

# STATEMENT FROM BUDGET DIRECTOR ALEXANDRA HOLT ON 2016 BUDGET PROPOSAL TO THE CITY COUNCIL COMMITTEE ON THE BUDGET AND GOVERNMENT OPERATIONS

**Monday, September 28, 2015**

Good morning Chairman Austin, Vice Chairman Ervin, members of the Committee on the Budget and Government Operations, and members of the City Council. Thank you for allowing me to join you today to discuss Mayor Emanuel's 2016 Budget proposal.

I want to begin by thanking members of the City Council for providing thoughtful and constructive reform, savings, and revenue proposals over the last few months. From the eight idea sessions to multiple individual conversations, Mayor Emanuel and I have heard from nearly every alderman. Specifically, through our conversations, we received nearly 60 different savings, reform, and revenue proposals, and I believe this budget was made better because of your input and support.

The approach to this budget was no different than previous years. We are aligning our expenses with our revenues by cutting government waste and reforming City operations. All the while maintaining core services, investing in our neighborhoods, and finding targeted, sustainable revenue sources.

There's no question the 2016 budget is historical. It not only addresses the City's current financial challenges but puts Chicago on a track to completely eliminate our structural deficit within the next four years. It begins to phase-out unsustainable financial practices and provides a long-term, stable plan to fund our pension obligations.

The recommendation before you presents a balanced budget. The total local fund appropriation is \$7.84 billion. The corporate fund budget, our core operating budget, is \$3.63 billion. The corporate fund increased by \$98.1 million, or 3%, over 2015 primarily due to contractual salary increases. When including an additional \$1.48 billion in anticipated grant resources, the total proposed budget for 2016 reaches \$9.32 billion.

The budget reduces "scoop and toss" by \$100 million, putting the City on a track to eliminate the practice in four years. We are also adding another \$5 million to the Rainy Day fund, continuing the trend of adding money to our long term reserves in each of our last four budgets instead of raiding it, for a total of \$50 million deposited into the Rainy Day fund under Mayor Emanuel.

The 2016 budget also continues to make significant investments in early childhood education, public safety and neighborhood services throughout the City.

## **Overview**

The budget process began over the summer with the announcement of a corporate fund gap of nearly \$232.6 million – the smallest structural deficit we have had since 2008.

The City has faced a structural deficit for the last 15 years. The deficit built up over the years as expenses grew faster than revenues. The recession further exacerbated the deficit and the City filled the shortfall with the use of one-time revenue sources.

In fact, in 2011, almost 20 percent of operating revenues came from one time sources, including money from the parking meter deal.

Over the past four years, Mayor Emanuel and City Council have methodically and responsibly chipped away at the structural deficit. In 2012, our structural deficit was \$635 million. This year, our deficit has been cut by two-thirds, and only 1 percent of proposed 2016 revenues come from one time sources.

### **Savings, Efficiencies and Reforms**

The gap in the City's corporate fund budget in 2016 was closed through savings, reforms, revenue growth, and fiscal discipline. This budget proposal includes:

- \$61.1 million in non-personnel savings and reforms
- \$57.1 million in personnel savings and reforms
- \$57.9 million in improved fiscal management

Along with these savings and reforms, the City continues to improve debt collection and provide more opportunities for debtors to pay what they owe, including businesses who have not paid their City debts. Through new strategies, including technologies that allow us to better match debtors with updated contact information, we anticipate receiving an additional \$23.4 million in revenue in 2016.

In the 2016 budget, the City also finds efficiencies in core City operations and looks for the most cost effective way to deliver services.

The second phase of grid garbage realignment or "Grid 2.0" will save over \$9.5 million in refuse operations in 2016 by reducing the average daily deployment of refuse trucks from 310 to 292. These operational savings were achieved in partnership with Laborers' Local 1001. When combined with previous grid reforms, the City will now save \$28 million annually in garbage collection operations.

The City is also evaluating outsourcing the technology and operations of 3-1-1 to determine if a private vendor can provide improved service at a lower cost.

In total, this year's budget includes \$170 million in savings, efficiencies, and reforms, bringing the total saved over the past five years to over \$600 million.

Each year, the City cuts waste and finds savings, but these are not enough to close our structural deficit and ensure Chicago's economy continues to grow.

### **Revenue**

The 2016 projections reflect an increase in the City's economically sensitive revenue sources, which is consistent with steady expansion in both the local and national economies. At Mayor Emanuel's direction, we have worked to ensure that this budget contains more than \$1 of savings and reform for each \$1 in revenue from new or increased taxes or fees.

Transaction taxes, such as the real property transfer tax and the personal property lease tax, are expected to generate \$344.7 million in 2016. This revenue accounts for 9.5 percent of projected corporate fund revenue in 2016. Growth in these revenues in 2015 and 2016 reflect continued growth of the local economy.

Transportation taxes, which include taxes on garage parking and provision of ground transportation for hire, are expected to generate \$240.4 million in 2016. This is up significantly from the 2015 year-end estimate of \$191.1 million. The growth is due largely to an increase in ground transportation tax revenues as a result of the proposed 50 cent per trip fee on rides provided by rideshare companies and taxis along with the proposed surcharge on airport pick-ups by rideshare providers. The rideshare industry will be responsible for more than 80 percent of the additional revenue.

