STATEMENT FROM CHIEF FINANCIAL OFFICER CAROLE BROWN ON 2018 BUDGET PROPOSAL TO THE CITY COUNCIL COMMITTEE ON BUDGET AND GOVERNMENT OPERATIONS

Monday, October 23, 2017

Chairman Austin, Vice Chairman Ervin, members of the Committee on Budget and Government Operations, and members of the City Council. Thank you for the opportunity to present the financial strategies included as part of Mayor Rahm Emanuel's proposed 2018 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, and bus shelters.

The Office of the CFO has spent the past two years working with Mayor Emanuel and the City Council to address the challenges that threatened the City's long term financial stability.

<u>Financial Road Map</u>

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

As you know, these five actions included:

- Converting all of the City's taxpayer-backed variable-rate debt portfolio to fixed-rate;
- Terminating all taxpayer-backed interest rate swaps to end the risk associated with taxpayers;
- Continuing to increase operating budget funding for working capital and other short-term obligations;
- Adding to the City's long-term reserve funds in each and every budget, and
- Ending the practice of "scoop and toss" by 2019.

We have made measurable steps to implement each of these reforms.

Variable Rate Debt and Swap

By the end of 2016, the City had converted its 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.

Scoop and Toss

This October, Mayor Emanuel and the City Council approved an ordinance to create a revenue securitization structure for the City, which is expected to achieve higher credit ratings and reduce debt service costs for taxpayers. The revenue securitization creates a separate corporation for the sole purpose of issuing debt. The City intends to pledge State collected sales tax revenue on the City's behalf to the new Corporation to repay debt issued by the Corporation for the benefit of the City.

Beginning later this year and continuing over the next year with three additional transactions, the Corporation expects to refund $2.3 billion of general obligation debt and $515 million of existing sales tax bonds for present value savings in debt service costs. These transactions will be structured with accelerated savings and will provide budgetary benefit in 2018. We also expect to maintain level debt service over the life of the Corporation bonds to mitigate any negative impact on the City's corporate fund.

Since 2016, the City has made corporate fund revenue available to pay debt service. Because we expect to achieve present value savings in debt service upon execution of all four tranches, the proposed 2018 budget includes $94 million representing corporate fund debt service savings. Further, that portion of the corporate fund contribution for general obligation debt service not needed for current debt service will be applied to future years' debt service. After the completion of the final tranche of sales tax securitization debt, the City will have eliminated the need to use scoop and toss one year ahead of plan.

Moving Operating Expense off Long-Term Borrowing

Over the past five budgets, the City imposed greater fiscal discipline including by phasing-out the use of long-term debt to pay for certain working capital expenses. Previously, the City used long-term debt to pay for certain working capital expenses such as library books, garbage carts and other similar expenses. In 2018, the City will move another $5.3 million in working capital off long-term debt onto the City's operating budget. Through strategic budget planning since 2012, the City has paid for more than $219 million in working capital from the operating budget, instead of resorting to long-term borrowing. Consistent with the Mayor's plan, the City has ended the practice of issuing long-term bonds to fund routine settlements and judgements.

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.

The City's policy is to maintain sufficient unrestricted fund balances to mitigate current and future risks, emergencies, or unanticipated budget shortfalls. As part of its financial and budget practices, the City establishes and maintains three sources of the unrestricted budgetary fund balances, referred to collectively as Budget Stabilization Fund or fund balance: (i) Asset Lease and Concession Reserves, (ii) Operating Liquidity Fund, and (iii) Unassigned Fund Balance.

Rather than raid the City's reserve funds or sell City assets, 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 $15 million to its operating liquidity fund. In 2018, the City will deposit another $5 million into its operating liquidity fund.

Surplus revenues identified throughout the annual financial audit process makes up the unassigned fund balance. The City's unassigned fund balance has increased from $33.8 million in 2013 to $153.7 million in 2016. The growth has been due in part to the improving economy, enhancements in revenue systems, including debt collection and investment strategies, and ongoing savings and efficiencies. 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.

Pension Funding

In recent years, the City achieved pension reform that ensures that each of our four pension funds will remain solvent without sacrificing services or forcing unsustainable contribution increases.

In 2015, this Council took the first step towards addressing the City's pension crisis by approving a four year 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 last summer.

This July, the improvements to the Municipal and Laborers' funds were codified by the General Assembly through P.A. 100-0023. This legislation increased the required contribution for employees hired after July 6, 2017, to 11.5 percent of their salary and moved the City's employer contributions to actuarially required contributions after a five year ramp period.

The 2018 proposed budget includes a total of $1.19 billion in employer contributions to the City's four funds, an increase of $157.5 million from 2017. The 2018 contribution will be funded with $905.5 million in revenue from property tax collections, $104 million from the corporate fund, $64.1 million from the water and sewer tax, and $116.8 million from the City's enterprise and special revenue funds.

Conclusion

Through the hard work of Mayor Emanuel and City Council, Chicago is on a path to long-term financial stability. Chicago has proven it is possible to confront big financial challenges and to balance the books, while simultaneously investing in our City's future. The deficit is the smallest it has been in over a decade. The pensions are finally right-side up, rather than upside down. The City's credit outlook is stable, and our financial future is brighter.

I would like to take a minute to recognize this Council for your work in securing Chicago's fiscal future and the 2018 budget will continue to build upon this effort.

Thank you and I look forward to our discussion today.