



**CHICAGO PUBLIC SCHOOLS  
FY2005 RECOMMENDED BUDGET  
Analysis and Recommendations**

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## EXECUTIVE SUMMARY

The Chicago Public Schools (CPS) proposes a \$5.05 billion operating budget for FY2005. The CPS faced a \$250 million deficit, which will be addressed through \$105 million in spending reductions and \$145 million in revenue enhancements. The budget includes a \$50.3 million increase in the property tax levy.

The Civic Federation is pleased with some areas of the proposed budget, but we also identify several areas of concern and oppose the \$50 million maximum allowable increase in the property tax levy.

The Civic Federation offers the following **key findings** on the Chicago Public Schools FY2005 Recommended Budget:

- FY2005 budgeted appropriations will increase by 4.7% from FY2004, rising from \$4.81 billion to \$5.05 billion.
- Appropriations for employee compensation, including salaries and benefits, will increase by 6.6% in FY2005, from \$2.8 billion to \$2.9 billion. Compensation for employees accounts for 59% of the total proposed budget.
- The budget deficit of \$250 million was closed by eliminating 1,637 positions (\$80 million in savings), realigning expenditures to fund programs with federal grants rather than local resources (\$20 million in savings), unspecified additional spending cuts (\$5 million), increased funding from the State of Illinois (\$105 million) and \$40 million of new property tax dollars.
- The State of Illinois will provide \$105 million in new funding for the CPS this fiscal year. This includes \$68.9 million in increased General State Aid, which will increase per pupil spending by \$154 for a total of \$4,964 per pupil, and \$36.1 million in new funding for categorical programs.
- The property tax levy will increase by \$50.3 million or 3.2%, from \$1.58 billion to \$1.63 billion. \$40 million, or 2.4%, of the increase will be levied on properties covered by the tax cap law. \$10 million will be raised from new property not covered by tax caps.
- The number of personnel positions will decrease by 1,673 from 48,816 to 47,179. In the FY2005 budget, a total of 1,457 school-based positions and 180 administrative positions were eliminated.

The Civic Federation **is pleased with** several elements of the Chicago Public Schools FY2005 budget:

- The CPS has reduced its non-teaching workforce by over 1,600 positions for a savings of \$80 million in FY2005.
- The new teachers' union contract negotiated by the CPS provided for increased minimum contributions for health insurance and moved employees into more cost effective insurance plans enabling the CPS to hold health insurance increases to 1.2% in FY2005. At a time when Midwest HMO rate increases are expected to increase 13.1% next year, this is an important achievement.
- The CPS is working to produce its first ever 3-year Capital Improvement Plan, to be released this fall. A multi-year CIP is an essential tool in better managing capital resources and increasing the efficiency of capital project planning.
- Three new charter schools will be opened in 2005 and the number of charter school students is expected to increase by 16.8%, from 8,640 to 10,089. The continued development of charter schools within the CPS is a very positive development.

The Civic Federation has **several serious concerns** about the FY2005 Chicago Public Schools budget:

- The CPS will receive \$105 million in new State funding and \$50 million in new federal funding, yet is still proposes to raise property taxes by \$50.3 million in FY2005.
- The CPS has raised property taxes to the maximum amount permitted by the tax cap law in 8 of the past 10 years

- The CPS has not conducted a management review of programs to eliminate funding for low-performing or inefficient programs or find ways to increase the efficiency of their operation.
- Spending reductions of just 0.4% in the \$5 billion budget would have reduced the size of the tax-capped portion of the property tax levy increase to \$20 million.
- The size of the property tax increase and its real impact on taxpayers has been incorrectly minimized in public statements of the CPS. The total levy increase sought by the CPS is \$50.3 million, not \$40 million. The impact on the median single family detached home in the City of Chicago will be approximately \$46 on a median home value of \$237,442. This is much more than the CPS estimate of \$14.53 on an “average” home value of \$100,000.
- Little information is provided in the budget about cost saving management efficiencies. While several efficiencies are listed in the Budget Book and in press statements, no detail is provided about the actual savings these efficiencies generate.
- Insufficient time is allowed for public review and comment. Only one week was permitted between release of the budget and the beginning of public testimony.
- The CPS Budget Book lacks transparency, making it very difficult to make an informed evaluation of proposed changes. In particular, it is impossible to find comparable information over time regarding CPS personnel and there is little information and no cost savings data regarding management efficiencies listed in the Budget Book.

The Civic Federation offers the following **recommendations** to improve the Chicago Public Schools’ financial management:

- The CPS should conduct focused management audits of all programs and begin to eliminate inefficient or non-essential expenditures. This will permit the CPS to judiciously reduce spending on non-productive programs and limit the size of future property tax increases.
- The CPS Budget Book format must be made more transparent. It should include information detailing the sources of the current deficit and gap-closing plan and 5 years of comparable summary information about appropriations, expenditures, revenues and personnel.
- The public should be given a minimum of 10 working days to review the budget prior to the start of public hearings.
- The CPS should follow up on the success of its effort to purchase prescription drugs with other local governments and pursue the joint purchasing of health insurance.

## OVERVIEW

The Civic Federation recently concluded an analysis of financial issues related to the Chicago Public Schools' (CPS) Recommended FY2005 \$5.05 billion budget. Based upon our review of the budget, we offer the following comments. The full text of our analysis follows this summary and is also available on our web site at [www.civicfed.org](http://www.civicfed.org).

We would like to express our appreciation to Office of Management and Budget Director Pedro Martinez and Chief Administrative Officer David Vitale and their staffs for their hard work in preparing this budget and their willingness to provide the Civic Federation with a briefing as well as answers to several of our budget questions.

### Issues that The Civic Federation Supports

The CPS has made some very positive strides in its FY2005 budget. Based on our analysis, we are encouraged by certain policies undertaken in this budget, including personnel reductions and a successful employee health insurance cost containment effort.

#### *Significant Reduction in Headcount*

We **commend** the CPS for realigning its priorities and **reducing headcount** by 1,637 for an estimated savings of \$80 million this year. The headcount reduction includes the elimination of 180 administrative positions and 1,457 non-teaching positions based in the individual schools. This reduction mirrors actions taken by the State of Illinois, the City of Chicago and other governments in recent years and is an important step toward reining in costs at the CPS and focusing financial resources on personnel who provide direct services to the classroom, such as teachers and educational support service staff.

The Federation believes that the CPS has achieved a significant success in **containing health insurance costs** in the FY2005 budget. Even with a generous teachers' contract that provides for average salary increases of 5% for each of four years, the CPS won important concessions that increased minimum contributions for health insurance and moved employees into five new, more cost effective insurance plans. These measures enabled the CPS to essentially hold health insurance costs flat in the upcoming fiscal year. In FY2004, health insurance costs were \$253 million. In FY2005, these costs will be \$256 million, a relatively small 1.2% increase of \$2.9 million. This low rate of increase contrasts sharply with the projected increase in 2005 of 8% for private health insurance nationwide according to the Center for Medicare and Medicaid Services,<sup>1</sup> and 13% for Health Maintenance Organization rates in the Midwest states as reported by Hewitt Associates.<sup>2</sup>

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<sup>1</sup> Center for Medicare and Medicaid Services (CMS), U.S. Department of Health and Human Services, Office of the Actuary, National Health Statistics Group: [www.cms.hhs.gov/statistics/nhe/projections-2002/t3.asp](http://www.cms.hhs.gov/statistics/nhe/projections-2002/t3.asp).

<sup>2</sup> Hewitt Associates LLC 2004. Regional data can be found at [http://was4.hewitt.com/hewitt/resource/newsroom/pressrel/2004/06-03-04\\_charts.pdf](http://was4.hewitt.com/hewitt/resource/newsroom/pressrel/2004/06-03-04_charts.pdf)

### *Forthcoming Changes in Teacher Tenure Rules*

The teachers' union contract also provides for **changes in tenure rules** that could have a significant impact on productivity in the long-term. Principals will be able to dismiss teachers during their first four years of teaching because teacher tenure will begin only in the fifth year.<sup>3</sup> The CPS is to be commended for successfully negotiating this important concession that will greatly help ensure the presence of better prepared and qualified teachers in the classroom.

### *Development of a 3-Year Capital Improvement Plan*

This year will be the first in which the CPS will produce a **3-year Capital Improvement Plan (CIP)**. The Civic Federation applauds this announced effort. The CPS first developed a one-year Capital Improvement Plan in 1996.<sup>4</sup> While that effort was a step in the right direction, a multi-year plan is essential for the CPS to be able to effectively prioritize projects and clearly identify funding needs and sources. Given the size of its capital budget, which will exceed \$659 million in FY2005, it is imperative that the CPS move toward better planning for its infrastructure needs. We urge the CPS in future years to consider a 5-year CIP that is fully integrated into an overall formal financial plan.<sup>5</sup>

### *Expansion of Charter Schools*

The FY2005 Budget Book reports that \$58 million will be budgeted for charter schools. The number of students expected to be enrolled in charter schools is projected to increase from 8,640 last year to over 10,000 in 2005. The Civic Federation is very pleased that up to 1/3<sup>rd</sup> of the 100 new schools to be opened by 2010 by the CPS will be charter schools.<sup>6</sup> We have long supported charter schools as an important laboratory for both educational curriculum advancements and management efficiencies and are encouraged that the CPS will continue in future years to expand charter school opportunities for Chicago's schoolchildren.

### **Issues of Concern to The Civic Federation**

While there are many positive elements in the FY2005 Chicago Public Schools budget, The Civic Federation does have serious **concerns** about certain elements of the budget proposal, process and document. We are particularly concerned about the size of the property tax increase this year, the lack of transparency in the budget's format and content and the shortage of adequate public comment time for what is a very complex budget.

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<sup>3</sup> Information provided in Briefing on Chicago Public Schools FY2005 Budget by CPS Office of Management and Budget, August 12, 2004.

<sup>4</sup> Chicago Public Schools. *1996-2000 Capital Improvement Plan*. Adopted January 24, 1996. See p. 3 of the CIP.

<sup>5</sup> The National Advisory Council on State and Local Budgeting (NACSLB) recommends that all governments develop a 5-year Capital Improvement Plan. See NACSLB. *Recommended Budget Practices*, (Chicago: Government Finance Officers Association, 1998), Recommended Budget Practice 9.6.

<sup>6</sup> Chicago Tribune, "100 New Schools to be Created; Charter, Small Sites Envisioned," June 23, 2004.

### *CPS Once Again Increases Property Tax Levy to the Maximum Amount Allowed*

The FY2005 budget includes \$105 million in new state funds and \$50 million in new federal funds. Last year, the CPS received over \$70 million in new state funds and \$90 million in new federal funds. Yet, even with these significant new infusions of funds, the CPS has seen fit to **increase property taxes in both years to the maximum amount permitted by the tax cap law.**<sup>7</sup> In fact, the CPS has increased property taxes to the maximum amount for eight of the last ten years. It appears that maximum property tax increases have become the rule rather than the exception for the CPS.

From 1995 through 2004, CPS levies have increased by a total of 31.2% compared to:

- 19.5% for the Metropolitan Water Reclamation District (MWRD);
- 10.8% for the Chicago Park District;
- 9.7% for the City of Chicago; and
- 6.6% for Cook County.

The City of Chicago held its \$713.5 million levy constant in 2003 while Cook County froze its \$720 million levy in 2001, 2002 and 2003. All of these governments face significant pressures to deliver essential services in an era of limited revenue growth. Yet they have successfully focused their efforts at improving efficiency through personnel reductions, privatization and purchasing reform and other reforms to cut costs and thereby limit property tax increases. Similarly, in its last two budgets, the State of Illinois has reduced headcount and consolidated agencies and activities to reduce its deficits while avoiding broad-based tax increases.

Given that the CPS's share of the typical Chicago property tax bill is 49%, an increase by the CPS has a more significant impact on taxpayers than an increase by any other unit of local government.<sup>8</sup>

The Civic Federation believes that CPS must follow the lead of Governor Blagojevich, Mayor Daley and other local leaders and work harder to hold the line on tax increases by redoubling efforts to reduce costs. The elimination of over 1,600 positions was a good step toward doing just that. But, we believe that the CPS must take the next step and conduct a thorough managerial review of the myriad programs it offers and reduce or eliminate non-essential or low-performing programs.

**For all of these reasons, The Civic Federation opposes the proposed \$50 million property tax increase and we urge the CPS to look further into its \$5 billion operating budget for increased cost savings.** Closing a \$40 million budget gap without using increased property tax revenue would require a 0.8% cut in non-essential spending appropriations in the CPS's \$5.05 billion proposed budget. Cutting \$20 million in non-essential program funding would require an

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<sup>7</sup> The Property Tax Extension Limitation Law, commonly called "PTELL" or "tax caps", limits a taxing body's annual property tax extension increase to 5% or the rate of inflation, whichever is less (35 ILCS 200/18-185 through 35 ILCS 200/18-245). However, the value of new properties is exempted from the tax cap calculation, thus allowing for a greater total extension. For details see <http://www.revenue.state.il.us/LocalGovernment/PropertyTax/ptell.htm>.

<sup>8</sup> In 2002, the last tax year for which data are available, the CPS property tax extension was 49% of the total property taxes extended within the City of Chicago.

appropriation reduction of just 0.4%. Given that the CPS is proposing millions of dollars in new programs and increasing funding for many existing programs, it must seek to make less effective programs more efficient or eliminate them entirely.

#### *CPS Should Not Minimize the Impact of its Property Tax Increase*

The total amount of the property tax increase in FY2005 is \$50.3 million, not \$40 million, with the levy rising from \$1.583 billion to \$1.633 billion. The \$40 million figure is only for tax-capped properties. The levy on those properties can only increase by 2.4%. The remaining \$10 million is levied on new property that is exempt from the tax cap calculation. Therefore, the total levy will increase by 3.2%. Describing the proposed FY2005 property tax increase as \$40 million is misleading and jeopardizes the public's confidence in the CPS.

In addition, the actual size of the property tax increase for the vast majority of homeowners is much larger than the \$14.53 that the CPS purports in its public statements. That figure is based on a home value of \$100,000 and a rate increase of 2.4%. In fact, according to the Chicago Association of Realtors, the current median home value in the City is \$237,442. And the rate of the property tax increase will be 3.2%, based on the full \$50 million levy increase. Therefore, a more accurate rate of the tax increase per average home citywide will be approximately \$46 for a single family detached home, \$25 for a condominium and \$44 for a multifamily property.

#### *Budget Built on Unrealistic Expectations of \$250 State Foundation Level Increase*

The CPS cites the failure of the State government to increase per pupil foundation level support by \$250, from \$4,810 to \$5,060, as well as funding mandated categorical programs at 97% rather than 100% as key factors in increasing the size of the FY2005 budget deficit. But increased funding expectations should not be the basis for building a budget. It is always prudent in building a new budget to make conservative assumptions. This year, conservative budgeting should have been the order of the day given the State's negative financial situation, which was compounded by a \$2.3 billion budget deficit. The CPS did receive \$105 million in new state funding. This funding boosted the foundation level per student to \$4,964 and provided for 97% funding of mandated categorical programs. The emphasis in developing this budget should have been living within the CPS's means, which would include an evaluation of where additional savings could be achieved, not counting on maximum state funding.

#### *Lack of Time for Public Review and Commentary*

The CPS is proposing a \$5.05 billion budget that has a direct impact on thousands of Chicago families and the City's future economic well being. This budget is the largest local government budget in the entire State of Illinois and the CPS ranks as one of the largest employers in the region. Yet, only four working days were allowed this year before public testimony began. The short time frame is compounded by the lack of detailed and historic information in the Budget Book and often misleading pronouncements by the CPS staff. We understand that the CPS faces time pressures this year due to the late adoption of the Illinois State Budget. However, four working days are insufficient for taxpayers, parents, educators or citizens to review and comprehend a 963-page document.



### *Lack of Transparency in the Budget Document*

The CPS Budget Book is not transparent. It is difficult to find summary or comparable data and thus conduct an informed evaluation of changes in the CPS budget. Two areas we find particularly troubling are the lack of consistent information about personnel and management efficiencies.

