

ANALYSIS OF ANNUAL BUDGET FORECAST

City of Chicago Fiscal Year 2025

October 8, 2024

City of Chicago
Council Office of Financial Analysis
Janice Oda-Gray, Chief Administrative Officer

121 N. LaSalle St, Ste 200
Chicago, IL 60602
cofa@cityofchicago.org



Analysis of The Annual Budget Forecast

EXECUTIVE SUMMARY 2

ANALYSIS OF THE CITY OF CHICAGO'S ANNUAL BUDGET FORECAST 3

2025 BUDGET FORECAST 3

REVENUE PROJECTIONS..... 4

EXPENDITURE PROJECTIONS 5

WHAT'S DRIVING THE 2025 GAP? 6

BUDGET FORECAST OUTLOOK THREE SCENARIOS 8

SPECIAL REVENUE FUNDS 10

EMERGENCY COMMUNICATIONS FUND 11

MOTOR FUEL TAX FUND 11

SPECIAL EVENTS AND MUNICIPAL HOTEL OPERATORS' OCCUPATION TAX FUND 12

VEHICLE TAX FUND..... 13

ENTERPRISE FUNDS..... 14

MIDWAY AIRPORT FUND 14

O'HARE AIRPORT FUND 15

SEWER FUND 15

WATER FUND 15

EXECUTIVE SUMMARY

The City of Chicago produces an annual Budget Forecast report that details the financial status of the city. This report covers the city's financial history and current budget as of July 2024, and it also includes projected budgets for future years based on various scenarios and outlooks. The Council Office of Financial Analysis (COFA) reviews the annual budget forecast as outlined in the Municipal Code.

The City of Chicago currently faces significant financial challenges stemming from lower-than-anticipated revenue sources for Fiscal Year 2024 (FY 24). The Corporate Fund is projected to close in 2024 with expenses exceeding revenues by \$222.9 million. Further, the City is anticipating a 2025 Corporate Fund gap of \$982.4 million driven by both underperforming revenue sources and spending factors such as rising personnel costs, along with rising contractual and pension costs. The budget gap will require a multifaceted solution, as no single fix can address the complexity of the issue. A potential solution would include a combination of new revenue generation, existing revenue optimization, cost controls, debt refinancing, utilization of surplus funds, and the potential need to consider a property tax increase to fill the remainder of the financial gap. In the past, this multifaceted approach has enabled the City to address budget gaps; however, closing the FY 24 shortfall, along with the nearly \$1 billion gap in the FY 25 Corporate Fund, presents a significant challenge.

The City has projected three different budget scenarios for the years 2026 and 2027 for the City's Corporate Fund. When making these projections, the City considers various economic factors. The base outlook predicts a decrease in revenue for the 2025 Corporate Fund. The negative outlook reflects unfavorable credit and investment conditions. The positive outlook assumes a positive monetary policy that will reduce inflation and stimulate economic growth.

The forecast focuses on the Corporate Fund, which historically has shown the largest difference between revenues and expenditures. The Corporate Fund is crucial as it funds core services provided by the City. The forecast also includes the City's major Special Revenue and Enterprise funds.

ANALYSIS OF THE CITY OF CHICAGO'S ANNUAL BUDGET FORECAST

Every year, the City of Chicago creates a Budget Forecast report that describes the financial state of Chicago. The report provides information about the city's financial history and overall budget, as of July 2024. It also includes budget projections for future years based on different scenarios and outlooks. The Council Office of Financial Analysis (COFA) reviews the annual budget forecast as outlined in the Municipal Code.

The City released the 2025 Budget Forecast on August 28, 2024, revealing a projected 2025 Corporate Funds gap of \$982.4 million.¹ The budget forecast noted that this projected gap does not account for any cost-saving initiatives. Currently, the City is projecting the Corporate Fund to end 2024 with expenses exceeding revenues by 4.2 percent, equivalent to \$222.9 million.²

2025 BUDGET FORECAST

The City of Chicago is expecting a \$222.9 million shortfall in the Corporate Fund in 2024 due to lower-than-expected revenues. Corporate fund revenues are estimated to end the year below the budgeted levels by \$417.7 million.³ A key driver for this year's revenue shortfall is due to the lower State Personal Property Replacement Tax (PPRT) revenue and reimbursement revenue for pension payments made on behalf of Chicago Public Schools. The City plans to address the shortfall by maximizing resources and managing spending effectively.

Looking ahead to 2025, the City is forecasting a budget gap of \$982.4 million for the Corporate Fund. These funds are crucial for supporting essential City activities and services. The 2025 Budget Forecast predicts Corporate Fund revenues of \$5,179.0 million and expenditures of \$6,161.4 million.⁴ Personnel services make up over 50 percent of these expenditures, with an expected increase of \$304.4 million, totaling \$3,661.6 million.⁵

The projected budget gap for 2025 is \$759.5 million higher than the forecasted Year-end 2024 gap (\$982.4M for 2025 vs. \$222.9M for year-end 2024). The 2025 Budget Forecast gap was caused by reduced revenue and increased spending.

The City projected three scenario budget gaps for 2026 and 2027 for the City's Corporate Fund. When forecasting the out-year gaps the City considers various economic assumptions. The base outlook projects a decline in revenue for the 2025 Corporate Fund. The negative outlook represents unfavorable credit conditions and unfavorable investment. The positive outlook assumes a positive monetary policy that reduces inflation and spurs economic growth.

¹ City of Chicago. 2025 Budget Forecast.

