



**CHICAGO PUBLIC SCHOOLS  
FY2010 RECOMMENDED BUDGET**

**Analysis and Recommendations**

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## **EXECUTIVE SUMMARY**

The Civic Federation **supports** the Chicago Public Schools' (CPS) proposed FY2010 \$6.9 billion budget. CPS took prudent measures to balance its budget, including a \$473 million operating deficit, which is CPS's largest operating deficit since 1995. Despite the cost-cutting measures proposed in the District's FY2010 budget, the District will encounter even greater financial challenges in the future due to dramatic increases in its pension obligations, declining state revenue, and rising personnel costs. If the District is to overcome the financial challenges posed by its structural deficit, the District must right-size its expenditures.

The Civic Federation offers the following **key findings** on the FY2010 Recommended Budget:

- The total proposed FY2010 CPS budget will increase by \$705.6 million or 11.5%, rising from approximately \$6.2 billion in FY2009 to nearly \$6.9 billion;
- Approximately 29.9% of the total FY2010 budget increase, or \$211.6 million, is for debt service requirements;
- Appropriations for employee compensation, including salaries and benefits, will increase by \$189.3 million or 5.5% in FY2010, rising from nearly \$3.5 billion to \$3.7 billion. Since FY2006, compensation costs have risen by 17.5% or \$544.2 million;
- CPS enrollment is estimated to decline from 408,129 in FY2009 to 405,381 in FY2010; and
- Property tax revenues for all funds are projected to increase to \$2.1 billion in FY2010, a 12.7% or \$233.9 million increase over FY2009 budgeted revenues.

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

- The FY2010 CPS budget proposes to pursue cost reduction strategies, immediate contractual economies and a second round of budget cuts to offset the \$61 million that will be drawn down from the District's reserve fund;
- The FY2010 budget proposes the elimination of ineffective programs; savings from implementing this measure, combined with savings created by the elimination of 500 positions in FY2009, will total \$100 million;
- The FY2010 budget proposes a property tax levy increase of 1.5% in FY2010; this is considerably less than the maximum property tax raise allowable under state law, which totals 4.1%;
- Although CPS will significantly draw down its reserve funds to cover delayed payments from the State of Illinois and to cover contractual salary increases and pension costs, CPS proposes a conservative plan for replenishing the \$110.2 million that will be needed to bring the District's fund balance back into alignment with its fund balance policy;
- CPS's actions to expand the number of charter schools allowed to operate in the District under the Charter School Reform Act of 2009; and
- CPS has made the FY2010 budget process more transparent by including additional information in the District's annual budget document and by making the document easily accessible on the web.

However, the Civic Federation has **concerns** about the following areas of CPS's FY2010 proposed budget:

- The District's annual pension costs will increase dramatically, rising 72.9%, or \$129.7 million over the FY2009 employer contribution;
- The capital budget information presented in the FY2010 budget falls far short of the District's earlier stated goal of creating a full-fledged capital improvement plan (CIP) -- a detailed, comprehensive and multi-year plan is needed to assess CPS's stewardship of its multi-million dollar capital program; and
- The FY2010 budget will heavily rely on an infusion of federal funding from the American Recovery and Reinvestment Act of 2009 that will be depleted by FY2012.

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

- It is imperative that CPS aggressively seek legislation to curb its rapidly escalating retirement costs by placing a moratorium on new pension benefits until the funded ratio reaches 90%, limiting annual benefit increases for new hires to 3% or the rate of inflation, whichever is less, and increasing the employee share of pension costs by at least one percentage point (to 3%);
- We urge CPS to also seek reform of the Teachers' Pension Fund governance structure to ensure greater balance of employee and management interests;
- CPS should fully develop a comprehensive, district-wide, multi-year capital improvement plan. The CIP should include a five-year summary list of projects, funding sources and expenditures per project, information pertaining to the impact of capital spending on the operating budget, brief narrative descriptions of each individual project, and a timeframe for completing the projects;
- CPS should develop and implement a formal long-term financial plan that is shared with and/or reviewed by key policymakers and stakeholders, including the members of the Board of Education and the taxpaying public; and
- CPS should reintroduce sections included in the FY2009 budget book that were excluded from the FY2010 budget document, including the "What's New in the Budget Book" and "District Strategy and Resource Alignment" sections.

## **OVERVIEW OF ANALYSIS**

The Civic Federation **supports** Chicago Public Schools' FY2010 proposed \$6.9 billion budget. This year CPS was faced with its largest budget deficit since 1995. The operating deficit, totaling \$473 million, resulted in the need for personnel cuts, a restrained increase to the District's annual property tax levy and a draw-down of the District's reserves. Each of these measures is reasonable given the daunting financial position the District finds itself in this year.

To reduce its budget deficit, the District eliminated 557 positions, with another 500 slated to be removed in the coming months, and reduced inefficiencies in its daily operations. Despite these reductions, the District faces even greater fiscal challenges in future fiscal years. The District projects a \$913 million budget deficit for FY2011, driven in large part by the statutorily required

\$536.3 million pension contribution. The annual pension funding requirement for FY2011 is a 201.6% or \$358.5 million increase over the FY2009 pension appropriation.<sup>1</sup> This level of pension contribution funding is unsustainable for the District, especially in light of declining state funding and the end of one-time federal stimulus funding packages that are being used to prop up the District's FY2010 and FY2011 budgets. The Illinois General Assembly must work with District officials to correct this situation and pass meaningful pension reform legislation.

The combination of escalating annual pension costs, declines in state revenues and rising personnel costs has resulted in a structural deficit for the District.<sup>2</sup> As a result the District has been forced to close a funding gap each year, often through an increase of its property tax levy and withdrawals from its fund balance.

Moving forward, the District must also work to right-size its expenditures to meet the needs of Chicago's students. For years the District has experienced declining enrollment and shifting demographics. These two trends will inevitably require a realignment of District resources that will include closing and consolidating schools. It will also require a thoughtful appropriation of scarce capital funds that is designed to benefit all of the District's students and neighborhoods. In order to achieve an equitable right-sizing strategy, the District must complete and publicly release a detailed, prioritized capital improvement plan (CIP). The District has pledged in the past that it will release a detailed CIP to the public but has yet to make good on this promise. The Civic Federation calls on the District to fulfill this reasonable commitment to better planning and transparency.

### **Issues the Civic Federation Supports**

There are several steps CPS has proposed in the FY2010 budget that the Civic Federation supports.

#### ***Prudent Cost-Cutting Measures***

Early in the budget planning process the District identified a looming deficit and acted to reduce this burden on its FY2010 financial plan. In July of 2009 the District eliminated 557 positions. Of the positions that were eliminated, 212 employees were based at the District's central office and 345 employees were classified as "citywide".<sup>3</sup> Many of the eliminated positions were cut from the Human Resources and Information Technology departments.<sup>4</sup>

The District also eliminated programs they identified as inefficient and ineffective to help reduce costs in the upcoming fiscal year. Based on an investigation of current use of funds and an analysis that identified inefficiencies and program effectiveness, the District eliminated several programs, reduced department and program inefficiencies and realigned programs that

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<sup>1</sup> PowerPoint presentation to the Civic Federation by Ron Huberman, CEO for Chicago Public Schools, August 10, 2009.

<sup>2</sup> CPS FY2010 Proposed Budget, p. 5.

<sup>3</sup> "Citywide" refers to positions that travel to different schools in the District, serving multiple campuses.

<sup>4</sup> Rosalind Rossi, "CPS axes 557, with more layoffs ahead." *Chicago Sun-Times*, July 2, 2009.

overlapped. The combination of personnel reductions and program cuts resulted in an estimated savings of \$100 million.<sup>5</sup>

The District has also indicated that an additional 500 positions will be eliminated and that it is working to further reduce expenditures by an additional \$61 million to offset its recent draw down of its reserve funds.<sup>6</sup>

The Civic Federation applauds the District's commitment to reducing expenditures. Targeting administrative and programmatic inefficiencies, while working to ensure funding for classroom services remains whole, is a fiscally prudent strategy that all governments should employ on a regular basis. Personnel cuts are especially important for the District, given that approximately 68.0% of the general and special funds, or over \$3.6 billion, will be used for teacher salaries, non-teacher compensation and employee benefits in FY2010. Given that salaries and benefits comprise such a large portion of the District's annual expenses, reductions in these areas cannot be avoided.

### ***Modest Property Tax Increase***

The District is proposing a 1.5% property tax levy increase for FY2010. CPS, recognizing the difficult economic climate that is affecting Chicago residents, is choosing not to increase the levy to the full extent allowed under law, 4.1%.<sup>7</sup>

The Civic Federation supports the District's decision to increase the property tax levy by 1.5%. This is a reasonable proposal in light of a \$473 million operating budget deficit. The Federation accepts this painful, yet necessary, step of increasing the property tax levy because this action was accompanied by personnel and operating expense reductions prior to asking the citizens to spend additional monies.

### ***Implementation of the Fund Balance Policy***

In 2008 the District implemented a formal budget stabilization fund policy that sets aside 5% of the operating and debt service funds as a fund balance to be used for contingencies. As part of its FY2010 proposed budget, the District will be drawing down its unreserved general fund balance. This fund balance will decrease from \$432.4 million to \$242.0, in part to cover a delayed payment from the State of Illinois for \$173.0 million. The State is behind by four months in its FY2009 payments to the District, resulting in the necessary draw down of CPS general fund reserves.<sup>8</sup>

The District is also proposing a further draw down of its reserve fund to cover FY2010 contractual salary increases and pension costs. The District will use \$60.8 million from the

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<sup>5</sup> PowerPoint presentation to the Civic Federation by Ron Huberman, CEO of Chicago Public Schools, August 10, 2009.

<sup>6</sup> CPS FY2010 Proposed Budget, p. 8.

<sup>7</sup> Communication between the Civic Federation and Ron Huberman, CEO of Chicago Public Schools, August 10, 2009.

<sup>8</sup> CPS FY2010 Proposed Budget, p. 43.

estimated \$242.0 million fund balance to cover these expenses. The resulting fund balance will total \$181.2 million, or 4.9% of the general fund budget.<sup>9</sup>

In light of the significant draw down of reserve funds, the District will violate its newly-enacted reserve fund policy in FY2010. The amount of reserves required to satisfy the 5% fund balance policy will be \$291.4 million, resulting in the need for an additional \$110.2 million to replenish the fund and bring the fund balance into alignment with the District's reserve policy. The District's FY2010 budget includes a replenishment plan that does not assume that the State will be able to meet its obligations to the District in the upcoming fiscal year.<sup>10</sup> It plans to instead rely on healthcare cost cutting strategies, immediate contractual economies and a second round of budget cuts to replenish the reserve funds.<sup>11</sup>

The Civic Federation commends the District for not only implementing its fund balance policy, but also for closely adhering to it by proposing a conservative plan for replenishment. In light of the fiscal problems facing the State, along with the reduction in State funding for public education in Chicago for FY2010, the District is prudently assuming that the State will not catch up with its four-month delay in payments by the end of the upcoming fiscal year.

The draw down of the reserve fund demonstrates the need for a unit of local government to have fund balance. The reserve affords a government flexibility when deciding how to react to unexpected revenue shortfalls, instead of reflexively seeking tax increases to cover the entire funding gap. By having a fund balance the District has been able to hold the property tax levy flat last year and mitigate this year's property tax increase. The District should be commended for its forward planning to handle arising contingencies.

### ***Further Expansion of the Charter School Program***

CPS may expand the number of charter schools operating in the District, pursuant to recently-enacted state legislation that increased the allowable number of charters for the District. The Charter School Reform Act of 2009 allows CPS to add an additional 45 charter schools to the District.<sup>12</sup> The Civic Federation supports and encourages the creation of new charter schools in the District. Charter schools provide quality education alternatives for the city's student population.

### ***Transparency Improvements***

CPS improved the transparency of its FY2010 budget process, including making additional information available in its annual budget document and adopting previous Civic Federation recommendations of making budget information available online immediately and clearly.

The District's FY2010 budget includes an expanded "Budget Policies" section that provides a new sub-section entitled "Fund Descriptions." This sub-section provides detailed information

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<sup>9</sup> CPS FY2010 Proposed Budget, p. 44.

<sup>10</sup> CPS FY2010 Proposed Budget, p. 45.

<sup>11</sup> PowerPoint presentation to the Civic Federation by Ron Huberman, CEO of Chicago Public Schools, August 10, 2009.

<sup>12</sup> IL P.A. 96-105

about the functions, revenue sources and financial reporting of CPS's major funds: General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Fund.<sup>13</sup> The "Budget Policies" section of FY2010's proposed budget also provides more comprehensive information about CPS's financial policies, including its balanced budget and fund balance policies. The FY2010 budget document provides thorough explanations regarding how budget policies guide CPS's management of its major funds and how CPS monitors and reports on its fund balance.<sup>14</sup>

Additionally, FY2010's proposed budget introduces an explanation of the District's one-time revenue policy for managing expenses funded by a revenue source that will only be available to the District in a single fiscal year.<sup>15</sup> CPS's proposed FY2010 budget also features an improved "Capital Projects Funds" section that employs clearer headings to help readers more easily identify the section's main points and ideas.

This year the District also placed its budget document online quickly following its release to the public. Also, on the same website page as the budget documents were the dates and locations for all public hearings on the FY2010 budget document.

The Civic Federation commends the District for taking additional steps when crafting its FY2010 budget document to increase transparency in its budget process and for adopting our previous recommendations of making this information available online in a timely manner.

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

The Civic Federation has several concerns relating to CPS's financial management. These include escalating annual pension expenses, the District's continued failure to implement a capital improvement plan and the long-term structural problems of its overall financial structure.

#### ***Pension Funding Crisis***

CPS is facing a pension funding crisis. For FY2010 total CPS employer contributions will total \$307.5 million, which is a steep \$129.7 million or 72.9% increase over the FY2009 required contribution of \$177.8 million. This contribution has increased twenty-fold since FY2006, when the required CPS contribution was only \$15.8 million. Going forward CPS's annual employer contribution to the pension fund will continue to increase, rising from \$177.8 in FY2009 to \$573.0 million in FY2013, an increase of \$395.2 million or 222.3% over this five-year period.

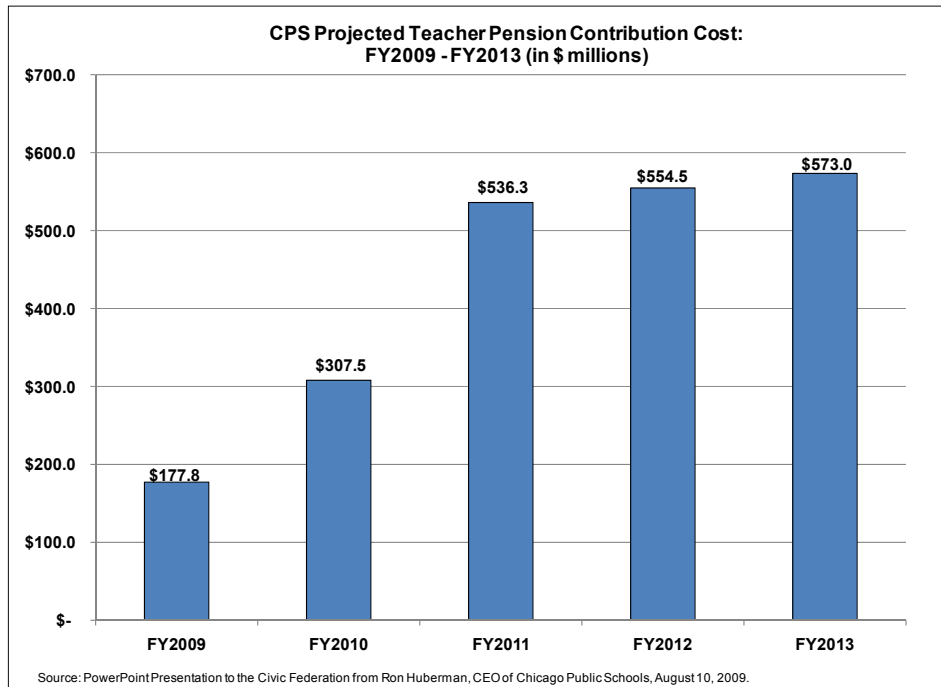
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<sup>13</sup> CPS Proposed Budget FY2010, pp. 325-328.

<sup>14</sup> CPS Proposed Budget FY2009, p. 342; and Proposed Budget FY2010, pp. 319-322.

<sup>15</sup> CPS Proposed Budget FY2010, p. 322.





A large portion of this dramatic increase in annual pension appropriations has resulted from a required ramp up in annual pension contributions to ensure that the total assets of the Fund equal 90% of the total actuarial liabilities by the end of FY2045.<sup>16</sup> The District 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.

The burden on the District to fund the ramp-up schedule is further exacerbated by the State’s reduction in its pension contributions. The Illinois General Assembly decreased its \$65 million contribution to the Chicago Teachers Pension Fund in FY2010 by 50%, reducing it to \$32.5 million. This action is made even more egregious by the fact that according to Illinois state law, the General Assembly’s “goal and intention” is to contribute 20% to 30% of the amount it contributes to the downstate Teachers Retirement System to the Chicago teachers fund.<sup>17</sup> Had that goal been adhered to in FY2010, the District would have received \$482 million from the State of Illinois for its teacher pension fund.<sup>18</sup>

The State of Illinois and the District must work together to fix the pension funding crisis facing CPS. The State should begin by fulfilling its obligation to the District by restoring its annual pension contribution for Chicago teachers to \$65 million.

Going forward, the Civic Federation urges the State to revise its existing policy with respect to providing different levels of funding for Chicago teacher pensions versus pensions for teachers throughout the remainder of the state. Currently, the State funds the actuarially required employer pension contribution for all teachers in Illinois, except for those who work for the

<sup>16</sup> PA 89-15.

<sup>17</sup> 40 ILCS 5/17-127.

<sup>18</sup> CPS FY2010 Proposed Budget, p. 52.

Chicago Public School district. This treatment is fundamentally unfair to Chicago taxpayers whose tax dollars are used to fund pensions for both downstate and Chicago teachers, while the remainder of the State does not share the burden for funding Chicago teachers' pensions. The Civic Federation urges the State to adhere to its goal of contributing 20% to 30% of the amount it contributes to the downstate Teachers Retirement System to the Chicago Teachers Fund.

### ***Lack of a Formal Multi-Year Capital Improvement Plan***

In FY2008 the Civic Federation offered qualified support for the CPS budget because of the District's stated commitment to embrace long-term planning strategies in order to deal with the serious fiscal challenges this government will face in the years ahead. CPS Chief Executive Officer Arne Duncan stood with City of Chicago Mayor Daley and Metropolitan Mayors Caucus Chair Ed Schock of Elgin to endorse a series of school financial management accountability reforms, including the development of capital improvement plans, long-term financial plans and support service performance measures. In addition, CPS financial staff indicated that it was developing a three-year capital improvement plan and four-year long-term financial projections, and that these plans would be published in the FY2009 budget.<sup>19</sup>

While the District did provide additional capital budget information in its FY2009 budget, as well as individual school information that is provided on the District's website, these actions fell short of the stated goal to produce a formal CIP. While this additional information is useful, it still did not provide stakeholders with the detailed, comprehensive and multi-year information they need to assess CPS's stewardship of its multi-million dollar capital program.

This year the Civic Federation renews our call for the District to submit to the public a detailed, comprehensive capital improvement plan. At a minimum the CIP should include:

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

Furthermore, CPS should provide opportunities for stakeholder input into the development and adoption of the CIP. The CIP should be made available on CPS's website at least ten working days prior to a public hearing. CPS should hold a public hearing on the CIP with opportunities for citizens to present commentary. The CIP should then be formally adopted by the CPS Board of Trustees.

The Federation has strong concerns about the District's consistent delay in releasing a CIP. In light of a structural deficit and declining enrollment the District must make difficult right-sizing decisions in the coming years. A detailed CIP is crucial to not only properly aligning scarce resources, but also to inform the public of the District's future plans. In the recommendation

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<sup>19</sup> Information provided to the Civic Federation in meeting with CPS Finance and Budget staff, July 31, 2007.

section of this analysis we outline the specific items that should be incorporated in the District's forthcoming CIP.

### ***Heavy Reliance on Federal Stimulus Funds***

CPS is relying heavily on one-time resources from the federal government's two-year stimulus education funding program in FY2010. The American Recovery and Reinvestment Act of 2009 (ARRA) contains significant one-time funding for local school districts, including CPS.<sup>20</sup> The District anticipates receiving \$440 million in ARRA grants and \$494 million from the stabilization fund in FY2010 and FY2011. The stabilization funds are intended to prevent reductions in state funding for education, and will be spent during both FY2009 (\$260 million) and FY2010 (\$234 million). Of formula and competitive grants totaling \$440 million, CPS expects to use \$382.4 million in FY2010.<sup>21</sup> The District will also rely on interest-free bonding authority as part of its FY2010 budget, which will provide significant interest cost savings.

For the first time in CPS history, federal resources will exceed state resources in FY2009 and FY2010 as a result of the aforementioned stimulus funds. However, in FY2012 stimulus funds will be depleted.<sup>22</sup>

While federal funds are useful for helping to bridge this year's budget gap, the District will continue to face an annual structural deficit unless it realigns costs with reliable, recurring revenues while continuing its efforts to reduce annual expenditures. Teacher compensation (\$145 million), pension contributions (\$130 million) and healthcare costs (\$30 million) are projected to increase in FY2010 by \$305 million.<sup>23</sup> With enrollment that continues to decline, the District must right-size its operations in order to efficiently provide quality education for Chicago's residents.

### **Civic Federation Recommendations**

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

#### ***Implement Pension Benefit Reforms***

It is imperative that CPS aggressively seek legislation to curb its rapidly escalating retirement costs. Some of the reforms the district should pursue are listed below:

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

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<sup>20</sup> CPS FY2010 Proposed Budget, p. 53.

<sup>21</sup> CPS FY2010 Proposed Budget, pp. 53-54.

<sup>22</sup> CPS FY2010 Proposed Budget, p. 45.

<sup>23</sup> Presentation to the Civic Federation by CPS CEO Ron Huberman, June 9, 2009.

- *Fix automatic increases for new hires at the lesser of 3% or CPI:* The current fixed rate of automatic increase for retirement annuities is 3% per year. Other retirement systems index the rate of increase to the CPI, limit the dollar amount of increase, or reconsider increases annually. For new hires, automatic increases should be limited to the lesser of the change in CPI or 3%.
- *Increase the Employee Share of Pension Costs:* Currently, CPS pays for 7% of the 9% employee share of costs; employees pay for the remaining 2%. In FY2010, CPS's share of employee pension costs will total \$510.9 million. We believe that employees should be required to pay for at least an additional 1% of the 9% employee share, so that CPS's share of employee payments drops to 6% and the employees' share increases to 3% of the total. Salaries would be held constant, so this would shift more of the escalating pension costs onto employees. This change should be a top priority for CPS when it negotiates a new collective bargaining agreement. CPS should also seek to keep annual salary increases within the rate of its revenue source growth.
- *State Should Align Downstate Teacher Retirement System Contributions with CPS Teacher Retirement Contributions:* The State should revise its existing policy with respect to providing different levels of funding for Chicago teacher pensions versus pensions for teachers throughout the remainder of the state. Currently, the State funds the actuarially required employer pension contribution for all teachers in Illinois, except for those who work for the Chicago Public School district. This treatment is fundamentally unfair to Chicago taxpayers whose tax dollars are used to fund pensions for both downstate and Chicago teachers, while the remainder of the State does not share the burden for funding Chicago teachers' pensions. The Civic Federation urges the State to adhere to its goal of contributing 20% to 30% of the amount it contributes to the downstate Teacher Retirement System to the Chicago teachers fund.

### ***Reform Governance of the Teachers' Pension Fund***

The Public School Teachers' Pension and Retirement Fund of Chicago is governed by a 12-member Board of Trustees that includes two representatives from the Board of Education, six active members who are not principals, one active principal and three annuitants. Therefore the ratio of management to employee representatives is 2:10, one of the least balanced of the 17 Illinois pension boards recently surveyed by the Civic Federation.<sup>24</sup>

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

- Balance employee and management representation on pension boards;
- Develop a tripartite structure that includes citizen representation on pension boards; and

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<sup>24</sup> The Civic Federation, *Recommendations to Reform Public Pension Boards of Trustees in Illinois*, February 13, 2006.

