The Civic Federation

Research * Information * Action * Est. 1894

CITY COLLEGES OF CHICAGO FY2017 TENTATIVE BUDGET:
Analysis and Recommendations

July 7, 2016

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EXECUTIVE SUMMARY

The Civic Federation **supports** the City Colleges of Chicago FY2017 Tentative Annual Operating Budget totaling $523.7 million because it is a reasonable plan given the unprecedented uncertainty surrounding funding from the State of Illinois as it enters a second year without enacting a comprehensive balanced state budget.

The District's FY2017 total budget will decline by $171.9 million, or 24.7%, from the FY2016 adopted budget, primarily due to the recent completion of the new Malcolm X College. Unrestricted operating funds, the portion of the budget over which the District exercises maximum control, will decrease by $25.2 million, or 8.0%, in FY2017. The tentative FY2017 budget will keep the property tax levy relatively flat and will not include an increase in the tuition rate over the prior year.

In FY2016 City Colleges faced the financial challenge of receiving no state funding until April 2016. The District then only received a fraction of the state funding it expected through a stop-gap funding measure for higher education institutions. In order for City Colleges to balance its FY2016 budget, it relied on short-term solutions, such as using its cash reserves, delaying capital expenses, not filling vacant positions and a hiring freeze. The Illinois General Assembly passed and Governor Bruce Rauner signed a partial-year spending plan for FY2017 to fund higher education institutions that included approximately $22.5 million in funding for City Colleges.[1] In FY2017 the District is not planning to increase its property tax levy or increase tuition rates to make up for the decline in State and local revenues. Instead the District plans to continue relying on these short-term measures in FY2017 to balance its budget if it does not receive full State funding once the State's partial spending plan runs out. City Colleges will compensate for reduced and delayed State funding by continuing the measures above as well as eliminating its Resource Allocation Fund (RAF) and implementing other savings and efficiencies.

Although the District has been able to weather financial challenges thus far through prudent short-term fixes, the Federation is concerned about the longer-term impact of those actions on the District's financial position. The depletion of its reserves and the possible creation of a backlog of capital needs if State funding shortfalls continue would leave the District with a diminished fiscal capacity that could result in a reversal of the academic gains made by the District in recent years under *Reinvention*. Furthermore, the tentative FY2017 budget relies on $51.9 million in Illinois Community College Board (ICCB) funding from the State of Illinois. However, at this time, the State of Illinois has only approved a partial year spending plan for its fiscal year that begins July 1, 2016. If the District does not receive the full ICCB funding budgeted for in FY2016 and FY2017 it will begin operating with a deficit at the end of FY2016.

It is imperative for the financial viability of the entire higher education system in Illinois that the Illinois General Assembly and Illinois Governor Bruce Rauner enact a comprehensive balanced budget. While City Colleges appears to be financially better prepared to weather the state budget impasse than other community colleges, its budgetary reserves are not infinite. If City Colleges and other educational institutions are not fully funded, they will be forced to severely reduce

[1] Public Act 99-0524. Information provided by City Colleges of Chicago, Finance Department, July 1, 2016.

operating expenses mid-year and such decisions may have costly long-term social and economic repercussions for the State of Illinois.

The Civic Federation offers the following **key findings** on the City Colleges FY2017 tentative budget:

- City Colleges is projected to receive approximately $22.5 million from the State's partial year spending plan of $114.5 million for community colleges;[2]
- In the FY2017 budget, State funding for all funds is projected to decrease by $7.5 million, or 11.8%, from the budgeted level of $63.5 million in FY2016 to $56.0 million in FY2017;
- Appropriations for the unrestricted operating funds budget will total $288.6 million. This is a decrease of 8.0%, or $25.2 million, below the FY2016 adopted operating fund budget of nearly $313.8 million;[3]
- FY2016 gross property tax revenue will remain relatively flat at $124.9 million;
- Tuition and fee revenue is projected to decline by $15.5 million, or 12.2% below the FY2016 adopted budget;
- Between FY2016 and FY2017, appropriations for employees' salaries in the unrestricted operating funds will decrease by $26.5 million, or 10.7%, from $247.4 million to $220.9 million;
- Between FY2016 and FY2017 there will be a reduction of 435 full-time equivalent positions, or a 9.9% decrease in total FTEs; and
- FTE student enrollment decreased between FY2015 and FY2016 by 3,575 students, or 8.6%, shrinking from 41,528 to 37,953 FTEs and is projected to decline by 3.5% in FY2016.

The Civic Federation **supports** several elements of the FY2017 City Colleges tentative budget:

- Prudently managing the budget at a time of State funding uncertainty by reducing its unrestricted operating funds budget in FY2017 by 8.4% to $282.1 million;[4]
- Maintaining adequate resources to cope with contingencies through a healthy unrestricted funds balance of 26.8% of operating expenses in FY2015.
- Keeping the gross property tax levy relatively flat at $124.9 million;
- Improving the budget review and approval process by holding a separate Finance and Administrative Services committee meeting on the tentative FY2017 budget;
- Improving the budget book format by including full-time equivalent personnel data; and
- Keeping tuition rates flat from the prior year despite State budget uncertainty.

The Civic Federation has the following **concerns** related to City Colleges tentative FY2017 budget:

- Consequences the District faces as a result of the State of Illinois not enacting a comprehensive balanced budget; and

[2] Information provided by City Colleges of Chicago, Finance Department, July 1, 2016.
[3] Unrestricted operating fund budget includes the Education Fund, Operations & Maintenance Fund, Liability, Protection and Settlement Fund and Audit Fund.
[4] Unrestricted operating fund budget includes the Education Fund, Operations & Maintenance Fund, Liability, Protection and Settlement Fund and Audit Fund.

- Budgeting for nearly level Illinois Community College Board (ICCB) funding, despite the District only receiving a portion of the funding budgeted for in FY2016.

The Civic Federation offers the following **recommendations** for City Colleges:

- Advocate for the State of Illinois to adopt a comprehensive balanced budget, which will provide greater certainty surrounding future State funding for higher education;
- Continue to advocate for the State of Illinois to change the community college equalization formula to more fairly fund City Colleges and other community colleges located in counties subject to the Property Tax Extension Limitation Law;
- Develop a tuition and fee policy, and explore indexing tuition and fees;
- Enhance the long-term financial planning process to include strategies, actions and scenarios needed to address financial imbalances and other long-term issues; and
- Develop a formal fund balance policy in the unrestricted funds that is approved by the City Colleges' Board of Trustees and published in the City Colleges budget.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the City Colleges of Chicago FY2017 Tentative Annual Operating Budget totaling $523.7 million because it is a reasonable plan given the unprecedented uncertainty surrounding funding from the State of Illinois as it enters a second year without enacting a comprehensive balanced state budget.

The District's FY2017 total budget will decline by $171.9 million, or 24.7%, from the FY2016 adopted budget, primarily due to the recent completion of the new Malcolm X College. Unrestricted operating funds, the portion of the budget over which the District exercises maximum control, will decrease by $25.2 million, or 8.0%, in FY2017. The tentative FY2017 budget will keep the property tax levy relatively flat and will not include an increase in the tuition rate over the prior year.

In FY2016 City Colleges faced the financial challenge of receiving no state funding until April 2016. The District then only received a fraction of the state funding it expected through a stop-gap funding measure for higher education institutions. In order for City Colleges to balance its FY2016 budget, it relied on short-term solutions, such as using its cash reserves, delaying capital expenses, not filling vacant positions and a hiring freeze. The Illinois General Assembly passed and Governor Bruce Rauner signed a partial-year spending plan for FY2017 to fund higher education institutions that included approximately $22.5 million in funding for City Colleges.[5] In FY2017 the District is not planning to increase its property tax levy or increase tuition rates to make up for the decline in State and local revenues. Instead the District plans to continue relying on these short-term measures in FY2017 to balance its budget if it does not receive full State funding once the State's partial spending plan runs out. City Colleges will compensate for reduced and delayed State funding by continuing the measures above as well as eliminating its Resource Allocation Fund (RAF) and implementing other savings and efficiencies.

Although the District has been able to weather financial challenges thus far through prudent short-term fixes, the Federation is concerned about the longer-term impact of those actions on the District's financial position. The depletion of its reserves and the possible creation of a backlog of capital needs if State funding shortfalls continue would leave the District with a diminished fiscal capacity that could result in a reversal of the academic gains made by the District in recent years under *Reinvention*. Furthermore, the tentative FY2017 budget relies on $51.9 million in Illinois Community College Board (ICCB) funding from the State of Illinois. However, at this time, the State of Illinois has only approved a partial year spending plan for its fiscal year that begins July 1, 2016. If the District does not receive the full ICCB funding budgeted for in FY2016 and FY2017 it will begin operating with a deficit at the end of FY2016.

It is imperative for the financial viability of the entire higher education system in Illinois that the Illinois General Assembly and Illinois Governor Bruce Rauner enact a comprehensive balanced budget. While City Colleges appears to be financially better prepared to weather the state budget impasse than other community colleges, its budgetary reserves are not infinite. If City Colleges and other educational institutions are not fully funded, they will be forced to severely reduce

[5] Information provided by City Colleges of Chicago, Finance Department, July 1, 2016.

operating expenses mid-year and such decisions may have costly long-term social and economic repercussions for the State of Illinois.

Issues the Civic Federation Supports

The following section details key issues that the Civic Federation supports in the City Colleges FY2017 Tentative Annual Operating Budget.

Prudently Managing the Budget at a Time of State Funding Uncertainty

In FY2017 the District's unrestricted operating funds, over which it has the most control, will decrease by $26.0 million, or 8.4%, to $282.1 million, from $308.1 million in its FY2016 adopted budget due to the decline in tuition revenue, contractual services and the slowing of hiring and not filing vacancies. The District's overall budget will decline by $171.9 million, or 24.7%, below the FY2016 adopted budget of $695.6 million, but much of this decline is due to the completion of the Malcolm X College and a consequent reduction in capital spending.

In recent years the District has exercised many sound financial practices, including developing the budget based on performance measures, implementing zero-based budgeting, financial forecasting and modeling with monthly accounting reviews and other best-practice budgetary tools. Because of these actions the District has been better positioned to manage its finances in the face of an ongoing lack of State funding that has resulted in the District receiving only a portion of Illinois Community College Board (ICCB) funding in FY2016. In order to offset a decline in State and local revenues due to the state gridlock and declining enrollment, the District developed a contingency plan and implemented a number of austerity measures to balance its FY2016 budget. These austerity measures include the use of approximately $25 million in reserve funds, implementing a hiring freeze, strategically delaying certain capital improvements and eliminating its Resource Allocation Fund (RAF). The FY2017 proposed budget will continue these austerity measures by continuing the hiring freeze implemented in FY2016. Additional measures such as further drawing on its cash reserves and cancelling more capital projects will be held in reserve for FY2017 if the State does not fully fund FY2016 and FY2017.

The Civic Federation commends City Colleges for exercising fiscal restraint and prudently managing its limited financial resources at a time of state funding uncertainty.

Maintaining Adequate Resources to Cope With Contingencies

In recent years City Colleges has maintained a healthy fund balance, with a FY2015 (audited) unrestricted fund balance equal to approximately 26.8% of operating expenses. The FY2015 fund balance was well above the minimum two months of operating expenses recommended by the Government Finance Officers Association.

A healthy fund balance for contingencies, such as unexpected revenue shortfalls, is particularly important at a time when the State of Illinois' finances are precarious and its scheduled payments to the District have been delayed and significantly reduced. The Civic Federation commends the District for its discipline in maintaining a strong fund balance and its consequent ability to use reserves as opposed to increasing the financial burden on Chicago taxpayers or students or resorting to layoffs, as other community colleges have been forced to do. However, it is important to note that fund balance is nonrecurring and will eventually run out. City Colleges was better prepared for the State's year-long budget standoff than most, but its academic gains and future fiscal stability could still be jeopardized if the State does not a pass a budget for the second straight year.

Keeping the Property Tax Levy Relatively Flat

City Colleges proposes to keep its gross property tax revenues relatively flat from the previous year at $124.9 million, after having reduced its levy in FY2010. The projected increase in local tax revenues is due to an increase in the City Colleges property tax levy to capture revenue from an expiring TIF district within the City of Chicago.[6] The levy increase is not an increase in the amount of money taxpayers will owe in property taxes. City Colleges will capture additional resources without increasing the tax burden on residents. The Civic Federation commends the District for its continued fiscal discipline at a time of ongoing financial hardship for many Chicago property taxpayers.

Improving the Budget Review and Approval Process

The District publicly released its budget on June 7, 2016. The Finance and Administrative Services Committee held a public meeting on the budget on June 23, 2016 and the District will hold a separate budget hearing on June 27, 2016 at Malcolm X College, prior to the Board of Trustees holding its regularly scheduled meeting on July 7, 2016 to consider approval of the District's FY2017 Tentative Annual Operating Budget. This is a sufficient amount of time for the public to comprehend and provide input on a proposed $523.7 million budget.

The Civic Federation commends the District and its Finance and Administrative Services Committee for holding an additional public meeting in late June prior to the full Board of Trustees meeting in early July. The addition of the Finance and Administrative Committee's hearing on the tentative budget, as well as the public hearing at Malcolm X College on the proposed budget, allows for greater transparency and public input related to the adoption of the budget and helps to educate, inform and build support for the District's spending and revenue plans.

Improving the Budget Book Format

The City Colleges FY2017 tentative budget includes new full-time equivalent (FTE) personnel data that was not previously included. In prior years, budgeted head count data was provided by type of position and full- and part-time status, but FTE data was excluded. FTE data reflects the total hours worked by all employees as a factor of full-time employment. Generally, it is more useful and accurate to examine FTE data, as opposed to headcount data which represents the total number of individual employees including full-time, part-time and student workers. FTE data helps to make varying workloads within the organization more comparable.
City Colleges of Chicago is a personnel-intense enterprise, so omitting such information prevented stakeholders from having a clear and comprehensive understanding of the budget

[6] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 41.

proposal. A breakdown of personnel trends is also an important factor in understanding the operational strategies that have been implemented as part of *Reinvention*. The Civic Federation commends the District for including FTE data that provides full detail of staffing adjustments necessary to implement the tentative budget.

Keeping Tuition Rates Flat Despite State Budget Uncertainty

As part of the FY2016 budget the District altered its tuition and fee structure from a per-credit-hour-based tuition and fee structure to a flat-rate tuition and fee structure that combined the tuition and fees into one flat rate for students depending on their enrollment status, effective the fall 2015 semester. Prior to the change in tuition structure adopted as part of the FY2016 budget, the District had not increased tuition rates for the previous four years despite rising costs and reduced funding from other revenue sources. In FY2017 the District proposes to hold tuition rates flat over the prior year. The District will no longer issue waivers that were offered to students in FY2016 that were meant to ease the financial burden placed on students as a result of the change in tuition structure that went into effect the fall 2015 semester.

The District's FY2016 adopted budget projected tuition and fee revenue of $127.0 million. However, the District's FY2016 end-of-year estimates project tuition and fee revenue closer to $107 million, far below the originally budgeted amount. Had the District not implemented a temporary tuition cap and international rate discount for students in the fall 2015 semester, the District may have seen an even further decline in enrollment and greater variance between FY2016 budgeted and end-of-year estimates of its tuition and fee revenue. Additionally, due to the lack of Monetary Award Program (MAP) funding from the State of Illinois, the District estimates nearly 5,000 students did not enroll in the fall 2015 semester.

The Federation commends the District for holding tuition rates flat from the previous year.

Civic Federation Concerns

The following section details the Civic Federation's concerns with the City Colleges FY2017 tentative annual operating budget.

Consequences of the State of Illinois Not Enacting a Comprehensive Balanced Budget

The State of Illinois is heading into its second year without enacting a comprehensive balanced State budget. The lack of a State budget has created a high level of uncertainty for many local governments and service providers across the State. City Colleges' FY2016 budgeted appropriations included $55.9 million in Illinois Community College Board (ICCB) funding directly from the State of Illinois. City Colleges received $14.4 million in stop-gap ICCB funding in April 2016. The District received an additional $22.5 million as part of a partial-year spending plan for FY2017 that was approved by the Illinois General Assembly and signed by Governor Bruce Rauner.[7] As noted above, the District has taken emergency measures in FY2016 by using additional cash reserves, delaying capital investments and continuing its hiring freeze in FY2017 if no additional funding is forthcoming to the District.

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[7] Information provided by City Colleges of Chicago, Finance Department, July 1, 2016.

These budget austerity measures are a reasonable response to a funding emergency, and the Civic Federation supports them. However, we are concerned these austerity measures may impact the District's future financial stability by depleting its reserves, causing a capital investment backlog and could possible lead to a reversal of academic gains.

Budgeting for Nearly Level Illinois Community College Board (ICCB) Funding

The Federation is concerned the District is being overly optimistic in its State funding assumptions for FY2017. City Colleges did not receive any State funding during FY2016 until April 2016, when the Illinois House and Senate passed a stop-gap FY2016 appropriation bill authorizing General Funds payments of approximately $600 million for higher education.[8] The measure included $14.4 million for City Colleges, only a quarter of the funding originally projected for the District by the Illinois Community College Board (ICCB). The District received an additional $22.5 million in ICCB funding as part of the FY2017 stop-gap funding measure approved by the Illinois General Assembly and signed by Governor Bruce Rauner on June 30, 2016.[9] In the FY2017 budget, State funding for all funds is projected to decrease by $7.5 million, or 11.8%, from the budgeted level of $63.5 million in FY2016 to $56.0 million in FY2017. While the Federation remains concerned about the State's budget impasse continuing, it is important to note that the District has planned for the possibility of receiving no additional funding in FY2016 or FY2017. The District's plan would include using additional reserve funds, delaying investments in capital improvements and other measures in order to balance its budget.[10]

Civic Federation Recommendations

The Civic Federation offers the following recommendations to improve the health and stability of the District's finances.

Advocate for the State of Illinois to Adopt a Comprehensive, Balanced Budget

Local governments and service providers across Illinois rely on State-appropriated funding for a significant portion of their budgets each year. With the State of Illinois entering its second year without a comprehensive state budget, uncertainty is having a devastating impact on how these entities will continue to operate if State funding is continuously delayed or reduced. The partial year spending plan adopted by the Illinois General Assembly and signed by Illinois Governor Bruce Rauner at the last moment of the State's fiscal year for higher education institutions does not alleviate uncertainty related to what will happen once the funding runs out in six months. City Colleges is Illinois' largest community college system and relies on a significant amount of state funding.