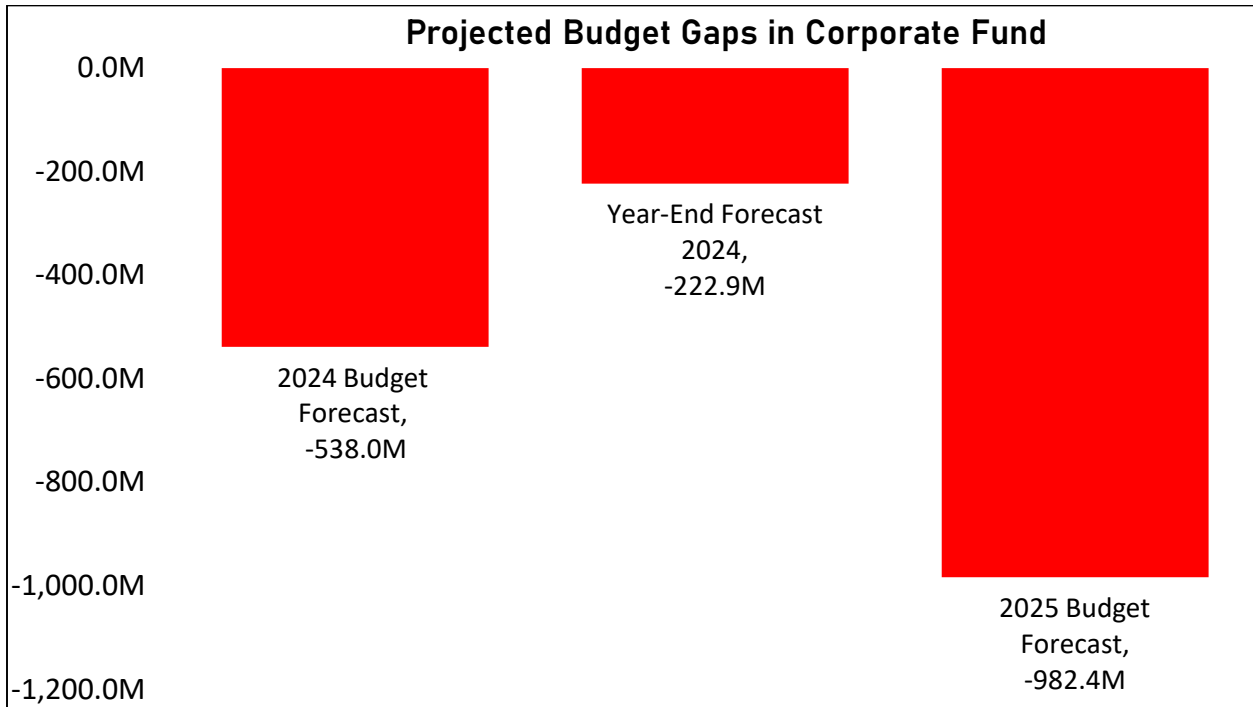
https://www.chicago.gov/content/dam/city/depts/obm/supp_info/2025Budget/2025-Chicago-Budget-Forecast.pdf

² Ibid.

³ Ibid.

⁴ Ibid.

⁵ Ibid.



REVENUE PROJECTIONS

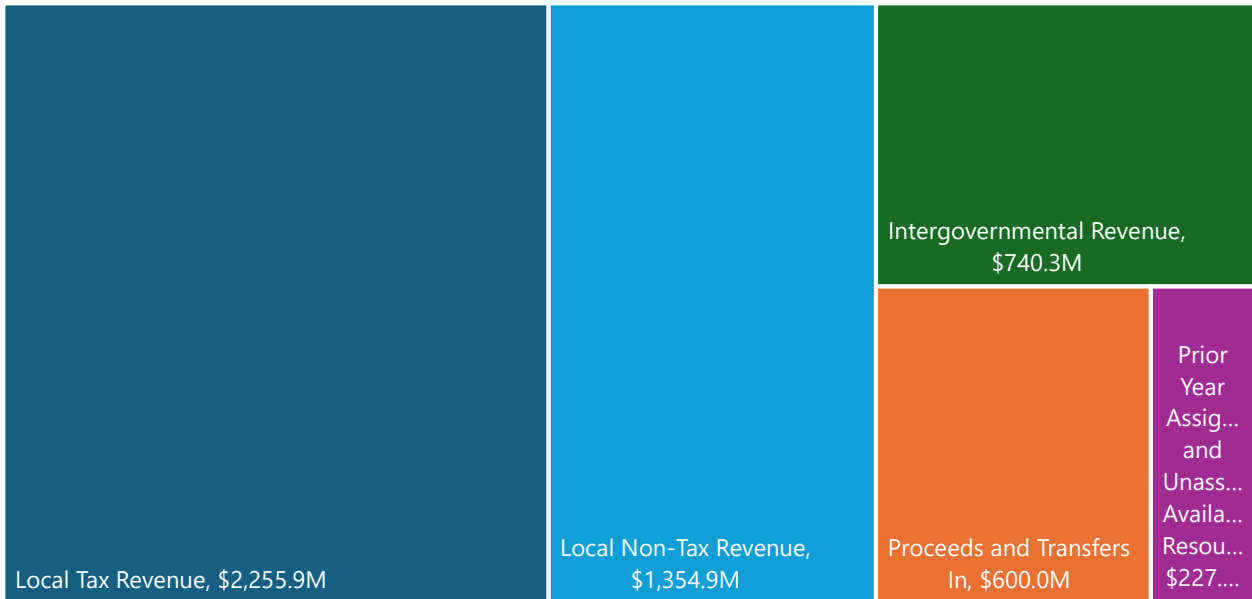
The projected Corporate Fund revenue for FY2025 is \$5,179.0 million, which reflects a \$600.2 million reduction from the 2024 budget.⁶ Local tax revenue makes up 43.6% of the projected 2025 revenue, and it has increased by \$54.7 million, or 2.5 percent, from the 2024 budget.⁷ The growth in local tax revenue is attributed to PPLT, telecommunications, and amusement tax increases. Specifically, PPLT is projected to increase by \$34.4 million, amusement tax anticipates growth of \$11.3 million, and telecommunications taxes will increase due to a state law change.⁸

Local Non-Tax revenue for 2025 is \$1,354.9 million and makes up 26.2% of the projected 2025 revenue. Local Non-tax revenue is projected to decrease by \$279.8 million, this is due to the CPS pension payment reimbursement and an anticipated reduction in Other Revenue.

⁶ City of Chicago. 2025 Budget Forecast. https://www.chicago.gov/content/dam/city/depts/obm/supp_info/2025Budget/2025-Chicago-Budget-Forecast.pdf
⁷ Ibid.
⁸ Ibid.