- Include financial experts on pension boards and require financial training for non-experts.

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

### ***Develop a Multi-Year Capital Improvement Plan***

Based on a review of the best practices in Capital Improvement Programming, CPS should develop an annually-updated formal multi-year capital improvement plan. The following section describes the key elements of a best practice capital improvement plan. It is excerpted from the report entitled "Strengthening the Financial Accountability of Illinois School Districts", prepared by the Civic Federation for the Metropolitan Mayors Caucus in 2007.<sup>25</sup>

#### Elements of a Capital Improvement Plan

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

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

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

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

#### Best Practices and Recommended Practices in Capital Improvement Planning

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

##### 1. Develop a Formal Five-Year Capital Improvement Plan

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<sup>25</sup> Metropolitan Mayors Caucus. *Strengthening the Financial Accountability of Illinois School Districts: A Report of the Education Reform Committee of the Metropolitan Mayors Caucus*, April 2007, pp. 30-34.

All governments should develop a five-year CIP that identifies priorities, provides a timeline for completing projects and identifies funding sources for projects. The CIP should be updated annually and be approved formally by the governing body.<sup>26</sup>

## 2. Required Information in a Capital Improvement Plan

A CIP should include the following information:<sup>27</sup>

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

## 3. Make Capital Improvement Plan Publicly Available

The CIP should be made publicly available for review by elected officials and citizens. It should be published in the budget document or in a separate capital improvement plan. The CIP should be made available on the government's website. The public should be permitted at least ten working days to review the CIP prior to a public hearing.<sup>28</sup>

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

It is important to consider the views of stakeholders, including taxpayers, in developing a CIP. To achieve this goal, stakeholders, including citizens, should have opportunities to provide input into the development of the CIP. These opportunities could include participation in citizen advisory committees and/or hearings during different phases of CIP development. The governing body should hold a public hearing prior to adoption of the CIP, including opportunities for citizen commentary.<sup>29</sup>

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

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<sup>26</sup> See NACSLB Recommended Practice 9.6: Develop a Capital Improvement Plan, the State of Florida Office of Program Policy Analysis and Government Accountability, *Best Financial Management Practices, Facilities Construction*. The State of Florida requires school districts to prepare comprehensive Five-Year Educational Plan Surveys. This is Point 1. d. of the *Facilities Construction: Construction Planning Best Financial Management Practices Guidelines for School Districts*. Florida Office of Program Policy Analysis and Government Accountability (OPPAGA). *Best Financial Management Practices*. See [www.oppaga.state.fl.us/school\\_districts/bestprac/practices/practices.html](http://www.oppaga.state.fl.us/school_districts/bestprac/practices/practices.html).

<sup>27</sup> *Ibid*; See Point 3. a to c. of the *Facilities Construction: Construction Planning best financial management practices guidelines for school districts*. Florida Office of Program Policy Analysis and Government Accountability (OPPAGA). *Best Financial Management Practices*. See [http://www.oppaga.state.fl.us/school\\_districts/bestprac/practices/practices.html](http://www.oppaga.state.fl.us/school_districts/bestprac/practices/practices.html).

<sup>28</sup> See NACSLB Recommended Practice 9.6: Develop a Capital Improvement Plan, Civic Federation Budget Analyses of Local Government Budgets – various years.

<sup>29</sup> *Ibid*.

The CIP should be formally approved by an appropriate governing body. It is imperative that elected officials be fully aware and supportive of long-term plans that commit significant public resources.<sup>30</sup>

CPS should examine its previous CIPs, as well as best practice models from other jurisdictions, as models for the development of a new CIP.<sup>31</sup>

### ***Implement a Formal Long-Term Financial Plan***

CPS uses multi-year forecasts to understand the impact of the proposed budget on future fiscal years. Estimates are prepared using historical data. The District faces a difficulty in that the amount of state aid provided each year, which is one of its main funding sources, is highly unpredictable.<sup>32</sup> However, CPS does not develop a formal long-term financial plan that is shared with and/or reviewed by key policymakers and stakeholders.

The National Advisory Council on State and Local Budgeting (NACSLB) and the Government Finance Officers Association (GFOA) both recommend that all governments formally adopt a long-term financial plan as a key component of a sound budget process.<sup>33</sup> A long-term financial plan typically includes a review of historic financial and programmatic trends, multi-year projections of revenues expenditures and debt, an analysis of those trends and projections, and the modeling of options to address problems or opportunities. The plan helps governments address fiscal challenges before they become fiscal crises.

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

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

1. At the April 10, 2007 press conference where CPS Chief Executive Officer Arne Duncan joined City of Chicago Mayor Daley and Metropolitan Mayors Caucus Chair Ed Schock of Elgin in endorsing a series of school financial management accountability reforms which included the development of a long-term financial plan,<sup>34</sup> and

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<sup>30</sup> See Civic Federation Budget Analyses of Local Government Budgets – various years.

<sup>31</sup> For an example, see the 1996-2000 Capital Improvement Plan adopted by the Chicago School Reform Board of Trustees on January 24, 1996.

<sup>32</sup> Information provided to the Civic Federation by CPS Office of Management and Budget, August 5, 2008.

<sup>33</sup> See National Advisory Council on State and Local Budgeting and Government Finance Officers Association.

<sup>34</sup> Metropolitan Mayors Caucus. *Strengthening the Financial Accountability of Illinois School Districts: A Report of the Education Reform Committee of the Metropolitan Mayors Caucus*, April 2007, pp. 30-34.

2. In a meeting with the Civic Federation on the FY2008 budget, when CPS financial staff indicated the District was developing a four-year long-term financial projection to be incorporated into the FY2009 budget.<sup>35</sup>

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

### ***Improve Budget Transparency***

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

### **Require Board Participation at Public Hearings**

The Civic Federation recommends that CPS consider revising its public comment schedule to allow for greater consideration of stakeholder input. CPS currently provides four opportunities for public comment on its annual budget: three meetings at locations around the City of Chicago at which Board members are not present, and a final meeting before a Board of Trustees meeting immediately after which the Board votes on the budget. Most other governments in the region require the Board members to be present at public budget hearings and hold these meetings several days, or weeks, prior to the governing body voting on the budget. We believe that this type of public comment system is preferable to CPS's current system as it allows members of the governing board sufficient time to consider the opinions of various stakeholders before making a final decision.

### **Continue to Improve Budget Format**

The Civic Federation has identified some areas of improvement to the budget book format that we recommend the District employ next year:

- CPS's FY2010 proposed budget did not include the "What's New in the Budget Book" section and "District Strategy and Resource Alignment," both of which were included in FY2009's proposed budget. The "What's New in the Budget Book" briefly highlighted changes in the budget's formatting over the previous year.<sup>36</sup> The Civic Federation believes that this section should be included in every budget book because it reflects on CPS's commitment to creating an improved budget document every fiscal year.
- The section entitled "District Strategy and Resource Alignment" provided in the FY2009 budget document identified five priorities for achieving its mission of "ensur[ing] that every child in every school is on track at every stage in his or her CPS career to graduate prepared

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<sup>35</sup> Information provided to the Civic Federation in meeting with CPS Finance and Budget staff, July 31, 2007.

<sup>36</sup> CPS Proposed Budget FY2009, p. 3.



for success in post-secondary education and employment.”<sup>37</sup> The section described how CPS management had planned to use the District’s resources to address these five priorities. This section should be included again as it provides an important accountability component to each fiscal year’s budget by informing stakeholders how CPS plans to achieve its mission.

In addition to the two aforementioned sections that were excluded from FY2010’s proposed budget, the Civic Federation recommends that the District return to providing the following information into future budget books:

- FY2010’s proposed budget did not include a table of CPS’s actual enrollment data for the past five fiscal years on record;<sup>38</sup>
- FY2010’s proposed budget “Organization Overview” section did not include data about CPS’s divisions and their respective departments goals and functions.<sup>39</sup> This information would have been useful in reading the FY2010 budget document, as a few CPS departments were recently eliminated and consolidated with other units;<sup>40</sup>
- FY2010’s proposed budget did not include the “Schedule of Debt Service Payments to Maturity” table. The table projected the District’s debt service requirements from FY2009 through FY2039;<sup>41</sup> and
- The FY2010 budget did not include a status report of CPS’s Modern Schools across Chicago (MSAC) program, which was planned to provide \$1 billion in new construction projects for CPS schools with high priority capital construction needs.<sup>42</sup> FY2009’s budget provided a status report for all MSAC projects, some of which were not scheduled for completion until 2010 or 2011.<sup>43</sup> The Civic Federation recommends that the District’s budget include a follow up as to the status of these projects, including a list of projects completed.

#### Provide Clear TIF and IGA Explanations

The Civic Federation recommends that the District produce detailed sections regarding both tax increment financing district (TIF) and Intergovernmental Agreement (IGA) revenues in its forthcoming budget documents. The District should create stand alone sections in its annual budget document that explain the interaction of TIF districts and CPS, and how the money generated by TIF districts is appropriated to CPS. For example, the District should have included a detailed explanation of the Central Loop TIF district and how its expiration will affect the District in its FY2010 budget document. The same should be done for Intergovernmental Agreements entered into by CPS with other units of local government, such as the City of Chicago.

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<sup>37</sup> CPS Proposed Budget FY2009, p. 7.

<sup>38</sup> CPS Proposed Budget FY2009, p. 102.

<sup>39</sup> CPS Proposed Budget FY2009, p. 279, pp. 282-283, p. 291, pp. 244-245, p. 300, p. 303, p. 308, p. 311, pp. 314-315, p. 319.

<sup>40</sup> CPS Proposed Budget FY2010, pp. 278-279.

<sup>41</sup> CPS Proposed Budget FY2009, p. 93.

<sup>42</sup> Chicago Public Schools, *Budgeting for Every Child: a Citizen’s Guide to Understanding the Chicago Public Schools Budget* (Chicago, 2008), 9.

<sup>43</sup> CPS Proposed Budget FY2009, pp. 333-338.

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

## **ACKNOWLEDGEMENTS**

We would like to express our appreciation to Chief Executive Officer Ron Huberman, Interim Management and Budget Director Christina Herzog, Chief Performance Officer Sarah Kremsner 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.

## **FY2010 DEFICIT DRIVERS AND GAP-CLOSING MEASURES**

CPS has proposed a FY2010 total budget of nearly \$6.9 billion.<sup>44</sup> The District's operating deficit going into FY2010 totaled approximately \$473.0 million.<sup>45</sup> The operating deficit was eliminated through a combination of strategies including:<sup>46</sup>

- Cost reductions generated by the implementation of belt-tightening measures;
- Increased funding from a 1.5% property tax increase, one-time and net revenue changes, and American Recovery and Reinvestment Act (ARRA); and
- A draw down of the District's rainy day reserve fund.

The District's deficit for all funds including debt service and capital funds was originally projected to be \$705.6 million. The overall deficit was eliminated with the aforementioned operating reductions, along with increased resources for debt service and capital funds. The increased revenue sources include revenues from bond issuances and increased funding from the state for capital funding and debt service requirements.

### **Deficit Drivers – Operating Funds**

CPS's operating funds had a deficit of \$473.0 million going into FY2010. Approximately \$162.5 million, or 34.4% of the operating deficit is attributed to increases in personnel costs. Increases in benefits costs compose the majority of the increase in personnel costs and total to \$139.8 million, or 29.6% of the total operating deficit. The remaining 65.6% of the deficit is attributed to increases in other operating expenses. Increases for costs associated with charter and contract schools compose \$72.0 million, or 15.2% of the deficit.

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<sup>44</sup> CPS Proposed Budget FY2010, p. 3.

<sup>45</sup> CPS Proposed Budget FY2010, p. 7. Note: The operating deficit figure presented in the FY2010 proposed budget on p. 7 and the operating deficit figure provided by Mr. Huberman in his presentation to the Civic Federation on August 10, 2009 and vary slightly due to rounding. The Civic Federation used both figures in its analysis. The citations indicate if the PowerPoint figure or budget book figure was used.

<sup>46</sup> PowerPoint presentation to the Civic Federation by Ron Huberman, CEO for Chicago Public Schools, August 10, 2009.

<b>CPS Operating Funds Deficit Drivers: FY2010 (in \$ millions)</b>		
	<b>Amount</b>	<b>% of Deficit</b>
<b>Personnel Expense Increases</b>		
Salary Increases	\$ 22.7	4.8%
Benefit Increases	\$ 139.8	29.6%
<b>Total Personnel Expenses Increases</b>	<b>\$ 162.5</b>	<b>34.4%</b>
<b>Other Operating Budget Increases</b>		
Charter and Contract Schools	\$ 72.0	15.2%
Food Services - including new universal breakfast program	\$ 16.2	3.4%
Transportation Services	\$ 11.7	2.5%
Other net changes	\$ (12.4)	-2.6%
Performance Management	\$ 17.0	3.6%
ARRA Title I Mandates and Other Initiatives FY2010	\$ 76.0	16.1%
Reserved ARRA Title I Appropriation for FY2011	\$ 130.0	27.5%
<b>Total Other Operating Budget Increases</b>	<b>\$ 310.5</b>	<b>65.6%</b>
<b>Total Operating Budget Increase</b>	<b>\$ 473.0</b>	<b>100.0%</b>

Source: CPS FY2010 Proposed Budget , p. 7.

### **Gap-Closing Measures – Operating Deficit**

Management addressed CPS’s operating deficit with a number of different strategies. The District implemented “belt tightening” measures designed to reduce and eliminate District-wide service level inefficiencies for a total savings of \$100.0 million.<sup>47</sup> These measures included departmental re-organizations and consolidations and the elimination of ineffective programs.<sup>48</sup> The District also anticipates that it will receive \$177.0 million in one-time and net revenue increases to balance its FY2010 operating budget. One time revenue changes include funding from the School Finance Authority, revenue realized from the recently-enacted property tax collection acceleration legislation, revenue from new property growth, and additional Medicaid reimbursement.<sup>49</sup> The District will also expend \$94.0 million in ARRA funds to reduce its deficit and draw \$61.0 million from its rainy day reserve fund to balance its budget. Finally, the District will increase its property tax levy by 1.5% in FY2010 to yield a \$43.0 million increase in property tax revenues.

<sup>47</sup> PowerPoint presentation to the Civic Federation by Ron Huberman, Chief Executive Officer for Chicago Public Schools, August 10, 2009.

<sup>48</sup> CPS FY2010 Proposed Budget, pp. 6-7.

<sup>49</sup> PowerPoint presentation to the Civic Federation by Ron Huberman, Chief Executive Officer for Chicago Public Schools, August 10, 2009.

<b>CPS Operating Funds Gap-Closing Measures: FY2010 (in \$ millions)</b>	
	<b>Amount</b>
<b>Projected Deficit</b>	<b>\$ 475.0</b>
<b>Deficit Reduction Measures - Operating Funds</b>	
Belt Tightening Measures	\$ 100.0
One-time and Net Revenue Changes	\$ 177.0
Stimulus Funding (ARRA)	\$ 94.0
1.5% Property Tax Increase	\$ 43.0
Withdrawal from Rainy Day Reserve Fund	\$ 61.0
<b>Subtotal Deficit Reduction Measures - Operating Funds</b>	<b>\$ 475.0</b>

Note: Projected operating deficit number in this chart varies from the projected operating deficit number in the deficit drivers chart due to rounding differences in source materials.

Source: Presentation to the Civic Federation by Ron Huberman, Chief Executive Officer for Chicago Public Schools, August 10, 2009.

### **Deficit Drivers – All Funds**

In addition to the \$473 million operating deficit, CPS also has a \$232.6 million debt service and capital deficit, for a total deficit of \$705.6 million. The FY2010's projected deficit for all funds is in part attributable to a 30.0% increase in debt service payments and a 3.0% increase in capital costs. Debt Service costs will increase because of several factors which include:<sup>50</sup>

- First-year payments of \$91 million owed for 1998B-1, 1999A, 2007BC and 2008A bonds;
- A payment of \$42 million owed for the new \$665 million bonds;
- A payment of \$35 million owed for the delayed FY2009 \$550.0 million bonds;
- A cost increase of \$22 million for existing bonds; and
- \$30 million of Community Development Block revenues saved for the FY2011 bond issue.

<sup>50</sup> CPS FY2010 Proposed Budget, p. 84.

<b>CPS All Fund Deficit Drivers: FY2010 (in \$ millions)</b>		
	<b>Amount</b>	<b>% of Deficit</b>
<b>Operating Fund Expense Increases</b>		
Personnel (salary + benefit)	\$ 162.5	23.0%
Other Operating Budget Increases	\$ 310.5	44.0%
<b>Subtotal Operating Fund Expense Increases</b>	<b>\$ 473.0</b>	<b>67.0%</b>
<b>Debt Service Fund Expense Increases</b>		
Services Other than Personnel	\$ 0.6	0.1%
Debt Service Payments	\$ 211.0	29.9%
<b>Subtotal Debt Service Increase</b>	<b>\$ 211.6</b>	<b>30.0%</b>
<b>Capital Fund Expense Increases</b>		
<b>Subtotal Capital Budget Increase</b>	<b>\$ 21.0</b>	<b>3.0%</b>
<b>Total Budget Increase</b>	<b>\$ 705.6</b>	<b>100.0%</b>

Source: CPS FY2010 Proposed Budget, pp. 7 and 10.

### Gap-Closing Measures - All Funds

CPS reported a \$705.6 million deficit for all funds FY2010. In order to balance its operating budget in FY2010, CPS will increase its property tax levy by 1.5% and draw down its unreserved general fund balance by \$60.8 million. CPS plans to further reduce costs by an additional \$61.0 million to offset the rainy day reserve fund draw down.<sup>51</sup> To balance its remaining budget, the District will receive approximately \$400 million in ARRA funds over the next two fiscal years. The District will receive \$91.0 million in proceeds from bond issuances including alternate bond issues and ARRA sponsored Qualified Zone Academy Bond (QZAB) issuances, which provide capital funding for schools in high-poverty areas.<sup>52</sup> The District will also receive \$145.6 million in state capital funding from the state's recently adopted capital plan.<sup>53</sup>

<sup>51</sup> CPS FY2010 Proposed Budget, p. 8.

<sup>52</sup> CPS FY2010 Proposed Budget, pp. 85 and 41.

<sup>53</sup> CPS FY2010 Proposed Budget, p. 42.

<b>Gap-Closing Measures in FY2010 Chicago Public Schools Budget - All Funds (in \$ millions)</b>	
	<b>Amount</b>
<b>Projected Deficit</b>	<b>\$ 705.6</b>
<b>Subtotal Deficit Reduction Measures - Operating Funds</b>	<b>\$ 475.0</b>
<b>Deficit Reduction Measures - Debt Service Funds &amp; Capital Funds</b>	
Increase in State Aid for Debt Service	\$ 45.3
Increase in Funding from Bond Issuances	\$ 91.0
Increase in Local Debt Service Resources	\$ 13.3
Increase in Debt Service Fund Balance	\$ 62.0
Increase in Local Capital Revenue	\$ 115.3
Increase in State Capital Revenue	\$ 145.6
Increase in Federal Capital Revenue	\$ 3.5
Increase in Other Capital Financing Sources	\$ 109.1
Capital Fund Balance Withdrawal	\$ (352.2)
<b>Subtotal Deficit Reduction Measures - Debt Funds &amp; Capital</b>	<b>\$ 232.9</b>
<b>Total</b>	<b>\$ 707.9</b>

\*Difference between projected deficit and final total is due to rounding.

Source: Presentation to the Civic Federation by Ron Huberman, Chief Executive Officer for Chicago Public Schools, August 10, 2009; CPS FY2010 Proposed Budget, p. 7.

## RESOURCES

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

### Two-Year Resource Trends for All Funds

CPS proposes budgeting nearly \$6.9 billion in total resources for FY2010. This is an increase of 11.5%, or \$705.6 million over FY2009. 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. If the one-time federal stimulus grant of \$383.0 million is excluded from this calculation, the budget across all funds will total \$6.5 billion, which represents a 5.2% increase in resources over the FY2009 budgeted revenues.<sup>54</sup>

General Operating Fund resources will increase by 3.3% or \$115.7 million, from \$3.6 billion to nearly \$3.7 billion. Without the one-time federal stimulus grant of \$382.5 million, CPS operating revenues would total \$4,945.4 million, which would result in an increase of \$90.5 million or 1.9% over FY2009 proposed resources.<sup>55</sup> Special Revenue Fund resources will increase by 27.4%, or \$357.3 million. Debt service fund resources in FY2010 will increase by 73.4% or \$211.6 million to \$499.7 million.

<sup>54</sup> CPS FY2010 Proposed Budget, p. 40.

<sup>55</sup> CPS FY2010 Proposed Budget, p. 46.

<b>Chicago Public Schools Resources for All Funds: FY2009 &amp; FY2010 (in \$ millions)</b>				
	<b>FY2009</b>	<b>FY2010</b>	<b>\$ Change</b>	<b>% Change</b>
<b>General Operating Funds</b>				
General Fund	\$ 3,550.3	\$ 3,666.0	\$ 115.7	3.3%
Special Revenue Funds	\$ 1,304.6	\$ 1,661.9	\$ 357.3	27.4%
<b>Subtotal General Operating Funds</b>	<b>\$ 4,854.9</b>	<b>\$ 5,327.9</b>	<b>\$ 473.0</b>	<b>9.7%</b>
Capital Projects Funds	\$ 1,014.4	\$ 1,035.4	\$ 21.0	2.1%
Debt Service Funds	\$ 288.1	\$ 499.7	\$ 211.6	73.4%
<b>Total</b>	<b>\$ 6,157.4</b>	<b>\$ 6,863.0</b>	<b>\$ 705.6</b>	<b>11.5%</b>

Source: CPS FY2009 Proposed Budget, p. 22; and FY2010 Proposed Budget, p. 10.

In FY2010 the District will receive \$2.1 billion in property tax revenue for All Funds, for a total of \$2.7 billion in local government revenue. State revenues in FY2010 will total \$1.8 billion, which includes \$924.2 million in general state aid. Federal aid is expected to total nearly \$1.5 billion in FY2010, in large part due to the receipt of one-time stimulus funds totaling \$382.5 million to be used over a two-year period.<sup>56</sup> The following chart details the revenues and resources appropriated within CPS during FY2010.