With City Colleges implementing a contingency plan in FY2016 in order to make it through the current fiscal year and an austerity budget proposed for FY2017, it is difficult to see how the District will continue to operate without the State funding sources that comprised nearly 20

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[8] 99th Illinois General Assembly, Public Act 99-0502, signed into law by the Governor on April 25, 2016.
[9] Information provided by City Colleges of Chicago, Finance Department, July 1, 2016.
[10] City Colleges of Chicago, "Review of the Preliminary FY2017 Budget."

percent of its revenue sources in FY2015, the most recent year for which full funding was provided.

Without a State budget City Colleges and many other community colleges and institutions of higher learning throughout the State will continue to face uncertainty regarding their future financial viability, which could jeopardize many of the gains City Colleges has achieved in recent years.

The Federation urges City Colleges to work with its peer organizations to advocate the Illinois General Assembly and Illinois Governor Bruce Rauner to adopt a comprehensive balanced State budget to ensure the future financial stability of the institutions that are critical to Chicago and Illinois' economic future.

Advocate for the State of Illinois to Change the Community College Equalization Formula

The State of Illinois provides community college districts with equalization grants intended to ensure that each district has approximately equivalent financial means, regardless of a district's taxable property wealth. Because the formula for distributing equalization grants does not account for the Property Tax Extension Limitation Law, also known as PTELL or "tax caps," that is in place in Cook County and 38 other Illinois counties, it assumes that a greater amount of property wealth is available to tax-capped districts than can actually be taxed without seeking approval of the voters through a referendum. Over time, this has meant that state funding for City Colleges has declined.

The current formula on its own would have provided City Colleges with almost no revenue in FY2017. Because of the lack of a comprehensive State budget, the District received no supplemental funding in FY2016. City Colleges received $14.1 million in supplemental State funds in FY2015, the last year of full funding from the State of Illinois. The Civic Federation supports City Colleges receiving supplemental funds, but urges the District to advocate for the State to rectify the situation that requires the District to seek such funds on an annual basis rather than receiving a reasonable annual allocation once the state budget crisis is over. The Civic Federation supports a recalculation of the State community college equalization formula. We also urge the Governor and the Illinois Community College Board to recognize the contributions of Illinois' largest community college system by fundamentally restructuring the equalization formula to provide fair and equitable funding to City Colleges.

Develop a Tuition and Fee Policy, and Explore Indexing Tuition and Fees

The Civic Federation recommends that City Colleges adopt the Government Finance Officers Association (GFOA) best practice of developing a charges and fees policy, possibly including tying them to an annual escalator to help guide the Board when making difficult budget decisions. One of the many benefits provided by a well-designed charges and fees policy is that it will "smooth charges and fees over several years rather than having uneven impacts" on students.[11]

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[11] Government Finance Officers Association, "Establishing Government Charges and Fees," http://www.gfoa.org/establishing-government-charges-and-fees (last visited July 2, 2014).

Enhance the Long-Term Financial Planning Process[12]

The Civic Federation commends the District for publicly releasing and adopting its previously internal long-term financial plan as part of the FY2015 budget approval process. The plan released in FY2015 and FY2016 incorporated most of the elements of a best practice plan, according to the Government Finance Officers Association (GFOA). In the FY2016 adopted budget and FY2017 tentative budget, the District includes strategies that senior management uses, such as the prioritization of investments, revenue enhancements, assessing salary vacancy rates and other strategies to balance future budgets. The FY2016 and FY2017 budgets also incorporate external factors that have an impact on the District. The main improvements the Civic Federation would recommend for future plans are to include an enhanced description of strategies, actions and scenarios needed to address financial imbalances and other long-term issues and more involvement of the public and other stakeholders in the development of the plan. This is particularly important given the uncertainty surrounding future State funding.

An essential element of the long-term financial planning process is that it be an open and public process. All stakeholders should be engaged in the planning process. The GFOA describes the long-term financial planning process as "not just a staff-driven process. It is consensus-driven and inclusive, involving elected officials, staff and the public."[13]

It is important for a taxing body to explain to the public the coming financial challenges it anticipates and how it will overcome them. The Civic Federation commends the District for moving beyond internal financial planning by developing and implementing a formal long-term financial planning process that is not just reviewed internally, but that also solicits input from the District's Board of Trustees and eventually other key policy stakeholders, including the public.

Adopt a Formal Fund Balance Policy

The City Colleges' Board of Trustees adopted Resolution Number 29253 on February 5, 2009 which recommends that unrestricted fund balance over 3% of the unrestricted funds actual expenses may be transferred to the Operations and Maintenance Fund subject to the Board's approval, effectively maintaining a 3% minimum unrestricted funds fund balance.[14] The Civic Federation supports this policy and commends the District for including additional guidelines in its FY2017 proposed budget that the District uses to manage its fund balances, including not using operating fund fund balance to finance current operations and recognizing bond ratings, credit implications and the District's limited revenue sources as important factors to be considered before using fund balance.[15] However, the Civic Federation urges City Colleges to establish a formal fund balance policy for its unrestricted funds that meets the standard proposed by the Government Finance Officers Association (GFOA) and that is approved by the City Colleges' Board of Trustees.

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[12] See Maricopa Community College in Arizona and the City of San Clemente, California as examples of well-developed long-term financial plans.
[13] Government Finance Officers Association, "Long-Term Financial Planning for Governments," http://www.gfoa.org/downloads/LTFPbrochure.pdf (last visited on July 3, 2013).
[14] See the resolution on the City Colleges of Chicago's website at http://apps.ccc.edu/brpublic/2009/feb/29253.pdf.
[15] City Colleges of Chicago, FY2017 Tentative Annual Operating Budget, p. 33.

The GFOA recommends “at a minimum, that general purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.” City Colleges is a special purpose, not a general purpose government, but its size and the relative instability of its revenue stream make it prudent for the District to maintain adequate reserves. The GFOA statement adds that each unit of government should adopt a formal policy that considers the unit’s own specific circumstances and that a smaller fund balance ratio may be appropriate for the largest governments.[16] At a minimum, the Civic Federation urges City Colleges to establish a fund balance policy of maintaining a minimum ratio of unrestricted net assets to expenditures or revenues of 5%, which is recommended by the major rating agencies.[17]

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[16] Government Finance Officers Association, “Appropriate Level of Unrestricted Fund Balance in the General Fund” (Adopted October 2009).
[17] Standard & Poor’s, “U.S. Local Governments: Methodology and Assumptions,” March 6, 2012.

ACKNOWLEDGEMENTS

We would like to express our sincere thanks and appreciation to Chancellor Cheryl L. Hyman, Executive Vice Chancellor Laurent Pernot, Chief Operating Officer James T. Frankenbach, Vice Chancellor, Finance & Business Enterprises/Chief Finance Officer Joyce Carson, District Director of Financial Planning & Budgeting Constance Kravitz and Vice Chancellor, Strategy & Institutional Intelligence Rasmus Lynnerup for providing us with a briefing on the budget and answering our questions.

APPROPRIATIONS

The following section of this analysis presents information and trends regarding City Colleges' appropriations for all funds and for operating funds by object and by program. Except where noted, Fiscal Year 2017 appropriations are compared to FY2016 adopted appropriations and actual expenditures for FY2013-FY2015.

City Colleges has 11 funds: six operating funds, as well as debt service, capital and working cash funds. The six operating funds are composed of the following unrestricted and restricted funds:

Unrestricted

- **Education Fund**, which accounts for revenues and expenditures of the academic and service programs for each college;
- **Operations and Maintenance Fund**, which accounts for expenditures for the construction, acquisition, repair and improvement of community college buildings, along with procurement and maintenance of lands, fixtures and equipment;
- **Auxiliary/Enterprise Fund**, which accounts for college services where a fee is charged and the activity is intended to be self-supporting;[18]

Restricted

- **Audit Fund**, which levies and collects property taxes for the payment of the annual audit of the District's financial statements;
- **Liability, Protection and Settlement Fund**, which primarily handles expenditures for tort liability, property insurance, Medicare taxes, Social Security taxes and unemployment insurance; and
- **Restricted Purpose Fund**, which accounts for monies that have external restrictions regarding their use, including grants.[19]

Appropriations for All Funds

City Colleges proposed appropriations for all funds in FY2017 total $523.7 million. This is a 24.7%, or $171.9 million, **decrease** from FY2016 adopted appropriations of $695.6 million. The majority of the decline is due to reduced capital spending of $137.6 million, or 79.6%, as a result of the completion of the new Malcolm X College and reductions in response to the ongoing Illinois state budget impasse.[20]

The District's FY2017 tentative operating budget of $474.6 million will decline by 6.7%, or $33.9 million, below FY2016 adopted appropriations of $508.5 million, primarily due to the State's ongoing fiscal crisis. Operating funds pay for employees' salaries and benefits, utility costs and all other day-to-day expenditures. In the City Colleges' budget, operating funds include all funds except the capital, debt service and working cash funds.

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[18] In FY2014, FY2015, FY2016 and FY2017 the Auxiliary/Enterprise Fund budget has been presented separately from the Unrestricted Funds in some sections of the budget.
[19] Descriptions of the program categories may be found in City Colleges of Chicago FY2017 Tentative Annual Operating Budget on pp. 17-18.
[20] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. iii.

The proposed unrestricted operating appropriations in FY2017 will decrease by $25.2 million, or 8.0%, below FY2016 adopted appropriations of $313.8 million. City Colleges exercises maximum discretion over these unrestricted funds, unlike restricted funds that must be used for specific purposes as established by statute or terms of a grant or loan. The majority of the decline in the unrestricted funds is related to a reduction in salary appropriations as a result of the hiring freeze and vacancy savings.[21]

Restricted operating fund appropriations will decrease by $7.4 million, or 4.0%, over the two-year period. This decrease in spending is due to reduced student aid as a result of a projected decline in enrollment and fewer grants applied for and received.[22]

Enterprise Funds appropriations are proposed to decrease by $1.3 million, or 11.6%, below FY2016 adopted appropriations of $11.2 million. Enterprise funds are supposed to be self-sustaining. In FY2017 the Enterprise Funds will rely on a $3.5 million transfer from the Unrestricted Fund. The decline in Enterprise appropriations and the need for additional transfers-in is primarily the result of certain programs being in the early start-up phase.[23]

The FY2017 Capital Fund appropriations will decrease by 79.6%, or $137.6 million, below FY2016 adopted appropriations of $172.8 million. The Capital Fund provides pay-as-you-go funding for a substantial portion of its major building projects, as well as the improvement of existing structures. The proposed capital appropriations for FY2017, totaling $35.2 million, will be 6.7% of total appropriations, compared to FY2016 adopted capital appropriations, which were 24.8% of total appropriations, and totaled $172.8 million. FY2017 capital fund expenses are tied to an updated $495.6 million five-year capital plan that includes a recently completed Malcolm X College campus, a new Olive Harvey Transportation, Distribution and Logistics Training Center and a series of enhancements and improvements to existing infrastructure and information technology.[24] As previously noted, the reductions in the capital plan are the result of the completion of the new Malcolm X College, the uncertainty surrounding future state funding and savings achieved due to efficiencies.[25]

Between FY2013 and FY2017 the District's expenditures have increased by $63.1 million, or 13.7%. This five-year increase is driven by a $23.0 million, or 15.0%, increase in restricted spending and a $17.8 million, or 102.3%, increase in capital spending. Additionally, the District has budgeted debt service payments for the fourth time since FY2008. City Colleges completed a

[21] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, pp. 4 and 12.
[22] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 6.
[23] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 5.
[24] See the Capital section on page 33 of this report for more details on the City Colleges of Chicago Capital Plan.
[25] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 48.

$250 million debt issuance in FY2014 to support its capital plan and has budgeted $13.9 million to pay for principal and interest in FY2017.[26]

City Colleges Appropriations for All Funds: FY2013-FY2017 (in $ millions)									
Fund Type	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Adopted Budget	FY2017 Tentative Budget	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Operating Funds									
Unrestricted	$ 281.5	$ 275.3	$ 282.7	$ 313.8	$ 288.6	$ (25.2)	-8.0%	$ 7.1	2.5%
Enterprise	$ 8.6	$ 8.9	$ 9.6	$ 11.2	$ 9.9	$ (1.3)	-11.6%	$ 1.3	15.1%
Restricted	$ 153.1	$ 142.2	$ 131.1	$ 183.5	$ 176.1	$ (7.4)	-4.0%	$ 23.0	15.0%
Subtotal Operating	**$ 443.2**	**$ 426.4**	**$ 423.4**	**$ 508.5**	**$ 474.6**	**$ (33.9)**	**-6.7%**	**$ 31.4**	**7.1%**
Capital Fund	$ 17.4	$ 70.0	$ 117.2	$ 172.8	$ 35.2	$ (137.6)	-79.6%	$ 17.8	102.3%
Debt Service	$ -	$ 7.9	$ 12.9	$ 14.3	$ 13.9	$ (0.4)	-2.8%	$ 13.9	-
Total	**$ 460.6**	**$ 504.3**	**$ 553.5**	**$ 695.6**	**$ 523.7**	**$ (171.9)**	**-24.7%**	**$ 63.1**	**13.7%**

Note: Differences from budget book may occur due to rounding.
Source: City Colleges of Chicago FY2015 Annual Operating Budget, p. 5; FY2016 Annual Operating Budget, p. 4; and FY2017 Tentative Annual Operating Budget, p. 3.

Unrestricted Operating Funds by Object[27]

The next exhibit shows changes in City Colleges' appropriations by object (line item) for the operating funds, including the Education Fund, Operations & Maintenance Fund, Audit Fund and Liability, Protection and Settlement Fund. In this section, FY2017 proposed appropriations are compared to adopted appropriations for FY2016 and actual expenditures for FY2013-FY2015. Over the five-year period, appropriations for these operating funds will increase by approximately $642,100, or 0.2%, from the FY2013 actual appropriations of $281.5 million to $282.2 million proposed in FY2017.

Proposed appropriations for salaries will total $187.9 million in FY2017, down 12.7%, or $27.4 million, from FY2016 adopted appropriations of $215.3 million. Salaries make up 66.6% of total proposed operating appropriations in FY2017 compared to 70.0% of total budgeted operating appropriations in FY2016. The decrease over the two-year period can be primarily attributed to the hiring freeze implemented by the District in FY2016 that is planned to continue into FY2017.[28]

Proposed appropriations for contractual services will also decline over the two-year period by $6.3 million, or 27.5%, below FY2016 adopted appropriations of $22.8 million. The decline in contractual services is the result of reduced expenses related to shuttle bus services, information technology and auditing services and UPASS/Ventra services.[29]

At nearly $33 million, FY2017 appropriations for benefits will increase by 2.8%, or approximately $898,000, above the FY2016 adopted appropriations of nearly $32.1 million. The

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[26] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 365.
[27] The Operating Funds by Object in this section includes the Education Fund, Operations & Maintenance Fund, Liability, Protection and Settlement Fund and Audit Funds, not the Auxiliary/Enterprise Fund.
[28] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 12.
[29] City Colleges of Chicago, "Review of the Preliminary FY2017 Budget."

FY2017 proposed appropriations for benefits are based on the District's FY2016 end-of-year estimates and the hiring freeze that the District plans to continue into FY2017.[30]

Waivers and scholarships will increase over the two-year period by $7.9 million. or 131.6%, from nearly $6 million in FY2016 to $13.9 million in FY2017. The increase in waivers and scholarships is primarily due to a projected 60% increase in students eligible for the Star Scholarship.[31]

Over the five-year period the District's benefits appropriations are expected to decline by $14.7 million, or 30.8%, below FY2013 actual expenditures of $47.7 million. In FY2013 City Colleges and labor unions agreed to eliminate step increases and sick-day payouts for new employees and freeze of sick-day payouts for current employees.[32] In addition, benefits for non-union employees were changed to eliminate sick-day payouts for new employees, to freeze sick-day payouts for current employees, to increase health insurance co-payments and deductibles and to end premium-free lifetime retiree healthcare for senior leaders of City Colleges.[33] In FY2015 the District anticipated a net increase in benefit costs due in part to new healthcare coverage of part-time employees per the federal Affordable Care Act (ACA) and the implementation of new benefits programs.[34] In FY2017 the District will continue to budget for health care coverage of part-time employees due to the implementation of the ACA.

City Colleges Appropriations by Object of Expenditure
Operating Funds: FY2013-FY2017
(in $ thousands)

Object	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Adopted Budget	FY2017 Tentative Budget	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries	$ 181,192.2	$ 190,559.7	$ 193,183.0	$ 215,298.2	$ 187,910.0	$ (27,388.2)	-12.7%	$ 6,717.8	3.7%
Employee Benefits	$ 47,697.3	$ 28,942.7	$ 29,275.7	$ 32,097.8	$ 32,995.9	$ 898.2	2.8%	$ (14,701.4)	-30.8%
Contractual Services	$ 20,028.5	$ 18,463.8	$ 18,623.1	$ 22,807.1	$ 16,530.7	$ (6,276.4)	-27.5%	$ (3,497.8)	-17.5%
Materials/Supplies	$ 12,056.7	$ 11,040.6	$ 14,354.0	$ 15,605.1	$ 13,713.0	$ (1,892.1)	-12.1%	$ 1,656.4	13.7%
Travel/Conferences	$ 935.7	$ 974.0	$ 868.0	$ 1,351.0	$ 880.4	$ (470.6)	-34.8%	$ (55.2)	-5.9%
Fixed Charges	$ 2,855.3	$ 3,220.2	$ 3,322.5	$ 3,413.1	$ 3,211.9	$ (201.2)	-5.9%	$ 356.5	12.5%
Utilities	$ 9,041.6	$ 8,422.7	$ 9,254.9	$ 8,249.2	$ 8,132.1	$ (117.1)	-1.4%	$ (909.5)	-10.1%
Bad Debt	$ 3,139.8	$ 3,208.3	$ 3,231.6	$ 1,662.0	$ 3,255.3	$ 1,593.3	95.9%	$ 115.5	3.7%
Waivers and Scholarships	$ 5,117.0	$ 5,102.0	$ 5,175.1	$ 5,999.4	$ 13,892.0	$ 7,892.6	131.6%	$ 8,775.0	171.5%
Other Expenditures*	$ (539.6)	$ (1,021.7)	$ 4,926.3	$ 1,053.4	$ 1,645.2	$ 591.8	56.2%	$ 2,184.8	-404.9%
Total	**$ 281,524.4**	**$ 268,912.2**	**$ 282,214.4**	**$ 307,536.3**	**$ 282,166.5**	**$ (25,369.8)**	**-8.2%**	**$ 642.1**	**0.2%**

Note: Operating Funds in this chart includes the Education Fund, Operations & Maintenance Fund, Liability, Protection, and Settlement Fund and Audit Fund only. Not Auxiliary/Enterprise Fund.
* In FY2013 and FY2014 an adjustment was made to defer earnings for instructors working 20 pay periods who chose to receive their payroll over 26 pay periods instead of 20 pay periods and an adjustment was made to reduce Title IV liability to the Department of Education resulting in a negative number.
Source: City Colleges of Chicago FY2015 Budget, p. 18; FY2016 Tentative Annual Operating Budget, pp. 65-71.; FY2017 Tentative Annual Operating Budget, pp. 65-69.; and Information provided by City Colleges of Chicago Finance Department, June 22, 2015

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[30] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, pp. 12 and 357.
[31] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 3.
[32] Adult educators are represented by the American Federation of State, County and Municipal Employees (AFSCME) and clerical employees are represented by the Federation of College Clerical and Technical Personnel Local 1708.
[33] City Colleges of Chicago FY2016 Tentative Annual Operating Budget, p. iii.
[34] New benefit programs include: Voluntary Short-Term Disability, Voluntary Critical Illness, Employee Assistance, and Maternity Leave. City Colleges of Chicago FY2015 Tentative Annual Operating Budget, p. 9.

