

**STATEMENT FROM BUDGET DIRECTOR ALEX HOLT ON 2012 BUDGET PROPOSAL
CITY COUNCIL COMMITTEE ON BUDGET AND GOVERNMENT OPERATIONS
WEDNESDAY, OCTOBER 19, 2011**

Good morning, Chairman Austin, Vice Chairman Reilly, and the members of the Committee on Budget and Government Operations. It is my pleasure to meet with you today to discuss Mayor Emanuel's proposal for the 2012 budget.

Over the past several months, I've received thoughts and ideas from nearly every member of the City Council, and I truly appreciate your experience and expertise. I share your commitment to building a balanced budget that brings the city's finances back on track.

Year after year over the past decade, the annual budget did not cover expenses. The effects of the national recession made a bad situation even worse. It also made it clear that our city budget has a structural problem, and that Chicagoans have more government than they can afford.

As Mayor Emanuel said last week during his address, a budget is about priorities. We can either start shaping our city's future, or let it shape us. By addressing this structural deficit head on, we have an opportunity to reshape city government and get it right.

We must take a fresh look at our operations and ask the hard questions: What programs do we need? What services are essential? How can we provide the highest quality services as efficiently as possible?

In late July, we delivered a preliminary budget estimate for 2012 that projected a corporate fund shortfall of \$635.7 million.

Mayor Emanuel's balanced budget proposal focuses on current needs while still investing in the future. It provides Chicagoans with quality services at a more affordable cost.

The 2012 budget proposal does not contain an increase in sales, utility or property taxes. It does not propose a new city income tax. And it cuts in half the employee head tax.

It makes tough choices about cutting expenses, while encouraging innovation and the reinvention of City government.

It looks first to cutting expenses and reinventing government, before looking to new revenue resources.

When we add up all the cuts, all the reforms, all the efficiencies and all the savings in this budget, it comes to a total of \$417 million, which eliminates two-thirds of the deficit we're facing.

At the same time, it includes some new revenue increases, without which it would be impossible to eliminate the deficit while maintaining and improving the vital services that Chicagoans deserve.

OVERVIEW

First, I'd like to give you a brief overview of the key numbers in this budget proposal.

Total net appropriations under the 2012 proposed budget are \$6.3 billion across all local funds, an increase of 2.1 percent from the 2011 budget. With an additional \$1.9 billion in anticipated grant resources, the total proposed City budget for 2012 is \$8.2 billion.

The City's corporate fund budget decreases by 5.4%, or \$177.1 million, to just under \$3.1 billion. That is a very significant drop in expenses compared to previous years, particularly given contractually-mandated pay increases for most employees.

Budgeted positions decrease by more than 2,600 from 2011 levels to 32,284. That is the fewest number of positions in more than a decade, and 10,000 fewer than there were in 2000.

The shortfall between revenues and expenses in the 2012 preliminary budget estimates of \$635.7 million is largely due to the absence of one-time revenue sources, which included \$310 million from the City's parking meter and skyway lease reserves in 2011.

The City received a total of \$3.1 billion in proceeds from the lease of the parking meters and Chicago Skyway, as well as a deposit from the failed Midway transaction. Yet, over the past seven years, the City has transferred more than \$1.8 billion – or more than 58% of those proceeds and interest – into the corporate fund to cover expenses.

As we move away from our recent heavy reliance on these one-time revenue sources, the overall resources available to the City are severely reduced. In addition, the City is anticipating a decline in certain tax revenues that are continuations of declines that began in 2011.

Income tax revenues are expected to drop again in 2012, as are telecommunications taxes, employers' expense taxes, and personal property replacement taxes. At the same time, some revenue sources including sales taxes are expected to show modest gains that will slightly offset these losses.

To balance the budget, the City is proposing a number of expense reductions, management initiatives, and targeted revenue enhancements.

GOVERNMENT REFORM AND MANAGEMENT INITIATIVES

As Mayor Emanuel said last week, it's time to provide Chicagoans with an honest city budget – one that focuses on current needs while still investing in our future. Simply put, we need to cut and invest.

That includes the continued investment in our infrastructure through the capital plan. We will not reduce the funding for neighborhood improvements through the aldermanic menu program next year, maintaining the program at \$1.32 million per ward. As soon as the budget process is completed, we intend to begin discussions with you right away to start the 2012 menu process and develop the 2012 capital program.

Due to the need to address the City's structural deficit, the City has taken on the substantial task of reevaluating the way in which it operates. This challenge includes making the difficult decision to reduce the City's payroll to match available revenues.

The decision to cut employees is not entered into lightly, but with personnel costs making up 84 percent of corporate fund expenses, it is unfortunately needed to preserve the financial health of the City. These reductions are made with the goal of continuing to provide critical services to Chicago taxpayers at a price they can afford.

