prices remain low.

Category	Year ▼ Sub-Category	Vehicle Tax Fund - \$ Millions	
		2016 Budget	Estimate
Revenue Items	Impoundment, Pavement Cut & Other Fees	\$25.5	\$20.8
	Other Revenue & Reimbursements	\$45.4	\$44.1
	Vehicle Sticker Tax	\$121.2	\$131.8
	Total	\$192.1	\$196.7
Appropriated Prior Year Fund Balance	Appropriated Prior Year Fund Balance	\$4.5	\$4.5
Total	Total	\$196.5	\$201.2

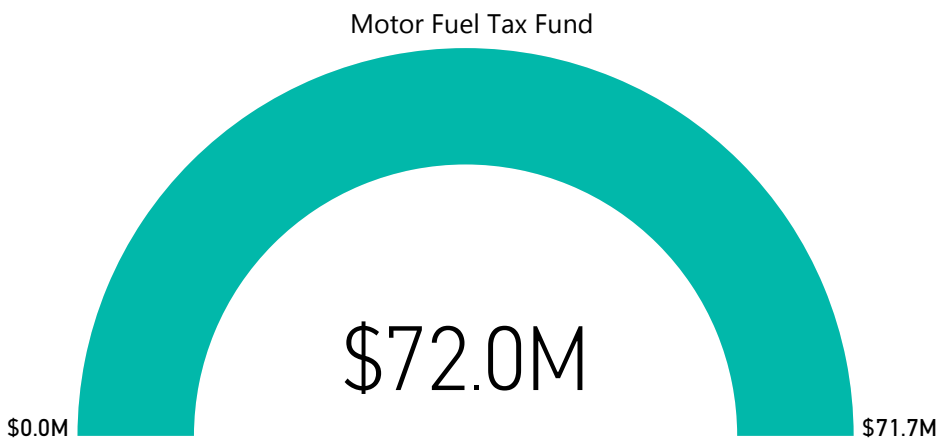


Motor Fuel Tax Fund & Debt Service

The Motor Fuel Tax (MFT) fund ended the year on budget. Motor fuel tax revenue was \$68.6 million for 2016, benefiting from increased fuel consumption as fuel prices remained relatively low throughout the year. Fees from concessionaires and tour boat operators at the Riverwalk finished the year on budget at \$3.3 million.

Since 2014, revenue from fees charged to tour boat operations and revenue related to vendors along the Riverwalk were dedicated to make loan repayments for the U.S. Department of Transportation’s Infrastructure Finance Innovation Act (TIFIA) program. This loan was used to fund the expansion of Chicago’s Riverwalk.

Category	Year Sub-Category	Motor Fuel Tax Fund - \$ Millions	
		2016 Budget	Estimate
Revenue Items	Interest and Other Revenue	\$3.4	\$3.4
	Motor Fuel Tax	\$68.3	\$68.6
	Total	\$71.7	\$72.0
Appropriated Prior Year Fund Balance	Appropriated Prior Year Fund Balance	\$0.0	\$0.0
Total	Total	\$71.7	\$72.0



Garbage Fee Fund

Beginning in 2016, Chicago residences receiving City-provided garbage collection services are charged a \$9.50 monthly fee per dwelling unit. The garbage fee is included as a separate line on the City’s water, sewer, and garbage utility bill.

The City billed residences \$61.8 million in garbage fee charges in 2016. Due to the staggered billing cycle, final collection amounts for 2016 are not yet available. For example, certain households received bills in the fourth quarter that included charges for 2016 and 2017 services, which were not due until 2017. The City is finalizing amounts collected during the revenue recognition period and attributable to 2016. The 2016 Comprehensive Annual Financial Report will include the final collection numbers.

As late payment penalties begin in 2017 and with a full year of implementation, the collection rate for the garbage fee is expected to be in line with water and sewer charges, which is over 90 percent.

