



OFFICE OF THE CHICAGO CITY TREASURER
KURT SUMMERS

2016 Proposed Budget Testimony
September 29, 2015

Good Morning, Madam Chair and honorable members of the City Council.

I am so grateful to be with you today for my first budget hearing as Chicago's City Treasurer.

Just ten months ago I committed to each of you here, and to Our Chicago, that as your Treasurer, I would transform the Chicago City Treasurer's Office by focusing on three things: providing taxpayers with greater transparency and efficiency, ensuring a responsible investment approach and maximize returns, and driving value for residents in each of Chicago's 77 neighborhoods. Today I will provide our progress on those goals and lay out remaining challenges to ensuring the Treasurer's Office is investing in Our Chicago and is able to reach its full potential. With the right resources in place, the goal of our 2016 budget is decrease our office's reliance on taxpayer dollars and drive value for residents in each of Chicago's neighborhoods.

To provide some context, as Chicago's Treasurer, I serve as the City's **banker, investor and advocate** to empower young people, workers and small business owners. My office also develops and oversees programs that promote economic growth and financial education. The Treasurer is also the steward of Chicago's **\$7 billion dollar investment portfolio** which is made up of operating funds, reserve accounts, bond proceed funds, assets belonging to the Board of Education, and small cash positions for some of the City's pension funds. In this capacity, I am responsible for maintaining records and accounts of the City's finances while ensuring transparency and accountability for all of the City's transactions. In addition, the Treasurer serves as a trustee or fiduciary on five of the City's public employee pension boards with nearly \$25 billion under management.

Many of you will remember that upon my appointment, I launched a listening tour to meet residents, business owners and community leaders in each of Chicago's **77 neighborhoods in just 77 days**. I also released a **90-Day Plan** that has served as a roadmap to transform the Treasurer's Office. The plan is focused on leveraging Chicago's economic power to increase investment in its residents, workers, businesses and neighborhoods. The ideas and findings in that document were driven by the voices of more than a thousand individuals I met while visiting each community and I continue to use it as a guide and reference every day.

From Englewood to Edison Park and Rogers Park to Roseland, the individuals I met during those 77 visits provided invaluable insight to the current challenges their communities face and the potential opportunities for future economic growth. These representatives now serve as **Thought Leaders** – or neighborhood representatives – who stay in touch with me and my staff on a monthly and sometimes weekly basis. We hold monthly Thought Leader calls and, in July, held our first in-person meeting right here in Council Chambers.

One of the critical functions of the Treasurer's Office is the financial reporting and accounting division for the City.

For years, the City Treasurer's Office had used the 90 Day Treasury-Bill as its official benchmark for its investment portfolio even as their investment guidelines expanded to allow for longer duration and higher yielding securities such as municipal and corporate bonds. As the City's investment portfolio shifted its allocation to reflect these changes, the T-Bill was no longer a useful benchmark to judge their performance.

This year, our investment team created **custom benchmarks** for each of our three portfolios that are a better suited to reflect our investment guidelines and give our portfolio managers a more accurate and helpful method to judge their investment decisions.

To give an example, for every billion dollars we invest, we can expect a yield of \$9.2 million. Using the previous benchmark, the yield we would expect is \$100,000.

By working with the Department of Finance and the Office of Budget and Management to develop a more comprehensive picture of the City's cash flow and liquidity needs, the Treasurer's Office investment staff has been able to begin implementing a new duration-matching strategy that allows us to ensure all assets are put to their best use.

Despite headwinds from a challenging market and without an investment team at full capacity, at the end of August, the Treasurer's Office has earned **\$32.2M** and is on target to earn **\$50.8M** by the end of this year.

Our most recent audit opinion was clean as were the audits of previous years. As of August 3, the Treasurer's Office has accumulated \$1.4 million in earnings credits from deposit balances that have been held across six Municipal Depository Banks. By managing our balances with municipal depository banks, we are able to offset all of our banking fees.

Diversity is important to our office. Since the beginning of this year our investment staff has used MWDVBE broker/dealers to complete 61% of our trades.

We've also focused on driving value through action by way of many new initiatives led out of our office.

A promise first made when I became Treasurer was to lower the cost of fees our pension funds are paying to investment managers. Our **pension fee savings plan** has the potential to save our pension funds more than **\$25-\$50 million** a year or **\$1 billion** over the lifetime of the plans. In the last few weeks, we announced that more than half of the City's 11 public employee pension funds have signed on to this proposal and our next step is to launch a clearinghouse where the funds can share information on how much they pay in fees and work together to lower those fees. The clearinghouse will be up and running at the beginning of next year.

Through **our CTO Advantage Program**, the Treasurer's Office manages the portfolios of sister agencies with a goal of boosting returns. This is the Treasurer's Office lending our expertise and best practice to sister City agencies. What that meant for the Chicago Park District was an additional \$450k to their bottom line last year. We recently expanded that program and signed an agreement with the PBC to start managing their portfolio and we hope to start the same partnership with CPS soon.

