STATEMENT FROM COMPTROLLER CHASSE REHWINKEL ON THE 2024 BUDGET PROPOSAL TO THE CITY COUNCIL COMMITTEE ON BUDGET AND GOVERNMENT OPERATIONS

Wednesday, November 6, 2024

Good morning, Chairman Ervin, Vice-Chair Lee, distinguished members of the Committee on Budget and Government Operations—Thank you for the opportunity to appear before you today to discuss the Department of Finance's goals and budget for the upcoming year.

I am honored to serve you and the residents of the City of Chicago, and to lead a very dedicated team at the Department of Finance. I would like to highlight some of the programs and initiatives from the past year and discuss planned initiatives for 2025.

When I first came before you last year I outlined a number of areas of focus for the Department of Finance—chiefly payment processing, enforcement, and transparency. I am pleased to report that we have made strides in each of these areas, and are actively working on initiatives to further our goals in 2025.

As I have stated before, I inherited an incredibly strong team from former Comptroller Reshma Soni. It was this team that first established the Utility Billing Relief Program, or UBR, which provides low-income City of Chicago residents with a 50% reduced rate on water, sewer, and water-sewer tax charges as well as debt relief for those who demonstrate they can manage the reduced rate bills for one year. In 2024, we expanded this program to not only include single family homes and two-flats, but also three-flats—which has resulted in nearly $1.5 million in potential debt relief to Chicago families. Additionally, we made two other income-based repayment programs permanent—the Clear Path Relief Program (CPR), which provides low-income motorists the opportunity to reduce or eliminate vehicle-related debt, and the Administrative Debt Relief program (ADR), which provides relief for administrative hearings debt, including but not limited to violations issued by the Departments of Streets and Sanitation, Buildings, and Business Affairs and Consumer Protection.

In 2024, we also put forth a plan to attack leak-related debt for Chicagoans surprised by accidental water bill spikes. This body had outlined to me and my office that many Chicagoans have experienced situations where an unknown, underground leak between their home and outdoor meter caused a massive spike in their water bill. In some cases, Chicagoans were being forced to pay tens of thousands of dollars more than they normally pay. We heard you, and worked with City Council to create the Water Leak Relief Pilot Program, launching officially on January 1, 2025. Qualified residents will now have their extraneous water debt caused by an eligible leak wiped clean. This program is retroactive to 2023 and will cost less than $2 million to the city to fully implement.

With this multitude of repayment options now in place, I feel strongly that we should focus our attention on enforcement related to bad actors that continue to shirk their responsibilities to the city. Included in this group have been longtime scofflaws that I, along with the Corporation Counsel, flagged last year as areas of focus. These were a handful of individuals, usually not living in Chicago, that owned large tracts of property throughout the city and had continuously run up large penalties relating to poor maintenance and general neglect of their properties. Given legal actions are ongoing I will leave the details to work on this subject to the Corporation Counsel, but in short, we have had some remarkable success with these bad actors that have stonewalled the City for years, even decades.

Additionally, we have noticed a growing number of individuals that are clearly taking advantage of our City's generous payment plans. I certainly understand folks struggling to make one or two payments work within the total history of a payment plan. However, there have been over 26,000 individuals that have gone on-and-off four or more payment plans since such programs were available—including 67 that have had at least 15 different payment plans and even one person with 20. These serial payment plan individuals will no longer be acceptable within our payment system, and I have instructed my team to devise rules that will restrict individuals to a "three strikes and you are out" policy. I will make sure that these rules are implemented by the beginning of 2025and that violators of this policy are not tolerated.

In terms of enforcement within our Street Operations division, we have also made large strides to improve our systems. In 2024, we implemented seven new 311 categories to allow constituents to report parking issues citywide, which have been used to improve our predictive enforcement efforts. Additionally, although delayed by some contract discussions, we successfully worked with CDOT to fully implement the Smart Streets pilot program, which will improve bike lane violation enforcement and improve bike and bus line safety—as well as it lets us test an automated parking enforcement system for mail ticketing.

In terms of cash management and prompt payments the Department of Finance is actively working to pinpoint the root causes of payment delays and implement measures to alleviate cash flow challenges. I am proud to announce that our average payment processing time is at seven business days. However, there are areas of improvement that we are seeking to get ALL PAYMENTS under the Department goal of 30 days. We continue to work on improvements to the 50/50 Pilot Program to accelerate payments on certain contracts and have worked to create more cash advance programs that allow for delegated agencies to access funds earlier to meet their needs. We have worked with partners in labor as well as operators like Hire 360 and our City Procurement Office to come up with new standards around bonding and insurance that will allow for smaller operators to access more City Business like the lead line replacement program.

