



**CHICAGO PUBLIC SCHOOLS
FY2006 RECOMMENDED BUDGET**

Analysis and Recommendations

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The Civic Federation
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EXECUTIVE SUMMARY

The Chicago Public Schools (CPS) has proposed a \$5.043 billion budget for FY2006. CPS, the State's largest school district, originally projected a \$274 million deficit. In the proposed budget, that deficit is addressed through \$114 million in reduced expenditures, more than \$140 million in increased revenues, and transfer of \$20 million from reserves to the operating budget. This budget includes an increase in the property tax levy to the maximum amount allowed under the State tax cap law.

The Civic Federation **supports** the FY2006 CPS budget as a short-term plan to address the current year's fiscal and programmatic challenges. We are encouraged that the District held the line on spending, keeping total appropriations flat compared with the previous year. We acknowledge the District's announced efforts to cut costs further. However, the Federation is deeply concerned that, in the long-term, the CPS financial situation is unsustainable. Personnel costs are outstripping revenue growth even as student enrollment falls.

The Federation also remains disappointed by the continued lack of a transparent, complete budget document. Without consistent, comparative information in the budget, it is difficult for the Civic Federation -- or anyone else -- to verify CPS management's claims that the District is controlling costs effectively. Public proof of actual budget savings is needed to assure taxpayers that Chicago's public schools are being operated efficiently and build public confidence in the District's financial stewardship. Clear, accessible budget information is needed if CPS is to convince State officials, or the public at large, that additional funds are needed for the city's public school system.

The Civic Federation offers the following **key findings** on the CPS FY2006 Recommended Budget:

- FY2006 budgeted appropriations will **decrease** by 0.05% from FY2005, falling from \$5.045 billion to \$5.043 billion.
- Appropriations for employee compensation, including salaries and benefits, will increase by 4.2% in FY2006, from \$2.9 billion to \$3.1 billion. Since FY2002, total compensation costs have risen by 18.8%, or \$492.7 million. Over that period, benefit costs have risen by 34.7%, from \$478.3 million to \$644.5 million.
- The budget deficit of \$274 million was closed by the reported elimination of more than 1,000 positions (\$90 million in savings), increased efficiencies in the food service and transportation programs (\$24 million in savings), increased funding from the State of Illinois (\$92 million), \$45 million in new property tax dollars and transfer of \$20 million from the District's reserve funds.
- As noted above, the State of Illinois will provide more than \$92 million in new funding for CPS. Of that amount, \$82.2 million will support CPS operations and \$9.8 million is earmarked for the Teachers' Pension Fund. This figure includes \$54 million in increased General State Aid, which raises per-pupil spending by \$200, for a total of \$5,164 per pupil.
- The property tax levy will increase by \$45.2 million or 2.8%, from \$1.63 billion to \$1.67 billion. That figure includes a \$31 million increase in the levy on properties covered by the tax cap law, which permits no more than a 1.9% increase over the prior year's levy. New properties not covered by the tax cap account for the remaining \$14 million.

- A total of 891 school-based positions and 197 administrative positions, totaling 1,088 positions, will be eliminated, cutting the headcount from 47,218 to 46,130.

The Civic Federation is **encouraged** by several elements of the proposed budget:

- The \$2.4 million decrease in total appropriations indicates CPS is working to stabilize costs.
- The reported reductions in the workforce will save approximately \$90 million.
- The CPS continues to privatize custodial services, and is moving to outsource engineering positions and its Technology Data Center. While these efforts are designed to improve service quality, they also may generate savings over time.
- More than \$24 million in savings will be realized in the transportation and food service programs by increasing efficiency and renegotiating contracts.
- Educational choices for students and parents will be expanded; the number of charter school students is expected to increase by 28%, from 12,361 to 15,814. More than 3,000 additional students will be enrolled in schools opening under the Renaissance 2010 initiative.

The Civic Federation has several **concerns** about the FY2006 Chicago Public Schools budget:

- The CPS public budget documents lack basic transparency. There is very little documentation of the District's progress toward meeting its budgetary goals. Information on headcount and salary totals remains confusing, if not contradictory. No narrative detail is provided about the school-based units which consume the majority of CPS resources. The Civic Federation firmly believes that taxpayers are entitled to a clear, plain explanation of how governments spend their money – especially when officials are seeking public support for increased funding.
- The budget documents fail to provide necessary details of management cost savings. Although the budget book mentions increased efficiencies, no specifics are provided about the actual savings these changes will generate.

The Civic Federation further **cautions** that CPS faces serious, long-term structural problems. Enrollment is declining as operating expenditures continue to rise. Personnel costs are outstripping general operating revenue growth. Rapidly rising retirement costs may require steep future funding increases.

- Enrollment is expected to fall by 1,659 students in the coming year. Although a slight increase in high school enrollment is expected, elementary enrollment may drop by as much as 7,844 students or 2.7%.
- According to its own actuarial reports, the CPS's required contribution to the Teachers' Pension Fund will rise from \$0 in FY2005 to \$141.8 million in FY2009. By FY2014, the required contribution will be \$220.2 million.
- Over the last five years, CPS operating revenues have risen by 17.7%. Over that period, total employee compensation rose by 18.8% and employee benefits costs rose by 34.7%. This trend of personnel costs far outstripping revenue growth is clearly unsustainable.
- CPS has increased its property tax levy to the maximum amount permitted by the tax cap law in nine of the past 11 years. As a result, the property tax bill for a commercial property currently valued at \$500,000 will increase by approximately \$411 – pushing the CPS portion of its property tax bill over \$15,000.
- The CPS has allowed an unreasonably short amount of time for public review and comment, releasing its budget only six days before the beginning of public testimony.

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

- It is imperative that CPS follow the lead of the City of Chicago and make its Budget Book format more transparent. The Budget Book should detail the sources of its projected deficit and gap-closing plan, and should offer five years of comparable summary information about appropriations, expenditures, revenues and personnel.
- Escalating pension expenses should be contained by capping annual benefit increases for new hires at 3% or the rate of inflation, whichever is less. Currently, retirees receive an automatic 3% increase each year. The employee share of pension costs also should be increased. Of the 9% of salary that makes up the employee share of pension costs, CPS now picks up 7%; employees pay the remaining 2%. In its proposed budget for FY2006, the CPS pension pick-up costs total \$235 million. The Civic Federation believes the employee share should increase by at least one percentage point (to 3%) and that this shift of pension costs should be a top priority when CPS negotiates new collective bargaining agreements. The CPS should also seek to limit annual salary increases to the rate of its revenue source growth.
- CPS must prepare, and make publicly available, a long-term detailed Capital Improvement Plan. In its proposed budget, its Capital Program totals nearly \$596 million, and CPS intends to issue \$250 million in new bonds. Although some elements of a capital program process are now in place, CPS must make good on last year's promise to prepare, disclose and implement a formal CIP linked to a comprehensive District-wide financial planning process.
- The public should be given a minimum of 10 working days to review the budget before public hearings begin.
- The CPS should follow up on the success of its effort to purchase prescription drugs with other local governments and pursue joint purchasing of health insurance.

OVERVIEW

The Civic Federation recently concluded an analysis of financial issues related to the Chicago Public Schools' (CPS) Recommended FY2006 \$5.04 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.

The Civic Federation **supports** the FY2006 CPS budget as a short-term plan to address the current year's fiscal and programmatic challenges. We are encouraged by several positive features of the budget, including the fact that the District held the line on spending by reducing FY2006 total appropriations by one half percent and announced efforts to contain costs by means of certain efficiencies. However, the Federation is deeply concerned that, in the long-term, the CPS's financial situation is unsustainable: personnel costs are outstripping revenue growth even as District student enrollment falls. In addition, the Federation remains disappointed by the continued lack of a transparent and high quality budget document.

The lack of consistent, comparative information in the budget makes it difficult for the Civic Federation or anyone else to verify or measure the claims by official CPS management that the District is effectively controlling costs. Public proof of actual budget savings remains a critical step in securing public confidence that the schools are being operated efficiently and effectively. Much greater budget transparency is mandatory if the CPS is to hope to ever win the confidence of the taxpaying public that the District is an efficient steward of over \$5 billion of public money. Further, the lack of clear information makes it that much more difficult for the CPS to convince the public or State of Illinois officials that additional funding from State or other sources should be forthcoming.

Issues that The Civic Federation Supports

The Civic Federation is encouraged that the CPS has undertaken several positive and important initiatives this year, including exercising expenditure restraint, reducing personnel, continuing privatization efforts, effecting cost reductions in certain areas and continuing to expand schools of choice.

Budget Restraint and Personnel Reductions

The Civic Federation commends CPS leadership for exercising fiscal restraint in FY2006 by proposing a budget that is 0.05% or \$2.4 million smaller than in FY2005. We also applaud the CPS for continuing to reduce its full-time equivalent positions. This year, the District claims to be reducing the total number of FTEs by 1,088; this includes a reduction of 197 administrative positions. Over 77% of all general operating fund¹ appropriations and 61% of all appropriations are consumed by personnel-related costs. Clearly, containing these costs is critical if the CPS is to remain solvent in the short or long-term. Unfortunately, however, the Budget Book presents

¹ General Operating funds refers to General and Special Revenue Funds.

some contradictory information about the number of positions cut, raising a concern about the actual size of the total budgetary reduction.²

We urge the CPS to provide consistent and clear information in the Budget Book and related financial management documents to the taxpaying public about changes in personnel.

Ongoing Privatization Efforts:

The CPS is continuing its ongoing effort to privatize a portion of its custodial and engineering services as well as the Technology Data Center. The District's goal is to privatize 2/3rds of the custodial positions over time, and the amount of engineering positions to be outsourced is still under consideration.³ In addition, the CPS is exploring the outsourcing of its Technology Data Center, a move that could save \$2 million per year. To accomplish the latter, the CPS is joining onto a City of Chicago contract aimed at privatizing the City's data center.

The Civic Federation strongly applauds the CPS for continuing its ongoing efforts to privatize a portion of its custodial and engineering services as well as the Technology Data Center. While these measures are primarily designed to improve service quality, they may well also generate cost savings over time.

*We urge the CPS to provide more information in the Budget Book and related financial management documents to the taxpaying public about these types of important efforts.*⁴

Cost Saving Efficiencies

The CPS regularly publishes a list of "Efficiencies and Cost Reductions" in its annual Budget Book.⁵ However, this year as in past years, no detailed narrative or information about the amount of money saved is provided. That omission is unfortunate, as the CPS deserves credit for any efforts it makes to reduce unnecessary costs.

The Civic Federation has learned that several important cost saving initiatives are being undertaken in FY2006. For example, the CPS will save \$24 million in the transportation and food service programs in FY2006. Savings in the District's transportation programs come from reducing the number of pickup and drop-off points and tightening eligibility requirements for students. Reductions in food service costs are due to staff cuts as the student population declines as well as the District's negotiation of more favorable food prices from its suppliers. Another important example relates to schools placed on probation, which for years have received grants of \$750,000 for elementary schools and \$1 million for high schools. Rather than use the funds to improve performance, the schools treated the funds as discretionary monies. The CPS now requires schools to spend the money directly on reading specialists, reducing the District's aggregate costs for reading specialists by as much as \$20 - \$30 million annually.⁶

² The "Student Profile" section of the CPS Budget Book on p. 1108 states that the total number of full-time equivalent positions, both school-based and administrative, will be reduced by 1,088. But, the "Budget Overview" section on p. 15 states that there will be a net reduction of 992 total positions.

³ Information provided by Chicago Public Schools Office of Management and Budget, July 8, 2005.

⁴ Information provided by Chicago Public Schools Office of Management and Budget, July 8, 2005.

⁵ *Chicago Public Schools FY2006 Budget*, pp. 13-14.

⁶ Information provided by Chicago Public Schools Office of Management and Budget, July 8, 2005.

The Civic Federation is encouraged by any cost saving effort undertaken by the CPS. But, information about these efforts should be readily available. Currently, it is not.

We urge the CPS to provide detailed information in the Budget Book and related documents to the taxpaying public about the important cost saving efforts they are undertaking each year.

Expansion of Schools of Choice

The Civic Federation commends the leadership of the Chicago Board of Education and CEO Arne Duncan for continuing the CPS's commitment to providing greater opportunities for students and parents by expanding the numbers of schools of choice.

In FY2006, the number of charter schools will increase to 23 schools on 34 campuses. The number of students attending charter schools is expected to increase by 28%, from 12,361 to 15,814. The CPS is budgeting approximately \$90 million for charter schools this fiscal year, a 55.2% increase from the \$58 million budgeted in FY2005.⁷ In addition, over 3,000 students will be enrolled in schools opening under the Renaissance 2010 initiative.

We urge the CPS to provide detailed narrative and fiscal information in the Budget Book and related documents about the new schools of choice. The public deserves more and better information about these important efforts to improve educational opportunity in the City of Chicago.

Issues of Concern to The Civic Federation

The Civic Federation has several **concerns** about certain elements of the FY2006 budget. We are particularly disappointed that the Chicago Public Schools has not addressed many of the concerns we expressed last year about the transparency of the budget process and the budget document.

Personnel Costs Unsustainable

The Chicago Public Schools faces several serious long-term structural problems caused in large part by escalating personnel costs: enrollment is declining as operating expenditures continue to rise, retirement costs are rising rapidly and may require steep future funding increases and the growth in personnel cost is outstripping general operating revenue growth. The infusion of millions of dollars in new State monies over the past few years, including \$105 million last year and \$92 million in new State aid this year, are unlikely to reverse these trends. The problems are compounded by the reality that massive financial assistance from the State of Illinois is unlikely given the State's own precarious financial situation and the adamant opposition of Governor Blagojevich to any income or sales tax increase for education.

Enrollment Declining as Operating Expenditures Rise

⁷ Chicago Public Schools FY2006 Budget, p. 11.

The CPS faces a paradox that even with declining student enrollments, the rate of expenditures continues to rise. Enrollment is expected to fall by 1,659 students this year. While high school enrollment is forecast to continue increasing slightly, elementary school enrollment may drop by as much as 7,844 students or 2.7%. Some of the enrollment decline may be mitigated by the transfer of students from closing parochial schools, but a trend of falling enrollment is emerging mirroring broader demographic changes.

Pension Costs Projected to Increase Substantially in Future Years

The Chicago Public Schools face mounting pension costs in future years that are poised to rapidly deplete District revenues unless steps are taken now to contain costs in the long-term. It is prudent for the District to follow the example set by the State of Illinois and consider the implementation of cost containment measures as soon as possible to address this problem.

There are currently 37,362 enrollees in the Teachers' Pension Fund and 19,266 retirees receiving benefits. These figures translate into roughly two current employees per retiree. Given this ratio, it is not surprising that CPS pension costs are rising rapidly. In FY2006, the CPS appropriation for teacher pensions will rise by 18.4% or from \$199.0 million to \$235.6 million. Since FY2002, appropriations have risen 25.5%, or from \$187.7 million to \$235.6 million.

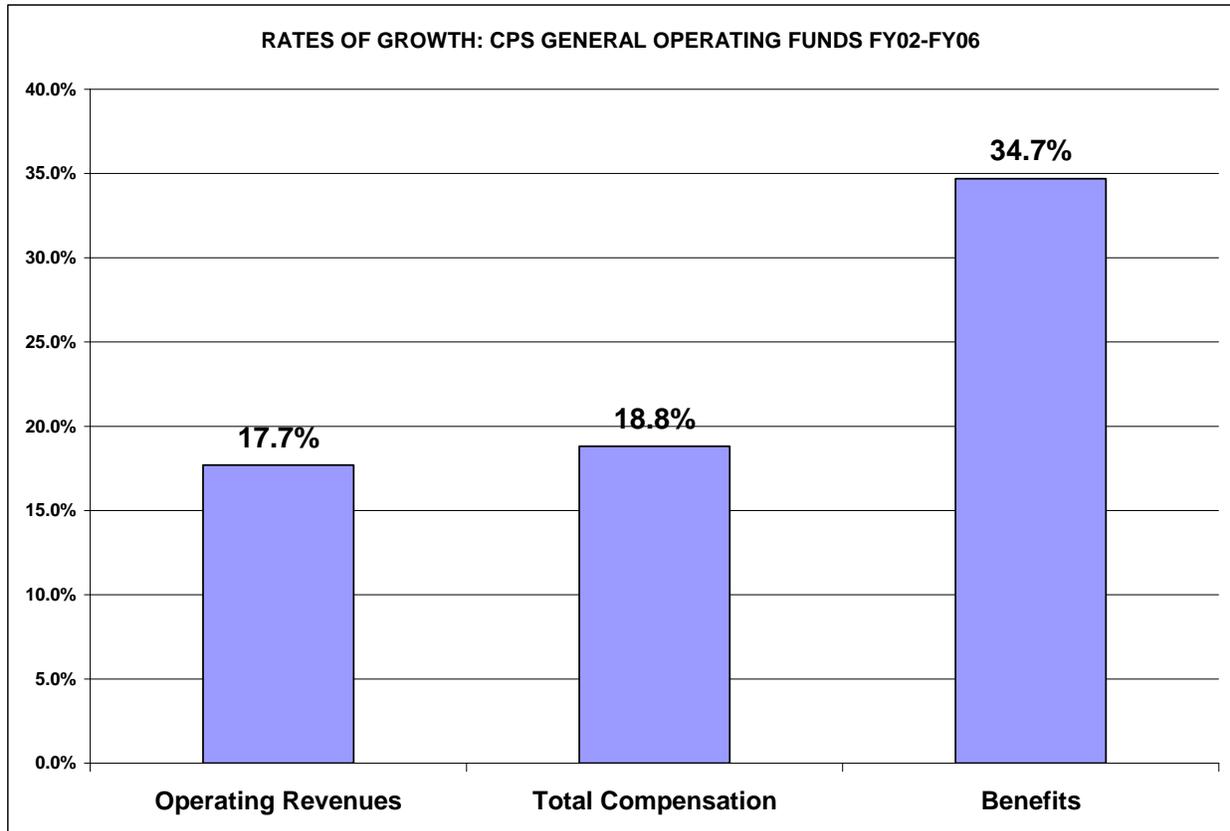
More ominously, according to the actuarial valuation report submitted to the CPS on December 7, 2004, the CPS's required contribution to the Teachers' Pension Fund will rise from \$0 in FY2005 to \$141.8 million in FY2009. By FY2014, the required contribution will be \$220.2 million. During this same period, State of Illinois contributions in addition to the \$65 million annual payment will rise from \$9.8 million to \$12.3 million.⁸ The increases in required contributions are driven in part by the statutory mandate that the Teachers' Pension Fund maintain a 90% funded ratio. By FY2014, the funded ratio, according to actuarial calculation will be at 81.8%, a continued slide downward from the FY2004 level of 85.8%.

