THE CIVIC FEDERATION

CHICAGO PUBLIC SCHOOLS FY2023 PROPOSED BUDGET:

ANALYSIS AND RECOMMENDATIONS

for more information, visit civicfed.org/CPS_FY2023

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EXECUTIVE SUMMARY

The Civic Federation **opposes** the Chicago Public Schools (CPS) proposed budget of $9.5 billion for FY2023 because the District has not provided sufficient justification for raising its property tax to the maximum amount of 5% allowed under the Property Tax Extension Limitation Law (PTELL) by $140 million at a time when taxpayers already face serious economic strains and when CPS has alternative options available.

Property taxpayers have already shouldered a significant burden that has helped restore CPS to financial stability, including the dedicated teachers' pension levy and annual maximum property tax increases. When CPS was in financial crisis, it had few alternatives to these property tax increases. The Civic Federation supported these increases as well as the restoration of the teachers' pension levy because they were critical for the District's financial sustainability. Now that CPS is in stronger financial shape, however, it is imperative that it balance its financial needs against all taxing bodies' collective impact on taxpayers. In particular, CPS should rein in expenditure growth, given falling enrollment and the slower rate of growth of its revenue sources.

Therefore, the Civic Federation **calls on CPS to implement a more moderate property tax levy for the coming year and instead use a combination of federal funding, spending reductions and other sources to balance its budget**. The Federation is well aware that CPS is facing difficult choices ahead as federal funds run out and that it must find recurring sources to close future gaps. However, the District must also be aware of its impact on taxpayers during a time when high rates of inflation are impacting household budgets and property taxes are not tied to a homeowner or business owner's ability to pay. If CPS were to reduce its education fund levy for the next fiscal year, the Federation could potentially support this budget because there are many positive elements that improve its overall financial outlook, as discussed below.

Despite the challenges brought on by COVID-19, CPS has continued to make significant strides toward structural balance and financial stability over the last several years. The Federation was a strong and early supporter of the federal government providing historic financial assistance to states and local governments to mitigate the impacts of the COVID-19 pandemic. Federal pandemic relief funding of $730 million included in this year's proposed budget will enable CPS to support academic and social and emotional learning (SEL) programs that will help the students most impacted by the school closures and other disruptions caused by the pandemic. Additionally, increases in State funding to CPS through the evidence-based funding formula (EBF) and the above-mentioned dedicated pension levy have all contributed to putting the District on stronger financial footing, including a much improved budgetary reserve and cash position that will help the District to weather challenges such as late property tax bills that previously would have put CPS on a crisis footing.

Despite the federal surge in funding, Chicago Public Schools still has major long-term budgetary issues that need to be addressed:

- Spending and personnel continue to increase with no apparent cost containment strategies;
- Student enrollment continues to decline, with enrollment losses in certain areas of the city and increases in others have resulted in building utilization imbalances; and
- The District's underfunded teachers' pensions continue to be a source of concern as they draw more property tax and general fund revenue to make up for past underfunding and inequitable funding from the State of Illinois.

All of these trends are occurring with no public long-term financial plan outlining how the District will address its challenges going forward. The Civic Federation is encouraged that the District's financial position has improved, but urges the Board of Education to put spending controls in place now and plan for long-term financial sustainability, especially ahead of a 21-member elected school board taking over governance of the District, to be phased in beginning in 2024.

The Civic Federation offers the following **key findings** from Chicago Public Schools' FY2023 Proposed Budget:

- The FY2023 proposed total spending plan for all funds of $9.5 billion is an increase of $236.0 million, or 2.5%, from the FY2022 adopted budget of $9.3 billion;
- Proposed FY2023 appropriations for general operating purposes of $8 billion are an increase of $172.1 million, or 2.2%, above the FY2022 operating budget of $7.8 billion;
- The FY2023 proposed capital budget of $764.5 million is an increase of $57.9 million, or 8.2% from the prior year. The debt service budget of $769.4 million represents an increase of $6 million from the FY2022 adopted budget;
- Property tax revenue is projected to increase by $310.8 million, or 9.2%, over the prior year budget to $3.8 billion in FY2023;
- CPS is budgeting for a total of 43,377 Full-Time Equivalent (FTE) positions in FY2023. This is an increase of 1,621 positions, or 3.9%, from the prior year. Over the past five years, personnel has increased by 17%, or 6,269 positions;
- Salary expenses of $3.3 billion in FY2023 are an increase from the prior year budget of $211.8 million, or 6.9%. Benefit expenses are expected to be nearly $1.9 billion in FY2023, an increase of $139.0 million, or 8.0% from the FY2022 budget;
- Student enrollment has declined by 18.1%, or 73,050 over the past ten years, from 403,461 students in FY2013 to 330,411 in FY2022. Over this ten-year period, preschool enrollment decreased by 37%, K-8 enrollment declined by 56,277 or 21.1%, and high school enrollment declined by 7,696 students or 6.8%;
- CPS will again rely on short-term borrowing through Tax Anticipation Notes (TANs), but the reliance on TANs has decreased from $1.55 billion in FY2017 to $900 million in FY2022. The budgeted interest cost for short-term borrowing was $12 million in FY22 and is budgeted at $9 million in FY2023;
- The District's long-term debt increased by 34.0% in the ten years from FY2012 through FY2021, rising from $5.6 billion to $7.5 billion in long-term debt (principal only) outstanding as of June 30, 2021;
- CPS is required to contribute $860.3 million to the Chicago Teachers' Pension Fund in FY2023. The State of Illinois will cover $308.7 million of that amount, including $295.3 million to cover the normal cost and retiree healthcare plus an additional statutorily required contribution of $13.4 million. Approximately $551.6 million of the CPS contribution will be covered by the dedicated property tax levy for teachers' pensions; and
- The Chicago Teachers' Pension Fund was 47.5% funded on an actuarial basis as of June 30, 2021, compared to 54.1% funded ten years prior. The Pension Fund had an Unfunded Actuarial Accrued Liability of $13.2 billion as of June 30, 2021, compared to $8.0 billion ten years prior.

The Civic Federation has the following **concerns** about the CPS FY2023 Proposed Budget and financial situation:

- Increasing the property tax levy to the maximum amount allowed under the Property Tax Extension Limitation Law of five percent;

- Sustainability of increased spending levels after ARPA ESSER Funds are expended;
- The District has not issued a multi-year Capital Improvement Plan in several years; and
- The 21-member elected school board will be phased in beginning in 2024.

The Civic Federation **supports** several aspects of the District's current financial position and Board procedures:

- Improved level of operating reserves;
- Improved cash position and reduced reliance on short-term borrowing;
- Federal funding provided to governments in response to the COVID-19 pandemic with ARPA ESSER I, II, and III funds;
- Releasing and approving the FY2023 proposed budget before the beginning of the fiscal year on July 1; and
- Allocating additional funds to cover the CPS employee members of the Chicago Municipal Employees Annuity and Benefit Fund (MEABF).

The Civic Federation makes the following **recommendations** to Chicago Public Schools and the Chicago Board of Education:

- Implement a more moderate property tax increase and instead use federal funds, expenditures reductions or both to fill in a portion of the $140 million the District expects to receive from the 5% tax levy increase;
- Issue a five-year capital improvement plan and provide more detail about project prioritization in the one-year capital plans;
- Work with the State to consolidate the Chicago Teachers' Pension Fund with the Teachers' Retirement System in order to achieve more equitable State pension funding;
- Extend the time period for review of the proposed budget before the public hearings and Board vote;
- Resume holding Finance Committee Meetings on a regular basis;
- Issue a five-year Capital Improvement Plan and provide more detail in the one-year capital plans;
- Work with the Illinois General Assembly to address issues with the 21-member school board legislation before it goes into effect;
- Include expenditures and personnel sections in the budget book; and
- Include actual revenues in the budget book.

CIVIC FEDERATION POSITION

The Civic Federation **opposes** the Chicago Public Schools proposed FY2023 budget of $9.5 billion because the District has not provided sufficient justification for raising its property tax levy to the maximum amount of 5% allowed under the Property Tax Extension Limitation Law (PTELL) by $140 million at a time when taxpayers already face serious economic strains and when CPS has alternative options available.

Property taxpayers have already shouldered a significant burden that has helped restore CPS to financial stability, including the dedicated teachers' pension levy and annual maximum property tax increases. When CPS was in financial crisis, it had few alternatives to these property tax increases. The Civic Federation supported these increases as well as the restoration of the teachers' pension levy because they were critical for the District's financial sustainability. Now that CPS is in stronger financial shape, however, it is imperative that it balance its financial needs against all taxing bodies' collective impact on taxpayers. In particular, CPS should rein in expenditure growth, given falling enrollment and the slower rate of growth of its revenue sources.

Therefore, the Civic Federation **calls on CPS to implement a more moderate property tax levy for the coming year and instead use a combination of federal funding, spending reductions and other sources to balance its budget**. The Federation is well aware that CPS is facing difficult choices ahead as federal funds run out and that it must find recurring sources to close future gaps. However, the District must also be aware of its impact on taxpayers during a time when high rates of inflation are impacting household budgets and property taxes are not tied to a homeowner or business owner's ability to pay. If CPS were to reduce its education fund levy for the next fiscal year, the Federation could potentially support this budget because there are many positive elements that improve its overall financial outlook, as discussed below.

Despite the challenges brought on by COVID-19, CPS has continued to make significant strides toward structural balance and financial stability over the last several years. The Federation was a strong and early supporter of the federal government providing historic financial assistance to states and local governments to mitigate the impacts of the COVID-19 pandemic. Federal pandemic relief funding of $730 million included in this year's proposed budget will enable CPS to support academic and, social and emotional learning (SEL) programs that will help the students most impacted by the school closures and other disruptions caused by the pandemic. Additionally, increases in State funding to CPS through the evidence-based funding formula (EBF) and the above-mentioned dedicated pension levy have all contributed to putting the District on stronger financial footing, including a much improved budgetary reserve and cash position that will help the District to weather challenges such as late property tax bills that previously would have put CPS on a crisis footing.

Despite the federal surge in funding, Chicago Public Schools still has major long-term budgetary issues that need to be addressed:

- Spending and personnel continue to increase with no apparent cost containment strategies;
- Student enrollment continues to decline, with enrollment losses in certain areas of the city and increases in others have resulted in building utilization imbalances; and
- The District's underfunded teachers' pensions continue to be a source of concern as they draw more property tax and general fund revenue to make up for past underfunding and inequitable funding from the State of Illinois.

All of these trends are occurring with no public long-term financial plan outlining how the District will address its challenges going forward. The Civic Federation is encouraged that the District's financial position has improved, but urges the Board of Education to put spending controls in place now and plan for long-term financial sustainability, especially ahead of a 21-member elected school board taking over governance of the District, to be phased in beginning in 2024.

ISSUES OF CONCERN

The Civic Federation has the following **concerns** regarding the FY2023 Proposed Budget.

Increasing the District's Property Tax Levy to the Maximum Amount Allowed Under the Property Tax Extension Limitation Law

The Property Tax Extension Limitation Law (PTELL), also known as "tax caps," generally limits growth of a non-home rule taxing district's property tax levy to either the rate of inflation from the prior year or 5%, whichever is less.[1] The Consumer Price Index (CPI) for FY2023 has been calculated to be 7%, which means that for the first time since PTELL went into effect in the 1990s, local governments will have the ability to increase their levies to the full 5% cap.[2] For FY2023, the District proposes to increase its education levy to the full 5% maximum, which will generate an estimated $140 million. The owner of a single family home in Chicago valued at $300,000 receiving the minimum homestead exemption of $10,000 would have seen an increase in their tax bill of approximately $112 due to such a property tax increase in 2020, the most recent year for which we have information about the CPS property tax base.[3] Total property tax revenue, including the pension levy, capital levy, new property and other sources will increase by $310.6 million or over 9% above last year's budgeted amount.

The Civic Federation is concerned that CPS proposes to increase its education levy by the maximum allowable limit of 5% given the economic pressures facing Chicago residents and businesses. This is the highest levy increase that CPS has imposed in 30 years. In addition to the 5% levy increase, the District also plans to generate another $110 million by levying for new property value and expiring TIF districts, a practice the Civic Federation has typically supported in past years. Chicago property taxpayers have already shouldered a significant additional property tax burden since 2017 to fund Chicago Teachers' pensions, in addition to previous years' education levy increases. Additionally, there are many other local governments that receive property taxes from Chicagoans and without consideration and restraint by taxing districts, taxpayers will face substantially increased burdens this year if all taxing bodies impose a maximum property tax increase. It is important to recognize that property taxes are not tied to a property owner's ability to pay and therefore taxing districts must be aware of how much of a burden they collectively place on their taxpayers.

