

STATEMENT MADE AT THE PUBLIC HEARING ON THE PROPOSED FY2002 CHICAGO PARK DISTRICT BUDGET, DECEMBER 3, 2001

The Civic Federation would like to thank the President and the Board of Commissioners for this opportunity to comment on the proposed FY2002 budget. We would also like to commend the Chicago Park District's Budget and Finance staffs for their hard work and effort in preparing this budget in these difficult times as we face a looming recession and heightened security concerns.

I. OVERVIEW OF TESTIMONY

The Civic Federation **opposes** the property tax increase proposed in the FY2002 Chicago Park District budget. However, we strongly support the innovative directions the District has taken this year and previous years to cut costs, enhance non-tax based revenues, and improve efficiency.

The Civic Federation is opposing all local government tax hikes this year. Simply put, we do not feel that increasing taxes in this time of recession is a prudent action. Rather, we believe governments must do everything possible to cut costs or enhance non-tax resources. To this point, we question why the FY2002 fund balance was substantially increased when the District was facing a budget shortfall.

While The Civic Federation does not favor the Chicago Park District's property tax increase, we highly **commend** the District and its financial management team for their strong commitment to improving the efficiency of operations and the quality of service delivery.

The Chicago Park District (CPD) continues to be a regional leader in implementing innovative non-tax revenue enhancement strategies and alternative service delivery methods including increased reliance on user fees, intergovernmental agreements, and obtaining corporate sponsorship of activities and programs. The District has also cut costs by making greater use of volunteers or contractors as instructors for classes and programs rather than retaining full time employees on staff.

The Civic Federation applauds the Chicago Park District for indicating that it will develop and implement performance measures in the near future and that, in time, it intends to move toward developing a performance-based budget. This will be a positive step toward further improving accountability by giving the District the ability to better measure and monitor performance.

Last year, The Civic Federation contracted with KPMG to perform a cost benefit analysis on the cost and staffing of Park District programs in selected parks using an activity based costing methodology. We are very pleased that the CPD has used the information provided by that study coupled with the technical capabilities of its new financial management information system to implement cost accounting procedures that make it possible to track costs by individual park down to the program level for

the first time. Now, the CPD is able to match reports of revenue by park with their registration figures for events and programs, making it easier to pinpoint and explain discrepancies. The District also has implemented a new receipt system, which has increased revenues because of better tracking of revenues.

As a result of new cost accounting procedures being implemented, the CPD is now able to identify and target resources on core programs like athletics rather than ancillary activities such as special events. Thus, the District can more precisely target resources toward programs in demand rather than providing a menu of standard programs. This is an excellent step in the right direction.

Recommendations

The Civic Federation recommends that Chicago Park District pursue the measures outlined below to generate additional budgetary savings and help improve the budget and strategic planning process.

Aggressively Pursue Joint Purchasing of Health Insurance with Chicago Area Governments

The cost of health care is rising rapidly once again. In the first quarter of 2001, the cost of medical care services rose by 4.9% alone.¹ To contain these costs, The Civic Federation urges the Chicago Park District to aggressively pursue the joint purchasing of health care insurance with other governments in the Chicago area. A recent study conducted for The Civic Federation on the feasibility of consolidated health insurance purchasing found that forming a joint insurance pool consisting of the employees of the City of Chicago, Cook County (excluding the Forest Preserve District), Chicago Park District, Chicago Transit Authority, the City Colleges of Chicago, the Chicago Public Schools and the Chicago Housing Authority could yield projected savings of \$40.1 million in the first year or \$222 million over a 5-year period.²

Continue to Improve Budget Format

The CPD has made great strides in upgrading the quality of its budget format. We are especially pleased that it is now possible to determine expenditures on a per park basis. The Civic Federation urges the CPD to continue further on the path to a more user-friendly budget. We hope to see in future years features such as a transmittal letter, a budget and revenue overview, and narrative descriptions of programs and departments.

Implement Formal Financial Policies

The Civic Federation recommends that the Chicago Park District adopt written financial policies to guide the development of its annual budget.

¹ Health Care Financing Administration. Recent Changes in Medical Prices: 1997-2001. See www.hfca.gov/stats/indicatr/tables/t9.htm.

² The Civic Federation. *Feasibility Study of Consolidated Purchasing: Chicago Public Employers*. A Study Conducted by the Segal Company. February 23, 2001.

Concern

Property Tax Appeal Board Decisions Could Lead to Substantial CPD Revenue Loss

The Civic Federation is very concerned that recent decisions by the Illinois Property Tax Appeal Board (PTAB) could result in potentially huge losses in Chicago area local government revenue. If the decisions stand and are applied to all eligible property within the District's boundaries, the CPD could face a loss of \$20 million per year.

II. SUMMARY OF GAP-CLOSING MEASURES IN FY2002 BUDGET

The Chicago Park District faced a budget deficit of \$12 million out of a total projected budget of \$334 million for FY2002. Gap-closing measures proposed in FY2002 budget focus on a mixture of revenue enhancements and expenditure reductions.

Revenue enhancements include a property tax increase of \$7 million (the first in eight years), increased fees for services for recreational activities such as marinas and athletics, stepped up fee collection, continued pursuit of corporate sponsorship, and intergovernmental agreements that share or transfer costs to other units of government.