Growth in Personnel Costs Outpace Operating Revenue Growth

CPS operating revenues⁹ rose by 17.7% in the 5-year period between FY2002 and FY2006, as the exhibit below shows. However, the rate of growth for total employee compensation rose slightly faster, at 18.8%, while the rate of growth for benefits alone rose by 34.7%. In sum, growth of personnel costs is outstripping revenue growth. This trend is not encouraging and could well presage future financial difficulties for the CPS.

⁸ Public School Teachers' Pension and Retirement Fund of Chicago. *Actuarial Valuation as of June 30, 2004*, p. 16.

⁹ "Operating revenues" here refers to General and Special Revenue Funds.



Lack of Transparency

Last year, the Civic Federation criticized the Chicago Public Schools for the lack of transparency in its Budget Book and related documents. Unfortunately, the CPS has not significantly improved its Budget this year. It still fails to even provide information about some of its positive achievements.

The Civic Federation regularly comments on the transparency of local government budgets because taxpayers are entitled to a clear, plain understanding of how governments spend their money. Producing a high quality budget document should be a priority, not an afterthought, for all governments. It is simply a matter of accountability in a democratic society. In recent years, many governments, including the City of Chicago and the State of Illinois have substantially improved the format of their budgets to make them more user-friendly. It is our hope that the CPS will follow their example; the public should expect nothing less of the second largest local government in Illinois.

Understanding changes in staffing levels in the CPS budget is once again confusing. The “Student Profile” section of the Budget Book on p. 1108 states that the total number of positions, both school-based and administrative, will be reduced by 1,088. However, the “Budget Overview” section on p. 15 states that there will be a net reduction of 992 total positions. The reason for the discrepancy is that on p. 15 a comparison is made between personnel currently

reported for All Funds in FY2005 versus personnel projected for the General Operating Funds in FY2006.¹⁰

Similarly, while the Budget Book's "Student Profile" section (p. 1108) indicates that the number of administrative full-time equivalent positions in FY2006 will be reduced by 197, a review of the administrative staff levels itemized by individual administrative unit in the Budget Book on pp. 123-297 yields a net reduction of 44.9 full-time equivalent positions. The differences are due to the fact that the net reduction of 44.9 FTEs includes both operating and capital positions while the 197 administrative personnel reduction is in the category of operating personnel only.¹¹

The Civic Federation learned of the reasons for differences in personnel counts from the CPS Office of Management and Budget. However, without a narrative, a crosswalk, or direct contact with the CPS Budget Office, it is impossible to find the reason for this difference in the Budget Book.

For the third year, we would like to express our concern regarding the lack of information in the budget document about management efficiencies. Chicago Public Schools purports to have enacted some management reforms this year. However, once again the budget does not identify any specific dollar savings nor does it project measurable goals for future efficiencies. The FY2006 budget lists a number of efficiencies and cost reductions on pages 13-14:

- Continued tuition cost savings will be achieved related to nonpublic schools within Specialized Services Areas
- Bucket position expenditure management controls will be automated to better control spending in accounts
- Janitorial procurement savings will be achieved
- 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

The Civic Federation has discovered in conversations with CPS staff that many of these initiatives are worthwhile endeavors that are saving the CPS substantial sums each year. Many of these efforts will improve efficiency of operations and boost service quality. However, the Budget Book itself provides no narrative and no dollar savings amounts for these efficiencies. The same was true in FY2004 and FY2005.¹² The continued lack of detail about these important achievements is extremely disappointing.

It is difficult for the public to have any 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.

¹⁰ Information provide by CPS Office of Management and Budget, July 15, 2005.

¹¹ Information provide by CPS Office of Management and Budget, July 15, 2005.

¹² See *Chicago Public Schools FY2004 Budget*, pp. 11-12.

Property Tax Levy Increased to the Maximum Amount Allowed

In FY2006, the Chicago Public Schools once again proposes to increase property taxes by the maximum amount permitted by law, or 2.8%. The CPS portion of the average City of Chicago property tax bill equals 48.84% of the total for tax year 2003. The 2.8% property tax increase means that:

- The average Chicago homeowner can expect a tax hike ranging from \$16 to \$20 for a \$200,000 home. The total new CPS property tax for a homeowner can range between \$570 and \$747, up from a range of \$554 to \$727 last year.
- The property tax on average commercial property valued at \$1 million will increase by \$822. The total new CPS tax for a commercial property valued at \$1 million could be as much as \$30,190, up from \$29,368 last year.

The CPS has increased property taxes to the maximum amount nine times since FY1996. These maximum property tax increases are significant for two reasons: 1) the CPS levy is such a large portion of the entire property tax bill for City of Chicago 2) A seemingly small increase by the CPS is very likely to be compounded by increases by other units of government in coming months as their budgets are unveiled. The full cost to taxpayers will not be known until December of this year, but it will be much higher than \$16 to \$20 for homeowners or \$822 for commercial property taxpayers.

Lack of Time for Public Review and Commentary

Six working days are insufficient for taxpayers, parents, educators or citizens to review and comprehend a \$5 billion budget. Yet, that is all the time the CPS allows citizens to digest the vast amount of information contained in the District's 1,125 page budget document before asking them for input in public hearings. This short time frame is compounded by the lack of detailed and historic information in the Budget Book; particularly troubling is the fact that, unlike other local government budgets such as the City of Chicago or Cook County, the CPS budget does not contain a clear, concise Executive Summary that would enable readers to quickly review budget highlights for a particular fiscal year.

Civic Federation Recommendations

The Civic Federation offers several **recommendations** regarding ways to improve the Chicago Public Schools' financial management and fulfill its ongoing financial obligations.

Produce a Transparent Budget

The Civic Federation strongly recommends that the CPS 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.
- Personnel information that is consistent across categories and in different parts of the Budget Book. If different categorizations are used, a crosswalk should be provided.
- Full personnel information should be provided for positions funded by the General Operating as well as the Capital Funds.

A good template that the CPS could follow in crafting a user-friendly budget can be found in the FY2005 City of Chicago *Budget Overview and Revenue Estimates* document. This document reflects many of the guidelines of the Government Finance Officers Association Distinguished Budget Awards Program as well as previous suggestions made by the Civic Federation. It provides readers with a concise and informative summary of trends, programs and budget processes, including seven years of trend information for revenues as well as a useful guide on how to read and understand the revenue estimates and two years of concise information on budgeted positions.

The Cook County budget, which has won the Government Finance Officers Association Distinguished Budget Presentation Award for many years, is another excellent example of a user-friendly budget document that provides citizens with useful summary information at the beginning of the budget document.

The Civic Federation repeats its recommendation from last year 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.

Contain Growing Retirement Costs

The Civic Federation believes that it is imperative that the CPS begin immediately to curb its growing retirement costs. Those recommendations proposed by the Governor’s Blue Ribbon Commission on Pension Funding that are applicable to the Teachers’ Pension Fund should be considered for adoption for new hires. Specifically, a cap of 3% or CPI, whichever is less, should be imposed on annual pension benefit increases for new hires. Currently, retirees receive an automatic 3% increase. In addition, the employee share of pension costs should be increased. Currently, the CPS pays for 7% of the 9% employee share of costs; employees pay for the remaining 2%. In FY2006, the CPS’s share of employee costs totaled \$235 million. We believe

that employees should be required to pay for at least an additional 1% of the 9% employee, so that the CPS share of employee payments drops to 6% and the employees' share increases to 3% of the total. This change should be a top priority of the CPS when it negotiates a new collective bargaining agreement. The CPS should also seek to match its annual salary increases within the rate of its revenue source growth.

Increase Time Allowed for Public Review and Comment

The public should be allowed ten working days to review the Chicago Public Schools' multi-billion dollar budget before public testimony is heard. Citizens need a reasonable amount of time in order to be able digest and understand such a complex document and offer informed commentary on this budget.

Develop a Multi-Year Capital Improvement Plan

The Civic Federation strongly urges the CPS to complete work as soon as possible on the 3-year Capital Improvement Plan (CIP). The District announced it was working on a CIP last year but has not completed it yet. The CPS first developed a one-year Capital Improvement Plan in 1996.¹³ 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 \$596 million in FY2006, 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.¹⁴

Pursue Joint Purchasing of Employee Health Insurance with Other Local Governments

The Civic Federation urges the CPS to pursue 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. Substantial savings that can be achieved from an insurance pool would be extremely beneficial to the CPS's future financial situation.

ACKNOWLEDGMENTS

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

FY2005 BUDGET HIGHLIGHTS

¹³ Chicago Public Schools. *1996-2000 Capital Improvement Plan*. Adopted January 24, 1996. See p. 3 of the CIP.

¹⁴ 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.

The Chicago Public Schools have proposed a FY2006 budget of \$5.043 billion. The District's deficit, which was projected at \$274 million, was eliminated through a combination of expenditure reductions, increased state funding, a property tax increase and a transfer of reserve funds.

Appropriations: 0.05% Decrease from FY2005

The proposed FY2006 Chicago Public Schools budget will decrease by 0.05%, falling from \$5.045 billion to \$5.043 billion. This is a \$2.4 million decrease. Appropriations for the General Operating Funds, comprised of both the General Fund and the Special Revenue Fund, will increase by 3.9%, or by \$159.0 million.

CPS Appropriations: All Funds FY2005 & FY2006 (In Millions of Dollars)				
Fund Type	FY2005 Adopted	FY2006 Proposed	\$ Change	% Change
General Operating Funds	\$ 4,048.0	\$ 4,207.0	\$ 159.0	3.9%
Capital Projects Fund	\$ 659.6	\$ 596.4	\$ (63.2)	-9.6%
Debt Service Fund	\$ 338.0	\$ 239.8	\$ (98.2)	-29.1%
Total Appropriation	\$ 5,045.6	\$ 5,043.2	\$ (2.4)	-0.05%

Source: CPS Budget FY2006, p. 3

Resources: \$2.4 Million Decrease in FY2006

The total appropriated resources available to the Chicago Public Schools in FY2006 will decrease by \$2.4 million or 0.05% from the last fiscal year. 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. General Operating Fund resources will increase by 3.9% or \$159.0 million. Debt service fund resources in FY2006 will decrease by 29.1% or a net figure of \$98.2 million because the District has retired \$116 million in debt issues while incurring new debt service costs for a new FY2006 debt issue.¹⁵

Chicago Public Schools FY2006 Appropriated Resources by Fund Type (In Millions of Dollars)				
	FY2005 Proposed	FY2006 Proposed	\$ CHG	% CHG
General Operating Funds				
General Fund	\$ 2,549.0	\$ 2,661.0	\$ 112.0	4.4%
Special Revenue	\$ 1,499.0	\$ 1,546.0	\$ 47.0	3.1%
Subtotal General Operating Fund	\$ 4,048.0	\$ 4,207.0	\$ 159.0	3.9%
Capital Projects Fund	\$ 659.6	\$ 596.4	\$ (63.2)	-9.6%
Debt Service Fund	\$ 338.0	\$ 239.8	\$ (98.2)	-29.1%
Total Resources	\$ 5,045.6	\$ 5,043.2	\$ (2.4)	-0.05%

Source: Chicago Public Schools FY2006 Budget, p. 3.

Deficit Drivers

¹⁵ Information Provided by Chicago Public Schools Office of Management and Budget, July 9, 2005.

The Chicago School District's \$274 million deficit is primarily due to personnel-related cost increases. Approximately \$143.6 million of the deficit is due to salary increases and \$75.7 million is related to increases in benefits such as health insurance, pensions and unemployment insurance costs. Approximately 27.7% of the deficit, or \$75.8 million, can be attributed to increases in non-personnel items such as contractual costs, professional fees and educational service fees including charter schools.

FY2006 CPS DEFICIT DRIVERS		
	Amount (\$000s)	% of Total Deficit
Salaries	\$ 143,689	52.4%
Benefits		
Health Insurance	\$ 32,823	12.0%
Retirement	\$ 38,979	14.2%
Taxes/Other Benefits	\$ 3,910	1.4%
Subtotal Benefits	\$ 75,712	27.6%
Contractual Costs*	\$ 15,165	5.5%
Professional Fees	\$ 45,236	16.5%
Educational Service Fees	\$ 30,660	11.2%
Utility Costs	\$ 3,880	1.4%
Text Books	\$ (2,205)	-0.8%
Debt Service	\$ 26,612	9.7%
Other (Equipment, Rental Contracts, Supplies, etc)	\$ (43,484)	-15.9%
Subtotal Non-Personnel	\$ 75,864	27.7%
Better than Projected Revenue Growth	\$ (21,004)	
GRAND TOTAL	\$ 274,261	

* Custodians & Early Childhood

Source: Chicago Public Schools Office of Management and Budget.

Gap-Closing Measures

The CPS reported a \$274 million deficit for FY2006. The shortfall is \$24 million larger than at the beginning of FY2005.

The District proposes to close the budget gap with \$114 million in expenditure reductions, \$140 million in revenue enhancements and \$20 million in reserve fund transfers. The expenditure reductions will be derived from three sources: 1) \$61 million represent school-based personnel reductions due to declining enrollment; 2) \$29 million in administrative reductions, including the elimination of 197 positions; and 3) \$24 million in savings in the transportation and food service programs.¹⁶ Revenue enhancements include a 2.8% or \$45 million property tax increase,¹⁷ \$82

¹⁶ Savings in transportation programs come from reducing the number of pickup and drop-off points and tightening eligibility requirements for eligible students; the reductions in food service costs are due to staff cuts as the student population declines and the District's negotiation of better food prices from its suppliers. Information provided by the Chicago Public Schools Office of Management and Budget, July 8, 2005.

¹⁷ 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>.

million in new State funds and several million dollars from increases in lunch prices for those students not receiving free subsidized lunches.¹⁸

GAP-CLOSING MEASURES IN FY2005 CHICAGO PUBLIC SCHOOLS BUDGET (In Millions of Dollars)	
	AMOUNT
Projected Deficit	\$ 274.0
Deficit Reduction Steps	
Administrative Reductions	\$ 29.0
Transportation and Food Program Savings	\$ 24.0
Net School Based Reductions Based on Enrollment	\$ 61.0
Subtotal Expenditure Reductions	\$ 114.0
Increased State Funding	\$ 92.0
Property Tax Increase	\$ 45.0
Lunchroom Revenue Increase	\$ 9.0
Carryover from Sinking Fund	\$ 5.0
Subtotal Revenue Enhancements	\$ 151.0
Transfer from Reserves	\$ 20.0
GRAND TOTAL	\$ 285.0

Source: Chicago Public Schools Office of Management and Budget

RESOURCES: REVENUES, BOND ISSUE PROCEEDS AND FUND BALANCE

The Chicago Public Schools proposes budgeting \$5.043 billion in total resources in FY2006. This is a decrease of 0.05% or approximately \$2.4 million from the previous fiscal year. The resources include:

- \$4.4 billion in current revenues;
- \$256.8 million of proceeds from new bond issues for the District's Capital Improvement Program; and
- \$374.3 million in prior-year fund balance carried over to FY2006.

General Fund resources will increase by approximately 4.4%, from \$2.5 billion to \$2.7 billion. This year, the CPS will use \$20 million of the prior-year end fund balance. This will leave \$190 million in reserve fund balance.¹⁹

Special Revenue Fund resources will increase by 3.1% or \$47 million due primarily to a \$26 million increase in Local, own source revenues and \$10 million in special education funding under the Individuals with Disabilities Act.

¹⁸ Approximately 95% of CPS students receive free or reduced price lunches. The District estimates it will increase total lunchroom revenues by \$9 million by increasing the price of full cost lunches to the remaining 5% of students from \$1.10 to \$1.85. Information provided by the Chicago Public Schools Office of Management and Budget, July 8 2005.

¹⁹ *Chicago Public Schools FY2006 Budget*, p. 59.

The Chicago School District's capital improvement program will receive \$596.4 million in FY2006. Resources for these projects will be derived from the proceeds of new bonds and other revenues in the amount of \$281.7 million and carryover fund balance from prior years of \$314.7 million.

Debt Service Fund resources will decrease by \$99.8 million to \$239.8 million. The reduction is due to the refinancing of higher cost debt with lower cost debt and the retirement of certain bond issues.

Chicago Public Schools FY2006 Appropriated Resources by Fund Type (In Millions of Dollars)				
	FY2005 Proposed	FY2006 Proposed	\$ CHG	% CHG
General Operating Funds				
General Fund	\$ 2,549.00	\$ 2,661.00	\$ 112.00	4.39%
Special Revenue	\$ 1,499.00	\$ 1,546.00	\$ 47.00	3.14%
Subtotal General Operating Fund	\$ 4,048.00	\$ 4,207.00	\$ 159.00	3.93%
Capital Projects Fund	\$ 659.60	\$ 596.40	\$ (63.20)	-9.58%
Debt Service Fund	\$ 338.00	\$ 239.80	\$ (98.20)	-29.05%
Total Resources	\$ 5,045.60	\$ 5,043.20	\$ (2.40)	-0.05%

Source: Chicago Public Schools FY2006 Budget, p. 3.

All Fund Revenues: 8.2% Increase in FY2006

The FY2006 budget projects an 8.2% increase in revenues for all funds from the previous fiscal year. This is a \$344.9 million increase.