Special Events & Hotel Tax Fund

The special events and hotel tax fund revenue finished the year over 2.0 percent above budgeted expectations, mainly due to an increase in hotel bookings from conventions and tourism. Hotel Operator’s Occupation Tax was \$2.2 million above budget, generating \$24.5 million in total tax revenue in 2016. Recreation fee revenues ended the year on budget.

Special Events & Hotel Tax Fund - \$ Millions

Category	Year Sub-Category	2016	
		Budget	Estimate
Revenue Items	Hotel Operator's Occupation Tax	\$23.3	\$24.5
	Other Revenue	\$6.5	\$6.5
	Recreation Fees, Rentals & Other Charges	\$12.3	\$12.2
	Total	\$42.1	\$43.2
Appropriated Prior Year Fund Balance	Appropriated Prior Year Fund Balance	\$8.3	\$8.2
	Total	\$50.3	\$51.4

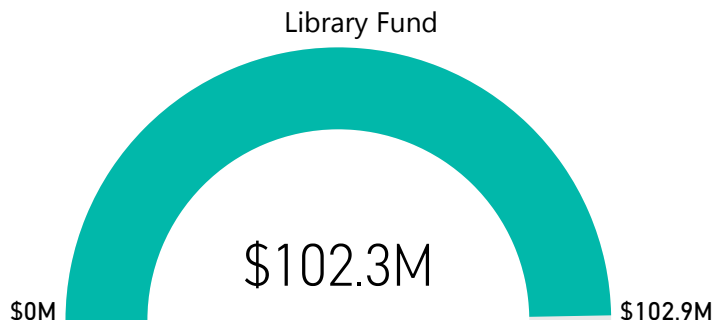


Library Fund

Revenue to the City’s library fund does not generally fluctuate from budgeted levels, as the majority of this revenue comes from the City’s property tax levy and a subsidy from the City’s corporate fund. Revenue generated from fines was slightly below budget, causing the Library Fund revenue to be approximately \$0.5 million below budgeted expectations.

Library Fund - \$ Millions

Category	Year Sub-Category	2016	
		Budget	Estimate
Revenue Items	Corporate Fund Subsidy	\$18.3	\$18.3
	Property Tax Levy	\$77.2	\$77.1
	Rental, Fines & Other Revenue	\$3.3	\$2.7
	Total	\$98.7	\$98.1
Appropriated Prior Year Fund Balance	Appropriated Prior Year Fund Balance	\$4.2	\$4.2
	Total	\$102.9	\$102.3



Water and Sewer Funds

The budget for the water and sewer funds reflects the seasonality in usage. Revenue estimates are adjusted to reflect anticipated collection rates. Water fund revenue ended the year approximately 1.0 percent below budgeted expectations, while sewer fund revenues ended the year 1.0 percent above expectations.

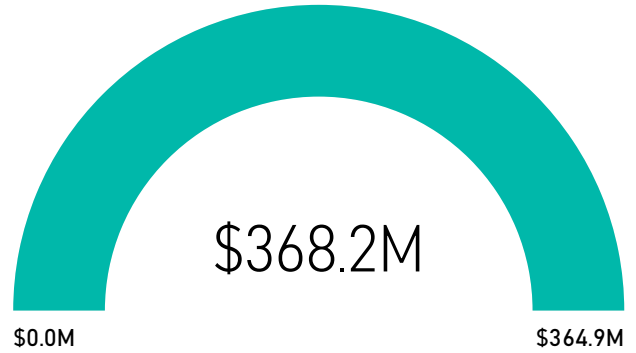
Water and Sewer Funds - \$ Millions

Year Fund	2016	
	Budget	Estimate
Water Fund	\$784.1	\$777.4
Sewer Fund	\$364.9	\$368.2

Water Fund



Sewer Fund



Aviation Funds

The Midway and O’Hare Airport Funds each derive revenue from charges and associated user fees, which are aligned with fund expenditures. The amount that the airlines pay each year is established at each airport on a residual basis—the airlines are charged the amount that is needed to pay for operating expenses and debt service after taking into account non-airline revenues.