[1] PTELL applies to non-home rule taxing districts in the 39 counties subject to the law, including Cook County since 1994. Some functions for which local governments collect property taxes are not subject to the tax cap, such as debt service. Additionally, governments can ask voters to approve increases higher than the PTELL limit via referendum. See Civic Federation, "What is a PTELL Referendum and How Does it Work?," September 13, 2019, for more about these referenda. https://www.civicfed.org/civic-federation/blog/what-ptell-referendum-and-how-does-it-work.
[2] CPS Proposed FY2023 Budget, p. 28.
[3] Note: this projection does not estimate the tax rate or equalized assessed value of property for 2022.

Before taking the momentous step of implementing a large tax increase, it is important that CPS explain why alternative revenue sources and/or spending cuts were not implemented. CPS has received a total of $2.8 billion in Elementary and Secondary School Emergency Relief Fund (ESSER) funds from the federal government, which have been partially allocated. For FY2023, the District plans to allocate $730 million in ESSER III funds to support academic and, social and emotional learning programming, leaving $807 million to support programming in coming years. CPS has in the past held the line on property taxes in light of residents' economic difficulties. In FY2009 and FY2010, for example, with Chicago residents facing the Great Recession, CPS held the line on property tax increases and instead reduced expenditures and considered other sources of revenue.[4]

The Civic Federation urges the District to reduce its property tax levy for the education fund in FY2023 and instead use additional federal funds, reduce operating expenditures or both to help balance the budget. It must also develop a long term plan to stabilize its finances after federal ESSER funds have been spent. CPS must consider the impact of its tax and spending decisions on taxpayers and the Chicago economy.

Sustainability of Increased Spending Levels After ARPA Funds Are Expended

While enrollment at CPS has been declining consistently over time, spending on personnel and other costs continue to rise. The Civic Federation is concerned about the District's ability to cover rising costs in future years, especially after federal COVID-19 relief funding ends.

In the ten years between FY2012 and FY2022, CPS lost 73,740 students, or 18.3% of the student population. During that period, enrollment fell from 404,151 students to 330,411 students in fall 2022. Over the five-year period from FY2019 to FY2023, personnel has increased by 6,269.8 full-time equivalent positions, or 16.9%. In the same five-year period, spending on salaries and other employee benefits is projected to increase by 29.3% or $1.2 billion. Salaries alone will increase by 28.9% or $735.8 million.

The District also has a massive capital footprint, with maintenance and construction costs covered by long-term debt issuances. The annual debt service budget to pay for the principal and interest on debt has increased by 22.2% over the past five years, from $629.6 million in FY2019 to $769.4 in FY2023.

While the Civic Federation recognizes that some spending increases are tied to contractual obligations in the collective bargaining agreement with the Chicago Teachers Union and statutorily required increases in pension contributions, there are many other increases in spending within the FY2023 budget that appear to be discretionary. At the same time, there is no apparent cost containment strategy over the long-term, as the budget and personnel levels continue to increase annually. The Federation is concerned that a continuation of these trends could be unsustainable over the long term. We urge the District to produce a public multi-year plan outlining revenue and expenditure scenarios and steps the District could take to reduce costs in less optimistic scenarios.

[4] See Civic Federation analyses of the FY2009 and FY2010 CPS budgets, available at civicfed.org.

CPS Has Not Issued a Multi-Year Capital Improvement Plan in Recent Years

The Federation remains concerned that the District continues to issue single-year capital plans without an adequate level of transparency about how the funds are to be allocated and prioritized. At the same time, CPS continues to issue debt to fund capital investments. CPS long-term tax supported debt increased by 34.0% between FY2012 and FY2021, rising from $5.6 billion to $7.5 billion. Annual debt service payments to cover paying down principal and interest on these long-term bonds increased by 22.2% in the five years from FY2019 to FY2023, from $629.6 million to $769.4 million.

Based on State statute CPS is supposed to prepare and publish a five-year capital improvement plan (CIP) on an annual basis. However, the last full five-year capital plan was published in FY2016. CPS does publish other planning documents such as the Educational Facilities Master Plan that provide helpful information and detail about CPS population shifts and school building utilization, but they do not provide any project-specific information to help the public understand whether capital funding allocations throughout the District are fair or justified. The FY2023 capital plan indicates that the District intends to spend $553 million annually over the next five years as part of its five-year capital investment strategy. The information provided in the FY2023 capital plan does not constitute a five-year capital plan. Further, the one-year FY2023 capital plan is insufficient to allow the CPS community to fully understand why certain projects are prioritized over others or how they are financed.

The 21-Member Elected School Board

The Civic Federation remains concerned about the 21-member elected school board that was passed by the Illinois General Assembly in June 2021 and signed by the Governor into law on July 29, 2021.[5] The current seven-member appointed board will be phased out and replaced with a 21-member hybrid board in 2024 and a fully elected board by 2027. The Civic Federation opposed this legislation for several reasons: the board will be too large to be effective; it will lead to expensive and divisive political campaigns funded by interest groups; it allows the legislature to create gerrymandered electoral districts; the board structure will not necessarily lead to improved educational outcomes; and it could create a potential financial disconnect between the City of Chicago and the Chicago Public Schools.

The Federation is concerned it will be difficult for the district's chief administrators, who manage the schools on a day–to-day basis, to satisfy the demands of 21 members. A 21-member board would be by far the largest in the nation. Most major urban school districts boards range from five to 13 members. Los Angeles, with a student population of 600,000, has seven elected school board members. New York City has the largest school board among major urban school districts, with 13 appointed members for a student population of over 1.1 million. In order for CPS to be accountable to parents, students and Chicago taxpayers, the school board should be a reasonable size of seven members. There is no research evidence showing that larger school boards are more effective. We believe Chicago should not be experimenting with such an unproven board model, especially when CPS has made significant gains in financial and educational student achievement with its current seven member Board.

[5] Public Act 102-0177.

The Federation is additionally concerned that such a large board will be too large to be effective. A large board will also be more expensive to operate as members could require professional staff.

There are also issues of financial entanglement between the City of Chicago and Chicago Public Schools. The City of Chicago provides significant funding to CPS. The FY2023 proposed CPS budget includes over $336.8 million in direct funding from the City of Chicago—including $53.6 million in pension contributions for CPS employees in the Chicago Municipal Retirement Fund, $142.3 million from a dedicated property tax levy used to pay for some debt service funding, $44 million for capital projects funding, and $96.9 million in Tax Increment Financing (TIF) Surplus revenue.

Legally separating the City of Chicago and the Chicago Public School raises questions about the ongoing financial responsibility of the City to the school district. No other Illinois city has a financial responsibility for its school system. Rather, each unit of local government is fully responsible for its own financial obligations. If the Chicago Public Schools is to become a fully independent government under State law, it is not clear that the City would or should be obligated to fund CPS pension, debt and other related costs. These issues need to be addressed before the legislation is implemented and time is running short.

Issues the Civic Federation Supports

The Civic Federation **supports** several aspects of the District's current financial position and Board procedures.

Improved Level of General Operating Reserves

The structural stability of Chicago Public Schools' budget has improved significantly over the past several years thanks to additional State, local and now federal funding sources. Public Act 100-0456, passed in August 2017, instituted the new Evidence-Based Funding formula for statewide P-12 education funding, as well as additional funding for the Chicago Teachers' Pension Fund normal cost[6] and an increase to the CPS property tax levy dedicated to teachers' pension funding. The COVID-19 pandemic increased costs to CPS for everything from cleaning schools to adjusting to remote learning to technology requirements. Thanks to the federal funding approved in 2020 and 2021 through ESSER I, II and III, CPS received significant federal funds to assist the District in covering those costs.

CPS began building back up its general operating reserves after depleting reserves between FY2013 and FY2015 to close operating budget gaps without making budget cuts. The District's "unrestricted" fund balance (fund balance without any spending constraints) in the General Operating Fund fell to negative levels in FY2016 and FY2017 due to the State of Illinois budget crisis. Since then, increased State of Illinois revenues from the adoption of Evidence-Based Funding, increased property tax revenues and federal ESSER funding have helped stabilize the CPS budget. The District's level of reserves has increased annually since FY2018. As of June 30, 2021, the unrestricted fund balance in the General Operating Fund was $738 million, up from $261.7 million in FY2018. The District estimates that it will begin the FY2023 year with an

[6] The normal cost is the annual cost of retiree benefits earned by employees in the current year. A portion of the State contribution goes to retiree healthcare costs.

operating fund balance of $1.0 billion, which is just short of its target level of $1.2 billion. Finally, the District will not use any of its fund balance in FY2023 to balance its budget.

Improved Liquidity and Reduced Reliance on Short-Term Borrowing

CPS' liquidity has improved over the last several years, which has reduced the District's need to rely on short-term borrowing for cash flow for the majority of the year. The District relies on short-term borrowing through Tax Anticipation Notes (TANs) to bridge periods of low revenue. The District reduced its use of short term borrowing by approximately $750 million, from a high of $1.5 billion in FY2017 to $800 million in FY2022. This has resulted in a decrease in associated interest costs as well, from $79 million in interest budgeted in FY2018 to $12 million in FY2022.

For the first time in several years, the District will end the 2022 fiscal year with no TANs outstanding. The District had previously ended the FY2021 year with $244 million in outstanding short-term borrowing and ended FY2020 with $500 million outstanding. However, the District expects to issue TANs in FY2023 due in part to Cook County's late issuance of second installment 2022 property tax bills. The District will appropriate $9 million in interest on TANs in FY2023.

While CPS' liquidity has improved, it is still not sufficient to cover the cash flow needed throughout the year, so the District will continue to rely on short-term borrowing to meet cash-flow needs. In order to cover the District's level of cash flow needed throughout the year to cover payroll and other ongoing expenses while awaiting large property tax receipts, CPS would need general operating reserves of approximately $1.2 billion.

Federal Funding Provided to Governments in Response to COVID-19 Pandemic

The Civic Federation supported federal COVID-19 funding relief to local government. The federal government has provided a significant surge in much-needed funding to CPS and other school districts that not only makes up for lost revenue, but provides significant funding for a multitude of purposes relating to ameliorating the impact of the pandemic. Without this funding, CPS' finances would be in significantly worse shape. In total, the District has received $2.8 billion, which will continue to be allocated over the next three years. The FY2023 proposed budget allocates $730 million in federal relief funding, leaving another $807 million in federal funds to spend over the course of the next two years. In FY2023, the District plans to allocate this funding toward a number of purposes:

- $404 million to support school-level funding for District priorities and other local-level needs;
- $230 million to support investments in academic recovery, social and emotional learning, and other student supports; and
- $96 million for school-based operational positions, other pandemic-related needs, and other contingent expenses.[7]

[7] CPS FY2023 Proposed Budget, p. 5-6.

FY2023 Proposed Budget in Place Before the Beginning of the New Fiscal Year

The Civic Federation supports the District releasing and scheduling approval of the FY2023 budget before the beginning of the new fiscal year on July 1. CPS released the FY2023 budget on June 7 and plans to vote on the budget on June 22 at the monthly Board of Education meeting. CPS budgets are generally released and approved after the start of the fiscal year because the District must wait for the State of Illinois to finish its budget, which usually happens at the end of May. The early release and approval of the FY2023 was made possible by the unusually early completion of the State of Illinois' FY2023 budget in April 2022. While state law imposes a deadline of 60 days after the start of the fiscal year for CPS to approve a budget, it is preferable for the District when possible to have its budget ready for the start of the new fiscal year.

Allocating Additional Funds to the Municipal Employees Annuity and Benefit Fund (MEABF)

The Municipal Employees Annuity and Benefit Fund (MEABF) is a City of Chicago pension annuity fund that was established to fund retirement for City of Chicago employees. The fund also covers non-teacher employees of Chicago Public Schools. Although Board of Education employees make up more than half of the membership of the Fund, the Board of Education is not legally obligated to fund the MEABF on an annual basis. However, FY2023 will mark the fourth year that the District has covered an increasing amount of the costs due to the Inter-Governmental Agreement (IGA) that the District has with the City.

Through this agreement, CPS will pay approximately 66% of the estimated contribution for CPS employees or $175 million to the City in the 2023 fiscal year.[8] This is an increase of $75 million from the prior year in which the District allocated $100 million to the Municipal Fund in FY2022. The Civic Federation has long recommended that Chicago Public Schools begin paying for its share of the Municipal Fund employer contribution. This alignment of employer contributions and pension funds in which employees participate is important for both transparency and accountability. It allows taxpayers to see where their tax dollars are going and it gives CPS a greater stake in the health and management of the Municipal Fund.

Civic Federation Recommendations

The Civic Federation makes the following **recommendations** to Chicago Public Schools and the Chicago Board of Education.