- Local, or "own source" revenues are expected to increase slightly to \$1.9 billion. This is a \$1.6 million increase. The District's \$45 million property tax is expected to be offset with a \$40.7 million decrease in miscellaneous revenues.
- Revenues provided by the State of Illinois are projected to rise by \$93.1 million, which is a 6.1% increase.
- Federal funds will increase by a robust 33.4%. Approximately \$326.0 million of the total federal funding of \$998.3 million are derived from various federal programs required under the Elementary and Secondary Education Act. Congress appropriated \$280 million in new Title I funds for the CPS; these funds are intended to help educate students in districts with high concentrations of poverty.²⁰

²⁰ Chicago Public Schools FY2006 Budget, p. 75

CPS REVENUES: ALL FUNDS				
MAJOR CATEGORIES FY2005-FY2006 (In Millions of Dollars)				
Local Revenue	FY2005 Est	FY2006 Proj	\$ CHG	% CHG
Property Taxes	\$ 1,633.3	\$ 1,678.3	\$ 45.0	2.8%
PPRT	\$ 135.6	\$ 135.6	\$ -	0.0%
Investment Income	\$ 31.7	\$ 24.5	\$ (7.2)	-22.7%
Lunchroom Sales	\$ 15.5	\$ 20.0	\$ 4.5	29.0%
Miscellaneous Local Revenue	\$ 137.7	\$ 97.0	\$ (40.7)	-29.6%
Subtotal Local Revenue	\$ 1,953.8	\$ 1,955.4	\$ 1.6	0.1%
General State Aid (GSA)	\$ 647.3	\$ 701.5	\$ 54.2	8.4%
Supplemental GSA	\$ 261.0	\$ 261.0	\$ -	0.0%
Flat Grant ADA	\$ 11.2	\$ 12.9	\$ 1.7	15.2%
State Aid - Teacher Pension	\$ 65.0	\$ 74.9	\$ 9.9	100.0%
Other State Revenue	\$ 541.0	\$ 568.3	\$ 27.3	5.0%
Subtotal State	\$ 1,525.5	\$ 1,618.6	\$ 93.1	6.1%
IASA	\$ 261.0	\$ 326.0	\$ 65.0	24.9%
Lunchroom	\$ 150.0	\$ 154.5	\$ 4.5	3.0%
Medicaid Reimbursement	\$ 36.0	\$ 38.0	\$ 2.0	5.6%
Federal Other	\$ 301.1	\$ 479.8	\$ 178.7	59.3%
Subtotal Federal	\$ 748.1	\$ 998.3	\$ 250.2	33.4%
GRAND TOTAL	\$ 4,227.4	\$ 4,572.3	\$ 344.9	8.2%

Source: Chicago Public Schools FY2006 Budget, Revenue History:
All Funds Major Categories, p. 77.

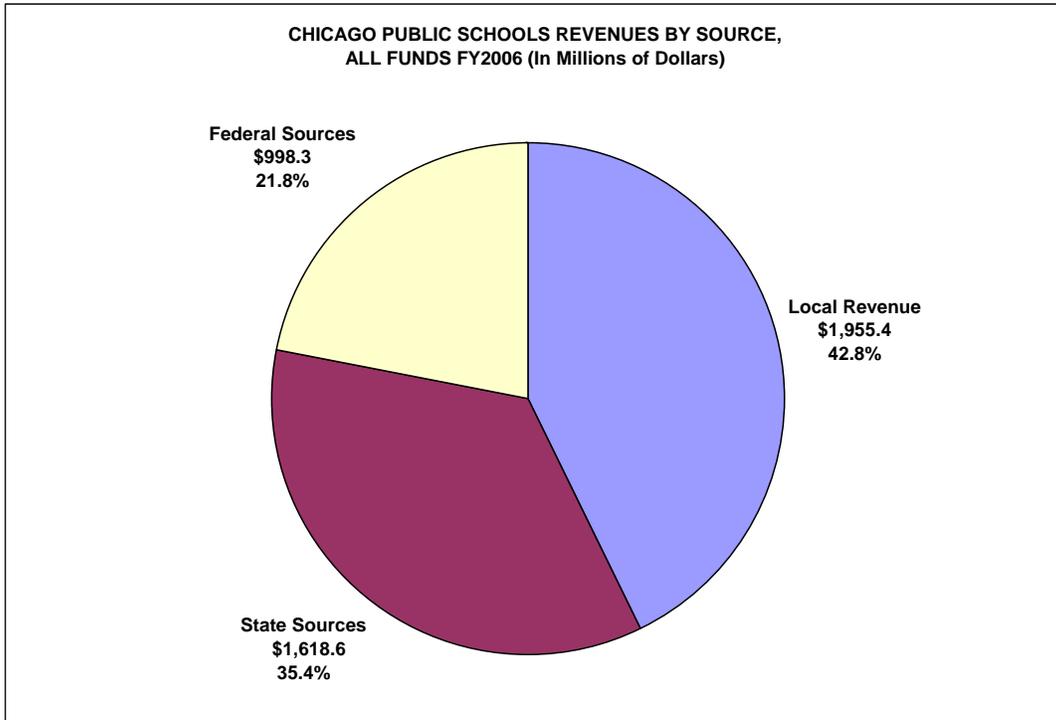
Several key assumptions built into the FY2006 revenue projections are:²¹

- The property tax will increase to the maximum amount allowed under the tax cap law.
- Personal Property Replacement Taxes are expected to remain flat relative to the actual amount of revenue received in FY2005.
- The increase in General State Aid is based on an increase in the state foundation level from \$4,964 to \$5,164 per pupil.
- Under the terms of P.A. 93-845, the CPS anticipates being allowed to file for a prior year EAV adjustment in FY2006; this is expected to generate an additional \$16.3 million.
- Categorical funding is based on the FY2005 appropriation adopted by the Illinois General Assembly in P.A. 94-15.
- The General Assembly appropriated \$74.9 million in state pension aid to the CPS.
- Federal revenue figures are based on federal FY2006 revenue appropriations as well as a fund balance carryover from FY2005.

Chicago Public Schools Revenues by Source (All Funds)

In FY2005, 42.8% of all Chicago Public School funds, or over \$1.9 billion, will come from local revenue sources. The State of Illinois will provide the second largest component of the CPS revenue stream, with 34.8% of the total, or \$1.6 billion. Federal funds will be the third largest source of revenues at 21.8% of the total or \$998.3 million.

²¹ Chicago Public Schools FY2006 Budget, p. 60.



5-Year CPS Revenue Trend for All Funds: 21.1% Increase

CPS revenues are projected to increase by 21.1% between FY2002 and FY2006. This is a \$797.7 million increase, from \$3.8 billion to \$4.6 billion. Local revenues will increase by 11.6%, with property taxes, the largest single own source revenue rising by approximately \$198 million. State revenues between FY2002 and FY2006 are projected to increase by 10.3%, or from \$1.4 billion to \$1.6 billion. Federal funding is expected to register the largest percentage gain in revenues, up sharply by 79.9% between FY2002 and FY2006 to \$998.3 million. However, federal funds remain the smallest component of the Chicago Public Schools' revenue mix, as the exhibit above shows.

CPS REVENUES: ALL FUNDS				
MAJOR CATEGORIES FY2002-FY2006 (In Millions of Dollars)				
Local Revenue	FY2002	FY2006 Proj	\$ CHG	% CHG
Property Taxes	\$ 1,480.0	\$ 1,678.3	\$ 198.3	13.4%
PPRT	\$ 114.3	\$ 135.6	\$ 21.3	18.6%
Investment Income	\$ 68.1	\$ 24.5	\$ (43.6)	-64.0%
Lunchroom Sales	\$ 11.2	\$ 20.0	\$ 8.8	78.6%
Miscellaneous Local Revenue	\$ 78.3	\$ 97.0	\$ 18.7	23.9%
Subtotal Local Revenue	\$ 1,751.9	\$ 1,955.4	\$ 203.5	11.6%
General State Aid (GSA)	\$ 546.6	\$ 701.5	\$ 154.9	28.3%
Supplemental GSA	\$ 261.0	\$ 261.0	\$ -	0.0%
Flat Grant ADA	\$ 14.4	\$ 12.9	\$ (1.5)	-10.4%
State Aid - Teacher Pension	\$ 65.0	\$ 74.9	\$ 9.9	15.2%
Other State Revenue	\$ 580.9	\$ 568.3	\$ (12.6)	-2.2%
Subtotal State	\$ 1,467.9	\$ 1,618.6	\$ 150.7	10.3%
ESEA Title I/IASA	\$ 177.8	\$ 326.0	\$ 148.2	83.4%
Lunchroom	\$ 142.1	\$ 154.5	\$ 12.4	8.7%
Medicaid Reimbursement	\$ 38.2	\$ 38.0	\$ (0.2)	-0.5%
Federal Other	\$ 196.7	\$ 479.8	\$ 283.1	143.9%
Subtotal Federal	\$ 554.8	\$ 998.3	\$ 443.5	79.9%
GRAND TOTAL	\$ 3,774.6	\$ 4,572.3	\$ 797.7	21.1%

Source: Chicago Public Schools FY2006 Budget, Revenue History:
All Funds Major Categories, p. 77

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

General Operating Funds include the Chicago School District's General and Special Revenue Funds. Together, these funds account for the general operations of the CPS. 92% of all fund revenues in FY2006 are earmarked for the two General Operating Funds.

In FY2006, General Operating Funds resources and revenues are expected to rise by 6.4% or from nearly \$4.0 billion to \$4.2 billion. This is an increase of \$251.3 million. Fifty million dollars of that amount is from a portion of the District's fund balance that will be made available for appropriation.

The CPS's own source (i.e., local) revenues will provide \$1.8 billion of all General Operating Funds revenues. State sources will provide the second largest amount, or \$1.5 billion of the total. Federal funds are expected to total \$838.0 million.

CPS MAJOR RESOURCES & REVENUES: GENERAL OPERATING FUNDS FY2005 & FY2006 (In Millions of Dollars)				
Resources:	FY2005 Est	FY2006 Proj	\$ Change	% Change
Total Beginning Fund Balance	\$ 196.5	\$ 240.0	\$ 43.5	22.1%
Designated Fund Balance	\$ (196.5)	\$ (190.0)	\$ 6.5	3.3%
Available for Appropriation	\$ -	\$ 50.0	\$ 50.0	100.0%
Revenue Sources:				
Property Taxes	\$ 1,582.0	\$ 1,627.0	\$ 45.0	2.8%
PPRT	\$ 92.8	\$ 82.1	\$ (10.7)	-11.5%
Misc. Revenue/Non Revenues Sources	\$ 91.0	\$ 103.0	\$ 12.0	13.2%
Subtotal Local Revenue	\$ 1,765.8	\$ 1,812.1	\$ 46.3	2.6%
General State Aid (GSA)	\$ 563.8	\$ 589.8	\$ 26.0	4.6%
Supplemental GSA	\$ 261.0	\$ 261.0	\$ -	0.0%
State Aid Pension	\$ 65.0	\$ 74.9	\$ 9.9	15.2%
Other State	\$ 552.1	\$ 581.3	\$ 29.2	5.3%
Subtotal State	\$ 1,441.9	\$ 1,507.0	\$ 65.1	4.5%
ESEA Title I	\$ 261.0	\$ 326.0	\$ 65.0	24.9%
Lunchroom, Medicaid, Other	\$ 179.0	\$ 196.0	\$ 17.0	9.5%
Public Law: Special Education	\$ 109.9	\$ 114.9	\$ 5.0	4.5%
Federal Other	\$ 198.2	\$ 201.1	\$ 2.9	1.5%
Subtotal Federal	\$ 748.1	\$ 838.0	\$ 89.9	12.0%
GRAND TOTAL	\$ 3,955.8	\$ 4,157.1	\$ 201.3	5.1%
Total Resources (Revenues + Fund Balance Available for Appropriation)	\$ 3,955.8	\$ 4,207.1	\$ 251.3	6.4%

Source: Chicago Public School FY2006 Budget, p. 35.

The next exhibit shows a 5-year trend in General Operating Funds resources and revenues, from the FY2002 proposed budget to the FY2006 proposed budget. Over this 5-year period, resources, including revenues and appropriated funds balance, for general operations of the CPS increased by 17.7% or \$632.0 million.

CPS MAJOR RESOURCES & REVENUES: GENERAL OPERATING FUNDS FY2002 & FY2006 (In Millions of Dollars)				
Resources:	FY2002 Est	FY2006 Proj	\$ Change	% Change
Total Beginning Fund Balance	\$ 385.7	\$ 240.0	\$ (145.7)	-37.8%
Designated Fund Balance	\$ (295.9)	\$ (190.0)	\$ 105.9	-35.8%
Available for Appropriation	\$ 39.9	\$ 50.0	\$ 10.1	25.3%
Revenue Sources:				
Property Taxes	\$ 1,421.4	\$ 1,627.0	\$ 205.6	14.5%
PPRT	\$ 81.0	\$ 82.1	\$ 1.1	1.4%
Misc. Revenue/Non Revenues Sources	\$ 103.5	\$ 103.0	\$ (0.5)	-0.5%
Subtotal Local Revenue	\$ 1,605.9	\$ 1,812.1	\$ 206.2	12.8%
General State Aid (GSA)	\$ 485.1	\$ 589.8	\$ 104.7	21.6%
Supplemental GSA	\$ 261.0	\$ 261.0	\$ -	0.0%
State Aid Pension	\$ 65.0	\$ 74.9	\$ 9.9	15.2%
Other State	\$ 501.8	\$ 581.3	\$ 79.5	15.8%
Subtotal State	\$ 1,312.9	\$ 1,507.0	\$ 194.1	14.8%
ESEA Title I	\$ 203.5	\$ 326.0	\$ 122.5	60.2%
Lunchroom, Medicaid, Other	\$ 198.1	\$ 196.0	\$ (2.1)	-1.1%
Public Law: Special Education	\$ 64.3	\$ 114.9	\$ 50.6	78.7%
Federal Other	\$ 150.5	\$ 201.1	\$ 50.6	33.6%
Subtotal Federal	\$ 616.4	\$ 838.0	\$ 221.6	36.0%
GRAND TOTAL	\$ 3,535.2	\$ 4,157.1	\$ 621.9	17.6%
Total Resources (Revenues + Fund Balance Available for Appropriation)	\$ 3,575.1	\$ 4,207.1	\$ 632.0	17.7%

Source: Chicago Public Schools FY2006 Budget, p. 35, Chicago Public Schools FY2002 Budget, p. 23.

State Aid: \$82.2 Million in Operating Support

The State of Illinois will provide a total of \$92.1 million in new funds for the Chicago Public Schools in FY2006. Of that amount, \$82.2 million is earmarked for operational expenditures and \$9.8 million is reserved for the Teachers' Pension Fund.

The General Assembly approved an increase in General State Aid (GSA) in the FY2006 state budget from \$4,964 per pupil to \$5,164. This is a 4.0%, \$200 per pupil increase over FY2005. This increase follows a 3.2%, or \$154, per student increase in FY2005 and a \$250 per pupil increase in FY2004. In sum, since FY2004, GSA has risen by 13.2% or \$604 per pupil, or from \$4,560 to \$5,164.

The exhibit below shows the distribution of the new state monies. Total State of Illinois operating support will increase by 5.7%, from approximately \$1.4 billion to \$1.5 billion. General State Aid will increase by 5.8% or \$54.0 million. Chicago Block Grant funds will increase by 4.4%, from \$494.9 million to \$516.8 million. The State provided no construction grant funds for the CPS's capital program in FY2006.

DETAIL OF STATE FUNDING FOR CPS OPERATING BUDGET IN FY2006				
		June, 2005		
	Estimate	Estimate		
	FY2005	FY 2006	\$ Change	% Change
General State Aid (Net)	\$ 924,993.2	\$ 979,083.8	\$ 54,090.6	5.8%
Alternative Education/Regional Safe Schools	\$ 3,446.1	\$ 3,648.4	\$ 202.3	5.9%
Career and Tech Education	\$ 6,129.6	\$ 6,469.5	\$ 339.9	5.5%
Illinois Charter Schools	\$ 3,000.0	\$ 3,000.0	\$ -	0.0%
Orphanage Regular 18-3	\$ 7,800.0	\$ 7,800.0	\$ -	0.0%
School Safety & Ed Improvement Block Grant	\$ 10,940.0	\$ 12,725.6	\$ 1,785.6	16.3%
Chicago Aerospace Initiative	\$ -	\$ 920.0	\$ 920.0	100.0%
Healthy Kids/Healthy Minds/Healthy Vision	\$ -	\$ 3,000.0	\$ 3,000.0	100.0%
Sub Total	\$ 956,308.9	\$ 1,016,647.3	\$ 60,338.4	6.3%
Chicago Block Grant				
Agriculture Education	\$ 20.7	\$ 26.2	\$ 5.5	26.6%
Bilingual - Chicago	\$ 35,896.6	\$ 34,896.6	\$ (1,000.0)	-2.8%
Early Childhood Block	\$ 90,004.2	\$ 101,104.2	\$ 11,100.0	12.3%
IL Free Lunch/Breakfast	\$ 10,393.5	\$ 10,647.0	\$ 253.5	2.4%
Reading Improvement Block	\$ 22,613.5	\$ 22,613.5	\$ -	0.0%
ROE/ISC - Operations	\$ 792.4	\$ 762.6	\$ (29.8)	-3.8%
Sp Ed - Extraordinary	\$ 70,970.0	\$ 74,996.2	\$ 4,026.2	5.7%
Sp Ed - Orphanage 7.03	\$ 37,983.8	\$ 32,936.0	\$ (5,047.8)	-13.3%
Sp Ed - Personnel	\$ 68,760.0	\$ 69,333.0	\$ 573.0	0.8%
Sp Ed - Private Tuition	\$ 32,336.8	\$ 43,115.7	\$ 10,778.9	33.3%
Sp Ed - Summer School	\$ 3,678.5	\$ 4,414.2	\$ 735.7	20.0%
Summer Bridges	\$ 9,784.8	\$ 9,784.8	\$ -	0.0%
Transportation - Reg & Voc	\$ 10,203.6	\$ 10,203.6	\$ -	0.0%
Transportation - Sp Ed	\$ 97,349.7	\$ 97,349.7	\$ -	0.0%
Truants Alternative Optional Education	\$ 4,174.9	\$ 4,710.9	\$ 536.0	12.8%
Sub Total Chicago Block Grant	\$ 494,963.0	\$ 516,894.2	\$ 21,931.2	4.4%
Total New State Support	\$ 1,451,272	\$ 1,533,542	\$ 82,270	5.7%
\$ growth from prior year		\$ 82,270		
Source: Governor's Office of Management and Budget				

The next exhibit presents increases in General State Aid from the State of Illinois on a per pupil basis between FY2002 and FY2006. During this 5-year period, GSA rose by \$604, from \$4,560 per pupil to \$5,164.

