Building a New Financial Foundation for Chicago

I want to thank Laurence Msall and the Civic Federation for your partnership and for the clarity of your voice in helping to confront our financial challenges. I know we are all committed to restoring economic growth for all Chicagoans.

I last spoke to you on March 17th. As I said then and I will repeat today: we are not just balancing our budget for the sake of doing it, although we will achieve that. A balanced budget is not the sole goal. It is an essential step toward a larger goal – creating a conducive environment for job creation and economic growth for the City of Chicago.

Today I intend to lay out the further actions will take over the next four years to continue to restore the well-being of our fiscal matters.

The depth of the challenges we face, however, cannot be handled in a single speech or a single action.

They require a specific set of policies and a multi-pronged approach over a number of years. We will be back over the coming months to lay out the next steps we will take to confront and better manage our financial affairs.

As I have warned before, for too long Chicago lived beyond its means. The city spent money it did not have. Leaders made expensive promises they could not keep. And for too long, the city engaged in financial maneuvers to mask the true scope of the problems and the challenges.

The challenges we face include our annual deficit, our long-term debt, and our pension obligations.

None of these challenges will be simple or easy to solve. The hole we are in is too deep and it was dug over many, many years.

But I can promise you this: we will continue to make the hard choices and take the necessary steps to finally restore the health of our fiscal house and leave it in better shape than when we found it.

During the past four years, we have made progress by methodically changing the flawed and delinquent financial practices of the past.

By following a deliberate reform and invest strategy, we have begun the work of ending unsustainable financial practices, while continuing to invest in critical areas of education, transportation, and job creation.

We also needed a methodical approach because one of the most complicated and largest components of our legacy liabilities --the unfunded obligations of our pensions – required working with our partners in organized labor to reach an agreement and seeking legislative action by Springfield.

Despite that, we still achieved significant progress on pension reform. Our reforms will shore up the pension plans serving half of our city's workforce. They will make sure that retirees AND taxpayers are respected. They will solve around $12 billion of a $20 billion challenge.

And it is essential that we finish the job so that all four city funds are financially secured in a responsible way that respects both taxpayers and our employees.

Let me be clear. If we don't address those concerns, the consequences will be felt by everyday residents.

It would prevent us from making essential investments in public schools and public safety, roads and rails, parks and playgrounds.

Worst of all, failing to solve our financial challenges today would limit the investments we can make in our children and their education, which I want you to know are the single most important investments we can make in Chicago's future.

That is why every action that I will lay out today is about making sure that we can continue investing in our children.

By working together and doing the tough, but necessary things, we can build a solid foundation for job creation and economic growth to benefit every resident in every

neighborhood. That is our ultimate goal and balancing our budget in a responsible way is key to that strategy.

[Past Practices, Recent Progress, Plan Going Forward]

When I took office, the City of Chicago was fighting financial fires on multiple fronts.

We were reeling from the Great Recession, which had a significant impact on our financial well-being. But we were also reeling from the effects of one bad financial practice piled on top of another.

Sixteen years ago, the City of Chicago began to run an annual deficit in its operating budget. And for 16 straight years, the City ignored its growing deficit, borrowed more money, and turned to one-time revenues to pay day-to-day expenses.

It is like a family that spends more than their income can afford. Instead of changing their lifestyle and living within their means, they turn to credit cards.

The bills rack up. The high interest rates compound the problem. This goes on, year after year, until the credit card finally maxes out. That's where we are as a city today. Our credit cards have maxed out and we must adopt a different approach.

Over the past decade, the City's annual structural deficit grew each year, regardless of our economic conditions. The City's annual deficit ballooned from $122 million in 2000 to $654 million by 2011.

In the past four years, through cuts, reforms, additional revenue, and economic growth, we cut our annual structural

deficit each year. Today we have cut it by more than half, reducing it from $654 million to $297 million.

In addition, we decreased the use of one time revenues from $571 million in the year I took office to $38 million today. That is a reduction of more than 90 percent.

Today we have substantially slowed the growth of the city's long-term debt – taking it from 8 percent yearly growth rate in 2011 to only 3 percent today.

Let me give you some specific examples of what was happening before, the actions we have already taken to change course in the next four years, and the actions we <u>will</u> take over the next four years to limit these financial practices or end them.

First, starting in 2007, the City began using the financial practice known as "scoop and toss." It allowed the city to meet its short term funding obligations, but only by pushing debt out into the future--at a significantly higher cost to taxpayers. To be honest, we continued the practice. But now is the time to bring it to an end.

It grew from $50 million in 2007 to over $200 million today. Over the next four years, we will end it, starting with a reduction <u>by</u> $75 million next year.