Total Unrestricted Funds by Program[35]

The following exhibit shows changes in the City Colleges' total unrestricted funds by program between FY2013 and FY2017. The FY2017 Tentative Annual Operating Budget is compared to the FY2013 and FY2015 adopted budgets and the FY2014 amended budget. The program categories are listed below.[36]

- **Instruction** refers to classroom activities including faculty salaries and classroom materials;
- **Academic Support** refers to activities directly supporting instruction including tutoring and academic management;
- **Student Services** refer to activities including financial aid services, registering, admitting and testing students;
- **Public Services** refer to programs with a broad public purpose, such as customized training and continuing education;
- **Organized Research** includes separately budgeted research projects;
- **Auxiliary/Enterprise** accounts for college services where a fee is charged to students and/or staff. These activities are intended to be self-supporting;
- **Operations and Maintenance** refers to physical plant and facility-related activities;
- **Institutional Support** refers to activities related to general institutional management such as fiscal operations, legal services, general administration and data processing; and
- **Scholarships, Student Grants and Waivers** accounts for funding for student financial assistance programs.

Between FY2013 and FY2017, total unrestricted appropriations will decrease by 7.8%, or $25.0 million, from $320.5 million to $295.5 million. Over the five-year period, appropriations for instruction as a percentage of the total unrestricted operating budget have fluctuated between a high of 39.8% in FY2015 and a low of 34.2% in FY2016. In FY2017, the next largest program category will be institutional support at $53.4 million, or 18.1%, of the total unrestricted operating budget, followed by operations and maintenance at $43.3 million, or 14.6% of the total unrestricted operating budget in FY2017.

Other appropriation changes include:

- A 32.3%, or $25.5 million, decrease in institutional support appropriations over the five-year period, declining from $78.9 million in FY2013 to $53.4 million in FY2017. This decline is largely due to the District's efforts to redirect resources towards instruction under its Reinvention initiative;[37] and

[35] The Unrestricted Operating Funds by Program includes the Education Fund, Operations & Maintenance Fund, Liability, Protection and Settlement Fund, Audit Fund and Auxiliary/Enterprise Fund.
[36] Descriptions of the program categories may be found in the City Colleges of Chicago FY2017 Tentative Annual Operating Budget on p. 19.
[37] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 1.

- A 171.9%, or $8.9 million, increase in scholarships, grants and waivers, over the two-year period. The increase in scholarships, grants and waivers is largely due to an increase in Star Scholarship[38] recipients.[39]

City Colleges Appropriations by Program
Total Unrestricted Funds: FY2013-FY2017
(in $ thousands)

Program	FY2013 Adopted Budget	FY2014 Amended Budget	FY2015 Adopted Budget	FY2016 Adopted Budget	FY2017 Tentative Budget	Two-Year $ Change	Two- Year % Change	Five- Year $ Change	Five- Year % Change
Instruction	$ 122,360.3	$ 123,631.6	$ 128,820.2	$ 110,322.8	$ 104,766.2	$ (5,556.5)	-5.0%	$ (17,594)	-14.4%
Academic Support	$ 15,857.3	$ 17,252.1	$ 17,897.5	$ 26,825.9	$ 21,363.9	$ (5,462.0)	-20.4%	$ 5,507	34.7%
Student Services	$ 30,527.1	$ 36,772.5	$ 37,979.2	$ 41,307.3	$ 38,870.6	$ (2,436.8)	-5.9%	$ 8,343	27.3%
Public Service	$ -	$ 323.5	$ -	$ 2,671.2	$ 1,649.1	$ (1,022.1)	-38.3%	$ 1,649	-
Organized Research	$ 847.8	$ 294.1	$ -	$ -	$ -	$ -	-	$ (848)	-100.0%
Auxiliary/Enterprise	$ 12,979.3	$ 13,643.6	$ 17,397.3	$ 16,405.8	$ 18,072.2	$ 1,666.4	10.2%	$ 5,093	39.2%
Operations & Maintenance	$ 50,843.2	$ 50,847.0	$ 46,838.1	$ 47,900.1	$ 43,284.2	$ (4,615.9)	-9.6%	$ (7,559)	-14.9%
Institutional Support	$ 78,854.6	$ 69,464.1	$ 69,042.5	$ 71,792.8	$ 53,366.8	$ (18,426.0)	-25.7%	$ (25,488)	-32.3%
Scholarships, Grants, Waivers	$ 8,271.6	$ 4,833.1	$ 5,883.8	$ 5,199.4	$ 14,139.0	$ 8,939.6	171.9%	$ 5,867	70.9%
Total	**$ 320,541.1**	**$ 317,061.7**	**$ 323,858.7**	**$ 322,425.4**	**$ 295,512.1**	**$ (26,913.3)**	**-8.3%**	**$ (25,029)**	**-7.8%**

Note: The Total Unrestricted Funds in this chart include the Education Fund, Operations & Maintenance Fund, Liability, Protection and Settlement Fund, Audit Fund and the Auxiliary Enterprise Fund.
Source: City Colleges of Chicago FY2013 Annual Operating Budget, p. 65; FY2014 Supplemental Appropriation, Exhibit 1, Adopted August 1, 2013; FY2015 Annual Operating Budget, p. 68; FY2016 Annual Operating Budget, p. 65.; and FY2017 Tentative Annual Operating Budget, p. 63.

RESOURCES

The following section presents information and trends regarding City Colleges' resources, comparing FY2017 tentative budgeted resources for all funds by fund and by source. Resources in FY2017 are compared to adopted resources for FY2013-FY2016. The FY2014 adopted budget was amended on August 1, 2013 to account for $12.4 million in additional resources from the State of Illinois and $1.6 million in additional auxiliary/enterprise revenues.

Total Resources for Fiscal Year 2017

City Colleges expects to have a total of $523.7 million in net resources available for all funds in FY2017. All funds include operating funds, capital funds and federal and state student aid funds that are passed on to students by means of grants and the Work Study program.

The single largest revenue source will be federal aid funds, which make up 31.5% of all resources or $164.7 million. City Colleges expects to disperse $97.8 million of federal aid through Pell Grants, Supplemental Educational Opportunity Grants and the Work Study program.[40] Net property tax revenue is the next greatest source of revenue at $120.1 million or 22.9% of all funds. Tuition and fees revenue is projected at $111.4 million, or 21.3% of all funds. Revenue from the State of Illinois is projected to total $56.0 million, accounting for 10.7% of total resources. However, only $22.5 million been enacted for FY2017 in Public Act 99-0524, the partial year State spending plan. It is important to note that the State also makes contributions to the State Universities Retirement System (SURS) on behalf of City Colleges for

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[38] City Colleges provides free tuition to Chicago Public High School students who meet certain academic requirements. See http://www.ccc.edu/departments/Pages/chicago-star-scholarship.aspx
[39] City Colleges of Chicago, "Review of the Preliminary FY2017 Budget."
[40] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 45.

most of the District's employees and this operating support is not reflected in the budget.[41] In FY2015, the most recent year for which audited data is available, State pension contributions made on behalf of City Colleges were $82,364,483.[42]

City Colleges Net Resources for All Funds: FY2017		
Source of Revenue	**FY2017 Tentative Budget**	**% of Total**
Enterprise Fund Reserves	$ -	0.0%
Operating Fund Reserves	$ -	0.0%
Capital Reserves	$ 34,035,804	6.5%
Subtotal Enterprise and Operating Funds & Reserves	**$ 34,035,804**	**6.5%**
Net Property Tax	$ 120,069,629	22.9%
Personal Property Replacement Tax	$ 13,867,201	2.6%
Tuition and Fees	$ 111,446,026	21.3%
Auxiliary/Enterprise	$ 10,752,005	2.1%
Investment Revenue	$ 561,680	0.1%
Local Government Grants	$ 5,249,210	1.0%
Subtotal Local Sources	**$ 261,945,751**	**50.0%**
State Government	$ 56,021,029	10.7%
Federal Government	$ 164,748,842	31.5%
Subtotal State & Federal Sources	**$ 220,769,871**	**42.2%**
Other Sources	$ 6,925,336	1.3%
Total	**$ 523,676,762**	**100.0%**

Source: City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 63.

All Funds by Source

City Colleges' total FY2017 resources of $523.7 million represent a decrease of $171.8 million, or 24.7%, from the FY2016 budget of $695.5 million. Local sources will decrease by $34.5 million, or 11.6%, due to projected decreases in tuition and fees revenue and local government grants. Tuition and fees are projected to decrease by $15.5 million, or 12.2%, from FY2016 budgeted levels of nearly $127.0 million, which the District attributes to an overall 3.5% decrease in headcount enrollment.[43] However, the FY2016 end of year tuition revenues are projected to be nearly $20 million less than budgeted, or $107.2 million, due to declines in enrollment from both the tuition increase imposed in FY2016 and the loss of MAP grant funding from the State of Illinois.[44] Compared to projected end of year levels for FY2016, tuition revenue is projected to increase by $4.2 million in FY2017, due to the full-year impact of the tuition

[41] The State of Illinois makes the employer pension contributions for City Colleges employees except those paid for with federal grants; the District pays the employer share of those pension costs.
[42] City Colleges of Chicago FY2015 Comprehensive Annual Financial Report, p. 33.
[43] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 3.
[44] City Colleges of Chicago, "Review of the Preliminary FY2017 Budget," pp. 4, 14.

increase and elimination of tuition caps that had been offered in FY2016 to help offset the impact of the late-announced tuition structure change.[45]

Local government grants, or funds received from other local governments such as the City of Chicago and Chicago Housing Authority,[46] are projected to decrease by $16.8 million, or 76.2%. This is because of the elimination of the Capital Development Board contribution for the Olive Harvey Transportation, Distribution & Logistics (TDL) building.[47] All other sources of revenue are projected to decrease from FY2016, particularly the use of appropriated reserves, which will decrease by $123.2 million due to the completion of large capital projects.[48]

State resources have been significantly impacted by the State of Illinois' lack of comprehensive FY2016 and FY2017 budgets. In late May 2015, the General Assembly approved a spending plan for FY2016 with an acknowledged operating deficit of $3 billion. Governor Bruce Rauner vetoed the plan—except for an appropriation bill for elementary and secondary education. The General Assembly did not override the Governor's vetoes, which would have required a three-fifths vote of each chamber. However, the State has still been paying a large portion of its expected FY2016 expenses even without a General Funds budget due to statutory requirements, consent decrees and court orders. The main areas of State government not being paid were universities, community colleges, scholarships for low income college students, group health insurance for employees and retirees, social service programs not covered by Medicaid and operational costs of certain agencies.

City Colleges did not receive any State funding during FY2016 until April 2016, when the Illinois House and Senate passed a stop-gap FY2016 appropriation bill authorizing General Funds payments of approximately $600 million for MAP grants, public universities and community colleges.[49] The measure included $14.4 million for City Colleges, only a quarter of the funding originally projected for the District by the Illinois Community College Board. The District projected it would receive more FY2016 State funding by the end of the fiscal year, but it would run a deficit if it did not receive funding.[50] The State of Illinois' partial-year spending legislation appropriated some funding for the Illinois Community College Board for FY2017, of which City Colleges is expected to receive approximately $22.5 million. However, this funding was passed after the District released its tentative budget plan. In the FY2017 budget book, State funding for all funds is projected to decrease by $7.5 million, or 11.8%, from the budgeted level of $63.5 million in FY2016 to $56.0 million in FY2017.

Federal resources will also decrease, falling by 3.8%, or nearly $6.6 million. The federal funds represent primarily financial aid that is passed through to students, not revenues available for day-to-day operations. Other sources of revenue "represents revenues which do not fit into specific revenue source categories such as subpoena fees and ATM commissions," and will also decrease by $73,000, or 1.0%.[51]

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[45] City Colleges of Chicago, "Review of the Preliminary FY2017 Budget," p. 14.
[46] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 20.
[47] Communication with City Colleges of Chicago Staff, June 21, 2016.
[48] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 3.
[49] 99th Illinois General Assembly, Public Act 99-0502, signed into law by the Governor on April 25, 2016.
[50] City Colleges of Chicago, "Review of the Preliminary FY2017 Budget."
[51] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 21.

Total resources for all funds will decrease by $135.3 million, or 20.5%, between the FY2013 adopted budget and the FY2017 tentative budget. The greatest dollar decrease will occur in appropriated reserves, which will drop by $91.9 million, or 73.0%, over the five-year period due to the ramp-up and then completion of capital projects. Resources from the State of Illinois will decrease by $53.6 million, or 48.9%, in the five-year period. Federal resources, however, are slated to increase $20.8 million, or 14.4%, from FY2013 to FY2017.

City Colleges of Chicago Net Resources for All Funds: FY2013 - FY2017
(in $ thousands)

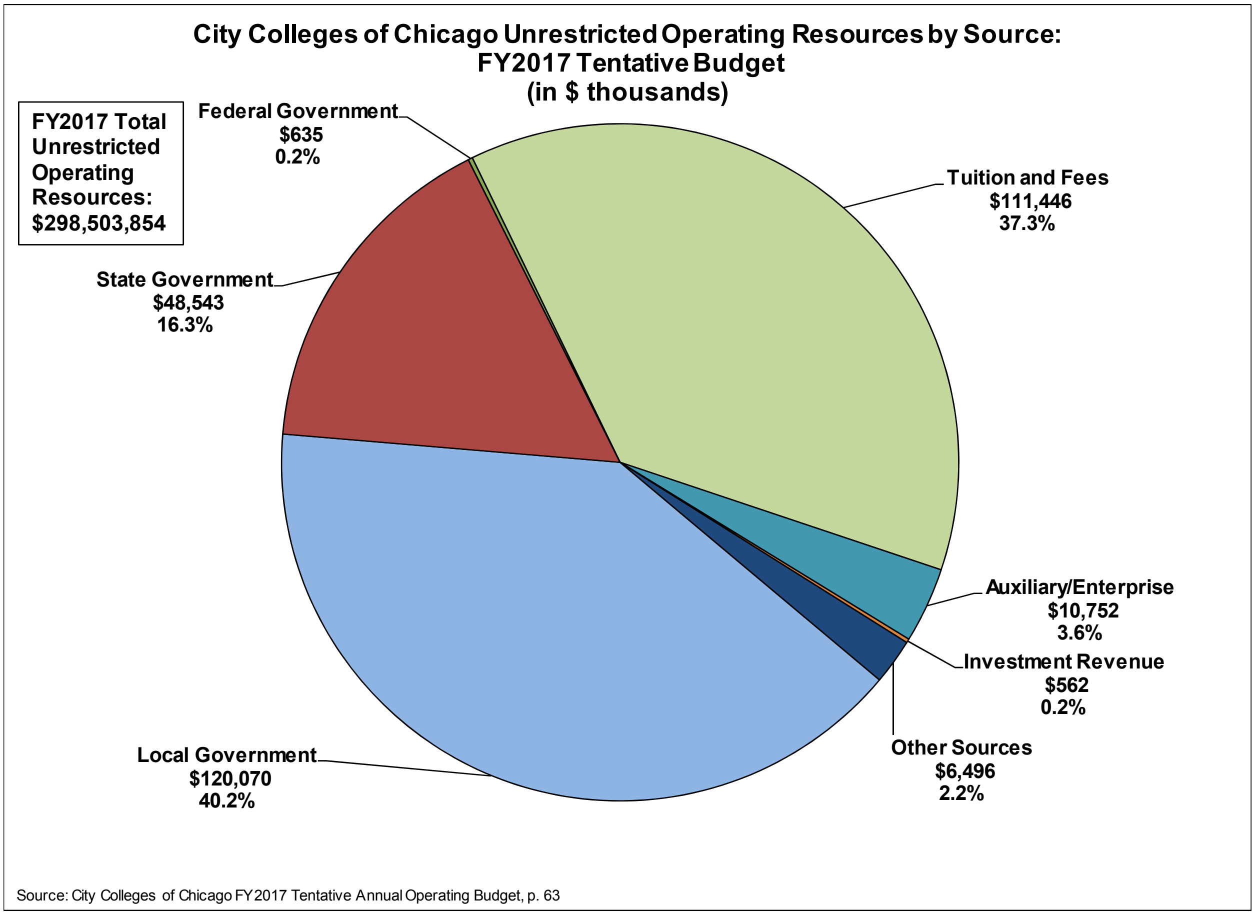
Sources of Revenues	FY2013 Adopted Budget	FY2014 Amended Budget*	FY2015 Adopted Budget	FY2016 Adopted Budget	FY2017 Tentative Budget	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Appropriated Reserves	$ 125,979	$ 141,433	$ 178,278	$ 157,249	$ 34,036	$ (123,213)	-78.4%	$ (91,943)	-73.0%
Net Property Tax Revenues	$ 120,808	$ 120,906	$ 124,353	$ 119,993	$ 120,070	$ 76	0.1%	$ (738)	-0.6%
Personal Property Replacement Tax	$ 14,500	$ 12,300	$ 14,347	$ 14,328	$ 13,867	$ (461)	-3.2%	$ (633)	-4.4%
Tuition and Fees	$ 113,939	$ 114,158	$ 115,000	$ 126,985	$ 111,446	$ (15,539)	-12.2%	$ (2,493)	-2.2%
Auxiliary/Enterprise	$ 14,285	$ 14,717	$ 14,858	$ 12,133	$ 10,752	$ (1,381)	-11.4%	$ (3,533)	-24.7%
Investment Revenue	$ 1,000	$ 1,100	$ 1,500	$ 1,000	$ 562	$ (438)	-43.8%	$ (438)	-43.8%
Local Government Grants	$ 7,352	$ 8,422	$ 16,828	$ 22,025	$ 5,249	$ (16,776)	-76.2%	$ (2,103)	-28.6%
Total Local Sources	**$ 271,884**	**$ 271,603**	**$ 286,887**	**$ 296,465**	**$ 261,946**	**$ (34,519)**	**-11.6%**	**$ (9,938)**	**-3.7%**
State Government	$ 109,641	$ 80,330	$ 75,912	$ 63,489	$ 56,021	$ (7,468)	-11.8%	$ (53,620)	-48.9%
Federal Government	$ 143,961	$ 173,265	$ 173,118	$ 171,299	$ 164,749	$ (6,550)	-3.8%	$ 20,788	14.4%
Subtotal State & Federal Sources	**$ 253,601**	**$ 253,595**	**$ 249,030**	**$ 234,788**	**$ 220,770**	**$ (14,018)**	**-6.0%**	**$ (18,813)**	**-7.4%**
Other Sources	$ 7,477	$ 4,428	$ 10,786	$ 6,999	$ 6,925	$ (73)	-1.0%	$ (551)	-7.4%
Total	**$ 658,940**	**$ 671,059**	**$ 724,980**	**$ 695,501**	**$ 523,677**	**$ (171,824)**	**-24.7%**	**$ (135,264)**	**-20.5%**

*FY2014 Amended Budget includes $12.4 million in State supplemental appropriations and $1.64 million in Auxilary/Enterprise appropriations that were approved at the August 1, 2013 Board of Trustees meeting.