We also started work on a program within the Cut the Tape Initiative, which is the creation of a "city wallet." Currently there is no centralized portal that covers payments, contracts, licenses and debt within the City. Even internally we have to check eleven databases to conduct a debt check on an individual. When completed, the Chicago City Wallet will allow residents the ability to make payments, see tickets or debt owed, manage licenses and see where city payments are within the system. The goal is to have a unified system that improves city speed and transparency with city services. We have already begun working on unifying the databases and look forward to making more progress on this in 2025.

In terms of revenue, we are pleased to announce that taxes collected by DOF are up over last year, up roughly 3.59 percent—we also expect parking tickets to improve on their increase this year with a fuller staff and improved technology. However, as this body is aware, decreases in state passthrough revenues, most notably the Personal Property Replacement Tax (Or PPRT), have required the finance team to look at cuts and revenue increases to meet our expenses in 2025.

Three of those changes are as follows:

1. A change in the bag concession fee. Concession fees are intended to be temporary fee components sent back to the retailer to assist with technological and system changes stemming from a new tax or fee. In this case the bag fee was established in 2017 with five of the seven cents collected sent to the city and two cents retained by the retailer. Given the eight years that this fee has been in place it was decided that to

remove the two-cent concession fee and have the full seven cents sent to the City.

2. A change in the parking lot and valet parking tax that equalizes the tax rate across all days. Currently, the parking tax for valet parking and on weekends is 20 percent and the parking tax is 22 percent on weekdays. We decided to make all parking lot and valet tax rates 22 percent for every day of the week.
3. The liquor tax, which has not been changed by the city since 2008, was changed to keep pace with inflation. The new rates will be .39 cents a gallon for beer (a jump of 10 cents), 49 cents a gallon for alcohol 14 percent or less exempting beer (a jump of 13 cents), $1.20 a gallon for alcohol between 20 percent and 14 percent (A jump of 39 cents) and finally $3.62 a gallon for alcohol over 20 percent a jump of 94 cents.

These revenue changes assist in closing the budget deficit in 2025 and rely on sustainable revenue.

I again want to thank you for this opportunity to discuss the Department of Finance and the cash management of the City of Chicago. I also want to thank my committed team, who strives to improve our services to the residents and taxpayers of the City of Chicago every day. I appreciate your time and am happy to answer any questions.

Statement from Chief Financial Officer Jill Jaworski on the 2025 Budget Proposal to the City Council Committee on Budget and Government Operations

November 6, 2024

Good morning, Chairman Ervin, Vice Chairman Lee, members of the City Council and the public. My name is Jill Jaworski, and I'm the Chief Financial Officer for the City of Chicago. I'm honored to be with you here today and to address your questions on the Mayor's proposed 2025 budget.

The fiscal plan for 2025 that you have in front of you was built on key pillars. This budget allows the City to continue delivering critical services that our residents rely on. It maintains the investments in housing, mental health, youth employment and public safety that are critical to improving our capacity to meet the needs of Chicagoans. This budget is also built around fiscal responsibility. Despite the challenges of balancing our spending, this budget pays our bills, repays our debts, and supports our pensions.

We will not repeat the failures of the past by spending money we do not have and bankrupting our future. This administration will establish a balance between prudent revenue generation and robust expenditure oversight. It is a budget which places paramount importance on long-term fiscal stability while directing resources towards historically disinvested communities.

Let's begin with fiscal stability. The biggest challenge to the City achieving fiscal balance is the pressure caused by the City's debts to our pension systems. Our pension funds are woefully underfunded. Chicago has the largest unfunded pension liability of any city in the country - $35 billion of our liability to our retirees and employees is not funded, resulting in a 23% funded ratio. This debt is so large that 39 states have smaller liabilities than what we have as a city. In a recent report, our four pension funds were the worst funded local government funds in the nation, with our Firefighters fund at the bottom, followed by Municipals, Police and Laborers.

The City's pension obligations represent approximately 20% of the City's budget. The City has increased the contributions significantly over the last decade and since 2022 is contributing an actuarially determined contribution to all four funds as is statutorily required. Despite the increases in payments, the pension funds' unfunded liability will still continue to grow without additional funding. This budget addresses this challenge by sustaining our Pension Advance Payment Policy. This stabilizes our pension funds so that their funded ratios stop getting worse. Our pension funds can now keep their money invested longer and stop selling assets to pay benefits – in other words, we have stopped the bleeding. Making advance contributions through 2030 will save the City far more than our investment, resulting in a reduction of City pension contributions of $3.9B through 2055 when we will hit a 90% funded target. Those funds can be reinvested right in our neighborhoods, where they are needed most.

As our payments have increased to where they need to be, our bond ratings have improved. When the supplemental pension policy was put in effect we were upgraded by Fitch and Moody's, which finally returned our ratings to investment grade. Those two agencies have also said not making the supplemental payment will be cause for a negative credit action. We've analyzed the impact of such a downgrade and it will cost us over $400 million in additional debt service for the bonds we have planned for the next five years. The City spends millions in additional debt service every year due to our poor credit ratings – we pay the price today for prior poor decisions around pensions and we will pay more tomorrow if we defer our true obligations to the funds again.