Let me repeat that. What was once a more than $200 million bad practice will be reduced by $75 million next year and by 2019 we will eliminate it completely from the budget.

Second, starting in 2002, the city entered into swap transactions when issuing new debt. This exposed taxpayers to greater risk.

As of today, we have already terminated seven swaps and renegotiated 13, valued at over $1 billion, reducing hundreds of millions in taxpayer exposure and further putting us in charge of our financial future. This year, we will finally eliminate taxpayer exposure to the swaps on our general credit, building on our progress over the past four years.

Third, starting decades ago, the city began issuing variable rate debt. This put our finances at the mercy of changing economic conditions and rising interest rates.

Currently, we have over $900 million of variable rate debt in our general credit portfolio. In the coming weeks, we will begin converting it all to fixed-rate debt, eliminating taxpayers' exposure to the whims of the financial markets and potential spikes in cost.

Fourth, for a little over a decade, the city was paying the majority of its legal settlements and judgments by issuing 30-year debt, instead of using money from the annual budget like other cities do.

In addition, the City engaged in a series of very bad financial deals and transactions –where the risks were clearly underestimated – that are now requiring large lump sum payments from taxpayers.

We have been using short-term debt to pay the costs of these legacy liabilities we inherited– from the parking meter deal to the purchase of the Michael Reese property as part of the Olympic bid, to the Orange Line lease.

This has further ballooned our real deficits and escalated our debt burden.

Today we are paying down those debts – and using more of our annual budget to meet those obligations.

CITE EXAMPLE: As one example, at Laurence and the Civic Federation's suggestion, we took the necessary steps to begin setting aside budget funding for the costly Michael Reese loan repayments.

Fifth and finally, before I took office, the city was selling its assets and raiding long term reserves just to pay day-to-day expenses in our annual budget.

This began in 2009 with a $500 million withdrawal from the rainy day fund. It continued every year until 2011, totaling $1.2 billion worth of withdrawals of long-term rainy day funds to pay day-to-day operating expenses over three years.

Now think about that. The amount of money that we took from our long term reserves could have been used to eliminate overcrowding in many of our schools and bring air conditioning and science labs to every classroom and school in CPS. That is the true cost of poor financial management.

In every budget during the past four years, we have restored money into the rainy day fund. We will do it every year for the next four years. That is a good financial practice to adopt and it creates discipline in the budget.

Each of these five steps will require fundamental changes in how we spend money in our budget and where we spend it. But they are essential to building on the progress we've already made.

All of them are essential to achieving our ultimate goal of building a growing economy that creates jobs and brings

opportunities to every resident of our City, just as we saw yesterday with the new Method plant in Pullman.

We are starting to see some results of this hard work.

Today we are the number one city in America for corporate relocations for two years in a row.

Today we are the number one city in America for meetings and conventions.

Today we have the fastest growing Central Business District in America.

Today we are the number one metro area for direct foreign investment in America.

Today, our unemployment rate has gone from a high of 12.2 percent to 7.1 percent today. That is the largest drop of any major American city following the recession and we have created more than 73,000 jobs during the past four years. That is without sitting on top of shale oil or gas reserves or being Silicon Valley.

[Scorecard]

The past four years were a start. But now we must finish the job of righting the ship and putting Chicago's economic future on a stronger path going forward.

To recap, here are the steps we will take over the next four years in each budget. I want you to evaluate each budget against this scorecard which I have laid out and hold us accountable.

First, we will finally bring Scoop and Toss to an end.

Second, we will eliminate the taxpayers' exposure in our general credit swaps.

Third, we will eliminate taxpayers' exposure to general variable rate debt.

Fourth, we will pay more of the costs of our settlements, judgments, and legacy liabilities through our annual budget.

Fifth, we will continue to restore money into the rainy day fund.

[Closing]

There is more we need to do. It will require more aggressive reforms and more shared sacrifice.

To meet the five pledges I have made, we will continue to go line-by-line in the budget, asking the key questions about how we spend our money and how we provide essential services before I ask the taxpayers to do any more.

We will also continue working with our partners to solve our pension crisis using the same model of reform and revenue.

Every step we take is aimed at restoring confidence in the fact that the City of Chicago is willing to face up to its future.

It bears repeating: we are not just fixing our fiscal mess because it is the right thing to do. We are doing it to support our larger goal of creating jobs for all of our residents and restoring economic growth to all of our neighborhoods.

That remains the ultimate goal. By working together and making the hard choices today, we will build a solid foundation for economic growth in the future – and we will make Chicago's future even better than our past.

Thank you.