STATEMENT FROM BUDGET DIRECTOR ANNETTE GUZMAN TO THE COMMITTEE ON BUDGET AND GOVERNMENT OPERATIONS REGARDING THE 2025 BUDGET RECOMMENDATION

To Chairman Ervin, Vice-Chair Lee and Honorable Members of City Council, good morning.

Today, I come before you to present this administration's second budget – a $17.3 billion budget recommendation that was developed with input from department heads, community stakeholders, residents and members of city council. It is often stated that budgets are moral documents – reflecting not only our priorities in the coming year, but also our vision for the future. The 2025 budget represents this administration's commitment to investing in our communities while also taking meaningful steps towards correcting our budgetary structural imbalance. With personnel costs rising at a far faster rate than the city's revenues, the City is faced with significant choices not only this year, but in the years ahead as we seek to stabilize the city's finances, chart a path to sustainability for our pension obligations, and continue to invest in the critical services and infrastructure that residents rely on. While the budget recommendation represents a 3.5% increase to the City's total appropriation year-over-year, that increase is due entirely to increases seen in our grants fund, enterprise and special revenue funds, and our pension funds. The City's Corporate Fund, which supports the majority of our operations, will see a decrease of 1.5%, or $85 million dollars year over year.

Working with my colleagues in the finance department, we approached this year's Corporate Fund budget gap of $982 million with a goal of closing it through structural means rather than an overreliance on temporary one-time fixes that would only serve to kick the can down the road. Thus, to close this year's gap, this budget recommendation includes over 80% of structural fixes, while ensuring the continuation of critical City services through no reduction in the City's workforce. More specifically, this year's budget gap was closed by:

- Over $400 million in revenue improvements from forecast, including:
    - $208 million in one-time revenues, the strategic use of the City's fund balance reserve, the declaration of a higher TIF surplus netting additional dollars to the City, our sister agencies and other taxing districts in the County, and through improved debt collection efforts.
    - $21 million in increases to existing revenue sources.
    - $215 million in re-forecasted revenue projections, including funding for the MEABF payment and anticipated recovery from fine and fee enforcement.
- Over $300 million in expenditure reductions from forecast, including:
    - Over $43 million in savings due to healthcare savings and re-forecasting of the city's anticipated obligations for employee wage and salary expenses.
    - Over $248 million in operational efficiencies within department budgets and finance general, including through vacancy reductions.

    - $2.9 million in savings by shifting eligible costs to grants and the city's special revenue and enterprise funds.
- $300 million increase to the base property levy, reducing the amount of corporate fund subsidy to the pension funds while maintaining the City's commitment to adequately funding our pension funds.

I want to acknowledge that the decision to implement an increase to our base property tax levy was a difficult one for this administration to present to City Council and the property owners of this city. It was not one that was made lightly or without an implicit understanding of how such increases are felt differently across property owners. So, how did we arrive at a $300 million property tax increase? After working to include over $700 million of revenue increases and expenditure decreases, we were faced with the remaining $300 million gap….a gap that is partially due to the precipitous decline of one of our larger revenue sources. To be clear, this wasn't a gradual decline of a key revenue source over several years. Rather, over the course of <u>one year</u>, the City has seen a decline of over $160 million in the Personal Property Replacement Tax, which is the corporate income tax collected at the state level on behalf of municipalities. We anticipate this decline to carry forward into next year based on data received from the state, further reducing the resources available to support operations within our corporate fund. Thus, faced with this significant decline in a corporate fund revenue source and the prospect of significant layoffs and additional cuts to critical city services, the administration has proposed a budget that raises the base property tax levy by an amount equal to the amount the city would have raised had the levy been increased by CPI each year since 2022. This increase will support the city's pension obligations while reducing the corporate fund subsidy allocated to the pension funds – thus redirecting such corporate fund revenues to support critical city operations.

I want to take a moment to provide further details on what we see as the impact of not raising the base property tax levy. We understand the desire to increase the amount of one-time revenues in this budget through not paying the advance pension payment or sweeping eligible grant funds. However, those dollars, if used, will no longer be available next year to support our growing costs. As you have heard me mention in briefings throughout the year, our costs grow by at least the rate of inflation each year due to contractual salary obligations and baked in increases in our multi-year commodities and equipment contracts. Thus, it will take ongoing revenue sources that increase at least the same rate to ensure we are supporting our expenditures. Without this property tax increase, we would face a significant reduction in personnel funded by the corporate fund, thus resulting in a decline in city services. With close to 63% of the corporate fund supporting personnel costs, 78% of corporate funded positions consisting of police and fire personnel, and the average salary of a filled and budgeted position within CPD around $114,000, to achieve an additional $300 million in savings on the corporate fund, we would have to touch positions, and most critically, our public safety infrastructure. In evaluating the cuts needed to achieve such cost savings, our analysis reflects we would have to reduce corporate-funded positions by another 17%, or 4134 positions, with the bulk of that born across our larger public safety and infrastructure departments. With over 60% of that coming in the form of personnel layoffs, critical city services would be significantly impacted, public safety within our communities would suffer and it would make our workers less safe.

