



Office of the Chicago City
Clerk



F2012-35

Office of the City Clerk

City Council Document Tracking Sheet

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| Meeting Date: | 6/6/2012 |
| Sponsor(s): | Mendoza, Susana A. (Clerk) |
| Type: | Communication |
| Title: | General Obligation Bonds, Series 2012 and Amendments to Commercial Paper Program |
| Committee(s) Assignment: | |



DEPARTMENT OF FINANCE
CITY OF CHICAGO

May 30, 2012

Susana Mendoza
City Clerk
121 North LaSalle Street
Room 107
Chicago, Illinois 60602

RE: City of Chicago, Illinois
General Obligation Bonds, Series 2012 ABC

Dear Ms. Mendoza:

Attached is the Notification of Sale which is required to be filed with your office pursuant to Section 12 of the ordinance authorizing issuance of City of Chicago General Obligation Bonds, Series 2012 and amendments to Commercial Paper Program, which was passed by the City Council on March 14, 2012.

Please direct this filing to the City Council.

Very Truly Yours,

Lois A. Scott
Chief Financial Officer



OFFICE OF THE
CITY CLERK

2012 MAY 30 PM 12:20

RECEIVED
CITY CLERK'S OFFICE

NOTIFICATION OF SALE

\$179,905,000
GENERAL OBLIGATION BONDS,
PROJECT SERIES 2012A

\$307,975,000
GENERAL OBLIGATION BONDS,
TAXABLE PROJECT AND REFUNDING SERIES 2012B

\$106,970,000
GENERAL OBLIGATION BONDS,
REFUNDING SERIES 2012C

BEING ISSUED BY THE CITY OF CHICAGO

State of Illinois)
) SS
County of Cook)

To: The City Council of the City of Chicago

Please be advised that responsive to authority contained in an Ordinance (the "*Ordinance*") adopted by the City Council (the "*City Council*") of the City of Chicago (the "*City*") on March 14, 2012, authorizing the issuance of up to \$900,000,000 aggregate principal amount of general obligation bonds of the City, plus original issue discount, a Bond Purchase Agreement dated May 16, 2012 (the "*Bond Purchase Agreement*"), providing for the sale of \$179,905,000 aggregate principal amount of General Obligation Bonds, Project Series 2012A (the "*Series 2012A Bonds*"), \$307,975,000 aggregate principal amount of General Obligation Bonds, Taxable Project and Refunding Series 2012B (the "*Taxable Series 2012B Bonds*") and \$106,970,000 aggregate principal amount of General Obligation Bonds, Refunding Series 2012C (the "*Series 2012C Bonds*," and together with the Series 2012A Bonds and the Taxable Series 2012B Bonds, the "*Bonds*") was entered into by me as the Chief Financial Officer of the City, with the concurrence of the Chairman of the Committee on Finance of the City Council, and the purchasers thereof named below (the "*Underwriters*"). The Series 2012A Bonds were sold at a purchase price of \$197,503,200.75 (representing the aggregate principal amount of the Series 2012A Bonds plus original issue premium of \$18,470,112.40, less an underwriters' discount of \$871,911.65); the Taxable Series 2012B Bonds were sold at the purchase price of \$306,251,414.38 (representing the aggregate principal amount of the Taxable Series 2012B Bonds less an underwriters' discount of \$1,723,585.62), and the Series 2012C Bonds were sold at a purchase price of \$124,103,768.92 (representing the aggregate principal amount of the Series 2012C Bonds Series plus original issue premium of \$17,696,057.95, less an underwriters'

discount of \$562,289.03). The aggregate purchase price for the Bonds is equal to \$627,858,384.05 (which represents the aggregate principal amount of the Bonds less an Underwriters' discount of \$3,157,786.30 and plus an original issue premium of \$36,166,170.35). The Underwriters for the Bonds are, Mesirow Financial, Inc., Goldman Sachs & Co., Melvin and Company LLC, BMO Capital Markets, Cabrera Capital Markets, LLC, George K. Baum & Company, Guzman & Company, Harvestons Securities, Inc., North South Capital LLC, RBC Capital Markets, LLC and The Northern Trust Company. The compensation (including all fees) being paid to the Underwriters in connection with the sale of the Bonds of \$3,157,786.30 represents less than 1% of the aggregate principal amount of the Bonds.

Capitalized terms used herein without definition shall have the meanings assigned to such terms in the Ordinance.

The Series 2012A Bonds are being issued for the purpose of: (i) paying a portion of the costs of the Project; (ii) funding capitalized interest accrued through January 1, 2015, on the Series 2012A Bonds; and (iii) paying the costs of issuance of the Series 2012A Bonds (including the Underwriters' discount).

The Taxable Series 2012B Bonds are being issued for the purpose of: (i) paying a portion of the costs of the Project, (ii) funding capitalized interest on the Taxable Series 2012B Bonds through January 1, 2015; (iii) refunding certain Outstanding Indebtedness, and (iv), paying the costs of issuance of the Taxable Series 2012B Bonds (including the Underwriters' discount).

The Series 2012C Bonds are being issued for the purpose of refunding certain Outstanding Indebtedness and paying the costs of issuance of the Series 2012C Bonds (including the Underwriters' discount).

Attached hereto as *Exhibits 1* and *2*, respectively, are executed copies of the Bond Purchase Agreement and the Official Statement dated May 16, 2012.

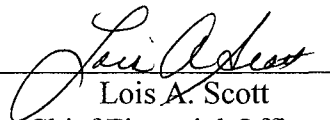
Pursuant to Section 12 of the Ordinance, the undersigned hereby makes the following determinations: (a) the principal amount of the Bonds is \$594,850,000, and the designation of the Bonds and principal amount of the Series 2012A Bonds, of the Taxable Series 2012B Bonds and of the Series 2012C Bonds are set forth in the first paragraph hereof, (b) the Bonds are issued as Current Interest Bonds in denominations of \$5,000 or any integral multiple thereof, none of which are sold as Retail Bonds, (c) the Bonds mature and are subject to redemption as set forth in Schedules IA-B-C attached hereto, (d) the principal amounts and interest rates on the Current Interest Bonds is set forth in Schedules IA-B-C attached hereto, (e) proceeds of the Taxable Series 2012B and Series 2012C Bonds have been used for the refunding of Outstanding Indebtedness described in Schedule ID, and, in connection therewith, none of the proceeds of the Bonds have been used for a payment under any Existing Interest Rate Exchange Agreement; the City is replacing all prior designations of General Obligation Bonds supporting the Notional Principal Amount (as defined in the swap agreement described below) under an interest rate swap agreement dated December 18, 2003, between the City and Goldman Sachs Capital Markets, L.P., pursuant to notice thereunder, (f) taxes levied for the year 2011 for the payment of refunded Outstanding Indebtedness will be applied to pay the principal of and

interest on the Bonds and the principal of and interest due on certain General Obligation Paper Notes of the City due on or before January 1, 2013, (g) the Bonds are issued in book-entry form; the book entry depository is The Depository Trust Company, (h) the sale price of the Bonds is as set forth in the first paragraph hereof, (i) the Underwriters of the Bonds are as set forth above, and (j) the Bond Registrar for the Bonds is Amalgamated Bank of Chicago, Illinois and the refunding Escrow Agents are those described in Schedule ID.

Pursuant to Section 7 of the Bond Ordinance the amount of taxes to be levied for the Bonds in each year will be less than the levy of taxes specified in Section 7 of the Bond Ordinance and I have determined, pursuant to the Ordinance, to abate the excess levy of taxes not necessary for the purpose of payment of the principal of and interest on the Bonds, as specified, together with the annual tax levy requirements for the payment of the principal and interest on the Bonds, in the Notification of Tax Abatement filed concurrently with the City Clerk, a copy of which is attached hereto as Schedule II

Pursuant to Section 15 of the Ordinance , I have determined that the taxes levied for the years 2012 through 2052 for the payment of the Outstanding Indebtedness refunded with proceeds of the Taxable Series 2012B Bonds and of the Series 2012C Bonds in the amounts shown in Schedule III, shall be abated as specified, pursuant to a certificate of reduction of taxes heretofore levied with respect to each series of the refunded Outstanding Indebtedness, to be filed within 30 days of the date of this Notification of Sale as provided in such certificate attached hereto as Schedule III.

Respectfully submitted as of this 30th day of May, 2012.



Lois A. Scott
Chief Financial Officer

EXHIBIT 1

BOND PURCHASE AGREEMENT

BOND PURCHASE AGREEMENT

\$594,850,000

CITY OF CHICAGO

\$179,905,000

**General Obligation Bonds,
Project Series 2012A**

\$307,975,000

**General Obligation Bonds,
Taxable Project and Refunding Series 2012B**

\$106,970,000

**General Obligation Bonds,
Refunding Series 2012C**

May 16, 2012

City of Chicago
Office of the City Comptroller
33 North LaSalle Street, 6th Floor
Chicago, Illinois 60602
Attention: Chief Financial Officer

Ladies and Gentlemen:

The undersigned, Mesirow Financial, Inc. (the “**Representative**”), on behalf of itself and the other underwriters listed below (the “**Underwriters**”), hereby offers to enter into this Bond Purchase Agreement (the “**Agreement**”) with the City of Chicago (the “**City**”), for the purchase by the Underwriters, and sale by the City, of all but not less than all of the City’s General Obligation Bonds, Project Series 2012A (the “**Series 2012A Bonds**”), the General Obligation Bonds, Taxable Project and Refunding Series 2012B (the “**Taxable Series 2012B Bonds**”) and the General Obligation Bonds, Refunding Series 2012C (the “**Series 2012C Bonds**” and, together with the Series 2012A Bonds and the Taxable Series 2012B Bonds, the “**Bonds**”). This offer is made subject to the acceptance by the City on or before 5:00 P.M., Chicago time on the date hereof, and upon such acceptance this Agreement shall be in full force and effect in accordance with its terms and shall be binding on the City and the Underwriters.

The Representative is authorized, and hereby represents and warrants that it is authorized, to act as Representative of the Underwriters and to execute this Agreement and has full authority to take such action as it may deem advisable with respect to all matters pertaining to this Agreement. Each Underwriter hereby severally represents to the City that it is registered and in good standing under the Securities Exchange Act of 1934, as amended, as a municipal securities dealer.

Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Preliminary Official Statement, as defined herein.

1. Agreement to Sell and Purchase.

(a) Upon the terms and conditions and based upon the representations, warranties and covenants herein set forth, the Underwriters, jointly and severally, hereby agree to purchase from the City and the City hereby agrees to sell to the Underwriters: the Series 2012A Bonds at a price equal to \$197,503,200.75 (which represents the aggregate principal amount of the Series 2012A Bonds less an Underwriters' discount of \$871,911.65 and plus a net offering premium of \$18,470,112.40), the Taxable Series 2012B Bonds, at a price equal to \$306,251,414.38 (which represents the aggregate principal amount of the Taxable Series 2012B Bonds less an Underwriters' discount of \$1,723,585.62) and the Series 2012C Bonds at a price equal to \$124,103,768.92 (which represents the aggregate principal amount of the Series 2012C Bonds less an Underwriters' discount of \$562,289.03 and plus a net offering premium of \$17,696,057.95).

(b) It shall be a condition to the City's obligation to sell and deliver the Bonds that all the Bonds be purchased and paid for by the Underwriters at the Closing (as defined herein) and a condition to the Underwriters' obligation to purchase and pay for the Bonds that all Bonds be issued, sold and delivered by the City at the Closing.

2. The Ordinance. The Bonds are authorized by an ordinance of the City adopted by the City Council of the City (the "**City Council**") on March 14, 2012 (the "**Ordinance**") and will be issued and secured as provided thereunder. The Bonds will mature, bear interest and have such other terms and conditions as are set forth on Schedule I hereto.

3. The Preliminary Official Statement. Attached hereto as Exhibit A is a copy of the Preliminary Official Statement of the City, dated May 9, 2012 relating to the Bonds (the "**Preliminary Official Statement**"). For purposes of Rule 15c2-12 ("**Rule 15c2-12**") of the Securities and Exchange Commission ("**SEC**"), the Preliminary Official Statement is "deemed final" by the City as of its date except for the omission of such information as is permitted by Rule 15c2-12.

4. Public Offering Price. The Underwriters have agreed to make a bona fide public offering of the Bonds at the initial offering prices set forth on Schedule I. The Representative will provide the City and Co-Bond Counsel (as defined herein) with a closing certificate confirming the reoffering yields and prices of the Bonds and the Underwriters acknowledge that the City and Co-Bond Counsel will rely on such certificate to establish the yield on the Bonds and that such reliance is material to the City in entering into this Agreement and in connection with the delivery of the Bonds.

5. The Official Statement.

(a) The City shall provide, or cause to be provided, at its expense, to the Underwriters within seven (7) business days after the City's acceptance of this Agreement, three copies of the Official Statement of the City, dated the date hereof, relating to the Bonds (the "**Official Statement**"), signed on behalf of the City by the Mayor or the Chief Financial Officer and the Official Statement so delivered shall be "final" for purposes of Rule 15c2-12. Such delivery of the Official Statement shall occur in sufficient time to accompany any confirmation that requests

payment from any customer and in sufficient quantity to comply with the rules of the SEC and the Municipal Securities Rulemaking Board ("**MSRB**").

(b) If on or prior to the Closing or within twenty-five (25) days after the "end of the underwriting period" (as hereinafter defined) any event known to the City relating to or affecting the City, the Ordinance or the Bonds, shall occur which would cause any statement of a material fact contained in the Official Statement to be materially incorrect or materially incomplete, the City will promptly notify the Representative in writing of the circumstances and details of such event. If, as a result of such event, it is necessary, in the joint opinion of the City and the Representative to amend or supplement the Official Statement by stating or restating any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading, the City will forthwith prepare and furnish to the Underwriters a reasonable number of copies of an amendment of or a supplement to such Official Statement in form and substance satisfactory to the City and the Representative, at the City's sole cost and expense, which will so amend or supplement such Official Statement so that, as amended or supplemented, the Official Statement will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. For purposes of this Agreement, the term "end of the underwriting period" shall mean the later of the date of Closing or the date on which an Underwriter no longer retains an unsold balance of the Bonds for sale to the public. The Underwriters agree that the date on which the end of the underwriting period shall occur shall be the date of the Closing, unless the Underwriters otherwise notify the City in writing prior to twenty-five (25) days after the date of the Closing that, to the best of their knowledge, the Underwriters retain for sale to the public an unsold balance of the Bonds, in which case the end of the underwriting period shall be extended for additional periods of thirty (30) days each upon receipt of additional written notification from the Underwriters that, to the best of their knowledge, there exists an unsold balance of the Bonds, but in no event shall the end of the underwriting period be extended longer than sixty (60) days after the date of Closing.

(c) At or prior to the Closing, the Representative shall file, or cause to be filed, the Official Statement with the MSRB in compliance with the rules of the SEC and the MSRB. Promptly after the date after which the Underwriters are no longer obligated under Rule 15c2-12(b)(4) to deliver to potential customers the Official Statement, the Representative shall notify the City of such date.

6. Representations, Warranties and Covenants of the City. The City represents and warrants to the Underwriters as of the date hereof that:

(a) The City is a municipal corporation and home rule unit of local government, existing under the Constitution and laws of the State of Illinois (the "**State**").

(b) The City Council has: (i) duly adopted the Ordinance, which remains in full force and effect; (ii) duly authorized the use of the Preliminary Official Statement prior to the date hereof in connection with the public offering and sale of the Bonds and duly authorized the execution, delivery and distribution of the Official Statement in connection with the public offering and sale of the Bonds; and (iii) duly authorized and approved the execution and delivery of the Bonds, the escrow agreements to be executed and delivered by the City (collectively referred to herein as the

"Escrow Agreements") in connection with the refunding of the general obligation bonds of the City identified in Appendix G to the Official Statement (the **"Refunded Bonds"**), this Agreement and a continuing disclosure undertaking pursuant to the provisions of Section (b)(5) of Rule 15c2-12 (the **"Undertaking"**).

(c) With the exception of the disclosure described in the POS in the section titled "Corrective Action Related to Certain Bond Disclosure Requirements", the City has not failed during the previous five years to comply in all material respects with any previous undertakings in a written continuing disclosure contract or agreement under Rule 15c2-12.

(d) The City has full legal right, power and authority to: (i) adopt the Ordinance; (ii) execute and deliver this Agreement, the Escrow Agreements and the Undertaking; (iii) issue, sell and deliver the Bonds to the Underwriters pursuant to the Ordinance and as provided in this Agreement; and (iv) pay for the Bonds from the sources pledged under the Ordinance for their payment.

(e) The adoption of the Ordinance and compliance with the provisions thereof do not, and the execution and delivery of this Agreement, the Escrow Agreements and the Undertaking will not, in any material manner, violate any applicable law or administrative regulation of the State or any department, division, agency or instrumentality thereof or of the United States of America (the **"United States"**) or of any department, division, agency or instrumentality thereof, or any applicable judgment or decree to which the City is subject, or conflict with, in a material manner, or constitute a material breach of, or a material default under, any ordinance, agreement or other instrument to which the City is a party or is otherwise bound.

(f) All approvals, consents and orders of, and filings (except, if any, under applicable state "blue sky" laws) with, any governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to the performance by the City of its obligations under this Agreement, the Escrow Agreements, the Undertaking, the Ordinance and the Bonds have been obtained or made.

(g) The financial statements of the City contained in the Official Statement fairly present the financial position and results of operations of the City as of the date and for the periods therein set forth and the City has no reason to believe that such financial statements have not been prepared in accordance with generally accepted accounting principles as applied to governmental units, consistently applied except as otherwise noted therein.

(h) The Official Statement (excluding any description of The Depository Trust Company ("DTC"), information under the captions "THE BONDS - Book-Entry System," "RATINGS," "CERTAIN VERIFICATIONS," "UNDERWRITING," and "TAX MATTERS," Appendix F thereto and APPENDIX D — "ECONOMIC, DEMOGRAPHIC AND SUPPLEMENTAL INFORMATION (with respect to the information under the headings "— Economic Highlights" and "— Housing Market," and information relating to population, per capita personal income and unemployment rate with respect to the United States, the State of Illinois and Cook County), information from sources other than the City or departments thereof, and any information in or omitted from the Official Statement relating to DTC, and information furnished by the Underwriters for use in the Official Statement) as of its date does not, and at the

Closing will not, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading in any material respect.

(i) The Ordinance, this Agreement, the Escrow Agreements, and the Undertaking, when duly executed and delivered by the parties thereto, as appropriate, will constitute legal, valid and binding obligations of the City enforceable in accordance with their terms (except to the extent that enforceability may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies and the availability of equitable remedies generally).

(j) When delivered to the Representative, and paid for by the Underwriters at the Closing in accordance with the provisions of this Agreement, the Bonds will be duly authorized, executed and delivered and will constitute legal, valid and binding obligations of the City enforceable in accordance with their terms (except to the extent that enforceability may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies and the availability of equitable remedies generally).

(k) Except as disclosed in the Official Statement, there is no action, suit or proceeding, at law or in equity, or before or by a court, public board or body, pending or, to the City's knowledge, threatened, against the City wherein an unfavorable decision, ruling or finding would materially adversely affect (i) the validity or enforceability of the Bonds, the Ordinance, this Agreement, the Escrow Agreements, or the Undertaking or (ii) the excludability from federal income taxation of the interest on the Series 2012A Bonds and 2012C Bonds under the Internal Revenue Code of 1986, as amended (the "Code").

(l) The City has not taken, or omitted taking, and will not take or omit to take, any action, which action or omission would adversely affect the excludability from federal income taxation of the interest on the Series 2012A Bonds and the 2012C Bonds under the Code.

(m) Any certificate signed by any Authorized Officer of the City and delivered to the Representative at the Closing in connection with the issuance or sale of the Bonds shall be deemed to be a representation and warranty by the City to the Underwriters as to the statements made therein as of the date so delivered.

(n) The City will make available such information, execute such instruments and take such other action in cooperation with the Underwriters as the Representative may reasonably request to qualify the Bonds for offering and sale under the "blue sky" or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriters may designate in writing; provided, however, that nothing in this Section 6(m) shall require the City to consent to general service of process in any state or jurisdiction other than the State of Illinois.

(o) The City will apply the proceeds of the Bonds in accordance with the Ordinance.

(p) The City acknowledges and agrees that: (i) the transaction contemplated by this Agreement is an arm's length, commercial transaction between the City and the Underwriters in which the Underwriters are acting solely as a principal and not acting as a municipal advisor, financial advisor or fiduciary to the City; (ii) the Underwriters have not assumed any advisory or

fiduciary responsibility to the City with respect to the transaction contemplated hereby and the discussions, undertakings and procedures leading thereto (irrespective of whether any Underwriter has provided other services or is currently providing other services to the City on other matters) the Underwriters have financial and other interests that differ from those of the City; and (iii) the City has consulted its own legal, account, tax, financial and other advisors, as applicable, to the extent it has deemed appropriate.

7. Closing. Subject to the conditions set forth in this Agreement, the closing (the “**Closing**”) of the sale of the Bonds by the City and the purchase of the Bonds by the Underwriters, shall take place at approximately 9:00 a.m., Chicago time, on May 30, 2012, at the offices of Chapman and Cutler LLP, 111 W. Monroe Street, Chicago, Illinois (or at such other time, date and place as the City and the Representative mutually agree).

(a) At the Closing, the City shall deliver or cause to be delivered to DTC, as securities depository, for the account of the Underwriters one fully registered certificate for each maturity (Bonds with the same maturities but different interest rates will have separate certificates) of the Bonds in the aggregate principal amount thereof, registered in the name of Cede & Co., as nominee for DTC.

(b) Upon delivery of the Bonds to the Representative at the Closing, the City will deliver to the Representative the closing documents as set forth in Section 10 hereof.

(c) The Representative will accept delivery of the Bonds and pay the purchase price therefor at the Closing by delivering federal funds checks or making federal funds wire transfers or otherwise confirming deposits of same day funds, as the City shall direct, to the City’s account at a bank specified by the City, in an aggregate amount equal to the purchase price of the Bonds pursuant to Section 1 hereof.

8. Reliance and Further Conditions of the Underwriters. The Underwriters have entered into this Agreement in reliance upon the representations, warranties and agreements of the City herein and the performance by the City of its obligations hereunder, both as of the date hereof and as of the date of the Closing. The Underwriters’ obligations under this Agreement are and shall be subject to the following further condition that at the time of the Closing, the Ordinance, the Undertaking, the Escrow Agreements and this Agreement shall be in full force and effect and the Ordinance and the Official Statement shall not have been amended, modified or supplemented except as may have been agreed to with respect to the Official Statement pursuant to Section 5 hereof, and the City shall have duly adopted and there shall be in full force and effect such ordinances as, in the opinion of Chapman and Cutler LLP, Chicago, Illinois and Cotillas and Associates, Chicago, Illinois, as co-bond counsel (“**Co-Bond Counsel**”) shall be necessary in connection with the transactions contemplated hereby and thereby.

9. Termination of Agreement.

(a) The Underwriters shall have the right to cancel their obligations to purchase the Bonds and have the further right to terminate this Agreement, without liability therefor, by written notice to the City from the Representative, if, between the date hereof and the Closing:

(i) legislation shall be introduced in or enacted by the Congress of the United States or adopted by either House thereof or shall have been introduced and favorably reported for passage to either House by any committee of such House to which such legislation had been referred for consideration, or a decision shall have been rendered by or adopted by either House or a decision by a court of the United States or the United States Tax Court or an order, ruling or regulation shall have been issued or proposed by or on behalf of the Treasury Department of the United States or the Internal Revenue Service, with respect to federal income taxation upon interest received on obligations of the general character of the Series 2012A Bonds and 2012C Bonds which, in the Representative's reasonable opinion, does materially adversely affect the market price or marketability of the Bonds, or

(ii) legislation shall have been enacted by the Congress of the United States to become effective on or prior to the Closing, or a decision of a court of the United States shall be rendered, or a stop order, ruling, regulation or proposed regulation by or on behalf of the SEC or other agency having jurisdiction over the subject matter shall be issued or made, to the effect that the issuance, sale and delivery of the Bonds, or any similar obligations of any similar public body of the general character of the City, is in violation of, or has the effect of requiring the contemplated offering, sale and distribution of the Bonds to be registered under the Securities Act of 1933, as amended, or the enactment of the Ordinance or any ordinance of similar character is in violation of the Trust Indenture Act of 1939, as amended, or with the purpose or effect of otherwise prohibiting the issuance, sale or delivery of the Bonds as contemplated hereby or by the Official Statement or of obligations of the general character of the Bonds which, in the Representative's reasonable opinion, does materially adversely affect the market price or marketability of the Bonds, or

(iii) there shall have occurred any event which in the Representative's reasonable opinion, after consultation with its legal counsel, makes the Official Statement either (A) contain an untrue statement of a material fact or (B) omit to state a material fact required to be stated therein or necessary to make the statements contained therein not misleading in any material respect, and the City fails to prepare or furnish or fails to cause to be prepared or furnished to the Underwriters an amendment or supplement to the Official Statement, pursuant to Section 5 hereof, which will amend or supplement the Official Statement so that, as amended or supplemented, the Official Statement will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements contained therein not misleading in a material respect, or

(iv) there shall be in force a general suspension of trading on The New York Stock Exchange, Inc., or minimum or maximum prices for trading shall have been fixed and be in force, or maximum ranges for prices for securities shall have been required and be in force on The New York Stock Exchange, Inc., whether by virtue of a determination by that Exchange or by order of the SEC or any other governmental authority having jurisdiction, or

(v) a general banking moratorium shall have been declared by either federal, State or New York authorities having jurisdiction and be in force, or

(vi) any legislation, ordinance, rule or regulation shall be enacted by the City or State, or any department or agency thereof, or a decision by any court of competent jurisdiction within the State shall be rendered which, in the reasonable opinion of the Representative, would have a material adverse effect on the market price or marketability of the Bonds, or

(vii) a war involving the United States, an outbreak or escalation of or adverse development in hostilities or terrorist activities or other national or international calamity or crisis shall have occurred which, in the reasonable opinion of the Representative, materially adversely affects the market price or marketability of the Bonds, or

(viii) there shall be any proceeding or threatened proceeding by the SEC against the City and such proceeding or threatened proceeding, in the reasonable opinion of the Representative, materially adversely affects the market price or marketability of the Bonds

(b) If the City shall be unable to satisfy the conditions contained in this Agreement or if the Underwriters' obligations shall be terminated for any reason permitted by this Agreement, this Agreement shall terminate and neither the City nor the Underwriters shall have any further obligations hereunder.

10. Closing Conditions.

(a) The Underwriters' obligations to purchase, to accept delivery of and to pay for the Bonds at the Closing shall be conditioned upon the City's performance of its obligations under Sections 7 and 8 hereof and the Underwriters' receipt of the following documents:

(i) three copies of the Official Statement manually executed by the Chief Financial Officer;

(ii) the approving opinions, dated the date of the Closing, of Co-Bond Counsel to the City, substantially in the form attached to the Official Statement as Appendix F;

(iii) the opinions, dated the date of the Closing and addressed to the Representative on behalf of the Underwriters and to the City, of Co-Bond Counsel, substantially in the form attached hereto as Exhibit B-1;

(iv) a letter dated the date of the closing and addressed to the Representative on behalf of the Underwriters and to the City, of Co-Bond Counsel, substantially in the form attached hereto as Exhibit B-2;

(v) an opinion, dated the date of the Closing and addressed to the Representative on behalf of the Underwriters, of the Corporation Counsel of the City, substantially in the form attached hereto as Exhibit C;

(vi) an opinion or opinions, dated the date of the Closing and addressed to the Representative on behalf of the Underwriters, of Ungaretti & Harris LLP, Chicago,

Illinois and Golden Holley James LLP, Chicago, Illinois, co-counsel for the Underwriters (herein collectively "***Co-Underwriters' Counsel***"), substantially in the form attached hereto as Exhibit D;

(vii) a certificate, dated the date of the Closing, signed by the Chief Financial Officer, to the effect that (A) the representations and warranties of the City herein are correct in all material respects as of the date of the Closing; and (B) there has been no material adverse change in the financial condition of the City since December 31, 2010, as reflected in Appendix C to the Official Statement, except as set forth in the Official Statement;

(viii) a certificate of Amalgamated Bank of Chicago, Chicago Illinois, as bond registrar and paying agent ("***Bond Registrar***"), to the effect that the Bond Registrar has full legal right, power and authority to act as the Bond Registrar under the Ordinance;

(ix) a certificate, dated the date of the Closing, signed by the Representative, in form and substance satisfactory to the City and Co-Bond Counsel;

(x) an executed copy of the Undertaking substantially in the form summarized in the Official Statement under the heading "SECONDARY MARKET DISCLOSURE";

(xi) a copy of an agreement between the City and DTC relating to the safekeeping and book-entry form of the Bonds;

(xii) a copy, duly certified by the City Clerk of the City, of the Ordinance, as passed by the City Council and approved by the Mayor;

(xiii) evidence satisfactory to the Representative that the Bonds have ratings of "Aa3" by Moody's Investors Service, Inc., "A+" by Standard & Poor's, a division of The McGraw-Hill Companies, Inc., and "AA-" by Fitch;

(xiv) an executed copy of each of the Escrow Agreements;

(xv) a certificate from each escrow agent (collectively, the "***Escrow Agents***") to the effect that such Escrow Agent has full legal right, power and authority to act as Escrow Agent under the related Escrow Agreement;

(xvi) a verification report of Robert Thomas, CPA, LLC, dated the date of the closing, as to the accuracy of certain calculations with respect to the Bonds and the Refunded Bonds; and

(xvii) such additional closing certificates and agreements related to the Bonds, including such tax certifications and agreements relating to the Bonds, as Co-Bond Counsel shall reasonably determine to be necessary to deliver their opinions as provided hereinabove.

(b) All of the opinions, letters, certificates, instruments and other documents mentioned above or elsewhere in this Agreement will be deemed to be in compliance with the provisions hereof if, but only if, they are in form and substance satisfactory to the Representative, in its reasonable judgment. Payment for the Bonds and acceptance of the Bonds by the Underwriters shall constitute acknowledgment by the Underwriters of the City's full performance hereunder.

11. Expenses. The Underwriters shall be under no obligation to pay, and the City shall pay, any and all expenses incident to the performance of the City's obligations hereunder, including but not limited to: (a) the cost of the preparation and printing or other reproduction of the Ordinance, the Preliminary Official Statement and the Official Statement, as well as the cost of shipping the Official Statement; (b) the cost of the preparation and printing of the Bonds; (c) the fees and disbursements of Co-Bond Counsel; (d) the fees and disbursements of any experts or consultants retained by the City; (e) the fees of the Escrow Agents, DTC and the Bond Registrar; and (f) the fees for the municipal bond ratings on the Bonds. The Underwriters will pay the expenses incurred by them or any of them in connection with their public offering and distribution of the Bonds, including, but not limited to, the CUSIP Service Bureau charges, the fees and expenses of Co-Underwriters' Counsel and advertising expenses directly incurred by the Underwriters.

12. Notices. Any notice or other communication to be given to the City under this Agreement shall be given by delivering the same in writing at the address set forth above, and any such notice or other communication to be given to the Underwriters shall be given by delivering the same in writing to the Representative at the following address:

Mesirow Financial, Inc.
353 North Clark Street
Chicago, IL 60654
Attention: Steve Hoopes

13. No Third Party Beneficiaries, Survival, Etc. This Agreement is made solely for the benefit of the City and the Underwriters (including the successors or assigns of any Underwriter), and no other person, partnership, association or corporation including any purchaser of the Bonds shall acquire or have any right hereunder or by virtue hereof. All of the representations and agreements by the City in this Agreement shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Underwriters and shall survive the delivery of and payment for the Bonds.

14. Governing Law. The rights and obligations of the parties to this Agreement shall be governed by, construed and enforced in accordance with the laws of the State, without giving effect to the conflict of laws provisions thereof.

15. Representations and Warranties of the Underwriters. The Underwriters represent and warrant that:

(a) They have heretofore authorized the Representative to execute any document on behalf of or exercise any authority of and otherwise to act for, the Underwriters in all matters under or pertaining to this Agreement. Each Underwriter has warranted and confirmed to the

Representative, and the Representative warrants and confirms to the City that: (i) it is duly registered under the Securities Exchange Act of 1934, as amended (the "*1934 Act*"), as a broker/dealer or municipal securities dealer and has duly paid the fee prescribed by MSRB Rule A-12 or is exempt from such requirements, (ii) it is (a) a member in good standing of the Financial Industry Regulatory Authority ("*FINRA*") or (b) otherwise eligible under FINRA rules to receive underwriting discounts and concessions available to such members with respect to underwriters of municipal securities, and (iii) it has complied with the dealer registration requirements, if any, of the various jurisdictions in which it offers Bonds for sale. The Underwriters represent, warrant and covenant that they are and will be in compliance with all applicable laws, rules and regulations in connection with the offering, issuance and sale of the Bonds.

(b) To the knowledge of the Underwriters, no person holding office of the City, either by election or appointment, is in any manner financially interested, either directly in the officer's own name or indirectly in the name of any other person, association, trust or corporation, in any contract being entered into or the performance of any work to be carried out in connection with the issuance and sale of the Bonds upon which said officer may be called upon to act or vote.

(c) Each Underwriter severally represents to the City that neither the Underwriter, nor any Affiliate thereof is listed on any of the following lists maintained by the Office of Foreign Assets Control of the United States Department of the Treasury, the Bureau of Industry and Security of the United States Department of Commerce, the United States Department of State or their successors, or on any other list of persons or entities with which the City may not do business under any applicable law, rule, regulation, order or judgment: the Specially Designated Nationals List, the Denied Persons List, the Unverified List, the Entity List, the List of Statutorily Debarred Parties and the Excluded Parties List. Such representation shall be provided to the City in the form attached hereto as Exhibit E.

For purposes of this representation, "Affiliate," when used to indicate a relationship with a specified person or entity, means a person or entity that, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with such specified person or entity, and a person or entity shall be deemed to be controlled by another person or entity, if controlled in any manner whatsoever that results in control in fact by that other person or entity (or that other person or entity and any persons or entities with whom that other person or entity is acting jointly or in concert), whether directly or indirectly and whether through share ownership, a trust, a contract or otherwise.

(d) The Underwriters may enter into distribution agreements with certain financial institutions for the retail distribution of municipal securities, including the Bonds, at the public offering price. In accordance with such arrangements, the Underwriters may share a portion of its underwriting compensation.

16. Approval. The approval of the Underwriters when required hereunder or the determination of their satisfaction as to any document referred to herein shall be in writing signed by the Representative and delivered to the City.

17. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the parties and their successors and assigns, and will not confer any rights upon any other

person. The terms “successors” and “assigns” shall not include any purchaser of any Bond or Bonds from the Underwriters merely because of such purchase.

18. Enforceability. If any provision of this Agreement shall be held or deemed to be or shall, in fact, be invalid, inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions, or in all jurisdictions, because it conflicts with any provisions of any constitution, statute, rule or public policy, or for any other reason, such circumstances shall not have the effect of rendering the provision in question invalid, inoperative or unenforceable in any other case or circumstances, or of rendering any other provision or provisions of this Agreement invalid, inoperative or unenforceable to any extent whatsoever.

19. Counterparts. This Agreement may be executed in several counterparts, each of which shall be regarded as the original and all of which shall constitute one and the same document.

20. Business Relationships with City Elected Officials. Each Underwriter understands and agrees that it is required to and will comply with the provisions of Chapter 2-56 and 2-156 of the Municipal Code of Chicago (the “**Municipal Code**”). Pursuant to Section 2-156-030(b) of the Municipal Code, it is illegal for any elected official of the City, or any person acting at the direction of such official, to contact, either orally or in writing, any other City official or employee with respect to any matter involving any person with whom the elected official has a business relationship, or to participate in any discussion in any City Council committee hearing or in any City Council meeting or to vote on any matter involving the person with whom an elected official has a business relationship. Violation of Section 2-156-030(b) of the Municipal Code by any elected official with respect to this Agreement shall be grounds for termination of this Agreement. The term “business relationship” shall be defined as set forth in Section 2-156-080 of the Municipal Code.

21. Entire Agreement. This Bond Purchase Agreement constitutes the entire agreement between the parties hereto with respect to the matters covered hereby, and supersedes all prior agreements and understandings between the parties. This Bond Purchase Agreement shall only be amended, supplemented or modified in a writing signed by both of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Bond Purchase Agreement in connection with the City of Chicago General Obligation Bonds, Project Series 2012A, the City of Chicago General Obligation Bonds, Taxable Project and Refunding Series 2012B and the City of Chicago General Obligation Bonds, Refunding Series 2012C to be executed by their duly authorized representatives as of the date first above written.

Very truly yours,

THE UNDERWRITERS

Mesirow Financial, Inc.
Goldman Sachs & Co.
Melvin & Company LLC
BMO Capital Markets GKST, Inc.
Cabrera Capital Markets, LLC
George K. Baum & Company
Guzman & Company
Harveston Securities, Inc.
North South Capital LLC
RBC Capital Markets, LLC
The Northern Trust Company

By: MESIROW FINANCIAL, INC.
As Representative

By: _____

Steve Hoopes

Senior Managing Director

Accepted by the City:

CITY OF CHICAGO

By: _____

Lois A. Scott

Chief Financial Officer

Concurred: _____

By: _____

Edward M. Burke

Chairman, Committee on
Finance of the City Council

SCHEDULE I

TERMS OF BONDS

1. Aggregate Principal Amount: \$594,850,000
2. Dated: May 30, 2012
3. Maturities, Principal Amounts, Interest Rates, Prices and CUSIP Numbers:

\$179,905,000 General Obligation Bonds, Project Series 2012A

| <u>Maturity (January 1)</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Price</u> | <u>CUSIP</u> |
|--|--------------------------------|---------------------------------|---------------------|---------------------|
| 2033 | \$ 119,905,000 | 5.00% | 110.408 c | 167486 PE3 |
| 2034 | 60,000,000 | 5.00 | 109.984 c | 167486 PF0 |

\$307,975,000 General Obligation Bonds, Taxable Project and Refunding Series 2012B

| <u>Maturity (January 1)</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Price</u> | <u>CUSIP</u> |
|--|--------------------------------|---------------------------------|---------------------|---------------------|
| 2042 | \$ 307,975,000 | 5.432% | 100.000 c | 167486 PG8 |

\$106,970,000 General Obligation Bonds, Refunding Series 2012C

| <u>Maturity (January 1)</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Price</u> | <u>CUSIP</u> |
|--|--------------------------------|---------------------------------|---------------------|---------------------|
| 2020 | \$ 4,000,000 | 4.000% | 112.586 | 167486 PH6 |
| 2020 | 8,120,000 | 5.000 | 119.540 | 167486 PT0 |
| 2021 | 3,600,000 | 4.000 | 112.181 | 167486 PJ2 |
| 2021 | 12,545,000 | 5.000 | 119.891 | 167486 PU7 |
| 2022 | 2,200,000 | 4.000 | 111.450 | 167486 PK9 |
| 2022 | 14,770,000 | 5.000 | 119.870 | 167486 PV5 |
| 2023 | 675,000 | 4.000 | 109.673 c | 167486 PL7 |
| 2023 | 17,470,000 | 5.000 | 118.013 c | 167486 PW3 |
| 2024 | 500,000 | 4.000 | 108.535 c | 167486 PM5 |
| 2024 | 18,585,000 | 5.000 | 116.824 c | 167486 PX1 |
| 2025 | 11,050,000 | 5.000 | 115.560 c | 167486 PN3 |
| 2026 | 8,690,000 | 5.000 | 114.667 c | 167486 PP8 |
| 2030 | 1,525,000 | 4.000 | 102.807 c | 167486 PQ6 |
| 2031 | 1,590,000 | 4.000 | 102.318 c | 167486 PR4 |
| 2032 | 1,650,000 | 4.000 | 101.833 c | 167486 PS2 |

4. Redemption.

The Bonds are subject to both optional and mandatory redemption prior to maturity, as described below. The Bonds shall be redeemed only in principal amounts of \$5,000 and integral multiples thereof.

Optional Redemption. The Series 2012A Bonds and the Series 2012C Bonds are redeemable prior to maturity at the option of the City, in whole or in part, on any date on or after January 1, 2022, and if less than all of the outstanding Series 2012A Bonds and Series 2012C Bonds of a single maturity and interest rate are to be redeemed, the Series 2012A Bonds and the Series 2012C Bonds to be called shall be called by lot in the manner hereinafter provided, at a redemption price equal to the principal amount of the Series 2012A Bonds and the Series 2012C Bonds being redeemed plus accrued interest to the date fixed for redemption.

The City is authorized to sell or waive any right the City may have to call any of the Series 2012A Bonds and the Series 2012C Bonds for optional redemption, in whole or in part; provided, that such sale or waiver will not adversely affect the exclusion of interest on the Series 2012A Bonds and the Series 2012C Bonds for federal income tax purposes.

Optional Redemption of the Taxable Series 2012B Bonds with Make Whole Payment. The Taxable Series 2012B Bonds shall be subject to redemption prior to maturity at the option of the City, in whole or in part, on any date at a redemption price equal to the greater of: (A) the principal amount of Bonds of such series to be redeemed, or (B) the sum of the present values of the remaining scheduled payments of principal and interest on such Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date such Bonds are to be redeemed, discounted to the date of redemption of such Bonds to be redeemed on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (defined below) plus 50 basis points plus accrued interest on the Bonds of such series being redeemed to the date fixed for redemption.

The make whole optional redemption price of the Taxable Series 2012B Bonds to be redeemed will be calculated by an independent accounting firm, investment banking firm or financial advisor (the "Calculation Agent") retained by the City at the City's expense. The Bond Registrar and the City may rely on the Calculation Agent's determination of the make whole optional redemption price and will not be liable for such reliance. An authorized officer of the City shall confirm and transmit the redemption price as so calculated on such dates and to such parties as shall be necessary to effectuate such redemption.

The "Treasury Rate" is, as of any redemption date, the yield to maturity as of such redemption date of Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available four Business Days (as defined below) prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Bonds of such series to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded Treasury securities adjusted to a constant maturity of one year will be used. "Business Day" means any day other than a day on which banks in New York, New York, Chicago, Illinois, or the city in which the Bond Registrar maintains its designated office are required or authorized to close. The Treasury Rate will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the City at the City's expense.

The City is authorized to sell or waive any right the City may have to call the Taxable Series 2012B Bonds for optional redemption.

Mandatory Redemption of the Bonds. The Series 2012A Bonds due January 1, 2033 are subject

to mandatory redemption prior to maturity, in each case at par and accrued interest to the date fixed for redemption, on January 1 of the following years and in the following principal amounts:

Series 2012A Bonds due January 1, 2033

| Year | Principal Amount |
|-------------|-------------------------|
| 2030 | \$3,990,000 |
| 2032 | \$43,270,000 |
| 2033 | \$72,645,000 (maturity) |

The Taxable Series 2012B Bonds due January 1, 2042 are subject to mandatory redemption prior to maturity, in each case at par and accrued interest to the date fixed for redemption, on January 1 of the following years and in the following principal amounts:

Taxable Series 2012B Bonds due January 1, 2042

| Year | Principal Amount |
|-------------|--------------------------|
| 2039 | \$19,870,000 |
| 2040 | \$48,125,000 |
| 2041 | \$116,820,000 |
| 2042 | \$123,160,000 (maturity) |

EXHIBIT A

PRELIMINARY OFFICIAL STATEMENT

EXHIBIT B-1

SUPPLEMENTAL OPINION OF CO-BOND COUNSEL

May __, 2012

Mesirow Financial, Inc.
Chicago, Illinois
as Representative of the Underwriters
named in the Bond Purchase Agreement
described below

City of Chicago
33 North LaSalle Street, 6th Floor
Chicago, Illinois 60602

Re: City of Chicago
\$_____ General Obligation Bonds, Project Series 2012A
\$_____ General Obligation Bonds, Taxable Project and Refunding
Series 2012B
\$_____ General Obligation Bonds, Refunding Series 2012C

Ladies and Gentlemen:

This opinion is being delivered to you in connection with the authorization and sale of the above-referenced obligations (collectively, the "*Bonds*"). The Bonds have been delivered this date to the underwriters named in the Bond Purchase Agreement dated May __, 2012 (the "*Purchase Agreement*"), between the City of Chicago (the "*City*"), and the Underwriters acting through the Representative (as defined in the Purchase Agreement), relating to the sale and purchase of the Bonds. Terms used and not defined herein shall have the meanings ascribed to them in the Purchase Agreement.

Based upon our examination of a certified copy of a record of the proceedings of the City Council of the City (the "*City Council*") related to the issuance of the Bonds, we are of the opinion that:

1. Pursuant to an ordinance adopted by the City Council on the 14th day of March, 2012, authorizing the issuance of the Bonds (as supplemented by a Notification of Sale, the "*Bond Ordinance*"), the City has duly authorized, executed and delivered the Purchase Agreement and the Continuing Disclosure Undertaking (together with the Purchase Agreement, the "*City Documents*"), and, assuming the due authorization, execution, delivery and the binding effect on the other parties thereto, each of the City Documents constitutes a legal, valid and binding obligation of the City, enforceable against the City in accordance with its respective terms, except that the enforceability of the City Documents may be limited by bankruptcy, insolvency, moratorium, reorganization and other similar

laws affecting creditors' rights and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion.

2. Based upon our examination of such documents and questions of law as we have deemed relevant in connection with the offering and sale of the Bonds under the circumstances described in the Official Statement, we are of the opinion that, under existing law, the Bonds are not required to be registered under the Securities Act of 1933, as amended, and the Bond Ordinance is not required to be qualified under the Trust Indenture Act of 1939, as amended.

In rendering this opinion, we have relied upon certifications of the City with respect to certain material facts within the knowledge of the City. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion, and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

This opinion is furnished by us as Co-Bond Counsel to the City. No attorney-client relationship has existed or exists between our firm and the Underwriters in connection with the Bonds or by virtue of this opinion. This opinion is solely for the benefit of the Underwriters and the City and may not be used, quoted, relied upon or otherwise referred to for any other purpose or by any other person (including any person purchasing any of the Bonds from the Underwriters) without our prior written consent.

Very truly yours,

EXHIBIT B-2

LETTER OF CO-BOND COUNSEL

May __, 2012

Mesirow Financial, Inc.
Chicago, Illinois
as Representative of the Underwriters
named in the Bond Purchase Agreement
described below

City of Chicago
33 North LaSalle Street, 6th Floor
Chicago, Illinois 60602

Re: City of Chicago
\$_____ General Obligation Bonds, Project Series 2012A
\$_____ General Obligation Bonds, Taxable Project and Refunding
Series 2012B
\$_____ General Obligation Bonds, Refunding Series 2012C

Ladies and Gentlemen:

We have acted as Co-Bond Counsel in connection with the sale and issuance by the City of Chicago (the "*City*") of the above-referenced obligations (collectively, the "*Bonds*"). We have rendered our separate opinions, dated the date hereof, as to the validity, enforceability and tax status of interest on the Bonds. The Bonds have been delivered this date to the underwriters named in the Bond Purchase Agreement dated May __, 2012, between the City and the Representative identified above (the "*Underwriters*"), relating to the sale and purchase of the Bonds.

We have not been engaged nor have we undertaken to review or verify the accuracy, completeness or sufficiency of the information contained in or appended to the Official Statement dated May __, 2012 (the "*Official Statement*") or other offering material relating to the Bonds, except that in our capacity as Co-Bond Counsel in connection with the issuance of the Bonds we have reviewed the information contained in the Official Statement under the captions: "The BONDS" (except for the information relating to The Depository Trust Company and its book-entry system and operations), "SECURITY FOR THE BONDS" (except for any information contained in Appendix B referenced under such caption) and APPENDIX F—"Form of Opinions of Co-Bond Counsel," solely to determine whether such information and summaries conform to the Bonds and the ordinance adopted by the City Council of the City on the 14th day of March, 2012, authorizing the issuance of the Bonds as supplemented by a Notification of Sale, the "*Bond Ordinance*"). The purpose of our professional engagement was not to establish or confirm factual matters in the Official Statement, and we have not undertaken any obligation to verify independently any of the factual matters set forth under these captions and reviewed by us. Subject to the foregoing, the summary descriptions in the Official Statement under such captions excepting those matters set forth above, as of the date of the Official Statement and as of the date hereof, insofar as such descriptions purport to describe or summarize certain provisions of the Bonds and the Bond

Ordinance, are accurate summaries of such provisions in all material respects. In addition, the information in the Official Statement under the caption "TAX MATTERS" purporting to describe or summarize our opinions concerning certain federal tax matters relating to the Bonds has been reviewed by us and is an accurate summary in all material respects. Except as specifically described in this paragraph, we express no opinion herein with respect to and have not undertaken to determine independently the accuracy, fairness or completeness of any statements contained, appended or incorporated by reference in the Official Statement.

By acceptance of this letter you recognize and acknowledge that: (i) the preceding paragraph is not a legal opinion but is rather in the nature of observations based on certain limited activities performed by specific lawyers in our firm in our role as Co-Bond Counsel to the City; (ii) the scope of those activities performed by us for purposes of delivering this letter was inherently limited and does not purport to encompass all activities necessary for compliance with applicable securities laws; (iii) those activities performed by us rely on third party representations, warranties, certifications, statements and opinions, including and primarily, representations, warranties and certifications made by the City, and are otherwise subject to the conditions set forth herein; (iv) we have not been engaged to act, and have not acted, as counsel to the Underwriters for any purpose in connection with the issuance of the Bonds; (v) no attorney-client relationship exists or has at any time existed between us and the Underwriters in connection with the Bonds or by virtue of this letter; and (vi) this letter is based upon our review of proceedings and other documents undertaken as part of our engagement with the City, and in order to deliver this letter we neither undertook any duties or responsibilities to the Underwriters nor conducted any activities in addition to those undertaken or conducted for the benefit of, and requested by, the City. Consequently, we make no representation that our review has been adequate for the Underwriters' purposes.

This letter is given as of the date hereof and we assume no obligation to revise or supplement this letter to reflect any facts or circumstances that may hereafter come to our attention. This letter is furnished by us as Co-Bond Counsel to the City. No attorney-client relationship has existed or exists between our firm and the Underwriters in connection with the Bonds or by virtue of this letter. This letter is solely for the benefit of the Underwriters and the City and may not be used, quoted, relied upon or otherwise referred to for any other purpose or by any other person (including any person purchasing any of the Bonds from the Underwriters) without our prior written consent.

Very truly yours,

EXHIBIT C

OPINION OF CORPORATION COUNSEL OF THE CITY

May 30, 2012

Mesirow Financial, Inc.
as Representative of the Underwriters
named in the Bond Purchase Agreement,
dated May 16, 2012 between such
Underwriters and the City of Chicago

Ladies and Gentlemen:

This opinion is given to you pursuant to Section 10(a)(v) of that certain contract dated May 16, 2012 (the "Bond Purchase Agreement") between the City of Chicago (the "City") and Mesirow Financial, Inc., as representative of a group of Underwriters, respecting the purchase of City of Chicago \$179,905,000 General Obligation Bonds, Project Series 2012A, the \$307,975,000 General Obligation Bonds, Taxable Project and Refunding Series 2012B, and the \$106,970,000 General Obligation Bonds, Refunding Series 2012C (collectively, the "Bonds") which are being issued pursuant to an ordinance adopted by the City Council of the City on March 14, 2012 (the "Ordinance"). Unless otherwise defined herein, capitalized terms used herein shall have the meanings assigned to them in the Bond Purchase Agreement.

In connection with the issuance of the Bonds, I have caused to be examined a certified copy of the record of proceedings of the City Council of the City pertaining to the issuance of the Bonds by the City, the Official Statement dated May 16, 2012, relating to the Bonds (the "Official Statement"), and executed counterparts, where applicable, of the following documents:

- (a) the Ordinance;
- (b) the Bond Purchase Agreement;
- (c) that certain Continuing Disclosure Undertaking dated the date hereof pursuant to the requirements of Section(b) (5) of Rule 15c-12 of the Securities and Exchange Commission (the "Undertaking"); and
- (d) Escrow Agreements dated the date hereof between the City and _____, _____, _____, and _____ as escrow agents (the "Escrow Agreements").

On the basis of such examination and review of such other information, records and documents as was deemed necessary or advisable, I am of the opinion that:

1. The City is a home rule unit of local government duly organized and existing under the Constitution and laws of the State of Illinois with full power and authority, among other things, to adopt the Ordinance, to authorize, issue and sell the Bonds, and to execute and deliver the Bond Purchase Agreement, the Escrow Agreements and the Undertaking.

2. The Bond Purchase Agreement, the Escrow Agreements and the Undertaking have been duly authorized, executed and delivered by, and the Ordinance has been duly adopted by, the City, and, assuming the due execution and delivery by the other parties thereto, as appropriate, such instruments constitute legal and valid obligations of the City in each case enforceable in accordance with their respective terms except as may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies and the availability of equitable remedies generally.

3. To my knowledge, compliance with the provisions of the Bonds, the Ordinance, the Bond Purchase Agreement, the Escrow Agreements and the Undertaking does not conflict in a material manner with, or constitute a material breach of or material default under, any applicable law, administrative regulation, court order or consent decree of the State of Illinois, or any department, division, agency or instrumentality thereof or of the United States of America or any ordinance, agreement or other instrument to which the City is a party or is otherwise subject.

4. To my knowledge, all approvals, consents and orders of and filings (except with respect to state "blue sky" or securities laws) with any governmental authority, board, agency or commission having jurisdiction which would constitute conditions precedent to the performance by the City of its obligations under the Ordinance, the Bond Purchase Agreement, the Escrow Agreements, the Undertaking and the Bonds have been obtained.

5. There is no litigation or proceeding pending, or to my knowledge, threatened, materially affecting the existence of the City or seeking to restrain or enjoin the issuance, sale or delivery of the Bonds, or contesting the validity or enforceability of the Bonds, the Ordinance, the Bond Purchase Agreement, the Escrow Agreements or the Undertaking, or the completeness or accuracy of the Official Statement, or the powers of the City or its authority with respect to the Bonds, the Ordinance, the Bond Purchase Agreement, the Escrow Agreements or the Undertaking.

Nothing has come to my attention which would lead me to believe that the Official Statement (excluding information under the caption "THE BONDS - Book-Entry System," relating to The Depository Trust Company, "RATINGS," "CERTAIN VERIFICATIONS," "UNDERWRITING," and "TAX MATTERS," Appendices C and F, information sourced in Appendices A, B, D, E, and G to sources other than the City or

departments thereof, any information in or omitted from the Official Statement relating to DTC, any information in or omitted from the Official Statement relating to any information furnished by the Underwriters for use in the Official Statement, the financial statements and all other financial and statistical data contained in the Official Statement, including the Appendices thereto) contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect.

No opinion is expressed as to any "blue sky" or other securities laws or as to the laws regarding taxation of any state or the United States of America, or any disclosure or compliance related thereto.

The statements contained herein are made in an official capacity and not personally and no personal responsibility shall derive from them. Further, the only opinions that are expressed are the opinions specifically set forth herein, and no opinion is implied or should be inferred as to any other matter or transaction.

No one other than you shall be entitled to rely on this opinion.

Very truly yours,

Stephen R. Patton
Corporation Counsel

EXHIBIT D

OPINION OF CO-UNDERWRITERS' COUNSEL

May 30, 2012

Mesirow Financial, Inc.,
as Representative of the Underwriters
353 North Clark Street, Suite 1600
Chicago, Illinois 60654

Re: City of Chicago
General Obligation Bonds, Project Series 2012A
General Obligation Bonds, Taxable Project and Refunding Series 2012B
General Obligation Bonds, Refunding Series 2012C

Ladies and Gentlemen:

We have acted as co-counsel for the Underwriters named in the Bond Purchase Agreement, dated May 16, 2012 (the "Agreement"), between the City of Chicago (the "City") and Mesirow Financial, Inc., as Representative of the Underwriters, in connection with the purchase by the Underwriters of \$594,850,000 aggregate principal amount of the City's General Obligation Bonds, Project Series 2012A, General Obligation Bonds, Taxable Project and Refunding Series 2012B and General Obligation Bonds, Refunding Series 2012C (collectively, the "Bonds"). Capitalized terms defined in the Agreement are used with the same meanings herein.

We have participated in the preparation or review of the Agreement, the Ordinance adopted by the City Council of the City on March 14, 2012 (the "Bond Ordinance") authorizing the issuance of the Bonds and the Continuing Disclosure Undertaking of the City (the "Undertaking") relating to the Bonds (collectively, the "Documents"). We also participated in the preparation of the Official Statement dated May 16, 2012 (the "Official Statement") relating to the Bonds. We have conferred with co-bond counsel and counsel for the City and have reviewed the opinions rendered by such counsel pursuant to the Agreement; and we have conferred with certain of the City's officials, employees and agents. We also have examined originals, executed counterparts or copies of such other agreements, documents, proceedings, records, instruments and certificates, certificates of public authorities and such matters of law as we have deemed necessary for the purpose of rendering this opinion. We have assumed the genuineness of all signatures, the legal capacity of all individuals who have executed the Documents and all other the conformity to original documents of all documents submitted to us as certified, photostatic, reproduced or conformed copies.

Based upon and subject to our examination as described above and subject to the qualifications set forth herein, we are of the opinion that:

The Bonds constitute exempt securities within the meaning of Section 3(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"), and Section 304(a)(4)(A) of the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), and it is not necessary, in connection with the public offering and sale of the Bonds, to register any security under the

Securities Act or to qualify the Bond Ordinance under the Trust Indenture Act.

The Undertaking complies with the requirements of Section (b)(5) of Rule 15c2-12 in effect as of the date hereof and the conditions to the Underwriters' purchase and sale of the Bonds contained therein have been satisfied.

We have reviewed the opinions delivered to the Underwriters pursuant to the Agreement by Chapman and Cutler LLP and Cotillas and Associates, co-bond counsel; and by Stephen R. Patton, Esq., Corporation Counsel of the City. These opinions are in form and scope satisfactory to us, and, in our opinion, the Underwriters are justified in relying on them.

We are not passing upon, and assume no responsibility for, the accuracy, completeness or fairness of the statements contained in the Official Statement. During the preparation of the Official Statement, however, we examined various documents and other papers and participated in conferences with representatives of the Underwriters, with co-bond counsel, with representatives of the City and its counsel and with representatives of the independent public accountants for the City, at which conferences the contents of the Official Statement and related matters were discussed. We have also examined the certificates and other documents delivered pursuant to the Agreement. On the basis of the foregoing, but without independent verification of factual matters, nothing has come to our attention that would lead us to believe that, as of the date of this opinion, the Official Statement contains any untrue statement of a material fact or, taken collectively, omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided that we express no view as to: (i) any financial or statistical information included in the Official Statement or the Appendices thereto; (ii) the description of DTC any information supplied by or relating to DTC or DTC's book entry system; (iii) any information under the captions "RATINGS," "CO-FINANCIAL ADVISORS," "CERTAIN VERIFICATIONS," "TAX MATTERS" or the third paragraph under the caption "UNDERWRITING; and (iv) Appendix A through Appendix G. We assume no responsibility for updating this opinion to take into account any event, action, interpretation or change of law occurring subsequent to the date hereof that may affect the validity of any of the opinions expressed herein. This opinion is furnished by us solely for the benefit of the Underwriters for use in connection with the transactions contemplated by the Agreement and it may not be furnished or quoted to, or relied upon by, any other person, without our prior written consent.

Very truly yours

EXHIBIT E

REPRESENTATION LETTER

City of Chicago
Department of Finance
33 North LaSalle Street, 6th Floor
Chicago, Illinois 60602
Attn.: Deputy Comptroller of Financial Policy

Mesirow Financial, Inc.
as Representative of the Underwriters
named in the Bond Purchase Agreement,
dated May 16, 2012 between such
Underwriters and the City of Chicago

Pursuant to the Bond Purchase Agreement dated May 16, 2012 (the "**Purchase Agreement**") among the City of Chicago (the "**City**") and Mesirow Financial, Inc. as representative (the "**Representative**") of the underwriters named therein (each an "**Underwriter**") relating to the City's General Obligation Bonds, Project Series 2012A (the "**Series 2012A Bonds**"), the General Obligation Bonds, Taxable Project and Refunding Series 2012B (the "**Taxable Series 2012B Bonds**"), and the General Obligation Bonds, Refunding Series 2012C (the "**Series 2012C Bonds**" and, together with the Series 2012A Bonds and the Taxable Series 2012B Bonds, the "**Bonds**"), each of the undersigned Underwriters severally represents to the City that:

(1) Neither the Underwriter, nor any Affiliate thereof is listed on any of the following lists maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury, the Bureau of Industry and Security of the U.S. Department of Commerce, the U.S. Department of State or their successors, or on any other list of persons or entities with which the City may not do business under any applicable law, rule, regulation, order or judgment: the Specially Designated Nationals List, the Denied Persons List, the Unverified List, the Entity List, the List of Statutorily Debarred Parties and the Excluded Parties List.

For purposes of this representation, "Affiliate," when used to indicate a relationship with a specified person or entity, means a person or entity that, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with such specified person or entity, and a person or entity shall be deemed to be controlled by another person or entity, if controlled in any manner whatsoever that results in control in fact by that other person or entity (or that other person or entity and any persons or entities with whom that other person or entity is acting jointly or in concert), whether directly or indirectly and whether through share ownership, a trust, a contract or otherwise.

(2) The undersigned Underwriters agree that in the event that any Underwriter or any of its Affiliates appears on any of the lists described in paragraph (1) above, at any time prior to the Closing (as defined in the Purchase Agreement) with respect to the Bonds, that Underwriter shall be deemed to have submitted to the Representative its Withdrawal From Agreement Among Underwriters.

IN WITNESS WHEREOF, the parties hereto have caused this Representation Letter in connection with the Bonds to be executed by their duly authorized representatives as of the date written below.

Dated: May 30, 2012

MESIROW FINANCIAL, INC.

By: 
Its: Senior Managing Director

GOLDMAN SACHS & CO.

By: _____
Its: _____

MELVIN & COMPANY, LLC

By: _____
Its: _____

BMO CAPITAL MARKETS GKST, INC.

By: _____
Its: _____

CABRERA CAPITAL MARKETS

By: _____
Its: _____

GEORGE K. BAUM & COMAPNY

By: _____
Its: _____

GUZMAN & COMPANY

By: _____
Its: _____

HARVESTON SECURITIES, INC.

By: _____
Its: _____

NORTH SOUTH CAPITAL LLC

By: _____
Its: _____

RBC CAPITAL MARKETS, LLC.

By: _____
Its: _____

THE NORTHERN TRUST COMPANY

By: _____
Its: _____

IN WITNESS WHEREOF, the parties hereto have caused this Representation Letter in connection with the Bonds to be executed by their duly authorized representatives as of the date written below.

Dated: May 30, 2012

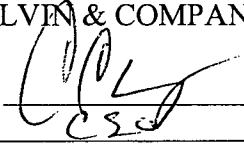
MESIROW FINANCIAL, INC.

By: _____
Its: Senior Managing Director

GOLDMAN SACHS & CO.

By: _____
Its: _____

MELVIN & COMPANY, LLC

By: 
Its: _____

BMO CAPITAL MARKETS GKST, INC.

By: _____
Its: _____

CABRERA CAPITAL MARKETS

By: _____
Its: _____

GEORGE K. BAUM & COMAPNY

By: _____
Its: _____

GUZMAN & COMPANY

By: _____
Its: _____

HARVESTON SECURITIES, INC.

By: _____
Its: _____

NORTH SOUTH CAPITAL LLC

By: _____
Its: _____

RBC CAPITAL MARKETS, LLC.

By: _____
Its: _____

THE NORTHERN TRUST COMPANY

By: _____
Its: _____

IN WITNESS WHEREOF, the parties hereto have caused this Representation Letter in connection with the Bonds to be executed by their duly authorized representatives as of the date written below.

Dated: May 30, 2012

MESIROW FINANCIAL, INC.

By: _____
Its: Senior Managing Director

GOLDMAN SACHS & CO.

By: _____
Its: _____

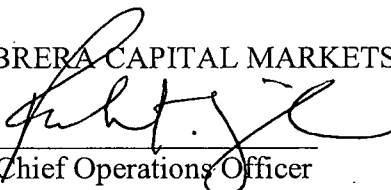
MELVIN & COMPANY, LLC

By: _____
Its: _____

BMO CAPITAL MARKETS GKST, INC.

By: _____
Its: _____

CABRERA CAPITAL MARKETS

By: 
Its: Chief Operations Officer

GEORGE K. BAUM & COMAPNY

By: _____
Its: _____

GUZMAN & COMPANY

By: _____
Its: _____

HARVESTON SECURITIES, INC.

By: _____
Its: _____

NORTH SOUTH CAPITAL LLC

By: _____
Its: _____

RBC CAPITAL MARKETS, LLC.

By: _____
Its: _____

THE NORTHERN TRUST COMPANY

By: _____
Its: _____

IN WITNESS WHEREOF, the parties hereto have caused this Representation Letter in connection with the Bonds to be executed by their duly authorized representatives as of the date written below.

Dated: Nov 23, 2012

MESIROW FINANCIAL, INC.

By: _____
Its: Senior Managing Director

GOLDMAN SACHS & CO.

By: _____
Its: _____

MELVIN & COMPANY, LLC

By: _____
Its: _____

BMO CAPITAL MARKETS GKST, INC.

By: _____
Its: _____

CABRERA CAPITAL MARKETS

By: _____
Its: _____

GEORGE K. BAUM & COMAPNY

By: _____
Its: _____

GUZMAN & COMPANY

By: Wm D M
Its: SVP

HARVESTON SECURITIES, INC.

By: _____
Its: _____

NORTH SOUTH CAPITAL LLC

By: _____
Its: _____

RBC CAPITAL MARKETS, LLC.

By: _____
Its: _____

THE NORTHERN TRUST COMPANY

By: _____
Its: _____

IN WITNESS WHEREOF, the parties hereto have caused this Representation Letter in connection with the Bonds to be executed by their duly authorized representatives as of the date written below.

Dated: May 30, 2012

MESIROW FINANCIAL, INC.

By: _____
Its: Senior Managing Director

GOLDMAN SACHS & CO.

By: _____
Its: _____

MELVIN & COMPANY, LLC

By: _____
Its: _____

BMO CAPITAL MARKETS GKST, INC.

By: _____
Its: _____

CABRERA CAPITAL MARKETS

By: _____
Its: _____

GEORGE K. BAUM & COMAPNY

By: _____
Its: _____

GUZMAN & COMPANY

By: _____
Its: _____

HARVESTON SECURITIES, INC.

By: _____
Its: _____

NORTH SOUTH CAPITAL LLC

By: Jane Off
Its: President

RBC CAPITAL MARKETS, LLC.

By: _____
Its: _____

THE NORTHERN TRUST COMPANY

By: _____
Its: _____

IN WITNESS WHEREOF, the parties hereto have caused this Representation Letter in connection with the Bonds to be executed by their duly authorized representatives as of the date written below.

Dated: May 30, 2012

MESIROW FINANCIAL, INC.

By: _____
Its: Senior Managing Director

GOLDMAN SACHS & CO.

By: _____
Its: _____

MELVIN & COMPANY, LLC

By: _____
Its: _____

BMO CAPITAL MARKETS GKST, INC.

By: _____
Its: _____

CABRERA CAPITAL MARKETS

By: _____
Its: _____

GEORGE K. BAUM & COMAPNY

By: _____
Its: _____

GUZMAN & COMPANY

By: _____
Its: _____

HARVESTON SECURITIES, INC.

By: _____
Its: _____

NORTH SOUTH CAPITAL LLC

By: _____
Its: _____

RBC CAPITAL MARKETS, LLC.

By: _____
Its: _____

THE NORTHERN TRUST COMPANY

By: Allen R. Paul
Its: Sr. Vice President

IN WITNESS WHEREOF, the parties hereto have caused this Representation Letter in connection with the Bonds to be executed by their duly authorized representatives as of the date written below.

Dated: May 30, 2012

MESIROW FINANCIAL, INC.

By: _____
Its: Senior Managing Director

GOLDMAN, SACHS & CO.

By: GOLDMAN SACHS & CO
Its: _____

MELVIN & COMPANY, LLC

By: _____
Its: _____

BMO CAPITAL MARKETS GKST, INC.

By: _____
Its: _____

CABRERA CAPITAL MARKETS

By: _____
Its: _____

GEORGE K. BAUM & COMAPNY

By: _____
Its: _____

GUZMAN & COMPANY

By: _____
Its: _____

HARVESTONS SECURITIES, INC.

By: _____
Its: _____

NORTH SOUTH CAPITAL LLC

By: _____

Its: _____

RBC CAPITAL MARKETS, LLC.

