The Civic Federation

Research * Information * Action * Est. 1894

CHICAGO PUBLIC SCHOOLS FY2011 BUDGET:

Analysis and Recommendations

August 23, 2010

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The Civic Federation is an independent, non-partisan government research organization working to maximize the quality and cost-effectiveness of government services in the Chicago region and State of Illinois.

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EXECUTIVE SUMMARY

The Civic Federation **supports** the Chicago Public Schools proposed $6.5 billion budget for FY2011, which is a reduction of 5.9% or $402.3 million from the proposed FY2010 budget. The proposed budget offers a short-term solution to the District's difficult, deepening financial crisis. This budget will allow schools to open on time and continue to provide students with access to education across Chicago.

While acknowledging that the District was left with few options to close its budget deficit for this fiscal year, the Civic Federation is **very concerned** that the FY2011 budget provides no protection for next year. Three components of the FY2011 budget proposal individually expose the District to greater financial risk in future years, including the District's proposal to draw down its entire reserve fund, its ongoing structural budget and taking a partial pension payment holiday for the next three years. Combined, these factors signal that more difficult times will lie ahead for the District.

The Civic Federation offers the following **key findings** on the FY2011 Recommended Budget:

- The total proposed FY2011 CPS budget will decrease by $402.3 million or 5.9%, falling from approximately $6.9 billion in FY2010 to nearly $6.5 billion;
- Appropriations for General Operating employee salaries will increase by $48.1 million or 1.8% in FY2011. Since FY2007, salary costs have risen by 6.7% or $168.3 million; and
- CPS enrollment is estimated to increase from 408,571 in FY2010 to 410,000 in FY2011.

The Civic Federation **supports** several elements of the proposed budget, including:

- Holding the property tax levy flat for FY2011;
- Implementing management efficiencies and cost saving strategies that reduce administrative expenses to only 3.5% of the District's FY2011 operating budget;
- Continued commitment to performance management that allows the District to keep a close eye on the performance of its departments and target resources more efficiently; and
- Budget format and transparency improvements that were previously recommended by the Civic Federation and provide more clarity to the reader.

The Civic Federation has **concerns** about the following areas of CPS's FY2011 proposed budget:

- Complete drawdown of the stabilization fund balance to $0 and a reliance on a $800.0 million line of credit to minimize the risk to daily operations;
- Use of multiple one-time resources to balance the FY2011 budget that create a series of "funding cliffs" in the District for FY2012 to FY2014; and
- Operating with an ongoing structural budget deficit which is projected to be exacerbated by the District's reliance on one-time revenue sources in FY2011.

The Civic Federation offers the following **recommendations** to improve CPS's financial management:

- Develop a more reliable plan for restoring the fund balance;
- Right-size appropriations to conform to revenues;
- Seek legislation to curb its rapidly escalating retirement costs and reform the Teachers' Pension Fund governance structure to ensure greater balance of employee and management interests;
- Develop a comprehensive, district-wide, multi-year capital improvement plan;
- Implement a formal long-term financial plan that is shared with and/or reviewed by key policymakers and stakeholders, including the members of the Board of Education and the taxpaying public; and
- Improve the transparency of the budget process by revising the public comment process and continue to add information to the budget document to make it more useful for readers.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the Chicago Public Schools proposed $6.5 billion budget for FY2011, which is a reduction of 5.9% or $402.3 million from the proposed FY2010 budget. The proposed budget offers a short-term solution to the District's difficult, deepening financial crisis. This budget will allow schools to open on time and continue to provide students with access to primary and secondary education across Chicago.

While acknowledging that the District was left with few options to close its budget deficit for this fiscal year, the Civic Federation is **very concerned** that the FY2011 budget provides no protection for next year. Three components of the FY2011 budget proposal individually expose the District to greater financial risk in future years. Combined, these factors signal that more difficult times lie ahead for the District.

Drawdown of the Stabilization Reserve Fund

To reduce its projected FY2011 budget deficit the District is proposing to deplete its entire operating stabilization reserve fund of $190.0 million. To offset the risk resulting from having $0 in its reserve funds, the District received authorization from the Board of Education to obtain a line of credit of up to $800.0 million. This line of credit, if used, must be repaid within one year.

The District has proposed a number of options for replenishing the fund balance. It will announce a spending reduction plan in the first quarter of this year and plans to set aside any one-time revenues for budget stabilization. The District also said it will work with the State of Illinois to eliminate the State's payment delays and use late payments to replenish the fund balance.

The Federation has a number of concerns about the District's fund balance plan. First, the Federation is unclear as to how the District plans to repay the line of credit within one year, if it chooses to exercise this option as a last resort.

Additionally, the Federation questions the viability of the District's options for replenishing the fund balance. Illinois' financial condition is worsening, which may result in further delay of state payments to the District. The federal government recently passed a jobs bill that is likely to net the District approximately $105.0 million, but that amount has not been confirmed and the intent of the funds is to save or create education jobs for the upcoming school year.[1] The other possible one-time revenue sources cited by CPS are the possible infusion of surplus Tax Increment Financing district funds or an increase to the State of Illinois income tax. Both options would require action from outside governmental bodies and neither option is a reliable alternative.

Ongoing Structural Budget Deficit

Chicago Public Schools acknowledges that it has an ongoing structural budget deficit, which occurs when an organization has insufficient income to maintain services at the current level,

[1] Communication between CPS Office of Management and Budget and the Civic Federation, August 17, 2010.

given the current revenue structure. The District describes the structural deficit as expenses outpacing the growth of state and federal revenues, producing an annual budget gap that must be closed through spending reductions or increases in local property taxes.[2] This year, the District is relying on $190 million in reserve funds and $301.9 million in federal stimulus funds to balance its budget. If the budget did not include these two one-time revenue sources, the District would have to cut operating fund appropriations by $643.3 million or 12.1%, rather than the 2.8% cut proposed for FY2011.

One-time solutions exacerbate future budget gaps, and CPS acknowledges that it will continue to face future budget deficits because its annual expenditure increases consistently exceed available revenue increases. Annual expense increases are driven by the fact that nearly 70% of the District's operating budget is appropriated for direct personnel costs.[3] Personnel costs rise annually even when no new services are added.

Partial Pension Payment Holiday

In April 2010 Illinois enacted P.A. 96-0889, which created a different level of pension benefits for new employees and granted pension funding relief to CPS, thereby revising the standards set forth in P.A. 89-15. The law reduced CPS' required employer pension contribution for FY2011, FY2012 and FY2013 to an amount estimated to be equivalent to the normal cost.[4] It also delayed the year that the pension fund must reach a 90% funded ratio from 2045 to 2060.

Prior to the passage of P.A. 96-0889, the CPS required contribution for FY2011 was calculated to be $586.9 million, or almost double the FY2010 amount. P.A. 96-0889 reduced the District's required FY2011 contribution to $187.0 million, which is $120.5 million, or 39.2% less than the prior year contribution.[5] In FY2014, the year when the reduced payment provision sunsets, the District's pension payment will increase to $599.6 million, an increase of $403.6 million over the scheduled FY2013 pension contribution.

The Federation believes the District cannot afford its existing pension system. Dramatic changes are necessary to reduce this large burden on the District. The three-year partial payment reprieve, while sparing the District additional pain in the upcoming fiscal year, will only intensify the District's enormous pension funding problem in outlying years. The pension funding cliff created by this legislation is a ticking time bomb for CPS and must be addressed by reforming the benefit structure and funding sources for the teacher pension system.

The precariousness of the District's overall financial condition should be a wake-up call to all responsible parties and leaders to work to reform CPS operations. District officials, teachers, State of Illinois legislators, students and parents must work together during the upcoming fiscal year to prioritize and right-size District expenditures. Dramatic changes must occur for CPS to

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[2] CPS FY2011 Proposed Budget, p. 10.
[3] This does not include contracts with charter school providers, tutoring organizations, or other partners whose primary expenses are also personnel costs. CPS FY2011 Proposed Budget, p. 10.
[4] "Normal cost" is an actuarially-calculated amount representing that portion of the present value of pension plan benefits and administrative expenses which is allocated to a given valuation year.
[5] Actuarial projection by Goldstein & Associates for Kevin Huber, Executive Director of the Public School Teachers' Pension and Retirement Fund of Chicago, March 31, 2010.

fix its existing problems, which include the District's rapidly increasing annual employer pension contributions and personnel expenses.

Issues the Civic Federation Supports

There are several issues that the Civic Federation specifically supports related to the FY2011 Chicago Public Schools budget.

Holding the Property Tax Levy Flat

CPS is proposing to hold its property tax levy flat for FY2011. Under current state tax cap law the District could have increased the aggregate levy on existing property by 0.1%. In FY2010 the District property tax levy was increased by 1.5%, which was less than the 4.1% it could have increased under state law. In FY2009 the District held its property tax levy flat and in FY1999 the District levied less than the maximum amount allowed. With those exceptions, the District has opted to increase the property tax levy to the maximum amount allowed by the tax cap law every year since FY1997.

Raising the property tax levy to the maximum for the upcoming year would not solve the District's worsening financial condition. Under the state property tax cap law, the District could only raise its aggregate levy by 0.1%, which would only net the District an additional $2.0 million for FY2011.

The Civic Federation commends the District for holding its property tax levy flat during a time of great financial stress for many Chicagoans. Too often local governments reflexively increase their annual property tax levy to the amount allowed under Illinois' property tax cap legislation. Instead of turning to taxpayers, the District is looking for internal solutions to close its budget deficit.

Implementing Management Efficiencies and Cost Saving Strategies

As part of its plan to reduce its budget deficit, CPS continues to implement management efficiencies and cost-saving strategies. The District continues to streamline its central office administrative functions, reducing spending by $45 million. The District is also reviewing vendor and consulting contracts for potential savings through renegotiations.

The District will trim personnel expenses, placing a moratorium on merit pay increases for all central office employees, requiring non-union employees making over $50,000 per year to take 15 furlough days through March 2011 and placing tighter restrictions on hiring practices.

As a result of its commitment to reducing central office costs, administrative expenses will total 3.5% of the District's operating budget in FY2011. The District says this is a result of its efforts to target more resources towards classroom expenses. According to CPS, these reductions result in a leaner organization and minimize the impact on students by targeting administrative expenses for reductions.

The Civic Federation commends the District for its ongoing commitment to reducing overhead and personnel expenses. Building on cost-cutting measures implemented during FY2010, the District continues to target administrative and central office expenses.

Continued Commitment to Performance Management

In FY2011 the District is continuing to expand its focus on performance management. For the first time all departments participated in a strategic budget planning process. The process required each department to submit an Annual Department Plan that detailed the funding necessary to achieve its mission, tying budget dollars to outcomes. In turn, this allows the District to measure cost-effectiveness and is another layer of oversight to ensure that scarce resources are spent efficiently to achieve the intended outcome.[6]

The District also reports key performance indicators, including previous year actual data and targets for the upcoming year in the budget document.

The Federation applauds the District for continuing to improve and expand its performance management activities. As costs continue to rise while revenues struggle to keep pace, the District is wisely keeping a closer eye on the performance of its administrative and school-based functions. The District's performance management systems should serve as a model for other units of government.

Budget Format and Transparency Improvements

In FY2011 the District made several additions to its budget format previously recommended by the Federation, including the re-introduction of sections not included in last year's document and the addition of new sections to improve reader understanding of the District's budget.

CPS re-introduced the "What's New in the Budget Book" section, which provides the reader with a guide for new District initiatives and highlights the changes in the budget's formatting over the previous year. The strategy and resource alignment section was also reintroduced, which identifies the District's five priorities for achieving its mission of "ensuring that every child is on track to graduate prepared for success in college, work and life."[7]

The District also made several new improvements to the Budget Book. It included actual enrollment data, dating back to the fall of 2003.[8] The Organization Overview section was expanded to include reorganization information and annual department planning summaries. The District also included a detailed breakdown of each department, organized by leadership structure.[9]

The Civic Federation applauds the District and its staff for responding to the Civic Federation's calls for adding this information. We encourage members of the public to review the materials

[6] CPS FY2011 Proposed Budget, p. 325.
[7] CPS FY2011 Proposed Budget, p. 7.
[8] CPS FY2011 Proposed Budget, p. 24.
[9] CPS FY2011 Proposed Budget, p. 329.

put forth by the District as they provide the reader with a clear picture of how the District is prioritizing its expenses for the upcoming fiscal year.

Issues of Concern to the Civic Federation

The Civic Federation has several concerns related to the FY2011 budget.

Complete Drawdown of Stabilization Fund Balance

As part of its plan to eliminate its FY2011 budget deficit, the District is proposing to use a one-time drawdown of its entire prior-year General Fund unreserved fund balance. After the drawdown of the $190 million available in the stabilization fund, the District will have $0 in its General Fund reserves.

The District notes its concern with this course of action. Last year the fund balance was used to maintain school resources when state payments were delayed. The District recognizes that the lack of fund balance puts the daily operations of schools at risk.

To mitigate this risk, the District received approval from the Board of Education to obtain a line of credit for up to $800.0 million. The line of credit will act as a traditional fund balance, providing the District with a safety net should unforeseen expenses arise. The line of credit cannot legally be used to close the budget deficit and must be repaid within one year.[10]

Looking ahead at replenishing the fund balance, CPS plans to take the following steps to address the drawdown of the fund balance: (1) propose a spending reduction plan in the first quarter, (2) set aside any one-time revenues for budget stabilization, and (3) work with the State to eliminate payment delays.[11] CPS identifies several possible areas that may provide one-time funding such as distribution of surplus TIF revenues that may be released by the City of Chicago, one-time state or federal revenue sources, or revenue from prior state payment delays.

The Federation, while understanding the limited options facing the District, has strong concerns about the District's plan to eliminate its fund balance and the options it cites as possibilities for replenishment. While the line of credit mitigates some of the risk of not having general fund reserves, any money taken out must be repaid in one year. While it is possible that one or more of the District's replenishment options may come to fruition, it is also possible that none of them will materialize.

Use of One-Time Resources to Balance FY2011 Budget

In addition to drawing down its general fund reserves, as discussed above, CPS is relying on other one-time resources in FY2011. Each one-time revenue source heightens the future "funding cliff" for the District.

Federal stimulus funds from the American Recovery and Reinvestment Act (ARRA) will expire in FY2011, leaving a budget gap for the District to fill in FY2012. This year, the District is

[10] CPS FY2011 Budget Briefing document, August 9, 2010.
[11] CPS FY2011 Proposed Budget, p. 32.

relying on $301.9 million in federal stimulus funds to balance its budget. The District will either have to find resources to keep ARRA funded programs running or eliminate the programs altogether. These programs include the Violence Prevention Initiative, which focuses on providing intensive services to at-risk students.[12]

The District is also proposing to draw down $52.0 million from its debt service fund balance to support debt service payments in FY2011.[13] This will present the District with another revenue hole in FY2012.

In April 2010 Illinois Governor Pat Quinn signed Public Act 96-0889 into law, reducing pension benefits for employees hired after January 1, 2011 and also reducing the District's required employer pension contribution for FY2011 through FY2013. Without this legislation, the District would have been required to contribute $587 million to the Chicago Teachers Pension Fund in FY2011. This amount has been reduced to $187 million for FY2011. Although this action will save the District more than $1.2 billion over three years, it will exacerbate the underfunding of the pension system and create a budget gap of at least $400 million in FY2014 when the regular funding schedule resumes.

The Federation is concerned that the District is exacerbating its precarious financial position by relying on one-time revenue sources. The deferral of the full required pension contribution is especially troubling as this one action creates two future problems in the form of a declining pension fund funded ratio and an increased employer pension contribution once the reprieve sunsets.

Operating with a Structural Deficit

Chicago Public Schools acknowledges that it has an ongoing structural budget deficit, which occurs when an organization has insufficient income to maintain services at the current level, given the current revenue structure The District defines the structural deficit as expenses outpacing the growth of state and federal revenues, producing an annual budget gap that must be closed through spending reductions or increases in local property taxes.[14] This year, the District is relying on $190 million in reserve funds and $301.9 million in federal stimulus funds to balance its budget. If the budget did not include the two one-time revenue sources, the District would have to cut operating fund appropriations by $643.3 million or 12.1%, rather than the 2.8% cut proposed for FY2011.

The District expects the structural deficit to widen as the fund balance is depleted and one-time revenue sources exacerbate future budget gaps. CPS acknowledges that it will continue to face future budget deficits because its annual expenditure increases consistently exceed available revenue increases. Annual expense increases are driven by the fact that nearly 70% of the District's operating budget is appropriated for direct personnel costs.[15] Personnel costs rise annually even when no new services are added.

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[12] CPS FY2011 Proposed Budget, p. 19.
[13] CPS FY2011 Proposed Budget, p. 8.
[14] CPS FY2011 Proposed Budget, p. 10.
[15] This does not include contracts with charter school providers, tutoring organizations, or other partners whose primary expenses are also personnel costs. CPS FY2011 Proposed Budget, p. 10.

The Federation is concerned that the District does not have a plan to address its ongoing budget imbalance. A plan to eliminate the structural deficit is not detailed in the budget book. With nearly 70% of the District's operating expenses dedicated for personnel, it is imperative that salaries and benefits be restructured in order to bring expenses in line with revenues.

Civic Federation Recommendations

The Civic Federation offers several recommendations regarding ways to improve CPS' financial management.

Develop a More Reliable Plan for Restoring Fund Balance

CPS is proposing a series of options for replenishing its stabilization fund balance after its proposed complete draw down of $190 million. The options rely on state action, either via payment of back bills or an income tax increase, or city action, via the release of unallocated TIF funds. The District is also counting on an infusion of additional federal resources. On August 10, 2010 Congress approved, and the President signed into law, a federal jobs bill that includes money for local school districts. The District estimates it will receive approximately $105 million. While it is expected that a portion of this money will be used to hire back classroom teachers, the exact allocation is yet unknown. The allowable usage of the funds may also be in question, as the federal funds may have designated uses.

The Civic Federation encourages the District to identify more reliable sources for replenishing its fund balance. Relying on the action of other units of government is not an adequate plan. While it is possible that the State of Illinois will pay the District the outstanding balance of $236 million or the City will release surplus TIF funds for the District to use for operations, the State of Illinois is in an extremely precarious financial position and the City of Chicago has not historically released surplus TIF funds of significant size. Given the uncertain nature of these options, the District would be wise to develop an alternate, internal and more reliable replenishment plan for its reserve fund.

Right-Size Appropriations to Conform to Revenues

Total appropriations will decline in FY2011 over FY2010 proposed appropriations, falling by 5.9% or $402.3 million. This is a step in the right direction, but given the District's rising expenses, static reliable sources of revenue and increased reliance on one-time revenue sources, the District must continue to reduce expenditures.

Implement Pension Benefit Reforms

This year, and for the following two fiscal years, CPS is deferring its required pension payment and only contributing the normal cost of employee accrued benefits. This will only exacerbate the District's inability to pay for its escalating annual employer pension contribution. It is imperative that CPS aggressively seek legislation to curb its rapidly escalating retirement costs. Some of the reforms the district should pursue are listed below:

- *A moratorium on new pension benefits*: The Illinois General Assembly should impose a moratorium on any new retirement benefits until the pension system has achieved a 90% funded ratio. Until that goal has been reached, we call on members of the General Assembly to hold firm against any new pension enhancements.

- *Increase the Employee Share of Pension Costs:* Currently, CPS pays for 7% of the 9% employee share of teacher pension costs; teachers pay for the remaining 2%. The Civic Federation believes that employees need to share in the rising costs of public pension plans and recommends that employer and employee contributions be restructured such that employees pay a proportion of required contributions, similar to the new structure of the CTA contributions. A proportional relationship should be set whereby, for example, the employer pays 50% and the employees pay 50% of the annual required contribution. Whether the proportion is 50%/50%, 60%/40%, or some other ratio, it is critical that both parties pay a share of required contributions, and that those contributions relate to the fiscal health of the fund. This would shift more of the escalating pension costs onto employees. This change should be a top priority for CPS when it negotiates a new collective bargaining agreement.

- *State Should Align Downstate Teacher Retirement System Contributions with CPS Teacher Retirement Contributions*: The State should revise its existing policy with respect to providing different levels of funding for Chicago teacher pensions versus pensions for teachers throughout the remainder of the state. Currently, the State funds the employer pension contribution for all teachers in Illinois, except for those who work for the Chicago Public School district. This treatment is fundamentally unfair to Chicago taxpayers whose tax dollars are used to fund pensions for both downstate and Chicago teachers, while the remainder of the State does not share the burden for funding Chicago teachers' pensions. The Civic Federation urges the State to adhere to its goal of contributing 20% to 30% of the amount it contributes to the downstate Teacher Retirement System to the Chicago teachers fund.

Reform Governance of the Teachers' Pension Board

The Public School Teachers' Pension and Retirement Fund of Chicago is governed by a 12-member Board of Trustees that includes two representatives from the Board of Education, six active members who are not principals, one active principal and three annuitants. Therefore the ratio of management to employee representatives is 2:10, one of the least balanced of the 17 Illinois pension boards recently surveyed by the Civic Federation.[16]

The proper role of a pension board is to safeguard the assets of the fund and to balance the interests of employees and retirees who receive pension benefits and taxpayers who pay for pension benefits. Each party has an interest in the management of the fund. However, the heavy tilt toward employees on the Teachers' Pension board raises questions about how objective the Board can be in its work. In our view, a pension board should:

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[16] The Civic Federation, *Recommendations to Reform Public Pension Boards of Trustees in Illinois*, February 13, 2006.

- Balance employee and management representation on pension boards;
- Develop a tripartite structure that includes citizen representation on pension boards; and
- Include financial experts on pension boards and require financial training for non-experts.

We urge CPS to seek reform of the Teachers' Pension Fund governing structure through the General Assembly to ensure greater balance of interests.

Develop a Multi-Year Capital Improvement Plan

Based on a review of the best practices in Capital Improvement Programming, CPS should develop an annually-updated formal multi-year capital improvement plan. The following section describes the best practices for capital improvement plans. It is excerpted from the report entitled "Strengthening the Financial Accountability of Illinois School Districts," prepared by the Civic Federation for the Metropolitan Mayors Caucus in 2007.[17]

Elements of a Capital Improvement Plan

A CIP is a multi-year plan that forecasts future facility, infrastructure and equipment needs, as well as the appropriations necessary to meet those needs. It also identifies financing sources and reports the impact of capital spending on the operating budget. A CIP typically covers a period of time ranging from three to ten years. The first year of the CIP becomes the jurisdiction's capital budget for that fiscal year. A CIP is updated annually.

The capital needs of a jurisdiction typically exceed the amount of funds available. The CIP is an important tool for assisting governments in the process of prioritizing projects and identifying funding sources for these projects.

Developing a CIP is an important financial accountability measure because capital projects are costly and must be paid for over a number of years that the funds are borrowed.

It must be recognized that a CIP is a planning tool, not a rigid set of requirements. As such, it is subject to change over time as circumstances change.

Best Practices and Recommended Practices in Capital Improvement Planning

The National Advisory Council on State and Local Budgeting (NACSLB) and the Government Finance Officers Association (GFOA) have developed best practices in capital improvement planning. In addition, the State of Florida Office of Program Policy Analysis and Government Accountability (OPPAGA) and The Civic Federation have developed several recommended practices in this policy area. A summary of the key recommendations of these practices follows.

1. Develop a Formal Five-Year Capital Improvement Plan

[17] Metropolitan Mayors Caucus. *Strengthening the Financial Accountability of Illinois School Districts: A Report of the Education Reform Committee of the Metropolitan Mayors Caucus*, April 2007, pp. 30-34.

All governments should develop a five-year CIP that identifies priorities, provides a timeline for completing projects and identifies funding sources for projects. The CIP should be updated annually and be approved formally by the governing body.[18]

2. Required Information in a Capital Improvement Plan

   A CIP should include the following information: [19]

   - A five-year summary list of projects and expenditures per project as well as funding sources per project;
   - Information about the impact of capital spending on the annual operating budget for each project;
   - Brief narrative descriptions of individual projects, including the purpose, need, history, and current status of each project; and
   - The time frame for fulfilling capital projects and priorities.

3. Make Capital Improvement Plan Publicly Available

   The CIP should be made publicly available for review by elected officials and citizens. It should be published in the budget document or in a separate capital improvement plan. The CIP should be made available on the government's website. The public should be permitted at least ten working days to review the CIP prior to a public hearing.[20]

4. Provide Opportunities for Stakeholder Input into Capital Improvement Planning Process

   It is important to consider the views of stakeholders, including taxpayers, in developing a CIP. To achieve this goal, stakeholders, including citizens, should have opportunities to provide input into the development of the CIP. These opportunities could include participation in citizen advisory committees and/or hearings during different phases of CIP development. The governing body should hold a public hearing prior to adoption of the CIP, including opportunities for citizen commentary.[21]

5. Require Formal Approval of Capital Improvement Plan by School District Board of Trustees

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[18] *See* NACSLB Recommended Practice 9.6: Develop a Capital Improvement Plan, the State of Florida Office of Program Policy Analysis and Government Accountability, Best Financial Management Practices, Facilities Construction. The State of Florida requires school districts to prepare comprehensive Five-Year Educational Plan Surveys. This is Point 1. d. of the Facilities Construction: Construction Planning Best Financial Management Practices Guidelines for School Districts. Florida Office of Program Policy Analysis and Government Accountability (OPPAGA). *Best Financial Management Practices.* See www.oppaga.state.fl.us/school_districts/bestprac/practices/practices.html.

[19] Ibid; *See* Point 3. a to c. of the Facilities Construction: Construction Planning best financial management practices guidelines for school districts. Florida Office of Program Policy Analysis and Government Accountability (OPPAGA). *Best Financial Management Practices.* See http://www.oppaga.state.fl.us/school_districts/bestprac/practices/practices.html.

[20] *See* NACSLB Recommended Practice 9.6: Develop a Capital Improvement Plan, Civic Federation Budget Analyses of Local Government Budgets – various years.

[21] Ibid.

