

STATEMENT FROM BUDGET DIRECTOR ALEX HOLT ON 2014 BUDGET PROPOSAL  
CITY COUNCIL COMMITTEE ON THE BUDGET AND GOVERNMENT OPERATIONS  
MONDAY, OCTOBER 28, 2013

Good morning, Chairman Austin, Vice Chairman Reilly, members of the Committee on Budget and Government Operations, and the other members of City Council. Thank you for allowing me to join you today to discuss Mayor Emanuel's proposal for the 2014 budget.

In 2011, the City faced a projected deficit of \$790 million for 2014. In the last two budgets that structural deficit has been cut by more than half, to \$339 million. And not only have we cut our structural deficit in half, but – because of the reforms we have put in place – we have balanced our budget for the past three years without any increase in property, sales, or gas taxes.

As with the 2013 budget, the proposed 2014 budget makes a significant investment in the education, health, and safety of the children of Chicago. It also invests in the neighborhood services and in the neighborhood businesses across the City that are so vital to providing local jobs and keeps communities strong.

In addition, the City continues to build its "Rainy Day" fund, enhancing the City's long-term financial stability - something the administration has done each of the past three years. The 2014 proposed budget invests \$5 million into the "Rainy Day" fund, following on the \$15 million investment made in the 2013 budget, and a \$20 million investment made in 2012.

Last week, Mayor Emanuel signed an Executive Order that formalizes this practice by requiring that 10 percent of the unreserved fund balance be deposited into the City's "Rainy Day" fund to be used for future unanticipated expenses.

### **OVERVIEW**

The budget process began in July with the announcement of a \$339 million budget gap for 2014. The recommendation before you presents a balanced budget for 2014. The total net appropriations under the 2014 budget proposal are \$6.98 billion across all local funds. With an additional \$1.69 billion in anticipated grant resources, the total proposed City budget for 2014 is \$8.67 billion.

The \$339 million corporate fund gap was closed through spending reforms and cuts, improved revenue growth, and fiscal discipline – specifically: \$40 million in non-personnel savings, including reductions in waste disposal, lease, and telecommunication costs; \$26 million in healthcare and other personnel savings; \$101 million in revenue from growth in economically sensitive revenues and children's safety zones; \$35 million from sweeping aging revenue accounts and grant funds; \$30 million from TIF surplus and capturing property value; \$34 million in targeted revenue enhancements; \$18.7 million through proper allocation of costs to enterprise and grant funds; and \$53.4 million from 2012 and 2013 surplus due to effective spending controls.

## **REVENUES**

The 2014 revenue projections reflect modest growth in our economically sensitive revenues, mirroring the growth in the national and local economy.

We are projecting to end 2013 with revenues approximately 3 percent above budgeted expectations. This additional revenue is primarily the result of strong performance in sales, income, hotel, and real property transfer taxes. Our 2014 projections anticipate a continuation of this trend of modest growth over the 2013 year-end estimates.

Transaction taxes derived in part from real estate transfers and lease or rentals of personal property are up to \$285 million in 2014, 5 percent over the 2013 budget. This anticipated increase is due in large part to continued growth in the housing market. Real property transfer tax (RPTT) revenues are up almost 30 percent through September 2013 as compared to the same period in 2012 and are expected to continue to increase through the end of 2013. Projections for 2014 anticipate additional growth in home sales and prices, as well as RPTT revenues.

Public utility taxes such as gas, electricity, and telecommunication taxes are expected to generate approximately \$450 million in 2014, down slightly from the 2013 year-end estimate of \$458.2 million, and accounting for 14 percent of the total projected corporate fund revenue. In 2014, telecom taxes are expected to continue their downward trend as the City completes the payment of certain credits to telecom services providers for taxes charged on services that were later determined to be non-taxable.

Hotel tax revenues are up \$5 million over budget year-to-date. This growth is the result of increasing tourism and business travel to Chicago – as of the end of August, revenue per available room was up 5 percent and occupancy rates up 2 percent. This growth is expected to continue in 2014 with hotel taxes expecting to grow another 6 percent over 2013 year-end.

Finally, sales tax and income tax revenues are projected to end 2013 substantially above budget. Income tax collections by the State through September are up 10 percent from last year, and modest growth is anticipated in both corporate and individual income tax revenues in 2014. Our 2014 projections also anticipate that sales tax revenues will show growth over 2013 year-end estimates.