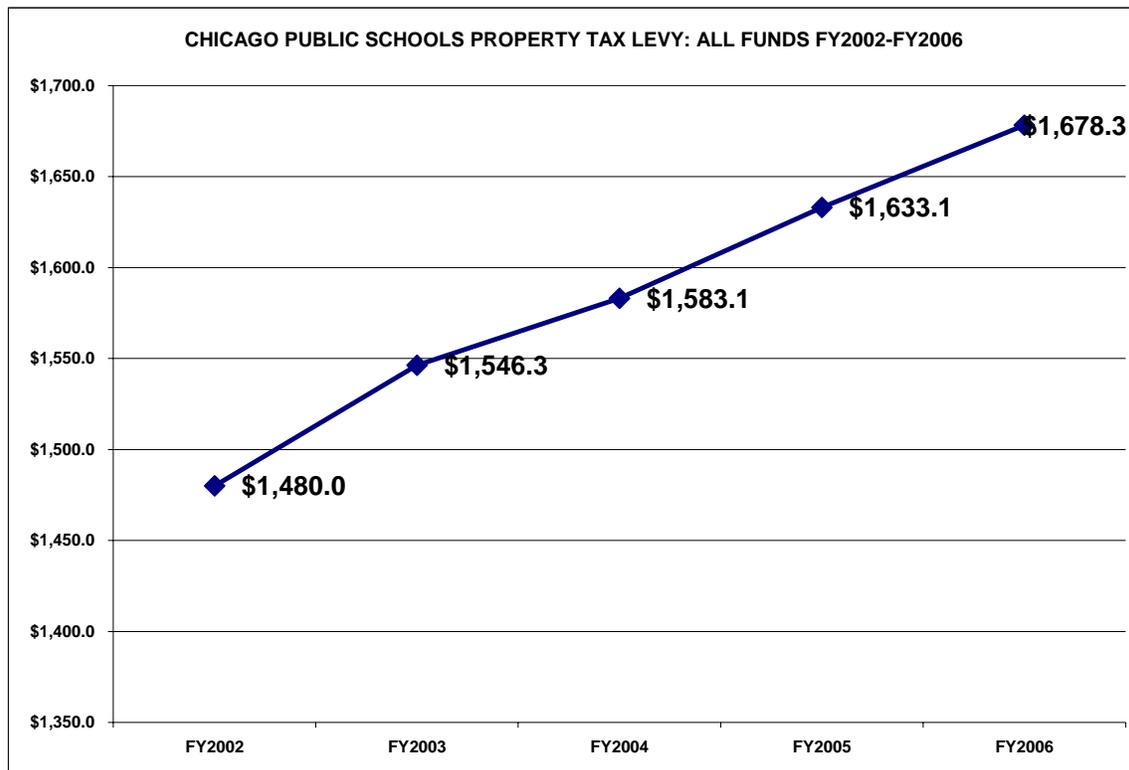
STATE OF ILLINOIS INCREASES IN GENERAL STATE AID ON A PER PUPIL BASIS			
	GSA PER PUPIL	\$ CHG FROM PRIOR YR	% CHG FROM PRIOR YR
FY2002	\$ 4,560	\$ 135	...
FY2003	\$ 4,560	\$ -	0%
FY2004	\$ 4,810	\$ 250	5.5%
FY2005	\$ 4,964	\$ 154	3.2%
FY2006	\$ 5,164	\$ 200	4.0%
\$ CHG	\$ 604		
% CHG	13.2%		

Property Tax Levy: 2.8% Increase

The Chicago Public Schools property tax levy for all funds is projected to increase by 2.8%, or \$45 million, to \$1.67 billion in FY2006. This year, the Board of Education once again proposes to levy to the maximum amount allowed by the tax cap law.²²

Under the tax cap law, the increase in the property tax levy for tax year 2003 is limited to the inflation rate of 1.9%.²³ A property tax increase of 1.9% on tax capped properties will generate approximately \$31 million in FY2006. The tax cap law exempts the value of new buildings or additions to existing buildings from the limitation on the property tax levy. The remaining \$14 million of the increase reflects the CPS's anticipation of the value of these new properties.

The FY2006 budget assumes a collection rate of 96.5%, down slightly from 97.0% in FY2005.²⁴ Since FY2002, the total levy has increased by 13.4% or \$198.3 million.



²² 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>.

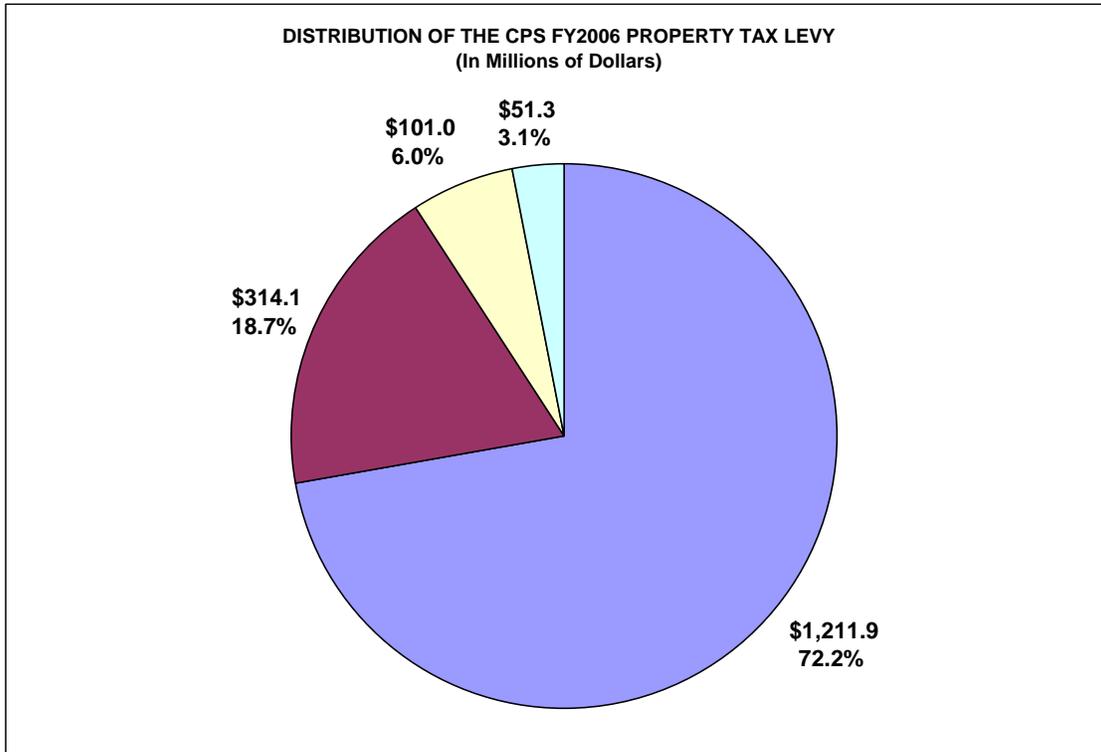
²³ The CPS fiscal year begins on July 1 and does not correspond to a tax year, which is based on a calendar year. Therefore, calculations for the amount of property tax dollars available must take into account the tax cap rate of 1.9% for the six months of the fiscal year in calendar year 2005 and 3.3% for the six months of the fiscal year in calendar year 2006. *Chicago Public Schools FY2006 Budget*, p. 60.

²⁴ *Chicago Public Schools FY2006 Budget*, p. 60 and *Chicago Public Schools FY2005 Budget*, p. 44.

The next exhibit shows a 10-year trend for Chicago Public Schools tax levies. Over that period, the levy has risen by 31.3% or \$399.6 million. This represents an increase from approximately \$1.27 billion to \$1.67 billion.

CHICAGO PUBLIC SCHOOLS PROPERTY TAX LEVY: FY1997 to FY2006			
Fiscal Year	LEVY	% CHG FROM PREV YR	\$ CHG FROM PREV YR
FY1997	\$ 1,278.7
FY1998	\$ 1,311.7	2.6%	\$ 33.0
FY1999	\$ 1,368.1	4.3%	\$ 56.4
FY2000	\$ 1,403.7	2.6%	\$ 35.6
FY2001	\$ 1,429.9	1.9%	\$ 26.2
FY2002	\$ 1,480.0	3.5%	\$ 50.1
FY2003	\$ 1,546.3	4.5%	\$ 66.3
FY2004	\$ 1,583.1	2.4%	\$ 36.8
FY2005	\$ 1,633.1	3.2%	\$ 50.0
FY2006	\$ 1,678.3	2.8%	\$ 45.2
\$ CHG 10-YR	\$ 399.6		
% CHG 10-YR	31.3%		

Seventy-two percent or \$1.21 billion of the levy is earmarked for the General Fund to finance CPS operations. The second largest amount, \$314.1 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.



Increase in Property Tax Bills

The projected increase in property taxes for a homeowner with a single family home valued at \$200,000 will be in the range of \$16 to \$20, depending on the size of the homeowner exemption awarded.²⁵ As the Chicago School District's property tax extension accounted by 48.8% of the average City of Chicago taxpayer's bill in 2003, the average homeowner's potential tax increase could increase substantially as other governments increase the size of their levies in the coming months.

HOMEOWNER TAX INCREASE SCENARIO #1: Maximum Exemption			
\$	200,000	Est. Home Value	
\$	16,760	Assessment/Sales Ratio	0.0838
\$	37,641	X multiplier	2.4598
\$	20,000	less homestead exemption	\$ 20,000
\$	17,641	net EAV	
\$	1,135	X tax rate (2003)	0.06433
\$	554.26	CPS Portion (48.84%)	
\$	16	X 2.8% Increase	
\$	570	Total New CPS Tax	

HOMEOWNER TAX INCREASE SCENARIO #1: Average Exemption			
\$	200,000	Est. Home Value	
\$	16,760	Assessment/Sales Ratio	0.0838
\$	37,641	X multiplier	2.4598
\$	14,499	less homestead exemption	\$ 14,499
\$	23,142	net EAV	
\$	1,489	X tax rate (2003)	0.06433
\$	727	CPS Portion (48.84%)	
\$	20	X 2.8% Increase	
\$	747	Total New CPS Tax	

The next exhibit shows the potential property tax increase for a commercial property valued at \$500,000. The increase could be as much as \$411.

²⁵ State law provides for a homeowner's exemption of \$5,000 to \$20,000 on residential property in Cook County. The first scenario assumes a maximum exemption and the second an average exemption estimate based on the \$200,000 home value.

COMMERCIAL PROPERTY TAX INCREASE

\$	500,000	Est. Property Value	
\$	190,000	A/S ratio	0.38
\$	467,362	X multiplier	2.4598
\$	467,362	net EAV	
\$	30,065	X tax rate	0.06433
\$	14,684	CPS Portion (48.84%)	
\$	411	X 2.8% Increase	
\$	15,095	Total New CPS Tax	

APPROPRIATION TRENDS

This section presents an analysis of Chicago Public Schools budget appropriation trends, including appropriations by expenditure type (e.g., salaries, commodities, etc.) and function (e.g., Instruction, Support Services, etc.). In this analysis, one-year and five year trends are compared. Appropriations by Location for FY2006 are also presented and discussed. In FY2006, total appropriations decreased by approximately \$2.4 million, or 0.05% from the previous year. General Fund Appropriations will increase by \$112 million, or 4.4% from the previous year.

CPS Appropriations by Expenditure Type: Change from FY2005 to FY2006

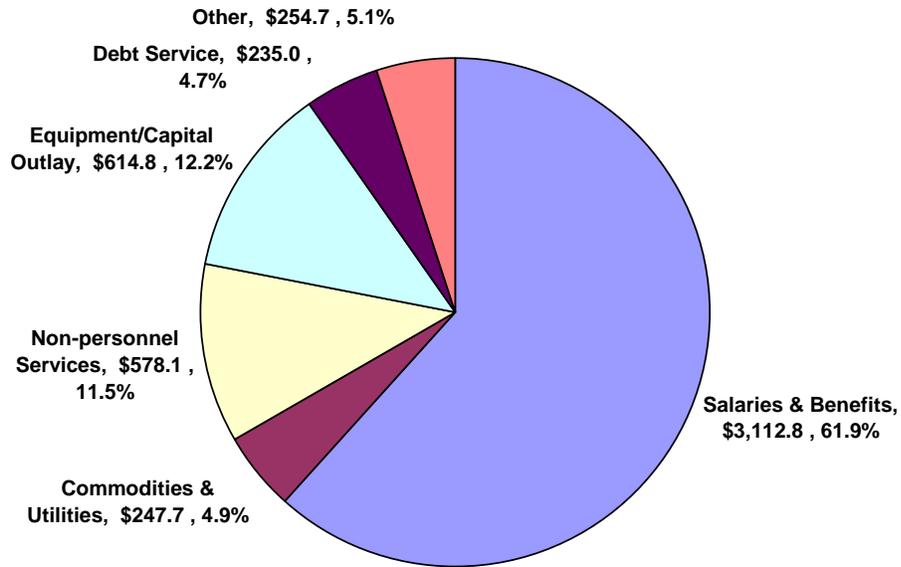
The FY2006 Chicago Public Schools budget proposes a total All Funds appropriation of approximately \$5.043 billion. This is a 0.05% decrease from the previous year's appropriation of \$5.045 billion. Approximately 62% of appropriations is earmarked for salaries and benefits. \$1.9 billion, or 38.3% of the total, is reserved for teachers' salaries, while \$536 million is proposed for non-teacher salaries, such as support staff and janitors, as well as any other employees who do not have teaching certificates. \$235 million is allocated for debt service expenses. This represents a 29.6% decrease from the previous year.

CPS APPROPRIATIONS BY EXPENDITURE TYPE: FY05 & FY06				
All Funds (In Millions of Dollars)				
Expenditure Type	FY05	FY06	\$Change	% Change
Teacher Salaries	\$ 1,890.7	\$ 1,932.5	\$ 41.8	2.2%
Non-Teacher Salaries	\$ 512.8	\$ 535.8	\$ 23.0	4.5%
Employee Benefits	\$ 583.6	\$ 644.5	\$ 60.9	10.4%
Subtotal Compensation	\$ 2,987.1	\$ 3,112.8	\$ 125.7	4.2%
Commodities & Utilities	\$ 247.4	\$ 247.7	\$ 0.3	0.1%
Non-personnel Services	\$ 501.6	\$ 578.1	\$ 76.5	15.3%
Equipment/Capital Outlay	\$ 681.5	\$ 614.8	\$ (66.7)	-9.8%
Debt Service	\$ 333.9	\$ 235.0	\$ (98.9)	-29.6%
Other	\$ 294.2	\$ 254.7	\$ (39.5)	-13.4%
TOTAL	\$ 5,045.7	\$ 5,043.1	\$ (2.6)	-0.1%

Source: FY2005 CPS Budget, p. 67 and FY2006 CPS Budget, p. 83.

The next exhibit graphically shows the breakdown of appropriations by percentage of expenditure types in the FY2006 budget. The largest single portion of the FY2006 appropriation is earmarked for salaries and benefits. Almost 62% of the total, or \$3.1 billion, will be used for teacher salaries, non-teacher compensation and employee benefits.

CPS FY2006 APPROPRIATIONS BY EXPENDITURE TYPE (All Funds) in Millions of Dollars



Source: FY2006 CPS Budget, p. 83

The following exhibit presents the CPS General Operating Funds by expenditure type, for FY2005 and FY2006.²⁶ The General Operating Funds comprise both the General Fund as well as Special Revenue Funds. Forty-eight percent, or \$1.9 billion, of the total general operating funds is reserved for teachers' salaries, while \$530.4 million is proposed for non-teacher salaries. In addition, employee benefits spending will rise by 10.4%, reflecting the rising cost of health care coverage and the CPS pension system. These figures constitute the 4.2% increase in compensation from FY2005 to FY2006. Salaries and Benefits represent 77.3% of the total general operating funds.

²⁶ The CPS All Funds Appropriations by Function were not available.

CPS APPROPRIATIONS BY EXPENDITURE TYPE: FY05 & FY06				
General Operating Funds (In Millions of Dollars)				
Expenditure Type	FY05	FY06	\$Change	% Change
Teacher Salaries	\$ 1,890.3	\$ 1,932.2	\$ 41.9	2.2%
Non-Teacher Salaries	\$ 508.7	\$ 530.4	\$ 21.7	4.3%
Employee Benefits	\$ 582.9	\$ 643.4	\$ 60.5	10.4%
Subtotal Compensation	\$ 2,981.9	\$ 3,106.0	\$ 124.1	4.2%
Commodities & Utilities	\$ 247.3	\$ 247.6	\$ 0.3	0.1%
Non-personnel Services	\$ 495.7	\$ 571.1	\$ 75.4	15.2%
Equipment/Capital Outlay	\$ 21.5	\$ 18.5	\$ (3.0)	-14.0%
Debt Service	\$ 1.5	\$ 1.4	\$ (0.1)	-6.7%
Other	\$ 299.9	\$ 72.3	\$ (227.6)	-75.9%
TOTAL	\$ 4,047.8	\$ 4,016.9	\$ (30.9)	-0.8%

Source: FY2005 CPS Budget, p. 67 and FY2006 CPS Budget, p. 83.

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

The exhibit below shows that CPS appropriations have risen from \$4.38 billion to \$5.05 billion over 5 years. This is a 15% increase since FY2002. The largest percentage increase in that 5-year period is for employee benefits, which rose by 35%, from \$478.3 million to \$644.5 million. This reflects the increasing cost of health care benefits and pensions. Non-personnel services also rose by a substantial amount, from \$432.3 million to \$578.1 million—a 34% increase. Total employee compensation (salary and benefits) rose by 19% in this period.

APPROPRIATIONS BY EXPENDITURE TYPE: FY02 & FY06				
All Funds (In Millions of Dollars)				
Expenditure Type	FY02	FY06	\$Change	% Change
Teacher Salaries	\$ 1,671.8	\$ 1,932.5	\$ 260.7	15.6%
Non-Teacher Salaries	\$ 470.0	\$ 535.8	\$ 65.8	14.0%
Employee Benefits	\$ 478.3	\$ 644.5	\$ 166.2	34.7%
Subtotal Compensation	\$ 2,620.1	\$ 3,112.8	\$ 492.7	18.8%
Commodities & Utilities	\$ 244.3	\$ 247.7	\$ 3.4	1.4%
Non-personnel services	\$ 432.3	\$ 578.1	\$ 145.8	33.7%
Equipment/Capital Outlay	\$ 574.3	\$ 614.8	\$ 40.5	7.1%
Debt Service	\$ 240.8	\$ 235.0	\$ (5.8)	-2.4%
Other	\$ 272.4	\$ 254.7	\$ (17.7)	-6.5%
TOTAL	\$ 4,384.2	\$ 5,043.1	\$ 658.9	15.0%

Source: FY2002 CPS Budget, p. 69 and FY2006 CPS Budget, p. 83

The following exhibit presents a 5-year trend by expenditure type for the General Operating Funds, which is composed of the General Fund and Special Revenue Fund. The largest percentage increase in that 5-year period for General Operating Funds is for employee benefits, which rose by 35%, from \$477.9 million to \$643.4 million. During the period analyzed, compensation (salaries and benefits) has risen by 19%, a difference of \$488.6 million. Salaries and benefits represent 77% of the total general operating funds.