> The CIP should be formally approved by an appropriate governing body. It is imperative that elected officials be fully aware and supportive of long-term plans that commit significant public resources.[22]

CPS should examine its previous CIPs, as well as best practice models from other jurisdictions, as models for the development of a new CIP.[23]

Implement a Formal Long-Term Financial Plan

CPS uses multi-year forecasts to understand the impact of the proposed budget on future fiscal years. Estimates are prepared using historical data. The District faces a difficulty in that the amount of state aid provided each year, which is one of its main funding sources, is highly unpredictable.[24] However, CPS does not develop a formal long-term financial plan that is shared with and/or reviewed by key policymakers and stakeholders.

The National Advisory Council on State and Local Budgeting (NACSLB) and the Government Finance Officers Association (GFOA) both recommend that all governments formally adopt a long-term financial plan as a key component of a sound budget process.[25] A long-term financial plan typically includes a review of historic financial and programmatic trends, multi-year projections of revenues expenditures and debt, an analysis of those trends and projections, and the modeling of options to address problems or opportunities. The plan helps governments address fiscal challenges before they become fiscal crises.

A long-term financial plan can frame the issues and challenges facing CPS, assist stakeholders in understanding those issues and challenges, and help the district to focus on concrete actions it can take in the future. Several local governments, including the City Colleges of Chicago and the Metropolitan Water Reclamation District, publish their long-term financial plans in their budget documents. CPS should follow their example.

CPS leadership has indicated to the Civic Federation on two occasions that it would move to develop a formal long-term financial plan:

1. At the April 10, 2007 press conference where CPS Chief Executive Officer Arne Duncan joined City of Chicago Mayor Daley and Metropolitan Mayors Caucus Chair Ed Schock of Elgin in endorsing a series of school financial management accountability reforms which included the development of a long-term financial plan;[26] and

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[22] *See* Civic Federation Budget Analyses of Local Government Budgets – various years.
[23] For an example, see the 1996-2000 Capital Improvement Plan adopted by the Chicago School Reform Board of Trustees on January 24, 1996.
[24] Information provided to the Civic Federation by CPS Office of Management and Budget, August 5, 2008.
[25] *See* National Advisory Council on State and Local Budgeting and Government Finance Officers Association.
[26] Metropolitan Mayors Caucus. *Strengthening the Financial Accountability of Illinois School Districts: A Report of the Education Reform Committee of the Metropolitan Mayors Caucus*, April 2007, pp. 30-34.

2. In a meeting with the Civic Federation on the FY2008 budget, when CPS financial staff indicated the District was developing a four-year long-term financial projection to be incorporated into the FY2009 budget.[27]

Given the financial difficulties the District will face in future years, developing a formal long-term financial plan that can be reviewed and discussed by key stakeholders is imperative. The Civic Federation strongly urges CPS to move forward on developing a long-term financial planning process.

Improve Budget Process Transparency

The Civic Federation recommends that CPS improve the transparency of its budget process by revising its public comment procedures, making improvements to its annual budget document and providing clear explanations of Tax Increment Financing funds and Intergovernmental Agreements.

Revise Public Comment Process

The Civic Federation recommends that CPS consider revising its public comment process to allow for greater consideration of stakeholder input. Currently CPS provides four opportunities for public comment on its annual budget: three meetings at locations around the City of Chicago at which District staff hears comments about the annual budget proposal from the public. A stenographer is present to record the remarks. The fourth public comment period occurs at the board meeting immediately preceding the Board of Education's vote on the budget. Answers are not immediately provided for questions posed at any of the hearings but CPS staff says answers will be posted on the District's website in a timely fashion.

The Federation recommends three revisions to this public comment process. First, key decision makers should attend each public hearing. The Chief Executive Officer, the Board President and all Board Members should attend each hearing to provide constituents with an opportunity to present issues to those who have the final say on the District's policies. Most other governments in the region require the Board members to be present at public budget hearings and hold these meetings several days, or weeks, prior to the governing body voting on the budget. We believe that this type of public comment system is preferable to CPS's current system as it allows members of the governing board sufficient time to consider the opinions of various stakeholders before making a final decision.

Second, the Federation recommends that the District implement a real-time process for working with constituents to answer the questions raised at the hearings. Recognizing that most questions or concerns cannot be solved during the hearing, we recommend following the City of Chicago model for answering questions posed during its annual preliminary budget hearings. City Department Heads are present at each hearing and constituents have an opportunity to raise concerns at the meeting. When appropriate, the speaker can be directed to the department head to handle their issue one-on-one at the conclusion of the comment period. This process allows

[27] Information provided to the Civic Federation in meeting with CPS Finance and Budget staff, July 31, 2007.

members the public to make a connection within the organization and have a meaningful opportunity to follow-up on their concern.

Third, a greater effort should be made to provide hard copies of the budget for all members of the public who request one. While understanding that printed copies are an additional cost to the District, the Federation believes the difficulty for some people of reading the budget document on a computer, along with the policy objective of making the budget document as accessible as possible to the taxpaying public, outweigh the cost concern.

Finally, we recommend that the District post the transcripts of each hearing online. The public may benefit from having an opportunity to read the issues discussed at each hearing, regardless of their ability to attend the session.

Continue to Improve Budget Format

The Civic Federation recommends that the District produce detailed sections regarding both tax increment financing district (TIF) and Intergovernmental Agreement (IGA) revenues in its forthcoming budget documents. The District should create stand alone sections in its annual budget document that explain the interaction of TIF districts and CPS, and how the money generated by TIF districts is appropriated to CPS. The same should be done for Intergovernmental Agreements entered into by CPS with other units of local government, such as the City of Chicago.

There is growing concern over the accessibility of information about TIF districts, as voiced at the District's annual public hearings. It is important to provide taxpayers with an accurate picture of how their tax dollars are being used. The Civic Federation urges the District to provide citizens with a more complete picture of how TIF and IGA revenues affect the District's annual budgets.

ACKNOWLEDGEMENTS

We would like to express our appreciation to Chief Executive Officer Ron Huberman, Chief Financial Officer Diana Ferguson, Budget Director Christina Herzog and their staffs for their hard work in preparing this budget and their willingness to provide the Civic Federation with a budget briefing as well as answers to our budget questions.

FY2011 DEFICIT DRIVERS AND GAP-CLOSING MEASURES

CPS has proposed a FY2011 total budget of nearly $6.5 billion, which is a $402.3 million or 5.9% decline from the FY2010 proposed budget.[28]

The FY2011 budget deficit projected by CPS in January 2010 totaled $1.0 billion and included approximately $300 million from state K-12 education funding reductions proposed in the Governor's FY2011 State Budget recommendation, $300 million in CPS operational expenditure increases, and a $400 million increase in CPS' required teacher pension contribution.[29] In April 2010, a pension reform law was passed that gave CPS a three-year partial pension contribution holiday and reduced the District's FY2011 total projected deficit from $1 billion to $600 million.[30] The deficit was further reduced when a combination of legislative action and Governor's appropriation allocations restored some of the K-12 education budget for FY2011 and reduced the CPS share of reduced state funding from $300 million to $70 million.[31]

The final deficit estimate used for the FY2011 CPS budget is $370 million.[32] The $370 million deficit results from approximately $300 million in CPS cost increases and $70 million in reduced State funding.[33] Approximately 45.7% of the deficit is due to contractual salary and benefit cost increases, including a 4% cost-of-living salary increase for District teachers and other union staff, 1.5% step and lane increases for union employees, and health care cost increases.[34]

CPS FY2011 Budget Deficit Drivers (in $ millions)

	$ Amount	% of total
Personnel cost increases	**$ 169**	45.7%
Operational and construction cost increases	**$ 133**	35.9%
State funding reductions	**$ 70**	18.9%
Total Deficit	**$ 370**	

Note: Figures do not sum due to rounding.

Source: CPS FY2011 Budget Briefing document, August 9, 2010.

The $370 million deficit is closed through $104 million in school-based reductions and $266 million in Central Office and Citywide reductions. The school-based reductions include an

[28] CPS FY2011 Proposed Budget, p. 7.

[29] CPS FY2011 Budget Briefing document, August 9, 2010, and information provided by CPS budget office, August 19, 2010.

[30] P.A. 96-0889. See the Pension section of this analysis for more information.

[31] See HB 859 and SB 1215. See also the Governor's allocations at http://www2.illinois.gov/budget/Pages/default.aspx . Information provided by CPS budget office, August 19, 2010.

[32] CPS FY2011 Proposed Budget, p. 5.

[33] CPS FY2011 Budget Briefing document, August 9, 2010. State funding reductions are as of August 3, 2010.

[34] Approximately 11,000 non-teacher staff who are members of six unions will also receive the salary increases. These are primarily custodians, engineers, security personnel, food service workers, truck drivers, and some aides who participate in the following unions: State and Municipal Teamsters 726, Public Service Employees Local 73, Hotel and Restaurant Local 1, Firemen and Oilers Local 7, Electrical Workers Local 134, and Operating Engineers Local 134. No administrative (non-union) employees will receive cost-of-living or merit increases in FY2011. Information provided by CPS budget office, August 17 and 18, 2010.

increase in the average high school class size from 31 to 33 pupils, yielding $30 million in savings primarily by eliminating teaching positions.[35] Bilingual programs will be cut by $24 million because State grants for the programs have been reduced.[36] Charter and contract school per pupil tuition transfers will be reduced by roughly 6%, or $15 million, to reflect the District's overall budget reduction.[37]

The majority of reductions will come from the Central Office and Citywide programs. Fifty-four percent of the total gap-closing is achieved by drawing down the remaining $190 million fund balance and by saving $10 million through a postponement of bond issues for capital projects.[38] Administrative reductions and 15 furlough days for administrators and principals will save $45 million and $6 million, respectively. Transportation savings from extending and rearranging bus routes will yield $10 million.[39]

CPS FY2011 Budget Deficit Closing Measures (in $ millions)

School-Based Reductions	$ Amount	% of total
Increase high school class size from 31 to 33 pupils	$ 30	8.1%
Reduce bilingual programs	$ 24	6.5%
Reduce supplemental positions above standard formula	$ 19	5.1%
Reduce magnet school programming	$ 16	4.3%
Reduce charter and contract schools proportionately	$ 15	4.1%
Sub-Total School-Based	**$ 104**	**28.1%**
Central Office and Citywide Reductions		
Draw down fund balance and delay capital plan	$ 200	54.1%
Reduce administrative costs	$ 45	12.2%
Implement transportation efficiencies	$ 10	2.7%
Impose administrative furlough days	$ 6	1.6%
Reduce supplemental security resources	$ 2	0.5%
Reduce enrichment and afterschool programs	$ 2	0.5%
Sub-Total Central Office and Citywide	**$ 266**	**71.9%**
Grand Total	**$ 370**	

Note: Figures do not sum due to rounding.

Source: CPS FY2011 Proposed Budget p. 11, and Budget Briefing document, August 9, 2010.

State Funding Delay

The State of Illinois is several months behind in paying what it owes to local governments, vendors and service providers. As of June 30, 2010, the State Comptroller reports that the state has $4.7 billion in unpaid bills attributed to its General Revenue Fund.[40] The State owed $236.2

[35] CPS FY2011 Budget Briefing document, August 9, 2010. K-3 average class size will remain at 28 pupils and grades 4-8 will remain at 31 pupils. CPS FY2011 Proposed Budget, p. 14.
[36] CPS FY2011 Budget Briefing document, August 9, 2010.
[37] CPS FY2011 Budget Briefing document, August 9, 2010.
[38] Information provided by CPS budget office, August 18, 2010.
[39] CPS FY2011 Budget Briefing document, August 9, 2010.
[40] State of Illinois Comptroller, *Comptroller's Quarterly*, July 2010, p. 1.

million to CPS as of July 30, 2010, which is a payment delay of over five months.[41] In recent years, the State has typically owed CPS roughly $2 to $7 million as of July 30.[42] **The $236.2 million delayed payment is in addition to the $370 million FY2011 CPS deficit.** The District made mid-year budget cuts and layoffs to accommodate the payment delay and curtail its expenditures. It expects to use the $236.2 million to replenish its fund balance once the State becomes current on its payments to the District.[43]

Structural Budget Deficit

Chicago Public Schools acknowledges that it has an ongoing structural budget deficit, which is defined as expenses rising faster than revenues each year. The District defines the structural deficit as expenses outpacing the growth of *state and federal* revenues, producing an annual budget gap that must be closed through spending reductions or increases in local property taxes.[44] Annual expense increases are driven by the fact that nearly 70% of the District's operating budget is appropriated for direct personnel costs.[45] Personnel costs rise annually even when no new services are added.

Short-Term Gap-Closing Measures

The District acknowledges that several actions taken to close the FY2011 budget gap will create or exacerbate budget deficits in the future.

Expiration of Federal Stimulus Funds

CPS projects a funding cliff in FY2012 when federal American Recovery and Reinvestment Act (ARRA) funds are scheduled to expire. This stimulus funding includes roughly **$301.9 million in ARRA funding to categorical programs budgeted for FY2011 that will not be available in FY2012**.[46]

Use of Fund Balance

To bridge the FY2011 budget gap **CPS will use its $190 million general fund balance** and draw the balance down to zero. Although CPS expects to restore the fund balance over the course of FY2011, the restoration plan proposed by the District is built on one-time and uncertain revenue sources such as: the $236.2 million in delayed state payments, a state income tax increase; additional federal funding; or Tax Incrementing Financing district surplus revenues.[47] Even if the District is able to reach its FY2011 fund balance target of $282.7 million, that balance should be held in reserve as a cash flow cushion for contingencies and not used to close future operating deficits.

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[41] CPS FY2011 Proposed Budget, p. 43.
[42] CPS FY2011 Proposed Budget, p. 43.
[43] CPS FY2011 Budget Briefing document, August 9, 2010.
[44] CPS FY2011 Proposed Budget, p. 10.
[45] This does not include contracts with charter school providers, tutoring organizations, or other partners whose primary expenses are also personnel costs. CPS FY2011 Proposed Budget, p. 10.
[46] CPS FY2011 Proposed Budget, p. 63.
[47] CPS FY2011 Budget Briefing document, August 9, 2010.

Partial Pension Holidays That Create FY2014 Budget Deficit

Pension costs are a significant contributor to the annual increases in personnel-related expenditures. The District is required by State statute to make an annual contribution sufficient to bring the pension fund up to a 90% funded ratio by the year 2060.[48] The payment schedule would have required the District to contribute $586.9 million in FY2011, up from $177.8 million in FY2009 and $307.5 million in FY2010.[49] Public Act 96-0889, passed in April 2010, reduced pension benefits for employees hired on or after January 1, 2011, extended the payment schedule by fifteen years from 2045 to 2060, and provided pension contribution relief for the CPS. The Act permits CPS to take three years of partial pension holidays that allow the District to contribute only the estimated normal cost for FY2011, FY2012 and FY2013. Although this will save the District more than $1.2 billion over three years, it will exacerbate the underfunding of the pension system and **create a projected budget gap of $403.6 million in FY2014** when the regular funding schedule resumes.[50]

CPS Partial Pension Holidays per Public Act 96-0889 (in $ millions)

	FY2011	FY2012	FY2013
Actuarially Projected Contribution	$ 586.9	$ 603.1	$ 619.7
P.A. 96-0889 Contribution	$ 187.0	$ 192.0	$ 196.0
Difference	**$ 399.9**	**$ 411.1**	**$ 423.7**

Source: Chicago Teachers Pension Fund Actuarial Valuation as of June 30, 2009, p. 16. Public Act 96-0889.

[48] Public Act 96-0889 extended the funding schedule by fifteen years, from 2045 to 2060.
[49] Chicago Teachers' Pension Fund, 113th Comprehensive Annual Financial Report for the year ended June 30, 2008, p. 21. Chicago Teachers' Pension Fund, 114th Comprehensive Annual Financial Report for the year ended June 30, 2009, p. 23. CPS FY2011 Proposed Budget, p. 9.
[50] The required CPS contribution is projected to be $599.6 million in FY2014. Actuarial projection by Goldstein & Associates for Kevin Huber, Executive Director of the Public School Teachers' Pension and Retirement Fund of Chicago, March 31, 2010.

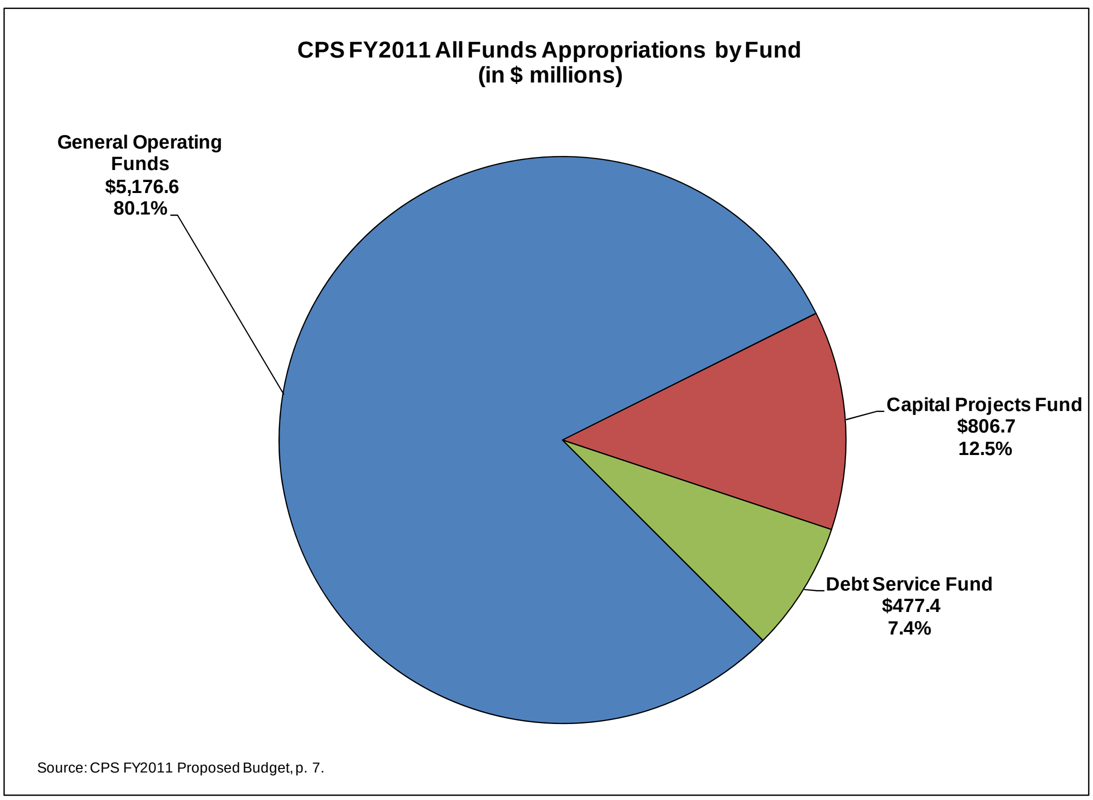
APPROPRIATIONS

This section presents an analysis of the District's proposed appropriation trends, including appropriations by type, function and location. Two-year and five-year trends for proposed appropriations are compared.

Total Appropriations for FY2011

The $6.5 billion proposed total FY2011 Chicago Public Schools budget consists of $5.2 billion in General Operating Funds, $806.7 million in the Capital Projects Fund and $477.4 million in the Debt Service Fund. General Operating Funds represent 80.1% of the total budget, the Capital Projects Fund represents 12.5%, and the Debt Service Fund represents 7.4%.

General Operating Funds finance employees' salaries and benefits, contractual services, charter school tuition transfers, and other day-to-day expenditures. General Operating Funds include the General Fund, which is the primary fund used for instructional, professional, maintenance, and administrative activities, and the Special Revenue Fund. The Special Revenue Fund receives revenues that are legally required to be expended only for specific purposes such as School Lunch Funds, Supplemental General State Aid for additional instruction to low-income students and other grant funds. The Capital Projects Fund is for construction and other capital expenditures. The Debt Service Fund is for payment of outstanding bond and lease obligations.[51]



[51] CPS FY2011 Proposed Budget, pp. 402-405.

Appropriations for All Funds – Two- and Five-Year Trends

The proposed $6.5 billion budget is a decrease of 5.9% or $402.3 million, from the $6.9 billion budget proposed for FY2010. It is the first time that budgeted appropriations have been cut since Chicago Mayor Richard M. Daley took control of the school district in 1995.[52]

Appropriations for the General Operating Funds, which consist of the General Fund and the Special Revenue Fund, will decline by 2.8%, or $151.3 million. This decline is driven by lower federal, state and local revenues (see RESOURCES section of this report). If it did not budget $301.9 million in federal stimulus funds for FY2011 and did not draw down its $190 million fund balance, the District would have to cut operating fund appropriations by $643.3 million, or 12.1%, rather than 2.8%.[53]

The majority of the $402.3 million all funds appropriation decline results from a $228.7 million cut in Capital Projects Fund appropriations. Capital Projects Fund appropriations will decline by 22.1% from the FY2010 proposed budget. The proposed FY2010 budget had anticipated a significant increase in state capital funding following the passage of a major state capital bill in 2009, but the FY2010 revenue was not received so the District is revising its FY2011 budget expectation downward and postponing capital projects.[54] CPS is reducing its budgeted appropriation for State Capital Development Board revenues by $95.4 million, from $145.6 million in FY2010 to $50.2 million in FY2011.[55] CPS is also budgeting for $67.3 million less in capital reimbursements from the City of Chicago and $65 million less in bond proceeds (see Capital Outlay section of this report for details).

Appropriations for the Debt Service Fund will decline by $22.3 million or 4.5% due to savings expected from capitalizing interest on bonds issued in FY2010 and delaying new bond issuances, if necessary.[56]

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[52] CPS FY2011 Proposed Budget, p. 75.
[53] CPS FY2011 Proposed Budget, pp. 7 and 63.
[54] CPS FY2011 Proposed Budget, p. 8.
[55] CPS FY2010 Proposed Budget, p. 13 and FY2011 Proposed Budget, p. 37.
[56] CPS FY2011 Proposed Budget, p. 381.

CPS Appropriations by Type for All Funds: FY2010 & FY2011 (in $ millions)				
General Operating Funds	**FY2010**	**FY2011**	**$ Change**	**% Change**
Teacher Salaries	$ 2,028.8	$ 2,065.9	$ 37.1	1.8%
Non-Teacher Salaries	$ 608.1	$ 619.1	$ 11.0	1.8%
Employee Benefits	$ 1,013.3	$ 871.9	$ (141.4)	-14.0%
Subtotal General Operating Compensation	**$ 3,650.2**	**$ 3,556.9**	**$ (93.3)**	**-2.6%**
Commodities & Utilities	$ 363.2	$ 350.4	$ (12.8)	-3.5%
Contractual/ Professional Services/ Tuition	$ 835.1	$ 854.3	$ 19.2	2.3%
Capital Outlay/ Equipment/ Repair	$ 17.0	$ 68.2	$ 51.2	301.2%
Debt Service	$ 2.7	$ -	$ (2.7)	100.0%
Contingency and Other	$ 459.7	$ 346.8	$ (112.9)	-24.6%
Subtotal Other Operating	**$ 1,677.7**	**$ 1,619.7**	**$ (58.0)**	**-3.5%**
Subtotal General Operating	**$ 5,327.9**	**$ 5,176.6**	**$ (151.3)**	**-2.8%**
Debt Service Fund				
Contractual/ Professional Services	$ 5.2	$ 8.8	$ 3.6	69.2%
Debt Service Payments	$ 494.5	$ 468.6	$ (25.9)	-5.2%
Subtotal Debt Service	**$ 499.7**	**$ 477.4**	**$ (22.3)**	**-4.5%**
Capital Projects Fund				
Capital Outlay/ Equipment/ Repair	$ 1,035.4	$ 806.7	$ (228.7)	-22.1%
Subtotal Capital Projects Fund	**$ 1,035.4**	**$ 806.7**	**$ (228.7)**	**-22.1%**
Grand Total	**$ 6,863.0**	**$ 6,460.7**	**$ (402.3)**	**-5.9%**

Source: CPS FY2010 Proposed Budget p. 10 and FY2011 Proposed Budget p. 34.

The next exhibit shows that CPS appropriations for all funds have risen from $5.3 billion to $6.5 billion over five years. This is a 22.0% increase since the FY2007 proposed budget. Debt service appropriations will increase by 81.0%, which is attributable in part to an increase in debt issuance pursuant to federal stimulus provisions that increase the amount of debt local school districts can issue. Capital Project Fund appropriations will increase by 28.9% or $181.1 million.