Revenues	2024 Budget As Amended	2024 Year-End Estimates	2025 Projected	2026 Projected	2027 Projected
Local Tax Revenue	\$2,201.2M	\$2,218.7M	\$2,255.9M	\$2,286.8M	\$2,314.5M
Proceeds and Transfers In	\$580.7M	\$579.3M	\$600.0M	\$571.0M	\$563.8M
Intergovernmental Revenue	\$878.3M	\$723.2M	\$740.3M	\$748.5M	\$768.0M
Local Non-Tax Revenue	\$1,634.7M	\$1,356.1M	\$1,354.9M	\$1,343.6M	\$1,339.3M
Prior Year Assigned and Unassigned Available Resources	\$484.3M	\$484.3M	\$227.9M	\$67.1M	\$0.0M
Total Resources	\$5,779.2M	\$5,361.5M	\$5,179.0M	\$5,017.0M	\$4,985.7M

Projected Revenue 2025 - Corporate Fund \$5,179.0 Million



EXPENDITURE PROJECTIONS

The projected expenditures for the 2025 Corporate Fund are \$6,161.4M, which represents an increase of \$382.2M compared to the 2024 budget. The main drivers for this expenditure increase are personnel, pension, and contractual services. Personnel Services account for 59.4% of the total expenditures, and the increase is primarily due to higher salaries and wages due to contractual obligations. Personnel services are expected to increase by \$304.4 million, totaling \$3,661.6 million.⁹ The pension increase is due to the statutorily required, actuarially calculated contribution and is \$149.8 higher than last year.¹⁰

Contractual services are expected to increase by \$16.1 million, due to expanded informational technology services and contractual increases. Special event projects will decrease by \$70.0 million or 31.8 percent

⁹ City of Chicago. 2025 Budget Forecast.

https://www.chicago.gov/content/dam/city/depts/obm/supp_info/2025Budget/2025-Chicago-Budget-Forecast.pdf

¹⁰ Ibid.

due to services related to the new arrivals. Overall expenditures increased by 6.61% when compared to the 2024 amended budget.

Expenditures	2024 Budget As Amended	2024 Year-End Estimates	2025 Projected	2026 Projected	2027 Projected
Commodities and Materials	\$105.7M	\$100.6M	\$117.6M	\$129.3M	\$142.3M
Contingencies	\$0.2M	\$0.1M	\$0.2M	\$0.2M	\$0.2M
Contractual Services	\$585.8M	\$538.6M	\$601.9M	\$632.0M	\$663.6M
Equipment	\$2.2M	\$1.5M	\$2.4M	\$3.3M	\$4.6M
Financial Costs	\$366.6M	\$339.4M	\$336.5M	\$311.4M	\$335.8M
Pension Costs	\$801.9M	\$801.9M	\$951.7M	\$930.1M	\$887.5M
Permanent Improvements	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$0.0M
Personnel Services	\$3,357.2M	\$3,312.7M	\$3,661.6M	\$3,788.5M	\$3,929.9M
Special Event Projects	\$220.0M	\$157.0M	\$150.0M	\$0.0M	\$0.0M
Specific Items and Projects	\$331.6M	\$325.5M	\$331.0M	\$332.3M	\$333.5M
Transfers and Reimbursements	\$5.9M	\$5.5M	\$5.9M	\$5.9M	\$5.9M
Travel	\$2.1M	\$1.7M	\$2.7M	\$2.9M	\$3.2M
Total Expenses	\$5,779.2M	\$5,584.4M	\$6,161.4M	\$6,136.0M	\$6,306.5M

WHAT'S DRIVING THE 2025 GAP?

The City of Chicago is dealing with a significant budget shortfall for 2025. Corporate Fund expenditures are projected to outpace revenues. Total revenues projected for FY2025 is \$5,179.0M, and expenditures for FY2025 are \$6,161.4M leaving a gap of \$982.4M. Contributors to the gap are a reduction in Intergovernmental revenue of \$138M, a reduction of Local Non-tax revenue of \$279.8M, and the Prior year's assigned and unassigned available resources of \$256.4M. On the expense side, Contractual services increased by \$16.1M, Pension costs have seen an increase of \$149.8M, Personnel services increased by \$304.4M, and Special event projects increased by \$70M.

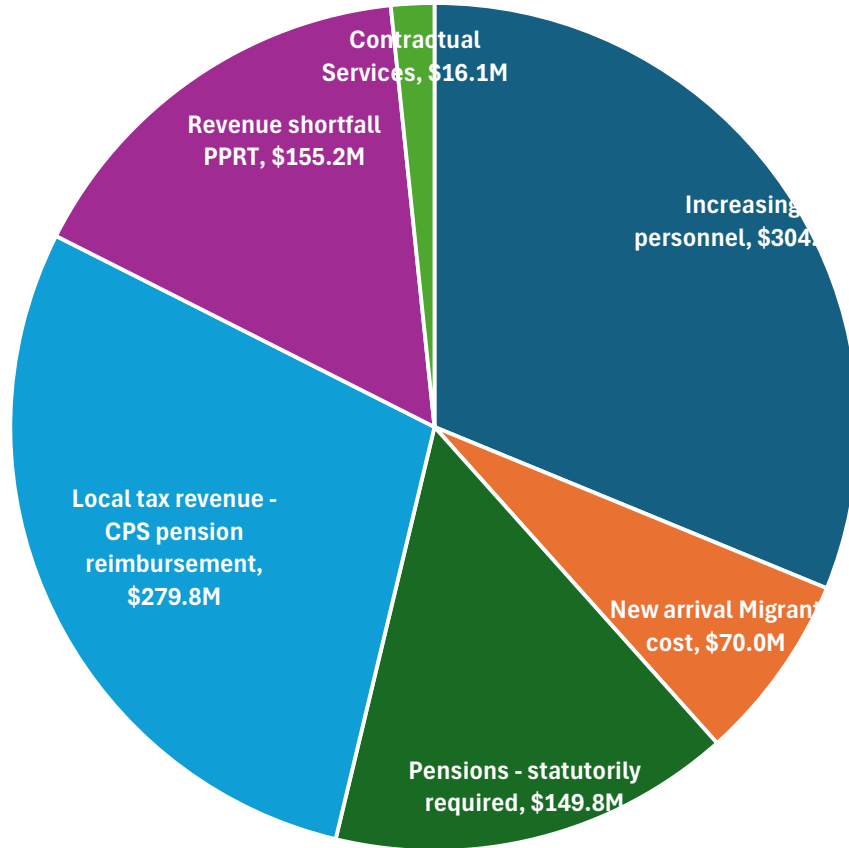
The main contributors to this shortfall are increasing personnel costs, decreased local non-tax revenue, a shortfall in intergovernmental revenue (PPRT), and required pension payments. Personnel costs are rising due to contractual wage increases, healthcare cost hikes, and growing pension expenses. 90 percent of the City employees are covered by a collective bargaining agreement.¹¹

Personnel expenses have the most significant impact on future budget expenditures. Local non-tax revenue has declined partly because of CPS reimbursement for pension payments. Intergovernmental revenue has decreased by 15.7 percent, largely due to a reduction in state PPRT revenue. Statutorily required pension payments have also risen, reflecting the required contribution. Additionally, the City has continued the supplemental pension payment, resulting in a \$149.8 million increase from the previous year. Below is a graphical depiction of the 2025 budget gap contributors and the Corporate Fund Gap history from 2015 to the current 2027 projection based on the baseline outlook.

