

**STATEMENT FROM BUDGET DIRECTOR ALEXANDRA HOLT ON 2017 BUDGET PROPOSAL TO
THE CITY COUNCIL COMMITTEE ON BUDGET AND GOVERNMENT OPERATIONS**

Monday, October 17, 2016

Good morning Chairman Austin, Vice Chairman Ervin, members of the Committee on Budget and Government Operations, and members of the City Council.

I am pleased to be before you for the sixth year in a row presenting a balanced budget that makes investments in our neighborhoods.

However, Mayor Emanuel's 2017 budget recommendation is unlike the previous five budgets. It is the first budget in which all four of the City's pension funds are on a path to solvency; each with a sustainable revenue source and a plan to achieve actuarial funding.

In addition, we are increasing our debt service payments for the second year in a row, continuing to make good on the Mayor's commitment to eliminate "scoop and toss" by 2019.

Finally, the 2017 budget balances the lowest deficit in nearly a decade; a deficit that has been reduced by nearly 80 percent since 2011.

Over the past five years, the work of the Mayor and City Council systematically addressed our legacy liabilities, made fundamental changes to the way the City manages its finances, and strengthened our short- and long-term financial health.

It took hard work and difficult decisions to get to this point, but the 2017 budget reflects a stable, balanced budget that supports critical investments in public safety, mentoring, and key neighborhood services.

Overview

In one important way, this budget is no different than the five previous budgets. It aligns our expenses with our revenues by streamlining government operations, and increasing sustainable revenues, while maintaining core services and investing in our neighborhoods.

In 2011, the City's projected operating budget shortfall was \$635 million. With fundamental financial and budgetary reforms and sustainable revenue growth, we are now solving for a \$137.6 million budget gap.

The total local fund budget for 2017 is \$8.22 billion. The corporate fund proposed budget, our core operating budget, is \$3.72 billion. This is an increase of \$148 million over the 2016 budget is directly the result of the additional investments in public safety, youth programs, and our commitment to end the practice of "scoop and toss".

With an additional \$1.59 billion in grant funding, the total proposed budget for 2017 is \$9.81 billion.

Public Safety and Other Key Investments

The 2017 budget includes the first year of a two-year investment in public safety personnel.

The 2017 budget includes 250 new police officers, 92 new Field Training Officers, 100 new Detectives, 37 new Sergeants, and 50 new Lieutenants. An additional 425 positions will be included in the 2018 budget.

These new positions are a part of the Mayor's and Superintendent Johnson's plan to strengthen our law enforcement tools; a plan that includes not only new officers, but also investments in training and gunshot detection technology and expanding the body worn camera program to all police districts citywide.

Over the course of the next two years, not only will the Police Department hire an additional 970 sworn officers, they will fill current vacancies and any new vacancies resulting from attrition. This will require much hard work, and we are committed to ensuring the Police Department has the resources they need to achieve this goal.

The Police Department is in the process of filling 363 current sworn by January 2017, which is over 70 percent of current vacancies. Two new police officer classes will enter the training academy before the end of 2016, bringing the total number of new recruits entering the academy in 2016 to over 600. A class of detectives will enter training at the start of the new year.

And starting in January 2017, a class of approximately 100 new recruits will enter the training academy 11 out of 12 months. The Police Department and the Department of Human Resources have already started to implement the first year of this two-year hiring plan.

This is an ambitious hiring goal and as a result it is the focus of the Mayor, the Mayor's Office, the Police Department, the Department of Human Resources, the Office of Budget and Management, the Department of Fleet and Facility Management, and every other department which has a role in hiring and training.

While the City is committed to achieving this goal, we are equally committed to hiring the best possible candidates that represent the population of the City, and giving them the highest quality training so every recruit meets the Mayor's, City Council's, and the Superintendent's expectations.

The 2017 budget supports this two-year investment in public safety with the following increases:

- \$40 million in salaries and benefits for 545 new sworn positions;
- Nearly \$8 million for the pre-employment process, including funding to support background screening and drug testing;

- \$2 million in equipment and supplies for the new recruits;
- \$3.2 million to support curriculum development and enhance the quality of recruit training and additional funding for the training academy;
- \$5 million to expand the body worn camera program to another seven districts and maintain body worn cameras in the first seven districts; and
- \$1.2 million to maintain the shot spotter technology.