Understanding changes in staffing levels in the CPS budget is impossible because inconsistent personnel data have been presented in past years. This issue is important for three reasons:

- Personnel costs for compensation and benefits consume \$2.9 billion or 59% of the entire CPS budget
- A significant reduction in personnel headcount is an important component of the CPS's gap closing measures this fiscal year
- There has been a lack of good information in the past regarding which employees can properly be classified as administrators versus those who provide direct service in the classroom

Being able to understand how many employees work for the CPS, what they do and which positions have been changed over time is critical to comprehending and evaluating the \$5 billion CPS budget. Virtually every other local government is able to provide comparable and relevant personnel data. The CPS must improve its budget presentation and level of personnel detail in order to maintain the public's confidence that tax dollars are being well spent.

The FY2005 Budget Book reports on page 13 that the total number of CPS employees is 47,179 and that the number of CPS employees in FY2004 was 48,816. In FY2004, the Budget Book reported that the number of employees was 47,319. Why the discrepancy? According to CPS staff, the FY2004 book omitted a count of part-time and grant-funded positions. Therefore, 1,497 employees were not counted in the previous year. We are pleased that the CPS is now presenting accurate headcount figures. However, the inability to present accurate information in the past is troubling and future CPS Budget Books should provide summary tables that apply the new method of counting employees to both current and past levels of employment. Otherwise, changes in personnel reporting categories have the effect of making comparisons with previous years impossible. Prior to the FY2005 budget, there were three categories of personnel: Areas/CityWide, Schools and Central Offices. In the FY2005 budget, two categories are used: Schools & School-Based Programs and Administrative. These categories may more accurately reflect the actual division of labor at the CPS, but the lack of comparable historic data this year is frustrating to anyone attempting to evaluate personnel trends and costs at the CPS.

A second issue regarding the lack of transparency in the budget document is the lack of information about management efficiencies. Increasing efficiency and reducing costs through the implementation of management reforms is an important way for governments to more effectively deliver services and boost the public's confidence that tax dollars are being wisely spent. The Chicago Public Schools purports to have enacted some management reforms. However, the budget does not identify any specific dollar savings nor project measurable goals for future efficiencies. The FY2005 budget lists a number of efficiencies and cost reductions on pages 11-12:

- Continued tuition cost savings will be achieved related to nonpublic schools within Specialized Services Areas
- Janitorial procurement savings will be achieved
- Bucket position expenditure management controls will be automated to better control spending in accounts
- Grants funds will be used in probation schools more effectively
- Enrollment projections will be used to determine optimum number of teachers in each school to ensure more equitable distribution of CPS staff

However, little information and no dollar savings amounts are provided about these efficiencies. The same was true in FY2004.<sup>9</sup> Similarly, there is little detail on the \$155 million in savings CPS claims to have generated through improved management over the past two years, as reported in the *Chicago Tribune* on August 11, 2004.

It is difficult for the public to have confidence that the CPS is doing what it can and should to increase efficiency and cut costs if little or no information is provided in its budget documents to verify these claims.

### **Civic Federation Recommendations**

The Civic Federation offers several **recommendations** regarding ways to improve the CPS's financial management and fulfill the CPS's financial obligations.

#### Limit the Size of the Property Tax Increase by Prioritizing Programs and Cutting Spending

The CPS has taken an important first step in containing costs this year by reducing headcount. However, The Civic Federation is not convinced that all necessary efficiencies have been wrung out of the CPS's budget. As we note above, the CPS consistently fails to provide verification even of those management efficiency measures it claims to implement each year in its Budget Book or public pronouncements.

The CPS's operating budget is projected to increase by 4.7% in FY2005, from \$4.81 billion to \$5.05 billion. Finding an additional \$40 million to replace the capped portion of the property tax levy increase proposed this year would require additional spending cuts of 0.8% in budget. *Spending reductions of just 0.4% could have reduced the tax capped levy increase to \$20 million and given hard-pressed Chicago homeowners and businesses a welcome break from the annual ritual of maximum levy increases.*

The CPS must review which operations are core activities and which are not in order to prioritize its spending. Further expenditure cuts are vastly preferable to reflexively increasing property taxes on individuals or businesses, a lesson taken to heart by virtually every other local government. To that point, it is imperative that the CPS conduct focused management audits of all programs and begin to eliminate inefficient or non-essential expenditures. We are strongly supportive of programs and initiatives that improve students' chances for succeeding and

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<sup>9</sup> Chicago Public Schools FY2004 Budget, pp. 11-12.

graduating. But, we find it hard to believe that all CPS programs are essential or add value to this goal.

In sum, the Civic Federation believes that the CPS, like all other governments in Illinois, must prioritize its programs, improve the efficiency of its operations and move to reduce spending ***before*** resorting to maximum property tax increases.

### Improve Budget Format

The Chicago Public Schools Budget Book contains considerable detail and information. Unfortunately, the document is neither user-friendly nor does it provide citizens with good comparative information they can use to better understand and analyze the CPS's current finances.

We recommend that the budget format be revised to include the following information:

- A “walk-up” that describes the sources of the current fiscal year budget deficit in the introductory pages of the budget.
- A “walk down” that clearly identifies the steps taken to eliminate the budget deficit, including identification of the location of personnel reductions.
- Narrative detail and cost information regarding the management efficiencies listed in the introductory section of the budget
- Information about which of the management efficiencies listed in the previous fiscal year budget were implemented and what savings each generated.
- Narrative descriptions of the schools and school-based units similar to those provided for the various administrative units in Section XI of the budget document, “CPS Program Summaries by Unit.”
- Five years of summary financial information, including:
  - Appropriations and Expenditures for each Administrative and School-Based Unit and
  - Appropriations and Expenditures by Object Classification and Fund
- Five years of comparable personnel information that shows Positions by Fund and for each Administrative and School-Based Unit.

The Cook County budget, which has won the Government Finance Officer's Association Distinguished Budget Presentation Award for several years, is a good example of a user-friendly budget document that provides citizens with useful summary information at the beginning of the budget document. The information includes:

- An organizational chart
- A description of budget procedures and structure
- A budget calendar
- A brief departmental directory describing functions of each agency
- A glossary of terms
- Five years of summary information:
  - Appropriations and Expenditures by Fund and Program
  - Appropriations and Expenditures by Control Officer

- Appropriations and Expenditures by Object Classification and Fund
- Positions by Fund and by Control Officer

In reviewing the narrative and financial information contained in the beginning pages of the Cook County budget, it is easy to quickly gain a good understanding of the County's structure, operations and how its financial position has changed over a 5-year period. Many other large governments around the country produce similar documents, including a user-friendly Executive Summary at the beginning of the budget document or under separate cover.

The Civic Federation recommends that the Chicago Public Schools revise its budget format like other best practice governments around the U.S. to provide citizens with financial trend information and descriptions of organization and function in a brief summary section in the current Budget Recommendation volume or in a more detailed Executive Summary under separate cover.

#### Increase Time Allowed for Public Review and Comment

More time should be allowed for the public to review and understand the Chicago Public Schools' multi-billion dollar budget. At a minimum, ten working days should be allowed for the public review period before public testimony is heard. Only in this way, can citizens make fully informed commentary on the largest local government budget.

#### Pursue Joint Purchasing of Employee Health Insurance with Other Local Governments

The Chicago Public Schools has taken two important strides this year to contain health care costs: negotiating a more cost-effective union contract that holds health insurance expenditures essentially constant in 2005 and successfully entering into an agreement with six other local governments for the joint purchase of prescription drugs. Both of these laudable efforts will save the CPS millions of dollars over time. At this time, we urge the CPS to take the next step and explore the possibility of consolidated health insurance purchasing with the City of Chicago, Cook County, Chicago Park District, Chicago Transit Authority, the City Colleges of Chicago, the Chicago Public Schools and the Chicago Housing Authority. A recent Civic Federation study found that forming such an agreement consisting of the employees of these governments could yield projected savings of \$40.1 million for all the governments in the first year or \$222 million over a 5-year period.<sup>10</sup> The additional savings that can be achieved from an insurance pool would be extremely beneficial to the CPS's future financial situation.

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<sup>10</sup> The Civic Federation. *Feasibility Study of Consolidated Purchasing: Chicago Public Employers*. A Study Conducted by the Segal Company. February 23, 2001.

## FY2005 BUDGET HIGHLIGHTS

Chicago Public Schools Chief Executive Officer Arne Duncan has proposed a FY2005 budget of \$5.05 billion. The CPS's deficit, which was projected at \$250 million earlier this year, was eliminated through a combination of expenditure reductions, increased state funding and a property tax increase.

### Appropriations: 4.7% Increase to \$5.0 Billion

The proposed FY2005 budget for the CPS will increase by 4.7% from FY2004, rising from \$4.8 billion to over \$5.0 billion. Appropriations for the General Operating Funds<sup>11</sup> are estimated to increase by 5.4% or a total of \$207.3 million.

<b>CHICAGO PUBLIC SCHOOLS APPROPRIATIONS: ALL FUNDS</b>				
<b>FY2004 &amp; FY2005 (In Millions of Dollars)</b>				
<b>Fund Type</b>	<b>FY2004 Adopted</b>	<b>FY2005 Proposed</b>	<b>\$ CHG</b>	<b>% CHG</b>
General Operating Funds	\$ 3,840.7	\$ 4,048.0	\$ 207.3	5.4%
Capital Projects Fund	\$ 687.0	\$ 659.6	\$ (27.4)	-4.0%
Debt Service Fund	\$ 290.1	\$ 338.0	\$ 47.9	16.5%
<b>Total Appropriation</b>	<b>\$ 4,817.8</b>	<b>\$ 5,045.6</b>	<b>\$ 227.8</b>	<b>4.7%</b>

### Resources: \$209 Million, 4.3% Increase

Total resources available to the Chicago Public Schools will increase by \$209 million in FY2005. These resources include local revenues, state and federal intergovernmental aid, appropriated fund balance carried over from the previous fiscal year and certain non-revenue sources such as bond proceeds. Local revenues will rise by 2.9%, primarily due to a \$50.3 million increase in the property tax levy. State funds to the CPS will increase by 9.5%; this increase includes \$105 million in new funding for increases in General State aid and categorical programs. Finally, federal funding will increase by \$51.5 million in FY2005. Federal intergovernmental aid is provided primarily from Title I and special education grants and includes re-appropriations for amounts not spent in the previous fiscal year.<sup>12</sup>

<b>CHICAGO PUBLIC SCHOOLS RESOURCES: ALL FUNDS</b>				
<b>FY2004 and FY2005 (In Millions of Dollars)</b>				
<b>REVENUES</b>	<b>FY2004 Budgeted</b>	<b>FY2005 Proposed</b>	<b>\$ CHG</b>	<b>% CHG</b>
Local	\$ 1,918.9	\$ 1,974.0	\$ 55.1	2.9%
State	\$ 1,495.0	\$ 1,637.5	\$ 142.5	9.5%
Federal	\$ 780.7	\$ 832.2	\$ 51.5	6.6%
<b>Subtotal</b>	<b>\$ 4,194.6</b>	<b>\$ 4,443.7</b>	<b>\$ 249.1</b>	<b>5.9%</b>
Appropriated Fund Balance	\$ 414.3	\$ 374.3	\$ (40.0)	-9.7%
Non-Revenue Sources	\$ 229.0	\$ 229.0	\$ -	0.0%
<b>Total Resources</b>	<b>\$ 4,837.9</b>	<b>\$ 5,047.0</b>	<b>\$ 209.1</b>	<b>4.3%</b>

Source: Chicago Public Schools Budgets FY2004 and FY2005, p. 4

<sup>11</sup> General Fund and Special Revenue Fund. These funds account for the general operations of the CPS.

<sup>12</sup> Chicago Public Schools FY2005 Budget, p. 45.

## Deficit Drivers

In March 2004, the CPS announced that it faced a projected shortfall for FY2005 of \$250 million. Approximately \$200 million of the deficit was due to the cost of the new teachers' union contract approved in November 2003. That contract provided for teacher salary increases averaging 5% a year over 4 years.<sup>13</sup> The remaining \$50 million was needed to replenish the CPS fund balance, which has been drawn down in recent years to help balance previous budgets.<sup>14</sup>

## Gap-Closing Measures to Eliminate the \$250 Million Deficit

The CPS has proposed closing its \$250 million deficit with \$105 million in expenditure reductions and \$145 million in revenue enhancements.

Prior to the release of the budget, the CPS moved to reduce the size of the projected deficit by \$100 million. Approximately \$80 million in savings were generated through the elimination of 1,637 positions. An additional \$20 million in savings was achieved by realigning expenditures to fund programs with federal funds rather than local resources.

With the release of the FY2005 budget, the CPS announced that an additional \$5 million in unspecified administrative cuts would be made over the course of the fiscal year.

Two revenue sources eliminated the remaining \$145 million of the deficit. The FY2005 Illinois State budget boosted state aid to the CPS by \$105 million. \$40 million will be obtained from a 2.4% property tax increase, the maximum allowed under the Property Tax Extension Limitation Law.<sup>15</sup>

<b>GAP-CLOSING MEASURES IN FY2005 CHICAGO PUBLIC SCHOOLS BUDGET (In Millions of Dollars)</b>	
	<b>AMOUNT</b>
<b>Projected Deficit (3/31/04)</b>	<b>\$ 250.0</b>
<b>Deficit Reduction Steps</b>	
CPS Cost Cutting Measures	\$ 100.0
Additional Administrative Cuts	\$ 5.0
<b>Subtotal Expenditure Reductions</b>	<b>\$ 105.0</b>
Increased State Funding	\$ 105.0
Property Tax Increase	\$ 40.0
<b>Subtotal Revenue Enhancements</b>	<b>\$ 145.0</b>
<b>Total Expenditure Reductions &amp; Revenue Enhancements</b>	<b>\$ 250.0</b>

<sup>13</sup> The 5% figure is an average increase. The new contract provided for a 4% increase plus the cost of step and range increases. 5% increases will be provided in each of the 4 years of the contract.

<sup>14</sup> This information was provided in a budget briefing to the Civic Federation by the Chicago Public Schools Office of Management and Budget, August 12, 2004.

<sup>15</sup> The Property Tax Extension Limitation Law, commonly called "PTELL" or "tax caps", limits a taxing body's annual property tax extension increase to 5% or the rate of inflation, whichever is less (35 ILCS 200/18-185 through 35 ILCS 200/18-245). However, the value of new properties is exempted from the tax cap calculation, thus allowing for a greater total extension. For details see <http://www.revenue.state.il.us/LocalGovernment/PropertyTax/ptell.htm>.

## RESOURCES: REVENUES, BOND ISSUE PROCEEDS AND FUND BALANCE

In FY2005, the Chicago Public Schools proposes budgeting \$5.05 billion in total resources. The resources include:

- \$4.4 billion in current revenues;
- \$229 million of proceeds from new bond issues; and
- \$374 million in prior-year fund balance carried over to FY2005

General Fund resources will increase by 4.5%, from \$2.4 billion to \$2.5 billion. No funds from the prior-year fund balance will be used in FY2005. The \$98 million increase in Special Revenue Fund resources is due to:

- A \$37.5 million increase in federal Title I funding from the No Child Left Behind Act;
- \$14.8 million in special education funding under the federal Individuals with Disabilities Education Act; and
- \$24 million additional dollars earmarked for the Public Building Commission's Operations and Maintenance Fund.

Debt Service Fund resources will increase by \$29.3 million because of the \$220 million in new bonds to be issued in FY2005 as well as the final payment of Public Building Commission Lease 1999C.

Capital Project Fund resources will decrease slightly, from \$687 million to \$659 million. These resources are from new bond proceeds and other revenues in addition to \$203.6 million in fund balance carried over from previous years.

<b>Chicago Public Schools FY2005 Appropriated Resources by Fund Type (In Millions of Dollars)</b>				
	<b>FY2004 Adopted</b>	<b>FY2005 Proposed</b>	<b>\$ CHG</b>	<b>% CHG</b>
General Operating Funds				
General Fund	\$ 2,439.8	\$ 2,548.9	\$ 109.10	4.5%
Special Revenue	\$ 1,400.9	\$ 1,499.0	\$ 98.10	7.0%
<b>Subtotal General Operating Fund</b>	<b>\$ 3,840.7</b>	<b>\$ 4,047.9</b>	<b>\$ 207.2</b>	<b>5.4%</b>
Capital Projects Fund	\$ 687.0	\$ 659.6	\$ (27.40)	-4.0%
Debt Service Fund	\$ 310.3	\$ 339.6	\$ 29.30	9.4%
<b>Total Resources</b>	<b>\$ 4,838.00</b>	<b>\$ 5,047.10</b>	<b>\$ 209.10</b>	<b>4.3%</b>

Source: Chicago Public Schools FY2005 Budget, p. 43.