CPS Appropriations By Type for All Funds: FY2007 & FY2011 (in $ millions)

General Operating Funds	FY2007	FY2011	$ Change	% Change
Teacher Salaries	$ 1,989.4	$ 2,065.9	$ 76.5	3.8%
Non-Teacher Salaries	$ 527.3	$ 619.1	$ 91.8	17.4%
Employee Benefits	$ 738.4	$ 871.9	$ 133.5	18.1%
Subtotal General Operating Compensation	**$ 3,255.1**	**$ 3,556.9**	**$ 301.8**	**9.3%**
Commodities & Utilities	$ 272.8	$ 350.4	$ 77.6	28.4%
Contractual/ Professional Services/ Tuition	$ 603.3	$ 854.3	$ 251.0	41.6%
Capital Outlay/ Equipment/ Repair	$ 15.2	$ 68.2	$ 53.0	348.7%
Debt Service	$ 1.4	$ -	$ (1.4)	-100.0%
Contingency and Other	$ 258.9	$ 346.8	$ 87.9	34.0%
Subtotal Other Operating	**$ 1,151.6**	**$ 1,619.7**	**$ 468.1**	**40.6%**
Subtotal General Operating	**$ 4,405.7**	**$ 5,176.6**	**$ 770.9**	**17.5%**
Debt Service Fund				
Contractual/ Professional Services	$ 3.0	$ 8.8	$ 5.8	193.3%
Debt Service Payments	$ 260.7	$ 468.6	$ 207.9	79.7%
Subtotal Debt Service	**$ 263.7**	**$ 477.4**	**$ 213.7**	**81.0%**
Capital Projects Fund				
Capital Outlay/ Equipment/ Repair	$ 625.6	$ 806.7	$ 181.1	28.9%
Subtotal Capital Projects Fund	**$ 625.6**	**$ 806.7**	**$ 181.1**	**28.9%**
Grand Total	**$ 5,295.0**	**$ 6,460.7**	**$ 1,165.7**	**22.0%**

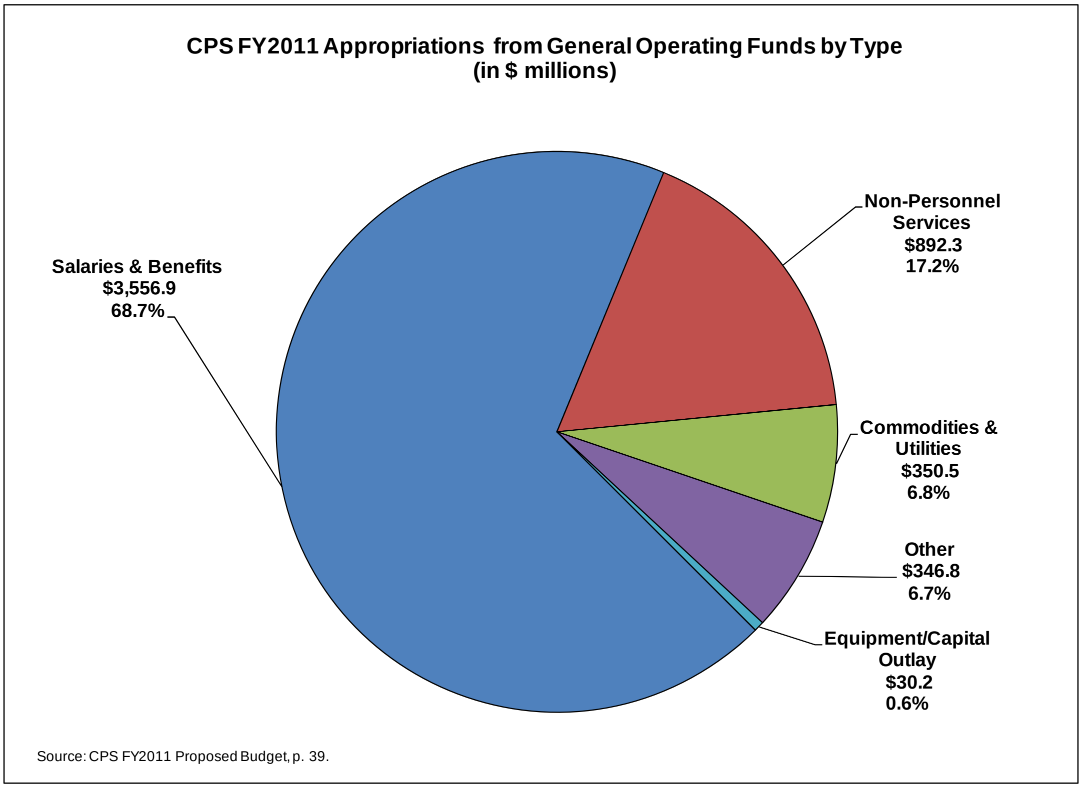
Source: CPS FY2007 Proposed Budget, pp. 9 and 20; and FY2011 Proposed Budget, p. 34.

Appropriations for Operating Funds – Two- and Five-Year Trends

The following sections show trend data for operating funds appropriations by type, function and location.

Appropriations for Operating Funds – By Type

The exhibit below shows the breakdown of FY2011 General Operating Funds appropriations by type. The largest single portion is earmarked for salaries and benefits. Approximately 68.7% of the operating funds, or almost $3.6 billion, will be for teacher salaries, non-teacher compensation and employee benefits. Non-personnel services appropriations, totaling $892.3 million or 17.2%, include professional services, contractual payments to outside organizations that provide school support services and charter school tuition transfers. Some of the non-personnel service appropriations support compensation costs of persons who provide direct services to CPS but are not CPS employees.



The following exhibit compares the proposed General Operating Funds appropriations by type for FY2010 and FY2011. Total General Operating Funds will decline by 2.8%, or $151.3 million. Salary appropriations will increase by 1.8%, or $48.1 million, over the FY2010 budgeted amount. Total employee benefit costs will decline by 14.0%, or $141.5 million, due primarily to the temporary reduction in teacher pension contributions (see PERSONNEL and TEACHERS' PENSION FUND sections of this report for more on benefit appropriations).

Commodities and utilities will be reduced by $18.8 million from the FY2010 proposed budget, but the District notes that these appropriations are actually rising modestly from the FY2010 year-end estimated expenditures.[57] For example, energy efficiency efforts made in FY2010 reduced electricity and natural gas costs and brought the year-end estimate down to $84.0 million

[57] CPS FY2011 Proposed Budget, p. 89.

from the FY2010 budgeted amount of $91.0 million.[58] The FY2011 budget proposes an energy appropriation of $83.4 million, roughly the same as the FY2010 estimated year-end expenditure.[59]

Non-Personnel Services will increase by 6.9% or $57.3 million. These services include transportation, contractual services, tuition payments to charter schools and private schools that provide special education services, professional and technical services, and repair contracts. Transportation will increase by 11.6%, or $11.8 million. Budgeted tuition payments will increase by 9.4% or $32.3 million from $344.0 million in FY2010 to $376.3 million in FY2011 due to increased enrollment at charter and contract schools.[60] Appropriations for professional, non-professional and technical services will also increase in FY2011. These services include after school tutoring programs, curriculum coaching and technical support.

Educational equipment appropriations will increase by $13.3 million from the FY2010 budgeted amount due to start-up equipment purchases for new and expansion schools that were previously budgeted in a contractual services account.[61] The $30.2 million FY2011 equipment appropriation will actually decline by $6.5 million from FY2010 year-end estimated expenditures including those FY2010 start-up expenses that had been originally budgeted in a different account.[62]

"Other" is a category used to appropriate for competitive grants, carry-overs and other special revenue that may or may not be received during the year or has not yet been allocated to programs. Historically, actual "Other" expenditures were a few million dollars but the budgeted amount jumped to $453.6 million in the FY2010 budget in response to federal stimulus grant opportunities.[63] The FY2011 budgeted decline reflects reduced expectations of federal grants.

[58] CPS FY2010 Proposed Budget, p. 70 and FY2011 Proposed Budget, pp. 89, 94 and 98.
[59] CPS FY2011 Proposed Budget, p. 98.
[60] CPS FY2010 Proposed Budget, p. 71 and FY2011 Proposed Budget, p. 94.
[61] Information provided by CPS budget office, August 17, 2010.
[62] CPS FY2011 Proposed Budget, p. 94, and information provided by CPS budget office, August 17, 2010.
[63] CPS FY2010 Proposed Budget, p. 68.

CPS Proposed Appropriations by Type for General Operating Funds: FY2010 & FY2011 (in $ millions)				
Expenditure Type	**FY2010**	**FY2011**	**$ Change**	**% Change**
Teacher Salaries	$ 2,028.8	$ 2,065.9	$ 37.0	1.8%
Non-Teacher Salaries	$ 608.1	$ 619.1	$ 11.0	1.8%
Total Salaries	$ 2,636.9	$ 2,685.0	$ 48.1	1.8%
Other Employee Benefits				
Teacher Pension	$ 510.9	$ 337.3	$ (173.6)	-34.0%
Ed Support Personnel Pension	$ 97.9	$ 97.9	$ 0.1	0.1%
Hospitalization/Other Comp.	$ 330.0	$ 347.1	$ 17.1	5.2%
Unemployment Compensation	$ 10.4	$ 23.9	$ 13.5	130.6%
Medicare/Social Security	$ 37.3	$ 37.1	$ (0.3)	-0.7%
Workers Compensation	$ 27.0	$ 28.6	$ 1.6	6.1%
Total Employee Benefits	$ 1,013.4	$ 871.9	$ (141.5)	-14.0%
Subtotal Compensation	**$ 3,650.3**	**$ 3,556.9**	**$ (93.5)**	**-2.6%**
Commodities & Utilities	$ 369.2	$ 350.5	$ (18.8)	-5.1%
Non-Personnel Services				
Transportation	$ 101.5	$ 113.3	$ 11.8	11.6%
Contractual Services	$ 201.0	$ 201.5	$ 0.5	0.2%
Tuition	$ 344.0	$ 376.3	$ 32.3	9.4%
NonProf., Professional and Tech. Serv.	$ 144.3	$ 152.7	$ 8.5	5.9%
Repair Contracts	$ 33.1	$ 38.0	$ 4.9	14.9%
Other	$ 11.2	$ 10.4	$ (0.7)	-6.5%
Subtotal Non-Personnel Services	**$ 835.0**	**$ 892.3**	**$ 57.3**	**6.9%**
Equipment/Capital Outlay	$ 17.0	$ 30.2	$ 13.3	78.2%
Debt Service	$ 2.7	$ -	$ (2.7)	100.0%
Other	$ 453.6	$ 346.8	$ (106.9)	-23.6%
Total	**$ 5,327.9**	**$ 5,176.6**	**$ (151.3)**	**-2.8%**

Sources: CPS FY2010 Proposed Budget, p. 15; and FY2011 Proposed Budget, p. 39, and CPS budget office.

The following exhibit presents a five-year trend for the General Operating Funds appropriations. Total operating appropriations will increase by $770.9 million, or 17.5%. Total budgeted compensation will increase by $301.7 million or 9.3%. The largest single increase is in the non-personnel services, which will grow by $292.2 million or 48.7%. This increase reflects in part the growth of charter and contract school enrollment and related tuition payments made by CPS. Actual tuition expenditures in FY2007 were $205.4 million, which is $179.9 million less than the $376.3 million budgeted for FY2011.[64]

CPS Proposed Appropriations by Type for General Operating Funds: FY2007 & FY2011 (in $ millions)

Expenditure Type	FY2007	FY2011	$ Change	% Change
Teacher Salaries	$ 1,989.4	$ 2,065.9	$ 76.4	3.8%
Non-Teacher Salaries	$ 527.3	$ 619.1	$ 91.8	17.4%
Total Salaries	$ 2,516.7	$ 2,685.0	$ 168.3	6.7%
Other Employee Benefits				
Teacher Pension	$ 291.9	$ 337.3	$ 45.4	15.6%
Ed Support Personnel Pension	$ 84.8	$ 97.9	$ 13.2	15.5%
Hospitalization/Other Comp.	$ 303.0	$ 347.1	$ 44.2	14.6%
Unemployment Compensation	$ 10.9	$ 23.9	$ 12.9	118.6%
Medicare/Social Security	$ 24.8	$ 37.1	$ 12.3	49.6%
Workers Compensation	$ 23.1	$ 28.6	$ 5.5	23.7%
Total Employee Benefits	$ 738.4	$ 871.9	$ 133.4	18.1%
Subtotal Compensation	**$ 3,255.1**	**$ 3,556.9**	**$ 301.7**	**9.3%**
Commodities & Utilities	$ 272.8	$ 350.5	$ 77.7	28.5%
Non-Personnel Services	$ 600.1	$ 892.3	$ 292.2	48.7%
Equipment/Capital Outlay	$ 15.2	$ 30.2	$ 15.0	98.3%
Debt Service	$ 1.4	$ -	$ (1.4)	100.0%
Other	$ 261.1	$ 346.8	$ 85.7	32.8%
Total	**$ 4,405.7**	**$ 5,176.6**	**$ 770.9**	**17.5%**

Sources: CPS FY2007 Proposed Budget, p. 25; and FY2011 Proposed Budget, p. 39.

[64] CPS FY2011 Proposed Budget, p. 98.

Appropriations for Operating Funds – By Function

The exhibit below presents General Operating Funds appropriations by function for FY2010 and FY2011. Total appropriations for Instruction will increase by 0.5%, or $14.5 million. Regular Programs Instruction will increase by $50.4 million while Special Education Instruction will decline by 0.1% and Vocational Education and Special Needs Instruction is reduced by $35.5 million, or 18.3%. Supporting Services will decline by $53.9 million, or 2.6%. Supporting Services include services such as social work, speech pathology, assessment and testing, food service, transportation, and general administration. Community Services will decline by $0.8 million, or 1.2%. Community Services includes activities such as parent involvement programs, early childhood outreach, flow-through of federal title funds for non-public schools, the After School Matters program, and other after school programs.[65] The largest reduction is in Provision for Contingencies which will be reduced by $108.4 million, or 47.4%.

CPS Proposed Appropriations By Function for General Operating Funds: FY2010 & FY2011 (in $ millions)

Function	FY2010	FY2011	$ Change	% Change
Instruction-Regular Programs	$ 2,246.1	$ 2,296.4	$ 50.4	2.2%
Instruction-Special Education	$ 557.9	$ 557.5	$ (0.4)	-0.1%
Instruction-Voc Ed & Special Needs	$ 194.3	$ 158.8	$ (35.5)	-18.3%
Subtotal Instruction	**$ 2,998.3**	**$ 3,012.8**	**$ 14.5**	**0.5%**
Support Services	$ 2,035.3	$ 1,981.4	$ (53.9)	-2.6%
Community Services	$ 63.1	$ 62.3	$ (0.8)	-1.2%
Interest and Debt Service	$ 2.7	$ -	$ (2.7)	-100.0%
Provision for Contingencies	$ 228.4	$ 120.1	$ (108.4)	-47.4%
Total	**$ 5,327.9**	**$ 5,176.6**	**$ (151.3)**	**-2.8%**

Source: CPS FY2010 Proposed Budget, pp. 20 & 21; and FY2011 Proposed Budget, pp. 44 & 45.

Proposed appropriations for Instruction will increase by 16.5% or $426.1 million between FY2007 and FY2011, despite a 20.6% reduction in Vocational Education and Special Needs Instruction. Supporting Services will increase by 20.3%, or $334.5 million. Community Services will increase by $8.9 million, or 16.6%.

CPS Proposed Appropriations By Function for General Operating Funds: FY2007 & FY2011 (in $ millions)

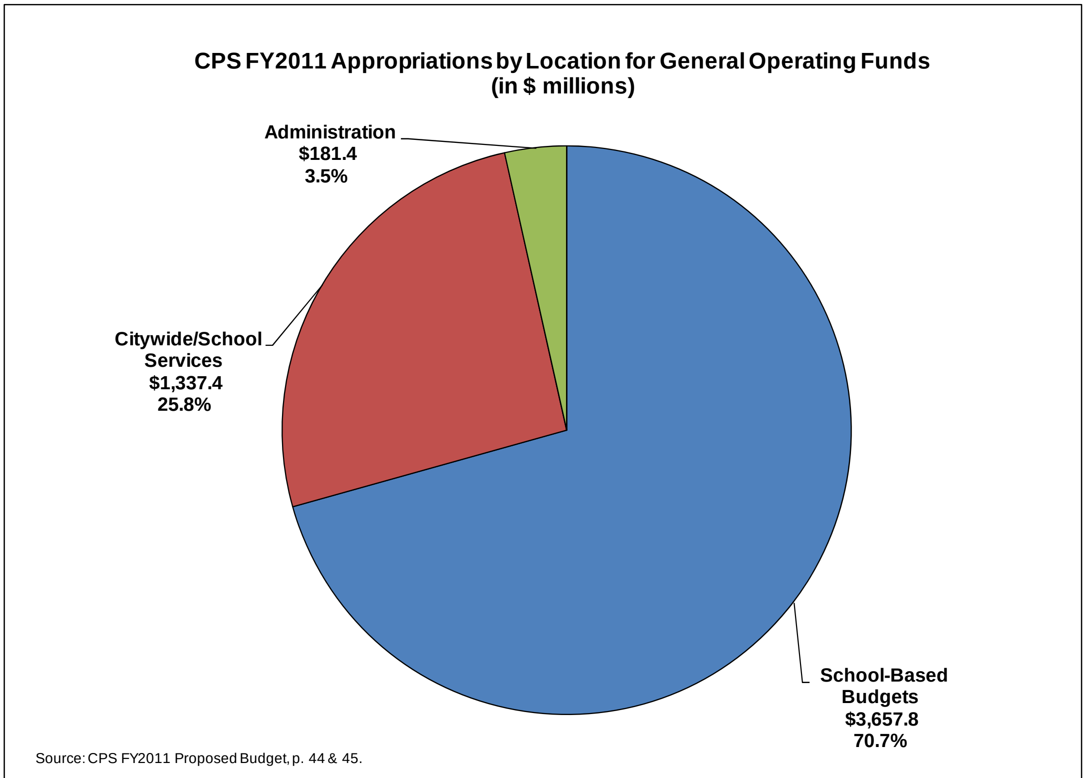
Function	FY2007	FY2011	$ Change	% Change
Instruction-Regular Programs	$ 1,921.6	$ 2,296.4	$ 374.9	19.5%
Instruction-Special Education	$ 465.2	$ 557.5	$ 92.3	19.8%
Instruction-Voc Ed & Special Needs	$ 199.9	$ 158.8	$ (41.1)	-20.6%
Subtotal Instruction	**$ 2,586.6**	**$ 3,012.8**	**$ 426.1**	**16.5%**
Supporting Services	$ 1,646.9	$ 1,981.4	$ 334.5	20.3%
Community Services	$ 53.5	$ 62.3	$ 8.9	16.6%
Non Program Charges	$ 27.1	$ -	$ (27.1)	-100.0%
Interest and Debt Service	$ 1.4	$ -	$ (1.4)	-100.0%
Provision for Contingencies	$ 90.1	$ 120.1	$ 29.9	33.2%
Total	**$ 4,405.7**	**$ 5,176.6**	**$ 770.9**	**17.5%**

Source: CPS FY2007 Proposed Budget, CD-ROM; and FY2011 Proposed Budget pp.44 & 45.

[65] Information provided by CPS budget office, August 18, 2010.

Appropriations for Operating Funds – By Location

The exhibit below shows the breakdown of FY2011 General Operating Funds appropriations by location. School-Based Budgets comprise 70.7% of operating appropriations, or $3.7 billion; this includes direct costs for charter and alternative schools. Approximately 25.8% will be for Citywide/School Services. These are programs and services such as literacy, math and special education that directly impact multiple schools. Central Office Administration represents 3.5%, or $181.4 million of operating appropriations. Central Office Administration does not include school-based administrators but it does include administrative support services to schools and 24 Area Instructional Offices.[66]



School-Based Budget appropriations will increase by 5.3%, or $185.0 million in FY2011. Citywide/School Services will be reduced by $293.9 million, or 18.0% and Administration will be reduced by $42.4 million or 18.9% from FY2010 levels.

CPS Appropriations by Location for General Operating Funds: FY2010 & FY2011 (in $ millions)				
Location	**FY2010**	**FY2011**	**$ Change**	**% Change**
School-Based Budgets	$ 3,472.8	$ 3,657.8	$ 185.0	5.3%
Citywide/School Services	$ 1,631.3	$ 1,337.4	$ (293.9)	-18.0%
Administration	$ 223.8	$ 181.4	$ (42.4)	-18.9%
Total	**$ 5,327.9**	**$ 5,176.6**	**$ (151.3)**	**-2.8%**

Source: CPS FY2010 Proposed Budget, pp. 20 & 21; and FY2011 Proposed Budget, pp. 44-45.

[66] CPS FY2011 Proposed Budget, p. 45.

General Operating Funds appropriations for School-Based Budgets will increase by 21.1% or $637.4 million between FY2007 and FY2011. Budgeted appropriations for Citywide/School Services will grow 12.6%, or $150.1 million. Administration appropriations will decline by 8.4% over the five-year period, from $198.0 million to $181.4 million.

CPS Appropriations by Location for General Operating Funds: FY2007 & FY2011 (in $ millions)				
Location	FY2007	FY2011	$ Change	% Change
School-Based Budgets	$ 3,020.3	$ 3,657.8	$ 637.4	21.1%
Citywide/School Services	$ 1,187.4	$ 1,337.4	$ 150.1	12.6%
Administration	$ 198.0	$ 181.4	$ (16.6)	-8.4%
Total	**$ 4,405.7**	**$ 5,176.6**	**$ 770.9**	**17.5%**

Source: CPS FY2007 Proposed Budget, CD-ROM; and FY2011 Proposed Budget, pp. 44-45.

RESOURCES

The following section details revenues and resources that CPS is planning to utilize for the upcoming fiscal year, including a detailed analysis of state and state revenues and property tax resources.

One and Two-Year Resource Trends for All Funds

CPS proposes budgeting nearly $6.5 billion in total resources for FY2011. This is a decrease of 5.9%, or $402.3 million, from the FY2010 proposed budget. Resources include local revenues, state and federal intergovernmental aid, appropriated fund balance, and certain non-revenue sources such as bond proceeds. The budget assumes that federal revenues from the American Recovery and Reinvestment Act (ARRA) may provide $301.9 million to categorical programs, down from $382.5 million.[67] FY2011 is the second and last year that that ARRA revenues will be available.

General Fund resources will decrease by 2.2% or $80.5 million, from $3.7 billion to $3.6 billion. Special Revenue Fund resources will decrease by 4.3% or $70.8 million. Debt service fund resources in FY2010 will decrease by 4.5% or $22.3 million to $477.4 million.

Chicago Public Schools Resources for All Funds: FY2010 & FY2011 (in $ millions)				
	FY2010	FY2011	$ Change	% Change
General Operating Funds				
General Fund	$ 3,666.0	$ 3,585.5	$ (80.5)	-2.2%
Special Revenue Funds	$ 1,661.9	$ 1,591.1	$ (70.8)	-4.3%
Subtotal General Operating Funds	**$ 5,327.9**	**$ 5,176.6**	**$ (151.3)**	**-2.8%**
Capital Projects Funds	$ 1,035.4	$ 806.7	$ (228.7)	-22.1%
Debt Service Funds	$ 499.7	$ 477.4	$ (22.3)	-4.5%
Total	**$ 6,863.0**	**$ 6,460.7**	**$ (402.3)**	**-5.9%**

Source: CPS FY2010 Proposed Budget, p. 10; and FY2011 Proposed Budget, p. 63.

[67] CPS FY2011 Proposed Budget, p. 63.

In FY2011 the District will receive $1.9 billion in property tax revenue for all funds, for a total of $2.4 billion in local government revenue. State revenues in FY2011 will total $1.9 billion. Federal aid is expected to total nearly $1.2 billion in FY2011, which includes $301.9 million from the second and anticipated last year of stabilization funds from the American Recovery and Reinvestment Act of 2009 (ARRA).[68] The following chart details the resources proposed in the CPS FY2011 budget.

CPS Appropriated Resources by Fund Type: FY2011 (in $ thousands)

	General Fund	Special Revenue	Subtotal Operating Funds	Capital	Debt Service	Total
Fund Balance Appropriated	$ 190,000	$ 54,600	$ 244,600	$ -	$ 52,000	$ 296,600
Property Taxes	$ 1,839,100	$ 81,000	$ 1,920,100	$ -	$ 11,874	$ 1,931,974
Replacement Taxes	$ 66,230	$ 32,500	$ 98,730	$ -	$ 53,768	$ 152,498
Investment Interest Income	$ 2,500	$ 100	$ 2,600	$ 1,500	$ -	$ 4,100
Miscellaneous Local Revenue	$ 75,239	$ 24,000	$ 99,239	$ 150,000	$ 96,664	$ 345,903
Subtotal Local Revenue	$ 1,983,069	$ 137,600	$ 2,120,669	$ 151,500	$ 162,306	$ 2,434,475
General State Aid (GSA)	$ 662,389	$ 261,000	$ 923,389	$ -	$ 218,202	$ 1,141,591
State Aid - Teacher Pension	$ 42,561	$ 410	$ 42,971	$ -	$ -	$ 42,971
Flat Grant ADA	$ -	$ -	$ -	$ -	$ -	$ -
Block Grants: Ed. Serv. & Gen. Ed	$ 615,517	$ 13,334	$ 628,851	$ -	$ -	$ 628,851
Other State Aid	$ 24,100	$ 9,116	$ 33,216	$ 50,200	$ 34,000	$ 117,416
Subtotal State	$ 1,344,567	$ 283,860	$ 1,628,427	$ 50,200	$ 252,202	$ 1,930,829
Elem & Sec. Ed.	$ 100	$ 708,110	$ 708,210	$ -	$ -	$ 708,210
Child Nutrition	$ -	$ 172,666	$ 172,666	$ -	$ -	$ 172,666
Special Ed. -- IDEA	$ -	$ 112,600	$ 112,600	$ -	$ -	$ 112,600
Medicaid, ROTC, Other	$ 67,733	$ 121,679	$ 189,412	$ 5,000	$ 10,875	$ 205,287
Subtotal Federal	$ 67,833	$ 1,115,055	$ 1,182,888	$ 5,000	$ 10,875	$ 1,198,763
Other Financing Sources	$ -	$ -	$ -	$ 600,000	$ -	$ 600,000
Total Revenues	$ 3,395,469	$ 1,536,515	$ 4,931,984	$ 806,700	$ 425,383	$ 5,564,067
Total Resources	$ 3,585,469	$ 1,591,115	$ 5,176,584	$ 806,700	$ 477,383	$ 6,460,667

Source: CPS FY2011 Proposed Budget, p. 37.

[68] CPS FY2011 Proposed Budget, pp. 37 and 63.

Two-Year and Five-Year All Fund Revenue Trends by Source

The FY2011 budget projects a 5.9% decrease in revenues for all funds over the previous years' proposed budget. This is a $402.3 million decrease from the FY2010 proposed budget.