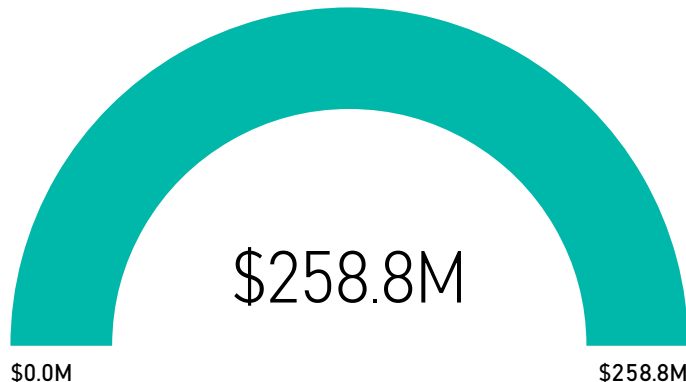
Aviation Funds - \$ Millions

Year Fund	2016	
	Budget	Estimate
O’Hare Fund	\$1,141.0	\$1,141.0
Midway Fund	\$258.8	\$258.8

O’Hare Fund



Midway Fund



Corporate fund expenditures finished 2016 approximately 2.0 percent below budgeted expectations. This is primarily a result of smaller than budgeted pension contributions to the Municipal and Laborers' pension funds, healthcare savings, and certain non-personnel savings but these reductions are offset by overtime growth and settlements and judgments payments.

The 2016 corporate fund budget for pension contributions reflects the amounts required by the now overturned Senate Bill 1922 (SB1922). The Illinois Supreme Court struck down SB1922 in spring 2016, returning the City's required 2016 pension contributions to the Municipal and Laborers' pension funds to the multiplier formula, which is lower than the budgeted amounts in 2016. The 2016 mid-year quarterly budget report reflected the pension contribution amount and budget under SB1922 as the legislation was only recently struck down at that time of publication and because the City was still working with labor and elected officials to develop new pension reform legislation. The pension expenditures in this report and the third quarter report reflect the smaller contributions under the multiplier, while the budgeted expectations remain at the SB1922.

Year Category	Corporate Fund - \$ Millions	
	2016 ▲ Budget	Estimate
Benefits	\$467.9	\$453.6
Claims, Refunds, Judgments, and Legal Fees	\$45.4	\$118.7
Commodities and Equipment	\$78.9	\$72.1
Contractual Services	\$304.9	\$293.0
Delegate Agencies and Other Program Costs	\$81.8	\$79.7
Miscellaneous	\$6.5	\$6.3
Pension	\$114.0	\$11.6
Personnel Services	\$2,358.7	\$2,369.0
Reimbursements and Financial Expenses	\$22.8	\$21.6
Transfers Out	\$90.0	\$90.0
Total	\$3,570.8	\$3,515.7

Personnel services and benefit costs are the two largest corporate fund expenses and represent nearly 80 percent of budgeted expenses in 2016.

Personnel services include expenditures for salaries and wages, overtime costs, and additional compensation required under collective bargaining agreements – for example, duty availability within the public safety departments. Personnel services ended 2016 on budget. This category saw lower than expected expenses in salary and wages due to normal position turnover, but this reduction was offset by large overtime expenses related to public safety.

