Statement of the Comptroller Amer Ahmad
2012 Budget Proposal
City Council Committee on Budget and Government Operations
Wednesday, October 19, 2012

Good morning Chairman Austin, Vice-Chairman Reilly, and members of the City Council. Thank you for the opportunity to speak with you today about the Department of Finance and Revenue's 2011 accomplishments and our plans for the 2012 budget.

I would like to begin by discussing the ongoing merger between the Departments of Finance and Revenue. In May, Mayor Rahm Emanuel announced his plan for simplifying, centralizing and coordinating City services. To help achieve the Mayor's goal of streamlining the structure of City government, we have made several changes to consolidate these departments. The combined budget for the two departments, as well as the portion of the Office of Compliance we absorbed, in 2011 was $69.6 million; the total proposed 2012 budget has been decreased to $67.4 million.

The Comptroller's Office and the Department of Revenue have already implemented several fundamental changes to merge into one agency. I am committed to making this a thoughtful process that not only reduces duplicative functions, but also supports and increases the overall productivity of both departments. As we consolidate, we will stay true to four goals: cut costs, maximize revenue, increase efficiency and enhance transparency.

We began the process with an in-depth assessment of both departments, meeting with all senior managers and reviewing their respective programs, budgets and staffing levels. Employees in each department met several times to identify roles, responsibilities, and the transferring of duties to ensure that nothing was overlooked. Our consolidations in key areas have made overall operations far more efficient. These areas include: human resources, finance and administration, contract management, budget management and performance management.

The new, combined department will have a lean organizational structure, with fewer senior and middle management positions and fewer divisions, while providing increased levels of service prior to the merger. Our organizational chart shows that we reduced six senior management positions and consolidated 12 divisions into four major programs – Accounting and Financial Reporting, Financial Strategy and Operations, Revenue Services and Operations and Administration.

We have also redefined our purpose: Our mission at the combined Department of Finance is to collect revenue and provide effective and efficient management of City resources. It is our responsibility to safeguard the City's financial position by maximizing revenues, monitoring expenditures, managing benefits and risk exposure, overseeing the debt portfolio and issuing and reporting audited financial information.

I now would like to share more specifically some of these accomplishments with you and preview our plans for 2012.

Payments to Vendors: Maximize Efficiency

In 2011, the City centralized invoice entry and payment processing at the Office of the City Comptroller for most contracts. For all eligible contracts, invoices are sent directly to the Comptroller's office for expedited processing, decreasing the time it takes to pay vendors. We have already seen a reduction in the time to process a voucher, as nearly 30% of invoices are now paid using this centralized process.

In 2012, we expect to see continued improvement in the time it takes to pay vendors. We are also planning to move vendors from traditional check payment to faster, more cost efficient methods such as electronic funds transfer (EFT) and ePayables. Through these efforts, our goal is to reduce the time it takes to pay vendors by 50%.

Benefits Management: Cut Cost and Maximize Efficiency

The City's cost for employee benefits and their administration has increased in recent years. In an effort to increase efficiency and reduce costs, we are exploring other options for benefits management. We believe this is an opportune time for a best practices and industry benchmarking review of benefit management operations to determine if it is appropriately staffed and using a cost-effective combination of human and system resources to provide high-quality service to our employees.

Tax Assessments: Maximize Efficiency and Generate Revenue

The 2011 target for completed tax audits and assessments is just over 800 audits. We now project that these 800 assessments will generate nearly over $30 million in audit-determined liabilities. As of mid-year 2011, 462 assessments have been completed, which is 57% of the annual target. These assessments have already generated over $27 million and collections of $24 million. Tax enforcement efforts have produced better than expected results causing us to have already exceeded our target. We have collected more in the first seven months of 2011 than we did in any of the prior four full years.

Cost Recovery: Maximize Efficiency and Generate Revenue

2011 cost recovery revenue will exceed targets this year due to an increase in the number of cost recovery claims that have been filed. The Department of Revenue and Finance and the Office of Budget and Management have worked with several departments to identify and clear out a backlog of claims. Improvements in data capture, account research and billing processes have resulted in increased revenue in 2011.

Improved Customer Service: Maximize Efficiency and Generate Revenue

Revenue services and operations cashiering staff at all payment sites will now accept and process Water Department sewer exemptions for seniors. The objective of this initiative is to expand this service to customers at multiple locations throughout the City. This service was previously provided only at limited Water Department locations.

Employee Credit Card and Reimbursement Audit & Employee Mileage Reimbursement and Local Travel Policy Audit: Maximize Efficiency and Increase Transparency

Our department has led reform efforts directed by the Mayor through the completion of two audits that have both led to adoption of new City-wide policies. These include the Employee Credit Card and Reimbursement Policy and the Employee Mileage Reimbursement and Local Travel Policy. In both instances we found abuse, inconsistencies and an absence of clear policies. We are committed to continuing to perform these detailed assessments to enhance the transparency and accountability of city government.