### All Fund Revenues: 10.8%, \$432.5 Million Increase in FY2005

The FY2005 budget projects a 10.8% increase in revenues for all funds from the previous fiscal year. This represents a \$432.5 million increase.

- Local, or “own source” revenues are expected to increase by 5%, from \$1.8 billion to \$1.9 billion
- Revenues provided by the State of Illinois are projected to rise by \$194.6 million, a 13.5% increase.
- Federal funds are anticipated to increase by nearly 21%. This represents a \$143.4 million rise.

<b>CPS REVENUES: ALL FUNDS MAJOR CATEGORIES FY2004-FY2005</b>				
<b>Local Revenue</b>	<b>FY2004 Est</b>	<b>FY2005 Proj</b>	<b>\$ CHG</b>	<b>% CHG</b>
Property Taxes	\$ 1,583.1	\$ 1,633.3	\$ 50.2	3.2%
PPRT	\$ 120.4	\$ 115.6	\$ (4.8)	-4.0%
Investment Income	\$ 47.0	\$ 32.9	\$ (14.1)	-30.0%
Lunchroom Sales	\$ 12.0	\$ 13.0	\$ 1.0	8.3%
Miscellaneous Local Revenue	\$ 116.5	\$ 178.7	\$ 62.2	53.4%
<b>Subtotal Local Revenue</b>	<b>\$ 1,879.0</b>	<b>\$ 1,973.5</b>	<b>\$ 94.5</b>	<b>5.0%</b>
General State Aid (GSA)	\$ 587.2	\$ 649.9	\$ 62.7	10.7%
Supplemental GSA	\$ 261.0	\$ 261.0	\$ -	0.0%
Flat Grant ADA	\$ 8.7	\$ 11.2	\$ 2.5	28.7%
State Aid - Teacher Pension	\$ -	\$ 65.0	\$ 65.0	100.0%
Other State Revenue	\$ 586.5	\$ 650.9	\$ 64.4	11.0%
<b>Subtotal State</b>	<b>\$ 1,443.4</b>	<b>\$ 1,638.0</b>	<b>\$ 194.6</b>	<b>13.5%</b>
IASA	\$ 242.2	\$ 312.0	\$ 69.8	28.8%
Lunchroom	\$ 149.3	\$ 154.5	\$ 5.2	3.5%
Medicaid Reimbursement	\$ 34.0	\$ 36.0	\$ 2.0	5.9%
Federal Other	\$ 263.4	\$ 329.8	\$ 66.4	25.2%
<b>Subtotal Federal</b>	<b>\$ 688.9</b>	<b>\$ 832.3</b>	<b>\$ 143.4</b>	<b>20.8%</b>
<b>GRAND TOTAL</b>	<b>\$ 4,011.3</b>	<b>\$ 4,443.8</b>	<b>\$ 432.5</b>	<b>10.8%</b>

Source: Chicago Public Schools FY2005 Budget, Revenue History:  
All Funds Major Categories, p. 61.

Several assumptions<sup>16</sup> are built into the FY2005 CPS budget revenue projections. They include:

- The property tax will increase to the maximum amount allowed under the tax cap law.
- Personal Property Replacement Taxes will increase at a 2.4% rate.
- The increase in General State Aid is based on an increase in the state foundation level from \$4,810 to \$4,964. Supplemental General State Aid is calculated based on the State’s new poverty formula.
- Categorical funding is based on the FY2005 appropriation adopted by the Illinois General Assembly in P.A. 93-842.
- P.A. 93-845 will allow the Chicago Public Schools to file for a prior year Equalized Assessed Valuation adjustment in FY2005. This will allow the CPS to receive \$15.7 million.
- \$65 million in state pension aid was appropriated by the General Assembly.
- \$100 million in capital construction dollars for a Capital Development Board construction grant are incorporated into the budget on the assumption that \$500 million in statewide

<sup>16</sup> Chicago Public Schools FY2005 Budget, p. 44.

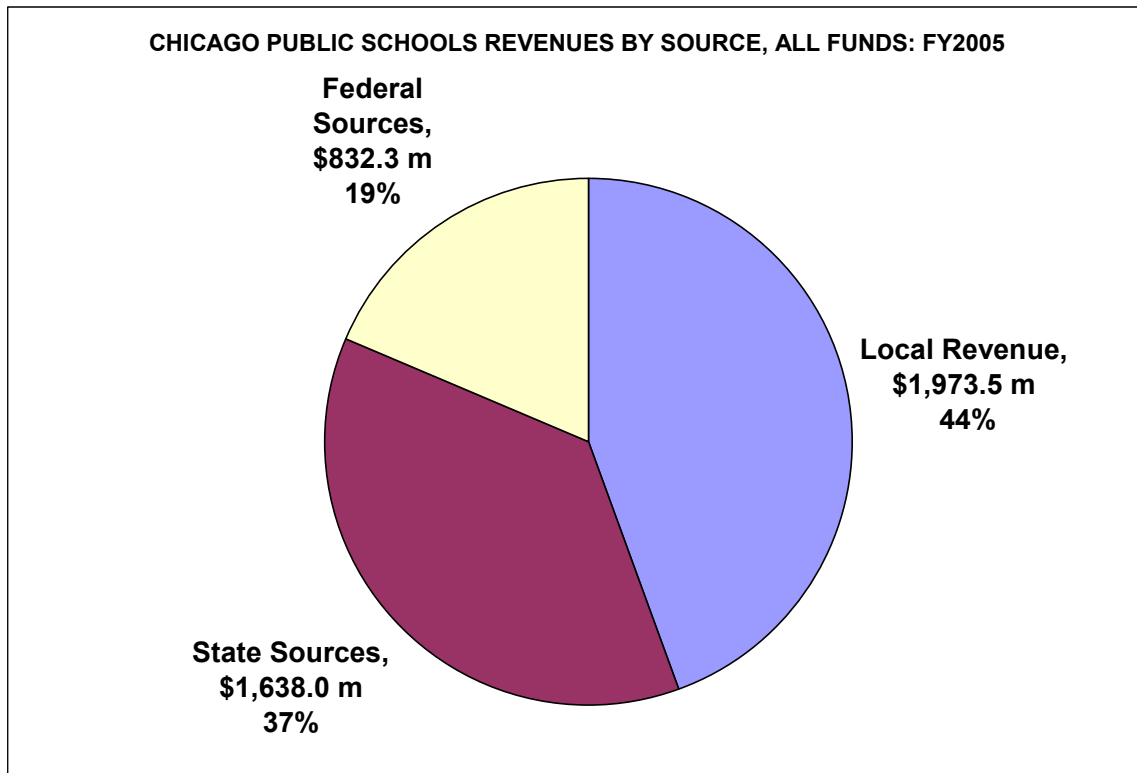


capital construction funds will be appropriated by the General Assembly in its fall session when it considers the State FY2005 capital budget.

- Federal revenue figures are based on federal FY2005 revenue appropriations as well as a fund balance carryover from FY2004.
- \$10 million in capital construction dollars for a Capital Development Board maintenance grant are incorporated into the budget on the assumption that \$50 million in statewide school maintenance funds will be appropriated by the General Assembly in its fall session when it considers the State FY2005 capital budget.

### Chicago Public Schools Revenues by Source (All Funds)

In FY2005, 44% of all Chicago Public School funds will come from local revenue sources. The State of Illinois will provide the second largest component of the CPS revenue stream, with 37% of the total, or \$1.9 billion. Federal funds will be the third largest source of revenues at 19% of the total.



### 5-Year CPS Revenue Trend for All Funds: 16.3% Increase

The next exhibit presents a 5-year revenue trend for the CPS, from FY2001 to FY2005, as proposed in the new budget. It shows that revenues will rise by 16.3% during that time period. This is a \$624 million increase, from \$3.8 billion to \$4.4 billion. Local revenues will increase by 12.5%, with property taxes rising by \$203 million. State revenues between FY2001 and FY2005 are projected to increase by 14.4%, from \$1.4 billion to \$1.6 billion. Federal funding is expected

to register the largest percentage gain in revenues, up 31.3% in FY2005 to \$624.4 million. However, federal funds are the smallest component of the Chicago Public Schools' revenue mix.

<b>CPS REVENUES: ALL FUNDS</b>				
<b>MAJOR CATEGORIES FY2001-FY2005 (In Millions of Dollars)</b>				
<b>Local Revenue</b>	<b>FY2001</b>	<b>FY2005 Proj</b>	<b>\$ CHG</b>	<b>% CHG</b>
Property Taxes	\$ 1,429.9	\$ 1,633.3	\$ 203.4	14.2%
PPRT	\$ 137.7	\$ 115.6	\$ (22.1)	-16.0%
Investment Income	\$ 103.5	\$ 32.9	\$ (70.6)	-68.2%
Lunchroom Sales	\$ 13.7	\$ 13.0	\$ (0.7)	-5.1%
Miscellaneous Local Revenue	\$ 68.7	\$ 178.7	\$ 110.0	160.1%
<b>Subtotal Local Revenue</b>	<b>\$ 1,753.5</b>	<b>\$ 1,973.5</b>	<b>\$ 220.0</b>	<b>12.5%</b>
General State Aid (GSA)	\$ 469.4	\$ 649.9	\$ 180.5	38.5%
Supplemental GSA	\$ 261.0	\$ 261.0	\$ -	0.0%
Flat Grant ADA	\$ 22.8	\$ 11.2	\$ (11.6)	-50.9%
State Aid - Teacher Pension	\$ 65.0	\$ 65.0	\$ -	100.0%
Other State Revenue	\$ 613.6	\$ 650.9	\$ 37.3	6.1%
<b>Subtotal State</b>	<b>\$ 1,431.8</b>	<b>\$ 1,638.0</b>	<b>\$ 206.2</b>	<b>14.4%</b>
ESEA Title I/IASA	\$ 172.9	\$ 312.0	\$ 139.1	80.5%
Lunchroom	\$ 139.0	\$ 154.5	\$ 15.5	11.2%
Medicaid Reimbursement	\$ 70.3	\$ 36.0	\$ (34.3)	-48.8%
Federal Other	\$ 251.9	\$ 329.8	\$ 77.9	30.9%
<b>Subtotal Federal</b>	<b>\$ 634.1</b>	<b>\$ 832.3</b>	<b>\$ 198.2</b>	<b>31.3%</b>
<b>GRAND TOTAL</b>	<b>\$ 3,819.4</b>	<b>\$ 4,443.8</b>	<b>\$ 624.4</b>	<b>16.3%</b>

Source: Chicago Public Schools FY2005 Budget, Revenue History:

All Funds Major Categories, p. 61 and FY2004 CPS Budget, p. 62.

### **General Operating Fund Revenues: 6.1% Increase in FY2005 from Previous Year**

General Operating Funds include the CPS's General Fund and its Special Revenue Fund. These funds account for the general operations of the CPS. 91% of all fund revenues in FY2005 and 95% in FY2004 were earmarked for the two General Operating Funds.

In FY2005, General Operating Funds resources and revenues are expected to rise by \$232.7 million or 6.1%. The amount of fund balance available for appropriation (i.e., available for contingencies) will be \$30 million in FY2005. This is a \$58 million reduction from the previous fiscal year, since part of the unappropriated fund balance was used to balance the FY2004 budget.<sup>17</sup>

Local, or the CPS's "own source", revenues will provide 43% of all General Operating Funds revenues. State sources will provide the second largest amount, or 35.6% of the total. Federal funds are expected to total \$832.3 million, or 20.6% of all General Operating Funds revenues.

<sup>17</sup> Chicago Public Schools FY2005 Budget, p. 43.

<b>CPS MAJOR RESOURCES &amp; REVENUES: GENERAL OPERATING FUNDS FY2004 &amp; FY2005 (In Millions of Dollars)</b>				
<b>Resources:</b>	<b>FY2004 Est</b>	<b>FY2005</b>	<b>\$ Change</b>	<b>% Change</b>
Total Beginning Fund Balance	\$ 249.6	\$ 201.6	\$ (48.0)	-19.2%
Designated Fund Balance	\$ (161.3)	\$ (171.3)	\$ (10.0)	6.2%
Available for Appropriation	\$ 88.4	\$ 30.3	\$ (58.1)	-65.7%
			\$ -	
<b>Revenue Sources:</b>			\$ -	
Property Taxes	\$ 1,531.7	\$ 1,582.0	\$ 50.3	3.3%
PPRT	\$ 60.9	\$ 72.8	\$ 11.9	19.5%
Misc. Revenue/Non Revenues Sources	\$ 93.4	\$ 88.6	\$ (4.8)	-5.1%
<b>Subtotal Local Revenue</b>	<b>\$ 1,685.6</b>	<b>\$ 1,743.4</b>	<b>\$ 57.8</b>	<b>3.4%</b>
General State Aid (GSA)	\$ 587.7	\$ 563.8	\$ (23.9)	-4.1%
Supplemental GSA	\$ 261.0	\$ 261.0	\$ -	0.0%
State Aid Pension	\$ -	\$ 65.0	\$ 65.0	100.0%
Other State	\$ 505.6	\$ 552.1	\$ 46.5	9.2%
<b>Subtotal State</b>	<b>\$ 1,354.3</b>	<b>\$ 1,442.0</b>	<b>\$ 87.7</b>	<b>6.5%</b>
ESEA Title I	\$ 239.3	\$ 314.2	\$ 74.9	31.3%
Lunchroom, Medicaid, Other	\$ 186.5	\$ 193.3	\$ 6.8	3.6%
Public Law: Special Education	\$ 84.8	\$ 104.9	\$ 20.1	23.7%
Federal Other	\$ 176.3	\$ 219.9	\$ 43.6	24.7%
<b>Subtotal Federal</b>	<b>\$ 686.9</b>	<b>\$ 832.3</b>	<b>\$ 145.4</b>	<b>21.2%</b>
<b>GRAND TOTAL</b>	<b>\$ 3,815.3</b>	<b>\$ 4,048.0</b>	<b>\$ 232.7</b>	<b>6.1%</b>

Source: Chicago Public School FY2005 Budget, p. 21.

The next exhibit shows a 5-year trend in General Operating Funds resources and revenues, from the FY2001 proposed budget to the FY2005 proposed budget. Over this 5-year period, revenues for general operations of the City of Chicago's school system increased by 16.3% or \$568.2 million.

<b>CPS MAJOR RESOURCES &amp; REVENUES: GENERAL OPERATING FUNDS FY2001 &amp; FY2005 (In Millions of Dollars)</b>				
<b>Resources:</b>	<b>FY2001 Proposed</b>	<b>FY2005 Proposed</b>	<b>\$ Change</b>	<b>% Change</b>
Total Beginning Fund Balance	\$ 350.8	\$ 201.6	\$ (149.2)	-42.5%
Designated Fund Balance	\$ (295.9)	\$ (171.3)	\$ 124.6	-42.1%
Available for Appropriation	\$ 54.9	\$ 30.3	\$ (24.6)	-44.8%
			\$ -	
<b>Revenue Sources:</b>			\$ -	
Property Taxes	\$ 1,366.1	\$ 1,582.0	\$ 215.9	15.8%
PPRT	\$ 79.6	\$ 72.8	\$ (6.8)	-8.5%
Misc. Revenue/Non Revenues Sources	\$ 106.6	\$ 88.6	\$ (18.0)	-16.9%
<b>Subtotal Local Revenue</b>	<b>\$ 1,552.3</b>	<b>\$ 1,743.4</b>	<b>\$ 191.1</b>	<b>12.3%</b>
General State Aid (GSA)	\$ 443.9	\$ 563.8	\$ 119.9	27.0%
Supplemental GSA	\$ 261.0	\$ 261.0	\$ -	0.0%
State Aid Pension	\$ 65.0	\$ 65.0	\$ -	100.0%
Other State	\$ 512.7	\$ 552.1	\$ 39.4	7.7%
<b>Subtotal State</b>	<b>\$ 1,282.6</b>	<b>\$ 1,442.0</b>	<b>\$ 159.4</b>	<b>12.4%</b>
ESEA Title I	\$ 183.3	\$ 314.2	\$ 130.9	71.4%
Lunchroom, Medicaid, Other	\$ 199.9	\$ 193.3	\$ (6.6)	-3.3%
Public Law: Special Education	\$ 53.4	\$ 104.9	\$ 51.5	96.4%
Federal Other	\$ 153.4	\$ 219.9	\$ 66.5	43.4%
<b>Subtotal Federal</b>	<b>\$ 590.0</b>	<b>\$ 832.3</b>	<b>\$ 242.3</b>	<b>41.1%</b>
<b>GRAND TOTAL</b>	<b>\$ 3,479.8</b>	<b>\$ 4,048.0</b>	<b>\$ 568.2</b>	<b>16.3%</b>

Source: Chicago Public School FY2005 Budget, p. 21 and Chicago Public Schools FY2001 Budget, p. 23.