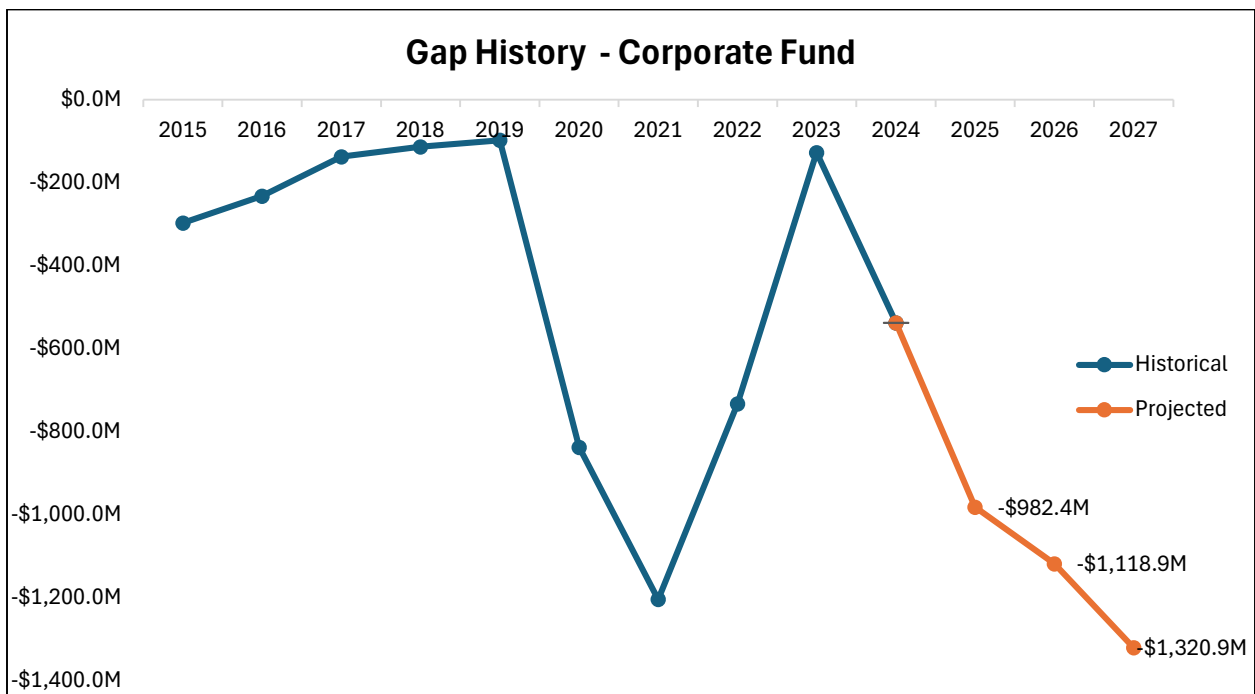
¹¹ City of Chicago. 2025 Budget Forecast.

https://www.chicago.gov/content/dam/city/depts/obm/supp_info/2025Budget/2025-Chicago-Budget-Forecast.pdf

2025 Forecast Budget Gap Contributors



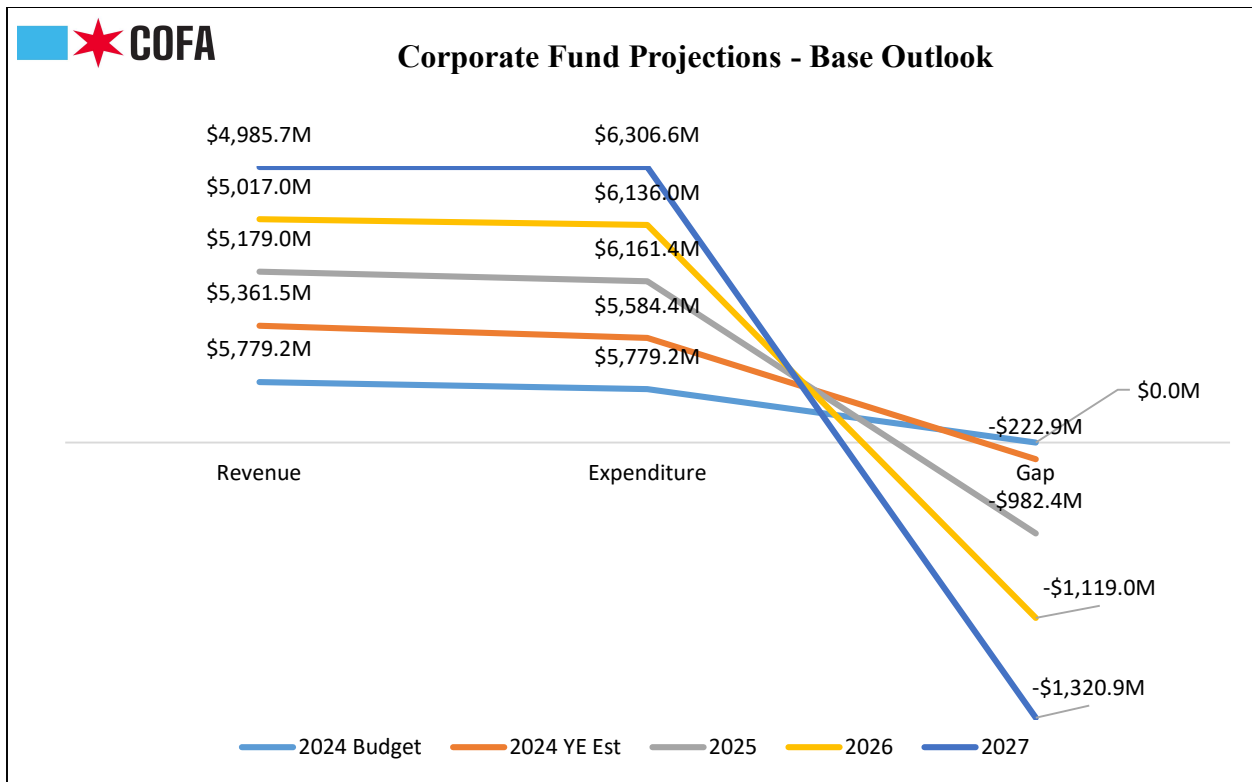
Gap History - Corporate Fund



BUDGET FORECAST OUTLOOK THREE SCENARIOS

The three scenarios for the outlook for the Corporate Fund budget are based on different expenditure and revenue views. The range of the budget gaps demonstrates how future economic conditions can impact the City's finances. Each outlook shows budget-gap projections increasing.