By: _____

Its: _____

THE NORTHERN TRUST COMPANY

By: _____

Its: _____

IN WITNESS WHEREOF, the parties hereto have caused this Representation Letter in connection with the Bonds to be executed by their duly authorized representatives as of the date written below.

Dated: May 30, 2012

MESIROW FINANCIAL, INC.

By: _____
Its: Senior Managing Director

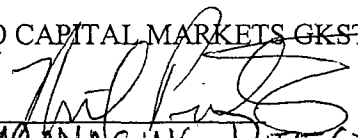
GOLDMAN SACHS & CO.

By: _____
Its: _____

MELVIN & COMPANY, LLC

By: _____
Its: _____

BMO CAPITAL MARKETS GKST, INC.

By: 
Its: MANAGING DIRECTOR

CABRERA CAPITAL MARKETS

By: _____
Its: _____

GEORGE K. BAUM & COMAPNY

By: _____
Its: _____

GUZMAN & COMPANY

By: _____
Its: _____

HARVESTON SECURITIES, INC.

By: _____
Its: _____

NORTH SOUTH CAPITAL LLC

By: _____
Its: _____

RBC CAPITAL MARKETS, LLC.

By: _____
Its: _____

THE NORTHERN TRUST COMPANY

By: _____
Its: _____

IN WITNESS WHEREOF, the parties hereto have caused this Representation Letter in connection with the Bonds to be executed by their duly authorized representatives as of the date written below.

Dated: May 30, 2012

MESIROW FINANCIAL, INC.

By: _____
Its: Senior Managing Director

GOLDMAN SACHS & CO.

By: _____
Its: _____

MELVIN & COMPANY, LLC

By: _____
Its: _____

BMO CAPITAL MARKETS GKST, INC.

By: _____
Its: _____

CABRERA CAPITAL MARKETS

By: _____
Its: _____

GEORGE K. BAUM & COMAPNY

By: Anthony J. Ziatto
Its: E.V.P. Manager

GUZMAN & COMPANY

By: _____
Its: _____

HARVESTON SECURITIES, INC.

By: _____
Its: _____

NORTH SOUTH CAPITAL LLC

By: _____
Its: _____

RBC CAPITAL MARKETS, LLC.

By: _____
Its: _____

THE NORTHERN TRUST COMPANY

By: _____
Its: _____

IN WITNESS WHEREOF, the parties hereto have caused this Representation Letter in connection with the Bonds to be executed by their duly authorized representatives as of the date written below.

Dated: May 30, 2012

MESIROW FINANCIAL, INC.

By: _____
Its: Senior Managing Director

GOLDMAN SACHS & CO.

By: _____
Its: _____

MELVIN & COMPANY, LLC

By: _____
Its: _____

BMO CAPITAL MARKETS GKST, INC.

By: _____
Its: _____

CABRERA CAPITAL MARKETS

By: _____
Its: _____

GEORGE K. BAUM & COMAPNY

By: _____
Its: _____

GUZMAN & COMPANY

By: _____
Its: _____

HARVESTON SECURITIES, INC.

By: [Signature]
Its: President

NORTH SOUTH CAPITAL LLC

By: _____
Its: _____

RBC CAPITAL MARKETS, LLC.

By: _____
Its: _____

THE NORTHERN TRUST COMPANY

By: _____
Its: _____

IN WITNESS WHEREOF, the parties hereto have caused this Representation Letter in connection with the Bonds to be executed by their duly authorized representatives as of the date written below.

Dated: May 30, 2012

MESIROW FINANCIAL, INC.

By: _____
Its: Senior Managing Director

GOLDMAN SACHS & CO.

By: _____
Its: _____

MELVIN & COMPANY, LLC

By: _____
Its: _____

BMO CAPITAL MARKETS GKST, INC.

By: _____
Its: _____

CABRERA CAPITAL MARKETS

By: _____
Its: _____

GEORGE K. BAUM & COMAPNY

By: _____
Its: _____

GUZMAN & COMPANY

By: _____
Its: _____

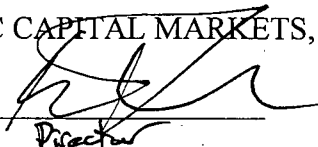
HARVESTON SECURITIES, INC.

By: _____
Its: _____

NORTH SOUTH CAPITAL LLC

By: _____
Its: _____

RBC CAPITAL MARKETS, LLC.

By: 
Its: Director

THE NORTHERN TRUST COMPANY

By: _____
Its: _____

EXHIBIT 2

OFFICIAL STATEMENT DATED MAY 16, 2012

Subject to compliance by the City with certain covenants, in the opinion of Chapman and Cutler LLP, Chicago, Illinois, and Cotillas and Associates, Chicago, Illinois, Co-Bond Counsel, under present law, interest on the Series 2012A Bonds and the Series 2012C Bonds is not includable in gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Interest on the Taxable Series 2012B Bonds is not excludable from gross income of the owners thereof for federal income tax purposes. Interest on the Bonds is not exempt from present State of Illinois income taxes. See "TAX MATTERS" herein for a more complete discussion.



\$594,850,000
CITY OF CHICAGO

**\$179,905,000 General Obligation Bonds,
Project Series 2012A**

**\$307,975,000 General Obligation Bonds,
Taxable Project and Refunding Series 2012B**

**\$106,970,000 General Obligation Bonds,
Refunding Series 2012C**

Dated: Date of Delivery

Due: January 1, as shown on the inside front cover page

The General Obligation Bonds, Project Series 2012A (the "Series 2012A Bonds"), the General Obligation Bonds, Taxable Project and Refunding Series 2012B (the "Taxable Series 2012B Bonds") and the General Obligation Bonds, Refunding Series 2012C (the "Series 2012C Bonds," and together with the Series 2012A Bonds and the Taxable Series 2012B Bonds, the "Bonds") will be issuable as fully registered bonds and will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing their interests in the Bonds purchased. Ownership by the beneficial owners of the Bonds will be evidenced by book-entry only. The Bonds will be issued only as fully registered bonds in denominations of \$5,000 or any integral multiple thereof.

Interest on the Bonds will accrue from the date of issuance and be payable on each January 1 and July 1, commencing January 1, 2013. Principal of and interest on the Bonds will be paid by Amalgamated Bank of Chicago, Chicago, Illinois, as bond registrar and paying agent, to DTC, which in turn will remit such principal and interest payments to its participants for subsequent disbursement to the beneficial owners of the Bonds. As long as Cede & Co. is the registered owner as nominee of DTC, payments on the Bonds will be made to such registered owner, and disbursement of such payments will be the responsibility of DTC and its participants. See "THE BONDS — Book-Entry System."

The Bonds are direct and general obligations of the City of Chicago (the "City") and all taxable property in the City is subject to the levy of taxes to pay the same without limitation as to rate or amount. The City has pledged its full faith and credit for the payment of the principal of and interest on the Bonds.

Proceeds of the Bonds will be used as described herein. See "PLAN OF FINANCING."

The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS — Redemption."

For maturities, principal amounts, interest rates, yields, prices and CUSIP numbers of the Bonds, see the inside front cover page.

The Bonds are being offered when, as and if issued, and subject to the delivery of approving legal opinions by Chapman and Cutler LLP and Cotillas and Associates, Co-Bond Counsel, and to certain other conditions. Certain legal matters will be passed on for the City by its Corporation Counsel and for the Underwriters by Ungaretti & Harris LLP, Chicago, Illinois, and Golden Holley James LLP, Chicago, Illinois, Co-Underwriters' Counsel. It is expected that the Bonds will be available for delivery through the facilities of DTC on or about May 30, 2012.

Mesirow Financial, Inc.

Goldman, Sachs & Co.

BMO Capital Markets

George K. Baum & Company

Harvestons Securities, Inc.

RBC Capital Markets, LLC

Melvin & Company LLC

Cabrera Capital Markets, LLC

Guzman & Company

North South Capital LLC

The Northern Trust Company

Dated: May 16, 2012

MATURITIES, AMOUNTS, INTEREST RATES, YIELDS, PRICES AND CUSIP NUMBERS

\$179,905,000 General Obligation Bonds, Project Series 2012A

\$119,905,000 5.00% Term Bonds due January 1, 2033, Yield 3.700%, Price 110.408% c CUSIP[†]: 167486 PE3
\$60,000,000 5.00% Serial Bonds due January 1, 2034, Yield 3.750%, Price 109.984% c CUSIP[†]: 167486 PF0

\$307,975,000 General Obligation Bonds, Taxable Project and Refunding Series 2012B

\$307,975,000 5.432% Term Bonds due January 1, 2042, Yield 5.432%, Price 100.000% CUSIP[†]: 167486 PG8

\$106,970,000 General Obligation Bonds, Refunding Series 2012C

| <u>Maturity</u> <u>January 1</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Yield</u> | <u>Price</u> | <u>CUSIP</u> [†] |
|-------------------------------------|-----------------------------------|--------------------------------|--------------|--------------|---------------------------|
| 2020 | \$4,000,000 | 4.000% | 2.190% | \$112.586 | 167486 PH6 |
| 2020 | 8,120,000 | 5.000 | 2.190 | 119.540 | 167486 PT0 |
| 2021 | 3,600,000 | 4.000 | 2.420 | 112.181 | 167486 PJ2 |
| 2021 | 12,545,000 | 5.000 | 2.420 | 119.891 | 167486 PU7 |
| 2022 | 2,200,000 | 4.000 | 2.640 | 111.450 | 167486 PK9 |
| 2022 | 14,770,000 | 5.000 | 2.640 | 119.870 | 167486 PV5 |
| 2023 | 675,000 | 4.000 | 2.840 | 109.673 c | 167486 PL7 |
| 2023 | 17,470,000 | 5.000 | 2.840 | 118.013 c | 167486 PW3 |
| 2024 | 500,000 | 4.000 | 2.970 | 108.535 c | 167486 PM5 |
| 2024 | 18,585,000 | 5.000 | 2.970 | 116.824 c | 167486 PX1 |
| 2025 | 11,050,000 | 5.000 | 3.110 | 115.560 c | 167486 PN3 |
| 2026 | 8,690,000 | 5.000 | 3.210 | 114.667 c | 167486 PP8 |
| 2030 | 1,525,000 | 4.000 | 3.650 | 102.807 c | 167486 PQ6 |
| 2031 | 1,590,000 | 4.000 | 3.710 | 102.318 c | 167486 PR4 |
| 2032 | 1,650,000 | 4.000 | 3.770 | 101.833 c | 167486 PS2 |

c Priced to the January 1, 2022 par call.

† Copyright 2012, American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a Division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed are being provided solely for the convenience of the bondholders only at the time of issuance of the Bonds and the City does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to change after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

CITY OF CHICAGO

MAYOR

Rahm Emanuel

CITY TREASURER

Stephanie D. Neely

CITY CLERK

Susana A. Mendoza

CITY COUNCIL

COMMITTEE ON FINANCE

Edward M. Burke, Chairman

CHIEF FINANCIAL OFFICER

Lois A. Scott

CITY COMPTROLLER

Amer Ahmad

BUDGET DIRECTOR

Alexandra Holt

CORPORATION COUNSEL

Stephen R. Patton, Esq.

CO-BOND COUNSEL

Chapman and Cutler LLP

Chicago, Illinois

Cotillas and Associates

Chicago, Illinois

CO-FINANCIAL ADVISORS

A.C. Advisory, Inc.

Public Finance Advisors LLC

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Certain information contained in, or incorporated by reference in, this Official Statement has been obtained by the City of Chicago (the "City") from The Depository Trust Company and other sources that are deemed reliable. No representation or warranty is made, however, as to the accuracy or completeness of such information by the Underwriters or the City. The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information and nothing contained in this Official Statement is or shall be relied upon as a promise or representation by the Underwriters. This Official Statement is being used in connection with the sale of securities as referred to herein and may not be used, in whole or in part, for any other purpose. The delivery of this Official Statement at any time does not imply that information herein is correct as of any time subsequent to its date.

No dealer, broker, salesperson or any other person has been authorized by the City or the Underwriters to give any information or to make any representation other than as contained in this Official Statement in connection with the offering described herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than those described on the cover page, nor shall there be any offer to sell, solicitation of an offer to buy or sale of such securities in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. Neither this Official Statement nor any statement that may have been made verbally or in writing is to be construed as a contract with the registered or beneficial owners of the Bonds.

This Official Statement, including the Appendices, except for certain information in APPENDIX D — "ECONOMIC, DEMOGRAPHIC AND SUPPLEMENTAL INFORMATION" and sourced to parties other than the City, contains certain opinions, estimates and forward-looking statements and information, including projections, that are based on the City's beliefs as well as assumptions made by and information currently available to the City. Such opinions, estimates, projections and forward-looking statements set forth in this Official Statement 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, but, in the view of the City, were prepared on a reasonable basis, reflect the best currently available estimates and judgments, and present, to the best of the City's knowledge and belief, the expected course of action and the expected future financial performance of the City. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on such opinions, statements or prospective financial information.

The prospective financial information set forth in this Official Statement, except for certain information sourced to parties other than the City, is solely the product of the City. Neither the City's independent auditors, nor any other independent auditors, have compiled, examined, or performed any procedures with respect to, or been consulted in connection with the preparation of, the prospective financial information contained herein. The City's independent auditors assume no responsibility for the content of the prospective financial information set forth in this Official Statement, disclaim any association with such prospective financial information, and have not, nor have any other independent auditors, expressed any opinion or any other form of assurance on such information or its achievability.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE BOND ORDINANCE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF LAW OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE PRICES AND OTHER TERMS RESPECTING THE OFFERING AND SALE OF THE BONDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS AFTER THE BONDS ARE RELEASED FOR SALE, AND THE BONDS MAY BE OFFERED AND SOLD AT PRICES OTHER THAN THE INITIAL OFFERING PRICES, INCLUDING SALES TO DEALERS WHO MAY SELL THE BONDS INTO INVESTMENT ACCOUNTS.

OFFICIAL STATEMENT

\$594,850,000

CITY OF CHICAGO

**\$179,905,000 General Obligation Bonds,
Project Series 2012A**

**\$307,975,000 General Obligation Bonds,
Taxable Project and Refunding Series 2012B**

**\$106,970,000 General Obligation Bonds,
Refunding Series 2012C**

INTRODUCTION

This Official Statement (including the cover page and Appendices hereto) is furnished by the City of Chicago (the "City") to provide information with respect to \$179,905,000 aggregate principal amount of General Obligation Bonds, Project Series 2012A (the "Series 2012A Bonds"), \$307,975,000 aggregate principal amount of General Obligation Bonds, Taxable Project and Refunding Series 2012B (the "Taxable Series 2012B Bonds") and \$106,970,000 aggregate principal amount of General Obligation Bonds, Refunding Series 2012C (the "Series 2012C Bonds," and together with the Series 2012A Bonds and the Taxable Series 2012B Bonds, the "Bonds").

The proceeds from the sale of the Bonds will be used to (i) pay for a portion of the costs of the Project (as defined herein), (ii) refund all or a portion of the Refunded Bonds (as defined herein), (iii) fund capitalized interest on the Bonds and (iv) pay the costs of issuance on the Bonds (including the underwriters' discount). See "PLAN OF FINANCING" and "SOURCES AND USES OF FUNDS."

The Bonds are authorized by an ordinance adopted by the City Council of the City (the "City Council") on March 14, 2012, as supplemented by a Notification of Sale (the "Bond Ordinance").

THE CITY

The City was incorporated in 1837. The City is a municipal corporation and home rule unit of local government under the Illinois Constitution of 1970 and as such, "may exercise any power and perform any function pertaining to its government and affairs including, but not limited to, the power to regulate for the protection of the public health, safety, morals and welfare; to license; to tax; and to incur debt" except that it can "impose taxes upon or measured by income or earnings or upon occupation" only if authorized by statute.

The General Assembly of the State of Illinois (the "State") may, by a three-fifths vote of each house, limit the ability of a home rule municipality to levy taxes. The General Assembly may similarly limit the debt that the City may incur, except that the General Assembly does not have the power to limit the debt payable from property taxes to less than three percent of the assessed valuation of the taxable property in the City. To date, the General Assembly has not imposed limits on the City's ability to levy taxes under its home rule powers or to incur debt payable from real property taxes. See APPENDIX A — "REAL PROPERTY TAX SYSTEM AND LIMITS — Property Tax Limit Considerations — State of Illinois."

For certain economic, demographic and budgetary information concerning the City, see APPENDIX D — "ECONOMIC, DEMOGRAPHIC AND SUPPLEMENTAL INFORMATION."

Corporate Fund

The Corporate Fund of the City is used to account for all financial resources of the City except those required to be accounted for in special revenue or enterprise funds. Information for the Corporate Fund is presented in the City's basic financial statements. The basic financial statements of the City for the year ended December 31, 2010 are included as APPENDIX C to this Official Statement.

2010 Corporate Fund Operations. Under generally accepted accounting principles, actual revenues and other financing sources of approximately \$3,129.9 million exceeded expenditures and other financing uses of approximately \$3,047.5 million for the City's fiscal year ending December 31, 2010. On December 31, 2010, the Corporate Fund balance was approximately \$135.5 million including an unreserved balance of approximately \$81.2 million.

2011 Corporate Fund Budget. The City's 2011 Corporate Fund budget was approved by the City Council on November 17, 2010. The budget totals \$3,263.7 million, reflecting an increase of \$84.0 million or approximately 2.6% of the 2010 Corporate Fund budget. The 2011 budget balances a preliminary shortfall of \$654.7 million by reducing costs, better managing resources and utilizing strategic financial options, including the reduction of 277 full-time budgeted positions. See "—Use of Nonrecurring Revenue Sources for Budgetary Purposes" below.

Use of Nonrecurring Revenue Sources for Budgetary Purposes. Due to severe economic conditions over recent years, the City has used nonrecurring revenue sources for budgetary purposes. This use has taken the form of expending asset concession reserves. The Skyway reserve funds (the "Skyway Reserves") were established in 2005 in the amount of \$975 million from the upfront proceeds received by the City in connection with the closing of the long-term concession and lease of the Chicago Skyway. The parking meter system reserve funds (the "Parking Meter Reserves") were established in 2009 in the amount of \$1.15 billion from the upfront proceeds received by the City in connection with the closing of the long-term concession of the Chicago Metered Parking System. In 2010, the City made a net transfer of approximately \$458 million from the Skyway Reserves and the Parking Meter Reserves to the Corporate Fund to offset declining revenues. The 2011 Corporate Fund Budget makes certain changes to the 2010 transfers of concession transaction reserve proceeds and provides for the transfer of \$288 million in Skyway Reserves and Parking Meter Reserves to the Corporate Fund. The balances in the concession transaction reserves at the end of fiscal year 2011 are expected to be \$500 million for the Skyway Reserves and \$124 million for the Parking Meter Reserves. The 2011 Corporate Fund Budget also reflects that the City declared a surplus in 26 tax increment financing districts within the City and generated approximately \$40.2 million for deposit to the Corporate Fund for 2011.

2012 Corporate Fund Budget. On November 16, 2011, the City Council unanimously approved the Mayor's balanced 2012 budget plan, which fills a \$635.7 million budget deficit by cutting spending and increasing efficiencies without increasing property or sales taxes. The 2012 Corporate Fund budget of \$3,095.6 million reflects a decrease of \$168 million or 5.1% compared to the 2011 Corporate Fund budget. The City was able to avoid new taxes by identifying innovative reforms, efficiencies, revenue enhancements and investments that will allow the City to invest in infrastructure while providing for a \$20 million transfer to the Parking Meter Reserves. The budget plan includes savings – realized by cutting spending, increasing efficiencies, and additional innovations or government reforms. The savings include: vacancy reductions; increases in debt collection; health care savings from an employee wellness program; fee waiver reforms and departmental spending reductions.

Annual Budget Process

On May 20, 2011, Mayor Emanuel issued Executive Order 2011-7 (the "Executive Order"). Pursuant to the Executive Order, the City's Budget Director is directed to issue by July 31 of each year a long-term budget and financial analysis (the "Annual Financial Analysis") to provide the framework for the development of the City's annual operating and capital budgets for the following fiscal year. The Annual Financial Analysis was directed to be developed by the Budget Director with input from the Mayor's Economic, Budgetary, and Business Development Council; the Deputy Mayor; the Chief Financial Officer; the City Comptroller; City departments and sister agencies; elected officials; and other relevant parties.

The Annual Financial Analysis includes a historical analysis of the City's revenues and expenditures, a financial forecast and analyses of the City's reserves, capital program, debt and pensions. The City released its Annual Financial Analysis for 2012 on July 29, 2011.

In developing an annual budget recommendation, the Budget Director considers the proposed annual budgets submitted by all the departments and agencies whose budgets will become part of the City's proposed budget for the following year. The final recommendation compiles a budget recommendation that balances expenditures to forecasted available resources detailed in the Annual Financial Analysis and is submitted to the Mayor. Once approved by the Mayor, it is then submitted as the Mayor's Recommendation to City Council for consideration through the City Council's Committee on Budget and Government Operations. The City's proposed budget may be changed by the City Council through amendments made in the Committee on Budget and Governmental Operations. The Committee and then the full City Council vote on the budget and any amendments.

When the City Council has approved the proposed annual budget as the annual appropriation ordinance, it is forwarded to the Mayor for approval. Should the Mayor veto the approved annual appropriation ordinance, the City Council, with a two-thirds vote, may override the veto. The City Council may also refuse to approve the Mayor's proposed annual budget. In such a case, the appropriate process for passage of the City budget may have to be judicially determined. By law, the City must have a balanced budget approved by December 31 of the year preceding the budget year.

Collective Bargaining Agreements

The City has collective bargaining agreements with a coalition of various trade unions (including Laborers, Teamsters, Carpenters, and Electricians), representing approximately 6,600 employees. The agreements cover the period from July 1, 2007 through June 30, 2017, and provide for annual wage increases. The agreements were ratified by the City Council and went into effect on December 12, 2007.

The City also has a collective bargaining agreement with the Illinois Nurses Association, covering approximately 78 public health nurses employed by the City. The agreement covers the period from July 1, 2007 through June 30, 2012, and provides for annual wage increases. The agreement was ratified by the City Council and went into effect on March 14, 2008.

The City also has a collective bargaining agreement with Teamsters Local 743 covering approximately 23 public health nurses. The agreement covers the period from October 11, 2011 through June 30, 2012, and provides for wage increases. The agreement was ratified by the City Council and went into effect on October 11, 2011.

The City also has a collective bargaining agreement with the American Federation of State, County and Municipal Employees, covering approximately 3,570 administrative, clerical, professional, human services and library employees. The agreement covers the period from July 1, 2007 through June 30, 2012, and provides for annual wage increases. The agreement was ratified by the City Council and went into effect on August 5, 2008.

The City also has a collective bargaining agreement with the Chicago Fire Fighters Union, Local 2, covering approximately 5,000 employees. The agreement covers the period from July 1, 2007 through June 30, 2012, and provides for annual wage increases. The agreement was ratified by the City Council and went into effect on March 9, 2011.

The City remains in negotiations with the Public Safety Employees Bargaining Unit/Unit II (covering approximately 2,500 non-sworn, non-Fire Department public safety employees) for a successor agreement to the collective bargaining agreement covering the period July 1, 2007 through December 31, 2010, and which has remained in effect during negotiations for the successor agreement. The 2011 Corporate Fund budget includes funds for wage increases and anticipated wage increases with respect to this successor agreement.

The City reached agreements with the Police Lieutenants and Captains Associations on collective bargaining agreements covering approximately 222 Police Lieutenants and 49 Police Captains. Each agreement covers the period from July 1, 2007 through June 30, 2012. These two agreements were ratified by the City Council in February, 2010. The City concluded negotiations with the Fraternal Order of Police ("FOP"), covering approximately 11,000 employees, and submitted the dispute to binding arbitration pursuant to the Illinois Public Labor Relations Act. In April 2010, the arbitrator issued his award, the terms of which were ratified by the City Council on June 30, 2010. The City also reached agreement with the Police Sergeants Association, and that agreement was also ratified by the City Council on June 30, 2010. The arbitrator's award for the FOP contract provides for wage increases effective in each of the years 2007 through 2012. The 2011 Corporate Fund budget includes funds for the 2011 wage increases mandated by the arbitrator's award. These same increases in base salary for the members of FOP will be applied to the three separate bargaining units representing approximately 1,180 Police Sergeants, 222 Police Lieutenants, and 49 Police Captains. The 2011 Corporate Fund budget includes funds for these increases in base salary for 2011 for the three separate bargaining units.

Negotiations for successor agreements with the Illinois Nurses Association, Teamsters Local 743, the American Federation of State, County and Municipal Employees, the Chicago Fire Fighters Union, Local 2, the Police Lieutenants and Captains Associations, and the FOP are about to begin, but it is not known at this time when those negotiations will result in ratified successor agreements, or what the terms of the successor agreements will be.

The City is negotiating with Teamsters Local 700 for a first contract covering approximately 22 Supervising Police Communication Operators and has submitted a dispute to binding arbitration pursuant to the Illinois Public Labor Relations Act. It is not known at this time when the arbitrator will make an award, or what the terms of the award will be.

The City is negotiating with the Illinois Council of Police for a first contract covering approximately 23 Aviation Security sergeants but it is not known at this time when those negotiations will result in a ratified agreement, or what the terms of the agreement will be.

Retirement Funds and Other Post-Employment Benefits

The City provides funding for four retirement funds (the "Retirement Funds"), which provide benefits upon retirement, death or disability to employees and beneficiaries. As described in APPENDIX E — "RETIREMENT FUNDS AND OTHER POST-EMPLOYMENT BENEFITS — RETIREMENT FUNDS," the benefits provided to members of the Retirement Funds and the City's contributions to the Retirement Funds are governed by the provisions of the Illinois Pension Code (the "Pension Code"), and the Retirement Funds' sources of funding come from the City's contributions, the employees' contributions and investment income on the Retirement Funds' assets. The City's contributions and the employees' contributions are based upon what is established under the Pension Code and are not based on the actuarially recommended levels. The unfunded liability to the Retirement Funds poses significant financial challenges and the City is considering the options available to rectify this situation. For a

description of the Retirement Funds, the manner of funding the Retirement Funds, their historical and projected funded status, and recent legislative changes affecting the Retirement Funds and other information, see APPENDIX E — "RETIREMENT FUNDS AND OTHER POST-EMPLOYMENT BENEFITS — RETIREMENT FUNDS." The foregoing description is qualified in its entirety by reference to APPENDIX E — "RETIREMENT FUNDS AND OTHER POST-EMPLOYMENT BENEFITS — RETIREMENT FUNDS," which a prospective purchaser of the Bonds should read in its entirety.

The City and the Retirement Funds share the cost of post-employment healthcare benefits available to City employees participating in the Retirement Funds through a single-employer, defined benefit healthcare plan (the "Health Plan"), which is administered by the City. As described in APPENDIX E — "RETIREMENT FUNDS AND OTHER POST-EMPLOYMENT BENEFITS — OTHER POST-EMPLOYMENT BENEFITS," the costs of the Health Plan are shared pursuant to a settlement agreement entered into between the City and the Retirement Funds regarding the responsibility for payment of these health benefits. The Health Plan is funded on a pay-as-you-go basis and as such assets are not accumulated or dedicated to funding the Health Plan. For a description of the post-employment healthcare benefits, the manner of funding such benefits and the funded status of the benefits, see APPENDIX E — "RETIREMENT FUNDS AND OTHER POST-EMPLOYMENT BENEFITS — OTHER POST-EMPLOYMENT BENEFITS." The foregoing description is qualified in its entirety by reference to APPENDIX E — "RETIREMENT FUNDS AND OTHER POST-EMPLOYMENT BENEFITS — OTHER POST-EMPLOYMENT BENEFITS," which a prospective purchaser of the Bonds should read in its entirety.

City Investment Policy

The investment of City funds is governed by the Municipal Code of Chicago (the "Municipal Code"). Pursuant to the Municipal Code, the City Treasurer has adopted a Statement of Investment Policy and Guidelines for the purpose of establishing written cash management and investment guidelines to be followed by the City Treasurer's office in the investment of City funds. See APPENDIX C — "BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010 — Notes (1) and (4)."

PLAN OF FINANCING

General

The proceeds from the sale of the Bonds will be used as described below. For additional information, see "SOURCES AND USES OF FUNDS."

Financing of the Project

A portion of the net proceeds of the Series 2012A Bonds and the Taxable Series 2012B Bonds will be used by the City to finance one or more of the following projects (collectively, the "Project"): (i) public right-of-way infrastructure improvements in City neighborhoods, including street and alley construction and improvements, lighting improvements, sidewalk improvements and replacement, and curb and gutter repairs and replacement; (ii) infrastructure improvements to enhance the development of economic activity, including industrial street construction and improvements, streetscaping, median landscaping, demolition of hazardous, vacant or dilapidated buildings that pose a threat to public safety and welfare, shoreline reconstruction, riverbank stabilization, residential and commercial infrastructure redevelopment and railroad viaduct clearance improvements; (iii) transportation improvements (to City property and facilities and to property and facilities located within the City limits which are owned by other governmental entities), including street resurfacing, bridge and freight tunnel rehabilitation, traffic signal modernization, new traffic signal installation, intersection safety improvements and transit facility improvements; (iv) grants or loans to assist not-for-profit organizations or educational or cultural institutions, or to assist other municipal corporations, units of local government, school districts, the State

of Illinois or the United States of America; (v) cash flow needs of the City; (vi) the acquisition of personal property, including, but not limited to, computer hardware and software, vehicles or other capital items useful or necessary for City purposes; (vii) the duly authorized acquisition of improved and unimproved real property within the City for municipal, industrial, commercial or residential purposes, or any combination thereof, and the improvement, demolition and/or remediation of any such property; (viii) constructing, equipping, altering and repairing various municipal facilities including fire stations, police stations, libraries, senior and health centers and other municipal facilities; (ix) the enhancement of economic development within the City by making direct grants or loans to, or deposits to funds or accounts to secure the obligations of, not-for-profit or for-profit organizations doing business or seeking to do business in the City; (x) the funding of (A) judgments entered against the City, (B) certain settlements or other payments required to be made by the City as a condition to the resolution of litigation or threatened litigation or arbitration and (C) such escrow accounts or other reserves as shall be deemed necessary for any of said purposes; (xi) the payment of certain contributions to the Policemen's Annuity and Benefit Fund of Chicago, the Firemen's Annuity and Benefit Fund of Chicago, the Municipal Employees', Officers' and Officials' Annuity and Benefit Fund of Chicago and the Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago; (xii) the provision of facilities, services and equipment to protect and enhance public safety, including, but not limited to, increased costs for police and fire protection services, emergency medical services, staffing at the City's emergency call center and other City facilities; and enhanced security measures at airports and other major City facilities; and (xiii) acquiring motor vehicles for a term of years or lease period.

Refunding

A portion of the proceeds of the Taxable Series 2012B Bonds and the Series 2012C Bonds will be used to refund all or a portion of the principal of and interest on certain maturities of outstanding general obligation bonds of the City. The general obligation bonds being refunded by the Taxable Series 2012B Bonds and the Series 2012C Bonds are collectively referred to herein as the "Refunded Bonds" and are described in APPENDIX G hereto.

To provide for the payment and retirement of the Refunded Bonds, proceeds of the Taxable Series 2012B Bonds and the Series 2012C Bonds will be used to purchase securities constituting direct obligations of the United States of America (collectively, the "Government Obligations"). The principal of and interest on the Government Obligations will be sufficient (i) to pay when due the interest on the Refunded Bonds to their respective maturity or redemption dates and (ii) to pay or redeem the Refunded Bonds on their respective maturity or redemption dates at their respective principal amounts or redemption prices.

The Government Obligations purchased with the proceeds of the Taxable Series 2012B Bonds and the Series 2012C Bonds will be held in escrow accounts with the respective paying agents for the Refunded Bonds or an escrow agent (collectively, the "Escrow Accounts"). Neither the maturing principal of the Government Obligations nor the interest to be earned thereon will serve as security or be available for the payment of the principal of or the interest on the Bonds.

The mathematical computation of (i) the adequacy of maturing principal of and interest earnings on the Government Obligations together with initial cash deposits in the Escrow Accounts to provide for payments on the Refunded Bonds as described above and (ii) the actuarial yields on the Series 2012A Bonds and the Series 2012C Bonds and the Government Obligations will be verified at the time of the delivery of the Bonds by Robert Thomas CPA, LLC, Shawnee Mission, Kansas, independent certified public accountants. See "CERTAIN VERIFICATIONS."

SOURCES AND USES OF FUNDS

The following table sets forth the sources and uses of Bond proceeds.

| | Series 2012A Bonds | Taxable Series 2012B Bonds | Series 2012C Bonds | Total |
|---|-----------------------|-------------------------------|-----------------------|----------------------|
| SOURCE OF FUNDS: | | | | |
| Principal Amount of the Bonds | \$179,905,000 | \$307,975,000 | \$106,970,000 | \$594,850,000 |
| Net Issue Premium | 18,470,112 | | 17,696,058 | 36,166,170 |
| Total Sources of Funds | <u>\$198,375,112</u> | <u>\$307,975,000</u> | <u>\$124,666,058</u> | <u>\$631,016,170</u> |
| USES OF FUNDS: | | | | |
| Costs of Project | \$174,027,475 | \$118,400,000 | | \$292,427,475 |
| Refunding of Refunded Bonds | | 144,217,494 | \$123,974,412 | 268,191,906 |
| Capitalized Interest on the Bonds | 23,262,716 | 43,263,575 | | 66,526,291 |
| Costs of Issuance (including the underwriters' discount) | 1,084,921 | 2,093,931 | 691,646 | 3,870,498 |
| Total Uses of Funds | <u>\$198,375,112</u> | <u>\$307,975,000</u> | <u>\$124,666,058</u> | <u>\$631,016,170</u> |

THE BONDS

General

Each series of Bonds will be dated the date of issuance, will mature on January 1 of the years and in the amounts set forth on the inside front cover page of this Official Statement, and will bear interest from the date of issuance. The Bonds will be issued only as fully registered bonds in denominations of \$5,000 or any integral multiple thereof.

The Bonds will bear interest at the rates set forth on the inside front cover page of this Official Statement, on the basis of a 360-day year of twelve 30-day months. Interest on the Bonds will be payable on January 1 and July 1 of each year, commencing January 1, 2013, to the person in whose name the Bond is registered as of the 15th day of the month next preceding any such interest payment date. Each Bond will bear interest from the later of its date of issuance or the most recent interest payment date to which interest has been paid until the principal amount of such Bond is paid.

Amalgamated Bank of Chicago, Chicago, Illinois (the "Bond Registrar"), will serve as bond registrar and paying agent for the Bonds. Principal of and interest on the Bonds will be payable in lawful money of the United States at the designated corporate trust office of the Bond Registrar.

The Bonds initially are registered through a book-entry only system operated by The Depository Trust Company, New York, New York ("DTC"). Details of payments of the Bonds when in the book-entry only system are described below under the subcaption "—Book-Entry System." Except as described under the subcaption "—Book-Entry System — General " below, beneficial owners of the Bonds will not receive or have the right to receive physical delivery of the Bonds, and will not be or be considered to be the registered owners thereof. Accordingly, beneficial owners must rely upon (i) the procedures of DTC and, if such beneficial owner is not a DTC "Direct Participant" or "Indirect Participant" (as defined below), the Direct or Indirect Participant who will act on behalf of such beneficial owner to receive notices and payments of principal and interest or redemption price of the Bonds, and to exercise voting rights and (ii) the records of DTC and, if such beneficial owner is not a Direct or Indirect Participant, such beneficial owner's Direct or Indirect Participant, to evidence its beneficial ownership of the Bonds. So long as DTC or its nominee is the registered owner of the Bonds, references herein to Bondholders or registered owners of such Bonds mean DTC or its nominee and do not mean the

beneficial owners of such Bonds. The laws of some states may require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and laws may impair the ability to transfer beneficial interests in a Bond.

Payment of the Bonds

Principal of each Bond and redemption premium, if any, will be payable in lawful money of the United States upon presentation and surrender of such Bond at the designated corporate trust office of the Bond Registrar.

Payment of the installments of interest on each Bond shall be made to the registered owner of such Bond as shown on the registration books of the City maintained by the Bond Registrar at the close of business on the 15th day of the month next preceding each interest payment date and shall be paid by check or draft of the Bond Registrar mailed to the address of such registered owner as it appears on such registration books or at such other address furnished in writing by such registered owner to the Bond Registrar or, at the option of any registered owner of \$1,000,000 or more in aggregate principal amount of the Bonds, by wire transfer of immediately available funds to such bank in the continental United States of America as such registered owner shall request in writing to the Bond Registrar.

Redemption

The Bonds are subject to both optional and mandatory redemption prior to maturity, as described below. The Bonds shall be redeemed only in principal amounts of \$5,000 and integral multiples thereof.

Optional Redemption of the Series 2012A Bonds and the Series 2012C Bonds. The Series 2012A Bonds and the Series 2012C Bonds are redeemable prior to maturity at the option of the City, in whole or in part, on any date on or after January 1, 2022, and if less than all of the outstanding Series 2012A Bonds and the Series 2012C Bonds of a single maturity and interest rate are to be redeemed, the Series 2012A Bonds and the Series 2012C Bonds to be called shall be called by lot in the manner hereinafter provided, at a redemption price equal to the principal amount of the Series 2012A Bonds and the Series 2012C Bonds being redeemed plus accrued interest to the date fixed for redemption.

The City is authorized to sell or waive any right the City may have to call any of the Series 2012A Bonds and the Series 2012C Bonds for optional redemption, in whole or in part; provided, that such sale or waiver will not adversely affect the exclusion of interest on the Series 2012A Bonds and the Series 2012C Bonds for federal income tax purposes.

Optional Redemption of the Taxable Series 2012B Bonds with Make Whole Payment. The Taxable Series 2012B Bonds shall be subject to redemption prior to maturity at the option of the City, in whole or in part, on any date at a redemption price equal to the greater of: (A) the principal amount of Bonds of such series to be redeemed, or (B) the sum of the present values of the remaining scheduled payments of principal and interest on such Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date such Bonds are to be redeemed, discounted to the date of redemption of such Bonds to be redeemed on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (defined below) plus 50 basis points plus accrued interest on the Bonds of such series being redeemed to the date fixed for redemption.

The make whole optional redemption price of the Taxable Series 2012B Bonds to be redeemed will be calculated by an independent accounting firm, investment banking firm or financial advisor (the "Calculation Agent") retained by the City at the City's expense. The Bond Registrar and the City may rely on the Calculation Agent's determination of the make whole optional redemption price and will not be liable for such reliance. An authorized officer of the City shall confirm and transmit the redemption price as so calculated on such dates and to such parties as shall be necessary to effectuate such redemption.

The "Treasury Rate" is, as of any redemption date, the yield to maturity as of such redemption date of U.S. Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available four Business Days (as defined below) prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Bonds of such series to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded U.S. Treasury securities adjusted to a constant maturity of one year will be used. "Business Day" means any day other than a day on which banks in New York, New York, Chicago, Illinois, or the city in which the Bond Registrar maintains its designated office are required or authorized to close. The Treasury Rate will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the City at the City's expense.

The City is authorized to sell or waive any right the City may have to call the Taxable Series 2012B Bonds for optional redemption.

Mandatory Redemption of the Bonds. The Series 2012A Bonds due January 1, 2033 are subject to mandatory redemption prior to maturity, in each case at par and accrued interest to the date fixed for redemption, on January 1 of the following years and in the following principal amounts:

| Series 2012A Bonds due January 1, 2033 | |
|--|-----------------------|
| Year | Principal Amount |
| 2030 | \$ 3,990,000 |
| 2032 | 43,270,000 |
| 2033 | 72,645,000 (maturity) |

The Taxable Series 2012B Bonds due January 1, 2042 are subject to mandatory redemption prior to maturity, in each case at par and accrued interest to the date fixed for redemption, on January 1 of the following years and in the following principal amounts:

| Taxable Series 2012B Bonds due January 1, 2042 | |
|--|------------------------|
| Year | Principal Amount |
| 2039 | \$ 19,870,000 |
| 2040 | 48,125,000 |
| 2041 | 116,820,000 |
| 2042 | 123,160,000 (maturity) |

Reduction of Mandatory Redemption Amounts. In connection with any mandatory redemption of Bonds of a series as described above, the principal amounts of Bonds of such series to be mandatorily redeemed in each year may be reduced through the earlier optional redemption thereof, with any partial optional redemptions of such Bonds of such series credited against future mandatory redemption requirements in such order of the mandatory redemption dates as an Authorized Officer may determine. In addition, on or prior to the 60th day preceding any mandatory redemption date of Bonds of a series, the Bond Registrar may, and if directed by an Authorized Officer shall, purchase Bonds of such series required to be retired on such mandatory redemption date at such prices as an Authorized Officer shall determine. Any such Bonds so purchased shall be cancelled and the principal amount thereof shall be credited against the payment required on such next mandatory redemption date with respect to such series of Bonds.

Selection of Bonds for Redemption. While the Series 2012A Bonds and the Series 2012C Bonds are registered in the book-entry system and so long as DTC or a successor securities depository is the sole registered owner of the Bonds of such series, if less than all of the Bonds of such series, maturity and interest rate are to be redeemed prior to maturity, the particular Bonds or portions of such Bonds of such series will be selected by lot by DTC or such successor securities depository in such manner as DTC or

such successor securities depository may determine. See "THE BONDS — Book-Entry System." If the Series 2012A Bonds and the Series 2012C Bonds are not registered in the book-entry system, the following procedures for the selection of the Bonds of such series shall apply. If fewer than all of the outstanding Bonds of such series, maturity and interest rate are to be optionally redeemed, the Bonds of such series, maturity and interest rate to be called shall be called from such maturities and within any maturity as may be determined by an Authorized Officer by lot. In the event of the redemption of less than all Bonds of such series of the same maturity and interest rate, the aggregate principal amount thereof to be redeemed shall be \$5,000 or an integral multiple thereof, and the Bond Registrar shall assign to each Bond of such series of such maturity and interest rate a distinctive number for each \$5,000 principal amount of such Bond and shall select by lot from the numbers so assigned as many numbers as, at \$5,000 for each number, shall equal the principal amount of such Bonds to be redeemed. The Bonds of such series, maturity and interest rate to be redeemed shall be those to which were assigned numbers so selected; provided that only so much of the principal amount of each Bond of such series, maturity and interest rate shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. The City shall, at least 45 days prior to any optional redemption date (unless a shorter time period shall be satisfactory to the Bond Registrar), notify the Bond Registrar of such redemption date and of the principal amount of Bonds to be redeemed.

While the Taxable Series 2012B Bonds are registered in the book-entry system and so long as DTC or a successor securities depository is the sole registered owner of the Bonds of such series, if less than all of the Bonds of such series are to be redeemed prior to maturity, the particular Bonds of such series or portions thereof to be redeemed will be selected on a pro-rata pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the Taxable Series 2012B Bonds are registered in the book-entry system, the selection for redemption of the Bonds of such series will be made in accordance with the operational arrangements of DTC then in effect and, if the DTC operational arrangements do not allow for redemption on a pro-rata pass-through distribution of principal basis, the Bonds of such series subject to redemption will be selected for redemption, in accordance with DTC procedures, by lot.

It is the City's intent that the Taxable Series 2012B Bonds redemption allocations made by DTC, the DTC Participants or such other intermediaries that may exist between the City and the Beneficial Owners be made on a pro-rata pass-through distribution of principal basis as described above. However, none of the City, the Underwriters or the Bond Registrar can provide any assurance that DTC, DTC's Participants or any other intermediary will allocate the redemption of the Bonds of such series on such basis. If the DTC operational arrangements do not allow for the redemption of the Bonds of such series on a pro-rata pass-through distribution of principal basis as discussed above, then the Bonds of such series will be selected for redemption in accordance with DTC procedures, by lot.

If the Taxable Series 2012B Bonds are not registered in the book-entry system, any redemption of less than all of the Bonds of such series will be allocated by the Bond Registrar among the registered owners of the Bonds of such series on a pro-rata basis.

Notice of Redemption. Unless waived by any owner of the Bonds to be redeemed, notice of the call for any redemption of such Bonds will be given by the Bond Registrar on behalf of the City by mailing the redemption notice by first class mail at least 30 days and not more than 60 days prior to the date fixed for redemption to the registered owner of the Bond or Bonds to be redeemed at the address shown on the registration books of the Bond Registrar or at such other address as is furnished in writing by such registered owner to the Bond Registrar but the failure to mail any such notice or any defect therein as to any Bond shall not affect the validity of the proceedings for the redemption of any other Bond. Any notice of redemption mailed as described in this paragraph will be conclusively presumed to have been given whether or not actually received by the addressee. With respect to an optional redemption of any series of Bonds, such notice may state that said redemption is conditioned upon the receipt by the Bond Registrar on or prior to the date fixed for redemption of moneys sufficient to pay the redemption price of Bonds of such series. If such moneys are not so received, such redemption notice

will be of no force and effect, the City will not redeem such Bonds and the Bond Registrar will give notice, in the same manner in which the notice of redemption was given, that such moneys were not so received and that such Bonds will not be redeemed. Unless the notice of redemption is made conditional as described above, on or prior to any redemption date, the City is required to deposit with the Bond Registrar an amount of money sufficient to pay the redemption price of all the Bonds or portions thereof of such series which are to be redeemed on that date.

Notice of redemption having been given as described above, the Bonds, or portions thereof, to be redeemed shall, on the redemption date, become due and payable at the redemption price specified in such notice, and from and after such date (unless the City shall default in the payment of the redemption price or unless, in the event of a conditional notice as described above, the necessary moneys were not deposited) such Bonds, or portions thereof, shall cease to bear or accrue interest.

Book-Entry System

General

The following information concerning DTC has been furnished by DTC for use in this Official Statement and neither the City nor any Underwriter takes any responsibility for its accuracy or completeness.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of each series of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934 (the "Exchange Act"). DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission (the "Commission"). More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of

the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the Book-Entry System for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's usual practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. In accordance with DTC's procedures, the City has directed the Bond Registrar to notify DTC that in the event that less than all of the Taxable Series 2012B Bonds are redeemed any such redemption shall be on a pro-rata basis.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or Bond Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

Discontinued Use of Book-Entry System

The City may decide to discontinue use of the system of book entry only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

Procedures May Change

Although DTC has agreed to these procedures in order to facilitate transfers of securities among DTC and its Participants, DTC is under no obligation to perform or continue to perform these procedures and these procedures may be discontinued and may be changed at any time by DTC.

The information in this section concerning DTC and the Book-Entry System has been obtained from sources that the City believes to be reliable, but neither the City nor any Underwriter takes any responsibility for the accuracy thereof.

Additional Information

For every transfer and exchange of the Bonds, DTC, the Bond Registrar and the Participants may charge the beneficial owner a sum sufficient to cover any tax, fee or other charge that may be imposed in relation thereto.

NEITHER THE CITY NOR THE BOND REGISTRAR WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY PARTICIPANTS, OR TO THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS, OR TO ANY BENEFICIAL OWNER IN RESPECT OF THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OR INTEREST ON THE BONDS, OR ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN WITH RESPECT TO THE BONDS, INCLUDING ANY NOTICE OF REDEMPTION, THE SELECTION OF SPECIFIC BONDS FOR REDEMPTION, OR ANY OTHER ACTION TAKEN, BY DTC AS REGISTERED OWNER OF THE BONDS.

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry System, references in other sections of this Official Statement to registered owners should be read to include the person for which a Participant acquires an interest in the Bonds, but (a) all rights of ownership must be exercised through DTC and the Book-Entry System, and (b) notices that are to be given to registered owners will be given only to DTC.

Bonds Not Presented for Payment

If any Bond is not presented for payment when the principal amount thereof becomes due, either at maturity or at a date fixed for redemption thereof or otherwise, and if moneys sufficient to pay such Bond are held by the Bond Registrar for the benefit of the registered owner of such Bond, the Bond Registrar shall hold such moneys for the benefit of the registered owner of such Bond without liability to the registered owner for interest. The registered owner of such Bond thereafter shall be restricted exclusively to such funds for satisfaction of any claims relating to such Bond.

Defeasance

If payment or provision for payment is made, to or for the registered owners of all or a portion of the Bonds, and the principal of and interest due and to become due on any Bond at the times and in the manner stipulated therein, and there is paid or caused to be paid to the Bond Registrar or such bank or trust company as shall be designated by an Authorized Officer (such bank or trust company hereinafter referred to as a "Defeasance Escrow Agent"), all sums of money due and to become due according to the

provisions of the Bond Ordinance, then the Bond Ordinance and the estate and rights granted by the Bond Ordinance shall cease, terminate and be void as to those Bonds or portions thereof except for purposes of registration, transfer and exchange of Bonds and any such payment from such moneys or obligations.

Any Bond shall be deemed to be paid within the meaning of the Bond Ordinance when payment of the principal of any such Bond, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or upon redemption as provided in the Bond Ordinance or otherwise), either (a) shall have been made or caused to have been made in accordance with the terms thereof, or (b) shall have been provided for by irrevocably depositing with the applicable Bond Registrar or a Defeasance Escrow Agent, in trust and exclusively for such payment, (1) moneys sufficient to make such payment or (2)(A) direct obligations of the United States of America; (B) obligations of agencies of the United States of America, the timely payment of principal of and interest on which are guaranteed by the United States of America; (C) obligations of the following agencies: Federal Home Loan Mortgage Corp. (FHLMC) debt obligations, Farm Credit System (formerly: Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives) debt obligations, Federal Home Loan Banks (FHL Banks) debt obligations, Fannie Mae debt obligations, Financing Corp. (FICO) debt obligations, Resolution Funding Corp. (REFCORP) debt obligations, and U.S. Agency for International Development (U.S. A.I.D.) Guaranteed notes; (D) pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; or (E) instruments evidencing an ownership interest in obligations described in the preceding clauses (A), (B) and (C), or (3) a combination of the investments described in clauses (1) and (2) above, such amounts so deposited being available or maturing as to principal and interest in such amounts and at such times, without consideration of any reinvestment thereof, as will insure the availability of sufficient moneys to make such payment (all as confirmed by a nationally recognized firm of independent public accountants). At such times as a Bond shall be deemed to be paid under the Bond Ordinance, it shall no longer be secured by or entitled to the benefits of the Bond Ordinance, except for the purposes of registration, transfer and exchange of Bonds and any such payment from such moneys or obligations.

Registration and Transfers

The books for the registration and for the transfer of each series of Bonds will be kept at the designated corporate trust office of the Bond Registrar. See "THE BONDS — Book-Entry System" for a discussion of registration and transfer of the beneficial ownership interests in Bonds while they are in the Book-Entry System. The following provisions relate to the registration and transfer of Bonds when the Bonds are in certificated form.

Upon surrender for transfer of any Bond at the designated corporate trust office of the Bond Registrar, duly endorsed by, or accompanied by a written instrument or instruments of transfer in form satisfactory to the Bond Registrar and duly executed by the registered owner or its attorney duly authorized in writing, the City shall execute and the Bond Registrar shall authenticate, date and deliver in the name of the transferee or transferees one or more fully registered Bonds of the same series and maturity of authorized denominations, for a like principal amount. Any Bond or Bonds may be exchanged at said office of the Bond Registrar for a like aggregate principal amount of Bonds of the same series, interest rate and maturity of other authorized denominations.

No service charge shall be made for any transfer or exchange of Bonds, but the City or the Bond Registrar may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Bonds, except that no such payment may be required in the case of the issuance of a Bond or Bonds for the unredeemed portion of a Bond surrendered for redemption.

The Bond Registrar shall not be required to transfer or exchange (a) any Bond after notice calling such Bond for redemption has been mailed, or (b) any Bond during a period of 15 days next preceding mailing of a notice of redemption of such Bond.

Registered Owner Treated as Absolute Owner

The person in whose name any Bond shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of the principal of, redemption premium, if any, or interest on any Bond, as appropriate, shall be made only to or upon the order of the registered owner thereof or its legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

SECURITY FOR THE BONDS

General Obligation of the City

The Bonds are direct and general obligations of the City and shall be payable, as to principal and interest, from any moneys, revenues, receipts, income, assets or funds of the City legally available for such purpose, including, but not limited to, the proceeds of a direct annual tax levied by the City in the Bond Ordinance upon all taxable property located in the City sufficient to pay the principal of and interest on the Bonds. The City has pledged its full faith and credit to the payment of the Bonds. See APPENDIX B — "FINANCIAL AND OTHER CITY INFORMATION — Property Tax Supported Bonded Debt — Debt Service Schedule." In addition to the Bonds, the City has other direct and general obligations previously issued and outstanding under separate ordinances adopted by the City Council. See APPENDIX B — "FINANCIAL AND OTHER CITY INFORMATION — Property Tax Supported Bonded Debt — Computation of Direct and Overlapping Bonded Debt."

Under the Bond Ordinance, the City is obligated to appropriate amounts sufficient to pay principal of and interest on the Bonds for the years such amounts are due, and the City covenants in the Bond Ordinance to take timely action as required by law to carry out such obligation, but, if for any such year the City fails to do so, the Bond Ordinance constitutes a continuing appropriation of such amounts without any further action by the City.

If the taxes to be applied to the payment of the Bonds are not available in time to make any payments of principal of or interest on the Bonds when due, then the appropriate fiscal officers of the City are directed in the Bond Ordinance to make such payments from any other moneys, revenues, receipts, income, assets or funds of the City that are legally available for that purpose in advancement of the collection of such taxes.

Property Tax Limit Considerations

The City. In 1993, the City Council adopted an ordinance (the "City Tax Limitation Ordinance") limiting the City's aggregate property tax levy for any one year to an amount equal to the prior year's aggregate property tax levy (subject to certain adjustments) plus the lesser of five percent or the increase in the Consumer Price Index. The City Tax Limitation Ordinance also established a safe harbor amount for each year equal to a specified 1994 base amount increased annually by the lesser of five percent or the increase in the Consumer Price Index. See APPENDIX A — "REAL PROPERTY TAX SYSTEM AND LIMITS — Property Tax Limit Considerations — The City." Pursuant to the Bond Ordinance, the taxes levied by the City for the payment of principal and interest on the Bonds are not subject to the limitations contained in the City Tax Limitation Ordinance.

State of Illinois. The City continues to be excluded from property tax limits imposed by the State on non-home rule units of local government in Cook County and the five adjacent counties. The property tax limitations imposed by the State differ from those contained in the City Tax Limitation Ordinance.

There can be no assurance that legislation applying such property tax limitations to the City will not be enacted by the Illinois General Assembly. For additional information, see "THE CITY" and APPENDIX A — "REAL PROPERTY TAX SYSTEM AND LIMITS — Property Tax Limit Considerations — State of Illinois."

Additional General Obligation Debt

The City may issue from time to time notes and bonds that are general obligations of the City and that are secured by the full faith and credit of the City, which may or may not be subject to the provisions of the City Tax Limitation Ordinance.

LITIGATION

There is no litigation pending in any court or, to the knowledge of the City, threatened, questioning the corporate existence of the City, or which would restrain or enjoin the issuance or delivery of the Bonds, or which concerns the proceedings of the City taken in connection with the Bonds or the City's pledge of its full faith, credit and resources to the payment of the Bonds.

The City is a defendant in various pending and threatened individual and class action litigation relating principally to claims arising from contracts, personal injury, property damage, police conduct, discrimination, civil rights actions and other matters. The City believes that the ultimate resolution of these matters will not have a material adverse effect on the financial position of the City.

Property Tax Rate Objections: 2004-2008. The City's property tax levies for 2004 through 2008 varied between approximately \$720 million and \$834 million annually, excluding the School Building and Improvement Fund levy. See APPENDIX B — "FINANCIAL AND OTHER CITY INFORMATION—Property Tax Levies by Fund." Objections have been filed in the Circuit Court of Cook County (the "Circuit Court") to these levies, which objections remain pending. The City is unable to predict the outcome of the proceedings concerning the objections.

E2 Nightclub Litigation. The City was a defendant in 57 wrongful death and personal injury lawsuits arising out of a stampede of patrons at the E2 Nightclub on February 17, 2003. The sole remaining claim against the City in this litigation was that police officers blocked, locked, or jammed access to the entry-exit door, causing a stampede of patrons to pile up on the only stairway leading to the door. On April 11, 2012, the circuit court granted the City's motion for summary judgment and dismissed the sole remaining claim against the City with prejudice. The City does not know whether the plaintiffs will appeal the issuance of summary judgment. If the plaintiffs do appeal, the City will vigorously defend the circuit court's judgment in the appellate court.

Parking Meters Litigation. On December 4, 2008, the City entered into the Chicago Metered Parking System Concession Agreement (the "Agreement") with Chicago Parking Meters, LLC (the "Concessionaire"), whereby the Concessionaire paid the City approximately \$1.151 billion, and the City granted the Concessionaire the right to operate the City's metered parking system, including the right to collect revenues derived from the metered parking spaces. The City Comptroller (along with the State's Comptroller) has been named as a defendant in a case brought by the Independent Voters of Illinois Independent Precinct Organization and an individual plaintiff, arguing that certain provisions of the Agreement are illegal or unconstitutional, and requesting that the City and the State be enjoined from making certain expenditures in connection with the City's metered parking system. On November 4, 2010, the Circuit Court granted in part, and denied in part, the City's motion to dismiss the plaintiffs' second amended complaint. While the City cannot predict the outcome of this litigation, the City will continue to defend the case vigorously.

Automated Red-Light Ticketing Litigation. In July 2010, individual plaintiffs, seeking to maintain a class action, filed suit against the City and other defendants in the Circuit Court. The plaintiffs allege

that the State statute governing the use of automated red-light ticketing systems violates several provisions of the State Constitution, and that all such systems are therefore unlawful. The alleged grounds are that the State statute constitutes special legislation, violates the uniformity requirement, and violates equal protection because most of the State's African-American population lives in the eight counties covered by the statute. Plaintiffs seek to enjoin the operation of the City's red-light ticketing system, along with all others, and restitution of fines paid. In August 2011, the Circuit Court granted the City's motion to dismiss the case in its entirety, ruling that plaintiffs lacked standing to make certain of their claims and that other claims were legally deficient. Plaintiffs appealed this ruling and the matter is now pending in the Illinois Appellate Court. It is not known when the appeal will be decided. The City will continue to defend this matter vigorously.

Firefighter Hiring Process Litigation. A class action was filed challenging the 1995 examination the City used as the first step of the hiring process for firefighter candidates. The City admitted in the district court that the examination had a disparate impact on African-American candidates but argued that the case was filed too late. The City also defended the examination on the basis that it was job-related and valid, and that the cut-off score was consistent with business necessity. The district court rejected all these defenses and entered judgment against the City. The court of appeals reversed, agreeing that the case was filed too late. The Supreme Court then reversed and remanded the case to the court of appeals, which found that the first class of hires (21 individuals) filed their claims too late but not subsequent classes. The court of appeals remanded the case to the district court to determine damages and to oversee the plan for the hire of 111 candidate firefighters by the City.

Parking Garages Arbitration Claim. On November 3, 2006, the City entered into the Chicago Downtown Public Parking System Concession and Lease Agreement (the "Lease Agreement") with Chicago Loop Parking, LLC ("CLP"), by which CLP was granted a 99-year concession to operate the public parking garages commonly referred to as Millennium Park, Grant Park North, Grant Park South and East Monroe (collectively the "CLP Garages"). The Lease Agreement includes a provision by which certain events can require the City to compensate CLP. One of those events is the granting of a license for the operation of a public garage that was not in existence as of the date of the Lease Agreement, within a certain distance from the CLP Garages. CLP has asserted a claim under that provision. Pursuant to the Lease Agreement, the matter is now before the American Arbitration Association for arbitration. The City is actively defending the case and cannot predict the outcome at this time.

INDEPENDENT AUDITORS

The basic financial statements of the City as of and for the year ended December 31, 2010, included in APPENDIX C to this Official Statement, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing in APPENDIX C that was modified to include a reference to other auditors and to include an emphasis of a matter paragraph related to the adoption of Statement No. 53 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Derivative Instruments*.

RATINGS

The Bonds are rated "Aa3" by Moody's Investors Service, Inc., "A+" by Standard & Poor's, a division of The McGraw-Hill Companies, Inc., and "AA-" by Fitch, Inc., based upon each rating agency's assessment of the creditworthiness of the City. A rating reflects only the view of the rating agency giving such rating. An explanation of the significance of such rating may be obtained from such organization. There is no assurance that any rating will continue for any given period of time or that any rating will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the price at which the Bonds may be resold.

CO-FINANCIAL ADVISORS

The City has retained A.C. Advisory, Inc. and Public Financial Advisors LLC to act as co-financial advisors (the "Co-Financial Advisors") in connection with the issuance and sale of the Bonds. Under the terms of their engagement, the Co-Financial Advisors will deliver a letter to the City regarding the fairness of the purchase price paid by the Underwriters to the City for the Bonds. Under the terms of their engagement, the Co-Financial Advisors are not obligated to undertake, and have not undertaken to make, an independent verification of, or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

CERTAIN VERIFICATIONS

Robert Thomas, CPA, LLC, Shawnee Mission, Kansas (the "Verifier"), upon delivery of the Bonds, will deliver to the City, Co-Bond Counsel and the Underwriters a report stating that the firm, at the request of the City and the Underwriters, has reviewed the mathematical accuracy of certain computations based on certain assumptions relating to (i) the sufficiency of the principal and interest received from the investment in Governmental Obligations, together with any initial cash deposit, to meet the timely payment of the applicable principal or redemption price of and interest on the Refunded Bonds, as described under "PLAN OF FINANCE" and (ii) the actuarial yields on the issue of which the Series 2012A Bonds and the Series 2012C Bonds are a part and the Government Obligations, such computations with respect to such yields to be used to support the conclusion of Co-Bond Counsel that the Series 2012A Bonds and the Series 2012C Bonds are not "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"). The Verifier will express no opinion on the attainability of any assumptions or the tax-exempt status of the Series 2012A Bonds and the Series 2012C Bonds.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Series 2012A Bonds at a price equal to \$197,503,200.75 (which represents the aggregate principal amount of the Series 2012A Bonds less an Underwriters' discount of \$871,911.65 and plus a net offering premium of \$18,470,112.40), the Taxable Series 2012B Bonds at a price equal to \$306,251,414.38 (which represents the aggregate principal amount of the Taxable Series 2012B Bonds less an Underwriters' discount of \$1,723,585.62) and the Series 2012C Bonds at a price equal to \$124,103,768.92 (which represents the aggregate principal amount of the Series 2012C Bonds less an Underwriters' discount of \$562,289.03 and plus a net offering premium of \$17,696,057.95).

The obligation of the Underwriters to accept delivery of the Bonds is subject to various conditions set forth in a Bond Purchase Agreement between the Underwriters and the City. The Underwriters are obligated to purchase all of the Bonds if any of the Bonds are purchased.

BMO Capital Markets is the trade name for certain capital markets and investment banking services of Bank of Montreal and its subsidiaries, including BMO Capital Markets GKST Inc. which is a direct, wholly-owned subsidiary of BMO Financial Corp. which is itself a wholly-owned subsidiary of Bank of Montreal.

TAX MATTERS

The Series 2012A Bonds and the Series 2012C Bonds

Federal tax law contains a number of requirements and restrictions which apply to the Series 2012A Bonds and the Series 2012C Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the

facilities financed therewith, and certain other matters. The City has covenanted to comply with all requirements that must be satisfied in order for the interest on the Series 2012A Bonds and the Series 2012C Bonds not to be includable in gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Series 2012A Bonds and the Series 2012C Bonds not to be excludable from gross income for federal income tax purposes retroactively to the date of issuance of the Series 2012A Bonds and the Series 2012C Bonds.

Subject to the City's compliance with the above-referenced covenants, under present law, in the opinion of Co-Bond Counsel, interest on the Series 2012A Bonds and the Series 2012C Bonds is not includable in gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but interest on the Series 2012A Bonds and the Series 2012C Bonds is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations.

In rendering its opinion, Co-Bond Counsel will rely upon certifications of the City with respect to certain material facts within the City's knowledge and upon the mathematical computations of the yield on the Bonds and the yield on certain investments by the Verifier. Co-Bond Counsel's opinions represent its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

The Code includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include certain tax-exempt interest, including interest on the Series 2012A Bonds and the Series 2012C Bonds.

Ownership of the Series 2012A Bonds and the Series 2012C Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Series 2012A Bonds and the Series 2012C Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the "Issue Price") for each maturity of the Series 2012A Bonds and the Series 2012C Bonds is the price at which a substantial amount of such maturity of the Series 2012A Bonds and the Series 2012C Bonds is first sold to the public. The Issue Price of a maturity of the Series 2012A Bonds and a maturity of the Series 2012C Bonds may be different from the price set forth, or the price corresponding to the yield set forth, on the inside cover page hereof.

If the Issue Price of a maturity of the Series 2012A Bonds or a maturity of the Series 2012C Bonds is less than the principal amount payable at maturity, the difference between the Issue Price of each such maturity, if any, of the Series 2012A Bonds or the Series 2012C Bonds (the "OID Bonds") and the principal amount payable at maturity is original issue discount.

For an investor who purchases an OID Bond in the initial public offering at the Issue Price for such maturity and who holds such OID Bond to its stated maturity, subject to the condition that the City complies with the covenants discussed above, (a) the full amount of original issue discount with respect to such OID Bond constitutes interest which is not includable in gross income of the owner thereof for federal income tax purposes; (b) such owner will not realize taxable capital gain or market discount upon

payment of such OID Bond at its stated maturity; (c) such original issue discount is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Code, but is taken into account in computing an adjustment used in determining the alternative minimum tax for certain corporations under the Code, as described above; and (d) the accretion of original issue discount in each year may result in an alternative minimum tax liability for corporations or certain other collateral federal income tax consequences in each year even though a corresponding cash payment may not be received until a later year. Based upon the stated position of the Illinois Department of Revenue under Illinois income tax law, accreted original issue discount on such OID Bonds is subject to taxation as it accretes, even though there may not be a corresponding cash payment until a later year. Owners of OID Bonds should consult their own tax advisors with respect to the state and local tax consequences of original issue discount on such OID Bonds.

Owners of Series 2012A Bonds and Series 2012C Bonds who dispose of Series 2012A Bonds and Series 2012C Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Series 2012A Bonds and Series 2012C Bonds in the initial public offering, but at a price different from the Issue Price or purchase Series 2012A Bonds and Series 2012C Bonds subsequent to the initial public offering should consult their own tax advisors.

If a Series 2012A Bond or a Series 2012C Bond is purchased at any time for a price that is less than the Series 2012A Bond's or the Series 2012C Bond's stated redemption price at maturity or, in the case of an OID Bond, its Issue Price plus accreted original issue discount (the "Revised Issue Price"), the purchaser will be treated as having purchased a Series 2012A Bond or a Series 2012C Bond with market discount subject to the market discount rules of the Code (unless a statutory *de minimis* rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Series 2012A Bond or a Series 2012C Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. Such treatment would apply to any purchaser who purchases an OID Bond for a price that is less than its Revised Issue Price. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Series 2012A Bond or Series 2012C Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Series 2012A Bonds and the Series 2012C Bonds.

An investor may purchase a Series 2012A Bond or a Series 2012C Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as "bond premium" and must be amortized by an investor on a constant yield basis over the remaining term of the Series 2012A Bond and the Series 2012C Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax-exempt bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor's basis in the Series 2012A Bond and the Series 2012C Bond. Investors who purchase a Series 2012A Bond or a Series 2012C Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Series 2012A Bond's and the Series 2012C Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Series 2012A Bond and the Series 2012C Bond.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or affect the market value of the Series 2012A Bonds and the Series 2012C Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Series 2012A Bonds and the Series 2012C Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Co-Bond Counsel express no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the "Service") has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is

not excludable from gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Series 2012A Bonds and the Series 2012C Bonds. If an audit is commenced, under current procedures the Service may treat the City as a taxpayer and the Series 2012A Bondholders and the Series 2012C Bondholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Series 2012A Bonds and the Series 2012C Bonds until the audit is concluded, regardless of the ultimate outcome.

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax-exempt obligations, including the Series 2012A Bonds and the Series 2012C Bonds, are in certain cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any Series 2012A Bond owner or any Series 2012C Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Series 2012A Bond owner or any Series 2012C Bond owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

The Taxable Series 2012B Bonds

Interest on the Taxable Series 2012B Bonds is not excludable from gross income of the owners thereof for federal income purposes. Ownership of the Taxable Series 2012B Bonds may result in other federal income tax consequences to certain taxpayers. Taxable Series 2012B Bondholders should consult their tax advisors with respect to the inclusion of interest on the Taxable Series 2012B Bonds in gross income for federal income tax purposes and any collateral tax consequences.

