STATEMENT FROM CHIEF FINANCIAL OFFICER JENNIE HUANG BENNETT ON 2020 BUDGET PROPOSAL TO THE CITY COUNCIL COMMITTEE ON BUDGET AND GOVERNMENT OPERATIONS

Monday, October 28th, 2019

Chairman Dowell, Vice Chairman Silverstein, members of the Committee on Budget and Government Operations, members of the City Council and members of the public. My name is Jennie Huang Bennett, the Chief Financial Officer for the City. I would like to thank you for the opportunity to discuss the financial strategies underlying the 2020 budget proposal.

My primary responsibility as Chief Financial Officer is to develop and manage the City's overall financial policy. My office manages the City's $27 billion debt portfolio as well as communications with financial stakeholders, including the rating agencies, lenders, and bond investors. My office also oversees the City's public-private partnerships and municipal marketing program.

Since beginning the task of addressing the 2020 budget gap, we have sought to match the vision set forth by Mayor Lightfoot.

First, despite the challenges presented in closing the budget gap, this budget continues to deliver ***investments*** in key areas across our City. The 2020 budget makes targeted progressive investments in affordable housing, homelessness, mental health and violence prevention, among others. These investments are also significant increases from the current funding levels and serve as a down-payment for Mayor Lightfoot's ambitious agenda of expanding equity and opportunity for all Chicagoans.

Second, the ***budget is balanced***, not just by way of revenues matching expenses, but also balanced in the way we approached our gap-closing solutions. With a budget gap of this magnitude, there is the expedient option of hitting a few areas disproportionately. This carries the risk of inordinately harming certain populations and causing lasting harm to Chicago's broader landscape. Instead, we sought progressive, sustainable measures, first by targeting savings and efficiencies, in order to spend taxpayer dollars more effectively, then followed by developing a thoughtfully crafted proposal of new revenue sources.

In that vein, we also heard from you that Chicagoans don't want to see a large property tax increase. The fact that this budget does not include a large property tax increase is the result of a lot of hard work to find alternative solutions by the financial team, collaboration with the City Council and engagement with the public.

Finally, in developing the 2020 budget, Mayor Lightfoot directed us to focus on ***reform-based measures*** which promote long-term financial sustainability. As Mayor Lightfoot noted in her address to the Council last Wednesday, these reform-based solutions not only put our fiscal house in order *this* year, but ensures it will *stay* in order for years to come.

This budget includes several proposals, many of which do not provide immediate or large relief in the coming budgetary year, but will generate long-term financial benefit, including the outsourcing of workers compensation and the departmental consolidations.

All told, over 60 percent of the budget gap closing measures are structural in nature, which means that 60 percent of the solutions we identify this year will carry forward to future years and help the City address its out-year financial challenges.

Fiscal year 2020 will be the first time that the City will be paying an actuarially calculated employer contribution. Put another way, the City has finally climbed the pension ramp for the police and fire pension funds and this budget will put the public safety pension funds on a path toward long-term financial sustainability.

We know that we have financial challenges in future years, including a $446M increase in required pension funding in 2022, largely due to the municipal and laborer pension ramp. To address these long-term challenges, we are pursuing a revised tax structure on a Chicago casino as well as the authority to reform the real estate transfer tax to a graduated tax structure that will reduce the tax for 80% of real estate transactions. With these two new revenue streams, we believe that we will be on a path toward structural balance.

The 2020 budget includes a refinancing of outstanding bonds to take advantage of the current low interest rate environment. Long-term interest rates have been below current rates only 5% of the time over the last decade. We stand to save between 1.50-2.00% as a result of the proposed refunding or $200 million toward closing the 2020 budget gap.

Active management of the debt portfolio also led us to terminate approximately $1.4 billion in short-term borrowing. This action will save the City approximately $22 million in interest and fees. We have also begun to develop internal cash flow forecasting which will allow us to more accurately pinpoint the City's cash needs moving forward.

From a financial policy perspective, we continue the practice of preserving the City's reserves, in line with GFOA recommendations and the City's internal policies. GFOA recommends that the City maintain reserves in the amount of two months of operating expenditures. The City ended FY2018 with $814 million in reserves in the long-term concession reserve and unassigned fund balance which is in excess of two months of expenditures. The City's internal policies allow prior year unassigned fund balance to be used for gap closing in an amount no greater than 1% of operating expenditures. The 2020 budget gap meets this policy.

I look forward to our discussion today and I am deeply grateful for the continued partnership of the City Council in helping to develop the 2020 budget, as well as your commitment to making Chicago a stronger and more equitable city for its businesses and residents.

Thank you.