

CHICAGO TOGETHER

RAHM EMANUEL *for* MAYOR



Securing Chicago's Fiscal Future: A Strategy to Protect Taxpayers and Bolster Communities Across the City

Over the past four years, we have made progress in our attempt to pull the city back from the edge of a fiscal cliff. When Mayor Rahm Emanuel took office, budgets had been substantially balanced with gimmicks and one-time revenue sources, and promises were made to city workers without any way to pay for them. Though the city was rebounding from the great recession, not every community was benefiting from the growth.

Working with labor, aldermen, and community leaders, Rahm balanced four budgets and secured the retirement of more than 60,000 workers – all without raising property, sales or gas taxes. It wasn't done by cutting back on services, but by finding better, smarter ways of getting the job done.

Despite all this progress, we're only half of the way there, and the down payment we made on our fiscal future is at risk in this election. Before Rahm took office, state law was changed to require the City of Chicago to raise property taxes by \$540 million in 2016 to fund police and fire pensions. Unless we are able to collaboratively pass legislation to modify our pension structure and put in place a smart funding formula, property tax bills will explode next year. Rahm's framework will stop that property tax increase and put our city and our pension funds on a solvent and strong financial path.

On the other hand, what we know about Chuy Garcia's plan is that it would cost Chicagoans more and take our finances back in time. Chuy's budget is full of costly new promises and light on any specifics, and he refuses to say whether he will even defend the laborers and municipal pension plan that improved our finances. That landmark plan was agreed to by nearly 30 unions, passed by the state legislature and signed by the governor last year. In fact, that plan is the only approach in the state that successfully secures the two pension funds with support from employees, retirees, and taxpayers, and provided a first-ever city funding guarantee that would go away without the agreement. Make no mistake, if we follow Garcia's path, it will inevitably lead to huge new property tax increases or drastic cuts in services. Destabilizing our city finances will send employers and families fleeing again.

Voters deserve clear proposals on how the candidates are going to address the looming pension crisis, which is also the cause of the growing budget deficits we face. And voters deserve a plan that starts with reform before ever broaching the potential of new revenue.

Though each pension fund is slightly different, there are several areas where agreement can forge a sustainable solution. This is the same strategy we followed in cooperation with 28 unions that led to securing their pensions last year, and it will be the roadmap for how we will approach safeguarding the pensions of our police officers, firefighters, and teachers.

The five core principals to reform include:

- *Slow the growth of pension costs by reforming the cost of living formula.* In the agreements for three pensions funds reached last year, we worked with organized labor to shift cost of living adjustments from a formula based on compound interest to a simple interest approach. This means that retirees will continue to see an increase in their pension payments each year, but at a somewhat slower growth rate tied to inflation. Our pension reform agreements have also included a series of one-year freezes of cost of living adjustments that allow the funds to catch their breath.
- *Maintain the current retirement age for public employees.* Though retirement age is a common reform pushed by governments across the country, Rahm believes that our hard-working public servants have planned on retiring and are entitled to the security that they have depended upon for years.
- *Gradually increase employee contributions.* While we will ask taxpayers to pay more, we also ask current employees to pay a little extra towards their retirements. In the reforms we worked with labor to pass last year, active employees contribute an average of roughly \$300 a year more towards their retirements. This same commitment from the employees of the remaining three funds will make a significant contribution toward the solvency of their funds.
- *Protect retirees with lower pension income.* To ensure we protect those struggling to make ends meet, we exempted retirees with annuities of \$22,000 a year or less from certain cost of living formulas. We must continue to protect this segment of retirees in future agreements.
- *Phase in funding increases.* We must restructure pension payments in a way that allows the City's taxpayers to ease into making the required payments. Just as we're asking employees to increase their contribution slowly and steadily over time, we would ask the same of taxpayers. After decades of politicians kicking the can down the road and underfunding public employee pensions, we cannot ask taxpayers to bear the burden of a massive balloon payment all in one year. This shock would decimate the city's budget and the Chicago economy.

These reforms will reduce our required 2016 pension payment obligations for the police, fire and teacher pension funds from more than \$1 billion to a more manageable \$300 million in additional payments on top of our current obligations. Moreover, this approach will enable us to save billions over the coming decades and keep our city on a sustainable fiscal path.