Increased Debt Collection: Increase Efficiency and Generate Revenue

We will take a more aggressive approach in collecting the outstanding debt owed to the City. These debts range from unpaid parking tickets to millions owed from major banks in fees, fines, and penalties.

I anticipate collecting approximately $33 million in 2012 by cracking down on enforcement and consolidating billing processes in the Department of Finance.

Historically, several City departments performed their own separate billing and collection functions, which is duplicative and inefficient. Going forward, all billing and collection systems will be consolidated. By streamlining these functions, we will achieve higher rates of collection. Additionally, we will improve collections by consolidating debt types for individuals who owe on more than one type of debt and help them establish a manageable payment plan.

We are also committed to making sure banks who own foreclosed properties are paying their bills to the City. Our aggressive approach has already generated significant results. In May, these financial institutions owed the City $5.7 million dollars. As of September, we have decreased that amount by nearly $3 million to $2.8 million outstanding. We will not let up on these efforts.

We are not only holding these financial institutions and the people of Chicago accountable for their debts, we are holding City government employees responsible as well. As you know, it is a violation of the Municipal Code for any employee to owe debt to the City. Just two weeks ago, over 8,200 City and sister agency employees owed nearly $3 million to the City. I am happy to report in just two weeks, over 1,200 employees have come into compliance and have shaved nearly half a million dollars off of that total. We will continue to monitor this issue--each quarter I will notify City Departments and sister agencies of debt owed by employees. Employees will be alerted and given various options for payment. This is not only a matter of enforcing the law, but an important reminder that every City employee is a steward of taxpayer dollars.

Conclusion

As a public servant, I firmly believe that it is my duty to enforce positive change and improve our city. Fundamentally, government is a tool to help and serve our citizens. That idea is the foundation of these proposals. This not only means being a responsible regulator of city finances, but making changes and thinking creatively to maximize the use of every tax dollar. I am dedicated to ensuring both.

Efficient billing, debt collection and management of the City's financial resources are critical functions especially given the difficult economic environment our city and nation face. We believe our department is taking every step possible to protect taxpayers, reform government and enable our city to invest in the future for all of our residents and businesses.

In closing, I want to thank the Mayor, Chairman Austin, Vice-Chairman Reilly and all Committee members. I'd be happy to take any questions you may have at this time.

Statement of the Chief Financial Officer, Lois Scott
2012 Budget Proposal
City Council Committee on Budget and Government Operations
Wednesday, October 19, 2011

Chairman Austin, Vice Chairman Reilly and members of the Committee on Budget and Government Operations. Thank you for this opportunity to discuss the finance strategies included as part of Mayor Rahm Emanuel's proposed 2012 City Budget.

As our Budget Director, Alex Holt, has shared with this Committee, the Mayor's proposed 2012 budget represents a major step forward in addressing the structural imbalance of the City's budget. In fact, more than two-thirds of the projected deficit will be closed with reforms in how we as a government provide the services the public expects from us. We have recommended revenue increases to provide enhanced services to the public, such as investing in our streets and our water system. We have recommended improvements and efficiencies in how we provide those services, such as consolidating functions and competitively bidding service delivery to make sure we get the best deal for our taxpayers. We have also been innovative in how we are planning for the future, launching new programs like our Wellness city employee health initiative and the Innovation Fund, which will each provide taxpayers benefits for many years to come.

RATINGS

As you are aware from the press on Tuesday of this week, each of the 3 bond rating agencies has affirmed the ratings for the City's general obligation and sales tax bonds. In their comments, they stated that "the current management team is highly focused on addressing the large budget imbalance with recurring funding sources rather than use of reserves and other non-recurring measures." We have clearly struck a chord with the financial community, who has consistently expressed concern about using one-time fixes to fund annual operations of the City.

Since taking office 5 months ago, we have set a course of working very closely with analysts at Moody's, Fitch and S&P to assure that they have the information they need to rate the various types of bonds that we issue and understand the significant structural changes underway throughout the City. Every month, we brief each of the agencies on key developments, providing a comprehensive look at City finances as they evolve. The rating agencies have applauded our communication strategy and financial management and are supportive of the path that we are on. They have recognized that financial strength comes not just from raising taxes or cutting expenses but from a concerted effort to rebuild the economy and set in motion the processes to achieve long-term structural balance. The rating agencies, like our taxpayers, are closely watching the City and its leaders to gauge our willingness and ability to make the tough choices. By averting a rating downgrade the City will save approximately $1.5 million next year on the bonds we are about to issue and $30 million over the life of the bonds we will issue later this year.