Recreation taxes are projected to increase by \$3.5 million from the 2015 year-end estimate for a total of \$218 million in 2016. The projected year-end estimates and 2016 revenues are higher than previous years primarily due to the elimination of the partial exemption applied to skybox and other special seating packages. Our 2015 revenues also benefited from post-season play-off performances by the Blackhawks and the Bulls.

Additionally, Mayor Emanuel is proposing a tax on e-cigarettes, which is expected to generate \$1 million in revenue. Although the tax revenue is not substantial, it will allow Chicago to stay ahead of the tobacco industry's efforts to target youth and increase revenue that will be invested in children's health programs such as school-based health centers.

Business taxes are expected to generate \$113.9 million in 2016, an increase of \$2.1 million over the 2015 year-end estimate of \$111.8 million. The 2016 budget will continue to capture revenues from online resellers of hotel rooms and companies that facilitate short-term rentals by private owners and also projects an increase in hotel bookings and conventions.

Sales and use tax revenues account for 18.7 percent of total projected corporate fund revenues. In 2016, the City expects \$677.8 million in sales and use tax revenue, an increase of \$26.5 million over the 2015 year-end estimate. The projected sales tax revenue increase in 2016 is driven in part by improving consumer confidence and wage growth.

The 2016 budget establishes a \$9.50 monthly fee per household for garbage pickup by the Department of Streets and Sanitation. The fee will affect the half of Chicago households that receive garbage pickup from the City. This fee is lower than the average fee paid by the other half of Chicago households in buildings with five residential units or more that receive private garbage pickup and pay rates of \$10 to \$16 per unit per month. Moreover, this rate is lower than the fee paid in neighboring suburbs. For example, residents of Berwyn pay nearly \$25 per month while Harvey residents pay \$21 per month. This fee will generate more than \$60 million, covering approximately one-fourth of the City's cost to collect garbage annually. The City will reduce the impact on lower-income seniors with a 50% discount on the fee.

Lastly, the 2016 budget includes significant reforms to the Department of Buildings including streamlining the permitting process to reduce wait times by an average of one week, and modernizing fee structures. The reforms are expected to result in \$13 million in additional revenue in 2016.

## **Pension Reform and Funding**

Separate, but just as important as continuing to reduce our structural deficit, the 2016 budget proposal addresses the stability of our pension funds and provides the funding necessary to put them on a path to financial solvency.

The City is faced with sizable unfunded liabilities associated with our four pension funds. Over the past four years, the Mayor has sought reforms and a funding plan that not only protects the pensions of our retirees and employees, but also protects taxpayers.

To meet our police and fire pension obligations, we are proposing to raise city property taxes by \$544 million, phased in over the next four years. The property tax increase will be solely dedicated to funding our police and fire pensions, ensuring that the pensions of our first responders are put on a stable and sustainable, long-term funding path.

Beginning in 2015, the police and fire pension fund contributions will increase by \$328 million, on top of the previously budgeted amount of \$290 million. \$318 million will be funded with the property tax increase and the remainder by the enterprise funds, which have dedicated police and fire staff. The levy will then increase by \$109 million in 2016. The City's total police and fire pension contribution is \$672 million in 2016.

We are proposing that we not only levy for the amounts needed to meet our 2015 and 2016 obligations, but to also levy for 2017 and 2018. In 2017, the levy will increase by another \$53 million to ensure sufficient funding for the 2017 contribution, and the levy will again increase by \$63 million in 2018 to meet the required \$792 million in payments for the police and fire pension funds in that year.

To ensure that the property tax burden is borne by those who can best afford it, Mayor Emanuel is seeking to significantly expand the homeowners' exemption. This reform would reduce the impact of the property tax increase on all homeowners, while ensuring that any resident whose home is valued at \$250,000 or less would not see any property tax increase. In fact, nearly 300,000 homeowners would see a net reduction in their property tax.

## **Investments**

The 2016 budget continues to make smart investments in the programs and services that make Chicago a world class city.

The 2016 budget includes:

- More than \$50 million to support critical youth services that will provide 27,000 youth afterschool opportunities, 25,000 summer youth jobs, 5,500 pre-school slots, and open 15 new early learning centers at Chicago Public Library branches
- Investments to double the number of uninsured women with access to City-funded free breast health services and mammography screenings, serving a total of 5,000 women in collaboration with Cook County Health and Hospitals System
- Resources to repave 300 miles of neighborhood and arterial streets, and investments to replace 90 miles of water lines and 72 miles of sewer lines, and install 14,000 sewer structures and 20,000 water meters

- 319 police officers moving onto the streets from behind desks and replacing those administrative roles with a professional civilian workforce

We are also using the operational savings from grid garbage realignment to invest in more responsive City services. This means adding five more rodent baiting crews ensuring all rodent requests are closed in five days, and adding 10 additional tree trimming crews to eliminate the backlog of requests by the end of 2016.

### **Conclusion**

The 2016 budget builds on the reforms we have made over the past four years to restore the City's fiscal health. It also takes a realistic and responsible approach to addressing our pension obligations for our police officers and firefighters without burdening those who can least afford it.

Mayor Emanuel's 2016 budget proposal provides financial certainty for our residents and our businesses. It provides stability for our pension funds, and it continues to invest in Chicago's neighborhoods.

I look forward to working with you to continue the progress we have made.



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