On the expenditure side, The Park District expects savings from debt refinancing, a moratorium on wage increases, and the elimination of 91 vacancies. The number of full-time equivalents has been reduced by 1/3rd since 1993, from 4938 to 3314.

III. FINANCIAL ISSUES AND TRENDS

This section provides summaries of key expenditure and revenue issues and trends likely to impact the Chicago Park District's financial situation in the forthcoming fiscal year.

Recent Property Tax Appeal Board Decisions: CPD Faces Potential Annual Loss of \$20 million

Recent decisions by the Illinois Property Tax Appeal Board (PTAB) could result in potentially huge losses in local government revenue. If the decisions stand and are applied to all property in the county, The Civic Federation's projections indicate that the Chicago Park District could face a loss of \$20 million per year. The maximum potential loss to all governmental units in Cook County could well exceed \$500 million per year. These losses could come at a time when property assessment levels are soaring and revenue growth is anemic due to the economic downturn.

The Illinois State Constitution requires that the highest assessment level be no more than 2.5 times the lowest assessment level. The Cook County ordinance that classifies property for taxation sets the lowest assessment level at 16% for residential property and the highest assessment level at 38% for commercial property. However, the Illinois Department of Revenue conducts studies every year claiming that residential property is actually assessed at closer to 10% of its value. Based on these studies, the PTAB has created a new level of assessment for non-residential (business and apartment) property. This new level of assessment is the result of

multiplying the Department of Revenue’s median residential assessment level of approximately 10% by 2.5. The result is a maximum assessment level of 25%. Therefore, a commercial property appealing its assessment to the PTAB would be assessed at 25% of its value, rather than 38% as the county ordinance directs. This lower assessment level, if applied to all properties currently assessed at more than 25% of full value, would result in large refunds for commercial and industrial properties.

Unless it is addressed soon, PTAB’s decision has the potential to cause a serious fiscal crisis in Cook County. The Civic Federation believes that it is imperative that the Chicago Park District must join with other local governments and the State of Illinois to address local governments’ over reliance on property taxes.

Property Tax Levy: CPD Levy Increases by \$7 Million, Aquariums and Museums by \$8.4 Million

In Fiscal Year (FY) 2001, the portion of the Chicago Park District property tax levy designated for the Aquarium and Museums debt service becomes a separate line item on property tax bills. Therefore, the amount of money levied to provide support for the Aquarium and Museums debt service is separated from the amount of money levied for the support of the Chicago Park District for the first time. For a number of years prior to this, the CPD’s levy had remained constant at \$221 million. In FY2001, the levy remained at \$221 million, while the levy for the Aquarium and Museums was an additional \$4.8 million. For FY2002, the CPD’s levy increases by 3% and the Aquarium and Museums levy increases by 171%.

Chicago Park District Property Tax Levy by Purpose			
Fund	2001	2002	% Annual Change
Park District	\$221,631,621	\$228,689,393	3.18%
Aquarium & Museum	\$ 4,889,114	\$ 13,280,627	171.64%
Total	\$226,520,735	\$241,970,020	6.82%

The Chicago Park District’s property tax levy has increasingly gone to pay for Liability, Worker’s Compensation, and Unemployment Insurance over the last five years.

Chicago Park District Property Tax Levy by Fund			
Fund	1998	2002	% Annual Change
Corporate	\$125,347,371	\$128,461,073	2.48%
Pension			
Municipal Employees of Chicago	\$ 5,900	\$ 5,900	0.00%
Park District Employees	\$ 9,907,518	\$ 10,089,895	1.84%
Laborers	\$ 4,600	\$ -	
Public Building Commission			
Rental of Facilities	\$ 4,201,841	\$ 4,196,958	-0.12%
Operations & Maintenance	\$ -	\$ 1,708,500	
Liability, Workers Comp., Unemployment	\$ 5,047,933	\$ 8,509,462	68.57%
Bond Debt Service Fund	\$ 42,142,942	\$ 37,519,833	-10.97%
Aquarium and Museum Bond Debt Service	\$ -	\$ 8,391,513	
Aquarium and Museum Purposes	\$ 34,973,516	\$ 34,695,374	-0.80%
Total	\$221,631,621	\$233,578,508	5.39%

The most dramatic increase in the distribution of the property tax levy has been in the Aquarium and Museum Bond Debt Service. It should also be noted that there is a 4.5% increase in the amount of property tax revenue dedicated to the Corporate Fund.

Chicago Park District Property Tax Levy by Fund			
Fund	2001	2002	% Annual Change
Corporate	\$122,893,052	\$128,461,073	4.53%
Pension			
Municipal Employees of Chicago	\$ 5,900	\$ 5,900	0.00%
Park District Employees	\$ 10,006,701	\$ 10,089,895	0.83%
Laborers	\$ 4,600	\$ -	
Public Building Commission			
Rental of Facilities	\$ 4,200,470	\$ 4,196,958	-0.08%
Operations & Maintenance	\$ 5,282,535	\$ 1,708,500	-67.66%
Liability, Workers Comp. Unemployment	\$ 7,443,412	\$ 8,509,462	14.32%
Bond Debt Service Fund	\$ 36,352,754	\$ 37,519,833	3.21%
Aquarium and Museum Bond Debt Service	\$ 5,586,618	\$ 8,391,513	50.21%
Aquarium and Museum Purposes	\$ 34,744,694	\$ 34,695,374	-0.14%
Total	\$226,520,736	\$233,578,508	3.12%