- Local revenues are expected to decrease by 9.6%, or $259.0 million, to $2.4 billion. This includes a $144.9 million expected decrease in Property Tax Revenues;
- Revenues provided by the State of Illinois are projected to increase by 5.0% or $91.2 million;
- Federal funding resources will decrease by 18.8% or $277.7 million, primarily due to reductions in available stimulus funding; and
- Other funding sources, totaling $600.0 million for FY2011, will decrease by 9.8% or $65.0 million and are comprised of proposed bond proceeds for the Capital Improvement Program.[69]

CPS Appropriated Resources by Source for All Funds: FY2010 & FY2011 (in $ thousands)				
	FY2010	FY2011	$ Change	% Change
Fund Balance Appropriated	**$ 188,430**	**$ 296,600**	**$ 108,170**	**57.4%**
Property Taxes	$ 2,076,900	$ 1,931,974	$ (144,926)	-7.0%
Replacement Taxes	$ 161,501	$ 152,498	$ (9,003)	-5.6%
Investment Interest Income	$ 9,400	$ 4,100	$ (5,300)	-56.4%
Miscellaneous Local Revenue	$ 445,660	$ 345,903	$ (99,757)	-22.4%
Subtotal Local Revenue	**$ 2,693,461**	**$ 2,434,475**	**$ (258,986)**	**-9.6%**
General State Aid (GSA)	$ 924,200	$ 1,141,591	$ 217,391	23.5%
State Aid - Teacher Pension	$ 37,551	$ 42,971	$ 5,420	14.4%
Flat Grant ADA	$ 3,103	$ -	$ (3,103)	-100.0%
Block Grants: Ed. Serv. & Gen. Ed	$ 660,735	$ 628,851	$ (31,884)	-4.8%
Other State Aid	$ 214,020	$ 117,416	$ (96,604)	-45.1%
Subtotal State	**$ 1,839,609**	**$ 1,930,829**	**$ 91,220**	**5.0%**
Elem & Sec. Ed.	$ 1,032,821	$ 708,210	$ (324,611)	-31.4%
Child Nutrition	$ 166,716	$ 172,666	$ 5,950	3.6%
Special Ed. -- IDEA	$ 108,200	$ 112,600	$ 4,400	4.1%
Medicaid, ROTC, Other	$ 168,736	$ 205,287	$ 36,551	21.7%
Subtotal Federal	**$ 1,476,473**	**$ 1,198,763**	**$ (277,710)**	**-18.8%**
Total Revenues	**$ 6,009,543**	**$ 5,564,067**	**$ (445,476)**	**-7.4%**
Other Financing Sources	**$ 665,000**	**$ 600,000**	**$ (65,000)**	**-9.8%**
Total Resources	**$ 6,862,973**	**$ 6,460,667**	**$ (402,306)**	**-5.9%**

Source: FY2010 Proposed Budget, p. 13.; and : CPS FY2011 Proposed Budget, p.37.

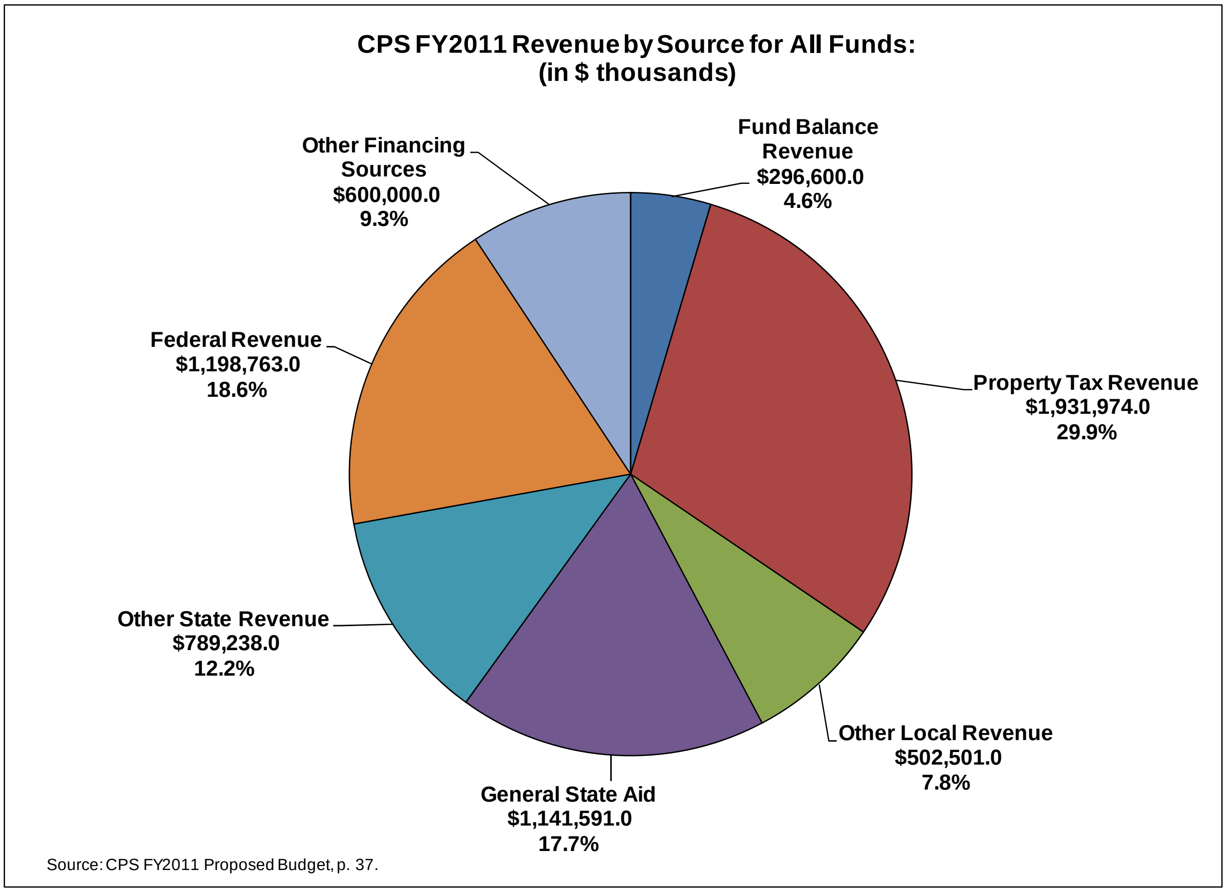
Several key assumptions built into the FY2011 revenue projections, including projections for General State Aid and mandated categoricals, are based upon state budget appropriations found within Public Acts 96-656, 96-957, 96-958, 96-959, appropriation allocations by the State Board of Education; and the Governor's appropriation allocation on June 24, 2010.[70]

[69] CPS FY2011 Proposed Budget, p. 63.
[70] CPS FY2011 Proposed Budget, p. 64.

- Property tax revenues will decline by 7.0% from $2.1 billion FY2010 to $1.9 billion in FY 2011. This decline is due primarily to one-time tax revenues in 2010 as a result of changing the method of calculating property tax bill in the spring from 50% of prior year taxes to 55%;[71]
- Personal Property Replacement Tax[72] revenues are projected to fall by 5.6% from FY2010 projections. This projected decrease is based on anticipation of continued economic volatility; and
- CPS's budget projects that General State Aid will increase by $217.4 million or 23.5% to $1,141.6 million in FY2011 budget. This does not include state allocated federal ARRA Stabilization funds, which are included under federal funding. If stabilization funding is included there is a decline in General State Aid of $16.6 million or 1.4%.
- Under the terms of P.A. 93-845, which allows CPS to file for a prior year Equalized Assessed Value (EAV) GSA adjustment in FY2011, CPS anticipates receiving the same amount as in prior years -- $16.3 million;[73] and
- CPS anticipates $43.0 million in state pension aid to CPS, which is a 14.4% increase from the FY2010 state pension contribution.

In FY2011, 29.9% of all CPS revenues, or $1.9 billion, will come from local property tax revenues. Federal funds will provide the second largest component of the CPS revenue stream, with 18.6% of the total, or $1.2 billion. Revenues from the State of Illinois will be the third largest source of revenues at 17.7% of the total or $1.1 million.

[71] CPS FY2011 Proposed Budget, p. 64.
[72] The Personal Property Replacement Tax is a corporate income tax.
[73] CPS FY2011 Proposed Budget, p. 65.


CPS FY2011 Revenue by Source for All Funds:
(in $ thousands)
Fund Balance Revenue $296,600.0 4.6%
Property Tax Revenue $1,931,974.0 29.9%
Other Local Revenue $502,501.0 7.8%
General State Aid $1,141,591.0 17.7%
Other State Revenue $789,238.0 12.2%
Federal Revenue $1,198,763.0 18.6%
Other Financing Sources $600,000.0 9.3%
Source: CPS FY2011 Proposed Budget, p. 37.

CPS resources are projected to increase by 22.0% between FY2007 and FY2011. This is a $1.2 billion increase, from $5.3 billion to $6.5 billion. Local revenues will increase by 20.5% over the five-year period, with property taxes, the largest local revenue source, rising by $183.6 million. Between FY2007 and FY2011 state revenues are projected to increase by 12.3%, from $1.7 billion to $1.9 billion. Investment income is projected to fall by 86.3% over the five-year period. Federal funding is expected to increase by 43.5% or $363.6 million, rising from $835.2 million in FY2007 to $1.2 billion in FY2011. Federal stimulus funding accounts for $301.9 million of the funding increase. If not for the stimulus funding, federal support would only be increasing 7.4% over five years.

CPS Appropriated Resources by Source for All Funds: FY2007 & FY2011 (in $ thousands)

	FY2007	FY2011	$ Change	% Change
Fund Balance Appropriated	**$ 371,327**	**$ 296,600**	**$ (74,727)**	**-20.1%**
Property Taxes	$ 1,748,328	$ 1,931,974	$ 183,646	10.5%
Replacement Taxes	$ 145,600	$ 152,498	$ 6,898	4.7%
Investment Interest Income	$ 29,911	$ 4,100	$ (25,811)	-86.3%
Miscellaneous Local Revenue	$ 95,989	$ 345,903	$ 249,914	260.4%
Subtotal Local Revenue	**$ 2,019,828**	**$ 2,434,475**	**$ 414,647**	**20.5%**
General State Aid (GSA)	$ 1,023,910	$ 1,141,591	$ 117,681	11.5%
State Aid - Teacher Pension	$ 75,287	$ 42,971	$ (32,316)	-42.9%
Flat Grant ADA	$ 14,660	$ -	$ (14,660)	-100.0%
Block Grants: Ed. Serv. & Gen. Ed	$ 549,813	$ 628,851	$ 79,038	14.4%
Other State Aid	$ 55,040	$ 117,416	$ 62,376	113.3%
Subtotal State	**$ 1,718,710**	**$ 1,930,829**	**$ 212,119**	**12.3%**
Elem & Sec. Ed.--NCLB	$ 407,263	$ 708,210	$ 300,947	73.9%
Child Nutrition	$ 149,595	$ 172,666	$ 23,071	15.4%
Special Ed. -- IDEA	$ 100,507	$ 112,600	$ 12,093	12.0%
Medicaid, ROTC, Other	$ 177,839	$ 205,287	$ 27,448	15.4%
Subtotal Federal	**$ 835,204**	**$ 1,198,763**	**$ 363,559**	**43.5%**
Total Revenues	**$ 4,573,742**	**$ 5,564,067**	**$ 990,325**	**21.7%**
Other Financing Sources	**$ 350,000**	**$ 600,000**	**$ 250,000**	**100.0%**
Total Resources	**$ 5,295,069**	**$ 6,460,667**	**$ 1,165,598**	**22.0%**

Source: CPS FY2007 Proposed Budget pp. 9,18, 27; and FY2011 Proposed Budget p. 37.

Two-Year and Five-Year General Operating Fund Revenue Trends

CPS utilizes the General Fund and Special Revenue funds for general operations. General Operating Fund Resources will total $5.2 billion or 80.1% of all fund revenues in FY2011. In FY2011, General Operating Fund revenues are expected to fall by 5.5%, from approximately $5.2 billion in FY2010 to $4.9 billion in FY2011. This is a decrease of $289.5 million.

CPS's local revenues will provide $2.1 billion of General Operating Fund revenues. State sources will provide $1.6 billion while federal sources will provide $1.2 billion. The federal stimulus funds received in FY2010 created an anomalous year with more revenue being received from the federal government than the State. In FY2011 there is a return to the historical norm as stimulus funding will decrease.

CPS General Fund and Special Revenue Fund Resources: FY2010 & FY2011 (in $ thousands)

	FY2010	FY2011	$ Change	% Change
Fund Balance Appropriated	**$ 106,430**	**$ 244,600**	**$ 138,170**	**129.8%**
Property Taxes	$ 2,065,070	$ 1,920,100	$ (144,970)	-7.0%
Replacement Taxes	$ 105,820	$ 98,730	$ (7,090)	-6.7%
Investment Interest Income	$ 5,600	$ 2,600	$ (3,000)	-53.6%
Miscellaneous Local Revenue	$ 106,166	$ 99,239	$ (6,927)	-6.5%
Subtotal Local Revenue	**$ 2,282,656**	**$ 2,120,669**	**$ (161,987)**	**-7.1%**
General State Aid (GSA)	$ 728,504	$ 923,389	$ 194,885	26.8%
State Aid - Teacher Pension	$ 37,551	$ 42,971	$ 5,420	14.4%
Flat Grant ADA	$ 3,103	$ -	$ (3,103)	-100.0%
Block Grants: Ed. Serv. & Gen. Ed	$ 660,735	$ 628,851	$ (31,884)	-4.8%
Other State Aid	$ 38,420	$ 33,216	$ (5,204)	-13.5%
Subtotal State	**$ 1,468,313**	**$ 1,628,427**	**$ 160,114**	**10.9%**
Elem & Sec. Ed.--NCLB	$ 1,032,821	$ 708,210	$ (324,611)	-31.4%
Child Nutrition	$ 166,716	$ 172,666	$ 5,950	3.6%
Special Ed. -- IDEA	$ 108,200	$ 112,600	$ 4,400	4.1%
Medicaid, ROTC, Other	$ 162,736	$ 189,412	$ 26,676	16.4%
Subtotal Federal	**$ 1,470,473**	**$ 1,182,888**	**$ (287,585)**	**-19.6%**
Total Revenues	**$ 5,221,442**	**$ 4,931,984**	**$ (289,458)**	**-5.5%**
Total Resources	**$ 5,327,872**	**$ 5,176,584**	**$ (151,288)**	**-2.8%**

Source: CPS FY2010 Proposed Budget p. 13, and FY2011 Proposed Budget p. 37.

The next exhibit shows a five-year trend in General Operating Funds resources and revenues, from the FY2007 proposed budget to the FY2011 proposed budget. Over this five-year period, general operating resources, including appropriated fund balances, increased by 17.5%, or $770 million. The $244.6 million fund balance to be appropriated includes $190.0 million from the General Fund. The 133.0% increase in use of appropriated fund balance is attributed in large part to make up for late payments from the State.[74]

CPS General Fund and Special Revenue Fund Resources: FY2007 & FY2011 (in $ thousands)				
	FY2007	FY2011	$ Change	% Change
Fund Balance Appropriated	**$ 104,958**	**$ 244,600**	**$ 139,642**	**133.0%**
Property Taxes	$ 1,696,562	$ 1,920,100	$ 223,538	13.2%
Replacement Taxes	$ 91,494	$ 98,730	$ 7,236	7.9%
Investment Interest Income	$ 21,911	$ 2,600	$ (19,311)	-88.1%
Miscellaneous Local Revenue	$ 71,564	$ 99,239	$ 27,675	38.7%
Subtotal Local Revenue	**$ 1,881,531**	**$ 2,120,669**	**$ 239,138**	**12.7%**
General State Aid (GSA)	$ 889,230	$ 923,389	$ 34,159	3.8%
State Aid - Teacher Pension	$ 75,287	$ 42,971	$ (32,316)	-42.9%
Flat Grant ADA	$ 14,660	$ -	$ (14,660)	-100.0%
Block Grants: Ed. Serv. & Gen. Ed	$ 549,813	$ 628,851	$ 79,038	14.4%
Other State Aid	$ 55,040	$ 33,216	$ (21,824)	-39.7%
Subtotal State	**$ 1,584,030**	**$ 1,628,427**	**$ 44,397**	**2.8%**
Elem & Sec. Ed	$ 407,263	$ 708,210	$ 300,947	73.9%
Child Nutrition	$ 149,595	$ 172,666	$ 23,071	15.4%
Special Ed. -- IDEA	$ 100,507	$ 112,600	$ 12,093	12.0%
Medicaid, ROTC, Other	$ 177,839	$ 189,412	$ 11,573	6.5%
Subtotal Federal	**$ 835,204**	**$ 1,182,888**	**$ 347,684**	**41.6%**
Total Revenues	**$ 4,300,765**	**$ 4,931,984**	**$ 631,219**	**14.7%**
Total Resources	**$ 4,405,723**	**$ 5,176,584**	**$ 770,861**	**17.5%**

Source: CPS FY2007 Proposed Budget p. 18; and and FY2011 Proposed Budget p. 37.

Federal Funding

The District will receive nearly $1.2 billion in funding from the federal government in FY2011. This is a decrease of $277.7 million or 18.8% from FY2010 proposed federal appropriations totaling $1.5 billion. The decrease is attributable to the $80.5 million decrease in federal stimulus categorical funds that flow directly to the District from the federal government. In addition the FY2010 proposed budget included $234.0 million of federal stabilization funds that the State of Illinois was using to replace its General State Aid payments.[75] Lastly, the District is receiving lower formula grants resulting from lower poverty counts.[76]

[74] CPS FY2011 Proposed Budget, p. 67.
[75] CPS FY2010 Proposed Budget, p. 13.
[76] CPS FY2011 Proposed Budget, p. 75.

State of Illinois Operating Funding

The State of Illinois will provide a total of over $1.8 billion of revenues in the FY2011 operating budget. The $234.0 million State Fiscal Stabilization funds are included in this analysis because the State Board of Education prepared their budget factoring in the stabilization funds when determining the CPS budget allocation.[77] It should be noted that the State Fiscal Stabilization funds are included under federal funding in other schedules.

Of the $1.8 billion provided to CPS, approximately $43.0 million is for contributions to the Teachers' Pension Fund. The pension fund contribution for FY2011 is a 14.3% increase over what was provided by the State last year. Total state operating funding will decrease $51.4 million or 2.7% from FY2010.

If pension aid to CPS is excluded, State operating support will decrease by 3.0% or $56.7 million. Spending for mandated categorical programs is flat with a decline of less than 1%. State support for non-mandatory categorical programs will fall by 17.5% or $33.4 million. This decline is driven by programs eliminated by the State including the Reading Improvement and Bridges programs, which will reduce CPS funding by $20.4 million and $9.1 million respectively.

[77] Communication between the Civic Federation and CPS Office of Budget and Management , August 17, 2010.

Detail of State Funding for CPS General Operating and Debt Service Budget: FY2010 & FY2011 (in $ millions)				
	FY2010 Budget	FY2011 Budget	$ Change	% Change
General State Aid (Net)	$ 924.2	$ 1,141.6	$ 217.4	23.5%
ARRA SFSF ES in lieu of General State Aid	$ 234.0	$ -	$ (234.0)	-100.0%
GSA EAV Adjustment	$ 16.3	$ 16.3	$ -	0.0%
Total GSA	**$ 1,174.5**	**$ 1,157.9**	**$ (16.6)**	**-1.4%**
Mandated Categoricals				
Sp Ed - Extraordinary	$ 97.6	$ 97.6	$ -	0.0%
Sp Ed - Orphanage 7.03	$ 43.0	$ 43.0	$ -	0.0%
Sp Ed - Personnel	$ 87.8	$ 87.8	$ -	0.0%
Sp Ed - Private Tuition	$ 87.7	$ 87.7	$ -	0.0%
Sp Ed - Summer School	$ 6.4	$ 6.4	$ 0.0	0.1%
Sp Ed - Transportation	$ 131.9	$ 131.9	$ 0.0	0.0%
Transportation - Reg & Voc	$ 13.7	$ 10.5	$ (3.2)	-23.1%
IL Free Lunch/Breakfast	$ 13.3	$ 13.3	$ 0.0	0.3%
Orphanage Regular 18-3	$ 4.5	$ 3.5	$ (1.0)	-22.2%
Sub Total	**$ 485.8**	**$ 481.7**	**$ (4.1)**	**-0.8%**
Selected Other Categorical Programs				
Illinois Charter Schools	$ -	$ -	$ -	-
Bilingual - Chicago	$ 18.4	$ 19.0	$ 0.6	3.3%
Early Childhood Block	$ 126.6	$ 126.6	$ -	0.0%
Reading Improvement Block	$ 20.4	$ -	$ (20.4)	-100.0%
Extended Learning Opportunities (Bridges)	$ 9.1	$ -	$ (9.1)	-100.0%
Truants Alternative Optional Education	$ 4.8	$ 4.5	$ (0.4)	-8.1%
School Safety & Ed Improvement Block Grant	$ 3.1	$ -	$ (3.1)	-100.0%
Alternative Education/Regional Safe Schools	$ 3.0	$ 1.7	$ (1.3)	-43.3%
Career & Technical Ed	$ 5.8	$ 5.5	$ (0.3)	-5.5%
ROE/ISC - Operations	$ -	$ 0.6	$ 0.6	-
Sub Total Selected Other Programs	**$ 191.2**	**$ 157.8**	**$ (33.4)**	**-17.5%**
All Other State General Fd Ed Programs	$ 8.8	$ 6.2	$ (2.6)	-29.5%
Total without Pension	**$ 1,860.3**	**$ 1,803.6**	**$ (56.7)**	**-3.0%**
State Pension Aid to CPS	**$ 37.6**	**$ 43.0**	$ 5.4	14.3%
Total State Operating Funding for CPS	**$ 1,897.9**	**$ 1,846.6**	**$ (51.4)**	**-2.7%**

Source: CPS Office of Management and Budget.

The foundation level is the financial support per student representing combined state and local resources available resulting from the general state aid formula.[78] The foundation level for the District will remain at $6,119 per pupil in FY2011. The next exhibit shows increases in the foundation level for state per pupil funding between FY2007 and FY2011. During this five-year period, the foundation level rose by $785 or 14.7%, from $5,334 to $6,119 per pupil.

State of Illinois General State Aid Foundation Level: FY2007 - FY2011 (Per Pupil)					
	Foundation Level Per Pupil	$ Change from Prior Year	% Change from Prior Year	$ Change from 2007	% Change from 2007
FY2007	$ 5,334				
FY2008	$ 5,734	$ 400	7.5%	$ 400	7.5%
FY2009	$ 5,959	$ 225	3.9%	$ 625	11.7%
FY2010	$ 6,119	$ 160	2.7%	$ 785	14.7%
FY2011	$ 6,119	$ -	0.0%	$ 785	14.7%

Source: CPS FY2007 Proposed Budget, p. 7; FY2009 Proposed Budget, p. 52; FY2010 Proposed Budget, p. 41; and FY2011 Proposed Budget p.65.

Property Tax Revenues

Overall, CPS property tax revenues for all funds will decrease from $2.1 billion in FY2010 to $1.9 billion in FY2011, a $144.9 million or 7.5% decrease. This decrease is attributable to the following:

- One-time revenues received in FY2010 resulting from a permanent change in method of calculating tax bills in the first half of the year. This change increased the amount owed in the spring tax bill from 50% of the total amount due to 55%. While the district did not lose any property tax revenue from this change, the result is $96 million less in property tax revenue for FY2011.

- A $48.9 million of decrease in property tax revenue for FY2010 is attributed to the loss of an annual property tax “spike”. CPS typically experiences a “spike” in property tax revenues following a property tax increase because of the timing of collections and the fiscal year. In years when there is no property tax increase CPS experiences the opposite effect, a decline in revenues.[79]

Under current state law, the District could have increased the levy by 0.1%. Had the District raised its aggregate levy to the maximum amount allowable under state tax cap law, it would have yielded the District an additional $2.0 million in property tax revenues.[80] The District estimates that it could have received an additional $15.0 to $25.0 million from the growth in new property, which is not included under the property tax cap law. The District’s property tax levy for the Public Building Commission, or PBC levy, is also exempt from the property tax cap law. In recent years, including FY2011, the District has abated the PBC levy to reduce the property tax burden on tax payers.[81] If the PBC abatement was cancelled for FY2011, the District could

[78] CPS FY2011 Proposed Budget, p. 412.
[79] Communication between the Civic Federation and CPS Office of Budget and Management, August 17, 2010.
[80] Communication between the Civic Federation and CPS Office of Budget and Management, August 17, 2010.
[81] CPS FY2011 Proposed Budget, p. 64; CPS FY2009 CAFR, p. 54.

have netted an additional $40 million in property tax revenues. The total amount of these three actions would have resulted in an additional $57.0 million to $67.0 million in property tax revenue for the District in FY2011.

In FY2010 the District property tax levy experienced a 1.5% increase, which was less that the 4.1% it could have increased the levy under state tax cap law. In FY2009 the District held its property tax levy flat, and in FY1999 the District's levied less than the maximum amount allowed.[82] With those exceptions, the District has opted to increase the property tax levy to the maximum amount allowed by the tax cap law every year since FY1997.

The FY2011 budget assumes a property tax collection rate of 96.5%, identical with the collection rate assumed in FY2010.[83] Since FY2007, total budgeted property tax revenues have increased by 10.5% or $183.7 million.

The next exhibit shows a ten-year trend for CPS property tax revenues. Over that period, projected property tax revenues have risen by 30.5% or $452.0 million. This represents an increase from approximately $1.5 billion to $1.9 billion. FY2011 proposes the first decrease in the 10-year period.

