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

Monday, October 17, 2016

Chairman Austin, Vice Chairman Ervin, members of the Committee on Budget and Government Operations, and member of the City Council. Thank you for the opportunity to present the financial strategies included as part of Mayor Rahm Emanuel's proposed 2017 budget.

As the Chief Financial Officer, my primary responsibility is to direct the City's overall financial policy and provide day-to-day oversight of the City's debt portfolio. My office also oversees our public-private partnerships, which includes agreements for the Chicago Parking Meters, Millennium Parking Garages, and the Skyway. In addition, my office manages the Municipal Marketing program comprising of the Chicago Digital Network and various advertising opportunities on city assets, such as Divvy bike stations, street furniture, bus shelters and Big Belly.

We spent the past year addressing the challenges that threatened the City's financial health and delivering on our promises.

- We fixed over $1.7 billion in variable rate debt to end our interest rate exposure and our exposure to the credit banks;
- We terminated swap over $2.5 billion in interest rate swaps;
- We increased our operating budget funding for legal settlements and judgments and other short-term obligations
- We continued to build the City's long-term rainy day fund
- And, we implemented a funding plan to put the City's four pension funds on a path to solvency after decades of underfunding.

Pension Funding Solutions

As the Mayor noted last week, for the first time in recent history, the Administration is presenting a budget that does not contemplate a pension crisis.

The 2017 proposed budget includes a total of $1.03 billion in employer contributions to the City's four funds, an increase of $181 million from 2016. The 2017 contribution will be funded with $839.08 million in revenue from property tax collections and $190.9 million from other sources, including $82.3 million funded through revenue from the City's enterprise and special revenue funds.

Last year, this Council took the first step forward towards solving the City's pension crisis by approving a property tax increase to fund for our police and fire pension funds.

The City took this same approach to put the Laborers' and Municipal pension funds on a path solvency this summer.

In May 2016, we reached an agreement with our labor partners that secures the retirements of employees and retirees within the Laborers' pension fund, while protecting Chicago taxpayers from bearing the full burden of growing pension costs in the future. To stabilize and fund the Laborers' pension fund, the City will dedicate the revenue from the 2014 increase in the 911 surcharge to this pension fund beginning in 2017.

In August 2016, we reached a similar agreement with members of the unions that make up the Municipal Pension Fund, and that agreement -- along with the City Council's approval of the water - sewer utility tax -- puts the fourth and final pension fund on a path to solvency.

Ratings

While we all know that fixing our finances will not happen overnight, rating agencies commend the actions taken by the Mayor and this Council to address our pension challenges head on. Most recently, both Fitch and Standard & Poor's changed their outlook from negative to stable as a direct result of the City's steps to address our legacy liabilities and commitment to meaningful fiscal reforms.

<u>Financial Road Map</u>

In April 2015, Mayor Emanuel outlined five actions that will be implemented as part of the City budget each year to end unsustainable financial practices and mitigate risk of taxpayers.

The five steps include:

- Terminating swaps to end the risk associated with taxpayers
- Converting all of the City's general obligations variable-rate debt portfolio to fixed-rate
- Ending the practice of "scoop and toss" by 2019
- Continuing to increase operating budget funding for legal settlements and judgments and other short-term obligations, and
- Continuing to build the City's long-term reserve funds in each and every budget

<u>We have made measurable steps to implement each of these reforms.</u>

Swaps and Variable Rate Debt

This past year, we converted the City's entire tax-back variable rate debt portfolio to stable, fixed rate debt, reducing taxpayer risk and helping to secure the City's financial stability. Additionally, we terminated all corresponding swaps, ending taxpayer risk associated this financial practice.

Operating Budget

Budget Director Holt addressed this in her remarks, but it bears repeating. Over the past five budgets, the City cut our structural deficit by 80 percent, from $655 million in 2011 to $137.6 million in 2017. The budget gap is at its lowest point in nearly a decade.