Source: City Colleges of Chicago Adopted Budgets, FY2013, p. 64; FY2014 p. 66; FY2015, p. 68; FY2016, p. 65; Supplemental appropriations for FY2014 for Fiscal Year ending June 30, 2014, Exhibit 1, p. 3; and City Colleges of Chicago FY2017 Tentative Budget, p. 63

Total Unrestricted Funds for FY2017

City Colleges' total unrestricted funds consist of the Operating Funds (Education, Operations and Maintenance, Liability and Audit Funds) and the Auxiliary Enterprise Fund. Total unrestricted funds are those funds over which City Colleges has the most discretionary control. They exclude restricted grants, such as student financial aid, and the Bond and Interest Fund. The FY2017 Tentative Annual Operating Budget projects that 56.5% of the $298.5 million in unrestricted operating resources will come from state and local government sources while approximately 37.3% will be provided by tuition and fees.



Total Unrestricted Funds by Source

Total unrestricted resources will decrease by 8.1%, or nearly $26.5 million, from the approved $325.0 million adopted budget in FY2016. Local government unrestricted funds (i.e., property tax revenues) are expected to increase by approximately $76,000, or 0.1%, to a net total of nearly $120.1 million. The property tax extension will increase slightly to levy for the expiring Stockyards Southeast Quadrant TIF.[52] While prior to FY2014 no federal government resources or personal property replacement tax revenues were used for unrestricted operating purposes, in FY2014 $267,000 in unrestricted operating funds were budgeted to come from the federal government, growing to $635,000 in FY2016. As discussed above, tuition and fees revenue is projected to decrease significantly by nearly $15.5 million, or 12.2%, in FY2017 below FY2016 budgeted levels due to enrollment declines.

In the five-year period between FY2013 and FY2017, as shown in the chart below, total resources for total unrestricted funds will fall by $22.0 million, or 6.9%. Tuition and fees revenue will fall by $2.5 million, or 2.2%, again due to the fall in enrollment in 2016 and

[52] City Colleges of Chicago, FY2017 Tentative Annual Operating Budget, p. 7.

projected for 2017. Revenue from the State is projected to fall by $9.8 million, or 16.8%, between FY2013 and FY2017. However, this is dependent on both the State enacting additional appropriations for community colleges for FY2017 beyond those included in Public Act 99-0524.

Property tax revenues (local government unrestricted resources) will decrease by 0.6%, or $738,000 over the five-year period. Auxiliary and Enterprise revenue will decrease by $3.5 million, or 24.7%. The FY2017 budget does not project the use of operating reserves, which is a decline of $2.0 million from FY2016, and an overall decrease from $5.3 million between FY2013 and FY2017.

City Colleges Resources for Unrestricted Operating Funds: FY2013-FY2017 (in $ thousands)

Sources of Resources	FY2013 Adopted Budget	FY2014 Amended Budget	FY2015 Adopted Budget	FY2016 Adopted Budget	FY2017 Tentative Budget	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Local Government	$ 120,808	$ 120,906	$ 122,488	$ 119,993	$ 120,070	$ 76	0.1%	$ (738)	-0.6%
State Government	$ 58,323	$ 52,171	$ 57,402	$ 55,879	$ 48,543	$ (7,335)	-13.1%	$ (9,780)	-16.8%
Federal Government	$ -	$ 267	$ 400	$ 300	$ 635	$ 335	111.7%	$ 635	--
Tuition and Fees	$ 113,939	$ 114,158	$ 115,000	$ 126,985	$ 111,446	$ (15,539)	-12.2%	$ (2,493)	-2.2%
Auxiliary/Enterprise	$ 14,285	$ 14,717	$ 14,858	$ 12,133	$ 10,752	$ (1,381)	-11.4%	$ (3,533)	-24.7%
Investment Revenue	$ 1,000	$ 1,100	$ 1,500	$ 1,000	$ 562	$ (438)	-43.8%	$ (438)	-43.8%
Other Sources	$ 6,857	$ 2,082	$ 9,500	$ 6,670	$ 6,496	$ (174)	-2.6%	$ (361)	-5.3%
Personal Property Replacement Tax	$ -	$ 6,000	$ 1,410	$ -	$ -	$ -	-	$ -	--
Operating Reserves	$ 5,300	$ -	$ 1,300	$ 2,000	$ -	$ (2,000)	-100.0%	$ (5,300)	-100.0%
Total	**$ 320,512**	**$ 311,400**	**$ 323,858**	**$ 324,959**	**$ 298,504**	**$ (26,456)**	**-8.1%**	**$ (22,008)**	**-6.9%**

Source: City Colleges of Chicago FY2013 Annual Operating Budget, p. 61; FY2014 Amended Budget, Exhibit 1; FY2015 Adopted Budget p. 68; FY2016 Adopted Budget, p. 65; and FY2017 Tentative Budget, p. 63.

City Colleges Tuition Rates

In FY2016 City Colleges transitioned from a per-credit hour tuition and fee based revenue structure to a tier-based cost of attendance model, which includes tuition and mandatory fees, based on a student's part-time or full-time enrollment status. Beginning in FY2016 and continuing in FY2017, the flat rate charge for in-district enrollment is $599 for one course, $1,069 for part-time enrollment and $1,753 for full-time enrollment. The current tiered tuition structure is designed to encourage full-time enrollment and timely graduation, make cost of attendance more transparent for students[53] and simplify the revenue structure.[54]

The following table shows the City Colleges tuition changes that have occurred over the past ten years. Between 2007 and 2015 the in-district tuition per credit hour increased gradually by $17, or 23.6%. Tuition remained flat at $89 per credit hour for in-district residents from 2012-2015,

[53] City Colleges of Chicago FY2016 Tentative Annual Operating Budget, p. ii.
[54] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 357.

followed by the tuition structure change in FY2016. The proposed tuition structure in FY2017 will remain flat from the prior year.

City Colleges of Chicago Tuition per Semester Hour			
Year	In-District Tuition per Semester Hour	Out-of-District Tuition per Semester Hour	Out-of-State Tuition per Semester Hour
2007	$ 72.00	$ 180.83	$ 291.61
2008	$ 72.00	$ 189.95	$ 309.76
2009	$ 72.00	$ 258.99	$ 306.89
2010	$ 79.00	$ 259.15	$ 301.55
2011	$ 87.00	$ 171.56	$ 228.35
2012	$ 89.00	$ 173.56	$ 230.35
2013	$ 89.00	$ 185.38	$ 236.59
2014	$ 89.00	$ 185.52	$ 233.84
2015	$ 89.00	$ 202.01	$ 249.71
2016 (One Class/Part-time/Full-time)	$599/$1,069/1,753	$1,359/$3,159/ $4,603	$1,719/$4,149/$5,953
2017 Proposed Budget (One Class/Part-time/Full-time)	$599/$1,069/1,753	$1,359/$3,159/$4,603	$1,719/$4,149/$5,953

Source: City Colleges of Chicago FY2012 Comprehensive Annual Financial Report, p. 51; FY2014 Tentative Annual Operating Budget, p. 41; FY2015 Tentative Annual Operating Budget, p. 44; FY2016 Tentative Annual Operating Budget, p. 43; FY2017 Tentative Annual Operating Budget, p. 43.

Regional Comparison to Selected Community Colleges

Before the FY2016 tuition structure change took place, City Colleges' per credit hour tuition was the second lowest of eleven selected community college districts in the northeastern Illinois area. Following the tuition structure change, the cost of in-district tuition and mandatory fees at City Colleges compared to other community colleges varies based on the number of credit hours taken. City Colleges' in-district tuition rates and mandatory fees[55] remain the lowest among area community colleges for part-time students taking at least nine credit hours and for full-time students taking at least 15 credit hours. City Colleges' tuition rate for a student taking one class is among the highest compared to other community colleges.

The following table compares City Colleges' FY2017 tiered flat rate tuition to the ten other selected northeastern Illinois community colleges by credit hour. Full-time students taking 12 credit hours or more currently pay $1,753 per semester, part-time students taking two classes or more, up to a total of 11 credit hours, pay a flat rate of $1,069 per semester and students taking only one class pay a flat rate of $599 per semester. The result of the new tuition structure is that students enrolled in fewer credit hours within each class load classification (one class, part-time, or full-time) will have a disproportionately higher tuition cost than that of other community colleges.

[55] For more information about included mandatory fees, see Appendix.

Under the current tuition structure, a student enrolled in one class totaling three credit hours at City Colleges with only mandatory fees, will pay $599, which is a tuition increase of $252, or 72.6%, over the FY2015 budgeted tuition and fees, which makes City Colleges the most expensive community college in the region for a three credit hour class.

The City Colleges $1,069 part-time rate for an in-district student is the least expensive among the eleven area colleges if a student enrolls in 9-11 credit hours, but it is the highest if a student enrolls in 5-7 credit hours. At 8 credit hours, City Colleges is the fifth least expensive of the 11 community colleges. A part-time in-district student taking two classes that total six credit hours with only mandatory fees is now paying $455 more, or a 74.1% increase over FY2015 tuition and fee rates.

The $1,753 in-district full-time rate makes City Colleges one of the most expensive community colleges in the region if a student enrolls in 12 credit hours, but the least expensive if a student enrolls in 15 or more credit hours. A full-time in-district student enrolled in classes totaling 12 credit hours with only mandatory fees will pay $485, or 38.2% more than in FY2015. However, City Colleges remains one of the lowest cost community colleges for full-time students who enroll in 14 credit hours or more.[56]

Fall 2016* In-District Tuition and Only Mandatory Fees Per Credit Hour of Eleven Selected Community Colleges**

Class Load***	Credit Hours	Prairie State College	College of Dupage	South Suburban College	Harper College	Moraine Valley College	Triton College	College of Lake County	Oakton College	Elgin College	Morton College	City Colleges FY2017 Proposed
One Class	1	$158.5	$135.0	$152.8	$171.3	$142.0	$129.0	$135.0	$153.3	$131.0	$131.0	$599.0
	2	$317.0	$270.0	$305.5	$306.5	$281.0	$258.0	$270.0	$279.5	$256.0	$252.0	$599.0
	3	$475.5	$405.0	$458.3	$441.8	$420.0	$387.0	$405.0	$405.8	$381.0	$373.0	$599.0
	4	$634.0	$540.0	$611.0	$577.0	$559.0	$516.0	$540.0	$532.0	$506.0	$494.0	$599.0
Two to Four Classes (Part-time)	5	$792.5	$675.0	$763.8	$712.3	$698.0	$645.0	$675.0	$658.3	$631.0	$615.0	$1,069.0
	6	$951.0	$810.0	$916.5	$847.5	$837.0	$774.0	$810.0	$784.5	$756.0	$736.0	$1,069.0
	7	$1,109.5	$945.0	$1,069.3	$982.8	$976.0	$903.0	$945.0	$910.8	$881.0	$857.0	$1,069.0
	8	$1,268.0	$1,080.0	$1,222.0	$1,118.0	$1,115.0	$1,032.0	$1,080.0	$1,037.0	$1,006.0	$978.0	$1,069.0
	9	$1,426.5	$1,215.0	$1,374.8	$1,253.3	$1,254.0	$1,161.0	$1,215.0	$1,163.3	$1,131.0	$1,099.0	$1,069.0
	10	$1,585.0	$1,350.0	$1,527.5	$1,388.5	$1,393.0	$1,290.0	$1,350.0	$1,289.5	$1,256.0	$1,220.0	$1,069.0
	11	$1,743.5	$1,485.0	$1,680.3	$1,523.8	$1,532.0	$1,419.0	$1,485.0	$1,415.8	$1,381.0	$1,341.0	$1,069.0
Three to Six+ Classes (Full-Time)	12	$1,902.0	$1,620.0	$1,833.0	$1,680.0	$1,671.0	$1,548.0	$1,620.0	$1,542.0	$1,506.0	$1,462.0	$1,753.0
	13	$2,060.5	$1,755.0	$1,985.8	$1,815.3	$1,810.0	$1,677.0	$1,755.0	$1,668.3	$1,631.0	$1,583.0	$1,753.0
	14	$2,219.0	$1,890.0	$2,138.5	$1,950.5	$1,949.0	$1,806.0	$1,890.0	$1,794.5	$1,756.0	$1,704.0	$1,753.0
	15	$2,377.5	$2,025.0	$2,291.3	$2,085.8	$2,088.0	$1,935.0	$2,025.0	$1,920.8	$1,881.0	$1,825.0	$1,753.0
	16	$2,536.0	$2,160.0	$2,444.0	$2,221.0	$2,227.0	$2,064.0	$2,160.0	$2,047.0	$2,006.0	$1,946.0	$1,753.0
	17	$2,694.5	$2,295.0	$2,596.8	$2,356.3	$2,366.0	$2,193.0	$2,295.0	$2,173.3	$2,131.0	$2,067.0	$1,753.0
	18	$2,853.0	$2,430.0	$2,749.5	$2,491.5	$2,505.0	$2,322.0	$2,430.0	$2,299.5	$2,256.0	$2,188.0	$1,753.0
	19	$3,011.5	$2,565.0	$2,902.3	$2,626.8	$2,644.0	$2,451.0	$2,565.0	$2,425.8	$2,381.0	$2,309.0	$1,753.0
	20	$3,170.0	$2,700.0	$3,055.0	$2,762.0	$2,783.0	$2,580.0	$2,700.0	$2,552.0	$2,506.0	$2,430.0	$1,753.0

*Credit hour tuition and required fees for College of DuPage reflect Spring 2016 rates. Oakton Community College and Harper College tuition and fees are effective Summer 2016.

**Fees associated with certain classes and programs may be higher.

***Class load is approximate because classes can range from 1-6 credit hours per class. Generally one class is 3 or 4 credit hours.

Note: See Appendix for fees included in tuition and fee cost per credit hour.

Sources: Websites of selected community college districts and City Colleges FY2017 Tentative Annual Operating Budget, p. 43.

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[56] City Colleges of Chicago bases its analysis on the cost from a Chicago student perspective and thus compares in-district to out-of-district tuition and fee rates in the FY2017 tentative budget. The Civic Federation instead compares in-district to in-district to gain a better understanding of the cost of enrollment among community colleges on a regional basis.

Property Tax Revenues

Property tax years are the same as calendar years. However, the City Colleges fiscal year is July 1 to June 30, and there is also a one-year lag in Cook County between when property taxes are levied and when they are collected. Taxes levied in 2015 will actually be received in 2016. The effect is that property tax funds available during the City Colleges upcoming fiscal year (FY2017) will be drawn from part of tax year 2015 and part of tax year 2016.

In FY2017 City Colleges expects to receive a net total of approximately $120.1 million in property tax revenues. The gross amount of tax levy revenues will be $124.9 million. For FY2017 the gross revenue is reduced by $4.9 million to account for loss and cost of collections, yielding net property tax revenue of $120.1 million.

Property Tax Revenues Received by City Colleges: FY2016 & FY2017		
	FY2016	**FY2017**
1/2 Estimated Gross 2014 Levy	$ 62,426,691	
1/2 Estimated Gross 2015 Levy	$ 62,451,691	
1/2 Estimated Gross 2015 Levy		$ 62,451,691
1/2 Estimated Gross 2016 Levy		$ 62,490,691
Subtotal Gross Levy Funds Available	**$ 124,878,382**	**$ 124,942,382**
Estimated Loss and Cost of Collection	$ (4,870,218)	$ (4,872,753)
Total (Net Levy)	**$ 120,008,164**	**$ 120,069,629**
$ Change		**$ 61,465**
% Change		**0.1%**

Note: The Tax Year 2015 City Colleges of Chicago levy was revised after the FY2016 budget was released. The numbers in the previous tables in this section reflect FY2016 budgeted net property tax date. This chart reflects revisions made to the tax year 2015 levy that increase FY2016 property tax revenues slightly from budgeted levels.