<b>CPS Appropriated Resources by Fund Type: FY2010 (in \$ thousands)</b>						
	<b>General Fund</b>	<b>Special Revenue</b>	<b>Subtotal Operating Funds</b>	<b>Debt Service</b>	<b>Capital</b>	<b>Total</b>
<b>Fund Balance Appropriated</b>	<b>\$ 60,830</b>	<b>\$ 45,600</b>	<b>\$ 106,430</b>	<b>\$ 82,000</b>	<b>\$ -</b>	<b>\$ 188,430</b>
Property Taxes	\$ 1,986,670	\$ 78,400	\$ 2,065,070	\$ 11,830	\$ -	\$ 2,076,900
PPRT	\$ 71,820	\$ 34,000	\$ 105,820	\$ 55,681	\$ -	\$ 161,501
Investment Interest Income	\$ 5,100	\$ 500	\$ 5,600	\$ -	\$ 3,800	\$ 9,400
Miscellaneous Local Revenue	\$ 80,800	\$ 25,366	\$ 106,166	\$ 124,494	\$ 215,000	\$ 445,660
<b>Subtotal Local Revenue</b>	<b>\$ 2,144,390</b>	<b>\$ 138,266</b>	<b>\$ 2,282,656</b>	<b>\$ 192,005</b>	<b>\$ 218,800</b>	<b>\$ 2,693,461</b>
General State Aid (GSA)	\$ 467,504	\$ 261,000	\$ 728,504	\$ 195,696	\$ -	\$ 924,200
State Aid - Teacher Pension	\$ 35,601	\$ 1,950	\$ 37,551	\$ -	\$ -	\$ 37,551
Flat Grant ADA	\$ 3,103	\$ -	\$ 3,103	\$ -	\$ -	\$ 3,103
Block Grants: Ed. Serv. & Gen. Ed	\$ 647,401	\$ 13,334	\$ 660,735	\$ -	\$ -	\$ 660,735
Other State Aid	\$ 24,400	\$ 14,020	\$ 38,420	\$ 30,000	\$ 145,600	\$ 214,020
<b>Subtotal State</b>	<b>\$ 1,178,009</b>	<b>\$ 290,304</b>	<b>\$ 1,468,313</b>	<b>\$ 225,696</b>	<b>\$ 145,600</b>	<b>\$ 1,839,609</b>
Elem & Sec. Ed.--NCLB	\$ 234,100	\$ 798,721	\$ 1,032,821	\$ -	\$ -	\$ 1,032,821
Child Nutrition	\$ -	\$ 166,716	\$ 166,716	\$ -	\$ -	\$ 166,716
Special Ed. -- IDEA	\$ -	\$ 108,200	\$ 108,200	\$ -	\$ -	\$ 108,200
Medicaid, ROTC, Other	\$ 48,680	\$ 114,056	\$ 162,736	\$ -	\$ 6,000	\$ 168,736
Capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Subtotal Federal</b>	<b>\$ 282,780</b>	<b>\$ 1,187,693</b>	<b>\$ 1,470,473</b>	<b>\$ -</b>	<b>\$ 6,000</b>	<b>\$ 1,476,473</b>
<b>Other Financing Sources</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 665,000</b>	<b>\$ 665,000</b>
<b>Total Revenues</b>	<b>\$ 3,605,179</b>	<b>\$ 1,616,263</b>	<b>\$ 5,221,442</b>	<b>\$ 417,701</b>	<b>\$ 1,035,400</b>	<b>\$ 6,009,543</b>
<b>Total Resources</b>	<b>\$ 3,666,009</b>	<b>\$ 1,661,863</b>	<b>\$ 5,327,872</b>	<b>\$ 499,701</b>	<b>\$ 1,035,400</b>	<b>\$ 6,862,973</b>

Source: CPS FY2010 Proposed Budget, p. 13.

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

The FY2010 budget projects an 11.5% increase in revenues for all funds over the previous year. This is a \$705.6 million increase over FY2009.

<sup>56</sup> CPS FY2010 Proposed Budget, p. 40.

- Local revenues are expected to increase by 17.1%, or \$394.2 million, to nearly \$2.7 billion. This includes a \$233.9 million expected increase in Property Tax Revenues;
- Revenues provided by the State of Illinois are projected to decrease by 3.8%, or \$73.6 million;
- Federal funding will increase by 69.5%, or \$605.2 million, primarily due the release of federal stimulus funds to offset the effects of the nationwide economic recession; and
- Other funding sources, totaling \$665.0 million for FY2010, are comprised of proposed bond proceeds for the Capital Improvement Program.<sup>57</sup>

<b>CPS Appropriated Resources by Source for All Funds: FY2009 &amp; FY2010 (in \$ thousands)</b>				
	<b>FY2009</b>	<b>FY2010</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Fund Balance Appropriated</b>	<b>\$ 517,700</b>	<b>\$ 188,430</b>	<b>\$ (329,270)</b>	<b>-63.6%</b>
Property Taxes	\$ 1,842,998	\$ 2,076,900	\$ 233,902	12.7%
PPRT	\$ 191,504	\$ 161,501	\$ (30,003)	-15.7%
Investment Interest Income	\$ 47,400	\$ 9,400	\$ (38,000)	-80.2%
Miscellaneous Local Revenue	\$ 217,330	\$ 445,660	\$ 228,330	105.1%
<b>Subtotal Local Revenue</b>	<b>\$ 2,299,232</b>	<b>\$ 2,693,461</b>	<b>\$ 394,229</b>	<b>17.1%</b>
General State Aid (GSA)	\$ 1,139,300	\$ 924,200	\$ (215,100)	-18.9%
State Aid - Teacher Pension	\$ 74,823	\$ 37,551	\$ (37,272)	-49.8%
Flat Grant ADA	\$ 12,500	\$ 3,103	\$ (9,397)	-75.2%
Block Grants: Ed. Serv. & Gen. Ed	\$ 635,057	\$ 660,735	\$ 25,678	4.0%
Other State Aid	\$ 51,558	\$ 214,020	\$ 162,462	315.1%
<b>Subtotal State</b>	<b>\$ 1,913,238</b>	<b>\$ 1,839,609</b>	<b>\$ (73,629)</b>	<b>-3.8%</b>
Elem & Sec. Ed.--NCLB	\$ 440,902	\$ 1,032,821	\$ 591,919	134.3%
Child Nutrition	\$ 147,316	\$ 166,716	\$ 19,400	13.2%
Special Ed. -- IDEA	\$ 113,500	\$ 108,200	\$ (5,300)	-4.7%
Medicaid, ROTC, Other	\$ 169,590	\$ 168,736	\$ (854)	-0.5%
<b>Subtotal Federal</b>	<b>\$ 871,308</b>	<b>\$ 1,476,473</b>	<b>\$ 605,165</b>	<b>69.5%</b>
<b>Total Revenues</b>	<b>\$ 5,083,778</b>	<b>\$ 6,009,543</b>	<b>\$ 925,765</b>	<b>18.2%</b>
<b>Other Financing Sources</b>	<b>\$ 555,916</b>	<b>\$ 665,000</b>	<b>\$ 109,084</b>	<b>19.6%</b>
<b>Total Resources</b>	<b>\$ 6,157,394</b>	<b>\$ 6,862,973</b>	<b>\$ 705,579</b>	<b>11.5%</b>

Source: CPS FY2009 Proposed Budget pp. 25; and FY2010 Proposed Budget, p. 13.

Several key assumptions built into the FY2010 revenue projections, including some projections for General State Aid and mandated categoricals, are based upon state budget appropriations found within Public Acts 96-42, 96-45, 96-46, 96-113, and the Governor's appropriation allocation on July 31, 2009.<sup>58</sup>

- The tax-capped portion of the property tax levy will increase by 1.5%. Also, the budget assumes that Senate Bill 2125 will become law which creates a permanent acceleration in

<sup>57</sup> CPS FY2010 Proposed Budget, p. 40.

<sup>58</sup> CPS FY2010 Proposed Budget, p. 41.



spring property tax collections and was signed into law on August 14, 2009, thereby increasing property tax revenues for only the spring of FY2010;<sup>59</sup>

- Personal Property Replacement Tax<sup>60</sup> revenues are projected to further decrease, falling by 15.7% over FY2009 projections. This projected decrease is based on a budget-to-budget comparison and is in light of an expected continued decline in Illinois' economy;
- Projected statewide appropriations for categorical programs are expected to decrease overall by \$142.0 million. Appropriations for mandated categorical will increase by \$144.0 million, but appropriations for all other state categorical will decrease by \$286.0 million. A breakdown of the decrease in categorical funding includes: \$56.0 million for the ADA block grant, \$43.0 million for the Textbook Loan Program and \$37.0 million for the Transitional Assistance Grant;
- CPS's budget projects that General State Aid will decrease by \$215.1 million or 18.9% to \$924.2 million in FY2010. This number reflects the fact that \$234.0 million of the total General State Aid for the District will come from federal stabilization funds; that amount is not included in this number;<sup>61</sup>
- Under the terms of P.A. 93-845, which allows CPS to file for a prior year Equalized Assessed Value (EAV) adjustment in FY2010, CPS anticipates receiving the same amount as in prior years -- \$16.3 million;<sup>62</sup> and
- CPS anticipates \$37.6 million in state pension aid to CPS, which is a 50% reduction from the FY2009 state pension contribution.

In FY2010, 30.3% of all CPS revenues, or \$2.1 billion, will come from local property tax revenues. The State of Illinois will provide the second largest component of the CPS revenue stream, with 26.8% of the total, or \$1.8 billion. Federal funds will be the third largest source of revenues at 21.5% of the total or nearly \$1.5million.

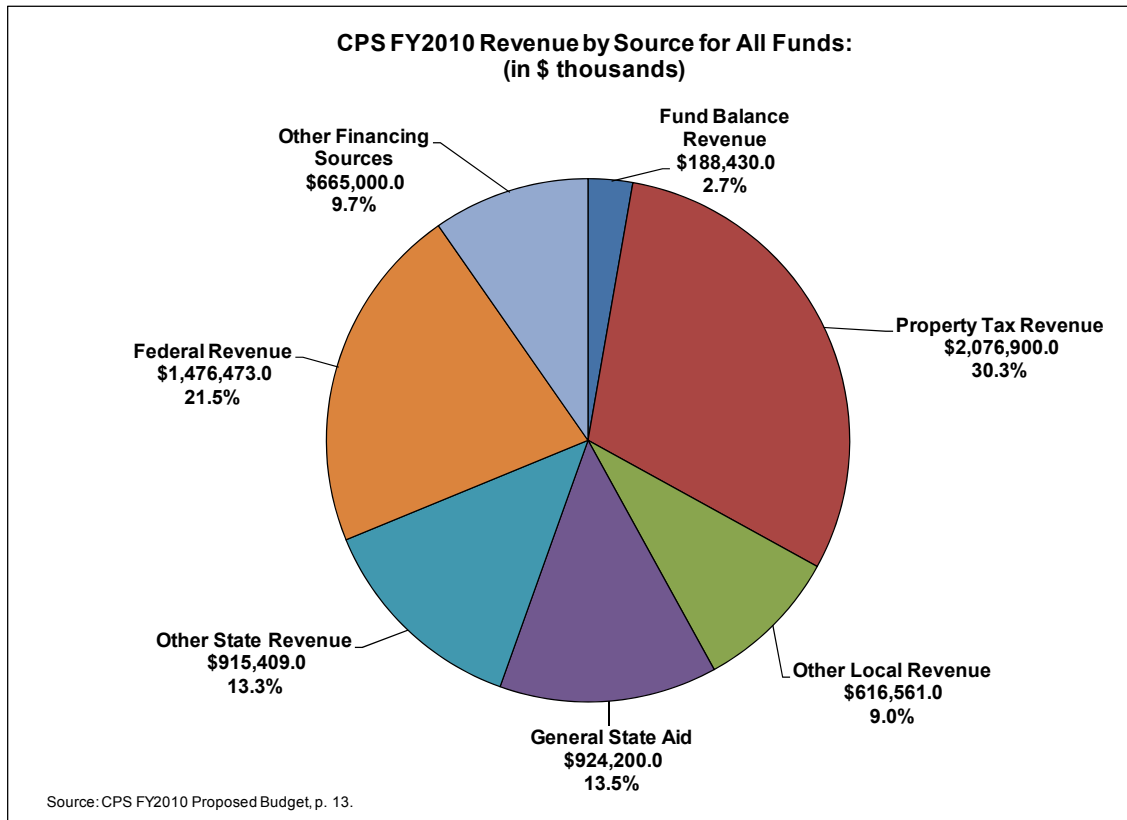
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<sup>59</sup> See P.A. 96-0490.

<sup>60</sup> The Personal Property Replacement Tax is a corporate income tax.

<sup>61</sup> Communication between the Civic Federation and Christina Herzog, Interim Director of the Office of Budget and Management, August 21, 2009.

<sup>62</sup> CPS FY2010 Proposed Budget, p. 42.



CPS revenues are projected to increase by 36.1% between FY2006 and FY2010. This is a \$1.8 billion increase, from \$5.0 billion to approximately \$6.9 billion. Local revenues will increase by 21.8% over the five-year period, with property taxes, the largest local revenue source, rising by \$398.6 million. State revenues between FY2006 and FY2010 are projected to increase by 13.6%, from \$1.6 billion to \$1.8 billion. Investment income is projected to fall by 61.6% over the five-year period. Federal funding is expected to jump by 76.2%, rising from \$838.0 million in FY2006 to \$1.5 billion in FY2010.

<b>CPS Appropriated Resources by Source for All Funds: FY2006 &amp; FY2010 (in \$ thousands)</b>				
	<b>FY2006</b>	<b>FY2010</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Fund Balance Appropriated</b>	<b>\$ 374,301</b>	<b>\$ 188,430</b>	<b>\$ (185,871)</b>	<b>-49.7%</b>
Property Taxes	\$ 1,678,328	\$ 2,076,900	\$ 398,572	23.7%
PPRT	\$ 135,600	\$ 161,501	\$ 25,901	19.1%
Investment Interest Income	\$ 24,500	\$ 9,400	\$ (15,100)	-61.6%
Miscellaneous Local Revenue	\$ 373,752	\$ 445,660	\$ 71,908	19.2%
<b>Subtotal Local Revenue</b>	<b>\$ 2,212,180</b>	<b>\$ 2,693,461</b>	<b>\$ 481,281</b>	<b>21.8%</b>
General State Aid (GSA)	\$ 962,483	\$ 924,200	\$ (38,283)	-4.0%
State Aid - Teacher Pension	\$ 74,922	\$ 37,551	\$ (37,371)	-49.9%
Flat Grant ADA	\$ 12,929	\$ 3,103	\$ (9,826)	-76.0%
Block Grants: Ed. Serv. & Gen. Ed	\$ 516,844	\$ 660,735	\$ 143,891	27.8%
Other State Aid	\$ 51,499	\$ 214,020	\$ 162,521	315.6%
<b>Subtotal State</b>	<b>\$ 1,618,677</b>	<b>\$ 1,839,609</b>	<b>\$ 220,932</b>	<b>13.6%</b>
Elem & Sec. Ed.--NCLB	\$ 408,403	\$ 1,032,821	\$ 624,418	152.9%
Child Nutrition	\$ 154,463	\$ 166,716	\$ 12,253	7.9%
Special Ed. -- IDEA	\$ 114,915	\$ 108,200	\$ (6,715)	-5.8%
Medicaid, ROTC, Other	\$ 160,237	\$ 168,736	\$ 8,499	5.3%
<b>Subtotal Federal</b>	<b>\$ 838,018</b>	<b>\$ 1,476,473</b>	<b>\$ 638,455</b>	<b>76.2%</b>
<b>Total Revenues</b>	<b>\$ 4,668,875</b>	<b>\$ 6,009,543</b>	<b>\$ 1,340,668</b>	<b>28.7%</b>
<b>Other Financing Sources</b>	<b>\$ -</b>	<b>\$ 665,000</b>	<b>\$ 665,000</b>	<b>100.0%</b>
<b>Total Resources</b>	<b>\$ 5,043,176</b>	<b>\$ 6,862,973</b>	<b>\$ 1,819,797</b>	<b>36.1%</b>

Source: CPS FY2006 Proposed Budget p. 38; and FY2010 Proposed Budget p. 13.

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

CPS's General Operating Funds, comprising the General and Special Revenue Funds, together fund CPS's general operations. General Operating Fund Revenues will total \$5.3 billion and will represent 76.8% of all fund revenues in FY2010.

In FY2010, General Operating Funds resources are expected to rise by 9.5%, from approximately \$4.9 to nearly \$5.3 billion, over FY2009. This is an increase of \$463.2 million.

CPS's local revenues will provide \$2.3 billion of all General Operating Funds revenues. State sources and federal sources will each provide nearly \$1.5 billion for CPS operations in FY2010, with federal revenues slightly outpacing state funds. This is the first time in the history of CPS that the District is receiving more operating funds from the federal government than the State. This is attributable to a one-time federal stimulus grant and the State's use of additional federal resources for education funding in FY2010.<sup>63</sup>

<sup>63</sup> CPS FY2010 Proposed Budget, p. 45.

<b>CPS General Fund and Special Revenue Fund Resources: FY2009 &amp; FY2010 (in \$ thousands)</b>				
	<b>FY2009</b>	<b>FY2010</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Fund Balance Appropriated</b>	<b>\$ 145,200</b>	<b>\$ 106,430</b>	<b>\$ (38,770)</b>	<b>-26.7%</b>
Property Taxes	\$ 1,831,160	\$ 2,065,070	\$ 233,910	12.8%
PPRT	\$ 135,820	\$ 105,820	\$ (30,000)	-22.1%
Investment Interest Income	\$ 32,400	\$ 5,600	\$ (26,800)	-82.7%
Miscellaneous Local Revenue	\$ 108,716	\$ 106,166	\$ (2,550)	-2.3%
<b>Subtotal Local Revenue</b>	<b>\$ 2,108,096</b>	<b>\$ 2,282,656</b>	<b>\$ 174,560</b>	<b>8.3%</b>
General State Aid (GSA)	\$ 958,879	\$ 728,504	\$ (230,375)	-24.0%
State Aid - Teacher Pension	\$ 74,823	\$ 37,551	\$ (37,272)	-49.8%
Flat Grant ADA	\$ 12,500	\$ 3,103	\$ (9,397)	-75.2%
Block Grants: Ed. Serv. & Gen. Ed	\$ 635,057	\$ 660,735	\$ 25,678	4.0%
Other State Aid	\$ 51,558	\$ 38,420	\$ (13,138)	-25.5%
<b>Subtotal State</b>	<b>\$ 1,732,817</b>	<b>\$ 1,468,313</b>	<b>\$ (264,504)</b>	<b>-15.3%</b>
Elem & Sec. Ed.--NCLB	\$ 440,902	\$ 1,032,821	\$ 591,919	134.3%
Child Nutrition	\$ 147,316	\$ 166,716	\$ 19,400	13.2%
Special Ed. -- IDEA	\$ 113,500	\$ 108,200	\$ (5,300)	-4.7%
Medicaid, ROTC, Other	\$ 167,090	\$ 162,736	\$ (4,354)	-2.6%
<b>Subtotal Federal</b>	<b>\$ 868,808</b>	<b>\$ 1,470,473</b>	<b>\$ 601,665</b>	<b>69.3%</b>
<b>Total Revenues</b>	<b>\$ 4,709,721</b>	<b>\$ 5,221,442</b>	<b>\$ 511,721</b>	<b>10.9%</b>
<b>Total Resources</b>	<b>\$ 4,854,921</b>	<b>\$ 5,327,872</b>	<b>\$ 472,951</b>	<b>9.7%</b>

Source: CPS FY2009 Proposed Budget p. 25, and FY2010 Proposed Budget, p. 13.

The next exhibit shows a five-year trend in General Operating Funds resources and revenues, from the FY2006 proposed budget to the FY2010 proposed budget. Over this five-year period, general operating resources, including appropriated fund balances, increased by 26.6%, or \$1.1 billion. The fund balance five-year appropriation increase of \$56.4 million or 112.9% is attributable to the District's decision to place \$106.4 million of reserve funds into CPS's operating funds to balance the FY2010 budget to compensate for late payments from the State of Illinois.<sup>64</sup>

<sup>64</sup> CPS FY2010 Proposed Budget, p. 46.

<b>CPS General Fund and Special Revenue Fund Resources: FY2006 &amp; FY2010 (in \$ thousands)</b>				
	<b>FY2006</b>	<b>FY2010</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Fund Balance Appropriated</b>	<b>\$ 50,000</b>	<b>\$ 106,430</b>	<b>\$ 56,430</b>	<b>112.9%</b>
Property Taxes	\$ 1,626,968	\$ 2,065,070	\$ 438,102	26.9%
PPRT	\$ 82,051	\$ 105,820	\$ 23,769	29.0%
Investment Interest Income	\$ 16,500	\$ 5,600	\$ (10,900)	-66.1%
Miscellaneous Local Revenue	\$ 86,464	\$ 106,166	\$ 19,702	22.8%
<b>Subtotal Local Revenue</b>	<b>\$ 1,811,983</b>	<b>\$ 2,282,656</b>	<b>\$ 470,673</b>	<b>26.0%</b>
General State Aid (GSA)	\$ 850,803	\$ 728,504	\$ (122,299)	-14.4%
State Aid - Teacher Pension	\$ 74,922	\$ 37,551	\$ (37,371)	-49.9%
Flat Grant ADA	\$ 12,929	\$ 3,103	\$ (9,826)	-76.0%
Block Grants: Ed. Serv. & Gen. Ed	\$ 516,844	\$ 660,735	\$ 143,891	27.8%
Other State Aid	\$ 51,499	\$ 38,420	\$ (13,079)	-25.4%
<b>Subtotal State</b>	<b>\$ 1,506,997</b>	<b>\$ 1,468,313</b>	<b>\$ (38,684)</b>	<b>-2.6%</b>
Elem & Sec. Ed.--NCLB	\$ 408,403	\$ 1,032,821	\$ 624,418	152.9%
Child Nutrition	\$ 154,463	\$ 166,716	\$ 12,253	7.9%
Special Ed. -- IDEA	\$ 114,915	\$ 108,200	\$ (6,715)	-5.8%
Medicaid, ROTC, Other	\$ 160,237	\$ 162,736	\$ 2,499	1.6%
<b>Subtotal Federal</b>	<b>\$ 838,018</b>	<b>\$ 1,470,473</b>	<b>\$ 632,455</b>	<b>75.5%</b>
<b>Total Revenues</b>	<b>\$ 4,156,998</b>	<b>\$ 5,221,442</b>	<b>\$ 1,064,444</b>	<b>25.6%</b>
<b>Total Resources</b>	<b>\$ 4,206,998</b>	<b>\$ 5,327,872</b>	<b>\$ 1,120,874</b>	<b>26.6%</b>

Source: CPS FY2006 Proposed Budget p. 38; and FY2010 Proposed Budget p. 13.

### Federal Stimulus Funding

The District will receive nearly \$1.5 billion in funding from the federal government in FY2010. This is an increase of \$599.2 million or 68.8% over FY2009 federal appropriations totaling \$871.3 million. The increase is attributable to \$382.5 million in federal stimulus grants that flow to the District directly from the federal government, and \$234.0 million of federal stabilization funds that the State of Illinois is using to replace its General State Aid payments to the District in FY2010.<sup>65</sup>

The federal government, under the guide of the American Recovery and Reinvestment Act of 2009, will also provide CPS with \$254 million worth of bonding authorization under the qualified school construction bond (QSCB) program. The QSCB program gives investors federal tax credits, instead of interest, which reduces the District's overall borrowing costs.<sup>66</sup> The District is also hoping to reduce interest rate costs by using the federal government's Build America Bonds program for its upcoming bond issuance.<sup>67</sup>

### State of Illinois Funding

The State of Illinois will provide a total of nearly \$1.9 billion in revenues for CPS operating budget programs and pensions in FY2010. Of that amount, \$1.85 billion will be provided for

<sup>65</sup> CPS FY2010 Proposed Budget, p. 52.

<sup>66</sup> Yvette Shields, "Chicago Schools Looks to Build America Bonds, QSCBs", *The Bond Buyer*, August 13, 2009.

<sup>67</sup> Yvette Shields, "Chicago Schools Looks to Build America Bonds, QSCBs", *The Bond Buyer*, August 13, 2009.

operations and \$37.6 million in contributions for the Teachers' Pension Fund. The pension fund contribution for FY2010 is only roughly half of the \$74.8 million provided by the State last year. Total state funding will drop by 0.9% in FY2010; this represents a decrease of \$17.1 million.

The exhibit below shows the distribution of FY2010 state monies. State operating support, excluding pensions, will increase by 1.1%, or \$20.1 million. General State Aid will increase by 1.6%, or \$18.9 million. Spending for every mandated categorical program increased, with two exceptions. Orphanage spending for non-special education students will decline by 22.4% and state funds for the Illinois free lunch/breakfast program will remain constant at \$13.3 million. State support for non-mandatory categorical programs will fall by 22.5%, decreasing from \$247.1 million to \$191.4 million.