State and Local Considerations

Interest on the Bonds is not exempt from present State of Illinois income taxes. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Co-Bond Counsel express no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

APPROVAL OF LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approving legal opinions of Co-Bond Counsel, who have been retained by, and act as, Bond Counsel to the City. Except as noted below, Co-Bond Counsel have not been retained or consulted on disclosure matters and have not undertaken to review or verify the accuracy, completeness or sufficiency of this Official Statement or other offering material relating to the Bonds and assume no responsibility for the statements or information contained in or incorporated by reference in this Official Statement, except that Co-Bond Counsel have, at the request and for the benefit of the City, reviewed only those portions of the Official Statement involving the description of the Bonds, the security for the Bonds (excluding forecasts, projections, estimates or any other financial or economic information in connection therewith) and the description of the federal tax status of interest on the Bonds. This review was undertaken solely at the request of the City and did not include any obligation to establish or confirm factual matters set forth herein. Certain legal matters will be passed on for the City by its Corporation Counsel. Certain legal matters will be passed on for the Underwriters by Ungaretti & Harris LLP, Chicago, Illinois, and Golden Holley James LLP, Chicago, Illinois, Co-Underwriters' Counsel.

SECONDARY MARKET DISCLOSURE

The City will enter into a Continuing Disclosure Undertaking (the "Undertaking") for the benefit of the beneficial owners of the Bonds to send certain information annually and to provide notice of certain events to the Municipal Securities Rulemaking Board (the "MSRB") pursuant to the requirements of Section (b)(5) of Rule 15c2-12 (the "Rule") adopted by the Commission under the Exchange Act. The MSRB has designated its Electronic Municipal Market Access system, known as EMMA, as the system to be used for continuing disclosures to investors. The information to be provided on an annual basis, the events that will be noticed on an occurrence basis and a summary of other terms of the Undertaking, including termination, amendment and remedies, are set forth below.

A failure by the City to comply with the Undertaking will not constitute a default under the Bonds or the Bond Ordinance and beneficial owners of the Bonds are limited to the remedies described in the Undertaking. See "— Consequences of Failure of the City to Provide Information" under this caption. A failure by the City to comply with the Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

The following is a brief summary of certain provisions of the Undertaking of the City and does not purport to be complete. The statements made under this caption are subject to the detailed provisions of the Undertaking, a copy of which is available upon request from the City.

Annual Financial Information Disclosure

The City covenants that it will disseminate its Annual Financial Information and its Audited Financial Statements (as described below) to the MSRB. The City is required to deliver such information so that the MSRB receives the information by the dates specified in the Undertaking.

"Annual Financial Information" means information generally consistent with that contained under the caption "THE CITY — Corporate Fund" and in APPENDIX B — "FINANCIAL AND OTHER CITY INFORMATION," APPENDIX D — "ECONOMIC, DEMOGRAPHIC AND SUPPLEMENTAL INFORMATION" (except for the information in APPENDIX D under the headings "— Economic Highlights" and "— Housing Market," and information relating to population, per capita personal income and unemployment rate with respect to the United States, the State of Illinois and Cook County) and Tables 1-11 included in APPENDIX E — "RETIREMENT FUNDS AND OTHER POST-EMPLOYMENT BENEFITS" (said tables collectively referred to as the "Third-Party Sourced Retirement Fund Tables"). The information contained in the Third-Party Sourced Retirement Fund Tables is sourced from documents published by the Municipal Employees' Annuity and Benefit Fund of Chicago, the Policemen's Annuity and Benefit Fund of Chicago, the Firemen's Annuity and Benefit Fund of Chicago and the Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago, and the City takes no responsibility for the accuracy and completeness of such information. If the information contained in the Third-Party Sourced Retirement Fund Tables is no longer publicly available or is not publicly available in the form, manner or time that the Annual Financial Information is required to be disseminated by the City, the City shall, as part of its Annual Financial Information for the year in which such a lack of availability arises, include a statement to that effect and to the effect that it will promptly file such information as it becomes available.

"Audited Financial Statements" means the audited basic financial statements of the City prepared in accordance with generally accepted accounting principles applicable to governmental units as in effect from time to time.

Annual Financial Information exclusive of Audited Financial Statements will be provided to the MSRB not more than 210 days after the last day of the City's fiscal year, which currently is December 31.

If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements will be included, and Audited Financial Statements will be filed when available.

Reportable Events Disclosure

The City covenants that it will disseminate in a timely manner, not in excess of ten business days, to the MSRB the disclosure of the occurrence of a Reportable Event (defined below). Certain Reportable Events are required to be disclosed only to the extent that such Reportable Event is material, as materiality is interpreted under the Exchange Act. The "Reportable Events," certain of which may not be applicable to the Bonds, are:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults, if material;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, notices of proposed issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2012A Bonds or the Series 2012C Bonds, or other material events affecting the tax status of the Series 2012A Bonds or the Series 2012C Bonds;
- (g) modifications to rights of security holders, if material;
- (h) bond calls, if material, and tender offers;
- (i) defeasances;
- (j) release, substitution or sale of property securing repayment of the securities, if material;
- (k) rating changes;
- (l) bankruptcy, insolvency, receivership or similar event of the City (considered to have occurred in the following instances: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if the jurisdiction of the City has been assumed by leaving the City Council and the City's officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City);
- (m) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

Consequences of Failure of the City to Provide Information

The City shall give notice in a timely manner to the MSRB of any failure to provide disclosure of Annual Financial Information and Audited Financial Statements when the same are due under the Undertaking.

In the event of a failure of the City to comply with any provision of the Undertaking, the beneficial owner of any Bond may seek mandamus or specific performance by court order, to cause the City to comply with its obligations under the Undertaking. The Undertaking provides that any court action must be initiated in the Circuit Court. A default under the Undertaking shall not be deemed a default under the Bonds or the Bond Ordinance, and the sole remedy under the Undertaking in the event of any failure of the City to comply with the Undertaking shall be an action to compel performance.

The City is currently in compliance with undertakings previously entered into by it pursuant to the Rule. The City has had to take corrective action with respect to its undertakings for its Single Family Mortgage Revenue Bonds issued from 1996 to 2002. See "—Corrective Action Related to Certain Bond Disclosure Requirements" below.

Except as noted in "—Corrective Action Related to Certain Bond Disclosure Requirements" below, the City is currently in compliance with undertakings previously entered into by it pursuant to the Rule.

Amendment; Waiver

Notwithstanding any other provision of the Undertaking, the City may amend the Undertaking, and any provision of the Undertaking may be waived, if:

(a) (i) the amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the City or type of business conducted;

(ii) the Undertaking, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) the amendment or waiver does not materially impair the interests of the beneficial owners of the Bonds, as determined by a party unaffiliated with the City (such as the Bond Registrar or co-bond counsel), or by approving vote of the owners of the Bonds at the time of the amendment or waiver; or

(b) the amendment or waiver is otherwise permitted by the Rule.

EMMA

All documents submitted to the MSRB through EMMA pursuant to the Undertaking shall be in electronic format and accompanied by identifying information as prescribed by the MSRB, in accordance with the Rule. All documents submitted to the MSRB through EMMA will be word-searchable PDFs, configured to permit documents to be saved, viewed, printed and electronically retransmitted.

Termination of Undertaking

The Undertaking shall be terminated if the City shall no longer have any legal liability for any obligation on or relating to repayment of the Bonds. If this provision is applicable, the City shall give notice in a timely manner to the MSRB.

Additional Information

Nothing in the Undertaking shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in the Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Audited Financial Statements or notice of occurrence of a Reportable Event, in addition to that which is required by the Undertaking. If the City chooses to include any information in any Annual Financial Information or Audited Financial Statements or notice of occurrence of a Reportable Event in addition to that which is specifically required by the Undertaking, the City shall have no obligation under the Undertaking to update such information or include it in any future Annual Financial Information or Audited Financial Statements or notice of occurrence of a Reportable Event.

Corrective Action Related to Certain Bond Disclosure Requirements

While the City is currently in compliance with respect to its undertakings to file Annual Financial Information relating to all previously issued bonds and notes in accordance with the Rule, the City and the dissemination agent for the City's Collateralized Single Family Mortgage Revenue Bonds issued from 1996 to 2002 (the "Single Family Mortgage Bonds") did not distribute annual bond disclosure reports for the Single Family Mortgage Bonds in a timely manner as required by Section (b)(5) of the Rule. The City has filed current annual bond disclosure reports for the Single Family Mortgage Bonds with the trustee for the Single Family Mortgage Bonds and such trustee has disseminated such reports to each Nationally Recognized Municipal Securities Information Repository then recognized by the Commission for purposes of the Rule with respect to those previously issued Single Family Mortgage Bonds and, except as noted below, has complied with the Rule for Collateralized Single Family Mortgage Revenue Bonds issued subsequent to 2002.

With respect to the City's Collateralized Single Family Mortgage Revenue Bonds, Series 2006A (the "Series 2006A Bonds"), S&P lowered its rating on the Series 2006A Bonds from "AA+" to "AA" and placed the Series 2006A Bonds on "Credit Watch with negative implications" effective December 16, 2011. The City did not cause the trustee as dissemination agent to file a notice of an Event with EMMA at that time. Subsequently, S&P upgraded the rating on the Series 2006A Bonds from "AA" to "AA+" effective March 12, 2012. On March 18, 2012, S&P removed the "Credit Watch with negative implications" characterization from the Series 2006A Bonds. The City caused the trustee, as dissemination agent, for the Series 2006A Bonds to file a notice of an Event with EMMA on March 26, 2012 disclosing the downgrade and subsequent upgrade of the Series 2006A Bonds by S&P.

With respect to the City's Chicago O'Hare International Airport General Airport Third Lien Revenue Bonds, Series 2011, American Airlines is an "obligated person" with respect to such bonds. On November 29, 2011, AMR Corporation (the parent company of American Airlines and American Eagle) and certain of its United States-based subsidiaries (including American Airlines and American Eagle) filed voluntary petitions for Chapter 11 reorganization in the United States Bankruptcy Court for the Southern District of New York. The City filed a notice with EMMA with respect to this event on March 30, 2012 (not within the ten business-day deadline imposed by the Rule).

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MISCELLANEOUS

The foregoing summaries or descriptions of provisions of the Bond Ordinance and the Undertaking and all references to other materials not purporting to be quoted in full, are qualified in their entirety by reference to the complete provisions of the documents and other materials summarized or described. Copies of these documents may be obtained from the Chief Financial Officer of the City.

The Bonds are authorized and are being issued pursuant to the City Council's approval under the powers of the City as a home rule unit under Article VII of the Illinois Constitution of 1970. This Official Statement has been authorized by the City Council.

CITY OF CHICAGO

By: /s/ Lois A. Scott
Chief Financial Officer

APPENDIX A

CITY OF CHICAGO

REAL PROPERTY TAX SYSTEM AND LIMITS

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Real Property Assessment, Tax Levy and Collection Procedures

General. Information under this caption provides a general summary of the current procedures for real property assessment, tax levy and tax collection in Cook County (the "County"). The following is not an exhaustive discussion, nor can there be any assurance that the procedures described under this caption will not be changed either retroactively or prospectively. The Illinois laws relating to real property taxation are contained in the Illinois Property Tax Code (the "Property Tax Code").

Substantially all (approximately 99.99 percent) of the "Equalized Assessed Valuation" (described below) of taxable property in the City is located in the County. The remainder is located in DuPage County. Accordingly, unless otherwise indicated, the information set forth under this caption and elsewhere in this Official Statement with respect to taxable property in the City does not reflect the portion situated in DuPage County.

Assessment. The Cook County Assessor (the "Assessor") is responsible for the assessment of all taxable real property within the County, except for certain railroad property and pollution control equipment assessed directly by the State. One-third of the real property in the County is reassessed each year on a repeating triennial schedule established by the Assessor. The City was last reassessed in 2009. The suburbs in the northern and northwestern portions of the County were reassessed in 2010. The suburbs in the western and southern portions of the County are being reassessed in 2011. The City will next be reassessed in 2012.

Real property in the County is separated into various classifications for assessment purposes. After the Assessor establishes the fair cash value of a parcel of land, that value is multiplied by one of the classification percentages to arrive at the assessed valuation (the "Assessed Valuation") for the parcel. Beginning with the 2009 tax year, the classification percentages range from 10 to 25 percent depending on the type of property (e.g., residential, industrial, commercial) and whether it qualifies for certain incentives for reduced rates. For prior years, the classification percentages ranged from 16 to 38 percent.

The Cook County Board of Commissioners has adopted various amendments to the County's Real Property Assessment Classification Ordinance (the "Classification Ordinance"), pursuant to which the Assessed Valuation of real property is established. Among other things, these amendments have reduced certain property classification percentages, lengthened certain renewal periods of classifications and created new property classifications.

The Assessor has established procedures enabling taxpayers to contest the Assessor's tentative Assessed Valuations. Once the Assessor certifies final Assessed Valuations, a taxpayer can seek review of its assessment by the Cook County Board of Review (the "Board of Review"). The Board of Review has powers to review and adjust Assessed Valuations set by the Assessor. Owners of property are able to appeal decisions of the Board of Review to the Illinois Property Tax Appeal Board (the "PTAB"), a state-wide administrative body, or to the Circuit Court of Cook County (the "Circuit Court"). The PTAB has the power to determine the Assessed Valuation of real property based on equity and the weight of the evidence. Based on the amount of the proposed change in assessed valuation, taxpayers may appeal decisions of the PTAB to either the Circuit Court or the Illinois Appellate Court under the Illinois Administrative Review Law.

In a series of PTAB decisions, the PTAB reduced the assessed valuations of certain commercial and industrial property in the County based upon the application of median levels of assessment derived from Illinois Department of Revenue sales-ratio studies instead of utilizing the assessment percentages provided in the Classification Ordinance. On appeal, the Illinois Appellate Court determined that it was

improper for the PTAB, on its own initiative, to use the sales-ratio studies when such studies were not even raised as an issue by the taxpayer before the Board of Review or in its appeal to the PTAB.

The Appellate Court decisions do not preclude a taxpayer in a properly presented case from introducing into evidence sales-ratio studies for the purpose of obtaining an assessment below that which would result from application of the Classification Ordinance. No prediction can be made whether any currently pending or future case would be successful. The City believes that the impact of any such case on the City would be minimal, as the City's ability to levy or collect real property taxes would be unaffected.

As an alternative to seeking review of Assessed Valuations by the PTAB, taxpayers who have first exhausted their remedies before the Board of Review may file an objection in the Circuit Court. The City filed a petition to intervene in certain of these proceedings for the first time in 2003, but the Circuit Court denied the City's petition in early 2004. The City appealed the Circuit Court decision. On appeal, the Circuit Court decision was reversed and the matter was remanded to the Circuit Court with instructions to allow the City to proceed with its petitions to intervene. In addition, in cases where the Assessor agrees that an assessment error has been made after tax bills have been issued, the Assessor can correct the Assessed Valuation, and thus reduce the amount of taxes due, by issuing a Certificate of Error.

Equalization. After the Assessed Valuation for each parcel of real estate in a county has been determined for a given year including any revisions made by the Board of Review, the Illinois Department of Revenue reviews the assessments and determines an equalization factor (the "Equalization Factor"), commonly called the "multiplier," for each county. The purpose of equalization is to bring the aggregate assessed value of all real property, except farmland and undeveloped coal, in each county to the statutory requirement of 33-1/3 percent of estimated fair cash value. Adjustments in Assessed Valuation made by the PTAB or the courts are not reflected in the Equalization Factor. The Assessed Valuation of each parcel of real estate in the County is multiplied by the County's Equalization Factor to determine the parcel's equalized assessed valuation (the "Equalized Assessed Valuation").

The Equalized Assessed Valuation for each parcel is the final property valuation used for determination of tax liability. The aggregate Equalized Assessed Valuation for all parcels in any taxing body's jurisdiction, after reduction for all applicable exemptions, plus the valuation of property assessed directly by the State, constitutes the total real estate tax base for the taxing body and is the figure used to calculate tax rates (the "Assessment Base"). The Equalization Factor for a given year is used in computing the taxes extended for collection in the following year. The Equalization Factors for each of the last 11 tax levy years, from 2000 through 2010 (the most recent years available), are listed in APPENDIX B in the table captioned "Property Tax Information."

In 1991, legislation was enacted by the State which provided that for 1992 and for subsequent years' tax levies, the Equalized Assessed Valuation used to determine any applicable tax limits is the one for the immediately preceding year and not the current year. This legislation impacts taxing districts with rate limits only and currently does not apply to the City. See "— Property Tax Limit Considerations" below.

Exemptions. The Illinois Constitution allows homestead exemptions for residential property. Pursuant to the Illinois Property Tax Code, property must be occupied by the owner as a principal residence on January 1 of the tax year for which the exemption will be claimed.

The annual general homestead exemption provides for the reduction of the Equalized Assessed Valuation ("EAV") of certain property owned and used exclusively for residential purposes by the amount of the increase over the 1977 EAV, up to a maximum reduction of \$6,000. There is an additional

homestead exemption for senior citizens (individuals at least 65 years of age), for whom the Assessor is authorized to reduce the EAV by \$4,000. A recent amendment to this exemption requires senior citizens to reapply for it on an annual basis. An additional exemption is available for homes owned and exclusively used for residential purposes by disabled veterans or their spouses, for whom the Assessor is authorized to annually exempt up to \$70,000 of the Assessed Valuation. An exemption is available for homestead improvements by an owner of a single family residence of up to \$75,000 of the increase in the fair cash value of a home due to certain home improvements to an existing structure for at least four years from the date the improvement is completed and occupied. Senior citizens whose household income is \$55,000 or less, and who are either the owner of record or have a legal or equitable interest in the property, qualify to have the EAV of their property frozen in the year in which they first qualify for the so-called "freeze" and each year thereafter in which the qualifying criteria are maintained.

On July 12, 2004, the Property Tax Code was amended to permit each county in the State, by enacting an ordinance within six months of the effective date of the law, to limit future increases in the taxable value of residential property in such a county to an annual increase of not more than 7% per year. This is known as the Alternative Homestead Exemption. Upon adoption of such an ordinance, homestead property will generally be entitled to an annual homestead exemption equal to the difference between the property's EAV and the property's "adjusted homestead value." The County adopted an ordinance electing to be governed by this law. The exemption provided for under this law cannot exceed \$20,000 in any taxable year. The purpose of the law is to reduce the increase in the taxable value of residential property that otherwise occurs when home values rise rapidly.

In 2007, the Alternative Homestead Exemption law enacted in 2004 was allowed to sunset. Later in 2007, Public Act 95-0644 was enacted, which extended the Alternative Homestead Exemption law for an additional three years, subject to certain revisions and adjustments to the prior law. The extension enacted in 2007 expired for properties located in the City with the 2008 assessment. On May 1, 2011, Public Act 96-1418 was enacted to extend the Alternative Homestead Exemption for three more years. The maximum exemption is \$20,000 for the first year, \$16,000 for the second year, and \$12,000 for the third year. The exemption would be applied over a three-year period: 2009 through 2011 in the City, 2010 through 2012 in the northern and northwestern portions of the County and 2011 through 2013 in the western and southern portions of the County.

In October 2004, the Chicagoland Chamber of Commerce, along with multiple other plaintiffs, filed a Complaint for Declaratory and Injunctive Relief in the Circuit Court, requesting the court to enter an order declaring the 2004 Alternative Homestead Exemption law unconstitutional and enjoining the application and enforcement of its provisions. (The Chicagoland Chamber of Commerce, et. al. v. Maria Pappas, et. al., 04 CH 16874). On April 22, 2005, the circuit court dismissed the complaint, and that ruling was appealed. On appeal, the Appellate Court affirmed the decision of the Circuit Court.

Aside from homestead exemptions, upon application, review and approval by the Board of Review, or upon an appeal to the Illinois Department of Revenue, there are exemptions generally available for properties of religious, charitable, and educational organizations, as well as units of federal, state and local governments.

Additionally, counties have been authorized to create special property tax exemptions in long-established residential areas or in areas of deteriorated, vacant or abandoned homes and properties. Under such an exemption, long-time, residential owner-occupants in eligible areas would be entitled to a deferral or exemption from that portion of property taxes resulting from an increase in market value because of refurbishment or renovation of other residences or construction of new residences in the area. On June 5, 2001, the County enacted the Longtime Homeowner Ordinance, which provides property tax relief from dramatic rises in property taxes directly or indirectly attributable to gentrification in the form of an

exemption. This is generally applicable to homeowners: (i) who have resided in their homes for 10 consecutive years (or five consecutive years for homeowners who have received assistance in the acquisition of the property as part of a government or nonprofit housing program), (ii) whose annual household income for the year of the homeowner's triennial assessment does not exceed 115 percent of the Chicago Primary Metropolitan Statistical Area median income as defined by the United States Department of Housing and Urban Development, (iii) whose property has increased in assessed value to a level exceeding 150 percent of the current average assessed value for properties in the assessment district where the property is located, and (iv) who, for any triennial assessment cycle, did not cause a substantial improvement which resulted in an increase in the property's fair cash value in excess of the \$45,000 allowance set forth in the Property Tax Code.

Tax Levy. There are over 800 units of local government (the "Units") located in whole or in part in the County that have taxing power. The major Units having taxing power over property within the City are the City, the Chicago Park District, the Board of Education of the City of Chicago, the School Finance Authority, Community College District No. 508, the Metropolitan Water Reclamation District of Greater Chicago, the County and the Forest Preserve District of Cook County.

As part of the annual budgetary process of the Units, each year in which the determination is made to levy real estate taxes, proceedings are adopted by the governing body for each Unit. The tax levy proceedings impose the Units' respective real estate taxes in terms of a dollar amount. Each Unit certifies its real estate tax levy, as established by the proceedings, to the County Clerk's Office. The remaining administration and collection of the real estate taxes is statutorily assigned to the County Clerk and the County Treasurer, who is also the County Collector (the "County Collector").

After the Units file their annual tax levies, the County Clerk computes the annual tax rate for each Unit by dividing the levy of each Unit by the Assessment Base of the respective Unit. If any tax rate thus calculated or any component of such a tax rate (such as a levy for a particular fund) exceeds any applicable statutory rate limit, the County Clerk disregards the excessive rate and applies the maximum rate permitted by law.

The County Clerk then computes the total tax rate applicable to each parcel of real property by aggregating the tax rates of all the Units having jurisdiction over the particular parcel. The County Clerk enters in the books prepared for the County Collector (the "Warrant Books") the tax (determined by multiplying that total tax rate by the Equalized Assessed Valuation of that parcel), along with the tax rates, the Assessed Valuation and the Equalized Assessed Valuation. The Warrant Books are the County Collector's authority for the collection of taxes and are used by the County Collector as the basis for issuing tax bills to all property owners.

The Illinois Truth in Taxation Law (the "Truth in Taxation Law") contained within the Property Tax Code imposes procedural limitations on a Unit's real estate taxing powers and requires that notice in prescribed form must be published if the aggregate annual levy is estimated to exceed 105 percent of the levy of the preceding year, exclusive of levies for debt service, levies made for the purpose of paying amounts due under public building commission leases and election costs. A public hearing must also be held, which may not be in conjunction with the budget hearing of the Unit on the adoption of the annual levy. No amount in excess of 105 percent of the preceding year's levy may be used as the basis for issuing tax bills to property owners unless the levy is accompanied by certification of compliance with the foregoing procedures. The Truth in Taxation Law does not impose any limitations on the rate or amount of the levy to pay principal of and interest on the general obligations bonds and notes of the City.

Collection. Property taxes are collected by the County Collector, who remits to each Unit its share of the collections. Taxes levied in one year become payable during the following year in two

installments, the first due on March 1 and the second on the later of August 1 or 30 days after the mailing of the tax bills. The first installment is an estimated bill calculated at 55% of the prior year's tax bill. The second installment is for the balance of the current year's tax bill, and is based on the current levy, assessed value and Equalization Factor and applicable tax rates, and reflects any changes from the prior year in those factors. Taxes on railroad real property used for transportation purposes are payable in one lump sum on the same date as the second installment.

The following table sets forth the second installment penalty date during the last 10 years; the first installment penalty date has been March 2 for all years.

| Second Installment | |
|--------------------|-------------------|
| Tax Year | Penalty Date |
| 2010 | November 1, 2011 |
| 2009 | December 13, 2010 |
| 2008 | December 1, 2009 |
| 2007 | November 3, 2008 |
| 2006 | December 3, 2007 |
| 2005 | September 1, 2006 |
| 2004 | November 1, 2005 |
| 2003 | November 15, 2004 |
| 2002 | October 1, 2003 |
| 2001 | November 1, 2002 |

The County may provide for tax bills to be payable in four installments instead of two. The County has not determined to require payment of tax bills in four installments. During the periods of peak collections, tax receipts are forwarded to each Unit not less than weekly.

At the end of each collection year, the County Collector presents the Warrant Books to the Circuit Court and applies for a judgment for all unpaid taxes. The court order resulting from the application for judgment provides for an annual sale of all unpaid taxes shown on the year's Warrant Books (the "Annual Tax Sale"). The Annual Tax Sale is a public sale, at which time successful tax buyers pay the unpaid taxes plus penalties. Unpaid taxes accrue penalties at the rate of 1.5 percent per month from their due date until the date of sale. Taxpayers can redeem their property by paying the amount paid at the sale, plus an additional penalty fee calculated from the penalty bid at sale times a certain multiplier based on each six-month period after the sale. If no redemption is made within the applicable redemption period (ranging from six months to two and one-half years depending on the type and occupancy of the property) and the tax buyer files a petition in Circuit Court, notifying the necessary parties in accordance with applicable law, the tax buyer receives a deed to the property. In addition, there are miscellaneous statutory provisions for foreclosure of tax liens.

If there is no sale of the tax lien on a parcel of property at the Annual Tax Sale, the taxes are forfeited and eligible to be purchased at any time thereafter at an amount equal to all delinquent taxes, interest and certain other costs to the date of purchase. Redemption periods and procedures are the same as applicable to the Annual Tax Sale, except that a different penalty rate may apply depending on the length of the redemption period.

A scavenger sale (the "Scavenger Sale"), like the Annual Tax Sale, is a sale of unpaid taxes. A Scavenger Sale must be held, at a minimum, every two years on all property in which taxes are delinquent for two or more years. The sale price of the unpaid taxes is the amount bid at the Scavenger Sale, which

may be less than the amount of the delinquent taxes. Redemption periods vary from six months to two and one-half years depending upon the type and occupancy of the property.

The annual appropriation ordinance of the City has a provision for an allowance for uncollectible taxes. The City reviews this provision annually to determine whether adjustments are appropriate. For tax year 2010, collectible in 2011, the allowance for uncollectible taxes is about four percent of the gross tax levy. For financial reporting purposes, uncollected taxes are written off by the City after four years, but are fully reserved after one year.

Property Tax Limit Considerations

State Legislation. As described above under "Real Property Assessment, Tax Levy and Collection Procedures — Exemptions," the Alternative Homestead Exemption was recently extended for an additional three years.

State of Illinois. The Property Tax Code limits (a) the amount of property taxes that can be extended for non-home rule units of local government located in the County and five adjacent counties and (b) the ability of those entities to issue general obligation bonds without voter approval (collectively, the "State Tax Cap"). Generally, the extension of property taxes for a unit of local government subject to the State Tax Cap may increase in any year by five percent or the percent increase in the Consumer Price Index for the preceding year, whichever is less, or the amount approved by referendum. The State Tax Cap does not apply to "limited bonds" payable from a unit's "debt service extension base" or to "double-barreled alternate bonds" issued pursuant to Section 15 of the Local Government Debt Reform Act.

As a home rule unit of government, the City is not subject to the State Tax Cap. Under the Illinois Constitution of 1970, the enactment of legislation applying the State Tax Cap to the City and other home rule municipalities would require a law approved by the vote of three-fifths of the members of each house of the Illinois General Assembly and the concurrence of the Governor of the State of Illinois. It is not possible to predict whether, or in what form, any property tax limitations applicable to the City would be enacted by the Illinois General Assembly. The adoption of any such limits on the extension of real property taxes by the Illinois General Assembly may, in future years, adversely affect the City's ability to levy property taxes to finance operations at current levels and the City's power to issue additional general obligation debt without the prior approval of voters.

State law imposes certain notice and public hearing requirements on non-home rule units of local government that propose to issue general obligation debt. These requirements do not apply to the City.

The City. In 1993, the City Council of the City adopted an ordinance (the "City Tax Limitation Ordinance") limiting, beginning in 1994, the City's aggregate property tax levy to an amount equal to the prior year's aggregate property tax levy (subject to certain adjustments) plus the lesser of (a) five percent or (b) the percentage increase in the annualized Consumer Price Index for all urban consumers for all items, as published by the United States Department of Labor, during the 12-month period most recently announced prior to the filing of the preliminary budget estimate report. The City Tax Limitation Ordinance also provides that such limitation shall not reduce that portion of each levy attributable to the greater of: (i) for any levy year, interest and principal on general obligation notes and bonds of the City outstanding on January 1, 1994, to be paid from collections of the levy made for such levy year, or (ii) \$395,255,686, the amount of the aggregate interest and principal payments on the City's general obligation bonds and notes during the 12-month period ended January 1, 1994, subject to annual increase in the manner described above for the aggregate levy (the "Safe Harbor"). Additional safe harbors are provided for portions of any levy attributable to payments under installment contracts or public building

commission leases or attributable to payments due as a result of the refunding of general obligation bonds or notes or of such installment contracts or leases.

The tax limits set forth in the City Tax Limitation Ordinance may in future years adversely affect the City's ability to finance operations at current levels and limit the ability of the City to finance capital improvement projects through the issuance of property-tax-supported bonds.

Pursuant to the Bond Ordinance, the taxes levied by the City for the payment of principal and interest on the Bonds is not subject to the limitations contained in the City Tax Limitation Ordinance.

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APPENDIX B
CITY OF CHICAGO
FINANCIAL AND OTHER INFORMATION

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PROPERTY TAX INFORMATION

The following tables present statistical data regarding the City's property tax base, tax rates, tax levies and tax collections.

Assessed, Equalized Assessed and Estimated Value of All Taxable Property 2000 - 2010 (Dollars in Thousands)

| Tax Levy Year ² | Assessed Value ¹ | | | | | State Equalization Factor ⁷ | Total Equalized Assessed Value ⁸ | Total Direct Tax Rate | Total Estimated Fair Cash Value ⁹ | Total Equalized Assessed Value as a Percentage of Total Estimated Fair Cash Value |
|----------------------------------|-----------------------------|----------------------|----------------------|--------------------|--------------|--|--|--------------------------------|---|--|
| | Class 2 ³ | Class 3 ⁴ | Class 5 ⁵ | Other ⁶ | Total | | | | | |
| 2000 | \$8,758,682 | \$1,966,921 | \$8,807,444 | \$342,943 | \$19,875,990 | 2.2235 | \$40,480,077 | \$1.660 | \$162,593,364 | 24.90% |
| 2001 | 8,973,796 | 1,923,256 | 8,757,366 | 354,036 | 20,008,454 | 2.3098 | 41,981,912 | 1.637 | 185,912,246 | 22.58 |
| 2002 | 9,221,622 | 1,865,646 | 8,878,142 | 349,372 | 20,314,782 | 2.4689 | 45,330,892 | 1.591 | 201,938,231 | 22.45 |
| 2003 | 12,677,199 | 2,233,572 | 10,303,732 | 487,680 | 25,702,183 | 2.4598 | 53,168,632 | 1.380 | 223,572,427 | 23.78 |
| 2004 | 12,988,216 | 1,883,048 | 10,401,429 | 465,462 | 25,738,155 | 2.5757 | 55,277,096 | 1.302 | 262,080,627 | 21.09 |
| 2005 | 13,420,538 | 1,842,613 | 10,502,698 | 462,099 | 26,227,948 | 2.7320 | 59,304,530 | 1.243 | 283,137,884 | 20.95 |
| 2006 | 18,521,873 | 2,006,898 | 12,157,149 | 688,868 | 33,374,788 | 2.7076 | 69,511,192 | 1.062 | 329,770,733 | 21.08 |
| 2007 | 18,937,256 | 1,768,927 | 12,239,086 | 678,196 | 33,623,465 | 2.8439 | 73,645,316 | 1.044 | 320,503,503 | 22.98 |
| 2008 | 19,339,574 | 1,602,769 | 12,359,536 | 693,239 | 33,995,118 | 2.9786 | 80,977,543 | 1.030 | 310,888,609 | 26.05 |
| 2009 | 18,311,981 | 1,812,850 | 10,720,244 | 592,364 | 31,437,439 | 3.3701 | 84,586,808 | 0.986 | 280,288,730 | 30.21 |
| 2010 ¹⁰ | — | — | — | — | — | 3.3000 | 82,087,170 | 1.016 | — | — |

¹ Source: Cook County Assessor's Office. Excludes portion of City in DuPage County.

² Taxes for each year become due and payable in the following year. For example, taxes for the 2010 tax levy became due and payable in 2011.

³ Residential, six units and under.

⁴ Residential, seven units and over and mixed-use.

⁵ Industrial/commercial.

⁶ Vacant, not-for-profit and industrial/commercial incentive classes.

⁷ Source: Illinois Department of Revenue.

⁸ Source: Cook County Clerk's Office. Calculations are net of exemptions and exclude portions of the City in DuPage County. Calculations also include assessment of pollution control facilities and railroad property.

⁹ Source: The Civic Federation. Excludes railroad property, pollution control facilities and portion of City in DuPage County.

¹⁰ Complete 2010 information not available at time of publication.

**Property Taxes for All City Funds, Collections and Estimated Allowance
for Uncollectible Taxes 2002 – 2011¹**
(Dollars in Thousands)

| Tax Levy Year ² | Total Tax Levy for Fiscal Year ³ | Collections within Fiscal Year | | Collections in Subsequent Years | Total Collections to Date | | Estimated Allowance for Uncollectible Taxes | • Net Outstanding Taxes Receivable |
|----------------------------------|--|-----------------------------------|-----------------------|---------------------------------------|---------------------------------------|---|--|---|
| | | Amount | Percentage of Levy | | Total Tax Collections ⁴ | Percent of Total Tax Collections to Tax Levy | | |
| 2002 | \$707,181 | \$676,997 | 95.7% | \$ 13,020 | \$690,017 | 97.6% | \$17,164 | - |
| 2003 | 719,695 ⁵ | 674,325 | 93.7 | 24,645 | 698,970 | 97.1 | 20,725 | - |
| 2004 | 719,780 ⁵ | 694,214 | 96.4 | 8,157 | 702,371 | 97.6 | 17,409 | - |
| 2005 | 718,071 ⁵ | 694,593 | 96.7 | 6,584 | 701,177 | 97.6 | 16,894 | - |
| 2006 | 719,230 ⁵ | 630,666 | 87.7 | 63,373 | 694,039 | 96.5 | 25,191 | - |
| 2007 | 749,351 ⁵ | 712,008 | 95.0 | 19,532 | 731,540 | 97.6 | 17,811 | - |
| 2008 | 834,152 ⁵ | 776,522 | 93.1 | 42,708 | 819,230 | 98.2 | 14,624 | \$ 298 |
| 2009 | 834,109 ⁵ | 700,579 | 84.0 | 120,867 | 821,446 | 98.5 | 2,370 | 10,293 |
| 2010 | 834,089 ⁵ | 778,588 | 93.3 | 20,410 | 798,998 | 95.8 | 1,404 | 33,687 |
| 2011 | 833,499 ⁵ | 416,808 | 50.0 | - | 416,808 | 50.0 | 16,668 | 400,023 |

¹ Source: Cook County Clerk's Office

² Taxes for each year become due and payable in the following year. For example, taxes for the 2010 tax levy become due and payable in 2011.

³ Does not include the levy for the Special Services Areas and net of collections for Tax Increment Financing Districts.

⁴ Reflects tax collections through April 30, 2012.

⁵ Does not include the levy for the Schools Building and Improvement Fund, which is accounted for in an agency fund.

Property Tax Rates By Fund Per \$100 Of Equalized Assessed Valuation 2001-2010¹

| Tax Levy Year | Tax Extension (in thousands)² | Bond, Note Redemption and Interest³ | Policemen's Annuity and Benefit | Municipal Employees' Annuity and Benefit | Firemen's Annuity and Benefit | Laborers' and Retirement Board Employees' Annuity and Benefit | Total |
|------------------------------|---|---|--|---|--|--|--------------|
| 2001 | \$687,381 | \$0.942710 | \$0.289912 | \$0.277774 | \$0.126603 | — | \$1.637 |
| 2002 | 707,181 | 0.943061 | 0.271463 | 0.259848 | 0.116628 | — | 1.591 |
| 2003 | 719,695 ⁴ | 0.831169 | 0.230466 | 0.218316 | 0.100049 | — | 1.380 |
| 2004 | 719,780 ⁴ | 0.760676 | 0.216752 | 0.229048 | 0.095524 | — | 1.302 |
| 2005 | 718,071 ⁴ | 0.696607 | 0.231467 | 0.231683 | 0.083243 | — | 1.243 |
| 2006 | 719,230 ⁴ | 0.569261 | 0.194953 | 0.197399 | 0.099974 | — | 1.062 |
| 2007 | 749,351 ⁴ | 0.588843 | 0.191548 | 0.174302 | 0.088581 | — | 1.044 |
| 2008 | 834,152 ⁴ | 0.602842 | 0.172426 | 0.162182 | 0.080787 | \$0.011763 | 1.030 |
| 2009 | 834,109 ⁴ | 0.570806 | 0.167552 | 0.153704 | 0.078184 | 0.015754 | 0.986 |
| 2010 ⁵ | 834,089 ⁴ | 0.588724 | 0.170734 | 0.161435 | 0.078352 | 0.016705 | 1.016 |

¹ Source: Cook County Clerk's Office.

² Does not include levy for Special Service Areas and net of collections for Tax Increment Financing districts.

³ Includes rates from the Chicago Public Library Bond, Note Redemption and Interest Fund.

⁴ Does not include the levy for the Schools Building and Improvement Fund, which is accounted for in an agency fund.

⁵ 2011 information not available at time of publication.

**Combined Property Tax Rates of the City and Other Major Governmental
Units Per \$100 of Equalized Assessed Valuation 2001-2010¹**

| Tax Levy Year | City | City of Chicago School Building & Improvement Fund | Chicago School Finance Authority | Board of Education | City Colleges of Chicago | Chicago Park District | Metropolitan Water Reclamation District | Forest Preserve District of Cook County | Cook County | Total |
|------------------------------|-------------|---|---|-------------------------------|---|--------------------------------------|--|--|------------------------|--------------|
| 2001 | \$1.637 | - | \$0.223 | \$3.744 | \$0.307 | \$0.567 | \$0.401 | \$0.067 | \$0.746 | \$7.692 |
| 2002 | 1.591 | - | 0.177 | 3.562 | 0.280 | 0.545 | 0.371 | 0.061 | 0.690 | 7.277 |
| 2003 | 1.380 | - | 0.151 | 3.142 | 0.246 | 0.464 | 0.361 | 0.059 | 0.630 | 6.433 |
| 2004 | 1.302 | - | 0.177 | 3.104 | 0.242 | 0.455 | 0.347 | 0.060 | 0.593 | 6.280 |
| 2005 | 1.243 | - | 0.127 | 3.026 | 0.234 | 0.443 | 0.315 | 0.060 | 0.533 | 5.981 |
| 2006 | 1.062 | - | 0.118 | 2.697 | 0.205 | 0.379 | 0.284 | 0.057 | 0.500 | 5.302 |
| 2007 | 1.044 | - | 0.091 | 2.583 | 0.159 | 0.355 | 0.263 | 0.053 | 0.446 | 4.994 |
| 2008 | 1.030 | \$0.117 | - | 2.472 | 0.156 | 0.323 | 0.252 | 0.051 | 0.415 | 4.816 |
| 2009 | 0.986 | 0.112 | - | 2.366 | 0.150 | 0.309 | 0.261 | 0.049 | 0.394 | 4.627 |
| 2010 ² | 1.016 | 0.116 | - | 2.581 | 0.151 | 0.319 | 0.274 | 0.051 | 0.423 | 4.931 |

¹ Source: Cook County Clerk's Office.

² 2011 information not available at time of publication.

CITY OF CHICAGO
PROPERTY TAX SUPPORTED BONDED DEBT
Computation of Direct and Overlapping Bonded Debt
As of May 16, 2012

(Adjusted for the issuance of the Bonds and the refunding of the Refunded Bonds)
(Dollars in Thousands)

Direct Debt:

| | |
|---|--------------------|
| General Obligation Bonds and Notes ¹ | \$7,318,132 |
| The Bonds..... | 594,850 |
| Short-Term Obligations ¹ | (104,307) |
| Net Direct Long-Term Debt..... | <u>\$7,808,675</u> |

| Overlapping Debt ² | Net Direct Debt ³ | Percent Overlapping ⁴ | Debt Applicable |
|---|---------------------------------|-------------------------------------|---------------------|
| City Colleges of Chicago..... | \$ -0- | 100.00% | \$ -0- |
| Board of Education..... | 5,933,449 ⁵ | 100.00 | 5,933,449 |
| Chicago School Finance Authority..... | -0- | 100.00 | -0- |
| Chicago Park District..... | 875,540 ⁵ | 100.00 | 875,540 |
| Metropolitan Water Reclamation District Of Greater Chicago..... | 2,446,220 | 49.18 | 1,203,051 |
| Cook County..... | 3,709,260 | 48.17 | 1,786,751 |
| Cook County Forest Preserve District | 94,885 | 48.17 | 45,706 |
| Total Overlapping Long-Term Debt | | | <u>\$ 9,844,497</u> |
| Net Direct and Overlapping Debt Long-Term Debt | | | <u>\$17,653,172</u> |

¹ Includes General Obligation Fixed Rate and Commercial Paper Notes consisting of:

(a) Fixed Rate Notes, Taxable Series 2011 outstanding in the amounts shown below (dollars in thousands):

| Amount | Series | Final Maturity |
|----------|--------|----------------|
| \$70,425 | 2011 | 12/05/2012 |

(b) Commercial Paper Notes outstanding in the amounts below (dollars in thousands):

| Amount | Series |
|----------|-----------------|
| \$33,882 | 2002B (Taxable) |

² Includes debt secured by property taxes (including "alternate bonds" and "limited tax" bonds) and PBC bonds secured by long-term lease obligations also secured by property taxes.

³ Source: Each of the respective tax districts.

⁴ Source: Cook County Clerk's Office.

⁵ Includes \$5,633,669,527 and \$427,920,000 of general obligation bonds of the Board and the Chicago Park District, respectively, issued as "alternate revenue" bonds secured by alternate revenue sources. An ad valorem property tax levy is filed in an amount sufficient to pay debt service on the alternate revenue bonds. When sufficient revenues have accumulated to pay annual debt service on the alternate revenue bonds, the property tax levy is abated. To date, alternate revenues have been available in amounts sufficient to pay principal and interest coming due on the alternate revenue bonds issued by the Board of Education and the Chicago Park District.

Selected Debt Statistics

| | |
|--|--------------------------------|
| Population (2010) | 2,695,598 ¹ |
| Total Equalized Assessed Value (2010) | \$82,087,170,063 ² |
| Total Estimated Fair Cash Value (2009) | \$280,288,729,779 ³ |

Percent of Total

| | Amount | Per Capita | Percent of Total Estimated Fair Cash Value |
|--|------------------|------------|--|
| Net Direct Long-Term Debt..... | \$7,808,675,442 | \$2,896.82 | 2.79% |
| Total Net Direct and Overlapping Long-Term Debt... | \$17,653,172,627 | \$6,548.89 | 6.30% |

¹ Source: U.S. Census Bureau.

² Source: Cook County Clerk's Office. Total Equalized Assessed Value is net of exemptions. Includes assessment of pollution control facilities and excludes portions of the City in DuPage County.

³ Source: The Civic Federation. Excludes railroad property, pollution control facilities and portion of the City in DuPage County.

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Debt Service Schedule¹

As of May 16, 2012

(Adjusted for the issuance of the Bonds or the refunding of the Refunded Bonds)

| Year | The Bonds | | | General Obligation Bonds Outstanding | | | General Obligation Notes Outstanding | Total Debt Service |
|-------|---------------|---------------|-------------------------|--------------------------------------|-------------------------|-------------------------|--|--------------------|
| | Principal | Interest | Capitalized Interest | Principal | Interest ^{2,3} | Capitalized Interest | Debt Service ⁴ | |
| 2012 | - | \$18,119,949 | \$(15,077,387) | \$126,372,714 | \$376,211,088 | \$(65,451,138) | \$104,307,000 | \$544,482,226 |
| 2013 | - | 30,915,552 | (25,724,452) | 112,131,569 | 377,479,102 | (27,065,017) | | 467,736,754 |
| 2014 | - | 30,915,552 | (25,724,452) | 214,374,425 | 373,855,463 | | | 593,420,987 |
| 2015 | - | 30,915,552 | | 227,106,371 | 361,855,940 | | | 619,877,863 |
| 2016 | - | 30,915,552 | | 242,516,761 | 352,035,397 | | | 625,467,709 |
| 2017 | - | 30,915,552 | | 265,701,948 | 341,407,799 | | | 638,025,299 |
| 2018 | - | 30,915,552 | | 278,236,972 | 329,554,159 | | | 638,706,683 |
| 2019 | \$12,120,000 | 30,915,552 | | 276,663,700 | 316,735,013 | | | 636,434,265 |
| 2020 | 16,145,000 | 30,349,552 | | 287,808,918 | 306,054,251 | | | 640,357,721 |
| 2021 | 16,970,000 | 29,578,302 | | 290,057,240 | 292,920,265 | | | 629,525,807 |
| 2022 | 18,145,000 | 28,751,802 | | 292,763,400 | 285,356,670 | | | 625,016,871 |
| 2023 | 19,085,000 | 27,851,302 | | 283,238,320 | 272,673,881 | | | 602,848,502 |
| 2024 | 11,050,000 | 26,902,052 | | 285,352,012 | 260,174,980 | | | 583,479,044 |
| 2025 | 8,690,000 | 26,349,552 | | 278,038,971 | 247,773,536 | | | 560,852,059 |
| 2026 | - | 25,915,052 | | 288,271,163 | 235,691,402 | | | 549,877,616 |
| 2027 | - | 25,915,052 | | 283,684,720 | 216,513,593 | | | 526,113,365 |
| 2028 | - | 25,915,052 | | 283,884,806 | 210,299,837 | | | 520,099,695 |
| 2029 | 5,515,000 | 25,915,052 | | 285,074,515 | 194,887,356 | | | 511,391,923 |
| 2030 | 1,590,000 | 25,654,552 | | 325,642,520 | 184,871,584 | | | 537,758,656 |
| 2031 | 44,920,000 | 25,590,952 | | 273,008,596 | 167,859,281 | | | 511,378,829 |
| 2032 | 72,645,000 | 23,361,452 | | 276,403,762 | 138,943,950 | | | 511,354,164 |
| 2033 | 60,000,000 | 19,729,202 | | 262,976,194 | 124,437,394 | | | 467,142,791 |
| 2034 | - | 16,729,202 | | 251,437,377 | 110,439,322 | | | 378,605,901 |
| 2035 | - | 16,729,202 | | 222,017,607 | 96,541,299 | | | 335,288,108 |
| 2036 | - | 16,729,202 | | 204,386,559 | 85,041,264 | | | 306,157,025 |
| 2037 | - | 16,729,202 | | 186,007,925 | 74,242,708 | | | 276,979,835 |
| 2038 | 19,870,000 | 16,729,202 | | 172,291,380 | 64,248,710 | | | 273,139,292 |
| 2039 | 48,125,000 | 15,649,864 | | 182,400,000 | 24,851,967 | | | 271,026,831 |
| 2040 | 116,820,000 | 13,035,714 | | 124,465,000 | 14,489,606 | | | 268,810,320 |
| 2041 | 123,160,000 | 6,690,051 | | 131,510,000 | 7,447,795 | | | 268,807,846 |
| Total | \$594,850,000 | \$721,329,379 | \$(66,526,291) | \$7,213,825,442 | \$6,444,894,610 | \$(92,516,154) | \$104,307,000 | \$14,920,163,986 |

¹ Principal and interest (including the amount of interest that has accreted on capital appreciation bonds) for each year includes amounts payable on the City's general obligation bonds and notes on July 1 of that year and January 1 of the following year, except that each year includes principal and interest payable on the General Obligation Bonds Series 2007A-K (Modern Schools Across Chicago Program), the General Obligation Bonds Series 2010 A (Modern Schools Across Chicago Program) (Tax-Exempt) and the General Obligation Bonds, Taxable Series 2010B (Modern Schools Across Chicago Program) (Build America Bonds – Direct Payment) on June 1 and December 1 of that year.

² Interest for each year includes the full amount of the interest payable on General Obligation Bonds, Taxable Project Series 2009C (Build America Bonds – Direct Payment), the General Obligation Bonds, Taxable Project Series 2009D (Recovery Zone Economic Development Bonds-Direct Payment), the General Obligation Bonds, Taxable Series 2010B (Modern Schools Across Chicago Program) (Build America Bonds – Direct Payment) and the General Obligation Bonds, Taxable Project Series 2010B (Build America Bonds – Direct Payment) without adjustment for Subsidy Payments to be received by the City.

³ The interest rate on \$1.5 million variable rate bonds is assumed to be six percent. The City has entered into interest rate hedge agreements which require the City to pay interest at a rate of 3.575 percent for \$206.7 million General Obligation Variable Rate Demand Bonds (Neighborhoods Alive 21 Program), Series 2002B, 4.052 percent for \$199.040 million General Obligation Variable Rate Demand Bonds, Project and Refunding Series 2003B, 4.104 percent for \$222.790 million General Obligation Variable Rate Demand Bonds, Project and Refunding Series 2005D and 3.9982 percent for \$200 million General Obligation Variable Rate Demand Bonds Refunding Series 2007E, F and G. The table includes the interest payable by the City under the interest rate hedge agreements for these four bond issues.

⁴ Includes outstanding Fixed Rate Notes and Commercial Paper Notes. See APPENDIX B – "Financial and Other Information – Property Tax Supported Bonded Debt – Computation of Direct and Overlapping Bonded Debt – Note (2)."

Note: May not total due to rounding.

PROPERTY TAX LEVIES BY FUND
For Fiscal Years Ended 2006 – 2010^{1,2}
(Dollars in Thousands)

| | <u>2006</u> | <u>2007</u> | <u>Change</u> | <u>2008</u> | <u>Change</u> | <u>2009</u> | <u>Change</u> | <u>2010</u> | <u>Change</u> |
|--|------------------|------------------|---------------|------------------|---------------|------------------|----------------|------------------|---------------|
| Note Redemption and Interest ³ | \$ 60,116 | \$ 33,506 | (44.26)% | \$ 73,363 | 118.95% | \$73,363 | 0.00% | \$ 73,377 | 0.02% |
| Bond Redemption and Interest | 316,858 | 381,145 | 20.29 | 414,853 | 8.84 | 409,512 | (1.29) | 409,979 | (0.11) |
| Policemen's Annuity and Benefit ⁴ | 135,528 | 141,080 | 4.10 | 139,640 | (1.02) | 141,741 | 1.50 | 140,165 | (1.11) |
| Municipal Employees' Annuity and Benefit ⁴ | 137,228 | 128,378 | (6.45) | 131,344 | 2.31 | 130,026 | (1.00) | 132,531 | 1.93 |
| Firemen's Annuity and Benefit ⁴ | 69,500 | 65,242 | (6.13) | 65,426 | 0.28 | 66,140 | 1.09 | 64,323 | (2.75) |
| Laborers' and Retirement Board Employees' Annuity and Benefit ⁴ | — | — | — | 9,526 | — | 13,327 | 39.90 | 13,714 | 2.90 |
| Total | <u>\$719,230</u> | <u>\$749,351</u> | <u>4.19%</u> | <u>\$834,152</u> | <u>11.32%</u> | <u>\$834,109</u> | <u>(0.01)%</u> | <u>\$834,089</u> | <u>(0.00)</u> |

¹ Source: Cook County Clerk's Office.

² See APPENDIX B – "FINANCIAL AND OTHER INFORMATION – Property Taxes For All City Funds, Collections And Estimated Allowance For Uncollectible Taxes 2000-2010." Does not include the levy for the School Building and Improvement Fund which is accounted for in an agency fund.

³ Includes Corporate, Chicago Public Library Maintenance and Operations, Chicago Public Library Building and Sites, and City Relief Funds.

⁴ For information regarding the City's unfunded (assets in excess of) pension benefit obligations under its Pension Plans, see the individual Pension Plans Financial Statements.

CITY OF CHICAGO
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
General Fund (Corporate)
For Fiscal Years Ended 2006-2010¹
(Dollars in Thousands)

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|--|------------------|------------------|------------------|------------------|-------------------|
| Revenues: | | | | | |
| Utility Tax | \$ 475,482 | \$ 501,023 | \$ 524,842 | \$ 481,275 | \$ 467,411 |
| Sales Tax | 537,441 | 543,238 | 518,131 | 476,557 | 495,842 |
| State Income Tax | 314,559 | 377,727 | 378,545 | 251,820 | 282,011 |
| Other Taxes | 708,706 | 687,511 | 637,923 | 572,472 | 590,575 |
| Federal/State Grants | 2,802 | 3,366 | 2,347 | 1,714 | 1,735 |
| Other Revenues ² | 729,999 | 822,561 | 813,983 | 777,788 | 773,278 |
| Total Revenues | <u>2,768,989</u> | <u>2,935,426</u> | <u>2,875,771</u> | <u>2,561,626</u> | <u>2,610,852</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Public Safety | 1,783,993 | 1,845,497 | 1,856,634 | 1,862,914 | 1,828,984 |
| General Government | 783,059 | 860,976 | 889,266 | 857,626 | 903,890 |
| Other ³ | 328,081 | 349,616 | 356,066 | 288,559 | 296,063 |
| Debt Service | 7,069 | 6,930 | 5,318 | 4,978 | 5,004 |
| Total Expenditures | <u>2,902,202</u> | <u>3,063,019</u> | <u>3,107,284</u> | <u>3,014,077</u> | <u>3,033,941</u> |
| Revenues Under Expenditures | <u>(133,213)</u> | <u>(127,593)</u> | <u>(231,513)</u> | <u>(452,451)</u> | <u>(423,089)</u> |
| Other Financing Sources (Uses): | | | | | |
| Proceeds of Debt, Net of Original Discount/Including Premium | — | 23,921 | 164,000 | 58,500 | 16,500 |
| Transfers In | 115,058 | 130,561 | 94,058 | 416,135 | 502,502 |
| Transfers Out | (30,500) | (42,500) | (25,193) | (17,463) | (13,600) |
| Total Other Financing Sources (Uses) | <u>84,558</u> | <u>111,982</u> | <u>232,865</u> | <u>457,172</u> | <u>505,402</u> |
| Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | (48,655) | (15,611) | 1,352 | 4,721 | 82,313 |
| Fund Balance – Beginning of Year | 110,819 | 62,391 | 44,307 | 48,443 | 54,706 |
| Change in Inventory | 227 | (2,473) | 2,784 | 1,542 | (1,478) |
| Fund Balance – End of Year | <u>\$ 62,391</u> | <u>\$ 44,307</u> | <u>\$ 48,443</u> | <u>\$ 54,706</u> | <u>\$ 135,541</u> |

¹ Source: Table 6 in the Statistical Section of the City of Chicago Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2010. The City's CAFR for the year ended December 31, 2010 is available upon request from the Office of the City Comptroller.

² Includes Internal Service, Licenses and Permits, Fines, Investment Income, Charges for Services and Miscellaneous Revenues.

³ Includes Health, Streets and Sanitation, Transportation, Cultural and Recreational and Other Expenditures.

Special Revenue Funds
For Fiscal Years Ended 2006 – 2010¹
(Dollars in Thousands)

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|--|-------------------|-------------------|---------------------|---------------------|---------------------|
| Revenues: | | | | | |
| Property Tax | \$ 302,772 | \$ 314,742 | \$ 326,334 | \$ 334,792 | \$ 316,618 |
| Utility Tax | 24,299 | 28,838 | 82,373 | 75,688 | 72,201 |
| Sales Tax | 76 | 5 | — | — | — |
| State Income Tax | 65,552 | 55,719 | 56,848 | 95,994 | 103,657 |
| Other Taxes | 382,232 | 465,533 | 554,096 | 572,651 | 588,717 |
| Federal/State Grants | 820,702 | 778,601 | 794,564 | 751,555 | 814,144 |
| Other Revenues ² | 115,023 | 114,906 | 120,401 | 131,295 | 121,017 |
| Total Revenues | 1,710,656 | 1,758,344 | 1,934,616 | 1,961,975 | 2,016,354 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Public Safety | 67,363 | 35,102 | 35,518 | 50,797 | 80,744 |
| General Government | 740,423 | 789,703 | 915,659 | 799,236 | 882,553 |
| Employee Pensions | 396,923 | 371,649 | 413,690 | 430,915 | 435,432 |
| Other ³ | 552,675 | 603,553 | 677,990 | 566,612 | 521,876 |
| Capital Outlay | 8,110 | 16,674 | 4,360 | 3,357 | 4,903 |
| Debt Service | 6,356 | 7,603 | 5,628 | 3,632 | 3,898 |
| Total Expenditures | 1,771,850 | 1,824,284 | 2,052,845 | 1,854,549 | 1,929,406 |
| Revenues Under Expenditures | (61,194) | (65,940) | (118,229) | 107,426 | 86,948 |
| Other Financing Sources (Uses): | | | | | |
| Proceeds of Debt, Net of Original Discount/ Including Premium | 79,250 | 144,614 | 163,628 | 72,925 | 88,018 |
| Payment to Refunded Bond Escrow Agent | — | — | — | — | — |
| Transfers In | 193,850 | 108,045 | 155,637 | 185,358 | 94,424 |
| Transfers Out | (38,177) | (86,470) | (48,604) | (1,746,126) | (65,807) |
| Total Other Financing Sources (Uses) | 234,923 | 166,189 | 270,661 | (1,487,843) | 116,635 |
| Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | 173,729 | 100,249 | 152,432 | (1,380,417) | 203,583 |
| Fund Balance – Beginning of Year | 609,119 | 782,848 | 883,097 | 1,035,529 | (344,888) |
| Fund Balance – End of Year | \$ 782,848 | \$ 883,097 | \$ 1,035,529 | \$ (344,888) | \$ (141,305) |

¹ Source: Table 7 in the Statistical Section of the City of Chicago Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2010. The City's CAFR for the year ended December 31, 2010 is available upon request from the Office of the City Comptroller.

² Includes Internal Service, Licenses and Permits, Fines, Investment Income, Charges for Services and Miscellaneous Revenues.

³ Includes Health, Streets and Sanitation, Transportation, Cultural and Recreational and Other Expenditures.

Debt Service Funds
For Fiscal Years Ended 2006 - 2010¹
(Dollars in Thousands)

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|------------------|-------------------|---------------------|-------------------|-------------------|
| Revenues: | | | | | |
| Property Tax | \$ 363,218 | \$ 346,965 | \$ 403,489 | \$ 471,218 | \$ 437,463 |
| Utility Tax | 22,308 | 22,318 | 22,282 | 22,138 | 22,324 |
| Sales Tax | 21,639 | 27,684 | 30,440 | 27,395 | 31,162 |
| Other Taxes | 193,824 | 217,731 | 220,220 | 131,993 | 129,566 |
| Other Revenues ² | 33,368 | 30,594 | 6,562 | 38,720 | 61,004 |
| Total Revenues | <u>634,357</u> | <u>645,292</u> | <u>682,993</u> | <u>691,464</u> | <u>681,519</u> |
| Expenditures: | | | | | |
| Debt Service | 693,110 | 625,459 | 1,022,156 | 777,725 | 747,061 |
| Total Expenditures | <u>693,110</u> | <u>625,459</u> | <u>1,022,156</u> | <u>777,725</u> | <u>747,061</u> |
| Revenues Over (Under) Expenditures | <u>(58,753)</u> | <u>19,833</u> | <u>(339,163)</u> | <u>(86,261)</u> | <u>(65,542)</u> |
| Other Financing Sources (Uses): | | | | | |
| Proceeds of Debt, Net of Original Discount/Including Premium | 302,658 | 777,151 | 405,311 | 340,324 | 560,524 |
| Payment to Refunded Bond Escrow Agent | (276,607) | (951,419) | (186,421) | (213,435) | (412,184) |
| Transfers In | 8,741 | 63,807 | 33,186 | 684,277 | 44,185 |
| Transfers Out | (509,884) | (73,325) | (141,498) | (81,291) | (110,049) |
| Total Other Financing Sources (Uses) | <u>(475,092)</u> | <u>(183,786)</u> | <u>110,578</u> | <u>729,875</u> | <u>82,476</u> |
| Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | <u>(533,845)</u> | <u>(163,953)</u> | <u>(228,585)</u> | <u>643,614</u> | <u>16,934</u> |
| Fund Balance - Beginning of Year | 688,887 | 155,042 | (8,911) | (237,496) | 406,118 |
| Fund Balance - End of Year | <u>\$155,042</u> | <u>\$ (8,911)</u> | <u>\$ (237,496)</u> | <u>\$ 406,118</u> | <u>\$ 423,052</u> |

¹ Source: Table 8 in the Statistical Section of the City of Chicago Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2010. The City's CAFR for the year ended December 31, 2010 is available upon request from the Office of the City Comptroller.

² Includes Investment Income and Miscellaneous Revenues.

Capital Projects Funds
For Fiscal Years Ended 2006-2010¹
(Dollars in Thousands)

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Revenues: | | | | | |
| Other Revenues ² | \$ 56,687 | \$ 76,666 | \$ 44,464 | \$ 18,240 | \$ 43,135 |
| Total Revenues..... | <u>56,687</u> | <u>76,666</u> | <u>44,464</u> | <u>18,240</u> | <u>43,135</u> |
| Expenditures | | | | | |
| Capital Outlay | 907,201 | 585,759 | 657,104 | 615,916 | 624,007 |
| Total Expenditures | <u>907,201</u> | <u>585,759</u> | <u>657,104</u> | <u>615,916</u> | <u>624,007</u> |
| Revenues Under Expenditures | <u>(850,514)</u> | <u>(509,093)</u> | <u>(612,640)</u> | <u>(597,676)</u> | <u>(580,872)</u> |
| Other Financing Sources (Uses): | | | | | |
| Proceeds of Debt, Net of Original Discount/Including Premium | 380,925 | 708,195 | 62,493 | 529,553 | 769,348 |
| Transfers In | 352,386 | 29,603 | 10,567 | 16,334 | 6,296 |
| Transfers Out | (10,977) | (27,521) | (96) | (3,734) | (99) |
| Total Other Financing Sources (Uses) | <u>722,334</u> | <u>710,277</u> | <u>72,964</u> | <u>542,153</u> | <u>775,545</u> |
| Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | (128,180) | 201,184 | (539,676) | (55,523) | 194,673 |
| Fund Balance – Beginning of Year..... | <u>910,819</u> | <u>782,639</u> | <u>983,823</u> | <u>444,147</u> | <u>388,624</u> |
| Fund Balance – End of Year | <u>\$ 782,639</u> | <u>\$ 983,823</u> | <u>\$ 444,147</u> | <u>\$ 388,624</u> | <u>\$ 583,297</u> |

¹ Source: Table 9 in the Statistical Section of the City of Chicago Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2010. The City's CAFR for the year ended December 31, 2010 is available upon request from the Office of the City Comptroller.

² Includes Investment Income, Charges for Services and Miscellaneous Revenues.

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended December 31, 2010¹
(Dollars in Thousands)

| | Total Special Revenue Funds | Debt Service Fund Special Taxing Areas | Total Capital Project Funds | Total Nonmajor Governmental Funds² |
|---|--|---|--|--|
| REVENUES | | | | |
| Property Tax | \$316,618 | \$ - | \$ - | \$316,618 |
| Utility Tax | 72,201 | - | - | 72,201 |
| Sales Tax | - | 1,409 | - | 1,409 |
| Transportation Tax | 168,912 | - | - | 168,912 |
| State Income Tax | 103,657 | - | - | 103,657 |
| Transaction Tax | 32,687 | - | - | 32,687 |
| Special Area Tax | - | 113,949 | - | 113,949 |
| Other Taxes | 14,541 | - | - | 14,541 |
| Federal/State Grants | - | - | - | - |
| Internal Service | 21,191 | - | - | 21,191 |
| Fines | 13,865 | - | - | 13,865 |
| Investment Income | 3,542 | 19 | 1,635 | 5,196 |
| Charges for Services | 29,561 | - | - | 29,561 |
| Miscellaneous | 29,266 | 663 | 1,042 | 30,931 |
| Total Revenues | <u>806,001</u> | <u>116,040</u> | <u>2,677</u> | <u>924,718</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Government | 233,227 | - | - | 233,227 |
| Health | 5,704 | - | - | 5,704 |
| Public Safety | 3,158 | - | - | 3,158 |
| Streets and Sanitation | 51,405 | - | - | 51,405 |
| Transportation | 53,019 | - | - | 53,019 |
| Cultural and Recreational | 84,424 | - | - | 84,424 |
| Employee Pensions | 435,432 | - | - | 435,432 |
| Other | 869 | - | - | 869 |
| Capital Outlay | - | - | 66,399 | 66,399 |
| Debt Service: | | | | |
| Principal Retirement | - | 36,535 | - | 36,535 |
| Interest and Other Fiscal Charges | 3,898 | 28,431 | - | 32,329 |
| Total Expenditures | <u>871,136</u> | <u>64,966</u> | <u>66,399</u> | <u>1,002,501</u> |
| Revenues Over (Under) Expenditures | <u>(65,135)</u> | <u>51,074</u> | <u>(63,722)</u> | <u>(77,783)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Issuance of Debt | 88,018 | 1,443 | 120,647 | 210,108 |
| Payment to Refunded Bond Escrow Agent | - | - | - | - |
| Transfers In | 13,600 | 44,185 | - | 57,785 |
| Transfers Out | (21,500) | (87,899) | - | (109,399) |
| Total Other Financing Sources (Uses) | <u>80,118</u> | <u>(42,271)</u> | <u>120,647</u> | <u>158,494</u> |
| Net Change in Fund Balances | 14,983 | 8,803 | 56,925 | 80,711 |
| Fund Balance - Beginning of Year | 90,757 | 149,647 | 47,746 | 288,150 |
| Fund Balance - End of Year | <u>\$105,740</u> | <u>\$158,450</u> | <u>\$104,671</u> | <u>\$368,861</u> |

¹ Source: Schedule B-2 in the Nonmajor Governmental Funds Section of the City of Chicago Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2010. The City's CAFR for the year ended December 31, 2010 is available upon request from the Office of the City Comptroller.

² The line items under "Total Nonmajor Governmental Funds" above are identical to the line items under the column captioned "Other Governmental Funds" appearing as Exhibit 4 to the City's Basic Financial Statements for the year ended December 31, 2010 included as APPENDIX C hereto.

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APPENDIX C

CITY OF CHICAGO

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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City of Chicago

**Basic Financial Statements
for the Year Ended December 31, 2010**



Rahm Emanuel, Mayor

Lois Scott, Chief Financial Officer
Amer Ahmad, City Comptroller

CITY OF CHICAGO, ILLINOIS
YEAR ENDED DECEMBER 31, 2010
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INDEPENDENT AUDITORS' REPORT

To the Honorable Rahm Emanuel, Mayor,
and Members of the City Council
City of Chicago, Illinois

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Chicago, Illinois (the "City"), as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City's Pension Plans (the "Plans") which, in aggregate, represent substantially all the assets and revenues of the fiduciary funds, included in the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Plans, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective net assets or financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2010, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, effective January 1, 2010, the City adopted Statement No. 53 of the Government Accounting Standards Board (GASB), *Accounting and Financial Reporting for Derivative Instruments*.

The Management's Discussion and Analysis and Schedule of Other Postemployment Benefits Funding Progress, as listed in the table of contents, are not a required part of the basic financial statements, but are supplementary information required by the GASB. This supplementary information is the responsibility

of the City's management. We and other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte & Touche LLP

June 29, 2011

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**CITY OF CHICAGO, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

Management's Discussion and Analysis

As management of the City of Chicago, Illinois (City) we offer readers of the City's Basic Financial Statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2010. We encourage the readers to consider the information presented here in conjunction with other information contained within this report.