Remittances to the Aquarium and Museums: \$50 million for FY2002

Although they are private, non-profit institutions, the Aquarium and Museums receive financial support from the CPD and are located on lands owned by the District. The CPD must approve any fee increases for admittance to these institutions. The District provides not only an annual allotment to these cultural institutions, but also assistance with debt service payments. As the preceding section demonstrates, the amount of property tax revenue supplied to the Aquarium and Museum is increasing. For FY2002 the Aquarium and Museums will receive \$37 million in operating funds. Of this amount, \$34.7 million will come from the CPD's property tax levy and

\$2.3 million will come from the District's Personal Property Tax Replacement revenues. In addition, the Aquarium and Museums are levying \$13 million in additional property tax revenue through the CPD to cover debt service payments. The total amount of tax revenue projected to support the Aquarium and Museums in FY2002 is therefore approximately \$50 million.

Total Revenues: Property Taxes and Fees Replace Lost Sales Tax and Investment Income

It is the policy of the General Superintendent to maintain a fund balance of at least \$50 million. The District is projecting that on January 1, 2002 there will be an unused Fund Balance of over \$62 million. For FY2001, the CPD projected a Fund Balance of \$53 million. This \$9 million increase in the unused portion of the District's revenues raises questions about the necessity of a property tax increase.

The projections for FY2002 reflect a decline in those revenue sources most vulnerable to a recession. The Personal Property Replacement Tax (PPRT) is the CPD's share of the State of Illinois' business tax receipts. The District's FY2002 projections indicate a 6% decline in the PPRT. Furthermore, the District expects about a 40% decline in both Grant and Investment income. To compensate for these losses, the Property Tax, Marine, and Rental & Concession income will increase, leaving the district with a 2% overall increase in revenue.

Chicago Park District Revenues by Source			
	2001 Budget	2002 Budget	% Annual Change
Property Tax Levy (Aggregate)	\$226,520,735	\$241,970,020	6.82%
CPD only	\$221,631,621	\$228,689,393	3.18%
A&M only	\$ 4,889,114	\$ 13,280,627	171.64%
Loss in Property Tax Collection	\$ (4,480,446)	\$ (6,480,446)	44.64%
Personal Property Replacement Tax	\$ 33,500,000	\$ 31,500,000	-5.97%
Lakefront Services	\$ 35,512,300	\$ 30,683,898	-13.60%
Recreation	\$ 8,393,750	\$ 9,106,272	8.49%
Marine	\$ 13,432,000	\$ 15,668,854	16.65%
Rentals & Concessions	\$ 2,476,220	\$ 4,064,872	64.16%
Grants	\$ 5,934,000	\$ 3,619,703	-39.00%
Investment	\$ 3,550,000	\$ 2,223,914	-37.35%
Transfers In/(Out)	\$ 3,000,000		
Miscellaneous	\$ 450,900	\$ 2,234,954	395.67%
Use of Surplus			
Total	\$328,289,459	\$334,592,041	1.92%

When the actual revenue collected in FY1998 is compared to the FY2002 projections, these trends become more pronounced. While Property Tax income has only increased by 10% over the last five years, Recreation income has increased by 42%, Marine income by almost 100%, and Miscellaneous income has exploded. These increases are an appropriate alternative to taxes since those who benefit directly from the CPD's services are those who pay. The increase in Miscellaneous income is due in large part to innovative funding mechanisms the district is pursuing. These programs should be continued and expanded to help alleviate the tax burden imposed on citizens by the CPD.

The CPD should consider revising its estimates of the Loss in Property Tax Collection based upon its past experiences. Collection rates are generally higher than the district's budget would indicate. Between FY1994 and FY2000, the actual collection rate for the district's property tax levy averaged 99.4%. In FY 1998 it was 99.92%. This year the district is assuming that only 97% of the property tax levy will be collected. As a result, the percentage increase in this category is noteworthy.

Chicago Park District Revenues by Source			
Source	1998 Actual	2002 Budget	% Annual Change
Property Tax Levy (Aggregate)	\$221,631,621	\$241,970,020	9.18%
Loss in Property Tax Collection	\$ (176,128)	\$ (6,480,446)	3579.40%
Personal Property Replacement Tax	\$ 34,228,446	\$ 31,500,000	-7.97%
Lakefront Services	\$ 39,468,039	\$ 30,683,898	-22.26%
Recreation	\$ 6,383,139	\$ 9,106,272	42.66%
Marine	\$ 7,907,722	\$ 15,668,854	98.15%
Rentals & Concessions	\$ 3,324,494	\$ 4,064,872	22.27%
Grants	\$ 4,962,725	\$ 3,619,703	-27.06%
Investment	\$ 11,351,489	\$ 2,223,914	-80.41%
Transfers In/(Out)	\$ 3,100,000	\$ -	-100.00%
Miscellaneous	\$ 253,603	\$ 2,234,954	781.28%
Use of Surplus			
Total	\$332,435,150	\$334,592,041	0.65%

Total Appropriations: 9% Increase Over Five Years

When the appropriations are grouped by account class, Personnel Services has remained essentially constant over the last five years. While Machinery and Equipment has increased by nearly 30%, in dollars the increase is only \$400,000. The most significant increase, in terms of actual dollars appropriated, has been in the account class titled Special and Other, where there has been a \$21 million increase over the last five years. It should also be noted that although it represents only an 8% increase over the FY1998 appropriation, in dollars the account class of Contractual Services has increased by \$15 million over the last five years.

