



MAYOR'S PRESS OFFICE

CITY OF CHICAGO

## State of the City

**August 29, 2019**

### **[INTRO]**

Good evening.

Thank you for tuning in.

Tonight, I want to speak to you about the state of our city and its finances.

The city's finances impact every aspect of our lives as Chicagoans – guiding how and where we invest in people, property and places. How the city handles its finances, your precious tax dollars, defines who we are and importantly, the kind of city we will be.

We have some hard choices to make. There is no doubt about that and I will not sugarcoat that reality. But I am confident, with the incredible talent in this city, working together we can make the necessary choices that will put us on sound fiscal footing not just for today, but for the future.



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Tonight is not a budget speech where I would lay out in detail every expense and every source of revenue. That will come in October.

Instead, tonight is an opportunity to explain where we are today with the budget gap for next year, the steps we have taken to date to close that gap, and to ask for your help. We need to come together and find solutions to the tough problems that we face. We need to do that now.

I promised you as Mayor that I would usher in a new era of good governance whose hallmarks would be integrity, transparency and robust civic engagement. That is what I have endeavored to do every one of these last 100 days in office. And tonight will be no different.

Let me begin by telling you we walked into a staggeringly large budget deficit for next year.

And what was worse, we were not left with any credible plan on how to fix this massive problem. If we followed the old playbook, we could have:



- Tried to muscle through another historically large property tax increase,
- Relied upon a massive borrowing scheme,
- Short changed pensions
- Or some measure of all of the above.

I fundamentally rejected these approaches.

So, what we did instead is rolled up our sleeves, and got to work to address this fiscal crisis. We focused on creating a foundational shift in the way that the city not only balances its budget. But also in the way in which we looked to the future. First, by in the short term creating structural efficiencies in the way we spend your tax dollars, and for the longer term, laying the foundation for a strategy that shifts the focus to investing in our people, our neighborhoods, and not just in our central business district. We are working to create a real growth strategy that deals everyone in, regardless of neighborhood or zip code.

In just over 100 days we have not solved every problem, but we have laid a foundation on which we can build a



better, fairer and more prosperous Chicago for all. Let me share some of the things we have done so far.

I vowed to you during the campaign that I would be a better fiduciary of your tax dollars and we are well on our way.

First, we started the process of bringing integrity back to City government. You know that on my first day in office, I signed an executive order ending the practice known as aldermanic prerogative.

Next, we passed one of the most comprehensive ethics reform packages in recent memory.

These included placing restrictions on outside employment.

Expanding oversight to ensure every elected official plays by the same rules.

Increasing fines for ethics violations.

And limiting the influence of lobbyists in City Hall.



How does government reform and integrity relate to city finances?

If you don't have a government that you trust, one that has legitimacy, we cannot move forward together, making the tough but necessary decisions that will transform our future. A government that you can trust because we operate transparently and in your best interests is a core tenet of democracy. These reforms that we have made are a critical component of showing you, not just saying it, but showing you we heard you and we will be better fiscal stewards of your hard earned tax dollars.

Aside from ethics reform, we have also started combing the city budget and contracts for efficiencies and savings. Here's where we are so far:

We have taken important steps to professionalize the \$100 million a year worker's compensation program. That program had been under the sole control of a single alderman, who is now under federal indictment. There was zero transparency in that program. An independent audit of that program found:



- Well over 600 claims were open for over a decade without any resolution, even though the City had paid almost \$300 million toward these open claims.
- And the program was ripe for fraud, waste and abuse.

Just by professionalizing that program we expect to reap significant savings.

I also hired and empowered the city's first Chief Risk Officer, Tamika Puckett, to identify areas of risk across city departments before they became a costly mess. This is a significant development in your favor.

We have also started looking at our borrowing practices and making changes there to save money. For example, we will be replacing high-cost debt – kind of like how homeowners refinance their mortgages – which we expect will generate \$100 million in savings alone.

We eliminated \$1.4 billion in short-term borrowing from big banks, which is expected to save \$22 million in interest and fees.



We have also cancelled contracts with vendors who have not delivered goods or services as promised. We will never tolerate getting short changed in any bargain we have struck.

We are also cracking down on absenteeism and medical roll abuse. It should be an obvious point that City employees are expected to work a full day for a full day's pay. Most city employees work hard every day to deliver for the residents of this great city, but some do not. Those employees have been able to game the system for far too long. They make a mockery of the people who come to work every day and deliver for residents. Those games are over.

On August 20<sup>th</sup>, we also implemented a hiring freeze across city government.

And we are implementing measures to crack down on departments that have significant unbudgeted overtime expenses.

And working with the chairmen of city council committees, we have ended the practice of certain



committees exceeding their budgets by hundreds of thousands of dollars as a matter of routine. City Council leadership understands that everyone must live within their means. I am grateful for their partnership.

Each of these measures represents important, serious steps toward addressing our financial challenges, and come October I'll address these challenges further in my budget speech.