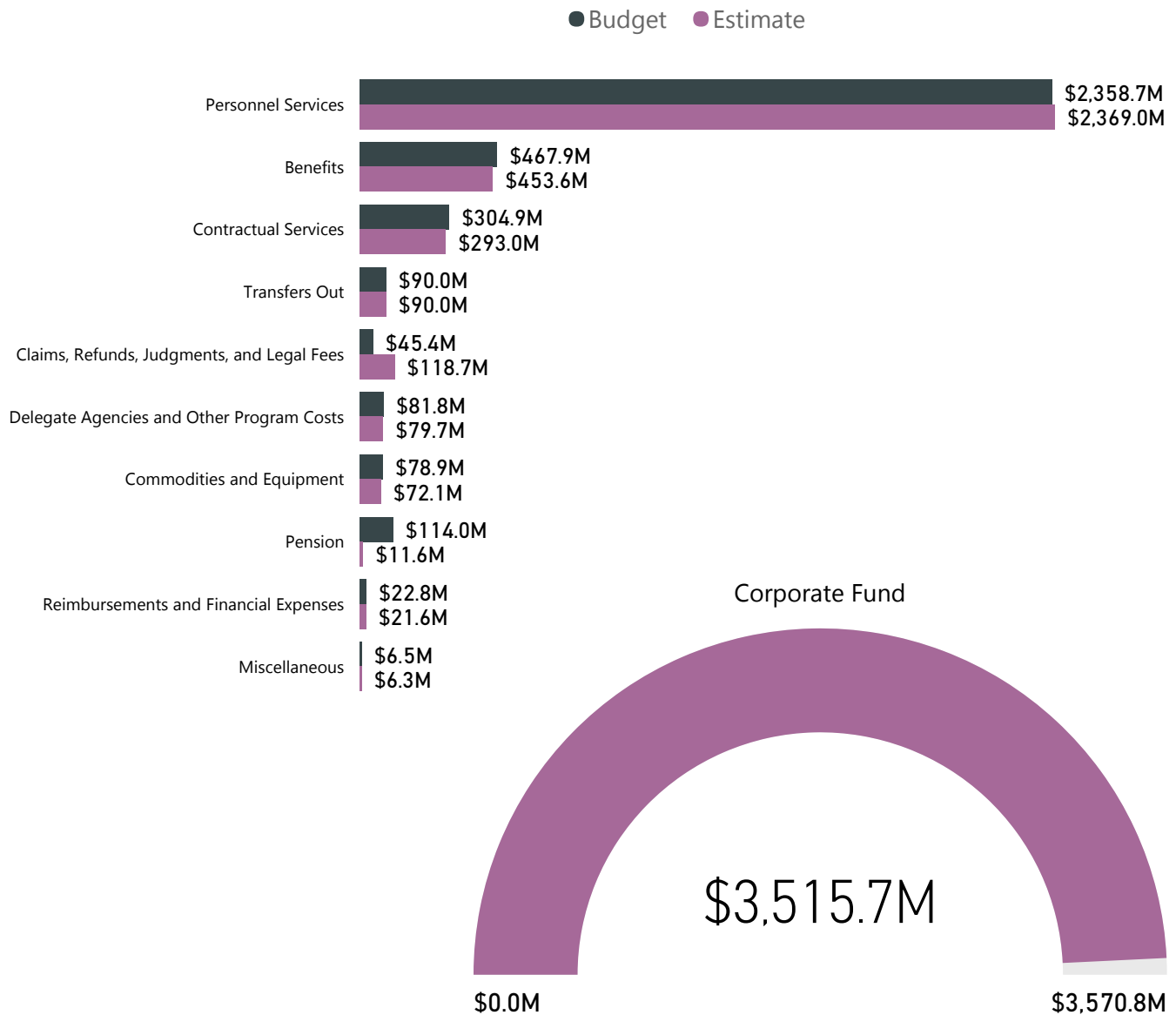
Benefit costs in 2016 reflect the City's continued work to slow annual healthcare cost growth through savings and reforms within the City healthcare program. Through these efforts, the City reduced healthcare costs in 2016 by over \$10 million, ending the year three percent below budget.

Building on the fuel and energy savings in the first three quarters of 2016, commodities and equipment expenditures through the fourth quarter are 9.0 percent below budget. Additionally, contractual services include costs such as leasing expenses, professional and technical services, and software licensing. These costs ended the fourth quarter 4.0 percent below budget.