Chicago Park District Appropriations by Account Class			
	1998 Approp.	2002 Rec.	% Annual Change
Personnel Services	\$122,427,994	\$124,507,356	1.70%
Material & Supplies	\$ 8,808,284	\$ 7,030,948	-20.18%
Machinery & Equipment	\$ 1,399,481	\$ 1,799,536	28.59%
Land Improvements			
Contractual Services	\$ 63,537,834	\$ 68,617,233	7.99%
Special & Other	\$111,150,752	\$132,636,968	19.33%
Total	\$307,324,345	\$334,592,041	8.87%

When the appropriations are grouped by their expense areas, it becomes clear that the increases have occurred in Parks/Regions, Special Services, and Debt Service. The Regions/Parks expense area has increased by approximately \$17 million, Special Services has increased by \$10 million, and Debt Service has increased \$14 million. The most significant decrease has occurred in Facilities and Maintenance where the appropriations have been cut in half. The Aquarium and Museum expense area represents only the remittance and not the debt service portion of the tax dollars it receives.

Appropriations by Expense Areas			
	1998 Approp.	2002 Rec.	% Annual Change
Regions/Parks	\$138,718,552	\$155,210,909	11.89%
Special Services	\$ 20,014,286	\$ 30,744,893	53.61%
Facilities & Maintenance	\$ 31,305,100	\$ 15,533,900	-50.38%
Central Administration	\$ 15,376,958	\$ 17,187,198	11.77%
Debt Service	\$ 46,344,783	\$ 60,228,795	29.96%
District-wide & Liability	\$ 8,365,976	\$ 8,509,462	1.72%
Aquarium & Museum	\$ 37,268,584	\$ 37,068,584	-0.54%
Pension	\$ 9,930,106	\$ 10,108,300	1.79%
Total	\$307,324,345	\$334,592,041	8.87%

Finally, when the appropriations are grouped by funds, the funds that have experienced the greatest increases in appropriations are the Debt Service Fund, the Harbor Fund, and the Parking Fund. Decreases have occurred in the Corporate and PBC – Operations and Maintenance Fund. The creation of the Parking Fund and the Harbor Fund after FY1998 prevents a five-year trend analysis. However, between FY2001 and FY2002 the Parking Fund experienced a 96% increase and the Harbor Fund experienced a 130% increase.

Chicago Park District Operation Budget by Fund			
	1998 Approp.	2002 Rec.	% Annual Change
Corporate	\$200,920,264	\$196,456,372	-2.22%
Pension Fund	\$ 9,930,106	\$ 10,108,300	1.79%
PBC - Rental of Facilities	\$ 4,201,841	\$ 4,196,958	-0.12%
PBC - Operations and Maintenance	\$ 4,903,119	\$ 1,708,500	-65.15%
Liability, Worker's Comp., Unemployment	\$ 7,957,489	\$ 8,509,462	6.94%
Bond Debt Service	\$ 42,142,942	\$ 56,031,837	32.96%
Aquarium and Museum Fund	\$ 37,268,584	\$ 37,068,584	-0.54%
Parking Fund		\$ 10,812,888	
Harbor Fund		\$ 9,699,140	
Kellog Foundation			
Total	\$307,324,345	\$334,592,041	8.87%

Appropriations by Program Areas: Finance General up by 11%

The CPD's budget can be divided into three large program areas: Regions, Central Administration, and Finance General. The Regions group together individual parks by their geographic location within the district; Central Administration is comprised of the Departments

that oversee and manage the entire district; and Finance General represents the district's long-term obligations and unreserved funds.

The FY2002 budget projects that the CPD's regions will receive an additional \$2.8 million. The region receiving the largest portion of that amount is the Central Region.

Regional Appropriations				
	2001 Revised Budget	2002 Recommendations	% Annual Change	
Central Region	\$ 25,476,821	\$ 26,492,269	3.99%	
Lakefront Region	\$ 21,503,980	\$ 21,437,835	-0.31%	
North Region	\$ 24,300,935	\$ 25,037,053	3.03%	
Southeast Region	\$ 21,190,840	\$ 21,850,345	3.11%	
Southwest Region	\$ 24,026,141	\$ 24,483,279	1.90%	
Total	\$ 116,498,717	\$ 119,300,781	2.41%	

The next major program area is Central Administration. Continuing efforts by the district to reorganize its functions result in a projected 9% decrease in the budget for Central Administration. The two departments receiving the largest decreases are Facilities Maintenance and Marketing. Meanwhile, the Departments of the Comptroller, Purchasing and the Press Secretary are each projected to have over 30% increases in their budgets.