APPROPRIATIONS BY EXPENDITURE TYPE: FY02 & FY06				
General Operating Funds (In Millions of Dollars)				
Expenditure Type	FY02	FY06	\$Change	% Change
Teacher Salaries	\$ 1,671.7	\$ 1,932.2	\$ 260.5	15.6%
Non-Teacher Salaries	\$ 467.8	\$ 530.4	\$ 62.6	13.4%
Employee Benefits	\$ 477.9	\$ 643.4	\$ 165.5	34.6%
Subtotal Compensation	\$ 2,617.4	\$ 3,106.0	\$ 488.6	18.7%
Commodities & Utilities	\$ 233.6	\$ 247.6	\$ 14.0	6.0%
Non-personnel services	\$ 430.6	\$ 571.1	\$ 140.5	32.6%
Equipment/Capital Outlay	\$ 25.3	\$ 18.5	\$ (6.8)	-26.9%
Debt Service	\$ 1.5	\$ 1.4	\$ (0.1)	-6.7%
Other	\$ 266.8	\$ 72.3	\$ (194.5)	-72.9%
TOTAL	\$ 3,575.2	\$ 4,016.9	\$ 441.7	12.4%

Source: FY2002 CPS Budget, p. 65 and FY2006 CPS Budget, p. 83

CPS General Operating Funds: Appropriations by Function

Changes in General Operating Fund appropriations by function are presented in the following exhibits. Each function denotes a particular service for which funds are allocated, such as classroom teaching or administrative support. Regular Instructional Programs will decrease by 1%, or \$17.8 million. Vocational and Special Needs Instructional Programs, after being cut by 36% in 2005, have seen a spending increase of 21% in this budget, from \$173 million to \$209 million. Turning to non-instructional Programs, support services will increase by 13.9%, and community services will increase by 48.3%. Other Services (Interest and Debt services and total provision for contingencies) will decrease by \$36.5 million, a 28.5% drop from FY2005.

CPS APPROPRIATIONS BY FUNCTION: FY05 & FY06				
General Operating Funds (General Fund & Special Revenue Fund)				
FUNCTION	FY05	FY06	\$ CHANGE	% CHANGE
Instruction-Regular Programs	\$ 1,839,107,654	\$ 1,821,251,257	\$ (17,856,397)	-1.0%
Instruction-Special Education	\$ 447,353,426	\$ 466,921,376	\$ 19,567,950	4.4%
Instruction-Voc Ed & Special Needs	\$ 173,088,617	\$ 209,012,522	\$ 35,923,905	20.8%
SUBTOTAL INSTRUCTION	\$ 2,459,549,617	\$ 2,497,185,155	\$ 37,635,538	1.5%
SUPPORTING SERVICES	\$ 1,363,280,105	\$ 1,552,857,193	\$ 189,577,088	13.9%
COMMUNITY SERVICES	\$ 31,773,141	\$ 47,114,920	\$ 15,341,779	48.3%
STATE REV. PENSION ADJUST.	\$ 65,045,000	\$ -	\$ (65,045,000)	-100.0%
OTHER	\$ 128,314,904	\$ 91,732,845	\$ (36,582,059)	-28.5%
GRAND TOTAL	\$ 4,047,962,847	\$ 4,207,000,000	\$ 159,037,153	3.9%

Source: FY2005 CPS Budget, p. 31 and FY2006 CPS Budget, p. 44

Between FY2002 and FY2006, General Operating Fund appropriations by function are projected to change significantly. Regular Instructional Programs will rise by 30%, or \$420 million. Vocational and Special Needs Instructional Programs will decrease by 26%, from \$281 million to \$209 million.

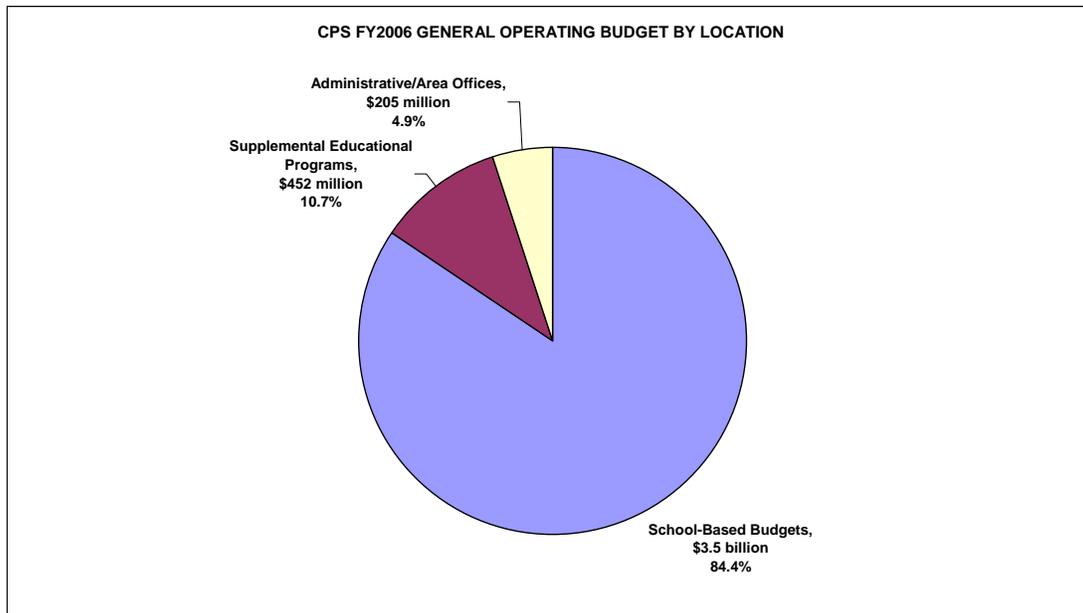
As for non-instructional programs, support services will increase by 21%, while community services will be reduced by 14%. Other services (Interest and Debt services and total provision for contingencies) will increase by 31%, or \$21 million.

CPS APPROPRIATIONS BY FUNCTION: FY02 & FY06				
General Operating Funds (General Fund & Special Revenue Fund)				
FUNCTION	FY02	FY06	\$ CHANGE	% CHANGE
Instruction-Regular Programs	\$ 1,400,556,436	\$ 1,821,251,257	\$ 420,694,821	30.0%
Instruction-Special Education	\$ 420,563,494	\$ 466,921,376	\$ 46,357,882	11.0%
Instruction-Voc Ed & Special Needs	\$ 281,681,248	\$ 209,012,522	\$ (72,668,726)	-25.8%
SUBTOTAL INSTRUCTION	\$ 2,102,801,178	\$ 2,497,185,155	\$ 394,383,977	18.8%
SUPPORTING SERVICES	\$ 1,282,372,690	\$ 1,552,857,193	\$ 270,484,503	21.1%
COMMUNITY SERVICES	\$ 54,680,726	\$ 47,114,920	\$ (7,565,806)	-13.8%
STATE REV. PENSION ADJUST.	\$ 65,045,000	\$ -	\$ (65,045,000)	-100.0%
OTHER	\$ 70,283,232	\$ 91,732,845	\$ 21,449,613	30.5%
GRAND TOTAL	\$ 3,479,803,058	\$ 4,207,000,000	\$ 727,196,942	20.9%

Source: FY2002 CPS Budget, p. 32 and FY2006 CPS Budget, p. 44

CPS Appropriations by Location

The exhibit below provides the FY2006 General Operating Funds allocation by location. A total of \$3.5 billion or 84% of the FY2006 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. Approximately 65% of the \$3.5 billion will be spent on direct classroom instruction.



Source: CPS FY2006 Budget, p. 84

When compared to FY2005 expenditures, school-based budgets will see the greatest increase, with 4.5%, or \$153 million more, being allocated to the schools. Supplemental educational programs will also receive 3.9% more funding, while administrative costs will be reduced by 5.1% when compared to FY2005.

CPS APPROPRIATIONS BY LOCATION				
General Operating Funds (In Millions of Dollars)				
LOCATION	FY05	FY06	\$ CHANGE	% CHANGE
School-Based Budgets	\$ 3,397.0	\$ 3,550.0	\$ 153.0	4.5%
Supplemental Educational Programs	\$ 435.0	\$ 452.0	\$ 17.0	3.9%
Administrative/Area Offices	\$ 216.0	\$ 205.0	\$ (11.0)	-5.1%
TOTAL	\$ 4,048.0	\$ 4,207.0	\$ 159.0	3.8%

Source: FY2005 CPS Budget, p. 68 and FY2006 Budget, p. 84

CPS Personnel Appropriations

CPS personnel appropriations are expected to increase by 4.2% in FY2006, rising by \$125.7 million, or from \$2.9 billion to \$3.1 billion. Salaries, which constitute 79.3% of all personal service appropriations, will increase by 2.7%. Benefit costs, which include pensions, hospitalization insurance, worker's compensation, unemployment compensation and payroll tax contributions for Social Security and Medicare, will rise at a much faster rate. In the aggregate, they will increase by 10.4%, rising by \$60.8 million from \$583.7 million to \$644.5 million.

CPS Employee Compensation FY05-FY06				
Expenditure Type	FY05	FY06	\$ Change	% Change
Teacher Salaries	\$ 1,890.7	\$ 1,932.5	\$ 41.8	2.2%
ESP Salaries	\$ 512.8	\$ 535.8	\$ 23.0	4.5%
Subtotal Salaries	\$ 2,403.5	\$ 2,468.3	\$ 64.8	2.7%
Teacher Pension	\$ 199.0	\$ 235.6	\$ 36.6	18.4%
ESP Pension	\$ 83.4	\$ 82.4	\$ (1.0)	-1.2%
Hospitalization	\$ 256.5	\$ 275.1	\$ 18.6	7.3%
Workers' Compensation	\$ 16.0	\$ 18.1	\$ 2.1	13.1%
Unemployment Compensation	\$ 3.2	\$ 8.9	\$ 5.7	178.1%
Medicare/Social Security	\$ 25.6	\$ 24.4	\$ (1.2)	-4.7%
Subtotal Benefits	\$ 583.7	\$ 644.5	\$ 60.8	10.4%
Grand Total	\$ 2,987.1	\$ 3,112.8	\$ 125.7	4.2%

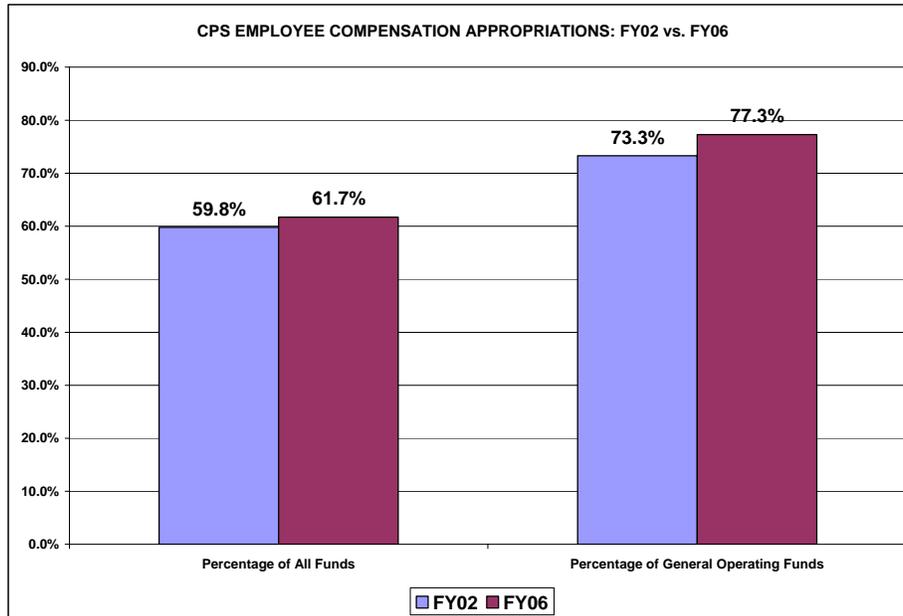
Source: CPS Budgets, FY2005-FY2006

Over a five-year period, Chicago Public Schools' compensation costs have risen by 18.8%, or by \$492.7 million. Salaries during that period increased by 15.2%, or from \$2.1 billion to nearly \$2.5 billion. Benefits rose at a much faster rate, increasing by 34.7% or by \$166.2 million.

CPS Employee Compensation: Salaries and Benefits (FY02-FY06) ALL FUNDS							
(In Millions of Dollars)							
Expenditure Type	FY02	FY03	FY04	FY05	FY06	\$ Change	% Change
Teacher Salaries	\$ 1,671.8	\$ 1,691.5	\$ 1,741.0	\$ 1,890.7	\$ 1,932.5	\$ 260.7	15.6%
ESP Salaries	\$ 470.0	\$ 475.0	\$ 481.3	\$ 512.8	\$ 535.8	\$ 65.8	14.0%
Subtotal Salaries	\$ 2,141.8	\$ 2,166.5	\$ 2,222.3	\$ 2,403.5	\$ 2,468.3	\$ 326.5	15.2%
Teacher Pension	\$ 187.7	\$ 191.0	\$ 197.7	\$ 199.0	\$ 235.6	\$ 47.9	25.5%
ESP Pension	\$ 71.4	\$ 74.1	\$ 79.4	\$ 83.4	\$ 82.4	\$ (1.0)	-1.2%
Hospitalization	\$ 177.8	\$ 220.0	\$ 256.0	\$ 256.5	\$ 275.1	\$ 97.3	54.7%
Workers' Compensation	\$ 13.5	\$ 14.2	\$ 14.3	\$ 16.0	\$ 18.1	\$ 4.6	34.1%
Unemployment Compensation	\$ 2.1	\$ 2.6	\$ 2.7	\$ 3.2	\$ 8.9	\$ 6.8	323.8%
Medicare/Social Security	\$ 25.8	\$ 23.1	\$ 28.9	\$ 25.6	\$ 24.4	\$ (1.4)	-5.4%
Subtotal Benefits	\$ 478.3	\$ 525.0	\$ 579.0	\$ 583.7	\$ 644.5	\$ 166.2	34.7%
Grand Total	\$ 2,620.1	\$ 2,691.5	\$ 2,801.3	\$ 2,987.1	\$ 3,112.8	\$ 492.7	18.8%

Source: CPS Budgets, FY2002-FY2006

The next exhibit compares the percentage of CPS appropriations earmarked for employee compensation in FY2002 versus FY2006. In both years, the percentage of all funds and general operating appropriations has risen. Perhaps most strikingly, the percentage of appropriations earmarked for general operations, that is resources in the General and Special Revenue Funds, rose from 73.3% of the total in FY2002 to 77.3% five years later.



Health Insurance Benefits

Retired Chicago Public Schools teachers are offered three options for healthcare coverage: Blue Cross/Blue Shield PPO, Humana HMO, and HMO Illinois. The Public School Teachers' Pension and Retirement Fund of Chicago provides a rebate for a portion of the monthly premiums owed by those participating in any of the three plans. In 2004, for example, the premium for a single individual's policy was reduced by approximately 55% as a result of the rebate.²⁷ The rebate only applies to the retired teacher's portion of these insurance policies.

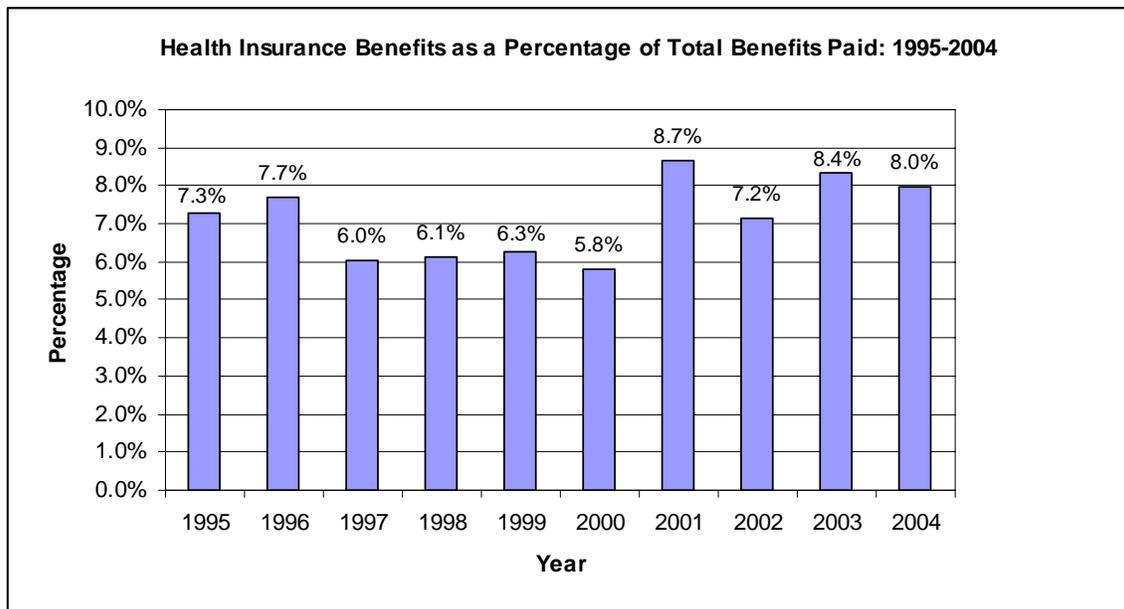
The following exhibit shows the extent to which the Pension Fund's health insurance subsidy has increased over the past decade. From 1995 to 2004, total insurance premium rebates paid increased by 104.2%, or \$27.1 million.

²⁷ *Public School Teachers' Pension and Retirement Fund of Chicago 2004 Health Insurance Open Enrollment Handbook*, p. 19.

Health Insurance Premium Rebates Paid to Retired CPS Teachers: 1995-2004		
Year	Health Insurance Benefits Paid	Health Insurance % Change
1995	\$ 26,003,656	...
1996	\$ 28,540,558	9.8%
1997	\$ 22,796,866	-20.1%
1998	\$ 24,225,631	6.3%
1999	\$ 22,013,995	-9.1%
2000	\$ 26,144,939	18.8%
2001	\$ 44,088,569	68.6%
2002	\$ 44,068,275	0.0%
2003	\$ 51,395,920	16.6%
2004	\$ 53,106,379	3.3%
Total Change	\$ 27,102,723	104.2%

Source: Public School Teachers' Pension & Retirement Fund of Chicago CAFR 2004, p. 89

Looking at health insurance benefits as a percentage of total benefits paid by the Teachers' Pension Fund,²⁸ from 1995 to 2004 health insurance has comprised an average of 7.1% of the Pension Fund's total expenditures per year.