### **[Long Term Fixes]**

In addition to these initial efforts to get our fiscal house in order, and disrupt the status quo, we have also taken steps to better invest in our people and our neighborhoods. Our long-term solution out of this fiscal mess must be premised on a growth strategy that deals in all of our neighborhoods. Small businesses, and homeowners, individuals and community-based institutions must be part of this strategy. We must expand opportunity, expand our tax base and expand our population. We need to continue to give residents and businesses of all stripes reasons to stay, to come and to grow.





There is much to do to realize these ambitious but necessary goals which are critical to our long-term fiscal health.

One of the things that I am most proud of as Mayor is our unequivocal support for immigrant and refugee communities. Why do I reference this important work in a speech about municipal finances? Because our growth strategy has to include continuing the reality of Chicago as a welcoming city. Contrary to the xenophobic rhetoric, immigrants contribute to our economy in a significant way. They always have. There is a reason why Little Village is home to the second most vital commercial corridor in our city. But when people live in fear, they don't shop in their local businesses, they don't go to work to make those businesses thrive. I stand with immigrants and refugees because it is the only moral choice.

In addition to being present in immigrant communities, I have spent time in neighborhoods that have historically not seen investment or even the presence of a mayor in years. I have listened to the stories of low-income and working-class families, like the one I grew up in, mothers and fathers who are struggling to put food on their tables,



and for whom one unexpected bill could mean financial disaster.

What I knew before and what has been reinforced over these last months is that we need to build additional supports for low income and working families because poverty is constantly knocking on their doors. Lifting people up and out of the grip of poverty will not only close the wealth gap with all of its terrible consequences, and expand the pipeline of workers, but it will close life expectancy and health gaps that rob people of the ability to fulfill their God-given potential. This is both a moral and fiscal imperative.

Thus, our pathway to fiscal health has to run through households and neighborhoods like Roseland, and Rogers Park, Austin and Englewood, from the southeast and southwest, and neighborhoods like Pullman and Park Manor. We must lead with public investment, along with private partnerships, to catalyze neighborhoods where generational poverty has people in its crushing grip. We have taken other initial steps toward creating a thriving economy for all a reality.



This includes passage of the Fair Workweek legislation. Through the leadership of Alderman Susan Sadlowski Garza, and with the support of business groups, we passed legislation championed for years by organized labor that will give hundreds of thousands of workers predictable schedules which means predictable cash flow and that makes for better, more loyal employees and stronger families.

We also took meaningful steps, along with City Clerk Anna Valencia, to curb Chicago's addiction to a regressive fines and fees system which has historically punished those least able to bear the financial burden.

- We instituted reforms on payment plans,
- Reducing City Sticker penalties
- And ending driver's license suspensions for non-moving violations.

The city of Chicago was headed in the wrong direction by sending people into bankruptcy, taking their cars and preventing people from being able to work and contribute to the economy. We have given people the ability to be made whole again. And more to come.



And we will institute a \$15 minimum wage in Chicago, starting in 2021 and not wait until 2025.

And we are going to end water shut-offs for residents facing significant financial hardships . . . because water is a basic human right.

These initial steps are important to shore up individuals and families who aren't just living paycheck to paycheck, but are constantly on the cusp of financial ruin. They need the ability to go to bed at night knowing that they can take care of themselves and their families. That Chicago has not abandoned them. Growth and financial wealth must include everyone.

But even with these efforts, there is so much more that needs to be done.

For all that we are doing and all that we will do as a city, we are also a city held back, unable to live up to our full potential due to the enormous, systemic financial challenges we have struggled with for decades . . . and the even greater financial challenges we face going forward.



While our path forward will be challenging, we will do it the right way – together, with the values of transparency, equity and inclusion shaping our decisions every step of the way.

But the reality is – despite all these efforts – we still have a sizeable gap to fill for next year and beyond.

### **[DETAILING THE PROBLEM]**

When I started as Mayor on May 20<sup>th</sup>, we walked into a projected deficit for next year of X.

As a result of all of the efforts we have made to date, and changes in our forecasting, that number has decreased by X. But that still means that the budget gap for 2020 is X.

If X sounds big, it's because it is.

It's the largest in our recent history.

A third of the gap comes from increased pension costs.



Another third increased labor costs.

Nearly \$100 million comes from the increases in servicing our debt.

\$90 million comes from anticipated lawsuits.

And nearly \$100 million more comes from a variety of other costs.

To put this into perspective, folks, for every dollar you pay to the city, 80 cents goes to pay for the cost of personnel and benefits, along with pensions.

But let me be clear: I don't see the provision of pensions or city workers as the problem. The key problem is the decades' long failure to meet our pension obligations and fix the structural problems that have led to this crisis.



## [SOLUTIONS]

There are limits to what any mayor can do alone to generate revenue. We have and continue to explore every reasonable option. “Reasonable” to me means relieving the financial burden on those least able to afford it, **AND** not driving businesses out of Chicago. These two principles will guide my decision-making about revenue options.

As your mayor, I cannot in good faith promise you that I will take any option off the table to tackle this crisis, whether it's through budget reductions or by raising revenue.

What I can tell you is that I will work tirelessly to ensure whatever options we take will be made with transparency and with working folks in mind.