Central Administration Appropriations				
	2001 Revised Budget	2002 Recommendations	% Annual Change	
Audit	\$ 485,079	\$ 399,813	-17.58%	
Board Commissioners	\$ 317,605	\$ 293,028	-7.74%	
Comptroller	\$ 1,417,176	\$ 1,878,028	32.52%	
Facilities Maintenance	\$ 22,890,771	\$ 15,617,201	-31.78%	
General Superintendent	\$ 815,501	\$ 868,486	6.50%	
Human Resources	\$ 4,914,243	\$ 4,842,006	-1.47%	
IGA/Community Relations	\$ 1,212,703	\$ 1,033,833	-14.75%	
Information Technology	\$ 2,527,465	\$ 3,109,210	23.02%	
Lakefront Special Services	\$ 22,779,853	\$ 21,420,790	-5.97%	
Law	\$ 6,385,724	\$ 7,600,363	19.02%	
Marketing	\$ 2,752,230	\$ 1,447,918	-47.39%	
Natural Resources	\$ 5,826,014	\$ 6,691,195	14.85%	
Office of Budget & Management	\$ 686,530	\$ 648,535	-5.53%	
Office of the Secretary	\$ 114,794	\$ 130,108	13.34%	
Press Secretary	\$ 685,920	\$ 1,020,579	48.79%	
Program Services & Special Events	\$ 16,181,733	\$ 14,554,874	-10.05%	
Purchasing	\$ 778,897	\$ 1,045,298	34.20%	
Treasury	\$ 1,281,727	\$ 1,310,143	2.22%	
Total	\$ 92,053,965	\$ 83,911,408	-8.85%	

Finally, although it is listed as a department within the Central Administration, Finance General deserves to be examined as an independent program area because of the size of its budget. For

FY2002 over \$131 million of the CPD's funds are located within Finance General. These funds are held in reserve for mid-year appropriations as well as dedicated to pay both long-term and short-term obligations. Of the three program areas, Finance General is projected to have the largest increase in its budget both in terms of a percentage increase and in terms of dollars. Within Finance General the largest single increase is in debt service.

Finance General Appropriations				
	2001 Revised Budget	2002 Recommendations	% Annual Change	
General / Reserves	\$ 14,786,429	\$ 14,993,545	1.40%	
Pension Expense	\$ 10,030,500	\$ 10,102,000	0.71%	
Remittance to Aq. & Museums	\$ 37,268,584	\$ 37,068,584	-0.54%	
Tax Ant. Warrants	\$ 4,894,380	\$ 2,231,250	-54.41%	
Debt Service	\$ 51,822,760	\$ 66,984,473	29.26%	
Total	\$ 118,802,653	\$ 131,379,852	10.59%	

Full Time Equivalent Positions: Continued Reduction in Staff

Continuing a trend that began in FY1994, the CPD continues to provide services to the people of Chicago with fewer employees. Between FY1993 and FY1995, over 1,300 positions were eliminated. Since FY1995, an additional 284 positions have been eliminated. The largest decrease over the last five years has occurred in the category of seasonal positions. The total decrease has amounted to 7%. Although there has been a serious effort to reduce staff, the district's Personnel Services expenditures have actually increased by 1.7% over this same time period.

Full Time Equivalent Positions by Category				
	FY98	FY02	% Change	
Full-Time Positions	\$ 2,167	\$ 2,024	-6.60%	
Part-Time Positions	\$ 799	\$ 749	-6.26%	
Seasonal Positions	\$ 612	\$ 541	-11.60%	
Total	\$ 3,578	\$ 3,314	-7.38%	

Pension Trends

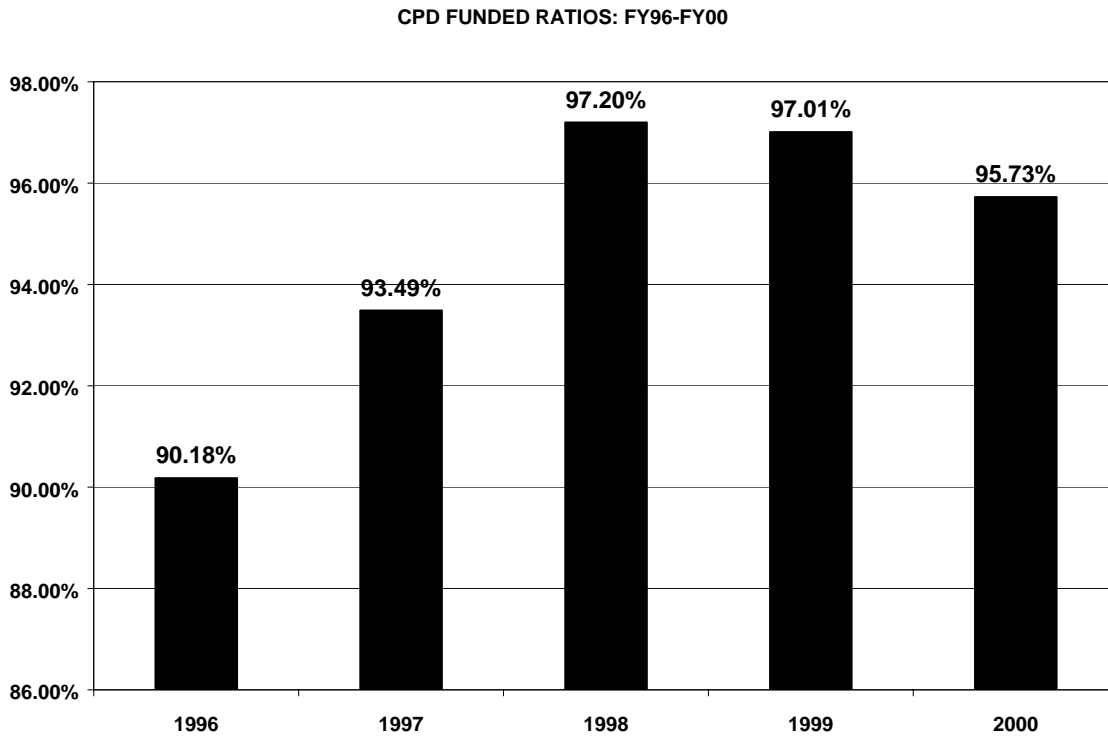
The Civic Federation used three measures to present a multi-year evaluation of the fiscal health of Chicago Park District's pension fund: funded ratios, the investment rate of return and the value of unfunded liabilities.³