Source: Public School Teachers' Pension and Retirement Fund of Chicago CAFR 2004

A comparison of health insurance payments for current Chicago Public Schools teachers and retired teachers receiving health insurance payments from the Teachers' Pension Fund reveals that, in the five year period between 2000 and 2004, Pension Fund insurance payments rose by 103.4%, while the Chicago Public Schools' insurance payments increased by 63.8%.²⁹ In the

²⁸ Total benefits paid include retirement, disability, refunds (for separation, death or other causes), death benefits, and health insurance. *Public School Teachers' Pension and Retirement Fund of Chicago CAFR 2004*, p. 89.

²⁹ Note that there may be a slight discrepancy in the Chicago Public Schools insurance data, since the FY2000 figures were drawn from the final budget, while the information for FY2004 is based on the proposed budget.

case of the Pension Fund, however, much of this increase was due to a drastic 68.6% jump in 2001. In other years, the increases have been much smaller.

Health Insurance Payments for Retired versus Active CPS Teachers: FY00 & FY04 (in Millions of Dollars)				
	FY00	FY04	\$ Change	% Change
Pension Fund Health Insurance Payments	\$ 26.1	\$ 53.1	\$ 27.0	103.4%
CPS Health Insurance Payments	\$ 156.3	\$ 256.0	\$ 99.7	63.8%

Source: CPS Budgets FY2000 & FY2004, Public School Teachers' Pension & Retirement Fund of Chicago CAFR 2004, p. 89

New and Enhanced Budget Initiatives for CPS Budget FY2006

The CPS annually reports information about a number of budget initiatives. These initiatives range from pre-school and after school programs to dropout prevention, summer jobs, and enhanced educational opportunities for highly motivated students. There was, however, an overall increase in funding for educational initiatives. Funding for these projects increased from \$435.0 million in FY2005 to \$452.1 million in FY2006. This represents a 3.9% rise in funding for these projects. In FY2006, funding for educational initiatives will constitute 8.9% of the total \$5 billion Chicago Public Schools budget.

Total CPS Educational Budget Initiative Funding: All Funds FY05 & FY06 (In Millions of Dollars)				
	FY05	FY06	\$ Change	% Change
Total Funding	\$ 435.0	\$ 452.1	\$ 17.1	3.9%

Source: CPS FY2005 Budget, p. 10 and CPS FY2006 Budget, p. 12

The next section presents a review of selected initiatives in the FY2006 budget that are either new educational programs or are continuing programs receiving a significant increase in funding this fiscal year.

Selected CPS Educational Budget Initiatives: All Funds FY05 & FY06 (In Millions of Dollars)				
	FY05	FY06	\$ Change	% Change
Tuition-Based Pre-School	\$ 3.0	\$ 4.0	\$ 1.0	33.3%
After School Programs	\$ 67.0	\$ 80.3	\$ 13.3	19.9%
Summer Programs	\$ 41.2	\$ 45.9	\$ 4.7	11.4%
Achievement Academies	\$ 10.2	\$ 11.1	\$ 0.9	8.8%
TOTAL	\$ 118.4	\$ 137.3	\$ 18.9	16.0%

Source: CPS FY2005 Budget, pp. 5-10 and CPS FY2006 Budget, pp. 5-12

Tuition-Based Pre-School: 33.3% Increase

The Tuition based Pre-School program provides opportunities for children not otherwise eligible for early childhood programs offered by the Chicago Public Schools. The program currently operates in 24 classrooms and has the capacity to serve 480 children. In FY2006 tuition will be raised to \$185 per week.³⁰

³⁰ Chicago Public Schools Budget FY2006, pp. 6-7.

After School Programs: 19.9% Increase

After school programs will receive an additional \$13.3 million in funding this year, an increase of almost 20% from FY2005. The “After School Counts” program provides reading and math instruction at approximately 180 schools for over 32,000 students. The program serves K-8 students and is offered for a minimum of 4 hours per week, 20 weeks per year.³¹ “After-School All-Stars,” a similar program, provides 4 hours of reading and math instruction per week, as well as a variety of enrichment activities. The program is conducted for a minimum of 20 weeks and is in place at about 120 schools, serving over 15,000 students in grades 3-8.³² “After School Matters” is a program run in partnership by the Chicago Public Schools, the Chicago Park District, the Chicago Public Library, and the City of Chicago to provide apprenticeship opportunities and other creative activities to high school students. The program currently operates in 35 high schools and serves over 6,300 students. In FY2006 “After School Matters” will receive \$5.3 million in funding, a 12.8% increase from the \$4.7 million it received in FY2005. Sports programs, however, will receive \$300,000 less this year, dropping from \$9.1 million in FY2005 to \$8.8 million in FY2006.

Summer Programs: 11.4% Increase

Summer programs will receive 11.4% more funding in FY2006, increasing from \$41.2 million in FY2005 to \$45.9 million in FY2006. The “Summer Bridge” program is designed to assist those who are unable to meet the requirements of the promotion policy in third, sixth, and eighth grades. The High School program is mandatory for underperforming 9th grade students. High schools will also offer programs for students in the 10th-12th grades as well as the “Step Up” program for 8th graders making the transition to high school.³³

Achievement Academies: 8.8% Increase

Achievement academies will receive an 8.8% increase in FY2006, after having been allotted a 162% increase in FY2005. Total funding for the achievement academies increased from \$10.2 million in FY2005 to \$11.1 million in FY2006.³⁴ The achievement academies, located in existing high schools, use the Johns Hopkins University model to help underachieving eighth grade students make the transition to high school. Support for these students will be extended to tenth grade. In FY2006 there will be nine achievement academies in Chicago, as there were in FY2005.³⁵

CHARTER SCHOOLS AND RENAISSANCE 2010 INITIATIVE

The number of students in K-12 charter schools in FY2006 is projected to increase from 12,361 in FY2005 to 15,814. in FY2006 This is a 28% enrollment increase. Many of the new charter school students will be housed in the nine new charter campuses opening this school year. The

³¹ *Chicago Public Schools Budget FY2006*, P. 7.

³² *Ibid*, p. 7.

³³ *Ibid*, p. 8.

³⁴ *Chicago Public Schools Budget FY2005*, p. 6 and *Chicago Public Schools Budget FY2006*, p. 12.

³⁵ *Chicago Public Schools Budget FY2005*, p. 6 and *Chicago Public Schools Budget FY2006*, p. 10.

CPS is budgeting approximately \$90 million for charter schools in FY2006, up from the \$58 million budgeted in FY2005.³⁶ This is a 55.0% funding increase.

The CPS projects that an additional 3,013 students will be enrolled in schools opening under the Renaissance 2010 initiative in 11 new campuses in FY2006. These schools will be funded by a lump sum allocation rather than formula-driven allocation.³⁷ The Renaissance 2010 initiative proposes to increase educational choices and opportunities for at-risk students by creating 100 new schools over the next six years. These schools will be a combination of CPS-run, contract and charter schools. Operation of individual schools will be awarded via a Request for Proposals process. Schools will be held accountable via performance agreements that list expectations for student achievement, on-going community and parent involvement and school management.³⁸

The Chicago Public Schools reimburses charter schools for the cost of providing special education. Individual schools are given the option of hiring their own special education teachers or having special education teachers provided by the District. The District also pays for charter school food service and transportation costs and provides funding for facilities maintenance, including janitorial and engineering services. Charter schools receive the same funding as traditional schools for poverty-related federal and state categorical programs.³⁹

PERSONNEL: 1,088 POSITIONS ELIMINATED IN FY2006

In FY2006, the Chicago Public Schools will fund a total of 46,130 full time equivalent positions. This is a 2.0% decrease from the FY2005 total of 47,218. The following exhibit shows the details of the staff reductions:

CPS Distribution of Personnel: FY05 & FY06				
Location	FY05	FY06	Change	% Change
Administrative Positions	1,846	1,649	(197)	-10.7%
School Based Positions	45,372	44,481	(891)	-2.0%
TOTAL	47,218	46,130	(1,088)	-12.6%

Source: CPS FY2006 Budget, p. 1108

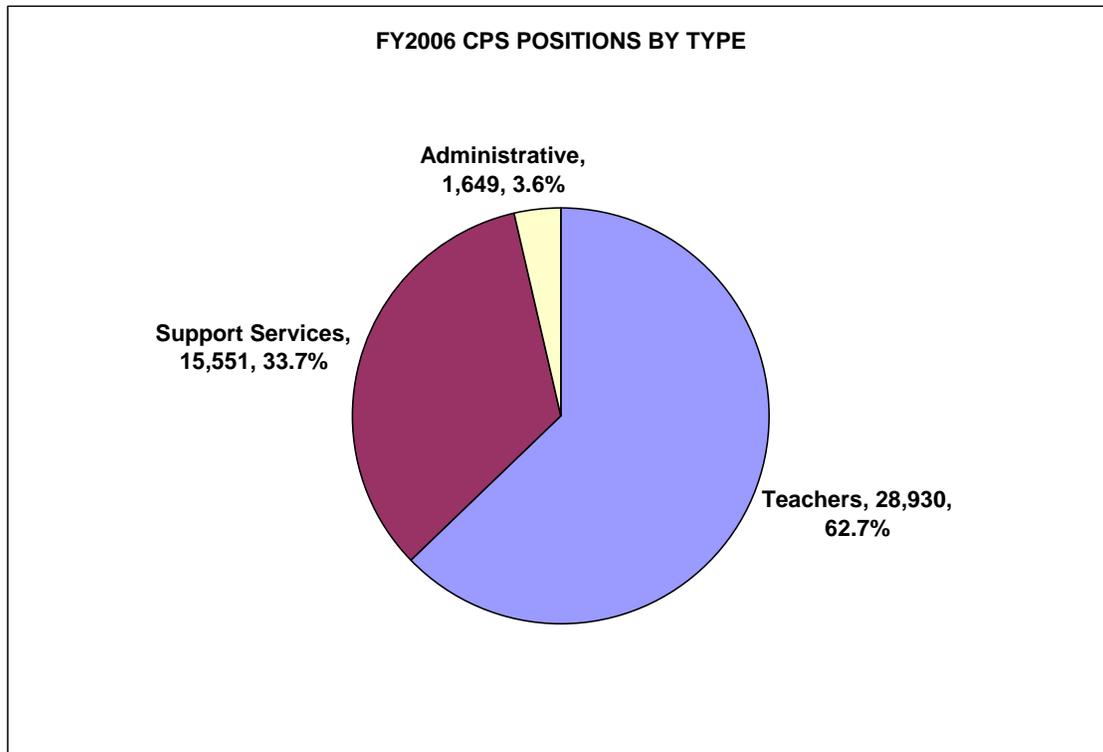
In FY2006, the Chicago Public Schools will budget for 28,930 teaching positions. This is a 3% reduction in the teaching staff, and entailed the elimination of 924 teachers. Thirty-four percent, or 15,551 positions, are designated as non-teaching school-based staff, including teachers' aides, clerical staff, custodians, security officers, and building engineers. The final 4% are administrative staff.

³⁶ *Chicago Public Schools FY2006 Budget*, p. 11.

³⁷ *Ibid*, p. 13.

³⁸ For information on the Renaissance 2010 initiative, please see <http://www.ren2010.cps.k12.il.us/overview.shtml>.

³⁹ Information provided by Chicago Public Schools Office of Management and Budget, July 9, 2005.



Source: CPS FY2006 Budget, p. 86 and p. 1108

This is the second year in which the Chicago Public Schools has followed a new format by which personnel figures are presented in the budget. The change was made 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.

Because of these format changes, historical comparisons cannot be made at this time.

Administrative Staff by Unit

The following exhibit shows the Chicago Public Schools system's administrative staff levels itemized by individual administrative unit in the budget book. In FY2006, 44.9 full-time equivalent positions were eliminated, resulting in a 2.6% decrease in total administrative staff.

CPS Administrative Staff Levels: FY05 & FY06 (Full-Time Equivalent Positions)				
Administrative Unit	FY05	FY06	Change	% Change
Board of Education	22	20	(2.0)	-9.1%
C.E.O.	12	13	1.0	8.3%
Chief of Staff	8	9	1.0	12.5%
Inspector General	20	20	-	0.0%
Law	81	80	(1.0)	-1.2%
Communications	15	14	(1.0)	-6.7%
Audit Services	3	3	-	0.0%
New Schools Development	14	19	5.0	35.7%
External Affairs	49	50	1.0	2.0%
Business Diversity	8	8	-	0.0%
Chief Education Office	11	10	(1.0)	-9.1%
Literacy	48	38	(10.0)	-20.8%
High School Programs	171	133	(37.8)	-22.1%
Early Childhood Education	34	19	(15.0)	-44.1%
Math & Science	40	42	2.0	5.0%
Research, Eval. & Accountability	68	43	(25.0)	-36.8%
Instruction & School Mgmt.	252	231	(21.0)	-8.3%
School Demographics & Planning	5	5	-	0.0%
Principal Preparation & Development	6	8	2.0	33.3%
Academic Enhancement	16	11	(5.0)	-31.3%
Specialized Services	63	81	18.0	28.6%
Planning & Development	8	9	1.0	12.5%
Language & Cultural Education	53	53	0.3	0.6%
Chief Administrative Officer	5	9	4.0	80.0%
Human Resources	154	214	60.0	39.0%
Procurement & Contracts	39	36	(3.0)	-7.7%
Safety & Security	67	61	(6.0)	-9.0%
Technology Services	196	189	(7.4)	-3.8%
School Financial Services	145	133	(12.0)	-8.3%
Management & Budget	51	56	5.0	9.8%
Chief Operating Officer	17	17	-	0.0%
Facility Operations & Maintenance	25	26	1.0	4.0%
Facility Planning	9	10	1.0	11.1%
Food Services	21	21	-	0.0%
Student Transportation	1	1	-	0.0%
TOTAL	1,737	1,692	(44.9)	-2.6%

Source: CPS Budget FY2006, pp. 123-297

The administrative units that experienced the greatest reductions in staff levels include

- Early Childhood Education (-44.1%)
- Research, Evaluation and Accountability (-36.8%)
- Academic Enhancement (-31.3%)
- High School Programs (-22.1%)

Those units that increased their staff levels to the greatest extent include

- Chief Administrative Officer (+80%)
- Human Resources (+39%)

- New Schools Development (+35.7%),
- Principal Preparation and Development (+33.3%)
- Specialized Services (28.6%)

The data presented in the above exhibit reveal a discrepancy in the methodology the CPS uses to present information about its total number of full-time equivalent administrative positions. As the data above indicate, the Chicago Public Schools will make a net reduction of 44.9 full-time equivalent positions in FY2006. However, this figure differs from information included elsewhere in the budget. In the budget's "Student Profile" section, the Chicago Public Schools indicate that they will have effected a net decrease of 197 administrative full-time equivalent positions in FY2006, in sharp contrast to the 44.9 positions that their more detailed administrative unit reports indicate.⁴⁰ The differences in counts are due to the fact that the net reduction of 44.9 FTEs includes both operating and capital positions while the 197 administrative personnel reduction is in the category of operating personnel only.⁴¹

Moreover, the "Student Profile" section of the Budget Book on p. 1108 states that the total number of positions, both school-based and administrative, will be reduced by 1,088. But, the "Budget Overview" section on p. 15 states that there will be a net reduction of 992 total positions. The reason for the discrepancy is that on p. 15 a comparison is made between personnel currently reported for All Funds in FY2005 versus personnel projected for the General Operating Funds in FY2006.

In addition, the reduction of 1,088 FTEs is in the General Operating Funds only; it does not account for changes in the number of positions paid for with Capital Funds. Therefore, it is not possible to know the overall reduction in CPS personnel for all funds. The Civic Federation learned of the reasons for differences in personnel counts from the CPS Office of Management and Budget. Unfortunately, there is no information contained in the budget that reconciles these widely differing results.⁴²

ENROLLMENT: DECLINE PREDICTED OVER THE NEXT DECADE

The Chicago Public Schools predict an ongoing decline in overall student enrollment across the system. As the following exhibit indicates, total enrollment dropped by 1,659 students from 2004 to 2005. When taking 2003 actual enrollment figures into account, the school system has seen a 5,002 drop in enrollment, a decrease of 1.2 percent.⁴³

⁴⁰ *Chicago Public Schools Budget FY2006*, p. 1108.

⁴¹ Information provide by CPS Office of Management and Budget, July 15, 2005.

⁴² Information provided by CPS Office of Management and Budget, July 15, 2005.

⁴³ Please note that actual and forecasted enrollment figures are likely to differ to a slight degree. The data presented in the enrollment exhibit only uses forecasted figures for the sake of consistency.

CPS Student Enrollment: 2004-2005				
Location	2004 Forecast	2005 Forecast	Change	% Change
Elementary, K-8	294,928	287,084	(7,844)	-2.7%
High Schools	101,787	101,787	0	0.0%
Elementary-Charter Schools, New Schools	7,329	11,863	4,534	61.9%
High Schools-Charter Schools, New Schools	5,032	6,964	1,932	38.4%
Pre-K (CPS & Charter)	22,000	21,719	(281)	-1.3%
TOTAL	431,076	429,417	(1,659)	-0.4%

Source: CPS Office of Management and Budget Briefing

UNRESERVED, UNDESIGNATED FUND BALANCE

Between FY2000 and FY2004, the CPS General Operating Funds' unreserved, undesignated fund balance declined from 3.1% to 0.7% of operating expenditures in those funds. In four of these years, the ratio fell below the 5% minimum recommended by the Government Finance Officers Association. The fund balance did increase sharply in FY2001, when it rose from \$97.1 million to \$201.5

million. The following year the fund balance dropped dramatically down to \$8 million. The current fund balance ratio in FY2004 was 0.7%, which the Civic Federation rates as low.