<b>Detail of State Funding for CPS General Operating Budget (Excluding Pensions): FY2009 &amp; FY2010 (in \$ millions)</b>				
	<b>FY2009 Budget</b>	<b>FY2010 Budget</b>	<b>\$ Change</b>	<b>% Change</b>
<b>General State Aid (Net)</b>	\$ 1,139.3	\$ 1,158.2	\$ 18.9	1.7%
GSA EAV Adjustment	\$ 16.3	\$ 16.3	\$ -	0.0%
<b>Total GSA</b>	<b>\$ 1,155.6</b>	<b>\$ 1,174.5</b>	<b>\$ 18.9</b>	<b>1.6%</b>
<b>Mandated Categoricals</b>				
Sp Ed - Extraordinary	\$ 90.7	\$ 97.6	\$ 6.9	7.6%
Sp Ed - Orphanage 7.03	\$ 36.4	\$ 43.0	\$ 6.6	18.1%
Sp Ed - Personnel	\$ 75.4	\$ 87.8	\$ 12.4	16.4%
Sp Ed - Private Tuition	\$ 67.4	\$ 87.7	\$ 20.3	30.1%
Sp Ed - Summer School	\$ 6.0	\$ 6.4	\$ 0.4	6.7%
Sp Ed - Transportation	\$ 111.7	\$ 131.9	\$ 20.2	18.1%
Transportation - Reg & Voc	\$ 13.2	\$ 13.7	\$ 0.5	3.8%
IL Free Lunch/Breakfast	\$ 13.3	\$ 13.3	\$ -	0.0%
Orphanage Regular 18-3	\$ 5.8	\$ 4.5	\$ (1.3)	-22.4%
<b>Sub Total</b>	<b>\$ 419.9</b>	<b>\$ 485.9</b>	<b>\$ 66.0</b>	<b>15.7%</b>
<b>Selected Other Categorical Programs</b>				
Illinois Charter Schools	\$ 2.4	\$ -	\$ (2.4)	-100.0%
Bilingual - Chicago	\$ 41.5	\$ 18.4	\$ (23.1)	-55.7%
Early Childhood Block	\$ 140.7	\$ 126.6	\$ (14.1)	-10.0%
Reading Improvement Block	\$ 22.6	\$ 20.4	\$ (2.2)	-9.7%
Extended Learning Opportunities (Bridges)	\$ 9.8	\$ 9.1	\$ (0.7)	-7.1%
Truants Alternative Optional Education	\$ 5.4	\$ 4.8	\$ (0.6)	-11.1%
School Safety & Ed Improvement Block Grant	\$ 12.5	\$ 3.1	\$ (9.4)	-75.2%
Alternative Education/Regional Safe Schools	\$ 3.7	\$ 3.0	\$ (0.7)	-18.9%
Career & Technical Ed	\$ 7.6	\$ 6.0	\$ (1.6)	-21.1%
ROE/ISC - Operations	\$ 0.9	\$ -	\$ (0.9)	-100.0%
<b>Sub Total Selected Other Programs</b>	<b>\$ 247.1</b>	<b>\$ 191.4</b>	<b>\$ (55.7)</b>	<b>-22.5%</b>
<b>All Other State General Fd Ed Programs</b>	<b>\$ 15.8</b>	<b>\$ 6.7</b>	<b>\$ (9.1)</b>	<b>-57.6%</b>
<b>Total without Pension</b>	<b>\$ 1,838.4</b>	<b>\$ 1,858.5</b>	<b>\$ 20.1</b>	<b>1.1%</b>
<b>State Pension Aid to CPS</b>	<b>\$ 74.8</b>	<b>\$ 37.6</b>	<b>\$ 37.6</b>	<b>-49.7%</b>
<b>Total State Funding for CPS</b>	<b>\$ 1,913.2</b>	<b>\$ 1,896.1</b>	<b>\$ (17.1)</b>	<b>-0.9%</b>

Source: CPS Office of Management and Budget.

The foundation level for the District will increase from \$5,959 in FY2009 to \$6,119 per pupil in FY2010, a \$160 or 2.7% increase. The increase in the FY2010 foundation level is due to the use of more accurate school district data for average daily attendance, DHS poverty count and local resources from property value and replacement taxes. It is not a reflection of increased State appropriations for general state aid.<sup>68</sup>

The next exhibit shows increases in the foundation level for state per pupil funding between FY2006 and FY2010. During this five-year period, the foundation level rose by \$955 or 18.5%, from \$5,164 to \$6,119 per pupil.

<b>State of Illinois General State Aid Foundation Level: FY2006 - FY2010 (Per Pupil)</b>			
	<b>Foundation Level Per Pupil</b>	<b>\$ Change from Prior Year</b>	<b>% Change from Prior Year</b>
<b>FY2006</b>	\$ 5,164	-	-
<b>FY2007</b>	\$ 5,334	\$ 170	3.3%
<b>FY2008</b>	\$ 5,734	\$ 400	7.5%
<b>FY2009*</b>	\$ 5,959	\$ 225	3.9%
<b>FY2010</b>	\$ 6,119	\$ 160	2.7%
<b>\$ Change</b>	<b>\$ 955</b>		
<b>% Change</b>	<b>18.5%</b>		

\*Note: the foundation level for FY2010 is a CPS estimate, whereas the remaining figures are actual.

Source: ISBE Illinois Ed. Funding Recommendations, April 2005, p. 2; CPS FY2007 Proposed Budget, p. 7; FY2009 Proposed Budget, p. 52; FY2010 Proposed Budget, p. 41.

## Property Tax Revenues

Overall, the CPS's property tax revenues for all funds will increase from a budgeted amount of \$1.84 billion in FY2009 to \$2.08 billion in FY2010, a \$233.9 million or 12.7% increase. This increase is attributable to a number of events in FY2009 and FY2010, including:

- Higher than expected collections from new property (which is not subject to the tax cap) in FY2009; the FY2009 budget estimated only \$550 million of new property Equalized Assessed Value in FY2009 due to the slow real estate market but actual new property EAV was \$908 million, yielding an additional \$13 million in revenue;
- FY2009 property tax collections from January to June 2009 exceeded expectations; the historical average first half collection rate is 93%, but reached 97% in FY2009, yielding an unexpected \$40 million;
- A 1.5% property tax levy increase on existing property for FY2010; this will yield an additional \$43 million for CPS in FY2010;<sup>69</sup>
- FY2010 revenues from new property are expected to total \$22 million;
- Revenue resulting from the expiration of the Central Loop TIF district is expected to total \$78 million;<sup>70</sup>

<sup>68</sup> CPS FY2010 Proposed Budget, p. 41.

<sup>69</sup> CPS FY2010 Proposed Budget, p. 7.

- One-time property tax revenue increase of \$96 million due to the acceleration of property tax payments in FY2010 pursuant to SB 2125;<sup>71</sup> and
- A \$58.1 million decrease in property tax revenue for FY2010 attributed to the loss of an annual property tax “spike” will partially offset these increases. CPS typically experiences a “spike” in property tax revenues in the year following a significant levy increase due to the timing of tax collections and levy years. Collections in FY2010 will not show the usual spike because the FY2009 levy on existing properties was kept flat.

The following table shows the breakdown of the net \$233.9 million increase in property tax revenues over the amount originally budgeted for FY2009.

<b>CPS Property Tax Revenue Increase FY2009 &amp; FY2010: (in \$ millions)</b>	
<b>FY2009 Increase:</b>	
Higher New Property Collection	\$ 13.0
Higher First Half Collection	\$ 40.0
<b>Subtotal FY2009 Increase</b>	<b>\$ 53.0</b>
<b>FY2010 Increase:</b>	
New Property Collections	\$ 22.0
New Property from TIF Expiration	\$ 78.0
1.5% Tax Increase	\$ 43.0
SB2125 Accounting Change	\$ 96.0
Net Decrease from Loss of Spike	\$ (58.1)
<b>Subtotal FY2010 Increase</b>	<b>\$ 180.9</b>
<b>Total</b>	<b>\$ 233.9</b>

Source: Communication between the Civic Federation and CPS Office of Management and Budget, August 20, 2009.

Under current state law, the District could have increased the levy by 4.1%. In FY2009 the District held its property tax levy flat, and in FY1999 the District’s levied less than the maximum amount allowed.<sup>72</sup> With those two exceptions, the District has opted to increase the property tax levy to the maximum amount allowed by the tax cap law every year since FY1997.

In FY2010 the property tax levy for the Public Building Commission (PBC) leases will be reduced by \$40.0 million, just as it was in FY2009.<sup>73</sup>

<sup>70</sup> The Property Tax Extension Limitation Law, commonly called “PTELL” or “tax caps”, limits a taxing body’s annual property tax extension increase to 5% or the rate of inflation, whichever is less (35 ILCS 200/18-185 through 35 ILCS 200/18-245). However, the value of new properties and expired TIF district increment 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> (last visited on August 21, 2008); Communication between the Civic Federation and CPS Office of Management and Budget, August 20, 2009.

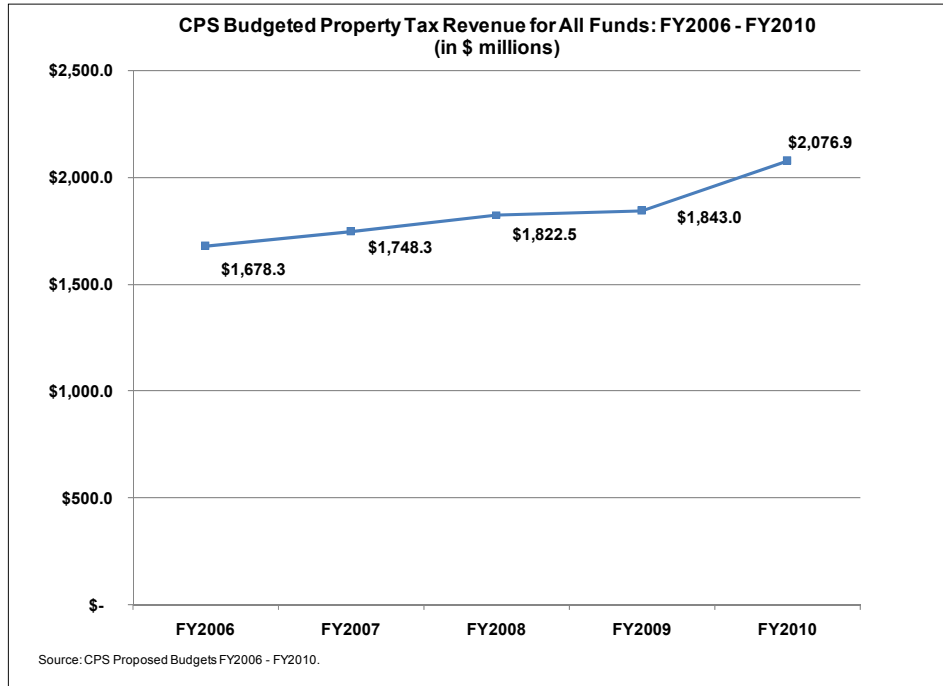
<sup>71</sup> See ILGA SB 2125. This bill proposes a permanent acceleration in spring property tax collections, which will result in a one-time increase in property tax revenues for CPS in FY2010. P.A. 96-0490 was signed into law on August 14, 2009.

<sup>72</sup> CPS FY1999 Proposed Budget, p. 48.

<sup>73</sup> CPS FY2010 Proposed Budget, p. 41.



The FY2010 budget assumes a property tax collection rate of 96.5%, identical with the collection rate assumed in FY2009.<sup>74</sup> Since FY2006, total budgeted property tax revenues have increased by 23.8% or \$398.6 million.



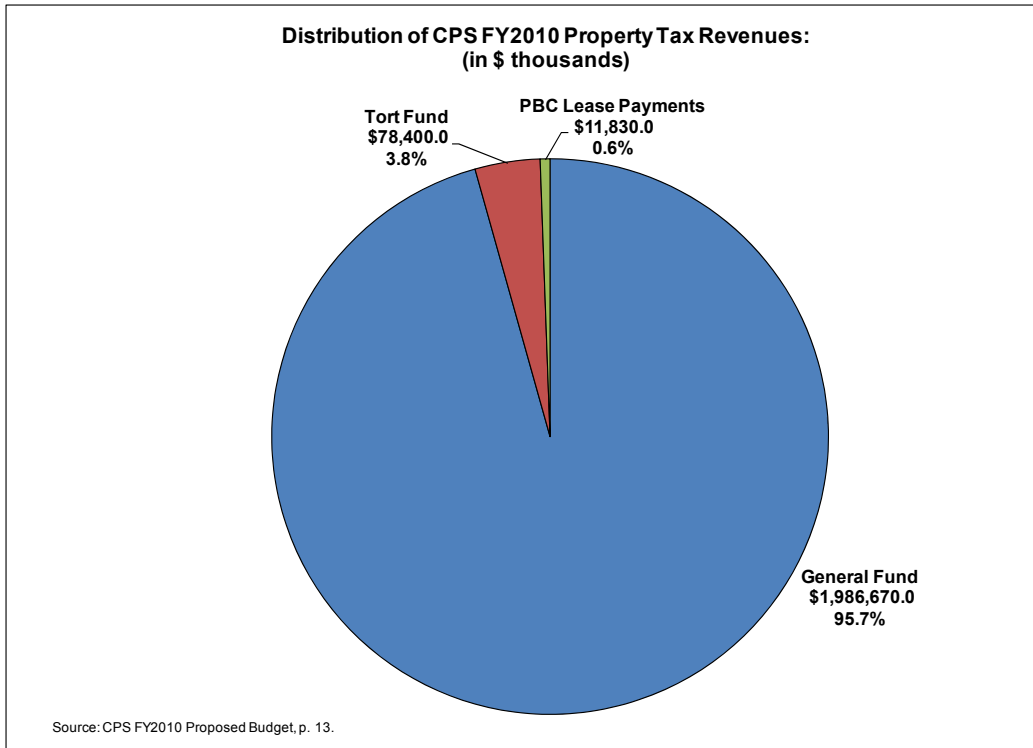
The next exhibit shows a ten-year trend for CPS property tax revenues. Over that period, projected property tax revenues have risen by 45.2% or \$647.0 million. This represents an increase from approximately \$1.43 billion to \$2.08 billion.

<sup>74</sup> Communication between the Civic Federation and CPS Office of Management and Budget, August 20, 2009.

<b>CPS Property Tax Revenue: FY2001 to FY2010 (in \$ millions)</b>			
<b>Fiscal Year</b>	<b>Revenue</b>	<b>\$ Change from Previous Year</b>	<b>% Change from Previous Year</b>
<b>FY2001</b>	\$ 1,429.9	-	-
<b>FY2002</b>	\$ 1,480.0	\$ 50.1	3.5%
<b>FY2003</b>	\$ 1,546.3	\$ 66.3	4.5%
<b>FY2004</b>	\$ 1,583.1	\$ 36.8	2.4%
<b>FY2005</b>	\$ 1,633.1	\$ 50.0	3.2%
<b>FY2006</b>	\$ 1,678.3	\$ 45.2	2.8%
<b>FY2007</b>	\$ 1,748.3	\$ 70.0	4.2%
<b>FY2008</b>	\$ 1,822.5	\$ 74.2	4.2%
<b>FY2009</b>	\$ 1,843.0	\$ 20.5	1.1%
<b>FY2010</b>	\$ 2,076.9	\$ 233.9	12.7%
<b>10-Year \$ Change</b>	<b>\$ 647.0</b>		
<b>10-Year % Change</b>	<b>45.2%</b>		

Source: CPS Proposed Budgets FY2001-FY2010.

The following graph depicts the allocation of FY2010 property tax revenues to CPS funds. Approximately 95.7% or nearly \$2.0 billion of the levy is earmarked for the General Fund to finance CPS operations. The second largest amount, \$78.4 million, is set aside for the Workers and Unemployment Compensation Tort Immunity Fund, while only 0.6% of the levy will be used for Public Building Commission lease payments.



## APPROPRIATION TRENDS

This section presents an analysis of CPS's budget appropriation trends, including appropriations by expenditure type (e.g. salaries, commodities, etc.) and function (e.g. Instruction, Support Services, etc.). In this analysis, two-year and five-year trends are compared. Appropriations by Location for FY2010 are also presented and discussed.

### Two-Year All Funds Appropriation Trends

The proposed FY2010 Chicago Public Schools budget will increase by 11.5%, rising from \$6.2 billion to \$6.9 billion. This is a \$705.7 million increase.

Appropriations for the General Operating Funds, which comprise both the General Fund and the Special Revenue Fund, will increase by 9.7%, or by \$472.7 million. A large portion of this increase is attributable to one-time federal stimulus funding of \$383.0 million and an increase in the District's annual employee pension cost totaling \$130.0 million. If these two factors are removed from the equation, the District's operating budget for FY2010 actually decreases by \$39.9 million over FY2009 projected appropriations.<sup>75</sup>

In FY2010, CPS proposes a bond issue of \$665.0 million to be paid with general revenue proceeds.<sup>76</sup> Appropriations for the Debt Service fund will increase by \$211.6 million, or 73.4%. This increase is attributable to the following payments:<sup>77</sup>

- \$91.0 million for bonds issued by the City of Chicago pursuant to an Intergovernmental agreement between the City and CPS;
- \$42.0 million for debt service payments on new bonds issued to support new school construction;
- \$35.0 million for debt service payments on bonds that were delayed from being issued last year;
- \$13.6 million for debt service increases for existing bonds; and
- \$30.0 million in CDB revenues.

<b>CPS Appropriations All Funds: FY2009 &amp; FY2010 (in \$ millions)</b>				
<b>Fund Type</b>	<b>FY2009</b>	<b>FY2010</b>	<b>\$ Change</b>	<b>% Change</b>
General Operating Funds	\$ 4,854.9	\$ 5,328.0	\$ 473.1	9.7%
Capital Projects Fund	\$ 1,014.4	\$ 1,035.4	\$ 21.0	2.1%
Debt Service Fund	\$ 288.1	\$ 499.7	\$ 211.6	73.4%
<b>Total Appropriation</b>	<b>\$ 6,157.4</b>	<b>\$ 6,863.1</b>	<b>\$ 705.7</b>	<b>11.5%</b>

Source: CPS FY2009 Proposed Budget, p. 4; and FY2010 Proposed Budget, p. 3.

<sup>75</sup> CPS FY2010 Proposed Budget, p. 3.

<sup>76</sup> CPS FY2010 Proposed Budget, p. 309.

<sup>77</sup> CPS FY2010 Proposed Budget, pp. 3 & 7.

## Two-Year and Five-Year All Funds Appropriation Trends by Expenditure Type

The FY2010 CPS budget proposes a total All Funds appropriation of approximately \$6.9 billion. This is a 11.5% increase over the previous year's proposed appropriation of nearly \$6.2 billion. Approximately 53.6% of appropriations or \$3.7 billion is earmarked for salaries and benefits. Over \$2.0 billion, or 29.0% of all appropriations, is reserved for teachers' salaries, while \$608.1 million is proposed for non-teacher salaries, such as support staff, janitors, and any other employees who do not have teaching certificates. Capital appropriations will increase by 2.1% or \$21.0 million.

<b>CPS Appropriations by Expenditure Type for All Funds: FY2009 &amp; FY2010 (in \$ millions)</b>				
<b>General Operating Funds</b>	<b>FY2009</b>	<b>FY2010</b>	<b>\$ Change</b>	<b>% Change</b>
Teacher Salaries	\$ 2,016.2	\$ 2,028.8	\$ 12.6	0.6%
Non-Teacher Salaries	\$ 598.0	\$ 608.1	\$ 10.1	1.7%
Employee Benefits	\$ 846.7	\$ 1,013.3	\$ 166.6	19.7%
<b>Subtotal General Operating Compensation</b>	<b>\$ 3,460.9</b>	<b>\$ 3,650.2</b>	<b>\$ 189.3</b>	<b>5.5%</b>
Commodities & Utilities	\$ 323.8	\$ 363.0	\$ 39.2	12.1%
Non-personnel Services	\$ 755.6	\$ 835.1	\$ 79.5	10.5%
Equipment/Capital Outlay	\$ 18.6	\$ 17.0	\$ (1.6)	-8.6%
Debt Service	\$ -	\$ 2.7	\$ 2.7	100.0%
Other	\$ 296.1	\$ 459.7	\$ 163.6	55.3%
<b>Subtotal Other Operating</b>	<b>\$ 1,394.1</b>	<b>\$ 1,677.5</b>	<b>\$ 283.4</b>	<b>20.3%</b>
<b>Subtotal General Operating</b>	<b>\$ 4,855.0</b>	<b>\$ 5,327.7</b>	<b>\$ 472.7</b>	<b>9.7%</b>
<b>Debt Service Fund</b>				
Services Other than Personnel	\$ 4.6	\$ 5.2	\$ 0.6	13.0%
Debt Service Payments	\$ 283.5	\$ 494.5	\$ 211.0	74.4%
<b>Subtotal Debt Service</b>	<b>\$ 288.1</b>	<b>\$ 499.7</b>	<b>\$ 211.6</b>	<b>73.4%</b>
<b>Capital Fund</b>				
Salaries	\$ -	\$ -	\$ -	-
Benefits	\$ -	\$ -	\$ -	-
Services, Commodities, Utilities	\$ -	\$ -	\$ -	-
Total Capital Outlay	\$ 1,014.4	\$ 1,035.4	\$ 21.0	2.1%
Other	\$ -	\$ -	\$ -	-
<b>Subtotal Capital Fund</b>	<b>\$ 1,014.4</b>	<b>\$ 1,035.4</b>	<b>\$ 21.0</b>	<b>2.1%</b>
<b>Total</b>	<b>\$ 6,157.5</b>	<b>\$ 6,862.8</b>	<b>\$ 705.3</b>	<b>11.5%</b>

Source: CPS FY2009 Proposed Budget, pp. 22 & 23; and FY2010 Proposed Budget p. 10.

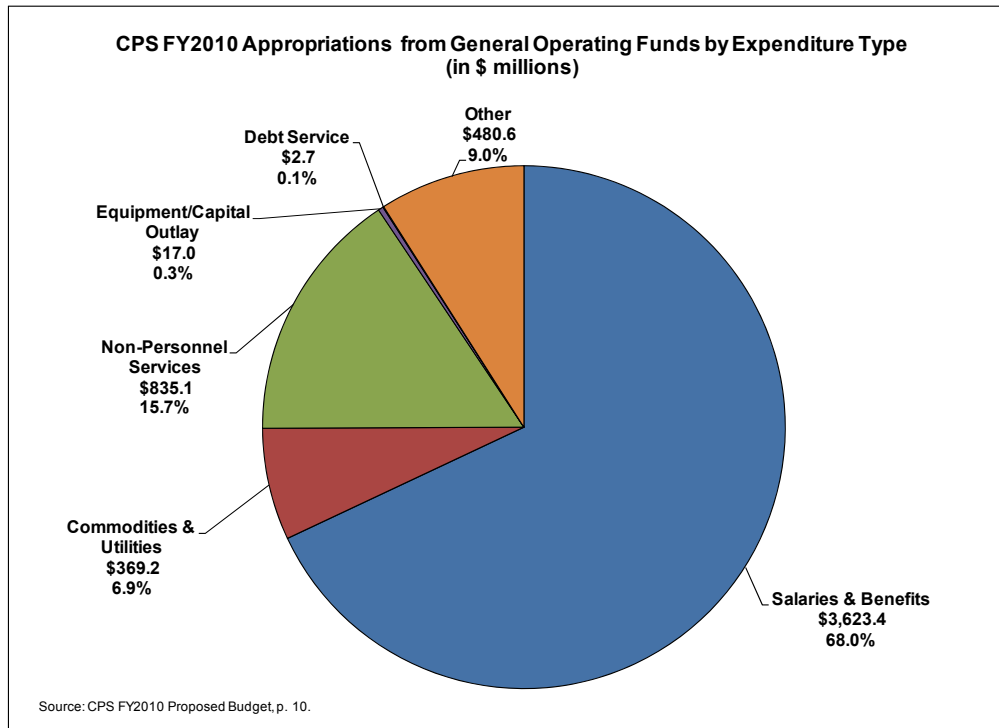
The exhibit below shows that CPS appropriations for all funds have risen from \$5.0 billion to \$6.9 billion over five years. This is a 36.1% increase since FY2006. Debt service appropriations will increase by 108.4%, which is attributable in part to an increase in debt issuance pursuant to federal stimulus provisions that increase the amount of debt local school districts can issue. Capital expenditures will increase by 73.6% or \$438.9 million. Total employee compensation (salary and benefits) rose by 17.5% over this period, with employee benefits alone rising by 57.5%.