Claim and judgment-related expenditures for the corporate fund budget were fully spent by the start of the fourth quarter. Each year, the City uses both corporate fund resources and bond proceeds to pay for expenses incurred in connection with claims and judgments. Prior to utilizing bond proceeds, the City identifies additional operating funds to allocate for settlements and judgments at the end of the year. Based on revenue growth in areas coupled with savings from healthcare and certain non-personnel expenses, the City will allocate additional corporate fund revenue to 2016 settlement and judgment costs. The City does not expect to utilize bond proceeds to pay for 2016 settlement and judgment expenses.

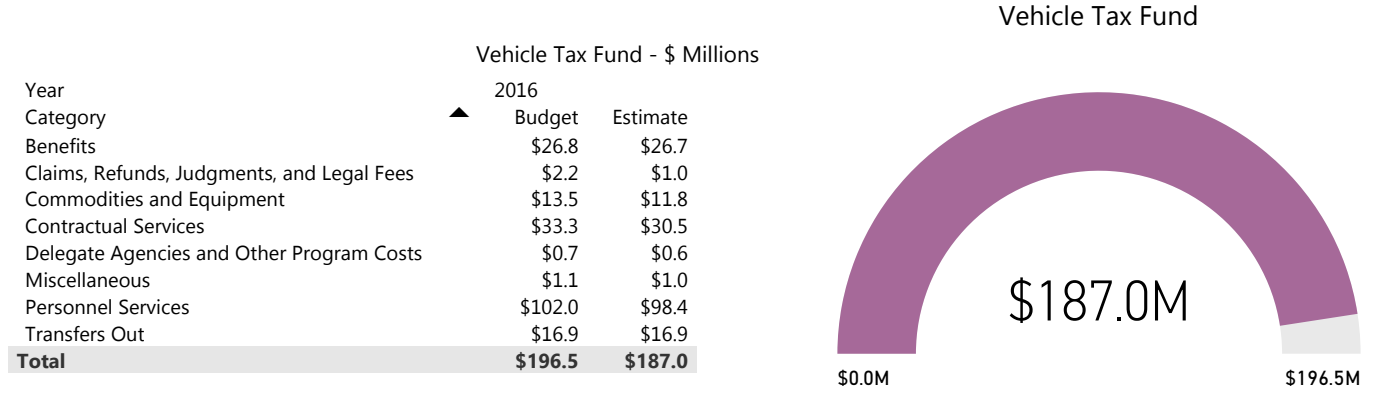
Delegate agencies and other program costs are 3.0 percent below budgeted expectations. Certain agencies and programs receive reimbursements based on the services provided and others did not fully expend their 2016 budget, resulting in the lower than budgeted expenditures.

Reimbursements and financial expenses include certain debt service payments as well as other expenses. At the close of 2016, the City will end this year at 5.0 percent below budgeted levels, due to conservative estimates related to the cost of the City's lines of credit.



Vehicle Tax Fund

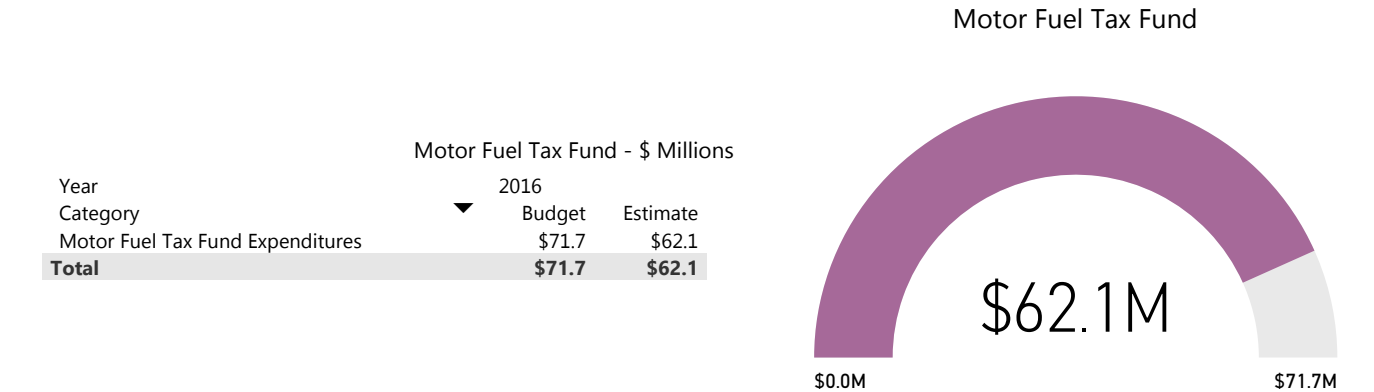
Vehicle tax fund expenditures were 95 percent of the 2016 budget for this fund. This fund saw similar expense trends as the corporate fund. Additionally, the fund ended below budgeted expectations due to fewer claim payments made in 2016 for damages and liabilities associated with this fund.