The base outlook projects a decline in the Corporate Fund for 2025 remaining flat in 2026 with a projected growth of 0.74 percent in 2027. The revenue forecast only included known authorized policy changes which include the State's repeal of sales tax revenue to cities related to groceries as of January 1, 2026.¹² The \$60 to \$80 million revenue loss to Chicago due to the State's appeal is assumed in the 2026 and 2027 base and negative outlook.¹³ Corporate Fund expenditures are expected to exceed revenue growth due to growth in wages and increasing pension obligations. This base outlook assumes budget shortfalls of \$1,118.9 million in 2026 and \$1,320.9 million in 2027. The negative outlook assumes unfavorable investment and

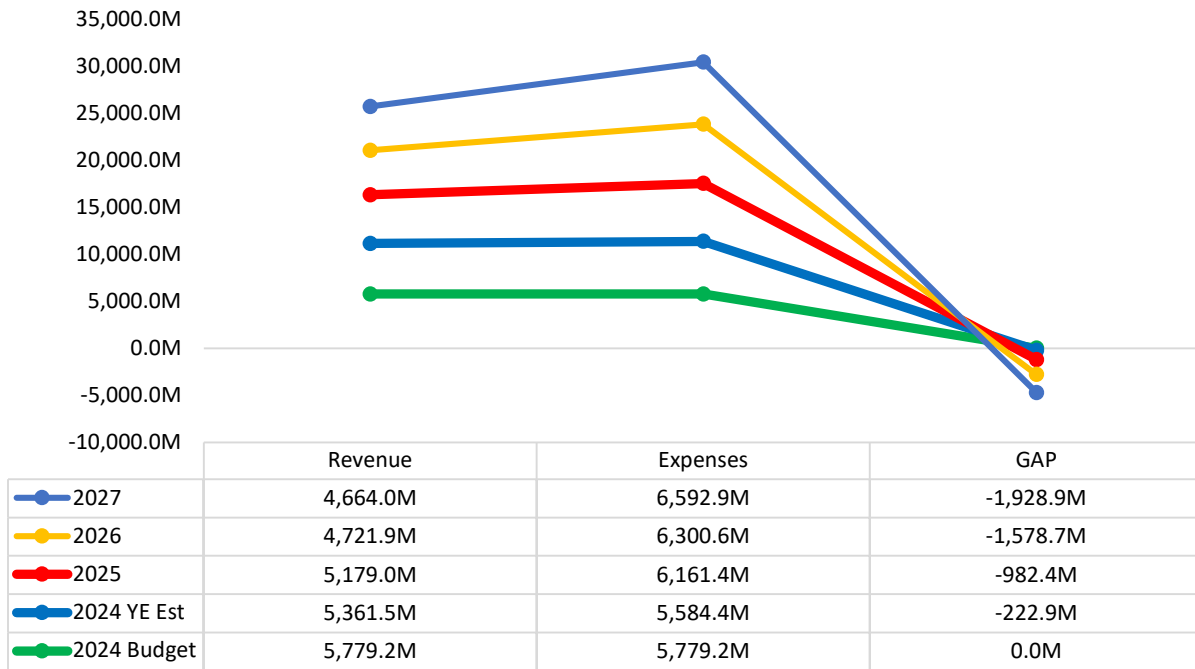


	2024 Budget	2024 YE Est	2025	2026	2027
Revenue	\$5,779.2M	\$5,361.5M	\$5,179.0M	\$5,017.0M	\$4,985.7M
Expenditure	\$5,779.2M	\$5,584.4M	\$6,161.4M	\$6,136.0M	\$6,306.6M
Gap	\$0.0M	-\$222.9M	-\$982.4M	-\$1,119.0M	-\$1,320.9M

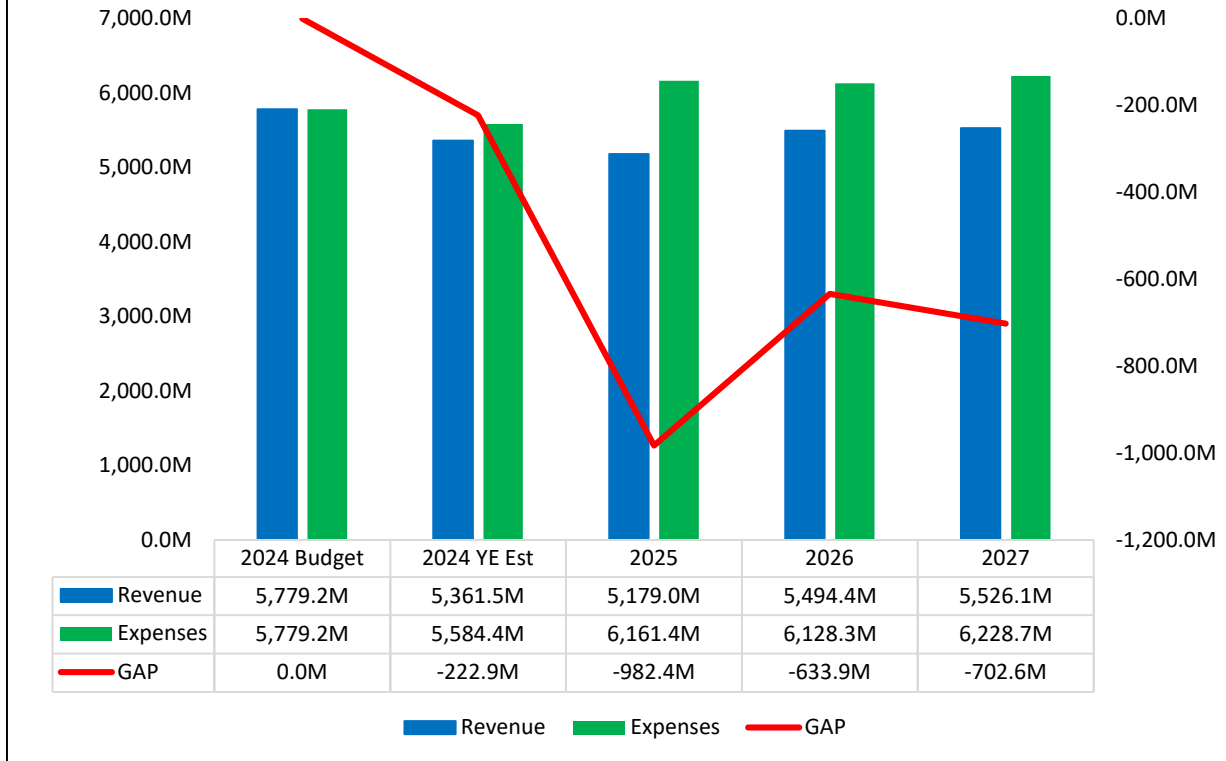
¹² City of Chicago. 2025 Budget Forecast. https://www.chicago.gov/content/dam/city/depts/obm/supp_info/2025Budget/2025-Chicago-Budget-Forecast.pdf