<b>CPS Appropriations By Expenditure Type for All Funds: FY2006 &amp; FY2010 (in \$ millions)</b>				
<b>Operating Expenditure Type</b>	<b>FY2006</b>	<b>FY2010</b>	<b>\$ Change</b>	<b>% Change</b>
Teacher Salaries	\$ 1,932.2	\$ 2,028.8	\$ 96.6	5.0%
Non-Teacher Salaries	\$ 530.4	\$ 608.1	\$ 77.7	14.6%
Employee Benefits	\$ 643.4	\$ 1,013.3	\$ 369.9	57.5%
<b>Subtotal General Operating Compensation</b>	<b>\$ 3,106.0</b>	<b>\$ 3,650.2</b>	<b>\$ 544.2</b>	<b>17.5%</b>
Commodities & Utilities	\$ 251.4	\$ 363.0	\$ 111.6	44.4%
Non-personnel Services	\$ 567.5	\$ 835.1	\$ 267.6	47.2%
Equipment/Capital Outlay	\$ 18.5	\$ 17.0	\$ (1.5)	-8.1%
Debt Service	\$ 1.4	\$ 2.7	\$ 1.3	92.9%
Other	\$ 262.3	\$ 459.7	\$ 197.4	75.3%
<b>Subtotal Other General Operating</b>	<b>\$ 1,101.1</b>	<b>\$ 1,677.5</b>	<b>\$ 576.4</b>	<b>52.3%</b>
<b>Subtotal General Operating</b>	<b>\$ 4,207.1</b>	<b>\$ 5,327.7</b>	<b>\$ 1,120.6</b>	<b>26.6%</b>
<b>Debt Service Fund</b>				
Services Other than Personnel	\$ 6.2	\$ 5.2	\$ (1.0)	-16.1%
Debt Service Payments	\$ 233.6	\$ 494.5	\$ 260.9	111.7%
<b>Subtotal Debt Service</b>	<b>\$ 239.8</b>	<b>\$ 499.7</b>	<b>\$ 259.9</b>	<b>108.4%</b>
<b>Capital Fund</b>				
Salaries	\$ 5.8	\$ -	\$ (5.8)	-100.0%
Benefits	\$ 1.1	\$ -	\$ (1.1)	-100.0%
Services, Commodities, Utilities	\$ 0.9	\$ -	\$ (0.9)	-100.0%
Total Capital Outlay	\$ -	\$ 1,035.4	\$ 1,035.4	100.0%
Other	\$ 588.7	\$ -	\$ (588.7)	-100.0%
<b>Subtotal Capital Fund</b>	<b>\$ 596.5</b>	<b>\$ 1,035.4</b>	<b>\$ 438.9</b>	<b>73.6%</b>
<b>Total</b>	<b>\$ 5,043.4</b>	<b>\$ 6,862.8</b>	<b>\$ 1,819.4</b>	<b>36.1%</b>

Source: CPS FY2006 Proposed Budget, p. 34; and FY2010 Proposed Budget, p. 10.

### **Two-Year and Five-Year Operating Funds Appropriation Trends by Expenditure Type**

The exhibit below shows the breakdown of general operating appropriations in the FY2010 budget by percentage of expenditure type. The largest single portion of the FY2010 general operating appropriation is earmarked for salaries and benefits. Approximately 68.0% of the general and special funds, or over \$3.6 billion, will be used for teacher salaries, non-teacher compensation and employee benefits. Non-personnel services appropriations, totaling \$835.1 million, include payments to outside organizations who provide major school-support services.



The following exhibit presents the CPS General Operating Funds by expenditure type for FY2009 and FY2010. Over 37.7%, or \$2.0 billion, of the total general operating funds is reserved for teachers' salaries. Taken together, salaries and benefits represent 67.9% of the total general operating funds appropriation.<sup>78</sup>

<b>CPS Appropriations by Expenditure Type for General Operating Funds: FY2009 &amp; FY2010 (in \$ millions)</b>				
<b>Expenditure Type</b>	<b>FY2009</b>	<b>FY2010</b>	<b>\$ Change</b>	<b>% Change</b>
Teacher Salaries	\$ 2,016.2	\$ 2,028.8	\$ 12.6	0.6%
Non-Teacher Salaries	\$ 598.0	\$ 608.1	\$ 10.1	1.7%
Other Employee Benefits				
Teacher Pension	\$ 400.4	\$ 511.0	\$ 110.6	27.6%
Ed Support Personnel Pension	\$ 96.7	\$ 97.9	\$ 1.2	1.2%
Hospitalization/Other Comp.	\$ 301.8	\$ 330.0	\$ 28.2	9.3%
Unemployment Compensation	\$ 11.0	\$ 10.3	\$ (0.7)	-6.4%
Medicare/Social Security	\$ 36.9	\$ 37.3	\$ 0.4	1.1%
Insurance & Worker Compensation	\$ 44.6	\$ 40.1	\$ (4.5)	-10.1%
Total Employee Benefits	\$ 891.4	\$ 1,026.6	\$ 135.2	15.2%
<b>Subtotal Compensation</b>	<b>\$ 3,505.6</b>	<b>\$ 3,663.5</b>	<b>\$ 157.9</b>	<b>4.5%</b>
Commodities & Utilities	\$ 323.8	\$ 369.2	\$ 45.4	14.0%
Non-personnel Services	\$ 755.6	\$ 835.1	\$ 79.5	10.5%
Equipment/Capital Outlay	\$ 18.6	\$ 17.0	\$ (1.6)	-8.6%
Debt Service	\$ -	\$ 2.7	\$ 2.7	100.0%
Other	\$ 251.5	\$ 440.5	\$ 189.0	75.1%
<b>Total</b>	<b>\$ 4,855.1</b>	<b>\$ 5,328.0</b>	<b>\$ 472.9</b>	<b>9.7%</b>

Sources: CPS FY2009 Proposed Budget, pp. 23 & 27; and FY2010 Proposed Budget, p. 15.

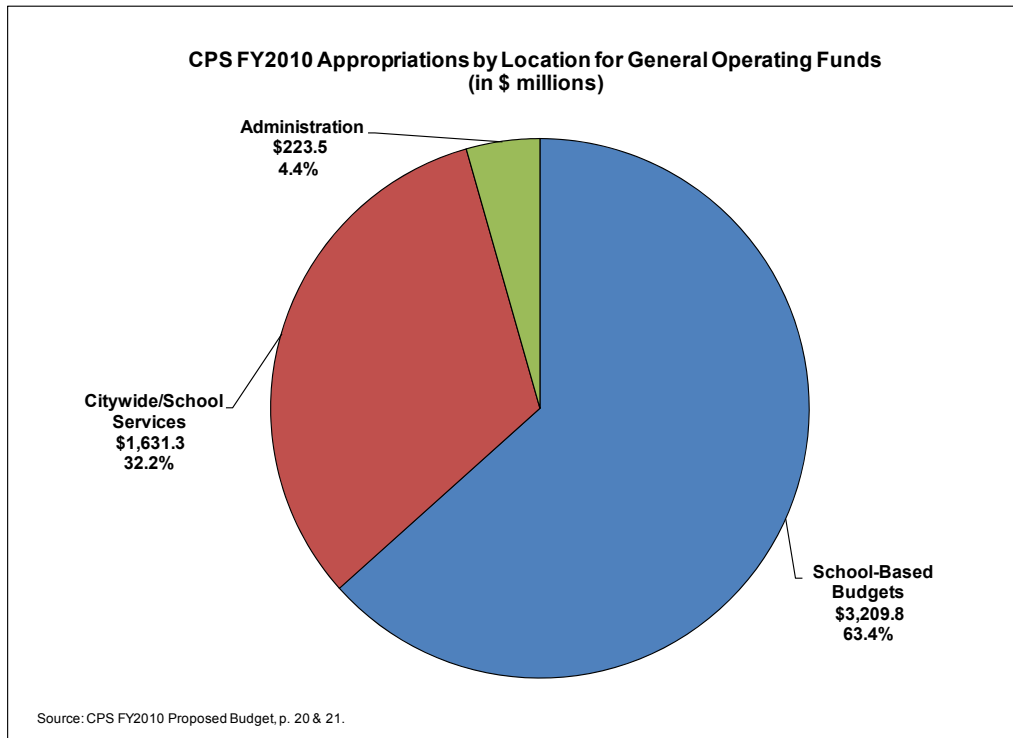
The following exhibit presents a five-year trend by expenditure type for the General Operating Funds. During the period analyzed, compensation, which includes salaries and benefits, will rise by 16.7%, a difference of \$517.3 million.

<b>CPS Appropriations by Expenditure Type for General Operating Funds: FY2006 &amp; FY2010 (in \$ millions)</b>				
<b>Expenditure Type</b>	<b>FY2006</b>	<b>FY2010</b>	<b>\$ Change</b>	<b>% Change</b>
Teacher Salaries	\$ 1,932.2	\$ 2,028.8	\$ 96.6	5.0%
Non-Teacher Salaries	\$ 530.5	\$ 608.1	\$ 77.6	14.6%
Other Employee Benefits	\$ 643.4	\$ 986.5	\$ 343.1	53.3%
<b>Subtotal Compensation</b>	<b>\$ 3,106.1</b>	<b>\$ 3,623.4</b>	<b>\$ 517.3</b>	<b>16.7%</b>
Commodities & Utilities	\$ 251.4	\$ 369.2	\$ 117.8	46.9%
Non-personnel Services	\$ 567.5	\$ 835.1	\$ 267.6	47.2%
Equipment/Capital Outlay	\$ 18.5	\$ 17.0	\$ (1.5)	-8.1%
Debt Service	\$ 1.4	\$ 2.7	\$ 1.3	92.9%
Other	\$ 262.3	\$ 480.6	\$ 218.3	83.2%
<b>Total</b>	<b>\$ 4,207.2</b>	<b>\$ 5,328.0</b>	<b>\$ 1,120.8</b>	<b>26.6%</b>

Source: CPS FY2006 Proposed Budget, p. 39; and FY2010 Proposed Budget, p. 15.

### **Appropriations by Location**

The exhibit below provides the FY2010 General Operating Funds allocation by location. A total of \$3.2 billion or 63.4% of the FY2010 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. Citywide/School Services, which designates resources like literacy, math, or special education teachers who serve multiple locations, will receive \$1.6 billion or 32.2% of general operating funds. Nearly \$223.5 million or 4.4% of the General Operating Funds allocation will go to Central Office administration (this amount does not include salaries for school-based administrators).



Compared to FY2009 expenditures, Citywide/School Services, consisting of citywide appropriations that directly impact the schools, will see an increase of 24.3% or \$318.4 million. School-based budgets will experience a 3.1% funding decrease; administrative costs will also be decreasing, falling by \$5.3 million compared to FY2009.

<b>CPS Appropriations by Location for General Operating Funds: FY2009 &amp; FY2010 (in \$ millions)</b>				
<b>Location</b>	<b>FY2009</b>	<b>FY2010</b>	<b>\$ Change</b>	<b>% Change</b>
School-Based Budgets	\$ 3,313.3	\$ 3,209.8	\$ (103.5)	-3.1%
Citywide/School Services	\$ 1,312.9	\$ 1,631.3	\$ 318.4	24.3%
Administration	\$ 228.8	\$ 223.5	\$ (5.3)	-2.3%
<b>Total</b>	<b>\$ 4,855.0</b>	<b>\$ 5,064.6</b>	<b>\$ 209.6</b>	<b>4.3%</b>

Source: CPS FY2009 Proposed Budget, pp. 32 & 33; and FY2010 Proposed Budget, pp. 20 & 21.

## PERSONNEL

This section presents an analysis of CPS's personnel trends by type: administrative, school-based and capital funded. This analysis also includes data on CPS's administrative staff levels itemized by individual administrative unit. The analysis compares FY2010 personnel figures to that of FY2009 and FY2006.

### Two-year Personnel Data for All Funds

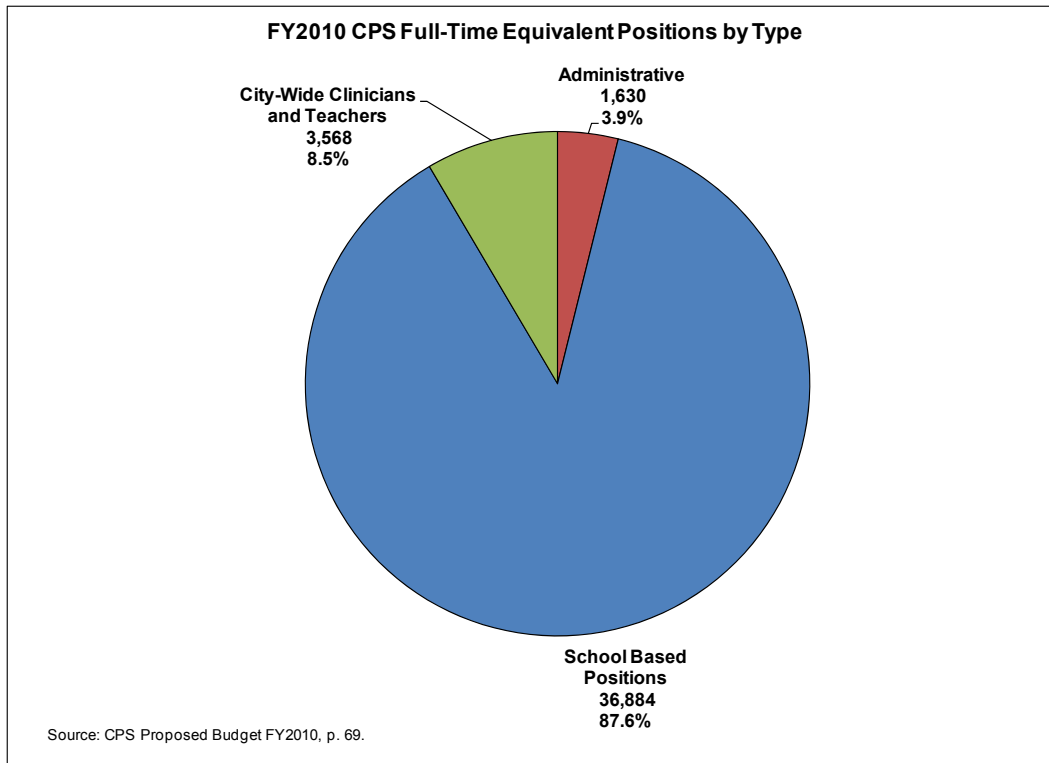
In FY2010, CPS will fund a total of 42,082 full-time equivalent (FTE) positions. This is a 3.0% decrease from the FY2009 total of 43,391. The following exhibit provides an overview of CPS staff reductions.



<b>CPS Distribution of Personnel: FY2009 &amp; FY2010</b>				
<b>Full-Time Equivalent (FTE) Positions</b>				
<b>Location</b>	<b>FY2009</b>	<b>FY2010</b>	<b># Change</b>	<b>% Change</b>
Administrative Positions	1,750	1,630	(120)	-6.8%
School-Based Positions	41,641	40,452	(1,189)	-2.9%
<b>Subtotal Operating Funds Positions</b>	<b>43,391</b>	<b>42,082</b>	<b>(1,309)</b>	<b>-3.0%</b>
Capital-Funded Positions	-	-	0	0.0%
<b>Total</b>	<b>43,391</b>	<b>42,082</b>	<b>(1,309)</b>	<b>-3.0%</b>

Source: CPS Proposed Budget FY2009, p. 50 and pp. 269 & 270; and Proposed Budget FY2010, p. 69.

In FY2010, the Chicago Public Schools will budget for 25,642 teaching positions.<sup>79</sup> Approximately 87.6%, or 36,884 of FY2010 budgeted positions, are designated as school-based staff, including teachers, assistant principals, principals and non-teaching support services including teachers' aides, clerical staff, custodians, security officers, and building engineers. Administrative staff will compose 3.9% of all FTE positions. City-wide clinicians and teachers will compose 8.5% of CPS staff.



<sup>79</sup> CPS Proposed Budget FY2010, p. 69. Number obtained from adding together the budgeted number of teaching positions and positions for city-wide clinicians and teachers.

## Administrative Staff by Unit

The following exhibit details full-time equivalent positions within CPS's central office by administrative unit. In FY2010 119 administrative FTE positions will be eliminated from CPS's full-time staff, a 6.8% decrease from FY2009.<sup>80</sup>

CPS Administrative Staff Levels: FY2009 & FY2010				
Full-Time Equivalent (FTE) Positions				
Administrative Unit	FY2009	FY2010	# Change	% Change
Board of Education	20	21	1	5.0%
C.E.O.	9	8	(1)	-11.1%
Chief of Staff	9	7	(2)	-22.2%
Inspector General	17	17	-	0.0%
Law	80	80	-	0.0%
Communications	15	13	(2)	-13.3%
Audit Services	3	3	-	0.0%
New Schools Development	30	19	(11)	-36.7%
External Affairs	50	49	(1)	-2.0%
Business Diversity	7	6	(1)	-14.3%
Chief Education Officer	25	28	3	11.8%
Reading & Language Arts	46	41	(5)	-10.1%
High School Programs	151	146	(5)	-3.4%
Education to Careers	36	-	(36)	-100.0%
Early Childhood Education	19	20	1	5.3%
Mathematics & Science	49	24	(25)	-51.2%
Assessment Design	37	12	(25)	-67.6%
Instruction & School Mgmt.	216	182	(34)	-15.8%
School Demographics & Planning	5	4	(1)	-20.0%
Principal Preparation & Development	14	9	(5)	-35.7%
Academic Enhancement	11	9	(2)	-18.2%
Specialized Services	46	44	(2)	-4.3%
Strategic Planning	7	-	(7)	-100.0%
Language & Cultural Education	17	17	-	0.0%
Arts Education	10	8	(2)	-20.0%
Chief Administrative Officer	10	7	(3)	-30.0%
Human Resources	231	188	(43)	-18.6%
Contracts & Procurement	26	35	9	34.6%
Safety & Security	63	70	7	11.1%
Information & Technology Services	222	245	23	10.4%
Business Service Center	44	40	(4)	-9.1%
School Financial Services	79	72	(7)	-8.9%
Management & Budget	27	26	(1)	-3.7%
Chief Operating Officer	3	-	(3)	-100.0%
Facility Operations & Maintenance	19	23	4	21.1%
Real Estate	5	5	-	0.0%
Food Services and Warehousing	22	21	(1)	-4.5%
Student Transportation	1	1	-	0.0%
Teaching and Learning	16	40	24	150.0%
Autonomy	3	4	1	33.3%
Performance Management	-	33	33	-
Extended Learning Opportunities	22	19	(3)	-13.6%
Grants Management and Administration	27	34	7	25.9%
<b>Total</b>	<b>1,750</b>	<b>1,630</b>	<b>(119)</b>	<b>-6.8%</b>

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

Source: CPS Proposed Budget FY2010, pp. 281 & 282.

<sup>80</sup> This number reflects original budget appropriations for administrative personnel in FY2009. The end-of-year administrative personnel numbers for FY2009 will decrease due to the recent elimination of administrative positions at the District. See Communication between the Civic Federation and CPS Office of Management and Budget, August 20, 2009.

Twenty-six of the 43 units listed above, or 60.5% of the units, will undergo staffing reductions. The administrative units that experienced the greatest reductions in staff levels include:

- The offices of Education to Careers, Strategic Planning, and Chief Operating Officer will all be eliminated in FY2010.<sup>81</sup> The functions of the office of Education to Careers will be transferred to the office of Post-Secondary Education, which is classified as High School Program. The Office of Strategic Planning will be consolidated with the new office of Performance Management. The office of the Chief Operating Officer will be consolidated with the Department of Facilities Management; and
- Assessment Design (formerly known as the office of Research, Accountability and Evaluation) will experience a decrease of 67.6%, decreasing from 37 FTEs in FY2009 to 12 FTEs in FY2010.<sup>82</sup>

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

- Teaching & Learning, which was formerly known as the Office of Instructional Design and Assessment, will experience an increase of 150.0%, rising from 16 FTEs in FY2009 to 40 FTEs in FY2010;
- Contracts & Procurement will increase by 34.6%, rising from 26 FTEs IN FY2009 to 35 FTEs in FY2010; and
- Autonomy will increase by 33.3%, rising from 3 FTEs in FY2009 to 4 FTEs FY2010; and
- Grants Management & Administration will increase by 25.9%, rising from 27 FTEs to 34 FTEs.

One new administrative unit will be added in FY2010, the Office of Performance Management, which will perform analyses of CPS departments, programs and services to identify solutions to achieve improved effectiveness and efficiency.<sup>83</sup>

### Personnel Five-Year Trend

In FY2010 the Chicago Public Schools will budget for 42,082 full-time equivalent positions, a decrease of 4,129 positions, or 8.9% from proposed staffing levels in FY2006.

<b>CPS Distribution of Personnel: FY2006 &amp; FY2010</b>				
<b>Full-Time Equivalent (FTE) Positions</b>				
<b>Location</b>	<b>FY2006</b>	<b>FY2010</b>	<b># Change</b>	<b>% Change</b>
Administrative Positions	1,650	1,630	(20)	-1.2%
School-Based Positions	44,481	40,452	(4,029)	-9.1%
<b>Subtotal Operating Funds Positions</b>	<b>46,131</b>	<b>42,082</b>	<b>(4,049)</b>	<b>-8.8%</b>
Capital-Funded Positions	80	-	(80)	-100.0%
<b>Total</b>	<b>46,211</b>	<b>42,082</b>	<b>(4,129)</b>	<b>-8.9%</b>

Source: CPS Proposed Budget FY2007, p. 76; and Proposed Budget FY2010, p. 69.

<sup>81</sup> CPS Proposed Budget FY2010, p. 278-279.

<sup>82</sup> CPS Proposed Budget FY2010, p. 278.

<sup>83</sup> CPS Proposed Budget FY2010, p. 279.

## Administrative Staff by Unit Five-Year Trend

The following exhibit compares CPS's administrative staff levels itemized by individual administrative unit for FY2006 and FY2010. Personnel in FY2010 will decrease by 20 positions, or 1.2%, compared to staffing levels in FY2006.

<b>CPS Administrative Staff Levels: FY2006 &amp; FY2010</b>				
<b>Full-Time Equivalent (FTE) Positions</b>				
<b>Administrative Unit</b>	<b>FY2006</b>	<b>FY2010</b>	<b># Change</b>	<b>% Change</b>
Board of Education	20	21	1	5.0%
C.E.O.	13	8	(5)	-38.5%
Chief of Staff	9	7	(2)	-22.2%
Inspector General	19	17	(2)	-10.5%
Law	79	80	1	1.3%
Communications	14	13	(1)	-7.1%
Audit Services	3	3	-	0.0%
New Schools Development	19	19	-	0.0%
External Affairs	50	49	(1)	-2.0%
Business Diversity	3	6	3	100.0%
Chief Education Officer	10	28	18	184.0%
Reading & Language Arts	38	41	3	7.9%
High School Programs	133	146	13	9.8%
Education to Careers	36	-	(36)	-100.0%
Early Childhood Education	19	20	1	5.3%
Mathematics & Science	42	24	(18)	-42.9%
Assessment Design	43	12	(31)	-72.1%
Instruction & School Mgmt.	231	182	(49)	-21.2%
School Demographics & Planning	-	4	4	-
Principal Preparation & Development	8	9	1	12.5%
Academic Enhancement	11	9	(2)	-18.2%
Specialized Services	81	44	(37)	-45.7%
Strategic Planning	9	-	(9)	-100.0%
Language & Cultural Education	53	17	(36)	-67.9%
Arts Education	-	8	8	-
Chief Administrative Officer	9	7	(2)	-22.2%
Human Resources	213	188	(25)	-11.7%
Contracts & Procurement	34	35	1	2.9%
Safety & Security	61	70	9	14.8%
Information & Technology Services	147	245	98	66.7%
Business Service Center	-	40	40	-
School Financial Services	131	72	(59)	-45.0%
Management & Budget	53	26	(27)	-50.9%
Chief Operating Officer	16	-	(16)	-100.0%
Facility Operations & Maintenance	19	23	4	21.1%
Real Estate	2	5	3	150.0%
Food Services and Warehousing	21	21	-	0.0%
Student Transportation	1	1	-	0.0%
Teaching & Learning	-	40	40	-
Autonomy	-	4	4	-
Performance Management	-	33	33	-
Extended Learning Opportunities	-	19	19	-
Grants Management and Administration	-	34	34	-
<b>Total</b>	<b>1,650</b>	<b>1,630</b>	<b>(20)</b>	<b>-1.2%</b>

Note: This chart does not include school-based administrative positions or positions paid for out of the Capital Fund.