Implement a More Moderate Property Tax Increase

The Civic Federation recommends that the District decrease their property tax extension in the Education Fund from 5% to a more moderate rate. CPS has not made the case why alternative revenue sources and/or spending cuts were not implemented. Such a reduction will not prevent CPS from balancing its budget given hundreds of millions generated from growth in the pension levy and from new property and expiring TIF increment. CPS has received a total of $2.8 billion in Elementary and Secondary School Emergency Relief Fund (ESSER) funds from the federal

[8] CPS Proposed FY2023 Budget, p. 43

government. For FY2023, the District plans to allocate $730 million in ESSER III funds to support academic and, social and emotional learning programming, leaving $807 million to support programming in coming years. Therefore, the District should consider reducing the property tax increase and filling some portion of the expected $140 million with federal funds, reductions to expenditures, other revenue sources or a combination of all of these sources.

As noted above, it is incumbent on CPS to recognize the impact its levy has in concert with all of the other taxing bodies and to exercise restraint at a time when its finances have improved and Chicago taxpayers face economic challenges.

Consolidate the Chicago Teachers' Pension Fund with the Teacher's Retirement System in Order to Equalize State Pension Funding for Teachers

State pension funding for Chicago teachers versus teachers in the rest of Illinois is inequitable. The State of Illinois pays for the normal cost and the unfunded liability for all downstate and suburban districts, but only covers for the normal pension costs for Chicago teachers' pensions. The FY2023 State contribution to the Teachers' Retirement System (TRS), the pension fund for teachers in all school districts outside of Chicago, is $5.89 billion. In contrast, the FY2023 State contribution to the Chicago Teachers' Pension Fund (CTPF) is $308.7 million. Even after an increase in teacher pension contributions from the State, CPS is still the only school district in the State that is required to support the great majority of its pension system.

A more equitable solution for State funding of teacher pensions would be for the State of Illinois to assume financial responsibility for the unfunded liability of all school districts ($79.9 billion in unfunded liability for TRS and $13.2 billion in unfunded liability for CTPF as of FY2021), and for school districts to cover the normal cost for their teachers' pensions (the future benefits accrued by active employees in the current year).

One way to ensure a more equitable funding structure is to consolidate the CTPF with TRS. Consolidating the CTPF and TRS would eliminate the current inequitable funding structure under which Chicago taxpayers pay for most of the cost of Chicago teachers' pensions and also contribute downstate and suburban teachers' pension costs. It could also achieve some cost efficiencies as duplicative functions are eliminated. The State of Illinois is responsible for the unfunded liabilities that have accumulated in both pension funds over time, and as such should be required to pay for it. Therefore, the Civic Federation continues to recommend that CPS work with the General Assembly and the Teachers' Retirement System to consolidate the two pension funds.

Under a consolidation plan, the CTPF and TRS systems would be managed by a single pension board that would have proportional representation for both teachers' pension funds. However, the current member plans would be maintained as separate accounts, so contributions by and for Chicago teachers would not be comingled with downstate and suburban teacher pension funds. The State of Illinois would assume responsibility for the unfunded liability of CTPF, while CPS would resume paying for the pension fund's normal cost.

Provide More Time between Budget Release, Public Hearings and Board Approval

The timeline between when the CPS budget is released and when public budget hearings and the vote by the Board of Education are held is typically a period of approximately two weeks.

This year, the budget proposal was released on June 7 and public hearings on the proposed budget were held one week later on June 13 and 15. The Board vote was two weeks later on June 22. In order to allow CPS community members enough time to fully comprehend the details of the budget proposal for the coming year and provide input before it is adopted by the Board of Education, the Civic Federation recommends that the Board extend the length of time between the budget release, public hearings and the vote by the Board.

Resume Holding Finance Committee Meetings on a Regular Basis

The Civic Federation recommends that the District resume their Board of Education Finance and Audit Committee meetings on a regular basis in order to provide the public with a financial update, an audit update and allow public participation. We also recommend that the District include financial updates about their use of ARPA ESSER III funds in these Committee meetings. The last Finance and Audit Committee Meeting was held on January 27, 2021. These meetings informed the public about the District's financial plans and audit status on a regular basis. There was only one Finance and Audit Committee Meeting in FY2021 but prior that, the meetings were on a quarterly basis throughout the year and provided important financial updates to the CPS community and those tuning into government meetings.

Issue a Five-Year Capital Improvement Plan and Provide More Detail in One-Year Capital Plans

The District has not released a public five-year plan detailing capital projects since FY2016 despite the fact that it is required by law.[9] The FY2023 capital plan indicates that the District intends to spend $553 million annually over the next five years as part of its five-year capital investment strategy.[10] However, no further details are provided and it does not constitute a five-year capital plan.[11] The annual capital plans consist of a list of projects with their start dates, end dates and cost. More detail is provided in the online interactive capital budget, but it still does not provide sufficient information about project criteria, updates on progress, changes in cost and impact on future budgets. The District's recent single-year capital plans do not provide nearly enough information for stakeholders to understand the scope of the projects, the selection process, why certain projects are prioritized over others, and updates on their completion.

The District should issue an updated comprehensive five-year Capital Improvement Plan (CIP) each year. The first year of the CIP should serve as the capital budget for that fiscal year, and should include at the minimum the following:

- Project descriptions, including their purpose and need;
- A narrative of the criteria used to determine and prioritize projects;
- A description of funding sources for each project; and
- Updates on project costs and completion.

[9] Public Act 97-0474 requires CPS annually to prepare and publish a five-year capital improvement plan. This requirement was amended by P.A. 97-1133 to also require development of a 10-year Educational Facilities Master Plan.
[10] Chicago Public Schools. Capital Plan FY2023 at https://www.cps.edu/about/finance/capital-plan/capital-plan-fy2023/.
[11] CPS FY2023 Proposed Budget, pp. 184-185.

The following elements should also be included in a complete five-year Capital Improvement Plan:[12]

- A five-year summary list of all projects and expenditures by project that includes funding sources per project;
- Criteria for projects to earn funding in the capital budget, including a description of an objective and needs-based prioritization process;
- A publicly available list of project rankings based on the criteria and prioritization process;
- Information about the impact of capital spending on the annual operating budget of each project;
- Annual updates on actual costs and changes in scope as projects progress;
- Brief narrative descriptions of individual projects, including the purpose, need, history, and current status of each project; and
- An expected timeframe for completing each project and a plan for fulfilling overall capital priorities.

Addressing Issues with 21-Member Elected School Board

The legislation to enact a 21-member elected school board for Chicago Public Schools that passed both chambers of the Illinois General Assembly in June 2021 and was signed into law by the Governor in July 2021, Public Act 102-0177, had many shortfalls noted above, and failed to address several pressing issues. Sponsors of the bill passed a trailer bill during the veto session of fall 2021 which addressed some but not all outstanding issues including putting limits on campaign contributions, ensuring policy and governance participation by non-citizen parents and creating clear roles and responsibilities for the mayor's office.[13]

The bill additionally calls for the Chicago Board of Education to commission an independent review of CPS finances and its entanglements with the City of Chicago. A report must be provided to the Governor, Illinois State Board of Education, Illinois General Assembly, the Mayor of the City of Chicago, and the Chicago Board of Education by June 30, 2025. A report due after the new hybrid Board is already in operation would not provide much in the way of guidance to the members of the new Board about potential issues they need to be prepared to face. The Civic Federation urges the Board of Education to work with the City of Chicago and members of the Illinois General Assembly on making the financial report due earlier via trailer legislation and also develop a long-term financial plan that sets up the elected school board with clear guidance on the City's financial responsibility to CPS after 2024.

The Federation additionally urges the General Assembly and all stakeholders to re-consider major aspects of the legislation, including the unwieldy size of the future hybrid and elected Boards.

[12] National Advisory Council on State and Local Budgeting Recommended Practice 9.10: Develop a Capital Improvement Plan, p. 34; Government Finance Officers Association, Best Practices, Development of Capital Planning Policies, October 2011.
[13] Public Act 102-691.

Include Expenditures and Personnel Sections in the Budget Book

The Civic Federation recommends that CPS add narrative sections to the annual budget books going forward that include a more in-depth explanation of expenditures and personnel levels. The CPS budget book does include some broad summary information on spending and staffing levels, but they should also be described in more detail in standalone sections similar to the revenue section of the budget book. Revenues are explained in detail in a standalone revenue section, which helps stakeholders understand the changes that occur from year to year among various revenue sources.

District-wide operating expenditures and personnel trends are explained in only three pages in the budget book.[14] While the interactive reports provide very detailed data, there is no textual explanation to describe why certain expenditure or personnel categories are changing from one year to another. Given the recent significant increases in expenditures and staffing levels, more detail is needed to understand why increases are occurring. Both the FY2022 and FY2023 budgets include large expenditure increases in personnel and contingencies. Additional details are needed to understand the year over year changes—for example, how much of the salary increases are due to cost of living adjustments versus new positions, and what kinds of contracts are driving the increases.

Total FTE count in FY2023 is increasing by 1,620.7, which is a 3.9% increase over the prior year. This follows another large personnel increase of 5.1% last year. A portion of the FY2023 increase—745 positions —is due to the addition of school assistants, security officers and special education classroom assistants. Another 524 positions are for teacher positions, 155 for school nurses, social workers and psychologist positions and 120 additional central office personnel. Context for the rationale behind the staffing increases in each of these categories is needed in order to understand year over year changes. Additionally, the position counts in the online interactive reports by school and position title are not grouped in such a way that makes it possible to determine the total number of positions that fall into broader categories such as special education teachers, social workers, nurses and librarians. CPS should provide a summary overview of FTEs within these types of categories in the budget book with an explanation for why certain categories are increasing or decreasing.

Include Actual Revenues in the Budget Book

The revenue section of the annual CPS budget book includes a substantial explanation about revenues anticipated in the upcoming year, as well as comparisons to the prior year budget and year-end estimates. However, the budget does not provide any actual revenues from prior years for the general operating fund. The Civic Federation recommends that the District begin to include actual revenues from the fiscal year two years prior to the proposed budget year in the General Operating Fund. For the FY2023 proposed budget, this would mean including actual revenues from FY2021. Actuals from two years prior are included in the debt management and capital budget sections of the budget book. This recommendation would bring the general operating fund in line with the capital and debt funds, and would provide a more complete picture of actual revenues received in past years across all three major funds.

[14] CPS FY2023 Proposed Budget, p. 21-23.

ACKNOWLEDGEMENTS

The Civic Federation would like to express our appreciation to Chicago Public Schools Chief Financial Officer Miroslava Krug, Treasurer Walter Stock, Budget Director Heather Wendell and Assistant Budget Director Michael Sitkowski for their work in preparing the budget, providing the Federation staff with a budget briefing and answering the Federation's questions about the proposed budget.

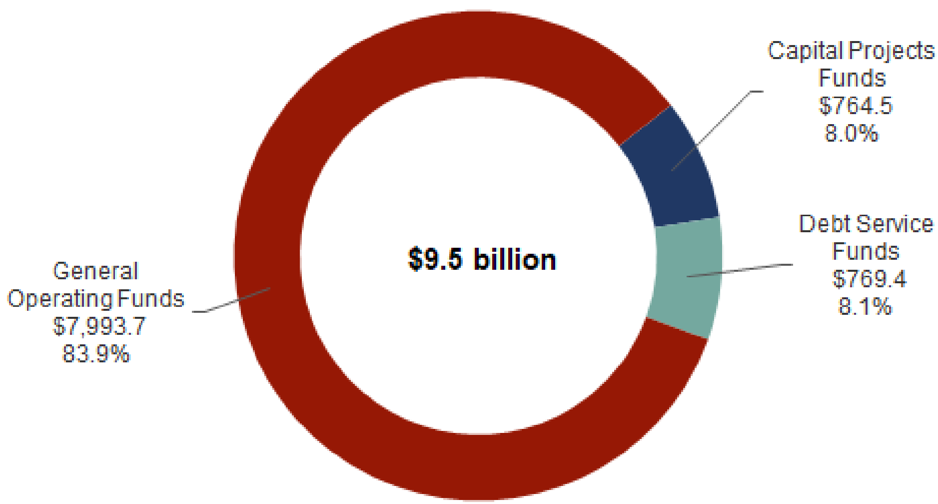
APPROPRIATIONS

This section presents an analysis of CPS appropriation trends by fund, type and location. The section includes two- and five-year appropriation trends for all funds, as well as two- and five-year appropriation trends for general operating funds. Proposed FY2023 appropriations are compared with FY2022 and FY2021 adopted appropriations, FY2020 amended appropriations and FY2019 adopted appropriations.