³ The discussion of Chicago Park District's pension fund trends is drawn from Myer Blank. *Status of Local Pension Funding* (Chicago: Civic Federation, 2001).

Funded Ratios – Actuarial Value of Assets

The following exhibit shows the funded ratio for Chicago Park District’s pension fund. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage the more difficulty a government may have in meeting future obligations.

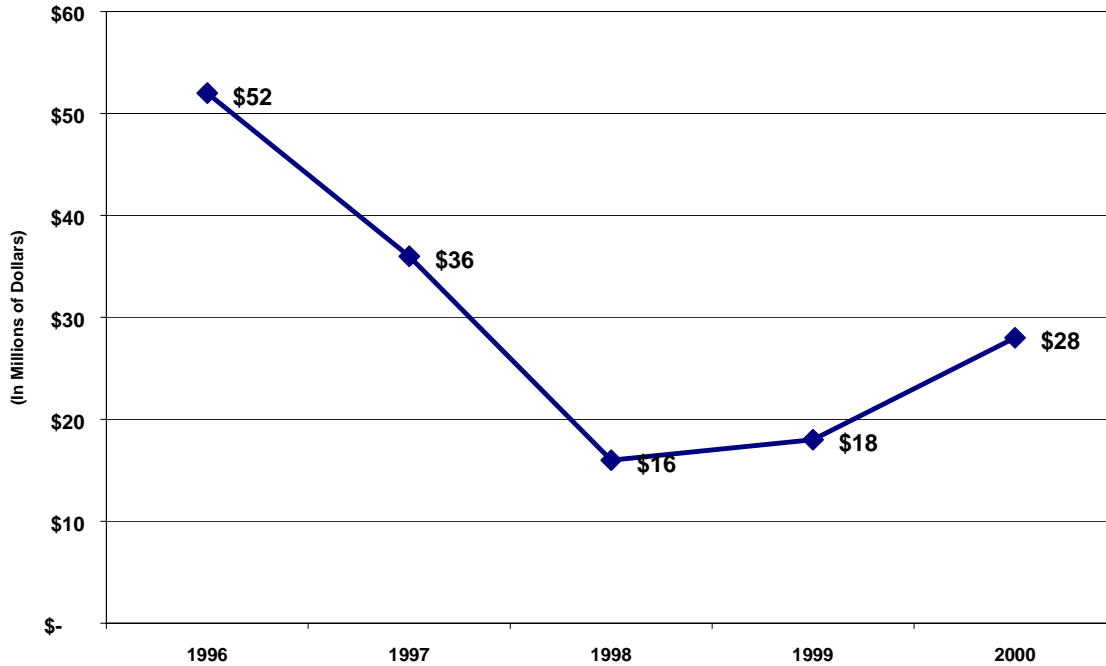
The funded ratio for Chicago Park District’s pension fund averaged a robust 94.7% from FY1996 to FY2000. Thus, during this period, Chicago Park District had more than sufficient assets to cover pension liabilities in the long term.



Unfunded Liabilities

Unfunded liabilities are the dollar value of pension liabilities not covered by assets. As the exhibit below shows, unfunded liabilities for Chicago Park District’s pension fund totaled approximately \$28 million in FY2000. This was a substantial 46% decrease since FY1996.