¹³ Ibid.

Corporate Fund Projections - Negative Outlook



Corporate Fund Projections - Positive Outlook



credit conditions which may lead to a repressed economy and assume budget shortfalls of \$1,578.7M in 2026 and \$1,928.9M in 2027. The positive outlook assumes favorable monetary policy that reduces inflation and supports economic growth projecting budget shortfalls in 2026 or \$633.9M and \$702.6M in 2027.

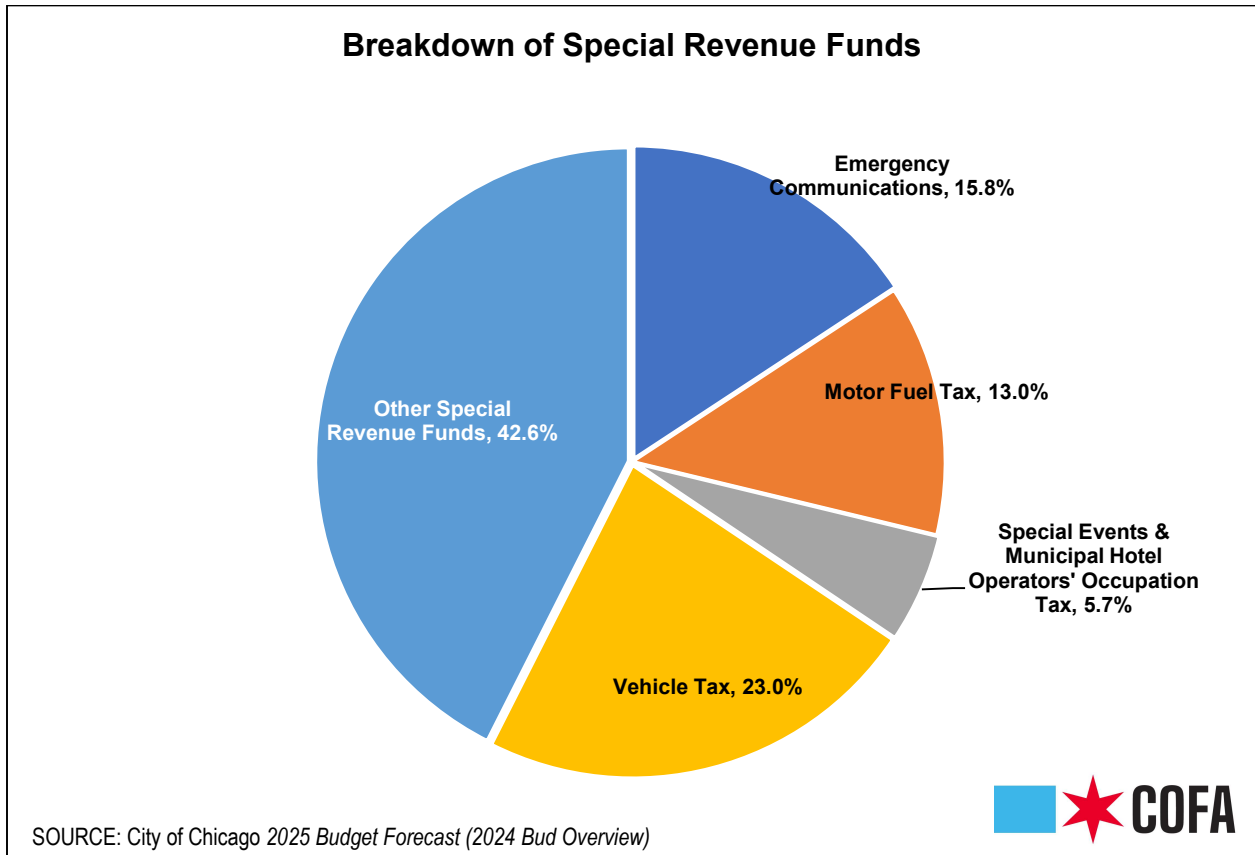
SPECIAL REVENUE FUNDS

The 2025 Budget Forecast focuses on four of the City’s Special Revenue Funds: Emergency Communications Fund, Motor Fuel Tax Fund, Special Events and Municipal Hotel Operators' Occupation Tax Fund, and Vehicle Tax Fund.¹⁴ According to the report, these funds “are used to account for revenue from specific sources that must be used to finance specific operations, such as road repairs, libraries, 911 services, special events, and tourism promotion.” In total, the 2025 Budget Forecast identifies twenty Special Revenue Funds.

This section summarizes the four Special Revenue Funds that the 2025 Budget Forecast reports on. The 2024 year-end estimate for the four funds accounted for an estimated \$546.3 million, or 53.2%, of all the Special Revenue Funds originally budgeted in FY 24—\$1,168.0 million¹⁵. The projected revenues of the remaining sixteen Special Revenue Funds account for approximately \$621.7 million, or 46.8%, of all the Special Revenue Funds budgeted in the 2024 Budget Ordinance.

¹⁴ City of Chicago FY2025 Budget Forecast, p. 19.

¹⁵ City of Chicago FY2024 Budget Overview, p. 43.