2012 BOND ISSUES AND THE CAPITAL MARKETS

The recommended budget includes a number of specific finance strategies. The bond markets remains quite favorable to governments. Overall, interest rates remain very low and are not expected to increase measurably during 2012. Earlier this year, the U.S. Federal Reserve Bank announced that it does not anticipate raising the Fed Funds rate for two years. That has kept rates for tax exempt bonds very low.

For 2012, we have proposed a continuation of the multi-year strategy begun in 2009 to restructure debt to make annual debt service payments a more manageable proportion of the City's annual Corporate Fund budget. The proposed budget includes reducing debt service in 2012 by an additional $50 million, leaving $100 million in annual general obligation debt service for 2012. This represents 1.5% of the 2012 Corporate Fund budget projection. I want to point out that restructuring debt year-by-year is a much lower cost solution for the City than doing a multi-billion bond offering that would fix this problem on a multi-year basis 2011 BOND ISSUES

It should be noted that earlier this month, we introduced bond ordinances for two, long term fixed rate bond issues to complete the 2011 debt restructuring and fund capital projects for this year. The financing teams recommended for these upcoming bond issues reflect our unflagging commitment to creating economic opportunities here in Chicago and to job growth. Both the sales tax and general obligation bond issues will be senior managed by firms that call Chicago their American headquarters and that are growing their presence here in Chicago. Minority and women owned firms will have a 73% participation in the sales tax bond issue and 38% in our general obligation bond issue. These financing teams, above all else, to achieve the lowest interest rates for taxpayers but to reflect our commitment to diversity and support of local firms and those organizations committed to rebuilding Chicago's economy.

Capital Market Opportunities

The budget also assumes that we identify opportunities to reduce financial risk and take advantage of market anomalies. We anticipate that such measures will generate $10 million of resources in 2012. For example, interest rates for tax-exempt debt are considerably higher than for taxable debt. That is an unusual situation and offers us unique opportunities that may not exist at other times. We expect to be able to modify existing interest rate swap agreements to capture financial benefits for the City while keeping a manageable risk profile. This budget mandates that the CFO evaluate every aspect of our debt structure to find those opportunities and execute transactions in the long-term interests of taxpayers.

Investor Conference

On the heels of introducing the proposed budget and rating confirmation, tomorrow, we will host the first-ever Chicago Investors Conference featuring the City and its sister agencies. In addition to providing presentations on the finances of each of the City's credits (general obligation, sales tax, motor fuel tax, ORD, MDW, water and wastewater), CPS, CTA, and the Chicago Park District, will also be presenting. Over 300 people will be attending, with investors flying in from all over the nation. It will not cost the City anything – other than the time to prepare – but could save the City millions by enticing investors to buy our bonds at favorable interest rates.

Municipal Marketing

Another innovation included in the proposed 2012 budget is municipal marketing. This is a strategic initiative to utilize non-productive City assets to create a significant, sustainable, non-tax revenue stream by placing ads, sponsorships or experiential events on City-owned properties. Media industry experts have estimated that the revenue generated in the City of Chicago through out-of-home advertising is approximately $450 million. City Council has approved the administration to move forward with certain opportunities in recent years, though none have been converted into revenues. The 2012 budget requires that we aggressively pursue these opportunities in a responsible way to reflect the ethics and values of this great City.

Reserves

As Mayor Emanuel said in his Budget Address on October 12, 2011, reserves must be just that – reserves. The 2012 budget not only ends the practice of drawing down our long term reserves to pay current year expenses, we will return $20 million to our reserves during 2012.

As you know, the City established a $500 million long-term reserve with the lease of the Chicago Skyway in 2005, and set up a $400 million long-term reserve with the concession of the parking meter operations in 2009. Those reserves were to have been invested to generate annual interest earnings to transfer into the corporate fund. However, while the Skyway reserve remains intact, in recent years, the other reserve funds were tapped to close the corporate fund budget gap. We are ending that practice. In 2011, $50 million was returned to the reserve funds and we will return an additional $20 million in 2012. At year end, we anticipate reserve fund balances of $644 million, representing approximately 20% of 2012 Corporate Fund Budget.

As the economy recovers, and City finances grow stronger, we intend to further replenish those reserves.

Conclusion

The proposed 2012 budget makes significant changes to how the City provides services to our residents, how we charge and collect revenues to assure fairness, and makes us accountable to our taxpayers – now and in the future. It reduces our structural deficit by almost two-thirds and puts us on track for long-term financial stability. We will take advantage of the financial markets in a prudent way and do everything in our power to keep our costs of borrowing as low as possible. I welcome your comments and questions.