The 2012 budget plan reflects a total of 517 additional layoffs, effective January 1st across all funds, for a savings of \$24.3 million.

We will also permanently remove from our payroll more than 2,100 budgeted vacant positions. Many of these positions have remained unfilled for a long time.

Libraries

Mayor Emanuel recognizes that Chicago branch libraries serve as vital community anchors in our neighborhoods. So while other cities across the country are shuttering large parts of their systems, Chicago will not close any libraries in 2012.

But to bring down expenses, our branches will have to reduce service by eight hours a week. With cooperation from the union representing library employees, the City can keep the branches open six days a week, while reducing the hours on Monday and Friday mornings, which we believe will have the least impact on residents. The move will save \$6.6 million, and most importantly, keep all of our branch libraries open.

Public Health

In the Department of Public Health, we will consolidate the city's 12 mental health clinics into six by partnering with community providers to offer improved service at a lower cost. The City will maintain and improve services for those most in need—uninsured patients—but provide the services in a more cost-effective manner. The department will have a team in place to ensure that each and every patient will continue to receive care, and that no one is left behind.

And as Mayor Emanuel announced earlier this year, the Department will also transition seven City-run primary care health clinics to federally-qualified privately managed community health clinics by June of 2012. Last year, CDPH clinics performed 84,000 visits to 29,000 unique patients at a cost of more than \$300 per visit. Community clinics will service the same patients for approximately \$131 per visit for the same or better care. This plan is based on trial programs that were successful at two of the clinics in the Englewood and Uptown neighborhoods.

Through these two health initiatives, everyone will still have a place to get the care they need, with a higher level of quality, and for a lower cost to taxpayers. It is important to be clear that no Chicagoan who is currently being served today will be without health services next year as a result of these changes.

Department Consolidations

In 2012, the Department of Environment and Office of Compliance will be reorganized and their duties and programs absorbed into other departments in order to eliminate more administrative expenses while maintaining the important functions of these departments. The Department of Environment's role in overseeing and developing the City's environmental policies will be assumed by the Chief Sustainability Officer under the direction of the Mayor.

The consolidation of the Departments of Finance and Revenue and the combination of Fleet Management and General Services will be also be complete by the start of 2012.

Chicago Innovation Loan Fund

This year, the City will launch the \$20 million Chicago Innovation Loan Fund to invest in new technologies and keep Chicago ahead of the curve. The fund will make loans to City departments for projects that could not otherwise be undertaken given the existing tight budget.

The Chicago Innovation Loan Fund will be used for projects that achieve cost savings, revenue gains, or service improvements within City government through innovation, accountability, efficiency, and entrepreneurship. For example, the Fund will invest in projects such as retrofitting streetlights to cut electricity bills, streamlining the inspections system to cut administrative costs and reduce burdens on Chicago's businesses, or making a "one-stop" application process for after school programming.

Once approved by an oversight committee, each project will be monitored and evaluated on the savings or gains it achieves. Savings and revenues achieved through these projects will be returned to the loan fund. The principal will be replenished as individual projects pay back their loan, providing the funds needed to finance future innovation projects on an ongoing basis.

Grid-based Garbage and Competitive Bidding

In 2012, Chicago will move to a grid-based system to collect residential garbage. Currently, Chicago is the only major city in America that collects trash based on political lines rather than on a street grid. Using such an antiquated system contributes to inflated costs - Chicagoans pay \$100 more per ton to haul away trash than Boston or Los Angeles.

The old way of doing things is no longer sustainable. As we move to a more efficient grid system, each ward will continue to have a Streets and Sanitation Ward Superintendent to help the aldermen address the individual needs of each community.

The City has recently moved to reform and expand recycling services in Chicago by introducing competitive bidding. Today, private companies employing union workers are delivering recycling services in some parts of the city while other parts of Chicago are being served by City workers. They are competing with one another to deliver the best service at the lowest cost to taxpayers. The City intends to extend this healthy competition to several other services in 2012.

In the Department of Streets and Sanitation, there are some reductions in the resources dedicated to graffiti removal and vacant lot cleanup. Reducing resources in this area will allow the department to continue to provide critical sanitation services. With cooperation from the union representing painters, we may be able to mitigate some of the planned reductions in graffiti removal.

In the case of neglected vacant lots and buildings, the City will be taking greater steps to ensure that property owners are held accountable in part by increasing the fines for allowing property to become a neighborhood nuisance. The Law Department is dedicating more staff to tracking down owners of nuisance property. This will reduce the burden on taxpayers and force these property owners to become better neighbors. Further, the City is taking steps to address the root of the vacant lot problem, by tightening regulations on foreclosure.

Public Safety Improvements

A city government's first responsibility to the people is to keep them safe. The best way to do that is to put more police officers on the street. In 2011, the Police Department returned more than 1,000 officers to beat patrol.