EMERGENCY COMMUNICATIONS FUND

The City is projecting that the Emergency Communications Fund will end 2024 with a revenue of \$167.0 million, which is \$8.1 million, or 4.6%, below the 2024 revenue estimate of \$175.0 million projected in the 2024 Budget Ordinance.¹⁶

For the outyears 2025-2027, the City is forecasting an increase in revenues for 2025—about 11.8% (\$20.7 million)—from the 2024 Year-End estimate. This increase is due to changes in state law regarding prepaid wireless phone plans in relation to the 911 surcharge.¹⁷

MOTOR FUEL TAX FUND

The City is projecting that the Motor Fuel Tax Fund will end 2024 with a revenue of \$106.7 million, which is \$22.1 million, or -17.2%, below the 2024 revenue estimate of \$128.8 million projected in the 2024 Budget Ordinance. The 2025 Budget Forecast notes that the 2025 year-end estimate decline in total resources by \$22.1 million, or -17.2%, is due to growth assumptions falling short of expectations.

¹⁶ City of Chicago FY2024 Budget Ordinance

¹⁷ City of Chicago FY2025 Budget Forecast

For the outyears 2025-2027, the City is forecasting a continued increase in the growth rate of about 2.9% in the 2025 projected totals from the 2024 Year-End estimate. The increase from the 2025 year-end estimates for the projected 2026 and 2027 totals is forecasted to increase roughly 2.9% each year.¹⁸

SPECIAL EVENTS AND MUNICIPAL HOTEL OPERATORS' OCCUPATION TAX FUND

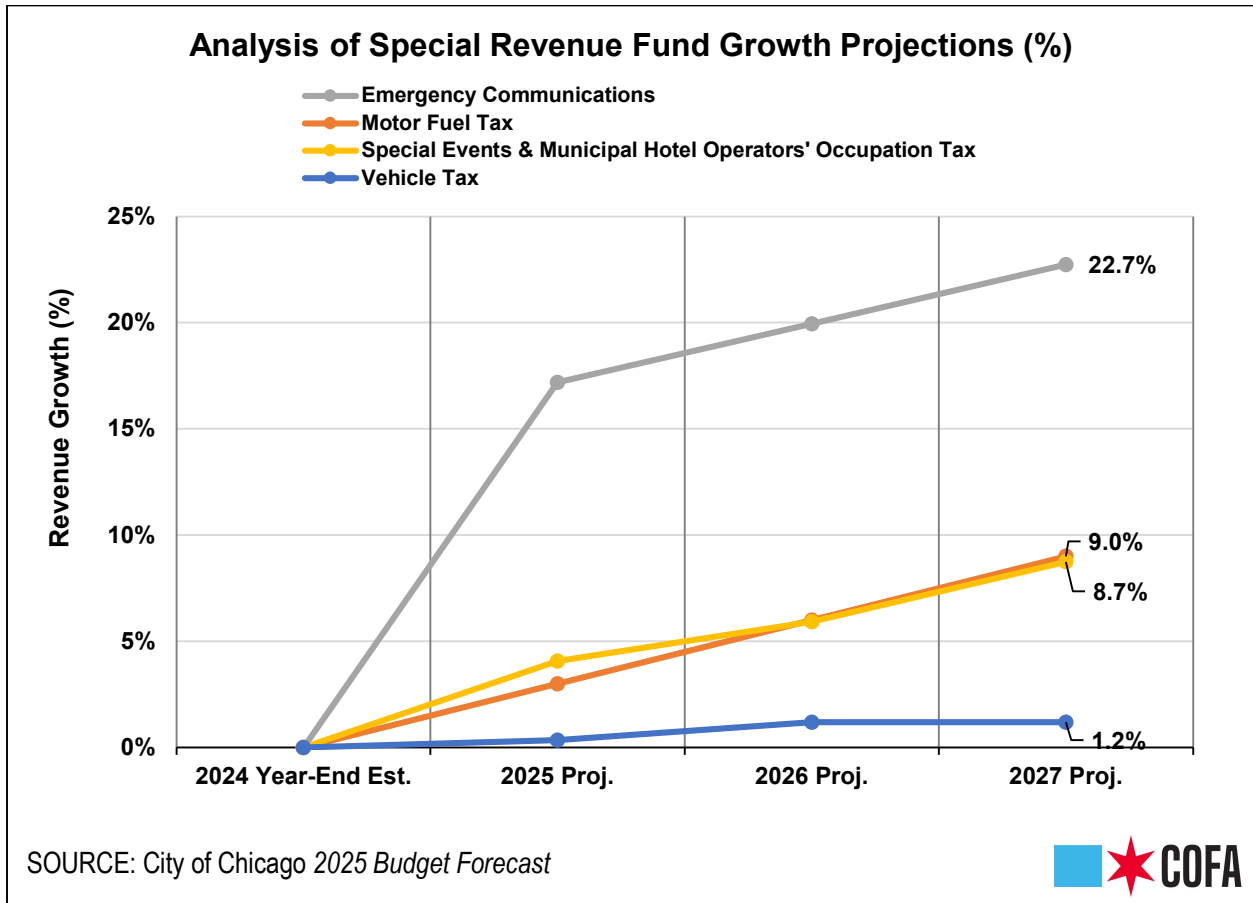
The City is projecting that the Special Events and Municipal Hotel Operators' Occupation Tax Fund will end 2024 with a revenue of \$46.7 million, which is \$6.3 million, or 11.9%, below the 2024 revenue estimate of \$53.0 million projected in the 2024 Budget Ordinance. The City attributes the decrease is due to special event fee revenue still being below pre-pandemic levels.¹⁹

For the outyears 2025-2027, the City is expecting a more moderate growth to pre-pandemic levels over the next three fiscal years. This outlook is reflected in the estimated year-over-year growth in Special Events and Municipal Hotel Operators' Occupation Tax Fund revenue for 2025 (3.9% from 2024's year-end estimate), 2026 (1.8% from 2025), and 2027 (2.7% from 2026).²⁰

¹⁸ City of Chicago FY2025 Budget Forecast

¹⁹ Ibid

²⁰ Ibid



VEHICLE TAX FUND

The City is projecting that the Vehicle Tax Fund will end 2024 with a revenue of \$225.9 million, which is \$41.4 million, or 15.5%, below the 2024 revenue estimate of \$267.3 million projected in the 2024 Budget Ordinance.²¹ The City attributes the lower-than-budgeted amount to capital-related projects and their expected reimbursements to the fund as to why the 2024 Year-End estimate is projected to come in lower than budget.