CHICAGO PUBLIC SCHOOLS UNRESERVED, UNDESIGNATED FUND BALANCE RATIO			
	Undesignated General Operating Fund Balance	Expenditures	Ratio
FY2000	\$ 97,157,000	\$ 3,184,502,000	3.1%
FY2001	\$ 201,520,000	\$ 3,353,119,000	6.0%
FY2002	\$ 8,383,000	\$ 3,493,886,000	0.2%
FY2003	\$ 47,126,000	\$ 3,595,441,000	1.3%
FY2004	\$ 25,210,000	\$ 3,758,510,000	0.7%

SHORT-TERM DEBT TRENDS

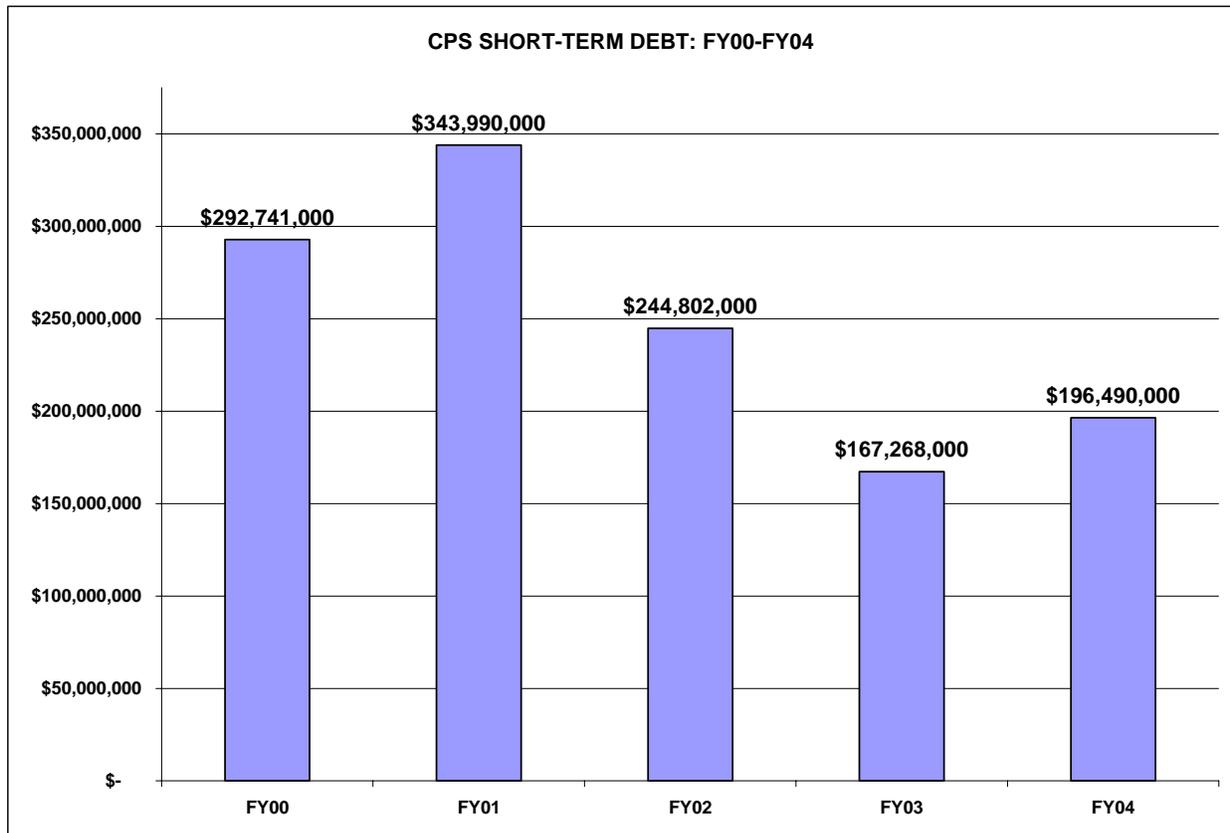
Short-term debt is a financial obligation that must be satisfied within one year. An increasing trend in short-term debt may be a warning sign of future financial difficulties. It is a measure of budgetary solvency, that is, a government's ability to generate enough revenue over the course of a normal 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.⁴⁴

CPS Short-Term Debt

The exhibit below presents the Chicago Public Schools short-term debt trends for Fiscal Years 2000 through 2004. During that 5-year period, short-term debt obligations fell by 33% or from \$292.7 million to \$196.5 million. Since FY2001, short-term debt decreased by 43%, from

⁴⁴ 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.

\$343.9 million to \$196.5 million. The decrease over time is a positive sign. However, between FY2003 and FY2004 short-term debt rose by \$29 million or 17%. Any future increases bear watching.



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: 9.6% Decrease from FY2005

The FY2006 appropriation for CPS capital projects in FY2006 will be \$506.4 million. This is 9.6% decrease from the previous year's appropriation of \$659.6 million.

The Chicago Public Schools propose to issue \$250 million in new bonds in FY2006. The bond funding will be used primarily for maintenance and improvements of existing infrastructure. Some of the other highlights of the capital budget include:

- \$6.8 million in Qualified Zone Academy Bonds will be issued in FY2006. 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.

- \$10.5 million of the \$15.6 million earmarked for school soundproofing projects will be provided by the City of Chicago for projects at schools adversely affected by noise at Midway and O’Hare Airports.
- \$1.3 million is being provided by the City of Chicago for various school construction projects (see Other Government Revenue category).

Allocated but unspent bond proceeds from FY2005 that will be re-appropriated in FY2006 total \$314.7 million.⁴⁵

CHICAGO PUBLIC SCHOOLS FY2006 CAPITAL PROJECTS FUNDS				
Sources of New Funds	FY2005	FY2006	\$ CHG	% CHG
Local				
Proposed Bonds	\$220.0	\$ 250.0	\$ 30.0	13.6%
Interest	\$8.0	\$ 8.0	\$ -	0.0%
Soundproofing & Energy Conservation	\$19.0	\$ 15.6	\$ (3.4)	-17.9%
State				
Capital Development Board	\$110.0	\$ -	\$ (110.0)	-100.0%
Federal				
Qualified Zone Academy Bonds	\$9.0	\$ 6.8	\$ (2.2)	-24.4%
Subtotal New Funds	\$366.0	\$ 280.4	\$ (85.6)	-23.4%
Sources of Additional Funds (Prior-Year Projects)				
Other Government Revenue	\$90.0	\$ 1.3	\$ (88.7)	-98.6%
Subtotal Additional Funds	\$90.0	\$ 1.3	\$ (88.7)	-98.6%
Re-Appropriation of Existing Bond Funds	\$203.6	\$ 314.7	\$ 111.1	54.6%
Total Source of All Funds	\$659.6	\$ 596.4	\$ (63.2)	-9.6%

Source: Chicago Public Schools FY2005 Budget, p. 99 and Chicago Public Schools FY2006 Budget, p. 115.

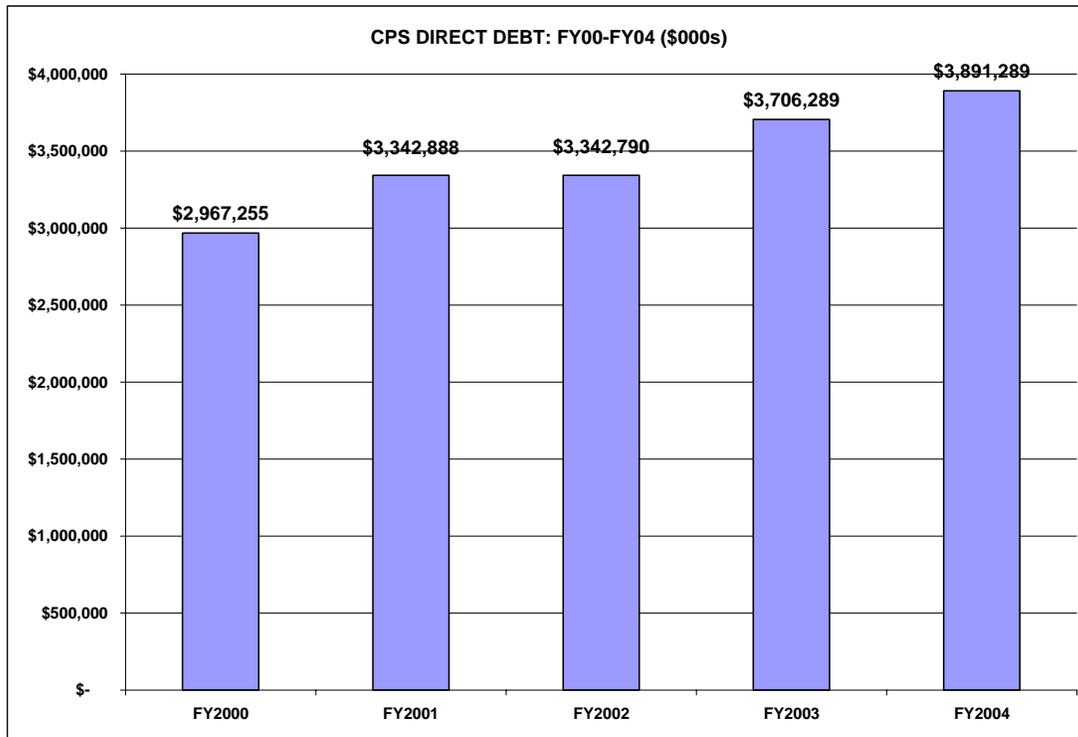
Long-Term Debt Trends

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

Total Direct Debt: \$3.8 Billion in FY2004

Between FY2000 and FY2004, the direct debt burden of the Chicago Public Schools increased by from \$2.9 billion to \$3.8 billion. This is a \$924 million, 31.1% increase. Since FY1996, CPS direct debt has risen by \$2.8 billion, from \$1.0 billion. This 273.5% increase reflects the Chicago School District’s large capital construction program over the past several years.

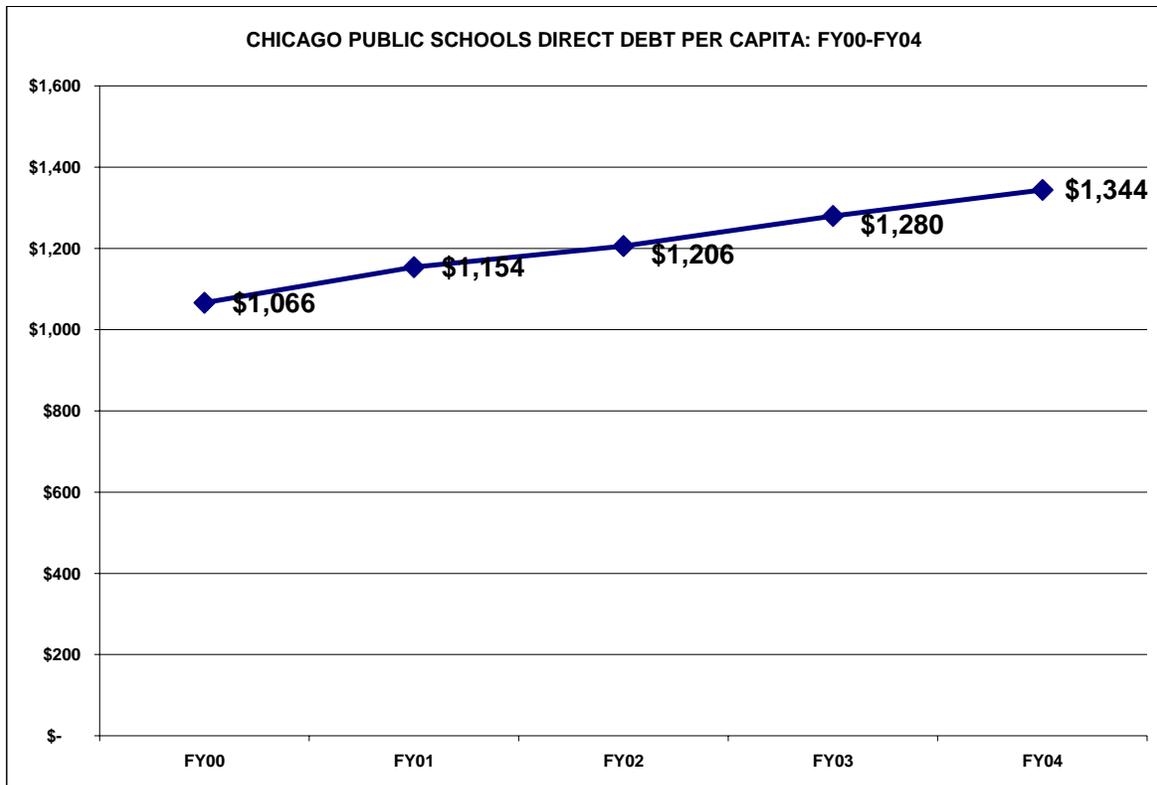
⁴⁵ Chicago Public Schools FY2006 Budget, p. 115.



Direct Debt Per Capita: 5% Increase to \$1,344

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. Steady increases bear watching as a potential sign of increasing financial risk.

Direct debt per capita increased by 26% between FY2000 and FY2004, from \$1,066 to \$1,344. It rose by 5.0% between FY2003 and FY2004.



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 partially within its boundaries. These governments are: the City of Chicago, Cook County, the Forest Preserve District of Cook County, the Metropolitan Water Reclamation District, the Chicago Park District, the City Colleges of Chicago and the School Finance Authority. Rating agencies and other financial analysts commonly monitor overlapping debt trends as an affordability indicator when governments consider debt issuance. Between FY2000 and FY2004, the rate of growth in direct debt burden at the Chicago Public Schools was 31.1%, less than the 47.4% rate of growth for the other overlapping governments. Debt issued by the Chicago Public Schools averaged 33% of the total overlapping debt for the governments analyzed.

CPS Direct Debt vs. Overlapping Debt: FY00-FY04 (\$000s)			
	CPS Direct Debt	Overlapping Debt	CPS + Overlapping Debt
FY2000	\$ 2,967,555	\$ 5,481,771	\$ 8,449,326
FY2001	\$ 3,342,000	\$ 6,349,982	\$ 9,691,982
FY2002	\$ 3,492,000	\$ 7,463,728	\$ 10,955,728
FY2003	\$ 3,706,289	\$ 7,821,237	\$ 11,527,526
FY2004	\$ 3,891,281	\$ 8,079,287	\$ 11,970,568
% Increase	31.1%	47.4%	41.7%

Source: Chicago Public Schools FY2004 Comprehensive Annual
Annual Financial Report

Current CPS Bond Ratings

All Chicago Public Schools bonds are insured except for the Series 2003D-1 Bonds. The bonds have received the following ratings from the rating agencies:

- Moody's Aaa
- Standard & Poor's AAA
- Fitch AAA

All CPS bonds have the following current underlying ratings:

- Moody's A2
- Standard & Poor's A+
- Fitch A+

Underlying ratings are based on the creditworthiness of the Chicago School District without regard to bond insurance or other credit enhancements.⁴⁶

TEACHERS' PENSION FUND

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

In FY2004, the Teachers' Pension Fund had over 56,000 members, including 19,266 retirees and beneficiaries receiving benefits and 37,362 current members.

⁴⁶ Chicago Public Schools FY2006 Budget, p. 14.

TEACHERS' PENSION FUND MEMBERSHIP			
	Retirees & Beneficiaries Receiving Benefits	Current Members	Total*
FY2000	16,688	35,400	35,400
FY2001	17,298	37,648	37,648
FY2002	17,867	37,374	37,374
FY2003	18,565	36,548	36,548
FY2004	19,266	37,362	37,362

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

Source: Teachers' Pension Fund CAFR, p. 26.

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

Pension funds are funded through a combination of employer and employee contributions. State statute requires the ratio of Teachers' Pension Fund assets to liabilities is at least 90%. If the ratio drops below that 90% figure, the remainder of the costs must be paid by the Chicago Public Schools, the State of Illinois from the State Distributive Fund and investment income.

Employer Contributions

The Chicago Public Schools makes an **employer contribution** to the Teachers' Pension Fund annually based on a calculation taking into account the amount of funding needed to ensure that the 90% funded ratio. The actuarial calculations used to determine the employer level of funding for FY2006 are shown in the exhibit below. The Fund will require a total of \$114.7 million in employer contributions. Because the funded ratio fell to 85.8% in FY2004, the State of Illinois was required to provide an additional \$9.8 million and the CPS will be required to contribute an additional \$15.8 million in FY2006.

State Appropriations: The State of Illinois provides a sum of \$65 million annually.

Additional State Appropriations: The State must make additional contributions of 0.544% of payroll to the Teachers' Fund to offset a portion of the cost of benefit increases enacted under P.A. 90-582. No additional contributions are required if the funded ratio is at least 90%.

Additional CPS Contribution: The Board of Education must make additional contributions of 0.58% of each teacher's salary to offset a portion of the benefit increases enacted under P.A. 90-582. No additional contributions are required if the funded ratio is at least 90%.

CPS Required Contribution: Under the funding plan established by P.A. 89-15, the minimum contribution to the Teachers' Pension Fund shall be an amount determined to bring the total assets of the Fund up to 90% of the total actuarial liabilities by the end of FY2045. The required CPS contribution is calculated as a level percentage of payroll over the years through FY2045. The calculation for determining the CPS required contribution is the total amount of the

employer contribution less additional state appropriations, additional CPS appropriations and other employer appropriations.

CPS (Employer) Contribution to Teachers' Pension Fund for FY2006	
Total Required Employer Contribution	\$ 114,721,000
State Appropriations	\$ 65,000,000
Additional State Appropriations	\$ 9,877,000
Additional CPS Contribution	\$ 10,530,000
Other Employer Contributions	\$ 13,494,000
CPS Required Contribution (1-2-3-4-5)	\$ 15,820,000

Employee Contributions

The Chicago Public Schools also makes an annual appropriation of 7% of regular salaries of employees as part of the **employee contribution** to the Teachers' Pension Fund.⁴⁷ Essentially, the District "picks up" 7% of the 9% required employee contribution for the retirement system. In addition, the State of Illinois makes an annual employer contribution to the Teachers' Pension Fund of approximately \$65 million.

Pension Funding Appropriations in FY2006

In FY2006, the State of Illinois is providing \$9.8 million in funding for the Teacher's Pension Fund in addition to its regular \$65 million contribution, bringing the total State contribution to \$74.9 million. The CPS is providing approximately \$25 million in additional funds as well as a result of the funded ratio having fallen below 90%.

In FY2006, the CPS expects to appropriate a total of \$318.0 million for teacher and educational support personnel retirement costs. This is a \$35.6 million, 12.6% increase from FY2005. Fully \$235.6 million will be appropriated for the Teachers' Pension Fund. Of that amount, \$133.9 million is the CPS's pick up of 7% of the employee contribution. The remaining \$101.2 million is derived from additional CPS as well as State of Illinois contributions.⁴⁸

CPS RETIREMENT BENEFIT APPROPRIATIONS: FY05-FY06				
Type	FY2005	FY2006	\$ CHG	% CHG
Teachers' Pensions	\$ 199.0	\$ 235.6	\$ 36.6	18.4%
Educational Support Personnel	\$ 83.4	\$ 82.4	\$ (1.0)	-1.2%
Total	\$ 282.4	\$ 318.0	\$ 35.6	12.6%

Source: Chicago Public Schools Budget, p. 85.