Fiscal 2010 Financial Highlights

- Liabilities and Deferred Inflows of the City, in the government-wide financial statements, exceeded its assets and deferred outflows at the close of the most recent fiscal year by \$1,570.8 million (*net deficit*). Of this amount, \$8,014.3 million is an unrestricted deficit, while \$2,041.2 million is invested in capital assets, net of related debt and \$4,402.3 million is restricted for specific purposes.
- The City's total assets and deferred outflows increased by \$1,695.6 million. The increase relates to \$453.1 million increase in capital assets as a result of the City's capital improvement program and \$812.8 million increase in restricted cash and cash equivalents and investments primarily as a result of the City's financing of its business activities capital programs.
- Revenues and Other Financing Sources, in the fund financial statements, available for general governmental operations during 2010 were \$7,467.1 million, a decrease of \$1,123.6 million (13.1 percent) from 2009. The reduction was a result of the 2009 transfers in of \$1,702.5 million when the service concession agreements fund was established.
- The General Fund, also in the fund financial statements, ended 2010 with a total Fund Balance of \$135.5 million. Total Fund Balance increased from 2009 primarily because Revenues and Other Financing Sources were more than Expenditures and Other Financing Uses by \$82.3 million. Fund Balance at December 31, 2010 of \$36.2 million was reserved for commitments. Unreserved Fund Balance was \$81.2 million at December 31, 2010, compared to a balance of \$2.7 million at the end of 2009.
- The City's general obligation bonds and notes outstanding increased by \$641.3 million during the current fiscal year. The proceeds from the increase in bonds were used to finance the City's capital plan and certain operating expenses.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which include the following components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements. These components are described below:

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, using accounting methods similar to those used by private-sector companies. The statements provide both short-term and long-term information about the City's financial position, which assists in assessing the City's economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means such statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The *statement of net assets* presents information on all of the City's assets, deferred outflows, liabilities, and deferred inflows with the difference reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating, respectively. To assess the overall health of the City, the reader should consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's roads.

The *statement of activities* presents information showing how the government's net assets changed during each fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs,

**CITY OF CHICAGO, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010 - Continued**

regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (for example, uncollected taxes, and earned but unused vacation). This statement also presents a comparison between direct expenses and program revenues for each function of the City.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, streets and sanitation, transportation, health, and cultural and recreation. The business-type activities of the City include water, sewer, tollway and airport services.

The government-wide financial statements present information about the City as a primary government, which includes the Chicago Public Library and the City related funds of the Public Building Commission. The government-wide financial statements can be found immediately following this management's discussion and analysis.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of a fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between *governmental funds* and *governmental activities*.

The City maintains 20 individual governmental funds. Information for the seven funds that qualify as major is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The seven major governmental funds are as follows: the General Fund, the Federal, State and Local Grants Fund, the Special Taxing Areas Fund, Service Concession Agreement Fund, the Reserve Fund, the Bond, Note Redemption and Interest Fund, and the Community Development and Improvement Projects Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriation budget for its general and certain special revenue funds on a non-GAAP budgetary basis. A budgetary comparison statement has been provided for the General Fund, the only major fund with an appropriation budget, to demonstrate compliance with this budget. The basic governmental fund financial statements can be found immediately following the government-wide statements.

Proprietary funds. These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge user fees for services provided to outside customers including local governments, they are known as enterprise funds. Proprietary funds, like government-wide statements, use the accrual basis of accounting and provide both long- and short-term financial information. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements. The City uses five enterprise funds to account for its water, sewer, tollway and two airports operations. Proprietary funds provide the same type of information as the government-wide financial statements, but provide more detail. The proprietary fund financial statements provide separate information for the Water Fund, Sewer Fund, Chicago Skyway Fund, Chicago-O'Hare International Airport Fund and the Chicago Midway International Airport

**CITY OF CHICAGO, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010 - Continued**

Fund. All the proprietary funds are considered to be major funds of the City. The basic proprietary fund financial statements can be found immediately following the governmental fund financial statements.

Fiduciary funds. Fiduciary funds are used primarily to account for resources held for the benefit of parties outside the primary government. The City is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for other assets that, because of a trust arrangement can be used only for the trust beneficiaries. The City also uses fiduciary funds to account for transactions for assets held by the City as agent for various entities. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found immediately following the proprietary fund financial statements.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found immediately following the fiduciary fund financial statements.

Financial Analysis of the City as a Whole

Net assets (deficit). As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, liabilities and deferred inflows exceeded assets by \$1,570.8 million at December 31, 2010.

A large portion of the City's net deficit, \$2,041.2 million reflects its investment in capital assets (land, buildings, roads, bridges, etc.) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities and deferred inflows.

| City of Chicago, Illinois Summary Statement of Net Assets (in millions of dollars) | | | | | | |
|--|----------------------------|---------------------|-----------------------------|-------------------|---------------------|-------------------|
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Current and other assets | \$ 6,109.4 | \$ 6,106.2 | \$ 3,939.1 | \$ 2,772.6 | \$ 10,048.5 | \$ 8,878.8 |
| Capital assets | 7,288.3 | 7,311.5 | 11,393.8 | 10,917.5 | 18,682.1 | 18,229.0 |
| Deferred outflows | 92.5 | 75.4 | 141.4 | 85.7 | 233.9 | 161.1 |
| Total | 13,490.2 | 13,493.1 | 15,474.3 | 13,775.8 | 28,964.5 | 27,268.9 |
| Long-term liabilities outstanding | 13,656.4 | 12,217.4 | 11,176.8 | 9,688.6 | 24,833.2 | 21,906.0 |
| Other liabilities | 1,468.7 | 1,448.0 | 853.9 | 782.1 | 2,322.6 | 2,230.1 |
| Total Liabilities | 15,125.1 | 13,665.4 | 12,030.7 | 10,470.7 | 27,155.8 | 24,136.1 |
| Deferred Inflows | 1,660.4 | 1,681.5 | 1,719.1 | 1,737.6 | 3,379.5 | 3,419.1 |
| Net assets: | | | | | | |
| Invested in capital assets, | | | | | | |
| net of related debt | (324.3) | 251.1 | 2,365.5 | 2,286.7 | 2,041.2 | 2,537.8 |
| Restricted | 3,611.5 | 3,735.1 | 790.8 | 821.9 | 4,402.3 | 4,557.0 |
| Unrestricted | (6,582.5) | (5,840.0) | (1,431.8) | (1,541.1) | (8,014.3) | (7,381.1) |
| Total net assets (deficit) | <u>\$ (3,295.3)</u> | <u>\$ (1,853.8)</u> | <u>\$ 1,724.5</u> | <u>\$ 1,567.5</u> | <u>\$ (1,570.8)</u> | <u>\$ (286.3)</u> |

**CITY OF CHICAGO, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010 - Continued**

An additional portion of the City's net assets (\$4,402.3 million) represent resources that are subject to external restrictions on how they may be used.

Governmental Activities. Net assets of the City's governmental activities decreased \$1,441.5 million to a deficit of \$3,295.3 million. However, a significant portion of those net assets are either restricted as to the purpose they can be used for or they are invested in capital assets (buildings, roads, bridges, etc.) net of related debt. Consequently, unrestricted net assets showed a \$6,582.5 million deficit at the end of this year. This deficit does not mean that the City does not have the resources available to pay its bills next year. Rather, it is the result of having long-term commitments that are greater than currently available resources. Specifically, the City did not include in past annual budgets the full amounts needed to finance future liabilities arising from personnel, property, pollution and casualty claims (\$656.0 million), Municipal employees, Policemen's and Firemen's net pension obligation (\$4,144.5 million) and post-employment benefits (\$380.9 million). The City will include these amounts in future years' budgets as they come due. In addition, the remaining deferred inflow of \$1,660.4 million will be amortized into income over the life of the concession service agreements.

Over half of the City's revenue comes from taxes. Total taxes increased slightly. Total taxes include a decrease in property taxes of \$.1 million (.01 percent). Other taxes increased by \$.3 million (.01 percent) as a result of increases in sales and transaction taxes. Federal/State grants vary from year to year depending primarily on the level of spending for programs, construction and other projects.

Expenses for governmental activities in 2010 were \$6,664.5 million. This reflects an increase of \$447.3 million (7.2 percent) over 2009. Public Safety was the largest component of current expenses, accounting for 42.4 percent of total expenses. Expenses increased as a result of contractual wage increases and related benefits.

The cost of all governmental activities was \$6,664.5 million.

- The amount that taxpayers paid for these activities through City taxes was only \$2,918.8 million.
 - ♦ Some of the cost was paid by those who directly benefited from the programs (\$610.4 million), or
 - ♦ By other governments and organizations that subsidized certain programs with grants and contributions (\$789.6 million).

The City paid \$904.2 million for the "public benefit" portion with other revenues such as state aid, interest and miscellaneous income.

Although total net assets of business-types activities were \$1,724.5 million, these resources cannot be used to make up for the net asset deficit in governmental activities. The City generally can only use these net assets to finance the continuing operations of the water, sewer, tollway, and airports activities.

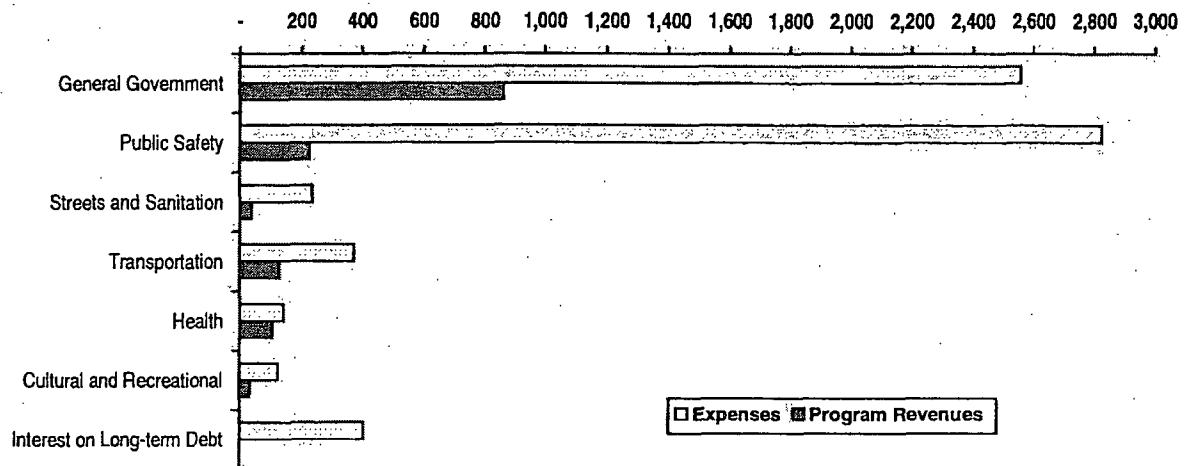
**CITY OF CHICAGO, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010 - Continued**

(In millions of dollars)

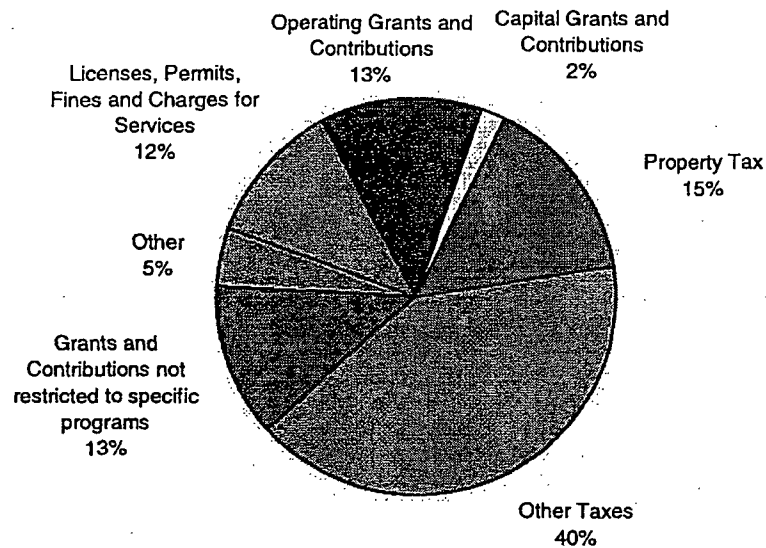
| | Governmental Activities | | Business-type Activities | | Total | |
|---|----------------------------|---------------------|-----------------------------|-------------------|---------------------|-------------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Licenses, Permits, Fines and | | | | | | |
| Charges for Services | \$ 610.4 | \$ 621.9 | \$ 1,508.3 | \$ 1,332.1 | \$ 2,118.7 | \$ 1,954.0 |
| Operating Grants and Contributions | 674.7 | 611.3 | - | - | 674.7 | 611.3 |
| Capital Grants and Contributions | 114.9 | 115.3 | 246.3 | 211.2 | 361.2 | 326.5 |
| General Revenues: | | | | | | |
| Property Taxes | 796.9 | 797.0 | - | - | 796.9 | 797.0 |
| Other Taxes | 2,121.9 | 2,121.6 | - | - | 2,121.9 | 2,121.6 |
| Grants and Contributions not | | | | | | |
| Restricted to Specific Programs | 654.0 | 601.2 | 57.0 | - | 711.0 | 601.2 |
| Other | 250.2 | 250.4 | - | 21.3 | 250.2 | 271.7 |
| Total Revenues | <u>5,223.0</u> | <u>5,118.7</u> | <u>1,811.6</u> | <u>1,564.6</u> | <u>7,034.6</u> | <u>6,683.3</u> |
| Expenses: | | | | | | |
| General Government | 2,557.7 | 2,364.8 | - | - | 2,557.7 | 2,364.8 |
| Public Safety | 2,824.0 | 2,521.1 | - | - | 2,824.0 | 2,521.1 |
| Streets and Sanitation | 235.9 | 297.2 | - | - | 235.9 | 297.2 |
| Transportation | 373.4 | 351.1 | - | - | 373.4 | 351.1 |
| Health | 142.4 | 166.9 | - | - | 142.4 | 166.9 |
| Cultural and Recreational | 126.9 | 130.0 | - | - | 126.9 | 130.0 |
| Interest on Long-term Debt | 404.2 | 386.1 | - | - | 404.2 | 386.1 |
| Water | - | - | 399.3 | 382.5 | 399.3 | 382.5 |
| Sewer | - | - | 184.9 | 170.0 | 184.9 | 170.0 |
| Midway International Airport | - | - | 224.5 | 206.6 | 224.5 | 206.6 |
| Chicago-O'Hare International Airport | - | - | 834.5 | 811.7 | 834.5 | 811.7 |
| Chicago Skyway | - | - | 11.3 | 11.8 | 11.3 | 11.8 |
| Total Expenses | <u>6,664.5</u> | <u>6,217.2</u> | <u>1,654.5</u> | <u>1,582.6</u> | <u>8,319.0</u> | <u>7,799.8</u> |
| Change in Net Assets Before Transfers | (1,441.5) | (1,098.5) | 157.1 | (18.0) | (1,284.4) | (1,116.5) |
| Transfers | - | - | - | - | - | - |
| Change in Net Assets | (1,441.5) | (1,098.5) | 157.1 | (18.0) | (1,284.4) | (1,116.5) |
| Net Assets, Beginning of Year | (1,853.8) | (755.3) | 1,567.4 | 1,585.4 | (286.4) | 830.1 |
| Net Assets, End of Year | <u>\$ (3,295.3)</u> | <u>\$ (1,853.8)</u> | <u>\$ 1,724.5</u> | <u>\$ 1,567.4</u> | <u>\$ (1,570.8)</u> | <u>\$ (286.4)</u> |

CITY OF CHICAGO, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010 - Continued

Expenses and Program Revenues - Governmental Activities
(In millions of dollars)



Revenues by Source - Governmental Activities

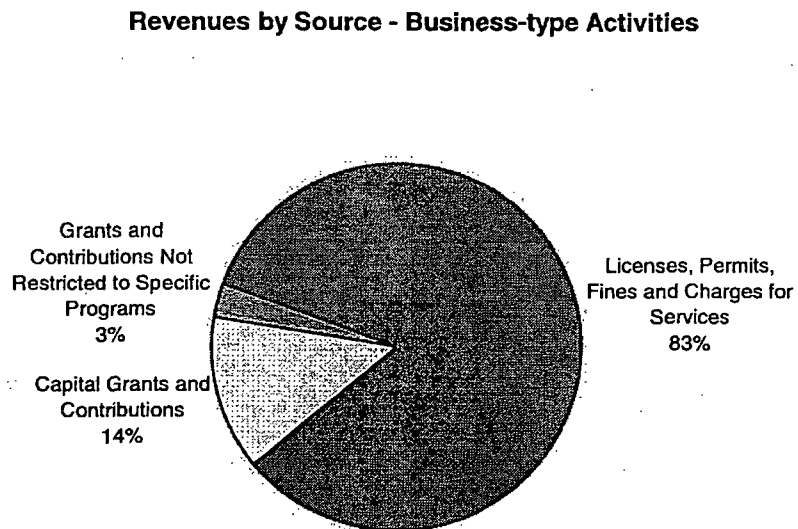
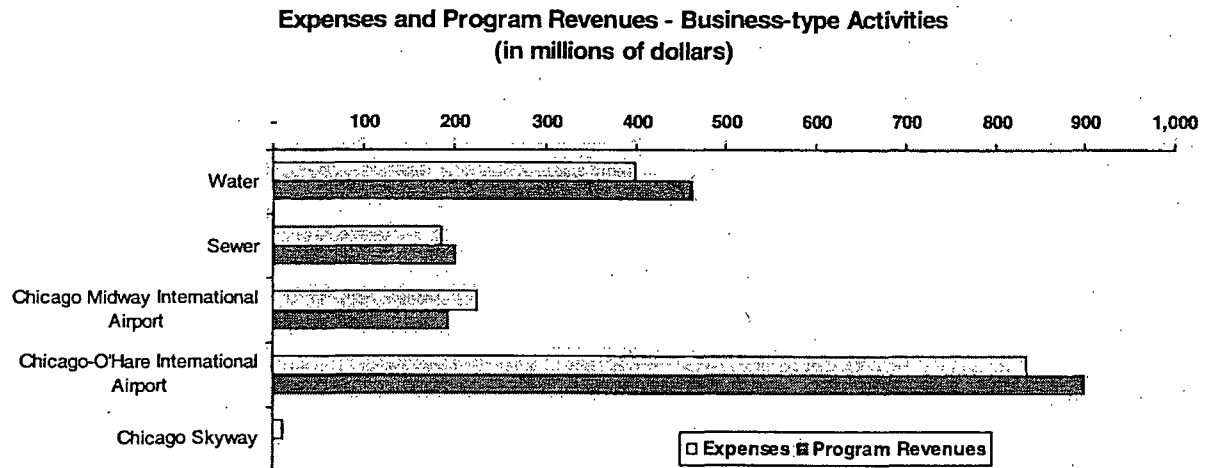


**CITY OF CHICAGO, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010 - Continued**

Business-type Activities. Revenues of the City's business-type activities increased by \$247.0 million in 2010 due primarily to increases in charges for services, rent and investment earnings. All Funds met debt service coverage ratios set forth in the applicable bond indentures.

- The Water Fund's operating revenues for 2010 increased by 11.8 percent from 2009 due to an increase in water rates. Operating expenses in 2010 increased by 3.4 percent primarily due to an increase in personnel and contractual services, as well as depreciation and amortization.
- The Sewer Fund's operating revenues increased 13.2 percent during fiscal year 2010, as the result of an increase in water and sewer rates. Operating expenses increased 4.7% as a result of increased personnel services, depreciation and amortization, and general fund reimbursements.
- Chicago Midway International Airport Fund's operating revenues for 2010 increased by \$26.8 million compared to prior year operating revenues. Operating expenses increased by \$13.8 million primarily due to an increase in personnel services, contractual services, and depreciation and amortization.
- Chicago-O'Hare International Airport Fund's operating revenues for 2010 increased by \$78.2 million (12.5 percent) compared to prior year operating revenues as a result of increased fund deposit requirements. Operating expenses increased by \$12.7 million as a result of an increase in contractual services, repair and maintenance, and depreciation and amortization.
- The Chicago Skyway was leased for 99 years to a private company. The agreement granted the company to operate the Skyway and to collect toll revenue during the term of the agreement. The City received an upfront payment of \$1.83 billion of which \$446.3 million was used to advance refund all of the outstanding Skyway bonds. The upfront payment is being amortized into non-operating revenue over the period of the lease (\$18.5 million annually).

**CITY OF CHICAGO, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010 - Continued**



**CITY OF CHICAGO, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010 - Continued**

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At December 31, 2010, the City's governmental funds reported combined ending fund balances of \$1,878.5 million, an increase of \$71.6 million in comparison with the prior year. Of this total amount (\$77.6 million) constitutes *undesignated fund balance*. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$286.1 million), 2) to pay debt service (\$423.1 million), 3) to provide a long-term reserve (\$739.2 million), 4) for future appropriations (\$326.7 million), and 5) for a variety of other restricted purposes (\$25.8 million).

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$81.2 million with a total fund balance of \$135.5 million. As a measure of the General Fund's liquidity, it may be helpful to compare both unreserved fund balance and total fund balance to total fund expenditures. Total General Fund balance represents 4.5 percent of total General Fund expenditures. The fund balance of the City's General Fund increased by \$80.8 million during the current fiscal year. Revenues and Other Financing Sources exceeded Expenditures and Other Financing Uses by \$82.3 million. As a result of increased economically sensitive taxes and lower than expected personnel and benefit expenses.

The Federal, State and Local Grants Fund has a total fund balance of \$13.1 million, \$7.7 million of which is reserved for the resale of property, while there is an unreserved, undesignated fund balance of \$5.4 million.

The Special Taxing Areas Fund has a total fund balance of \$1,400.3 million, of which \$191.2 million is reserved for encumbrances, \$188.0 million is designated for future appropriations and the remaining \$1,021.1 million is unreserved, undesignated. Increase in fund balance is a result of Special Area tax exceeding expenditure.

The Service Concession Agreement Fund accounts for deferred inflows from non business type long-term concession and lease transactions and has an unreserved, undesignated fund deficit of \$1,660.4 million.

The Reserve Fund has a total fund balance of \$877.9 million, of which \$739.1 million is reserved as a long-term trust. The remaining is designated for future appropriations. Fund balance decreased as a result of transfers out.

The Bond, Note Redemption and Interest Fund have a total fund balance of \$264.6 million. Fund balance was consistent with prior year.

The Community Development and Improvement Projects Fund has a total fund balance of \$478.6 million, of which \$37.1 million is reserved for encumbrances and the remaining \$441.5 million is unreserved, undesignated. The increase in fund balance during the current year in the Community Development and Improvement Projects Fund was \$137.7 million, as a result of the timing of the capital program financing.

Changes in fund balance. The City's governmental fund revenues (excluding other financing sources) increased by .9 percent or \$49.4 million.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

**CITY OF CHICAGO, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010 - Continued**

Unrestricted net assets of the Water, Sewer, Chicago Skyway, Chicago-O'Hare International Airport, and Chicago Midway International Airport Funds at the end of the year amounted to a deficit of \$1,431.8 million. The total increase in unrestricted net assets related to changes in the \$2,365.5 million of net assets invested in capital assets, net of related debt and the \$790.8 million of net assets restricted is primarily due to assets being reserved for debt service, construction, and rehabilitation. Other factors concerning the finances of these five funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City's 2010 Original General Fund Budget is \$3,179.7 million. This budget reflects a decrease of \$6.8 million (.2 percent) over the 2009 Budget. The City's 2010 General Fund Budget was approved by the City Council on December 2, 2009. The General Fund revenues on a budgetary basis were \$49.9 million less than the final budget as a result of higher than expected taxes, offset by lower transfers in. In addition, unfavorable results occurred in internal services revenue, licenses and permits, and fines. Expenditures were \$135.6 million less than budgeted as a result of favorable variances in general government, primarily as a result of lower than expected health care and personnel related expenses. Additional information on the City's budget can be found in Note #3 under Stewardship, Compliance and Accountability within this report.

The General Fund revenues and expenditures in 2010 ended the current fiscal year with an available unreserved fund balance of \$81.2 million, which is a \$78.5 million increase over 2009.

Capital Asset and Debt Administration

Capital assets. The City's capital assets for its governmental and business-type activities as of December 31, 2010 amount to \$18,682.1 million (net of accumulated depreciation). These capital assets include land, buildings and system improvements, machinery and equipment, roads, highways and bridges, and property, plant and equipment.

Major capital asset events during the current fiscal year included the following:

- The City continued its LEED Strategy with the construction of three new district police stations, the 8th, the 9th, and 23rd, all totaling \$78.2 million in construction cost.
- The City also completed the new LEED silver certified Vehicle Maintenance Facility with construction costs totaling \$20.0 million.
- During 2010 the City completed \$52.8 million in bridge and viaduct reconstruction projects, \$102.1 million in street construction and resurfacing projects, and \$4.2 million in street lighting and transit projects.
- During 2010 the Water Fund expended \$139.7 million for capital activities. This included \$4.5 million for structures and improvements, \$10.3 million for equipment, \$46.8 million for construction in progress, and \$78.1 million for distribution plant, of which \$20.4 million was for water mains; \$37.3 million for in-house construction costs; \$16.3 million for engineering fees; \$2.5 million for capitalized interest; and \$1.6 million for completed meter projects. Net completed projects totaling \$96.1 million were transferred from construction in progress to applicable capital accounts. The major completed projects relate to South Water Purification Plant chlorine improvement projects (\$53.3 million), CCTV, card access, camera upgrades (\$4.2 million), 68th Street Pumping Station roof rehab (\$4.1 million), and installation and replacements of water mains (\$30.9 million). The 2010 Water Main Replacement Program completed 30 miles of water mains.
- The 2010 Sewer Main Replacement Program completed 8.6 miles of sewer mains and 37.7 miles of relining of existing sewer mains at a cost of \$133.0 million.
- Chicago Midway International Airport had capital asset additions in 2010 of \$28.0 million principally due to land acquisition, terminal improvements, security enhancements, parking, and runway improvements.
- Chicago-O'Hare International Airport had capital asset additions in 2010 of \$475.5 million principally due to land acquisition, terminal improvements, security enhancements, runway and taxiway improvements along with heating and refrigeration, and apron improvements.

**CITY OF CHICAGO, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010 - Continued**

| City of Chicago, Illinois Capital Assets (net of depreciation) (In millions of dollars) | | | | | | |
|---|----------------------------|-------------------|-----------------------------|--------------------|--------------------|--------------------|
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Land | \$ 1,382.2 | \$ 1,372.7 | \$ 864.0 | \$ 839.5 | \$ 2,246.2 | \$ 2,212.2 |
| Works of Art and Historical Collections | 13.1 | 13.1 | - | - | 13.1 | 13.1 |
| Construction in Progress | 164.6 | 225.3 | 1,419.6 | 1,502.5 | 1,584.2 | 1,727.8 |
| Buildings and Other Improvements ... | 1,677.7 | 1,589.8 | 8,767.5 | 8,286.6 | 10,445.2 | 9,876.4 |
| Machinery and Equipment | 320.2 | 335.9 | 342.7 | 288.9 | 662.9 | 624.8 |
| Infrastructure | <u>3,730.5</u> | <u>3,774.7</u> | <u>-</u> | <u>-</u> | <u>3,730.5</u> | <u>3,774.7</u> |
| Total | <u>\$ 7,288.3</u> | <u>\$ 7,311.5</u> | <u>\$ 11,393.8</u> | <u>\$ 10,917.5</u> | <u>\$ 18,682.1</u> | <u>\$ 18,229.0</u> |

Information on the City's capital assets can be found in Note #7 of this report.

Debt. At the end of the current fiscal year, the City had \$6,660.0 million in General Obligation Bonds and Notes and \$844.8 million in General Obligation Certificates and Other Obligations outstanding. Other outstanding long-term debt is as follows: \$203.9 million in Motor Fuel Tax Revenue Bonds; \$355.5 million of Sales Tax Revenue Bonds; \$163.6 million in Tax Increment Financing Bonds; \$1.2 million in Installment Purchase Agreements; and \$10,923.7 million in Enterprise Fund Bonds and long-term obligations. For more detail, refer to Note No. 10 Long-term Obligations in the Basic Financial Statements.

| City of Chicago, Illinois General Obligation and Revenue Bonds (In millions of dollars) | | | | | | |
|---|----------------------------|-------------------|-----------------------------|-------------------|--------------------|--------------------|
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| General Obligation | \$ 7,504.7 | \$ 6,863.4 | \$ - | \$ - | \$ 7,504.7 | \$ 6,863.4 |
| Installment Purchase Agreement | 1.2 | 3.5 | - | - | 1.2 | 3.5 |
| Tax Increment | 163.6 | 186.2 | - | - | 163.6 | 186.2 |
| Revenue Bonds | <u>559.4</u> | <u>564.8</u> | <u>10,923.7</u> | <u>9,532.3</u> | <u>11,483.1</u> | <u>10,097.1</u> |
| Total | <u>\$ 8,228.9</u> | <u>\$ 7,617.9</u> | <u>\$ 10,923.7</u> | <u>\$ 9,532.3</u> | <u>\$ 19,152.6</u> | <u>\$ 17,150.2</u> |

During 2010, the City issued the following:

General Obligation Bonds and Notes:

- General Obligation Bonds, Refunding Series 2009A, Taxable Project and Refunding Series 2009B, Taxable Project Series 2009C (Build America Bonds) and Taxable Project Series 2009D (Recovery Zone Economic Development Bonds) (\$793.3 million)
- General Obligation Modern Schools Across Chicago Bonds, Series 2010A and Taxable Series 2010B (\$150.1 million)
- General Obligation Bonds Taxable Series 2010B (Build America Bonds) (\$213.6 million)
- General Obligation Short Term Notes Series 2010 (\$70.4 million)
- General Obligation Commercial Paper Notes (\$170.7 million)

**CITY OF CHICAGO, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010 - Continued**

Enterprise Fund Revenue Bonds and Notes:

- Second Lien Water Revenue Bonds, Project and Refunding Series 2010A, Taxable Project Series 2010B (Build America Bonds) and Taxable Project Series 2010C (Qualified Energy Conservation Bonds) (\$313.6 million)
- Second Lien Wastewater Transmission Bonds, Revenue Refunding Series 2010A and Taxable Revenue Project Taxable Series 2010B (Build America Bonds) (\$275.9 million)
- Water Commercial Paper Notes (\$51.5 million)
- Chicago-O'Hare International Airport Passenger Facility Charge Revenue Bonds, Series 2010A (Non-AMT), Series 2010B (Non-AMT), Taxable Series 2010C and Refunding Series 2010D (Non-AMT) (\$137.7 million)
- Chicago-O'Hare International Airport General Airport Third Lien Revenue Bonds, Series 2010A (Non-AMT), Taxable Series 2010B (Build America Bonds), Series 2010C (Non-AMT), Refunding Series 2010D (AMT), Refunding Series 2010E (AMT) and Series 2010F (Non-AMT) (\$1.04 billion)
- Chicago Midway Airport Second Lien Revenue Bonds, Taxable Series 2010 A-1 and Taxable Series 2010 A-2 (\$80.5 million)
- Chicago Midway Airport Second Lien Revenue Bonds, Series 2010B (Non-AMT), Taxable Series 2010C and Taxable Series 2010 D-2 (\$246.5 million)
- Chicago-O'Hare International Airport General Commercial Paper Notes (\$.5 million)
- Chicago Midway International Airport General Commercial Paper Notes (\$35.5 million)

At December 31, 2010 the City had credit ratings with each of the three major rating agencies as follows:

| Rating Agency | Moody's | Standard & Poors | Fitch |
|--|---------|------------------|-------|
| General Obligation: | | | |
| City | Aa3 | A+ | AA- |
| Revenue Bonds: | | | |
| O'Hare Airport: | | | |
| First Lien General Airport Revenue Bonds | Aa3 | AA | AA+ |
| Second Lien General Airport Revenue Bonds | A1 | AA- | AA |
| Third Lien General Airport Revenue Bonds | A1 | A- | A |
| First Lien Passenger Facility Charge (PFC) | A2 | A- | A+ |
| Midway Airport: | | | |
| First Lien | A2 | A | A |
| Second Lien | A3 | A- | A- |
| Water: | | | |
| First Lien | Aa2 | AA | AA+ |
| Second Lien | Aa3 | AA- | AA |
| Wastewater: | | | |
| First Lien | Aa2 | AA- | n/a |
| Junior Lien | Aa3 | A+ | AA |
| Sales Tax | Aa2 | AAA | AA- |
| Motor Fuel Tax | Aa3 | AA+ | A- |

In 2007, the City closed and extinguished the First Lien Passenger Facility Charge (PFC) bonds. All outstanding PFC bonds exist within the same lien status.

**CITY OF CHICAGO, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010 - Concluded**

Economic Factors and Next Year's Budgets and Rates

The City's finances are closely tied with the global and national economies. Nationally, in 2010 new housing unit starts experienced a slight increase of 5.5 percent above 2009 levels. Additionally, in Chicago year to date average home prices increased 1.6 percent in 2010 over 2009 levels and real estate transaction tax collections increased by 23.8 percent from 2009 collections as a result of the Federal Homeowner Affordability and Stimulus Plan.

Additionally, 2010 sales tax collections saw a slight increase of 1.8 percent. Amusement tax collections increased by 7.72 percent in 2010 as a result of post season sporting events.

Chicago is a center of tourism and conventions. Chicago's business district includes more than 30,000 hotel rooms within a five-mile range of McCormick Place, the convention facility that contains 2.6 million square feet of exhibit halls. Hotel projects completed in 2010 included the JW Marriott with 610 rooms and Hotel Palomar with 261 rooms. Hotel occupancy increased to 70 percent in 2010 and the average daily room rate increased by 1.84 percent.

The 2010 national unemployment rate reached 9.63 percent up from 9.275 percent in 2009. The City saw minimal change in 2010 as its unemployment rate increased to 10.1 percent in 2010 up from 10.0 percent in 2009.

The City's 2011 Corporate Fund budget was approved by the City Council on November 17, 2010. The City's budget totals \$3,263.7 million, reflecting an increase of \$84.0 million or approximately 2.6 percent of the 2010 Corporate Fund budget. The 2011 budget balances a preliminary shortfall of \$654.7 million by reducing costs, better managing resources and utilizing strategic financial options, including the reduction of 277 full time budgeted positions. Due to severe economic conditions over recent years, the City has needed to utilize nonrecurring revenue sources for budgetary purposes. This has taken the form of expending asset concession reserves and intends to utilize tax increment funds by declaring a surplus in twenty-six tax increment financing districts.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Chicago Comptroller's Office.

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Exhibit 1
CITY OF CHICAGO, ILLINOIS
STATEMENT OF NET ASSETS
December 31, 2010
(Amounts are in Thousands of Dollars)

| | Primary Government | | |
|---|----------------------------|-----------------------------|-----------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS AND DEFERRED OUTFLOWS | | | |
| Cash and Cash Equivalents | \$ 1,594,798 | \$ 225,325 | \$ 1,820,123 |
| Investments | 950,161 | 132,890 | 1,083,051 |
| Cash and Investments with Escrow Agent | 457,748 | - | 457,748 |
| Receivables (Net of Allowances): | | | |
| Property Tax | 1,423,922 | - | 1,423,922 |
| Accounts | 735,807 | 281,101 | 1,016,908 |
| Internal Balances | (16,851) | 16,851 | - |
| Inventories | 18,180 | 15,502 | 33,682 |
| Restricted Assets: | | | |
| Cash and Cash Equivalents | 137,363 | 1,376,006 | 1,513,369 |
| Investments | 560,246 | 1,396,955 | 1,957,201 |
| Other Assets | 247,931 | 494,562 | 742,493 |
| Capital Assets: | | | |
| Land, Art, and Construction in Progress | 1,559,949 | 2,283,645 | 3,843,594 |
| Other Capital Assets, Net of Accumulated Depreciation | 5,728,394 | 9,110,105 | 14,838,499 |
| Total Capital Assets | 7,288,343 | 11,393,750 | 18,682,093 |
| Deferred Outflows | 92,589 | 141,379 | 233,968 |
| Total Assets and Deferred Outflows | <u>\$ 13,490,237</u> | <u>\$ 15,474,321</u> | <u>\$ 28,964,558</u> |
| LIABILITIES AND DEFERRED INFLOWS | | | |
| Voucher Warrants Payable | \$ 479,047 | \$ 278,138 | \$ 757,185 |
| Short-term Debt | 672 | - | 672 |
| Accrued Interest | 145,788 | 212,366 | 358,154 |
| Accrued and Other Liabilities | 733,300 | 146,729 | 880,029 |
| Unearned Revenue | 109,836 | 216,619 | 326,455 |
| Long-term Liabilities: | | | |
| Due Within One Year | 275,186 | 186,925 | 462,111 |
| Other Long-term liabilities | - | 17,937 | 17,937 |
| Derivative Instrument Liability | 115,269 | 146,560 | 261,829 |
| Due in More Than One Year | 13,266,026 | 10,825,412 | 24,091,438 |
| Total Liabilities | <u>15,125,124</u> | <u>12,030,686</u> | <u>27,155,810</u> |
| Deferred Inflows | <u>1,660,426</u> | <u>1,719,091</u> | <u>3,379,517</u> |
| NET ASSETS | | | |
| Invested in Capital Assets, Net of Related Debt | (324,284) | 2,365,522 | 2,041,238 |
| Restricted for: | | | |
| Capital Projects | 99,646 | 174,035 | 273,681 |
| Long-term Reserve | 877,890 | - | 877,890 |
| Debt Service | 1,132,545 | 11,860 | 1,144,405 |
| Federal, State and Local Grants | 13,050 | - | 13,050 |
| Special Taxing Areas | 1,488,402 | - | 1,488,402 |
| Passenger Facility Charges | - | 179,571 | 179,571 |
| Noise Mitigation Program | - | 206,838 | 206,838 |
| Other Purposes | - | 218,577 | 218,577 |
| Unrestricted (Deficit) | <u>(6,582,562)</u> | <u>(1,431,859)</u> | <u>(8,014,421)</u> |
| Total Net Assets (Deficit) | <u>\$ (3,295,313)</u> | <u>\$ 1,724,544</u> | <u>\$ (1,570,769)</u> |

See notes to basic financial statements.

Exhibit 2
CITY OF CHICAGO, ILLINOIS
STATEMENT OF ACTIVITIES
Year Ended December 31, 2010
(Amounts are in Thousands of Dollars)

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Licenses, Permits, Fines and Charges for Services</u> |
|---|---------------------|--|
| Primary Government | | |
| Governmental Activities: | | |
| General Government | \$ 2,557,681 | \$ 370,028 |
| Public Safety | 2,824,028 | 150,710 |
| Streets and Sanitation | 235,863 | 38,092 |
| Transportation | 373,437 | 21,640 |
| Health | 142,352 | 8,332 |
| Cultural and Recreational | 126,939 | 21,635 |
| Interest on Long-term Debt | 404,218 | - |
| Total Governmental Activities | 6,664,518 | 610,437 |
| Business-type Activities: | | |
| Water | 399,347 | 458,395 |
| Sewer | 184,888 | 198,229 |
| Chicago Midway International Airport | 224,465 | 149,056 |
| Chicago-O'Hare International Airport | 834,487 | 702,603 |
| Chicago Skyway | 11,312 | - |
| Total Business-type Activities | 1,654,499 | 1,508,283 |
| Total Primary Government | \$ 8,319,017 | \$ 2,118,720 |

See notes to basic financial statements.

| Program Revenues | | Net (Expense) Revenue and Changes in Net Assets | | |
|--|--|---|-----------------------------|-----------------------|
| | | Primary Government | | |
| Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| \$ 487,373 | \$ 4,903 | \$ (1,695,377) | \$ - | \$ (1,695,377) |
| 75,131 | - | (2,598,187) | - | (2,598,187) |
| - | - | (197,771) | - | (197,771) |
| - | 109,968 | (241,829) | - | (241,829) |
| 98,287 | - | (35,733) | - | (35,733) |
| 13,886 | - | (91,418) | - | (91,418) |
| - | - | (404,218) | - | (404,218) |
| <u>674,677</u> | <u>114,871</u> | <u>(5,264,533)</u> | <u>-</u> | <u>(5,264,533)</u> |
| - | 3,414 | - | 62,462 | 62,462 |
| - | 3,136 | - | 16,477 | 16,477 |
| - | 43,226 | - | (32,183) | (32,183) |
| - | 196,533 | - | 64,649 | 64,649 |
| - | - | - | (11,312) | (11,312) |
| - | <u>246,309</u> | <u>-</u> | <u>100,093</u> | <u>100,093</u> |
| <u>\$ 674,677</u> | <u>\$ 361,180</u> | <u>(5,264,533)</u> | <u>100,093</u> | <u>(5,164,440)</u> |
| General Revenues | | | | |
| Taxes: | | | | |
| Property Tax | | 796,928 | - | 796,928 |
| Utility Tax | | 561,936 | - | 561,936 |
| Sales Tax | | 260,364 | - | 260,364 |
| Transportation Tax | | 335,235 | - | 335,235 |
| Transaction Tax | | 227,772 | - | 227,772 |
| Special Area Tax | | 477,241 | - | 477,241 |
| Recreation Tax | | 158,390 | - | 158,390 |
| Other Taxes | | 100,935 | - | 100,935 |
| Grants and Contributions not Restricted to | | | | |
| Specific Programs | | 654,043 | - | 654,043 |
| Unrestricted Investment Earnings | | 100,269 | 6,831 | 107,100 |
| Miscellaneous | | 149,902 | 50,190 | 200,092 |
| Total General Revenues | | 3,823,015 | 57,021 | 3,880,036 |
| Transfers | | | | |
| Change in Net Assets | | (1,441,518) | 157,114 | (1,284,404) |
| Net Assets - Beginning (Deficit) | | (1,853,795) | 1,567,430 | (286,365) |
| Net Assets - Ending (Deficit) | | <u>\$ (3,295,313)</u> | <u>\$ 1,724,544</u> | <u>\$ (1,570,769)</u> |

Exhibit 3
CITY OF CHICAGO, ILLINOIS
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2010
(Amounts are in Thousands of Dollars)

| | General | Federal, State and Local Grants | Special Taxing Areas |
|---|-------------------|---------------------------------------|----------------------------|
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 10,003 | \$ 32,990 | \$ 1,185,968 |
| Investments | 13,065 | 16,251 | 199,320 |
| Cash and Investments with Escrow Agent | - | - | - |
| Receivables (Net of Allowances): | | | |
| Property Tax | - | - | 394,374 |
| Accounts | 220,183 | 28,038 | 1,417 |
| Due From Other Funds | 254,124 | 29,707 | 6,378 |
| Due From Other Governments | 231,987 | 145,497 | - |
| Inventories | 18,180 | - | - |
| Restricted Cash and Cash Equivalents | - | - | - |
| Restricted Investments | - | - | - |
| Other Assets | - | 7,632 | - |
| Total Assets | \$ 747,542 | \$ 260,115 | \$ 1,787,457 |
| LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE | | | |
| Liabilities: | | | |
| Voucher Warrants Payable | \$ 159,608 | \$ 134,898 | \$ 39,884 |
| Bonds, Notes and Other Obligations Payable - Current | - | - | - |
| Accrued Interest | - | - | - |
| Due To Other Funds | 295,566 | 40,850 | 10,657 |
| Accrued and Other Liabilities | 117,443 | 11,068 | 3,387 |
| Claims Payable | 36,505 | - | - |
| Deferred Revenue | 2,879 | 60,249 | 333,198 |
| Total Liabilities | 612,001 | 247,065 | 387,126 |
| Deferred Inflows | - | - | - |
| Fund Balance: | | | |
| Reserved for Encumbrances | 36,210 | - | 191,230 |
| Reserved for Resale Property | - | 7,632 | - |
| Reserved for Inventory | 18,180 | - | - |
| Reserved for Debt Service | - | - | - |
| Reserved for Long-term Trust Fund | - | - | - |
| Unreserved, Designated for Future Appropriations | - | - | 188,000 |
| Unreserved, Undesignated - Major Funds | 81,151 | 5,418 | 1,021,101 |
| Unreserved, Undesignated - Special Revenue Funds | - | - | - |
| Unreserved, Undesignated - Capital Projects Funds | - | - | - |
| Total Fund Balance | 135,541 | 13,050 | 1,400,331 |
| Total Liabilities, Deferred Inflows and Fund Balance | \$ 747,542 | \$ 260,115 | \$ 1,787,457 |

See notes to basic financial statements.

| Service Concession Agreements | Reserve | Bond, Note Redemption and Interest | Community Development and Improvement Projects | Other Governmental Funds | Total Governmental Funds |
|-------------------------------------|-------------------|--|---|--------------------------------|--------------------------------|
| \$ - | \$ 29,649 | \$ 50,713 | \$ 71,647 | \$ 213,828 | \$ 1,594,798 |
| - | 98,659 | 110,230 | 473,690 | 38,946 | 950,161 |
| - | - | 325,455 | - | 132,293 | 457,748 |
| - | - | 526,556 | - | 502,992 | 1,423,922 |
| - | 1,973 | 41,525 | 2,832 | 22,363 | 318,331 |
| - | 50,000 | 1,512 | 68,131 | 94,373 | 504,225 |
| - | - | 1,511 | - | 38,481 | 417,476 |
| - | - | - | - | - | 18,180 |
| - | 137,363 | - | - | - | 137,363 |
| - | 560,246 | - | - | - | 560,246 |
| - | - | - | - | - | 7,632 |
| <u>\$ -</u> | <u>\$ 877,890</u> | <u>\$ 1,057,502</u> | <u>\$ 616,300</u> | <u>\$ 1,043,276</u> | <u>\$ 6,390,082</u> |
| \$ - | \$ - | \$ - | \$ 39,566 | \$ 80,206 | \$ 454,162 |
| - | - | 140,248 | - | 6,695 | 146,943 |
| - | - | 142,160 | - | 2,775 | 144,935 |
| - | - | - | 97,910 | 81,010 | 525,993 |
| - | - | - | 198 | 67,228 | 199,324 |
| - | - | - | - | - | 36,505 |
| - | - | 510,492 | - | 436,501 | 1,343,319 |
| - | - | 792,900 | 137,674 | 674,415 | 2,851,181 |
| <u>1,660,426</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,660,426</u> |
| - | - | - | 37,148 | 21,486 | 286,074 |
| - | - | - | - | - | 7,632 |
| - | - | - | - | - | 18,180 |
| - | - | 264,602 | - | 158,450 | 423,052 |
| - | 739,166 | - | - | - | 739,166 |
| - | 138,724 | - | - | - | 326,724 |
| (1,660,426) | - | - | 441,478 | - | (111,278) |
| - | - | - | - | 96,390 | 96,390 |
| - | - | - | - | 92,535 | 92,535 |
| <u>(1,660,426)</u> | <u>877,890</u> | <u>264,602</u> | <u>478,626</u> | <u>368,861</u> | <u>1,878,475</u> |
| <u>\$ -</u> | <u>\$ 877,890</u> | <u>\$ 1,057,502</u> | <u>\$ 616,300</u> | <u>\$ 1,043,276</u> | <u>\$ 6,390,082</u> |

Amounts reported for governmental activities in the statement of net assets are different because:

| | |
|---|-----------------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds | 7,288,343 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds ... | 1,378,564 |
| Certain liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds | (13,840,695) |
| Net assets of governmental activities | <u>\$ (3,295,313)</u> |

Exhibit 4
CITY OF CHICAGO, ILLINOIS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2010
(Amounts are in Thousands of Dollars)

| | General | Federal, State and Local Grants | Special Taxing Areas |
|---|------------------|--|----------------------------|
| Revenues: | | | |
| Property Tax | \$ - | \$ - | \$ - |
| Utility Tax | 467,411 | - | - |
| Sales Tax | 495,842 | - | - |
| Transportation Tax | 150,706 | - | - |
| State Income Tax | 282,011 | - | - |
| Transaction Tax | 195,085 | - | - |
| Special Area Tax | - | - | 372,577 |
| Recreation Tax | 158,390 | - | - |
| Other Taxes | 86,394 | - | - |
| Federal/State Grants | 1,735 | 814,144 | - |
| Internal Service | 274,574 | - | - |
| Licenses and Permits | 96,240 | - | - |
| Fines | 258,802 | - | - |
| Investment Income (Loss) | 4,200 | - | 2,323 |
| Charges for Services | 84,002 | - | 2 |
| Miscellaneous | 55,460 | - | 274 |
| Total Revenues | 2,610,852 | 814,144 | 375,176 |
| Expenditures: | | | |
| Current: | | | |
| General Government | 903,890 | 467,299 | 182,027 |
| Health | 35,593 | 112,521 | 59 |
| Public Safety | 1,828,984 | 77,180 | 406 |
| Streets and Sanitation | 177,950 | - | 3,071 |
| Transportation | 70,032 | 119,294 | 54,994 |
| Cultural and Recreational | 544 | 14,760 | 4,569 |
| Employee Pensions | - | - | - |
| Other | 11,944 | 17,187 | - |
| Capital Outlay | - | 4,903 | - |
| Debt Service: | | | |
| Principal Retirement | 3,785 | - | - |
| Interest and Other Fiscal Charges | 1,219 | - | - |
| Total Expenditures | 3,033,941 | 813,144 | 245,126 |
| Revenues Over (Under) Expenditures ... | (423,089) | 1,000 | 130,050 |

Continued on following pages.

| Service Concession Agreements | Reserve | Bond, Note Redemption and Interest | Community Development and Improvement Projects | Nonmajor Governmental Funds | Total Governmental Funds |
|-------------------------------------|---------|--|--|-----------------------------------|--------------------------------|
| \$ - | \$ - | \$ 437,463 | \$ - | \$ 316,618 | \$ 754,081 |
| - | - | 22,324 | - | 72,201 | 561,936 |
| - | - | 29,753 | - | 1,409 | 527,004 |
| - | - | 15,617 | - | 168,912 | 335,235 |
| - | - | - | - | 103,657 | 385,668 |
| - | - | - | - | 32,687 | 227,772 |
| - | - | - | - | 113,949 | 486,526 |
| - | - | - | - | - | 158,390 |
| - | - | - | - | 14,541 | 100,935 |
| - | - | - | - | - | 815,879 |
| - | - | - | - | 21,191 | 295,765 |
| - | - | - | - | - | 96,240 |
| - | - | - | - | 13,865 | 272,667 |
| - | 33,430 | 54,265 | 4,311 | 5,196 | 103,725 |
| - | - | - | - | 29,561 | 113,565 |
| 21,033 | - | 6,057 | 36,147 | 30,931 | 149,902 |
| 21,033 | 33,430 | 565,479 | 40,458 | 924,718 | 5,385,290 |
| - | 7 | - | - | 233,227 | 1,786,450 |
| - | - | - | - | 5,704 | 153,877 |
| - | - | - | - | 3,158 | 1,909,728 |
| - | - | - | - | 51,405 | 232,426 |
| - | - | - | - | 53,019 | 297,339 |
| - | - | - | - | 84,424 | 104,297 |
| - | - | - | - | 435,432 | 435,432 |
| - | - | - | - | 869 | 30,000 |
| - | - | - | 557,608 | 66,399 | 628,910 |
| - | - | 349,608 | - | 36,535 | 389,928 |
| - | - | 332,487 | - | 32,329 | 366,035 |
| - | 7 | 682,095 | 557,608 | 1,002,501 | 6,334,422 |
| 21,033 | 33,423 | (116,616) | (517,150) | (77,783) | (949,132) |

Exhibit 4 - Concluded
CITY OF CHICAGO, ILLINOIS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2010
(Amounts are in Thousands of Dollars)

| | General | Federal, State and Local Grants | Special Taxing Areas |
|--|-------------------|--|----------------------------|
| Other Financing Sources (Uses): | | | |
| Issuance of Debt | \$ 16,500 | \$ - | \$ - |
| Premium | - | - | - |
| Payment to Refunded Bond Escrow Agent ... | - | - | - |
| Transfers In | 502,502 | - | 80,824 |
| Transfers Out | (13,600) | (1,000) | (43,307) |
| Total Other Financing Sources (Uses) | 505,402 | (1,000) | 37,517 |
| Net Changes in Fund Balance | 82,313 | - | 167,567 |
| Fund Balance, Beginning of Year | 54,706 | 13,050 | 1,232,764 |
| Change in Inventory | (1,478) | - | - |
| Fund Balance, End of Year | <u>\$ 135,541</u> | <u>\$ 13,050</u> | <u>\$ 1,400,331</u> |

See notes to basic financial statements.

| <u>Service Concession Agreements</u> | <u>Reserve</u> | <u>Bond, Note Redemption and Interest</u> | <u>Community Development and Improvement Projects</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------|---|---|--|---|
| \$ - | \$ - | \$ 559,081 | \$ 612,336 | \$ 210,108 | \$ 1,398,025 |
| - | - | - | 36,365 | - | 36,365 |
| - | - | (412,184) | - | - | (412,184) |
| - | - | - | 6,296 | 57,785 | 647,407 |
| - | (457,852) | (22,150) | (99) | (109,399) | (647,407) |
| - | (457,852) | 124,747 | 654,898 | 158,494 | 1,022,206 |
| 21,033 | (424,429) | 8,131 | 137,748 | 80,711 | 73,074 |
| (1,681,459) | 1,302,319 | 256,471 | 340,878 | 288,150 | 1,806,879 |
| - | - | - | - | - | (1,478) |
| <u>\$ (1,660,426)</u> | <u>\$ 877,890</u> | <u>\$ 264,602</u> | <u>\$ 478,626</u> | <u>\$ 368,861</u> | <u>\$ 1,878,475</u> |

Exhibit 5
CITY OF CHICAGO, ILLINOIS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2010
(Amounts are in Thousands of Dollars)

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|--|-----------------------|
| Net change in fund balances - total governmental funds | \$ 73,074 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period | (31,320) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds | 30,106 |
| Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments | (657,809) |
| Certain expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds | (855,569) |
| Change in the net assets of governmental activities | <u>\$ (1,441,518)</u> |

Exhibit 6
CITY OF CHICAGO, ILLINOIS
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND (BUDGETARY BASIS)
Year Ended December 31, 2010
(Amounts are in Thousands of Dollars)

| | Original Budget | Final Budget | Actual Amounts | Variance Positive (Negative) |
|---|--------------------|------------------|-------------------|------------------------------------|
| Revenues: | | | | |
| Utility Tax | \$ 479,809 | \$ 479,809 | \$ 467,411 | \$ (12,398) |
| Sales Tax | 215,312 | 215,312 | 229,202 | 13,890 |
| Transportation Tax | 155,661 | 155,661 | 150,706 | (4,955) |
| Transaction Tax | 172,713 | 172,713 | 195,085 | 22,372 |
| Recreation Tax | 154,757 | 154,757 | 158,390 | 3,633 |
| Business Tax | 78,146 | 78,146 | 82,960 | 4,814 |
| State Income Tax | 210,255 | 210,255 | 282,011 | 71,756 |
| State Sales Tax | 245,042 | 245,042 | 266,640 | 21,598 |
| State Auto Rental | 3,160 | 3,160 | 3,434 | 274 |
| Federal/State Grants | 2,500 | 2,500 | 1,735 | (765) |
| Internal Service | 289,328 | 289,328 | 274,574 | (14,754) |
| Licenses and Permits | 105,953 | 105,953 | 96,240 | (9,713) |
| Fines | 262,900 | 262,900 | 258,802 | (4,098) |
| Investment Income | 3,000 | 3,000 | 4,200 | 1,200 |
| Charges for Services | 77,543 | 77,543 | 77,694 | 151 |
| Municipal Utilities | 6,038 | 6,038 | 6,405 | 367 |
| Leases, Rentals and Sales | 19,284 | 19,284 | 17,604 | (1,680) |
| Miscellaneous | 11,150 | 11,150 | 37,759 | 26,609 |
| Issuance of Debt, Net of Original Discount | 16,500 | 16,500 | 16,500 | - |
| Budgeted Prior Years' Surplus and Reappropriations | - | - | - | - |
| Transfers In/Out | 670,694 | 670,694 | 502,502 | (168,192) |
| Total Revenues | 3,179,745 | 3,179,745 | 3,129,854 | (49,891) |
| Expenditures: | | | | |
| Current: | | | | |
| General Government | 1,044,147 | 1,044,147 | 919,386 | 124,761 |
| Health | 38,470 | 38,470 | 35,942 | 2,528 |
| Public Safety | 1,826,846 | 1,826,846 | 1,832,942 | (6,096) |
| Streets and Sanitation | 185,471 | 185,471 | 178,074 | 7,397 |
| Transportation | 79,314 | 79,314 | 72,375 | 6,939 |
| Cultural and Recreational | 564 | 564 | 544 | 20 |
| Debt Service: | | | | |
| Principal Retirement | 3,785 | 3,785 | 3,785 | - |
| Interest and Other Fiscal Charges | 1,148 | 1,148 | 1,138 | 10 |
| Total Expenditures | 3,179,745 | 3,179,745 | 3,044,186 | 135,559 |
| Revenues Over (Under) Expenditures | \$ - | \$ - | \$ 85,668 | \$ 85,668 |

See notes to basic financial statements.

Exhibit 7
CITY OF CHICAGO, ILLINOIS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2010
(Amounts are in Thousands of Dollars)

| | Business-type Activities - Enterprise Funds | | | | | |
|--|---|--------------|---|--|-------------------|---------------|
| | Major Funds | | | | | |
| | Water | Sewer | Chicago Midway International Airport | Chicago- O'Hare International Airport | Chicago Skyway | Total |
| ASSETS AND DEFERRED OUTFLOWS | | | | | | |
| CURRENT ASSETS: | | | | | | |
| Unrestricted Assets: | | | | | | |
| Cash and Cash Equivalents | \$ 32,871 | \$ 17,999 | \$ 21,552 | \$ 150,789 | \$ 2,114 | \$ 225,325 |
| Investments | 3,840 | 4,803 | 44,917 | 79,177 | 153 | 132,890 |
| Accounts Receivable (Net of Allowances) | 108,154 | 58,831 | 10,660 | 86,067 | 56 | 263,768 |
| Due from Other Funds | 19,501 | 26,937 | 1,064 | 20,966 | - | 68,468 |
| Due from Other Governments | - | - | 1,857 | 15,476 | - | 17,333 |
| Inventories | 14,066 | 1,436 | - | - | - | 15,502 |
| Total Unrestricted Assets | 178,432 | 110,006 | 80,050 | 352,475 | 2,323 | 723,286 |
| Restricted Assets: | | | | | | |
| Cash and Cash Equivalents | 146,981 | 137,780 | 228,236 | 863,009 | - | 1,376,006 |
| Investments | 186,011 | 112,971 | 189,161 | 908,812 | - | 1,396,955 |
| Total Restricted Assets | 332,992 | 250,751 | 417,397 | 1,771,821 | - | 2,772,961 |
| Total Current Assets | 511,424 | 360,757 | 497,447 | 2,124,296 | 2,323 | 3,496,247 |
| NONCURRENT ASSETS: | | | | | | |
| OTHER ASSETS | 15,285 | 11,896 | 114,097 | 342,873 | 10,411 | 494,562 |
| PROPERTY, PLANT AND EQUIPMENT: | | | | | | |
| Land | 5,083 | 560 | 107,287 | 738,472 | 12,609 | 864,011 |
| Structures, Equipment and Improvements | 3,142,354 | 1,737,335 | 1,362,200 | 6,389,283 | 490,755 | 13,121,927 |
| Accumulated Depreciation | (778,115) | (387,276) | (338,401) | (2,316,486) | (191,544) | (4,011,822) |
| Construction Work in Progress | 123,416 | 11,709 | 20,229 | 1,264,280 | - | 1,419,634 |
| Total Property, Plant and Equipment ... | 2,492,738 | 1,362,328 | 1,151,315 | 6,075,549 | 311,820 | 11,393,750 |
| Total Noncurrent Assets | 2,508,023 | 1,374,224 | 1,265,412 | 6,418,422 | 322,231 | 11,888,312 |
| Deferred Outflows | 77,367 | 49,116 | 14,896 | - | - | 141,379 |
| Total Assets and Deferred Outflows | \$ 3,096,814 | \$ 1,784,097 | \$ 1,777,755 | \$ 8,542,718 | \$ 324,554 | \$ 15,525,938 |

See notes to basic financial statements.

| | Business-type Activities - Enterprise Funds | | | | | |
|---------------------------------------|---|------------|---|--|-------------------|--------------|
| | Major Funds | | | | | |
| | Water | Sewer | Chicago Midway International Airport | Chicago- O'Hare International Airport | Chicago Skyway | Total |
| LIABILITIES | | | | | | |
| CURRENT LIABILITIES: | | | | | | |
| Unrestricted Liabilities: | | | | | | |
| Voucher Warrants Payable | \$ 16,173 | \$ 22,611 | \$ 16,645 | \$ 65,988 | \$ 262 | \$ 121,679 |
| Due to Other Funds | 26,887 | 13,312 | 6,747 | 4,656 | 15 | 51,617 |
| Accrued and Other Liabilities | 74,729 | 40,414 | 2,214 | 14,595 | 146 | 132,098 |
| Deferred Revenue | 20,774 | 15,914 | 32,908 | 147,023 | - | 216,619 |
| Total Unrestricted Liabilities | 138,563 | 92,251 | 58,514 | 232,262 | 423 | 522,013 |
| Restricted Liabilities: | | | | | | |
| Current Liabilities Payable From | | | | | | |
| Restricted Assets | 68,486 | 39,939 | 60,163 | 401,793 | - | 570,381 |
| Total Current Liabilities | 207,049 | 132,190 | 118,677 | 634,055 | 423 | 1,092,394 |
| NONCURRENT LIABILITIES: | | | | | | |
| Revenue Bonds Payable | 1,743,732 | 1,112,087 | 1,458,667 | 6,510,926 | - | 10,825,412 |
| Derivative Instrument Liability | 77,367 | 49,116 | 20,077 | - | - | 146,560 |
| Capital Lease | - | - | 9,408 | - | - | 9,408 |
| Long-term Purchase Obligation | 8,529 | - | - | - | - | 8,529 |
| Total Noncurrent Liabilities | 1,829,628 | 1,161,203 | 1,488,152 | 6,510,926 | - | 10,989,909 |
| Total Liabilities | 2,036,677 | 1,293,393 | 1,606,829 | 7,144,981 | 423 | 12,082,303 |
| DEFERRED INFLOWS | - | - | - | - | 1,719,091 | 1,719,091 |
| NET ASSETS: | | | | | | |
| Invested in Capital Assets, Net of | | | | | | |
| Related Debt | 974,328 | 414,766 | (39,755) | 704,324 | 311,859 | 2,365,522 |
| Restricted Net Assets: | | | | | | |
| Debt Service | - | - | 11,860 | - | - | 11,860 |
| Capital Projects | 447 | 11,110 | 11,438 | 151,040 | - | 174,035 |
| Passenger Facility Charges | - | - | 5,437 | 174,134 | - | 179,571 |
| Contractual Use Agreement | - | - | 24,744 | 107,842 | - | 132,586 |
| Noise Mitigation Program | - | - | 102,429 | 104,409 | - | 206,838 |
| Other | - | - | 34,733 | 51,258 | - | 85,991 |
| Unrestricted Net Assets | 85,362 | 64,828 | 20,040 | 104,730 | (1,706,819) | (1,431,859) |
| Total Net Assets | \$ 1,060,137 | \$ 490,704 | \$ 170,926 | \$ 1,397,737 | \$ (1,394,960) | \$ 1,724,544 |

See notes to basic financial statements.

Exhibit 8
CITY OF CHICAGO, ILLINOIS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended December 31, 2010
(Amounts are in Thousands of Dollars)

| Business-type Activities - Enterprise Funds | | | | | | |
|---|---------------------|-------------------|---|--|-----------------------|---------------------|
| | Major Funds | | | | | Total |
| | Water | Sewer | Chicago Midway International Airport | Chicago- O'Hare International Airport | Chicago Skyway | |
| Operating Revenues: | | | | | | |
| Charges for Services | \$ 445,504 | \$ 197,455 | \$ 78,194 | \$ 458,879 | \$ - | \$ 1,180,032 |
| Rent | - | - | 70,862 | 243,724 | - | 314,586 |
| Other | 12,891 | 774 | - | - | - | 13,665 |
| Total Operating Revenues | 458,395 | 198,229 | 149,056 | 702,603 | - | 1,508,283 |
| Operating Expenses: | | | | | | |
| Personal Services | 102,946 | 17,179 | 42,105 | 147,437 | - | 309,667 |
| Contractual Services | 49,276 | 3,053 | 15,832 | 57,981 | - | 126,142 |
| Repairs and Maintenance | 1,587 | 66,584 | 31,942 | 86,463 | - | 186,576 |
| Commodities and Materials | 24,126 | - | - | - | - | 24,126 |
| Depreciation and Amortization | 44,519 | 23,775 | 52,767 | 185,079 | 11,312 | 317,452 |
| General Fund Reimbursements | 60,648 | 27,065 | - | - | - | 87,713 |
| Other | 40,507 | - | 18,457 | 118,747 | - | 177,711 |
| Total Operating Expenses | 323,609 | 137,656 | 161,103 | 595,707 | 11,312 | 1,229,387 |
| Operating Income (Loss) | 134,786 | 60,573 | (12,047) | 106,896 | (11,312) | 278,896 |
| Nonoperating Revenues (Expenses): | | | | | | |
| Investment Income (Loss) | (362) | (922) | (2,682) | 10,792 | 5 | 6,831 |
| Interest Expense | (75,738) | (47,232) | (63,362) | (238,780) | - | (425,112) |
| Facility Charges | - | - | 40,765 | 138,966 | - | 179,731 |
| Other | 530 | 21,448 | 777 | 8,954 | 18,481 | 50,190 |
| Total Nonoperating Revenues (Expenses) | (75,570) | (26,706) | (24,502) | (80,068) | 18,486 | (188,360) |
| Transfers Out | - | - | - | - | - | - |
| Capital Grants | 3,414 | 3,136 | 2,461 | 57,567 | - | 66,578 |
| Net Income (Loss) | 62,630 | 37,003 | (34,088) | 84,395 | 7,174 | 157,114 |
| Net Assets (Deficit) - Beginning of Year | 997,507 | 453,701 | 205,014 | 1,313,342 | (1,402,134) | 1,567,430 |
| Net Assets (Deficit) - End of Year | \$ 1,060,137 | \$ 490,704 | \$ 170,926 | \$ 1,397,737 | \$ (1,394,960) | \$ 1,724,544 |

See notes to basic financial statements.

Exhibit 9
CITY OF CHICAGO, ILLINOIS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended December 31, 2010
(Amounts are in Thousands of Dollars)

| Business-type Activities - Enterprise Funds | | | | | | |
|---|-------------|------------|---|--|-------------------|--------------|
| | Major Funds | | | | | |
| | Water | Sewer | Chicago Midway International Airport | Chicago- O'Hare International Airport | Chicago Skyway | Total |
| Cash Flows from Operating Activities: | | | | | | |
| Received from Customers | \$ 433,161 | \$ 190,357 | \$ 150,038 | \$ 785,799 | \$ - | \$ 1,559,355 |
| Payments to Vendors | (91,536) | (34,077) | (67,484) | (230,806) | - | (423,903) |
| Payments to Employees | (102,946) | (42,644) | (33,752) | (130,823) | - | (310,165) |
| Transactions with Other City Funds | (82,581) | (15,345) | (6,318) | (44,779) | - | (149,023) |
| Cash Flows from Operating Activities | 156,098 | 98,291 | 42,484 | 379,391 | - | 676,264 |
| Cash Flows from Capital and Related Financing Activities: | | | | | | |
| Proceeds from Issuance of Bonds | 367,532 | 275,865 | 331,020 | 1,177,650 | - | 2,152,067 |
| Acquisition and Construction of Capital Assets | (135,212) | (101,782) | (34,512) | (433,776) | - | (705,282) |
| Capital Grant Receipts | - | 3,136 | 604 | 45,934 | - | 49,674 |
| Bond Issuance Costs | (2,244) | (1,959) | (2,041) | (8,220) | - | (14,464) |
| Payment to Refund Bonds | (35,580) | (29,223) | (61,360) | (295,355) | - | (421,518) |
| Principal Paid on Debt | (44,554) | (24,030) | (55,073) | (196,727) | - | (320,384) |
| Interest Paid | (79,763) | (40,567) | (55,472) | (267,910) | - | (443,712) |
| Passenger Facility Charges | - | - | 42,600 | 141,952 | - | 184,552 |
| Noise Mitigation Program | - | - | (3,049) | (23,759) | - | (26,808) |
| Deposit | - | - | (1,420) | - | 12 | (1,408) |
| Cash Flows from Capital and Related Financing Activities | 70,179 | 81,440 | 161,297 | 139,789 | 12 | 452,717 |
| Cash Flows from Investing Activities: | | | | | | |
| Sale (Purchases) of Investments, Net | (101,935) | (86,729) | (97,746) | (143,553) | (116) | (430,079) |
| Investment Interest | 859 | 794 | 1,321 | 14,023 | 5 | 17,002 |
| Cash Flows from Investing Activities | (101,076) | (85,935) | (96,425) | (129,530) | (111) | (413,077) |
| Net Increase (Decrease) in Cash and Cash Equivalents | | | | | | |
| | 125,201 | 93,796 | 107,356 | 389,650 | (99) | 715,904 |
| Cash and Cash Equivalents, Beginning of Year | | | | | | |
| | 54,651 | 61,983 | 142,432 | 624,148 | 2,213 | 885,427 |
| Cash and Cash Equivalents, End of Year | | | | | | |
| | \$ 179,852 | \$ 155,779 | \$ 249,788 | \$ 1,013,798 | \$ 2,114 | \$ 1,601,331 |

See notes to basic financial statements.