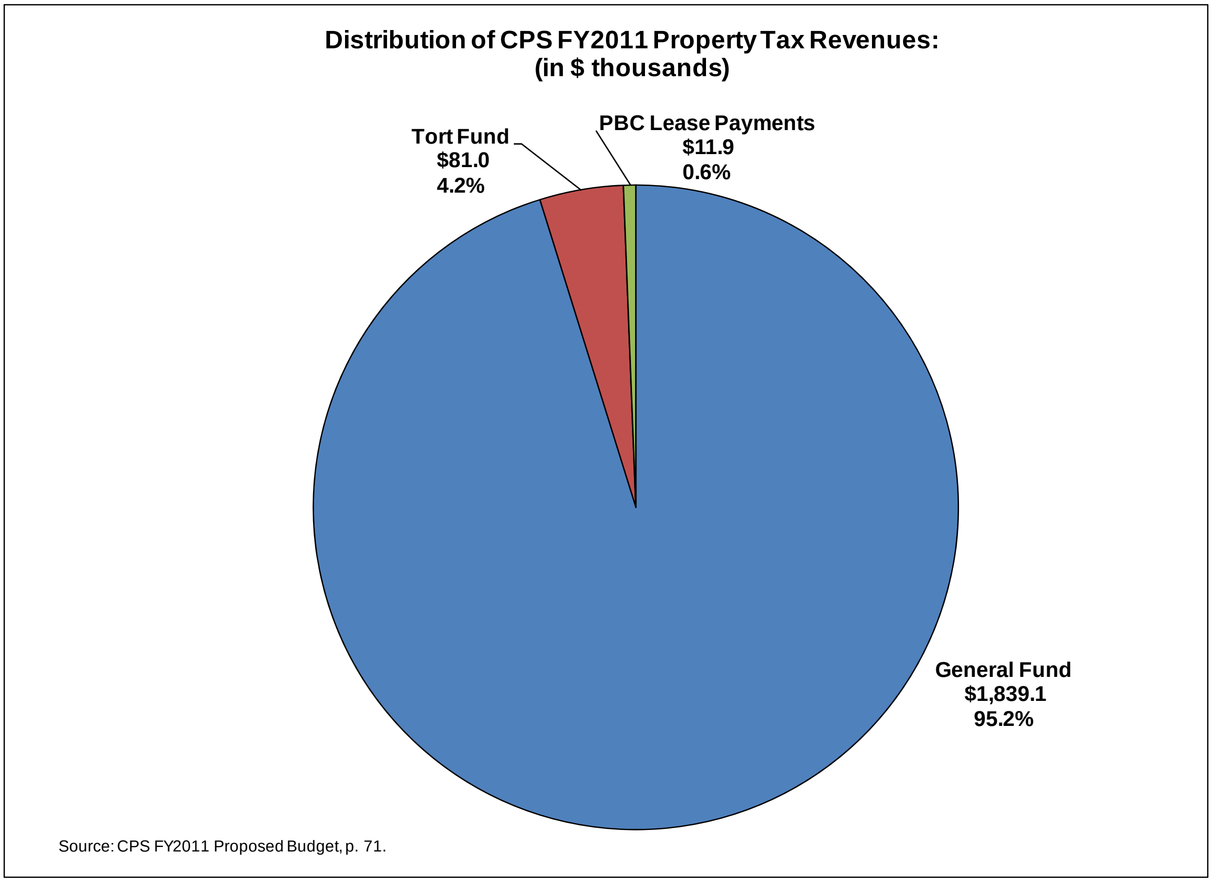
CPS Property Tax Revenue: FY2002 to FY2011 (in $ millions)

Fiscal Year	Revenue	$ Change from Previous Year	% Change from Previous Year	$ Change from FY2002	% Change from FY2002
FY2002	$ 1,480.0	$ 50.1	3.5%	-	-
FY2003	$ 1,546.3	$ 66.3	4.5%	$ 66.3	4.5%
FY2004	$ 1,583.1	$ 36.8	2.4%	$ 103.1	7.0%
FY2005	$ 1,633.1	$ 50.0	3.2%	$ 153.1	10.3%
FY2006	$ 1,678.3	$ 45.2	2.8%	$ 198.3	13.4%
FY2007	$ 1,748.3	$ 70.0	4.2%	$ 268.3	18.1%
FY2008	$ 1,822.5	$ 74.2	4.2%	$ 342.5	23.1%
FY2009	$ 1,843.0	$ 20.5	1.1%	$ 363.0	24.5%
FY2010	$ 2,076.9	$ 233.9	12.7%	$ 596.9	40.3%
FY2011	$ 1,932.0	$ (144.9)	-7.0%	$ 452.0	30.5%

Source: CPS Proposed Budgets FY2002-FY2011.

[82] CPS FY1999 Proposed Budget, p. 48.
[83] Communication between the Civic Federation and CPS Office of Budget and Management, August 17, 2010.

The following graph depicts the allocation of FY2011 property tax revenues. Approximately 95.2% or $1.8 billion is distributed to the General Fund to finance CPS operations. The second largest amount, $81.0 million or 4.2%, is set aside for the Workers and Unemployment Compensation Tort Immunity Fund, while only $11.9 million or 0.6% of the levy will be used for Public Building Commission lease payments.



PERSONNEL

This section presents an analysis of CPS's personnel trends by type: administrative, school-based and capital funded. Data outlining CPS's administrative staffing levels itemized by administrative unit are also included. The analysis compares the proposed FY2011 personnel figures to that of FY2010 and FY2007.

Two-year Personnel Data for All Funds

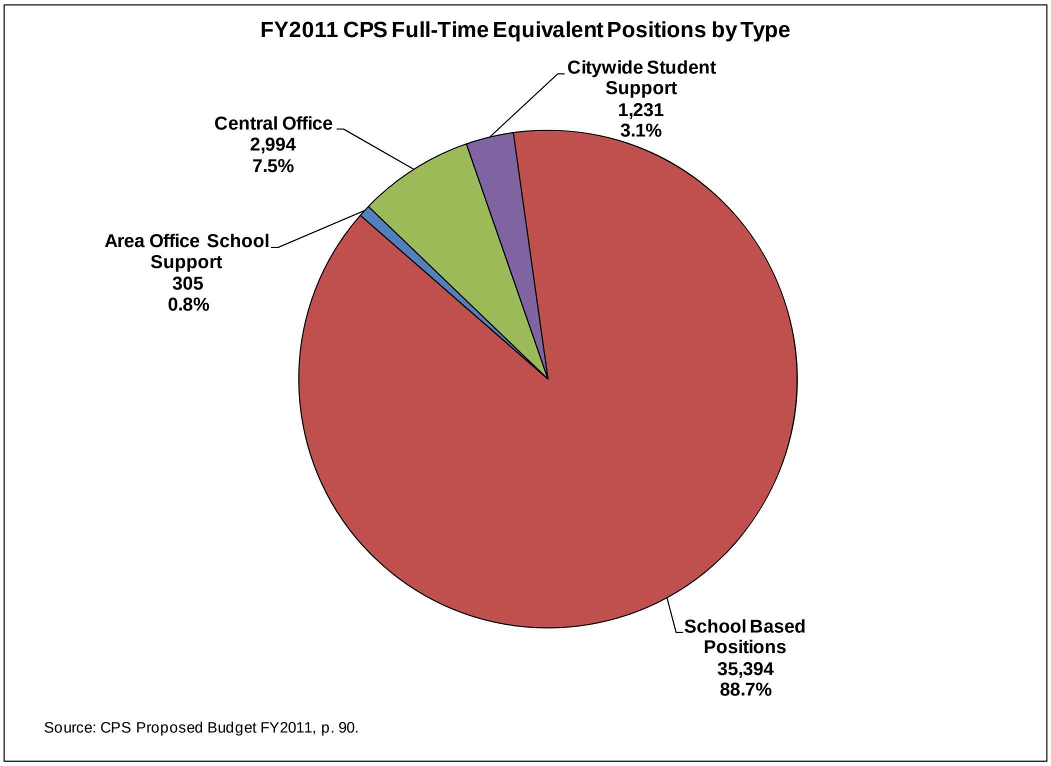
In FY2011, CPS will fund a total of 39,925 full-time equivalent (FTE) positions. This is a 5.1% decrease from the FY2010 total of 42,082 proposed FTEs. The FY2011 Chicago Public Schools budget includes 23,981 teaching positions.[84] The following exhibit provides an overview of CPS staff reductions.

CPS Distribution of Personnel: FY2010 & FY2011
Full-Time Equivalent (FTE) Positions

Location	FY2010	FY2011	# Change	% Change
Administrative Positions	1,630	1,537	(93)	-5.7%
School-Based Positions & Student Support	40,452	38,388	(2,064)	-5.1%
Subtotal Operating Funds Positions	**42,082**	**39,925**	**(2,157)**	**-5.1%**
Capital-Funded Positions	-	-	-	0.0%
Total	**42,082**	**39,925**	**(2,157)**	**-5.1%**

CPS Proposed Budget FY2010, p. 69; CPS Proposed Budget FY2011, p. 90.

Approximately 88.7% or 35,394 of FY2011 budgeted positions are designated as school-based staff, including teachers, assistant principals, principals and non-teaching support services such as teachers' aides, clerical staff, custodians, security officers and building engineers. Central office staff composes 7.5% of all FTE positions. City-wide student support staff, such as clinicians and teachers, will compose 3.1% of CPS staff. The remaining 0.8% of FTEs by type are office school support positions.



[84] CPS Proposed Budget FY2011, p. 90. Number obtained from adding together the budgeted number of teaching positions and positions for city-wide student support, which includes clinicians and teachers.

Administrative Staff by Unit

The following exhibit details full-time equivalent positions within CPS's central office and area office school support by administrative unit. Some administrative units have been rolled up in the chart below into summary categories. For example, school financial services include the accounts payable, treasury, and other administrative units. In FY2011, 107 administrative FTE positions will be eliminated from CPS's full-time staff, a 6.5% decrease from FY2010.

CPS Administrative Staff Levels: FY2010 & FY2011
Full-Time Equivalent (FTE) Positions

Administrative Unit	FY2010	FY2011	# Change	% Change
Board of Education	21	14	(7)	-33.3%
C.E.O.	8	8	-	0.0%
Chief of Staff	7	11	4	57.1%
Inspector General	17	17	-	0.0%
Law	80	74	(6)	-7.5%
Communications	13	12	(1)	-7.7%
Audit Services	3	4	1	33.3%
New Schools Development	19	21	2	10.5%
LSC Relations	49	19	(30)	-61.2%
Business Diversity	6	4	(2)	-33.3%
Chief Education Officer	80	91	11	13.4%
Reading & Language Arts	41	23	(18)	-43.9%
Various High School Programs	102	70	(32)	-31.0%
Education to Careers	-	-	-	0.0%
Early Childhood Education	20	12	(8)	-40.0%
Mathematics & Science	24	11	(13)	-54.2%
Assessment Design	12	9	(3)	-25.0%
Instruction & School Mgmt.	185	257	72	38.9%
School Demographics & Planning	4	4	-	0.0%
Principal Preparation & Development	9	-	(9)	-100.0%
Academic Enhancement	9	8	(1)	-11.1%
Specialized Services	44	37	(7)	-15.9%
Language & Cultural Education	17	14	(3)	-17.6%
Arts Education	8	5	(3)	-37.5%
Chief Administrative Officer	7	20	13	185.7%
Human Resources	188	177	(11)	-5.9%
Contracts & Procurement	35	27	(8)	-22.9%
Safety & Security	70	39	(31)	-44.3%
Information & Technology Services	245	203	(42)	-17.1%
Business Service Center	40	35	(5)	-12.5%
School Financial Services	72	64	(8)	-11.1%
Management & Budget	26	44	18	69.2%
Chief Operating Officer	-	-	-	0.0%
Facility Operations & Maintenance	23	25	2	8.7%
Real Estate	5	5	-	0.0%
Food Services and Warehousing	21	20	(1)	-4.8%
Student Transportation	1	1	-	0.0%
Teaching and Learning	40	25	(15)	-37.5%
Autonomy	4	7	3	75.0%
Performance Management	33	43	10	30.3%
Extended Learning Opportunities	19	13	(6)	-31.6%
Grants Management and Administration	34	36	2	5.9%
Intergovermental Affairs	-	5	5	-
Leadership Development and Support	-	7	7	-
External Affairs and Partnerships	-	13	13	-
Total	**1,641**	**1,535**	**(107)**	**-6.5%**

Note: Slight discrepancies between tabulations of FTE positions are caused by rounding.

Source: CPS Proposed Budget FY2011, p.322-323.

The chart above reflects a variety of restructuring included within the 2011 budget including consolidating units, creating new units, and separating units.[85] The administrative units that experienced the greatest reductions in staff levels include:

- External Affairs was renamed Local School Council (LSC) Relations and reorganized. Positions were shifted to the newly created External Affairs and Partnerships and Intergovernmental Affairs unit. This results in a decrease of 30 FTEs or 61.2% from FY2010 proposed positions. LSC Relations will provide outreach to the community.
- High School Programs will decline by 31% or 32 FTEs in FY2011. This is primarily due to the dissolution of the high school programs administrative unit, which has been consolidated into other units.
- Safety and Security will be restructured in FY2011 to reflect centrally managed resources resulting in a 44.3% decrease from 70 to 39 FTEs.
- Information & Technology Services will decrease 17.1%. This is a decline of 42 positions from 245 FTEs in FY2010 to 203 FTEs in FY2011.

The units that will increase their staffing levels by the largest percentage amounts include:

- Instruction & School Management will experience an increase of 38.9%, rising from 185 FTEs in FY2010 to 257 FTEs in FY2011. This is due primarily to increases at area elementary instructional offices.
- The Office of Budget and Management will increase from 26 FTEs in FY2010 to 44 in FY2011, resulting in a 69.2% increase.
- Performance Management FTEs will increase 30.3% in FY2011 rising from 33 FTEs in FY2010 to 43 FTEs in FY2011.
- The following units will be added: External Affairs and Partnerships (13 FTEs), Leadership Development and Support (7 FTEs), and Intergovernmental Affairs (5 FTEs).

Personnel Five-Year Trend

In FY2011 the Chicago Public Schools will budget for 39,925 full-time equivalent positions, a decrease of 4,225 positions or 9.6% from proposed staffing levels in FY2007.

Full Time Equivalent (FTE) Postitions				
Location	**FY2007**	**FY2011**	**# Change**	**% Change**
Administrative Positions	1,580	1,535	(46)	-2.9%
School-Based Positions & Student Support	42,489	38,388	(4,101)	-9.7%
Subtotal Operating Funds Positions	**44,069**	**39,923**	**(4,147)**	**-9.4%**
Capital-Funded Positions	80	-	(80)	-100.0%
Total	**44,149**	**39,923**	**(4,227)**	**-9.6%**

Source: CPS Proposed Budget FY2007, p. 76.; CPS Proposed Budget FY2011, p. 90.

[85] CPS Proposed Budget FY2011, p.317.

Administrative Staff by Unit Five-Year Trend

The following exhibit compares CPS's administrative staffing levels itemized by individual administrative unit for FY2007 and FY2011. Personnel in FY2011 will decrease by 46 FTE positions, or 2.9%, compared to proposed staffing levels in FY2007.

CPS Administrative Staff Levels: FY2007 & FY2011
Full-Time Equivalent (FTE) Positions

Administrative Unit	FY2007	FY2011	# Change	% Change
Board of Education	19	14	(5)	-26.3%
C.E.O.	10	8	(2)	-20.0%
Chief of Staff	7	11	4	57.1%
Inspector General	16	17	2	9.7%
Law	79	74	(5)	-6.3%
Communications	14	12	(2)	-14.3%
Audit Services	3	4	1	33.3%
New Schools Development	24	21	(3)	-12.5%
LSC Relations	48	19	(29)	-60.4%
Business Diversity	4	4	1	14.3%
Chief Education Officer	7	91	84	1202.9%
Reading & Language Arts	36	23	(13)	-36.1%
Various High School Programs	146	70	(75)	-51.7%
Education to Careers	40	-	(40)	-100.0%
Early Childhood Education	19	12	(7)	-36.8%
Mathematics & Science	38	11	(27)	-70.9%
Assessment Design	35	9	(26)	-74.3%
Instruction & School Mgmt.	224	257	33	14.7%
School Demographics & Planning	1	4	3	-
Principal Preparation & Development	8	-	(8)	-100.0%
Academic Enhancement	12	8	(4)	-33.3%
Specialized Services	66	37	(29)	-43.9%
Strategic Planning	7	-	(7)	-100.0%
Language & Cultural Education	47	14	(33)	-70.2%
Arts Education	8	5	(3)	-
Chief Administrative Officer	6	20	14	233.3%
Human Resources	179	177	(2)	-1.1%
Contracts & Procurement	32	27	(5)	-15.6%
Safety & Security	58	39	(19)	-32.8%
Information & Technology Services	157	203	46	29.3%
Business Service Center	23	35	12	-
School Financial Services	113	64	(49)	-43.1%
Management & Budget	44	44	-	0.0%
Chief Operating Officer	12	-	(12)	-100.0%
Facility Operations & Maintenance	17	25	8	47.1%
Real Estate	2	5	3	150.0%
Food Services and Warehousing	20	20	-	0.0%
Student Transportation	1	1	-	0.0%
Teaching and Learning	-	25	25	-
Autonomy	-	7	7	-
Performance Management	-	43	43	-
Extended Learning Opportunities	-	13	13	-
Grants Management and Administration	-	36	36	-
Intergovermental Affairs	-	5	5	-
Office of Student Support and Engagement	-	7	7	-
Leadership Development and Support	-	13	13	-
Total	**1,580**	**1,535**	**(46)**	**-2.9%**

Note: This chart does not include school-based administrative positions or positions paid for out of the Capital Fund. Slight discrepancies between tabulations of FTE positions are caused by rounding.
Source: CPS Budget FY2007 CDROM data; CPS Proposed Budget FY2011, p.322-323.

Virtually every administrative unit has gone through significant staffing changes within the last five years. The units that will undergo the highest reductions relative to FY2007 include:

- High School Programs, which have been reduced 51.7%, decreasing from 146 FTEs in FY2007 to 70 FTEs in FY2011.
- Education to Careers was eliminated resulting in a 40 FTE reduction.
- Financial Services was reduced 43.1% decreasing from 113 FTEs in FY2007 to 64 FTEs in FY2011.

The units with the increases in staffing relative to FY2007 staffing levels will include:

- Chief Education Officer will experience an increase of 1,202.9% from 7 FTEs in FY2007 to 91 FTEs in FY2011. The large increase is a reflection of a number of offices that are under the leadership of the Chief Education Officer, such as the Office of College and Career Preparation that are not accounted for under the FY2007 number.
- Information & Technology Services will increase by 29.3%, from 157 FTEs in FY2007 to 203 FTEs in FY2011.
- The Performance Measurement unit was established, resulting in 43 additional FTEs.
- Grants Management and Administration was established, resulting in 36 additional FTEs.
- There were five other administrative units that were added since FY2007.

Two-Year and Five-Year Personnel Appropriations for General Operating Funds

In FY2011, CPS personnel appropriations are expected to decrease by $93.5 million to $3.6 billion, a 2.6% decline over the FY2010 budget of $3.7 billion. Salaries, which constitute 75.5% of all employee compensation, will increase by 1.8%. Benefit costs, which include pensions, hospitalization insurance, unemployment compensation, and payroll tax contributions for Social Security and Medicare, are decreasing significantly. This is decline is driven by a 34.0% or $173.6 million decline in teacher pension costs.[86] In the aggregate, benefit costs will decrease by 14.0% or $141.5 million, falling from $1,013.4 to $871.9 million during this two-year period.

CPS Proposed Appropriations by Type for General Operating Funds: FY2010 & FY2011 (in $ millions)

Expenditure Type	FY2010	FY2011	$ Change	% Change
Teacher Salaries	$ 2,028.8	$ 2,065.9	$ 37.0	1.8%
Non-Teacher Salaries	$ 608.1	$ 619.1	$ 11.0	1.8%
Total Salaries	**$ 2,636.9**	**$ 2,685.0**	**$ 48.1**	**1.8%**
Other Employee Benefits				
Teacher Pension	$ 510.9	$ 337.3	$ (173.6)	-34.0%
Ed Support Personnel Pension	$ 97.9	$ 97.9	$ 0.1	0.1%
Hospitalization/Other Comp.	$ 330.0	$ 347.1	$ 17.1	5.2%
Unemployment Compensation	$ 10.4	$ 23.9	$ 13.5	130.6%
Medicare/Social Security	$ 37.3	$ 37.1	$ (0.3)	-0.7%
Workers Compensation	$ 27.0	$ 28.6	$ 1.6	6.1%
Total Employee Benefits	**$ 1,013.4**	**$ 871.9**	**$ (141.5)**	**-14.0%**
Total Compensation	**$ 3,650.3**	**$ 3,556.9**	**$ (93.5)**	**-2.6%**

Sources: CPS FY2010 Proposed Budget, p. 15; and FY2011 Proposed Budget, p. 39.

[86] Regular employees of the District who are not teachers participate in the Chicago Municipal pension fund. The $97.9 million "Ed Support Personnel Pension" reflects the CPS employer contribution to the Municipal fund and CPS' 7% employer pick-up of employee contributions (see Pension section of this report). Information provided by CPS budget office, August 17, 2010. Employer contributions to the Municipal fund are equal to 1.25 times the employee contribution made two years prior. See the Civic Federation's annual Status of Local Pension Funding report, http://www.civicfed.org/civic-federation/publications/fy2008statuslocalpensions.

Over a five-year period, the compensation costs CPS pays for out of its General Operating Funds will rise by 9.3% or $301.7 million. Salaries will increase by 6.7%, from $2.5 billion to $2.7 billion. Benefits increase at a faster rate, increasing by 18.1% or by $133.4 million.

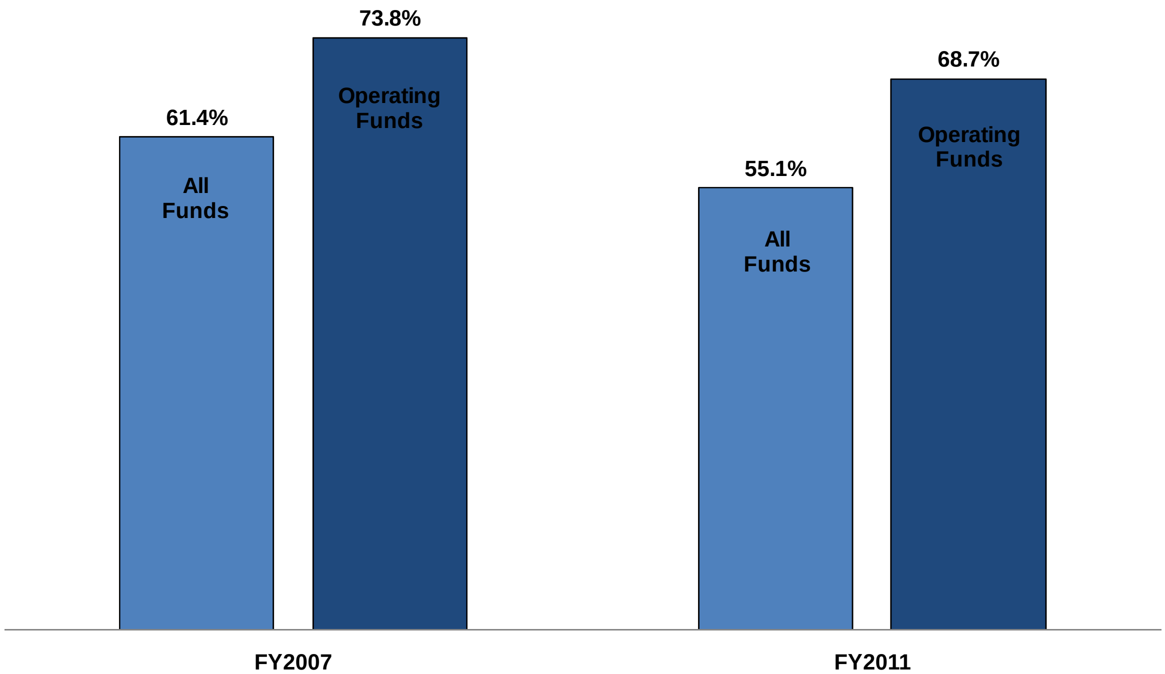
CPS Proposed Appropriations by Type for General Operating Funds: FY2007 & FY2011 (in $ millions)

Expenditure Type	FY2007	FY2011	$ Change	% Change
Teacher Salaries	$ 1,989.4	$ 2,065.9	$ 76.4	3.8%
Non-Teacher Salaries	$ 527.3	$ 619.1	$ 91.8	17.4%
Total Salaries	**$ 2,516.7**	**$ 2,685.0**	**$ 168.3**	**6.7%**
Other Employee Benefits				
Teacher Pension	$ 291.9	$ 337.3	$ 45.4	15.6%
Ed Support Personnel Pension	$ 84.8	$ 97.9	$ 13.2	15.5%
Hospitalization/Other Comp.	$ 303.0	$ 347.1	$ 44.2	14.6%
Unemployment Compensation	$ 10.9	$ 23.9	$ 12.9	118.6%
Medicare/Social Security	$ 24.8	$ 37.1	$ 12.3	49.6%
Workers Compensation	$ 23.1	$ 28.6	$ 5.5	23.7%
Total Employee Benefits	**$ 738.4**	**$ 871.9**	**$ 133.4**	**18.1%**
Total Compensation	**$ 3,255.1**	**$ 3,556.9**	**$ 301.7**	**9.3%**

Sources: CPS FY2007 Proposed Budget, p. 25; and FY2011 Proposed Budget, p. 39.

The next exhibit compares the percentage of CPS appropriations earmarked for employee compensation in FY2007 versus FY2011. The percentage of all funds appropriations dedicated to personnel has declined from 61.4% to 55.1% over the last five years and the percentage of operating funds appropriations earmarked for personnel expenditures has decreased from 73.8% to 68.7%.

CPS Employee Compensation Appropriation as Percentage of Appropriations: FY2007 & FY2011



Source: CPS FY2007 Budget, p. 20; FY2010 Budget, p. 39.

ENROLLMENT

CPS is projecting a slight increase in overall student enrollment across the system for fall 2011. In the current budget, CPS estimates that fall 2010 enrollment totaled approximately 408,571 students and fall 2011 total enrollment will be 410,000 students, resulting in a projected increase in enrollment of 1,429 students or 0.3%.[87]

CPS Student Projected Enrollment: Fall 2010 - Fall 2011

Fall 2010	Fall 2011	# Change	% Change
408,571	410,000	1,429	0.3%

Source: Chicago Public Schools Proposed Budget FY2011, p. 22.

[87] Chicago Public Schools FY2011 Proposed Budget, p. 22.

As the following exhibit indicates, total actual enrollment dropped by 708 students between school years 2009 to 2010. Between the fall of 2006 and the fall of 2010, actual enrollment has dropped by 5,123 students, a decrease of 1.2% percent.[88]

CPS Student Enrollment: Fall 2006 - Fall 2010							
	Fall 2006	**Fall 2007**	**Fall 2008**	**Fall 2009**	**Fall 2010**	**06-10 # Change**	**06-10 % Change**
Preschool	21,363	21,388	23,325	24,370	24,247	2,884	13.5%
Elementary, K-8	280,767	274,672	271,464	269,139	269,010	(11,757)	-4.2%
High School	111,564	112,541	113,166	115,770	115,314	3,750	3.4%
Total	**413,694**	**408,601**	**407,955**	**409,279**	**408,571**	**(5,123)**	**-1.2%**

Source: Chicago Public Schools FY2011 Proposed Budget, p. 24.

FUND BALANCE

This year CPS is proposing to draw down its entire General Fund fund balance as part of its plan to balance the budget. This section discusses four aspects of fund balance, first outlining fund balance policy and definitions, second a presentation of historical audited data, third budgeted data, and lastly a brief discussion of CPS' proposed use of a line of credit for contingencies.