Motor Fuel Tax Fund & Debt Service

MFT fund expenditures, which support snow removal, citywide electrical work, and street maintenance, were 13 percent below budget for the year. Expenses from this fund are highly seasonal and can vary significantly from year to year due to the volatility of Chicago weather. Further, personnel services cost ended 2016 below budget due to high turnover in the electrical division.

In 2016, TIFIA debt service payments for the Riverwalk were paid with fee revenue from concessionaires and tour boat operators along the Riverwalk. In 2017, the City expects to pay approximately \$3.1 million for TIFIA debt service, and this payment is expected to be fully covered by fee revenue from concessionaires and tour boat operators. The City continues to expect concession and tour boat operations revenue to cover debt service payments going forward.



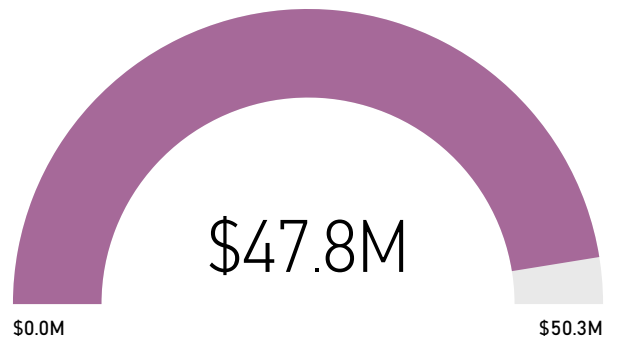
Special Events & Hotel Tax Fund

Expenditures from this fund finished the year at 95 percent of budgeted expenses. Spending from this fund mostly occurs during the mid- and late- summer months in support of major City-run events and festivals. Spending on special events and tourism-related costs can vary yearly due to the timing of certain payments in connection with operations and programming at Millennium Park, as well as other cultural expenditures. This year, the spending on special events and tourism was on budget at the close of the year, while expenses associated with trade show costs and maintenance were below budget, resulting in less than budgeted expenditures for the year.

Special Events & Hotel Tax Fund - \$ Millions

Year Category	2016	
	Budget	Estimate
Benefits	\$1.2	\$1.1
Commodities and Equipment	\$0.1	\$0.1
Contractual Services	\$8.2	\$6.4
Delegate Agencies and Other Program Costs	\$1.5	\$1.4
Miscellaneous	\$0.0	\$0.0
Personnel Services	\$7.1	\$6.6
Reimbursements and Financial Expenses	\$5.0	\$5.0
Special Events and Tourism	\$20.4	\$20.4
Transfers Out	\$6.9	\$6.9
Total	\$50.3	\$47.8