Exhibit 9 - Concluded
CITY OF CHICAGO, ILLINOIS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended December 31, 2010
(Amounts are in Thousands of Dollars)

| | Business-type Activities - Enterprise Funds | | | | | |
|--|---|------------------|---|--|-------------------|-------------------|
| | Major Funds | | | | | Total |
| | Water | Sewer | Chicago Midway International Airport | Chicago- O'Hare International Airport | Chicago Skyway | |
| Reconciliation of Operating Income to | | | | | | |
| Cash Flows from Operating Activities: | | | | | | |
| Operating Income (Loss) | \$ 134,786 | \$ 60,573 | \$ (12,047) | \$ 106,896 | \$ (11,312) | \$ 278,896 |
| Adjustments to Reconcile: | | | | | | |
| Depreciation and Amortization | 44,519 | 23,775 | 52,767 | 185,079 | 11,312 | 317,452 |
| Provision for Uncollectible Accounts | 15,862 | 7,936 | 3,369 | (1,747) | - | 25,420 |
| Change in Assets and Liabilities: | | | | | | |
| (Increase) Decrease in Receivables | (24,839) | (8,296) | (1,950) | (13,511) | - | (48,596) |
| (Increase) Decrease in Due From Other Funds | (1,959) | 8,503 | 2,513 | (139) | - | 8,918 |
| Increase (Decrease) in Voucher Warrants | | | | | | |
| Payable and Due to Other Funds | (25,708) | 4,212 | (1,453) | 6,070 | - | (16,879) |
| Increase (Decrease) in Deferred Revenue | | | | | | |
| and Other Liabilities | 13,686 | 1,729 | (715) | 96,743 | - | 111,443 |
| (Increase) Decrease in Inventories and | | | | | | |
| Other Assets | (249) | (141) | - | - | - | (390) |
| Cash Flows from | | | | | | |
| Operating Activities | <u>\$ 156,098</u> | <u>\$ 98,291</u> | <u>\$ 42,484</u> | <u>\$ 379,391</u> | <u>\$ -</u> | <u>\$ 676,264</u> |
| Supplemental Disclosure of | | | | | | |
| Noncash Items: | | | | | | |
| Capital asset additions in 2010 | | | | | | |
| included in accounts payable | | | | | | |
| and accrued and other liabilities | <u>\$ 16,265</u> | <u>\$ 29,849</u> | <u>\$ 24,271</u> | <u>\$ 118,873</u> | <u>\$ -</u> | <u>\$ 189,258</u> |

See notes to basic financial statements.

Exhibit 10
CITY OF CHICAGO, ILLINOIS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
December 31, 2010
(Amounts are in Thousands of Dollars)

| | Pension Trust | Agency |
|--|----------------------|-------------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 211,424 | \$ 86,955 |
| Investments | - | 53,283 |
| Investments, at Fair Value | | |
| Bonds and U.S. Government | | |
| Obligations | 2,239,582 | - |
| Stocks | 6,558,369 | - |
| Mortgages and Real Estate | 440,241 | - |
| Other | 1,604,709 | - |
| Cash and Investments with | | |
| Escrow Agent | - | 16,726 |
| Property Tax Receivable | - | 103,407 |
| Accounts Receivable, Net | 844,487 | 109,327 |
| Due From City | 4,917 | - |
| Invested Securities Lending Collateral | 1,238,353 | - |
| Total Assets | \$ 13,142,082 | \$ 369,698 |
| LIABILITIES | | |
| Voucher Warrants Payable | \$ 495,175 | \$ 39,434 |
| Accrued and Other Liabilities | - | 330,264 |
| Securities Lending Collateral | 1,238,353 | - |
| Total Liabilities | 1,733,528 | 369,698 |
| NET ASSETS | | |
| Reserved for Employee | | |
| Benefit Plans | 11,408,554 | - |
| Total Net Assets Held in Trust for Pension Benefits | \$ 11,408,554 | \$ - |

See notes to basic financial statements.

Exhibit 11
CITY OF CHICAGO, ILLINOIS
STATEMENT OF CHANGES IN PLAN NET ASSETS
FIDUCIARY FUNDS - PENSION TRUST FUNDS
Year Ended December 31, 2010
(Amounts are in Thousands of Dollars)

| | <u>Total</u> |
|---|----------------------|
| ADDITIONS | |
| Contributions: | |
| Employees | \$ 299,752 |
| City | <u>449,668</u> |
| Total Contributions | <u>749,420</u> |
| Investment Income: | |
| Net Appreciation in | |
| Fair Value of Investments | 1,158,742 |
| Interest, Dividends and Other | 230,611 |
| Investment Expense | <u>(47,049)</u> |
| Net Investment Income | <u>1,342,304</u> |
| Securities Lending Transactions: | |
| Securities Lending Income | 12,985 |
| Securities Lending Expense | <u>(3,066)</u> |
| Net Securities Lending Transactions | <u>9,919</u> |
| Total Additions | <u>2,101,643</u> |
| DEDUCTIONS | |
| Benefits and Refunds of Deductions | 1,550,776 |
| Administrative and General | <u>19,161</u> |
| Total Deductions | <u>1,569,937</u> |
| Net Increase in Net Assets | 531,706 |
| Net Assets Held in Trust for | |
| Pension Benefits: | |
| Beginning of Year | <u>10,876,848</u> |
| End of Year | <u>\$ 11,408,554</u> |

See notes to basic financial statements.

**CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010**

1) Summary of Significant Accounting Policies

The City of Chicago (City), incorporated in 1837, is a "home rule" unit under State of Illinois (State) law. The City has a mayor-council form of government. The Mayor is the Chief Executive Officer of the City and is elected by general election. The City Council is the legislative body and consists of 50 members, each representing one of the City's 50 wards. The members of the City Council are elected through popular vote by ward for four-year terms.

The accounting policies of the City are based upon accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). For the year ended December 31, 2010, the City adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 enhances the usefulness and comparability of derivative instrument information reported by providing for the recognition, measurement, and disclosure of derivative instrument transactions. Derivative instruments such as interest rate and commodity swaps, swaptions, forward contracts, and futures contracts are entered into by governments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (i.e., hedgeable items); to lower the costs of borrowings; to effectively fix cash flows or synthetically fix prices; or to offset the changes in fair value of hedgeable items. A key provision of GASB Statement No. 53 is that certain derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, are reported at fair value by governments in their financial statements.

The financial reporting impact resulting from the implementation of GASB Statement No. 53 is the recognition within the financial statements of a liability for hedging and investment derivative instrument liabilities whose negative fair value at December 31, 2010 totaled \$261.8 million and deferred outflows of resources of \$234.0 million. The City also recorded an investment loss for the year ended December 31, 2010 of \$6.0 million. In addition, beginning net assets within the statement of activities was restated as of January 1, 2010 to reflect investment losses of \$21.9 million as a result of the retroactive implementation of this statement. Refer to Note No. 10 for additional disclosures related to this statement.

- a) **Reporting Entity** - The City includes the Chicago Public Library and the City-related funds of the Public Building Commission. The financial statements for the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), applicable to governmental units, as required by the Municipal Code of Chicago (Code).

The City's financial statements blend the following legally separate component units because they are fiscally dependent on the City and perform services primarily for City employees:

The Municipal Employees' Annuity and Benefit Fund of Chicago is governed by a five-member board: three members are elected by plan participants and two are members ex-officio.

The Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago is governed by an eight-member board: two members are elected by plan participants, two are members ex-officio, two members are appointed by the City Department of Human Resources, one member is elected by retired plan participants and one member is elected by the local labor union.

The Policemen's Annuity and Benefit Fund of Chicago is governed by an eight-member board: four members are elected by plan participants and four are appointed by the Mayor.

The Firemen's Annuity and Benefit Fund of Chicago is governed by an eight-member board: four members are elected by plan participants and four are members ex-officio.

Financial statements for each of the pension plans may be obtained at the respective fund's office.

Related Organizations - City officials are responsible for appointing a voting majority of the members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond

**CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED**

making appointments and no fiscal dependency exists between the City and these organizations. Therefore, the Chicago Park District, Chicago Public Schools, Community College District No. 508, Chicago Housing Authority and the Chicago Transit Authority are deemed to be related organizations.

- b) **Government-wide and fund financial statements** - The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identified with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

- c) **Measurement focus, basis of accounting, and financial statement presentation** - The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 90 days of the end of the current fiscal period with the exception of property tax revenue, which is deferred unless taxes are received within 60 days subsequent to year-end. Licenses and permits, charges for services and miscellaneous revenues are not considered to be susceptible to accrual and are recorded as revenues when received in cash. All other revenue items are considered to be measurable and available only when cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual basis of accounting, except for interest and principal on long-term debt, the long-term portion of compensated absences, claims and judgments and pension obligations.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Federal, State and Local Grants Fund accounts for the expenditures for programs, which include general government, health, public safety, transportation, aviation, cultural and recreational, and capital outlays. The majority of revenues are provided by several agencies of the Federal government, departments of the Illinois State government and City resources.

Special Taxing Areas Fund accounts for expenditures for special area operations and maintenance and for redevelopment project costs as provided by tax levies on special areas.

**CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED**

Service Concession Agreement Fund accounts for deferred inflows from long-term concession and lease transactions whose proceeds are restricted to expenditure for specified purposes.

Reserve Fund accounts for a Mid-term and Long-term Reserve. The Mid-term is subject to appropriation; whereas the Long-term's principal is legally restricted. These reserves were created as a result of the Skyway Lease and Meter Parking System transactions.

Bond, Note Redemption and Interest Fund accounts for the expenditures for principal and interest as provided by property tax, utility tax, sales tax, transportation tax, and investment income.

Community Development and Improvement Projects Funds account for proceeds of debt used to acquire property, finance construction, and finance authorized expenditures and supporting services for various activities.

The City reports the following major proprietary funds as business-type activities:

Water Fund accounts for the operations of the Chicago Water System (Water). The Water system purifies and provides Lake Michigan water for the City and 125 suburbs. The Water Fund operates two water treatment facilities and 12 pumping stations with a combined pumping capacity of 3,661 million gallons per day.

Sewer Fund accounts for the operations of the Wastewater Transmission System (Sewer). The Sewer system transports wastewater to the Metropolitan Water Reclamation District of Greater Chicago for processing and disposal. This service is provided for the residents and businesses of the City and certain suburban customers.

Chicago Midway International Airport Fund records operations of Chicago Midway International Airport (Midway) that provides regional travelers with access to airlines that generally specialize in low-cost, point-to-point, origin and destination passenger service. Midway Airport is conveniently located ten miles from down town Chicago.

Chicago-O'Hare International Airport Fund records operations of Chicago-O'Hare International Airport (O'Hare), the primary commercial airport for the City. The airlines servicing the airport operate out of four terminal buildings. Three domestic terminal buildings, having a total of 169 gates, serve domestic flights and certain international departures. The International Terminal, having a total of 20 gates and five remote aircraft parking positions, serves the remaining international departures and all international arrivals requiring customs clearance.

Chicago Skyway Fund records operations of the Chicago Skyway (Skyway) which provides vehicle passage across the Calumet River, between the State of Indiana and the State of Illinois (State) through the operation of a tollway which consists of a 7.8-mile span connecting the Dan Ryan Expressway to the Indiana Toll Road. Facilities include a single toll plaza consisting of a central office, maintenance garage and toll collection area. In January 2005, the City entered into a long-term Concession and Lease Agreement of the Skyway, granting a private company the ability to operate and to collect toll revenue during the 99-year term of the agreement. The City received a one-time upfront payment of \$1.83 billion.

Additionally, the City reports the following fiduciary fund types:

Pension Trust Funds report expenditures for employee pensions as provided by employee and employer contributions and investment earnings.

Agency Funds account for transactions for assets held by the City as agent for certain activities or for various entities. Payroll deductions and special deposits are the primary transactions accounted for in these funds.

**CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payment-in-lieu of taxes and other charges between the City's water, sewer, airports and skyway funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods and services, or privileges provided, or fines, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Certain indirect costs have been included as part of the program expenses reported for the various functional activities.

In the fund financial statements, proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water, sewer and skyway funds are charges to customers for sales and services. The airport funds principal operating revenues are derived from landing fees and terminal use charges as well as rents and concessions. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources, as they are needed.

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

d) Assets, liabilities, deferred inflows, and net assets or equity

- i) Cash, Cash Equivalents and Investments** generally are held with the City Treasurer as required by the Code. Interest earned on pooled investments is allocated to participating funds based upon their average combined cash and investment balances. Due to contractual agreements or legal restrictions, the cash and investments of certain funds are segregated and earn and receive interest directly. The City uses separate escrow accounts in which certain tax revenues are deposited and held for payment of debt.

The Code permits deposits only to City Council-approved depositories, which must be regularly organized state or national banks and federal and state savings and loan associations, located within the City, whose deposits are federally insured.

Investments authorized by the Code include interest-bearing general obligations of the City, State and U.S. Government; U.S. Treasury bills and other noninterest-bearing general obligations of the U.S. Government purchased in the open market below face value; domestic money market funds regulated and in good standing with the Securities and Exchange Commission and tax anticipation warrants issued by the City. The City is prohibited by ordinance from investing in derivatives, as defined, without City Council approval. The City values its investments at fair value or amortized cost. U.S. Government

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

securities purchased at a price other than par with a maturity of less than one year are reported at amortized cost.

The City's four retirement plans are authorized to invest in bonds, notes, and other obligations of the U.S. Government; corporate debentures and obligations; insured mortgage notes and loans; common and preferred stocks; stock options; real estate; and other investment vehicles as set forth in the Illinois Compiled Statutes. These investments are reported at fair value.

Repurchase agreements can be purchased only from banks and certain other institutions authorized to do business in the State. The City Treasurer requires that securities that are pledged to secure these agreements have a market value equal to the cost of the repurchase agreements plus accrued interest.

Investments generally may not have a maturity date in excess of ten years from the date of purchase. Certain other investments are held in accordance with the specific provisions of applicable ordinances.

Cash equivalents include certificates of deposit and other investments with maturities of three months or less when purchased.

Deficit cash balances result in interfund borrowings from the aggregate of funds other than escrowed funds. Interest income and expense are generally not recognized on these interfund borrowings.

State statutes and the City's Pension Plans' policies permit lending Pension Plan securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. Securities lent at year-end for cash collateral are presented as not categorized in the schedule of custodial credit risk; securities lent for securities collateral are classified according to the category for the collateral.

- ii) **Receivables and Payables** activity between funds are representative of services rendered, outstanding at the end of the fiscal year, and are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles. The allowance is based on historical trends. The estimated value of services provided but unbilled at year-end has been included in receivables.

- iii) **Inventory** includes government-wide inventories, which are stated at cost determined principally, using the average cost method. For proprietary funds, the costs of inventories are recorded as capital assets when used (consumption method). Governmental fund inventories are accounted for using the purchases method and are offset by a reservation of fund balance to indicate that they do not represent expendable available financial resources.

- iv) **Assets Held for Resale** includes land and buildings of \$7.6 million, recorded at lower of cost or market in the Federal, State and Local Grant Funds. These assets are purchased through the use of federal grants and City resources and are intended to be resold.

- v) **Restricted Assets** include certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment. These assets are classified as restricted in the basic financial statements because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

The Skyway Lease Transaction legally requires the Long-term reserve's principal to be restricted.

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

The Water and Sewer funds maintain Rate Stabilization Accounts where any net revenues remaining after providing sufficient funds for all required deposits in the bond accounts may be transferred upon the direction of the City to be used for any lawful purpose of the specific fund.

The O'Hare and Midway funds maintain Passenger Facility Charge accounts as restricted as they are subject to Federal Aviation Administration regulation and approval, to finance specific eligible capital and debt related activities.

- vi) **Capital Assets**, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets, or a network of assets, with an initial cost of more than \$5,000 (not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalization value of the assets constructed. The total interest expense (Governmental and Business Activities) incurred by the City during the current fiscal year was \$848.0 million, of which \$74.9 million was capitalized as part of the capital assets under construction projects in proprietary funds.

Property, plant, and equipment of the City are depreciated using the straight-line method, in the year subsequent to acquisition or when placed into service, over the following estimated useful lives:

| | |
|--|----------------|
| Utility plant..... | 25 - 100 years |
| Utility structures and improvements..... | 50 - 100 years |
| Buildings and improvements..... | 5 - 40 years |
| Airport runways, aprons, tunnels, taxiways, and paved roads..... | 5 - 40 years |
| Bridge infrastructure..... | 10 - 50 years |
| Lighting infrastructure..... | 25 years |
| Street infrastructure..... | 10 - 25 years |
| Transit infrastructure..... | 10 - 40 years |
| Equipment (vehicle, office, and computer) | 4 - 33 years |

The City has a collection of artwork and historical treasures presented for public exhibition and education that are being preserved for future generations. The proceeds from sales of any pieces of the collection are used to purchase other acquisitions. A portion of this collection is not capitalized or depreciated as part of capital assets.

- vii) **Deferred Outflows** represent the fair value of derivative instruments that are deemed to be effective.

- viii) **Employee Benefits** are granted for vacation and sick leave, workers' compensation and health care. Unused vacation leave is accrued and may be carried over for one year. Sick leave is accumulated at the rate of one day for each month worked, up to a maximum of 200 days. Severance of employment terminates all rights to receive compensation for any unused sick leave. Sick leave pay is not accrued. Employee benefit claims outstanding, including claims incurred but not reported, are estimated and recorded in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

Employees are eligible to defer a portion of their salaries until future years under the City's deferred compensation plan created in accordance with Internal Revenue Code Section 457. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Third-party administrators who maintain the investment portfolio administer the Plan. The plan's assets have been placed in trust accounts with the plan administrators for the exclusive benefit of participants and their beneficiaries and are not considered assets of the City.

The City is subject to the State of Illinois Unemployment Compensation Act and has elected the *reimbursing employer option for providing unemployment insurance benefits for eligible former employees*. Under this option, the City reimburses the State for claims paid by the State. Expenditures for workers' compensation are recorded when paid in the governmental funds. A liability for these amounts is recorded in the government-wide and proprietary fund financial statements.

- ix) **Judgments and claims** are included in the government-wide financial statements and proprietary fund types in the fund financial statements. Uninsured claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. In the fund financial statements, expenditures for judgments and claims are recorded on the basis of settlements reached or judgments entered within the current fiscal year. Amounts that related to deferred compensatory time and reserves for questioned costs are treated the same way.
- x) **Long-term obligations** are included in the government-wide financial statements and proprietary fund types in the fund financial statements. Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the related debt, except in the case of refunding debt transactions where the amortization period is over the term of the refunding or refunded debt, whichever is shorter.

The City enters into interest rate swap agreements to modify interest rates on outstanding debt. For existing swaps the net interest expenditures resulting from these arrangements are recorded as interest expense. The fair value of derivative instruments that are deemed to be effective is accounted for as deferred outflows. Derivative instruments that are deemed not effective are adjusted to fair value with the change in fair value recorded to investment earnings. All interest rate swaps and swaptions are approved by City Council.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received and discounts given on debt issued are reported as other financing sources or uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Certain debt obligations are to be paid from sales tax, motor fuel or special area taxes.

Long-term purchase obligation represents an agreement with DuPage Water Commission to construct electrical generation facilities not to exceed \$15.0 million. The payment of the obligation will be in the form of credits against the charges for water supplied.

- xi) **Deferred inflows** represent amounts to be recognized as revenue on a straight line basis over the life of the related long-term lease and concession agreements.
- xii) **Fund equity** in the government-wide statements is classified as net assets and displayed in three components:

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

- (1) Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or any other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- (2) Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) are legally restricted through constitutional provisions or enabling legislation. Restricted net assets for governmental activities represent restrictions associated with the nonmajor special revenue funds. Restricted net assets for business activities are provided in Exhibit #7, Statement of Net Assets, Proprietary Funds.
- (3) Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

2) Reconciliation of Government-wide and Fund Financial Statements

- a) **Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets.**
 - i) The governmental funds balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds." The details of this \$1,378.6 million are as follows (dollars in thousands):

| | |
|--|---------------------|
| Deferred revenue - property tax | \$ 1,233,483 |
| Other assets - pension excess | 169,966 |
| Accounts payable - infrastructure retainage | <u>(24,885)</u> |
| Net adjustment to increase fund balance - total governmental funds - to arrive at net assets - governmental activities | <u>\$ 1,378,564</u> |

- ii) Another element of that reconciliation explains that "Certain liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$13,840.7 million are as follows (dollars in thousands):

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

| | |
|--|---------------|
| Long-term liabilities: | |
| Total bonds, notes and certificates payable | \$ 8,491,926 |
| Pension obligation | 4,216,250 |
| Lease obligation | 177,011 |
| Pollution remediation..... | 14,263 |
| Claims and judgments | 641,762 |
| Total Long-term liabilities | 13,541,212 |
| Bonds, notes and other obligations payable current | (146,271) |
| Other assets - issuance costs | (74,115) |
| Accrued interest | 4,635 |
| Accrued and other liabilities - contractual wages..... | 80,000 |
| Accrued and other liabilities - other post employment benefits | 304,483 |
| Derivative instruments | 22,680 |
| Accrued and other liabilities - compensated absences | 108,071 |
| Net adjustment to reduce fund balance - total governmental funds - to arrive at net assets - governmental activities | \$ 13,840,695 |

b) Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

- i) The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets - governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statements of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$31.3 million are as follows (dollars in thousands):

| | |
|---|-------------|
| Capitalized asset expenditures | \$ 348,205 |
| Depreciation expense | (379,115) |
| Loss - disposal of equipment | (410) |
| Net adjustment to increase net changes in fund balances - total governmental funds - to arrive at changes in net assets - governmental activities | \$ (31,320) |

- ii) Another element of that reconciliation states that "Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets." The details of this \$657.8 million are as follows (dollars in thousands):

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

| | |
|---|-----------------|
| Proceeds of debt | \$ (1,398,025) |
| Premium | (36,365) |
| Payment of refunded bond escrow agent | 412,184 |
| Principal retirement | 389,928 |
| Payment of cost of issuance | 7,402 |
| Interest expense | <u>(32,933)</u> |

| | |
|---|---------------------|
| Net adjustment to reduce net changes in fund balances - total governmental funds - to arrive at changes in net assets - governmental activities | <u>\$ (657,809)</u> |
|---|---------------------|

iii) A third element of that reconciliation states that "Certain expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$855.6 million are as follows (dollars in thousands):

| | |
|--------------------------------------|----------------|
| Claims and judgments | \$ (14,392) |
| Pension benefit liability | (799,281) |
| Contractual Wage Settlement..... | (80,000) |
| Pollution remediation | 23,106 |
| Other post employment benefits | 24,557 |
| Vacation | 951 |
| Lease obligations | (9,032) |
| Inventory | <u>(1,478)</u> |

| | |
|---|---------------------|
| Net adjustment to reduce net changes in fund balances - total governmental funds - to arrive at changes in net assets - governmental activities | <u>\$ (855,569)</u> |
|---|---------------------|

3) Stewardship, Compliance and Accountability

a) **Annual Appropriation Budgets** are established for the General Fund and the Vehicle Tax, Pension, Chicago Public Library and certain Miscellaneous, Special Events, Tourism and Festivals nonmajor Special Revenue Funds, on a non-GAAP budgetary basis:

- i) Prior to November 15, the Mayor submits to the City Council a proposed budget of expenditures and the means of financing them for the next year.
- ii) The budget document is available for public inspection for at least ten days prior to passage of the annual appropriation ordinance by the City Council, which is also required to hold at least one public hearing.
- iii) Prior to January 1, the budget is legally enacted through passage of the appropriation ordinance.
- iv) Subsequent to the enactment of the appropriation ordinance, the City Council has the authority to make necessary adjustments to the budget, which results in a change in total or individual appropriations. The legal level of budgetary control is designated in the budget by object grouped by purpose except for the Motor Fuel Tax Fund, which is subsequently re-appropriated by project. A separate Motor Fuel Tax Fund Report demonstrates compliance with annual and project-length budgets required by the State. The separately issued Supplement to the Comprehensive Annual Financial Report provides budgetary information for all other budgeted funds. Copies of this report are available upon request.

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

- v) All annual appropriations unused and unencumbered lapse at year-end. Encumbered appropriations are carried forward to the following year. Project-length financial plans are adopted for Capital Project Funds. Appropriations for Debt Service Funds are established by bond ordinance.
- b) **Reconciliation of GAAP Basis to Budgetary Basis** - The City's budgetary basis of accounting used for budget vs. actual reporting differs from GAAP. For budgetary purposes, encumbrances are recorded as expenditures but are reflected as reservations of fund balances for GAAP purposes. For budgetary purposes, proceeds of long-term debt and transfers in are classified as revenues. For budgetary purposes prior years' resources used to cover current year budgetary expenditures are recorded as revenues. For GAAP purposes, proceeds of long-term debt and transfers out are treated as other financing sources. Provision for doubtful account expenditures are not budgeted. A reconciliation of the different basis of revenue and expenditure recognition for the year ended December 31, 2010 is as follows (dollars in thousands):

| | General Fund |
|---|-------------------------|
| Revenues, GAAP Basis | \$ 2,610,852 |
| Add: | |
| Proceeds of Debt | 16,500 |
| Transfers In | 502,502 |
| Prior Year's Surplus Utilized | - |
| Revenues, Budgetary Basis | <u>\$ 3,129,854</u> |
| Expenditures, GAAP Basis | \$ 3,033,941 |
| Add: | |
| Transfers Out | 13,600 |
| Encumbered in 2010 | 33,930 |
| Deduct: | |
| Payments on Prior Years' Encumbrances | (25,341) |
| Provision for Doubtful Accounts | <u>(11,944)</u> |
| Expenditures, Budgetary Basis | <u>\$ 3,044,186</u> |

- c) **Individual Fund Deficits** include the Motor Fuel Tax Fund, the Special Events, Tourism, Festivals Fund, and Service Concession Agreements Fund, which are Special Revenue Funds, and the Chicago Skyway Fund, an Enterprise Fund, have fund deficits of \$6.6 million, \$4.0 million, \$1,660.4 million, and \$1,395.0 million, respectively, which management anticipates will be funded through operations.

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

4) Restricted and Unrestricted Cash, Cash Equivalents and Investments

a) **Investments** As of December 31, 2010, the City had the following Investments (dollars in thousands):

| Investment Type | Investment Maturities (In Years) | | | | |
|---|----------------------------------|--------------|------------|--------------|---------------|
| | Less Than 1 | 1-5 | 6-10 | More Than 10 | Fair Value |
| City Funds | | | | | |
| U.S. Treasuries..... | \$ 279,970 | \$ 553 | \$ - | \$ 33,162 | \$ 313,685 |
| U.S. Agencies..... | 1,238,651 | 1,693,129 | 267,612 | 389,071 | 3,588,463 |
| Corporate Bonds..... | 139 | - | - | 96,252 | 96,391 |
| Corporate Equities..... | 451 | - | - | - | 451 |
| Certificates of Deposit and Other Short-term | 2,836,689 | - | - | - | 2,836,689 |
| Total City Funds..... | \$ 4,355,900 | \$ 1,693,682 | \$ 267,612 | \$ 518,485 | \$ 6,835,679 |
| Pension Trust Funds | | | | | |
| U.S. and Foreign | | | | | |
| Government Agencies..... | \$ 259,966 | \$ 349,527 | \$ 203,231 | \$ 512,472 | \$ 1,325,196 |
| Commercial Paper..... | - | - | - | - | - |
| Corporate Bonds..... | 54,596 | 424,371 | 292,036 | 342,013 | 1,113,016 |
| Corporate Equities..... | 6,272,559 | - | - | - | 6,272,559 |
| Pooled Funds..... | 1,147,016 | - | - | - | 1,147,016 |
| Real Estate..... | 430,115 | - | - | - | 430,115 |
| Securities Received from Securities Lending..... | 1,238,353 | - | - | - | 1,238,353 |
| Venture Capital..... | 439,219 | - | - | - | 439,219 |
| Certificates of Deposit and Other Short-term | 440,273 | - | - | - | 440,273 |
| Other | 83,333 | - | - | - | 83,333 |
| Total Pension Trust Funds..... | \$ 10,365,430 | \$ 773,898 | \$ 495,267 | \$ 854,485 | \$ 12,489,080 |
| Total..... | \$ 14,721,330 | \$ 2,467,580 | \$ 762,879 | \$ 1,372,970 | \$ 19,324,759 |

- i) **Interest Rate Risk** As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits all securities so purchased, except tax anticipation warrants, municipal bonds, notes, commercial paper or other instruments representing a debt obligation of the City, shall show on their face that they are fully payable as to principal and interest, where applicable, if any, within ten years from the date of purchase.
- ii) **Credit Risk** The Code limits investments in commercial paper to banks whose senior obligations are rated in the top two rating categories by at least two national rating agencies and who are required to maintain such rating during the term of such investment. The Code also limits investments to domestic money market mutual funds regulated by, and in good standing with, the Securities and Exchange Commission. Certificates of Deposit are also limited by the Code to national banks which provide collateral of at least 105 percent by marketable U.S. government securities marked to market at least monthly; or secured by a corporate surety bond issued by an insurance company licensed to do business in Illinois and having a claims-paying rating in the top rating category, as rated by a nationally recognized statistical rating organization maintaining such rating during the term of such investment. The following schedule summarizes the City's and Pension Trust Funds exposure to credit risk (dollars in thousands):

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

| <u>Quality Rating</u> | <u>City</u> | <u>Pension Trust Funds</u> |
|-----------------------|---------------------|----------------------------|
| Aaa/AAA..... | \$ 6,696,722 | \$ 556,335 |
| Aa/AA..... | 72,847 | 93,893 |
| A/A..... | - | 259,145 |
| Baa/BBB..... | - | 324,343 |
| Ba/BB..... | - | 69,517 |
| B/B..... | - | 86,765 |
| Caa/CCC..... | - | 31,230 |
| Ca..... | - | 2,574 |
| CC/C..... | - | 6,627 |
| D/D..... | - | 6,484 |
| Not Rated..... | - | 234,942 |
| Not Applicable..... | 66,110 | 634,023 |
| Total Funds..... | <u>\$ 6,835,679</u> | <u>\$ 2,305,878</u> |

iii) Custodial Credit Risk – Cash and Certificates of Deposit This is the risk that in the event of a bank failure, the City's deposits may not be returned. The City's Investment Policy states that in order to protect the City's deposits, depository institutions are to maintain collateral pledges on City deposits during the term of the deposit of at least 105 percent of marketable U.S. government, or approved securities or surety bonds, issued by top-rated insurers. Collateral is required as security whenever deposits exceed the insured limits of the FDIC. The bank balance of cash and certificates of deposit with the City's various municipal depositories was \$211.0 million. Of the bank balance, 100 percent was either insured or collateralized with securities held by City agents in the City's name. The remainder was uninsured and uncollateralized.

iv) Custodial Credit Risk – Investments For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in corporate bonds of \$96.4 million the City has no custodial credit risk exposure because the related securities are insured, registered and held by the City.

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

- v) *Foreign Currency Risk* - In the case of the Pension Trust Funds, is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The risk of loss is managed by limiting its exposure to fair value loss by requiring their international securities managers to maintain diversified portfolios. The following schedule summarizes the Pension Trust Funds exposure to foreign currency risk (dollars in thousands):

| Foreign Currency Risk | |
|--------------------------------|---------------------|
| Australian dollar..... | \$ 92,102 |
| Brazilian real..... | 68,917 |
| British pound..... | 342,838 |
| Canadian dollar..... | 111,812 |
| Chilean peso..... | 3,839 |
| Columbian peso..... | 724 |
| Czech Republic koruny..... | 383 |
| Danish krone..... | 24,471 |
| Egyptian pound..... | 2,056 |
| European euro..... | 431,095 |
| Hong Kong dollar..... | 152,573 |
| Hungarian forint..... | 787 |
| Indian rupee..... | 36,213 |
| Indonesian rupiah..... | 20,445 |
| Japanese yen..... | 371,207 |
| Malaysian ringgit..... | 16,025 |
| Mexican peso..... | 27,979 |
| Moroccan dirham..... | 192 |
| New Israeli shekel..... | 11,134 |
| New Taiwan dollar..... | 17,841 |
| New Zealand dollar..... | 2,296 |
| Norwegian krone..... | 17,693 |
| Pakistan rupees..... | 1,033 |
| Philippines peso..... | 1,142 |
| Polish zloty..... | 5,468 |
| Singapore dollar..... | 35,036 |
| South African rand..... | 34,462 |
| South Korean won..... | 57,536 |
| Swedish krona..... | 51,322 |
| Swiss franc..... | 127,300 |
| Taiwan dollar..... | 14,697 |
| Thailand baht..... | 9,727 |
| Turkish lira..... | 10,088 |
| Total Pension Trust Funds..... | <u>\$ 2,100,433</u> |

**CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED**

vi) The following schedule summarizes the cash and investments reported in the basic financial statements (dollars in thousands):

| | |
|---|----------------------|
| Per Note 4: | |
| Investments - City..... | \$ 6,835,679 |
| Investments - Pension Trust Funds..... | 12,489,080 |
| | <u>\$ 19,324,759</u> |
| Per Financial Statements: | |
| Restricted Investments..... | \$ 1,957,201 |
| Unrestricted Investments..... | 1,083,501 |
| Investments with Fiduciary Funds..... | 10,896,184 |
| Investments with Escrow Agent..... | 474,474 |
| Invested Securities Lending Collateral..... | 1,238,353 |
| Investments included as cash and cash equivalents on the Statements of Net Assets..... | 3,675,046 |
| | <u>\$ 19,324,759</u> |

5) Property Tax

The City's property tax becomes a lien on real property on January 1 of the year it is levied. The Cook County Assessor (Assessor) is responsible for the assessment of all taxable real property within Cook County (County), except for certain railroad property assessed directly by the State. The County Board has established a triennial cycle of reassessment in which one-third of the County will be reassessed each year on a repeating schedule established by the Assessor.

Property in the County is separated into nine classifications for assessment purposes. After the Assessor establishes the fair market value of a parcel of land, that value is multiplied by one of the classification percentages to arrive at the assessed valuation (Assessed Valuation) for that parcel. These percentages range from 16.0 percent for certain residential, commercial, and industrial property to 38.0 percent for other commercial and industrial property.

The Illinois Department of Revenue has the statutory responsibility of ensuring uniformity of real property assessments throughout the State. Each year, the Department of Revenue furnishes the county clerks with an adjustment factor to equalize the level of assessment among counties. This factor (Equalization Factor) is then applied to the Assessed Valuation to compute the valuation of property to which a tax rate will be applied (Equalized Assessed Valuation). The County Clerk adds the Equalized Assessed Valuation of all real property in the County to the valuation of property assessed directly by the State (to which the Equalization Factor is not applied) to arrive at the base amount (Assessment Base) used in calculating the annual tax rates.

The County Clerk computes the annual tax rate by dividing the levy by the Assessment Base and then computes the rate for each parcel of real property by aggregating the tax rates of all governmental units having jurisdiction over that particular parcel. The County Treasurer then issues the tax bills. Property taxes are deposited with the County Treasurer, who remits to the City its respective share of the collections. Taxes levied in one year become due and payable in two installments during the following year on March 1 and August 1 or 30 days from mailing of tax bills if later than July 1. The first installment is estimated and is 55.0 percent of the prior year's tax bill. The second installment is based on the current levy, assessment and equalization and also reflects any changes from the prior year.

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

The City Council has adopted an ordinance beginning in 1994, limiting the City's aggregate property tax levy to an amount equal to the prior year's aggregate property tax levy plus the lesser of (a) five percent or (b) the percentage increase in the annualized Consumer Price Index, all as defined in the ordinance. The ordinance provides a safe harbor for that portion of any property tax debt service levy equal to the aggregate interest and principal payments on the City's general obligation bonds and notes during the 12-month period ended January 1, 1994, subject to annual increase in the manner described above for the aggregate levy, all as provided by the ordinance. Increases in the debt service portion of each levy may, however, reduce amounts available within such levy to finance operations.

6) Interfund Balances and Transfers

- a) The following balances at December 31, 2010 represent due from/to balances among all funds (dollars in thousands):

| <u>Fund Type/Fund</u> | <u>Due From</u> | <u>Due To</u> |
|--|-------------------|-------------------|
| Governmental activities: | | |
| General..... | \$ 254,124 | \$ 295,566 |
| Federal, State and Local Grants..... | 29,707 | 40,850 |
| Special Taxing Areas..... | 6,378 | 10,657 |
| Reserve..... | 50,000 | - |
| Bond, Note Redemption and Interest..... | 1,512 | - |
| Community Development and Improvement Projects.... | 68,131 | 97,910 |
| Nonmajor governmental funds..... | 94,373 | 81,010 |
| Total Governmental activities..... | 504,225 | 525,993 |
| Business-type activities: | | |
| Water..... | 19,501 | 26,887 |
| Sewer..... | 26,937 | 13,312 |
| Chicago Midway International Airport..... | 1,064 | 6,747 |
| Chicago-O'Hare International Airport..... | 20,966 | 4,656 |
| Chicago Skyway..... | - | 15 |
| Total Business-type activities..... | 68,468 | 51,617 |
| Fiduciary activities: | | |
| Pension Trust..... | 4,917 | - |
| Total Fiduciary activities..... | 4,917 | - |
| Total..... | <u>\$ 577,610</u> | <u>\$ 577,610</u> |

The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made.

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

- b) The following balances at December 31, 2010 represent interfund transfers among all funds (dollars in thousands):

| <u>Fund Type/Fund</u> | <u>Transfer In</u> | <u>Transfer Out</u> |
|--|--------------------|---------------------|
| Governmental activities: | | |
| General..... | \$ 502,502 | \$ 13,600 |
| Federal, State and Local Grants..... | - | 1,000 |
| Special Taxing Areas..... | 80,824 | 43,307 |
| Service Concession Agreements..... | - | - |
| Reserve..... | - | 457,852 |
| Bond, Note Redemption and Interest..... | - | 22,150 |
| Community Development and Improvement Projects.... | 6,296 | 99 |
| Nonmajor governmental funds..... | 57,785 | 109,399 |
| Total Governmental activities..... | <u>647,407</u> | <u>647,407</u> |

Transfers are used to move revenues from the fund that the statute or budget requires to collect them to the fund that statute or budget requires to expend them and to move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due.

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

7) Capital Assets

a) **Capital Assets** activity for the year ended December 31, 2010 was as follows (dollars in thousands):

| | Balance January 1, 2010 | Additions | Disposals and Transfers | Balance December 31, 2010 |
|---|-------------------------------|--------------|-------------------------------|---------------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land..... | \$ 1,372,742 | \$ 9,435 | \$ - | \$ 1,382,177 |
| Works of Art and Historical Collections..... | 13,132 | - | - | 13,132 |
| Construction in Progress..... | 225,323 | 244,907 | (305,590) | 164,640 |
| Total capital assets, not being depreciated..... | 1,611,197 | 254,342 | (305,590) | 1,559,949 |
| Capital assets, being depreciated: | | | | |
| Buildings and Other Improvements..... | 2,252,114 | 148,320 | - | 2,400,434 |
| Machinery and Equipment..... | 1,212,885 | 79,299 | (19,831) | 1,272,353 |
| Infrastructure..... | 6,609,112 | 179,967 | - | 6,789,079 |
| Total capital assets, being depreciated..... | 10,074,111 | 407,586 | (19,831) | 10,461,866 |
| Less accumulated depreciation for: | | | | |
| Buildings and Other Improvements..... | 662,326 | 60,435 | - | 722,761 |
| Machinery and Equipment..... | 877,029 | 94,519 | (19,421) | 952,127 |
| Infrastructure..... | 2,834,423 | 224,161 | - | 3,058,584 |
| Total accumulated depreciation..... | 4,373,778 | 379,115 | (19,421) | 4,733,472 |
| Total capital assets, being depreciated, net..... | 5,700,333 | 28,471 | (410) | 5,728,394 |
| Total governmental activities..... | \$ 7,311,530 | \$ 282,813 | \$ (306,000) | \$ 7,288,343 |
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land..... | \$ 839,543 | \$ 24,468 | \$ - | \$ 864,011 |
| Construction in Progress..... | 1,502,450 | 537,475 | (620,291) | 1,419,634 |
| Total capital assets, not being depreciated..... | 2,341,993 | 561,943 | (620,291) | 2,283,645 |
| Capital assets, being depreciated: | | | | |
| Buildings and Other Improvements..... | 11,741,796 | 717,132 | 27,326 | 12,486,254 |
| Machinery and Equipment..... | 567,336 | 11,172 | 57,165 | 635,673 |
| Total capital assets, being depreciated..... | 12,309,132 | 728,304 | 84,491 | 13,121,927 |
| Less accumulated depreciation for: | | | | |
| Buildings and Other Improvements..... | 3,455,184 | 264,077 | (436) | 3,718,825 |
| Machinery and Equipment..... | 278,466 | 16,237 | (1,706) | 292,997 |
| Total accumulated depreciation..... | 3,733,650 | 280,314 | (2,142) | 4,011,822 |
| Total capital assets, being depreciated, net..... | 8,575,482 | 447,990 | 86,633 | 9,110,105 |
| Total business-type activities..... | \$ 10,917,475 | \$ 1,009,933 | \$ (533,658) | \$ 11,393,750 |
| Total Capital Assets..... | \$ 18,229,005 | \$ 1,292,746 | \$ (839,658) | \$ 18,682,093 |

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

b) **Depreciation expense** was charged to functions/programs of the City as follows (dollars in thousands):

| | |
|--|-------------------|
| Governmental activities: | |
| General government..... | \$ 75,329 |
| Public safety..... | 37,193 |
| Streets and sanitation..... | 13,293 |
| Transportation..... | 226,950 |
| Health..... | 2,735 |
| Cultural and recreational..... | 23,615 |
| Total depreciation expense - governmental activities..... | <u>\$ 379,115</u> |
| Business-type activities: | |
| Water..... | \$ 43,152 |
| Sewer..... | 23,166 |
| Chicago Midway International Airport..... | 44,844 |
| Chicago-O'Hare International Airport..... | 157,952 |
| Chicago Skyway..... | 11,200 |
| Total depreciation expense - business-type activities..... | <u>\$ 280,314</u> |

8) Leases

a) Operating Leases

The City leases building and office facilities under noncancelable operating leases. Total costs for such leases were approximately \$18.8 million for the year ended December 31, 2010. The future minimum lease payments for these leases are as follows (dollars in thousands):

| | |
|----------------------------------|------------------|
| 2011..... | \$ 17,804 |
| 2012..... | 16,607 |
| 2013..... | 15,970 |
| 2014..... | 10,671 |
| 2015..... | 5,231 |
| 2016 - 2020..... | 6,523 |
| Total Future Rental Expense..... | <u>\$ 72,806</u> |

b) Capital Leases

During 2003, the City entered into lease and lease back agreements with third parties pertaining to 911 Center Qualified Technological Equipment (QTE), with a book value of \$143.3 million at December 31, 2003. Under the QTE lease agreement, which provides certain cash and tax benefits to the third party, the City entered into a long-term lease for applicable assets back to the City under a sublease. Under the sublease, the City is required to make future minimum lease payments.

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

During 2005, the City entered into sale and lease back agreements with third parties pertaining to the City owned portion of a rapid transit line with a book value of \$430.8 million at December 31, 2005. Under the lease agreement, which provides certain cash and tax benefits to the third party, the City entered into a long-term lease for applicable assets back to the City under a sublease. Under the sublease, the City is required to make future minimum lease payments.

The future minimum payments for these leases are as follows (dollars in thousands):

| Year Ending December 31, | Total |
|--|-------------------|
| 2011..... | \$ 10,216 |
| 2012..... | 12,731 |
| 2013..... | 9,104 |
| 2014..... | 9,000 |
| 2015..... | 9,000 |
| 2016 - 2020..... | 42,983 |
| 2021 - 2025..... | 87,018 |
| 2026 - 2030..... | 2,000 |
| 2031 - 2032..... | 165,164 |
| Total Minimum Future Lease Payments..... | 347,216 |
| Less Interest..... | 170,205 |
| Present Value of Minimum Future Lease Payments..... | <u>\$ 177,011</u> |

c) Lease Receivables

Most of the O'Hare land, buildings and terminal space are leased under operating lease agreements to airlines and other tenants. The following is a schedule of the minimum future rental income on noncancelable operating leases as of December 31, 2010 (dollars in thousands):

| | |
|---|-------------------|
| 2011..... | \$ 72,282 |
| 2012..... | 71,723 |
| 2013..... | 71,049 |
| 2014..... | 57,778 |
| 2015..... | 45,711 |
| 2016 - 2020..... | 145,091 |
| 2021 - 2025..... | 8,302 |
| 2026 - 2030..... | 9,591 |
| 2031 - 2035..... | 9,564 |
| Total Minimum Future Rental Income..... | <u>\$ 491,091</u> |

Contingent rentals that may be received under certain leases based on the tenants' revenues or fuel flow are not included in minimum future rental income. Rental income for O'Hare, consisting of all rental and concession revenues except ramp rentals and automobile parking, amounted to \$381.6 million, including contingent rentals of \$79.4 million.

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

Most of the Midway land and terminal space is leased under operating lease agreements to airlines and other tenants. The following is a schedule of the minimum future rental income on noncancelable operating leases as of December 31, 2010 (dollars in thousands):

| | | |
|---|----|---------------|
| 2011..... | \$ | 34,469 |
| 2012..... | | 28,206 |
| 2013..... | | 4,418 |
| 2014..... | | 3,390 |
| 2015..... | | <u>1,124</u> |
| Total Minimum Future Rental Income..... | \$ | <u>71,607</u> |

Contingent rentals that may be received under certain leases based on tenants' revenues are not included in minimum future rental income. Rental income for Midway, consisting of all rental and concession revenues except aircraft parking fees and certain departure fees (turns) and automobile parking, amounted to \$86.4 million, including contingent rentals of \$35.1 million.

9) Short-term Debt

Matured bonds represent principal due on coupon bonds in which the coupons have not been presented for payment. For the year ended December 31, 2010, there was minor activity; the balance remained at \$0.7 million.

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

10) Long-term Obligations

a) **Long-term Debt** activity for the year ended December 31, 2010 was as follows (dollars in thousands):

| | Balance January 1, 2010 | Additions | Reductions | Balance December 31, 2010 | Amounts Due within One Year |
|--|-------------------------------|---------------------|---------------------|---------------------------------|--------------------------------------|
| Governmental activities: | | | | | |
| Bonds, notes and certificates payable: | | | | | |
| General obligation debt | \$ 6,863,427 | \$ 1,398,024 | \$ 756,712 | \$ 7,504,739 | \$ 144,036 |
| Installment purchase agreement | 3,500 | - | 2,300 | 1,200 | 1,200 |
| Tax increment | 186,158 | - | 22,580 | 163,578 | 23,095 |
| Revenue | 564,842 | - | 5,425 | 559,417 | 5,715 |
| | <u>7,617,927</u> | <u>1,398,024</u> | <u>787,017</u> | <u>8,228,934</u> | <u>174,046</u> |
| Less unamortized debt refunding transactions | 159,810 | 20,778 | 9,438 | 171,150 | - |
| Add unamortized premium | 173,347 | 36,365 | 10,982 | 198,730 | - |
| Add accretion of capital appreciation bonds | 207,878 | 31,663 | 4,129 | 235,412 | 1,421 |
| Less converted portion of conversion bonds | 3,923 | - | 3,923 | - | - |
| Total bonds, notes and certificates payable | <u>7,835,419</u> | <u>1,445,274</u> | <u>788,767</u> | <u>8,491,926</u> | <u>175,467</u> |
| Other liabilities: | | | | | |
| Pension obligations | 3,453,365 | 762,885 | - | 4,216,250 | - |
| Lease obligations | 169,282 | 9,032 | 1,303 | 177,011 | 10,216 |
| Pollution Remediation | 37,368 | - | 23,105 | 14,263 | - |
| Claims and judgments | 627,370 | 14,392 | - | 641,762 | 89,503 |
| Total other liabilities | <u>4,287,385</u> | <u>786,309</u> | <u>24,408</u> | <u>5,049,286</u> | <u>99,719</u> |
| Total governmental activities | <u>\$ 12,122,804</u> | <u>\$ 2,231,583</u> | <u>\$ 813,175</u> | <u>\$ 13,541,212</u> | <u>\$ 275,186</u> |
| Business-type activities: | | | | | |
| Revenue bonds and notes payable: | | | | | |
| Water | \$ 1,464,839 | \$ 365,093 | \$ 76,101 | \$ 1,753,831 | \$ 42,217 |
| Sewer | 902,840 | 275,865 | 52,715 | 1,125,990 | 25,257 |
| Chicago-O'Hare International Airport | 5,898,100 | 1,177,650 | 505,230 | 6,570,520 | 107,295 |
| Chicago Midway International Airport | 1,266,515 | 331,020 | 124,155 | 1,473,380 | 7,885 |
| | <u>9,532,294</u> | <u>2,149,628</u> | <u>758,201</u> | <u>10,923,721</u> | <u>182,654</u> |
| Less unamortized debt refunding transactions | 136,755 | 6,661 | 18,148 | 125,268 | - |
| Add unamortized premium | (115,952) | 9,311 | 27,811 | (134,452) | - |
| Add accretion of capital appreciation bonds | 74,494 | 8,972 | 4,034 | 79,432 | 4,271 |
| Total business-type activities | <u>\$ 9,585,985</u> | <u>\$ 2,142,628</u> | <u>\$ 716,276</u> | <u>11,012,337</u> | <u>\$ 186,925</u> |
| Total long-term obligations | <u>\$ 21,708,789</u> | <u>\$ 4,374,211</u> | <u>\$ 1,529,451</u> | <u>\$ 24,553,549</u> | <u>\$ 462,111</u> |

The Pension obligation liability will be liquidated through a Special Revenue Fund (Pension Fund) as provided by tax levy and State Personal Property Replacement Tax revenues.

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YEAR ENDED DECEMBER 31, 2010 - CONTINUED**

b) Issuance of New Debt

i) General Obligation Notes

The General Obligation Tender Notes, Series 2010 (\$70.4 million) were sold in September 2010 at a fixed rate of 1.625 percent. The notes mature no later than April 1, 2012. The Series 2010 notes were issued to meet cash flow requirements of the City's Library Funds; the notes are payable from tax collections in the following year or from any other resources legally available to the City. Principal payments for the notes do not require the current appropriation and expenditure of Governmental Fund financial resources.

During 2010, the City issued \$170.7 million in commercial paper notes for certain capital and operating uses.

ii) General Obligation Bonds

General Obligation Bonds, Project and Refunding Series 2009A-D (\$793.3 million) were sold at a premium in January 2010. The bonds have interest rates ranging from 4.0 percent to 6.257 percent and maturity dates from January 1, 2018 to January 1, 2040. Series C bonds (\$98.3 million) are Build America Bonds and Series D bonds (\$133.2 million) are Recovery Zone Economic Development Bonds. Net proceeds of \$812.0 million will be used to finance infrastructure improvements; transportation improvements; grants or loans to assist not-for-profit organizations or educational or cultural institutions; or to assist other municipal corporations or units of local government, or school districts; cash flow needs of the City; acquisition of personal property; acquisition, demolition, remediation or improvement of real property for industrial, commercial or residential purposes; constructing, equipping, altering and repairing various municipal facilities including fire stations, police stations, libraries, senior and health centers and other municipal facilities; enhancement of economic development within the City by making grants or deposits to secure obligations of not-for-profit or for-profit organizations doing or seeking to do business in the City; litigation judgments or settlement agreements involving the City, including escrow accounts or other reserves needed for such purposes; payment of certain pension contributions; providing for facilities, services, and equipment to protect and enhance public safety; and other uses permitted by the Ordinance (\$376.0 million); and to advance refund certain maturities of general obligation bonds outstanding (\$412.2 million); and to fund capitalized interest (\$23.8 million). The advance refunding of the bonds increased the City's total debt service payments by \$51.1 million and resulted in an economic gain (difference between the present values of the debt service on the old and new debt) of \$9.1 million.

General Obligation Bonds (Modern Schools Across Chicago Program) Series 2010A-B (\$150.1 million) were sold at a premium in August, 2010. Series B bonds (\$57.8 million) are Build America Bonds. The bonds have interest rate ranging from 3.0 percent to 5.364 percent and maturity dates ranging from December 1, 2011 to December 1, 2029. Net proceeds of \$160.6 million will be used to pay for a portion of the costs for construction, renovation, design and acquisition of elementary and high schools that are part of the school system operated by the Board of Education of the City of Chicago (\$159.2 million) and to fund capitalized interest (\$1.4 million). The bonds fund Phase II of the Modern Schools Across Chicago Program.

General Obligation Bonds, Taxable Project Series 2010B (\$213.6 million) were sold in December 2010. The bonds are Build America Bonds and have an interest rate of 7.517 percent and maturity dates ranging from January 1, 2036 to January 1, 2040. Net proceeds of \$213.6 million will be used to finance infrastructure improvements; transportation improvements; grants or loans to assist not-for-profit organizations or educational or cultural institutions; or to assist other municipal corporations or units of local government, or school districts; acquisition of personal property; acquisition, demolition, remediation or improvement of real property for industrial, commercial or residential purposes; constructing, equipping, altering and repairing various municipal facilities including fire stations, police stations, libraries, senior and health centers and other municipal facilities; enhancement of economic development

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

within the City by making grants or deposits to secure obligations of not-for-profit or for-profit organizations doing or seeking to do business in the City; provision of facilities, services and equipment to protect and enhance public safety, including but not limited to, increased costs for police and fire protection services, emergency medical services, staffing at the City's emergency call center and other City facilities, and enhanced security measures at airports and other major City facilities.

In June 2010, the City negotiated a novation of the fixed payer swap associated with a 75 percent portion of the General Obligation Series 2003B variable rate bonds with a current notional amount of \$151.5 million from Lehman Brothers Special Financing Inc. (LBSF) to Wells Fargo Bank, N.A. due to LBSF's bankruptcy. A J.P. Morgan swap covers the remaining 25 percent balance of the bonds, with a current notional amount of \$50.6 million, which remains unchanged. All economic terms of the interest rate swap remained identical and the City did not incur any cost in association with replacing the counterparty to the swap.

In November 2010, the City entered into swap overlay agreements (i.e., Constant Maturity Swap (CMS) reversal) associated with the General Obligation Series 2003B variable rate bonds with J.P. Morgan and Rice Financial Products for notional amounts of \$50.6 and \$151.5 million respectively. The agreements are effective March 1, 2011 through March 1, 2014, and the City will pay 66.91 percent of 10 year LIBOR and receive 75 percent of one month LIBOR, essentially extending the \$202.5 million notional amount CMS reversal in place up to March 1, 2011 with J.P. Morgan. Together with the existing underlying swaps on the bonds, in which the City pays 4.052 percent and receives 66.91 percent of 10 year LIBOR, the net effect is that the City will pay a fixed rate of 4.052 percent and receive 75 percent of one month LIBOR through March 1, 2014, after which time the City will receive 66.91 percent of 10 year LIBOR through expiration (January 1, 2034). The City received a combined upfront payment of \$9.9 million in November 2010.

In December 2010, the City entered into swap overlay agreements (i.e., basis trades) associated with the General Obligation Series 2005D variable rate bonds with Rice Financial Products, Loop Financial Products and Jefferies for notional amounts of \$100.0, \$61.4 and \$61.4 million respectively. The agreements are effective January 1, 2014 through January 1, 2031, and the City will pay SIFMA and receive 72.5 percent of one month LIBOR. Together with the existing swaps on the bonds, in which the City pays 4.104 percent and receives SIFMA, the net effect is that the City will pay a fixed rate of 4.104 percent and receive 72.5 percent of one month LIBOR between January 1, 2014 and January 1, 2031, before 2014 and after 2031 the City will receive SIFMA through the expiration of the swaps (January 1, 2040). The City received a combined upfront payment of \$13.7 in January 2011.

In December 2010, the City entered into two swap overlay agreements (i.e., basis trades) associated with the G.O. Series 2007 E, F&G variable rate bonds with Wells Fargo Bank, N.A. for a notional amount of \$100.0 million each. The agreements are effective January 1, 2014 through January 1, 2031, and the City will pay SIFMA and receive 72.5 percent of one month LIBOR. Together with the existing underlying swaps on the bonds, in which the City pays 3.9982 percent and receives SIFMA, the net effect is that the City will pay a fixed rate of 3.9982 percent and receive 72.5 percent of one month LIBOR between January 1, 2014 and January 1, 2031. Before 2014 and after 2031 the City will receive SIFMA through expiration of the swaps (January 1, 2042). The City received a combined upfront payment of \$14.2 million in December 2010.

iii) Sales Tax Revenue Bonds

In August 2010, the City amended its swap agreement associated with the Sales Tax Series 2002 variable rate bonds with J.P. Morgan with a current notional amount of \$114.2 million. The amendment removed J.P. Morgan's right to cancel the swap if SIFMA exceeds 7 percent for 180 consecutive days by converting the variable rate the City receives from SIFMA plus 13 basis points to 75.25 percent of three month LIBOR. The City continues to pay a fixed rate of 4.23 percent and receives 75.25 percent of three month LIBOR.

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

iv) Enterprise Fund Revenue Bonds and Notes

Chicago O'Hare International Airport Third Lien Revenue Bonds, Series 2010A-F (\$1,040.0 million) were sold at a premium in April, 2010. Series B bonds (\$578.0 million) are Build America Bonds. The bonds have interest rates ranging from 1.75 percent to 6.845 percent with maturity dates from January 1, 2011 to January 1, 2040. Net proceeds of \$1,048.5 million will be used to finance the costs of certain projects at the airport including the O'Hare Modernization Program and the capital improvement program (\$785.6 million), fund capitalized interest and debt service reserves (\$214.0 million) and to advance refund certain maturities of bonds outstanding (\$48.9 million). The advance refunding of the bonds decreased the Airport's total debt service payments by \$3.1 million and resulted in an economic gain (difference between the present values of the debt service on the old and new debt) of \$2.8 million.

Chicago O'Hare International Airport Passenger Facility Charge Revenue Bonds, Series 2010A-D (\$137.7 million) were sold at a discount in May, 2010. The bonds have interest rates ranging from 2.0 percent to 6.395 percent with maturity dates from January 1, 2011 to January 1, 2040. Net proceeds of \$136.5 million and other monies of \$.3 million will be used to finance the costs of certain projects at the airport including the O'Hare Modernization Program and the capital improvement program (\$54.1 million), fund capitalized interest and debt service reserves (\$68.7 million) and to advance refund certain maturities of bonds outstanding (\$14.0 million). The advance refunding of the bonds decreased the Airport's total debt service payments by \$1.2 million and resulted in an economic gain (difference between the present values of the debt service on the old and new debt) of \$.7 million.

Chicago Midway Airport Second Lien Revenue Bonds, Series 2010A1-2 (\$80.5 million) were sold in May, 2010. The bonds were initially issued at a daily rate of .29 percent. The bonds have maturity dates of January 1, 2021 for Series 2010A-1 and January 1, 2025 for Series 2010A-2. Net proceeds of \$80.4 million will be used to advance refund certain maturities of bonds outstanding (\$10.2 million), repay commercial paper and other principal due (\$65.8 million) and fund capitalized interest and debt service reserves (\$4.4 million). The advance refunding of the bonds increased the Airport's total debt service payments by \$5.0 million and resulted in an economic loss (difference between the present values of the debt service on the old and new debt) of \$.9 million.

At the discretion of the City the bonds may bear interest at a daily or weekly rate. Interest on bonds in the daily mode is payable on the first business day of each calendar month, commencing June 1, 2010.

The City has appointed a remarketing agent for the bonds when in a variable rate mode. The remarketing agent will use its best efforts to resell the bonds at favorable rates following either an optional or mandatory tender. In the event the remarketing agent is unable to resell the notes, the City has obtained an unconditional, irrevocable letter of credit which may be drawn upon for the purchase of the bonds until the remarketing agent is able to resell the bonds.

The letters of credit securing the Series 2010A1-2 bonds totals \$81.4 million and terminates no later than May 5, 2011. Advances under the letter of credit for Series 2010A-1 (none at December 31, 2010) are due three years from the date of the advance. Advances bear interest from the date of advance through the 90th day at the greater of the prime rate plus 3.0 percent or the Federal Funds rate plus 3.5 percent per annum (Base Rate) or 6.0 percent. Thereafter until due and payable, advances bear interest at the higher of the Base Rate plus 1.0 percent or 8.5 percent. Upon the occurrence of an event of default, the interest rate per annum shall equal the Base Rate plus 5.0 percent or 12 percent. The maximum rate of interest cannot exceed 15.0 percent. Advances under the letter of credit for Series 2010A-2 (none at December 31, 2010) are due three years from the date of the advance. Advances bear interest from the date of advance through the 90th day at the greater of the prime rate plus 1.5 percent or the Federal Funds rate plus 2.0 percent per annum (Base Rate) or 7.5 percent. Thereafter until due and payable, advances bear interest at the Base Rate plus 1.0 percent. Upon the occurrence of an event of default, the interest rate per annum shall equal the Base Rate plus 3.0 percent. The maximum rate of interest cannot exceed 18.0 percent. The letters of credit were issued by third-party financial institutions that are

**CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED**

expected to be financially capable of honoring its agreements. In the event the bonds are put back to the bank and not successfully remarketed, or if the letter of credit expires without an extension or substitution, the bank bonds will convert to a term loan. There is no principal due on potential term loans within the next fiscal year.

Chicago Midway Airport Second Lien Revenue Bonds, Series 2010B, C, D-1 and D-2 (\$246.5 million) were sold at a premium in October, 2010. The bonds have interest rates ranging from 3.532 percent to 7.168 percent with maturity dates from January 1, 2014 to January 1, 2041. Net proceeds of \$237.8 million will be used to finance the costs of certain Airport projects (\$168.8 million), fund capitalized interest and debt service reserves (\$24.3 million) and to repay commercial paper (\$44.7 million).

Second Lien Water Revenue Project and Refunding Bonds, Series 2010A-C (\$313.6 million) were sold at a premium in November, 2010. The bonds have interest rates ranging from 2.0 percent to 6.742 percent and maturity dates from November 1, 2011 to November 1, 2040. Series B bonds (\$250.0 million) are Build America Bonds and Series C bonds (\$29.7 million) are Qualified Energy Conservation Bonds. Net proceeds of \$313.8 million will be used to finance certain costs of improvements and extensions to the water system (\$277.6 million), advance refund a certain maturities of water revenue bonds outstanding (\$36.2 million). The advance refunding of the bonds decreased the Water system's total debt service payments by \$3.2 million and resulted in an economic gain (difference between the present values of the debt service on the old and new debt) of \$2.4 million.

Second Lien Wastewater Revenue Project and Refunding Bonds, Series 2010A-B (\$275.9 million) were sold at a premium in November, 2010. The bonds have interest rates ranging from 2.0 percent to 6.742 percent and maturity dates from January 1, 2012 to January 1, 2040. Series B bonds (\$250.0 million) are Build America Bonds. Net proceeds of \$275.8 million will be used to finance certain costs of improvements and extensions to the wastewater system (\$248.2 million), advance refund a certain maturities of wastewater revenue bonds outstanding (\$27.6 million). The advance refunding of the bonds decreased the Wastewater system's total debt service payments by \$5.2 million and resulted in an economic gain (difference between the present values of the debt service on the old and new debt) of \$3.3 million.

During 2010, \$5 million of Chicago O'Hare International Airport Commercial Paper Notes Series A, B and C were issued. The proceeds were used to finance portions of the costs of authorized airport projects.

During 2010, \$35.5 million of Chicago Midway Airport Commercial Paper Notes Series A, B and D were issued. The proceeds were used to repay debt obligations that were in bank bond mode, finance portions of the costs of authorized airport projects and refund a portion of certain outstanding bonds.

During 2010, \$51.5 million of Water Revenue Commercial Paper Notes were issued. The proceeds were used to finance portions of the costs of authorized projects.

In May 2010, the City entered into a two-way Credit Support Agreement (CSA) with J.P. Morgan on its swap associated with a 40 percent portion of the Midway Airport Series 2004C&D variable rate bonds with a current notional amount of \$60.9 million. A Goldman Sachs swap covers the remaining balance of the bonds, with a current notional amount of \$91.3 million, and remains unchanged. The J.P. Morgan CSA was required because a termination event was triggered due to the insurer's ratings downgrade. Both firms had the right to require a two-way CSA, but only J.P. Morgan exercised the right. Goldman Sachs waived its right as long as the swap remains unchanged. Based on the current second lien ratings at Midway Airport (A3/A-/A- by Moody's, S&P and Fitch respectively), if the mark-to-market adjustment on the swap is against the City by more than \$10 million, collateral must be posted for the difference. In August 2010, collateral was required in the amount of \$1.4 million, which was funded with proceeds from Midway Commercial Paper, but as of December 31, 2010, no collateral posting was required.

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v) Financial Market Related Conversions

The global economic downturn has adversely impacted the City's variable rate debt. The credit crisis and the effect on monoline insurers' credit ratings, as a result of their exposure to subprime mortgages, have resulted in downgrades by the major rating agencies. As a result, credit spreads increased on the City's variable rate debt, especially with insured bonds; therefore the City refinanced or converted many of its variable rate debt issues. In 2010, the City utilized liquidity facilities to convert two variable rate issues in the amount of \$284.7 million and thereby removing the monoline insurers or impaired banks providing credit support.