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

Source: CPS Budget FY2007 CDROM data; and Proposed Budget FY2010, pp. 281 & 282.

Eighteen, or approximately 41.9%, of the 43 units listed above will undergo staffing reductions compared to FY2006 staffing levels. The units that will undergo the highest reductions relative to FY2006 include:

- The offices of Education to Careers, Strategic Planning, and Chief Operating Officer which will all be eliminated and consolidated with other offices in FY2010;<sup>84</sup>
- Assessment Design (formerly known as Research, Evaluation and Accountability) will decrease its staffing level by 72.1%, decreasing from 43 FTEs to 12 FTEs;
- Language and Cultural Education will decrease its staffing by 67.9%, decreasing from 53 FTEs to 17 FTEs;
- Management and Budget will decrease 50.9% below FY2006 levels with a decrease from 53 FTEs to 26 FTEs.

Sixteen units will increase staffing levels over FY2006. The units with the highest percentage increases in staffing relative to FY2006 staffing levels will include:

- Chief Education Officer will experience an increase of 184.0% from 10 FTEs in FY2006 to 28 FTEs in FY2010;
- Real Estate which will see a 150.0% increase from 2 FTEs in FY2006 to 5 FTEs in FY2010; and
- Business Diversity which will increase by 100.0% from 3 FTEs to FY2006 to 6 FTEs FY2010.

CPS will have added eight new administrative units since FY2006, including the offices of School Demographics & Planning, Arts Education, Business Service Center, Autonomy, Performance Management, Teaching & Learning (formerly known as Instructional Design and Assessment), Extended Learning Opportunities (which is classified as a high school program) and Grants Management & Administration.

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

In FY2010 CPS personnel appropriations are expected to increase by \$162.5 million to \$3.6 billion, a 4.7% increase over the FY2009 budgeted appropriation of \$3.5 billion. Salaries, which constitute 72.8% of all salary and benefits appropriations, will increase by 0.9%. Benefit costs, which include pensions, hospitalization insurance, unemployment compensation, and payroll tax contributions for Social Security and Medicare, will rise at a much faster rate. In the aggregate, benefit costs will increase by 16.5% or \$139.8 million, rising from \$846.7 million to \$986.5 million during this two-year period.

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<sup>84</sup> CPS Proposed Budget FY2010, p. 278-279.

<b>CPS Appropriations by Expenditure Type for General Operating Funds: FY2009 &amp; FY2010 (in \$ millions)</b>				
<b>Expenditure Type</b>	<b>FY2009</b>	<b>FY2010</b>	<b>\$ Change</b>	<b>% Change</b>
Teacher Salaries	\$ 2,016.2	\$ 2,028.8	\$ 12.6	0.6%
Non-Teacher Salaries	\$ 598.0	\$ 608.1	\$ 10.1	1.7%
Employee Benefits	\$ 846.7	\$ 986.5	\$ 139.8	16.5%
<b>Subtotal Compensation</b>	<b>\$ 3,460.9</b>	<b>\$ 3,623.4</b>	<b>\$ 162.5</b>	<b>4.7%</b>
Worker Compensation	\$ 44.6	\$ 40.1	\$ (4.5)	-10.1%
Commodities & Utilities	\$ 323.8	\$ 369.2	\$ 45.4	14.0%
Non-personnel Services	\$ 755.6	\$ 835.1	\$ 79.5	10.5%
Equipment/Capital Outlay	\$ 18.6	\$ 17.0	\$ (1.6)	-8.6%
Debt Service	\$ -	\$ 2.7	\$ 2.7	-
Other	\$ 251.5	\$ 440.5	\$ 189.0	75.1%
<b>Total</b>	<b>\$ 4,855.0</b>	<b>\$ 5,328.0</b>	<b>\$ 473.0</b>	<b>9.7%</b>

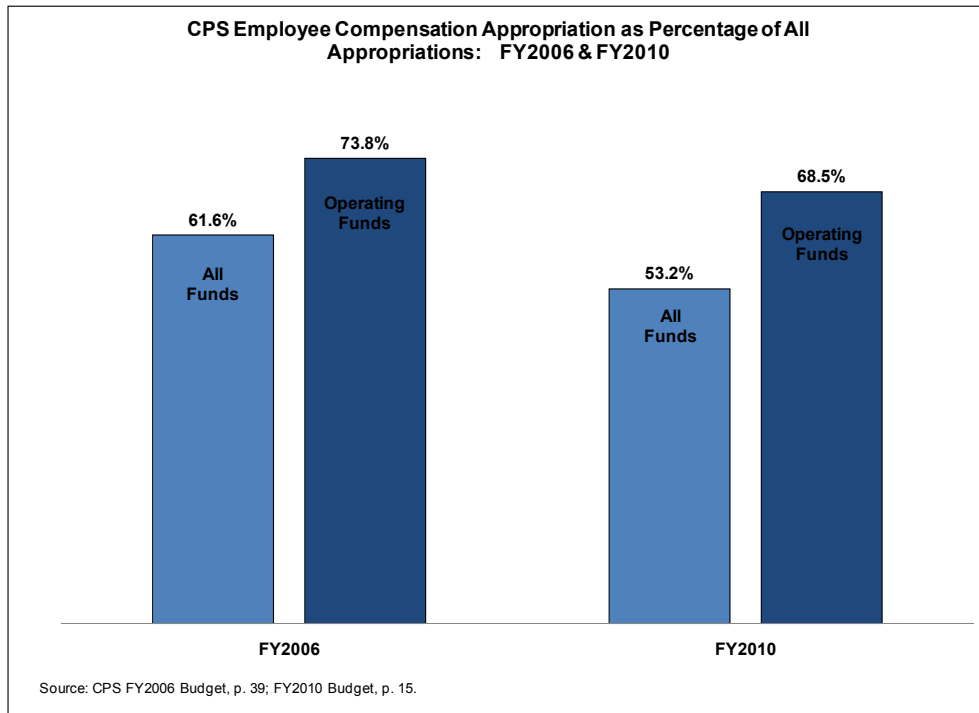
Source: CPS FY2009 Proposed Budget, pp. 23 & 27; and FY2010 Proposed Budget, p. 15.

Over a five-year period, the compensation costs CPS pays for out of its General Operating Funds will rise by 16.7%, or by \$517.3 million. Salaries will increase by 7.1%, from \$2.5 billion to \$2.6 billion. Benefits will increase at a faster rate, increasing by 53.3% or by \$343.1 million.

<b>CPS Appropriations by Expenditure Type for General Operating Funds: FY2006 &amp; FY2010 (in \$ millions)</b>				
<b>Expenditure Type</b>	<b>FY2006</b>	<b>FY2010</b>	<b>\$ Change</b>	<b>% Change</b>
Teacher Salaries	\$ 1,932.2	\$ 2,028.8	\$ 96.6	5.0%
Non-Teacher Salaries	\$ 530.5	\$ 608.1	\$ 77.6	14.6%
Other Employee Benefits	\$ 643.4	\$ 986.5	\$ 343.1	53.3%
<b>Subtotal Compensation</b>	<b>\$ 3,106.1</b>	<b>\$ 3,623.4</b>	<b>\$ 517.3</b>	<b>16.7%</b>
Commodities & Utilities	\$ 251.4	\$ 369.2	\$ 117.8	46.9%
Non-personnel Services	\$ 567.5	\$ 835.1	\$ 267.6	47.2%
Equipment/Capital Outlay	\$ 18.5	\$ 17.0	\$ (1.5)	-8.1%
Debt Service	\$ 1.4	\$ 2.7	\$ 1.3	92.9%
Other	\$ 262.3	\$ 480.6	\$ 218.3	83.2%
<b>Total</b>	<b>\$ 4,207.2</b>	<b>\$ 5,328.0</b>	<b>\$ 1,120.8</b>	<b>26.6%</b>

Source: CPS FY2006 Proposed Budget, p. 39; and FY2010 Proposed Budget, p. 15.

The next exhibit compares the percentage of CPS appropriations earmarked for employee compensation in FY2006 versus FY2010. The percentage of all funds appropriations dedicated to personnel has declined 8.4% over the last five years and the percentage of Operating Funds appropriations earmarked for personnel expenditures has decreased by 5.3%.



## ENROLLMENT

CPS predicts an ongoing decline in overall student enrollment across the system. In the current budget, CPS estimates that FY2009 enrollment totaled approximately 408,129 students and FY2010 total enrollment will be 405,381 students, resulting in a projected decrease in enrollment of 2,748 students or 0.7%.<sup>85</sup>

<b>CPS Student Projected Enrollment: Fall 2009 - Fall 2010</b>				
	<b>Fall 2009</b>	<b>Fall 2010</b>	<b># Change</b>	<b>% Change</b>
<b>Total</b>	<b>408,129</b>	<b>405,381</b>	<b>(2,748)</b>	<b>-0.7%</b>

Source: CPS Proposed Budget FY2010, p. 39.

As the following exhibit indicates, total actual enrollment dropped by 646 students between school years 2007 to 2008. Between the fall of 2003 and the fall of 2008, actual enrollment has dropped by 26,955 students, a decrease of 6.1% percent.<sup>86</sup>

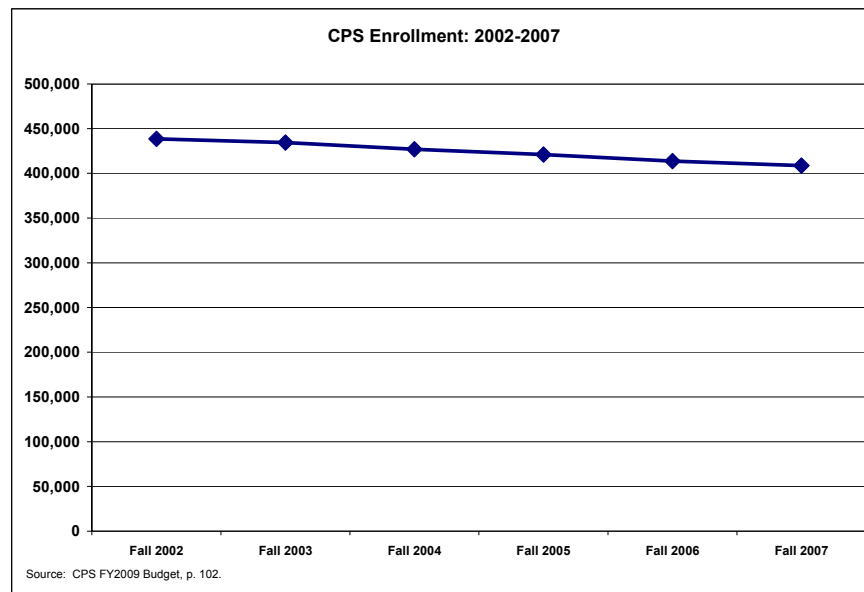
<sup>85</sup> CPS FY2010 Proposed Budget, p. 39.

<sup>86</sup> Communication between the Civic Federation and Christina Herzog, Interim Director of the Office of Management and Budget, August 24, 2009.

<b>CPS Student Enrollment: Fall 2003 - Fall 2008</b>								
	<b>Fall 2003</b>	<b>Fall 2004</b>	<b>Fall 2005</b>	<b>Fall 2006</b>	<b>Fall 2007</b>	<b>Fall 2008</b>	<b>03-08 # Change</b>	<b>03-08 % Change</b>
<b>Preschool</b>	22,085	21,712	21,205	21,363	21,388	23,325	1,240	5.6%
<b>Elementary, K-8</b>	308,111	299,007	290,645	280,767	274,672	271,464	(36,647)	-11.9%
<b>High School</b>	104,223	106,093	109,132	111,564	112,541	113,166	8,943	8.6%
<b>Total</b>	<b>434,419</b>	<b>426,812</b>	<b>420,982</b>	<b>413,694</b>	<b>408,601</b>	<b>407,955</b>	<b>(26,464)</b>	<b>-6.1%</b>

Source: CPS FY2009 Proposed Budget; and CPS Office of Management and Budget.

The following graph depicts the falling trend in enrollment between school years 2003 to 2008.



### **UNRESERVED, UNDESIGNATED FUND BALANCE RATIO**

Between FY2004 and FY2008, the CPS General Corporate Fund unreserved fund balance increased from 0.7% to 4.1% of Corporate Fund revenues. This is below the 5.0% minimum ratio recommended by the Government Finance Officers Association for that fund. However, the steady increase in the fund balance ratio is an encouraging trend.

<b>CPS Unreserved, Undesignated Corporate Fund Balance Ratio: FY2004-FY2008</b>			
	<b>Corporate Fund Balance</b>	<b>Corporate Fund Revenues</b>	<b>Ratio</b>
<b>FY2004</b>	\$25,210,000	\$ 3,721,989,000	0.7%
<b>FY2005</b>	\$58,546,000	\$ 3,945,555,000	1.5%
<b>FY2006</b>	\$89,320,000	\$ 4,185,852,000	2.1%
<b>FY2007</b>	\$171,643,000	\$ 4,282,504,000	4.0%
<b>FY2008</b>	\$174,391,000	\$ 4,585,685,000	4.1%

Sources: CPS Comprehensive Annual Financial Reports FY2004 - FY2008.

It is important to note, however, that CPS adopted a policy in FY2008 requiring the District to maintain an unreserved, designated fund balance of 5% to 10% of the operating and debt service



budget for each new fiscal year.<sup>87</sup> These funds are designated by CPS as its operating funds. Since FY2004, CPS has steadily increased its unreserved fund balance ratio from 0.6% to 7.2%.

<b>CPS Unreserved, Undesignated General Operating &amp; Debt Fund Balance Ratio: FY2004-FY2008</b>			
	<b>General Operating &amp; Debt Service Fund Balance</b>	<b>Revenues</b>	<b>Ratio</b>
<b>FY2004</b>	\$25,210,000	\$ 3,962,354,000	0.6%
<b>FY2005</b>	\$58,546,000	\$ 4,161,427,000	1.4%
<b>FY2006</b>	\$89,320,000	\$ 4,435,955,000	2.0%
<b>FY2007</b>	\$330,123,000	\$ 4,487,279,000	7.4%
<b>FY2008</b>	\$352,880,000	\$ 4,888,404,000	7.2%

Sources: CPS Comprehensive Annual Financial Reports FY2004 - FY2008.

A portion of CPS unreserved fund balance is designated to provide operating capital. The reason for this is related to the fact that the District has issued six Qualified Zone Academy Bonds (QZABs) which have 15-year maturity and plans to issue more in FY2011. There is no annual debt service payment required other than paying off the principal at maturity for these bonds, which are interest-free. Since principal payments are due starting FY2012, CPS has set aside sinking funds to pay off these bonds. These funds are recorded as Unreserved Undesignated Fund Balance in debt service funds because these sinking funds are not required by the bond covenants but CPS decided to save funds to pay off QZABs. About \$62 million is set aside for QZAB currently.

### **Short-Term Liabilities**

Short-term liabilities are financial obligations that must be satisfied within one year. They can include short-term debt, accounts payable, accrued payroll and other current liabilities. CPS currently reports no short-term debt but does include the following short-term liabilities in the report of net assets in its annual Comprehensive Annual Financial Report:<sup>88</sup>

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

In FY2008 these liabilities in the Governmental Funds decreased by approximately \$41.7 million or 5.3% from the previous year. Since FY2004 short-term liabilities have increased slightly by \$31.3 million or 4.4%. The following chart shows short-term liabilities by category and the percent change over the past five years.

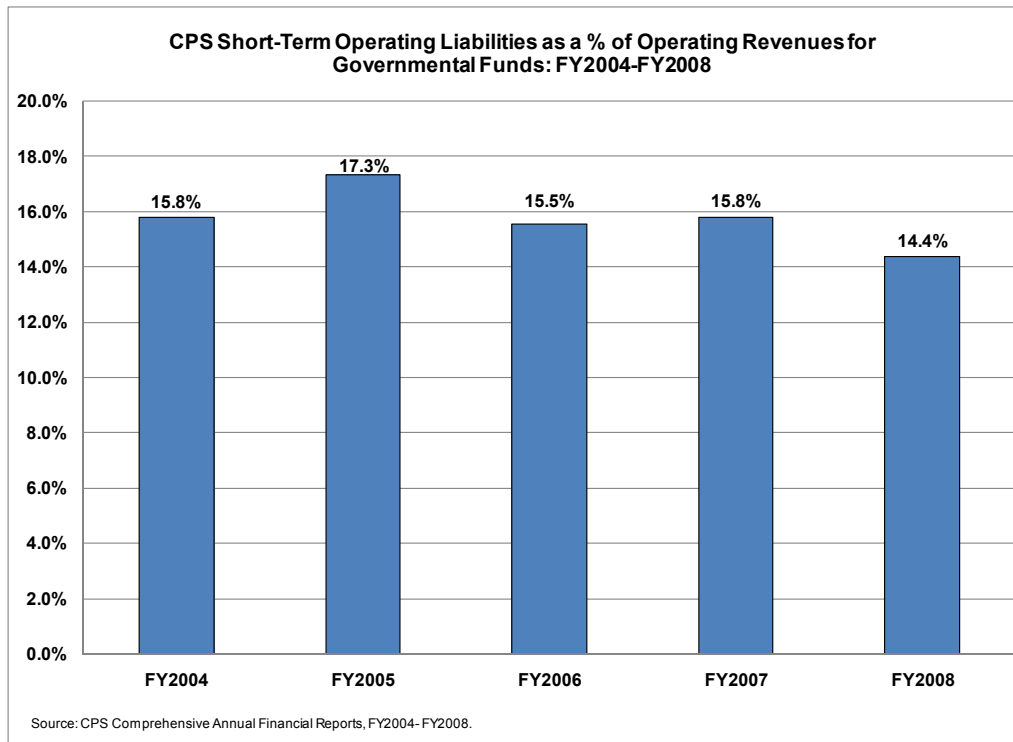
<sup>87</sup> Chicago Public Schools FY2008 Comprehensive Annual Financial Report, p. 16.

<sup>88</sup> Chicago Public Schools FY2008 Comprehensive Annual Financial Report, p. 38.

<b>CPS Short-Term Liabilities in the Governmental Funds: FY2004 - FY2008 (in \$ thousands)</b>							
	<b>FY2004</b>	<b>FY2005</b>	<b>FY2006</b>	<b>FY2007</b>	<b>FY2008</b>	<b>Five-Year \$ Change</b>	<b>Five-Year % Change</b>
Accounts payable	\$ 270,570	\$ 249,228	\$ 232,843	\$ 272,095	\$ 284,650	\$ 14,080	5.2%
Accrued payroll	\$ 415,651	\$ 490,519	\$ 467,533	\$ 483,047	\$ 428,753	\$ 13,102	3.2%
Other accrued liabilities	\$ -	\$ 4,000	\$ 4,000	\$ -	\$ -	\$ -	-
Interest payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
Amount held for student activities	\$ 26,001	\$ 27,632	\$ 28,522	\$ 30,123	\$ 30,167	\$ 4,166	16.0%
<b>Total</b>	<b>\$ 712,222</b>	<b>\$ 771,379</b>	<b>\$ 732,898</b>	<b>\$ 785,265</b>	<b>\$ 743,570</b>	<b>\$ 31,348</b>	<b>4.4%</b>

Source: CPS Comprehensive Annual Financial Reports, FY2004 - FY2008, Balance Sheet - Governmental Funds.

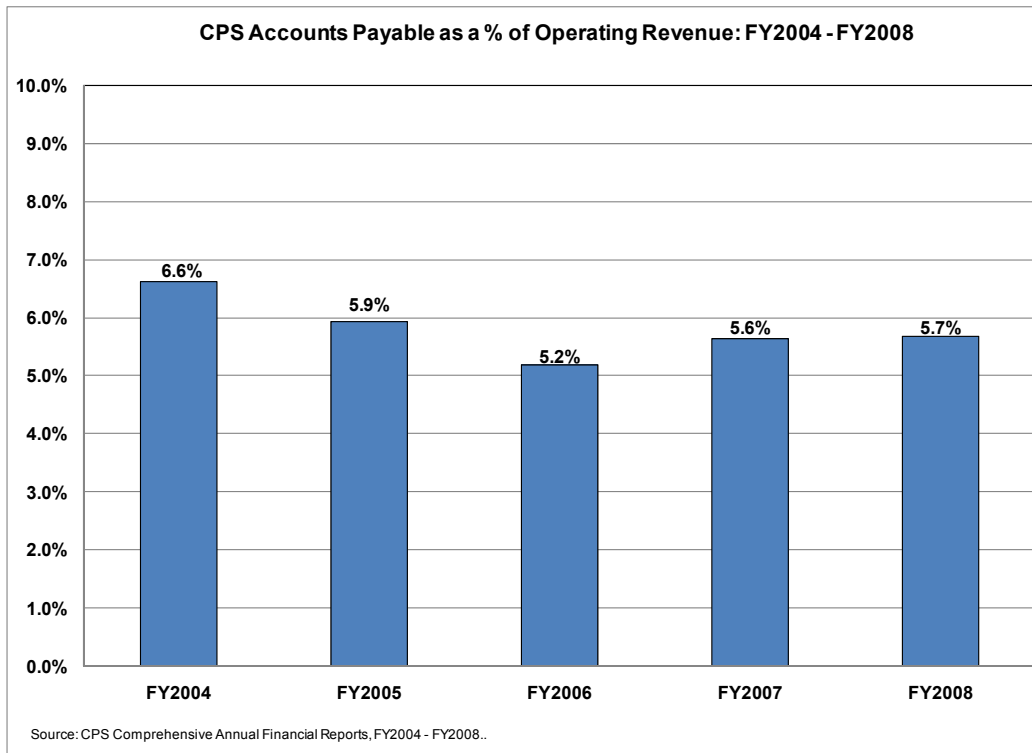
Increasing current liabilities in a government's operating funds at the end of the year as a percentage of net operating revenues may be a warning sign of a government's future financial difficulties.<sup>89</sup> This indicator, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending. CPS showed a positive trend by reducing its short-term liabilities compared to total operating revenue between FY2005 to FY2008 from 17.3% to 14.4%.



<sup>89</sup> Operating funds are those funds used to account for general operations – the General Fund, Special Revenue Funds and the Debt Service Fund. See Karl Nollenberger, Sanford Groves and Maureen G. Valente. *Evaluating Financial Condition: A Handbook for Local Government* (International City/County Management Association, 2003), p. 77 and p. 169.

## Accounts Payable

Over time, rising amounts of accounts payable may indicate a government's difficulty in controlling expenses or keeping up with spending pressures. CPS's ratio of operating funds accounts payable to operating revenues averaged 5.8% between FY2004 and FY2008, fluctuating from a high of 6.6% in FY2004 to a low of 5.2% in FY2006 before rising slightly to 5.7% in FY2008. The trend over this period provide no cause for concern.



## 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, direct debt, direct debt per capita and bond ratings.

### Capital Outlay

The FY2010 proposed appropriation for CPS capital projects will be approximately \$1.0 billion. This is a 2.1% increase from the previous year's budgeted amount. The end-of-year fund balance for the capital fund will drop by \$130.2 million, falling from \$257.4 million to \$127.2 million. The FY2010 budget proposes a \$665.0 million bond issue, shown in the exhibit as "other financing sources", for future capital expenditures.

<b>CPS FY2010 Capital Projects Fund Budget Summary:</b>				
<b>(in \$ millions)</b>				
	<b>FY2009 Budget</b>	<b>FY2010 Budget</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Resources</b>				
Beginning Fund Balance	\$ 609.9	\$ 127.2	\$ (482.7)	-79.1%
Reserved for encumbrance	\$ (257.4)	\$ (127.2)	\$ 130.2	-50.6%
Available for reappropriation	\$ 352.5	\$ -	\$ (352.5)	-100.0%
<b>Revenues</b>				
Local Revenue	\$ 103.5	\$ 218.8	\$ 115.3	111.4%
State Revenue	\$ -	\$ 145.6	\$ 145.6	100.0%
Federal Revenue	\$ 2.5	\$ 6.0	\$ 3.5	140.0%
<b>Subtotal Revenues</b>	<b>\$ 106.0</b>	<b>\$ 370.4</b>	<b>\$ 264.4</b>	<b>249.4%</b>
Other Financing Sources	\$ 555.9	\$ 665.0	\$ 109.1	19.6%
<b>Total Resources</b>	<b>\$ 1,014.4</b>	<b>\$ 1,035.4</b>	<b>\$ 21.0</b>	<b>2.1%</b>
<b>Appropriations</b>				
Capital Outlays	\$ 1,014.4	\$ 1,035.4	\$ 21.0	2.1%
<b>End of Year Fund Balance</b>	<b>\$ 257.4</b>	<b>\$ 127.2</b>	<b>\$ (130.2)</b>	<b>-50.6%</b>

Source: CPS FY2009 Proposed Budget, p. 324 and FY2010 Proposed Budget, p. 309.