The first of its kind in the nation, our new **Quarterly Earnings Call** enhances transparency on the City's investment portfolio. We've gone from reporting the status of our portfolio once a year, to four times a year. More than 500 participants from all over the nation dialed-in to our first two calls. The call is free, it's open to the public and it's a new and interactive way of ensuring Chicagoans and investors have a glimpse into the City's finances on a quarterly basis.

Financial education is another critical function of the Treasurer's Office. In March, we launched the City's first-of-its-kind financial education plan. Led by the Treasurer's Office, the Chicago Financial Education Initiative brings together several City agencies together for the first time to develop and enact a plan to make financial education accessible to all youth, parents, and community members in Chicago. The plan calls for a two-part strategy for financial education -one that builds capacity in schools as well as in the community. U.S. Secretary of Education Arne Duncan joined us for the launch and lauded Chicago a "model City" for this coordinated and comprehensive effort.

We also recently announced new plans to establish the City's first **financial empowerment centers**. Utilizing a \$250,000 grant from Citi Community Development, new financial empowerment centers will be located in underserved communities to provide advice, resources and assistance to all Chicagoans. We've also received an In-Kind Technical Assistance Grant valued at \$150,000 from the CFE Fund to replicate successful evidence-based best practices in the new financial empowerment centers. Together, both investments will enable Chicago to deliver free, one-on-one financial counseling by trained professionals to residents with low incomes.

Throughout the summer, we mobilized our banking partners to attend 116 of the Mayor's **One Summer Chicago** community worksite orientations to provide banking information and products to thousands of youth. By having bank representation on-site at One Summer Chicago orientations, more than 3,000 youth signed up for banking and checking accounts and direct deposit, helping teens learn about healthy savings practices and avoid unnecessary fees at check cashing sites. Providing information on good banking practices prompted One Summer Chicago youth to save \$4.2 million for their future goals.

As we all know, **small business** is the backbone of our local economy, however access to capital remains a challenge for business owners and entrepreneurs. For the second year in a row, we are partnering with the Chicagoland Chamber of Commerce, Crain's Chicago Business and Loyola's Quinlan School of Business to survey small business owners throughout Chicago to understand the challenges they face. Our office will use that data to help create solutions and drive value to small business owners.

The Treasurer's Office has also begun to work with the Department of Procurement Service to further develop their annual **financial symposium** which will allow for financial institutions and small business owners to come together under one roof to discuss access to capital opportunities. Additionally, we are working with the Chicago Public Library to launch **neighborhood business workshops** within many of the local library branches. This allow for small business owners to access free business resources right in their own neighborhoods.

This year, the Treasurer's Office has partnered with the BACP on their highly successful and well-attended Small Business Expo to host the event's **Networking Hour**. We've invited local networking experts to present at the expo and share with attendees on why connecting is critical for growing a small business. We're also in partnership with World Business Chicago to develop small business resources and worked to cross-promote the good work of Tech Week and the Chicago Innovation Awards.

Later this year, the Treasurer's Office will be launching **community events** in Chicago's 77 neighborhoods which will be hosted in partnership with different community organizations.

These events aim to put resources like banking products, small business resources and economic development plans right in the hands of our small business owners, right in their own backyards.

And finally, our efforts around the **municipal depositories ordinance** will help ensure transparency of local lending practices for banks who do business with the City. An important first step was advanced just in the last several weeks, when the City issued its RFP for banking partners requiring banks to submit detailed information about their community investing track record, among other details important to gauge their commitment to Chicago's communities. I want to thank the Mayor and members of the City Council for your support and look forward to continue to work with you on passing an ordinance in the months and year to come, which will hold all future treasurers to the same high standard.

While the hard work has begun and we've made great strides as a new administration, **many roadblocks remain** to a complete transformation.

Throughout the course of this year, my team has evaluated past practices and identified a number of long-standing, systemic challenges that block the way to the Treasurer's Office reaching its full potential. Some of the largest challenges include a 33-year-old treasury system and the lack of a regulatory compliance function. **Without proper resources**, we are not able to perform daily market analysis nor are we able to reconcile all of the City's accounts on a daily basis. In today's 24/7 global markets, that capacity is critical to our office being able to maximize the City's returns and do our part to help address today's unprecedented fiscal situation.

Working closely with other City finance departments, we took these challenges as opportunities to transform the office and provide transparency for Chicagoans.

For example, previously our **\$3 billion operating portfolio** had been sitting in one fund, losing out on the opportunity to generate increased returns. This is the working capital, basically the cash on hand that the City uses to make sure we can meet our financial obligations. After analyzing national best practices, we found that the ideal amount of cash on hand in a municipality is \$1 billion. As a result, as much as \$2 billion has been made available to invest in higher performing assets.