- c) **Annual requirements** listed below for each year include amounts payable January 1 of the following year. Bonds maturing and interest payable January 1, 2011 have been excluded because funds for their payment have been provided for. Annual requirements to amortize debt outstanding as of December 31, 2010 are as follows (dollars in thousands):

| Year Ending December 31, | General Obligation | | Installment Purchase | | Tax Increment | |
|-----------------------------|---------------------|---------------------|----------------------|--------------|-------------------|------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2011..... | \$ 156,646 | \$ 362,307 | \$ 1,200 | \$ 47 | \$ 25,040 | \$ 8,793 |
| 2012..... | 238,178 | 357,137 | - | - | 20,815 | 7,389 |
| 2013..... | 205,827 | 348,585 | - | - | 30,264 | 6,212 |
| 2014..... | 215,509 | 344,558 | - | - | 15,237 | 11,853 |
| 2015..... | 237,486 | 338,480 | - | - | 8,965 | 3,951 |
| 2016 - 2020..... | 1,433,028 | 1,514,111 | - | - | 45,975 | 9,964 |
| 2021 - 2025..... | 1,553,090 | 1,185,521 | - | - | 10,585 | 840 |
| 2026 - 2030..... | 1,444,048 | 838,646 | - | - | - | - |
| 2031 - 2035..... | 981,304 | 498,889 | - | - | - | - |
| 2036 - 2040..... | 691,016 | 190,537 | - | - | - | - |
| 2041 - 2045..... | 25,645 | 1,060 | - | - | - | - |
| | <u>\$ 7,181,777</u> | <u>\$ 5,979,831</u> | <u>\$ 1,200</u> | <u>\$ 47</u> | <u>\$ 156,881</u> | <u>\$ 49,002</u> |

| Year Ending December 31, | Revenue | | Business-type Activities | |
|-----------------------------|-------------------|-------------------|--------------------------|---------------------|
| | Principal | Interest | Principal | Interest |
| 2011..... | \$ 16,295 | \$ 25,971 | \$ 236,253 | \$ 529,302 |
| 2012..... | 17,150 | 25,121 | 258,162 | 519,266 |
| 2013..... | 18,040 | 24,227 | 362,891 | 511,834 |
| 2014..... | 18,980 | 23,286 | 371,606 | 496,439 |
| 2015..... | 18,400 | 22,315 | 312,755 | 479,007 |
| 2016 - 2020..... | 97,940 | 97,463 | 1,757,307 | 2,161,483 |
| 2021 - 2025..... | 123,015 | 71,699 | 1,941,395 | 1,715,052 |
| 2026 - 2030..... | 130,754 | 64,419 | 2,426,430 | 1,191,187 |
| 2031 - 2035..... | 89,418 | 53,097 | 2,056,740 | 572,439 |
| 2036 - 2040..... | 23,710 | 1,793 | 1,004,295 | 156,870 |
| | <u>\$ 553,702</u> | <u>\$ 409,391</u> | <u>\$ 10,727,834</u> | <u>\$ 8,332,879</u> |

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Debt service requirements above exclude commercial paper issues as the timing of payments is not certain. For the requirements calculated above, interest on variable rate debt was calculated at the rate in effect or the effective rate of a related swap agreement, if applicable, as of December 31, 2010. Standby bond purchase agreements were issued by third party financial institutions that are expected to be financially capable of honoring their agreements.

d) Derivatives

i) Pay-Fixed, Receive-Variable Interest Rate Swaps

- (1) *Objective of the swaps.* In order to protect against the potential of rising interest rates, the City has entered into various separate pay-fixed, receive-variable interest rate swaps at a cost less than what the City would have paid to issue fixed-rate debt.

| | Changes in Fair Value | | Fair Value at December 31, 2010 | | Notional Amount |
|------------------------------------|-------------------------------------|-------------|-------------------------------------|---------------------|--------------------|
| | Classification | Amount | Classification | Amount | |
| Governmental Activities | | | | | |
| Cash Flow Hedges: | | | | | |
| Pay-fixed Interest Rate SWAPS.... | Deferred Outflow of Resources | \$ (45,058) | Deferred Outflow of Resources | \$ (120,447) | \$ 792,070 |
| Investment Derivative Instruments: | | | | | |
| Pay-fixed Interest Rate SWAPS.... | Investment Revenue | (10,848) | Investment Revenue | (24,529) | 201,965 |
| Business-type Activities | | | | | |
| Cash Flow Hedges: | | | | | |
| Pay-fixed Interest Rate SWAPS.... | Deferred Outflow of Resources | (34,449) | Deferred Outflow of Resources | (141,379) | 973,805 |
| Total..... | | | | <u>\$ (286,355)</u> | |

- (2) *Terms, fair values, and credit risk.* The objective and terms, including the fair values and credit ratings, of the City's hedging derivative instruments outstanding as of December 31, 2010, are as follows. The notional amounts of the swaps match the principal amounts of the associated debt. The City's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated "bonds payable" category. Under the swaps, the City pays the counterparty a fixed payment and receives a variable payment computed according to the London Interbank Offered Rate (LIBOR) and/or The Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index (dollars in thousands):

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| Associated Bond Issue | Notional Amounts | Effective Date | Terms | Fair Values | Termination Date | Counter- party Credit Rating |
|---|---------------------|--|-------|-------------------------|--------------------------|---------------------------------------|
| Hedging Instruments | | | | | | |
| Governmental Activities: | | | | | | |
| GO VRDB (Series 2007EFG)..... | \$ 200,000 | 11/08/2007 Pay 3.998%; receive SIFMA 01/01/2014 Pay SIFMA; receive 72.5% of LIBOR * | | \$ (15,270) (16,185) | 01/01/2042 01/01/2031 | Aa3/A+ A1/A+ Aa2/AA |
| GO VRDB (Series 2005D)..... | 222,790 | 08/17/2005 Pay 4.104%; receive SIFMA 01/01/2014 Pay SIFMA; receive 72.5% of LIBOR * | | (21,194) (18,240) | 01/01/2040 01/01/2031 | A1/A Aa2/A+ Aaa/AA Aa3/A+ |
| GO VRDB (Neighborhoods Alive 21 Program, Series 2002B)..... | 206,700 | 10/03/2002 Pay 3.575%; receive 70% of LIBOR | | (24,477) | 01/01/2037 | Aa1/AA- Aa3/A+ |
| Sales Tax Revenue Refunding Bonds (VRDB Series 2002)..... | 114,150 | 06/27/2002 Pay 4.23%; receive 75.25% of LIBOR | | (17,445) | 01/01/2034 | Aa1/AA- |
| Tax Increment Allocation Bonds (Near North TIF, Series 1999A)..... | 44,900 | 09/01/1999 Pay 5.084%; receive 67% of LIBOR | | (7,302) | 01/01/2019 | Aa3/A+ |
| Tax Increment Allocation Bonds (Stockyards TIF, Series 1996A&B)..... | 3,975 | 02/10/1997 Pay 5.375%; receive SIFMA | | (334) | 12/01/2014 | Aa3/A+ |
| Business-type Activities: | | | | | | |
| Chicago Midway International Airport Revenue Bonds (Series 2004C&D)..... | 152,150 | 12/14/2004 Pay 4.174%; receive SIFMA Plus .05% Pay 3.886%; receive 95% of 3 Mo. LIBOR (if LIBOR is < 3%) or 67% of 3 Mo. LIBOR (if LIBOR is > 3%) | | (14,896) (34,121) | 01/01/2035 01/01/2039 | Aa1/A Aa1/AA- Aa3/A+ |
| Wastewater Transmission Variable Rate Revenue Bonds (Series 2008C)..... | 99,670 | 07/29/2004 Pay 3.886%; receive SIFMA (if LIBOR is < 3%) or 67% of LIBOR (if LIBOR is > 3%) | | (14,994) | 01/01/2039 | Aa1/AA- |
| Water Variable Rate Revenue Refunding Bonds (Series 2004)..... | 193,655 | 04/16/2008 Pay 3.8694%; receive SIFMA | | (28,609) | 11/01/2025 | Aa3/A+ |
| Water Variable Rate Revenue Refunding Bonds (Series 2004)..... | 195,770 | 08/05/2004 Pay 3.8669%; receive SIFMA | | (30,645) | 11/01/2031 | A1/A- |
| Second Lien Water Revenue Refunding Bonds (Series 2000)..... | 100,000 | 04/16/2008 Pay 3.8694%; receive SIFMA | | (18,114) | 11/01/2030 | Aa3/A+ |
| Investment Instruments | | | | | | |
| Governmental Activities: | | | | | | |
| GO VRDB (Series 2003B)..... | 202,500 | 08/07/2003 Pay 4.052%; receive 66.91% of 10 Yr LIBOR Pay 66.91% of 10 Yr LIBOR; 03/01/2011 receive 75% of 1 Mo. LIBOR * | | (16,372) (8,157) | 01/01/2034 03/01/2014 | Aa1/AA- Aa2/AA Aaa/AA |
| Total..... | <u>\$ 1,968,520</u> | | | <u>\$ (286,355)</u> | | |

See Table 31 in Statistical Section for Counterparty Entities and additional details for credit ratings.
Type and objective for all the SWAPS is the same, as mentioned earlier.

* Reflects SWAP Overlay agreement.

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- (3) *Fair Value.* As of December 31, 2010, the swaps had a negative fair value of \$286.4 million. As per industry convention, the fair values of the City's outstanding swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the forward rates implied by the yield curve correctly anticipate future spot rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap. Because interest rates are below the Fixed Rate Paid, the City's swaps had negative values. Note that in the statement of net assets the combination of the \$248.3 million derivative liability and the unamortized interest rate swap premium balance of \$38.1 million, recorded as component of unearned revenue, together represent the total fair value.
- (4) *Credit Risk.* The City is exposed to credit risk (counterparty risk) through the counterparties with which it enters into agreements. If minimum credit rating requirements are not maintained, the counterparty is required to post collateral to a third party. This protects the City by mitigating the credit risk, and therefore the ability to pay a termination payment, inherent in a swap. Collateral on all swaps is to be in the form of cash or Eligible Collateral held by a third-party custodian. Upon credit events, the swaps also allow transfers, credit support, and termination if the counterparty is unable to meet the said credit requirements.
- (5) *Basis Risk.* Basis risk refers to the mismatch between the variable rate payments received on a swap contract and the interest payment actually owed on the bonds. The two significant components driving this risk are credit and SIFMA/LIBOR ratios. Credit may create basis risk because the City's bonds may trade differently than the swap index as a result of a credit change in the City. SIFMA/LIBOR ratios (or spreads) may create basis risk. With percentage of LIBOR swaps, if the City's bonds trade at a higher percentage of LIBOR over the index received on the swap, basis risk is created. This can occur due to many factors including, without limitation, changes in marginal tax rates, tax-exempt status of bonds, and supply and demand for variable rate bonds. The City is exposed to basis risk on all swaps except those that are based on Cost of Funds, which provide cash flows that mirror those of the underlying bonds. For all other swaps, if the rate paid on the bonds is higher than the rate received, the City is liable for the difference. The difference would need to be available on the debt service payment date and it would add additional underlying cost to the transaction.
- (6) *Tax Risk.* The swap exposes the City to tax risk or a permanent mismatch (shortfall) between the floating rate received on the swap and the variable rate paid on the underlying variable-rate bonds due to tax law changes such that the federal or state tax exemption of municipal debt is eliminated or its value reduced. There have been no tax law changes since the execution of the City's swap transactions.
- (7) *Termination Risk.* The risk that the swap could be terminated as a result of certain events including a ratings downgrade for the issuer or swap counterparty, covenant violation, bankruptcy, payment default or other defined events of default. Termination of a swap may result in a payment made by the issuer or to the issuer depending upon the market at the time of termination.
- (8) *Swap payments and associated debt.* Bonds maturing and interest payable January 1, 2011 have been excluded because funds for their payment have been provided for. As of December 31, 2010, debt service requirements of the City's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term are as follows (dollars in thousands):

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

| Year Ending December 31, | Variable-Rate Bonds | | Interest Rate | Total |
|-----------------------------|---------------------|-------------------|---------------------|---------------------|
| | Principal | Interest | Swaps, Net | |
| 2011..... | \$ 15,310 | \$ 7,914 | \$ 70,223 | \$ 93,447 |
| 2012..... | 21,395 | 7,860 | 69,594 | 98,849 |
| 2013..... | 22,645 | 7,784 | 68,775 | 99,204 |
| 2014..... | 36,955 | 7,703 | 67,899 | 112,557 |
| 2015..... | 37,865 | 7,589 | 66,608 | 112,062 |
| 2016 - 2020..... | 325,570 | 35,326 | 302,909 | 663,805 |
| 2021 - 2025..... | 452,930 | 29,054 | 232,234 | 714,218 |
| 2026 - 2030..... | 372,980 | 22,640 | 161,514 | 557,134 |
| 2031 - 2035..... | 439,145 | 14,031 | 84,287 | 537,463 |
| 2036 - 2040..... | 217,950 | 4,838 | 22,859 | 245,647 |
| 2041 - 2045..... | 22,195 | 222 | 665 | 23,082 |
| | <u>\$ 1,964,940</u> | <u>\$ 144,961</u> | <u>\$ 1,147,567</u> | <u>\$ 3,257,468</u> |

ii) Swaptions

- (1) *Objective of the swaptions.* The City entered into several swaption contracts that provided the City upfront payments totaling \$42.1 million. The term swaption refers to the City selling an option to a counterparty to execute a swap at a certain date in the future if certain conditions exist. If the conditions do not exist, the counterparty will not execute the option, no swaptions have been exercised. In the event the options are executed and the City enters into a fixed to floating rate swap, the City would be exposed to the risks as described under Swaps.

| | Changes in Fair Value | | Fair Value at December 31, 2010 | | Notional Amount |
|------------------------------------|-----------------------|---------|------------------------------------|--------------------|--------------------|
| | Classification | Amount | Classification | Amount | |
| | | | | | |
| Governmental Activities | | | | | |
| Investment Derivative Instruments: | | | | | |
| Pay-fixed Interest Rate SWAPS.... | Investment Revenue | \$ 499 | Investment Revenue | \$ (17,001) | \$ 471,875 |
| Business-type Activities | | | | | |
| Investment Derivative Instruments: | | | | | |
| Pay-fixed Interest Rate SWAPS.... | Investment Revenue | (1,761) | Investment Revenue | (19,813) | 380,270 |
| Total..... | | | | <u>\$ (36,814)</u> | |

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

- (2) *Terms.* The terms, including fair values of the swaptions as of December 31, 2010, are as follows (dollars in thousands):

| Associated Bond Issue | Notional Amounts | Trade Date | Variable Rate Paid | Fixed Rate Received | Fair Values | Swap Termination Date | Up-Front Payment |
|---|-------------------|------------|--------------------|---------------------|--------------------|-----------------------|------------------|
| GO Bonds (GO, Series 2001A; GO Series 2002A; GO, Series 2003A; and GO, Series 2004A)..... | \$ 318,670 | 12/18/2003 | SIFMA+ 30bps | 5.000% | \$ (12,543) | 01/01/2024 | \$ 13,384 |
| Chicago Midway Airport Revenue Bonds (Series 1998A(AMT); Series 1998B(Non-AMT); and Refunding Series 1998C(Non-AMT))..... | 380,270 | 10/27/1999 | SIFMA+ 25bps | 5.100 | (19,813) | 01/01/2030 | 23,500 |
| Sales Tax Revenue Bonds (Series 1999)..... | 23,285 | 06/21/2002 | SIFMA+ 30bps | 4.984 | (161) | 01/01/2019 | 728 |
| Sales Tax Revenue Bonds (Series 1998)..... | 69,275 | 06/21/2002 | SIFMA+ 30bps | 5.250 | (2,420) | 01/01/2028 | 2,562 |
| Sales Tax Revenue Bonds (Series 1997)..... | 60,645 | 06/21/2002 | SIFMA+ 30bps | 5.375 | (1,877) | 01/01/2027 | 1,964 |
| Total..... | <u>\$ 852,145</u> | | | | <u>\$ (36,814)</u> | | <u>\$ 42,138</u> |

- (3) *Fair value.* As of December 31, 2010, the swaptions had a negative fair value of \$36.8 million. As per industry convention, the fair values of the City's outstanding swaptions were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the forward rates implied by the yield curve correctly anticipate future spot rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap. Because interest rates are below the Fixed Rate Received, the City's swaptions had negative values. The negative value is also driven by the upfront payment received by the City upon execution of the swaption agreement. Note that in the statement of net assets the combination of the \$13.5 million derivative liability and the unamortized interest rate swaption premium balance of \$23.3 million, recorded as component of unearned revenue, together represent the total fair value.
- (4) *Credit Risk.* The City is exposed to credit risk (counterparty risk) through the counterparties with which it enters into agreements. If minimum credit rating requirements are not maintained, the counterparty is required to post collateral to a third party. This protects the City by mitigating the credit risk, and therefore the ability to pay a termination payment, inherent in a swap. Collateral on all swaptions is to be in the form of cash or Eligible Collateral held by a third-party custodian. Upon credit events, the swaptions also allow transfers, credit support, and termination if the counterparty is unable to meet the said credit requirements.
- (5) *Basis Risk.* Basis risk refers to the mismatch between the variable rate payments received on a swap contract and the interest payment actually owed on the bonds. The two significant components driving this risk are credit and SIFMA/LIBOR ratios. Credit may create basis risk because the City's bonds may trade differently than the swap index as a result of a credit change in the City. SIFMA/LIBOR ratios (or spreads) may create basis risk. With percentage of LIBOR swaps, if the City's bonds trade at a higher percentage of LIBOR over the index received on the swap, basis risk is created. This can occur due to many factors including, without limitation, changes in marginal tax rates, tax-exempt status of bonds, and supply and demand for variable rate bonds. The City is

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

exposed to basis risk on all swaptions except those that are based on Cost of Funds, which provide cash flows that mirror those of the underlying bonds. For all other swaptions, if the rate paid on the bonds is higher than the rate received, the City is liable for the difference. The difference would need to be available on the debt service payment date, and it would add additional underlying cost to the transaction.

- (6) *Tax Risk.* The swap exposes the City to tax risk or a permanent mismatch (shortfall) between the floating rate received on the swap and the variable rate paid on the underlying variable-rate bonds due to tax law changes such that the federal or state tax exemption of municipal debt is eliminated or its value reduced. There have been no tax law changes since the execution of the swaption transactions.
- (7) *Termination Risk.* The risk that the swap could be terminated as a result of certain events including a ratings downgrade for the issuer or swap counterparty, covenant violation, bankruptcy, payment default or other defined events of default. Termination of a swap may result in a payment made by the issuer or to the issuer depending upon the market at the time of termination.

e) Debt Covenants

- i) **Water Fund** - The ordinances authorizing the issuance of outstanding Water Revenue Bonds provide for the creation of separate accounts into which net revenues, as defined, or proceeds are to be credited, as appropriate. The ordinances require that net revenues available for bonds, as adjusted, equal 120 percent of the current annual debt service on the outstanding senior lien bonds and that City management maintains all covenant reserve account balances at specified amounts. The above requirements were met at December 31, 2010. The Water Rate Stabilization account had a balance in restricted assets of \$61.4 million at December 31, 2010.

The ordinances authorizing the issuance of outstanding Second Lien Water Revenue Bonds provide for the creation of separate accounts into which monies will be deposited, as appropriate. The ordinances require that net revenues are equal to the sum of the aggregate annual debt service requirements for the fiscal year of the outstanding senior lien bonds and 110 percent of the aggregate annual debt service requirements of the outstanding second lien bonds. This requirement was met at December 31, 2010.

- ii) **Sewer Fund** - The ordinances authorizing the issuance of outstanding Wastewater Transmission Revenue Bonds provide for the creation of separate accounts into which net revenues, as defined, or proceeds are to be credited, as appropriate. The ordinances require that net revenues available for bonds equal 115 percent of the current annual debt service requirements on the outstanding senior lien bonds. This requirement was met at December 31, 2010. The Sewer Rate Stabilization account had a balance in restricted assets of \$24.6 million at December 31, 2010.

The ordinances authorizing the issuance of outstanding Second Lien Wastewater Transmission Revenue Bonds provide for the creation of separate accounts into which monies will be deposited, as appropriate. The ordinances require that net revenues equal 100 percent of the sum of the current maximum annual debt service requirements of the outstanding senior lien bonds and the maximum annual debt service requirements of the second lien bonds. This requirement was met at December 31, 2010.

- iii) **Chicago Midway International Airport Fund** - The master indenture securing the issuance of Chicago Midway International Airport Revenue Bonds requires that the City set rates and charges for the use and operation of Midway so that revenues, together with any other available monies and the cash balance held in the Revenue Fund on the first day of such year not required to be deposited in any fund or account, will be at least sufficient (a) to provide for the operation and maintenance expenses for the year and (b) to provide for the greater of (i) the amounts needed to be deposited into the First and Junior Lien Debt Service Fund, the Operations & Maintenance Reserve Account, the Working Capital Account, the First Lien Debt Service Reserve Fund, the Repair and Replacement Fund, and the Special Project Fund

**CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED**

and (ii) an amount not less than 125 percent of the Aggregate First Lien Debt Service for such fiscal year reduced by an amount equal to the sum of any amount held in any capitalized interest account for disbursement during such fiscal year to pay interest on First Lien Bonds. These requirements were met at December 31, 2010.

- iv) Chicago-O'Hare International Airport Fund** - In 1983, the City Council adopted the General Airport Revenue Bond ordinance authorizing the issuance and sale of Chicago-O'Hare International Airport General Airport Revenue Bonds in unlimited series for the purpose of financing the cost of improvements and expansion of O'Hare and to redeem its existing outstanding bond obligations. The ordinance further permits the issuance of second lien notes, bonds and other obligations which are payable from, and secured by, a pledge of amounts deposited in the junior lien obligation debt service account created under the ordinance. The ordinance requires that net revenues in each year equal not less than the sum of (i) the amount required to be deposited for such year in the debt service reserve fund, the maintenance reserve fund, the special capital projects fund and the junior lien debt service fund, and (ii) 110 percent of the aggregate first lien and second lien debt service for the bond year commencing during such fiscal year reduced by an amount equal to the sum of any amount held in any capitalized interest account for disbursement during such fiscal year to pay interest on bonds. This requirement was met at December 31, 2010. The ordinance provides for the creation of separate accounts that are to be credited with revenues in a specified priority. At the end of each year, any excess funds over amounts required in accounts other than Special Capital Projects, Emergency Reserve and Airport Development accounts are reallocated with the following year's revenues.

The Master Indenture of Trust securing Chicago-O'Hare International Airport Third Lien Obligations requires that Revenues in each Fiscal Year, together with Other Available Moneys deposited with the Trustee with respect to that Fiscal Year and any cash balance held in the Revenue Fund on the first day of that Fiscal Year not then required to be deposited in any Fund or Account, will be at least sufficient: (i) to provide for the payment of Operation and Maintenance Expenses for the Fiscal Year; and (ii) to provide for the greater of (a) the sum of the amounts needed to make the deposits required to be made pursuant to all resolutions, ordinances, indentures and trust agreements pursuant to which all outstanding First Lien Bonds, Second Lien Obligations, Third Lien Obligations or other Airport Obligations are issued and secured, and (b) 110 percent the Aggregate First, Second and Third Lien Debt Service for the Bond Year commencing during that Fiscal Year, reduced by any proceeds of Airport Obligations held by the Trustee for disbursement during that Bond Year to pay principal of and interest on First Lien Bonds, Second Lien obligations or Third Lien obligations. This requirement was met at December 31, 2010.

The master indenture securing the Passenger Facility Charge (PFC) Revenue Bonds requires PFC revenues, as defined, to be deposited into the PFC Revenue Fund. The PFC Revenue Fund is required to transfer amounts no later than the twentieth day of each month to various funds, as defined, as appropriate to meet debt service and debt service reserve requirements.

- f) No-Commitment Debt and Public Interest Loans** include various special assessment, private activity bonds and loans. These types of financings are used to provide private entities with low-cost capital financing for construction and rehabilitation of facilities deemed to be in the public interest. Bonds payable on no-commitment debt are not included in the accompanying financial statements because the City has no obligation to provide for their repayment, which is the responsibility of the borrowing entities. In addition, federal programs/grants, including Community Development Block Grants and Community Service Block Grants, provide original funding for public interest loans. Loans receivable are not included as assets because payments received on loans are used to fund new loans or other program activities in the current year and are not available for general City operating purposes. Loans provided to third parties are recorded as current and prior year programs/grants expenditures. Funding for future loans will be from a combination of the repayment of existing loans and additional funds committed from future programs/grants expenditures.

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

- g) **Defeased Bonds** have been removed from the Statement of Net Assets because related assets have been placed in irrevocable trusts that, together with interest earned thereon, will provide amounts sufficient for payment of all principal and interest. Defeased bonds at December 31, 2010, not including principal payments due January 1, 2011, are as follows (dollars in thousands):

| | <u>Amount Defeased</u> | <u>Outstanding</u> |
|---|----------------------------|---------------------|
| Emergency Telephone System - Series 1993 | \$ 213,730 | \$ 140,595 |
| General Obligation Refunding Bonds - Series 1993B | 17,535 | 17,535 |
| General Obligation Refunding Bonds - Series 1995A-2 | 32,625 | 23,575 |
| General Obligation Project and Refunding Bonds - Series 1998 | 338,710 | 18,830 |
| General Obligation Project and Refunding Bonds - Series 1999A | 252,380 | 10,475 |
| General Obligation Bonds - Series 2001A | 349,845 | 137,085 |
| General Obligation Project and Refunding Bonds - Series 2002A | 135,690 | 117,855 |
| General Obligation Project and Refunding Bonds - Series 2003A | 89,815 | 87,510 |
| General Obligation Project Bonds - Series 2003C | 87,645 | 77,395 |
| General Obligation Project Bonds - Series 2004A | 205,535 | 205,535 |
| General Obligation Project and Refunding Bonds - Series 2005B | 3,460 | 3,280 |
| General Obligation Project and Refunding Bonds - Series 2005E | 22,186 | 17,532 |
| General Obligation Project and Refunding Bonds - Series 2006A | 19,230 | 15,680 |
| General Obligation Direct Access Bonds - Series 2006 | 4,755 | 4,755 |
| General Obligation Project and Refunding Bonds - Series 2007A | 10,300 | 10,300 |
| Neighborhoods Alive 21 Program - Series 2001A | 213,825 | 60,170 |
| Neighborhoods Alive 21 Program - Series 2002A | 36,820 | 15,870 |
| Neighborhoods Alive 21 Program - Series 2003 | 90,600 | 86,045 |
| Lake Millenium Project Parking Facilities Bonds - Series 1998 | 149,880 | 43,880 |
| Lake Millenium Project Parking Facilities Bonds - Series 1999 | 44,495 | 44,395 |
| Near South Redevelopment Project Tax Increment - Series 1994A | 23,000 | 9,975 |
| Water Revenue Senior Lien Bonds - Series 2001 | 242,630 | 229,155 |
| Special Transportation Revenue Bonds - Series 2001 | 118,715 | 103,485 |
| Total | <u>\$ 2,703,406</u> | <u>\$ 1,480,912</u> |

**CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED**

11) Pension Trust Funds

- a) **Retirement Benefit** - Eligible City employees participate in one of four single-employer defined benefit pension plans (Plans). These Plans are: the Municipal Employees'; the Laborers' and Retirement Board Employees'; the Policemen's; and the Firemen's Annuity and Benefit Funds of Chicago. Plans are administered by individual retirement boards represented by elected and appointed officials. Certain employees of the Chicago Board of Education participate in the Municipal Employees' or the Laborers' and Retirement Board Employees' Annuity and Benefit Funds for which the City levies taxes to make the required employer contributions. Each Plan issues a publicly available financial report that includes financial statements and required supplementary information.

The financial statements of the Plans are prepared using the accrual basis of accounting. Employer and employee contributions are recognized in the period in which employee services are performed. Benefits and refunds are recognized when payable.

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Fixed income securities are valued principally using quoted market prices provided by independent pricing services. For collective investments, the net asset value is determined and certified by the investment managers as of the reporting date. Real estate investments are generally valued by appraisals or other approved methods. Investments that do not have an established market are reported at estimated fair value.

The Plans have a securities lending program. At year-end, the Plans have no credit risk exposure to borrowers because the amounts the Plans owe the borrowers exceed the amounts the borrowers owe the Plans. The contract with the Plans' master custodian requires it to indemnify the Plans if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the fund for income distributions by the securities' issuers while the securities are on loan. All securities loans can be terminated on demand by either the Plans or the borrower, although the average term of the loans has not exceeded 90 days. The Plans' custodian lends securities for collateral in the form of cash, irrevocable letters of credit and/or U.S. government obligations equal to at least 102 percent of the fair value of securities or international securities for collateral of 105 percent. Cash collateral is invested in the lending agents' short-term investment pool, which at year-end has a weighted average maturity that did not exceed 101 days. The Plans cannot pledge to sell collateral securities received unless the borrower defaults. Loans outstanding as of December 31, 2010 are as follows: market value of securities loaned \$1,208.4 million, market value of cash collateral from borrowers \$1,238.3 million and market value of non-cash collateral from borrowers \$5.4 million.

The Plans provide retirement, disability, and death benefits as established by State law. Benefits generally vest after 20 years of credited service. Employees who retire at or after age 55 (50 for policemen and firemen) with 20 years of credited service qualify to receive a money purchase annuity and those with more than 20 years of credited service qualify to receive a minimum formula annuity. The annuity is computed by multiplying the final average salary by a percentage ranging from 2.0 percent to 2.4 percent per year of credited service. The final average salary is the employee's highest average annual salary for any four consecutive years within the last 10 years of credited service.

State law requires City contributions at statutorily, not actuarially determined rates. The City's contribution is equal to the total amount of contributions by employees to the Plan made in the calendar year two years prior, multiplied by 1.25 for the Municipal Employees', 1.00 for the Laborers', 2.00 for the Policemen's, and 2.26 for the Firemen's. State law also requires covered employees to contribute a percentage of their salaries.

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

The City's annual pension cost for the current year and related information for each Plan is as follows (dollars in thousands):

| | Municipal Employees' | Laborers' | Policemen's | Firemen's | Total |
|--|---------------------------------|---------------------|---------------------|---------------------|---------------------|
| Contribution rates: | | | | | |
| City (a)..... | 8.5% | 8.5% | 9.0% | 9.125% | |
| Plan members..... | 8.5 | 8.5 | 9.0 | 9.125 | |
| Annual required contribution..... | \$ 483,948 | \$ 46,665 | \$ 363,625 | \$ 218,388 | \$ 1,112,626 |
| Interest on net pension obligation..... | 54,379 | (16,509) | 124,994 | 96,897 | 259,761 |
| Adjustment to annual required contribution..... | (55,907) | 16,973 | (85,391) | (99,619) | (223,944) |
| Annual pension cost..... | 482,420 | 47,129 | 403,228 | 215,666 | 1,148,443 |
| Contributions made..... | 154,752 | 15,352 | 174,501 | 80,947 | 425,552 |
| Increase in net pension obligation..... | 327,668 | 31,777 | 228,727 | 134,719 | 722,891 |
| Net pension obligation (excess), beginning of year..... | 679,738 | (206,362) | 1,562,419 | 1,211,208 | 3,247,003 |
| Net pension obligation (excess), end of year..... | <u>\$ 1,007,406</u> | <u>\$ (174,585)</u> | <u>\$ 1,791,146</u> | <u>\$ 1,345,927</u> | <u>\$ 3,969,894</u> |

| | Municipal Employees' | Laborers' | Policemen's | Firemen's |
|---------------------------------------|---------------------------------|--------------------------|--------------------------|--------------------------|
| Actuarial valuation date..... | 12/31/2010 | 12/31/2010 | 12/31/2010 | 12/31/2010 |
| Actuarial cost method..... | Entry age normal | Entry age normal | Entry age normal | Entry age normal |
| Amortization method..... | Level dollar, open | Level dollar, open | Level percent, open | Level dollar, open |
| Remaining amortization period..... | 30 years | 30 years | 30 years | 30 years |
| Asset valuation method..... | 5-yr. Smoothed Market | 5-yr. Smoothed Market | 5-yr. Smoothed Market | 5-yr. Smoothed Market |
| Actuarial assumptions: | | | | |
| Investment rate of return (a)..... | 8.0% | 8.0% | 8.0% | 8.0% |
| Projected salary increases (b): | | | | |
| Inflation..... | 3.0 | 3.0 | 3.0 | 3.0 |
| Seniority/Merit..... | (c) | (d) | (e) | (f) |
| Postretirement benefit increases..... | (g) | (g) | (h) | (h) |

- (a) Percentage represents amount applied to the employees account and not the total contributed.
(b) Compounded Annually
(c) Service-based increases equivalent to a level annual rate increase of 2.4 percent over a full career.
(d) Service-based increases equivalent to a level annual rate increase of 1.9 percent over a full career.
(e) Service-based increases equivalent to a level annual rate increase of 2.8 percent over a full career.
(f) Service-based increases equivalent to a level annual rate increase of 2.7 percent over a full career.
(g) 3.0 percent per year beginning at the earlier of:
1) the later of the first of January of the year after retirement and age 60;
2) the later of the first of January of the year after the second anniversary of retirement and age 53.
(h) Uses 3.0 percent per year for annuitants age 55 or over, born before 1955 with at least 20 years of service and 1.5 percent per year for 20 years for annuitants age 60 or over, born in 1955 or later.

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

The following tables of information assist users in assessing each fund's progress in accumulating sufficient assets to pay benefits when due. The three-year historical information for each Plan is as follows (dollars in thousands):

| Year | Annual Pension Cost | % of Annual Pension Cost Contributed | Net Pension (Excess) Obligation |
|------------------------------|---------------------|--------------------------------------|---------------------------------|
| Municipal Employees': | | | |
| 2008..... | \$ 359,933 | 40.79% | \$ 415,207 |
| 2009..... | 412,576 | 35.88 | 679,738 |
| 2010..... | 482,420 | 32.08 | 1,007,406 |
| Laborers': | | | |
| 2008..... | 18,166 | 83.85 | (225,759) |
| 2009..... | 34,024 | 42.99 | (206,362) |
| 2010..... | 47,129 | 32.57 | (174,585) |
| Policemen's: | | | |
| 2008..... | 348,273 | 49.63 | 1,360,492 |
| 2009..... | 373,972 | 46.00 | 1,562,419 |
| 2010..... | 403,228 | 43.28 | 1,791,146 |
| Firemen's: | | | |
| 2008..... | 187,710 | 43.29 | 1,099,024 |
| 2009..... | 201,397 | 44.30 | 1,211,208 |
| 2010..... | 215,666 | 37.53 | 1,345,927 |

SCHEDULE OF FUNDING PROGRESS
(dollars in thousands)

| Year | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded (Surplus) AAL (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | Unfunded (Surplus) AAL as a Percentage of Covered Payroll ((b-a)/c) |
|------------------------------|--------------------------|-------------------------------|---|------------------------------|--------------------|---------------------|---|
| Municipal Employees': | | | | | | | |
| 2008..... | 12/31/08 | \$ 6,669,502 | \$ 10,383,158 | \$ 3,713,656 | 64% | \$ 1,543,977 | 241% |
| 2009..... | 12/31/09 | 6,295,788 | 10,830,119 | 4,534,331 | 58 | 1,551,973 | 292 |
| 2010..... | 12/31/10 | 6,003,390 | 11,828,666 | 5,825,276 | 51 | 1,541,388 | 378 |
| Laborers': | | | | | | | |
| 2008..... | 12/31/08 | 1,698,427 | 1,915,324 | 216,897 | 89 | 216,744 | 100 |
| 2009..... | 12/31/09 | 1,601,352 | 1,975,749 | 374,397 | 81 | 208,626 | 179 |
| 2010..... | 12/31/10 | 1,529,404 | 2,030,025 | 500,621 | 75 | 199,863 | 250 |
| Policemen's: | | | | | | | |
| 2008..... | 12/31/08 | 4,093,720 | 8,482,574 | 4,388,854 | 48 | 1,023,581 | 429 |
| 2009..... | 12/31/09 | 3,884,978 | 8,736,102 | 4,851,124 | 44 | 1,011,205 | 480 |
| 2010..... | 12/31/10 | 3,718,955 | 9,210,056 | 5,491,101 | 40 | 1,048,084 | 524 |
| Firemen's: | | | | | | | |
| 2008..... | 12/31/08 | 1,335,695 | 3,311,269 | 1,975,574 | 40 | 396,182 | 499 |
| 2009..... | 12/31/09 | 1,269,231 | 3,428,838 | 2,159,607 | 37 | 400,912 | 539 |
| 2010..... | 12/31/10 | 1,198,114 | 3,655,026 | 2,456,912 | 33 | 400,404 | 614 |

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

- b) **Other Postemployment Benefits (OPEB)** - Under State law, certain health benefits are available to employees who retire from the City based upon their participation in the City's pension plans. The Pension Plans and the City agreed to share in the cost of the Settlement Health Care Plan (see Note 12). This single employee defined benefit plan is administered by the City. Substantially all employees who qualify as Municipal or Laborers' pension plan participants older than age 55 with at least 20 years of service and Police and Fire pension plan participants older than age 50 with at least 10 years of service may become eligible for postemployment benefits if they eventually become an annuitant. Health benefits include basic benefits for annuitants and supplemental benefits for Medicare eligible annuitants. The amounts below represent the accrued liability of the City's pension plans related to their own employees and a subsidy paid to the City (see Note 12). The plan is financed on a pay as you go basis (dollars in thousands).

Annual OPEB Cost and Contributions Made
For Fiscal Year Ending December 31, 2010

| | <u>Municipal</u> | | | | |
|--|---|------------------|--------------------|------------------|--------------|
| | <u>Employees'</u> | <u>Laborers'</u> | <u>Policemen's</u> | <u>Firemen's</u> | <u>Total</u> |
| Contribution Rates City: | A portion of the City's contribution from the tax levy is used to finance the health insurance supplement benefit payments. | | | | |
| Annual Required Contribution | \$ 22,955 | \$ 3,609 | \$ 10,659 | \$ 4,428 | \$ 41,651 |
| Interest on Net OPEB Obligation | 1,900 | 164 | 371 | 243 | 2,678 |
| Adjustment to Annual - Required Contribution | (2,480) | (214) | (294) | (317) | (3,305) |
| Annual OPEB Cost | 22,375 | 3,559 | 10,736 | 4,354 | 41,024 |
| Contributions Made | 9,550 | 2,587 | 9,354 | 2,644 | 24,135 |
| Increase in Net OPEB Obligation | 12,825 | 972 | 1,382 | 1,710 | 16,889 |
| Net OPEB Obligation, Beginning of Year | 42,220 | 3,647 | 8,237 | 5,397 | 59,501 |
| Net OPEB Obligation, End of Year | \$ 55,045 | \$ 4,619 | \$ 9,619 | \$ 7,107 | \$ 76,390 |

Actuarial Method and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and plan members) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial method and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations.

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

| | Municipal Employees' | Laborers' | Policemen's | Firemen's |
|---|---------------------------------|------------------------------|------------------------------|------------------------------|
| Actuarial Valuation Date | 12/31/2010 | 12/31/2010 | 12/31/2010 | 12/31/2010 |
| Actuarial Cost Method | Entry Age Normal | Entry Age Normal | Entry Age Normal | Entry Age Normal |
| Amortization Method | Level Dollar, Open | Level Dollar, Open | Level Percent, Open | Level Dollar, Open |
| Remaining Amortization Method | 30 years | 30 years | 30 years | 30 years |
| Asset Valuation Method | No Assets (Pay-as-you-go) | No Assets (Pay-as-you-go) | No Assets (Pay-as-you-go) | No Assets (Pay-as-you-go) |
| Actuarial assumptions: | | | | |
| OPEB Investment Rate of Return (a) | 4.5% | 4.5% | 4.5% | 4.5% |
| Projected Salary Increases (a) Inflation | 3.0% | 3.0% | 3.0% | 3.0% |
| Seniority / Merit | (b) | (c) | (d) | (e) |
| Healthcare Cost Trend Rate (f) | 0.0% | 0.0% | 0.0% | 0.0% |

(a) Compounded Annually

(b) Service-based increases equivalent to a level annual rate of increase of 2.4 percent over a full career

(c) Service-based increases equivalent to a level annual rate of increase of 1.9 percent over a full career

(d) Service-based increases equivalent to a level annual rate of increase of 2.8 percent over a full career

(e) Service-based increases equivalent to a level annual rate of increase of 2.7 percent over a full career

(f) Trend not applicable - fixed dollar subsidy

OPEB COST SUMMARY

(dollars in thousands)

| | Year | Annual OPEB Cost | % of Annual OPEB Obligation | Net OPEB Obligation |
|----------------------|-------------|---------------------------------|--|------------------------------------|
| Municipal Employees' | 2008 | \$ 23,580 | 38.29% | \$ 29,307 |
| | 2009 | 22,561 | 42.77 | 42,220 |
| | 2010 | 22,375 | 42.68 | 55,045 |
| Laborers' | 2008 | 3,546 | 66.20 | 2,563 |
| | 2009 | 3,646 | 70.29 | 3,647 |
| | 2010 | 3,559 | 72.68 | 4,619 |
| Policemen's | 2008 | 11,378 | 77.78 | 5,640 |
| | 2009 | 11,863 | 78.11 | 8,237 |
| | 2010 | 10,736 | 87.13 | 9,619 |
| Firemen's | 2008 | 4,281 | 58.09 | 3,723 |
| | 2009 | 4,319 | 61.24 | 5,397 |
| | 2010 | 4,354 | 60.74 | 7,107 |

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as the results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presents, as required, supplementary information following the notes to the financial statements (dollars in thousands, unaudited).

| | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded (Surplus) UAAL (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | Unfunded (Surplus) AAL as a Percentage of Covered Payroll ((b-a) / c) |
|-------------------------|--------------------------------|--|--|--|--------------------------|---------------------------|---|
| Municipal Employees' | 12/31/2010 | \$ - | \$ 223,564 | \$ 223,564 | - | \$ 1,541,388 | 14.50 |
| Laborers' | 12/31/2010 | - | 41,361 | 41,361 | - | 199,863 | 20.69 |
| Policemen's | 12/31/2010 | - | 164,796 | 164,796 | - | 1,048,084 | 15.72 |
| Firemen's | 12/31/2010 | - | 48,222 | 48,222 | - | 400,404 | 12.04 |

12) Other Postemployment Benefits – City Obligation

The annuitants who retired prior to July 1, 2005 received a 55 percent subsidy from the City and the annuitants who retired on or after July 1, 2005 received a 50, 45, 40 and zero percent subsidy from the City based on the annuitant's length of actual employment with the City for the gross cost of retiree health care under a court approved settlement agreement. The pension funds contributed \$65 for each Medicare eligible annuitant and \$95 for each Non-Medicare eligible annuitant to their gross cost. The annuitants contributed a total of \$64.1 million in 2010 to the gross cost of their retiree health care pursuant to premium amounts set forth in the above-referenced settlement agreement.

The cost of health benefits is recognized as an expenditure in the accompanying financial statements as claims are reported and are funded on a pay-as-you-go basis. In 2010, the net expense to the City for providing these benefits to approximately 24,253 annuitants plus their dependents was approximately \$107.4 million.

The City's net expense and the annuitants' contribution indicated above are preliminary and subject to the reconciliation per the court approved settlement agreement.

Plan Description Summary - The City of Chicago is party to a written legal settlement agreement outlining the provisions of the retiree health program, The Settlement Health Care Plans (the Plans), through June 30, 2013. The agreement does not require or extend continuation of the Plans after June 30, 2013. Pursuant to the Settlement, the City administers a single employer defined benefit healthcare plan (the Health Plan), for which the City pays a portion of the costs on a pay as you go method. Under the Settlement agreement, the City of Chicago sponsors health benefit plans for employees, former employees and retired former employees. The provisions of the program provide in general, that the City pay a percentage of the cost (based upon an employee's service) for hospital and medical coverage to eligible retired employees and their dependents for a specified period, until June 30, 2013.

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

In addition, Illinois Compiled Statutes authorize the four respective Pension Funds (Police, Fire, Municipal, and Laborers) to provide a fixed monthly dollar subsidy to each annuitant who has elected coverage under the Health Plan through June 30, 2013. After that date, no supplements are authorized.

The liabilities for the monthly dollar supplements paid to annuitants enrolled in the retiree medical plan by their respective Pension Funds are included in the liabilities and reports of the respective four Pension Funds (see Note 11).

Funding Policy - The City's retiree health plan is a single employer plan which operates on a pay as you go funding basis. No assets are accumulated or dedicated to funding the retiree health plan benefits.

Annual OPEB Cost and Net OPEB Obligation - The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The ARC (Annual Required Contribution) represents a level of funding, that if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities over a period of three years (the remaining years of coverage under the Settlement agreement).

The following table shows the components of the City's annual OPEB costs for the year for the Settlement Plan, the amount actually contributed to the plan and changes in the City's net OPEB obligation to the Retiree Health Plan. The *Net OPEB Obligation* is the amount entered upon the City's Statement of Net Assets as of year end as the net liability for the other postemployment benefits - the retiree health plan. The amount of the annual cost for the retiree health plan which is to be recorded in the Statement of Changes in Net Assets for 2010 is the *Annual OPEB Cost (expense)*.

Annual OPEB Cost and Contributions Made
(dollars in thousands)

| | Retiree Settlement Health Plan |
|--|--------------------------------------|
| Contribution Rates: | |
| City | Pay As You Go |
| Plan Members | N/A |
| Annual Required Contribution | \$ 189,328 |
| Interest on Net OPEB Obligation | 9,871 |
| Adjustment to Annual Required Contribution | (116,325) |
| Annual OPEB Cost | 82,874 |
| Contributions Made | 107,431 |
| Increase in Net OPEB Obligation | (24,557) |
| Net OPEB Obligation, Beginning of Year | 329,040 |
| Net OPEB Obligation, End of Year | \$ 304,483 |

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2010 is as follows (dollars in thousands):

| Schedule of Contributions, OPEB Costs and Net Obligations | | | |
|--|---------------------------------|---|------------------------------------|
| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
| 12/31/2010 | \$ 82,874 | 129.6% | \$ 304,483 |
| 12/31/2009 | 157,809 | 62.1 | 329,040 |
| 12/31/2008 | 218,897 | 44.8 | 269,275 |

Funded Status and Funding Progress - As of December 31, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$533.4 million all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,547.0 million and the ratio of the unfunded actuarial accrued liability to the covered payroll was 21 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as the results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presents, as required, supplementary information following the notes to the financial statements (dollars in thousands, unaudited).

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll |
|---|--|--|--|-------------------------|----------------------------|
| 12/31/2009 | \$ - | \$ 533,387 | \$ 533,387 | 0% | \$ 2,546,961 |

Actuarial Method and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and plan members) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial method and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations.

For the Settlement Plan benefits (not provided by the Pension Funds) in the actuarial valuation for the fiscal year ended December 31, 2010, the projected unit credit actuarial cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 12 percent initially, reduced by decrements to an ultimate rate of 10.5 percent. Both rates included a 3 percent inflation assumption. The plan has not accumulated assets and does not hold assets in a segregated trust. However, the funds expected to be used to pay benefits are assumed to be invested for durations which will yield an annual return rate of 3.0 percent. The Unfunded Accrued Actuarial Liability is being amortized as a level dollar amount over 3 years.

CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED

Summary of Assumptions and Methods

| | Settlement Health Plan |
|-------------------------------|-------------------------------|
| Actuarial Valuation Date | December 31, 2009 |
| Actuarial Cost Method | Projected Unit Credit |
| Amortization Method | Level Dollar, Closed |
| Remaining Amortization Period | 3 years |
| Asset Valuation Method | Market Value |
| Actuarial Assumptions: | |
| Investment Rate of Return | 3.00% |
| Projected Salary Increases | 2.50% |
| Healthcare Inflation Rate | 12% initial to 10.5% ultimate |

13) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; certain benefits for and injuries to employees and natural disasters. The City provides worker's compensation benefits and employee health benefits under self-insurance programs except for insurance policies maintained for certain Enterprise Fund activities. The City uses various risk management techniques to finance these risks by retaining, transferring and controlling risks depending on the risk exposure.

Risks for O'Hare, Midway, and certain other major properties, along with various special events, losses from certain criminal acts committed by employees and public official bonds are transferred to commercial insurers. Claims have not exceeded the purchased insurance coverage in the past three years, accordingly, no liability is reported for these claims. All other risks are retained by the City and are self-insured. The City pays claim settlements and judgments from the self-insured programs. Uninsured claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The General Fund is primarily used to record all non-Enterprise Fund claims. The estimated portion of non-Enterprise Fund claims not yet settled has been recorded in the Governmental Activities in the Statement of Net Assets as claims payable along with amounts related to deferred compensatory time and estimated liabilities for questioned costs. As of December 31, 2010, the total amount of non-Enterprise Fund claims was \$498.5 million. This liability is the City's best estimate based on available information. Changes in the reported liability for all funds are as follows (dollars in thousands):

| | 2010 | 2009 |
|--|-------------------|-------------------|
| Balance, January 1..... | \$ 513,333 | \$ 497,527 |
| Claims incurred on current and prior year events..... | 632,765 | 605,506 |
| Claims paid on current and prior year events..... | (590,813) | (589,700) |
| Balance, December 31..... | <u>\$ 555,285</u> | <u>\$ 513,333</u> |

**CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONTINUED**

14) Commitments and Contingencies

The City is a defendant in various pending and threatened individual and class action litigation relating principally to claims arising from contracts, personal injury, property damage, police conduct, alleged discrimination, civil rights actions and other matters. City management believes that the ultimate resolution of these matters will not have a material adverse effect on the financial position of the City.

The City participates in a number of federal-and state-assisted grant programs. These grants are subject to audits by or on behalf of the grantors to assure compliance with grant provisions. Based upon past experience and management's judgment, the City has made provisions in the General Fund for questioned costs and other amounts estimated to be disallowed. City management expects such provision to be adequate to cover actual amounts disallowed, if any.

As of December 31, 2010, the Enterprise Funds have entered into contracts for approximately \$414.1 million for construction projects.

The City's pollution remediation obligation of \$14.3 million is primarily related to Brownfield redevelopment projects. These projects include removal of underground storage tanks, cleanup of contaminated soil, and removal of other environmental pollution identified at the individual sites. The estimated liability is calculated using the expected cash flow technique. The pollution remediation obligation is an estimate and subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations.

15) Service Concession Agreements

The major fund entitled Service Concession Agreements is used for the primary purpose of accounting for the deferred inflows associated with governmental fund long-term lease and concession transactions. Deferred inflows are amortized over the life of the related lease and concession agreements. Proceeds from these transactions may be transferred from this fund in accordance with ordinances approved by city council that define the use of proceeds.

In February 2009, the City completed a \$1.15 billion concession agreement to allow a private operator to manage and collect revenues from the City's metered parking system for 75 years. The City received an upfront payment of \$1.15 billion which was recognized as a deferred inflow that will be amortized and recognized as revenue over the term of the agreement. In 2009, the City recognized \$15.3 million of revenue and will continue to recognize \$15.3 million for each subsequent year through 2083.

In December 2006, the City completed a long-term concession and lease of the City's downtown underground public parking system. The concession granted a private company the right to operate the garages and collect parking and related revenues for the 99-year term of the operating lease. The City received an upfront payment of \$563.0 million of which \$347.8 million was simultaneously used to purchase three of the underground garages from the Chicago Park District. The City recognized a deferred inflow that will be amortized and recognized as revenue over the term of the lease. In 2007, the City recognized \$5.7 million of revenue and will continue to recognize \$5.7 million for each subsequent year through 2105.

In January 2005, the City completed a long-term concession and lease of the Skyway. The concession granted a private company the right to operate the Skyway and to collect toll revenue from the Skyway for the 99-year term of the operating lease. The City received an upfront payment of \$1.83 billion; a portion of the payment (\$446.3 million) advance refunded all of the outstanding Skyway bonds. The City recognized a deferred inflow of \$1.83 billion that will be amortized and recognized as revenue over the 99-year term of the operating lease. In 2005, the City recognized \$18.5 million of revenue related to this transaction and will recognize \$18.5 million for each subsequent year through 2103. Skyway land, bridges, other facilities and equipment continue to be reported on the Statement of Net Assets and will be depreciated, as applicable, over their useful lives. The deferred inflow of the Skyway is reported in the Proprietary Funds Statement of Net Assets.

**CITY OF CHICAGO, ILLINOIS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 - CONCLUDED**

16) Subsequent Events

In January 2011, the City sold General Obligation Taxable Project Bonds Series 2010C-1 (\$299.3 million). The bonds were issued at an interest rate of 7.781 percent and mature January 1, 2035. Proceeds will be used to pay for a portion of the costs of various capital projects of the City.

In January 2011, Fitch Ratings downgraded the Chicago O'Hare International Airport's Passenger Facility Revenue Bonds from "A" to "A-" and the General Airport Third Lien Revenue Bonds from "A+" to "A-." In April 2011, Fitch Ratings upgraded the Chicago O'Hare International Airport's Passenger Facility Revenue Bonds from "A-" to "A."

The City reached a new collective bargaining agreement with Chicago Fire Fighters Union Local No. 2, effective March 9, 2011, with a stated term of July 1, 2007 through June 30, 2012. This agreement covers approximately 4,900 firefighters and paramedics in the Chicago Fire Department. The City paid \$86.3 million in retroactive wages in April 2011.

In April 2011, \$86.3 million of General Obligation Commercial Paper Notes, Series 2002B were issued. Proceeds will be used for operations as identified in the 2011 Annual Appropriation Ordinance.

In April 2011, the City sold Chicago O'Hare International Airport General Airport Third Lien Revenue (Non-AMT) Bonds Series 2011A, General Airport Third Lien Revenue (Non-AMT) Bonds Series 2011B and General Airport Third Lien Revenue (Non-AMT) Bonds Series 2011C (\$1.0 billion). The bonds were issued at interest rates ranging from 3.0 percent to 6.5 percent and maturity dates from January 1, 2014 to January 1, 2041. Proceeds will be used to pay a portion of the costs of certain projects at Chicago O'Hare International Airport including the O'Hare Modernization Program.

In April 2011, the City sold Chicago O'Hare International Airport Passenger Facility Charge Revenue Refunding (Non-AMT) Bonds Series 2011A and Passenger Facility Charge Revenue Refunding (AMT) Series 2011B Bonds (\$46.0 million). The bonds were issued at interest rates ranging from 5.0 percent to 6.0 percent and maturity dates from January 1, 2017 to January 1, 2033. Proceeds will be used to pay a portion of the costs of certain projects at Chicago O'Hare International Airport including the O'Hare Modernization Program and to refund certain outstanding Passenger Facility Charge Revenue bonds.

In April 2011, the City novated its \$60.9 million notional amount swap associated with the Midway Airport Series 2004C&D variable rate bonds with J.P. Morgan to Wells Fargo Bank, N.A. The fixed rate the City pays increased from 4.174 percent to 4.247 percent, and the City will sign a one-way Credit Support Agreement (CSA) that no longer requires the City to post collateral if the mark-to-market exceeds the threshold, as previously defined in the J.P. Morgan agreement. A Goldman Sachs swap covers the remaining balance of the bonds, with a current notional amount of \$91.3 million, which does not have a two-way CSA and remains unchanged.

In May 2011, the City entered into a two-way Credit Support Agreement (CSA) with J.P. Morgan in connection with the \$397.7 million original notional amount swaption associated with the Midway Airport Series 1998 A,B&C fixed rate bonds. The CSA was required because a termination event was triggered due to the insurer's ratings downgrade. Based on the current second lien ratings at Midway Airport (A3/A-/A- by Moody's, S&P and Fitch respectively), if the mark-to-market on the swap is against the City by more than \$25 million, the City/Airport must post collateral for the difference. To mitigate the risk of posting collateral, the City obtained a \$25 million Letter of Credit (LOC) as collateral. The LOC is not expected to be drawn upon as long as there is no event of default by the bank or the City. Based on the current second lien ratings at Midway Airport, if the mark-to-market on the swaption is against the City by more than the combined \$25 million threshold provided in the CSA and the \$25 million LOC, for a total of \$50 million, the City must post collateral for the difference.

In June 2011, \$221.5 million of the General Obligation Bonds Series 2005D bonds became bank bonds due to the deterioration of the liquidity support provider's credit quality. The remarketing agent continues to use best efforts to remarket the bonds out of bank mode. There is no principal due on the bank bonds within the next fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION
CITY OF CHICAGO, ILLINOIS
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS FUNDING PROGRESS
Last Three Years (dollars are in thousands)

| | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded Actuarial Accrued Liability (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | Unfunded (Surplus) AAL as a Percentage of Covered Payroll ((b-a)/c) |
|-----------------------------|--------------------------------|--|---|--|--------------------------|---------------------------|---|
| Municipal Employees' | | | | | | | |
| 2008 | 12/31/2008 | \$ - | \$ 222,691 | \$ 222,691 | - % | \$ 1,543,977 | 14.42 % |
| 2009 | 12/31/2009 | - | 224,173 | 224,173 | - | 1,551,973 | 14.44 |
| 2010 | 12/31/2010 | - | 223,564 | 223,564 | - | 1,541,388 | 14.50 |
| Laborers' | | | | | | | |
| 2008 | 12/31/2008 | - | 42,064 | 42,064 | - % | 216,744 | 19.41 % |
| 2009 | 12/31/2009 | - | 41,738 | 41,738 | - | 208,626 | 20.01 |
| 2010 | 12/31/2010 | - | 41,361 | 41,361 | - | 199,863 | 20.69 |
| Policemen's | | | | | | | |
| 2008 | 12/31/2008 | - | 169,972 | 169,972 | - % | 1,023,581 | 16.61 % |
| 2009 | 12/31/2009 | - | 164,800 | 164,800 | - | 1,011,205 | 16.30 |
| 2010 | 12/31/2010 | - | 164,796 | 164,796 | - | 1,048,084 | 15.72 |
| Firemen's | | | | | | | |
| 2008 | 12/31/2008 | - | 47,309 | 47,309 | - % | 396,182 | 11.94 % |
| 2009 | 12/31/2009 | - | 47,933 | 47,933 | - | 400,912 | 11.96 |
| 2010 | 12/31/2010 | - | 48,222 | 48,222 | - | 400,404 | 12.04 |
| City of Chicago | | | | | | | |
| 2007 | 12/31/2007 | - | 1,062,864 | 1,062,864 | - % | 2,562,007 | 41.49 % |
| 2008 | 12/31/2008 | - | 787,395 | 787,395 | - | 2,475,107 | 31.81 |
| 2009 | 12/31/2009 | - | 533,387 | 533,387 | - | 2,546,961 | 20.94 |

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APPENDIX D

CITY OF CHICAGO

ECONOMIC, DEMOGRAPHIC AND SUPPLEMENTAL INFORMATION

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ECONOMIC, DEMOGRAPHIC AND SUPPLEMENTAL INFORMATION

Set forth below is certain economic, demographic and supplemental information regarding the City. Sources of information are indicated immediately following each table or section. With respect to non-City sources, the City considers these sources to be reliable but has made no independent verification of the information provided and does not warrant its accuracy.

Economic Highlights

- Home to more than 400 corporate headquarters, numerous Fortune 500 companies, well over 1,500 foreign-based companies and more than \$40 billion in foreign direct investment*
- Chicago O'Hare International Airport is the world's third busiest airport with 54 international and 148 domestic destinations
- Only U.S. city where the six largest freight railroad companies interchange traffic
- Manufacturing base employs over 400,000 workers*
- Health care and life science businesses employ over 500,000 residents*
- Home to 17% of the world's trading activity for futures, options and derivatives
- #6 on Global Cities Index based on business activity, human capital, information exchange, cultural experience and political engagement*
- Home to more than 60 public and private post-secondary educational institutions with a combined enrollment of more than 260,000 students*
- Over 30,000 hotel rooms
- Home to over 35 museums and 200 theater companies*

* Information relates to Chicago-Naperville, Illinois Metropolitan Statistical Area.

Source: *Chicago Business Overview*, World Business Chicago.

Population

The population of the United States, the State of Illinois, Cook County and the City for the census years from 1980 to 2010 is set forth below.

| Year | United States | State of Illinois | Cook County | City |
|------|---------------|-------------------|-------------|-----------|
| 1980 | 226,545,805 | 11,427,409 | 5,253,655 | 3,005,072 |
| 1990 | 248,709,873 | 11,430,602 | 5,105,067 | 2,783,726 |
| 2000 | 281,421,906 | 12,419,293 | 5,376,741 | 2,896,016 |
| 2010 | 308,745,538 | 12,830,632 | 5,194,675 | 2,695,598 |

Source: U.S. Census Bureau.

Per Capita Income

The per capita personal income (estimated annual earnings) for the United States, the State of Illinois, Cook County and the City is set forth below for the years 2001 through 2011.

| <u>Year</u> | <u>United States</u> | <u>State of Illinois</u> | <u>Cook County</u> | <u>City of Chicago</u> |
|-------------|----------------------|--------------------------|--------------------|------------------------|
| 2001 | \$31,157 | \$33,232 | \$35,054 | \$35,816 |
| 2002 | 31,481 | 33,793 | 35,988 | 36,367 |
| 2003 | 32,295 | 34,717 | 36,554 | 37,021 |
| 2004 | 33,909 | 39,164 | 38,559 | 38,723 |
| 2005 | 35,452 | 37,437 | 40,549 | 40,481 |
| 2006 | 37,725 | 39,900 | 43,541 | 43,294 |
| 2007 | 39,506 | 41,950 | 46,264 | 45,466 |
| 2008 | 40,947 | 43,502 | 47,752 | 46,769 |
| 2009 | 39,635 | 41,045 | 46,161 | 45,090 |
| 2010 | 39,937 | 42,040 | N/A | 45,957 |
| 2011 | 41,663 | 44,140 | N/A | N/A |

Source: U.S. Department of Commerce, Bureau of Economic Analysis; N/A means not available at time of publication.

Unemployment

The unemployment rate (percent of population) for the United States, the State of Illinois, Cook County and the City is set forth below for the years 2001 through 2011.

| <u>Year</u> | <u>United States</u> | <u>State of Illinois</u> | <u>Cook County</u> | <u>City of Chicago</u> |
|-------------|----------------------|--------------------------|--------------------|------------------------|
| 2001 | 4.7% | 5.4% | 6.0% | 5.5% |
| 2002 | 5.8 | 6.5 | 7.4 | 6.7 |
| 2003 | 6.0 | 6.7 | 7.4 | 6.8 |
| 2004 | 5.5 | 6.2 | 6.7 | 6.2 |
| 2005 | 5.1 | 5.8 | 6.4 | 5.9 |
| 2006 | 4.6 | 4.6 | 4.8 | 4.5 |
| 2007 | 4.6 | 5.1 | 5.2 | 4.9 |
| 2008 | 5.8 | 6.4 | 6.5 | 6.2 |
| 2009 | 9.3 | 10.0 | 10.3 | 10.0 |
| 2010 | 9.6 | 10.5 | 10.5 | 10.2 |
| 2011 | 8.9 | 9.8 | N/A | N/A |

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Full-Time City Employees

The number of full-time employees of the City for the years 2006 through 2010 is included in the following table.

| Year | Budgeted Full-Time Equivalent Positions |
|------|---|
| 2006 | 40,297 |
| 2007 | 40,207 |
| 2008 | 39,921 |
| 2009 | 37,419 |
| 2010 | 36,889 |

Source: City of Chicago 2011 Program and Budget Summary, 2010 figures. Includes full-time equivalent positions in grant-related programs.

Principal Employers (Non-Government)

The companies employing the greatest number of workers in the City as of the end of 2010 are set forth below.

| Employer | Number of Employees | Percentage of Total City Employment |
|----------------------------------|---------------------|-------------------------------------|
| J. P. Morgan Chase | 8,094 | 0.81% |
| United Airlines..... | 5,585 | 0.58 |
| Northern Trust..... | 5,434 | 0.56 |
| Jewel Food Stores, Inc. | 5,307 | 0.52 |
| Bank of America..... | 4,668 | 0.44 |
| Walgreen's Co..... | 4,552 | 0.33 |
| Accenture LLP..... | 4,224 | 0.32 |
| CVS Corporation | 4,067 | 0.30 |
| ABM Janitorial Midwest, INC..... | 3,840 | 0.30 |
| American Airlines..... | 3,153 | 0.27 |

Source: City of Chicago, Department of Revenue, Employer's Expense Tax Returns

Housing Market

Home prices in the Chicago MSA housing market continued to weaken through the 4th quarter of 2011. According to the Freddie Mac Housing Price Index, the Chicago MSA index went from 109.16 in December 2010 to 100.16 in December, 2011.

The Chicago MSA traditionally lags the national housing market. As experienced nationally, the Chicago market is recovering and the property tax base remains robust. The effects of the market are muted since the City's property taxes are levied at a flat dollar amount and collection rates have remained above 95% for each of the last 10 years. In addition, the number of home sales has increased while the number of foreclosure filings has decreased.

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APPENDIX E

CITY OF CHICAGO

RETIREMENT FUNDS AND OTHER POST-EMPLOYMENT BENEFITS

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APPENDIX E

RETIREMENT FUNDS

General

The City provides funding for four retirement funds, which provide benefits upon retirement, death or disability to employees and beneficiaries. Such retirement funds are, in order from largest to smallest membership: (i) the Municipal Employees' Annuity and Benefit Fund of Chicago ("MEABF"); (ii) the Policemen's Annuity and Benefit Fund of Chicago ("PABF"); (iii) the Firemen's Annuity and Benefit Fund of Chicago ("FABF"); and (iv) the Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago ("LABF" and, together with MEABF, PABF and FABF, the "Retirement Funds").

The unfunded liability to the Retirement Funds poses significant financial challenges. The unfunded liability has consistently increased in recent years, and actuaries for MEABF and LABF indicate that the unfunded liability of those Retirement Funds will continue to increase for the foreseeable future. The lack of any corrective actions jeopardizes the solvency of MEABF and LABF. See "Funded Status of the Retirement Funds" and "Projection of Funded Status" herein. Furthermore, although the actuaries for PABF and FABF project that the unfunded liabilities of those Retirement Funds will decrease in the future, such a decrease is expected to result from significantly increased contributions to those Retirement Funds as a result of the enactment of P.A. 96-1495, which is described and defined herein. As described herein, the benefits provided to members of the Retirement Funds and the City's contributions to the Retirement Funds are governed by the provisions of the Pension Code (as defined below). See "— Determination of City's Contributions" herein.

The Retirement Funds are established, administered and financed under the Illinois Pension Code (the "Pension Code"), as separate bodies politic and corporate and for the benefit of the employees of the City and their beneficiaries. The requirements of the Pension Code may be amended by legislation enacted by the State. This Appendix describes, in part, the current provisions of the Pension Code applicable to the City's funding of the Retirement Funds; no assurance can be made that the Pension Code will not be amended in the future.

For purposes of this Appendix, references to "employee" or "member" are references to the employees of the City, the employees of the Retirement Funds participating in the Retirement Funds, and with regard to MEABF, certain employees and annuitants of the Chicago Public Schools who are members of MEABF as described below.

The Retirement Funds' sources of funding come from the City's contributions, the employees' contributions and investment income on the Retirement Funds' assets. The City's contributions and the employees' contributions are based upon what is established under the Pension Code and are not based on the actuarially recommended levels. Certain aspects of the Retirement Funds, including the defined benefits and the City's contribution and employees' contribution levels, are established in the Pension Code. There is no mechanism in the Pension Code by which the funding can self-adjust because contributions are not affected by a change in benefits, assets or investments, but only by a change in current payroll, as described in "— Determination of City's Contributions" below. The manner in which the City contributes to FABF and PABF is expected to change significantly starting with the property tax levy made by the City in 2015 (and collectible in 2016) due to a recent legislative change to the Pension Code, as described in "— Determination of City's Contributions" and "— Recent Legislative Changes — P.A. 96-1495" below.

Source Information

The information contained in this Appendix relies on information produced by the Retirement Funds, their independent accountants and their independent actuaries (the "Source Information"). Neither the City nor the City's independent auditors have independently verified the Source Information and make no representations nor express any opinion as to the accuracy of the Source Information.

Furthermore, where the tables in this Appendix present aggregate information regarding the Retirement Funds, such combined information results solely from the arithmetic calculation of numbers presented in the Source Information and may not conform to the requirements for the presentation of such information by the Governmental Accounting Standards Board ("GASB") or the Pension Code.

The comprehensive annual financial reports of the Retirement Funds for the fiscal years ending December 31, 2001 through December 31, 2010 (each, a "CAFR" and together, the "CAFRs"), and the actuarial valuations of the Retirement Funds as of December 31 of the years 2001 through 2010 (each, an "Actuarial Valuation" and together, the "Actuarial Valuations"), may be obtained by contacting the Retirement Funds. The actuarial valuations of MEABF and LABF as of December 31, 2011 may be obtained by contacting the respective Retirement Fund. Certain of these reports are also available on the Retirement Funds' websites (www.meabf.org; www.chipabf.org; www.labfchicago.org; and www.fabf.org); provided, however, that the contents of these reports and of the Retirement Funds' websites are not incorporated herein by such reference.

Background Information Regarding the Retirement Funds

General

Each of the Retirement Funds is a single-employer, defined-benefit public employee retirement system. "Single-employer" refers to the fact that there is a single plan sponsor, in this case, the City. "Defined-benefit" refers to the fact that the Retirement Funds pay a periodic benefit to retired employees and survivors in a fixed amount determined at the time of retirement. The amount of the periodic benefit is generally determined on the basis of service credits and salary. Eligible employees receive the defined benefit on a periodic basis for life, along with certain benefits to spouses and children that survive the death of the employee.

To fund the benefits to be paid by a defined-benefit pension plan, both employees and employers make contributions to the plan. Generally in a defined-benefit pension plan, employees contribute a fixed percentage of their annual salary and employers contribute the additional amounts required (which amounts may be determined pursuant to statute, as in the case of the City), when combined with the investment earnings on plan assets, to pay the benefits under the pension plan. See "Table 1 - Membership," "— Determination of Employee Contributions" and "— Determination of City's Contributions" below.

Section 5 of Article XIII of the Illinois Constitution provides that "[m]embership in any pension retirement system of the State, any unit of local government or school district, or any agency or instrumentality thereof, shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired." The benefits available under the Retirement Funds accrue throughout the time a member is employed by the City. Although the benefits accrue during employment, certain age and service requirements must be achieved by an employee to generate a retirement or survivor's periodic defined benefit payment upon retirement or termination from the City. The Retirement Funds also provide certain disability benefits to eligible members.

The Retirement Funds

Municipal Employees' Annuity and Benefit Fund of Chicago. MEABF is established by and administered under Article 8 of the Pension Code. MEABF is a single-employer, public employee defined-benefit pension plan. MEABF provides age and service retirement benefits, survivor benefits and disability benefits to all eligible members. MEABF is administered under the direction of a five-member board of trustees (the "MEABF Board") that is responsible for its oversight management and administration and that has fiduciary duties to act solely in the best interest of MEABF's members.

As of December 31, 2010, MEABF had a total membership of 67,552, consisting of 30,726 active members, 13,866 inactive members entitled to benefits but not yet receiving them, and 22,960 retirees and beneficiaries currently receiving benefits. In addition to City employees, MEABF's membership includes non-instructional employees of the Chicago Public Schools ("CPS Employees"). With respect to MEABF, the terms "employee" and "member" include the CPS Employees. The CPS Employees account for almost half of MEABF's membership. Updated membership information for MEABF as of December 31, 2011 is provided below.