CPD UNFUNDED LIABILITIES: FY96-FY00



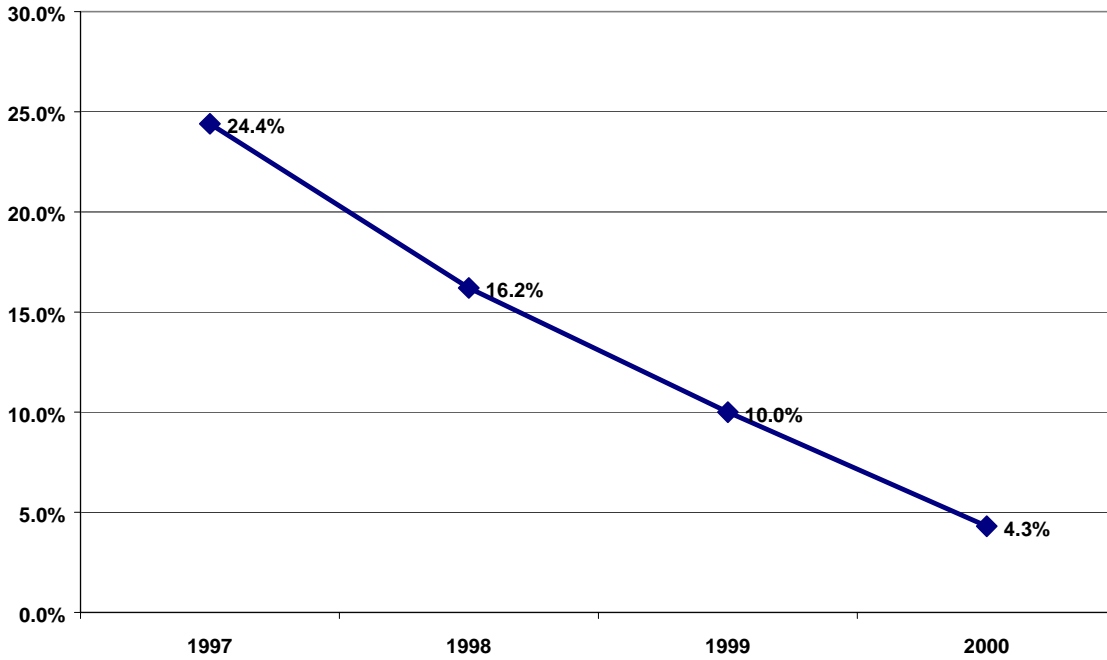
Investment Rates of Return

Investment returns for the Chicago Park District pension fund fell sharply in FY2000 because of declining financial markets, as the following exhibit illustrates. The Fund's rate of return fell from 24.4% in FY1997 to just 4.3% in FY2000. Investment income typically provides a significant portion (over 50%) of the funding for pension funds.

Clearly, investment income is down sharply from the boom years of the 1990s. However, this is not necessarily a cause for concern at this time. Because the stock market has increased in value over the long-term, the pension funds' investment income (which is derived largely from stock market investments) is likely to rise over time as well. It is also important to note that: 1) the Chicago Park District pension fund's investment rate of return for FY2000 (4.4%) continued to outpace the rate of inflation (3.2%)⁴ and 2) to reiterate that the Park District's pension fund currently is very well funded.

⁴ Consumer Price Index – Chicago Metropolitan Region (All Consumers).

CPD INVESTMENT RATES OF RETURN: FY97-FY00



Debt Trends

The Civic Federation has employed two measures of debt for purposes of this analysis: short-term debt trends and long-term debt per capita trends.

Short-Term Debt Trends

Short-term debt is a financial obligation that must be satisfied within one year. An increasing trend in short-term debt may be a warning sign of future financial difficulties. It is a measure of budgetary solvency, that is, a government's ability to generate enough revenue over the course of a normal budgetary period to meet its expenditures and prevent deficits

Short-term debt in the General and Special Revenue Funds includes obligations such as accounts payable, contracts payable, deposits, interest payable, interest, due to other funds, and liabilities from restricted assets. In sum, it includes all liabilities except accrued salaries and wages, accrued payroll, compensated absences and long-term debt.

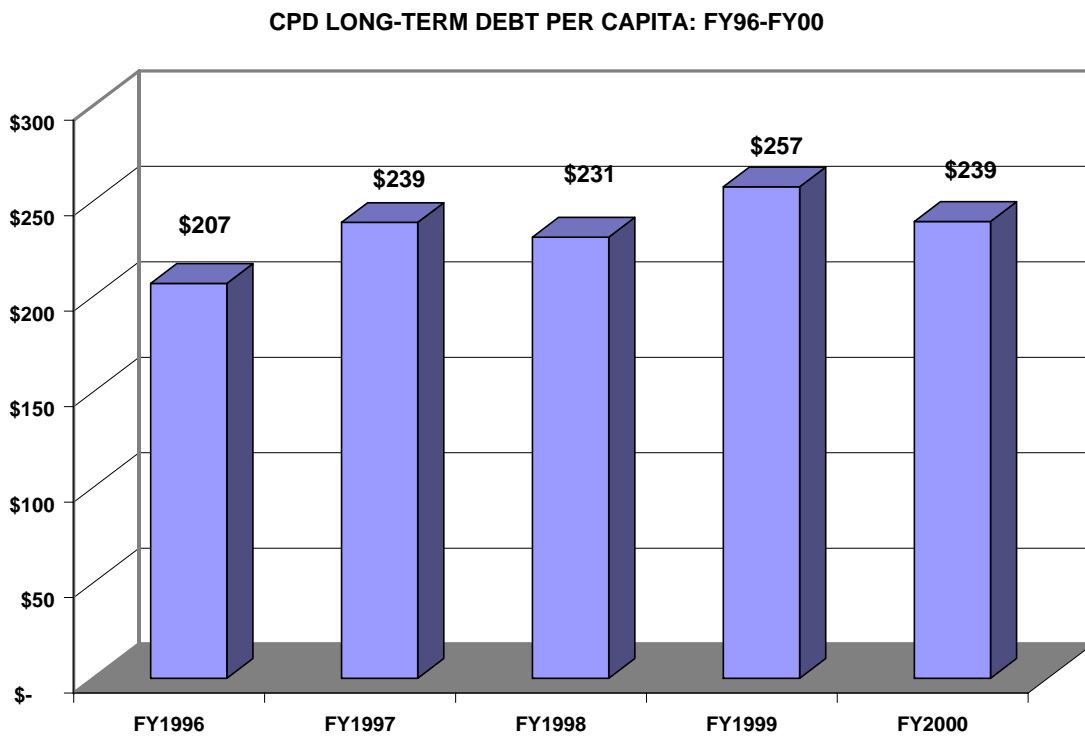
The exhibit below presents Chicago Park District short-term debt trends for Fiscal Years 1996 through 2000. It shows that the CPD's short-term debt obligations grew modestly by 4.3%, or almost \$9 million, in that 5-year period. A 16% increase, from \$207 million to \$239 million, was reported between FY1996 and FY1998. However, since that peak, short-term debt declined by 10% (although there was a \$1 million increase in FY00).