FY2023 TOTAL APPROPRIATIONS FOR ALL FUNDS

The chart below illustrates total FY2023 proposed appropriations for all funds. The Chicago Public Schools' FY2023 Proposed Budget of $9.5 billion is comprised of approximately $8.0 billion in General Operating Funds, $764.5 million in Capital Projects Funds and $769.4 million in Debt Service Funds. The General Operating Funds represent 83.9% of the total budget, Capital Projects Funds represent 8.0% and Debt Service Funds represent 8.1% of total appropriations for all funds.

CPS FY2023 Appropriations for All Funds by Fund (in $ millions)



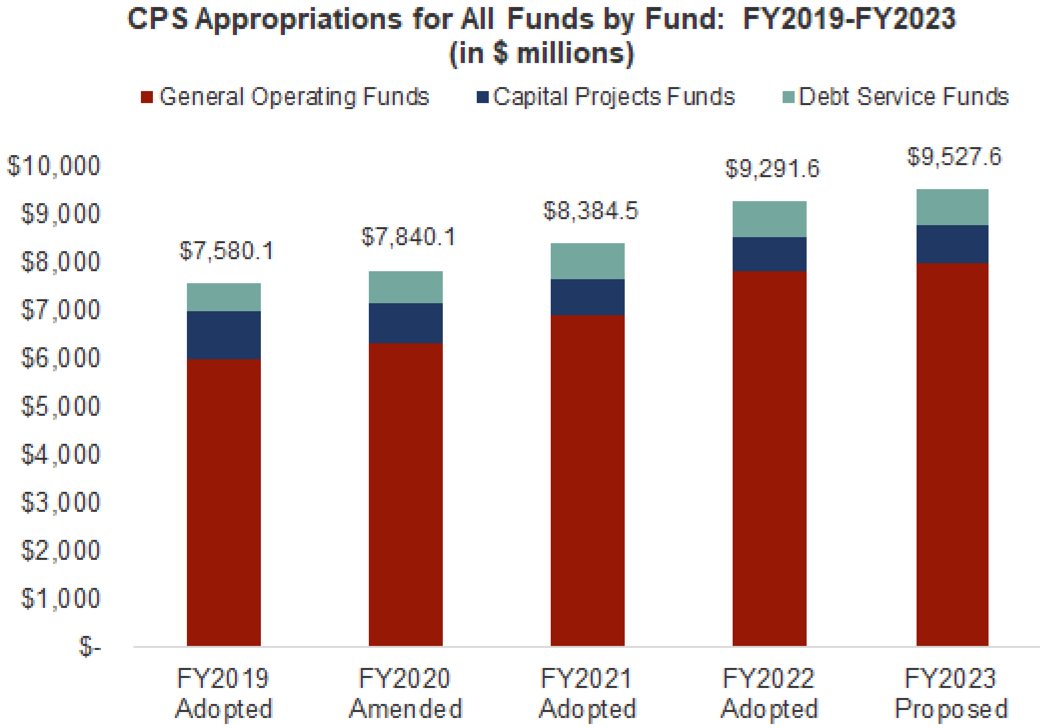
Source: CPS FY2023 Proposed Budget, Interactive Reports, Revenues and Expenditures, available at www.cps.edu.

The General Operating Funds finance employees' salaries and benefits, contractual services, charter school tuition transfers and other day-to-day expenditures. The General Operating Funds include the General Fund and the Special Revenue Funds. The General Fund is the primary fund that is used for operational and educational purposes. The Special Revenue Funds receive revenues that are restricted for or committed to specific projects, such as workers' compensation, school lunch and other grant funds. The Capital Project Funds are for building renovations and construction activities. The Debt Service Funds are for revenues and appropriations that are used for the payment of principal and interest on long-term debt.[15]

[15] CPS FY2023 Proposed Budget, Fund Descriptions, pp. 206-208.

FIVE-YEAR APPROPRIATION TREND: ALL FUNDS BY FUND

The chart below shows CPS appropriations for all funds from FY2019 to FY2023.



Source: CPS FY2019-FY2023 Interactive Budget Reports, Revenues and Expenditures, available at www.cps.edu.

The FY2023 total proposed budget of $9.5 billion across all funds is an increase of $236 million or 2.5% from the FY2022 budget of nearly $9.3 billion. Appropriations for General Operating Funds of nearly $8.0 billion represent an increase of 2.2%, or $172.1 million, from the FY2022 operating budget. The Capital Projects Funds will increase by $57.9 million, or 8.2% from FY2022. The Capital Projects Funds are budgeted to cover construction activities and major capital acquisition.[16] The Debt Service Funds will increase by $6 million over the two-year period to $769.4 million.

Over the five-year period from FY2019 to FY2023, total appropriations for all funds will increase by $1.9 billion, or 25.7%, from $7.6 billion in the FY2019 adopted budget to $9.5 billion in the FY2023 proposed budget. General Operating Funds will see the largest increase over this time period, increasing by over $2.0 billion, or 33.6%. Debt Service Funds will also increase by $162.5 billion, or 26.8%, over the same time period. Conversely, Capital Projects Funds will decrease by $224.5 million, or 22.7%, over the five-year period.

[16] CPS FY2023 Proposed Budget, p. 208.

FIVE-YEAR APPROPRIATION TREND: ALL FUNDS BY TYPE

The following table shows appropriations for all funds by type of expense between the FY2019 adopted budget and the FY2023 proposed budget. Appropriations for commodities will see the largest proportional increase from last year, rising 34.2%, or $92.2 million. Commodities include food, utilities and supplies. CPS notes that FY2022 spending on commodities was $30 million higher than the FY2021 budget due to increased spending on supplies and energy costs last year. It is also common for funds to be transferred from contingencies to commodities as needs are identified.[17]

Appropriations for salaries will see an increase of $213.3 million, or 6.9%, between FY2022 and FY2023 from $3.07 billion to $3.29 billion. The salary budget reflects contractual cost increases for union members, as well as the investment in teachers and other positions for FY2023.[18] Similarly, benefits are scheduled to increase by 8% from last year from $1.7 billion to nearly $1.9 billion. This increase is largely indicative of regular cost growth in benefits and healthcare. However, CPS expects the reduction in the cost of the Chicago Teachers' Pension Fund to partially offset the increase due to larger-than-expected investment performances the prior year.[19]

Contract spending will decrease by 0.2%, or 3.2 million. Appropriations for contingencies will see a $241.2 million, or 22.5%, reduction from FY2022 to FY2023. Despite this one-year decrease, FY2023 appropriations are higher than normal due to a large influx of federal funding for the year, including ESSER funding.[20] Equipment appropriations will increase by $53.5 million, or 7.4%, from FY2022 adopted expenditures.

Over the five-year period between FY2019 and FY2023, total appropriations will increase by $1.9 billion, or 25.7%. The largest dollar increase over the five-year period is for salaries, which will increase by $780.7 million or 31.2%. Contingencies will increase by $458.0 million or 123.6%. Commodity appropriations will increase by $118.8 million, or 48.8%. Appropriations for contracts will increase by $245.2 million, or 18.9% over FY2019 appropriations. Debt expenditures will increase by 23.5%, or $142.1 million over the five-year period. Transportation increases will increase by $13.3 million, or 12.5 %. Conversely, equipment appropriations will experience decreases over the five-year period, declining by $229.4 million.

[17] CPS FY2023 Proposed Budget, p. 23.
[18] CPS FY2023 Proposed Budget, p. 23.
[19] CPS FY2023 Proposed Budget, p. 23.
[20] CPS FY2023 Proposed Budget, p. 24.

CPS Appropriations for All Funds by Type: FY2019- FY2023
($ in millions)

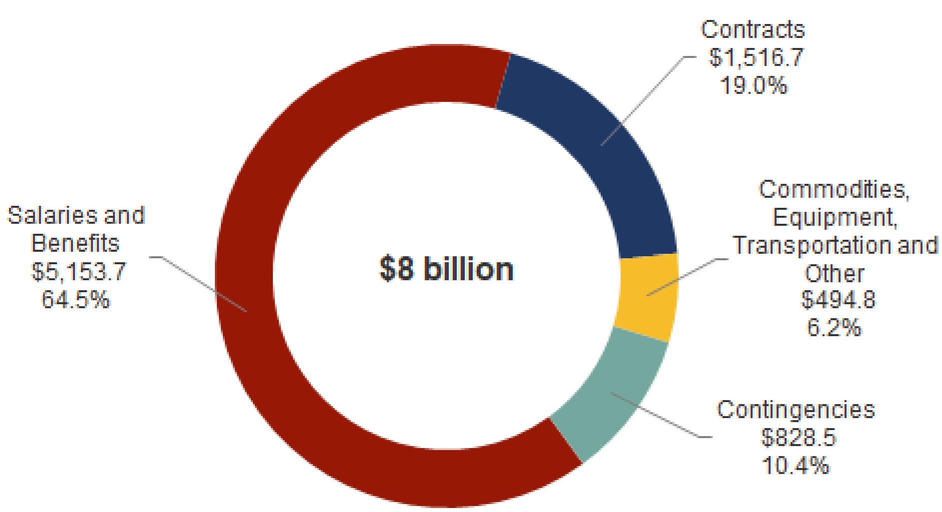
	FY2019 Adopted	FY2020 Amended	FY2021 Adopted	FY2022 Adopted	FY2023 Proposed	FY22-FY23 $ Change	FY22-FY23 % Change	FY19-FY23 $ Change	FY19-FY223 % Change
Salaries	$ 2,504.6	$ 2,640.3	$ 2,903.0	$ 3,071.9	$ 3,285.3	$ 213.3	6.9%	$ 780.7	31.2%
Benefits	$ 1,451.3	$ 1,655.8	$ 1,655.8	$ 1,731.2	$ 1,870.2	$ 138.9	8.0%	$ 418.9	28.9%
Contracts	$ 1,294.6	$ 1,324.5	$ 1,438.6	$ 1,543.0	$ 1,539.7	$ (3.2)	-0.2%	$ 245.2	18.9%
Commodities	$ 243.4	$ 241.1	$ 297.7	$ 270.0	$ 362.2	$ 92.2	34.2%	$ 118.8	48.8%
Equipment	$ 1,005.3	$ 831.9	$ 795.2	$ 722.4	$ 775.9	$ 53.5	7.4%	$ (229.4)	-22.8%
Transportation	$ 106.2	$ 107.5	$ 119.5	$ 120.5	$ 119.5	$ (1.0)	-0.8%	$ 13.3	12.5%
Contingencies	$ 370.5	$ 340.5	$ 464.7	$ 1,069.7	$ 828.5	$ (241.2)	-22.5%	$ 458.0	123.6%
Debt	$ 604.3	$ 698.5	$ 710.0	$ 762.9	$ 746.4	$ (16.6)	N/A	$ 142.1	23.5%
Other	$ -	$ -	$ -	$ 0.5	$ -	$ (0.5)	-100.0%	$ -	N/A
Total	**$ 7,580.1**	**$ 7,840.1**	**$ 8,384.5**	**$ 9,292.2**	**$ 9,527.6**	**$ 235.4**	**2.5%**	**$ 1,947.5**	**25.7%**

Source: CPS FY2019-FY2023 Interactive Budget Reports, Revenues & Expenditures, available at www.cps.edu.

FY2023 General Operating Funds Appropriations By Type

The chart below shows the proposed FY2023 General Operating Funds appropriations by type. Appropriations earmarked for salaries and benefits account for the largest share of spending, with approximately $5.2 billion, or 64.5%. Contracts total $1.5 billion or 19.0% of the general operating budget, which includes tuition for charter and therapeutic schools, payments for clinicians and other school support services. Many of these school support services are paid to outside organizations that offer repairs, janitorial services, waste removal and engineering. Appropriations for commodities, equipment and transportation comprise 6.2%, or $494.8 million, of the operating budget. Commodities include utilities, food, instructional supplies and other supplies. Equipment includes furniture, computers, and other similar non-consumable items. Transportation includes bus service and Chicago Transit Authority (CTA) passes and reimbursement. Contingencies account for $828.5 billion or 10.4% of the general operating funds.

FY2023 General Operating Funds Appropriations by Type (in $ millions)



Source: CPS FY2023 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu.

FIVE-YEAR APPROPRIATION TREND: GENERAL OPERATING FUNDS BY LOCATION

The following chart shows budgeted appropriations by location within the General Operating Funds for the five-year period between FY2019 and FY2023. Between FY2022 and FY2023, the total General Operating Funds appropriations will increase by $172.2 million, or 2.2%, from $7.8 billion in FY2022 to $8 billion in FY2023.