Policemen's Annuity and Benefit Fund of Chicago. PABF is established by and administered under Article 5 of the Pension Code. PABF is a single-employer, public employee defined-benefit pension plan. PABF provides retirement and disability benefits to the police officers of the City, their surviving spouses and their children. PABF is administered by an eight-member board of trustees (the "PABF Board"). Members of the PABF Board are fiduciaries with respect to the PABF and are charged with administering the PABF under the Pension Code.

As of December 31, 2010, PABF had a total membership of 25,737, consisting of 12,737 active members, 620 inactive members entitled to benefits but not yet receiving them, and 12,380 retirees and beneficiaries currently receiving benefits.

Firemen's Annuity and Benefit Fund of Chicago. FABF is established by and administered under Article 6 of the Pension Code. FABF is a single-employer, public employee defined-benefit pension plan. FABF provides retirement and disability benefits to fire service employees and their dependents. FABF is governed by an eight-member board of trustees (the "FABF Board") whose members are fiduciaries with respect to FABF and who are statutorily mandated to discharge their duties solely in the interest of FABF's participants and beneficiaries.

As of December 31, 2010, FABF had a total membership of 9,518, consisting of 5,052 active members, 57 inactive members entitled to benefits but not yet receiving them, and 4,409 retirees and beneficiaries currently receiving benefits.

Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago. LABF is established by and administered under Article 11 of the Pension Code. LABF is a single-employer, public employee defined-benefit pension plan that provides retirement and disability benefits for employees of the City who are employed in a title recognized by the City as labor service and for the dependents of such employees. LABF is governed by an eight-member board of trustees (the "LABF Board" and, together with the MEABF Board, the PABF Board and the FABF Board, the "Retirement Fund Boards"). The members of this board of trustees are fiduciaries with respect to LABF and are statutorily mandated to discharge their duties, as such, solely in the interest of LABF's participants and beneficiaries.

As of December 31, 2010, LABF had a total membership of 8,398, consisting of 2,956 active members, 1,446 inactive members entitled to benefits but not yet receiving them, and 3,996 retirees and

beneficiaries currently receiving benefits. Updated membership information for LABF as of December 31, 2011 is provided below.

As of December 31, 2010, the membership in each of the Retirement Funds was as follows:

TABLE 1 - MEMBERSHIP

| Retirement Fund | Active Members | Inactive/ Entitled to Benefits | Retirees and Beneficiaries | Totals |
|------------------------|-----------------------|---------------------------------------|-----------------------------------|---------------|
| MEABF | 30,726 | 13,866 | 22,960 | 67,552 |
| PABF | 12,737 | 620 | 12,380 | 25,737 |
| FABF | 5,052 | 57 | 4,409 | 9,518 |
| LABF | <u>2,956</u> | <u>1,446</u> | <u>3,996</u> | <u>8,398</u> |
| Total | 51,471 | 15,989 | 43,745 | 111,205 |

Source: Actuarial Valuations of the Retirement Funds as of December 31, 2010, and CAFRs of the Retirement Funds for the fiscal year ending December 31, 2010.

As of December 31, 2011, MEABF had a total membership of 68,730, consisting of 31,976 active members, 12,762 inactive members entitled to benefits but not yet receiving them, and 23,992 retirees and beneficiaries currently receiving benefits. As of December 31, 2011, LABF had a total membership of 8,493, consisting of 2,852 active members, 1,417 inactive members entitled to benefits but not yet receiving them, and 4,224 retirees and beneficiaries currently receiving benefits.

Certain Duties

Each Retirement Fund Board is a fiduciary of its respective Retirement Fund and is authorized to perform all functions necessary for operation of the Retirement Funds. The Pension Code authorizes each Retirement Fund Board to make certain autonomous decisions, including decisions regarding the investment of funds, the management of assets, the disbursement of benefits, and the hiring of staff, financial advisors and asset managers.

Each Retirement Fund Board, similar to other public bodies, is authorized to promulgate rules and procedures regarding their administration of benefits and other matters in accordance with the Illinois Administrative Procedure Act, and their decisions in awarding, limiting, or denying benefits are subject to the Illinois Administrative Procedure Act. Certain aspects of the Retirement Funds, however, including the defined benefits and the employer and employee contribution levels, are established in the Pension Code and may be amended only by an amendment to the Pension Code.

The Pension Code provides that the expenses incurred in connection with the administration of the Retirement Funds are not construed to be debt imposed upon the City. Such expenditures and expenses are the obligation of the Retirement Funds exclusively, as separate bodies politic and corporate.

Investments

Each Retirement Fund Board manages the investments of its respective Retirement Fund. State law regulates the types of investments in which the Retirement Funds' assets may be invested. Furthermore, the Retirement Fund Boards invest the Retirement Funds' assets in accordance with the prudent person rule, which requires members of the Retirement Fund Boards, who are fiduciaries of the

Retirement Funds, to discharge their duties with the care, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in a similar situation.

In carrying out their investment duty, the Retirement Fund Boards may appoint and review investment managers as fiduciaries to manage the investment assets of the Retirement Funds. Such investment managers are granted discretionary authority to manage the Retirement Funds' assets. Additional information regarding the Retirement Funds' investments and investment management may be found on the Retirement Funds' websites; provided, however, the contents of such websites are not incorporated into this Appendix by such reference.

Table 2 provides information on the investment returns experienced by each of the Retirement Funds for the period 2001 through 2010.

TABLE 2 - INVESTMENT RATES OF RETURN, 2001-2010⁽¹⁾

| Fiscal Year | MEABF | FABF | LABF | PABF |
|-----------------------------|--------------|-------------|-------------|-------------|
| 2001 | (2.3)% | (6.1)% | (0.6)% | (4.4)% |
| 2002 | (9.3) | (13.3) | (7.5) | (9.6) |
| 2003 | 19.9 | 28.3 | 17.5 | 21.0 |
| 2004 | 10.6 | 12.8 | 11.5 | 10.8 |
| 2005 | 6.9 | 9.5 | 7.8 | 7.3 |
| 2006 | 13.0 | 14.0 | 11.2 | 12.1 |
| 2007 | 7.6 | 11.0 | 8.0 | 8.8 |
| 2008 | (28.4) | (33.8) | (29.2) | (27.8) |
| 2009 | 19.7 | 27.8 | 21.5 | 21.5 |
| 2010 | 14.0 | 17.7 | 15.5 | 12.7 |
| 5-Yr. Avg. Return | 3.5 | 3.6 | 3.6 | 3.8 |
| 10-Yr. Avg. Return | 4.1 | 4.4 | 4.5 | 4.1 |
| Assumed Rate ⁽²⁾ | 8.0 | 8.0 | 8.0 | 8.0 |

Source: For FABF, the Actuarial Valuation of the FABF as of December 31 of the years 2001-2010; and for MEABF, LABF and PABF, the CAFRs of the respective Retirement Fund for the fiscal years ending December 31, 2001-2010.

(1) Investment returns are reported net of investment fees and are rounded.

(2) As of December 31, 2010, each of the Retirement Funds assumed an 8.0% return for actuarial purposes.

For fiscal year 2011, MEABF and LABF each experienced an investment rate of return of 0.60% and negative 0.33%, respectively (net of investment fees).

Oversight

The State, through the Public Pension Division (the "Public Pension Division") within its Department of Insurance, oversees public pension funds. The Public Pension Division is required to make periodic examinations and investigations of all pension funds established under the Pension Code. In lieu of making an examination and investigation, the Public Pension Division may accept and rely upon a report of audit or examination of any pension fund made by an independent certified public accountant. The Retirement Funds are required to provide the Public Pension Division with an annual

statement including specific information set forth in the Pension Code. The annual statement must also specify the actuarial and interest tables used in the operation of the pension fund. In addition, as part of this annual statement, the Retirement Funds must include a complete actuarial statement prepared by an enrolled actuary, which consists of an actuarial valuation.

The Illinois Attorney General and annuitants may bring a civil action to obtain relief for violations of a fiduciary duty to the Retirement Funds or any act or practice which violates any provision of the Pension Code.

Determination of Employee Contributions

City employees are required to contribute as set forth in the Pension Code.

Members of MEABF contribute 8.5% of their salary to MEABF (consisting of a 6.5% contribution for employee benefits, a 1.5% contribution for spouse benefits, and a 0.5% contribution for an annuity increase benefit). If an employee leaves without qualifying for an annuity, accumulated contributions are refunded with interest.

Members of PABF contribute 9.0% of their salary to PABF (consisting of a 7.0% contribution for employee benefits, a 1.5% contribution for spouse benefits and a 0.5% contribution for an annuity increase benefit). If an employee leaves without qualifying for an annuity, accumulated contributions are refunded with interest.

Members of FABF contribute 9.125% of their salary to FABF (consisting of a 7.125% contribution for employee benefits, a 1.5% contribution for spouse benefits, a 0.375% contribution for an annuity increase benefit and a 0.125% contribution for disability benefits). If an employee leaves without qualifying for an annuity, accumulated contributions are refunded with interest.

Members of LABF contribute 8.5% of their salary to LABF (consisting of a 6.5% contribution for employee benefits, a 1.5% contribution for spouse benefits, and a 0.5% contribution for an annuity increase benefit). If an employee leaves without qualifying for an annuity, accumulated contributions are refunded with interest.

Determination of City's Contributions

Under the Pension Code, the City's contributions to fund the Retirement Funds are determined pursuant to a statutory formula on an annual basis. The Pension Code provides that the City's contributions to the Retirement Funds are to be made from the proceeds of an annual levy of property taxes for each of the Retirement Funds (collectively, the "Pension Levy") by the City for such purpose. The Pension Levy is levied solely for the purpose of contributing to the Retirement Funds, and such levy is exclusive of and in addition to the amount of property tax which the City may levy for other purposes. The amount of the Pension Levy may not exceed the product of a multiplier established in the Pension Code for each Retirement Fund (the "Multiplier") and the amount contributed by the City's employees two years prior to the year in which the tax is levied (the "Contribution Limitation"). For levy year 2010, the multiplier for each Retirement Fund was as follows: 1.25 for MEABF; 2.00 for PABF; 2.26 for FABF; and 1.00 for LABF. For levy year 2011, the multiplier for MEABF and LABF remained unchanged from 2010. The City's contributions are made as governed by the Pension Code and have no correlation to the Actuarially Required Contribution (as hereinafter defined). See "— The Actuarial Valuation—City's Contribution Not Related to GASB Standards."

The Pension Code provides that the Retirement Fund Boards must annually certify to the City Council a determination of the required City contribution to the Retirement Funds. In making its request for the City's annual contribution, each Retirement Fund, acting through its Retirement Fund Board, annually approves and then submits a resolution to the City Council requesting that the City Council adopt a particular tax levy rate.

In lieu of levying all or a portion of the property taxes for the statutorily required City contribution to the Retirement Funds, the City is permitted under the Pension Code to deposit with the City Treasurer other legally available funds to be used for the same purpose as the Pension Levy (collectively, the "Other Available Funds"). In recent years, the City has utilized these provisions and not levied the full amount of property taxes for the statutorily required City contribution to the Retirement Funds by depositing with the City Treasurer certain amounts paid from the State to the City from the Personal Property Replacement Tax Fund ("PPRT") of the State pursuant to Section 12 of the Revenue Sharing Act of the State (the "Revenue Sharing Act"). The PPRT is not required to be used for this purpose but is generally available to the City for corporate purposes. Since 2002, the amount of PPRT contributed by the City to the Retirement Funds in the aggregate has averaged approximately \$67,997,311 annually. In 2010, the amount of PPRT contributed to the Retirement Funds in the aggregate was approximately \$103.7 million. In 2011, the amount of PPRT contributed to the Retirement Funds in the aggregate was approximately \$108,153,000. The City may or may not continue to use PPRT for this purpose in the future. For purposes of this Appendix, references to "Pension Levy" may include the Other Available Funds of the City to be used for the same purposes of the Pension Levy which the City may contribute in lieu of the required property tax revenues.

The City's contributions to the Retirement Funds are the amount required under the Pension Code and have not been in excess of that required amount.

City's Contributions to PABF and FABF Beginning with the Levy made in 2015

On December 30, 2010, Governor Pat Quinn signed into law Public Act 096-1495 ("P.A. 96-1495") which, among other things, created a new method of determining the contribution to be made by the City to PABF and FABF (together, the "Police and Fire Funds"). P.A. 96-1495 requires that, beginning with the property tax levy made in 2015 (and collectible in 2016), the Pension Levy for a given year will be equal to the amount necessary to achieve a Funded Ratio (as hereafter defined) of 90% in the Police and Fire Funds by the end of fiscal year 2040 (the "P.A. 96-1495 Funding Plan"). Pursuant to the P.A. 96-1495 Funding Plan, the Pension Levy for the Police and Fire Funds will be calculated as the level percentage of payroll necessary to reach the 90% Funded Ratio target by 2040. In Cook and DuPage Counties (in which the City is located), property taxes (including the Pension Levy) levied in one year become payable during the following year in two installments. As such, the Pension Levy for the Police and Fire Funds made in calendar year 2015 will be payable in calendar year 2016.

P.A. 96-1495 does not affect the manner in which the City contributes to MEABF and LABF.

The Actuarial Valuation

General

In addition to the process outlined above, the Pension Code requires that the Retirement Funds annually submit to the City Council an annual report containing a detailed statement of the affairs of such Retirement Fund, its income and expenditures, and assets and liabilities, which consists of the Actuarial Valuation. The Actuarial Valuation measures the financial position and determines the Actuarially

Required Contribution (as defined below) of such Retirement Fund for reporting purposes pursuant to GASB Statement No. 25 ("GASB 25").

A description of the statistics generated by the Retirement Funds' actuaries in the Actuarial Valuations follows in the next few paragraphs. This information was derived from the Source Information.

GASB, which is part of a private non-profit corporation known as the Financial Accounting Foundation, promulgates standards regarding accounting and financial reporting for governmental entities. These principles have no legal effect and do not impose any legal liability on the City. The references to GASB principles in this Appendix do not suggest and should not be construed to suggest otherwise.

Actuaries and the Actuarial Process

In producing the Actuarial Valuations, the Retirement Funds' actuaries use demographic data (including employee age, salary and service credits), economic assumptions (including estimated salary and interest rates), and decrement assumptions (including employee turnover, mortality and retirement rates) to determine, as of the valuation date, the Normal Cost (as defined below), the Actuarial Accrued Liability (as defined below), the Actuarial Value of Assets (as defined below), and the actuarial present values for the Retirement Fund. The Retirement Funds' actuaries use this data to determine the following fiscal year's Actuarially Required Contribution. The Retirement Funds' Actuarial Valuations are publicly available and may be obtained from the Retirement Funds. Certain of these Actuarial Valuations are available on the Retirement Funds' websites; however, the contents of these reports and of the Retirement Funds' websites are not incorporated in this Appendix by such reference. See "— Source Information" above.

The primary purpose of the Actuarial Valuations is to determine the "Actuarially Required Contribution," which is the amount that GASB standards would calculate as the City's contribution to the Retirement Funds on an annual basis for financial reporting purposes, without consideration of the Pension Code, to satisfy its current and future obligations to pay benefits to eligible members of the Retirement Funds. The Actuarially Required Contribution consists of two components: (1) that portion of the present value of pension plan benefits which is allocated to the valuation year by the actuarial cost method (as described in "— Actuarial Methods — Actuarial Accrued Liability" below), termed the "Normal Cost"; and (2) an amortized portion of any UAAL (as hereinafter defined). GASB standards require disclosure of an Actuarially Required Contribution, which is a financial reporting requirement but not a funding requirement.

As part of the Actuarial Valuation, the Retirement Funds' actuaries also calculate the Retirement Funds' "Actuarial Accrued Liability" and the "Actuarial Value of Assets." The Actuarial Accrued Liability is an estimate of the present value of the benefits each Retirement Fund must pay to current and retired employees as a result of their employment with the City and participation in such Retirement Fund. The Actuarial Accrued Liability is calculated by use of a variety of demographic and other data (such as employee age, salary and service credits) and various assumptions (such as estimated salary increases, interest rates, employee turnover, mortality and disability rates). The Actuarial Value of Assets reflects the value of the investments and other assets held by each Retirement Fund. Various methods

* GASB pronouncements refer to this concept as the Annual Required Contribution. For the convenience of the reader, this section of this Appendix refers to the concept as the Actuarially Required Contribution to denote the fact that the Actuarially Required Contribution is the amount an actuary would calculate pursuant to GASB standards to be contributed in a given year, to differentiate it from the amount the City will be required to contribute under the Pension Code.

exist for calculating the Actuarial Value of Assets and the Actuarial Accrued Liability. For a discussion of the methods and assumptions used to calculate the Retirement Funds' Actuarial Accrued Liability and Actuarial Value of Assets, see "— Actuarial Methods" and "— Actuarial Assumptions" below.

Any shortfall between the Actuarial Value of Assets and the Actuarial Accrued Liability is referred to as the "Unfunded Actuarial Accrued Liability" or "UAAL." The UAAL represents the present value of benefits earned to date that are not covered by plan assets. In addition, the actuary will compute the "Funded Ratio," which is equal to the ratio of the Actuarial Value of Assets to the Actuarial Accrued Liability, expressed as a percentage. The Funded Ratio and the UAAL provide one way of measuring the financial health of a pension plan.

City's Contributions Not Related to GASB Standards

The City's contributions to the Retirement Funds do not relate to the manner of contributing to pension plans established by GASB standards. The Retirement Funds' Actuarially Required Contribution is equal to its Normal Cost plus an amortization of the Retirement Funds' UAAL over a 30-year period. MEABF, LABF and FABF amortize the UAAL on a level dollar basis, whereas PABF amortizes the UAAL on a level percent of payroll basis. This method of calculating the Actuarially Required Contribution is acceptable under the standards promulgated by GASB. However, the statutory structure pursuant to which the City contributes to the Retirement Funds does not conform to the standards promulgated by GASB for reporting purposes. See "Table 4 - Information Regarding City's Contributions - Aggregated" below.

City's Contributions to the Police and Fire Funds under P.A. 96-1495 Will Not Relate to GASB Standards

As discussed above, beginning with the property tax levy made in 2015 (and collectible in 2016), the Pension Levy for the Police and Fire Funds will be calculated pursuant to P.A. 96-1495. The provisions of the P.A. 96-1495 Funding Plan differ from GASB standards regarding financial reporting for defined-benefit pension plans in at least two respects.

First, the goal of the P.A. 96-1495 Funding Plan is for the Police and Fire Funds to reach a Funded Ratio of 90% by 2040. The GASB standards as currently in effect amortize the entire UAAL towards attainment of a 100% Funded Ratio over the time periods described below.

Second, whereas GASB permits amortization of the UAAL over an open amortization period, the P.A. 96-1495 Funding Plan requires amortization of the UAAL over a closed period ending in 2040. A closed amortization period means that the UAAL is amortized over a fixed number of years such that the UAAL will decrease to a legally defined target (which, for the Police and Fire Funds, will be a 90% Funded Ratio by 2040 as provided in the P.A. 96-1495 Funding Plan) upon the passage of the amount of time established as the amortization period, provided required payments are made. For example, under the P.A. 96-1495 Funding Plan, the Pension Levy (applicable to the Police and Fire Funds) for fiscal year 2015 will be calculated by using a 25-year amortization period, while the Pension Levy (applicable to the Police and Fire Funds) for fiscal year 2016 will be calculated using a 24-year amortization period. Conversely, an open amortization period has no term limit and is therefore recalculated over a new 30-year period each time a valuation is performed in accordance with GASB standards. Amortizing through use of a closed period will have the effect of decreasing the UAAL at a greater rate and will allow the City to reach its funding target by fiscal year 2040, provided that all required contributions are made.

Actuarial Methods

The Retirement Funds' actuaries employ a variety of actuarial methods to arrive at the Actuarial Value of Assets and the Actuarial Accrued Liability.

Actuarial Value of Assets

The Retirement Funds' Actuarial Value of Assets is calculated by smoothing investment gains and losses over a period of five years, a method of valuation referred to as the "Asset Smoothing Method." Under the Asset Smoothing Method, the Retirement Funds recognize in the current year 20% of the investment gain or loss realized in each of the previous four years. The Asset Smoothing Method is an allowable method calculation according to GASB.

The Asset Smoothing Method lessens the immediate impact of market fluctuations on the Actuarial Value of Assets, the UAAL and the Funded Ratio that may otherwise occur as a result of market volatility. However, asset smoothing delays recognition of gains and losses, thereby providing an Actuarial Value of Assets that does not reflect the true value of pension plan assets at the time of measurement. As a result, presenting the Actuarial Value of Assets as determined under the Asset Smoothing Method might provide a more or less favorable presentation of the current financial position of a pension plan than would a method that recognizes investment gains and losses annually. Table 3 provides a comparison of the assets of the Retirement Funds (as aggregated) on a fair value basis and after application of the Asset Smoothing Method.

**TABLE 3 - ASSET SMOOTHED VALUE OF ASSETS VS. FAIR VALUE OF NET ASSETS⁽¹⁾ -
AGGREGATED**

| Fiscal Year | Actuarial Value of Assets⁽²⁾ | Fair Value of Net Assets | Actuarial Value as a Percentage of Fair Value |
|------------------------|--|-------------------------------------|--|
| 2001 | \$13,651,804 | \$12,193,357 | 111.96% |
| 2002 | 13,453,303 | 10,648,141 | 126.34 |
| 2003 | 13,297,599 | 12,277,994 | 108.30 |
| 2004 | 13,108,645 | 12,952,096 | 101.21 |
| 2005 | 13,086,060 | 13,245,445 | 98.80 |
| 2006 | 13,435,692 | 14,164,347 | 94.86 |
| 2007 | 14,254,816 | 14,595,514 | 97.67 |
| 2008 | 13,797,344 | 9,844,339 | 140.16 |
| 2009 | 13,051,349 | 10,876,846 | 119.99 |
| 2010 | 12,449,863 | 11,408,555 | 109.13 |

Source: Actuarial Valuations of the Retirement Funds as of December 31, 2010, and CAFRs of the Retirement Funds for the fiscal year ending December 31, 2010.

(1) In thousands of dollars. Data is presented in the aggregate for the Retirement Funds.

(2) The Actuarial Value of Assets is calculated through use of the Asset Smoothing Method.

Actuarial Accrued Liability

As the final step in the Actuarial Valuation, the actuary applies a cost method assigning portions of the total value of benefits to past, present and future periods of employee service. This allocation is accomplished by the development of Normal Cost and the Actuarial Accrued Liability. The Retirement Funds use the entry age normal actuarial cost method (the "Entry Age Normal Method") with costs allocated on the basis of earnings. The Entry Age Normal Method is a GASB-approved actuarial cost method.

Under the Entry Age Normal Method, the present value of the projected pension of each member is assumed to be funded by annual installments equal to a level percent of the member's earnings for each year between entry age and assumed exit age. The Normal Cost for the member for the current year is equal to the portion of the value so determined, assigned to the current year. Therefore, the Normal Cost for the plan for the year is the sum of the normal costs of all active members.

P.A. 96-1495 requires that, beginning in 2015, the Police and Fire Funds calculate the Actuarial Accrued Liability pursuant to the projected unit credit actuarial cost method (the "Projected Unit Credit Method"). Under the Projected Unit Credit Method, the Actuarial Accrued Liability equals the actuarial present value of that portion of a participant's projected benefit that is attributable to service to date on the basis of future compensation projected to retirement. Under this method, Normal Cost represents the actuarial present value of the participant's projected benefit that is attributable to service in the current year, again based on future compensation projected to retirement.

Under either method, the Actuarial Accrued Liability is the portion of the present value of benefits assigned by the cost method to years of service up to the valuation date or, in other words, for past service. This value changes as the member's salary and years of service change, and as some

members leave and new members are hired. Future Normal Cost is the portion of the present value of benefits assigned to future years of service and is assumed to be funded annually.

Actuarial Assumptions

The Actuarial Valuations of the Retirement Funds use a variety of assumptions to calculate the Actuarial Accrued Liability and the Actuarial Value of Assets. Although several of the assumptions are the same across all of the Retirement Funds, each Retirement Fund determines, within actuarial standards, the assumptions to be used in its Actuarial Valuation unless a specific assumption is fixed by the Pension Code. No assurance can be given that any of the assumptions underlying the Actuarial Valuations will reflect the actual results experienced by the Retirement Funds. Variances between the assumptions and actual results may cause an increase or decrease in the Actuarial Value of Assets, the Actuarial Accrued Liability, the UAAL, the Funded Ratio or the Actuarially Required Contribution. Additional information on each Retirement Fund's actuarial assumptions is available in each Retirement Fund's Actuarial Valuation as of December 31, 2010 and CAFR for the fiscal year ending December 31, 2010. See "—Source Information" above.

The actuarial assumptions used by the Retirement Funds are determined by the individual Retirement Fund Boards upon the advice of the actuaries. The Retirement Funds periodically perform experience studies to evaluate the actuarial assumptions in use. The purpose of an experience study is to validate that the actuarial assumptions used in the Actuarial Valuation continue to reasonably estimate the actual experience of the pension plan or, if necessary, to develop recommendations for modifications to the actuarial assumptions to ensure their continuing appropriateness.

Assumed Investment Rate of Return

The Actuarial Valuations assume an investment rate of return on the assets in each Retirement Fund. As described in Table 2 above, the Retirement Funds all assumed an investment rate of return of 8.00% for the fiscal year ended December 31, 2010. Due to the volatility of the marketplace, however, the actual rate of return earned by the Retirement Funds on their assets may be higher or lower than the assumed rate. See Table 2 for the rates of return earned on the Retirement Funds' assets for the last ten fiscal years. Changes in the Retirement Funds' assets as a result of market performance will lead to an increase or decrease in the UAAL and the Funded Ratio. As a result of the Retirement Funds' use of the Asset Smoothing Method, however, only a portion of these increases or decreases will be recognized in the current year, with the remaining gain or loss spread over the remaining four years. See "—Actuarial Methods—Actuarial Value of Assets" above.

As shown in the Actuarial Valuations, adverse market conditions resulted in negative investment returns on the Retirement Funds' assets in fiscal year 2008, resulting in a significant reduction in the Funded Ratio and a corresponding increase in the UAAL. No assurance can be given that these negative trends in investment performance will not continue into the current or future fiscal years, leading to a continued increase in the UAAL.

Funded Status of the Retirement Funds

The Pension Code requires that the City fund the Retirement Funds through the levy, collection and contribution of the Pension Levy; provided, however, that the City, pursuant to the Pension Code, may not levy all or a portion of the amount of property taxes statutorily required to make the full City contribution to the Retirement Funds if the City deposits with the City Treasurer Other Available Funds to be used for the same purpose as the Pension Levy as described in "—Determination of City's Contributions" above. The City has in recent years made its full statutorily required contribution to the

Retirement Funds each year through a combination of property tax revenues and PPRT funds. However, expenses related to the Health Plan (as defined below) are paid from the funds received from the Pension Levy, which has the effect of reducing the Actuarial Value of Assets and decreasing the Funded Ratio.

Furthermore, the contributions made by the City to the Retirement Funds have been lower than the cash outlays of the Retirement Funds in recent years. As a result, the Retirement Funds have used investment earnings or assets of the Retirement Funds to satisfy these cash outlays. The use of investment earnings or assets of the Retirement Funds for these purposes reduce the amount of assets on hand to pay benefits in the future and prevent the Retirement Funds from recognizing the full benefits of compounding investment returns.

Since 2001 (which is the only time period of historical data considered in this Appendix), the City has contributed to the Retirement Funds as required by the Pension Code.* However, this amount has not been sufficient to fully fund the Normal Cost plus an amortized portion of the UAAL in each year as a result of the Contribution Limitation which has had the effect, and may have the effect in the future, of limiting the Pension Levy to an amount insufficient to fully fund the Retirement Funds to the amount of the Actuarially Required Contribution.

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* Pursuant to the Pension Code, the City did not make any contributions to or levy the Pension Levy for LABF in fiscal years 2001 through 2006 because LABF had funds on hand in excess of its liabilities. The Pension Code provides that the City will cease to make contributions to LABF in such a situation. The City continued to levy the Pension Levy for the other Retirement Funds during those years.

Table 4 provides information for fiscal years 2001 through 2010 on the Actuarially Required Contribution, the City's actual contributions in accordance with the Pension Code and the percentage of the Actuarially Required Contribution made in each year.

TABLE 4 - INFORMATION REGARDING CITY'S CONTRIBUTIONS⁽¹⁾ - AGGREGATED

| Fiscal Year | Actuarially Required Contribution | Actual Employer Contribution⁽²⁾ | Percentage of Actuarially Required Contribution Contributed⁽³⁾ |
|---------------------|--|---|--|
| 2001 | \$310,742 | \$332,176 | 106.9% |
| 2002 | 328,055 | 332,491 | 101.4 |
| 2003 | 451,239 | 343,291 | 76.1 |
| 2004 | 545,232 | 345,398 | 63.3 |
| 2005 | 698,185 | 423,515 | 60.7 |
| 2006 | 785,111 | 394,899 | 50.3 |
| 2007 ⁽⁴⁾ | 865,776 | 395,483 | 45.7 |
| 2008 ⁽⁴⁾ | 886,215 | 416,130 | 47.0 |
| 2009 ⁽⁴⁾ | 990,381 | 423,929 | 42.8 |
| 2010 ⁽⁴⁾ | 1,112,626 | 425,552 | 38.2 |

Sources: Actuarial Valuations of the Retirement Funds as of December 31, 2010, and CAFRs of the Retirement Funds for the fiscal year ending December 31, 2010.

- (1) In thousands of dollars. Data is presented in the aggregate for the Retirement Funds and uses assumptions and methods employed by each of the Retirement Funds. For the data presented as of December 31, 2001 through December 31, 2006, contribution information includes amounts related to other post-employment benefits. Beginning in 2007, as a result of a change in GASB standards, contribution information is presented exclusive of amounts related to other post-employment benefits.
- (2) Includes the portion of the PPRT contributed to the Retirement Funds in each of the years 2002-2010.
- (3) The estimated multiplier that would have been necessary for each Retirement Fund to make the full Actuarially Required Contribution in 2010 were as follows: 3.48 for MEABF; 4.98 for FABF; 2.71 for LABF; and 4.85 for PABF. Beginning with the levy made in 2015 (and collectible in 2016), the City's contributions to the Police and Fire Funds will not be calculated in accordance with the Multiplier as described in "— Determination of City's Contributions" above.
- (4) Beginning in 2007, the information in this Table 4 does not include other post-employment benefits, which the City's Comprehensive Annual Financial Report presents separately.

The continued decline in the percentage of the Actuarially Required Contribution contributed by the City, as shown in Table 4 above, results, in part, from the fact that the Actuarial Liability continues to grow and as a result of the delayed recognition of gains and losses resulting from the Retirement Funds' use of the Asset Smoothing Method for financial reporting purposes. See "— Actuarial Methods— Actuarial Value of Assets."

As of the end of fiscal year 2010, the Retirement Funds had an aggregate UAAL of approximately \$15.315 billion on a fair value basis and \$14.274 billion on an actuarial basis (using the Asset Smoothing Method). The respective Funded Ratios for these UAALs are 42.7% and 46.6%. The UAAL increased between the end of fiscal year 2009 and the end of fiscal year 2010 primarily as a result of (i) insufficient contributions compared to the Actuarially Required Contribution and (ii) investment losses brought on by the severe global economic downturn. The impact of the economic downturn on the City and the Retirement Funds was similar to the experience of other governmental entities during the same period of time. The following tables summarize the current financial condition and the funding progress of the Retirement Funds.

TABLE 5 - FINANCIAL CONDITION OF THE MEABF
FISCAL YEARS 2001-2010
(\$ IN THOUSANDS)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Beginning Net Assets (Fair Value) | \$6,126,238 | \$5,820,766 | \$5,128,210 | \$5,922,789 | \$6,242,741 | \$6,356,888 | \$6,841,127 | \$7,010,007 | \$4,739,614 | \$5,166,224 |
| Income | | | | | | | | | | |
| - Member Contributions | 118,241 | 128,395 | 129,644 | 155,885 | 122,542 | 129,466 | 132,442 | 137,749 | 130,981 | 133,300 |
| - City Contributions | 131,440 | 130,966 | 141,883 | 153,919 | 155,067 | 148,332 | 139,552 | 146,803 | 157,698 | 164,302 |
| - Investment Income ⁽¹⁾ | (158,374) | (538,062) | 961,889 | 578,730 | 402,311 | 778,726 | 485,926 | (1,947,576) | 778,562 | 638,569 |
| - Miscellaneous Income | - | - | - | - | - | - | - | - | - | 24 |
| Total | \$ 91,307 | \$(278,701) | \$1,233,416 | \$ 888,534 | \$ 679,920 | \$1,056,524 | \$ 757,921 | \$(1,663,024) | \$1,067,241 | \$ 936,195 |
| Expenditures | | | | | | | | | | |
| - Benefits and Refunds | 392,692 | 409,298 | 434,158 | 538,910 | 560,228 | 565,887 | 582,046 | 599,137 | 632,864 | 660,081 |
| - Administration ⁽²⁾ | 4,087 | 4,557 | 4,679 | 29,672 | 5,545 | 6,398 | 6,995 | 7,279 | 7,766 | 6,745 |
| Total | \$ 396,779 | \$ 413,855 | \$ 438,837 | \$ 568,582 | \$ 565,773 | \$ 572,285 | \$ 589,041 | \$ 606,416 | \$ 640,630 | \$ 666,826 |
| Ending Net Assets (Fair Value) | <u>\$5,820,766</u> | <u>\$5,128,210</u> | <u>\$5,922,789</u> | <u>\$6,242,741</u> | <u>\$6,356,888</u> | <u>\$6,841,127</u> | <u>\$7,010,007</u> | <u>\$4,740,567</u> | <u>\$5,166,225</u> | <u>\$5,435,593</u> |
| Actuarial Value of Assets ⁽³⁾ | \$6,466,798 | \$6,403,982 | \$6,384,099 | \$6,343,076 | \$6,332,379 | \$6,509,146 | \$6,890,463 | \$6,669,502 | \$6,295,788 | \$6,003,390 |
| Actuarial Accrued Liabilities ⁽⁴⁾ | 6,934,176 | 7,577,100 | 7,988,637 | 8,808,501 | 9,250,212 | 9,476,118 | 9,968,747 | 10,383,158 | 10,830,119 | 11,828,666 |
| UAAL (Fair Value) ⁽⁵⁾ | 1,113,410 | 2,448,890 | 2,065,848 | 2,565,760 | 2,893,324 | 2,634,991 | 2,958,740 | 5,642,591 | 5,663,894 | 6,393,073 |
| UAAL (Actuarial Value) ⁽³⁾ | 467,378 | 1,173,118 | 1,604,538 | 2,465,425 | 2,917,833 | 2,966,972 | 3,078,284 | 3,713,656 | 4,534,331 | 5,825,276 |
| Funded Ratio (Fair Value) ⁽²⁾ | 83.9% | 67.7% | 74.1% | 70.9% | 68.7% | 72.2% | 70.3% | 45.7% | 47.7% | 46.0% |
| Funded Ratio (Actuarial Value) ⁽³⁾ | 93.3% | 84.5% | 79.9% | 72.0% | 68.5% | 68.7% | 69.1% | 64.2% | 58.1% | 50.8% |

Source: Actuarial Valuations of the MEABF as of December 31, 2010, and CAFRs of the MEABF for the fiscal year ending December 31, 2010. Table may not add due to rounding.

(1) Investment income is shown net of fees and expenses.

(2) Beginning in fiscal year 2009, includes expenses related to other post-employment benefits. See "Other Post-Employment Benefits" below.

(3) The actuarial value is determined by application of the Asset Smoothing Method as discussed in "— Actuarial Methods—Actuarial Value of Assets" above.

(4) Beginning with fiscal year 2006, does not include liability related to other post-employment benefits. See "Other Post-Employment Benefits" below.

(5) Calculated using net assets.

TABLE 5 - FINANCIAL CONDITION OF THE MEABF
FISCAL YEAR 2011
(\$ IN THOUSANDS)

| | <u>2011</u> |
|---|--------------------|
| Beginning Net Assets (Fair Value) | \$5,435,593 |
| Income | |
| - Member Contributions | 132,596 |
| - City Contributions | 156,525 |
| - Investment Income ⁽¹⁾ | 31,583 |
| - Miscellaneous Income | |
| Total | <u>\$ 320,705</u> |
| Expenditures | |
| - Benefits and Refunds | 695,674 |
| - Administration ⁽²⁾ | 7,375 |
| | <u>703,049</u> |
| Ending Net Assets (Fair Value) | <u>\$5,053,249</u> |
| Actuarial Value of Assets ⁽³⁾ | \$5,552,291 |
| Actuarial Accrued Liabilities ⁽⁴⁾ | 12,292,930 |
| UAAL (Fair Value) ⁽⁵⁾ | 7,239,681 |
| UAAL (Actuarial Value) ⁽³⁾ | 6,740,639 |
| Funded Ratio (Fair Value) ⁽⁵⁾ | 41.1% |
| Funded Ratio (Actuarial Value) ⁽³⁾ | 45.2% |

Source: Actuarial Valuations of the MEABF as of December 31, 2011. Table may not add due to rounding.

- (1) Investment income is shown net of fees and expenses.
- (2) Beginning in fiscal year 2009, includes expenses related to other post-employment benefits. See "Other Post-Employment Benefits" below.
- (3) The actuarial value is determined by application of the Asset Smoothing Method as discussed in "— Actuarial Methods—Actuarial Value of Assets" above.
- (4) Beginning with fiscal year 2006, does not include liability related to other post-employment benefits. See "Other Post-Employment Benefits" below.
- (5) Calculated using net assets.

TABLE 6 - FINANCIAL CONDITION OF THE PABF
FISCAL YEARS 2001-2010
(\$ IN THOUSANDS)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|-------------|--------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|-------------|
| Beginning Net Assets (Fair Value) | \$4,033,107 | \$3,696,943 | \$3,224,037 | \$3,693,283 | \$3,865,809 | \$3,954,837 | \$4,192,076 | \$4,333,234 | \$3,000,998 | \$3,326,051 |
| Income | | | | | | | | | | |
| - Member Contributions | 71,146 | 79,239 | 79,816 | 78,801 | 89,110 | 91,965 | 93,300 | 93,207 | 95,614 | 108,402 |
| - City Contributions | 139,411 | 141,935 | 140,735 | 135,669 | 177,911 | 157,689 | 178,678 | 181,526 | 180,511 | 183,835 |
| - Investment Income ⁽¹⁾ | (214,034) | (335,936) | 627,291 | 367,908 | 261,389 | 447,275 | 349,914 | (1,104,909) | 567,315 | 369,558 |
| - Miscellaneous Income | 265 | 54 | 73 | 75 | 368 | 1,070 | 28 | 160 | 799 | 20 |
| Total | \$ (3,212) | \$ (114,708) | \$ 847,915 | \$ 582,453 | \$ 528,778 | \$ 697,999 | \$ 621,920 | \$ (830,016) | \$ 844,239 | \$ 661,815 |
| Expenditures | | | | | | | | | | |
| - Benefits and Refunds | 330,500 | 355,653 | 375,503 | 407,301 | 437,089 | 458,060 | 477,685 | 497,721 | 514,883 | 544,272 |
| - Administration ⁽²⁾ | 2,452 | 2,545 | 3,166 | 2,626 | 2,661 | 2,700 | 3,077 | 4,499 | 4,304 | 3,925 |
| Total | \$ 332,952 | \$ 358,198 | \$ 378,669 | \$ 409,927 | \$ 439,750 | \$ 460,760 | \$ 480,762 | \$ 502,220 | \$ 519,187 | \$ 548,197 |
| Ending Net Assets (Fair Value) | \$3,696,943 | \$3,224,037 | \$3,693,283 | \$3,865,809 | \$3,954,837 | \$4,192,076 | \$4,333,234 | \$3,000,998 | \$3,326,050 | \$3,439,669 |
| Actuarial Value of Assets ⁽³⁾ | \$4,183,796 | \$4,124,580 | \$4,039,696 | \$3,933,031 | \$3,914,432 | \$3,997,991 | \$4,231,682 | \$4,093,720 | \$3,884,978 | \$3,718,955 |
| Actuarial Accrued Liabilities ⁽⁴⁾ | 5,932,511 | 6,384,846 | 6,581,433 | 7,034,271 | 7,722,737 | 7,939,561 | 8,220,353 | 8,482,574 | 8,736,102 | 9,210,056 |
| UAAL (Fair Value) ⁽⁵⁾ | 2,235,568 | 3,160,809 | 2,888,150 | 3,168,462 | 3,767,900 | 3,747,485 | 3,887,119 | 5,481,576 | 5,410,052 | 5,770,387 |
| UAAL (Actuarial Value) ⁽⁴⁾ | 1,748,715 | 2,260,266 | 2,541,737 | 3,101,240 | 3,808,305 | 3,941,570 | 3,988,671 | 4,388,854 | 4,851,124 | 5,491,101 |
| Funded Ratio (Fair Value) ⁽⁵⁾ | 62.3% | 50.5% | 56.1% | 55.0% | 51.2% | 52.8% | 52.7% | 35.4% | 38.1% | 37.3% |
| Funded Ratio (Actuarial Value) ⁽⁴⁾ | 70.5% | 64.6% | 61.4% | 55.9% | 50.7% | 50.4% | 51.5% | 48.3% | 44.5% | 40.4% |

Source: Actuarial Valuations of the PABF as of December 31, 2010, and CAFRs of the PABF for the fiscal year ending December 31, 2010. Table may not add due to rounding.

(1) Investment income is shown net of fees and expenses.

(2) Beginning in fiscal year 2008, includes expenses related to other post-employment benefits. See "Other Post-Employment Benefits" below.

(3) The actuarial value is determined by application of the Asset Smoothing Method as discussed in "— Actuarial Methods—Actuarial Value of Assets" above.

(4) Beginning with fiscal year 2006, does not include liability related to other post-employment benefits. See "Other Post-Employment Benefits" below.

(5) Calculated using net assets.

TABLE 7 - FINANCIAL CONDITION OF THE FABF
FISCAL YEARS 2001-2010
(\$ IN THOUSANDS)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|-------------|
| Beginning Net Assets (Fair Value) | \$1,226,826 | \$1,104,940 | \$907,804 | \$1,109,561 | \$1,206,177 | \$1,274,659 | \$1,391,484 | \$1,469,455 | \$ 914,193 | \$1,051,644 |
| Income | | | | | | | | | | |
| - Member Contributions | 27,615 | 27,622 | 42,665 | 37,734 | 35,697 | 44,222 | 41,120 | 40,480 | 41,605 | 41,730 |
| - City Contributions | 60,400 | 59,453 | 60,234 | 55,532 | 90,129 | 78,971 | 74,271 | 83,744 | 91,857 | 83,592 |
| - Investment Income ⁽¹⁾ | (73,526) | (143,541) | 249,995 | 139,497 | 112,017 | 174,406 | 148,806 | (484,093) | 208,537 | 150,835 |
| - Miscellaneous Income | 63 | 78 | 84 | 24,322 | 456 | 87 | 162 | 107 | 36 | 30 |
| Total | \$ 14,552 | \$ (56,388) | \$ 352,978 | \$ 257,085 | \$ 238,299 | \$ 297,686 | \$ 264,359 | \$ (359,762) | \$ 342,035 | \$ 276,187 |
| Expenditures | | | | | | | | | | |
| - Benefits and Refunds | 134,462 | 138,789 | 149,174 | 158,372 | 167,527 | 178,214 | 183,304 | 192,644 | 201,146 | 217,565 |
| - Administration ⁽²⁾ | 1,976 | 1,959 | 2,047 | 2,097 | 2,290 | 2,647 | 3,084 | 2,856 | 3,439 | 4,187 |
| Total | \$ 136,438 | \$ 140,748 | \$ 151,221 | \$ 160,469 | \$ 169,817 | \$ 180,861 | \$ 186,388 | \$ 195,500 | \$ 204,585 | \$ 221,752 |
| Ending Net Assets (Fair Value) | \$1,104,940 | \$ 907,804 | \$1,109,561 | \$1,206,177 | \$1,274,659 | \$1,391,484 | \$1,469,455 | \$ 914,193 | \$1,051,643 | \$1,106,079 |
| Actuarial Value of Assets ⁽³⁾ | \$1,245,130 | \$1,209,768 | \$1,194,008 | \$1,182,579 | \$1,203,654 | \$1,264,497 | \$1,374,960 | \$1,335,695 | \$1,269,231 | \$1,198,114 |
| Actuarial Accrued Liabilities ⁽⁴⁾ | 2,068,718 | 2,088,706 | 2,517,268 | 2,793,524 | 2,882,936 | 3,088,124 | 3,215,874 | 3,311,269 | 3,428,838 | 3,655,026 |
| UAAL (Fair Value) ⁽⁵⁾ | 963,778 | 1,180,902 | 1,407,707 | 1,587,347 | 1,608,277 | 1,696,640 | 1,746,419 | 2,397,076 | 2,377,195 | 2,548,947 |
| UAAL (Actuarial Value) ⁽³⁾ | 823,588 | 878,938 | 1,323,260 | 1,610,945 | 1,679,282 | 1,823,627 | 1,840,914 | 1,975,574 | 2,159,607 | 2,456,912 |
| Funded Ratio (Fair Value) ⁽⁵⁾ | 53.4% | 43.5% | 44.1% | 43.2% | 44.2% | 45.1% | 45.7% | 27.6% | 30.7% | 30.3% |
| Funded Ratio (Actuarial Value) ⁽³⁾ | 60.2% | 57.9% | 47.4% | 42.3% | 41.8% | 40.9% | 42.8% | 40.3% | 37.0% | 32.8% |

Source: Actuarial Valuations of the FABF as of December 31, 2010, and CAFRs of the FABF for the fiscal year ending December 31, 2010. Table may not add due to rounding.

- (1) Investment income is shown net of fees and expenses.
- (2) Beginning in fiscal year 2001, includes expenses related to other post-employment benefits. See "Other Post-Employment Benefits" below.
- (3) The actuarial value is determined by application of the Asset Smoothing Method as discussed in "— Actuarial Methods—Actuarial Value of Assets" above.
- (4) Beginning with fiscal year 2006, does not include liability related to other post-employment benefits. See "Other Post-Employment Benefits" below.
- (5) Calculated using net assets.

TABLE 8 - FINANCIAL CONDITION OF THE LABF
FISCAL YEARS 2001-2010
(\$ IN THOUSANDS)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|-------------|
| Beginning Net Assets (Fair Value) | \$1,648,819 | \$1,570,708 | \$1,388,090 | \$1,552,361 | \$1,637,369 | \$1,659,061 | \$1,739,660 | \$1,782,818 | \$1,188,580 | \$1,332,929 |
| Income | | | | | | | | | | |
| - Member Contributions | 20,017 | 20,189 | 19,798 | 22,591 | 16,257 | 18,791 | 18,413 | 19,419 | 17,538 | 16,320 |
| - City Contributions | 660 | 83 | 344 | 197 | 40 | 106 | 15,459 | 17,580 | 17,190 | 17,939 |
| - Investment Income ⁽¹⁾ | (19,125) | (119,447) | 231,584 | 171,045 | 117,785 | 174,536 | 125,205 | (510,463) | 237,102 | 193,187 |
| - Miscellaneous Income | - | - | 22 | 5 | - | - | - | - | - | - |
| Total | \$ 1,552 | \$ (99,175) | \$ 251,748 | \$ 193,838 | \$ 134,082 | \$ 193,433 | \$ 159,077 | \$ (473,464) | \$ 271,830 | \$ 227,446 |
| Expenditures | | | | | | | | | | |
| - Benefits and Refunds | 77,857 | 81,629 | 85,567 | 105,958 | 109,405 | 110,003 | 112,567 | 117,147 | 123,817 | 129,297 |
| - Administration ⁽²⁾ | 1,806 | 1,814 | 1,910 | 2,872 | 2,985 | 2,831 | 3,352 | 3,626 | 3,665 | 3,864 |
| Total | \$ 79,663 | \$ 83,443 | \$ 87,477 | \$ 108,830 | \$ 112,390 | \$ 112,834 | \$ 115,919 | \$ 120,773 | \$ 127,482 | \$ 133,161 |
| Ending Net Assets (Fair Value) | \$1,570,708 | \$1,388,090 | \$1,552,361 | \$1,637,369 | \$1,659,061 | \$1,739,660 | \$1,782,818 | \$1,188,581 | \$1,332,928 | \$1,427,214 |
| Actuarial Value of Assets ⁽³⁾ | \$1,756,080 | \$1,715,073 | \$1,679,796 | \$1,649,959 | \$1,635,595 | \$1,664,058 | \$1,757,711 | \$1,698,427 | \$1,601,352 | \$1,529,404 |
| Actuarial Accrued Liabilities ⁽⁴⁾ | 1,402,138 | 1,540,604 | 1,628,563 | 1,674,615 | 1,742,300 | 1,767,682 | 1,808,295 | 1,915,324 | 1,975,749 | 2,030,025 |
| UAAL (Fair Value) ⁽⁵⁾ | (168,570) | 152,514 | 76,202 | 37,246 | 83,239 | 28,022 | 25,477 | 726,743 | 642,821 | 602,811 |
| UAAL (Actuarial Value) ⁽³⁾ | (353,942) | (174,469) | (51,233) | 24,656 | 106,705 | 103,624 | 50,584 | 216,897 | 374,397 | 500,621 |
| Funded Ratio (Fair Value) ⁽³⁾ | 112.0% | 90.1% | 95.3% | 97.8% | 95.2% | 98.4% | 98.6% | 62.1% | 67.5% | 70.3% |
| Funded Ratio (Actuarial Value) ⁽³⁾ | 125.2% | 111.3% | 103.1% | 98.5% | 93.9% | 94.1% | 97.2% | 88.7% | 81.1% | 75.3% |

Source: Actuarial Valuations of the LABF as of December 31, 2010, and CAFRs of the LABF for the fiscal year ending December 31, 2010. Table may not add due to rounding.

(1) Investment income is shown net of fees and expenses.

(2) Beginning in fiscal year 2008, includes expenses related to other post-employment benefits. See "Other Post-Employment Benefits" below.

(3) The actuarial value is determined by application of the Asset Smoothing Method as discussed in "— Actuarial Methods—Actuarial Value of Assets" above.

(4) Beginning with fiscal year 2006, does not include liability related to other post-employment benefits. See "Other Post-Employment Benefits" below.

(5) Calculated using net assets.

TABLE 8 - FINANCIAL CONDITION OF THE LABF
FISCAL YEAR 2011
(\$ IN THOUSANDS)

| | <u>2011</u> |
|---|--------------------|
| Beginning Net Assets (Fair Value) | \$1,427,214 |
| Income | |
| - Member Contributions | 16,069 |
| - City Contributions | 15,359 |
| - Investment Income ⁽¹⁾ | (4,510) |
| - Miscellaneous Income | - |
| Total | <u>\$ 26,917</u> |
| Expenditures | |
| - Benefits and Refunds | 136,533 |
| - Administration ⁽²⁾ | 3,994 |
| | <u>140,527</u> |
| Ending Net Assets (Fair Value) | <u>\$1,313,604</u> |
| Actuarial Value of Assets ⁽³⁾ | \$1,422,414 |
| Actuarial Accrued Liabilities ⁽⁴⁾ | 2,152,854 |
| UAAL (Fair Value) ⁽⁵⁾ | 839,250 |
| UAAL (Actuarial Value) ⁽³⁾ | 730,440 |
| Funded Ratio (Fair Value) ⁽³⁾ | 61.0% |
| Funded Ratio (Actuarial Value) ⁽³⁾ | 66.1% |

Source: Actuarial Valuations of the LABF as of December 31, 2011. Table may not add due to rounding.

- (1) Investment income is shown net of fees and expenses.
- (2) Beginning in fiscal year 2008, includes expenses related to other post-employment benefits. See "Other Post-Employment Benefits" below.
- (3) The actuarial value is determined by application of the Asset Smoothing Method as discussed in "— Actuarial Methods—Actuarial Value of Assets" above.
- (4) Beginning with fiscal year 2006, does not include liability related to other post-employment benefits. See "Other Post-Employment Benefits" below.
- (5) Calculated using net assets.

TABLE 9 - FINANCIAL CONDITION OF THE RETIREMENT FUNDS COMBINED
FISCAL YEARS 2001-2010
(\$ IN THOUSANDS)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|
| Beginning Net Assets (Fair Value) | \$13,034,990 | \$12,193,357 | \$10,648,141 | \$12,277,994 | \$12,952,096 | \$13,245,445 | \$14,164,347 | \$14,595,514 | \$ 9,843,385 | \$10,876,848 |
| Income | | | | | | | | | | |
| - Member Contributions | 237,019 | 255,445 | 271,923 | 295,011 | 263,606 | 284,444 | 285,275 | 290,855 | 285,738 | 299,752 |
| - City Contributions | 331,911 | 332,437 | 343,196 | 345,317 | 423,147 | 385,098 | 407,960 | 429,653 | 447,256 | 449,668 |
| - Investment Income ⁽¹⁾ | (465,059) | (1,136,986) | 2,070,759 | 1,257,180 | 893,502 | 1,574,943 | 1,109,851 | (4,047,041) | 1,791,516 | 1,352,149 |
| - Miscellaneous Income | 328 | 132 | 179 | 24,402 | 824 | 1,157 | 190 | 267 | 835 | 74 |
| Total | \$ 104,199 | \$ (548,972) | \$ 2,686,057 | \$ 1,921,910 | \$ 1,581,079 | \$ 2,245,642 | \$ 1,803,277 | \$(3,326,266) | \$ 2,525,345 | \$ 2,101,643 |
| Expenditures | | | | | | | | | | |
| - Benefits and Refunds | 935,511 | 985,369 | 1,044,402 | 1,210,541 | 1,274,249 | 1,312,164 | 1,355,602 | 1,406,649 | 1,472,710 | 1,551,215 |
| - Administration ⁽²⁾ | 10,321 | 10,875 | 11,802 | 37,267 | 13,481 | 14,576 | 16,508 | 18,260 | 19,174 | 18,721 |
| Total | 945,832 | 996,244 | 1,056,204 | 1,247,808 | 1,287,730 | 1,326,740 | 1,372,110 | 1,424,909 | 1,491,884 | 1,569,936 |
| Ending Net Assets (Fair Value) | \$12,193,357 | \$10,648,141 | \$12,277,994 | \$12,952,096 | \$13,245,445 | \$14,164,347 | \$14,595,514 | \$ 9,844,339 | \$10,876,846 | \$11,408,555 |
| Actuarial Value of Assets ⁽³⁾ | \$13,651,804 | \$13,453,403 | \$13,297,599 | \$13,108,645 | \$13,086,060 | \$13,435,692 | \$14,254,816 | \$13,797,344 | \$13,051,349 | \$12,449,863 |
| Actuarial Accrued Liabilities ⁽⁴⁾ | 16,337,543 | 17,591,256 | 18,715,901 | 20,310,911 | 21,598,185 | 22,271,485 | 23,213,269 | 24,092,325 | 24,970,808 | 26,723,773 |
| UAAL (Fair Value) ⁽⁵⁾ | 4,144,186 | 6,943,115 | 6,437,907 | 7,358,815 | 8,352,740 | 8,107,138 | 8,617,755 | 14,247,986 | 14,093,962 | 15,315,218 |
| UAAL (Actuarial Value) ⁽³⁾ | 2,685,739 | 4,137,853 | 5,418,302 | 7,202,266 | 8,512,125 | 8,835,793 | 8,958,453 | 10,294,981 | 11,919,459 | 14,273,910 |
| Funded Ratio (Fair Value) ⁽⁵⁾ | 74.63% | 60.53% | 65.60% | 63.77% | 61.33% | 63.60% | 62.88% | 40.86% | 43.56% | 42.69% |
| Funded Ratio (Actuarial Value) ⁽³⁾ | 83.56% | 76.48% | 71.05% | 64.54% | 60.59% | 60.33% | 61.41% | 57.27% | 52.27% | 46.59% |

Source: Actuarial Valuations of the Retirement Funds as of December 31, 2010, and CAFRs of the Retirement Funds for the fiscal year ending December 31, 2010. Table may not add due to rounding.

- (1) Investment income is shown net of fees and expenses.
- (2) Includes expenses related to other post-employment benefits beginning in each of the fiscal years as shown in Footnote (2) in Tables 6-9 herein for each respective Retirement Fund. See "Other Post-Employment Benefits" below.
- (3) The actuarial value is determined by application of the Asset Smoothing Method as discussed in "— Actuarial Methods—Actuarial Value of Assets" above.
- (4) Beginning with fiscal year 2006, does not include liability related to other post-employment benefits. See "Other Post-Employment Benefits" below.
- (5) Calculated using net assets.

**TABLE 10 - SCHEDULE OF FUNDING PROGRESS - COMBINED FOR THE RETIREMENT FUNDS
FISCAL YEARS 2001-2010
(\$ IN THOUSANDS)**

| Fiscal Year | Actuarial Accrued Liability ⁽¹⁾ | Actuarial Value of Assets ⁽²⁾ | Fair Value of Net Assets | UAAL (Actuarial) ⁽³⁾ | UAAL (Fair Value) ⁽⁴⁾ | Funded Ratio (Actuarial) ⁽³⁾ | Funded Ratio (Fair Value) ⁽⁴⁾ | Payroll | UAAL to Payroll (Actuarial) ⁽³⁾ | UAAL to Payroll (Fair Value) ⁽⁴⁾ |
|-------------|--|--|--------------------------------|------------------------------------|--|---|---|-------------|--|--|
| 2001 | \$16,337,543 | \$13,651,804 | \$12,193,357 | \$ 2,685,739 | \$ 4,144,186 | 83.6% | 74.6% | \$2,627,579 | 102.2% | 157.7% |
| 2002 | 17,591,256 | 13,453,303 | 10,648,141 | 4,137,953 | 6,943,115 | 76.5 | 60.5 | 2,728,898 | 151.6 | 254.4 |
| 2003 | 18,715,901 | 13,297,599 | 12,277,994 | 5,418,302 | 6,437,907 | 71.0 | 65.6 | 2,823,932 | 191.9 | 228.0 |
| 2004 | 20,310,911 | 13,108,645 | 12,952,096 | 7,202,266 | 7,358,815 | 64.5 | 63.8 | 2,683,331 | 268.4 | 274.2 |
| 2005 | 21,598,185 | 13,086,060 | 13,245,445 | 8,512,125 | 8,352,740 | 60.6 | 61.3 | 2,880,358 | 295.5 | 290.0 |
| 2006 | 22,271,485 | 13,435,692 | 14,164,347 | 8,835,793 | 8,107,138 | 60.3 | 63.6 | 3,069,479 | 287.9 | 264.1 |
| 2007 | 23,213,269 | 14,254,816 | 14,595,514 | 8,958,453 | 8,617,755 | 61.4 | 62.9 | 3,185,388 | 281.2 | 270.5 |
| 2008 | 24,092,325 | 13,797,344 | 9,844,339 | 10,294,981 | 14,247,986 | 57.3 | 40.9 | 3,180,484 | 323.7 | 448.0 |
| 2009 | 24,970,808 | 13,051,349 | 10,876,846 | 11,919,459 | 14,093,962 | 52.3 | 43.6 | 3,172,716 | 375.7 | 444.2 |
| 2010 | 26,723,773 | 12,449,863 | 11,408,555 | 14,273,910 | 15,315,218 | 46.6 | 42.7 | 3,189,739 | 447.5 | 480.1 |

Source: Actuarial Valuations of the Retirement Funds as of December 31, 2010, and CAFRs of the Retirement Funds for the fiscal year ending December 31, 2010. Table may not add due to rounding.

- (1) Beginning with fiscal year 2006, does not include liability related to other post-employment benefits. See "Other Post-Employment Benefits" below.
(2) The actuarial value is determined by application of the Asset Smoothing Method as discussed in "— Actuarial Methods—Actuarial Value of Assets" above.
(3) For purposes of this column, "Actuarial" refers to the fact that the calculation was made using the Actuarial Value of Assets.
(4) For purposes of this column, "Fair Value" refers to the fact that the calculation was made using the fair value of Net Assets.

The cumulative value of the annual differences between the City's contribution to the Retirement Funds and the Actuarially Required Contribution is referred to by GASB as its "Net Pension Obligation" or its "Net Pension Asset." If the cumulative difference between the City's contribution and the Actuarially Required Contribution is positive, the City would have a Net Pension Asset. Conversely, if the cumulative difference is negative, the City would have a Net Pension Obligation.

As a result of the Contribution Limitation, however, the City may fulfill its obligation to contribute to the Retirement Funds under the Pension Code and still have a Net Pension Obligation for such year. The Pension Levy and the Actuarially Required Contribution differ in any given year as a result of the Contribution Limitation, as discussed in "— Determination of City's Contributions" and "— The Actuarial Valuation—City's Contributions Not Related to GASB Standards" above.

Table 11 provides a schedule of the total Net Pension Obligation or Net Pension Asset at the end of each of the fiscal years 2001 – 2010 for each of the Retirement Funds.

TABLE 11 - NET PENSION OBLIGATION OR (ASSET)⁽¹⁾

| Fiscal Year | MEABF | FABF | LABF | PABF | Total |
|------------------------|--------------|-------------|-------------|-------------|--------------|
| 2001 | \$(319,770) | \$537,644 | \$(255,311) | \$627,036 | \$589,599 |
| 2002 | (358,776) | 584,562 | (270,871) | 635,635 | 590,550 |
| 2003 | (342,888) | 636,782 | (277,880) | 697,003 | 713,017 |
| 2004 | (299,415) | 717,509 | (270,223) | 787,639 | 935,510 |
| 2005 | (169,895) | 790,764 | (258,125) | 873,347 | 1,236,091 |
| 2006 | (1,443) | 878,368 | (237,696) | 1,017,145 | 1,656,374 |
| 2007 | 202,077 | 992,572 | (228,692) | 1,185,055 | 2,151,012 |
| 2008 | 415,207 | 1,099,024 | (225,759) | 1,360,492 | 2,648,964 |
| 2009 | 679,736 | 1,211,209 | (206,361) | 1,562,421 | 3,247,005 |
| 2010 | 1,007,404 | 1,345,928 | (174,584) | 1,791,148 | 3,969,896 |

Sources: Actuarial Valuations of the Retirement Funds as of December 31, 2010, and CAFRs of the Retirement Funds for the fiscal year ending December 31, 2010. Table may not add due to rounding.

(1) In thousands of dollars.

In 2011, the Net Pension Obligation(Asset) for MEABF and LABF was \$1,469,886,310 and (\$129,711,655), respectively.

A variety of factors impact the Retirement Funds' UAAL and Funded Ratio. A lower return on investment than that assumed by the Retirement Funds, and insufficient contributions when compared to the Normal Cost plus interest will all cause an increase in the UAAL and a decrease in the Funded Ratio. Conversely, higher returns on investment than assumed, and contributions in excess of Normal Cost plus interest will decrease the UAAL and increase the Funded Ratio. In addition, legislative amendments, changes in actuarial assumptions and certain other factors (including, but not limited to, higher or lower incidences of retirement, disability, in-service mortality, retiree mortality or terminations than assumed) will have an impact on the UAAL and the Funded Ratio. The UAAL increased between the end of fiscal year 2009 and the end of fiscal year 2010 primarily as a result of investment returns below the assumed rate of return and insufficient contributions as compared to the Actuarially Required Contribution.

Recent Legislative Changes

P.A. 96-0889

On April 14, 2010, Governor Quinn signed Public Act 96-0889 (the "Pension Reform Act") into law. The Pension Reform Act establishes a "two-tier" benefit system with less generous benefits for employees who become members of the Retirement Funds on or after January 1, 2011, as compared to those provided to employees prior to such date. Among other changes, the Pension Reform Act:

- Increases the minimum age at which an active employee may retire with unreduced benefits to age 67 from age 60 or younger based on a formula combining the age of the employee and the number of years of service;
- Increases the minimum age at which an active employee may retire with reduced benefits to age 62 from age 50;
- Provides that final average salary is based on 96 consecutive months within the last 120 months of employment (instead of 48 months of the last 120 months);
- Reduces the cost of living adjustment to the lower of 3% or 50% of the change in the consumer price index for all urban consumers, whichever is lower, and eliminates compounding for employees hired after January 1, 2011, from a cost of living adjustment of 3%, compounded; and
- Caps the salary on which a pension may be calculated at \$106,800 (subject to certain adjustments for inflation).

The Pension Reform Act does not impact persons that first became members or participants prior to its effective date of January 1, 2011. Furthermore, the Pension Reform Act applies to MEABF and LABF, but does not apply to PABF or FABF.

The Pension Reform Act does not change City or employee contributions to MEABF or LABF. The City will continue to contribute to MEABF and LABF pursuant to the respective Multiplier until and unless relevant portions of the Pension Code are amended for MEABF and LABF.

For purposes of the potential effects of the Pension Reform Act as described in this subsection, taken independently of any other legislative or market effects, the reduced benefits afforded new hires by the Pension Reform Act are expected to reduce over time the growth in the Actuarial Accrued Liability, the UAAL and the Actuarially Required Contribution. In calculating the Actuarial Accrued Liability, the actuaries make assumptions about future benefit levels. As the value of future benefits decreases over time, as a greater percentage of the City's workforce is covered by the Pension Reform Act, the Actuarial Accrued Liability is expected to decrease compared to what it would have been under previous law. Consequently, slowly over time the UAAL is expected to decrease and the Funded Ratio to improve. As the growth in the UAAL slows, the Actuarially Required Contribution is expected to be reduced as the amount of UAAL to be amortized decreases. However, no assurance can be given that these expectations will be the actual experience of MEABF or LABF going forward.

P.A. 96-1495

P.A. 96-1495 has a significant impact on the Police and Fire Funds. A description of certain provisions of P.A. 96-1495 are discussed above in "— Determination of City's Contributions—City's Contributions to PABF and FABF Beginning with the Levy made in 2015."

The P.A. 96-1495 Funding Plan will have the effect of significantly increasing the portion of the Pension Levy applicable to the Police and Fire Funds because (i) the Contribution Limitation will no longer serve to cap the Pension Levy (applicable to the Police and Fire Funds) at the applicable Multiplier

times the employee contributions made two years prior to the year of the levy, and (ii) this type of funding plan requires a greater contribution than the current statutory structure.

In addition, P.A. 96-1495 makes changes to benefits for police officers and firefighters first participating in the Police and Fire Funds on or after January 1, 2011. Among other changes, P.A. 96-1495:

- Increases the minimum retirement eligibility age from 50 (with ten years of service) to 55 (with ten years of service);
- Provides for retirement at age 50 (with ten years of service) with the annuity reduced by .5% per month;
- Provides that final average salary is based on 96 consecutive months within the last 120 months of employment (instead of 48 months of the last 120 months);
- Reduces the cost of living adjustment to the lower of 3% or 50% of the change in the consumer price index for all urban consumers, whichever is lower, commencing at age 60;
- Provides that widow benefits are 66 2/3% of the employee's annuity at the date of death; and
- Caps the salary on which a pension may be calculated at \$106,800 (subject to certain adjustments for inflation).

This subsection does not purport to address every item of legislation recently enacted affecting the Pension Code; rather, it addresses only the most comprehensive pension legislation enacted to date.

Projection of Funded Status

Tables 12 through 15 provide projections of the Actuarial Value of Assets, the Actuarial Accrued Liability, the UAAL and the Funded Ratio for MEABF, LABF, FABF and PABF, respectively. The Retirement Funds' level of funding level has decreased in recent years, most notably due to a combination of factors, including: adverse market conditions and investment returns as a result of the financial downturn experienced in 2008 and beyond; and contributions that are lower than the Actuarially Required Contribution as a result of the Contribution Limitation.

The projections in Tables 12 through 15 are based upon numerous variables that are subject to change, and are forward-looking statements regarding future events based on the Retirement Funds' actuarial assumptions and assumptions made regarding such future events, including that there are no changes to the current legislative structure and that all projected contributions to the Retirement Funds are made as required. No assurance can be given that these assumptions will be realized or that actual events will not cause material changes to the data presented in these tables.

TABLE 12 - PROJECTION OF FUTURE FUNDING STATUS - MEABF⁽¹⁾

| Fiscal Year | Actuarial Accrued Liability (a) | Actuarial Value of Assets (b) | Unfunded Accrued Actuarial Liabilities (UAAL) (a-b) | Funded Ratio (b/a) |
|------------------------|--|--|--|-----------------------------------|
| 2012 | \$12,359,984 | \$5,093,624 | \$7,266,360 | 41.2% |
| 2013 | 12,806,809 | 5,134,244 | 7,672,565 | 40.1 |
| 2014 | 13,256,021 | 5,063,451 | 8,192,570 | 38.2 |
| 2015 | 13,703,973 | 4,957,569 | 8,746,404 | 36.2 |
| 2016 | 14,149,698 | 4,812,667 | 9,337,031 | 34.0 |
| 2017 | 14,589,918 | 4,622,794 | 9,967,124 | 31.7 |
| 2018 | 15,021,046 | 4,381,260 | 10,639,786 | 29.2 |
| 2019 | 15,439,846 | 4,081,467 | 11,358,379 | 26.4 |
| 2020 | 15,844,795 | 3,718,312 | 12,126,483 | 23.5 |

Source: Gabriel Roeder Smith & Company. Gabriel Roeder Smith & Company is the consulting actuary for the Retirement Funds. Projection is based on actuarial data as of December 31, 2009.