Source: City Colleges of Chicago FY2016 Adopted Operating Budget, p. 65 and FY2017 Tentative Annual Operating Budget, p. 63

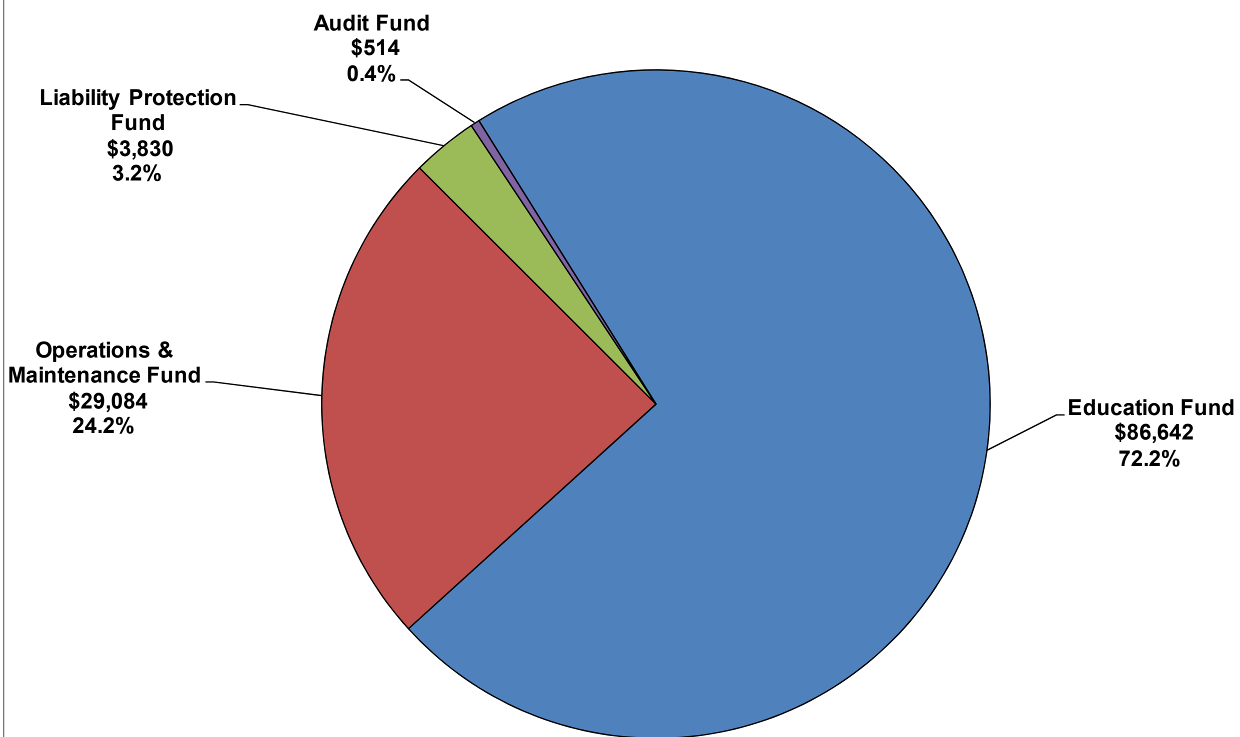
City Colleges expects to receive an increase of $61,465 in its net property tax revenues in FY2017 from FY2016 revised levels. The increase is due to City Colleges levying to capture revenue from an expiring TIF district within the City of Chicago.[57] The levy increase is not an increase in the amount of money taxpayers will owe in property taxes. This is because taxpayers were previously paying for Chicago TIF district expenses. Now they will pay the $61,465 instead as part of the City Colleges' levy.

All of the $124.9 million in gross property tax revenues available in FY2017 are for operating funds that are subject to the State's property tax cap law. The law limits annual property tax increases to 5.0% or inflation, whichever is less, with exceptions for certain bond funds, new property and expiring TIF increment. City Colleges currently levies for four operating funds, all of which are included under the state tax cap: the Education Fund; Operations and Maintenance Fund; Liability, Protection and Settlement Fund; and the Audit Fund. The distribution of net City Colleges' property tax revenues for FY2017 is shown below. Approximately $86.6 million, or 72.2%, is earmarked for the Education Fund, which is the City Colleges' general operating fund. Approximately $29.1 million, or 24.2%, of net property tax revenues is designated for the Operations and Maintenance Fund and $3.8 million, or 3.2%, is reserved for the Liability,

[57] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 41.

Protection and Settlement Fund. The remaining amount, $514,000, or 0.4%, is earmarked for the Audit Fund.

Distribution of City Colleges FY2017 Net Property Tax Revenues by Fund (in $ thousands)



Source: City Colleges of Chicago FY2017 Tentative Annual Operating Budget, pp. 65-69.

Five-Year Property Tax Levy Trend

In tax year 2016 (taxes payable in calendar year 2017) the gross City Colleges property tax levy will total nearly $125.0 million. In addition to its own property tax levy described above, City Colleges benefits from a property tax levied by the City of Chicago in order to pay debt service on capital improvement bonds issued for City Colleges' projects.[58] The City does so because of the expiration of District authority to levy for debt issued by the Public Building Commission (PBC) on behalf of City Colleges. Debt service limits for City Colleges were fixed at the time the tax cap law was implemented in 1995. At that time, the District's debt burden consisted of obligations issued through the PBC and paid for through a PBC Operations and Maintenance (O&M) levy. When these were paid, the O&M levy was eliminated, requiring the District to seek other ways to issue debt. The City of Chicago, by means of an intergovernmental agreement, now levies property taxes that are used to pay for PBC Commission obligations and City Colleges' projects.[59]

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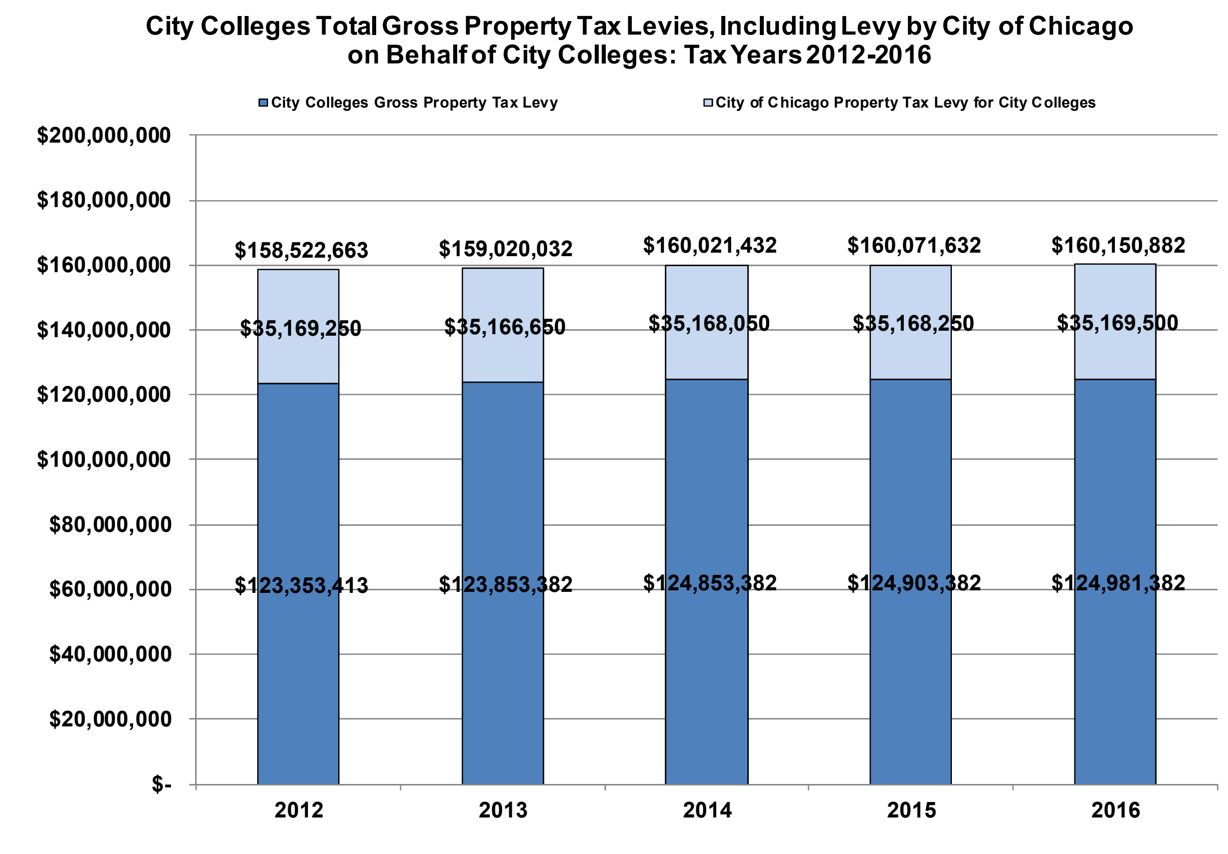
[58] The City of Chicago similarly levies property taxes on behalf of the Chicago Public Schools.
[59] Information provided by City Colleges of Chicago, June 26, 2008.

The City levy on behalf of City Colleges does not represent an increase in taxing authority for the District, but rather is set at levels previously authorized for the O&M levy. Without these funds, it would be difficult for City Colleges to raise adequate funds for maintenance, rehabilitation and construction of capital improvements. The City's levy for the City Colleges' debt has remained relatively stable at approximately $35.2 million since tax year 2008. This levy is part of the City of Chicago tax rate and does *not* appear as a separate line item on property tax bills. Total property tax levies for City Colleges, including the City of Chicago levy for City Colleges' capital improvement bonds, increased from $158.5 million in tax year 2012 to $160.2 million in tax year 2016.

As illustrated below, the City Colleges' gross tax levy has increased by 1.32% from $123.4 million in tax year 2012 to nearly $125.0 million in tax year 2016. The levy did increase slightly in tax years 2013-2016 to capture revenue from expiring City of Chicago TIF districts. The year after a TIF district expires or is dissolved, a government overlapping the district —City Colleges in this case— is allowed to apply its tax rate (which was calculated without including the increment equalized assessed value or EAV in the tax base EAV, making the tax rate higher) to the increment EAV in order to generate additional revenue for City Colleges that would have previously gone to the TIF district. This expands the amount of property tax revenue City Colleges can access through its aggregate extension without increasing the taxes paid by taxpayers since the taxpayer previously paid the tax to the TIF District and will now pay it to City Colleges instead.



Source: City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 311.

State Equalization Formula

The State of Illinois provides community college districts with equalization grants intended to ensure that each district has approximately equivalent financial means, regardless of a district's taxable property wealth. Because the formula for distributing equalization grants does not account for the Property Tax Extension Limitation Law (PTELL, also known as "tax caps"), it assumes that a greater amount of property wealth is available to tax-capped districts than can actually be taxed without seeking approval of the voters through a referendum. Over time, this has meant that state funding for City Colleges has declined. The City Colleges equalization grant dropped from more than $16 million in FY2002 to $50,000 in FY2005 and down to $0 thereafter.[60]

As the current formula would have provided City Colleges with almost no revenue, the State awarded a $15.0 million grant to City Colleges in FY2005. Each year between FY2006 and FY2012, the State renewed the grant for $15.0 million. However, in FY2013, the State awarded City Colleges $14.1 million, a 6% decline in funding. The grant increased in FY2014 to $14.6 million, but decreased again in FY2015 to $14.3 million and City Colleges budgeted the grant at $14.1 million in FY2016.[61] In FY2017 the District is budgeting the grant at $12.7 million, citing the inclusion of the grant in Governor Rauner's proposed FY2017 State of Illinois budget at $11.6 million.[62]

ENROLLMENT TRENDS

City Colleges projects that FY2016 student enrollment will decrease by 8.6% from the previous year.[63] The decline in enrollment in FY2016 is attributed primarily to the decline in unemployment rates and the lack of state funding for Monetary Award Program (MAP) grants, which the District estimates affected approximately 5,000 students.[64] Over the two-year period from FY2015 to FY2016, student enrollment is projected to fall in City Colleges' largest instructional area, the Career Credit and Skills program, by 2,838 FTEs, or 9.7%. Enrollment is also expected to decline in the Adult Education area by 348 FTEs, or 2.9%, as well as the Continuing Education area, which is expected to decline by 99.5% or 389 FTEs. This is because students enrolled in Continuing Education are now referred to professional and personal development students, which fall under the category type of Career Credit and Skills.[65]

Between FY2012 and FY2016, City Colleges FTE enrollment declined by 17.7%, or 8,188 FTEs, down from 46,141 to 37,953. The greatest percentage decrease over the five-year period in FTE enrollment is in the Continuing Education area, which declined by 99.7%, or 657 FTEs. As noted above, this decline is because students enrolled in Continuing Education are now referred to professional and personal development students, which fall under the category of Career Credit and Skills students. The greatest number decrease in students came in the Career Credit

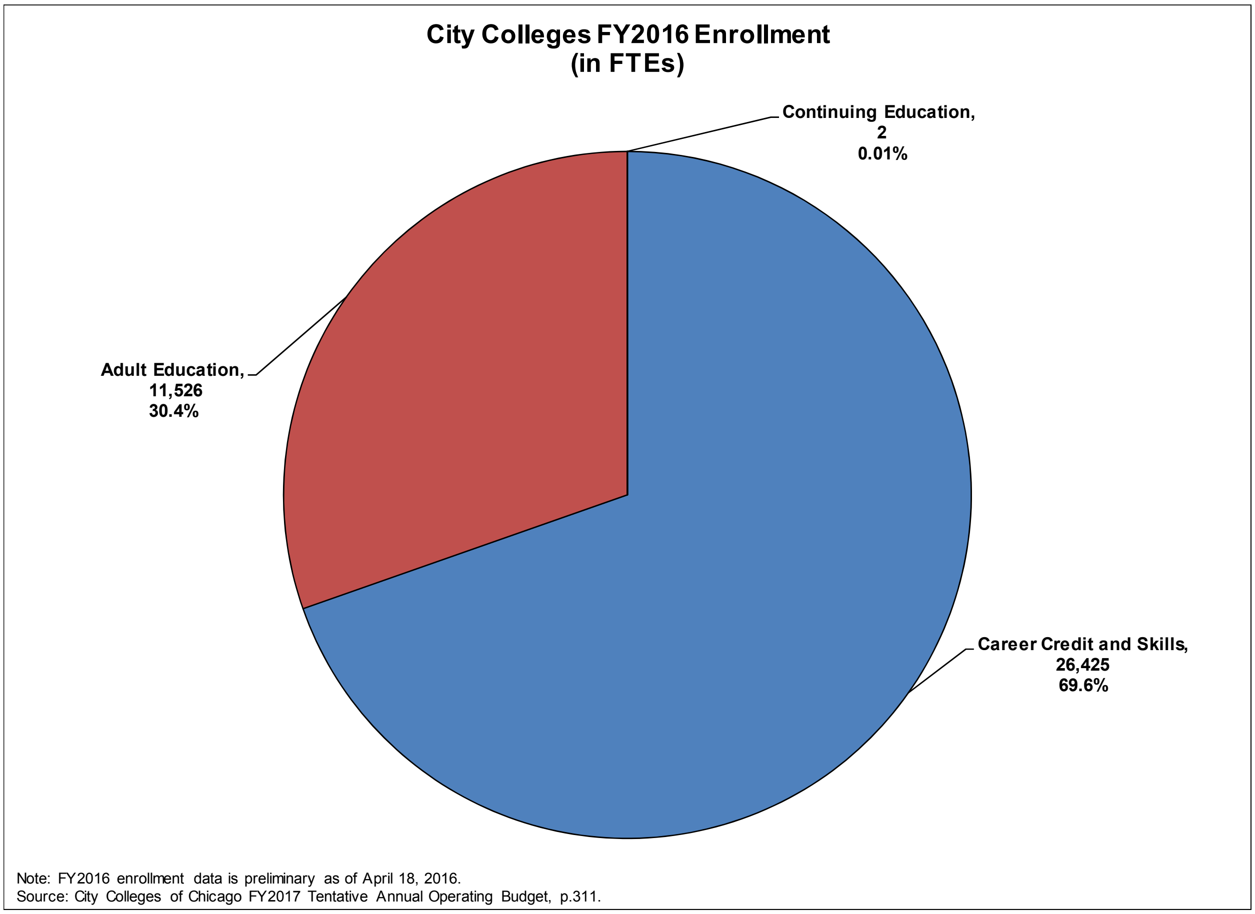
[60] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 44
[61] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 42
[62] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 44
[63] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 312.
[64] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p 1.
[65] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 308.

and Skills area, which saw enrollment decline 5,368 FTEs. Enrollment in the Adult Education area also dropped by 15.8% or 2,163 FTEs.

City Colleges Full-Time Equivalent (FTE) Enrollment: FY2012-FY2016									
Type	FY2012	FY2013	FY2014	FY2015	FY2016*	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year %
Career Credit and Skills	31,793	31,540	31,232	29,263	26,425	(2,838)	-9.7%	(5,368)	-16.9%
Adult Education	13,689	14,476	13,461	11,874	11,526	(348)	-2.9%	(2,163)	-15.8%
Continuing Education	659	569	567	391	2	(389)	-99.5%	(657)	-99.7%
Total	**46,141**	**46,585**	**45,260**	**41,528**	**37,953**	**(3,575)**	**-8.6%**	**(8,188)**	**-17.7%**

Note: Differences from budget book may occur due to rounding.
*FY2016 enrollment data is a preliminary estimate as of April 18, 2016.
Source: City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 313.

The exhibit that follows identifies City Colleges' FY2016 enrollment. The Career Credit and Skills students will compose the largest percentage of students at 26,425, or 69.6%. Adult Education and Continuing Education students will compose 11,526, or 30.4%, and 2, or 0.01%, respectively.



PERSONNEL AND PERSONNEL SERVICES

In its FY2017 tentative annual operating budget, City Colleges provides full-time equivalent (FTE) data by position type and status for FY2015 through FY2017. FTE data reflects the total hours worked by all employees as a factor of full-time employment. Generally, it is more useful and accurate to examine FTE data, as opposed to headcount data which represents the total number of individual employees including full-time, part-time and student workers. FTE data helps to make varying workloads within the organization more comparable.

Between FY2015 and FY2017, FTEs are budgeted to decline by 515 positions, or 11.5%, from 4,459 FTEs to 3,944 FTEs. This is a reduction of 53 full-time FTE positions, or 2.2%, and a reduction of 462 part-time FTE positions, or 22.4%. The majority of the decline in full-time FTE positions will be clerical and faculty staff positions, which will decline by 33 and 25 FTE positions, respectively. While the majority of the decline in part-time FTE positions will be from faculty and front-line direct support staff, which will decline by 294 and 107 FTE positions, respectively.