## State Aid to Increase by \$105 Million in FY2005

Overall, the State of Illinois will increase funding for the Chicago Public Schools in FY2005 by \$105 million.

The General Assembly approved an increase in General State Aid (GSA) in the FY2005 state budget from \$4,810 to \$4,964 per pupil. This 3.2%, or \$154, per student increase follows a \$250 per pupil increase in FY2004.

The exhibit below shows the distribution of the new state monies. General State Aid will increase by \$68.9 million while funding for mandated categorical programs will rise by \$23.8 million. Funding for the mandated categorical programs will be provided at 97% of the funding requirement, requiring the CPS to fund the remaining 3%. The remaining \$12.3 million increase is designated for a number of discretionary categorical programs. However, the \$11 million increase designated for the Early Childhood Initiative is an expenditure required by the State of Illinois.<sup>18</sup>

<b>IMPACT OF INCREASED STATE FUNDING ON CPS (In Millions of Dollars)</b>			
	<b>State FY2005 Funding Increase</b>	<b>CPS Funding Increase from State</b>	<b>CPS Share of New Funding</b>
<b>General State Aid</b>			
Increase Foundation Level + Basic Hold Harmless	\$ 184.0	\$ 52.2	28.4%
Phase in of new Poverty Count and Formula	\$ 24.5	\$ 18.4	75.1%
Maintain Current Poverty Count Hold Harmless	\$ 16.5	\$ -	0.0%
Prior Year Claim Adjustments	\$ 3.1	\$ (1.7)	-54.8%
<b>Subtotal General State Aid</b>	<b>\$ 228.1</b>	<b>\$ 68.9</b>	<b>30.2%</b>
<b>Mandated Categoricals at 97%</b>	<b>\$ 94.9</b>	<b>\$ 23.8</b>	<b>25.1%</b>
<b>Other Categoricals</b>			
Early Childhood	\$ 29.7	\$ 11.0	37.0%
Bilingual	\$ 2.0	\$ 1.0	50.0%
ADA Block Grant	\$ 12.0	\$ 2.4	20.0%
ROE School Services	\$ 1.9	\$ 0.3	15.8%
Fast Growth District Grant	\$ 10.0	\$ -	0.0%
Transitional Assistance	\$ 2.5	\$ -	0.0%
Career and Technical Education	\$ (2.3)	\$ (0.3)	13.0%
Summer Bridges	\$ (2.6)	\$ (1.1)	42.3%
Reading Improvement Block Grant	\$ (3.2)	\$ (1.0)	31.3%
All other - net	\$ (11.1)	\$ -	0.0%
<b>Subtotal Other Categoricals</b>	<b>\$ 38.9</b>	<b>\$ 12.3</b>	<b>31.6%</b>
<b>Total Increase*</b>	<b>\$ 361.9</b>	<b>\$ 105.0</b>	<b>29.0%</b>

Source: CPS Office of Management and Budget

\* Does not include \$65 million appropriation for Teachers' Pension Fund

<sup>18</sup> Chicago Public Schools Budget Briefing, August 12, 2004.

## **Property Tax Levy: 3.2% Increase from \$1.58 Billion to \$1.63 Billion**

The Chicago Public Schools property tax levy for all funds is projected to increase by 3.2%, or \$50 million, to \$1.66 billion in FY2005. This year, the Board of Education proposes to tax at the maximum limit allowed by the tax cap law.<sup>19</sup>

Under the tax cap law, the increase in the property tax levy for tax year 2002 is limited to the inflation rate of 2.4%. The 0.8% additional increase, or \$10 million of the \$50.3 million total increase, is based upon the CPS's anticipation of the value of new property. The tax cap exempts the value of new buildings or additions to existing buildings from the limitation on the property tax levy.

The CPS argues that the average property tax increase for a typical Chicago homeowner will be \$14.53 for a \$100,000 home. However, there are several problems with this calculation.

First, the median price of a home in Chicago is \$237,442 according to the Chicago Association of Realtors. The median price varies widely among Chicago neighborhoods, from \$123,428 in the southeast side neighborhood of Hegewisch for a single family detached home to over \$1.1 million in the north side neighborhood of Lincoln Park. Therefore, the property tax burden will also vary widely, depending on home values in different neighborhoods.

Second, the \$14.53 figure is based on a projected increase of \$40 million only and does not include the additional \$10 million increase permitted under the tax cap law for "new" property. Therefore, the rate of tax increase should be based on the entire \$50.3 million, 3.2% tax increase. A more precise rate of the tax increase per average home citywide in 2004 would be approximately \$46 for a single family detached home, \$25 for a condominium and \$44 for a multifamily property.

The following figure illustrates projected property tax increases resulting from the CPS levy increase for various neighborhoods and property types.

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<sup>19</sup> The Property Tax Extension Limitation Law, commonly called "PTELL" or "tax caps", limits a taxing body's annual property tax extension increase to 5% or the rate of inflation, whichever is less (35 ILCS 200/18-185 through 35 ILCS 200/18-245). However, the value of new properties is exempted from the tax cap calculation, thus allowing for a greater total extension. For details see <http://www.revenue.state.il.us/LocalGovernment/PropertyTax/ptell.htm>.

**PROJECTED PROPERTY TAX INCREASES  
FROM CPS 3.2% LEVY INCREASE**

<b>Single Family Detached Home</b>	<b>Est. Value 2004*</b>	<b>Increased Tax</b>
<b>Citywide</b>	<b>\$ 237,442</b>	<b>\$ 45.99</b>
Hegewisch	\$ 123,428	\$ 23.91
Mt. Greenwood	\$ 193,510	\$ 37.48
Beverly	\$ 243,090	\$ 47.08
Near West Side	\$ 262,546	\$ 50.85
Albany Park	\$ 287,650	\$ 55.71
Bridgeport	\$ 429,785	\$ 83.24
Edgewater	\$ 460,240	\$ 89.14
West Town	\$ 533,460	\$ 103.32
Lincoln Park	\$ 1,150,600	\$ 222.85

**Condominium**

<b>Citywide</b>	<b>\$ 129,390</b>	<b>\$ 25.06</b>
Beverly	\$ 114,014	\$ 22.08
Hegewisch	\$ 115,060	\$ 22.29
Mt. Greenwood	\$ 127,351	\$ 24.67
Albany Park	\$ 194,556	\$ 37.68
Bridgeport	\$ 240,580	\$ 46.60
Near West Side	\$ 281,374	\$ 54.50
West Town	\$ 335,766	\$ 65.03
Lincoln Park	\$ 371,330	\$ 71.92

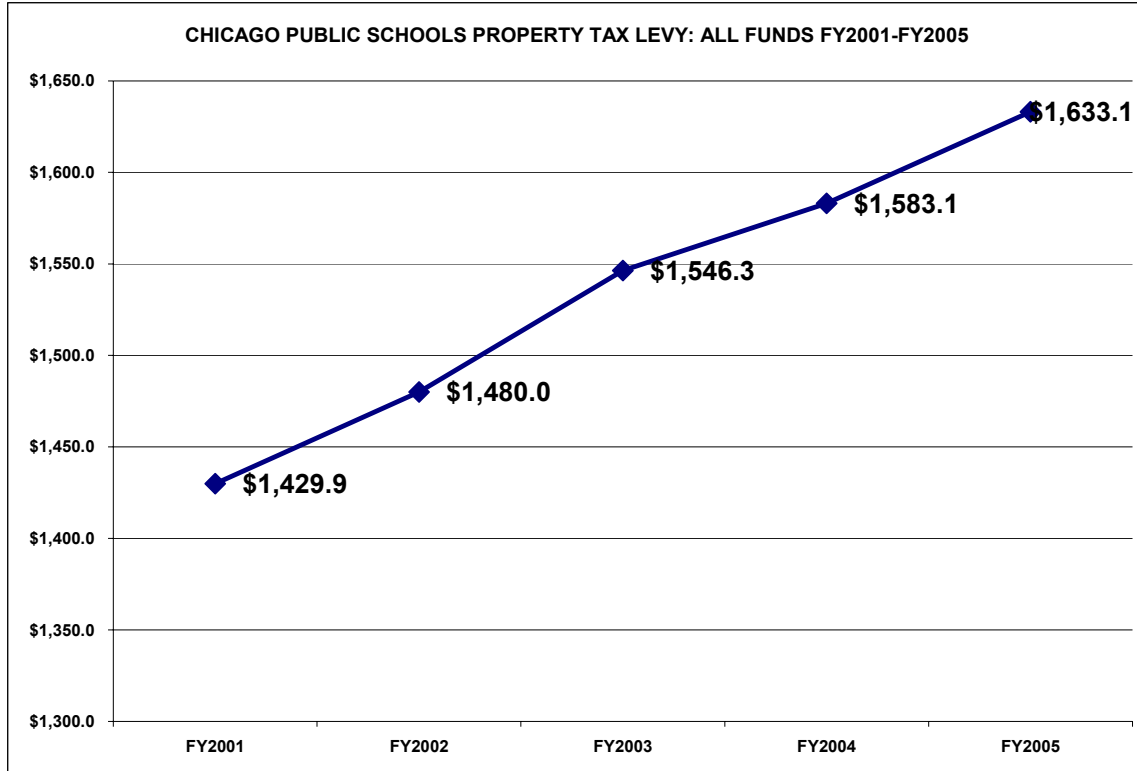
**Multifamily**

<b>Citywide</b>	<b>\$ 226,982</b>	<b>\$ 43.96</b>
Hegewisch	\$ 137,026	\$ 26.54
Bridgeport	\$ 245,810	\$ 47.61
Beverly	\$ 329,490	\$ 63.82
Near West Side	\$ 329,490	\$ 63.82
West Town	\$ 398,003	\$ 77.09
Lincoln Park	\$ 774,040	\$ 149.92

\* Estimated Values are based on 2003 sale data plus a 4.6% projected increase in sale price in 2004.

Source of Home Data: Chicago Association of Realtors

In the FY2005 budget, 97% of property tax levy funds are earmarked for General Operating purposes. Since FY2001, the total levy has increased by 14.2%.



In the ten tax years between FY1996 and FY2005, the Chicago Public Schools property tax levy will increase by 33%, from \$1.2 billion to \$1.6 billion. In dollars, this represents approximately a \$403 million increase.

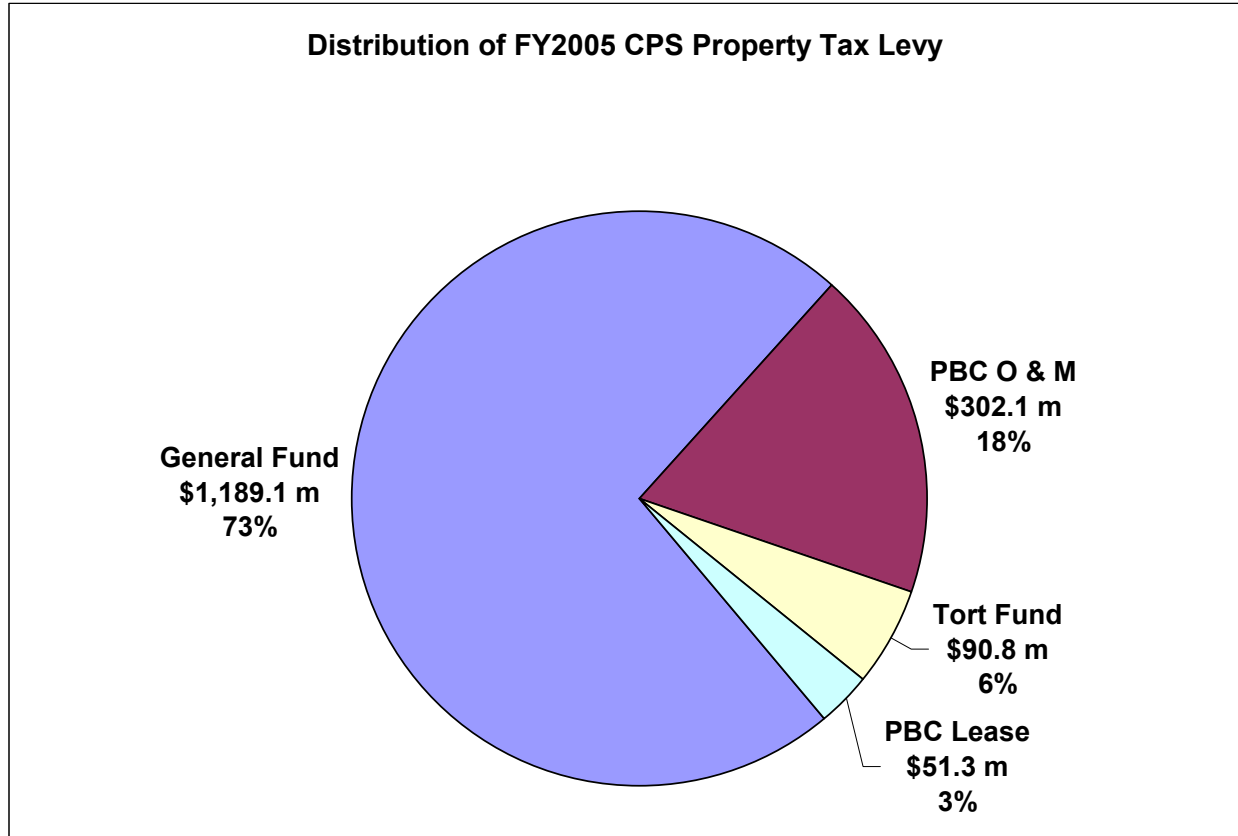
The next exhibit compares ten years of levy increases by the CPS with those proposed by other major local governments. As most local governments have not yet released their FY2005 budgets or levies, the comparison shows the years FY1995 through FY2004. CPS levies have increased by 31.2% over that 10-year period compared to 19.5% for the Metropolitan Water Reclamation District (MWRD), 10.8% for the Chicago Park District, 9.7% for the City of Chicago and 6.6% for Cook County. The City of Chicago held its \$713.5 million levy constant in 2003 while Cook County froze its \$720 million levy in 2001, 2002 and 2003.

<b>CHICAGO AREA LOCAL GOVERNMENT PROPERTY TAX LEVIES: FY1995 &amp; FY2004</b>			
	<b>FY1995</b>	<b>FY2004</b>	<b>% Change</b>
Chicago Public Schools	\$ 1,206,912,000	\$ 1,583,100,000	31.2%
MWRD	\$ 339,891,000	\$ 406,200,000	19.5%
Chicago Park District	\$ 223,711,575	\$ 247,800,000	10.8%
City of Chicago	\$ 650,200,000	\$ 713,500,000	9.7%
Cook County	\$ 675,762,303	\$ 720,400,000	6.6%

Source: Local Government Budgets. These are original levy requests.

The proposed distribution of property tax revenues by purpose in FY2005 is shown below. Seventy three percent or \$1.18 billion of the levy is earmarked for the General Fund to finance CPS operations. The second largest amount, \$302.1 million, is set-aside for the Public Building

Commission Operations and Maintenance (PBC O & M) Fund, which supports the repair and maintenance of CPS buildings. Six percent of the levy will be used for the Workers and Unemployment Compensation Tort Immunity Fund and 3% for Public Building Commission lease rental payments.



## APPROPRIATION TRENDS

The section presents an analysis of historic Chicago Public Schools budget appropriation trends. Information is included about appropriations by expenditure type (salaries, commodities etc.) and function (Instruction, Support Services, etc.). In this analysis, one-year and five year trends are compared. Appropriations by Location for FY05 are also presented and discussed. In FY2005, total appropriations have increased by approximately \$227.9 million, or 4.7% from the previous year. General Fund Appropriations have increased by \$109 million, or 4.5% from the previous year.