In 2012, Chicago will be the first large American city to combine police and fire services into one, coordinated public safety headquarters, leading the nation with this new way to serve and protect. The move will save administrative expenses, and provide better coordination between the public safety departments.

At the same time, the Police Department will save additional expenses and put more officers on the street by consolidating three districts in old, outdated buildings into more modern facilities that better serve the public and the officers.

Part of the planned public safety reorganization efforts includes the elimination of 1,345 vacant positions from the Police Department in the 2012 budget, only 326 of which are vacant police officer positions. We will maintain vacant positions for 100 police officers for this and next year's cadet classes and will continue to add more officers to street patrols through improved management.

Head Tax

The administration will take a significant step in 2012 to eliminate the Employers' Expense Tax, otherwise known as the "head tax," which has been a deterrent for businesses to start and grow in Chicago. Currently, businesses with more than 50 employees are charged a tax of \$4 dollars per employee per month. The tax rate will be reduced by 50 percent in 2012 and completely eliminated by 2014.

Phasing out the "head tax" will help encourage businesses to hire more employees and help boost the local economy. The \$20 million in annual revenue that will be returned to these businesses when the head tax is fully phased out will have a multiplier effect through the hiring of new workers and the purchase of additional supplies.

Employee Wellness

Another important reform is the City's new wellness program for City workers. Such wellness programs have been proven to significantly reduce employee health care costs, which have increased by 10-12 percent each year. By better managing chronic conditions and diseases and investing in the health and wellness of our workforce, the City will save more than \$20 million in 2012. We are thankful to have the agreement and partnership of nearly every city employee union in this important initiative.

REVENUE ENHANCEMENTS

We are working to ensure that the City utilizes its revenues as efficiently and effectively as possible. Any increase in fees must correspond to an increase in benefits for Chicagoans.

At the same time, rather than unfairly increasing the financial burden on our residents alone, the City will work to make sure that those who use City services are paying their fair share.

Water/Sewer Rates

While Chicago sits on the shores of a tremendous supply of fresh water, we have not been good stewards of this precious natural resource. Today, the delivery of quality water is threatened by the aging system that provides it. Chicago has approximately 900 miles of water pipe and 1,500 miles of sewer pipe that are more than a century old, and we cannot delay its repair and replacement any longer.

Chicago has one of the lowest water rates in the country. In the 2012 budget, the City proposes an increase in the fee for our water and sewer system to bring Chicago in line with national averages. In return, we will greatly accelerate its repair.

The fee for water service will go up by 25 percent in 2012, 15 percent more in each of the next three years. At the same time, the sewer rate will gradually rise to equal water fees over the course of four years. Thereafter, both fees will be adjusted upward only with an increase in the Consumer Price Index, not ever to exceed 5 percent. This will keep the price of delivering fresh drinking water to Chicago and 125 suburban communities on pace with broader economic trends.

The City is encouraging residents to sign up for a water meter so that they will only pay for the water they actually use, rather than be assessed based on the size of the building, the number of floors in the building, the width of their lot and unlimited water use. As part of the MeterSave program, there is a guarantee that their bill won't be greater than it would have been had the meter not been installed. Even with the proposed rate increases, an average homeowner who signs up for a meter now will realize significant savings on their water and sewer bills.

This plan provides for \$330 million in additional water revenue over the next four years alone to invest in our city's aging water infrastructure. Suburban customers will help pay for the system that benefits them, contributing about \$154 million to those water infrastructure investments, or about 47%.

Over the next decade, Chicago will replace all of our century-old water pipes; reline or replace more than half of our century-old sewer lines; replace 140,000 sewer catch basins; and upgrade the system's four aging water pumping stations. The accelerated repair schedule made possible only through this rate increase will not only protect our health and safety by ensuring delivery of clean water, but it will also boost our economy by creating 18,000 jobs over the ten years.

Fee Waiver Reform

We can no longer ask residents and local businesses in Chicago pay for building permits, licenses and water services, while many non-profit organizations and businesses have had these fees waived. Beginning in 2012, there will no longer be waivers for these services for those entities that can afford to pay their fair share.

There will now only be a few exceptions for the waiver of fees for services and permits. Our senior citizens will still continue to benefit from a waiver of sewer charges. Hospitals that serve a large number of Medicaid and uninsured patients will be granted a 20% discount on all fees.

Congestion Premium

On a typical work day, Chicago's central business district is jammed with vehicles that pollute our air and damage our streets. A new congestion premium averaging \$2 a day for parking in downtown lots on weekdays will be a motivation for drivers from the city and suburbs to take public transportation. At the same time, the funds collected from this congestion premium will help fund various transportation-related projects and will put Chicago in a better position to receive matching federal transportation funds.

City Vehicle Sticker

In 2012, we have proposed an increase in the cost of a City sticker for the heavy vehicles that do the most damage to our roads.