And on this, too, we have already gotten started.

We are committed to a graduated real estate transfer tax. This will bring relief to homeowners whose houses sell for under \$500,000, while owners with higher-valued



homes will pay more of their fair share. We are committed to addressing homelessness and housing instability, and putting real resources toward these problems.

We are exploring revenue options to address rampant congestion that solves the problems of traffic, pollution and other issues, while simultaneously bringing in a fair source of funding.

And we are working to develop policy to stand up a robust and healthy cannabis industry. One that will not only generate revenue for the city, but creates new business and job opportunities for black and brown people who have been the victims of the War on Drugs, and who to date, have mostly been excluded from the legitimate medical and recreational markets as entrepreneurs.

And importantly, we are pursuing a Chicago casino that creates a dedicated revenue stream to pay for our pension costs. If we get the tax structure right, this will represent a structural solution to address long-term problems, not a one-time fix.





Not only that, it will also create thousands of jobs . . . help fund the State's capital plan . . . and stop the flow of over \$200 million in gaming revenue to Indiana.

As an independent study made clear, Chicago and Springfield will need to work together to get the tax structure right in order to move this plan forward.

Getting it right represents a win for both the city and our state, and there is no reason we can't arrive at a solution.

But we also have to be honest with ourselves.

If such an agreement isn't made . . .

If we don't secure this casino and the revenue it creates . . .  
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We will be forced to make painful choices on finding other revenue sources – and we all know what those are, the sources we wish to desperately avoid.



## [PENSIONS]

There still remains more work to do to close a serious budget gap.

While we are working toward balancing this year's revenue with this year's costs, two years from now – in 2021 – we will have to figure out how to pay for the increased annual cost of over \$200 million for public safety services.

Followed by another increase of \$400 million for our municipal and labor pensions the year after that.

In other words, no matter what we do for this coming budget, Chicago will be on the hook for over half-a-billion in new pension obligations over the next three years.

But as I made clear many times, pension obligations are a challenge we must meet. Dedicated city workers have fulfilled their careers with the agreement that they will retire with the dignity and the certainty pensions afford.



Our obligations are not optional.

And I will take every action necessary to fulfill the promise we made.

### **[SPRINGFIELD]**

So where do we go from here?

As challenging as our finances are, Chicago isn't alone.

It's a story being played out across our state.

Cities and towns in every corner of Illinois are grappling with rising pension costs.

Just like Chicago, they've sold their assets in order to make their pension contributions, only to find that their pensions are still poorly funded.

And just like Chicago, many of these towns have been downgraded by rating agencies because their pension burdens are so severe. This increases the cost of borrowing.



Just like Chicago has historically done, they've turned to raising property taxes.

I want to avoid that measure as much as possible, but if we don't get the structural changes that our pensions need . . . we will be presented with very hard and limited options.

Solving our shared pension problems will require the entire state to come together.

People in this state know – as I do – that I-80 is not a border.

That there cannot be a “Chicago” versus “The Rest of the State.”

All of Illinois is looking for solutions. And to really solve these problems, we all have to be partners in reform.

Working together in solidarity towards a fair and sustainable solution for every Illinoisan.

Our fates are intertwined.



That is why I intend to continue working with Governor Pritzker, the legislative leaders, and other state lawmakers, regardless of party or geography.

Illinois is only as strong as its cities and towns.

We have to do the right thing and work together to solve this problem once and for all.

I am willing to lead this charge . . . but I need *you* to join me.

I am going to press everyone involved to make sure that we solve these problems *now*.

And they must be solved in order for us to realize our *full vision* of who we can be.

It's a vision that sees us continuing our path of growth downtown but extending it into our neighborhoods and communities.

It's also a vision that has us stemming the exodus of families here in Chicago *and* across Illinois.



Doing that means creating good jobs, safe streets, and quality education for residents and their families.

It means housing that's affordable so Chicagoans can build wealth and become an anchor in their neighborhoods.

As we move forward toward announcing our budget this October, my commitment is to hear from you . . . and to be as open, transparent, and inclusive as possible.

It's time to shine a light on the budget-making process.

We've already done this by creating a more transparent Budget Forecast, which will be released tonight.

It includes a summary that Chicagoans can use to understand where their tax dollars are going.

I also want to hear from *you* in the coming weeks.

I will be hosting four budget town halls across Chicago in order to truly hear from residents, including our city's young people.



As I said on Inauguration Day, we should never settle for dividing up a shrinking pie, or pitting one part of this city against another.

Yes, some of our solutions will be hard.

Yes, they may involve putting ourselves at risk.

And if it means that I sacrifice myself politically, so be it in pursuit of the right thing.

We don't have a moment to lose.

Chicago is and must remain the economic engine of our state and the entire Midwest.

Our challenges are great, but our ability to solve them is even greater if we work together.

It's only by working together as a city and a state that we can become what we need to be.

To build and grow better together for a brighter future.



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*Now is the time.*

Together, let's seize this moment to do the right thing, to chart a new course, and put our city on a stronger path once and for all.

Thank you.

God bless you.

And God bless the great city of Chicago.

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