Fund Balance Policy and Definitions

Fund balance is commonly used to describe the net assets of a governmental fund and serves as a measure of financial resources.[89] However, a variety of external and internal constraints may prevent portions of the fund balance from being available for budgeting. The *unreserved* fund balance refers to resources that do not have any external legal restrictions or constraints. The unreserved fund balance can be further categorized as designated and undesignated. A *designation* is a limitation placed on the use of the fund balance by the government itself for planning purposes or to earmark funds.[90]

CPS took the prudent step of adopting a fund balance policy in FY2008. As noted in the policy, the goals of maintaining an adequate fund balance are to provide working capital, for the District to ensure uninterrupted services, to provide for capital improvements, and to achieve a balanced budget within a four-year period. The policy requires the District to maintain an unreserved, designated fund balance in the operating and debt funds of 5% to 10% of the budget for each new fiscal year. It adds that once that stabilization is adequately established, any excess fund balance can be appropriated under certain circumstances, including to offset a temporary reduction in revenues from local, state and federal sources.[91]

The Government Finance Officers Association (GFOA) recommends "at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their

[88] Chicago Public Schools FY2011 Proposed Budget, p. 24.
[89] GFOA, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).
[90] Gauthier, Steven, "Fund Balance: New and Improved", Government Finance Review, April 2009.
[91] Chicago Public Schools Policy Manual, Fund Balance and Budget Management Policy (Adopted August 2008) CPS FY2011 Proposed Budget, p. 397.

general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures." Two months of operating expenditures is approximately 17%. The GFOA statement adds that each unit of government should adopt a formal policy that considers the units own specific circumstances and that a smaller fund balance ratio maybe appropriate for the largest governments.[92] Considering the large size of the District compared to other governments their fund balance policy appears reasonable.

Audited Fund Balance

The first chart includes only the undesignated unreserved fund balance to determine the portion of the fund balance without any constraints. This analysis differs from the CPS fund balance policy which includes designated balances. Between FY2005 and FY2007, the CPS General Operating Fund[93] unreserved undesignated fund balance increased from 1.5% to 4.1% of expenditures. The ratio remained steady in FY2008 at 4.0%. In 2009 the fund balance ratio decreased significantly to 2.7% due to an increase in general fund expenditures and a drawdown of funds.

CPS Unreserved, Undesignated General Operating Fund Balance Ratio: FY2005-FY2009 (in $ thousands)			
	General Operating Fund Balance	General Fund Expenditures	Ratio
FY2005	$58,546,000	$3,862,396,000	1.5%
FY2006	$89,320,000	$4,085,093,000	2.2%
FY2007	$171,643,000	$4,146,369,000	4.1%
FY2008	$174,391,000	$4,394,685,000	4.0%
FY2009	$130,222,000	$4,742,779,000	2.7%

Sources: CPS Comprehensive Annual Financial Reports FY2005 - FY2009.

The CPS fund balance policy refers specifically to the unreserved designated general operating fund balance as a ratio of operating and debt service budgets. This fund balance ratio increased significantly from 6.0% in FY2005 to 9.3% in FY2008. The ratio declined in FY2009 to 6.2%.

CPS Unreserved, Designated General Operating Fund Fund Balance Ratio: FY2005-FY2009			
	General Operating Fund Balance	Expenditures (General Operating and Debt Funds)	Ratio
FY2005	$248,546,000	$4,176,785,000	6.0%
FY2006	$307,720,000	$4,298,325,000	7.2%
FY2007	$404,843,000	$4,487,279,000	9.0%
FY2008	$432,391,000	$4,655,123,000	9.3%
FY2009	$311,422,000	$5,043,948,000	6.2%

Sources: CPS Comprehensive Annual Financial Reports FY2005 - FY2009.

The Debt Service fund balance is not included in the chart above because it is included in a separate section of the fund balance policy and does not have a specific ratio placed on it. CPS

[92] GFOA, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).
[93] The General Operating Fund and General Fund both refer to the CPS primary operating fund. The audit uses the term General Operating Fund while the budget uses General Fund.

has long planned that the majority of this fund balance would be utilized for Qualified Zone Academy Bonds (QZAB) debt service because they become due in non-uniform increments and are difficult to match to recurring revenue.[94] The interest-free QZABs have 15-year maturities with no annual debt service payment required other than paying off the principal at maturity for these bonds.

As of the FY2009 year-end audit, there was $154.6 million in Debt Service fund balance. CPS estimates that at the 2010 year-end the balance had increased to $164.1 million.[95] The 2011 budget allocates $40.0 million of the balance for PBC bond tax-levy abatement and $12 million for the first QZAB payment in FY2011, which will leave $112 million at year-end. Remaining QZAB sinking funds may require between $48 million and $70 million.[96]

Budgeted Fund Balance

The General Fund FY2009 year-end unreserved fund balance was $311.4 million ($130.2 million undesignated plus $181.2 designated).[97] CPS estimates that the unreserved fund balance (including designated funds) will be $190 million at the FY2010 year-end.[98] The FY2011 budget proposes to draw down the entire $190 million General Fund fund balance.[99] If approved, the District will end FY2011 with $0 of General Fund fund balance. The FY2011 fund balance target, per the adopted policy, is $282.7 million.[100]

CPS attributes its failure to meet fund balance targets primarily to delays in payments from the State of Illinois. As of July 30, 2010, the state delay in payment exceeds five months and constituted an outstanding balance due of $236.2 million.[101] CPS plans to take the following steps to address the delay: (1) propose a spending reduction plan in the first quarter, (2) set aside any one-time revenues for budget stabilization, and (3) work with the State to eliminate payment delays.[102] CPS identifies several possible areas that may provide one-time funding such as distribution of TIF revenues, one-time state or federal sources, or revenue from reduction in delays state in payments.

Line of Credit

The absence of any fund balance can cause a number of challenges and risks for a government, including cash flow issues. One method that CPS plans to employ to address possible cash flow problems is to obtain a line of credit. Any line of credit must be repaid within one year.[103] On June 15, 2010 the Board of Education of the City of Chicago authorized the issuance of a note and obligations including a line of credit with a bank in an amount not to exceed $800 million. The issuance of a note is backed by the 2009 and 2010 tax levy.[104]

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[94] Communication between Civic Federation and CPS, August 17, 2010.
[95] CPS FY2011 Proposed Budget, p. 31
[96] Communication between Civic Federation and CPS, August 17, 2010.
[97]CPS Comprehensive Financial Report, p. 38.
[98] CPS FY2011 Proposed Budget, p. 36.
[99] CPS FY2011 Proposed Budget, p. 36.
[100] CPS FY2011 Proposed Budget, p. 31.
[101] CPS FY2011 Proposed Budget, p. 31.
[102] CPS FY2011 Proposed Budget, p. 32.
[103] CPS FY2011 Budget Briefing document, August 2010.
[104] Resolution 10-0615-RS3, June 15, 2010.

It is understandable that there would be a temporary deviation from the 5% fund balance target during a time of unusual fiscal stress. However, a budget that utilizes 100% of the remaining fund balance is concerning. All of the possible sources of one-time revenue remain very uncertain including resolution of the State's fiscal crisis. In addition, it remains to be seen whether the current revenue challenges are a temporary issue or if they will become a lingering obstacle to financial stability.

TEACHERS' PENSION FUND

The following section discusses the Public School Teachers' Pension and Retirement Fund of Chicago and includes membership data, employer and employee contributions, future funding projections and pension fund indicators.

Membership

Chicago public school teachers are enrolled in the Public School Teachers' Pension and Retirement Fund of Chicago. Eligible non-teaching employees are enrolled in the City of Chicago's Municipal Employees' Annuity and Benefit Fund.[105] The data presented below are for the Teachers' Pension Fund only.

In FY2009, the Teachers' Pension Fund had 56,123 members, including 24,218 retirees and beneficiaries receiving benefits and 31,905 active employee members. Since FY2005, total membership has decreased by 4.0% or 2,352 members. The number of retirees and beneficiaries receiving benefits increased by 15.6% or 3,264 members since FY2005, while the number of current members has declined by 15.0% or 5,616 members. The ratio of active employees to beneficiaries has fallen from 1.79 to 1.32 over the past five years.

CPS Teachers' Pension Fund Membership: FY2005 - FY2009

Fiscal Year	Retirees & Beneficiaries Receiving Benefits	Active Employee Members	Total	Ratio of Active to Beneficiary
FY2005	20,954	37,521	58,475	1.79
FY2006	22,105	34,682	56,787	1.57
FY2007	23,623	32,968	56,591	1.40
FY2008	23,920	32,086	56,006	1.34
FY2009	24,218	31,905	56,123	1.32

Note: Excludes terminated members entitled to benefits but not yet receiving them.

Sources: Chicago Teachers' Pension Fund Annual Financial Reports, FY2009 Actuarial Valuation, p. 2.

Pension Contributions

The Teachers' Pension Fund is funded through a combination of State, CPS and employee contributions as described below.

[105] 40 ILCS 5/8-110

Employer Contributions

The state statutes governing the Chicago Teachers' Pension Fund require employer contributions when the fund falls below a 90% funded ratio. As described on the following pages, relatively small amounts are required from the State and from CPS pursuant to benefit enhancements enacted in P.A. 90-582. Much larger contributions are required by CPS pursuant to P.A. 89-15 and P.A. 96-0889 in order to bring the fund up to a 90% funded ratio over a 50-year period.

State Appropriations: The State of Illinois has traditionally contributed roughly $65 million each year to the Chicago Teachers' Pension fund pursuant to 40 ILCS 5/17-127 which declares the General Assembly's "goal and intention" to contribute an amount equivalent to 20% or 30% of the contribution it makes to the downstate Teachers Retirement System.[106] The $65 million contribution is actually much less than the 20% or 30% intention stated in the statute, however. According to CPS, that amount would be roughly $535.5 million and would cover most of the District's originally scheduled pension contribution described below.[107] However, the State's enacted FY2010 budget reduced the appropriation by 50%, from the usual $65 million to $32.5 million.[108] For FY2011, the State appropriated $32.5 million for the Teachers' Pension Fund but designated it specifically for retiree health care costs paid out of the fund, so the amount is not considered as part of the employer contribution in the calculation shown below.[109]

Additional State Appropriations: The State must make additional contributions of 0.544% of teacher payroll to the Teachers' Fund to offset a portion of the cost of benefit increases enacted under P.A. 90-582. No additional contributions are required if the funded ratio is at least 90%. The required additional State contribution for FY2011 is $10.4 million, and CPS assumes that this payment will be made although the State's FY2010 appropriation for this purpose was reduced by 50%.[110]

Additional CPS Contribution: CPS must make additional contributions of 0.58% of teacher payroll to offset a portion of the cost of benefit increases enacted under P.A. 90-582. No additional contributions are required if the funded ratio is at least 90%. The required additional CPS contribution for FY2011 is $11.1 million.

CPS Required Contribution: Under the funding plan established by P.A. 89-15, the minimum contribution to the Teachers' Pension Fund was an amount needed to bring the total assets of the Fund up to 90% of the total actuarial liabilities by the end of FY2045. The required CPS contribution was calculated as a level percentage of payroll over the years through FY2045. The calculation for determining the CPS required contribution was the total amount of the employer contribution less additional state appropriations, additional CPS appropriations and other employer appropriations.

[106] The downstate Teachers Retirement System covers all public school teachers in Illinois except those in the Chicago Public Schools.
[107] Chicago Public Schools FY2011 Budget, p. 74.
[108] State of Illinois Budget, FY2011, p. 5-8.
[109] Information provided by the CPS budget office, August 17, 2010.
[110] State of Illinois Budget, FY2011, p. 5-8 and information provided by the CPS budget office, August 17, 2010.

In April 2010 Illinois enacted P.A. 96-0889, which created a different level of pension benefits for new employees and granted pension funding relief to CPS, thereby revising the standards set forth in P.A. 89-15. The law reduced CPS's required employer pension contribution for FY2011, FY2012 and FY2013 to an amount estimated to be equivalent to the normal cost.[111] It also delayed the year that the pension fund must reach a 90% funded ratio from 2045 to 2060.

Prior to the passage of P.A. 96-0889, the CPS Required Contribution was calculated to be $586.9 million, or almost double the FY2010 amount. P.A. 96-0889 reduced the District's required FY2011 contribution to $187.0 million, which is $120.5 million, or 39.2% less than the prior year contribution.[112]

Calculation of Required Employer Contributions to Teachers' Pension Fund
FY2007-FY2011

	FY2007	FY2008	FY2009	FY2010	FY2011 before P.A. 96-0889	FY2011 after P.A. 96-0889
Total Required Employer Contribution	**$ 167,245,000**	**$ 227,319,000**	**$ 263,002,000**	**$ 393,266,000**	**$ 608,492,000**	**$ 208,600,000**
State Employer Contribution*	$ 65,000,000	$ 65,000,000	$ 65,000,000	$ 65,000,000	$ -	$ -
Additional State Contribution (P.A. 90-582)*	$ 10,242,000	$ 10,218,000	$ 9,778,000	$ 10,058,000	$ 10,449,000	$ 10,449,000
Additional CPS Contribution (P.A. 90-582)	$ 10,920,000	$ 10,894,000	$ 10,426,000	$ 10,723,000	$ 11,140,000	$ 11,140,000
Other Employer Contributions**	$ 11,663,000	$ 20,646,000	$ -	$ -	$ -	$ -
CPS Required Contribution (1-2-3-4-5) Per 40 ILCS 5/17-129	**$ 69,420,000**	**$ 120,561,000**	**$ 177,798,000**	**$ 307,485,000**	**$ 586,903,000**	**$ 187,011,000**

*At the time that the FY2010 required contribution was calculated, the State employer contribution was expected to be $65.0 million and the Additional State Contribution was expected to be $10.1 million so these were the amounts used by the actuary to calculate the final CPS Required Contribution. The FY2010 enacted State Budget ultimately appopriated only $32,522,400 for the State Employer Contribution and $5,029,000 for the Additional State Contribution. State of Illinois Budget, FY2011, p. 5-8.

**Until FY2009, the Other category included pension contributions made to the pension funds from federal funds. These monies will be applied to the CPS required contribution in FY2009 and FY2010.

Sources: Chicago Teachers' Pension Annual Financial Reports (for FY2009, p. 11), and Actuarial projection by Goldstein & Associates for Kevin Huber, Executive Director of the Public School Teachers' Pension and Retirement Fund of Chicago, March 31, 2010.

Employee Contributions

Employee contributions to the Teachers' Pension Fund are statutorily set at 9% of the employee's salary. One percent of that 9% amount is for survivors' and children's pension benefits.

CPS "picks up" 7% of the 9% annual employee pension contribution, meaning it pays 7% of the employee 9% contribution on behalf of teachers.[113] The District's FY2011 cost for the 7% employee pick-up is approximately $130 million, and is part of the District's budgeted pension appropriation.[114]

Pension Funding Appropriations 5-Year Trend

The CPS proposes to appropriate a total of $435.2 million for teacher and educational support personnel retirement costs in FY2011. This is a $59.4 million, 15.8% increase from the FY2007

[111] "Normal cost" is an actuarially-calculated amount representing that portion of the present value of pension plan benefits and administrative expenses which is allocated to a given valuation year.
[112] Actuarial projection by Goldstein & Associates for Kevin Huber, Executive Director of the Public School Teachers' Pension and Retirement Fund of Chicago, March 31, 2010.
[113] Chicago Public Schools FY2011 Budget, p. 92.
[114] Chicago Public Schools FY2011 Budget, p. 92. CPS also "picks up" 7% of employee contributions to the Chicago Municipal Fund for eligible non-teacher employees. Information provided by CPS budget office, August 17, 2010.

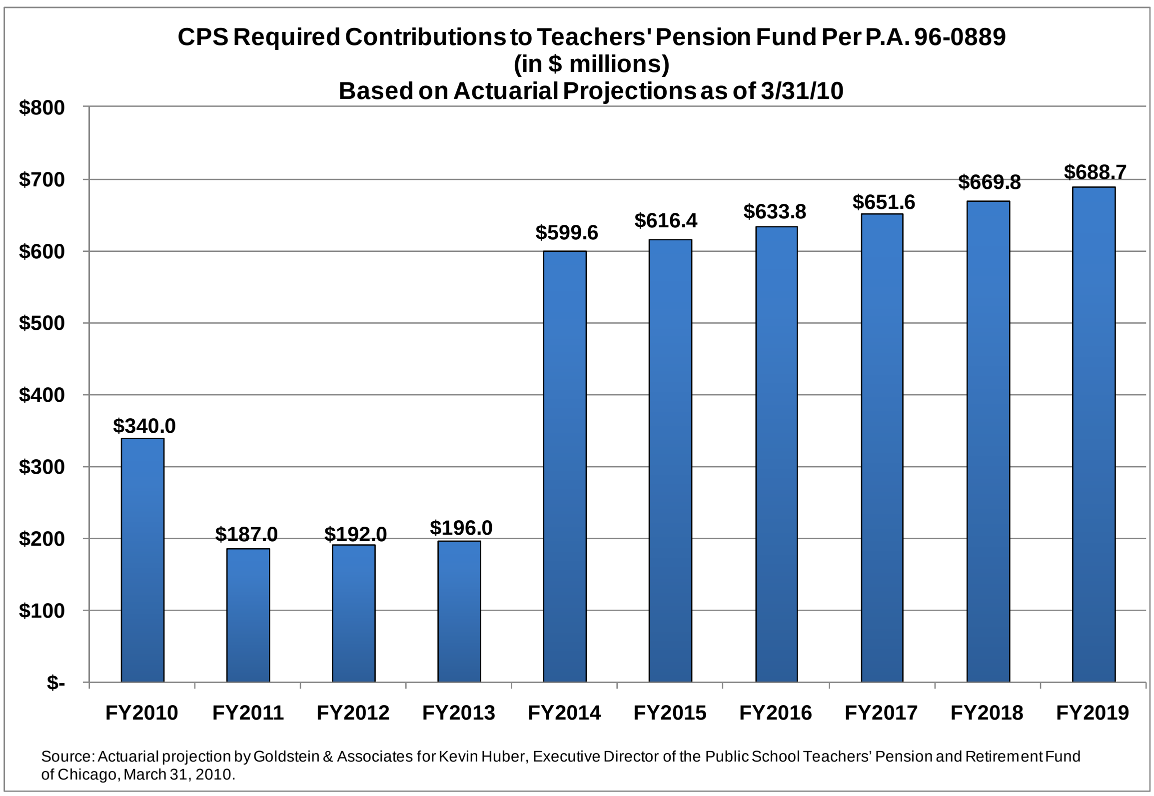
proposed budget. Approximately $337.3 million will be appropriated for the Teachers' Pension Fund (including employer required contributions and 7% "pick up" of employee contributions). This represents a $45.8 million, 15.7% increase from five years ago.

CPS Budgeted Retirement Benefit Appropriations: FY2007-FY2011 (in $ millions)							
Type	**FY2007**	**FY2008**	**FY2009**	**FY2010**	**FY2011**	**$ Change (5-Year)**	**% Change (5-Year)**
Teachers' Pensions	$ 291.5	$ 349.3	$ 400.4	$ 510.9	$ 337.3	$ 45.8	15.7%
Educational Support Personnel Pensions	$ 84.3	$ 89.7	$ 96.7	$ 97.8	$ 97.9	$ 13.6	16.1%
Total	**$ 375.8**	**$ 439.0**	**$ 497.1**	**$ 608.7**	**$ 435.2**	**$ 59.4**	**15.8%**

Sources: CPS FY2007 Budget, p. 61; FY2008 Budget, p. 60; FY2009 Budget, p. 50, FY2010 Budget, p. 74, FY2011 Budget, p. 97.

Future Actuarial Projections of CPS Funding Costs

The CPS faces mounting pension costs in future years after the three-year partial pension holiday granted by P.A. 96-0889 expires.[115] The exhibit below shows projections of required CPS contributions to the Teachers' Pension Fund from FY2010 to FY2019 based on P.A. 96-0889. In FY2014 the required contribution is projected to jump by $403.6 million as the schedule to reach a 90% funded ratio by 2060 resumes. The funded ratio is projected to fall to 48.0% in 2024 before beginning to climb up to 90% by 2060.[116]



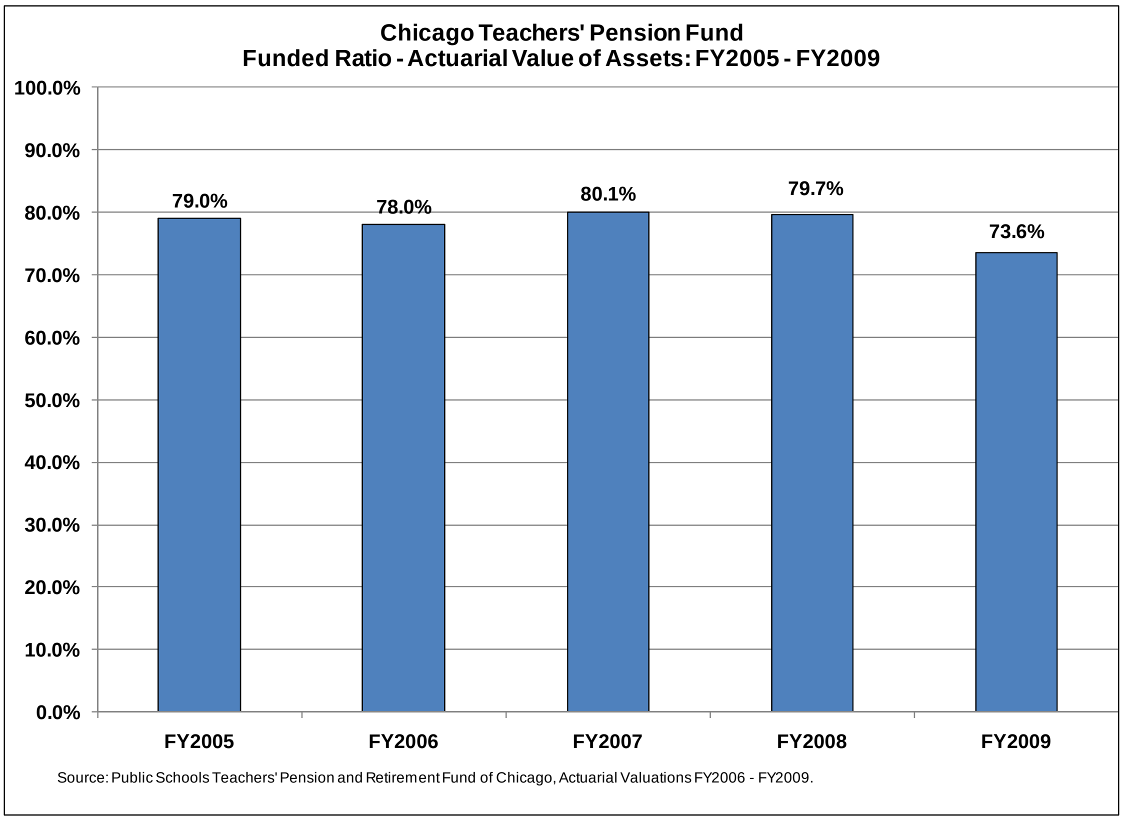
[115] Actuarial projection by Goldstein & Associates for Kevin Huber, Executive Director of the Public School Teachers' Pension and Retirement Fund of Chicago, March 31, 2010.
[116] Actuarial projection by Goldstein & Associates for Kevin Huber, Executive Director of the Public School Teachers' Pension and Retirement Fund of Chicago, March 31, 2010.

Pension Fund Indicators

The Civic Federation used three measures to present a multi-year evaluation of the fiscal health of the Teachers' pension fund: funded ratios, the investment rate of return and the value of unfunded liabilities. The measures are based on FY2009 data, which is the most recent audited data available.

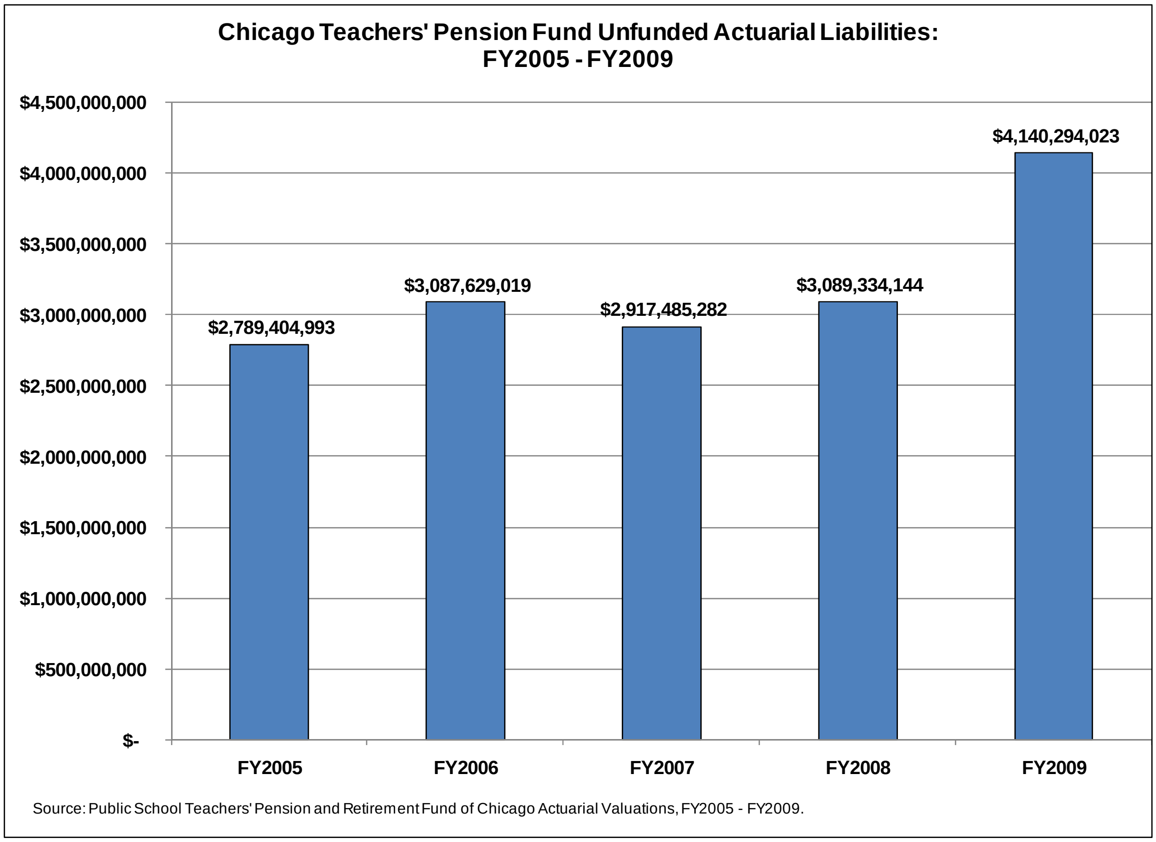
Funded Ratio

The following exhibit shows the funded ratio as reported for the actuarial value of assets for the Chicago Public Schools Teachers' pension fund. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting future obligations. The funded ratio fell from 79.0% in FY2005 to 73.6% in FY2009.