The 2017 budget also includes four additional positions in the Department of Human Resources to aid in the sworn hiring. This is in addition to two new positions in the department to further the City’s goal of increasing diversity across its workforce with an initial emphasis on diversity in public safety hiring.

This budget also increases investments in Chicago’s youth by providing \$6 million in funding for proven mentoring programs such as “Becoming a Man” and “Working on Womanhood”, and \$3 million in additional funding for summer jobs and afterschool activities. Since 2011, we have more than tripled the investments in Chicago’s youth from \$21 million to \$64 million.

With this budget, we are also supporting investments in neighborhood businesses and projects through the creation of a new Chicago Community Catalyst Fund that seeks to be a partner in growth in the City’s most in-need neighborhoods.

This budget supports these critical neighborhood strategies without sacrificing the progress we have made to improve our long-term financial stability.

Reforms, Savings, and Sustainable Revenue Growth

I know the question on everyone’s mind is “how will this budget pay for the additional police officers and youth investments, while still closing the budget gap?”

The answer is that we are not relying on any one source of revenue or savings to pay for these investments. The new officers, the youth programming, and other new elements of the 2017 budget are funded the same way we pay for our existing police officers, firefighters and tree trimming service. They are incorporated into the structure of the budget and paid with our taxes, fines, fees, and other revenues and savings from efficiency gains in other government operations.

With every budget we first seek to identify all available savings and efficiencies. Over the past six years, the Administration and City Council have identified more than \$600 million in savings, reforms, and efficiencies.

The 2017 budget includes \$33.7 million in savings from increasing energy and fuel efficiency, zero based budgeting, and even savings from implementing tighter controls on printing and copying in City departments.

Along with building on the savings and efficiencies of 2017 and prior years, we have worked each year to increase sustainable revenue sources, and take advantage of economic growth. And because the City relies on a diverse set of revenues, no single revenue is critical the City's financial stability.

The 2017 revenue projections reflect an increase in the City's economically-sensitive revenue sources, which is consistent with the modest, but steady expansion of the national and local economies.

Transaction taxes, such as the real property transfer tax and personal property lease tax, are expected to generate \$394.9 million in 2017. This revenue accounts for 10.7 percent of projected corporate fund revenue.

Sales and use tax revenues account for 19 percent of total projected corporate fund revenues. In 2017, the City expects \$698 million in sales and use tax revenue, an increase of \$21 million or three percent, over the 2016 year-end estimates. The projected revenue increase is driven, in part, by wage growth and consumer confidence.

Business taxes are expected to generate \$123.9 million in 2017, an increase of over \$10 million compared to the 2016 year-end estimate. This increase is largely due to the implementation of a seven cent per bag tax on plastic and paper disposable bags.

As part of the City's ongoing effort to reduce the number of disposable bags in Chicago, the Administration, in partnership with members of City Council and members of the environmental and business communities, is proposing this tax on disposable paper and plastic shopping bags. Two cents will be kept by the merchant and the remaining five cents will be remitted to the City. The total revenue to the City from the bag tax takes into consideration a reduction in disposable bag use and is estimated at \$9.2 million.

This summer, we projected personal property replacement taxes to be significantly lower than budgeted expectations for 2016 and 2017. This was due to the State's misclassification of individual income tax revenue as personal property replacement tax revenue, resulting in overpayments to local governments. The misclassification means lower revenues for Chicago and other local governments and a requirement that we reimburse the State. Since the 2017 budget gap was issued at the end of July, the State has indicated the impact on local governments would not be as large as the State initially estimated. This change allowed us to increase our revenue estimates by \$36 million.

With improved revenue and five years of spending controls, the corporate fund balance has shown healthy growth over the last three years. This growing funding source will provide \$37 million in 2017 funding, less than one percent of the overall corporate budget.

2017 continues the practice of sweeping aging revenue accounts and of distributing excess TIF revenue to local governments including the City and Chicago Public Schools. These practices provide \$86.4 million in revenue as part of the 2017 budget.

The City continues to improve debt collection and provide more opportunities for debtors to pay what they owe. Through new strategies, including data analytics, expanded debt checks, and other strategies, the City anticipates collecting \$15 million.

Lastly, the 2017 budget includes roughly \$16 million in revenue as a result of pilots designed to better manage vehicle congestion in downtown loading zones and parking congestion during special events near Wrigley Field.

Conclusion

The 2017 budget builds on the reforms we have made over the past five years to restore the City's fiscal health. I look forward to working with you to continue our progress toward a financially secure Chicago.