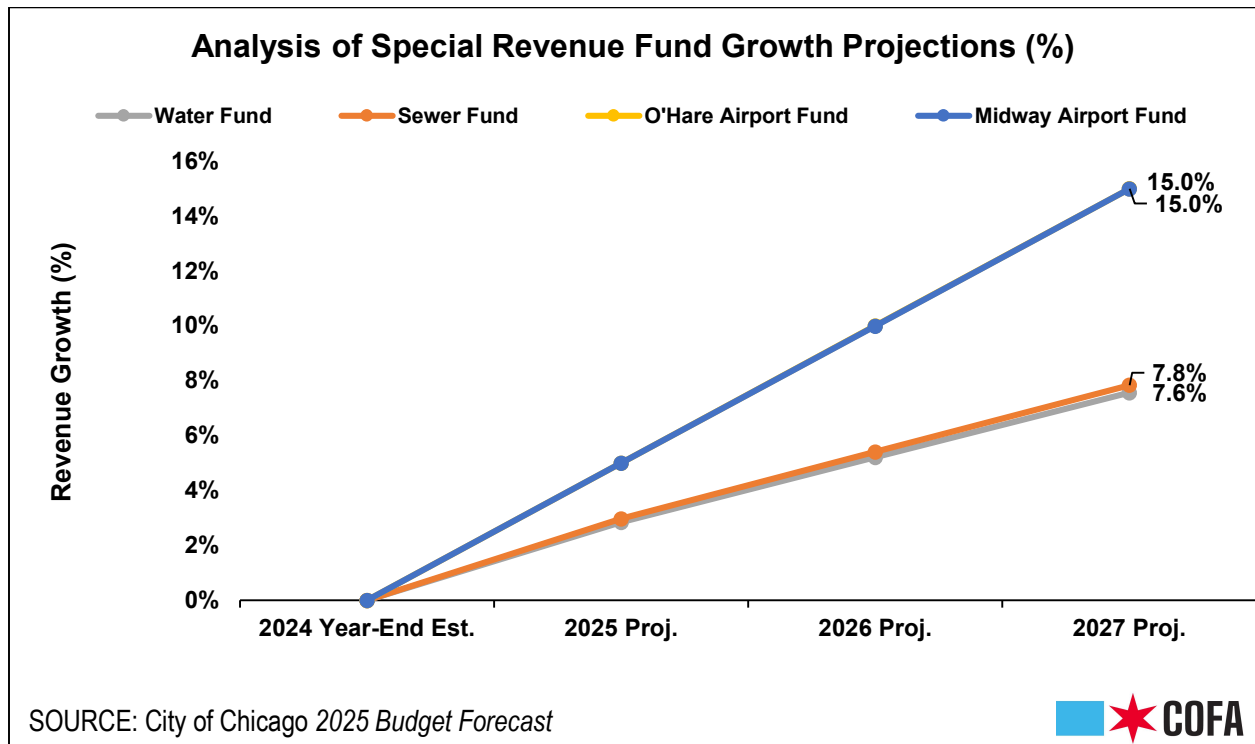
For the out years 2025-2027, the City is forecasting slight growth over the next two fiscal years, and level funding for FY 2027. This outlook is reflected in the estimated growth in Vehicle Tax Fund revenue for 2025 (0.35% from 2024’s year-end estimate), 2026 (0.8% from 2025), and 2027 being level with the 2026 amount of \$228.6 million.²²

²¹ City of Chicago FY2024 Budget Overview

²² City of Chicago FY2024 Forecast

ENTERPRISE FUNDS

The City has four Enterprise Funds that are each outlined in the 2025 Budget Forecast: the Midway Airport Fund, O'Hare Airport Fund, Sewer Fund, and Water Fund. According to the report, these self-supporting funds deriving from user chargers account for acquisition, operation, and maintenance of government services such as water, sewer, and the airports. This section summarizes the City's four Enterprise Funds discussed in the 2025 Budget Forecast. The 4 funds totaled \$3,445.7 million in the 2024 Budget Ordinance.²³



MIDWAY AIRPORT FUND

The City is projecting that the Midway Airport Fund will end 2024 with a revenue of \$391.5 million, which is level with the 2024 Budget Ordinance projection. For the outyears 2025-2027, the City is forecasting an increase in revenue for 2025—about 5.0%—from the 2024 Year-End estimate. The 2026 and 2027 revenue estimates are projected to be \$431.6 million and \$453.2 million, respectively, each year growing about 5.0% from the prior year.²⁴

²³ City of Chicago FY2024 Budget Ordinance

²⁴ City of Chicago FY2024 Forecast

O'HARE AIRPORT FUND

The City is projecting that the O'Hare Airport Fund will end 2024 with a revenue of \$1,747.0 million, which is level funding with the 2024 revenue estimated in the 2024 Budget Ordinance.²⁵ For the outyears 2025-2027, the City is forecasting an increase in revenue for 2025—about 5.0%—from the 2024 Year-End estimate. The 2026 and 2027 revenue estimates are projected to be \$1,926.1 million and \$2,022.4 million, respectively, each year growing about 5.0% from the prior year.

SEWER FUND

The City is projecting that the Sewer Fund will end 2024 with a revenue of \$390.0 million, which is \$22.6 million, or 5.5%, below the 2024 revenue estimate of \$412.6 million projected in the 2024 Budget Ordinance.²⁶ For the outyears 2025-2027, the City is forecasting an increase in revenue for 2025 of about 3.0% above the 2024 Year-End estimate. The 2026 and 2027 revenue estimates are projected to be \$411.4 million and \$421.4 million, respectively, each year growing about 2.5% from the prior year.²⁷

WATER FUND

The City is projecting that the Water Fund will end 2024 with a revenue of \$877.2 million, which is \$17.2 million decrease, or 1.9%, above the 2024 revenue estimate of \$894.4 million projected in the 2024 Budget Ordinance.²⁸ For the outyears 2025-2027, the City is forecasting an increase in revenue for 2025 of about 2.9% above the 2024 Year-End estimate. The 2026 and 2027 revenue estimates are projected to be \$923.5 million and \$945.3 million, respectively, each year growing about 2.3%-2.5% from the prior year.²⁹ According to the 2025 Budget Forecast, these three-year projections account for collection loss and current trends in water usage, as well as anticipated inflationary adjustments in rates.³⁰

²⁵ City of Chicago FY2024 Budget Ordinance

²⁶ City of Chicago FY2024 Budget Ordinance

²⁷ Ibid

²⁸ City of Chicago FY2024 Budget Ordinance

²⁹ Ibid

³⁰ Ibid