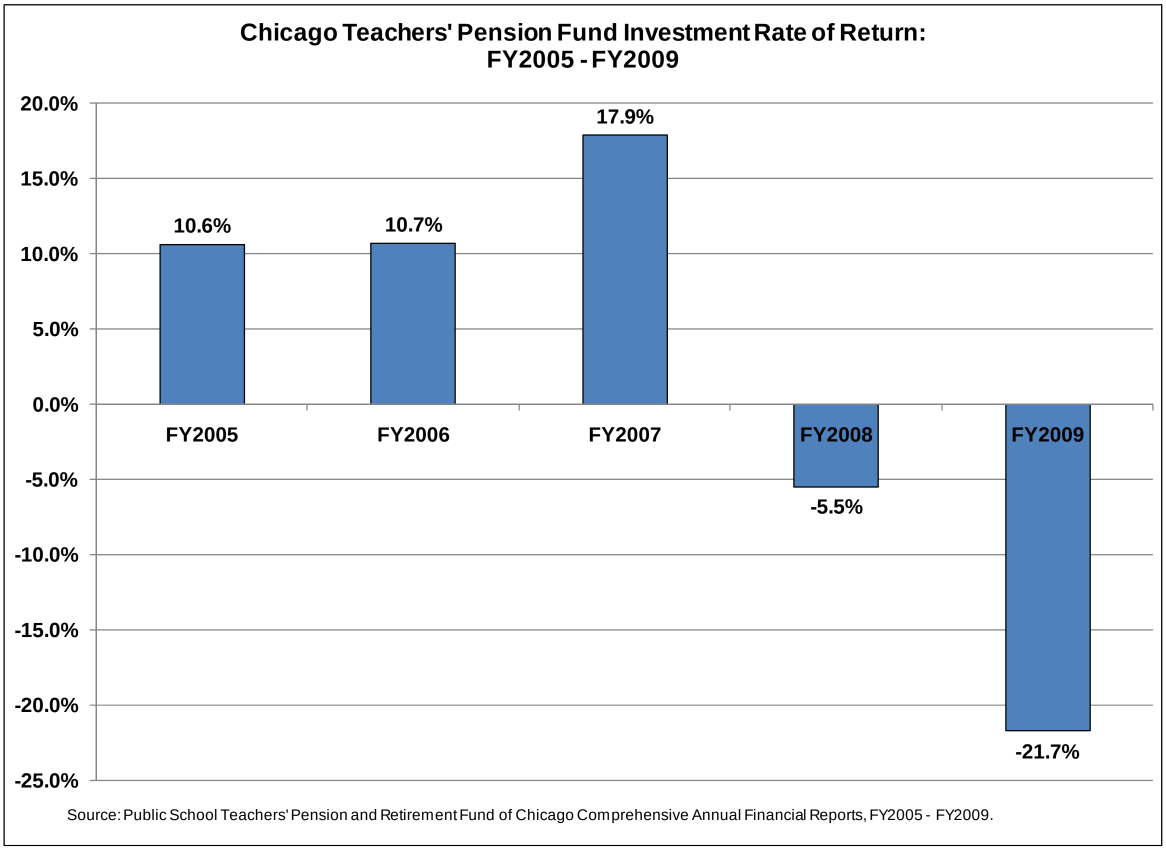
Unfunded Pension Liabilities

Unfunded liabilities are the dollar value of pension liabilities not covered by assets. As the exhibit below shows, unfunded liabilities for the Chicago Public Schools Teachers' pension fund totaled approximately $4.1 billion in FY2009. Since FY2005 unfunded liabilities have increased by 48.4%, rising by $1.4 billion or from $2.8 billion to $4.1 billion. In one year, from FY2008 to FY2009, unfunded liabilities have increased by nearly $1.1 billion.



Investment Rates of Return

Investment returns for the pension fund were positive from FY2004 to FY2007, reaching a high of 17.9% in FY2007. The rate of return fell to -5.5% in FY2008 (from July 1, 2007 to June 30, 2008) and then dropped to -21.7% in FY2009 (from July 1, 2008 to June 30, 2009).



Summary of Key Teachers' Pension Fund Benefits

P.A. 96-0889 creates a reduced level of benefits for employees hired on or after January 1, 2011. The following description lists major benefits for current members and those for members who will be hired in the future.[117]

Post-Retirement Increases: Retirees receive an automatic annual increase equal to 3% of the current amount of the pension received. Increases accrue from the anniversary date of retirement or the 61st birthday, whichever is later. ***New hires:*** lesser of 3% or one-half of the Consumer Price Index increase, which even is less, calculated on the amount of the initial pension.

Eligibility for Pension: The right to retirement vests after 1) 20 years of validated service with pension payable at age 55 or older or 2) after 5 years of validated service, with pension payable at age 62 or older. ***New hires:*** age 67 with 10 years of service.

[117] Chicago Teachers' Pension Fund Actuarial Valuation as of June 30, 2009, p. 23 and P.A. 96-0889.

Reduction in Pension for Early Retirement: In the case of retirement prior to age 60, pension is reduced by 0.5% for each month under age 60 unless the teacher has 34 years of service (then there is no reduction). Subject to employer authorization, a person retiring before June 30, 2010 may make a one-time contribution to avoid the early retirement reduction. This also obligates the employer to make a one-time contribution. ***New hires:*** reduced pension available at age 62 with 10 years of service.

Amount of Retirement Pension:

- For service earned before July 1, 1998 the retirement pension is 1.67% of "final average salary" (average of 4 highest consecutive years in the 10 preceding retirement) for each of the first 10 years of validated service; 1.90% for each of the next 10 years; 2.10% for each of the next 10 years; and 2.30% for each year above 30 years of service.
- For service earned after July 1, 1998, pension is equal to 2.2% of final average salary for each year of service.
- The maximum pension is 75% of final average salary or $1,500 per month, whichever is greater.

  New hires: final average salary is average of 8 highest consecutive years in the 10 years preceding retirement; final average salary used to calculate pensions is capped at $106,800 in 2011 (this amount rises by 3% or one-half the Consumer Price Index increase annually).

Health Insurance Reimbursement: The Pension Board reimburses the cost of pension plan recipient health insurance coverage with the total amount of payment not to exceed $65 million or 75% of the total cost of health insurance coverage in any given year.

OTHER POST EMPLOYMENT BENEFITS (OPEB)

Non-pension benefits provided to employees after employment ends are referred to as Other Post Employment Benefits or OPEB. OPEB includes health insurance coverage for retirees and their families, dental insurance, life insurance and term care coverage. It does not include termination benefits such as accrued sick leave and vacation. Chicago Public Schools retired teachers are provided OPEB benefits by the Public School Teachers' Pension and Retirement System of Chicago. It is important to note that these benefits are funded by the retirement system, not the Chicago Public Schools.[118]

The Chicago Teachers Pension Fund began reporting information about other post employment benefits (OPEB) in its FY2007 CAFR as required by GASB Statement Number 43. Total payments from the Pension Fund to reimburse retirees may not exceed 75% of total retiree health insurance costs.[119] In recent years, the Fund has provided reimbursements of 70% of the total cost of health insurance coverage.

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[118] Non-teacher employees of the Chicago Public School system are covered by the Municipal Employee Retirement Fund.

[119] 40 ILCS 17-142.1; FY2009 Public School Teachers' Pension and Retirement System of Chicago Comprehensive Annual Financial Report, p. 78.

In FY2009, a total of 16,495 retirees and beneficiaries were receiving health insurance benefits. 3,056 terminated employees were entitled to OPEB benefits but were not yet receiving them.[120] The Illinois Pension Code limits total annual payments to $65 million per year plus amounts authorized in previous years but not spent.[121] In FY2009, the Teachers' Pension Fund spent $75.8 million on OPEB.[122] In FY2011 and for the first time, the State allocated $32.5 million for retiree health insurance for the CTPF for FY2011.[123]

The Chicago Public Schools has not established an irrevocable trust fund to account for its OPEB plan. These obligations are financed on a pay-as-you-go basis through the pension fund.

The following exhibit shows the funded status of the CPS's OPEB plan. The total actuarial liability grew from $2.4 billion in FY2006 to $2.7 billion in FY2009. Assets as a percentage of the actuarial liability were 1.7% in FY2006 and 1.9% in FY2009. These percentages reflect the large size of the unfunded actuarial liability for CPS OPEB: $2.3 billion in FY2006 and $2.6 billion in FY2009. The actuarial assumptions used included a 4.5% discount rate and an annual healthcare cost trend rate which is projected to rise from 5.0% in 2010 to 8.0% in 2011 and then remain constant at 5.0% in 2017.[124]

Funded Status of the Chicago Public Schools Pension Fund:
Other Post Employee Benefit (OPEB) Plan FY2006 - FY2009

	Total Actuarial Liability	Actuarial Value of Assets	Unfunded Actuarial Liability (UAL)	Assets as a % of Actuarial Liability
FY2006	$ 2,373,773,770	$ 41,057,585	$ 2,332,716,185	1.7%
FY2007	$ 2,022,007,643	$ 47,401,758	$ 1,974,605,885	2.3%
FY2008	$ 2,407,122,492	$ 44,989,385	$ 2,362,133,107	1.9%
FY2009	$ 2,670,282,662	$ 49,691,750	$ 2,620,590,912	1.9%

Source: Public School Teachers' Pension and Retirement Fund of Chicago. Actuarial Valuation of Retiree Health Insurance Plan as of June 30, 2009, p. 14.

Retiree Health Insurance Benefits

The Public School Teachers' Pension and Retirement Fund of Chicago (also called the Chicago Teachers' Pension Fund, or CTPF) provides a "rebate" for a significant portion of the monthly premiums owed by those who enroll. The rebate only applies to the retired teacher's portion of these insurance policies, not to the addition cost of enrolling eligible dependents. The rebate does apply, however, to eligible dependents who are survivors of deceased retirees. For the last several years the Board has provided reimbursement of 70% of the cost of pensioners' health insurance coverage.

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[120] Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation of the Retiree Health Insurance Plan as of June 30, 2009, p. 2.
[121] 40 ILCS 17-142.1
[122] Public School Teachers' Pension and Retirement System of Chicago FY2009 CAFR, p. 25.
[123] Ill. P.A. 096-0956, Art. 99. It is important to note that the $32.5 million is not a new revenue source for the District, it is an ongoing revenue source that was previously allocated to the pension fund generally, but this year was designated to be used for health care expenses.
[124] Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation as of June 30, 2009, p. 6.

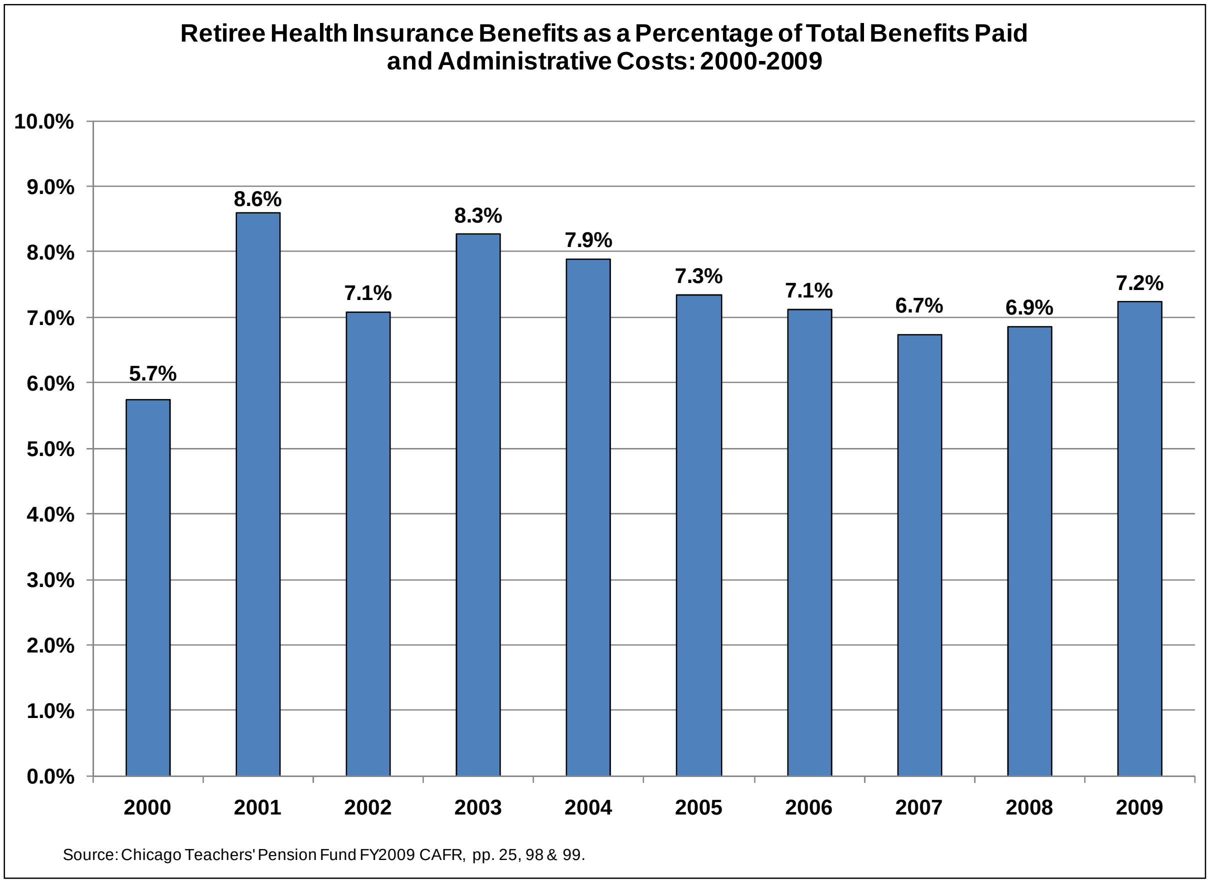
The following exhibit shows the extent to which the aggregate cost of the Pension Fund's health insurance subsidy has increased over the past decade. From 2000 to 2009, total insurance premium rebates paid increased by 190.0% or $49.7 million. In FY2009 the health insurance fund received an additional $15.0 million form a vendor's surplus premium reserve.[125]

Health Insurance Premium Rebates Paid to Retired CPS Teachers: 2000 - 2009		
Year	**Health Insurance Benefits Paid**	**% Change over Previous Year**
2000	$ 26,144,939	-
2001	$ 44,088,569	68.6%
2002	$ 44,068,275	0.0%
2003	$ 51,395,920	16.6%
2004	$ 53,106,379	3.3%
2005	$ 54,410,887	2.5%
2006	$ 58,279,900	7.1%
2007	$ 61,028,841	4.7%
2008	$ 68,691,191	12.6%
2009	$ 75,811,835	10.4%
Ten-Year Change	**$ 49,666,896**	**190.0%**

Source: Chicago Teachers' Pension Fund FY2009 CAFR, pp. 98-99.

125 Chicago Teachers' Pension Fund FY2009 CAFR, p. 22.

From 2000 to 2009 health insurance has constituted an average of 7.3% of the Pension Fund's total expenditures on all benefits and administrative expenses per year.[126] In 2009 health insurance rebates constituted 7.2% of all benefit and administrative expenses.



[126] Total benefits paid include retirement, disability, refunds (for separation, death or other causes), death benefits, and health insurance. The total figure used in the following table also includes the administrative cost of the fund. Public School Teachers' Pension and Retirement Fund of Chicago CAFR 2009, p. 96.

SHORT TERM LIABILITIES

Short-term liabilities are financial obligations that must be satisfied within one year. They can include short-term debt, accounts payable, accrued payroll and other current liabilities. Although CPS plans to obtain an $800 million line of credit for working cash purposes in FY2011,[127] the District currently reports no short-term debt. CPS does include the following short-term liabilities in the report of net assets in its annual Comprehensive Annual Financial Report:[128]

- Accounts payable: monies owed to vendors or employees for goods and services;
- Accrued payroll and benefits: employee pay and benefits carried over from previous years;
- Deposits held in custody: funds that belong to individual school accounts such as amounts held for student activities;
- Other accrued liabilities: these can include self insurance funds, unclaimed property and other unspecified liabilities; and
- Interest payable: the amount of interest the school district owes as of the date of the balance sheet.

In FY2009, in the Governmental Funds[129] these liabilities increased by approximately $54.4 million from the previous year or 7.0%. Since FY2005, short-term liabilities have increased by $86.5 million, or 11.6%. The following chart shows short-term liabilities by category and the percent change over the past five years.

CPS Short-Term Liabilities in the Governmental Funds: FY2005 - FY2009 (in $ thousands)

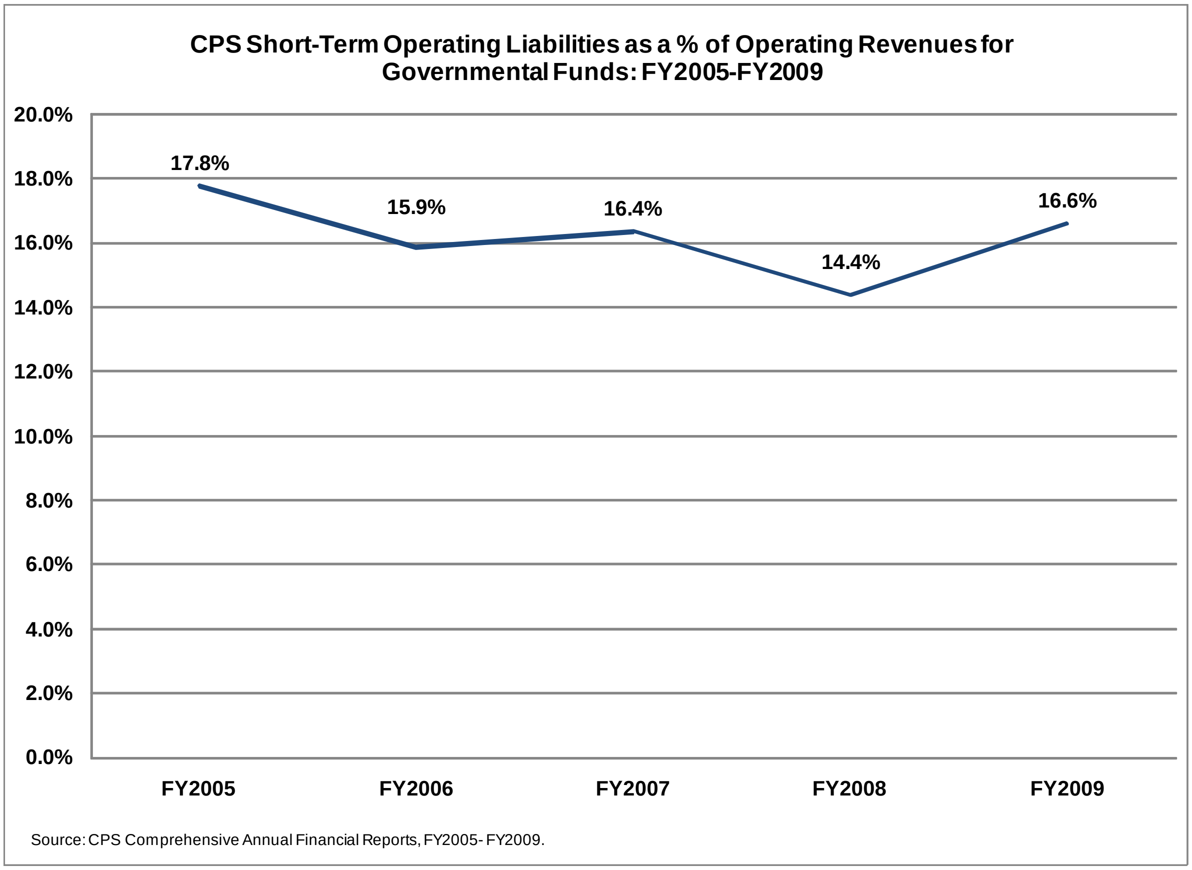
	FY2005	FY2006	FY2007	FY2008	FY2009	Five-Year $ Change	Five-Year % Change
Accounts payable	$ 197,196	$ 184,856	$ 230,096	$ 284,650	$ 289,477	$ 92,281	46.8%
Accrued payroll	$ 490,519	$ 467,533	$ 483,047	$ 428,753	$ 471,602	$ (18,917)	-3.9%
Other accrued liabilities	$ 4,000	$ 4,000	$ 337	$ 10,932	$ 20,830	$ 16,830	420.8%
Interest payable	$ 26,602	$ 32,274	$ 36,997	$ 23,481	$ 20,138	$ (6,464)	-24.3%
Amount held for student activities	$ 27,632	$ 28,522	$ 30,123	$ 30,167	$ 30,359	$ 2,727	9.9%
Total	**$ 745,949**	**$ 717,185**	**$ 780,600**	**$ 777,983**	**$ 832,406**	**$ 86,457**	**11.6%**

Source: CPS Comprehensive Annual Financial Reports, FY2005 - FY2009, Balance Sheet - Govermental Funds.

Increasing current liabilities in a government's operating funds at the end of the year as a percentage of net operating revenues may be a warning sign of a government's future financial difficulties.[130] This indicator, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending. CPS showed a positive trend by reducing its short-term liabilities compared to total operating revenue between FY2005 to FY2008 from 17.8% to 14.4%. However, recently an increase in this ratio from 14.4% in FY2008 to 16.6% in FY2009 is an indicator of increasing

[127] Resolution authorizing the Issuance of a Note of the Board of Education of the City of Chicago, Illinois, in an Aggregate Principal Amount Not to Exceed $800,000,000 Pursuant to the School Code, June 15, 2010.
[128] Chicago Public Schools FY2009 CAFR, p. 38.
[129] Included in this analysis are the amounts reported as general operating funds, CPS FY2009 CAFR p. 38, except for interest payable and accrued liabilities reported on p. 36.

budetary stress. The following chart shows the ratio of short-term liabilities to operating revenues for government funds over the past five fiscal years.



Although this analysis shows the overall five year trend is down slightly, as financial stress attributable to current recessionary economic trends and expected drops in key revenue sources area reported, this ratio can be expect to continue to climb and warrants watching.

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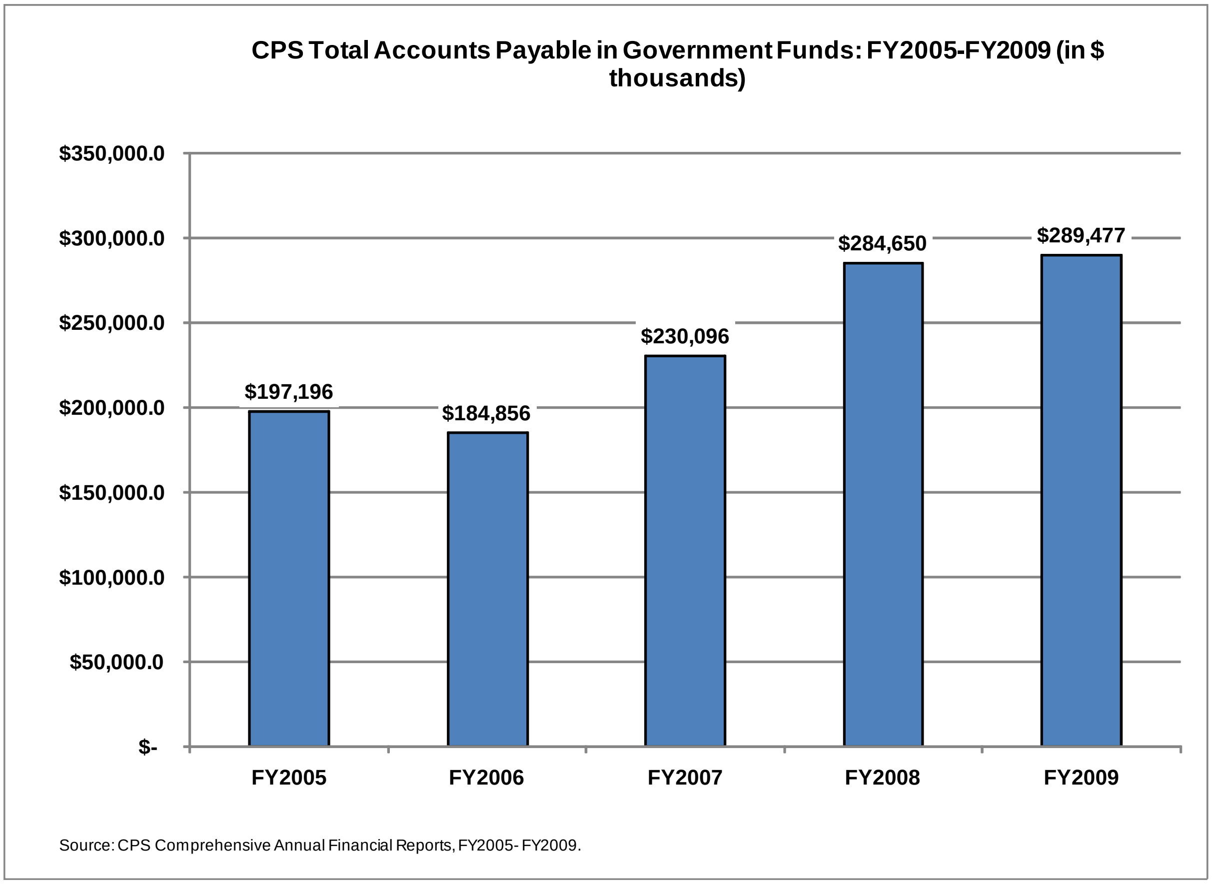
[130] Operating funds are those funds used to account for general operations – CPS reports these as general operating funds separately from debt service funds and capital funds, CPS FY2009 CAFR, p. 40. See Karl Nollenberger, Sanford Groves and Maureen G. Valente. *Evaluating Financial Condition: A Handbook for Local Government* (International City/County Management Association, 2003), p. 77 and p. 169.