Thus, with this budget recommendation we seek to balance making responsible position and programmatic cuts with proposing revenue increases, and the strategic use of our fund balance and other one-time revenues, such as a larger TIF surplus, to lessen the impact of a property tax increase. This approach is married with our continued commitment to strengthen our pension funds through the payment of both the statutory contribution as well as an advance payment in order to lessen the burden on taxpayers in the immediate term and the future, while also making modest investments in the priorities identified by Chicago communities.

This budget is the culmination of over 8 months of planning…working with departments on their critical operational needs for the coming year, hearing from residents and youth during our 4 public budget forums, meeting with city council caucus leaders to identify priorities within their caucuses and broader communities, and evaluating revenue options for near term and future consideration and implementation. This year, through our partnership with the Mayor's Office of Community Engagement, OBM worked with the Great Cities Institute at the University of Illinois at Chicago to begin the 2025 budget engagement process earlier than ever before. Working with members of City stakeholder groups to co-design each phase of this year's budget engagement process, OBM and the Mayor's Office hosted over 550 residents at four roundtables, collected over 390 budget surveys and received over 850 written comments about what should be prioritized in the 2025 budget. In particular, this year saw over 200 youth attend the youth engagement roundtable where we learned that high amongst their priorities was expanding services to persons experiencing homelessness, alternate response programs, broadband access to underserved communities, and most, importantly, youth employment opportunities.

These priorities align with what we also heard from the broader community and is why this budget includes increased investments to strengthen the city's shelter network by more than doubling the bed capacity to 6,800 – and hiring local community based organizations to operate and provide services at the shelters. This budget also continues the work of expanding our mental health network with continued investment in the three new clinics opened this year and dedicating $2 million to create a new dispatch unit within the Office of Emergency Management & Communications to triage calls and dispatch services to ensure those who are in need receive the necessary mental health support. Through investments from the American Rescue Plan Act and the Chicago Recovery Bond, the City will leverage one-time funding and city real property assets to standup sustainable, cost-efficient initiatives to connect households to affordable and reliable home broadband through our Neighborhood Broadband Connectivity Initiative. And this budget will also assist 30,000 youth obtain paid employment across career sectors – this is an increase of 2,000 jobs over this year and over 8,000 jobs since 2023. And these are just a few of the retained and new investments this budget supports.

Speaking of the American Rescue Plan Act, when I came before this committee during last year's budget hearing I highlighted the work that my office, together with the Mayor's Office, would be implementing over the course of this year to analyze the City's ARPA spending plan, speed up distribution of the funding to the communities that needed it the most, and ensure that spending deadlines set by the US Department of Treasury were met. We set clear milestones to ensure we accomplished that goal, including establishing a Steering Committee -- consisting of the heads of the Department of Law, the Department of Finance, the Department of Procurement Services, OBM, and the Department of Technology and Innovation, and created new governance structures, to support all departments in the administration of this historic federal investment within our city. We also worked with members of City Council to understand how best to prioritize this temporary funding source to support programs that would directly address the historical disinvestment experienced in communities throughout our city, which were only heightened by the pandemic. Armed with a detailed programmatic and financial analysis of each program, operational information from our departments, and priorities identified by the Mayor and City Council, we re-launched the City's Road to Recovery ARPA spending plan this spring, detailing how the remaining funding allocated to community initiatives would be used to support communities across the city who are still recovering from the pandemic. Through these efforts the City has made significant strides in getting dollars into the communities who need it the most and we are proud to say that since June of 2023, over $314 million of the City's ARPA funding has been spent and we a few weeks away from finalizing all necessary agreements that will get us to 100% obligation, ahead of the Treasury's deadline. In addition, we recently launched a public website that helps members of the public learn about the different resources and programs available through this investment, as well as track the spend and programmatic impact of each initiative. I want to thank our department heads and their teams for the time they have put into not only administering each program, but the countless hours they put in with our delegate agencies, contractors and staff to ensure these dollars are touching the communities in greatest need. I'd also like to thank my partners on the Steering Committee, and DTI in particular, for their leadership in developing a website that speaks to our commitment to transparency around the work we do.

Today, I am joined in the box by my senior leadership team, including Jonathan Ernst, First Deputy Budget Director, Kevin Murphy, Managing Deputy Budget Director – Workforce Management and IT, and Matthew Schmitz, Managing Deputy Budget Director – Grants Operations. We couldn't do this work without the dedication and expertise of our colleagues in the budget office, who are listening intently to not only this hearing, but will be working tirelessly over the next several weeks responding to inquiries from member of City Council, our departments, and the public. I want to personally thank each of the members of my staff and my finance co-leads, Comptroller Chasse Rehwinkel and Chief Financial Officer, Jill Jaworski, for their support and commitment to this city.

After you have heard from the CFO and Comptroller, me and my team are happy to answer any questions that you have.