Between FY2016 and FY2017 there will be a reduction of 435 FTE positions, or 9.9% decrease in total FTEs. Full-time staff will decrease by 88 positions, or 3.6%. This decrease will include eight fewer full-time faculty, 34 fewer full-time professional and technical staff, nine fewer full-time administrators, 38 fewer full-time clerical workers, five fewer full-time front-line direct support workers, one fewer full-time student worker and seven additional full-time academic support staff. During the same time period, part-time FTE positions will decrease by a total of 347, or 17.8%. There will be 297 fewer part-time faculty positions, two fewer part-time professional and technical FTE staff positions, one less part-time FTE administrator, 82 fewer part-time front-line direct support staff FTEs and an increase of nine part-time clerical staff, 19 part-time FTE academic support personnel positions and seven part-time FTE student worker positions.

City Colleges of Chicago Full-time Equivalent (FTE) by Position Type and Status: FY2015-FY2017

Position Type	Status	FY2015	FY2016	FY2017 Tentative Budget	Two-Year # Change	Two-Year % Change	Three-Year # Change	Three-Year % Change
Faculty	Full Time	644	627	619	-8	-1.3%	-25	-3.9%
	Part Time	1,153	1,156	859	-297	-25.7%	-294	-25.5%
Professional/Technical Staff	Full Time	563	592	558	-34	-5.7%	-5	-0.9%
	Part Time	140	68	66	-2	-2.9%	-74	-52.9%
Administrators	Full Time	418	424	415	-9	-2.1%	-3	-0.7%
	Part Time	1	2	1	-1	-50.0%	0	0.0%
Clerical	Full Time	349	354	316	-38	-10.7%	-33	-9.5%
	Part Time	6	10	19	9	90.0%	13	216.7%
Front-Line Direct Support	Full Time	259	269	264	-5	-1.9%	5	1.9%
	Part Time	398	373	291	-82	-22.0%	-107	-26.9%
Academic Support	Full Time	158	161	168	7	4.3%	10	6.3%
	Part Time	359	322	341	19	5.9%	-18	-5.0%
Student Workers	Full Time	2	1	0	-1	-100.0%	-2	-100.0%
	Part Time	9	20	27	7	35.0%	18	200.0%
Sub-Totals	**Full Time**	**2,393**	**2,428**	**2,340**	-88	-3.6%	-53	-2.2%
	Part Time	**2,066**	**1,951**	**1,604**	-347	-17.8%	-462	-22.4%
Total Full-time Equivalent (FTEs)		**4,459**	**4,379**	**3,944**	**-435**	**-9.9%**	**-515**	**-11.5%**

Note: Different totals may appear due to rounding.
Source: City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 312.

The following chart shows operating funds appropriations for salaries and benefits between FY2013 and FY2017. The FY2017 tentative budget of $220.9 million for salaries and benefits is a decrease of $26.5 million, or 10.7%, from the FY2016 adopted budget of $247.4 million. Over the five-year period, salaries have increased by $6.7 million, or 3.7%, while benefits have decreased by $14.7 million, or 30.8%. The decrease in benefit appropriations over the five-year period is primarily due to the District's accounting in FY2013 for the underpayment of the grant funded employer portion of State Universities Retirement System (SURS) for prior years, the accrual of incurred but not reported medical expenses and the accrual of termination benefits, such as the selling back of sick leave at the time of retirement.[66]

City Colleges Unrestricted Operating Funds Personnel Appropriations: FY2013-FY2017 (in $ thousands)

	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Adopted Budget	FY2017 Tentative Budget	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year $ Change
Salaries	$ 181,192	$ 190,560	$ 193,183	$ 215,298	$ 187,910	$ (27,388)	-12.7%	$ 6,718	3.7%
Benefits	$ 47,697	$ 28,943	$ 29,276	$ 32,098	$ 32,996	$ 898	2.8%	$ (14,701)	-30.8%
Total	**$ 228,889**	**$ 219,503**	**$ 222,459**	**$ 247,396**	**$ 220,906**	**$ (26,490)**	**-10.7%**	**$ (7,984)**	**-3.5%**

Source: City Colleges of Chicago FY2015 Annual Operating Budget, pp. 70-74.; FY2016 Annual Operating Budget, pp. 67-71.; and FY2017 Tentative Annual Operating Budget, pp. 65-69.

FUND BALANCE

Fund balance is a term commonly used to describe the net assets of governmental funds and is a measure of financial resources.[67] The Government Finance Officers Association (GFOA) recommends that general purpose governments maintain an unrestricted general fund fund balance of no less than two months, or 16.7%, of regular general fund operating revenues or regular general fund operating expenditures. City Colleges is a special purpose, not a general purpose government, but its size and the relative instability of its revenue stream make it prudent for the District to maintain adequate reserves. The GFOA statement adds that each unit of government should adopt a formal policy that considers the unit's own specific circumstances and that a smaller fund balance ratio may be appropriate for the largest governments. Since the fund balance ratio reflects the savings that a government has accumulated relative to its expenditures for the fiscal year, it is an indicator of the government's financial ability to maintain current service levels.

Beginning in FY2011, many governments changed the way they reported fund balance per the implementation of the Governmental Accounting Standards Board (GASB) Statement 54, which reclassifies fund balance components within governmental funds. City Colleges of Chicago, however, is not required to implement the GASB changes because, as a public college system with primarily business-type activities, it is not required to report governmental funds. Instead, City Colleges reports net position for all of its funds.

The City Colleges of Chicago recently provided information to the Civic Federation that makes adjustments to past years' Statements of Net Position to comply with both GASB Statements 54 and 63. In this report, the Civic Federation is using the information provided by the District to

[66] Information provided by City Colleges of Chicago Finance Department, June 28, 2016.
[67] Government Finance Officer's Association (GFOA), Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).

report unrestricted net assets and data directly from Comprehensive Annual Financial Reports (CAFRs).

The fund balance ratio for City Colleges has averaged 48.2% between FY2006 and FY2015, well above the 16.7% ratio recommended by GFOA. It has fluctuated from a high of 56.7% in FY2012 to a low of 26.8% in FY2015. The unrestricted net position decreased between FY2014 and FY2015 due to the continuing construction of the new Malcolm X campus.[68]

Audited and Unaudited City Colleges Unrestricted Fund Balance Ratio FY2006-FY2015

	Unrestricted Net Position	Operating Expenses	Ratio
FY2006	$ 168,560,501	$ 325,434,665	51.8%
FY2007	$ 194,343,222	$ 389,995,809	49.8%
FY2008	$ 166,715,957	$ 389,995,809	42.7%
FY2009	$ 191,280,203	$ 372,202,855	51.4%
FY2010	$ 199,852,756	$ 404,365,535	49.4%
FY2011	$ 227,551,818	$ 435,306,374	52.3%
FY2012	$ 254,977,399	$ 449,612,320	56.7%
FY2013	$ 254,548,655	$ 477,356,341	53.3%
FY2014	$ 221,854,399	$ 460,397,991	48.2%
FY2015	$ 135,002,378	$ 503,729,283	26.8%

Note: FY2006-FY2012 data was reclassifed to comply with GASB Statements 54 and 63.

Source: Information provided by City Colleges of Chicago budget staff, March 13, 2015 and FY2014-FY2015 CAFRs.

In the City Colleges of Chicago's FY2017 Annual Operating Budget, City Colleges refers to Resolution Number 29253 adopted on February 5, 2009 which recommends that unrestricted fund balance over 3% of the unrestricted funds actual expenses may be transferred to the Operations and Maintenance Fund subject to the Board's approval. This effectively maintains a 3% minimum unrestricted funds fund balance.[69] The District included additional guidelines in its FY2015 budget that the District uses to manage its fund balances, including not using operating fund fund balance to finance current operations and recognizing bond ratings, credit implications and the District's limited revenue sources as important factors to be considered before using fund balance.[70]

CAPITAL BUDGET

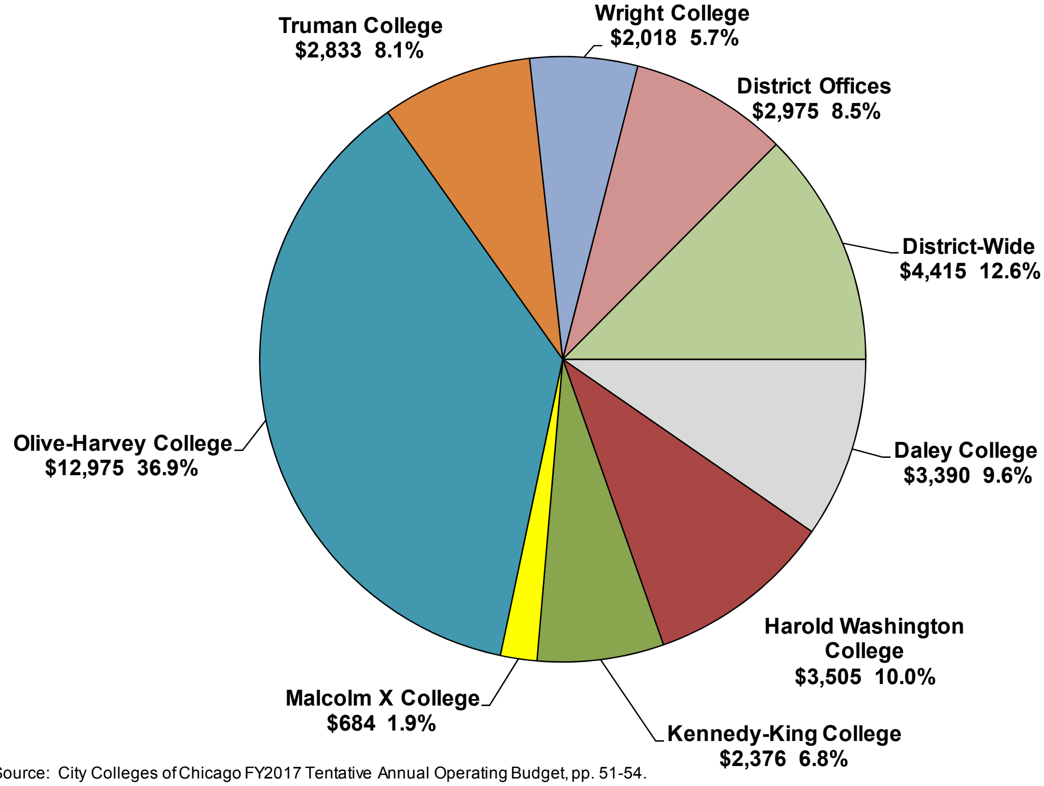
City Colleges prepares a capital budget at the same time as the operating budget. In FY2017 the total capital budget is proposed to be approximately $35.2 million.

The distribution of the FY2017 capital budget by location is shown below. The largest amount of capital spending at $12.9 million or 36.9%, will be for Olive-Harvey College. Those funds will

[68] City Colleges of Chicago, FY2015 CAFR, p. 3.
[69] See the resolution on the City Colleges of Chicago's website at http://apps.ccc.edu/brpublic/2009/feb/29253.pdf.
[70] City Colleges of Chicago, FY2017 Tentative Annual Operating Budget, p. 33.

be spent primarily on an expansion of the campus to include a new 103,000 square foot Transportation, Distribution & Logistics (TDL) building.[71] The second largest amount, 12.6% or $4.4 million, is earmarked for district-wide improvements.

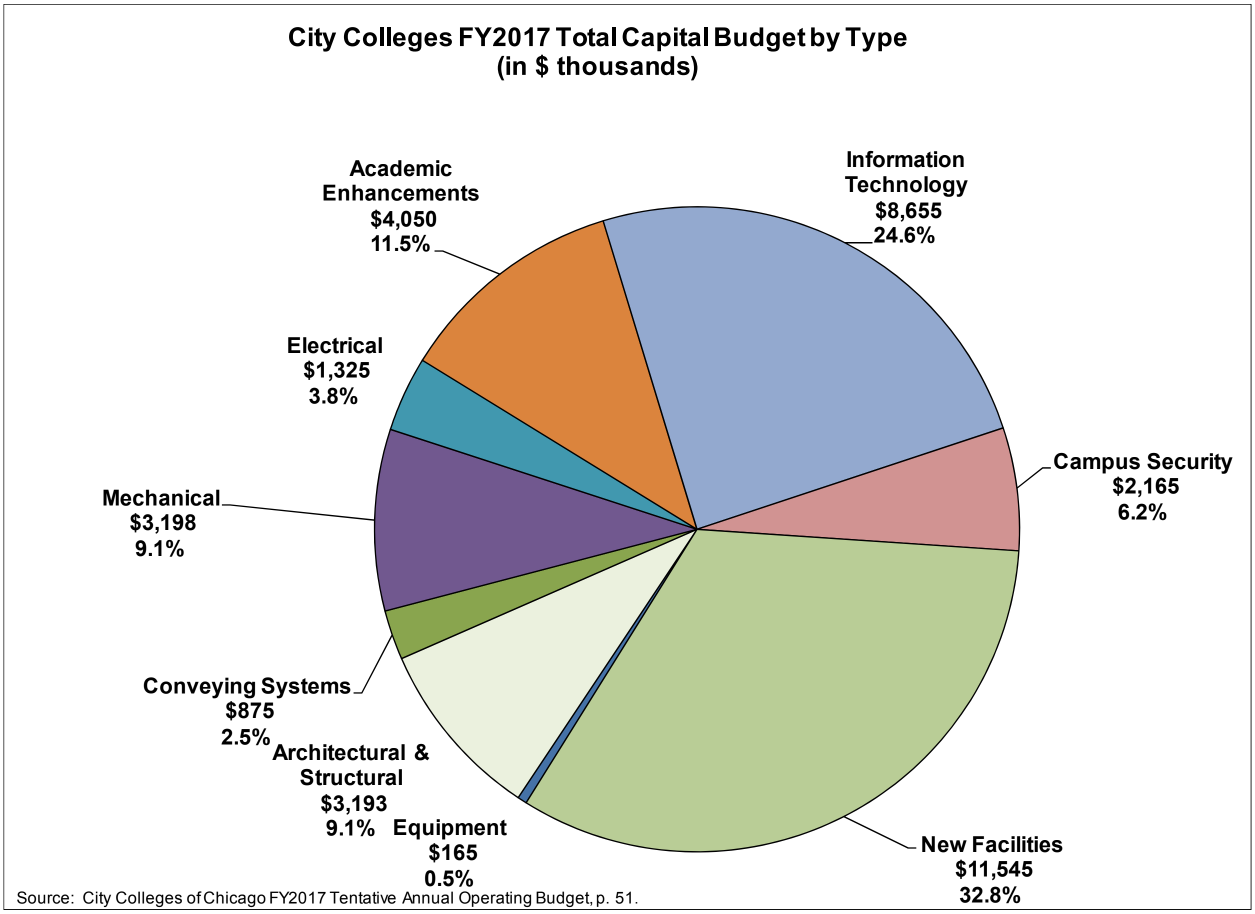
City Colleges FY2017 Total Capital Budget for Existing Facilities by Location (in $ thousands)



Source: City Colleges of Chicago FY2017 Tentative Annual Operating Budget, pp. 51-54.

[71] City Colleges of Chicago, FY2017 Tentative Annual Operating Budget, p. 57.

The next exhibit shows the FY2017 total capital budget by type of expenditure. Approximately $11.5 million or 32.8% of the budget will be earmarked for new facilities while 24.6%, or $8.7 million, is reserved for architectural and structural purposes. The remaining capital budget is reserved for other improvements throughout the District.[72]



[72] City Colleges of Chicago, FY2017 Tentative Annual Operating Budget, p. 51.

Capital Improvement Plan

City Colleges' Capital Improvement Plan (CIP) includes a comprehensive survey of all existing capital assets conducted by a team of architects and engineers, a condition assessment of all existing capital assets and a cost estimate related to the ongoing replacement and maintenance of those assets. Projects are then prioritized and planned using needs-based criteria.

In FY2014, CCC created a five-year Capital Plan. It was not intended to be a rolling plan but instead focused on the immediate capital needs for those 5 years. There are two remaining years in this plan, FY2017 and FY2018. It is anticipated that a new five-year Capital Plan will be developed in the next year that will take into account projects from the prior plan that have not been completed.[73]

A presentation of the $495.6 million CIP for FY2014-FY2018 in capital needs by type of project for City Colleges follows. This amount includes both projects that have funding and those that do not yet have funding secured. Approximately 54.6% of the total CIP amount, or $270.7 million, is projected for new facilities.

Proposed Capital Projects by Type: FY2014-FY2018 (in $ thousands)

Type	FY2014	FY2015	FY2016	FY2017	FY2018	Total
Equipment	$ 5,937	$ 654	$ 1,868	$ 165	$ 108	$ 8,732
Architectural & Structural	$ 15,790	$ 17,787	$ 20,252	$ 3,193	$ 3,870	$ 60,892
Conveying Systems	$ 123	$ 1,234	$ 1,529	$ 875	$ 800	$ 4,561
Mechanical Systems	$ 1,024	$ 4,060	$ 6,104	$ 3,198	$ 2,485	$ 16,871
Electrical Systems	$ 1,022	$ 3,211	$ 2,349	$ 1,325	$ 87	$ 7,994
Environmental & Compliance	$ 37	$ 25	$ -	$ -	$ -	$ 62
Academic Enhancements	$ 1,215	$ 7,725	$ 14,747	$ 4,050	$ 1,325	$ 29,062
Information Technology	$ 15,392	$ 20,867	$ 17,983	$ 8,655	$ 10,962	$ 73,859
Campus Security	$ 6,918	$ 6,842	$ 5,585	$ 2,165	$ 1,360	$ 22,870
New Facilities	$ 43,060	$ 126,798	$ 85,077	$ 11,545	$ 4,250	$ 270,730
Grand Total	**$ 90,518**	**$ 189,203**	**$ 155,494**	**$ 35,171**	**$ 25,247**	**$ 495,633**

Source: City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 51.

CIP spending by location for FY2014-FY2018 shows that 52.5% of all funding will be earmarked for the new Malcom X College. The second largest amount spent over this five-year period will be the $64.3 million, 13.0% of the total, to be utilized for district-wide projects.