School-based spending makes up the largest portion of appropriations in the proposed FY2023 budget at 57.6%. School spending will total approximately $4.6 billion – an increase of $240 million, or 5.5%, from FY2022. The increase reflects an increase in the student-based budget formula from $4,665.35 per pupil to $4,973.50 per pupil, which aligns with the teacher salary increases in the contract with the Chicago Teachers Union. It also reflects increased funding outside of the per-pupil formula through equity grants for small schools, additional school personnel and increases in Supplemental Aid and Title I rates for low-income students.[21]

Central Office appropriations reflect the second largest area of spending by location, at $2.5 billion or 31.2%. Appropriations for the Central Office are projected to increase by 0.2%, or $5.8 million over the two-year period from FY2022 to FY2023. Central Office appropriations include some school-based operations that are managed centrally, such as food service, bus aides, engineers, and custodians.

Appropriations for teacher pension costs will decrease by $84.4 million, or $8.9%, over between FY2022 and FY2023 due to significantly higher-than-expected investment returns, which increased the pension fund's assets and therefore reduced the statutorily required employer contribution.[22]

Network Office appropriations will increase by 44%, or $9.9 million, from FY2022. Network Offices provide administrative support, strategic direction, and leadership development to the schools within their network. There are a total of 17 networks within the District.[23]

Over the five-year period between FY2019 and FY2023, total General Operating Funds appropriations will increase by 33.6%, or $2.0 billion. Teacher pension costs will increase $51.5 million, or 6.4%. While appropriations for schools have decreased by $301.8 million, Central Office appropriations have increased significantly, by $2.3 billion, or 917.5%. These large shifts in school and central office spending are due to changes made in FY2021 to the way the District categorizes certain expenses. In FY2021, the District recategorized certain expenses that were previously included in school budgets into the Central Office budget in order to more accurately reflect expenses that support schools and to increase consistency across budget documents.[24]

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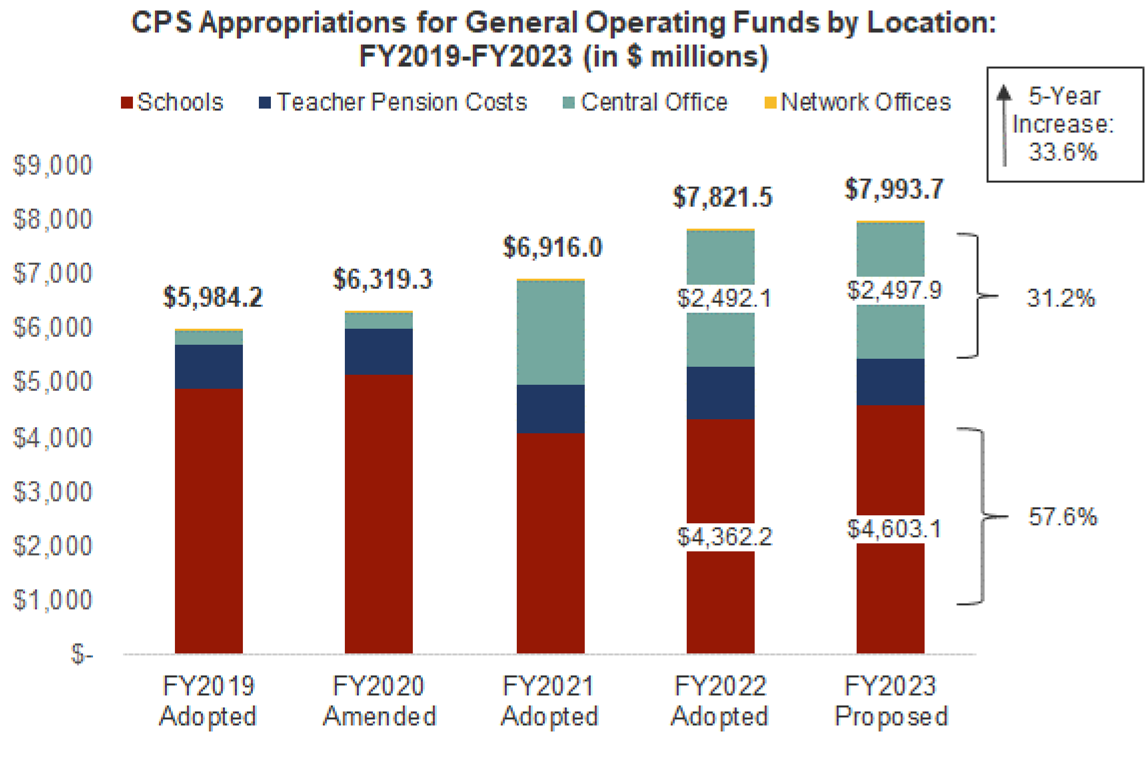
[21] CPS FY2023 Proposed Budget, p. 44.
[22] Chicago Teachers' Pension Fund Actuarial Valuation Report as of June 30, 2021, p. 2-3. Available at https://www.ctpf.org/sites/files/2021-12/CTPF_Val_2021_FINALSend.pdf.
[23] CPS FY2023 Proposed Budget, p. 53.
[24] Information provided to the Civic Federation by CPS budget staff on August 20, 2020.



Source: CPS FY2019-FY2023 Interactive Budget Reports, Budget by Location, available at www.cps.edu.

RESOURCES

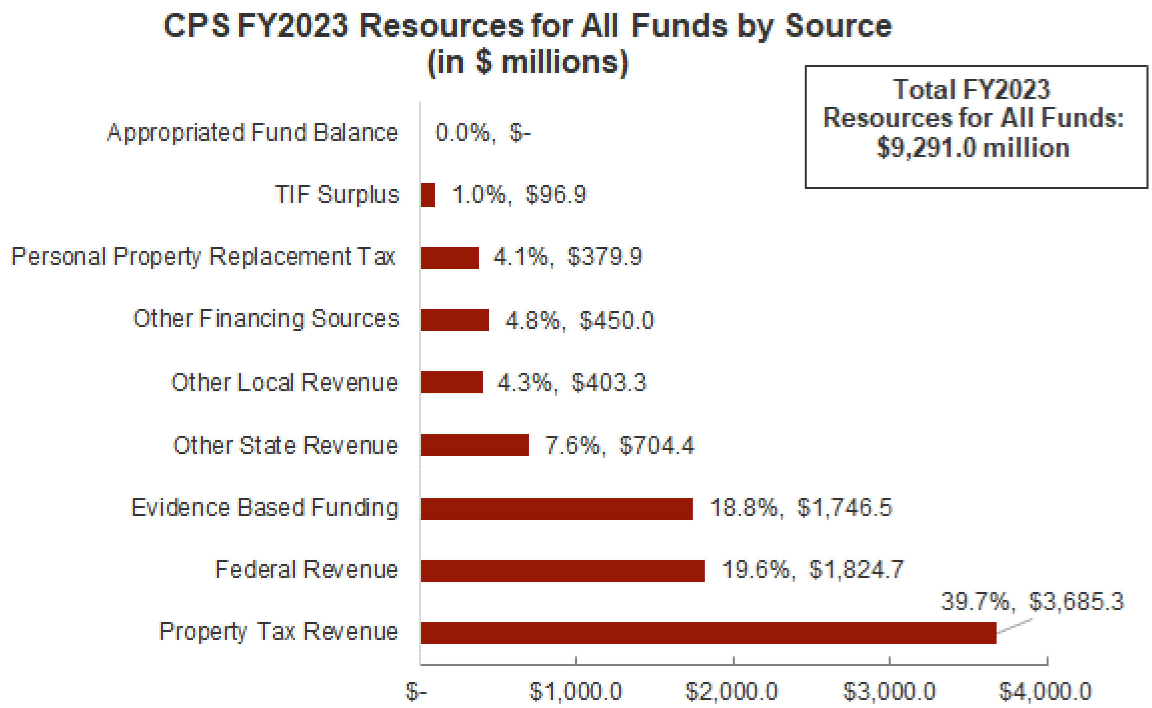
This section presents total proposed resources that CPS plans to use in FY2023 and includes a discussion of resource and revenue trends and the property tax levy. Resources include all local, state and federal revenue plus other non-revenue sources such as appropriated fund balance and income from debt financing. Proposed FY2023 resources are compared with FY2022 and FY2021 adopted resources, FY2020 amended resources and FY2019 adopted resources.

Total Resources for All Funds in FY2023

CPS projects total resources for all funds in FY2023 to be $9.3 billion, or $167.7 million more than $9.1 billion the prior year.

The chart below presents the District's total projected resources by source for FY2023. The largest revenue source is the property tax, which is expected to generate $3.7 billion, or 39.7%, of the District's total resources. Federal revenue is the second-largest revenue source, at 19.6% or $1.8 billion. Combined, State revenue from Evidence-Based Funding and other state revenue will provide the District with $2.5 billion. Other State revenue includes block grants, other grants, State pension funding for teachers and funding for capital projects. Other local revenue, which includes the City of Chicago pension contributions and intergovernmental agreements with the City of Chicago, is expected to account for $403.3 million, or 4.3%, of revenue in FY2023. Other financing sources, which are anticipated proceeds from the sale of bonds to fund the District's capital projects, are expected to account for 4.8%, or $450 million, of resources. Smaller portions of resources include personal property replacement tax and Tax Increment Financing

(TIF) Surplus, which are excess TIF funds declared by the City of Chicago and distributed to local taxing bodies. For FY2023, the District did not appropriate any funds from the prior year fund balance.



Source: CPS FY2023 Proposed Budget, pp. 26-28, 193 and 198-199.

The following table details the total resources proposed for FY2023 by fund. The General Operating Fund accounts for the majority, 86.0%, of total resources. The District projects general operating revenue from local, state and federal sources to be nearly $7.9 billion, plus an additional $96.9 million in TIF Surplus that brings the total general operating resources to $8.0 billion.

Capital funding is proposed at $537.8 million in FY2023. This amount reflects the amount of revenue and other sources that are anticipated to flow into the Capital Fund in FY2023. This includes $72.8 million in local, state and federal revenue, and $450 million in other financing sources, which are anticipated bond proceeds. The debt service fund is budgeted to receive $762.5 million in revenue from local, state and federal sources. The capital fund accounts for 5.8% of total FY2023 resources and the debt service fund accounts for 8.2%.

CPS FY2023 Revenues and Resources by Fund Type
(in $ millions)

	General Operating	Capital	Debt Service	Total
Property Taxes	$ 3,628.7	$ 5.5	$ 51.1	$ 3,685.3
Replacement Tax	$ 340.5	$ -	$ 39.4	$ 379.9
Other Local Revenue*	$ 204.0	$ 54.0	$ 145.3	$ 403.3
Subtotal Local Revenue	**$ 4,173.2**	**$ 59.5**	**$ 235.8**	**$ 4,468.5**
General State Aid/Evidence-Based Funding	$ 1,244.4	$ -	$ 502.1	$ 1,746.5
Other State Grants	$ 676.1	$ 28.3	$ -	$ 704.4
Subtotal State Revenue	**$ 1,920.5**	**$ 28.3**	**$ 502.1**	**$ 2,450.9**
Federal Revenue	$ 1,800.1	$ -	$ 24.6	$ 1,824.7
Total Revenues	**$ 7,893.8**	**$ 87.8**	**$ 762.5**	**$ 8,744.1**
Other Financing Sources	$ -	$ 450.0	$ -	$ 450.0
TIF Surplus	$ 96.9	$ -	$ -	$ 96.9
Appropriated Fund Balance	$ -	$ -	$ -	$ -
Total Resources	**$ 7,990.7**	**$ 537.8**	**$ 762.5**	**$ 9,291.0**
Percent of Total	***86.0%***	***5.8%***	***8.2%***	

*Other Local Revenue includes interest income.
Note: Figures in table may not match budget figures exactly due to rounding.
Source: CPS FY2023 Proposed Budget, pp. 26-28, 188 and 193-194.

Two-Year and Five-Year Trends for Resources in All Funds

The table below presents total revenues and resources across the five-year period from FY2019 to FY2023. In the two-year period between FY2022 and FY2023, the proposed FY2023 budget represents a 1.8% increase of $167.7 million to $9.3 billion from the FY2022 budget of $9.1 billion.

Over the five-year period from FY2019 to FY2023, total budgeted resources have increased by 33.4%, or $2.3 billion, from $6.9 billion to $9.3 billion. During this period, several revenue sources have increased significantly. Property tax revenue is projected to increase by 23.5%, or $701.0 million, from $3.0 billion in FY2019 to $3.7 billion in FY2023. Evidence-Based Funding (EBF) has increased by 6.1%. Total state revenue is projected to increase by $258.5 million, or 11.8%. Over the five-year period, federal funding has increased by 118.1%, or $988 million, to $1.8 billion in FY2023 from $836.7 million in FY2019. CPS has received an influx of federal funding through the Elementary Secondary School Emergency Relief (ESSER) I, II and III Fund due to the federal government's response to the pandemic to combat the effects of the pandemic on student achievement. Since FY2020, CPS has been allocated $2.8 billion in ESSER Funds.[25]

[25] CPS FY2023 Proposed Budget, p. 25.