### ***Funding Sources for CPS Capital Programs***

The majority of funding for CPS capital projects is derived from general fund revenues. Some resources, however, are provided from the City of Chicago, the State of Illinois and the federal government.<sup>90</sup>

The Modern Schools Across Chicago (MSAC) program is a partnership between CPS and the City of Chicago to provide approximately \$1 billion for school construction. The FY2010 budget includes \$215.0 million in funds from the City of Chicago to continue MSAC projects

The State of Illinois recently approved \$1.5 billion in school construction grants over the next six years. CPS will receive \$300 million of reimbursement from that amount. Reimbursement monies will be set aside and \$300 million in bonds issued backed by those grants. An additional \$145.6 million of state grants may be available as well in FY2010.

Under the terms of the American Recovery and Reinvestment Act of 2009 (ARRA), the federal government offers several tax-exempt and tax credit bond financing options to help school districts raise funds for capital projects. These include:

- Qualified School Construction Bonds (QSCB), which will provide \$22.0 billion nationwide in interest free bonding for school construction, renovation and land acquisition for two years. CPS has received \$254.2 million in QSCB authority for FY2010. These bonds

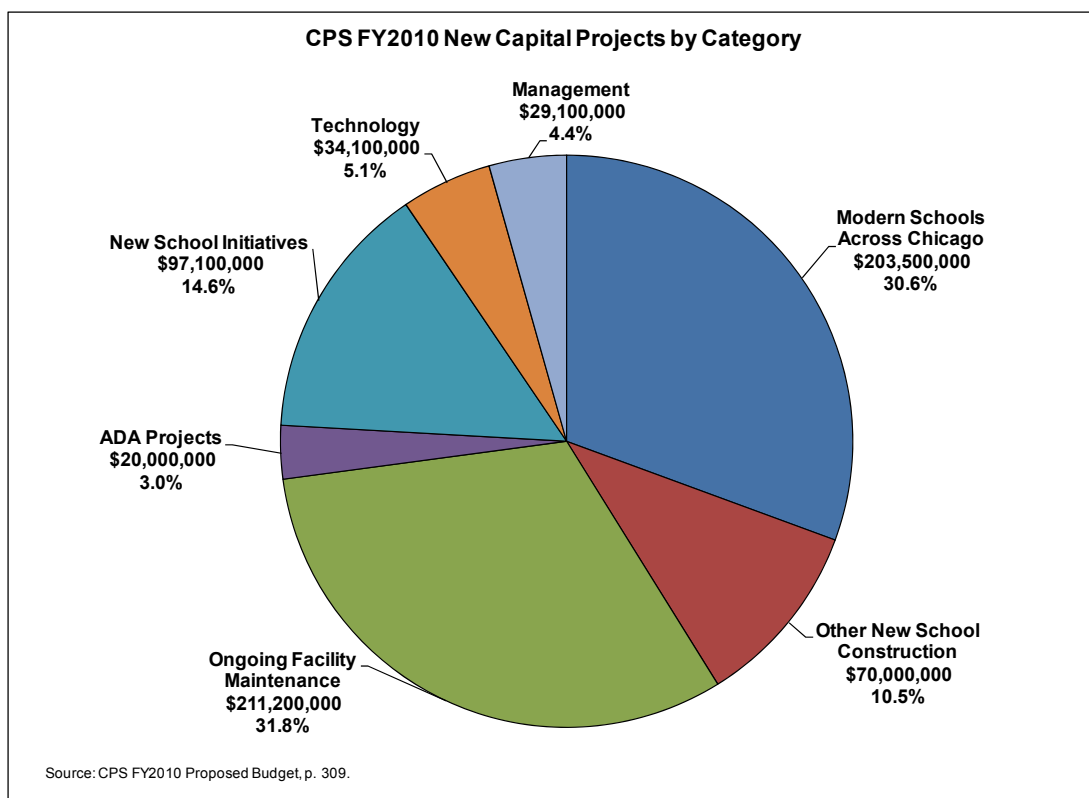
<sup>90</sup> CPS FY2010 Proposed Budget, pp. 309-310.

provide investors with federal tax credits rather than interest payments; issuers save considerable sums because they only have to repay the bond principal and issuance cost.<sup>91</sup>

- Qualified Zone Academy Bonds (QZABs), which are intended to provide \$2.8 billion in interest free bonding for the states. CPS will use \$21.0 million in QZABs in FY2011 for school renovation.

### ***New CPS Capital Projects***

New CPS capital projects proposals for FY2010 by category are shown in the next chart. The largest amount, or \$211.2 million, will be spent on ongoing facility maintenance. Over \$203.5 million, or 30.6% of the \$665.0 million, to be spent are earmarked for the Modern Schools Across Chicago program.



The exhibit below shows the planned uses of bond issuances over the next three fiscal years. A total of \$1.8 billion in bonds will be issued during this period. Approximately 52.5% of these funds will be used for new construction, 34.2% for ongoing facility maintenance, 10.1% for new schools initiatives and technology and 3.3% for projects required under the federal Americans with Disabilities Act. The District estimates that total capital needs between FY2009 and FY2012 will be \$4.5 billion. As funding will be available only for \$1.8 billion of this amount, unmet capital needs are estimated as \$3.2 billion.<sup>92</sup>

<sup>91</sup> Yvette Shields. "Chicago Schools Looks to Build America Bonds, QSCBs," *The Bond Buyer*, August 13, 2009.

<sup>92</sup> CPS FY2010 Budget, p. 311.

<b>Sources and Uses of CPS Capital Program Bond Proceeds</b>				
<b>(in \$ millions)</b>				
	<b>FY2010 Proposed</b>	<b>FY2011 Projected</b>	<b>FY2012 Projected</b>	<b>Total</b>
<b>Sources</b>				
Local Bond Proceeds	\$665.0	\$600.0	\$550.0	\$1,815.0
<b>Uses</b>				
New Construction	\$275.0	\$400.0	\$277.0	\$952.0
Ongoing Facility Maintenance	\$240.0	\$180.0	\$200.0	\$620.0
ADA Projects	\$20.0	\$20.0	\$20.0	\$60.0
New Schools Initiatives & Technology	\$130.0	\$0.0	\$53.0	\$183.0

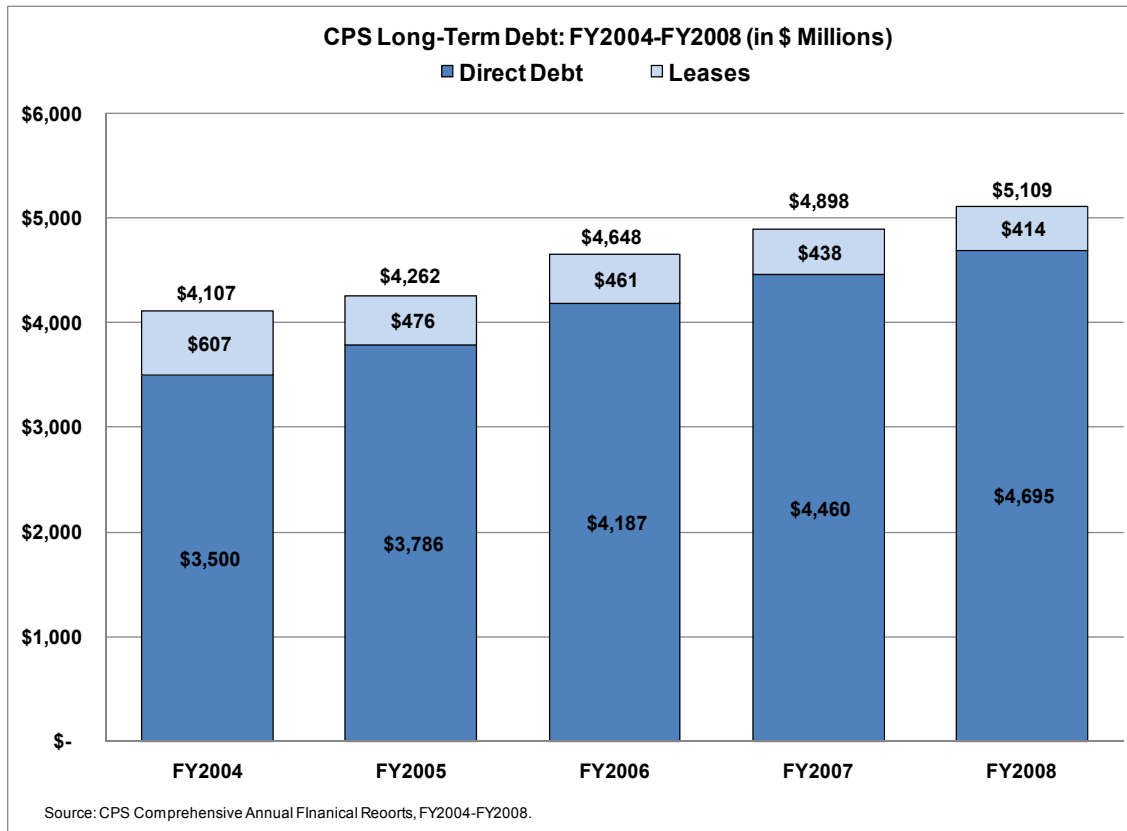
Source: CPS FY2010 Budget, p. 311.

### **Long-Term Debt**

Long-term debt comprises long-term direct debt and other forms of debt such as installment purchase agreements (leases), sales and motor fuel tax revenue bonds, and Tax Increment Financing and Special Service Area bonds. For the Chicago Public Schools, long-term debt includes unlimited tax General Obligation bonds, Qualified Zone Academy Bonds, State Technology Revolving Loan funds and Asbestos Abatement Loans and Public Building Commission leases secured by property tax revenues or State of Illinois school construction grants.<sup>93</sup> It excludes other long-term liabilities such as accrued sick pay benefits, accrued vacation pay benefits, accrued workers' compensation benefits, accrued general and automobile claims, tort liabilities and unfunded pension obligations.

Chicago Public Schools long-term debt increased by 24.4% between FY2004 and FY2008. This represents a \$1.0 billion increase from \$4.1 billion to \$5.1 billion. While direct tax supported debt increased by 34.1% during this five-year time period, the amount outstanding for capital leases declined from \$607 million to \$414 million or by 31.8%. The overall high rate of increase in long-term debt bears watching, particularly as the CPS faces continuing challenges in meeting its rising expenditures in areas such as personnel and retirement costs.

<sup>93</sup> CPS FY2008 Comprehensive Annual Financial Report, Notes 8 and 9.

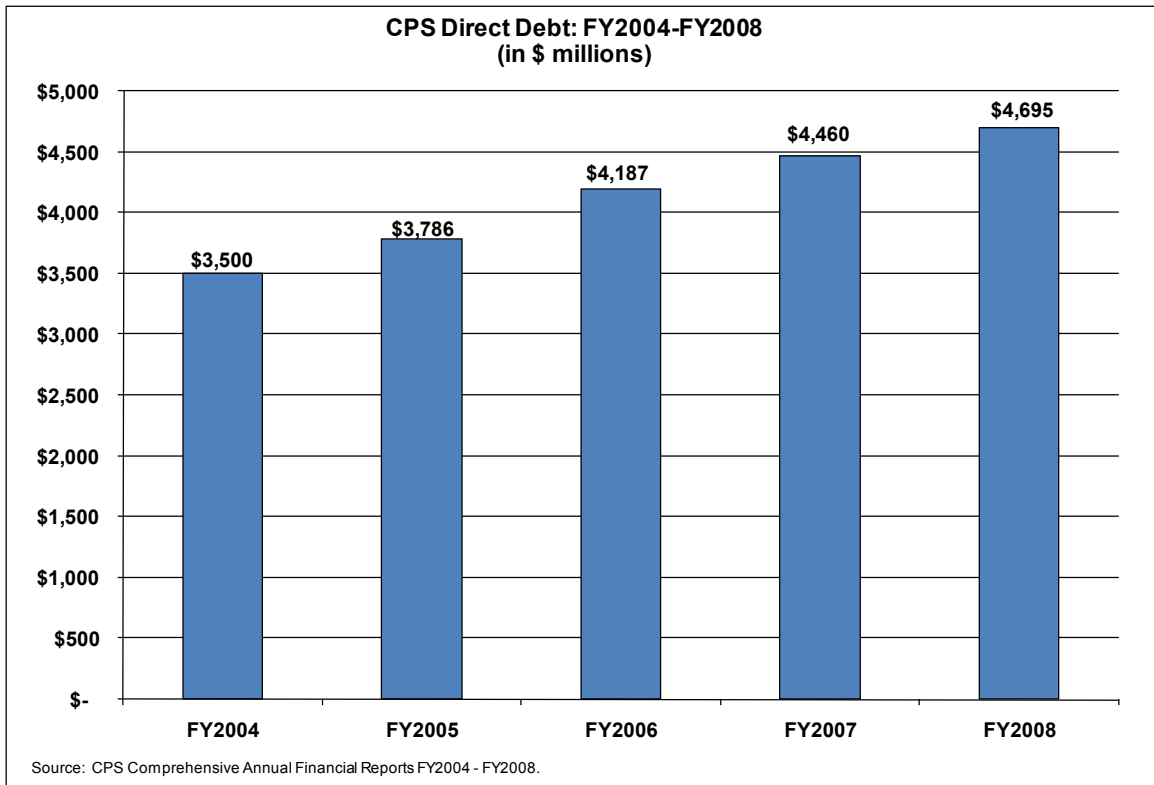


### ***Direct Debt***

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

Chicago Public Schools direct debt includes unlimited tax General Obligation bonds, Qualified Zone Academy Bonds, State Technology Revolving Loan funds and Asbestos Abatement Loans. It excludes lease payments.<sup>94</sup> Between FY2004 and FY2008, the direct debt burden of the Chicago Public Schools increased from \$3.5 billion to nearly \$4.7 billion. This is a \$1.2 billion or 34.1% increase. The increase reflects the District’s large capital construction program over the past several years.

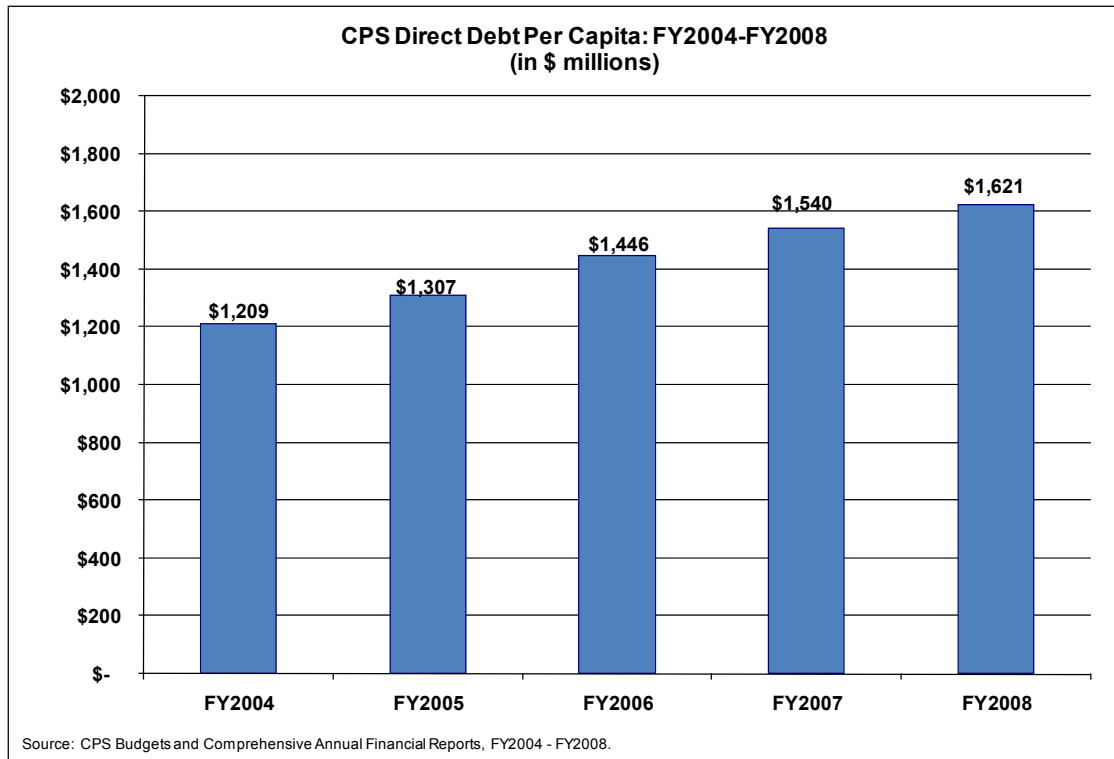
<sup>94</sup> Information for direct debt from Note 8 (Long Term Debt) in CPS *Comprehensive Annual Financial Reports*.



### ***Direct Debt Per Capita***

Direct debt per capita is a measure of a government's ability to maintain its current financial policies, and direct debt indicators are commonly used by rating agencies to measure debt burden across governments. Essentially, this indicator takes the Chicago Public Schools' total direct debt amount per year and divides it by the population of the jurisdiction. Increases bear watching as a potential sign of increasing financial risk in much the same manner as total direct debt figures. CPS direct debt per capita increased by 34.1% between FY2003 and FY2007, from \$1,209 to \$1,621. It rose by 5.3% between FY2007 and FY2008.





### CPS Bond Ratings

In 2009 all three rating agencies affirmed the District’s ratings, with Fitch Ratings assigning an A-plus with a positive outlook credit rating to the District, Moody’s Investor Service rated the District’s credit A1 and Standard & Poor’s rating it AA-minus. The credit rating decisions made by the three agencies were based on the District’s capital plan, the city’s diverse economic base and a moderately high debt burden.<sup>95</sup>

### TEACHERS’ PENSION FUND

Chicago public school teachers are enrolled in the Public School Teachers’ Pension and Retirement Fund of Chicago. All non-teaching employees are enrolled in the City of Chicago’s Municipal Employees’ Annuity and Benefit Fund.<sup>96</sup> The data presented below are for the Teachers’ Pension Fund only.

In FY2008, the Teachers’ Pension Fund had just over 56,000 members, including 23,920 retirees and beneficiaries receiving benefits and 32,089 current members. Since FY2004, total membership has decreased by 1.1% or 622 members. However, while there has been an increase in the number of retirees receiving benefits, the number of current members has declined. The number of retirees and beneficiaries receiving benefits increased by 24.2% or 4,654 members since FY2004, while the number of current members has declined by 14.1% or 5,276 members. The ratio of current members to retirees fell from 1.9 in FY2004 to 1.3 in FY2008.

<sup>95</sup> Yvette Shields, “Chicago Schools Looks to Build America Bonds, QSCBs.” *The Bond Buyer*, August 13, 2009.

<sup>96</sup> 40 ILCS 5/8-110

CPS Teachers' Pension Fund Membership FY2004 - FY2008			
Fiscal Year	Retirees & Beneficiaries Receiving Benefits	Current Members	Total
FY2004	19,266	37,362	56,628
FY2005	20,954	37,521	58,475
FY2006	22,105	34,682	56,787
FY2007	23,623	32,968	56,591
FY2008	23,920	32,086	56,006

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

Sources: Chicago Teachers' Pension Fund Annual Financial Reports, FY2008 Actuarial Valuation, p. 2.

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 are shown in the exhibit below.

**State Appropriations:** The State of Illinois has traditionally provided a sum of \$65 million annually. However, for FY2010 the State will reduce its appropriation by 50%, contributing only \$32.5 million. This is in contrast to 40 ILCS 5/17-127 which declares the General Assembly's "goal and intention" to contribute an amount equivalent to 20% or 30% of the contribution it makes to the downstate Teachers Retirement System.<sup>97</sup> That amount would be roughly \$482 million.<sup>98</sup>

**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%. The required additional State contribution for FY2010 is \$10.1 million. However, the State will reduce this appropriation by 50%, contributing only \$5.0 million.

<sup>97</sup> The downstate Teachers Retirement System covers all public school teachers in Illinois except those in the Chicago Public Schools.

<sup>98</sup> Chicago Public Schools FY2010 Budget, p. 52.

**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.

In FY2010, the required CPS contribution will be \$307.5 million. This is a steep \$129.7 million, or 72.9% increase over FY2009. This contribution has increased twenty-fold since FY2006, when the required CPS contribution was only \$15.8 million. As noted above, the State has appropriated only 50% of its contributions to the pension fund, so its contribution will total \$37.5 million in FY2010. Because this 50% reduction was announced after the CPS required contribution had already been certified, it will not affect CPS’ required contribution for FY2010.<sup>99</sup>

<b>Required Employer Contributions to Teachers' Pension Fund FY2006-FY2010</b>					
	<b>FY2006</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010</b>
<b>Total Required Employer Contribution</b>	<b>\$ 114,721,000</b>	<b>\$ 167,245,000</b>	<b>\$ 227,319,000</b>	<b>\$ 263,002,000</b>	<b>\$ 393,266,000</b>
State Appropriations	\$ 65,000,000	\$ 65,000,000	\$ 65,000,000	\$ 65,000,000	\$ 65,000,000
Additional State Appropriations (P.A. 90-582)	\$ 9,877,000	\$ 10,242,000	\$ 10,218,000	\$ 9,778,000	\$ 10,058,000
Additional CPS Contribution (P.A. 90-582)	\$ 10,530,000	\$ 10,920,000	\$ 10,894,000	\$ 10,426,000	\$ 10,723,000
Other Employer Contributions*	\$ 13,494,000	\$ 11,663,000	\$ 20,646,000	\$ -	\$ -
<b>CPS Required Contribution (1-2-3-4-5) Under P.A. 89-15</b>	<b>\$ 15,820,000</b>	<b>\$ 69,420,000</b>	<b>\$ 120,561,000</b>	<b>\$ 177,798,000</b>	<b>\$ 307,485,000</b>

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

Sources: Chicago Teachers' Pension Annual Financial Reports, FY2008 Actuarial Valuation, p. 2.

## 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.<sup>100</sup> 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 FY2010

In FY2010, the State of Illinois will contribute only \$37.5 million to the Teachers’ Pension Fund. This represents a 50% reduction from its typical contribution.<sup>101</sup> The CPS proposes to

<sup>99</sup> The annual required employer contribution is certified on February 28 of each year. 40 ILCS 5/17-129.

<sup>100</sup> Chicago Public Schools FY2005 Budget, p. 72.

<sup>101</sup> Chicago Public Schools FY2010 Budget, p. 52.