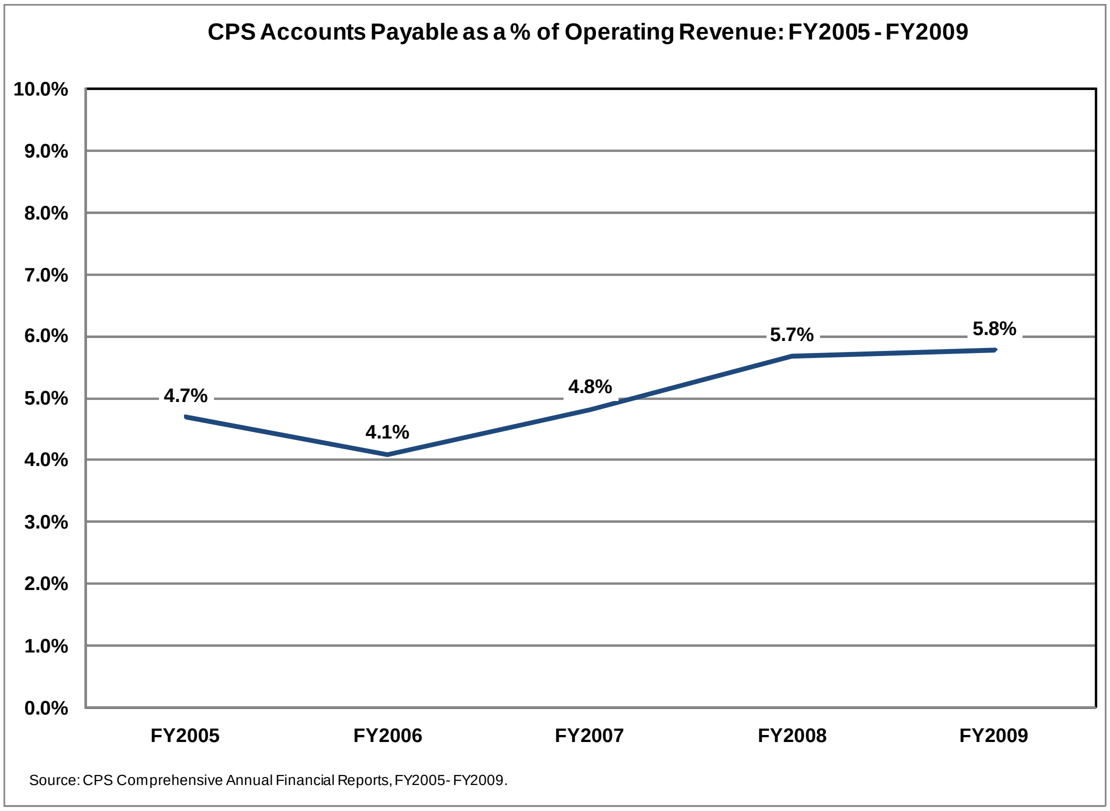
Accounts Payable

Over time rising amounts of accounts payable may indicate a government's difficulty in controlling expenses or keeping up with spending pressures. CPS reported an increase of 1.7% in total accounts payable, or $4.8 million, from FY2008 to FY2009.[131] Over the past five years total accounts payable reported at the end of the fiscal year has grown by $92.3 million, or 46.8%. The following graph shows total accounts payable reported by CPS in the governmental funds from FY2005 to FY2009.



[131] Chicago Public Schools FY2009 CAFR, p. 38.

CPS ratio of accounts payable in the governmental funds to operating revenues averaged 5.0% between FY2005 and FY2009, rising from a low of 4.1% in FY2006 to a high of 5.8% in FY2009. This constant upward trend is an indicator of increasing financial stress and indicates risk of deficit spending in coming years.



CAPITAL BUDGET AND LONG-TERM DEBT

This section of the analysis presents information about long-term debt trends of the Chicago Public Schools and ongoing capital expenditures. It includes information about capital outlays, long-term debt, direct debt, direct debt per capita and bond ratings.

Capital Outlay

The FY2011 proposed appropriation for CPS capital projects totals $806.7 million. This is a 22.1% decrease from the previous year's budgeted amount. The end of year capital projects fund balance will increase by $163.9 million, or 128.9%, from FY2010 to FY2011. The FY2011 budget proposes issuing $600 million in capital bonds to support capital projects. The following chart compares the total capital funding sources and appropriations for FY2010 and FY2011. The total bond issuances for these years are shown in the following exhibit as "other financing sources."

CPS FY2011 Capital Projects Fund Budget Summary: (in $ millions)

	FY2010 Budget	FY2011 Budget	$ Change	% Change
Resources				
Beginning Fund Balance	$ 127.2	$ 291.1	$ 163.9	128.9%
Reserved for encumbrance	$ (127.2)	$ (291.1)	$ (163.9)	128.9%
Available for reappropriation	$ -	$ -	$ -	
Revenues				
Local Revenue	$ 218.8	$ 151.5	$ (67.3)	-30.8%
State Revenue	$ 145.6	$ 50.2	$ (95.4)	-65.5%
Federal Revenue	$ 6.0	$ 5.0	$ (1.0)	-16.7%
Subtotal Revenues	**$ 370.4**	**$ 206.7**	**$ (163.7)**	**-44.2%**
Other Financing Sources	$ 665.0	$ 600.0	$ (65.0)	-9.8%
Total Resources	**$ 1,035.4**	**$ 806.7**	**$ (228.7)**	**-22.1%**
Appropriations				
Capital Outlays	$ 1,035.4	$ 806.7	$ (228.7)	-22.1%
End of Year Fund Balance	**$ 127.2**	**$ 291.1**	**$ 163.9**	**128.9%**

Source: CPS FY2010 Proposed Budget, p. 309. and CPS FY2011 Proposed Budget p. 387.

The majority of funding for CPS capital projects is derived from bond proceeds that are supported by local revenues. Some resources, however, are provided from the City of Chicago, the State of Illinois and the federal government.[132]

The amount of debt proposed to fund the FY2011 capital budget represents a decrease of 9.8% from the total $665 million bond funding included in the FY2010 capital budget. However, CPS

[132] CPS FY2011 Proposed Budget, pp. 387-388.

reports $400 million of the bonds approved as part of last year's capital budget have been delayed and will be issued in FY2011.[133] This increases the total proposed debt issuance by CPS for capital purposes in FY2011 to $1.0 billion.

CPS intends to capitalize the interest on the debt issued in FY2011, which is a structure where some of the bonds issued are specifically sold to pay for the interest that will be owed over the entire term of the debt.[134] Those proceeds are then set aside in a restricted fund and drawn on to pay periodic interest costs while operating funds are used to pay the principal. This type of bond structure will reduce the annual debt service costs for the new bonds but also decreases the available funding to be spent on actual proposed capital projects. Total annual debt savings projections compared to the total cost of capitalizing interest were not made available in the proposed FY2011 budget.

The Modern Schools Across Chicago (MSAC) program is a partnership dating back to FY2006 between CPS and the City of Chicago to provide $1.3 billion for school construction. The FY2011 budget includes $151.5 million in funds from the City of Chicago to continue MSAC projects, a 67.3% decrease from FY2010 MSAC funding. CPS will contribute $150.0 million from the new proposed bonds to fund its annual portion of this program.

The State of Illinois recently approved $1.5 billion in statewide school construction grants over the next six years. The District expects to receive $440 million in funding from the State capital program. However, because CPS received none of the expected $145.6 million projected in the FY2010 capital budget it is making a much more conservative estimate in FY2011.[135] The capital budget shows only $50.2 million in new State source capital funding for FY2011, a decrease of 65.5% from FY2010.

The federal government made several tax-exempt and tax-credit bond financing options available to local school districts as part of the American Recovery and Reinvestment Act (ARRA). Qualified School Construction Bonds provide $22.0 billion nationally in interest-free bonding authority for school construction, renovation, repair, and land acquisition for two years. CPS issued $254.2 million of these bonds in FY2010 and received bonding authority for $257.1 million for FY2011. CPS may also take advantage of the $2.8 billion of interest free Qualified School Zone Bonds available nationally. This program grants investors a federal income tax subsidy in lieu of interest payments for purchasing school construction bonds, saving the issuer any cost for interest payments.

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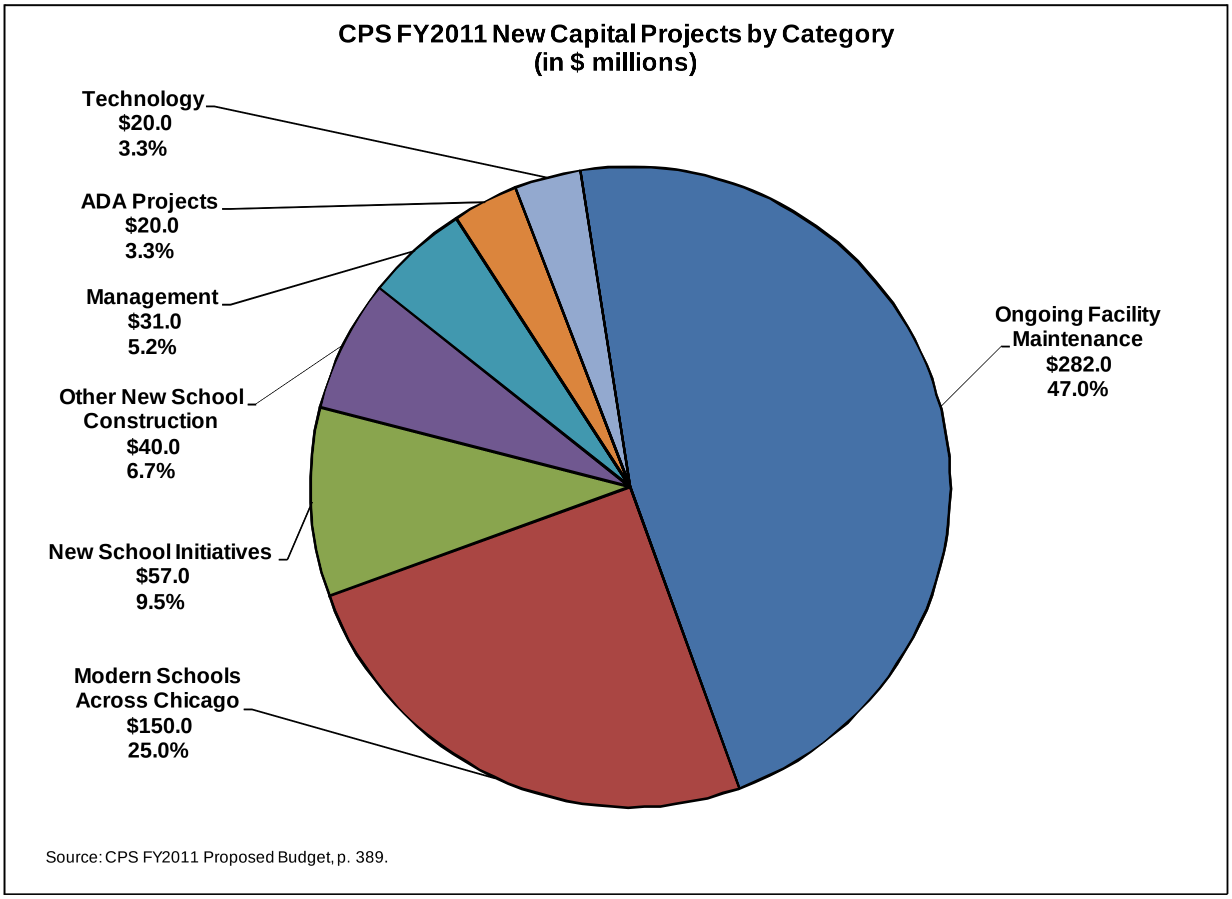
133 CPS FY2011 Proposed Budget, p. 381.
134 Ibid. p. 7.
135 Ibid. p.8.

The following graph shows the use of the $600 million in new bond financing proposed for FY2011. Ongoing facility maintenance is the largest portion of the FY2011 capital budget to be funded through new CPS bond funding, totaling $282.2 million or 47.0%.



The exhibit below shows the planned uses of bond issuances over the next three fiscal years. A total of $1.8 billion in bonds will be issued during this period. Approximately 59.1% of these funds will be used for ongoing facility maintenance, 27.0% for new construction, 7.0% for new schools initiatives and technology and 3.3% for projects required under the federal Americans with Disabilities Act.

Sources and Uses of CPS Capital Program Bond Proceeds (in $ millions)

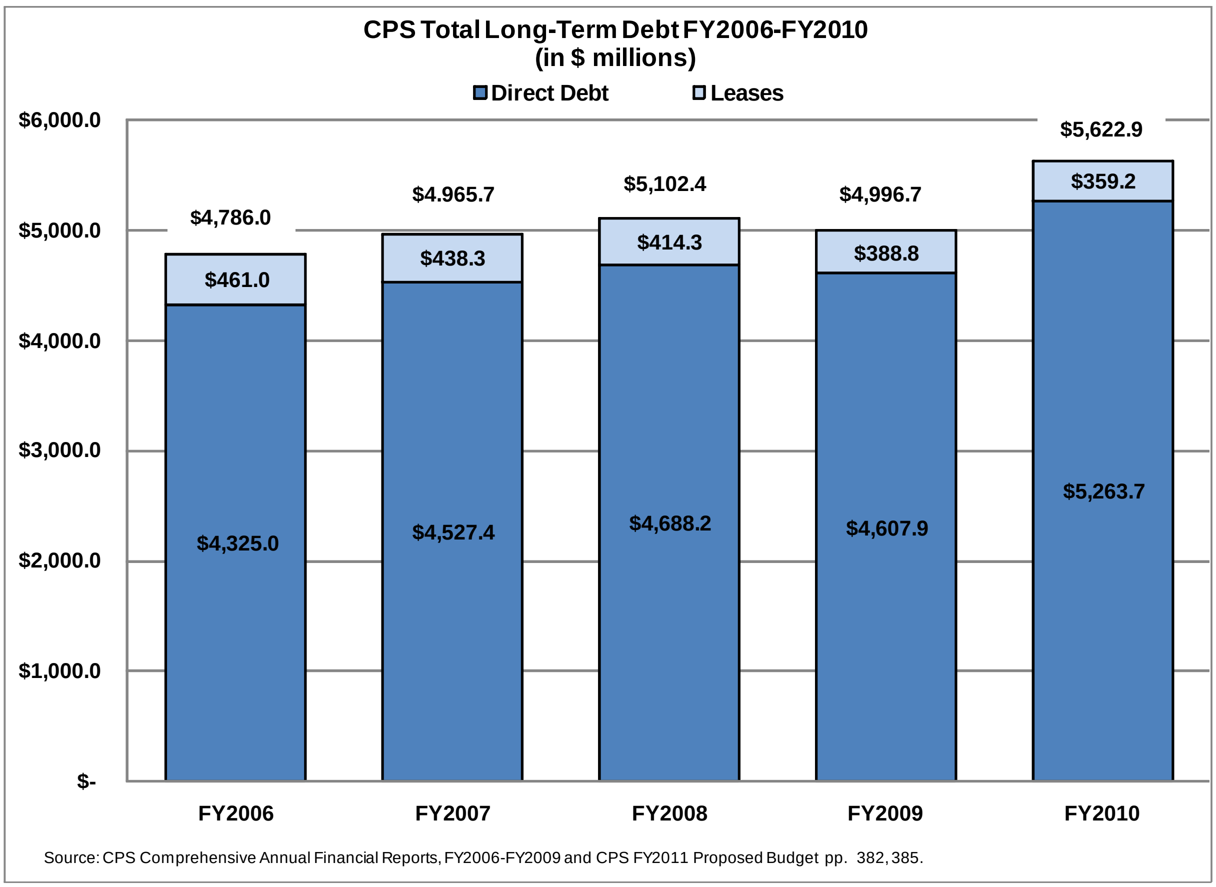
	FY2011 Projected	FY2012 Projected	FY2013 Projected	Total
Sources				
Local Bond Proceeds	$600.0	$600.0	$550.0	$1,750.0
Uses				
New Construction	$190.0	$200.0	$100.0	$490.0
Ongoing Facility Maintenance	$313.0	$380.0	$380.0	$1,073.0
ADA Projects	$20.0	$20.0	$20.0	$60.0
New Schools Initiatives & Technology	$77.0	$0.0	$50.0	$127.0

Source: CPS FY2011 Budget, p. 389.

Long-Term Debt

Long-term debt comprises long-term direct debt and other forms of debt such as installment purchase agreements (leases), sales and motor fuel tax revenue bonds, and Tax Increment Financing and Special Service Area bonds. For the Chicago Public Schools, long-term debt includes unlimited tax General Obligation bonds, Qualified Zone Academy Bonds, State Technology Revolving Loan funds and Asbestos Abatement Loans and Public Building Commission leases. These liabilities are secured by property tax revenues or State of Illinois school construction grants.[136] It excludes other long-term liabilities such as accrued sick pay benefits, accrued vacation pay benefits, accrued workers' compensation benefits, accrued general and automobile claims, tort liabilities and unfunded pension obligations.

CPS long-term debt increased by 17.5% between FY2006 and FY2010. This represents an $836.9 million increase from $4.8 billion to $5.6 billion. While direct tax supported debt increased by 21.7% during this five-year time period, the amount outstanding for capital leases declined from $461.0 million to $359.0 million or 22.1%. The overall rate of increase in long-term debt bears watching, particularly as the CPS faces continuing challenges in meeting its rising expenditures in areas such as personnel and retirement costs.

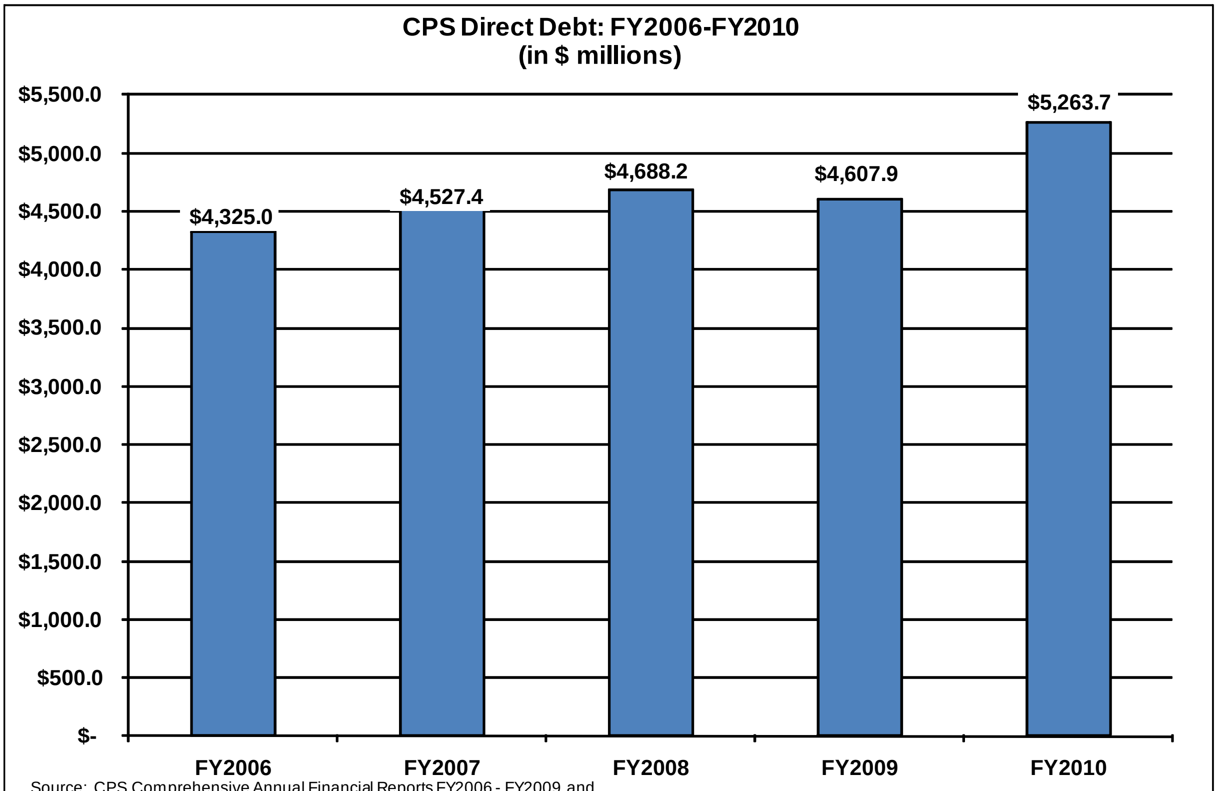


[136] CPS FY2009 Comprehensive Annual Financial Report, Notes 8 and 9.

Direct Debt

Direct debt is a government's tax-supported, bonded debt, much of which is general obligation debt funded by property taxes. Increases in direct debt amounts bear watching as a potential sign of escalating financial risk. The concern is that unless a government secures additional revenues or reduces spending at the same time it is increasing its debt burden, it may have difficulty making principal and interest payments at some point in the future.

Chicago Public Schools direct debt includes unlimited tax General Obligation bonds, Qualified Zone Academy Bonds, State Technology Revolving Loan funds and Asbestos Abatement Loans. It excludes lease payments.[137] Between FY2006 and FY2010, the direct debt burden of the Chicago Public Schools increased from $4.3 billion to nearly $5.3 billion. This is a $938.7 million or 21.7% increase. The increase reflects the District's large capital construction program over the past several years.

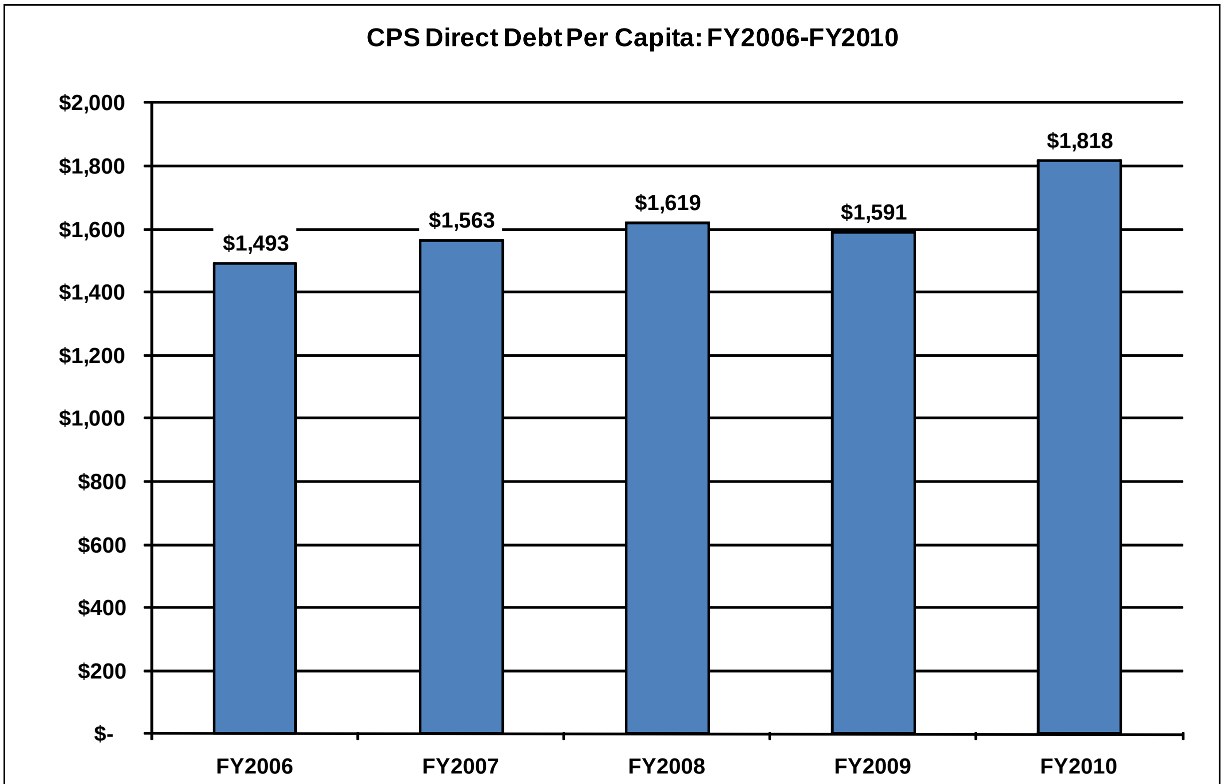


Source: CPS Comprehensive Annual Financial Reports FY2006 - FY2009 and CPS FY2011 Proposed Budget p. 385.

[137] Information for direct debt from Note 8 (Long Term Debt) in CPS *Comprehensive Annual Financial Reports*.

Direct Debt Per Capita

Direct debt per capita is a measure of a government's ability to maintain its current financial policies, and direct debt indicators are commonly used by rating agencies to measure debt burden across governments. Essentially, this indicator takes the Chicago Public Schools' total direct debt amount per year and divides it by the population of the jurisdiction. Increases bear watching as a potential sign of increasing financial risk in much the same manner as total direct debt figures. CPS direct debt per capita increased by 21.7% between FY2006 and FY2010 corresponding with the same increase in total direct debt because population estimates have remained the same for all five years. Over the past two fiscal years, CPS direct debt per capita has jumped from $1,493 to $1,818, or a 14.2% from FY2009 and FY2010.



Source: CPS Budgets and Comprehensive Annual Financial Reports, FY2006 - FY2009 and CPS FY2011 Proposed Budget, p. 385.

CPS Bond Ratings

In 2010, Standard & Poor's affirmed the District's bond rating of AA-. Both Fitch Ratings and Moody's Investor Service recalibrated their ratings systems reassigning CPS ratings of AA- from A- and Aa2 from Aa1 respectively. These increases in rating level are not considered an upgrade but a realignment of these agencies overall rating scales to allow for better comparisons between municipal ratings and corporate ratings.