We have reserved approximately $700 million from prior year surpluses to make the supplemental payments, which has been used in fiscal years 2023, 2024 and will be used in 2025. These funds cannot be replaced if we spend them on operations. We are already seeing the impact of these investments as the size of the advance payment needed to keep our pension funding stable is already going down. The investment is working.

Our dedication to honoring our commitments to the City's public servants remains unwavering, and we are resolute in our commitment to working in close collaboration with our labor and state partners to chart a sustainable path forward for the City's pensions. We must and we will continue this path so that the City’s fiscal stability will not be threatened in the future by unaffordable commitments and our employees and retirees will be comfortable their pensions are protected.

In addition to honoring our pension obligations, this budget includes payment for the debt service on our bonds. For many years, the City passed budgets that deferred payment of our debt. Refunding bonds were used not to achieve normal savings, but to scoop principal and toss it to later years. There are no scoop and toss transactions or other debt deferral tactics in this budget. We are paying the City’s debts, and not adding to a future burden.

We cannot talk about this budget without talking about taxes. The City cannot achieve structural balance and fiscal stability without having revenues that increase with inflation, as our costs do. In order to achieve balance in fiscal year 2025, we have proposed a property tax increase which brings the total Levy to the amount it would have been if the Levy had increased with CPI since 2019. Without this property tax increase of $300 million to bring us in line with historical trends, the City would be required to reduce its workforce by 17% and would see critical services impacted.

As Mayor Johnson has emphasized, we are committed to responsible fiscal management. This means we are going to continue to seek out structural revenue sources which don’t put undue burden on the City’s already overextended working class. Developing a diverse set of structural revenue sources isn't just sound financial practice; it's a cornerstone of effective governance. Our pursuit of equitable and sustainable revenue streams will not only enable us to make crucial investments in affordable housing and mental health but will also provide relief to hardworking families who have struggled to put food on their table or gas in their tank. High impact structural solutions will require voter or state action (or both).

The City has home-rule authority, which is meant to give us the ability to find local solutions to local problems. While this sounds great – the reality is that almost half of the City’s revenue comes from sources controlled by the State. This includes funds received from the income tax, the personal property replacement tax, as well as the general state sales tax. Over the past three years, we have received, on average, $1.5 billion from these sources alone.

We are limited in our ability to effectively raise enough revenue to fund city operations. The revenue raising levers we can pull are the ones you will see included in this budget, while for longer term structural solutions, we look forward to working with our counterparts at the State.

The Governor's Office of Management and Budget just this week announced a $3 billion budget shortfall in fiscal year 2026. This is expected to grow to $5 billion by 2030. We are not alone in needing more equitable solutions.

We anticipate this looming fiscal cliff for the state will lead to some action next year. We hope to pursue multiple options – including one I have been touting since this Spring. We would like to see the State close the sales tax loophole that currently exempts services and help residents of the State of Illinois and the City of Chicago who currently pay higher than necessary sales taxes by expanding the base and reducing the rate. We will continue to advocate to the State and other municipalities through their Spring legislative session for progressive revenue legislation that will provide cities in Illinois, not just us, with revenues that more equitably target higher income spenders to fund services that residents rely on.

The City has undergone numerous rating upgrades over the past two years, including two upgrades during calendar year 2024, which reflect improvement in the City's finances. This budget sustains our sound practices and prudent policies, and we strongly expect this proposed budget will maintain our ratings. The City of Chicago has stable or positive rating outlooks from each rating agency across our general obligation, water, wastewater, O'Hare, Midway, or STSC bonds, and this budget will support those ratings.

The rating upgrades signal the progress that the City has made in addressing our long-standing pension and debt obligations, but most importantly the rating upgrades are not a feather in our cap but rather a path to lowering our borrowing costs. As we use municipal bonds to fund our Capital Improvement Plan, our Housing and Economic Development Bond projects, and other important investments throughout the City, the reduction in our borrowing costs frees up resources for other City priorities.

Through the stabilization of pensions, diversification of structural revenue sources, and strategic capital and social investments, we are transforming Chicago into a thriving hub for living, working, and investment. It is our expectation that these endeavors will be reflected in improved credit ratings in the future and more importantly in the fiscal stability that will allow the City to budget for our key priorities going forward.

I want to thank my team – Noor Shaikh, Deputy CFO and Chip Hastings, Deputy Director along with Brendan White and Steven Mahr, Assistant Commissioner and Debt Managers, Vegiovanni Dardovski, Assistant Commissioner and George Adams, who is our resident pension expert and the rest of my team for all the support that they have provided for this budget and for the work they do all year long.

I extend my gratitude to Chairman Ervin, Vice Chair Lee, and all members of this body for joining us today to deliberate on the 2025 Budget. I eagerly anticipate collaborating with each of you to forge a financially robust Chicago that will continue to serve our residents for generations to come.