## **SAVINGS AND EFFICIENCIES**

Over the past three years we cut the structural deficit from \$790 to \$339 million through reforms that reduced the cost of City services and made government run more efficiently. The 2014 proposal once again plans to implement forward-thinking changes and reforms to close the gap, such as \$40 million in savings by instituting efficiencies in City expenditures and services and reducing departmental non-personnel spending.

The City eliminated vacancies and put into place a 90-day rolling hiring freeze on non-essential positions to save \$2 million in 2014. Over the past two years, we have evaluated each position that becomes vacant to determine if it is necessary for maintaining City services. This has resulted in the elimination of

over 2,000 vacancies that would otherwise divert resources from critical needs. And we will continue this reassessment process.

The City will also realize savings after moving offices from leased spaces to City Hall and other downtown buildings; switching cellular phone carriers and eliminating unused landlines; re-negotiating contracts; and collaborating with Cook County to eliminate redundancies, coordinate service delivery, and leverage economies of scale through joint procurement and enforcement efforts.

The City's transition to the grid system for garbage collection is expected to result in more than \$18 million in annual savings. These savings helped to fund the implementation of citywide recycling, which further reduced expenditures for waste disposal as more people are recycling.

The proposed 2014 budget also reflects savings from changes to the City's HMO insurance program that will not impact the level of care but will provide savings for taxpayers as well as the first year of a three-year phase-out of City funding for healthcare benefits for some retirees. . These changes to healthcare costs will save upwards of \$24 million in 2014, with additional savings achieved in 2015 and 2016.

## **KEY INVESTMENTS**

### **Children's Health**

The 2014 budget makes critical investments in the health of the City's children by expanding their access to health care. In 2013, the City budget included funding to provide eye exams and eyewear to 30,000 Chicago Public Schools students who would not otherwise have access to these services. The 2014 budget nearly doubles this number by providing funding to provide these vision services to 45,000 CPS students. Further, the 2014 budget seeks to expand health services to more than 15,000 uninsured CPS students by investing \$500,000 to help enroll them in Medicaid. These investments in our children's health will be funded through the proposed 75 cent increase in the cigarette tax.

### **Afterschool and Summer Programs**

The proposed 2014 budget establishes the "Children's Fund," a protected fund supported by an anticipated \$65 million to \$70 million in revenue from children's safety zones. As the federal government continues to cut funding for children, including a \$7 million reduction in Head Start funding, we will be able to not just maintain but expand our investment in early childhood education and after-school and summer programming for children and youth, including:

- \$13 million in afterschool opportunities for nearly 16,000 kids. This is a 25 percent increase in funding since 2011, and allows the City to serve 3,000 more children.
- \$14.5 million in summer jobs for more than 12,000 youth, more than doubling the number of children served by City-funded programs since 2011.

- \$11 million in early education opportunities, part of a three-year, \$36 million investment announced last year that will provide early education to 5,000 kids.

### **Public Safety**

In 2013, more than 740 officers will graduate from the Police Academy and begin foot patrol in the neighborhoods that need them most. This proposed budget ensures that Chicago's police force remains at full strength by funding another full year of academy graduates in 2014. It also invests in community policing in impact zones across Chicago, with a focus on youth and violence prevention.

### **Small Business and Neighborhood Growth**

The City has seen great success with its microlending initiative, which has provided more than 100 small businesses with microloans. The proposed 2014 budget expands the microlending initiative in partnership with the City Treasurer's Office to help support 300 businesses by 2016.

To help families, a pilot program will be launched that will pay out the Earned Income Tax Credit in advanced quarterly payments. This will provide an option for struggling families who need money before tax season to make ends meet. The program will serve 500 working families that participate in City and Chicago Housing Authority financial empowerment programs.

This budget also increases the City's investment in Family Net Centers, which last year provided 5,000 residents in five neighborhoods with training in technology skills such as using email, online banking, common business and productivity applications, online research, and accessing government services. In 2014, the City will work with community partners to more than double the number of residents served by adding seven new Family Net Centers – each capable of serving roughly 1,000 residents each year.

This proposed budget increases neighborhood services by providing an additional \$3.9 million in funding for tree removal, tree planting, rat abatement, tree trimming and graffiti removal. 2014 will also be the first full year of citywide recycling, with service in every community across Chicago. And this budget continues to invest in core City infrastructure through the full-scale rehabilitation of our aging water and sewer systems, as well as investments in roads and public transit throughout the city.

### **CONCLUSION**

The 2014 proposed budget builds on the progress made over the past three years. It further reforms the way government operates. And it holds the line on property, sales, and gas taxes, while at the same time continuing to make critical investments that support children, benefit families, and promote safe neighborhoods. I look forward to continuing this progress with you over the next year.



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