Because of the decrease in short-term debt since FY1998 and the modest size of the overall increase, there is no cause for concern according to this indicator at present.

Long-Term Debt Per Capita

Long-term debt per capita is a measure of a government's ability to maintain its current financial policies. This long-term debt analysis takes the total liabilities in the General Long-Term Obligations Account Group and divides them by population. The Chicago Park District's long-term debt includes general obligation bonds payable, capital leases payable, compensated absences, claims and judgments payable, and worker's compensation. Increases in this indicator bear watching as a potential sign of increasing financial risk.

Long-term debt per capita increased by 16% between FY1996 and FY2000, rising from \$207 to \$239. During the same period, the Consumer Price Index for the Chicago metropolitan region rose by 18.5%. Total long-term debt increased from \$576 million to \$693 million. Between FY1996 and FY1999, long-term debt per capita rose sharply by 24%. However, it decreased by 7% in FY2000. This decline is a positive sign.



IV. BUDGET PROCESS IMPROVEMENTS

The Chicago Park District has long been on the cutting edge of innovation among Chicagoland governments. The Civic Federation urges the District to continue in this direction by adopting budget process improvements such performance measures and formal financial policies.

Developing and Utilizing Performance Measures

The Civic Federation agrees with the International City Management Association (ICMA), the GFOA and the NACSLB that all governments should evaluate the performance of programs and services they provide. This is the best means extant to determine if they are accomplishing intended program goals and making efficient use of resources. Evaluating and reporting on program results keeps all stakeholders apprised of actual results compared to expectations.⁵

The Civic Federation is keenly aware that producing reams of measures (particularly workload measures) that are not linked to goals or objectives, utilized to inform management decisions, or developed without the buy-in of management and staff can be a costly endeavor with limited efficacy. However, using a few well-chosen measures, particularly those measuring efficiency and effectiveness that are produced consistently and developed with the buy-in of staff can be a valuable tool in assisting the District to improve its management and operations.

It is our understanding the Chicago Park District's new financial management system will give it the ability to develop performance measures and that it is the intention of the District to do so next year. Eventually, the CPD hopes to move to a performance-based budget. We applaud the Chicago Park District for moving in this direction.

Adopting Formal Financial Policies

Formal or written financial policies are plans that guide and determine a government's present and future financial operations decisionmaking. More specifically, their function is to:

- Identify a course of approved actions and detail prohibited activities;
- Establish operating parameters for elected and appointed officials as well as budget and finance staff; and
- Provide the means to set goals and targets for financial operations to permit the ongoing monitoring and evaluation of a government's financial condition and performance.⁶

The most significant benefit of financial policies is that they provide policymakers and financial managers with a long-range, comprehensive perspective. They enable them to craft acceptable policy options given resource and other environmental limitations. The process of developing a particular policy focuses elected officials and the financial management team on a jurisdiction's

⁵ See Recommended Practice 11.1 "Monitor, Measure, and Evaluate Program Performance," in National Advisory Council on State and Local Budgeting. *Recommended Budget Practices: A Framework for Improved State and Local Budgeting* (Chicago: GFOA, 1998).

⁶ W. Maureen Godsey, "Establishing Financial Policies: What, Why and How," in John Matzer, Jr, editor. *Practical Financial Management: New Techniques for Local Government* (Washington, D.C.: ICMA 1984), p. 27.

total financial condition, not just single or ad hoc issues. Because they take a long-term perspective, financial policies help prepare for contingencies and avoid reliance on short-term, stopgap measures.⁷ Both the NACSLB and the GFOA recommend that all jurisdictions adopt formal written financial policies.⁸

It is our understanding that the Chicago Park District does have several financial policies in place, including the General Superintendent's historic policy of holding at least \$50 million in reserves annually. However, the Board of Commissioners has not formally adopted financial policies.

The Civic Federation recommends that the Chicago Park District formally adopt written financial policies to guide the development of its annual budget.

V. SUMMARY

The Civic Federation opposes the property tax increase proposed in the Chicago Park District's FY2002 budget. However, we highly commend the District and its financial management team for their strong commitment to improving the efficiency of operations and the quality of service delivery. The Chicago Park District continues to be a regional leader in implementing innovative non-tax revenue enhancement strategies and methods of alternative service delivery.

Respectfully Submitted,

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⁷ Godsey, pp. 28-29.

⁸ See Recommended Practices 4.1 – 4.7 in National Advisory Council on State and Local Budgeting. *Recommended Budget Practices: A Framework for Improved State and Local Budgeting* (Chicago: GFOA, 1998) and “Adopting Financial Policies,” Recommended Practice, Committee on Governmental Budgeting and Management (2001).