### CPS Appropriations by Expenditure Type: Change from FY2004 to FY2005

The FY2005 Chicago Public Schools budget proposes a total All Funds appropriation of \$5.05 billion. This is a 4.7% increase from the previous year's appropriation of \$4.8 billion. Approximately 59% of the appropriations are earmarked for salaries and benefits. \$1.9 billion or 37% of the total is reserved for teachers' salaries, while \$513 million is proposed for non-teacher



salaries. \$334 million is allocated for debt service expenses. This represents a 16% increase from the previous year.

<b>CPS APPROPRIATIONS BY EXPENDITURE TYPE: FY04 &amp; FY05</b>				
<b>All Funds (In Millions of Dollars)</b>				
<b>Expenditure Type</b>	<b>FY04</b>	<b>FY05</b>	<b>\$Change</b>	<b>% Change</b>
Teacher Salaries	\$ 1,741.0	\$ 1,890.7	\$ 149.7	8.6%
Non-Teacher Salaries	\$ 481.3	\$ 512.8	\$ 31.5	6.5%
Employee Benefits	\$ 579.0	\$ 583.6	\$ 4.6	0.8%
<b>Subtotal Compensation</b>	<b>\$ 2,801.3</b>	<b>\$ 2,987.1</b>	<b>\$ 185.8</b>	<b>6.6%</b>
Commodities & Utilities	\$ 231.9	\$ 247.4	\$ 15.5	6.7%
Non-personnel Services	\$ 457.8	\$ 501.6	\$ 43.8	9.6%
Equipment/Capital Outlay	\$ 704.2	\$ 681.5	\$ (22.7)	-3.2%
Debt Service	\$ 287.3	\$ 333.9	\$ 46.6	16.2%
Other	\$ 335.2	\$ 294.2	\$ (41.0)	-12.2%
<b>TOTAL</b>	<b>\$ 4,817.7</b>	<b>\$ 5,045.7</b>	<b>\$ 228.0</b>	<b>4.7%</b>

Source: FY2004 CPS Budget, p. 67 and FY2005 CPS Budget, p. 67

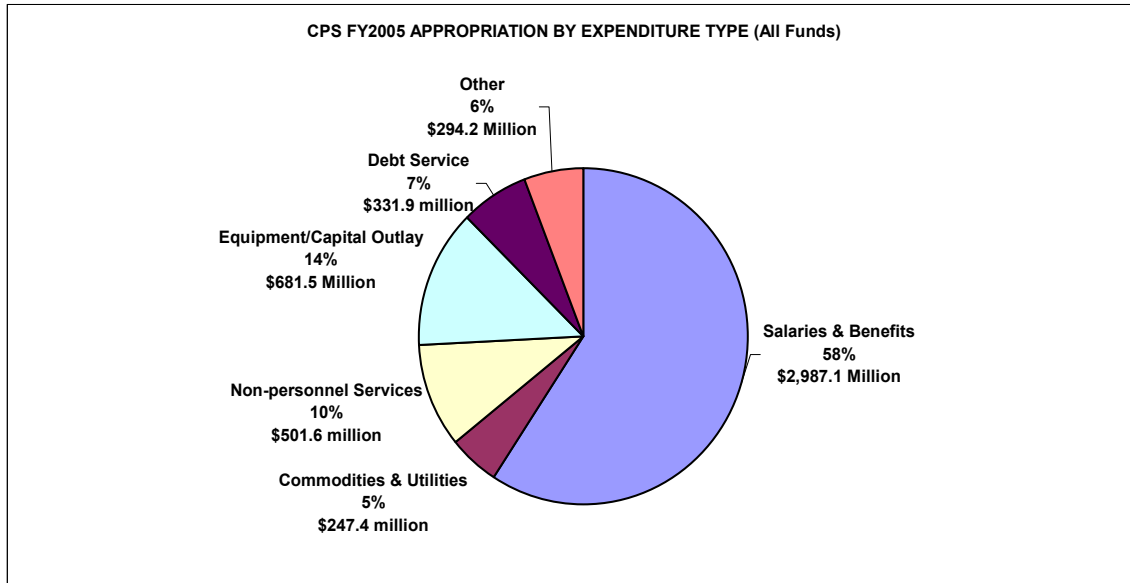
The following exhibit presents the CPS General Operating Funds by expenditure type, for FY2004 and FY2005.<sup>20</sup> Sixty percent or \$1.5 billion of the total general operating funds is reserved for teachers' salaries, while \$200.9 million is proposed for non-teacher salaries. Both of these figures constitute the 4.8% increase in compensation from FY2004 to FY2005. Salaries and Benefits represent 84% of the total general operating funds. Further, equipment and capital outlay is budgeted to receive a 31.9% increase from the previous year.

<b>CPS APPROPRIATIONS BY EXPENDITURE TYPE: FY04 &amp; FY05</b>				
<b>General Operating Funds (In Millions of Dollars)</b>				
<b>Expenditure Type</b>	<b>FY04</b>	<b>FY05</b>	<b>\$Change</b>	<b>% Change</b>
Teacher Salaries	\$ 1,453.1	\$ 1,537.6	\$ 84.5	5.8%
Non-Teacher Salaries	\$ 185.3	\$ 200.9	\$ 15.6	8.4%
Employee Benefits	\$ 414.8	\$ 413.7	\$ (1.1)	-0.3%
<b>Subtotal Compensation</b>	<b>\$ 2,053.2</b>	<b>\$ 2,152.2</b>	<b>\$ 99.0</b>	<b>4.8%</b>
Commodities & Utilities	\$ 43.0	\$ 42.0	\$ (1.0)	-2.3%
Non-personnel Services	\$ 277.9	\$ 298.5	\$ 20.6	7.4%
Equipment/Capital Outlay	\$ 6.9	\$ 9.1	\$ 2.2	31.9%
Debt Service	\$ -	\$ -	\$ -	
Other	\$ 58.8	\$ 47.0	\$ (11.8)	-20.1%
<b>TOTAL</b>	<b>\$ 2,439.8</b>	<b>\$ 2,548.8</b>	<b>\$ 109.0</b>	<b>4.5%</b>

Source: FY2004 CPS Budget, p. 67 and FY2005 CPS Budget, p. 67

The next exhibit graphically shows the breakdown by percentage of expenditure types in the FY2005 budget. The largest single portion of the FY2005 appropriation is earmarked for salaries and benefits. Fifty-nine percent of the total, or \$2.9 billion, will be used for teacher salaries, non-teacher compensation and employee benefits.

<sup>20</sup> The CPS All Funds Appropriations by Function were not available.



Source: FY2005 CPS Budget, P. 69.

### 5-Year Appropriation Trends by Expenditure Type: Appropriations Increase by 15%

The exhibit below shows that CPS appropriations have risen from \$4.4 billion to \$5.0 billion. This is a 15% increase since FY2001. The largest percentage increase in that 5-year period will be for debt service, which will rise by 62%, from \$206 million to \$334 million. This reflects the CPS's expansive capital program over the past several years. A correlated category, non-personnel services, will increase by 27%, from \$396 million to \$502 million. During the period analyzed, compensation (salaries and benefits) will rise by 19%.

<b>APPROPRIATIONS BY EXPENDITURE TYPE: FY01 &amp; FY05</b>				
<b>All Funds (In Millions of Dollars)</b>				
<b>Expenditure Type</b>	<b>FY2001</b>	<b>FY2005</b>	<b>\$Change</b>	<b>% Change</b>
Teacher Salaries	\$ 1,602.6	\$ 1,890.7	\$ 288.1	18%
Non-Teacher Salaries	\$ 439.1	\$ 512.8	\$ 73.7	17%
Employee Benefits	\$ 469.8	\$ 583.6	\$ 113.8	24%
<b>Subtotal Compensation</b>	<b>\$ 2,511.5</b>	<b>\$ 2,987.1</b>	<b>\$ 475.6</b>	<b>19%</b>
Commodities & Utilities	\$ 210.4	\$ 247.4	\$ 37.0	18%
Non-personnel services	\$ 396.0	\$ 501.6	\$ 105.6	27%
Equipment/Capital Outlay	\$ 736.3	\$ 681.5	\$ 54.8	-7%
Debt Service	\$ 206.1	\$ 333.9	\$ 127.8	62%
Other	\$ 339.6	\$ 294.2	\$ 45.4	-13%
<b>TOTAL</b>	<b>\$ 4,399.9</b>	<b>\$ 5,045.7</b>	<b>\$ 645.8</b>	<b>15%</b>

Source: FY2001 CPS Budget, p. 69 and FY2005 CPS Budget, p. 68

The following exhibit presents a 5-year trend by expenditure type for the General Operating Funds only. The largest percentage increase in that 5-year period for General Operating Funds will be for non-personnel services, which will rise by 30%, from \$230.1 million to \$298.5 million. During the period analyzed, compensation (salaries and benefits) will rise by 15%, a

difference of \$287.7 million dollars. Salaries and benefits represent 84% of the total general operating funds.

<b>APPROPRIATIONS BY EXPENDITURE TYPE: FY01 &amp; FY05</b>				
<b>General Operating Funds (In Millions of Dollars)</b>				
<b>Expenditure Type</b>	<b>FY2001</b>	<b>FY2005</b>	<b>\$Change</b>	<b>% Change</b>
Teacher Salaries	\$ 1,374.8	\$ 1,537.6	\$ 162.8	12%
Non-Teacher Salaries	\$ 162.8	\$ 200.9	\$ 38.1	23%
Employee Benefits	\$ 326.9	\$ 413.7	\$ 86.8	27%
<b>Subtotal Compensation</b>	<b>\$ 1,864.5</b>	<b>\$ 2,152.2</b>	<b>\$ 287.7</b>	<b>15%</b>
Commodities & Utilities	\$ 34.6	\$ 42.0	\$ 7.4	21%
Non-personnel services	\$ 230.1	\$ 298.5	\$ 68.4	30%
Equipment/Capital Outlay	\$ 8.5	\$ 9.1	\$ (0.6)	7%
Debt Service	\$ -	\$ -	\$ -	
Other	\$ 102.6	\$ 47.0	\$ 55.6	-54%
<b>TOTAL</b>	<b>\$ 2,240.3</b>	<b>\$ 2,548.8</b>	<b>\$ 308.5</b>	<b>14%</b>

Source: FY2001 CPS Budget, p. 69 and FY2005 CPS Budget, p. 67

### **CPS General Operating Funds: Appropriations by Function**

Changes in General Operating Fund appropriations by function are presented in the following exhibit. Regular Instructional Programs will also rise by 9%, or \$149 million. Vocational and Special Needs Instructional Programs, however, will be cut by 36%, from \$271 million to \$173 million.

In the categories of non-instructional programs, support services will increase by 5%, while community services will face a large 27% reduction. The FY2005 budget also includes increases for Other Services (Interest and Debt services and total provision for contingencies) of \$47 million, a 59% boost from FY2004. In FY2004 the State of Illinois budget did not include \$65 million in state aid for the CPS Teacher's Pension Fund. These funds were restored in the FY2005 budget.<sup>21</sup>

<b>CPS APPROPRIATIONS BY FUNCTION: FY04 &amp; FY05</b>				
<b>General Operating Funds</b>				
<b>FUNCTION</b>	<b>FY04</b>	<b>FY05</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
Instruction-Regular Programs	\$ 1,689,710,343	\$ 1,839,107,654	\$ 149,397,311	9%
Instruction-Special Education	\$ 459,719,328	\$ 447,353,426	\$ 12,365,902	-3%
Instruction-Voc Ed & Special Needs	\$ 271,466,908	\$ 173,088,617	\$ 98,378,237	-36%
<b>SUBTOTAL INSTRUCTION</b>	<b>\$ 2,420,896,579</b>	<b>\$ 2,459,549,617</b>	<b>\$ 38,653,038</b>	<b>2%</b>
SUPPORTING SERVICES	\$ 1,295,557,012	\$ 1,363,280,105	\$ 67,723,093	5%
COMMUNITY SERVICES	\$ 43,731,859	\$ 31,773,141	\$ 11,958,718	-27%
STATE REV. PENSION ADJUST.	\$ -	\$ 65,045,000		
OTHER	\$ 80,485,420	\$ 128,314,904	\$ 47,829,484	59%
<b>GRAND TOTAL</b>	<b>\$ 3,840,670,870</b>	<b>\$ 4,047,962,847</b>	<b>\$ 207,291,977</b>	<b>5%</b>

Source: FY2004 CPS Budget, p. 30 and FY2005 CPS Budget, p. 31

Between FY2001 and FY2005, General Operating Fund appropriations by function are projected to change significantly. Regular Instructional Programs will rise by 34%, or \$467 million.

<sup>21</sup> However, in FY2004 the General Assembly appropriated \$30.6 in Department of Commerce and Economic Opportunity construction funds and \$34.4 million in other funds to compensate the CPS for its pension costs. *Chicago Public Schools FY2004 Budget*, P. 53.

Vocational and Special Needs Instructional Programs will decrease by 36%, from \$275 million to \$173 million.

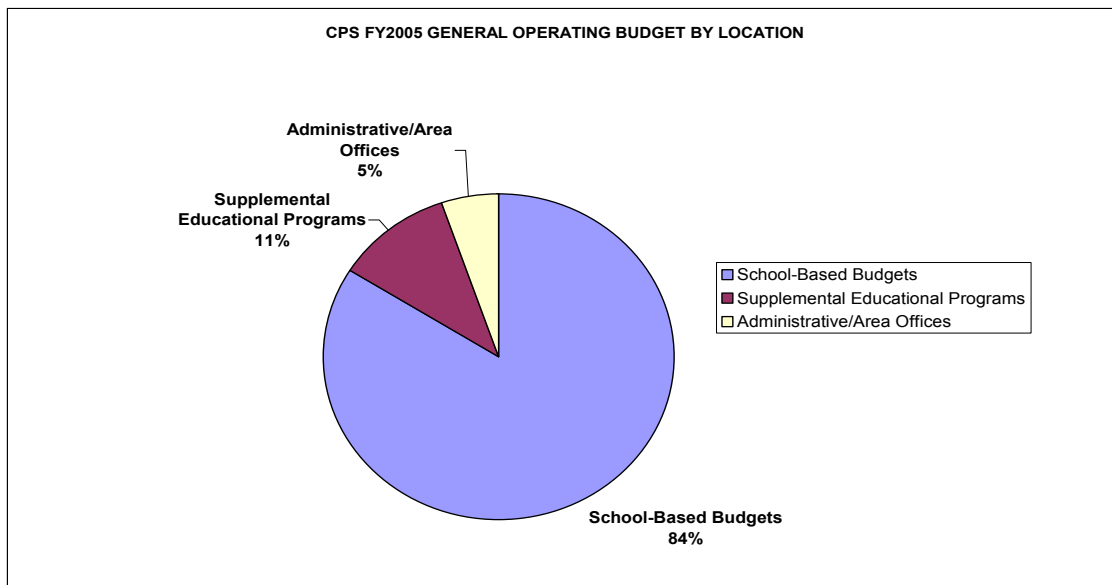
Regarding non-instructional programs, support services will increase by 12%, while community services will face a significant 55% reduction. Finally, a considerable 171% increase exists for Other services (Interest and Debt services and total provision for contingencies) of \$47 million, between FY2001 and FY2005.