Proposed Capital Projects by Location: FY2014-FY2018 (in $ thousands)

College or Office	FY2014	FY2015	FY2016	FY2017	FY2018	Total	% of Total
Daley College	$ 5,144	$ 5,530	$ 9,861	$ 3,390	$ 2,980	$ 26,905	5.4%
Harold Washington College	$ 2,134	$ 2,939	$ 5,816	$ 3,505	$ 1,055	$ 15,449	3.1%
Kennedy-King College	$ 2,680	$ 4,249	$ 6,421	$ 2,376	$ 1,525	$ 17,251	3.5%
Malcolm X College	$ 41,861	$ 127,098	$ 89,855	$ 684	$ 815	$ 260,313	52.5%
Olive-Harvey College	$ 5,084	$ 7,652	$ 17,533	$ 12,975	$ 4,218	$ 47,462	9.6%
Truman College	$ 4,604	$ 7,711	$ 8,022	$ 2,833	$ 2,911	$ 26,081	5.3%
Wright College	$ 6,427	$ 5,435	$ 4,349	$ 2,018	$ 2,971	$ 21,200	4.3%
District Offices	$ 3,436	$ 3,881	$ 3,533	$ 2,975	$ 2,850	$ 16,675	3.4%
District-wide	$ 19,148	$ 24,708	$ 10,104	$ 4,415	$ 5,922	$ 64,297	13.0%
Total	**$ 90,518**	**$ 189,203**	**$ 155,494**	**$ 35,171**	**$ 25,247**	**$ 495,633**	**100.0%**

Source: City Colleges of Chicago FY2017 Tentative Annual Operating Budget, pp. 51-54.

[73] Communication with City Colleges of Chicago budget staff, June 21, 2016.

Roughly $472.8 million or 95.4% of total CIP funding will come from local sources such as cash available for capital purposes, tax increment financing and cash generated from operations. State source funds from the Illinois Capital Development Board totaling $22.8 million will provide monies for the remaining amount.

City Colleges Funding Sources for Capital Improvement Plan: FY2014-FY2018 (in $ millions)	
	FY2014-FY2018
Sources	
Cash available for capital purposes	$ 157.7
Illinois Capital Development Board Contribution	$ 22.8
Cash generated by operations	$ 59.4
City of Chicago TIF (Wilson Yard TIF)	$ 5.7
Bond Proceeds	$ 250.0
Total	**$ 495.6**

Source: City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 55.

LIABILITIES

This section of the analysis provides an overview of City Colleges' short- and long-term liabilities from FY2011 through FY2015, the most recent years for which audited data are available.

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. City Colleges of Chicago currently reports no short-term debt, but does include the following short-term liabilities in the statement of net position in its Annual Financial Report:[74]

- Accounts payable: monies owed to vendors or employees for goods and services;
- Accrued payroll: employee pay carried over from previous years;
- Deposits held in custody: funds owed to student organizations and other outside entities included in the institution's endowment investment fund;
- Other liabilities: include self-insurance funds, unclaimed property and other unspecified liabilities; and
- Other accruals: unpaid invoices at year-end for goods and services received in prior fiscal year.

The following chart shows short-term liabilities by category and the percent and dollar change over the previous year and past five years. In FY2015, the most recent year that data is available,

[74] In In fiscal year 2013, City Colleges implemented GASB Statement No. 65*, Items Previously Reported as Assets and Liabilities* early, which resulted in a reclassification of deferred property tax revenues to deferred inflows of resources.

total short-term liabilities increased by $3.1 million from the previous year, or by 4.5%. Most of this increase was due to a $5.3 million, or 64.7%, increase in accrued payroll. dThis increase was due to one additional day of payroll accrued, adult educator's bonus, and deferred pay adjustment.[75]

Over the five-year period from FY2011 through FY2015, accounts payable have increased sharply by 99.2% or $21.0 million, rising from $21.2 million to roughly $42.2 million. Between FY2012 and FY2013, accounts payable increased by $9.8 million, or 45.3%. This large increase from $21.7 million to $31.4 million can be attributed to the accrual of $9.6 million for a prior-year liability.[76] Between FY2013 and FY2014, accounts payable again rose sharply, increasing by 24.6% from $31.4 million to $39.1 million. This increase was due to higher capital spending on the new Malcolm X College campus building in FY2014, resulting in a higher year-end accounts payable balance.[77] In the two-year period between FY2014 and FY2015, accounts payable rose again by $3.1 million, or 7.8%.

Overall, between FY2011 and FY2015, current liabilities rose by 33.8%, or $17.7 million.

City Colleges Short-Term Liabilities: FY2011-FY2014
(in $ thousands)

Current Liability	FY2011	FY2012	FY2013	FY2014	FY2015	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Accounts Payable	$ 21,185.0	$ 21,635.8	$ 31,427.7	$ 39,147.0	$42,198.8	$ 3,051.8	7.8%	$ 21,013.8	99.2%
Accrued Payroll	$ 7,542.7	$ 2,500.6	$ 3,438.7	$ 8,180.0	$13,475.8	$ 5,295.8	64.7%	$ 5,933.1	78.7%
Deposits Held In Custody	$ 1,610.3	$ 1,402.6	$ 1,414.0	$ 1,489.3	$ 1,228.7	$ (260.6)	-17.5%	$ (381.6)	-23.7%
Other Liabilities	$ 21,196.5	$ 22,206.1	$ 17,639.8	$ 12,453.3	$10,106.3	$ (2,347.0)	-18.8%	$ (11,090.2)	-52.3%
Other Accruals	$ 973.9	$ 1,245.0	$ 896.2	$ 5,932.4	$ 3,246.2	$ (2,686.2)	-45.3%	$ 2,272.3	233.3%
Total Current Liabilities	**$ 52,508**	**$ 48,990**	**$ 54,816**	**$ 67,202.0**	**$70,255.8**	**$ 3,053.8**	**4.5%**	**$ 17,747.4**	**33.8%**

Note: Accrued property tax refunds were reclassified in 2013 and are now included in non-current liabilities as a result of implementation of GASB Statement No. 65.
Sources: City Colleges of Chicago CAFRs, FY2011-FY2015.

Increasing current liabilities, as a percentage of net operating revenues, may be a warning sign of a government's future financial difficulties.[78] 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.

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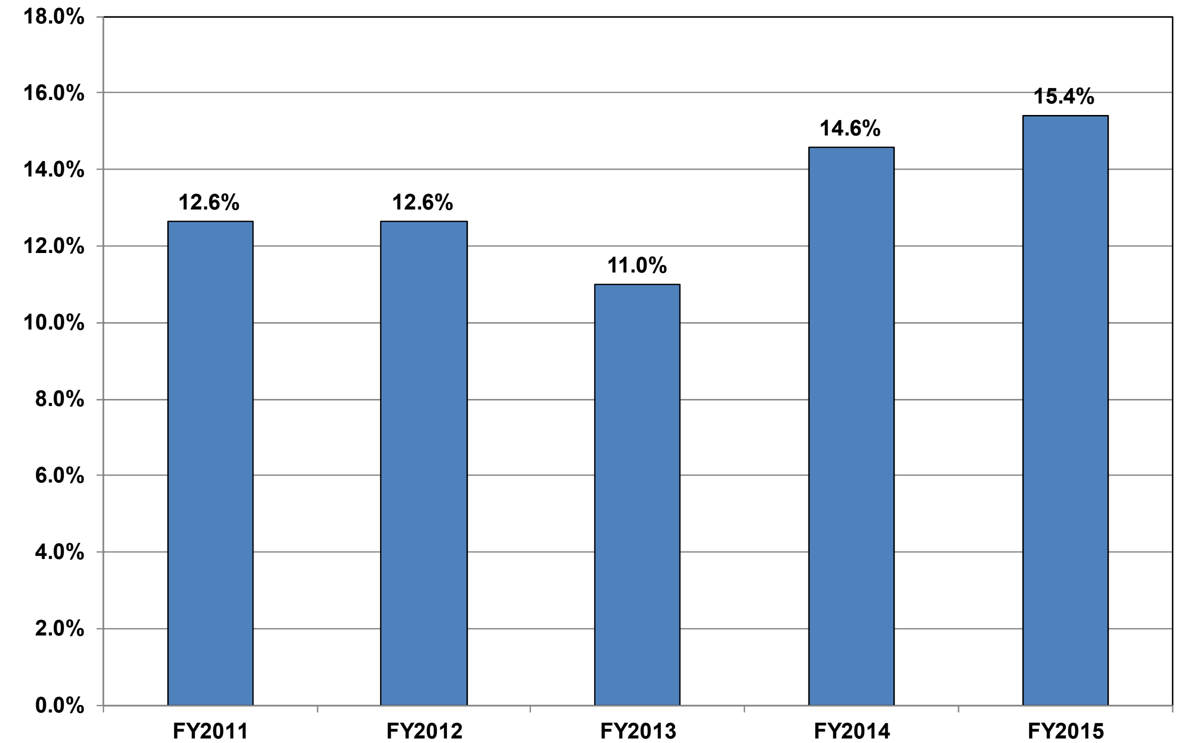
[75] Communication with City Colleges of Chicago budget staff, June 21, 2016.
[76] Communication with City Colleges of Chicago budget staff, June 30, 2014.
[77] Information provided by City Colleges of Chicago Finance Department, June 15, 2015.
[78] Karl Nollenberger, et al., *Evaluating Financial Condition: A Handbook for Local Government* (Washington, D.C.: ICMA, 2003), pp. 77.

The ratio of short-term liabilities to operating revenue has fluctuated over the past five years from a low of 11.0% in FY2013 to a high of 15.4% in FY2015, with an average of approximately 13.2%. Between FY2012 and FY2013, the ratio fell from 12.6% to 11.0%. The decrease in the ratio in FY2013 was largely due to the reclassification of accrued property tax refunds from a current liability to a long-term liability. The increase in the ratio in FY2014 to 14.6% was due to a $7.7 million or 24.6% increase in accounts payable and a $4.7 million, or 137.9%, increase in accrued payroll. In FY2015, the ratio increased to 15.4%.

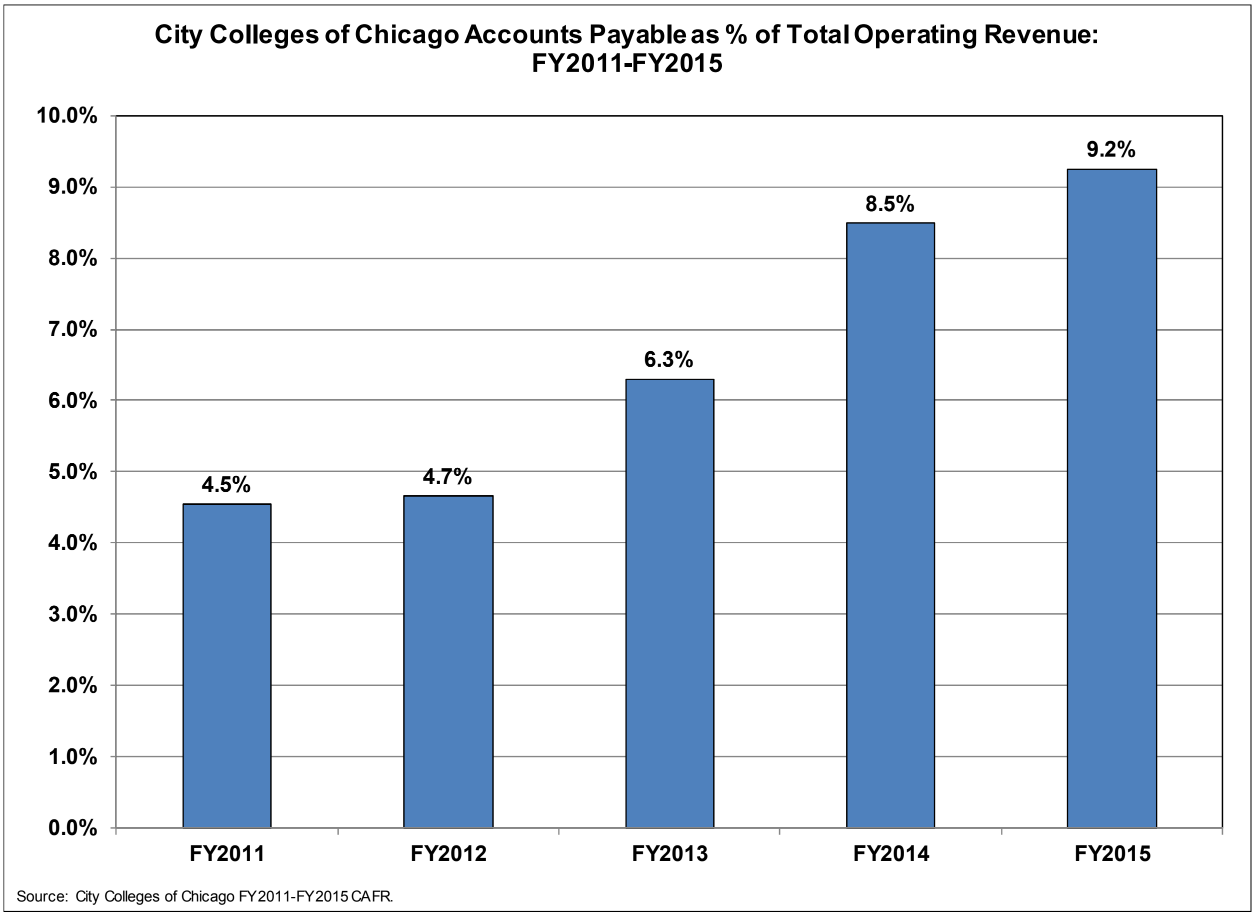
City Colleges of Chicago Short Term Liabilities as a % of Total Operating Revenues: FY2011-FY2015



Note: Accrued Property Tax Refunds were reclassified in 2013 and are now included in non-current liabilities as a result of the implementation of GASB Statement No. 65.
Source: City Colleges of Chicago, CAFR, FY2011-FY2015.

Accounts Payable to Operating Revenues Ratio

The next exhibit shows the ratio of accounts payable to operating revenues. The chart below reflects the increase in accounts payable liabilities over the past five years. Increasing amounts of accounts payable can indicate that the government is deferring payment of outstanding liabilities due to liquidity problems. The accounts payable ratio for City Colleges rose from 4.5% in FY2011 to 9.2% in FY2015. The reasons for this increase are explained above. Although the ratios are not very large, increases in this ratio can be a warning sign of fiscal distress. This trend bears watching in future years.



Current Ratio

The current ratio is a measure of liquidity. It assesses whether the government has enough cash and other liquid resources to meet its short-term obligations as they come due. A ratio of 1.0 means that current assets are equal to current liabilities and are sufficient to cover obligations in the near term. Generally, a government's current ratio should be close to 2.0 or higher.[79] In

[79] Steven A. Finkler. *Financial Management for Public, Health and Not-for-Profit Organizations,* Upper Saddle River, NJ, 2001, p. 476.

addition to the short-term liabilities listed above, the current ratio formula uses the current assets of the District:[80]

- *Cash and investments* are 1) assets that are cash or can be converted into cash immediately, including petty cash, demand deposits and certificates of deposit as well as 2) any investments that the District has made that will expire within one year, including stocks and bonds that can be liquidated quickly;
- *Receivables* are monetary obligations owed to the government including property taxes, replacement taxes, and state or federal aid; and
- *Prepaid items and other assets* represent amounts paid as of June 30 whose recognition is postponed to a future period. Prepaid expenses consist primarily of prepayments to vendors for maintenance contracts.[81]

The City Colleges' current ratio was 3.2 in FY2015, the most recent year for which data is available. In the past five years, the District's current ratio averaged 5.4, which is far greater than the benchmark of 2.0 and thus demonstrates a healthy level of liquidity. Between FY2011 and FY2015, the current ratio fell from 5.8 to 3.2 primarily because of a 67.6%, $81.1 million decrease in cash and cash equivalents and a 33.8%, or $17.7 million, increase in current liabilities (as explained above).

City Colleges Current Ratio:
FY2011 - FY2015 (in $ thousands)

	FY2011	FY2012	FY2013	FY2014	FY2015	Five-Year $ Change	Five-Year % Change
Current Assets							
Cash and cash equivalents	$119,912.9	$102,797.8	$ 88,030.0	$ 39,362.0	$ 38,847.9	$ (81,065)	-67.6%
Short-term investments	$ 91,408.2	$137,167.3	$178,811.9	$154,774.0	$ 90,441.7	$ (967)	-1.1%
Property taxes receivable, net	$ 56,673.6	$ 57,546.7	$ 58,522.1	$ 58,142.0	$ 58,803.2	$ 2,130	3.8%
PPRT taxes receivable	$ 1,858.4	$ 1,707.3	$ 2,584.5	$ 2,300.0	$ 2,390.9	$ 533	28.7%
Other accounts receivable, net	$ 34,759.4	$ 38,605.1	$ 37,204.1	$ 34,342.0	$ 31,880.8	$ (2,879)	-8.3%
Prepaid items and other assets	$ 46.9	$ 189.2	$ 90.7	$ 160.5	$ 136.7	$ 90	191.5%
Total Current Assets	**$304,659.4**	**$338,013.3**	**$365,243.3**	**$289,080.5**	**$222,501.2**	**$ (82,158)**	**-27.0%**
Current Liabilities							
Accounts Payable	$ 21,185.0	$ 21,635.8	$ 31,427.7	$ 39,147.0	$ 42,198.8	$ 21,014	99.2%
Accrued Payroll	$ 7,542.8	$ 2,500.6	$ 3,438.7	$ 8,180.0	$ 13,475.8	$ 5,933	78.7%
Deposits Held In Custody	$ 1,610.3	$ 1,402.6	$ 1,414.0	$ 1,489.3	$ 1,228.7	$ (382)	-23.7%
Other Liabilities	$ 21,196.5	$ 22,206.1	$ 17,639.8	$ 12,453.3	$ 10,106.3	$ (11,090)	-52.3%
Other Accruals	$ 974.0	$ 1,245.0	$ 896.2	$ 5,932.4	$ 3,246.2	$ 2,272	233.3%
Total Current Liabilities	**$ 52,508.6**	**$ 48,990.1**	**$ 54,816.4**	**$ 67,202.0**	**$ 70,255.8**	**$ 17,747**	**33.8%**
Current Ratio	**5.8**	**6.9**	**6.7**	**4.3**	**3.2**		

Note: Accrued Property Tax Refunds were reclassified in 2013 and are now included in non-current liabilities. Accrued Property Tax Refunds for FY2011-FY2012 were kept in the current liabilities for comparabiltiy purposes.
Source: City Colleges of Chicago FY2011-FY2015 Comprehensive Annual Financial Reports, Statement of Net Assets and Statement of Net Position.