(1) In thousands of dollars.

TABLE 13 - PROJECTION OF FUTURE FUNDING STATUS - LABF⁽¹⁾

| Fiscal Year | Actuarial Accrued Liability (a) | Actuarial Value of Assets (b) | Unfunded Accrued Actuarial Liabilities (UAAL) (a-b) | Funded Ratio (b/a) |
|------------------------|--|--|--|-----------------------------------|
| 2012 | \$2,186,657 | \$1,310,446 | \$876,211 | 59.9% |
| 2013 | 2,240,989 | 1,332,813 | 908,176 | 59.5 |
| 2014 | 2,293,847 | 1,320,362 | 973,485 | 57.6 |
| 2015 | 2,345,292 | 1,301,969 | 1,043,323 | 55.5 |
| 2016 | 2,395,162 | 1,277,091 | 1,118,071 | 53.3 |
| 2017 | 2,443,573 | 1,245,406 | 1,198,167 | 51.0 |
| 2018 | 2,489,906 | 1,206,103 | 1,283,803 | 48.4 |
| 2019 | 2,534,078 | 1,158,554 | 1,375,524 | 45.7 |
| 2020 | 2,575,960 | 1,102,279 | 1,473,681 | 42.8 |

Source: Gabriel Roeder Smith & Company. Gabriel Roeder Smith & Company is the consulting actuary for the Retirement Funds. Projection is based on actuarial data as of December 31, 2009.

(1) In thousands of dollars.

TABLE 14 - PROJECTION OF FUTURE FUNDING STATUS - FABF⁽¹⁾

| Fiscal Year | Actuarial Accrued Liability (a) | Actuarial Value of Assets (b) | Unfunded Accrued Actuarial Liabilities (UAAL) (a-b) | Funded Ratio (b/a) |
|--------------------|--|--|--|-----------------------------------|
| 2011 | \$3,713,172 | \$1,014,923 | \$2,698,880 | 27.3% |
| 2012 | 3,849,145 | 974,322 | 2,874,823 | 25.3 |
| 2013 | 3,983,918 | 922,848 | 3,061,071 | 23.2 |
| 2014 | 4,116,315 | 857,796 | 3,258,519 | 20.8 |
| 2015 | 4,246,175 | 778,122 | 3,468,053 | 18.3 |
| 2016 | 4,373,288 | 851,925 | 3,521,362 | 19.5 |
| 2017 | 4,498,007 | 927,962 | 3,570,046 | 20.6 |
| 2018 | 4,620,791 | 1,006,843 | 3,613,947 | 21.8 |
| 2019 | 4,741,679 | 1,089,535 | 3,652,144 | 23.0 |
| 2020 | 4,861,634 | 1,177,761 | 3,683,872 | 24.2 |

Source: Gabriel Roeder Smith & Company. Gabriel Roeder Smith & Company is the consulting actuary for the Retirement Funds. Projection is based on actuarial data as of December 31, 2009.

(1) In thousands of dollars.

TABLE 15 - PROJECTION OF FUTURE FUNDING STATUS - PABF⁽¹⁾

| Fiscal Year | Actuarial Accrued Liability (a) | Actuarial Value of Assets (b) | Unfunded Accrued Actuarial Liabilities (UAAL) (a-b) | Funded Ratio (b/a) |
|--------------------|--|--|--|-----------------------------------|
| 2011 | \$9,399,237 | \$3,319,079 | \$6,080,158 | 35.3 |
| 2012 | 9,761,890 | 3,274,374 | 6,487,516 | 33.5 |
| 2013 | 10,129,761 | 3,205,985 | 6,923,776 | 31.7 |
| 2014 | 10,502,647 | 3,111,006 | 7,391,641 | 29.6 |
| 2015 | 10,880,925 | 2,988,798 | 7,892,127 | 27.5 |
| 2016 | 11,264,373 | 3,238,126 | 8,026,248 | 28.8 |
| 2017 | 11,653,567 | 3,503,721 | 8,149,846 | 30.1 |
| 2018 | 12,047,663 | 3,784,956 | 8,262,707 | 31.4 |
| 2019 | 12,444,632 | 4,081,112 | 8,363,520 | 32.8 |
| 2020 | 12,843,562 | 4,393,639 | 8,449,923 | 34.2 |

Source: Gabriel Roeder Smith & Company. Gabriel Roeder Smith & Company is the consulting actuary for the Retirement Funds. Projection is based on actuarial data as of December 31, 2009.

(1) In thousands of dollars.

As shown in Tables 12 and 13, based on the current legislative structure, actuarial projections indicate that MEABF will have a Funded Ratio of 23.5% and LABF will have a Funded Ratio of 42.8% by the end of fiscal year 2020. Furthermore, the respective actuaries project that the Funded Ratios of MEABF and LABF will continue to decrease beyond 2020. The lack of any corrective actions jeopardizes the solvency of MEABF and LABF.

Based on the current legislative structure, as shown in Tables 14 and 15, actuarial projections indicate that the Funded Ratios of FABF and PABF, respectively, will be 24.2% and 34.2%, respectively, by the end of fiscal year 2020. The Funded Ratios of FABF and PABF are projected to have increased from a low Funded Ratio of 18.3% and 27.5%, respectively, at the end of fiscal year 2015. The Funded Ratios of FABF and PABF are projected to begin increasing in fiscal year 2016 as a result of the implementation of the P.A. 96-1495 Funding Plan, which requires that FABF and PABF receive contributions sufficient to achieve a Funded Ratio of 90% by 2040. However, prior to the implementation of the P.A. 96-1495 Funding Plan, the Funded Ratios are projected to decrease annually because FABF and PABF will continue to make contributions pursuant to the respective Multiplier until that time. See "— Determination of City's Contributions" above.

The projections set forth in this Appendix rely on information produced by the Retirement Funds' independent actuaries 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. This information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Appendix 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, 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 assume no responsibility for, and disclaim any association with, the prospective financial information.

There may from time to time be legislation pending in either or both houses of the Illinois General Assembly that would affect the Pension Code if enacted. No assurance can be given that any such proposal will be enacted.

Report and Recommendations of the Commission to Strengthen Chicago's Pension Funds

The information contained in this subsection describing the CSCP and the Final Report (each as defined herein) relies on information produced by the CSCP, including the Final Report. The Final Report is available at http://www.chipabf.org/ChicagoPolicePension/PDF/Financials/pension_commission/CSCP_Final_Report_Vol.1_4.30.2010.pdf; however, the content of the Final Report and such website is not incorporated herein by such reference. The City makes no representation nor expresses any opinion as to the accuracy of the Final Report, the statements made or the information therein, some of which may be conflicting. Furthermore, information about the Final Report is being provided for historical purposes only.

On January 11, 2008, then Mayor Richard M. Daley announced the formation of the Commission to Strengthen Chicago's Pension Funds (the "CSCP"), which was composed of a broad cross-section of City officials, union leaders, pension fund executives, and business and civic professionals. The CSCP was charged with examining the Retirement Funds and recommending ways to improve the Funded Ratio of each Retirement Fund. The CSCP met several times in 2008 through 2010, and at the CSCP's final meeting on March 24, 2010, the CSCP endorsed its final report, with three commissioners dissenting. The CSCP's final report, which included letters from the dissenting commissioners, was submitted to Mayor Daley on April 30, 2010 (the "Final Report").

The CSCP's approval of the Final Report occurred before the enactment of the Pension Reform Act and P.A. 96-1495 and, therefore, does not consider the impact of these acts on the Retirement Funds. See "— Determination of City's Contributions" and "— Recent Legislative Changes" above for additional information on these acts. As described below, certain of the CSCP's findings and recommendations as contained in the Final Report are addressed by either act.

The CSCP found that the financial health of the Retirement Funds had deteriorated due to a combination of factors, including the following: increasing liabilities due to enhanced benefits (e.g., non-recurring early retirement programs that were not properly funded); inadequate contributions, which were based upon a fixed percentage of payroll and not actuarial need (i.e., the Contribution Limitations); and adverse market conditions leading to fluctuating returns on investments (in 2000-2002 and 2007-2009) which could not keep pace with growth in liabilities. With regard to the CSCP's finding of inadequate contributions, P.A. 96-1495 addresses this finding with regard to the Police and Fire Funds. As described in "— Determination of City's Contributions" and "— Recent Legislative Changes—P.A. 96-1495" above, the City's Pension Levy applicable to the Police and Fire Funds will be calculated as the level percentage of payroll necessary to reach the 90% Funded Ratio target by 2040 pursuant to the P.A. 96-1495 Funding Plan, which will significantly increase the City's contributions to the Police and Fire Funds beginning with the levy made in 2015 (and collectible in 2016).

The CSCP found that due to the inadequate contributions, the Retirement Funds have had to use assets to pay current benefits, which in turn put pressure on the asset bases and Funded Ratios of the Retirement Funds.

The CSCP modeled a set of scenarios for the Retirement Funds and found that, based on the actuarial assumptions in use by the Retirement Funds and the condition of the Retirement Funds at the end of 2009, the Retirement Funds would, in the absence of substantial changes to the Retirement Funds' funding policy and/or benefit structure, deplete all assets in each of the Retirement Funds at different dates but all within twenty years of the date of the Final Report. However, the CSCP's approval of the Final Report occurred before the enactment of the Pension Reform Act and P.A. 96-1495 and the depletion dates as estimated in the Final Report would not have taken into account the impact of such legislation. See "— Projection of Funded Status" above for the projections based upon the current legislative structure applicable to the Retirement Funds.

The CSCP suggested that the issues related to the Retirement Funds need to be addressed as soon as possible and offered the following specific recommendations:

- The defined benefit structure used by the Retirement Funds should remain (as opposed to a defined contribution structure);
- New employees should continue to become members of the Retirement Funds;
- The Retirement Funds should be funded on an actuarial basis;
- Changes in the Retirement Funds for new members, while recognized by the CSCP as undesirable, will probably be necessary;
- Contributions to the Retirement Funds should be increased and revenue sources identified;
- Employee contributions should not exceed the value of benefits on a career basis;
- Review any provisions in current law for refunds or for alternative benefit calculations to ensure that the anticipated financial results of a reform program are actually obtained;
- In general, no changes in the Retirement Funds should be made unless financially neutral or advantageous to the Retirement Funds, now or in the future;
- A variety of other reforms should be considered, including reforming potential abuses, establishing sound reciprocity with other Illinois public pensions, implementing new structures to manage investments of the Retirement Funds, and improving administration of disability claims and benefits; and

- Any reform legislation must comprehensively and simultaneously address all aspects of the pension funding program.

CSCP's recommendations were made prior to the enactment of the Pension Reform Act and P.A. 96-1495. Certain of the CSCP's recommendations, including changes in the Retirement Funds for new members, were part of the Pension Reform Act (with regard to MEABF and LABF) and P.A. 96-1495 (with regard to the Police and Fire Funds).

Diversion of Grant Money to Police and Fire Funds Under P.A. 96-1495

P.A. 96-1495 allows the State Comptroller to divert grant money from the State intended for the City to either of the Police and Fire Funds to satisfy contribution shortfalls by the City. If the City fails to contribute to the Police and Fire Funds as required by the Pension Code, the City will be subject to a reallocation of grants of State funds to the City if (i) the City fails to make the required payment for 90 days past the due date, (ii) the subject Retirement Fund gives notice of the failure to the City and (iii) such Retirement Fund certifies to the State Comptroller that such payment has not been made. Upon the occurrence of these events, the State Comptroller will withhold grants of State funds from the City in an amount not in excess of the delinquent payment amount in the following proportions: (i) in fiscal year 2016, one-third of the City's State grant money, (ii) in fiscal year 2017, two-thirds of the City's State grant money, and (iii) in fiscal year 2018 and in each fiscal year thereafter, 100% of the City's State grant money.

GASB Exposure Drafts

On July 8, 2011, GASB released two exposure drafts (the "Exposure Drafts") which propose to overhaul the manner in which governments and pension plans account for and report information regarding those pension plans. If enacted in their current form, the Exposure Drafts would significantly alter the financial statements produced by the City and the Retirement Funds. However, because the City contributes to the Retirement Funds pursuant to the methods established in the Pension Code, the Exposure Drafts would not impact the contributions made by the City without legislative action. No assurance can be given that the Exposure Drafts will be adopted by GASB in their current form.

Pension Reform

Although the pension reforms summarized under "—Recent Legislative Changes" will contribute to a reduction in the unfunded liability of the Retirement Funds over time, they are not expected to materially reduce the unfunded liability in the near future.

On May 8, 2012, Mayor Emanuel testified before the Committee on Personnel and Pensions of the Illinois House of Representatives and presented a plan to amend provisions of the Pension Code applicable to the Retirement Funds. The proposed plan would address the unfunded liability of the Retirement Funds by making the following changes:

- (a) suspending for a period of time automatic increases in pension amounts payable to retirees;
- (b) increasing the required employee contribution to the applicable Retirement Fund by an additional five percent (phased in over time);
- (c) increasing by five years the retirement age for City employees; and
- (d) offering City employees options to make their retirement plans more competitive and consistent with those offered in the private sector.

Increased City contributions to the Retirement Funds would be considered only if the City is assured that other required changes to address the unfunded liability of the Retirement Funds will be implemented.

No assurance can be given that a bill embodying the proposed plan will be introduced in the Illinois General Assembly or that any such bill will be enacted or that if enacted, any such bill will contain any of the proposed changes described above.

OTHER POST-EMPLOYMENT BENEFITS

General

The City and the Retirement Funds share the cost of post-employment healthcare benefits available to City employees participating in the Retirement Funds through a single-employer, defined benefit healthcare plan (the "Health Plan"), which is administered by the City. The costs of the Health Plan are shared pursuant to a settlement agreement (the "Settlement") entered into between the City and the Retirement Funds regarding the responsibility for payment of these health benefits as described below under "— The Settlement."

The Health Plan provides health benefits to retirees. MEABF and LABF participants older than 55 with at least 20 years of service and Police and Fire Plan participants older than 50 with at least 10 years of service may become eligible for the Health Plan if they eventually become an annuitant. The Health Plan provides basic health benefits to non-Medicare eligible annuitants and provides supplemental health benefits to Medicare-eligible annuitants.

Annuitants who participate in the Health Plan have their retiree health insurance premiums subsidized by both the City and the Retirement Fund of which they are a member. The City contributes a percentage subsidy to each eligible annuitant. Annuitants who retired prior to July 1, 2005 receive a 55% subsidy from the City, whereas annuitants retiring on or after such date receive a subsidy equal to 50%, 45%, 40% or zero percent based on the annuitant's length of actual employment with the City. The Retirement Funds contribute a fixed dollar amount monthly (\$65 for each Medicare-eligible annuitant and \$95 for each non-Medicare eligible annuitant) for each of their annuitants. The annuitants are responsible for contributing the difference between the cost of their health benefits and the sum of the subsidies provided by the City and the related Retirement Fund.

The subsidies provided by the Retirement Funds are paid from the Pension Levy, as provided in the Pension Code. These payments therefore reduce the amounts available in the Retirement Funds to make payments on pension liabilities. See Tables 5-9 in "Retirement Funds—Funded Status of Retirement Funds" above for Retirement Funds' statement of net assets, which incorporates the expense related to the Health Plan as part of the "Administration" line item. The City makes the subsidy payments to the Health Plan from moneys derived from the Pension Levy. The Pension Levy is described in "Retirement Funds—Determination of City's Contributions" above. In 2010, the net expense to the City for providing these benefits to approximately 24,253 annuitants and their dependents was approximately \$97 million (after adjustment for certain amounts received after publication of the City's Comprehensive Annual Financial Report for the fiscal year ending December 31, 2010).

The Settlement

In 1987, the City sued the Retirement Funds with respect to the alleged obligation on the part of the City to provide healthcare benefits to certain retired City employees. The City maintained that it was not obligated to provide healthcare benefits to such retired employees. Certain retired employees

intervened as a class in the litigation, and the Retirement Funds countersued the City. To avoid the risk and expense of protracted litigation, the City and the other parties entered into the Settlement, the terms of which have been renegotiated over time. The Settlement expires on June 30, 2013. The City contributes to the Health Plan as a result of the obligation established by the Settlement during the term of the Settlement (the "Settlement Period").

The Settlement does not provide for continuation of the Settlement beyond the end of the Settlement Period. Therefore, barring further action by the parties to the Settlement to extend the Settlement Period, the City's obligation to subsidize a portion of its retirees' payments for healthcare benefits will cease at the end of the Settlement Period. No assurance can be given that such an extension will not occur.

City Financing of the Health Plan

The Health Plan is funded on a pay-as-you-go basis. Pay-as-you-go funding refers to the fact that assets are not accumulated or dedicated to funding the Health Plan. Instead, the City contributes the amount necessary to fund its share of the current year costs of the Health Plan. The City's contributions are made from funds derived from the Pension Levy, which is described above in "Retirement Funds—Determination of City's Contributions" as required by the Pension Code. See Table 17 below for a schedule of historical contributions made by the City to the Health Plan.

Actuarial Considerations

City Obligation

The City has an Actuarial Valuation completed for its contributions to the Health Plan annually. The purpose and process behind an Actuarial Valuation is described above in "Retirement Funds—The Actuarial Valuation—Actuaries and the Actuarial Process." In addition, the Retirement Funds produce an Actuarial Valuation for the liability of such Retirement Fund to its retirees for the benefits provided under the Health Plan.

Although these Actuarial Valuations all refer to the liability owed for the same benefits, the results of the Retirement Funds' Actuarial Valuations differ significantly from the City's Actuarial Valuation for two reasons. First, unlike with respect to its retirees' pensions, the City is responsible for only a portion of the liabilities owed under the Health Plan, and the City is responsible for that portion of the liability only for the Settlement Period. Second, the Actuarial Valuations of the City and the Retirement Funds differ because the actuarial methods and assumptions used for each purpose vary.

This Appendix addresses the funded status of the City's obligation to make payments for the post-employment healthcare benefits to be provided by the Health Plan and, therefore, the funded status of the Retirement Funds' obligation with respect to the Health Plan will not be discussed herein. For additional information on the amounts owed to members of the Retirement Funds for retiree healthcare benefits, see the Actuarial Valuations of the Retirement Funds, which are available as described in "Retirement Funds—Source Information" above, and Note 11(b) to the City's Basic Audited Financial Statements, appended to this Official Statement as Appendix C.

Actuarial Methods and Assumptions

The Actuarial Valuation for the City's obligation to the Health Plan utilizes various actuarial methods and assumptions similar to those described in "Retirement Funds" above with respect to the Retirement Funds. The City does not use an Actuarial Method to calculate the Actuarial Value of Assets

of the Health Plan because no assets are accumulated therein for payment of future benefits. As such, the Actuarial Value of Assets for the Health Plan is always zero.

The City's Actuarial Valuation employs the Projected Unit Credit Method to allocate its costs. For more information on the Projected Unit Credit Method, see "Retirement Funds—Actuarial Methods" above.

In the Actuarial Valuation for the fiscal year ended December 31, 2010, the actuarial assumptions included an annual healthcare cost trend rate of 12% initially, reduced by decrements to an ultimate rate of 10.5%. Both rates included a 3% inflation assumption. The Health Plan has not accumulated assets and does not hold any assets, however, the moneys expected to be used to pay benefits are assumed to be invested for durations which will yield an annual return rate of 3%.

The Health Plan's UAAL is amortized over a closed 3-year period for purposes of the Actuarial Valuation, which reflects the remainder of the Settlement Period. The use of a closed, 3-year period has the effect of increasing the Actuarially Required Contribution against the typical 30-year open amortization period because (i) the period of time over which the UAAL will be amortized is shorter, and (ii) the amortization period reduces in each year as opposed to remaining at 30 years for each period going forward.

Funded Status

The following tables provide information on the financial health of the Health Plan. As the Health Plan is funded on a pay-as-you-go basis and no assets are accumulated to pay for the liabilities of the Health Plan, the Funded Ratio with respect to the Health Plan is perpetually zero. The UAAL of the Health Plan was \$533.387 million as of December 31, 2009.

Table 16 summarizes the current financial condition and the funding progress of the Health Plan.

TABLE 16 - SCHEDULE OF FUNDING PROGRESS⁽¹⁾

| | Actuarial Value of Assets | Actuarial Accrued Liability | Unfunded Actuarial Accrued Liability | Funded Ratio | Covered Payroll | UAAL as a Percentage of Payroll |
|------|--|--|---|-------------------------|----------------------------|--|
| 2006 | \$0 | \$1,307,417 | \$1,307,417 | 0% | \$2,502,154 | 52.01% |
| 2007 | 0 | 1,062,864 | 1,062,864 | 0 | 2,562,007 | 41.49 |
| 2008 | 0 | 787,395 | 787,395 | 0 | 2,475,107 | 31.81 |
| 2009 | 0 | 533,387 | 533,387 | 0 | 2,546,961 | 20.94 |

Sources: Comprehensive Annual Financial Report of the City for the fiscal years ending December 31, 2006-2010.

(1) In thousands of dollars. The City, as required, adopted GASB Statement No. 45 in fiscal year 2007. The information provided in this table was not produced prior to 2007.

Table 17 shows the amounts actually contributed to the Health Plan by the City.

TABLE 17 - HISTORY OF CITY'S CONTRIBUTIONS⁽¹⁾

| | <u>Actual City Contribution</u> |
|------|--|
| 2007 | \$ 97,254 |
| 2008 | 98,065 |
| 2009 | 98,000 |
| 2010 | 107,431 |

Sources: Comprehensive Annual Financial Report of the City for the fiscal years ending 2007-2010.

(1) In thousands of dollars. The City, as required, adopted GASB Statement No. 45 in fiscal year 2007. The information provided in this table was not produced prior to 2007.

Retiree Health Benefits Commission

The Settlement provides for the creation of the Retiree Health Benefits Commission (the "RHBC"), which is tasked with reviewing proposed changes to retiree healthcare plans for the years 2008-2013 and for making recommendations concerning retiree health benefits after July 1, 2013. The RHBC's members are appointed by the Mayor of the City for terms that do not expire. The Settlement requires that the RHBC be composed of experts who will be objective and fair-minded as to the interest of both retirees and taxpayers, and must consist of a representative of the City and a representative of the Retirement Funds. As of the date of this Official Statement, the RHBC has not been established. The recommendations of the RHBC will not be binding on the City.

APPENDIX F

FORMS OF OPINIONS OF CO-BOND COUNSEL

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PROPOSED FORM OF OPINION OF CO-BOND COUNSEL

[LETTERHEAD OF CO-BOND COUNSEL]

[TO BE DATED CLOSING DATE]

We have examined a certified copy of the record of the proceedings (the "*Proceedings*") of the City Council of the City of Chicago (the "*City*"), including an ordinance adopted by the City Council of the City on the 14th day of March, 2012 (the "*Ordinance*"), as supplemented by a Notification of Sale (the "*Notification of Sale*"), relating to the issue of its fully registered General Obligation Bonds, Project Series 2012A (the "*Bonds*"), in the aggregate principal amount of \$179,905,000, dated May 30, 2012, due on January 1 of the years and in the amounts and bearing interest as follows:

| | | |
|------|---------------|-------|
| 2033 | \$119,905,000 | 5.00% |
| 2034 | 60,000,000 | 5.00% |

The Bonds due on January 1, 2033, are subject to mandatory redemption, in integral multiples of \$5,000 selected by lot at a redemption price of par plus accrued interest to the redemption date, as provided by the Ordinance and the Notification of Sale, on January 1 of the years and in the principal amounts as follows:

| | |
|------|-----------------------|
| 2030 | \$ 3,990,000 |
| 2032 | 43,270,000 |
| 2033 | 72,645,000 (maturity) |

The Bonds are further subject to redemption prior to maturity at the option of the City as a whole, or in part, on January 1, 2022, or on any date thereafter, at the redemption price of par plus accrued interest to the redemption date, as provided by the Ordinance and the Notification of Sale.

The Bonds are authorized and issued pursuant to the provisions of Section 6 of Article VII of the Illinois Constitution of 1970 and by virtue of the Ordinance, and we are of the opinion that the Proceedings show lawful authority for said issue under the laws of the State of Illinois now in force.

We have examined the form of bond prescribed for said issue and find the same in due form of law, and in our opinion said issue, in the amount named herein, is valid and legally binding upon the City and is payable from any funds of the City legally available for such purpose, and all taxable property in the City is subject to the levy of taxes to pay the same without limitation as to rate or amount, except that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, moratorium, reorganization and other similar laws affecting creditors' rights and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion.

It is our opinion that, subject to the City's compliance with certain covenants, under present law, interest on the Bonds is not includable in gross income of the owners thereof for federal

income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such City covenants could cause interest on the Bonds to not be excludable from gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds. In rendering our opinion on tax exemption, we have relied on the mathematical computation of the yield on the Bonds and the yield on certain investments by Robert Thomas CPA, LLC, Shawnee Mission, Kansas.

Interest on the Bonds is not exempt from present State of Illinois income taxes. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

We express no opinion herein as to the accuracy, adequacy or completeness of any information furnished to any person in connection with any offer or sale of the Bonds.

In rendering this opinion, we have relied upon certifications of the City with respect to certain material facts within the City's knowledge. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

PROPOSED FORM OF OPINION OF CO-BOND COUNSEL

[LETTERHEAD OF CO-BOND COUNSEL]

[TO BE DATED CLOSING DATE]

We have examined a certified copy of the record of the proceedings (the "*Proceedings*") of the City Council of the City of Chicago (the "*City*"), including an ordinance adopted by the City Council of the City on the 14th day of March, 2012 (the "*Ordinance*"), as supplemented by a Notification of Sale (the "*Notification of Sale*"), relating to the issue of its fully registered 5.432% General Obligation Bonds, Taxable Project and Refunding Series 2012B (the "*Bonds*"), in the aggregate principal amount of \$307,975,000, dated May 30, 2012, due on January 1, 2042.

The Bonds are subject to mandatory redemption, in integral multiples of \$5,000, at a redemption price of par plus accrued interest to the redemption date, as provided by the Ordinance and the Notification of Sale, on January 1 of the years and in the principal amounts as follows:

| | |
|------|------------------------|
| 2039 | \$ 19,870,000 |
| 2040 | 48,125,000 |
| 2041 | 116,820,000 |
| 2042 | 123,160,000 (maturity) |

The Bonds are further subject to redemption prior to maturity at the option of the City upon the terms as provided by the Ordinance and the Notification of Sale.

The Bonds are authorized and issued pursuant to the provisions of Section 6 of Article VII of the Illinois Constitution of 1970 and by virtue of the Ordinance, and we are of the opinion that the Proceedings show lawful authority for said issue under the laws of the State of Illinois now in force.

We have examined the form of bond prescribed for said issue and find the same in due form of law, and in our opinion said issue, in the amount named herein, is valid and legally binding upon the City and is payable from any funds of the City legally available for such purpose, and all taxable property in the City is subject to the levy of taxes to pay the same without limitation as to rate or amount, except that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, moratorium, reorganization and other similar laws affecting creditors' rights and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion.

It is our opinion that under present law, interest on the Bonds is not excludable from gross income of the owners thereof for federal income tax purposes. Ownership of the Bonds may result in other federal income tax consequences to certain taxpayers. Bondholders should consult their own tax advisors concerning tax consequences of ownership of the Bonds.

Interest on the Bonds is not exempt from present State of Illinois income taxes. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

We express no opinion herein as to the accuracy, adequacy or completeness of any information furnished to any person in connection with any offer or sale of the Bonds.

In rendering this opinion, we have relied upon certifications of the City with respect to certain material facts within the City's knowledge. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

PROPOSED FORM OF OPINION OF CO-BOND COUNSEL

[LETTERHEAD OF CO-BOND COUNSEL]

[TO BE DATED CLOSING DATE]

We have examined a certified copy of the record of the proceedings (the "*Proceedings*") of the City Council of the City of Chicago (the "*City*"), including an ordinance adopted by the City Council of the City on the 14th day of March, 2012 (the "*Ordinance*"), as supplemented by a Notification of Sale (the "*Notification of Sale*"), relating to the issue of its fully registered General Obligation Bonds, Refunding Series 2012C (the "*Bonds*"), in the aggregate principal amount of \$106,970,000, dated May 30, 2012, due on January 1 of the years and in the amounts and bearing interest as follows:

| | | |
|------|--------------|-------|
| 2020 | \$ 4,000,000 | 4.00% |
| 2020 | 8,120,000 | 5.00% |
| 2021 | 3,600,000 | 4.00% |
| 2021 | 12,545,000 | 5.00% |
| 2022 | 2,200,000 | 4.00% |
| 2022 | 14,770,000 | 5.00% |
| 2023 | 675,000 | 4.00% |
| 2023 | 17,470,000 | 5.00% |
| 2024 | 500,000 | 4.00% |
| 2024 | 18,585,000 | 5.00% |
| 2025 | 11,050,000 | 5.00% |
| 2026 | 8,690,000 | 5.00% |
| 2030 | 1,525,000 | 4.00% |
| 2031 | 1,590,000 | 4.00% |
| 2032 | 1,650,000 | 4.00% |

The Bonds are further subject to redemption prior to maturity at the option of the City as a whole, or in part, on January 1, 2022, or on any date thereafter, at the redemption price of par plus accrued interest to the redemption date, as provided by the Ordinance and the Notification of Sale.

The Bonds are authorized and issued pursuant to the provisions of Section 6 of Article VII of the Illinois Constitution of 1970 and by virtue of the Ordinance, and we are of the opinion that the Proceedings show lawful authority for said issue under the laws of the State of Illinois now in force.

We have examined the form of bond prescribed for said issue and find the same in due form of law, and in our opinion said issue, in the amount named herein, is valid and legally binding upon the City and is payable from any funds of the City legally available for such purpose, and all taxable property in the City is subject to the levy of taxes to pay the same without limitation as to rate or amount, except that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, moratorium, reorganization and other similar laws affecting creditors' rights and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion.

It is our opinion that, subject to the City's compliance with certain covenants, under present law, interest on the Bonds is not includable in gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such City covenants could cause interest on the Bonds to not be excludable from gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds. In rendering our opinion on tax exemption, we have relied on the mathematical computation of the yield on the Bonds and the yield on certain investments by Robert Thomas CPA, LLC, Shawnee Mission, Kansas.

Interest on the Bonds is not exempt from present State of Illinois income taxes. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

We express no opinion herein as to the accuracy, adequacy or completeness of any information furnished to any person in connection with any offer or sale of the Bonds.

In rendering this opinion, we have relied upon certifications of the City with respect to certain material facts within the City's knowledge. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

APPENDIX G

REFUNDED BONDS

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Taxable Series 2012B Bonds

| Refunded Bond Series | CUSIP | Maturity | Coupon (%) | Principal Amount Refunded |
|-------------------------------------|--------------|-----------------|-----------------------|--------------------------------------|
| 1993A | 1674832J4 | 1/1/2013 | 5.375% | \$6,400,000 |
| Total: | | | | \$6,400,000 |
| 1993B | 167486GC7 | 1/1/2014 | 5.125% | \$6,000,000 |
| Total: | | | | \$6,000,000 |
| 1998 | 167486KT5 | 1/1/2014 | 5.500% | \$3,950,000 |
| Total: | | | | \$3,950,000 |
| 2001A | 167485EF4 | 1/1/2014 | 5.500% | \$2,315,000 |
| Total: | | | | \$2,315,000 |
| 2003A | 167485Y39 | 1/1/2013 | 5.250% | \$3,055,000 |
| 2003A | 167485EP2 | 1/1/2014 | 4.625% | \$3,315,000 |
| Total: | | | | \$6,370,000 |
| 2004A | 1674852F7 | 1/1/2013 | 5.250% | \$1,480,000 |
| 2004A | 167486FL8 | 1/1/2013 | 5.250% | \$615,000 |
| 2004A | 1674852G5 | 1/1/2014 | 5.250% | \$1,555,000 |
| 2004A | 167486LC1 | 1/1/2014 | 5.250% | \$800,000 |
| Total: | | | | \$4,450,000 |
| 2005A | 167485BL4 | 1/1/2013 | 3.500% | \$455,000 |
| 2005A | 167485BK6 | 1/1/2013 | 4.000% | \$2,485,000 |
| 2005A | 167485BM2 | 1/1/2013 | 5.000% | \$10,120,000 |
| 2005A | 167485BQ3 | 1/1/2014 | 3.625% | \$175,000 |
| 2005A | 167485BN0 | 1/1/2014 | 4.000% | \$400,000 |
| 2005A | 167485BP5 | 1/1/2014 | 5.000% | \$59,055,000 |
| Total: | | | | \$72,690,000 |
| 2005B | 167486JL4 | 1/1/2013 | 5.000% | \$2,445,000 |
| 2005B | 167486JM2 | 1/1/2014 | 5.000% | \$1,840,000 |
| Total: | | | | \$4,285,000 |
| 2006A | 167486FJ3 | 1/1/2013 | 4.000% | \$1,525,000 |
| 2006A | 167486JX8 | 1/1/2014 | 4.000% | \$560,000 |
| 2006A | 167486JY6 | 1/1/2014 | 5.000% | \$1,020,000 |
| Total: | | | | \$3,105,000 |
| 2007A | 167486KL2 | 1/1/2013 | 4.250% | \$205,000 |
| Total: | | | | \$205,000 |

| Refunded Bond Series | CUSIP | Maturity | Coupon (%) | Principal Amount Refunded |
|-------------------------------------|--------------|-----------------|-----------------------|--------------------------------------|
| 2007C | 167485P54 | 1/1/2013 | 4.000% | \$5,725,000 |
| 2007C | 167485P62 | 1/1/2013 | 5.000% | \$6,550,000 |
| 2007C | 167485P70 | 1/1/2014 | 4.000% | \$6,180,000 |
| 2007C | 167485P88 | 1/1/2014 | 5.000% | \$5,350,000 |
| Total: | | | | \$23,805,000 |
| 2008A | 1674854Z1 | 1/1/2013 | 3.250% | \$105,000 |
| 2008A | 1674855A5 | 1/1/2014 | 3.500% | \$105,000 |
| Total: | | | | \$210,000 |
| Grand Total: | | | | \$133,785,000 |

Series 2012C Bonds

| Refunded Bond Series | CUSIP | Maturity | Coupon (%) | Principal Amount Refunded |
|----------------------------|-----------|----------|---------------|------------------------------|
| 2003A | 167485Z38 | 1/1/2026 | 5.000% | \$1,845,000 |
| 2003A | 167485Z46 | 1/1/2030 | 5.000% | \$2,240,000 |
| 2003A | 167485Z46 | 1/1/2031 | 5.000% | \$2,355,000 |
| 2003A | 167485Z46 | 1/1/2032 | 5.000% | \$2,470,000 |
| Total: | | | | \$8,910,000 |
| 2003C | 167484X41 | 1/1/2020 | 5.000% | \$4,550,000 |
| 2003C | 167484X58 | 1/1/2021 | 5.000% | \$4,730,000 |
| 2003C | 167484X66 | 1/1/2022 | 5.000% | \$4,915,000 |
| 2003C | 167484X74 | 1/1/2023 | 5.000% | \$5,105,000 |
| 2003C | 167484X82 | 1/1/2024 | 5.000% | \$5,305,000 |
| 2003C | 167484X90 | 1/1/2025 | 5.000% | \$7,185,000 |
| 2003C | 167484Y24 | 1/1/2026 | 5.000% | \$7,525,000 |
| Total: | | | | \$39,315,000 |
| 2004A | 1674843U6 | 1/1/2020 | 5.250% | \$7,845,000 |
| 2004A | 1674844Q4 | 1/1/2021 | 5.000% | \$3,605,000 |
| 2004A | 1674843V4 | 1/1/2021 | 5.250% | \$8,330,000 |
| 2004A | 1674844R2 | 1/1/2022 | 5.000% | \$3,820,000 |
| 2004A | 1674843W2 | 1/1/2022 | 5.250% | \$8,835,000 |
| 2004A | 1674844S0 | 1/1/2023 | 5.000% | \$4,040,000 |
| 2004A | 1674843X0 | 1/1/2023 | 5.000% | \$9,675,000 |
| 2004A | 1674844T8 | 1/1/2024 | 5.000% | \$4,270,000 |
| 2004A | 1674843Y8 | 1/1/2024 | 5.000% | \$10,225,000 |
| 2004A | 1674844U5 | 1/1/2025 | 5.000% | \$4,510,000 |
| | | | | \$65,155,000 |
| Grand Total: | | | | \$113,380,000 |

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SCHEDULE IA
TERMS AND AUTHORIZATION

SCHEDULE IA
TERMS AND AUTHORIZATION
\$179,905,000 GENERAL OBLIGATION BONDS
PROJECT SERIES 2012A

1. *Aggregate Principal Amount:* \$179,905,000
2. *Dated:* May 30, 2012
3. *Principal Amounts, Interest Rate, Maturity, Price and CUSIP Number:*

| PAR | Interest Rate | Maturity | Price | CUSIP |
|---------------|---------------|-------------------------------------|------------------|------------|
| \$119,905,000 | 5.000% | Term Bonds due January 1, 2033 | \$132,384,712.40 | 167486 PE3 |
| 60,000,000 | 5.000% | Serial Bonds due January 1, 2034 | 65,990,400.00 | 167486 PF0 |

4. *Interest Payment Dates.*
January 1, 2013, and semiannually thereafter on each January 1 and July 1.

5. *Redemption*

The Series 2012A Bonds are subject to both optional and mandatory redemption prior to maturity, as described below. The Series 2012A Bonds shall be redeemed only in principal amounts of \$5,000 and integral multiples thereof.

Optional Redemption of the Series 2012A Bonds. The Series 2012A Bonds are redeemable prior to maturity at the option of the City, in whole or in part, on any date on or after January 1, 2022, and if less than all of the outstanding Series 2012A Bonds of a single maturity and interest rate are to be redeemed, the Series 2012A Bonds to be called shall be called by lot and in accordance with the procedures of the Depository Trust Company ("DTC"), at a redemption price equal to the principal amount of the Series 2012A Bonds being redeemed plus accrued interest to the date fixed for redemption.

The City is authorized to sell or waive any right the City may have to call any of the Series 2012A Bonds for optional redemption, in whole or in part; provided, that such sale or waiver will not adversely affect the exclusion of interest on the Series 2012A Bonds for federal income tax purposes.

Mandatory Redemption of the Series 2012A Bonds. The Series 2012A Bonds due January 1, 2033, are subject to mandatory redemption prior to maturity, in each case at par and accrued interest to the date fixed for redemption, on January 1 of the following years and in the following principal amounts:

| Year | Principal Amount |
|-------------|-------------------------|
| 2030 | \$3,990,000 |
| 2032 | 43,270,000 |

If less than all of the Series 2012A Bonds are to be redeemed prior to maturity, the Series 2012A Bonds being redeemed, or portions thereof to be redeemed, will be selected by lot and in accordance with the procedures of DTC.

SCHEDULE IB
TERMS AND AUTHORIZATION

SCHEDULE IB

TERMS AND AUTHORIZATION

\$307,975,000 GENERAL OBLIGATION BONDS TAXABLE PROJECT AND REFUNDING SERIES 2012B

1. *Aggregate Principal Amount:* \$307,975,000
2. *Dated:* May 30, 2012
3. *Interest Rate, Maturity, Price and CUSIP Number:*

| Interest Rate | Maturity | Price | CUSIP |
|---------------|-----------------------------------|-------|------------|
| 5.432% | Term Bonds due January 1, 2042 | 100% | 167486 PG8 |

4. *Interest Payment Dates.*
January 1, 2013, and semiannually thereafter on each January 1 and July 1.
5. *Redemption*

The Taxable Series 2012B Bonds are subject to both optional and mandatory redemption prior to maturity, as described below. The Taxable Series 2012B Bonds shall be redeemed only in principal amounts of \$5,000 and integral multiples thereof.

Optional Redemption of the Taxable Series 2012B Bonds with Make Whole Payment. The Taxable Series 2012B Bonds are subject to redemption prior to maturity at the option of the City, in whole or in part, on any date at a redemption price equal to the greater of: (A) the principal amount of the Taxable Series 2012B Bonds to be redeemed, or (B) the sum of the present values of the remaining scheduled payments of principal and interest on the Taxable Series 2012B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date such bonds are to be redeemed, discounted to the date of redemption of the Taxable Series 2012B Bonds to be redeemed on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (defined below) plus 50 basis points, plus accrued interest on Bonds being redeemed to the date fixed for redemption.

The make whole optional redemption price of the Taxable Series 2012B Bonds to be redeemed will be calculated by an independent accounting firm, investment banking firm or financial advisor (the "Calculation Agent") retained by the City at the City's expense. The Bond Registrar and the City may rely on the Calculation Agent's determination of the make whole optional redemption price and will not be liable for such reliance. An authorized officer of the City shall confirm and transmit the redemption price as so calculated on such dates and to such parties as shall be necessary to effectuate such redemption.

The "Treasury Rate" is, as of any redemption date, the yield to maturity as of such redemption date of Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available four Business Days (as defined below) prior to the redemption date (excluding inflation

indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Taxable Series 2012B Bonds to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded Treasury securities adjusted to a constant maturity of one year will be used. "Business Day" means any day other than a day on which banks in New York, New York, Chicago, Illinois, or the city in which the Bond Registrar maintains its designated office are required or authorized to close. The Treasury Rate will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the City at the City's expense.

The City is authorized to sell or waive any right the City may have to call the Taxable Series 2012B Bonds for optional redemption.

Mandatory Redemption of the Taxable Series 2012B Bonds. The Taxable Series 2012B Bonds due January 1, 2042 are subject to mandatory redemption at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, on January 1 of the following years and in the following principal amounts:

| Year | Principal Amount |
|-------------|-------------------------|
| 2039 | \$19,870,000 |
| 2040 | 48,125,000 |
| 2041 | 116,820,000 |

Selection of Taxable Series 2012B Bonds for Redemption. If less than all of the Taxable Series 2012B Bonds are to be redeemed prior to maturity, the Taxable Series 2012B Bonds being redeemed, or portions thereof to be redeemed, will be selected on a pro-rata pass-through distribution of principal basis to the extent permitted by and in accordance with procedures of The Depository Trust Company ("DTC"). If the DTC operational arrangements do not allow for the redemption of the Taxable Series 2012B Bonds on a pro-rata pass-through distribution of principal basis, then the Taxable Series 2012B Bonds will be selected for redemption in accordance with DTC procedures, by lot.

SCHEDULE IC
TERMS AND AUTHORIZATION

SCHEDULE IC
TERMS AND AUTHORIZATION

\$106,970,000 GENERAL OBLIGATION BONDS
REFUNDING SERIES 2012C

1. *Aggregate Principal Amount:* \$106,970,000
2. *Dated:* May 30, 2012
3. *Principal Amounts, Interest Rate, Maturity, Price and CUSIP Number:*

| Maturity January 1 | Principal Amount | Interest Rate % | Price | CUSIP |
|-----------------------|---------------------|-----------------|----------------------|-----------|
| 2020 | \$4,000,000 | 4.000 | \$112.586 | 67486 PH6 |
| 2020 | 8,120,000 | 5.000 | 119.540 | 67486 PT0 |
| 2021 | 3,600,000 | 4.000 | 112.181 | 67486 PJ2 |
| 2021 | 12,545,000 | 5.000 | 119.891 | 67486 PU7 |
| 2022 | 2,200,000 | 4.000 | 111.450 | 67486 PK9 |
| 2022 | 14,770,000 | 5.000 | 119.870 | 67486 PV5 |
| 2023 | 675,000 | 4.000 | 109.673 ¹ | 67486 PL7 |
| 2023 | 17,470,000 | 5.000 | 118.013 ¹ | 67486 PW3 |
| 2024 | 500,000 | 4.000 | 108.535 ¹ | 67486 PM5 |
| 2024 | 18,585,000 | 5.000 | 116.824 ¹ | 67486 PX1 |
| 2025 | 11,050,000 | 5.000 | 115.560 ¹ | 67486 PN3 |
| 2026 | 8,690,000 | 5.000 | 114.667 ¹ | 67486 PP8 |
| 2030 | 1,525,000 | 4.000 | 102.807 ¹ | 67486 PQ6 |
| 2031 | 1,590,000 | 4.000 | 102.318 ¹ | 67486 PR4 |
| 2032 | 1,650,000 | 4.000 | 101.833 ¹ | 67486 PS2 |

4. *Interest Payment Dates.*

January 1, 2013, and semiannually thereafter on each January 1 and July 1.

5. *Redemption*

The Series 2012C Bonds are subject to optional redemption prior to maturity, as described below. The Series 2012C Bonds shall be redeemed only in principal amounts of \$5,000 and integral multiples thereof.

¹ Priced to the January 1, 2022, PAR call.

Optional Redemption of the Series 2012C Bonds. The Series 2012C Bonds are redeemable prior to maturity at the option of the City, in whole or in part, on any date on or after January 1, 2022, and if less than all of the outstanding Series 2012C Bonds of a single maturity and interest rate are to be redeemed, the Series 2012C Bonds to be called shall be called by lot and in accordance with the procedures of the Depository Trust Company at a redemption price equal to the principal amount of the Series 2012C Bonds being redeemed plus accrued interest to the date fixed for redemption.

The City is authorized to sell or waive any right the City may have to call any of the Series 2012C Bonds for optional redemption, in whole or in part; provided, that such sale or waiver will not adversely affect the exclusion of interest on the Series 2012C Bonds for federal income tax purposes.

SCHEDULE ID
REFUNDED BONDS

**SCHEDULE ID
REFUNDED BONDS AND ESCROW AGENTS**

General Obligation Bonds, Refunding Series 1993A

Original Principal Amount: \$92,260,000

1674832J4 \$10,340,000.00

Dated: March 1, 1993

Originally Issued: March 30, 1993

Escrow Agent, Bond Registrar and Paying Agent: The Bank of New York Mellon Trust Company, N.A.

Principal Amount Refunded: \$ 6,400,000.00

The Series 1993A Bonds being refunded are due on January 1 of the year, in the amount and bearing interest at the rate per annum as follows:

| CUSIP | YEAR | PRINCIPAL AMOUNT | INTEREST RATE |
|-----------|------|------------------|---------------|
| 1674832J4 | 2013 | \$6,400,000.00 | 5.375% |

(the "Refunded 1993A Bonds")

Call Feature: Refunded 1993A Bonds are not callable before maturity.

General Obligation Bonds, Refunding Series 1993B

Original Principal Amount: \$153,280,000

167486GC7 \$11,665,000

Dated: September 15, 1993

Originally Issued: October 14, 1993

Escrow Agent, Bond Registrar and Paying Agent: The Bank of New York Mellon Trust Company, N.A.

Principal Amount Refunded: \$6,000,000.00

The Series 1993B Bonds being refunded are due or subject to mandatory redemption on January 1 of the year, in the amount and bear interest at the rate per annum as follows:

| CUSIP | YEAR | PRINCIPAL AMOUNT | INTEREST RATE |
|-----------|------|------------------|---------------|
| 167486GC7 | 2014 | \$6,000,000.00 | 5.125% |

(the "Refunded 1993B Bonds")

Call Feature: Refunded 1993B Bonds are not callable before maturity.

General Obligation Bonds, Project and Refunding Series 1998

Original Principal Amount: \$426,600,000

167486KT5 \$15,175,000

Dated: March 1, 1998

Originally Issued: April 1, 1998.

Escrow Agent, Bond Registrar and Paying Agent: The Bank of New York Mellon Trust Company, N.A.

Principal Amount Refunded: \$3,950,000.00

The Series 1998 Bonds being refunded are due on January 1 of the year, in the amount and bearing interest at the rate per annum as follows:

| CUSIP | YEAR | PRINCIPAL AMOUNT | INTEREST RATE |
|-----------|------|------------------|---------------|
| 167486KT5 | 2014 | \$3,950,000.00 | 5.500% |

(the "Refunded 1998 Bonds")

Call Feature: Refunded 1998 Bonds are not callable before maturity

General Obligation Bonds, Project and Refunding Series 2001A

Original Principal Amount: \$491,760,262.50

167485EF4 \$8,860,000

Dated: March 28, 2001

Originally Issued: March 28, 2001

Escrow Agent, Bond Registrar and Paying Agent: Amalgamated Bank of Chicago

Principal Amount Refunded: \$2,315,000.00

The Series 2001A Bonds being refunded are due on January 1 of the year, in the amount and bearing interest at the rate per annum as follows:

| CUSIP | YEAR | PRINCIPAL AMOUNT | INTEREST RATE |
|-----------|------|------------------|---------------|
| 167485EF4 | 2014 | \$2,315,000.00 | 5.500% |

(the "Refunded Bonds Series 2001A")

Call Date: June 29, 2012

Redemption Price: 100%

General Obligation Bonds, Project and Refunding Series 2003A

Original Principal Amounts: \$157,990,000

| | |
|-----------|-------------|
| 167485Y39 | \$8,555,000 |
| 167485EP2 | 9,285,000 |
| 167485Z38 | 3,770,000 |
| 167485Z46 | 4,580,000 |
| 167485Z46 | 4,810,000 |
| 167485Z46 | 5,050,000 |

Dated: April 3, 2003

Originally Issued: April 3, 2003

Escrow Agent, Bond Registrar and Paying Agent: Seaway Bank and Trust Company

Principal Amount Refunded for the Taxable Series 2012B Bonds: \$ 6,370,000.00

Principal Amount Refunded for the Series 2012C Bonds: \$ 8,910,000.00

The Series 2003A Bonds being refunded are due serially or subject to mandatory redemption on January 1 of the years, in the amounts and bearing interest at the rates per annum as follows:

| CUSIP | YEAR | <u>TAXABLE 2012B SERIES</u> | |
|------------|------|-----------------------------|---------------|
| | | PRINCIPAL AMOUNT | INTEREST RATE |
| 167485Y39 | 2013 | \$3,055,000.00 | 5.250% |
| 167485EP2* | 2014 | 3,315,000.00 | 4.625 |

Call Date*: January 1, 2013

Redemption Price: 100%

| CUSIP | YEAR | <u>2012C SERIES</u> | |
|-----------|------|---------------------|---------------|
| | | PRINCIPAL AMOUNT | INTEREST RATE |
| 167485Z38 | 2026 | \$1,845,000.00 | 5.000% |
| 167485Z46 | 2030 | 2,240,000.00 | 5.000 |
| 167485Z46 | 2031 | 2,355,000.00 | 5.000 |
| 167485Z46 | 2032 | 2,470,000.00 | 5.000 |

Call Date: January 1, 2013
Redemption Price: 100%
(together, the "Refunded Bonds Series 2003A")

General Obligation Bonds, Project Series 2003C

Original Principal Amount: \$176,890,000

| | |
|-----------|-------------|
| 167484X41 | \$4,550,000 |
| 167484X58 | 4,730,000 |
| 167484X66 | 4,915,000 |
| 167484X74 | 5,105,000 |
| 167484X82 | 5,305,000 |
| 167484X90 | 7,185,000 |
| 167484Y24 | 7,525,000 |

Dated: November 13, 2003

Originally Issued: November 13, 2003

Escrow Agent, Bond Registrar and Paying Agent: Seaway Bank and Trust Company

Principal Amount Refunded: \$ 39,315,000.00

The Series 2003C Bonds being refunded are due serially on January 1 of the years, in the amounts and bearing interest at the rates per annum as follows:

| CUSIP | YEAR | PRINCIPAL AMOUNT | INTEREST RATE |
|-----------|------|------------------|---------------|
| 167484X41 | 2020 | \$4,550,000.00 | 5.000% |
| 167484X58 | 2021 | 4,730,000.00 | 5.000 |
| 167484X66 | 2022 | 4,915,000.00 | 5.000 |
| 167484X74 | 2023 | 5,105,000.00 | 5.000 |
| 167484X82 | 2024 | 5,305,000.00 | 5.000 |
| 167484X90 | 2025 | 7,185,000.00 | 5.000 |
| 167484Y24 | 2026 | 7,525,000.00 | 5.000 |

(the "Refunded Bonds Series 2003C")

Call Date: January 1, 2014

Redemption Price: 100%

General Obligation Bonds, Project and Refunding Series 2004A

Original Principal Amounts: \$408,110,000

| | |
|-----------|--------------|
| 1674852F7 | \$ 8,520,000 |
| 167486FL8 | 3,530,000 |
| 1674852G5 | 8,965,000 |
| 167486LC1 | 4,590,000 |
| 1674843U6 | 12,190,000 |
| 1674844Q4 | 5,385,000 |
| 1674843V4 | 12,830,000 |
| 1674844R2 | 5,650,000 |
| 1674843W2 | 13,500,000 |
| 1674844S0 | 5,935,000 |
| 1674843X0 | 14,210,000 |
| 1674844T8 | 6,230,000 |
| 1674843Y8 | 14,920,000 |
| 1674844U5 | 6,545,000 |

Dated: August 24, 2004

Originally Issued: August 24, 2004

Escrow Agent, Bond Registrar and Paying Agent: Wells Fargo Bank, National Association

Principal Amount Refunded for the Taxable Series 2012B Bonds: \$ 4,450,000

Principal Amount Refunded for the Series 2012C Bonds: \$ 65,155,000

The Series 2004A Bonds being refunded are due serially on January 1 of the years, in the amounts and bearing interest at the rates per annum as follows:

| <u>TAXABLE 2012B SERIES</u> | | | |
|-----------------------------|------|------------------|---------------|
| CUSIP | YEAR | PRINCIPAL AMOUNT | INTEREST RATE |
| 1674852F7 | 2013 | \$1,480,000 | 5.250% |
| 167486FL8 | 2013 | 615,000 | 5.250% |
| 1674852G5 | 2014 | 1,555,000 | 5.250% |
| 167486LC1 | 2014 | 800,000 | 5.250% |

Call Feature: The foregoing Refunded Bonds Series 2004A are not callable before maturity.

[Continued next page]

| <u>2012C SERIES</u> | | | |
|---------------------|------|------------------|---------------|
| CUSIP | YEAR | PRINCIPAL AMOUNT | INTEREST RATE |
| 1674843U6 | 2020 | \$7,845,000 | 5.250% |
| 1674844Q4 | 2021 | 3,605,000 | 5.000% |
| 1674843V4 | 2021 | 8,330,000 | 5.250% |
| 1674844R2 | 2022 | 3,820,000 | 5.000% |
| 1674843W2 | 2022 | 8,835,000 | 5.250% |
| 1674844S0 | 2023 | 4,040,000 | 5.000% |
| 1674843X0 | 2023 | 9,675,000 | 5.000% |
| 1674844T8 | 2024 | 4,270,000 | 5.000% |
| 1674843Y8 | 2024 | 10,225,000 | 5.000% |
| 1674844U5 | 2025 | 4,510,000 | 5.000% |

Call Date: January 1, 2014

Redemption Price: 100%

General Obligation Bonds, Refunding Series 2005A

Original Principal Amount: \$441,090,000

| | |
|-----------|------------|
| 167485BL4 | \$ 455,000 |
| 167485BK6 | 2,485,000 |
| 167485BM2 | 37,160,000 |
| 167485BQ3 | 175,000 |
| 167485BS9 | 400,000 |
| 167485BP5 | 59,055,000 |

Dated: March 16, 2005

Originally Issued: March 16, 2005

Escrow Agent, Bond Registrar and Paying Agent: Wells Fargo Bank, National Association,
Chicago, Illinois

Principal Amount Refunded: \$ 72,690,000.00

The Series 2005A Bonds being refunded are due serially on January 1 of the years, in the amounts and bearing interest at the rates per annum as follows:

| CUSIP | YEAR | PRINCIPAL AMOUNT | INTEREST RATE |
|-----------|------|---------------------|---------------|
| 167485BL4 | 2013 | \$ 455,000.00 | 3.500% |
| 167485BK6 | 2013 | 2,485,000.00 | 4.000% |
| 167485BM2 | 2013 | 10,120,000.00 | 5.000% |
| 167485BQ3 | 2014 | 175,000.00 | 3.625% |
| 167485BS9 | 2014 | 400,000.00 | 4.000% |
| 167485BP5 | 2014 | 59,055,000.00 | 5.000% |

(the "Refunded Bonds Series 2005A")

Call Feature: Refunded Bonds Series 2005A are not callable before maturity.

General Obligation Bonds, Project and Refunding Series 2005B

Original Principal Amount: \$300,350,000

| | |
|-----------|-------------|
| 167486JL4 | \$2,915,000 |
| 167486JM2 | \$2,195,000 |

Dated: August 17, 2005

Originally Issued: August 17, 2005

Escrow Agent, Bond Registrar and Paying Agent: The Bank of New York Mellon Trust Company, N.A.

Principal Amount Refunded: \$4,285,000.00

The Series 2005B Bonds being refunded are due serially on January 1 of the years, in the amounts and bearing interest at the rates per annum as follows:

| CUSIP | YEAR | PRINCIPAL AMOUNT | INTEREST RATE |
|-----------|------|------------------|---------------|
| 167486JL4 | 2013 | \$2,445,000.00 | 5.000% |
| 167486JM2 | 2014 | 1,840,000.00 | 5.000 |

(the "Refunded 2005B Bonds")

Call Feature: Refunded 2005B Bonds are not callable prior to maturity.

General Obligation Bonds, Project and Refunding Series 2006A

Original Principal Amount: \$582,435,000

| | |
|-----------|-------------|
| 167486FJ3 | \$3,535,000 |
| 167486JX8 | 1,300,000 |
| 167486JY6 | 2,370,000 |

Dated: March 29, 2006

Originally Issued: March 29, 2006

Escrow Agent, Bond Registrar and Paying Agent: Deutsche Bank National Trust Company

Principal Amount Refunded: \$ 3,105,000.00

The Series 2006A Bonds being refunded are due serially on January 1 of the years, in the amounts and bearing interest at the rates per annum as follows:

| CUSIP | YEAR | PRINCIPAL AMOUNT | INTEREST RATE |
|-----------|------|------------------|---------------|
| 167486FJ3 | 2013 | \$1,525,000.00 | 4.000% |
| 167486JX8 | 2014 | 560,000.00 | 4.000% |
| 167486JY6 | 2014 | 1,020,000.00 | 5.000% |

(the "Refunded Bonds Series 2006A")

Call Feature: Refunded Bonds Series 2006A are not callable before maturity.

General Obligation Bonds, Refunding Series 2007A

Original Principal Amount: \$547,590,000

167486KL2 \$505,000.00

Dated: May 16, 2007

Originally Issued: May 16, 2007

Escrow Agent, Bond Registrar and Paying Agent: Wells Fargo Bank, National Association,
Chicago, Illinois

Principal Amount Refunded: \$ 205,000

The Series 2007A Bonds being refunded are due on January 1 of the year, in the amount and bearing interest at the rate per annum as follows:

| CUSIP | YEAR | PRINCIPAL AMOUNT | INTEREST RATE |
|-----------|------------|---------------------|------------------|
| 167486KL2 | 01/01/2013 | \$205,000.00 | 4.250% |

(the "Refunded Bonds Series 2007A")

Call Feature: Refunded Bonds Series 2007A are not callable before maturity.

General Obligation Bonds, Project and Refunding Series 2007C

Original Principal Amount: \$312,540,000

| | |
|-----------|-------------|
| 167485P54 | \$5,725,000 |
| 167485P62 | 6,550,000 |
| 167485P70 | 6,180,000 |
| 167485P88 | 5,350,000 |

Dated: November 8, 2007

Originally Issued: November 8, 2007

Escrow Agent, Bond Registrar and Paying Agent: Deutsche Bank National Trust Company

Principal Amount Refunded: \$ 23,805,000

The Series 2007C Bonds being refunded are due serially on January 1 of the years, in the amounts and bearing interest at the rates per annum as follows:

| CUSIP | YEAR | PRINCIPAL AMOUNT | INTEREST RATE |
|-----------|------|------------------|---------------|
| 167485P54 | 2013 | \$5,725,000 | 4.000% |
| 167485P62 | 2013 | 6,550,000 | 5.000% |
| 167485P70 | 2014 | 6,180,000 | 4.000% |
| 167485P88 | 2014 | 5,350,000 | 5.000% |

(the "Refunded Bonds Series 2007C")

Call Feature: Refunded Bonds Series 2007C are not callable before maturity.

General Obligation Bonds, Project and Refunding Series 2008A

Original Principal Amount: \$350,950,000

| | |
|-----------|-----------|
| 1674854Z1 | \$105,000 |
| 1674855A5 | 105,000 |

Dated: June 26, 2008

Originally Issued: June 26, 2008

Escrow Agent, Bond Registrar and Paying Agent: Deutsche Bank National Trust Company

Principal Amount Refunded: \$ 210,000

The Series 2008A Bonds being refunded are due serially on January 1 of the years, in the amounts and bearing interest at the rates per annum as follows:

| CUSIP | YEAR | PRINCIPAL AMOUNT | INTEREST RATE |
|-----------|------|------------------|---------------|
| 1674854Z1 | 2013 | \$105,000.00 | 3.250% |
| 1674855A5 | 2014 | 105,000.00 | 3.500% |

(the "Refunded Bonds Series 2008A")

Call Feature: Refunded Bonds Series 2008A are not callable before maturity.

SCHEDULE II
NOTIFICATION OF TAX ABATEMENT

STATE OF ILLINOIS)
) SS
COUNTY OF COOK)

NOTIFICATION OF TAX ABATEMENT

**\$179,905,000 GENERAL OBLIGATION BONDS, PROJECT SERIES 2012A
\$307,975,000 GENERAL OBLIGATION BONDS,
TAXABLE PROJECT AND REFUNDING SERIES 2012B
\$106,970,000 GENERAL OBLIGATION BONDS, REFUNDING SERIES 2012C
OF THE CITY OF CHICAGO**

To: The City Council of the City of Chicago and the County Clerks of The Counties of Cook and DuPage, Illinois

Please be advised that responsive to authority contained in an Ordinance (the "*Ordinance*") adopted by the City Council (the "*City Council*") of the City of Chicago (the "*City*") on March 14, 2012, authorizing the issuance of up to \$900,000,000 aggregate principal amount of general obligation bonds of the City plus original issue discount, the City issued its \$179,905,000 General Obligation Bonds, Project Series 2012A, \$307,975,000 General Obligation Bonds, Taxable Project and Refunding Series 2012B and \$106,970,000 General Obligation Bonds, Refunding Series 2012C (collectively, the "*Bonds*") pursuant to a Bond Purchase Agreement entered into with Mesirow Financial, Inc., as representative of certain underwriters on May 16, 2012, providing for the sale of the Bonds, by the City's Chief Financial Officer, with the concurrence of the Chairman of the Committee on Finance of the City Council, each of the Bonds being dated their date of issuance.

Capitalized terms used herein without definition have the meanings assigned to such terms in the Ordinance.

Notification of the sale of the Bonds to the City Council and of the determinations made by the Chief Financial Officer of the City with respect to the sale of the Bonds, the filing of the Bond Purchase Agreement, and the Official Statement for the Bonds, all as provided for or required by the Ordinance was made by the filing with the City Clerk of a Notification Of Sale issued by the Chief Financial Officer on the date of issuance of each of the Bonds and dated May 30, 2012.

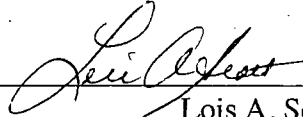
Please be further advised that Section 7 of the Ordinance provides for a direct annual tax in and for each of the years 2012 to 2052, inclusive, to pay the interest on the Bonds promptly when and as the same falls due and to pay and discharge the principal thereof at maturity. Pursuant to Section 12 of the Ordinance, please be further advised that the amount of the annual tax levy requirements for the payment of the principal of and interest on the Bonds resulting from the sale of the Bonds is less than the levy of taxes authorized in Section 7 of the Ordinance. I have determined that a reduction in the amount of the tax levy in the years 2012 to 2052, inclusive, is deemed desirable in connection with the sale of the Bonds. The amount of the

taxes levied in the Ordinance to pay debt service on the Bonds, the amount of the taxes to be abated resulting from the sale of the Bonds, and the remainder of the taxes levied which is to be extended for collection are as follows:

| LEVY YEAR | AMOUNT LEVIED IN BOND ORDINANCE | EXCESS LEVY TO BE ABATED | TAX TO BE EXTENDED FOR PAYMENT OF THE BONDS |
|-----------|---------------------------------------|-----------------------------|---|
| 2012 | \$150,000,000.00 | 144,808,900.00 | 5,191,100.00 |
| 2013 | 150,000,000.00 | 144,808,900.00 | 5,191,100.00 |
| 2014 | 150,000,000.00 | 119,084,448.00 | 30,915,552.00 |
| 2015 | 150,000,000.00 | 119,084,448.00 | 30,915,552.00 |
| 2016 | 150,000,000.00 | 119,084,448.00 | 30,915,552.00 |
| 2017 | 150,000,000.00 | 119,084,448.00 | 30,915,552.00 |
| 2018 | 150,000,000.00 | 106,964,448.00 | 43,035,552.00 |
| 2019 | 150,000,000.00 | 103,505,448.00 | 46,494,552.00 |
| 2020 | 150,000,000.00 | 103,451,698.00 | 46,548,302.00 |
| 2021 | 150,000,000.00 | 103,103,198.00 | 46,896,802.00 |
| 2022 | 150,000,000.00 | 103,063,698.00 | 46,936,302.00 |
| 2023 | 150,000,000.00 | 112,047,948.00 | 37,952,052.00 |
| 2024 | 150,000,000.00 | 114,960,448.00 | 35,039,552.00 |
| 2025 | 150,000,000.00 | 124,084,948.00 | 25,915,052.00 |
| 2026 | 150,000,000.00 | 124,084,948.00 | 25,915,052.00 |
| 2027 | 150,000,000.00 | 124,084,948.00 | 25,915,052.00 |
| 2028 | 150,000,000.00 | 118,569,948.00 | 31,430,052.00 |
| 2029 | 150,000,000.00 | 122,755,448.00 | 27,244,552.00 |
| 2030 | 150,000,000.00 | 79,489,048.00 | 70,510,952.00 |
| 2031 | 150,000,000.00 | 53,993,548.00 | 96,006,452.00 |
| 2032 | 150,000,000.00 | 70,270,798.00 | 79,729,202.00 |
| 2033 | 150,000,000.00 | 133,270,798.00 | 16,729,202.00 |
| 2034 | 150,000,000.00 | 133,270,798.00 | 16,729,202.00 |
| 2035 | 150,000,000.00 | 133,270,798.00 | 16,729,202.00 |
| 2036 | 150,000,000.00 | 133,270,798.00 | 16,729,202.00 |
| 2037 | 150,000,000.00 | 113,400,798.00 | 36,599,202.00 |
| 2038 | 150,000,000.00 | 86,225,136.40 | 63,774,863.60 |
| 2039 | 150,000,000.00 | 20,144,286.40 | 129,855,713.60 |
| 2040 | 150,000,000.00 | 20,149,948.80 | 129,850,051.20 |
| 2041 | 150,000,000.00 | 150,000,000.00 | 0.00 |
| 2042 | 150,000,000.00 | 150,000,000.00 | 0.00 |
| 2043 | 150,000,000.00 | 150,000,000.00 | 0.00 |
| 2044 | 150,000,000.00 | 150,000,000.00 | 0.00 |
| 2045 | 150,000,000.00 | 150,000,000.00 | 0.00 |
| 2046 | 150,000,000.00 | 150,000,000.00 | 0.00 |
| 2047 | 150,000,000.00 | 150,000,000.00 | 0.00 |
| 2048 | 150,000,000.00 | 150,000,000.00 | 0.00 |

| LEVY YEAR | AMOUNT LEVIED IN BOND ORDINANCE | EXCESS LEVY TO BE ABATED | TAX TO BE EXTENDED FOR PAYMENT OF THE BONDS |
|-----------|---------------------------------------|-----------------------------|---|
| 2049 | 150,000,000.00 | 150,000,000.00 | 0.00 |
| 2050 | 150,000,000.00 | 150,000,000.00 | 0.00 |
| 2051 | 150,000,000.00 | 150,000,000.00 | 0.00 |
| 2052 | 150,000,000.00 | 150,000,000.00 | 0.00 |

Respectfully submitted as of this 30th day of May, 2012.

A handwritten signature in cursive script, appearing to read "Lois A. Scott", is written over a horizontal line.

Lois A. Scott
Chief Financial Officer

SCHEDULE III
REFUNDED BONDS TAX ABATEMENT

To be filed with the City Clerk at a later date.