Each funding source shown in the following table is discussed in additional detail below.

CPS Revenues and Resources All Funds by Source: FY2019-FY2023
(in $ millions)

Source	FY2019 Adopted	FY2020 Amended	FY2021 Adopted	FY2022 Adopted	FY2023 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Property Taxes	$ 2,984.3	$ 3,134.5	$ 3,260.4	$ 3,374.5	$ 3,685.3	$ 310.8	9.2%	$ 701.0	23.5%
Replacement Taxes	$ 161.1	$ 215.3	$ 194.9	$ 234.9	$ 379.9	$ 145.0	61.7%	$ 218.8	135.8%
Other Local Revenue*	$ 364.4	$ 442.7	$ 484.6	$ 453.9	$ 403.3	$ (50.6)	-11.1%	$ 38.9	10.7%
Subtotal Local Revenue	**$ 3,509.7**	**$ 3,792.5**	**$ 3,939.9**	**$ 4,063.3**	**$ 4,468.5**	**$ 405.2**	**10.0%**	**$ 958.8**	**27.3%**
Evidence-Based Funding	$ 1,646.3	$ 1,673.7	$ 1,665.7	$ 1,705.7	$ 1,746.5	$ 40.8	2.4%	$ 100.2	6.1%
Other State Revenue	$ 546.1	$ 608.0	$ 673.0	$ 649.5	$ 704.4	$ 54.9	8.5%	$ 158.3	29.0%
Subtotal State Revenue	**$ 2,192.4**	**$ 2,281.8**	**$ 2,338.7**	**$ 2,355.2**	**$ 2,450.9**	**$ 95.7**	**4.1%**	**$ 258.5**	**11.8%**
Federal Revenue	$ 836.7	$ 767.5	$ 1,336.7	$ 2,107.9	$ 1,824.7	$ (283.2)	-13.4%	$ 988.0	118.1%
Total Revenues	**$ 6,538.8**	**$ 6,841.8**	**$ 7,615.2**	**$ 8,526.4**	**$ 8,744.1**	**$ 217.7**	**2.6%**	**$ 2,205.3**	**33.7%**
Bond Proceeds	$ 340.5	$ 598.3	$ 411.0	$ 450.0	$ 450.0	$ -	0.0%	$ 109.5	32.2%
TIF Surplus	$ 22.3	$ 163.1	$ 96.9	$ 136.9	$ 96.9	$ (40.0)	-29.2%	$ 74.6	335.0%
Fund Balance Use / (Sources)	$ 62.6	$ 56.0	$ 22.0	$ 10.0	$ -	$ (10.0)	-100.0%	$ (62.6)	-100.0%
Other Sources	**$ 425.4**	**$ 817.4**	**$ 529.9**	**$ 596.9**	**$ 546.9**	**$ (50.0)**	**-8.4%**	**$ 121.5**	**28.6%**
Total Resources	**$ 6,964.2**	**$ 7,659.2**	**$ 8,145.1**	**$ 9,123.3**	**$ 9,291.0**	**$ 167.7**	**1.8%**	**$ 2,326.8**	**33.4%**

*Other Local Revenue includes interest income.
Note: Fund balance budgeted in FY2021 is unspent restricted funds from prior years that must be used for specific purposes. Due to the availability of funding from the Elementary and Secondary School Emergency Relief (ESSER) fund, the District will not rely on any reserves or prior year revenues to cover FY2023 fund balances.
Source: CPS Budget Interactive Online Reports FY2019-FY2023, Revenues & Expenditures, available at www.cps.edu; and CPS FY2019 Adopted Budget, pp. 161 and 171; FY2020 Amended Budget, pp. 163 and 169; FY2021 Adopted Budget, pp. 182 and 191; FY2022 Amended Budget, pp. 20-22, 182 and 210 and FY2023 Proposed Budget, pp. 26-28, 188 and 193-194.

Local Revenue

Local revenue is expected to total nearly $4.5 billion in FY2023, which is an increase of 10.0% over the prior year budget and a 27.3% increase over the five-year period beginning in FY2019. Local revenues consist of property taxes, Personal Property Replacement Tax and other local revenue sources from the City of Chicago.

Property tax revenue will increase by 9.2%, or $310.8 million, in the two-year period between FY2022 and FY2023. The increase is due to several factors. First, the District will increase its Education Fund property tax levy by 5.0%, which is the maximum increase allowed under the Property Tax Extension Law Limit (PTELL) based on the 2022 inflation rate.[26] This levy increase will account for an additional $140 million. Second, an additional $110 million will result from levying for new property and property in recently expired TIF districts. Third, the District anticipates it will receive $33 million less in revenue than in FY2022 from distributions due to Public Act 102-0519, which entitles taxing districts to re-levy for taxes that are refunded to the taxpayer due to a certificate of error, a court order based on an assessment valuation complaint or a final administrative decision of the Property Tax Appeal Board.[27] Because such refunds happen after taxes have been billed, they come out of the current revenues of a government and can cause financial strain, particularly for tax capped governments like CPS. This recapture levy allows CPS to recoup the revenue it lost. Fourth, the District expects an additional $16.9 million in revenue from the Transit Tax Increment Financing (TIF) district created for the red and purple line modernization program on the north side of Chicago. Fifth, CPS expects an increase of $87.8 million from the dedicated Teachers' pension levy.

[26] CPS FY2023 Proposed Budget, p. 28-29.
[27] P.A. 102-0519, signed into law on August 20, 2021.

While overall property tax revenue is expected to increase in FY2023 compared to the FY2022 budget, adjustments to property values made by the Cook County Assessor to account for the impact of COVID-19 affected property tax revenue collected by CPS in FY2021. An estimated growth of 2% is projected for FY2023, the normal rate of growth expected in an off-cycle assessment year.[28] The District's dedicated property tax levy for the Chicago Teachers' Pension Fund (CTPF) is $551.6 million, which is a significant increase from FY2022 and reduces the need for additional operating revenues to be contributed to the CTPF in FY2023.[29] Property tax revenue from the Transit TIF district for the Red-Purple Modernization rail project on the north side of Chicago also will increase by $16.9 million to $95.2 million compared to the FY2022 budgeted revenue of $78.3 million as a result of the Assessor's property adjustment.

The Personal Property Replacement Tax (PPRT) is a corporate income tax the State collects from corporations and other business entities and distributes to local taxing districts. Replacement tax revenue is expected to increase by $145.0 million, or 61.7%, from $234.9 million budgeted in FY2022 to $379.9 million in FY2023. The District projects an actual increase of $367 million in PPRT revenue in FY2022 from FY2021 due to changes in corporate income tax laws that provided an influx of one-time revenues.[30] However, PPRT collections are expected to return to normal funding levels in FY2023.[31]

Other local revenues include City of Chicago pension contributions, donations, rental and facility fees, intergovernmental agreements with the City of Chicago, interest income and other miscellaneous revenue sources.[32] Other local revenues are projected to be $400.3 million in FY2023, which is a decrease of $50.6 million, or 11.1%, from the prior year. The largest portions of this revenue consist of $ intergovernmental agreements with the City of Chicago, including $142.3 million from the City for debt service funding and $44.0 million for capital funding. Local revenue also includes a $53.6 million pension funding contribution from the City of Chicago. The City of Chicago makes a pension contribution on behalf of CPS to the Municipal Employees Pension Fund to cover the pension payment for non-teacher CPS employees (which is recorded as revenue). This contribution from the City has decreased over the past three years as the CPS contribution to the fund has increased. FY2020 CPS first agreed to begin absorbing a portion of those payments to the Municipal Fund in FY2020. This year, CPS will contribute $175 million to the Municipal Pension Fund, which is an increase from $100 million in FY2022 and $60 million in FY2021.[33]

State Revenue

FY2023 will be the sixth year CPS will receive State revenue, according to the Evidence-Based Funding formula for P-12 public school districts across Illinois.[34] Prior to Evidence-Based Funding in FY2018, the State of Illinois funded school districts primarily via General State Aid and other grants, including block grants for specific services. The General State Aid formula established a base foundation level per student. But because the foundation level funding was not fully funded, the State often prorated the foundation level and provided lower amounts of GSA to CPS and other school districts. The Evidence-Based Funding formula is based on

[28] CPS FY2023 Proposed Budget, p. 29.
[29] CPS FY2023 Proposed Budget, p. 37.
[30] P.A. 102-0658, available at https://www.ilga.gov/legislation/publicacts/102/102-0658.htm.
[31] CPS FY2023 Proposed Budget, p. 30.
[32] CPS FY2023 Proposed Budget, Online Interactive Reports, Revenues and Expenditures, available at www.cps.edu.
[33] CPS FY2022 Proposed Budget, p.30 and 37.
[34] Public Act 100-0465, signed into law on August 31, 2017 and effective beginning in FY2018, instituted a new Evidence-Based Funding (EBF) formula to replace General State Aid.

funding adequacy targets set for each school district based on a school district's needs and calculates local capacity to fund schools based on the assessed value of property available to the school district for taxing, rather than setting the same funding level for every student. School districts are separated into four tiers based on how close they are to their adequacy target.

CPS is currently a Tier 1 school district, which is the highest level of funding that a District needs. CPS plans to remain in Tier 1 for the foreseeable future due to historical levels of underfunding. As of FY2022, CPS has an adequacy funding level of 67.8% and will receive an additional $50 million in tier funding in FY2023. In spring 2022, the State informed CPS of a miscalculation in tier funding totals as far back as FY2019, which reduced the amount of funding the District is projected to receive in future years. CPS will have to pay back $87 million in tier funding from FY2019 to FY2022. The District is working with the State on an eight-year plan to return these funds beginning in FY2024.[35]

CPS is budgeting for a total of nearly $2.5 billion in State funding in FY2023, compared to $2.2 billion in FY2019, which is an increase of $258.5 million, or 11.8% over the past five years. In FY2018, the first year of implementation of the Evidence-Based Funding formula, State funding to CPS represented an increase of $193.4 million above State funding levels in FY2017. In FY2023, CPS expects to receive $1.7 billion in Evidence-Based Funding and $704.4 million in other state revenue. Other State revenue in FY2023 includes a $308.7 million state contribution to the Chicago Teachers' Pension Fund, $395.8 million in categorical grants and $13.3 million in capital funding. Evidence-Based Funding is increasing in FY2023 from the prior year by $40.8 million, or 2.4%. CPS anticipates receiving an additional $50 million over the prior year for its designation as a Tier 1 school district as part of the $350.2 million increase in EBF funding appropriated statewide.

Evidence-Based Funding is the largest portion of funding that CPS receives from the State. For FY2023, the fund represents 71% of $2.45 billion that the District is projected to receive from the State of Illinois. Since the inception of this funding formula, the District cannot receive a lesser amount in funding than the prior year regardless of enrollment or demographic trends, unless the State takes the unanticipated step of reducing EBF funding. The only year since the implementation of the new state funding formula that CPS did not receive an increase to EBF funding was in FY2021, when the State held its EBF funding flat.

Public Act 100-0465 included an ongoing State appropriation for the pension fund to cover the normal cost, or the cost of future benefits earned annually by current employees, and other post-employment benefits (OPEB) for retirees. The State of Illinois will provide $308.7 million toward CPS' required contribution to the Chicago Teachers' Pension Fund (CTPF) in FY2023, an increase of $31.3 million from the prior year.[36]

Federal Revenue

In past years, federal revenue typically accounted for less than 20% of CPS' total revenues, except for FY2022, where it accounted for 23.1% of total revenues. Federal funds will account for 19.6% of total revenue for CPS in FY2023.

CPS has received more than $2.8 billion in Elementary and Secondary School Emergency Relief Funds (ESSER) since FY2021 and has so far used $1.26 billion, or 45%, of the funds to support school communities during the pandemic. In FY2023, the District plans to allocate $730

[35] CPS FY2023 Proposed Budget, p. 31-32.
[36] CPS FY2023 Proposed Budget, p. 22.

million of the remaining funds to support academic and social and emotional learning programming.[37] Approximately $2 billion in the federal ESSER funds will be used through FY2023, leaving the remaining $800 million for use in future years.

Federal funding across all funds in FY2023 of $1.8 billion represents a decrease of $283.2 million over the prior year, or 13.4%.

The District plans to allocate $730 million in ESSER funds in FY2023 toward a number of purposes:

- $404 million to support school-level funding for district priorities and other local-level needs;
- $230 million to support investments in academic recovery, social and emotional learning, and other student supports; and
- $96 million to cover school-based operational positions, other pandemic-related needs and other contingent expenses.[38]

The remainder of the District's federal revenue consists of grants that are mostly restricted and can only be used to provide supplemental programs and services, such as those for low-income, non-English-speaking or delinquent children, or for school food programs. Federal revenue had been decreasing annually before the COVID-19 relief funds arrived in FY2021. In FY2020, federal funding was budgeted at $767.5 million, down from approximately $900 million five years prior.

