

STATEMENT FROM BUDGET DIRECTOR ALEXANDRA HOLT ON 2015 BUDGET PROPOSAL TO THE CITY COUNCIL COMMITTEE ON THE BUDGET AND GOVERNMENT OPERATIONS

MONDAY, OCTOBER 20, 2014

Good morning Chairman Austin, Vice Chairman Reilly, members of the Committee on the Budget and Government Operations, and other members of the City Council. Thank you for allowing me to join you today to discuss Mayor Emanuel's 2015 budget proposal.

In 2012, the City faced a projected deficit of \$580 million by 2015, but over the course of the last three budgets, that structural deficit has been cut in half to \$297 million. With your help, this has been accomplished through numerous reforms and efficiencies, and without increasing property, sales, or gas taxes.

As with the 2014 budget, the 2015 budget proposal continues to make significant investments in the education, health, and safety of Chicago's children, as well as support neighborhood services and businesses throughout the City.

The 2015 budget proposal again seeks to enhance the City's long-term financial stability through an additional \$5 million investment in its "Rainy Day" fund, building on the \$40 million invested since 2012.

OVERVIEW

The budget process began in July with the announcement of a gap of nearly \$300 million for the coming year. The recommendation before you, however, presents a balanced budget for 2015. Total local fund appropriations under the proposal are \$7.3 billion. When including an additional \$1.6 billion in anticipated grant resources, the total proposed budget for 2015 reaches \$8.9 billion.

The gap in the City's corporate fund was closed through savings, reforms, revenue growth, and fiscal discipline. These measures include \$54.5 million from closing tax loopholes and targeted revenue enhancements, \$49.7 million in non-personnel savings and spending reforms, \$27.2 million in healthcare savings, \$27.0 million from sweeping aging revenue accounts and grant funds, \$26.1 million from improved debt collection, \$17.6 million from Tax Increment Financing reform, and \$15.9 million from more accurate cost allocation to enterprise and grant funds.

REVENUES

The 2015 projections reflect modest increases in the City's economically sensitive sources, which is consistent with the steady expansion in both the local and national economy. As a result, revenue is estimated to grow in 2015 over 2014.

Transaction taxes, such as the real property transfer tax and the personal property lease tax, are expected to generate \$326 million, 10 percent above the 2014 year-end estimate. The 2015 forecast assumes a personal property lease tax rate increase of one percent, and expects transaction tax revenue will be bolstered by positive economic trends, continued low interest rates, and improved credit availability and housing inventory.

Recreation taxes, which include taxes on amusements, are projected to increase by 10 percent in 2015 to \$205 million. The growth is due in part to the elimination of certain tax exemptions, including the partial amusement tax exemption currently received by cable companies. In addition, the City will eliminate the partial amusement tax exemption currently applied to skybox and other special seating packages.

The City's business taxes, such as the hotel tax, are projected to increase by 11 percent in 2015 to \$111 million. The extreme weather of last winter slowed travel activity and hampered hotel occupancy, but estimates for 2015 are strong, building on the growth of the past years. Industry forecasts anticipate nearly 2 percent growth in occupancy, and an increase of more than 6 percent in daily room rates. Additionally, the 2015 budget will capture revenues from the online resale of hotel rooms.

Revenue from income tax and the corporate fund's portion of the personal property replacement tax—known as PPRT—is projected to increase in 2015. Much of the increase is the result of a change in how the City budgets its PPRT revenue, all of which will flow into the corporate fund in the coming year. A portion of the increase is, however, due to year-over-year growth in wages, capital gains, and corporate profits.

SAVINGS AND EFFICIENCIES

In addition to revenue increases, the 2015 budget proposal was balanced by savings and efficiencies across multiple departments.

Reforms in personnel and non-personnel spending accounted for \$81 million in savings. Many departments reduced expenses in areas such as outside professional services, transportation costs, and materials and supplies; and the City also consolidated IT systems and software licenses used by multiple departments.

The 2015 budget proposal also includes savings from lease consolidations and reduced energy costs, as well as the sale of excess City-owned land.

Changes in the City's healthcare policy, which include restructuring its HMO and PPO plans in cooperation with our labor partners, and the second year of the three-year phase-out of its retiree subsidy, led to \$27 million in savings in the corporate fund.

KEY INVESTMENTS

Youth and Family Services

The 2015 budget continues to invest in programs and services for children, youth, and vulnerable populations.

This includes an additional \$2 million to fund the expansion of summer job and after-school opportunities for Chicago's youth. With this investment, nearly 17,000 children will have quality after-school opportunities, 30 percent more than when Mayor Emanuel took office in 2011.

An investment of \$16 million for summer jobs will also allow the City and its government partners to bring summer employment to 24,000 youths, more than 70 percent above the level in 2011.

In addition, the 2015 budget proposal builds on the Mayor's three-year, \$36 million investment in early-childhood education with \$15.5 million in funding for early-education opportunities. The budget delivers on Mayor Emanuel's commitment to provide free, universal pre-kindergarten education to four-year-olds from low-income families. This investment will guarantee free pre-K for the 25,000 four-year-olds who qualify for the federal free or reduced student lunch program by next Fall.

Furthermore, the 2015 budget proposes to expand services for the City's most vulnerable citizens, with increases to the number of beds and services available for homeless families, additional programs to provide mental health services for young victims of sexual assault, and funding to offer legal assistance to unaccompanied migrant children arriving in Chicago.

The budget will also leverage \$4 million in federal funds on top of \$800,000 in local funding to end homelessness among veterans in Chicago by the end of 2015.

Public Services

Through an additional \$10 million investment, the 2015 budget proposal doubles year-round staffing for pavement maintenance and pothole repair, enabling workers to fill potholes throughout the year, rather than just seasonally.

This budget will also support the planting of 7,800 trees in 2015, a 25 percent increase over the prior year, as well as expand tree-trimming resources, allowing five crews to work over 30 weekends.

Additionally, the 2015 budget seeks to increase graffiti crews to allow for 100 additional jobs every day, and supports a 30 percent increase in the number of rodent crews.

Economic Development

To encourage economic development, the 2015 budget proposes to invest \$200,000 and leverage additional private funding to launch an initiative to match at least 1,000 qualified job seekers to open manufacturing positions. These funds will also link residents who need additional skills to programs that can result in full-time employment, and support the placement of more than 50 formerly-incarcerated residents to quality manufacturing positions.

CONCLUSION

The Mayor's 2015 budget proposal builds on the progress we have all made over the past four years by making our City government smarter and simpler.

It streamlines the City's operations while still holding the line on property, sales, and gas taxes, and increases the critical investments that support children, benefit families, and promote small businesses.

I look forward to working with you to continue the progress we have made.

OBM