Future Actuarial Projections of CPS Funding Costs

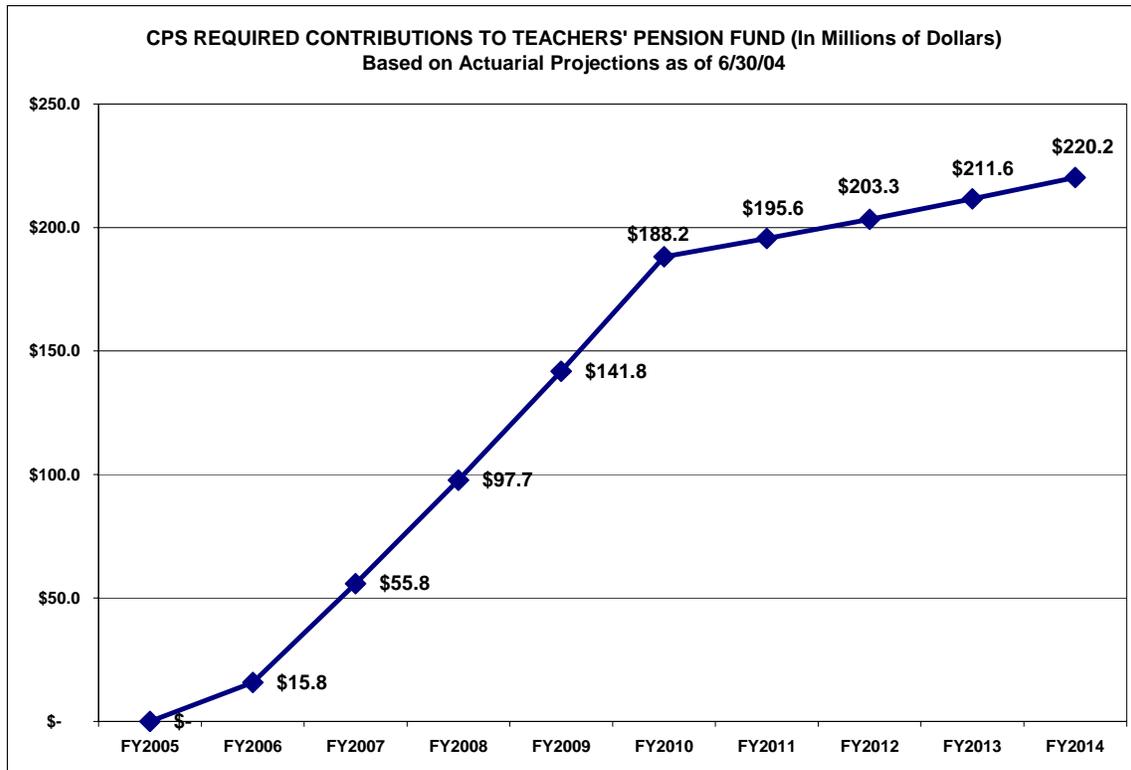
The CPS faces mounting pension costs in future years, according to the actuarial valuation report submitted to the District on December 7, 2004.⁴⁹ The exhibit below shows estimates of required CPS contributions to the Pension Fund from FY2005 to FY2014. During that time period, the

⁴⁷ *Chicago Public Schools FY2005 Budget*, p. 72.

⁴⁸ *Chicago Public Schools FY2006 Budget*, p. 88.

⁴⁹ Public School Teachers' Pension and Retirement Fund of Chicago. *Actuarial Valuation as of June 30, 2004*.

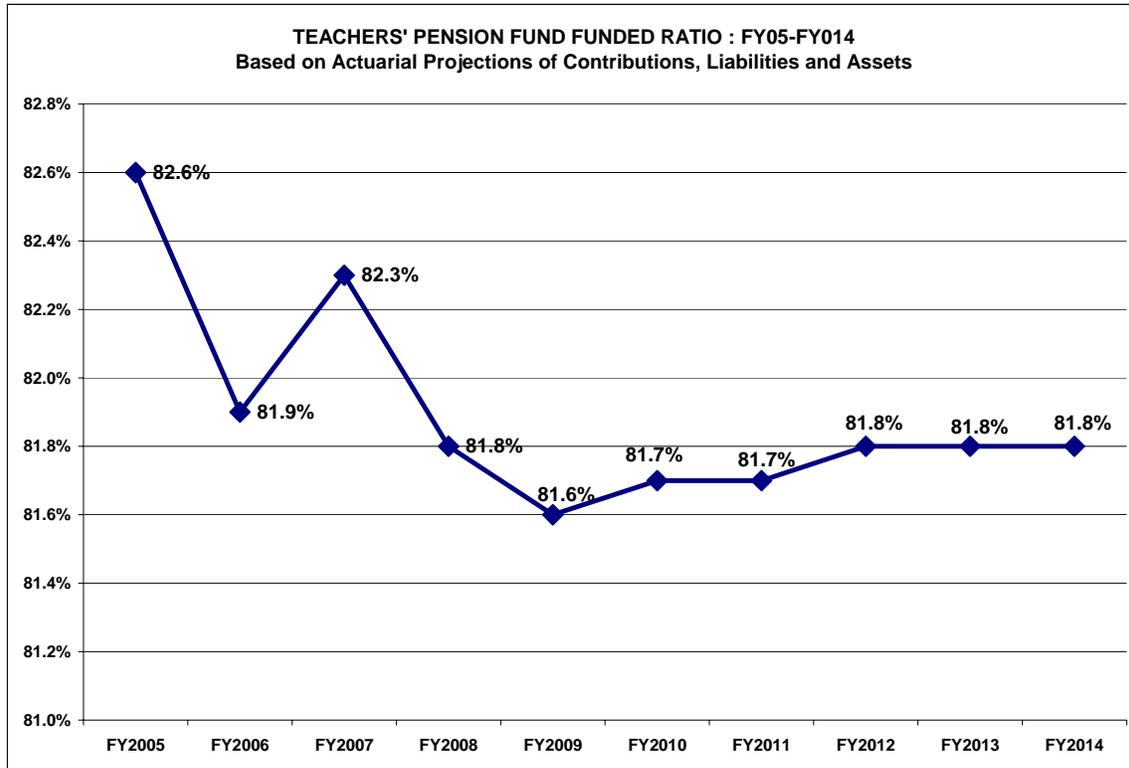
CPS required contribution per year will rise from \$0 to \$220.2 million. By FY2009, the contribution will increase to \$141.8 million. State of Illinois contributions in addition to the \$65 million annual payment will rise from \$9.8 million to \$12.3 million by FY2014.⁵⁰



The factor driving the need for increased CPS required contributions to the Teachers' Pension Fund is the actuarial projection that the Fund's funded ratio will continue to decline as costs mount. It is projected that the funded ratio will drop from 82.6% for FY2005 to 81.8% in FY2014.⁵¹

⁵⁰ Public School Teachers' Pension and Retirement Fund of Chicago. *Actuarial Valuation as of June 30, 2004*, p. 16.

⁵¹ Public School Teachers' Pension and Retirement Fund of Chicago. *Actuarial Valuation as of June 30, 2004*, p. 16.



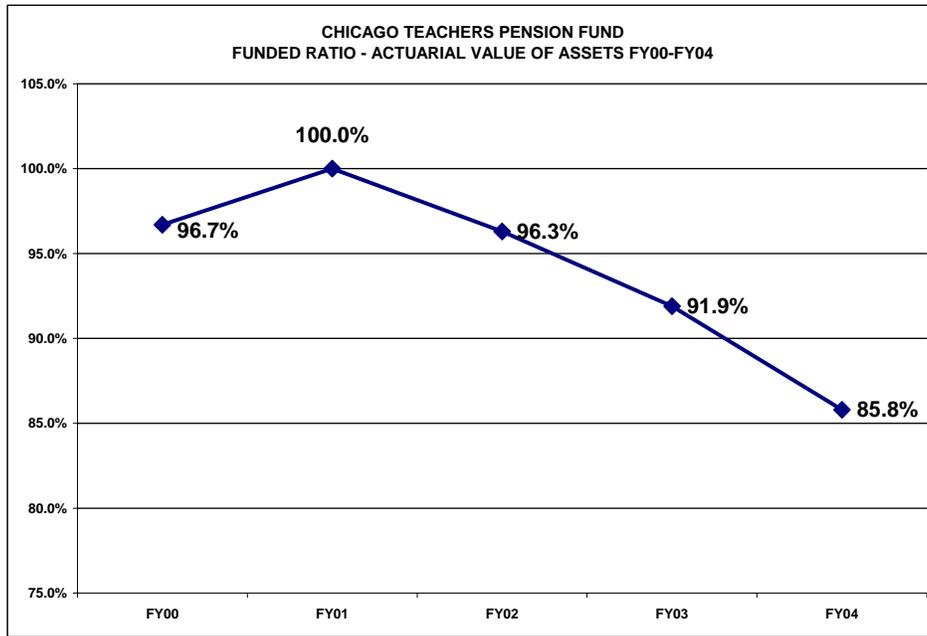
Pension Fund Indicators

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

Funded Ratio: Dips Below 90% Triggering CPS Contribution Requirement

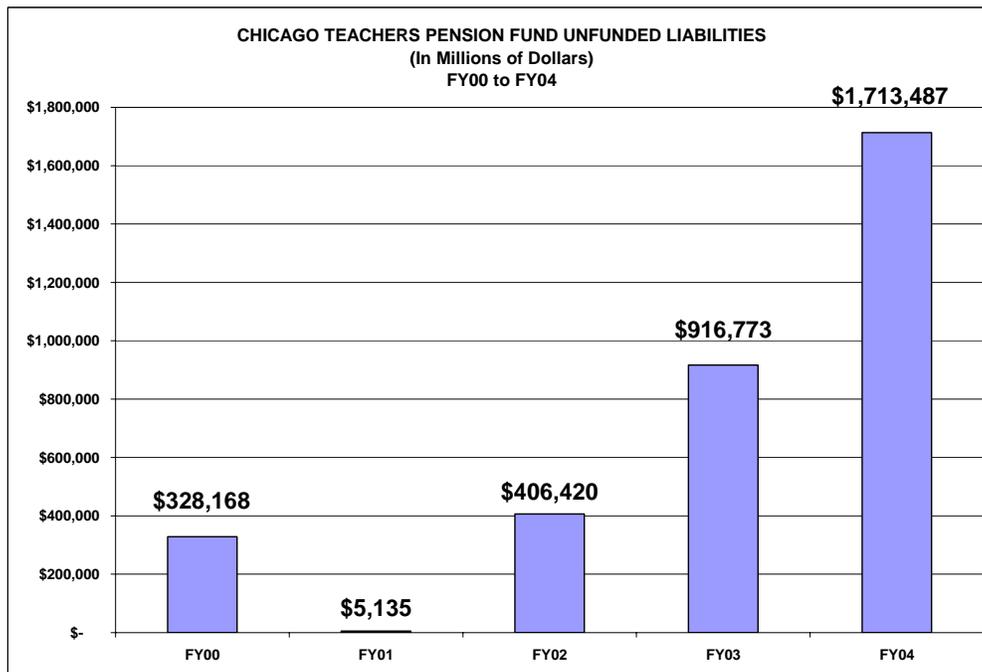
The following exhibit shows the funded ratio as reported for the actuarial value of assets for the Chicago Public Schools Teachers' pension fund. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting future obligations. In FY2004, the Chicago Public Schools' audited financial statements reported that the funded ratio was 85.8%. Since FY2001, the funded ratio has declined by nearly 15%.

Between FY2000 and FY2004, the funded ratio for the Teachers' Pension Fund averaged 94%. Thus, the Chicago Public Schools had more than adequate assets to cover pension liabilities in the long-term during this period.



Unfunded Pension Liabilities: Dramatic 87% Increase to \$1.7 Billion

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 \$1.7 billion in FY2004. This represents a steep 87% or \$796 million increase from the previous year. Since FY2000, unfunded liabilities have increased by \$1.3 billion or 422%.



The next exhibit shows the reasons for the \$796 million increase in unfunded liabilities. The largest single reason for the increase in unfunded liability was that investment returns were lower than originally assumed. This represented a lower than anticipated sum of \$500.5 million. A total of \$959.8 million in increased liabilities were reported. There were also \$163.1 million reported in decreased liabilities, primarily due to salary increasers being lower than originally assumed.

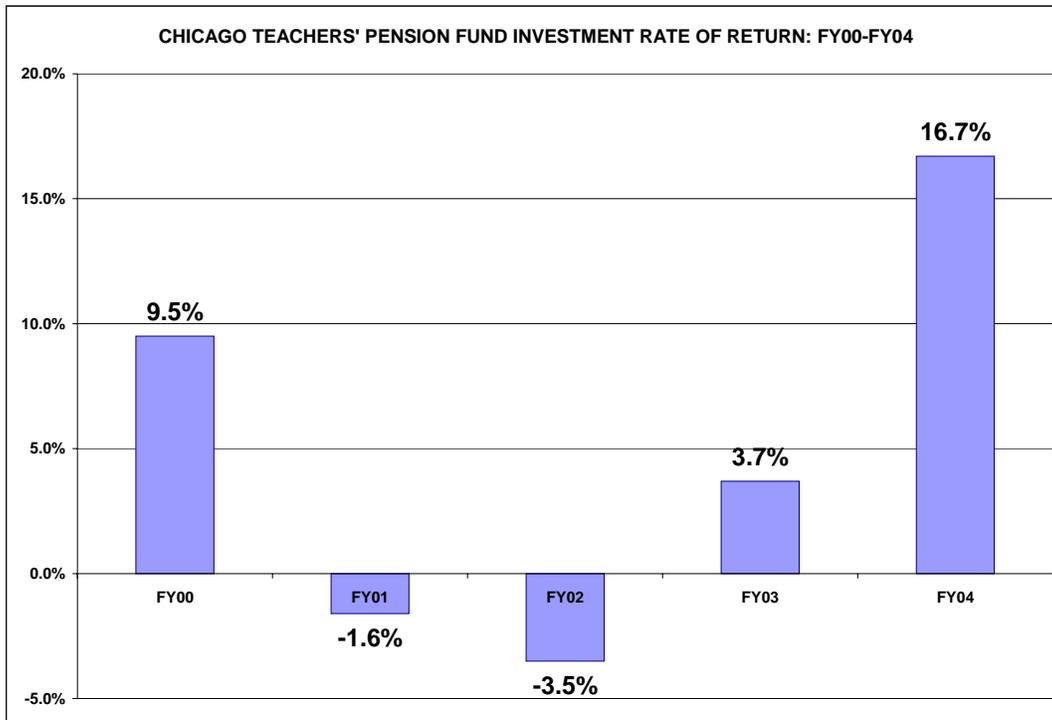
EXPLANATION OF FY2004 INCREASE IN UNFUNDED LIABILITIES	
Unfunded Actuarial Liability 7/1/03	\$ 916,773,666
Increases in Unfunded Liability	
Due to Adjustments in June 30, 2003 Archives Data	\$ 74,032,562
Due to Employer Contribution Being Less than Normal Cost Plus Interest on Unfunded Liability for Period 7/1/02 to 6/30/03	\$ 157,713,698
Due to Investment Returns Lower than Assumed	\$ 500,523,724
Due to Other Sources	\$ 227,549,415
Subtotal Increases	\$ 959,819,399
Decreases in Unfunded Liability	
Due to Salary Increases Lower than Assumed	\$ 163,105,603
Subtotal Decreases	\$ 163,105,603
Net Increase in Unfunded Liability (Increases - Decreases)	\$ 796,713,796
FY2004 Total Unfunded Liability	\$ 1,713,487,462

(Net Increase in FY2004 Unfunded Liability Unfunded Actuarial Liability 2003)

Source: Public School Teachers' Pension & Retirement Fund. FY2004 CAFR, p. 71.

Investment Rates of Return: Continued Improvement in FY2004

Investment returns for the Chicago Public Schools Teachers pension fund increased by 16.7% in FY2004. This followed one year of modest growth at 3.7% and two years of investment losses, reported as -1.6% in FY2001 and -3.5% in FY2002. The improvement in investment rates of return over a two-year period is a very positive sign.



Summary of Key Teachers' Pension Fund Benefits

The following information provides a summary of key benefits provided by the Teachers' Pension Fund.⁵²

Post-Retirement Increases: Retirees receive an automatic annual increase equal to 3% of the current amount of the pension provided. Increases accrue from the anniversary date of retirement or the 61st birthday, whichever is later.

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

Amount of Retirement Pension:

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

⁵² Public School Teachers' Pension and Retirement Fund of Chicago, *109th Comprehensive Annual Financial Report for the Year Ended June 30, 2004*, pp. 81-82.

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

CIVIC FEDERATION RECOMMENDATIONS

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

Improve CPS Budget Format

The Civic Federation recommends that the CPS 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.
- Personnel information that is consistent across categories and in different parts of the Budget Book. If different categorizations are used, a crosswalk should be provided. Full personnel information should be provided for positions funded by the General Operating as well as the Capital Funds.

Control Pension Costs

The Civic Federation believes that it is imperative that the CPS begin immediately to curb its growing retirement costs. Those recommendations proposed by the Governor's Blue Ribbon Commission on Pension Funding that are applicable to the Teachers' Pension Fund should be considered for adoption for new hires. Specifically, a cap of 3% or CPI, whichever is less, should be imposed on annual pension benefit increases for new hires. Currently, retirees receive an automatic 3% increase.

The Civic Federation also believes that the employee share of pension costs should be increased by at least 1%. Currently, the CPS “picks up” 7% of the 9% employee share for cost in FY2006

alone of \$235 million. This change should be a top priority of the CPS when it negotiates a new collective bargaining agreement.

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.

Develop a Multi-Year Capital Improvement Plan

The Civic Federation strongly urges the CPS to complete work as soon as possible on the 3-year Capital Improvement Plan (CIP). The District announced it was working on a CIP last year but has not completed it yet. The CPS first developed a one-year Capital Improvement Plan in 1996.⁵³ 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 \$596 million in FY2006, 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.⁵⁴

Pursue Joint Purchasing of Employee Health Insurance with Other Local Governments

Last year, we praised the Chicago Public Schools for containing healthcare costs by negotiating a more cost-effective union contract that held 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. This healthcare costs will increase by 7%, which is still less than the rate of increase for many other governments. Once again, we urge the CPS to work with other major local governments to consolidate health insurance purchasing. The potential for substantial savings that can be achieved from an insurance pool will be extremely beneficial to the CPS's future financial situation.

⁵³ Chicago Public Schools. *1996-2000 Capital Improvement Plan*. Adopted January 24, 1996. See p. 3 of the CIP.

⁵⁴ 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.