The District's other federal funding consists of:

- Every Student Succeeds Act (ESSA) Title funds, the largest of which is for the Title I – Low-Income Grant, for which CPS anticipates $225.4 million in FY2023. This is an increase of $8.5 million from FY2022 to FY2023. Title I funds are calculated based upon Census data related to the number of children in poverty relative to other districts;
- Individuals with Disabilities in Education Act (IDEA) grants, which provide supplemental funding for special education and related services;
- Child Nutrition Programs, including the National School Lunch Program, for which CPS expects to receive $188.8 million;
- Medicaid reimbursements for the delivery of medical services and administrative activities for children with special needs, for which CPS expects to receive $35.4 million in FY2023; and
- Other smaller grants for things like occupational training, Headstart and e-rate funding for telecommunications and internet access.

Other Sources

Other resources not included in local, state or federal revenue include proceeds from the sale of bonds, tax increment financing (TIF) surplus, and the use of fund balance from the prior year.

The District anticipates receiving $450.0 million from bond proceeds of debt issuances to the Capital Fund in FY2023 to fund capital projects. The amount of bond proceeds fluctuates from year to year based on the timing of capital projects. It is important to note that the District's capital appropriations of $765 million in FY2023 will be funded by additional bond issuances and other resources anticipated to be received beyond the current fiscal year, which is why the total

[37] CPS FY2023 Proposed Budget, Letter from the Chief Executive Officer.
[38] CPS FY2023 Proposed Budget, p. 5-6.

budget including capital appropriations and resources appears to have a shortfall of $229.8 million.

CPS is anticipating $96.9 million in TIF surplus revenues from the City of Chicago in FY2023, which is a decrease from an extraordinarily large distribution of $136.9 million in FY2022. TIF surplus is excess money remaining in a TIF fund after revenues have been pledged for development projects. Annually the City of Chicago can declare a TIF surplus and distribute the remaining funds to taxing districts based on the portion of a tax bill each taxing body receives. TIF surplus is considered a one-time rather than a recurring source of revenue. TIF surplus funds have fluctuated since FY2019 when TIF surplus was budgeted at $22.3 million. The FY2023 TIF surplus amount represents an increase of 335.0% over the past five years.

In past years, CPS has relied heavily on using prior-year general operating fund balances to close annual budget deficits. In FY2015, CPS drained most of its reserves, using $940.4 million in operating fund balance to close the budget gap. Since then, the District has reduced the amount of fund balance budgeted each year. In FY2023, the District will not appropriate any use of funds from the general operating fund balance. CPS is projecting that by June 30, 2022, the fund balance will total $1.03 billion due to local revenue outperformance, which includes a one-time increase in Personal Property Replacement Taxes (PPRT). However, this use of fund balance is comprised of unspent restricted prior year revenues that must be used for specific purposes.[39] Over the five-year period from FY2019 to FY2023, the amount of budgeted fund balance has decreased by 100.0% from $62.6 million.

Property Tax Levy and Revenue

CPS and other non-home rule taxing bodies in Cook County have been subject to the Property Tax Extension Limitation Law (PTELL) since tax year 1994 (payable in 1995). In general, the tax cap law allows tax extensions on existing property to rise each year by the lesser of 5.0% or the increase in the Consumer Price Index the previous year. For tax year 2022 (payable in 2023), the tax cap law permits a 5.0% increase on existing property value for property tax funds subject to the law, based on the rate of inflation. The tax cap law also allows the tax rate calculated on the value of existing property to be applied to new property, thus generating additional revenue.

Property tax years are the same as calendar years, while the CPS fiscal year runs July 1 to June 30. There is also a one-year lag in Cook County between when property taxes are levied and when they are collected. For example, taxes levied in 2021 will actually be received in 2022.

The tax year 2022 extension is paid by taxpayers in calendar year 2023 in first and second installments. The first installment is equal to 55.0% of the prior year's total tax bill and is due March 1.[40] The second installment includes the full year's tax extension minus the amount already paid in the first installment, so extension increases for a tax year are recognized by the second installment when new tax rates are computed. Prior to a change in the District's revenue recognition period in FY2015, CPS' property tax revenue was drawn from two separate tax years. However, the District extended the period for which property tax revenue can be collected and recorded to 60 days after the end of its fiscal year on June 30. Since this change, CPS typically receives the majority of both installments in the same fiscal year.

[39] CPS FY2023 Proposed Budget, p. 188 and 203.
[40] P.A. 96-490 changed this amount from 50% to 55% of the prior year's tax bill for tax year 2009 (first installment due March of 2010) and thereafter. The rationale for this change was that it would mitigate taxpayers' "sticker shock" resulting from tax increases that appear on second installment tax bills.

Between 2012 and 2019, the second installment tax bill was due on August 1. However, this timing has been impacted in 2020, 2021 and 2022 (CPS FY2021, FY2022 and FY2023). In 2020, Cook County extended the late penalty for second installment tax year 2019 property tax payments from August 1 to October 1. This resulted in some late property tax payments. In order to record property tax revenue in the same fiscal year, the District extended its revenue recognition period for property taxes to October 29 from August 29. For tax year 2020 (payment year 2021), Cook County property tax bills were delayed for the first time since 2012. Because of this delay, and in order to avoid having to record property tax revenue in the next fiscal year, CPS once again extended its revenue recognition period for property taxes to October 29 so that the second installment property tax revenue could be recorded in the 2021 fiscal year rather than FY2022.[41] As of publication of this report, the tax year 2021 second installment property tax bills are projected to be delayed significantly to late fall 2022.[42] Therefore, CPS will need to extend its revenue recognition period yet again to avoid FY2022 property tax revenues being displaced into FY2023.

Property Tax Revenue Distribution

CPS expects its FY2023 property tax revenues to total $3.79 billion, compared to $3.37 billion in the FY2022 amended budget. This represents an increase of $310.8 million, or 9.2%, over the prior year.[43]

The following chart shows the distribution of projected FY2023 property tax revenues among the District's funds. The majority of FY2023 property tax revenue, 66.9%, or $2.5 billion, will be distributed to the General Operating Funds. The General Education Fund, Workers' Compensation/Tort Fund, Public Building Commission (PBC) Fund, Pension Levy Fund and Special Education Fund all fall within the District's General Operating Funds.[44]

The Chicago Teachers' Pension Fund property tax levy will generate $551.6 million property tax revenue in FY2023, accounting for 15.0% of the levy. A dedicated property tax levy to fund teacher pensions was reinstated in FY2017 at a tax rate of 0.383%. CPS then received authority to increase the rate for the pension levy to 0.567% through Public Act 100-0465, the law enacting the new Evidence-Based Funding formula. The pension levy is not subject to tax caps under PTELL, and instead is a flat rate applied to the equalized assessed value of property in Chicago.

CPS will designate $487.9 million, or 13.2%, of property tax revenue to the Public Building Commission Fund (PBC) for leases and debt service payments; $101.4 million, or 2.8%, to the Workers' and Unemployment Compensation/Tort Fund; $51.1 million, or 1.4%, to the Debt Service Fund; $23.0 million, or 0.6%, to the Special Education Fund; and $5.5 million, or 0.1%, to the Capital Projects Fund. The property tax revenue allocated to the Debt Service Fund and

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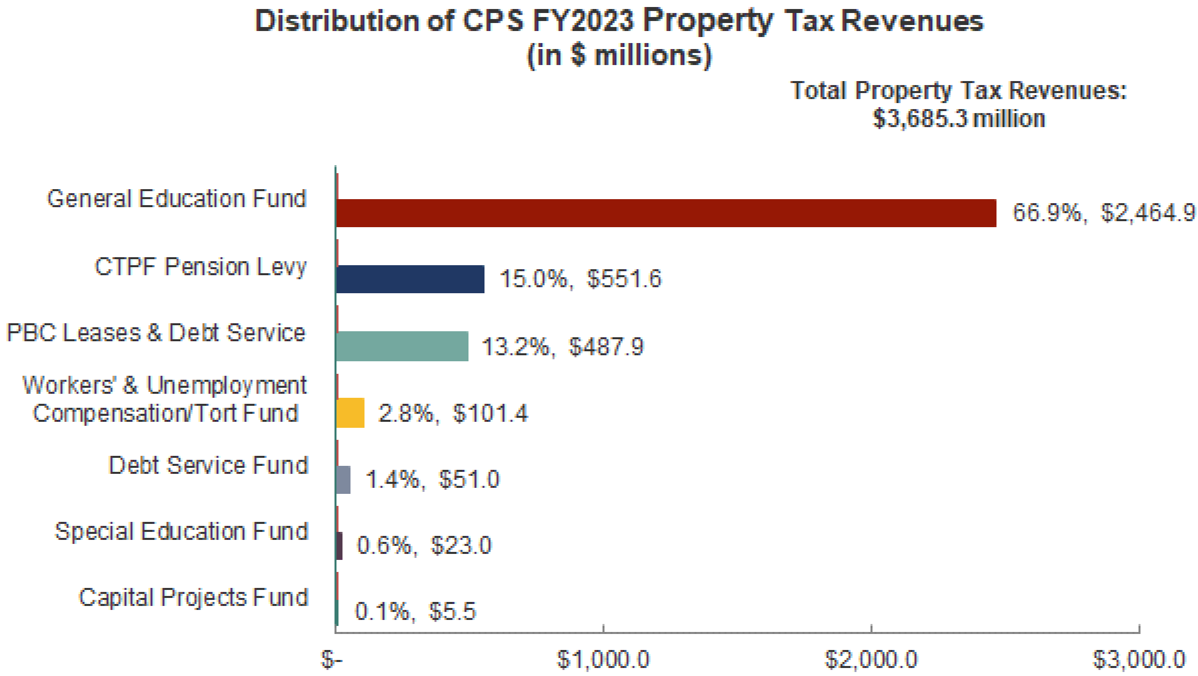
[41] Communication from the Chicago Public Schools Finance Office, July 23, 2021 and FY2021 CPS ACFR, p. 55
42 Alice Yin, "As Cook County property tax bills again face long delays, officials point fingers over who's to blame," *Chicago Tribune*, April 11, 2022. https://www.chicagotribune.com/politics/ct-cook-county-property-tax-bills-late-20220411-smyyrari5zhodc5tbmqhimxmpu-story.html.
[43] The projection does not reflect the change to the due date of second installment 2021 tax bills.
[44] Fund classifications in the online interactive budget reports differ from the fund classifications in the budget book. In the budget book, the General Fund includes the Education Fund (consisting of the Regular Education, Special Education, Tuition-Based Preschool and School Special Income Funds), the Building Operations and Maintenance Fund, and the Special Revenue Funds (Supplemental General State Aid Fund, Workers' and Unemployment Compensation/Tort Fund, School Lunch Funds and Federal and State Grant Funds).

Capital Projects Fund is generated from the Capital Improvement Tax Levy, totaling $56.6 million.



Source: CPS FY2023 Proposed Budget, Interactive Online Reports, Revenues and Expenditures, available at www.cps.edu.

Trend in Property Tax Revenue

The next table presents CPS' property tax revenues from FY1991 through FY2023. Figures for FY1991 through FY2021 are actual property tax revenues received based on the most recent audited data available, while FY2022 figures are year-end estimates and FY2023 figures are proposed. The PTELL tax cap law went into effect for governments in Cook County in 1994, and effectively began limiting the amount of property tax revenue collected by Chicago Public Schools during the District's 1996 fiscal year.

Over this period, property tax revenues are projected to increase by 337.5%, or $2.9 billion, from $842.3 million in FY1991 to $3.7 billion in FY2023. Since FY1996, the first fiscal year that the tax cap law could limit CPS property tax revenues, the compound annual growth rate of revenues has been 4.1%. The average annual growth rate is 4.2%.

As noted previously, a dedicated property tax levy to fund the Chicago Teachers' Pension Fund took effect beginning in FY2017 at a tax rate of 0.383%, then was increased to a rate of 0.567% in FY2018. This has allowed CPS to receive additional property tax revenue outside of the PTELL tax cap. In FY2017, CPS saw an increase in property tax revenue of 12.7% over the prior year due to the reinstatement of the dedicated pension levy. The District estimated the pension levy would allow it to capture $250.0 million new revenue in its first year.[45] This amount has grown to an estimated $551.6 million in FY2023. The FY2023 budgeted increase in property tax revenue of $310.6 million from the FY2022 budget is largely due to the increase in

[45] CPS FY2017 Amended Budget, pp. 26-27.

the CPS education levy. The total estimated property tax revenue for FY2023 is a 9.3% increase over FY2022 year-end estimates.