<b>CPS APPROPRIATIONS BY FUNCTION: FY01 &amp; FY05</b>				
<b>General Operating Funds</b>				
<b>FUNCTION</b>	<b>FY01</b>	<b>FY05</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
Instruction-Regular Programs	\$ 1,371,631,410	\$ 1,839,107,654	\$ 467,476,244	34%
Instruction-Special Education	\$ 428,390,084	\$ 447,353,426	\$ 18,963,342	4%
Instruction-Voc Ed & Special Needs	\$ 274,905,248	\$ 173,088,617	\$ (101,816,631)	-37%
<b>SUBTOTAL INSTRUCTION</b>	<b>\$ 2,074,926,742</b>	<b>\$ 2,459,549,617</b>	<b>\$ 384,622,875</b>	<b>19%</b>
SUPPORTING SERVICES	\$ 1,222,007,203	\$ 1,363,280,105	\$ 141,272,902	12%
COMMUNITY SERVICES	\$ 70,444,358	\$ 31,773,141	\$ (38,671,217)	-55%
OTHER	\$ 47,379,755	\$ 128,314,904	\$ 80,935,149	171%
STATE REV. PENSION ADJUST.	\$ 65,045,000	\$ 65,045,000	\$ -	0%
<b>GRAND TOTAL</b>	<b>\$ 3,479,803,058</b>	<b>\$ 4,047,962,847</b>	<b>\$ 568,159,789</b>	<b>16%</b>

Source: FY2001 CPS Budget, p. 29 and FY2005 CPS Budget, p. 31

### CPS Appropriations by Location

The exhibit below provides the FY2005 General Operating Funds allocation by location. The format has changed from FY2004 with regards to personnel categories. Given this inconsistency, trend analysis with previous years is not possible. In FY2005 part-time and grant-funded positions are now included. A total of \$3.4 billion or 84% of the FY2005 CPS operating budget will be used for various types of schools and school based programs, including general high schools, vocational high schools, elementary schools and special education schools. Sixty-five percent of the 3.4 billion will be spent on school-based costs approximately 65% will be spent on direct classroom instruction.



Source: FY2005 CPS Budget, P. 68.

## New and Enhanced Budget Initiatives for CPS Budget FY2005

The following section presents a review of selected initiatives in the FY2005 budget that are new educational programs or are continuing programs receiving a significant increase in funding in FY2005.

<b>CPS Educational Budget Initiatives: ALL FUNDS</b>			
<b>FY2004 and FY2005 (In Millions of Dollars)</b>			
	<b>FY2004</b>	<b>FY2005</b>	<b>% Increase</b>
Achievement Academies	\$ 3.9	\$ 10.2	162%
Evening School	\$ 2.4	\$ 4.8	100%
Reading Programs	\$ 38.5	\$ 50.0	30%
"After School Counts"/Enrichment Grants	\$ 58.2	\$ 67.0	15%
Tuition Based Pre-School	\$ 3.0	\$ 5.4	80%
College Excel	\$ 1.3	\$ 1.8	38%
<b>TOTAL</b>	<b>\$ 107.3</b>	<b>\$ 139.2</b>	<b>30%</b>

Source: CPS Office of Management and Budget

### *Achievement Academies: 162% Increase*

Achievement academies will receive a 162% increase in FY2005, from \$3.9 million in FY2004 to \$10.2 million.<sup>22</sup> The achievement academies, located in existing high schools, use the Johns Hopkins University model to help underachieving eighth grade students transition to high school. Support for these students will be extended to tenth grade: the number of academies will increase from 7 to 9 in FY2005. The program is funded for \$10.2 million in FY2005, which includes \$2.8 million for professional development.<sup>23</sup>

### *Evening School: 100% Increase*

Evening School will receive a 100% increase in FY2005. The Evening School program expands from 30 schools to approximately 40 schools in FY2005 and is funded for \$4.9 million as compared to \$2.4 million in FY2004.<sup>24</sup> This program enables juniors and seniors needing additional credits to meet graduation requirements, and offers increased accessibility as an alternative to day school. The program also recovers dropouts and gives them the opportunity to earn credits needed to attain a high school diploma.<sup>25</sup>

### *Reading Programs: 30% Increase*

Reading programs will receive a 30% increase in FY2005. Chicago Reading Initiative (CRI) programs support all schools in the City of Chicago and are funded for a total of \$50 million in FY2005. This is a 30% increase from FY2004. The program funds extra support in the form of two reading specialists for each of the lowest performing elementary schools to assist in professional development, curriculum and instruction. IT also provides funding for schools participating in the "Reading First" program, which supports reading efforts in grades K-3.<sup>26</sup>

<sup>22</sup> CPS Office of Management and Budget FY2005.

<sup>23</sup> CPS Budget FY2005, p. 6.

<sup>24</sup> CPS Office of Management and Budget FY2005.

<sup>25</sup> CPS Budget FY2005, p. 5.

<sup>26</sup> CPS Budget FY2005, p. 5

*After School Programs: \$67 Million in Enrichment Grants in FY2005*

The “After School Counts” program provides after-school reading and math instruction for over \$70,000 students at approximately 180 schools. The program serves K-8 students and is offered for a minimum of 4 hours per week, 20 weeks per year.<sup>27</sup> For FY2005, elementary schools also have the opportunity to apply for after-school enrichment grants on a competitive basis. These grants may be used to fund after school programs other than reading and math, such as art, music, drama, technology, and recreation. Altogether, these programs are funded for a total of \$7.8 million in FY2005 as compared to \$14.6 million in FY2004.<sup>28</sup> Sports programs will receive a 28% increase in FY2005, from \$7.1 million in FY2004 to \$9.1 million in FY2005, and will serve approximately 25, 000 students. The new “Tuition-Based After School Program” is a pilot program in FY2005 and is funded for \$0.5 million. The program will offer day care until at least 6 p.m. and the opportunity for onsite school enrollment for children in enrichment activities such as dance, music, and foreign language instruction.

*Tuition Based Pre-School: 80% Increase*

The Tuition based Pre-School program provides opportunities for children not otherwise eligible for early childhood programs offered by CPS. In an effort to recover more of the increasing program costs in FY2005 there will be an increase in weekly tuition and a reduction in the number of participating classrooms and school locations.<sup>29</sup> Schools not able to secure adequate enrollment will be closed in FY2005. The program will operate in 23 classrooms for 40 weeks in FY2005 for a total of \$3 million as compared to \$5.4 million in FY2004, an 80% increase.<sup>30</sup> An estimated \$2.4 million in tuition revenue will offset this expense.

*College Excel: 38% Increase*

College Excel is a cooperative venture between CPS and 14 local colleges and universities, as students have the opportunity to earn both high school and college credits and gain college level academic experience. The program is funded for a total of \$1.3 million in FY2005.<sup>31</sup> The new “Devry Advantage Academy” will provide CPS the opportunity to obtain a Network Systems Administration (NSA) Associate Degree at the same time as a high school degree. The new initiative is funded for a total of \$1.1 million in FY2005 as compared to \$1.8 million in FY2004.<sup>32</sup>

*Alternative School Programs: \$3 Million in Funding in FY2005*

The Alternative School program for high school students is being managed by the Department for Drop Out Prevention which was created in FY2004. Its primary objectives are student dropout prevention and student dropout recovery. In FY2005 the new “Learning in New Communities” (LINC) contract schools will provide approximately 500 student slots. The alternative school additional student slots are funded for a total of \$3 million in FY2005.<sup>33</sup>

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<sup>27</sup> CPS Budget FY2005, P. 7.

<sup>28</sup> CPS Budget FY2004, p. 10

<sup>29</sup> CPS Budget FY2005, p. 5.

<sup>30</sup> CPS Budget FY2004, p. 10.

<sup>31</sup> CPS Budget FY2005, p. 6.

<sup>32</sup> CPS Budget FY2004, p. 10.

<sup>33</sup> CPS Budget FY2005, p. 5.

**PERSONNEL: 1,637 POSITIONS ELIMINATED IN FY2005**

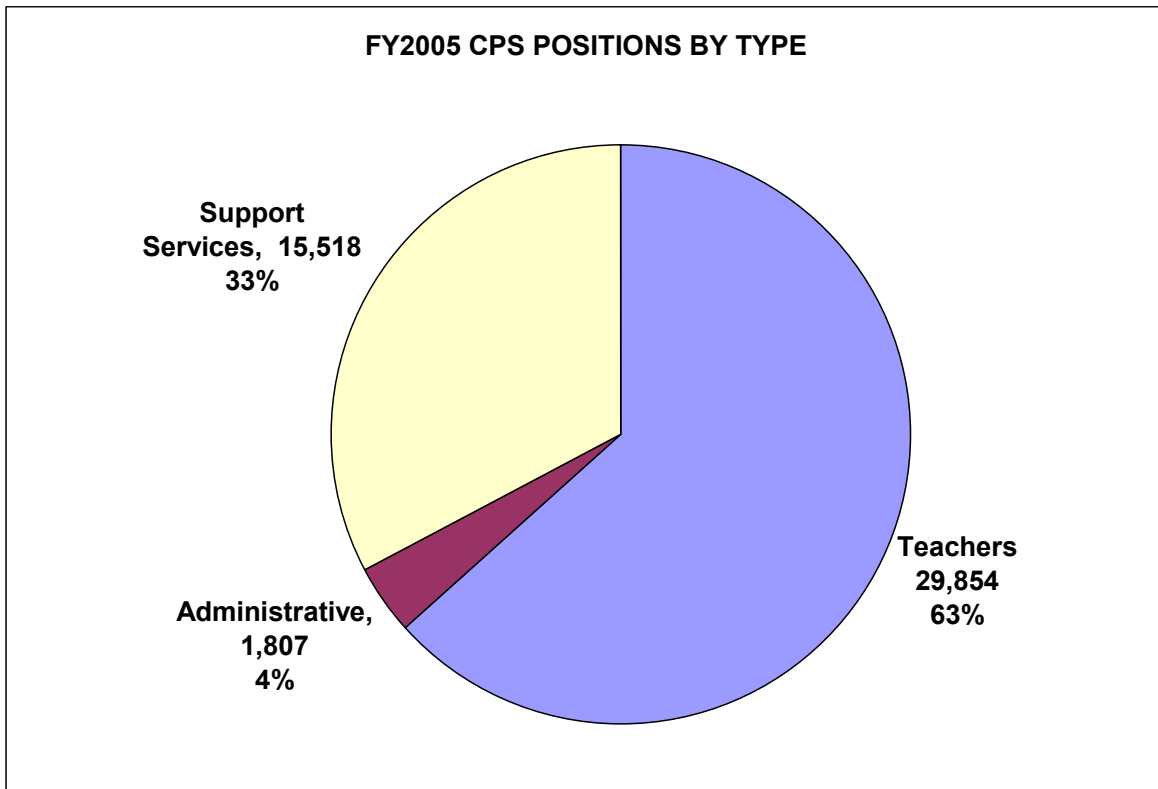
In FY2005, the Chicago Public Schools will budget funds for a total of 47,179 positions. This is a reduction of 1,637 positions from the previous fiscal year. The job cuts yielded budget savings of approximately \$80 million. As noted previously, these reductions were a key component of the CPS’s strategy to eliminate its \$250 million deficit. The exhibit that follows shows details of the reductions:

- 180 administrative positions and 1,457 school-based positions were eliminated.
- 135 of the 180 administrative positions were layoffs. The remaining cuts were due to vacancies and retirements.
- The majority of the 1,457 school-based positions eliminated were layoffs. These reductions were mostly clerical and staff positions, not teaching positions.

<b>CPS DISTRIBUTION OF PERSONNEL: FY2004 &amp; FY2005</b>				
<b>Location</b>	<b>FY2004</b>	<b>FY2005</b>	<b>CHG</b>	<b>% CHG</b>
Administrative Positions	1,987	1,807	(180)	-9.1%
School Based Positions	46,829	45,372	(1,457)	-3.1%
<b>TOTAL</b>	<b>48,816</b>	<b>47,179</b>	<b>(1,637)</b>	<b>-3.4%</b>

Source: CPS FY2005 Budget, p. 938

This fiscal year, the CPS proposes to budget for 29,854 teacher positions or 63% of all positions. This is a slight, 154 position, reduction from FY2004. Thirty-three percent, or 15,518 positions are designated for support services, including teachers’ aides, clerical staff, custodians, security officers and building engineers. The remaining 4% of employees are administrators.



This year, the format in which personnel figures are presented in the budget was changed to more accurately reflect the classification of personnel functions. Previously, positions were classified by location: Central Office, Schools and Citywide, a designation which included employees for system-wide functions as well as teachers and employees who serve multiple school locations. The new format divides employees into two categories, Administrative positions and School-Based positions. The CPS has also changed how it reports the number of employee positions.

The FY2005 Budget Book on page 13 reports that the number of employees is 47,179 and that the number of employees in FY2004 was 48,816. Yet, in FY2004, the Budget Book reported on page 13 that the number of employees was 47,319. The reason for the discrepancy is that the FY2004 book (and previous Budget Books) omitted a count of part-time and grant-funded positions. Therefore, 1,497 employees were not counted in the previous year.<sup>34</sup>

Because of the format changes in personnel reporting in the FY2005 budget, historical comparable data are not available at this time.

### **Personnel Changes: Tenure Lengthened, Health Insurance Costs Held Flat**

The CPS and the Chicago Teachers' Union agreed on a new 4-year contract in 2004 that provides for average annual salary increases of 5% in each of the four years (4% plus step and grade adjustments). In return, the CPS received important concessions.

First, principals won the right to dismiss teach in the first four years; tenure now begins in the fifth year. Over the long-term, this change will significantly boost productivity and ensure better teachers in the classroom.<sup>35</sup>

Second, the contract provided for increased minimum contributions for health insurance and moved employees into five new, more cost effective insurance plans. This measure enabled the CPS to essentially hold health insurance costs flat. In FY2004, health insurance costs were \$253 million while in FY2005 they will be \$256 million, a relatively small \$2.9 million increase. Given that the City of Chicago is reporting potential health insurance costs of up to 14% and that cost increases at the CPS had averaged 15% per year, this is a very significant change.

Overall, CPS expenditures for salaries and benefits in the General Operating and Debt Service Funds, which fund most personnel costs, are expected to increase by 1.3% or \$39 million in FY2005. Salaries alone will rise by 1.5% or from \$2.3 billion to nearly \$2.4 billion.

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<sup>34</sup> Information provided in Briefing on Chicago Public Schools FY2005 Budget by CPS Office of Management and Budget, August 12, 2004.

<sup>35</sup> Information provided at Chicago Public Schools Budget Briefing, August 12, 2004.



<b>CHICAGO PUBLIC SCHOOLS FY2004 &amp; FY2005 PERSONNEL EXPENDITURES: GENERAL OPERATING &amp; DEBT SERVICE FUNDS</b>				
	<b>FY2004 Projected</b>	<b>FY2005 Proposed</b>	<b>\$ CHG</b>	<b>% CHG</b>
<b>Salaries</b>	\$ 2,363,300,000	\$ 2,399,061,000	\$ 35,761,000	1.5%
<b>Benefits and Taxes:</b>				
Health Insurance	\$ 253,200,000	\$ 256,152,000	\$ 2,952,000	1.2%
Retirement Benefits	\$ 279,600,000	\$ 282,084,000	\$ 2,484,000	0.9%
Taxes and Other Benefits	\$ 46,500,000	\$ 44,683,000	\$ (1,817,000)	-3.9%
<b>Subtotal Benefits and Taxes:</b>	\$ 579,300,000	\$ 582,919,000	\$ 3,619,000	0.6%
<b>Total Salary and Benefits</b>	<b>\$ 2,942,600,000</b>	<b>\$ 2,981,980,000</b>	<b>\$ 39,380,000</b>	<b>1.3%</b>

Source: Chicago Public Schools Office of Management & Budget

From FY2004 to FY2005, the total national health expenditures increased from \$1793.6 billion to \$1920.8 billion, a 7% increase.<sup>36</sup> According to the Center for Medicare and Medicaid Services, the National Aggregate Health expenditures for private health insurance rose from \$652.5 billion in 2004 to \$702 billion in 2005, an increase of 8%.<sup>37</sup> Hewitt Associates, a global HR outsourcing and consulting firm, projected the final HMO rate in the Midwest to increase by 14% by the end of 2004. The national average was projected to increase by 13%. The preliminary Health Management Organization (HMO) rate increases for the Midwest for FY2005 was 13.1%. The preliminary HMO rate National Average increase for FY2005 was 13.7%.<sup>38</sup> These double-digit increases contrast with the estimated health insurance costs projected by the CPS, which is only 1.2%.<sup>39</sup>

## **UNRESERVED, UNDESIGNATED FUND BALANCE**

This year, the Civic Federation used the standard recently recommended by the Government Finance Officers Association to measure the cash solvency of the Chicago Public Schools unreserved, undesignated General Operating Funds fund balance. The purpose of this indicator is to measure the ability of a government to quickly convert illiquid assets to cash to meet contingency needs. The GFOA recommends that governments maintain an unreserved fund balance of no less than 5% to 15% of General Fund operating revenues or 1-2 months of operating expenditures.<sup>40</sup>

<sup>36</sup> Insurance Information Institute, 2002. National Health Expenditures: 1993-2013 can be found at [www.iii.org/media/facts/statsbyissue/health/.content](http://www.iii.org/media/facts/statsbyissue/health/.content). (Both 2004 and 2005 were projected).