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80 The Civic Federation does not include unearned revenue (also called **deferred revenues**) in our short-term liability trend analysis for the following reasons:

- Unearned revenue is from property taxes, program fees and other sources received before a good or service has been provided.
- It is classified as a current liability on the balance sheet until it is recognized as earned during the accounting cycle; and
- For the governments we analyze, unearned revenue usually refers to property tax revenues levied but not spent; it is an issue related to the timing of property tax collections and not an issue of fiscal stress.

81 City Colleges of Chicago FY2015 Comprehensive Annual Financial Report, p. 17.

Long-Term Liabilities

This section of the analysis examines trends in City Colleges' long-term liabilities. This includes a review of trends in the District's total long-term liabilities and a discussion of its tax supported long-term debt.

Long-term liabilities are all of the obligations owed by a government over time. Increases in long-term liabilities over time could be a sign of fiscal stress. For City Colleges they include long-term debt as well as the following categories:

- *Bonds payable* are amounts reported for tax supported long-term debt;
- *Bond premiums and discounts* are deferred and amortized over the life of the bonds using the effective interest method;[82]
- *Accrued Compensated Absences* are liabilities owed for current employees' time off with pay for vacations, holidays and sick days;
- *Accrued Property Tax Refunds* are property taxes that may be refunded to taxpayers in the future;
- *Sick Leave Benefits* are payments to retirees for accumulated unused sick days;[83] and
- *Net Other Post-Employment Benefit (OPEB) liabilities* is the cumulative difference, since the effective date of GASB Statement 45, between the annual OPEB cost and the employer's contributions to its OPEB Plan.[84]

The District's total long-term liabilities increased by $2.1 million, or 0.6%, between FY2014 and FY2015. Over the five-year period between FY2011 and FY2015, these liabilities increased by 568.2% or $276.8 million. Most of the five-year increase was due to the issuance of $250.0 million in bonds in FY2013.

Beginning in FY2007, through an intergovernmental agreement, City Colleges transferred its outstanding capital debt from general obligation bonds issued in FY1999 and FY2007 to the City of Chicago. At the time, 100% of the outstanding debt was in the form of capital leases, which required a $32.7 million payment in FY2007. The FY1999 issuance totaled $389.0 million and the FY2007 series totaled $39.1 million. In accordance with the transfer, the City of Chicago now levies the property taxes needed to pay the annual debt service on behalf of City Colleges of Chicago.

The District completed its first bond issuance since the transfer of its general obligations to the City of Chicago of $250.0 million in October 2013 to fund its $545 million capital plan. The

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[82] City Colleges of Chicago FY2015 Comprehensive Annual Financial Report, p. 20.

[83] During FY2012, the Board amended the unused and accrued sick time policy so that effective July, 1, 2012, non-union employees hired before January 1, 2012 may receive payment for the lesser of accumulated sick days through July 1, 2012 or accumulated sick days through the time of retirement. Non-union employees hired after January 1, 2012 are not eligible for sick leave payout. Sick leave payout for union employees hired before June 7, 2012 is capped at the amount accrued as of July 1, 2014 and has been eliminated for those hired after June 7, 2012. City Colleges of Chicago FY2015 Comprehensive Annual Financial Report, pp. 29-30.

[84] City Colleges' OPEB Plan includes health and life insurance for retired employees. City Colleges pays 90% of medical and life insurance premiums for retirees and dependents qualified for retirement under the State Universities Retirement System (SURS). City Colleges of Chicago FY2015 Comprehensive Annual Financial Report, p. 35.

largest projects in the capital plan are a new Malcolm X College campus and a Transportation, Distribution and Logistics Center at Olive-Harvey College. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

The largest increase between FY2011 and FY2015 for non-debt expenses was for other post-employment benefits, which rose by 58.8%, from $26.7 million to $42.4 million. The liability for sick leave benefits decreased by 54.0% or $10.4 million while accrued compensation absences liabilities increased by 13.6%, or $373,400.

City Colleges Long Term Liabilities: FY2011-FY2015
(in $ thousands)

Liability	FY2011	FY2012	FY2013	FY2014	FY2015	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Accrued Compensation Absences	$ 2,735.9	$ 2,656.4	$ 3,165.7	$ 3,019.0	$ 3,109.3	$ 90.3	3.0%	$ 373.4	13.6%
Accrued Property Tax Refunds	$ -	$ -	$ 10,737.1	$ 11,873.2	$ 14,939.7	$ 3,066.5	25.8%	$ 14,939.7	---
Sick Leave Benefits	$ 19,270.3	$ 17,504.6	$ 17,834.0	$ 11,457.0	$ 8,857.8	$(2,599.2)	-22.7%	$ (10,412.5)	-54.0%
Other Post-Employment Benefits	$ 26,712.2	$ 30,820.1	$ 35,459.8	$ 39,704.0	$ 42,414.1	$ 2,710.1	6.8%	$ 15,701.9	58.8%
Bonds Payable	$ -	$ -	$ -	$ 250,000.0	$ 250,000.0	$ -	---	$ 250,000.0	---
Bonds Premiums and Discounts	$ -	$ -	$ -	$ 7,407.0	$ 6,211.9	$(1,195.1)	---	$ 6,211.9	---
Total	**$ 48,718.4**	**$ 50,981.0**	**$ 67,196.6**	**$ 323,460.2**	**$ 325,532.8**	**$ 2,072.6**	**0.6%**	**$ 276,814.4**	**568.2%**

Note: Accrued property tax refunds were reclassified in 2013 and are now included in non-current liabilities.
Source: City Colleges of Chicago FY2011-FY2015 CAFRs, Note 9: Changes in Non-Current Liabilities, p. 30.

Debt Service Appropriations as a Percentage of Total Appropriations

The ratio of debt service expenditures as a percentage of total expenditures is frequently used by rating agencies to assess debt burden. The rating agencies consider a debt burden high if this ratio is between 15% and 20%.[85]

City Colleges debt service appropriations in the proposed budget for FY2016 were projected to be approximately $16.9 million, or 2.4% of the District's proposed $695.6 million in total appropriations. In FY2017, debt service appropriations were projected to be the same amount, or approximately $16.9 million. This amount will be 3.2% of the District's proposed $523.7 million in total appropriations.[86] The ratio increased because of the decrease in the District's total appropriation. This ratio remains well below the 15% threshold deemed by the rating agencies to be high.

City Colleges Bond Ratings

City Colleges had the following credit ratings as of June 2016:

City Colleges Bond Ratings	
Standard & Poor's	AA
Fitch Ratings	AA-

Source: City Colleges FY2017 Tentative Annual Operating Budget, p. 58.

[85] Standard & Poor's, *Public Finance Criteria 2007*, p. 64. See also Moody's, *General Obligation Bonds Issued by U.S. Local Governments*, October 2009, p. 18.
[86] City Colleges of Chicago FY2015 Comprehensive Annual Financial Report, p. 58.

PENSION

The majority of City Colleges' employees are enrolled in the State Universities Retirement System (SURS) of Illinois, a multi-employer defined benefit plan to which the State of Illinois makes the vast majority of employer contributions. Currently there are 5,598 active employees who are enrolled in the SURS retirement plan. All full-time faculty and staff contribute to SURS, except temporary workers who contribute to Social Security. There are also 442 active employees contributing to Social Security. These employees are temporary or irregular status workers, staff who work less than four months consecutively, students or re-hired retirees.[87]

SURS members contribute 8.0% of their annual covered salary to the pension fund. The State of Illinois makes nearly all of the employer contributions on behalf of City Colleges.[88] City Colleges makes the employer contribution for federally-funded grant positions out of those same grant funds.

The employer pension contribution made by the State of Illinois on behalf of City Colleges in FY2015 was reported in the City Colleges financial statements as $82.4 million and is based on contributions actually made by the State to SURS in FY2014.[89] City Colleges' employer contribution for federally-funded positions in FY2015 was $787,225.[90]

In FY2015 City Colleges was required to report additional pension information in the notes to its financial statements, as required under GASB 68. City Colleges' proportionate share of the State of Illinois' net pension liability for SURS was nearly $1.1 billion or 4.99% of the total net pension liability.[91] The net pension liability is the difference between the total pension liability and the plan's fiduciary net position. The concept is similar to the accrued liability less the market value of assets (not the smoothed actuarial value of assets). However the total pension liability is measured differently from the accrued liability because the accrued liability is based on the long-term expected rate of return on pension plan investments of 7.25%, while the total pension liability is measured based on a blended discount rate of 7.12%.[92] In any event, because of the special funding situation in which the State of Illinois pays nearly all of the pension contributions on behalf of City Colleges, the District does not need to recognize its proportionate share of the net pension liability in its Statement of Net Position.[93]

In May 2013 the Illinois House amended and approved a bill to gradually transfer the responsibility of funding the normal cost of community colleges and university employee pensions from the State of Illinois to their employers. Community colleges and universities

[87] Information provided by City Colleges Finance Office, June 22, 2016

[88] As a member of SURS, a cost-sharing, multiple-employer defined pension plan with a special funding situation, City Colleges is not required to include actuarial information about pensions in its financial statements. However, pursuant to GASB Statement 68, City Colleges reported in its FY2015 financial report a net pension liability, pension expense, and pension-related deferred inflows and outflows of resources based on its proportionate share of the collective amounts for all the governments that participate in SURS. City Colleges of Chicago FY2015 Comprehensive Annual Financial Report, pp. 31-33.

[89] City Colleges of Chicago FY2015 Comprehensive Annual Financial Report, p. 33.

[90] City Colleges of Chicago FY2015 Comprehensive Annual Financial Report, p. 43.

[91] City Colleges of Chicago FY2015 Comprehensive Annual Financial Report, p. 33.

[92] State Universities Retirement System FY2015 GASB 67 Financial Report, p. 4.

[93] City Colleges of Chicago FY2015 Comprehensive Annual Financial Report, p. 33.

would take over the annual normal pension cost at a rate of 0.5% of payroll per year starting in the State's FY2015 until costs are fully shifted.[94] The Senate did not agree to the House's amendments before the spring legislative session ended in May 2013, but some university and community college officials have expressed support for the proposal.[95] If a similar proposal were to go into effect, the District has estimated that its annual employer pension contribution will be approximately $1.0 million.[96] The District has also included a possible pension contribution increase in its long-range financial plan included in the FY2017 budget book.[97]

OTHER POST EMPLOYMENT BENEFITS (OPEB)

City Colleges began reporting information about other post-employment benefits (OPEB) in its FY2006 CAFR as required by GASB Statement 45. OPEB includes health and life insurance for retirees and their spouses. The District pays for approximately 90% of the medical and life insurance premiums for most retirees. The contribution percentages are negotiated between the District and retirees and can be amended by City Colleges through its personnel manual and union contracts.[98]

Between FY2013 and FY2015 the number of retirees and beneficiaries receiving benefits increased from 1,093 to 1,279. The number of active vested members increased between FY2013 and FY2015 from 1,899 to 2,274. City Colleges revised its membership data in the FY2015 CAFR to include all benefits and all persons covered by the insurance (retiree and dependents). The prior membership data counted medical coverage for retirees only. The FY2015 CAFR also provided two years of restated data from FY2013 and FY2014, which is presented in the following chart.[99]

City Colleges Other Post Employment Benefit Plan: Active Employees and Current Beneficiaries: FY2013-FY2015

Members	FY2013	FY2014	FY2015	Three-Year $ Change	Three-Year % Change
Active Employees (vested)	1,899	1,976	2,274	375	19.7%
Current Beneficiaries	1,093	1,386	1,279	186	17.0%
Total	**2,992**	**3,362**	**3,553**	**561**	**18.8%**

Source: City Colleges of Chicago FY2015 Comprehensive Annual Financial Report, p. 36.

City Colleges does not have an irrevocable trust fund for its OPEB plan; it is funded on a pay-as-you-go basis. However, it has been City Colleges' practice to annually invest an amount equal to the increase in the net OPEB obligation in an account designated for its OPEB obligation.[100] City Colleges had $32 million in investments designated for its OPEB obligation in FY2013, which

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[94] Senate Bill 1687 and House Amendment 2: http://ilga.gov/legislation/fulltext.asp?DocName=09800SB1687lv&SessionID=85&GA=98&DocTypeID=SB&DocNum=1687&print=true

[95] Hannah Douglas, "College officials support shifting pension costs to universities," *The Pantagraph*, May 16, 2013.

[96] City Colleges of Chicago FY2014 Tentative Annual Operating Budget, p. 6.

[97] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 362.

[98] City Colleges of Chicago FY2015 Comprehensive Annual Financial Report, p. 35.

[99] Information provided by City Colleges, June 22, 2016.

[100] Information provided by City Colleges finance office, June 30, 2011.

grew to $35 million in FY2014 and to $40 million in FY2015.[101] Historically, City Colleges has considered using the designated funds to establish an irrevocable OPEB trust.[102] In FY2017 City Colleges could be forced to use the $40 million in investments designated for its OPEB obligations to help balance its budget if it receives no further funding from the State of Illinois in FY2016.[103]

The FY2015 pay-as-you-go employer contribution of $9.3 million is budgeted as part of the District's employee health insurance costs.[104] The table below shows the difference between the actuarially-calculated annual OPEB cost of the employer and the actual payments made by City Colleges from FY2011 to FY2015.[105] The actuarial assumptions used in the calculation included a 4.5% discount rate and an annual health care cost trend rate of 7.5%, which is assumed to decline to a 4.0% rate by 2022.[106] City Colleges' net OPEB obligation has grown over the five-year period because its annual payments have equaled 60% to 77% of the annual actuarially calculated OPEB cost.

City Colleges Other Post Employment Benefits: Annual OPEB Cost and Net Obligation FY2011-FY2015					
	FY2011	FY2012	FY2013	FY2014	FY2015
Annual Actuarial OPEB Cost	$ 11,029,375	$ 11,593,396	$ 11,413,965	$ 11,072,215	$ 11,992,523
Employer Contributions	$ 6,625,444	$ 7,485,562	$ 6,774,237	$ 6,828,202	$ 9,282,215
Increase in Net OPEB Obligation	$ 4,403,931	$ 4,107,834	$ 4,639,728	$ 4,244,013	$ 2,710,308
% of Annual Actuarial OPEB Cost Contributed	60.1%	64.6%	59.4%	61.7%	77.4%
Net OPEB Obligation (End of Year)	**$ 26,712,237**	**$ 30,820,071**	**$ 35,459,799**	**$ 39,703,812**	**$ 42,414,120**

Source: City Colleges of Chicago FY2012 Comprehensive Annual Financial Report, p. 40; FY2015, p. 37.

The next exhibit shows the Unfunded Actuarial Accrued Liability (UAAL) of the City Colleges' OPEB plan. The actuarial value of assets is not shown because, as mentioned previously, the District does not pre-fund its OPEB obligation through an irrevocable trust. The UAAL was $120.9 million in FY2015, up from $112.5 million in FY2013. In the past five years, the UAAL

[101] City Colleges of Chicago FY2014 Comprehensive Annual Financial Report, p, 31 and FY2015, p. 37.
[102] Information provided by City Colleges of Chicago Finance Department, July 6, 2015.
[103] City Colleges of Chicago, "Review of the Preliminary FY2017 Budget," June 1, 2016.
[104] Information provided by City Colleges finance office, August 3, 2010.
[105] The Annual OPEB Cost is a specific accounting term that is calculated and disclosed according to Governmental Accounting Standards Board Statement 45. It is not a funding requirement.
[106] City Colleges of Chicago FY2015 Comprehensive Annual Financial Report, p. 36.

as a percent of covered payroll has declined, falling from a high of 125.0% in FY2011 to a five-year low of 82.7% in FY2015.

Unfunded Actuarial Accrued Liability of the City Colleges OPEB Plan: FY2011-FY2015					
	FY2011	**FY2012**	**FY2013**	**FY2014**	**FY2015**
Unfunded Actuarial Accrued Liability (UAAL)	$ 124,498,937	$ 119,275,116	$ 112,458,352	$ 115,158,411	$ 120,853,689
Covered Payroll (active plan members)	$ 99,595,638	$ 110,092,137	$ 107,485,980	$ 128,106,608	$ 146,164,608
UAAL as a % of Covered Payroll	125.0%	108.3%	104.6%	89.9%	82.7%

Note: The actuarial value of assets and liabilities are not shown here because there are no designated assets; thus the actuarial accrued liability is the same as the unfunded actuarial accrued liability and the funded ratio is 0%.
Source: City Colleges of Chicago Comprehensive Annual Financial Reports, FY2012, p. 41 and FY2015, p. 38.

APPENDIX

Fall 2016* Credit Hour Fees Breakdown for Selected Community College Districts	
College	**Fees included**
College of DuPage (Glen Ellyn)	$32.85/hr comprehensive fee
South Suburban College (South Holland)	$7.75 student development fee/hr and $10.00 instructional technology fee/hr
Harper College (Palatine)	Activity fee $42 (full-time) and $21 (part-time) per semester, registration $15 per semester, technology fee $7/hr, construction and renovation $9/hr
Prairie State College (Chicago Heights)	General $25.50 fee/hr (includes athletic fee $4, educational fund fee $2, extracurricular fee $0.25, student activity fee $0.25, technology fee $10.00/hr, infrastructure fee $9/hr)
Moraine Valley Community College (Palos Hills)	Activities fee $2/hr, technology fee $10/hr, construction fee $8/hr, student ID fee $3/semester
Triton College (River Grove)	Student service fee $7/hr, auxilary fee $1/hr, technology fee $6/hr, registration $2/hr
College of Lake County (Grayslake)	$23/hr comprehensive fee
Oakton Community College (Des Plaines)	Audit $10/hr, constuction $2/hr, student activities $3/hr, registration $15/semester
Elgin Community College (Elgin)	Enrollment fee $6/semester
City Colleges of Chicago	No additional fees; fees are included in flat rate semester-based tuition
Morton College (Cicero)	Registration $10/semester, comphehensive $9/hr, technology $9/hr, repair/renovation $15/hr

*Credit hour tuition and required fees for College of DuPage reflect Spring 2015 rates. Oakton Community College and Harper College tuition and fees are effective Summer 2015.