To find new revenue to fill our pension and budget hole, Rahm's priorities are the same that guided us to balance four budgets and secure three pension deals, including:

- *Find better ways of providing government services.* We will continue to ask a fundamental question about every service we provide: are we providing it for the most competitive cost, or can we improve the way we deliver it? We used this approach to cut the City's structural deficit in half since 2011. We took the politics out of garbage pick up, saving \$17 million a year, and saved more than \$75 million by

reducing senior management positions, merging city departments, canceling unnecessary leases, and improving coordination between our infrastructure

- departments. Rahm will seek additional savings through consolidating services like information technology, procurement, and facilities management in one place, eliminating the need for those services to exist at sister agencies. This reform alone could save at least \$20 million for the city and sister agencies.
- *Control the cost of health care.* Another example of Rahm's collaboration with labor has been in his efforts to reduce the cost of healthcare. The reforms we have made to our health care for workers has improved health outcomes and saved taxpayers millions of dollars. Our wellness program focused on preventative screening and healthy lifestyle choices, and has enrolled more than 40,000 city workers. Our reforms to the retiree health system protects the most vulnerable, moves retirees to the health care exchanges with a variety of benefit structures, while producing a total of \$100 million in annual savings – including an additional \$25 million next year alone.
- *End the inequitable teacher pension funding formula.* The current reform structure passed for downstate and suburban teachers will save the City of Chicago hundreds of millions each year if applied to our funds. But that will only get us part of the way there. Rahm will also fight to end an unfair system that forces Chicago taxpayers to pay twice for teacher pensions – once for Chicago educators and a second time for suburban and downstate teachers. Local taxpayers should not be subsidizing pensions for teachers in Naperville, Winnetka, Peoria and Decatur. Fixing this inequitable mandate would further reduce our obligations to our teachers' pension fund by \$500 million.
- *Ensure Chicago gets its fair share from closing of State tax loopholes.* We will work with our partners in Springfield to close loopholes and dedicate a significant portion of the additional hundreds of millions in revenue to shore up pensions. For example, dozens of professional services are exempt from the sales tax, meaning working families pay a tax of nearly 10% on food, clothes, and other basics while those who hire attorneys, accountants, and advertising consultants pay none. Similarly, satellite broadcasters and internet retailers have a competitive advantage compared to cable companies and brick and mortar retailers because they pay less in taxes. As the state closes these loopholes, we will ensure Chicago gets its fair share.
- *Continue active surplus strategy of Tax Increment Finance (TIF) funds.* Early in the first term, Rahm established the city's first-ever TIF surplus policy through Executive Order to formalize and expand the practice of declaring a TIF surplus. The policy requires the declaration of a surplus in TIF districts that are older than three years, were not created for single redevelopment projects, are not transferring funds to other TIF districts to pay legacy school debt service costs, and have a balance of at least \$1 million. The amount of the surplus is at least 25 percent of the available cash balance in the TIF. As part of a reform agreement, half of that surplus could be dedicated to pension funding.
- *Explore non-tax revenue options.* We will continue to fight for an increased share of Local Government Distributive Share funding, with any additional revenue dedicated

to paying down debt, pension obligations and other long-term liabilities. A gaming proposal, similar to the one Rahm passed in 2013, would attract revenue that currently goes to northwest Indiana by creating a publicly-owned casino in Chicago.

- We would also work to continue reforming the worker compensation system to save taxpayer dollars that can be dedicated to pension obligations.
- *Ensure property taxes are a last resort, and protect those struggling to make ends meet.* Stabilizing our finances and securing the retirement security of our workers will require us to look to a broad mix of potential revenue sources, but a property tax increase is the very last place Rahm will look to help right the city's financial ship. The fact is, without any real reforms, relying on taxpayers to foot the entire bill for pensions only makes a property tax increase more likely. And as it stands, without reform a property tax increase will be required in order to make the state-mandated payments Rahm's administration inherited unless the law is reformed. If a property tax is ultimately necessary in order to save our pension funds even after implementing the reform and revenue framework outlined above, then Rahm ensure that working and low- and middle-income families do not bear the brunt of an increase. There are a number of ways to achieve this, like increasing the homeowner exemption, which hasn't increased since 2003, and the preservation of the senior freeze.

Any serious candidate running for mayor needs to be honest with voters. Claiming that we can solve the problem of righting our financial ship with taxes on LaSalle Street or commuters are legal nonstarters. And while tax increment financing (TIF) surplusing has played a role in balancing our budgets for the last four years, it is not alone a silver bullet solution. Of the commonly reported \$1.7 billion in available TIF, roughly 99% is committed to projects in our neighborhoods. More than 80% of TIF is being spent on infrastructure, schools, transit, and affordable housing. Roughly \$50 million remains uncommitted this year and \$300 million over the next four years. Surplusing would only send a fifth of that into the City's coffers, and only half would go to the Chicago Public Schools.

We have come a far way in four short years, and now is not the time to risk that progress on empty promises. Our record is a roadmap for the future – ensure we scour government for savings, balance reform with revenue to secure our pension funds, and ensure property taxes are the last resort and the most vulnerable are protected from any increase.