<sup>37</sup> Center for Medicare and Medicaid Services, (CMS), U.S. Department of Health and Human Services, Office of the Actuary, National Health Statistics Group: [www.cms.hhs.gov/statistics/nhe/projections-2002/t3.asp](http://www.cms.hhs.gov/statistics/nhe/projections-2002/t3.asp).

<sup>38</sup> Hewitt Associates LLC 2004. Regional data can be found at [http://was4.hewitt.com/hewitt/resource/newsroom/pressrel/2004/06-03-04\\_charts.pdf](http://was4.hewitt.com/hewitt/resource/newsroom/pressrel/2004/06-03-04_charts.pdf)

<sup>39</sup> The difference between the estimate in health insurance costs in the CPS budget from FY2004 to FY2005 for General Operating and Debt Service Funds is \$2,952. CPS Office of Management and Budget FY2005.

<sup>40</sup> Government Finance Officers Association. Recommended Practice on Appropriate Level of Unreserved Fund Balance in the General Fund (2002). The CPS is a special purpose, not a general purpose government, but its size and the relative stability of its revenue stream make it prudent for the CPS to maintain adequate reserves.

### **Unreserved, Undesignated Fund Balance Ratio: Below GFOA Recommendation in FY2003**

Between FY1999 and FY2003, the CPS General Operating Funds' unreserved, undesignated fund balance declined from 1.3% to 1.9% of operating expenditures in those funds. In each of these years, the ratio fell below the 5% minimum GFOA recommendation. The fund balance did spike sharply in FY2001, when it rose from \$97 million to \$201 million. The following the fund balance dropped dramatically down to \$8 million. The current fund balance ratio in FY2002 was 6%, which the Civic Federation rates as low.

<b>CHICAGO PUBLIC SCHOOLS UNRESERVED, UNDESIGNATED FUND BALANCE RATIO</b>			
<b>Fiscal Year</b>	<b>Undesignated General Operating Fund Balance</b>	<b>Expenditures</b>	<b>Ratio</b>
<b>FY1999</b>	\$ 56,955,000	\$ 3,060,728,000	1.9%
<b>FY2000</b>	\$ 97,157,000	\$ 3,184,502,000	3.1%
<b>FY2001</b>	\$ 201,520,000	\$ 3,353,119,000	6.0%
<b>FY2002</b>	\$ 8,383,000	\$ 3,493,886,000	0.2%
<b>FY2003</b>	\$ 47,126,000	\$ 3,595,441,000	1.3%

### **SHORT-TERM DEBT TRENDS**

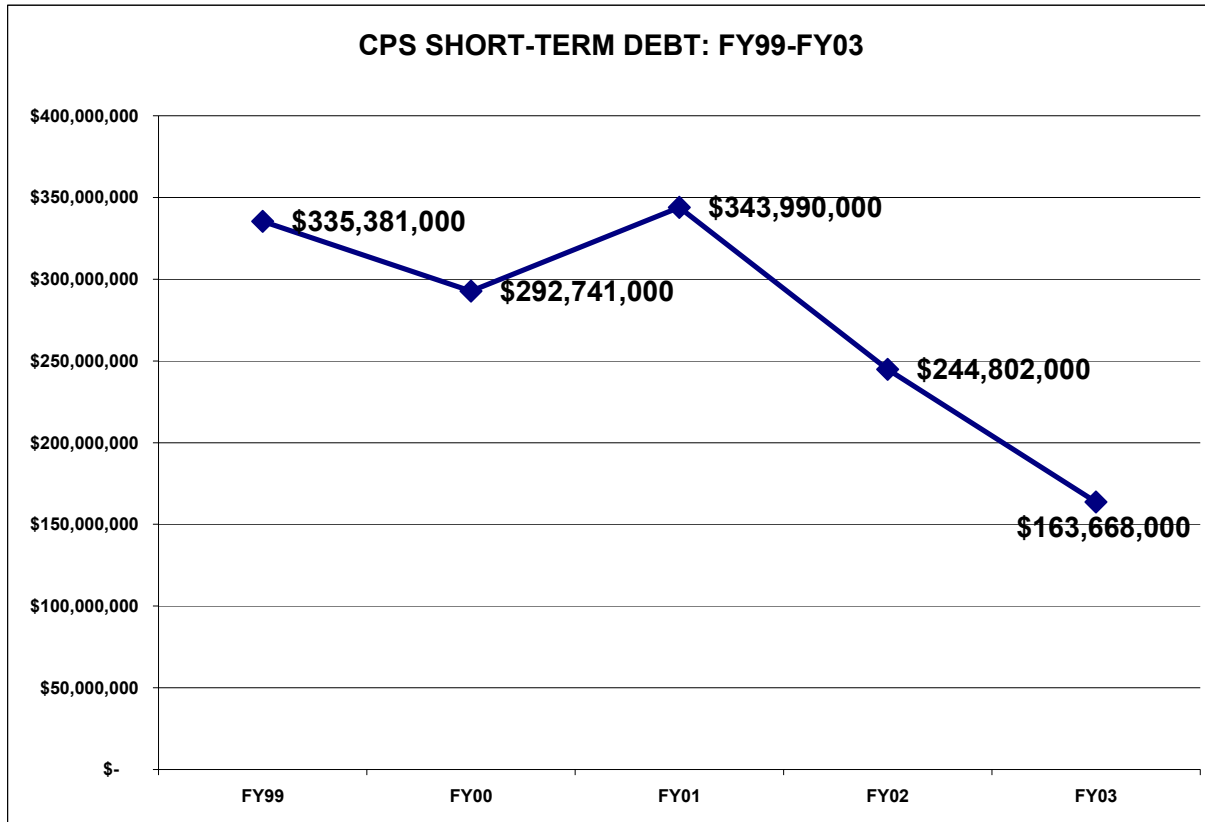
Short-term debt is a financial obligation that must be satisfied within one year. An increasing trend in short-term debt may be a warning sign of future financial difficulties. It is a measure of budgetary solvency, that is, a government's ability to generate enough revenue over the course of a normal budgetary period to meet its expenditures and prevent deficits. For purposes of this analysis, short-term debt in the Governmental Funds includes obligations such as accounts payable and other accrued liabilities.<sup>41</sup>

### **CPS Short-Term Debt to Decrease by 51% between FY1999 and FY2003**

The exhibit below presents the Chicago Public Schools short-term debt trends for Fiscal Years 1999 through 2003. During those fiscal years, short-term debt obligations fell by 51% or from \$335 million to \$163 million. Between FY2001 and FY2003, short-term debt fell by \$180 million. The decreases in short-term debt over time are a positive indicator.

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<sup>41</sup> In order to provide consistent comparisons, long-term liabilities due within one year, which are reported in the Statement of Net Assets beginning in FY2001 as a requirement of the new GASB No. 34 reporting model, were not included in the trend analysis



## LONG-TERM DEBT TRENDS

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

### Capital Outlay: \$659.6 Million Budgeted in FY2005

The CPS proposes a FY2005 capital projects appropriation of \$659.6 million. This is a \$27.4 million decrease from the previous year's appropriation of \$687 million. However, it represents a \$59.4 million increase from the amount actually estimated to be spent in FY2004, \$600.2 million.

The Chicago Public Schools propose to issue \$220 million in new bonds in FY2005. No new buildings are proposed. Rather, the funding will be used primarily for maintenance and improvements of existing infrastructure. Later this calendar year, the CPS will present a 3-year Capital Improvement Plan (CIP) providing detailed information regarding ongoing and upcoming projects.<sup>42</sup>

Detail about the funding sources of the FY2005 CPS capital budget is provided below. The CPS anticipates receiving \$110 million in funding from the State of Illinois later this calendar year:

<sup>42</sup> Chicago Public Schools Budget Briefing, August 12, 2004.

- \$100 million in capital construction dollars for a Capital Development Board construction grant is incorporated into the budget on the assumption that \$500 million in statewide capital construction funds will be appropriated by the General Assembly in its fall session when it considers the State FY2005 capital budget.
- \$10 million in capital construction dollars for a Capital Development Board maintenance grant is incorporated into the budget on the assumption that \$50 million in statewide school maintenance funds will be appropriated by the General Assembly in its fall session when it considers the State FY2005 capital budget.

Some of the other highlights of the capital budget include:

- \$9 million in *Qualified Zone Academy Bonds*. Congress passed legislation in 1997 allowing school districts located in federal Empowerment Zones or that serve low-income students to be relieved of the obligation to pay interest on certain qualifying bonds.
- \$19 million in funding for *soundproofing and energy conservation*. \$15 million of that amount is provided by the City of Chicago to soundproof schools adversely affected by noise from O’Hare and Midway Airports. *Commonwealth Edison Company* has provided the remaining \$4 million in a grant to the CPS to retrofit electrical infrastructure for greater efficiency.
- \$90 million is being provided by the *City of Chicago* for various school construction projects.

Finally, \$203.6 million in allocated but unspent bond proceeds from FY2004 is re-appropriated in the FY2005 capital budget.<sup>43</sup>

<b>CHICAGO PUBLIC SCHOOLS FY2005 CAPITAL PROJECTS FUNDS</b>	
<b>Sources of New Funds</b>	
<b>Local</b>	
FY2005 Proposed Bonds	\$ 220.0
Interest	\$ 8.0
Soundproofing & Energy Conservation	\$ 19.0
<b>State</b>	
Capital Development Board	\$ 110.0
<b>Federal</b>	
Qualified Zone Academy Bonds	\$ 9.0
<b>Subtotal New Funds</b>	<b>\$ 366.0</b>
Sources of Additional Funds (Prior-Year Projects)	
City of Chicago Commitment for Capital Projects	\$ 90.0
<b>Subtotal Additional Funds</b>	<b>\$ 90.0</b>
<b>Re-Appropriation of Existing Bond Funds</b>	<b>\$ 203.6</b>
<b>Total Source of All Funds</b>	<b>\$ 659.6</b>

Source: Chicago Public Schools FY2005 Budget, p. 99.

<sup>43</sup> *Chicago Public Schools FY2005 Budget*, P. 102.

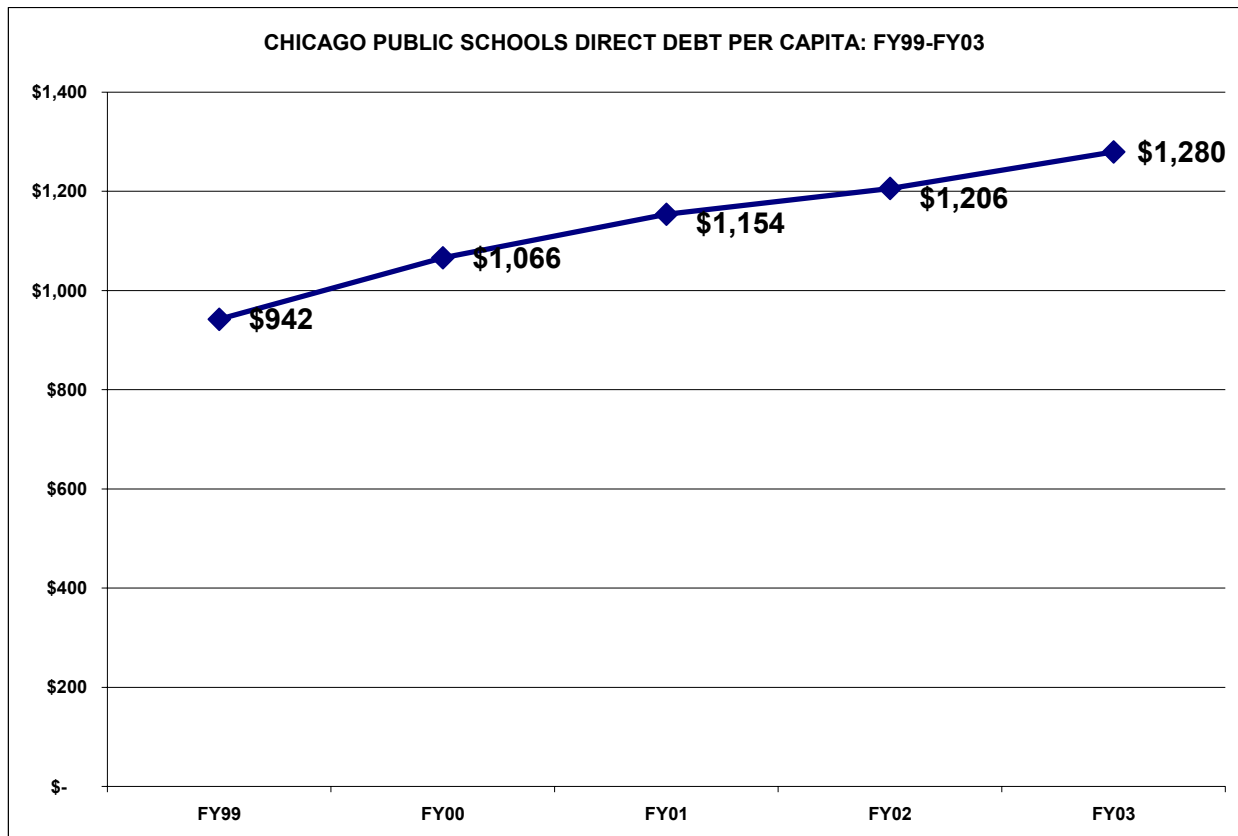
## Long-Term Debt Trends

This section of the analysis presents information about direct debt per capita trends, overlapping debt trends and bond ratings.

### *Direct Debt Per Capita: 36% Increase Between FY1999 and FY2003*

The next exhibit presents historic CPS direct debt per capita figures. Direct debt per capita is a measure of a government's ability to maintain its current financial policies. This analysis takes the Chicago Public Schools total direct debt amount per year and divides it by population. Direct debt includes bonds, leases securing Public Building Commission bonds, asbestos abatement loans from the U.S. Environmental Protection Agency and capitalized leases. It excludes other long-term obligations such as accrued pension obligations, accrued sick pay benefits, tort liabilities and accrued workers' compensation claims. Increases bear watching as a potential sign of increasing financial risk.

Direct debt per capita increased by 36% between FY1999 and FY2003, from \$942 to \$1,280. It rose by 6.1% between FY2002 and FY2003.



### *CPS Direct Debt Compared to Overlapping Debt*

The following exhibit compares total CPS direct debt with overlapping debt reported by seven other major Cook County governments with boundaries coterminous with the CPS or located



employee's full salary rate. One percent of that 9% amount is survivors' and children's pension benefits. The Chicago Public Schools are required by statute to make contributions to the Teacher's Fund only if its funded ratio drops below 90% by the end of the fiscal year. The CPS is then required to provide funding in an amount that ensures that the funded ratio exceeds 90%.<sup>45</sup>

The Civic Federation used three measures to present a multi-year evaluation of the fiscal health of the Teachers' pension fund: funded ratios, the investment rate of return and the value of unfunded liabilities.