Special Events & Hotel Tax Fund



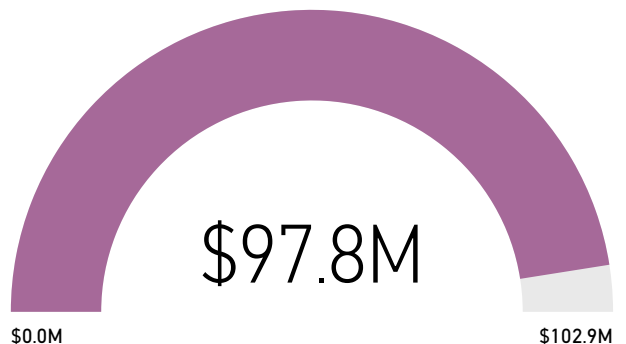
Library Fund

Expenditures from this fund ended the year 95 percent of the 2016 budget, following similar trends seen in the corporate budget as it relates to pension contributions and benefits and personnel services costs. As discussed in the corporate fund section, the pension contributions from the Library Fund were impacted by the Illinois Supreme Court’s ruling on SB1922. Contractual service costs include facility management, property maintenance, and building services, and these expenses were below budget for the year. This reduction is offset by interest payments on tender notes used to fund library operations prior to receipt of property tax revenues.

Library Fund - \$ Millions

Year Category	2016	
	Budget	Estimate
Benefits	\$10.6	\$10.1
Commodities and Equipment	\$19.0	\$18.9
Contractual Services	\$13.3	\$12.6
Pension	\$3.6	\$0.0
Personnel Services	\$54.9	\$53.9
Reimbursements and Financial Expenses	\$1.5	\$2.1
Transfers Out	\$0.1	\$0.1
Total	\$102.9	\$97.8

Library Fund

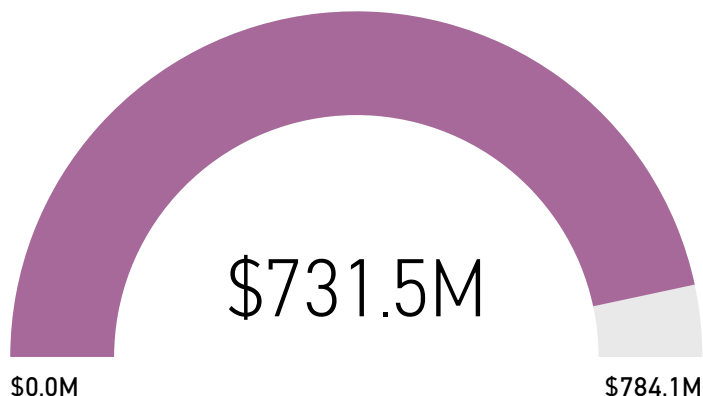


Water and Sewer Funds

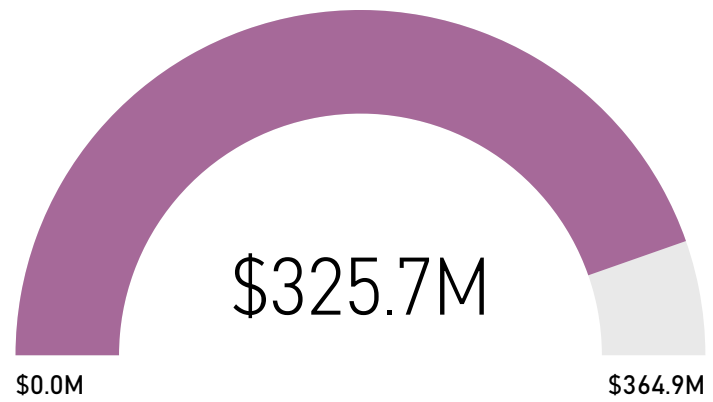
Expenditures for the water and sewer fund were below budgeted costs for 2016 at 93 percent and 89 percent of the total budgeted amount, respectively. As discussed in the corporate fund section the pension contributions for both funds were impacted by the Illinois Supreme Court’s ruling on SB1922, causing expenditures to end the year below budgeted costs. Similar to trends in the corporate fund, both funds benefited from healthcare savings. Further, the sewer fund was below budget in personnel services and the water fund ended the year above budgeted expectations in personnel services due to overtime costs among operating engineers. Lastly, both funds saw decreased costs associated with reimbursements and financial expenses, due, in part, to the City delaying bond issuances for both funds until 2017.