We have shrunk our operating gap, all the while imposing greater financial discipline through the ongoing phase-out of the use of bonds to pay for certain working capital expenses. Since 2012, the City has paid for more than $161 million in retroactive salary payments, and $52 million in working capital as part of the operating budget, instead of resorting to long-term borrowing.

Scoop and Toss

We will continue to deliver on our promise to end the financial practice known as "scoop and toss" altogether by 2019. In the 2017 budget, we propose to reduce it by another 63.05 million dollars, adding to the 100 million dollars we reduced last year.

Long Term Reserves

The City continues to add to the City's long-term reserve funds each year. This budget includes the addition of $5 million.

Budget Stabilization Fund

Alex has given you a great overview of what is in this year's budget. I would like to highlight for you, our financial policy around budget stabilization and the management of our reserves and fund balance that is an important tool that we are using to help permanently stabilize the City's finances.

Rather than raid the City's reserve funds or sell City assets for one time revenue, Mayor Emanuel has added to the City's reserves each year and established additional measures to stabilize the City's budget. Since 2012, the City has added $40 million into its asset lease and concession reserves fund with another $5 million to its operating liquidity fund. These sources along with the prior year's unassigned fund balance, comprise the City's unrestricted budgetary fund balance, also referred to as the "Budget Stabilization Fund". In 2017, the City will deposit another $5 million into its operating liquidity fund.

The City will maintain sufficient fund balance to mitigate current and future risks, emergencies or unanticipated revenue shortfalls. Due to improved financial and budget practices, the City has established and maintains three sources as unrestricted budgetary fund balance, also referred to as Budget Stabilization Fund or fund balance. These three sources are the Asset Lease and Concession Reserves, the Operating Liquidity Fund and the Unassigned Fund Balance.

As part of its budget stabilization policy the City will adhere to the GFOA recommendation that governments maintain an unrestricted budgetary fund balance in their general fund of no less than two months of operating expenses. Further, the City does not appropriate more than one percent of the value of the annual corporate budget from the prior year's audited unassigned fund balance in the current year's budget.

In addition to managing financial policy and overseeing the City's debt portfolio, I am also responsible for managing our public-private partnerships to maximize value and limit exposure to the City. The 2017 proposed budget includes two pilots to alleviate vehicle congestion and encourage higher turnover in the Central Business District and during special events around Wrigley Field.

User-Paid Loading Zones

The Administration is proposing to convert current business-paid loading zones to user-paid loading zones through a managed pilot starting in the Central Business District and Loop. Implementation of user-paid loading zones will create higher turnover in loading zones, reduce downtown congestion from commercial vehicles, optimize curb space, and increase safety for cyclists and pedestrians on busy Chicago streets. The City anticipates the user-paid loading zone program will generate between $13 and $18 million once fully implemented. The 2017 budget anticipates $13.8 million in revenue.

The pilot exempts loading zones near certain areas including medical centers, private residences, day care centers, government buildings, churches, hotels and schools.

The proposed user-paid system will reduce costs for local business owners; create greater uniformity and safety on our streets; and allow delivery companies to operate more efficiently through the City.

Special Event Parking

In addition, the City will pilot Special Event Meter rate on streets around Wrigley Field. The pilot is designed to mitigate congestion in the area, create competitive parking relative to other parking alternatives, and encourage turnover for businesses around Wrigley Field.

Special Event pricing would begin two hours prior to the start time of Cubs games and other events occurring at Wrigley Field at a rate of $4 per hour. The regular meter rate of $2 per hour would apply during all non-special event times.

Based on the success of the pilot, special event pricing could be extended to other parts of the City.

It is expected the special meter rate pilot will generate additional revenue of $2.48 million in 2017.

Conclusion

Fixing decades of bad financial practices and implementing new reforms is challenging and will not happen overnight; however the steps taken by Mayor Emanuel and this Council have significantly improved our long-term financial stability.

Finally, I would like to take a minute to recognize this Council for your work in securing Chicago's fiscal future and the 2017 budget will continue to build upon this effort.

Thank you and I look forward to our discussion today.