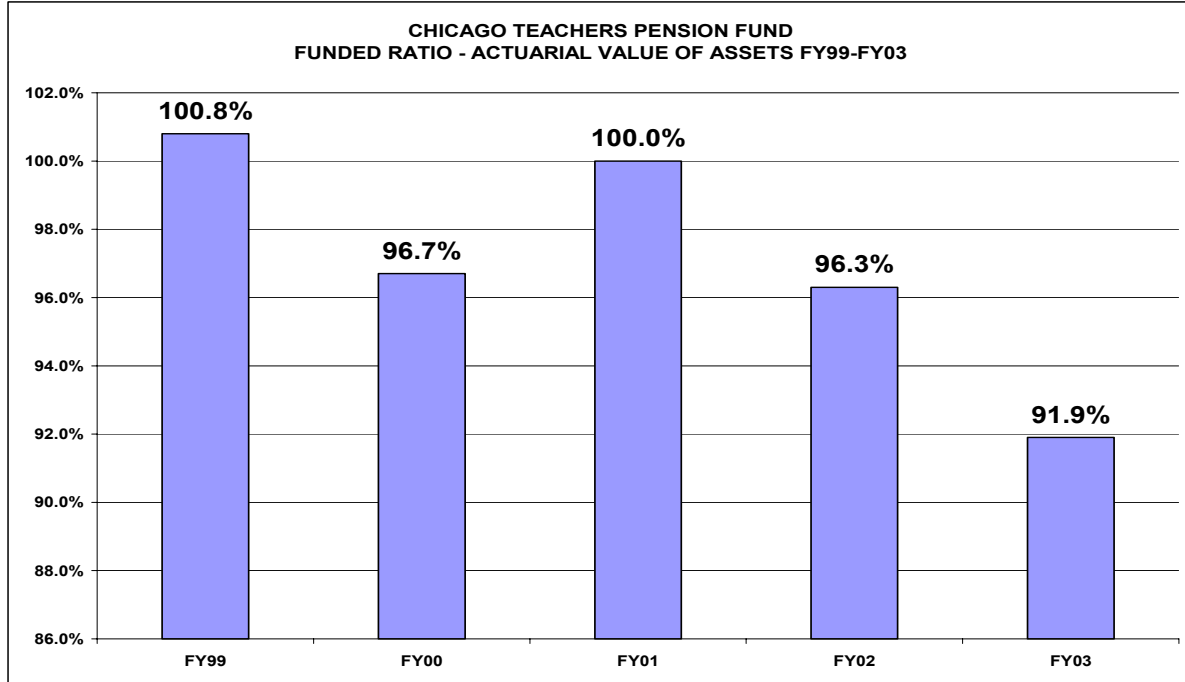
### **Funded Ratios – Actuarial Value of Assets**

The following exhibit shows the funded ratio for the Chicago Public Schools Teachers' pension fund. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage the more difficulty a government may have in meeting future obligations. In FY2003, the CPS's audited financial statements reported that the funded ratio was 91.9%, a slight decline from the previous year's ration of 96.3%.

Between FY1999 and FY2003, the funded ratio for the Teachers' Pension Fund averaged 97%. Thus, the Chicago Public Schools had more than adequate assets to cover pension liabilities in the long term during this period.

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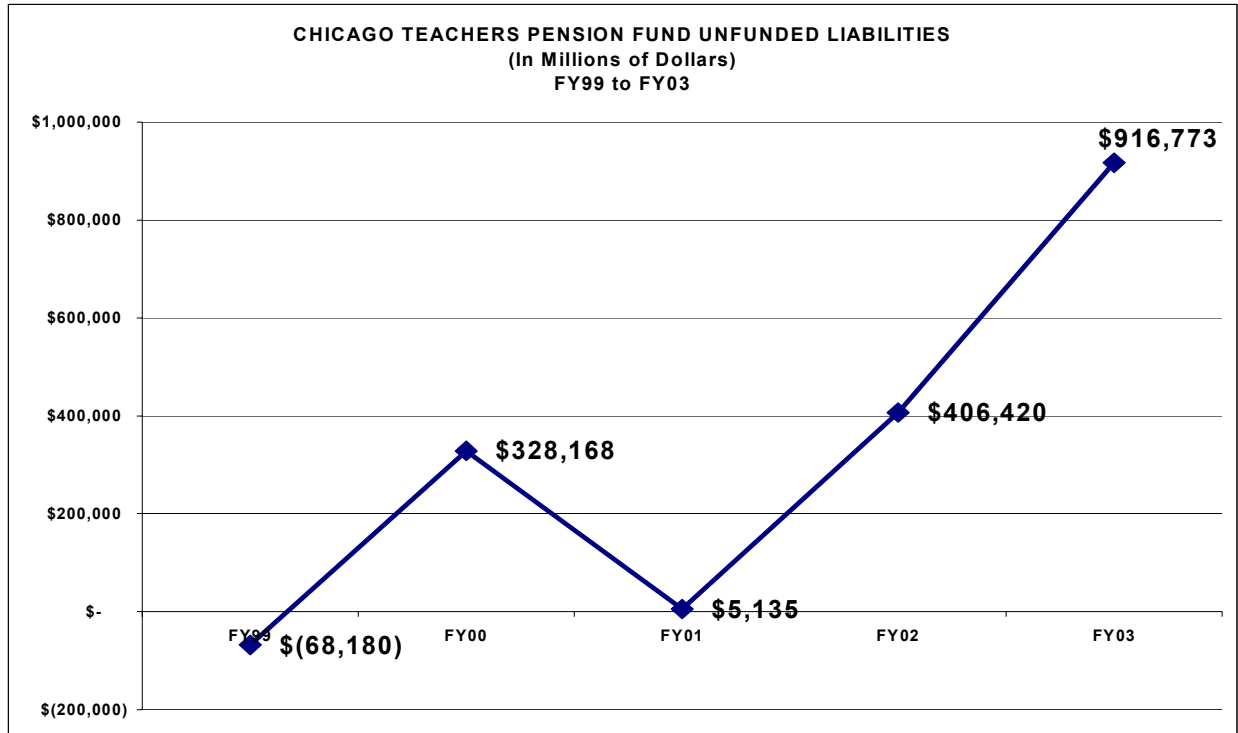
<sup>45</sup> Public School Teachers' Pension and Retirement Fund of Chicago. *108<sup>th</sup> Comprehensive Annual Financial Report for the year ended June 30, 2003*, p. 32



### **Unfunded Pension Liabilities**

Unfunded liabilities are the dollar value of pension liabilities not covered by assets. As the exhibit below shows, unfunded liabilities for the Chicago Public Schools Teachers' pension fund totaled approximately \$916 million in FY2003. This was a \$510 million increase since FY2002 and a \$984 million increase since FY1999. In FY1999, the pension fund was funded at rates above 100%. Thus, the figure shown in the exhibit for that year is negative.





The next exhibit shows the reasons for the \$510 million increase in unfunded liabilities. The largest single reason for the increase in unfunded liability was that investment returns were lower than originally assumed. A total of \$934 million in increased liabilities were reported. There were also \$424 million reported in decreased liabilities, primarily due to salary increases being lower than originally assumed.

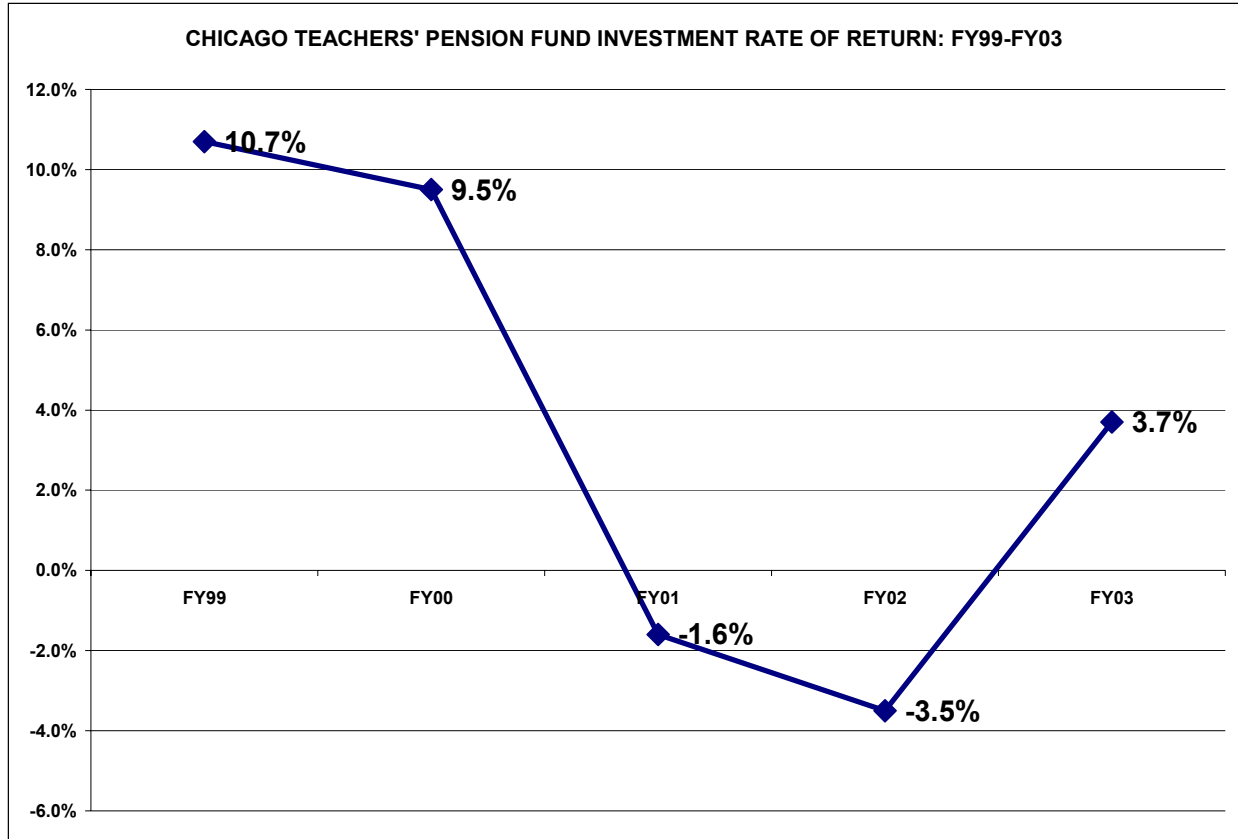
<b>EXPLANATION OF FY2003 INCREASE IN UNFUNDED LIABILITIES</b>	
<b>Unfunded Actuarial Liability 7/1/02</b>	<b>\$ 406,420,752</b>
<b>Increases in Unfunded Liability</b>	
Due to Employer Contribution Being Less than Normal Cost + Interest on Unfunded Liability	\$ 134,336,830
Due to Investment Return Lower than Assumed	\$ 599,200,884
Due to Changes in Valuation of Benefits	\$ 70,470,829
Due to Changes in Actuarial Assumptions	\$ 130,706,801
<b>Subtotal Increases</b>	<b>\$ 934,715,344</b>
<b>Decreases in Unfunded Liability</b>	
Due to Revision of Actuarial Value of Assets to include all assets	\$ 21,885,581
Due to Salary Increases Lower than Assumed	\$ 360,506,774
Due to Other Sources	\$ 41,970,075
<b>Subtotal Decreases</b>	<b>\$ 424,362,430</b>
<b>Net Increase in Unfunded Liability</b> (Increases - Decreases)	<b>\$ 510,352,914</b>
<b>FY2003 Total Unfunded Liability</b> (Net Increase in Unfunded Liability FY2003 + Unfunded Actuarial Liability 7/1/2002)	<b>\$ 916,773,666</b>

Source: Public School Teachers' Pension & Retirement Fund. FY2003 CAFR, p. 71.

### **Investment Rates of Return: First Positive Returns since FY2000**

Investment returns for the Chicago Public Schools Teachers pension fund increased by 3.7% in FY2003. This followed two years of investment losses, reported as -1.6% in FY2001 and -3.5% in FY2002. The positive rate of return was due in large part to an 11% quarterly return for the 4<sup>th</sup> quarter ending June 30, 2003.<sup>46</sup> The improvement in investment rates of return is a very positive sign.

<sup>46</sup> Public School Teachers' Pension and Retirement Fund of Chicago. *108<sup>th</sup> Comprehensive Annual Financial Report for the year ended June 30, 2003*, p. 12.



## **CIVIC FEDERATION RECOMMENDATIONS**

The Civic Federation offers the following recommendations regarding ways to improve the CPS's financial management and fulfill the CPS's financial obligations.

### **Limit the Size of the Property Tax Increase by Prioritizing Programs and Cutting Spending**

The CPS has taken an important first step in containing costs this year by reducing headcount. However, The Civic Federation is not convinced that all necessary efficiencies have been wrung out of the CPS's budget. As we note above, the CPS consistently fails to provide verification even of those management efficiency measures it claims to implement each year in its Budget Book or public pronouncements.

The CPS's operating budget is projected to increase by 4.7% in FY2005, from \$4.81 billion to \$5.05 billion. Finding an additional \$40 million to replace the capped portion of the property tax levy increase proposed this year would require additional spending cuts of 0.8% in budget. *Spending reductions of just 0.4% could reduce the tax capped levy increase to \$20 million and give hard pressed Chicago homeowners and businesses a welcome break from the tradition of maximum levy increases.*

The CPS must review which operations are core activities and which are not in order to finally prioritize its spending. Further expenditure cuts are vastly preferable to reflexively increasing

property taxes on individuals or businesses, a lesson taken to heart by virtually every other local government. To that point, it is imperative that the CPS and conduct focused management audits of all programs and begin to eliminate inefficient or non-essential expenditures. We are strongly supportive of programs and initiatives that improve students' chances for succeeding and graduating. But, we find it hard to believe that all CPS programs are essential or add value.

In sum, the Civic Federation believes that the CPS, like all other governments in Illinois, must prioritize its programs, improve the efficiency of its operations and move to reduce spending *before* resorting to maximum property tax increases.

### **Improve CPS Budget Format**

The Chicago Public Schools contains a wealth of detail and information. Unfortunately, the document is no necessarily user-friendly nor does it provide citizens with good comparative information they can use to better understand and analyze the CPS's finances.

We recommend that the budget format be revised to include the following information:

- A “walk-up” that describes the sources of the current fiscal year budget deficit in the introductory pages of the budget.
- A “walk down” that clearly identifies the steps taken to eliminate the budget deficit, including identification of the location of personnel reductions.
- Narrative detail and cost information regarding the management efficiencies listed in the introductory section of the budget
- Information about which of the management efficiencies listed in the previous fiscal year budget were implemented and what savings each generated.
- Narrative descriptions of the schools and school-based units similar to those provided for the various administrative units in Section XI of the budget document, “CPS Program Summaries by Unit.”
- Five years of summary financial information, including:
  - Appropriations and Expenditures for each Administrative and School-Based Unit and
  - Appropriations and Expenditures by Object Classification and Fund
- Five years of comparable personnel information that shows Positions by Fund and for each Administrative and School-Based Unit.

The Cook County budget, which has won the Government Finance Officer's Association Distinguished Budget Presentation Award for several years, is a good example of a user-friendly budget document that provides citizens with useful summary information at the beginning of the budget document. The information includes:

- An organizational chart
- A description of budget procedures and structure
- A budget calendar
- A brief departmental directory describing functions of each agency
- A glossary of terms
- Five years of summary information:

- Appropriations and Expenditures by Fund and Program
- Appropriations and Expenditures by Control Officer
- Appropriations and Expenditures by Object Classification and Fund
- Positions by Fund and by Control Officer

In reviewing the narrative and financial information contained in the beginning pages of the Cook County budget, it is easy to quickly gain a good understanding of the County's structure, operations and how its financial position has changed over a 5-year period. Many other large governments around the country produce similar documents, including a user-friendly Executive Summary at the beginning of the budget document or under separate cover.

The Civic Federation recommends that the Chicago Public Schools revise its budget format like other best practice governments around the U.S. to provide citizens with financial trend information and descriptions of organization and function in a brief summary section in the current Budget Recommendation volume or in a more detailed Executive Summary under separate cover.

### **Increase Time Allowed for Public Review and Comment**

More time should be allowed for the public to review and understand the Chicago Public Schools' multi-billion dollar budget. At a minimum, ten working days should be allowed for the public review period before public testimony is heard. Only in this way, can citizens make fully informed commentary on the largest local government budget.

### **Pursue Joint Purchasing of Employee Health Insurance with Other Local Governments**

The Chicago Public Schools has taken two important strides this year to contain healthy care costs: negotiating a more cost-effective union contract that holds health insurance expenditures essentially constant in 2005 and successfully entering into an agreement with six other local governments for the joint purchase of prescription drugs. Both of these laudable efforts will save the CPS millions of dollars over time. At this time, we urge the CPS to take the next step and explore the possibility of consolidated health insurance purchasing with the City of Chicago, Cook County, Chicago Park District, Chicago Transit Authority, the City Colleges of Chicago, the Chicago Public Schools and the Chicago Housing Authority. A recent Civic Federation study found that forming such an agreement consisting of the employees of these governments could yield projected savings of \$40.1 million for all the governments in the first year or \$222 million over a 5-year period.<sup>47</sup> The additional savings that can be achieved from an insurance pool would be extremely beneficial to the CPS's future financial situation.

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<sup>47</sup> The Civic Federation. *Feasibility Study of Consolidated Purchasing: Chicago Public Employers*. A Study Conducted by the Segal Company. February 23, 2001.