Chicago's roads are in desperate need of repair. In 2010, City crews filled in more than 427,000 potholes on neighborhood streets, but as you know, we are still not doing enough. We pay for pothole repair, and residents are still incurring damage to their cars, sometimes filing claims against the City to recover their costs. Raising the vehicle sticker fee for big cars and trucks will help repair our streets and protect Chicago's residents.

The additional revenue will allow us to fill 160,000 more potholes, nearly a 40 percent increase over this year.

The City has not adjusted sticker pricing to account for a new class of SUV that has emerged in the past decade. The proposal lowers the threshold for larger vehicles, from 4,500 pounds to 4,000 pounds, to reflect the relative effect on City roads of different-sized vehicles. The small- and mid-sized vehicles weighing less than 4,000 pounds would remain at \$75, while the larger-sized passenger vehicles over 4,000 pounds would be raised to \$135. It is important to point out that 75 percent of Chicagoans who drive cars will see no increase.

The stickers for commercial trucks would be raised from \$420 to \$450 for those under 16,000 pounds and from \$180 to \$200 for those over 16,000 pounds. Motorcycles and vehicles of senior citizens would also not see a change in fees. Starting in 2014, all vehicle stickers will see a percentage increase based on any increase in the Consumer Price Index, not to exceed 5 percent. That rate adjustment will occur every two years.

Loading Zone and Valet Fees

Currently, public space across the city is being used for loading zones and valet spaces at less than the market rate, causing the City to lose potential funds and cheating the taxpayers. With this change, loading zone fees for installation of signs and annual maintenance downtown will increase from \$100 to \$500; similar fees for loading zones in the neighborhoods outside of downtown will remain at \$100. We will also reduce the size of a standard loading zone from 25 to 20 feet, and raise the annual rate for additional feet from \$14 to \$40 per foot.

For valet space, the City will move to an hourly rate that brings the fees to the market value of the space. These increases bring the City's rates in line with the market, and the increased revenue will help increase investment in maintaining the city's infrastructure, creating smoother and safer streets for all Chicagoans

Hotel Tax

Each year, Chicago hosts 40 million domestic and overseas visitors, including nearly 29 million domestic leisure travelers, 10 million domestic business travelers, and one million overseas visitors. The contribution to our local economy and the jobs created or maintained by their visits to our great city is invaluable. To avoid eliminating any of the events that millions of people from around the world come to see, we will impose a small 1 percent increase in the rate. To put it another way, visitors who stay in Chicago's hotels will pay an additional \$1.78 a night per room.

Increased Fines for Criminal Activity and Nuisances

The City will impose greater fines on those who put our communities at risk. Fines will double for driving under the influence, illegal possession of firearms in a vehicle, solicitation, and other public safety violations. If these activities occur with the vicinity of a school, the fines will triple. In addition, fines targeting vacant, dirty, and blighted properties will be increased, incentivizing owners to clean and maintain their properties, whether they are an individual or a bank.

TIF Reform and Surplus

Unencumbered funds sitting in neighborhood TIF accounts do not put people to work or spur economic development, which is what TIF dollars are intended to do. As a new policy, the City intends to declare surpluses in TIF funds across the City every year. Declaring surpluses on an annual basis is consistent with State law and with what our TIF Task Force recommends, as well as other civic groups and watchdogs. As we work to finalize performance metrics for each of the TIF districts, the City will declare a conservative surplus of 20 percent of the uncommitted funds in all eligible districts. The result for 2012 will be \$12 million in additional corporate fund revenue.

By conservatively declaring an annual surplus of 20 percent of uncommitted funds, the majority of those funds in each district will remain available for future developments, including public capital projects like new schools, streetscape improvements and open space development. At the same time, the City and other taxing bodies will see an annual benefit from additional operating revenue.

By looking to a larger number of TIF districts to generate a surplus than was done last year, we seek to be more equitable to the neighborhood TIF districts as none should be impacted in a disproportionate way. And by launching a policy to declare TIF surpluses every year, we will have in place a long-term TIF surplus strategy, instead of relying on one-time approaches.

CONCLUSION

The City of Chicago must address its budget challenges directly and provide Chicagoans with a budget that focuses on current needs and invests in the future.

Mayor Emanuel's 2012 balanced budget proposal makes sure everyone pays their fair share rather than increasing the tax burden on all residents. It encourages businesses to invest and grow in Chicago, and reclaims our neighborhoods and rebuilds our infrastructure.

This proposed budget makes meaningful changes to the way in which the City conducts its business; it challenges City departments to be creative, innovative and entrepreneurial; it provides the people of Chicago with quality services while improving the management and efficiency of government; and it keeps City services affordable for Chicago's taxpayers.

I'd again like to thank the members of the City Council who have brought their ideas to me and my staff throughout the development of this budget proposal. I look forward to our continued discussions during this process.

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