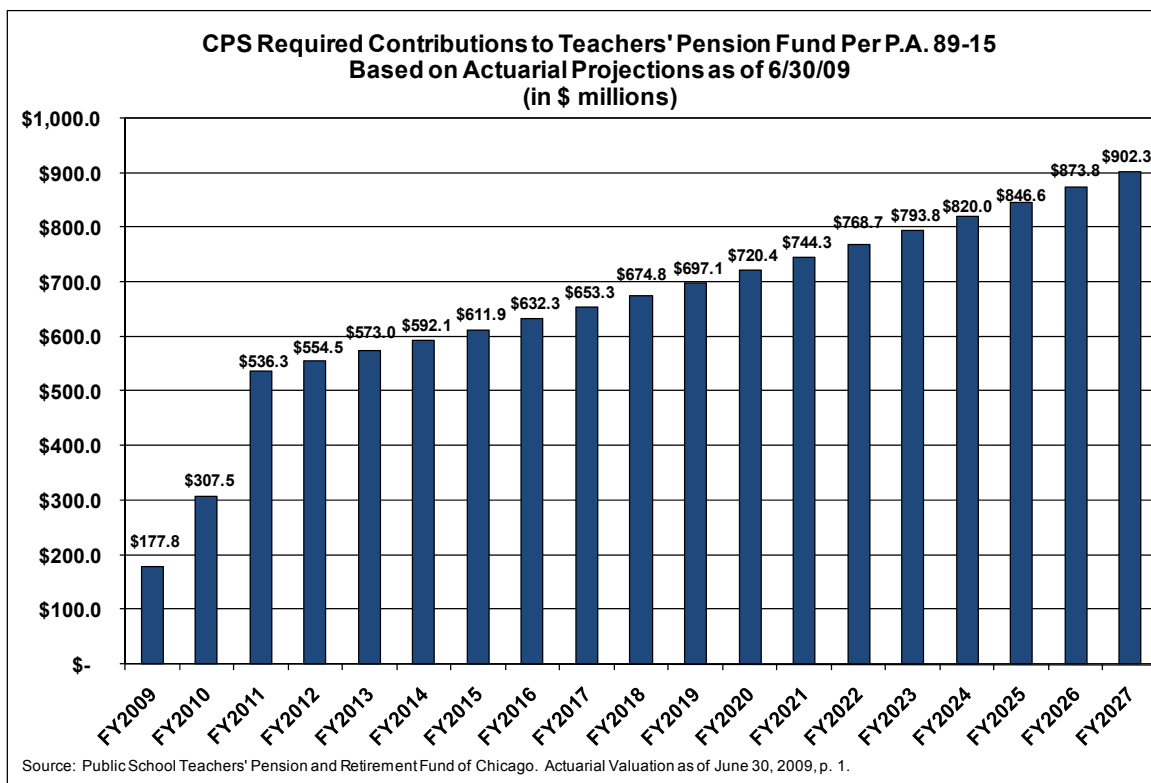
appropriate a total of \$608.7 million for teacher and educational support personnel retirement costs. This is a \$232.9 million, 62.0% increase from the FY2007 proposed budget. Approximately \$510.9 million will be appropriated for the Teachers' Pension Fund. This represents a \$219.4 million, 75.3% increase from four years ago. The primary reason for the increase is the requirement of PA 89-15 that the CPS contribute additional funds increase the total assets of the Teachers Pension Fund up to 90% of the total actuarial liabilities by the end of FY2045.

<b>CPS Budgeted Retirement Benefit Appropriations: FY2007-FY2010</b>						
<b>(in \$ millions)</b>						
<b>Type</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010</b>	<b>\$ Change (4 Year)</b>	<b>% Change (4 Year)</b>
Teachers' Pensions	\$ 291.5	\$ 349.3	\$ 400.4	\$ 510.9	\$ 219.4	75.3%
Educational Support Personnel	\$ 84.3	\$ 89.7	\$ 96.7	\$ 97.8	\$ 13.5	16.0%
<b>Total</b>	<b>\$ 375.8</b>	<b>\$ 439.0</b>	<b>\$ 497.1</b>	<b>\$ 608.7</b>	<b>\$ 232.9</b>	<b>62.0%</b>

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

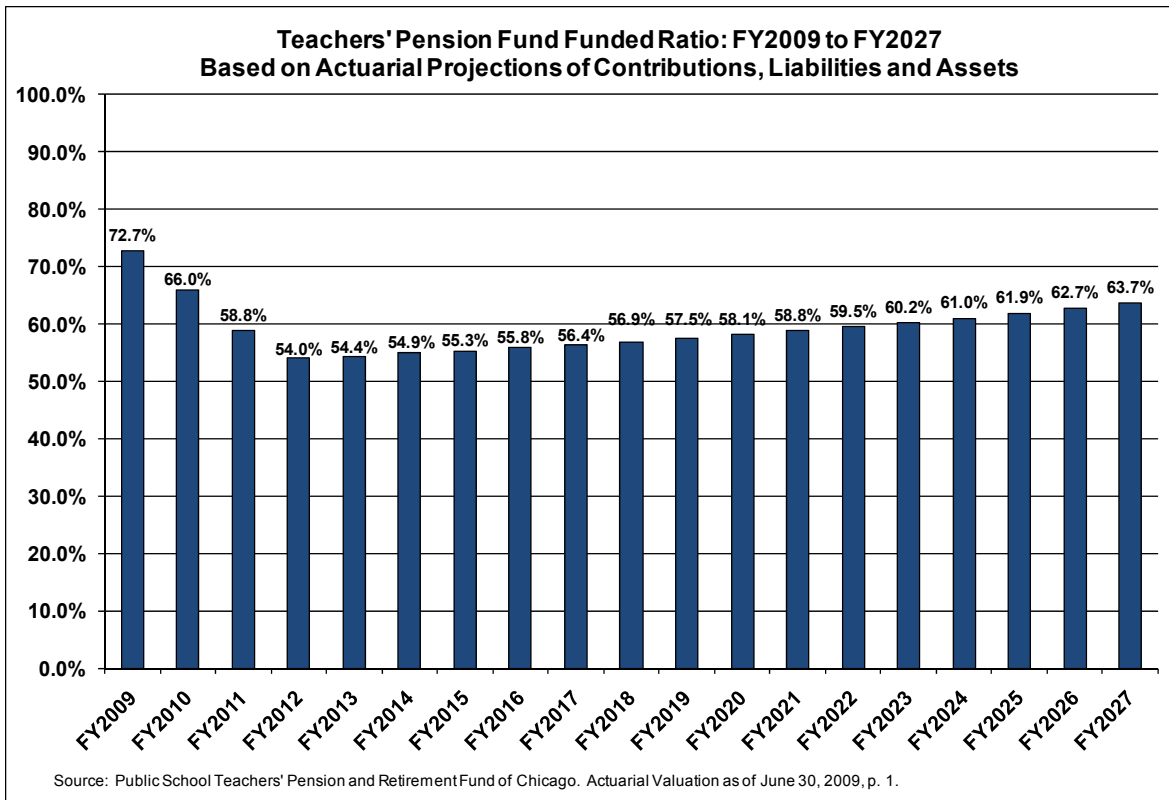
### Future Actuarial Projections of CPS Funding Costs

The CPS faces mounting pension costs in future years, according to the actuarial valuation report based upon the market value of assets as of June 30, 2009.<sup>102</sup> The exhibit below shows estimates of required CPS contributions to the Pension Fund from FY2009 to FY2027. During that time period, the CPS required contribution per year will rise from \$177.8 million to \$902.3 million.



<sup>102</sup> Public School Teachers' Pension and Retirement Fund of Chicago. Actuarial Valuation as of June 30, 2009.

The Actuarial Valuation Report estimates that the Teachers Pension Fund’s funded ratio will remain below 80% between FY2009 and FY2027, falling from 72.7% in FY2009 to 63.7% in FY2027. It will reach an 80% funded ratio in FY2040.<sup>103</sup>



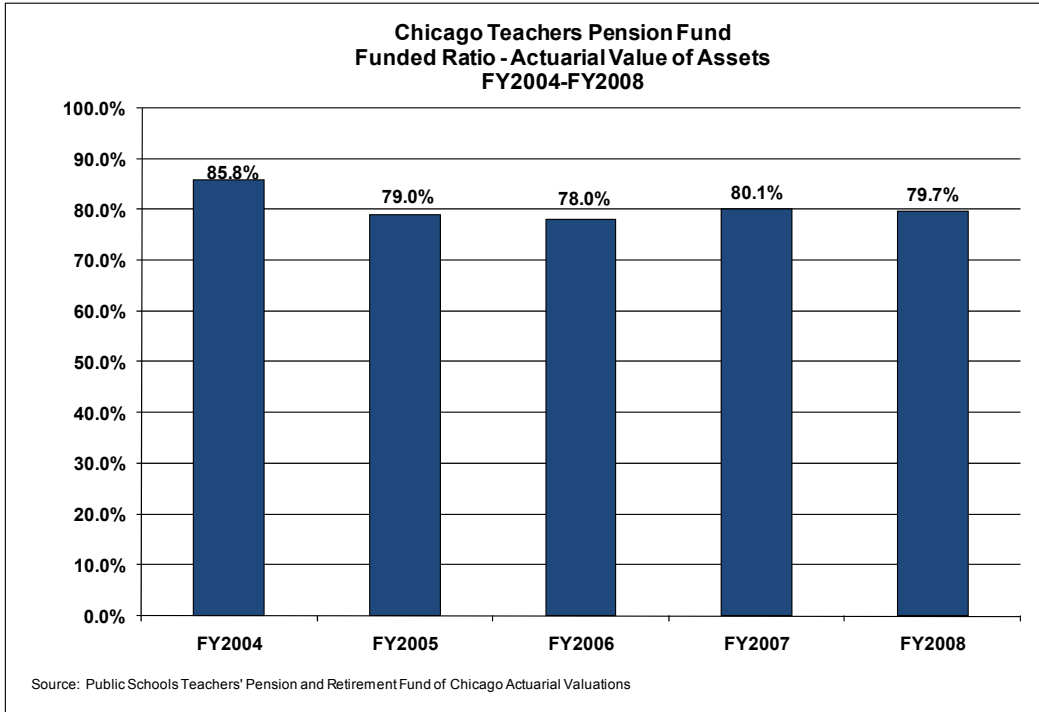
### Pension Fund Indicators

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*

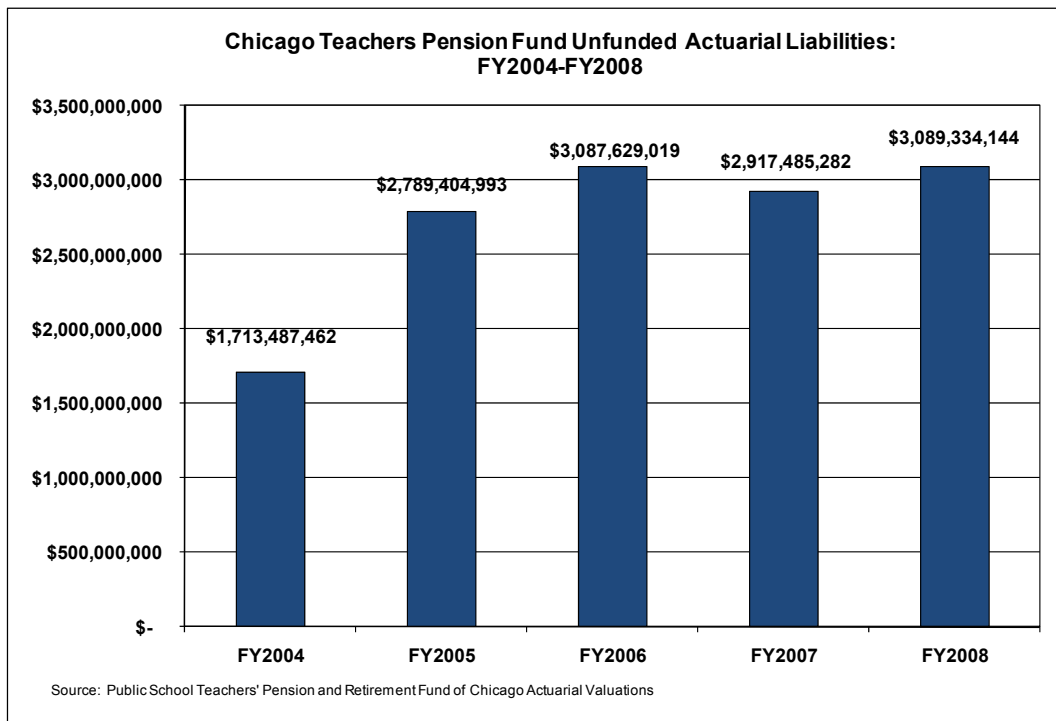
The following exhibit shows the funded ratio as reported for the actuarial value of assets for the Chicago Public Schools Teachers’ pension fund. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting future obligations. The funded ratio fell from 85.8% in FY2004 to 78.7% in FY2008. This ratio is projected to fall over the next several years (see previous graph) as the effects of the 2008-2009 market decline are gradually reflected in the actuarial assets of the fund.

<sup>103</sup> Public School Teachers’ Pension and Retirement Fund of Chicago, Actuarial Valuation as of June 30, 2009, p. 1.



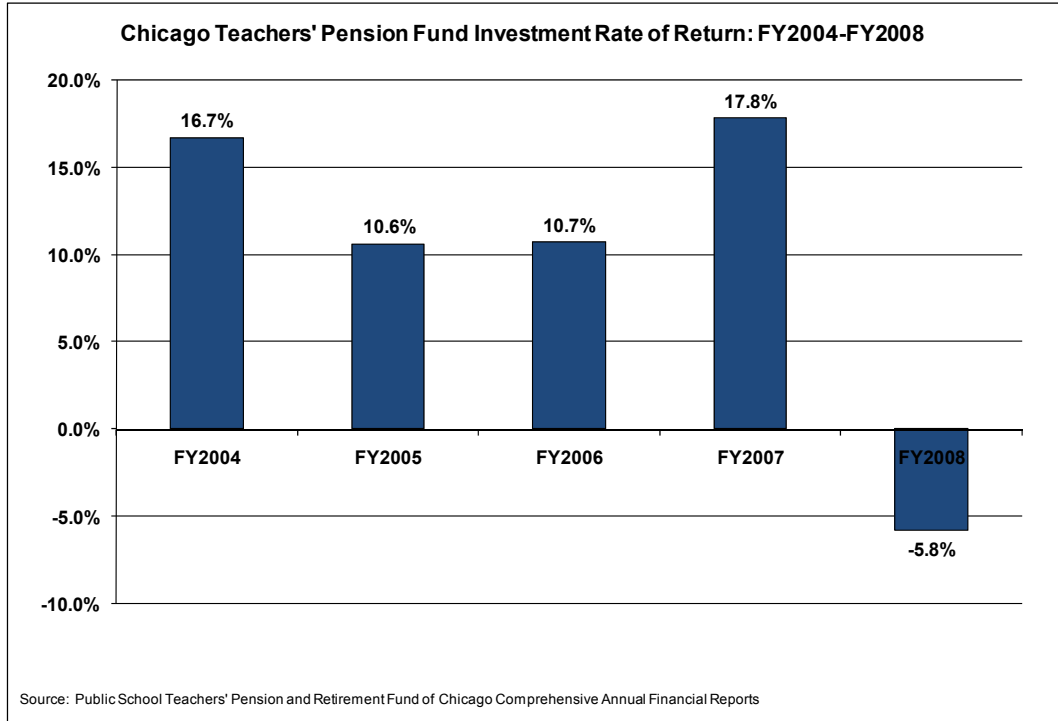
### *Unfunded Pension Liabilities*

Unfunded liabilities are the dollar value of pension liabilities not covered by assets. As the exhibit below shows, unfunded liabilities for the Chicago Public Schools Teachers' pension fund totaled approximately \$3.1 billion in FY2008. Since FY2004, unfunded liabilities have increased by 80.3%, rising by \$1.4 billion or from \$1.7 billion to \$3.1 billion.



### ***Investment Rates of Return***

Investment returns for the pension fund were positive from FY2004 to FY2007, reaching a high of 17.8% in FY2007. The rate of return fell to -5.8% in FY2008 (from July 1, 2007 to June 30, 2008).



### **Summary of Key Teachers' Pension Fund Benefits**

The following information provides a summary of key benefits provided by the Teachers' Pension Fund.<sup>104</sup>

**Post-Retirement Increases:** Retirees receive an automatic annual increase equal to 3% of the current amount of the pension received. Increases accrue from the anniversary date of retirement or the 61<sup>st</sup> 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.

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

<sup>104</sup> Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation as of June 30, 2008, pp. 22-24.

#### 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.

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

#### **OTHER POST EMPLOYMENT BENEFITS (OPEB)**

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

The Chicago Public Schools Pension Fund began reporting information about other post employment benefits (OPEB) in its FY2007 CAFR as required by GASB Statement Number 43. Total payments from the Pension Fund to reimburse retirees may not exceed 75% of total retiree health insurance costs.<sup>105</sup> In recent years, the Fund has provided reimbursements of 70% of the total cost of health insurance coverage. The Illinois Pension Code limits total annual payments to \$65 million per year plus amounts authorized in previous years but not spent.<sup>106</sup> In FY2008, the Teachers’ Pension Fund spent \$68.7 million on OPEB.<sup>107</sup>

In FY2008, a total of 15,166 retirees and beneficiaries were receiving health insurance benefits. 3,479 terminated employees were entitled to OPEB benefits but were not yet receiving them.<sup>108</sup>

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

The next exhibit shows the funded status of the CPS’s OPEB plan. The total actuarial liability grew from \$2.0 billion in FY2007 to \$2.4 billion in FY2008. Assets as a percentage of the actuarial liability were 2.3% in FY2007 and 1.9% in FY2008. These percentages reflect the

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<sup>105</sup> 40 ILCS 17-147.1; FY2007 Public School Teachers’ Pension and Retirement System of Chicago Comprehensive Annual Financial Report, p. 76.

<sup>106</sup> 40 ILCS 17-147.1

<sup>107</sup> FY2008 Public School Teachers’ Pension and Retirement System of Chicago Statement of Changes in Plan Net Assets (unaudited, provided to Civic Federation by pension fund).

<sup>108</sup> Public School Teachers’ Pension and Retirement Fund of Chicago, Actuarial Valuation as of June 30, 2008, p. 2.



large size of the unfunded actuarial liability for CPS OPEB: \$1.9 billion in FY2007 and \$2.4 billion in FY2008. The actuarial assumptions used included a 4.5% discount rate and an annual healthcare cost trend rate which is projected to rise from 5.0% in 2009 to 8.0% in 2010 and then fall by 0.5% per year to 5.0% in 2016.<sup>109</sup>

<b>Funded Status of the Chicago Public Schools Pension Fund Other Post Employee Benefit (OPEB) Plan</b>				
	<b>Total Actuarial Liability</b>	<b>Actuarial Value of Assets</b>	<b>Unfunded Actuarial Liability (UAL)</b>	<b>Assets as a % of Actuarial Liability</b>
<b>FY2006</b>	\$2,373,773,770	\$41,057,585	\$2,332,716,185	1.7%
<b>FY2007</b>	\$2,022,007,643	\$47,401,758	\$1,974,605,885	2.3%
<b>FY2008</b>	\$2,407,122,492	\$44,989,385	\$2,362,133,107	1.9%

Source: Public School Teachers' Pension and Retirement Fund of Chicago. Actuarial Valuation as of June 30, 2008, p. 15.

### **Retiree Health Insurance Benefits**

Retired CPS teachers and eligible dependents are permitted to enroll in one of three healthcare coverage options: Blue Cross/Blue Shield PPO, Humana HMO, or HMO Illinois. The Public School Teachers' Pension and Retirement Fund of Chicago (also called the Chicago Teachers' Pension Fund, or CTPF) provides a "rebate" for a significant portion of the monthly premiums owed by those who enroll. The rebate only applies to the retired teacher's portion of these insurance policies, not to the addition cost of enrolling eligible dependents. The rebate does apply, however, to eligible dependents who are survivors of deceased retirees. In 2007 the pension fund rebated 70% of the retiree cost for an individual policy.<sup>110</sup>

The following exhibit shows the extent to which the aggregate cost of the Pension Fund's health insurance subsidy has increased over the past decade. From 1999 to 2008, total insurance premium rebates paid increased by 212.0% or \$46.7 million.

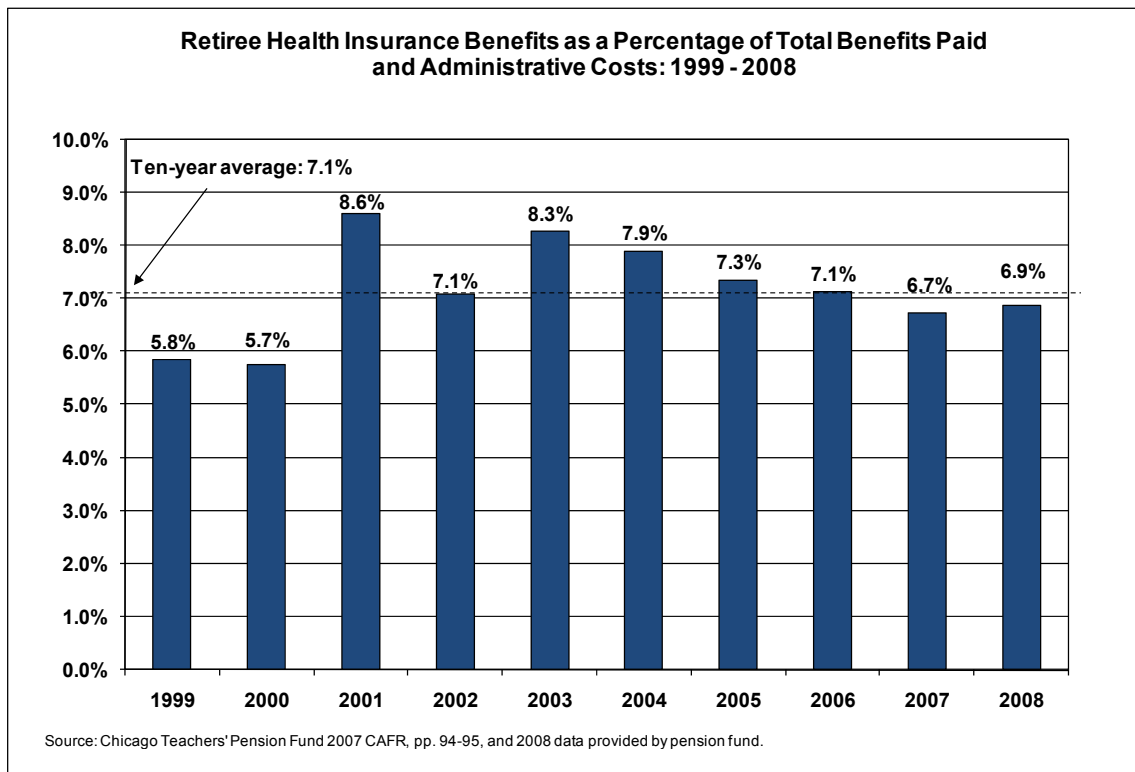
<sup>109</sup> Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation as of June 30, 2008, p. 6.

<sup>110</sup> Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation as of June 30, 2008, p. 4.

<b>Health Insurance Premium Rebates Paid to Retired CPS Teachers: 1999 - 2008</b>		
<b>Year</b>	<b>Health Insurance Benefits Paid</b>	<b>% Change over Previous Year</b>
1999	\$ 22,013,995	--
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%
2005	\$ 54,410,887	2.5%
2006	\$ 58,279,900	7.1%
2007	\$ 61,028,841	4.7%
2008	\$ 68,691,191	12.6%
<b>Ten-Year Change</b>	<b>\$ 46,677,196</b>	<b>212.0%</b>

Source: Chicago Teachers' Pension Fund 2007 CAFR, pp. 94-95, and 2008 data provided by pension fund.

From 1999 to 2008 health insurance has constituted an average of 7.1% of the Pension Fund's total expenditures on all benefits and administrative expenses per year.<sup>111</sup> In 2008 health insurance rebates constituted 6.9% of all benefit and administrative expenses.



<sup>111</sup> Total benefits paid include retirement, disability, refunds (for separation, death or other causes), death benefits, and health insurance. The total figure used in the following table also includes the administrative cost of the fund. Public School Teachers' Pension and Retirement Fund of Chicago CAFR 2007, p. 94.

A comparison of health insurance payments for current CPS teachers and for retired teachers' rebates between 2004 and 2008 shows that Pension Fund insurance payments rose by 29.4% while the CPS's insurance payments increased by 13.7%.

<b>Health Insurance Payments for Retirees v. Payments for Active Teachers: FY2004 &amp; FY2008 (in \$ millions)</b>				
	<b>FY2004</b>	<b>FY2008</b>	<b>\$ Change</b>	<b>% Change</b>
<b>CTPF Health Insurance Rebates</b>	\$ 53.1	\$ 68.7	\$ 15.6	29.4%
<b>CPS Health Insurance Payments</b>	\$ 229.0	\$ 260.4	\$ 31.4	13.7%

Sources: CPS FY2010 Budget, p. 74, Chicago Teachers' Pension Fund FY2007 CAFR, pp. 94-95, and 2008 data provided by pension fund.