

**STATEMENT FROM CHIEF FINANCIAL OFFICER CAROLE BROWN ON 2016 BUDGET PROPOSAL
TO THE CITY COUNCIL COMMITTEE ON THE BUDGET AND GOVERNMENT OPERATIONS**

Monday, September 28, 2015

Chairman Austin, Vice Chairman Ervin, members of the Committee on the Budget and Government Operations, and members of the City Council. Thank you for the opportunity to present the financial strategies included as part of Mayor Rahm Emanuel's proposed 2016 budget.

As you know, as a member of the Mayor's Office, the Chief Financial Officer has primary responsibility for the City's overall financial policy and day-to-day oversight of our interface with the rating agencies and the banking and investment community. My office also serves as the City interface to the Chicago Infrastructure Trust and oversees our agreements with the private operators for the Skyway, the Parking Meters and the Parking Garages. In addition, my office also maintains primary responsibility for Municipal Marketing and the Chicago Digital Network.

Since joining the Mayor's Office in May of 2015, I have been primarily focused on the fiscal challenges that have stunted Chicago's financial progress and prevented the City from stabilizing and funding our pension obligations. The Mayor's 2016 budget proposal takes substantial steps to addressing these challenges.

Past Four Years

In 2011, Chicago was reeling from the Great Recession, which caused companies and families to leave Chicago and the unemployment rate to top 12%. The City also found itself managing a growing deficit driven by years of bad financial practices.

When Mayor Emanuel came into office, he rejected the idea that drastic cuts were necessary to improve Chicago's finances. The Mayor knew that drastic cuts would have caused further shocks to the economy and hurt the fragile recovery that was underway.

The Mayor instead focused on reforming government, making smart and strategic cuts, while also investing in the things that lead to economic growth – education, transportation, and job creation.

As a result of this “reform and invest” strategy, Chicago has made significant progress over the last four years:

- Unemployment rate has been cut in half
- Companies and families are moving to Chicago
- Structural deficit has been cut by more than half
- Risky financial practices of the past have been reduced or completely eliminated

The 2016 budget continues to move Chicago forward in a balanced way and builds upon Mayor Emanuel’s roadmap to fiscal reform outlined this spring.

Roadmap to Fiscal Reform

In April 2015, Mayor Emanuel outlined five actions that will be implemented as part of the City budget each year to reform unsustainable financial practices of the past, eliminate hundreds of millions of dollars of risk to taxpayers, and strengthen Chicago’s economy.

The five steps include:

- Terminating swaps
- Converting all of the City’s general obligation variable-rate debt portfolio to fixed-rate
- Ending the practice of “scoop and toss” by 2019
- Continuing to increase funding within the operating budget for legal settlements and judgments and other short-term obligations, and
- Continuing to build the City’s long-term rainy day fund

Swaps and Variable Rate Debt

This summer, the Mayor delivered on a two key pieces of his roadmap by completely eliminating the risk associated with the City’s variable-rate debt and interest-rate swaps. The City took the step of terminating the swaps and converting all of our general obligation and sales tax variable-rate debt into stable, fixed-rate bonds payable over the next 20 to 40 years.

We are working to eliminate the practice across all our bonds. Just last week, this Council approved up to \$125 million of second lien sewer revenue bonds. This approval will allow the City to convert existing variable-rate bonds to a fixed-rate mode and to terminate swaps used to hedge interest-rate risk.

“Scoop and Toss”

Beginning in 2007, the City started the financial practice of “scoop and toss”. It allows the City to meet short term funding obligations by pushing debt off into the future—at a significantly higher cost to taxpayers. The practice grew from \$50 million in 2007 to over \$200 million today. Under Mayor Emanuel, the City will end the practice of “scoop and toss” over the next four years. With the 2016 budget, the City will reduce the use of “scoop and toss” by \$100 million.

Operating Budget

Over the past four years, the City has imposed greater fiscal discipline by working to end the practice of using long-term bonds to pay for working capital.

Since 2012, the City has transferred \$41 million in working capital and \$161 million in retroactive payment increases from long-term bonds to the operating budget. New in 2016, the City has transferred library books and publications (\$7.5 million) and boarding up abandoned properties (\$3 million) from the long term debt to the operating budget. Also with the 2016 budget, we are increasing the operating budget for settlements and judgments by 25 percent.

Rainy Day Fund

Before Mayor Emanuel took office, the City was raiding long term reserves to pay for day-to-day expenses in the annual budget. This began in 2009 with a \$500 million withdrawal from the rainy day fund. It continued with every year until 2011, totaling \$1.2 billion worth of withdrawals from long-term rainy day funds to pay day-to-day operating expenses. Now, in every budget—including the 2016 budget—the City is rebuilding its reserves in order to enhance long-term stability. Since 2012, the City added \$45 million into the rainy day fund and will continue to build its reserves over the next four years. With the 2016 budget, Mayor Emanuel will add \$5 million to the rainy day fund.

Pensions for Our First Responders

Chicago’s unfunded pension liabilities are the largest of our legacy liabilities. In 2016, the City’s total contribution across all four pension funds is \$978.3 million.

The bill for our police and fire pensions has come due, and we are meeting that obligation by securing a stable funding source that allows the City to maintain quality services funded out of our operating budget, while also paying our pension contributions.

Mayor Emanuel's 2016 budget includes a phased-in property tax increase over four years solely dedicated to police and fire pension funds. By dedicating the increased property tax revenue to police and fire pension contributions, the City is providing much needed financial certainty for our business community and taxpayers. We are signaling that we are serious about addressing our financial challenges without sacrificing economic growth and stability.

In fact, days after the Mayor introduced his 2016 budget proposal, the market responded quickly and favorably with yields on the City's general obligation debt declined 40 to 60 basis points.

Conclusion

The City's difficulties can't be reversed overnight. It took decades to build the mountain of debt and the substantial structural budget deficit that Mayor Emanuel inherited.

The 2016 budget coupled with the financial progress made to reduce the risk associated with our financial practices have substantially improved Chicago's financial stability.

Thank you.