By reallocating the investment of working capital, we have been able to project an increase in operating returns from \$14 million to \$30 million. **In other words, the cost of doing nothing with that cash was \$16 million annually.**

We also saw an opportunity to modernize the City's investment strategy by diversifying our portfolio, adjusting duration, created a first ever minimum credit quality rating for the portfolio (previously, there had been no maximum risk for the portfolio) and adopting a responsible benchmark. The City Council adopted these important changes last week and I'd like to thank you for your support and leadership, which we believe will result in a projected **\$10.1 million** of additional income over the coming year. Overall, the Treasurer's Office is projecting **\$77.6 million** dollars in total investment income across all funds by the end of 2016—up **\$30-\$40 million** from previous years. As Mayor Emanuel mentioned in his remarks last week, this will have a direct impact on the City's bottom line.

In summary, our proposed budget cuts the Chicago City Treasurer's Office tax-supported funding by nearly 30%. In the 2016 budget, I recommend a shift to become a self-supported revenue center and ensure the taxpayers of the City of Chicago no longer subsidize enterprise funds like O'Hare and Midway through the Treasurer's Office. Instead, the cost benefit will be aligned so that those who benefit will bare the cost. **This additional allocation will put an end to taxpayers subsidizing enterprise funds, while also allowing the Treasurer's Office to address outstanding systemic issues.**

And, as I mentioned, with our increased return projections there is more than enough room to accommodate this transition.

With the **right-sized staff** and IT resources in place, the Treasurer's Office can do more to drive value in each of Chicago's 77 neighborhoods and help to improve Chicago's overall fiscal health by:

- Updating antiquated systems;
- Implementing daily reconciliation and market analysis;
- Ensuring compliance ;
- Adopting best investment practices and coordination; and
- Increasing reporting

We can do all this and still charge the taxpayers 30% less. We are putting the cost and benefit where they belong – shifting the burden away from taxpayers and placing it with the corporations, suburban rate payers, and other interests who benefit from these special funds.

Through the budget outlined and the ongoing support of the City Council, Mayor Emanuel, and Chicagoans, the Treasurer's Office can make the necessary policy, systemic and structural improvements that continue to support the City's financial health.

With the full transformation of the Treasurer's Office, we will provide taxpayers with greater transparency and efficiency ensure an accountable and responsible approach to investing taxpayer dollars to maximize returns, enhance investments, and drive value for taxpayers in each of Chicago's 77 neighborhoods. I look forward to working with all of you and all Chicagoans in the years ahead as we continue to provide value to our residents and invest in our communities.

Again, I am honored to be here today. I appreciate your time and the opportunity to present our 2016 budget proposal and I'm happy to take any questions. **Thank you.**

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Investments/Trading MBE/WBE

<u>MBE/WBE Spend</u>	
WBE:	1
DVBE:	1
African-American MBE:	5
Hispanic MBE:	3
Total MBE/WBE/DVBE:	10

Total Companies: 21

61% of our Trades are conducted via minority owned businesses.

African American 50.7%

Hispanic 28.2%

Women-Owned 4.2%

Disabled Veteran 16.9%

Department Name

2016 Budget Hearing

MBE/WBE Contracting Data

Period: 2015

Total Purchases: The CTO spending in this category is negligible and mostly non-discretionary. CTO utilizes other department contracts. Please note that the CTO does conduct its investment/trading with 61% MBE/WBE/DVBES.

MBE/WBE Spend	
WBE:	N/A
Asian MBE:	N/A
African-American MBE:	N/A
Hispanic MBE:	N/A
Total Purchases:	N/A

***Please refer to Investments and Trading MBE**

Staffing Data

Department Ethnicity and Gender				
	Male	Female	Total	%
Asian	2	2	4	18.2
Black	3	4	7	31.8
Hispanic	1	3	4	18.2
White	4	3	7	31.8
Total	10	12	22	100
	45.5%	54.5%		

New Hires Ethnicity and Gender				
	Male	Female	Total	%
Asian	0	0	0	0
Black	0	3	3	30
Hispanic	1	2	3	30
White	2	2	4	40
Total	3	7	10	100
	30%	70%		

Department Managers Ethnicity and Gender				
	Male	Female	Total	%
Asian	2	0	2	33.33
Black	1	1	2	33.33
Hispanic	0	1	1	17
White	0	1	1	17
Total	3	3	6	100
	50%	50%		

Interns

School	Gender	Race
<u>DePaul University</u>	<u>Female</u>	<u>Hispanic</u>
<u>DePaul University</u>	<u>Female</u>	<u>White</u>
<u>Penn State</u>	<u>Male</u>	<u>Asian</u>
<u>University of Illinois-Urbana</u>	<u>Male</u>	<u>White</u>
<u>Dartmouth</u>	<u>Male</u>	<u>White</u>
<u>Boston College</u>	<u>Male</u>	<u>White</u>
<u>Dartmouth</u>	<u>Male</u>	<u>Asian</u>
<u>Union College</u>	<u>Male</u>	<u>Black</u>
<u>University of Illinois-Chicago</u>	<u>Male</u>	<u>Hispanic</u>
<u>University of Illinois-Chicago</u>	<u>Female</u>	<u>White</u>
<u>Renmin University</u>	<u>Female</u>	<u>Asian</u>