Fund Name	Year	Category	2016	
			Budget	Estimate
Water Fund		Benefits	\$35.7	\$34.1
		Claims, Refunds, Judgments, and Legal Fees	\$8.7	\$3.2
		Commodities and Equipment	\$58.1	\$52.4
		Contractual Services	\$46.7	\$40.2
		Miscellaneous	\$16.4	\$11.3
		Pension	\$22.7	\$12.3
		Personnel Services	\$147.7	\$154.4
		Reimbursements and Financial Expenses	\$356.7	\$332.1
		Transfers Out	\$91.5	\$91.4
		Total	\$784.1	\$731.5
Sewer Fund		Benefits	\$13.2	\$12.5
		Claims, Refunds, Judgments, and Legal Fees	\$1.2	\$1.4
		Commodities and Equipment	\$6.6	\$6.0
		Contractual Services	\$9.1	\$7.9
		Miscellaneous	\$0.2	\$0.1
		Pension	\$8.8	\$4.4
		Personnel Services	\$56.7	\$45.6
		Reimbursements and Financial Expenses	\$200.1	\$186.7
		Transfers Out	\$68.9	\$61.2
		Total	\$364.9	\$325.7

Water Fund



Sewer Fund

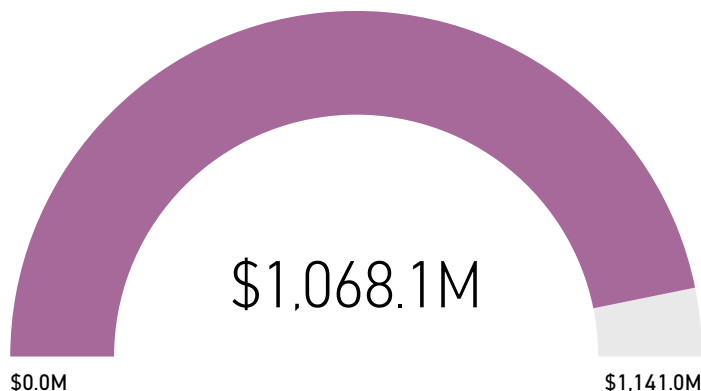


Aviation Funds

Both O’Hare and Midway Airport funds finished the fourth quarter 6.4 and 6.9 percent respectively, below budgeted expectations. Similar to the other local funds, the Illinois Supreme Court Ruling on SB 1922 caused pension expenditures to be below budgeted expectations and both funds benefited from reduced healthcare expenses.

Fund Name	Year	2016	
		Budget	Estimate
Chicago O'Hare Airport Fund	Category		
	Benefits	\$41.8	\$29.4
	Claims, Refunds, Judgments, and Legal Fees	\$2.3	\$5.1
	Commodities and Equipment	\$62.0	\$47.7
	Contractual Services	\$256.7	\$220.7
	Delegate Agencies and Other Program Costs	\$1.4	\$0.8
	Miscellaneous	\$2.1	\$0.1
	Pension	\$35.3	\$27.5
	Personnel Services	\$168.4	\$170.3
	Reimbursements and Financial Expenses	\$545.3	\$541.1
	Transfers Out	\$25.7	\$25.6
	Total	\$1,141.0	\$1,068.1
	Chicago Midway Airport Fund	Benefits	\$7.7
Claims, Refunds, Judgments, and Legal Fees		\$0.9	\$0.1
Commodities and Equipment		\$11.5	\$10.3
Contractual Services		\$81.1	\$71.6
Miscellaneous		\$0.0	\$0.0
Pension		\$8.0	\$6.7
Personnel Services		\$34.3	\$34.7
Reimbursements and Financial Expenses		\$104.5	\$101.3
Transfers Out		\$10.8	\$10.8
Total		\$258.8	\$240.9

O'Hare Fund



Midway Fund