CPS Property Tax Revenue: FY1991-FY2023
(in $ thousands)

Fiscal Year	Property Tax Revenue	$ Change from Previous Year	% Change from Previous Year
FY1991	$ 842,339	--	--
FY1992	$ 882,181	$ 39,842	4.7%
FY1993	$ 1,008,481	$ 126,300	14.3%
FY1994*	$ 1,205,322	$ 196,841	19.5%
FY1995	$ 1,206,008	$ 686	0.1%
FY1996	$ 1,245,539	$ 39,531	3.3%
FY1997	$ 1,239,249	$ (6,290)	-0.5%
FY1998	$ 1,311,664	$ 72,415	5.8%
FY1999	$ 1,368,081	$ 56,417	4.3%
FY2000	$ 1,403,657	$ 35,576	2.6%
FY2001	$ 1,429,871	$ 26,214	1.9%
FY2002	$ 1,479,968	$ 50,097	3.5%
FY2003	$ 1,546,335	$ 66,367	4.5%
FY2004	$ 1,571,065	$ 24,730	1.6%
FY2005	$ 1,639,237	$ 68,172	4.3%
FY2006	$ 1,718,249	$ 79,012	4.8%
FY2007	$ 1,767,760	$ 49,511	2.9%
FY2008	$ 1,813,917	$ 46,157	2.6%
FY2009	$ 1,896,540	$ 82,623	4.6%
FY2010	$ 2,047,163	$ 150,623	7.9%
FY2011	$ 1,936,655	$ (110,508)	-5.4%
FY2012	$ 2,352,136	$ 415,481	21.5%
FY2013	$ 2,211,568	$ (140,568)	-6.0%
FY2014	$ 2,204,252	$ (7,316)	-0.3%
FY2015	$ 2,304,656	$ 100,404	4.6%
FY2016	$ 2,408,416	$ 103,760	4.5%
FY2017	$ 2,714,956	$ 306,540	12.7%
FY2018	$ 2,897,870	$ 182,914	6.7%
FY2019	$ 2,984,026	$ 86,156	3.0%
FY2020	$ 3,074,091	$ 90,065	3.0%
FY2021	$ 3,157,474	$ 83,383	2.7%
FY2022 Estimated	$ 3,374,200	$ 216,726	6.9%
FY2023 Proposed	$ 3,685,300	$ 311,100	9.2%

*The Property Tax Extension Limitation Law went into effect for non-home rule governments in Cook County in 1994, which limited the amount CPS could raise its property tax rate by the lesser of 5% or the rate of inflation.

Source: CPS Annual Comprehensive Financial Reports, FY2021, pp. 118-119; FY2017, pp.114-115; FY2007, pp. 92-93; FY1999, pp. 80-81; CPS FY2022 Proposed Budget, p. 20 and FY2023 Proposed Budget, p. 31.

Trend in Property Tax Extension

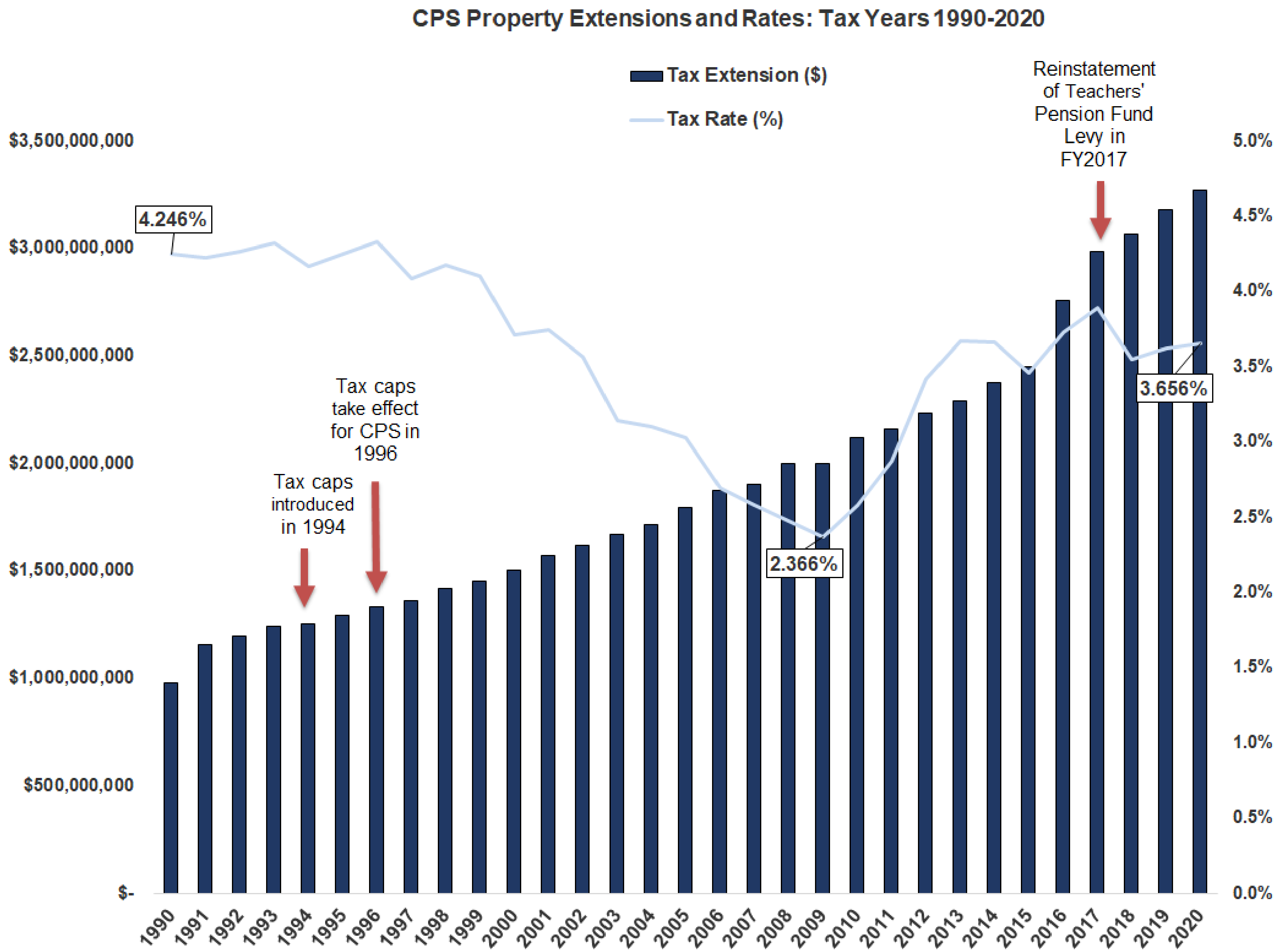
The Property Tax Extension Limitation Law, or tax caps, limits maximum growth in the CPS levy. Prior to 1994, the District's tax extension was limited by a maximum rate for each property tax fund. Some of the fund rate limits still exist, but the tax cap law, not rate limits, has been the operative limit on CPS tax increases since 1994.[46]

The limiting effect of the tax cap has also meant that **since 1994, tax increment financing has not diverted property tax revenue away from CPS**. CPS receives the full extension to which it is entitled by the tax cap law. The effect of TIF is to raise tax rates for all property taxpayers, not to divert revenue from local governments.[47]

The following graph illustrates the increase in CPS property tax extensions between tax year 1990 (payable in 1991) and tax year 2020 (payable in 2021) and the change in tax rates during that period. Tax year 2020 is the most recent year for which tax extension and rate data are available from the Cook County Clerk as of the date of this report's publication. The property tax extension is the amount of property tax revenue a government is authorized to receive and bill to taxpayers. CPS' property tax extension increased from $981.0 million in tax year 1990 to $3.3 billion in tax year 2020. There was a 12.5% increase in the tax extension in tax year 2016 to $2.76 billion from $2.45 billion in tax year 2015 due to a new tax levy to fund teacher pensions. The extension increased by another 8.3% in tax year 2017, followed by smaller increases in 2018 and 2019. As of the publication of this report, tax year 2021 tax rates were not publicly available.

While the tax extension has steadily increased since 1990, the tax rate has decreased. The tax rate decreased from 4.246% in tax year 1990 to 2.366% in tax year 2009, its lowest point during the period. The District's tax rate fell after the implementation of the tax cap law in 1994 even though its extension rose because taxable property value grew at a faster rate than tax extensions (tax rate = tax extension ÷ taxable value). The tax rate then started to grow again in tax year 2010 because the taxable value of property in Chicago fell significantly. The tax rate decreased again in tax year 2015, rose again to 3.89% in tax year 2017, then fell slightly to 3.620% in tax year 2019. For 2020, the tax rate is 3.656%, which is a 0.99% increase from 2019.

[46] Civic Federation, "The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts," June 22, 2013.
[47] Civic Federation, "The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts," June 22, 2013.



Note: Taxes are payable in the year following the tax year.
Source: Cook County Clerk Annual Tax Rates Reports.

Timing of CPS Property Tax Receipts and Change in the Revenue Recognition Policy

Prior to FY2015, property tax revenues that arrived after the end of the fiscal year could be accounted for in that fiscal year as long as the revenues were received within 30 days of the close of the fiscal year, or through July 30. This window of time is known as the revenue recognition period. Historically, Cook County sent second installment property tax bills out late and thus local governments received payments late. Late payments led to delayed distributions of revenue to all of the County's taxing bodies, including CPS, therefore falling outside of the revenue recognition period. In summer 2012, for the first time in over 30 years, the County sent out property tax bills on time with a due date of August 1 and CPS received the property tax funds within its 30 day revenue recognition period. The accelerated property tax receipts left the FY2012 year-end audited General Fund with an unexpected additional fund balance. The District then assumed the same property tax revenue receipts would occur in subsequent fiscal years.

Beginning in FY2015, CPS adopted a new revenue recognition policy extending the period in which property tax revenues can be recognized from 30 days after the close of the fiscal year to 60 days after the close of the fiscal year.[48] It is acceptable under standard accounting rules to have a revenue recognition period of 30-60 days. CPS noted that this change would reduce the volatility in property tax collection timing. The District acknowledges that its policy does not impact the total amount of property tax revenue received by the District but that the timing of the property tax receipts does impact the fiscal year in which the revenue must be recorded.[49] More importantly, the revenue recognition policy was used as an accounting mechanism to close the budget gap in FY2015.

In 2021 second installment tax year 2020 property tax bills went out late with a due date of October 1, 2021. CPS extended its revenue recognition period to October 29, 2021 in order to account for the second installment property tax revenue in the 2021 fiscal year rather than FY2022.[50] As of the date of publication of this report, the Cook County Treasurer mailed out the first installment tax year 2021 property tax bills in February 2022. [51] The due date for second installment 2021 tax bills are projected to be significantly delayed, perhaps as late as November or December 2022.[52] In order to avoid a significant shift of property tax revenue to FY2023 from FY2022, the District will have to extend its revenue recognition period even further.

PERSONNEL

This section presents the District's full-time equivalent (FTE) position count by type and personnel appropriation trends within the general operating funds. The analysis compares the FY2023 proposed budget to the adopted budgets over the five-year period beginning from FY2019.

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[48] CPS FY2019 Adopted Budget, p. 217.
[49] CPS FY2015 Adopted Budget, pp. 9-10.
[50] Chicago Public Schools, FY2021 ACFR, p. 33.
[51] See www.cookcountytreasurer.com.
[52] Vinicky Amanda, *Finger-Pointing Over Late Cook County Property Tax Bills*, April 29, 2022, Available at https://news.wttw.com/2022/04/29/finger-pointing-over-late-cook-county-property-tax-bills

BUDGETED FTE POSITIONS BY TYPE: FY2019-FY2023

The CPS budget proposes a total of approximately 43,377 full-time equivalent (FTE) positions in FY2023. This is an increase of 1,621 positions, or 3.9%, over the prior year budget. Teacher positions will total 21,319.3 FTEs, or 49.1%, of CPS personnel. Together, school support staff and citywide student support positions will compose 44.4% of all personnel. Student support staff will total 12,646.5 FTE positions, and citywide student support positions will total 6,603.4 FTEs in FY2023. School support staff includes classroom assistants, security officers, school clerks and lunchroom staff. Citywide student support positions include nurses, social workers, custodians and other administrative and support staff positions. School Administrators, which include principals and assistant principals, will compose 2.7% of CPS personnel, and Central Office and Network Offices staff will compose 3.6% or 1,485.0 FTEs.

The following key changes are proposed in the FY2023 budget compared to the FY2022 adopted budget:

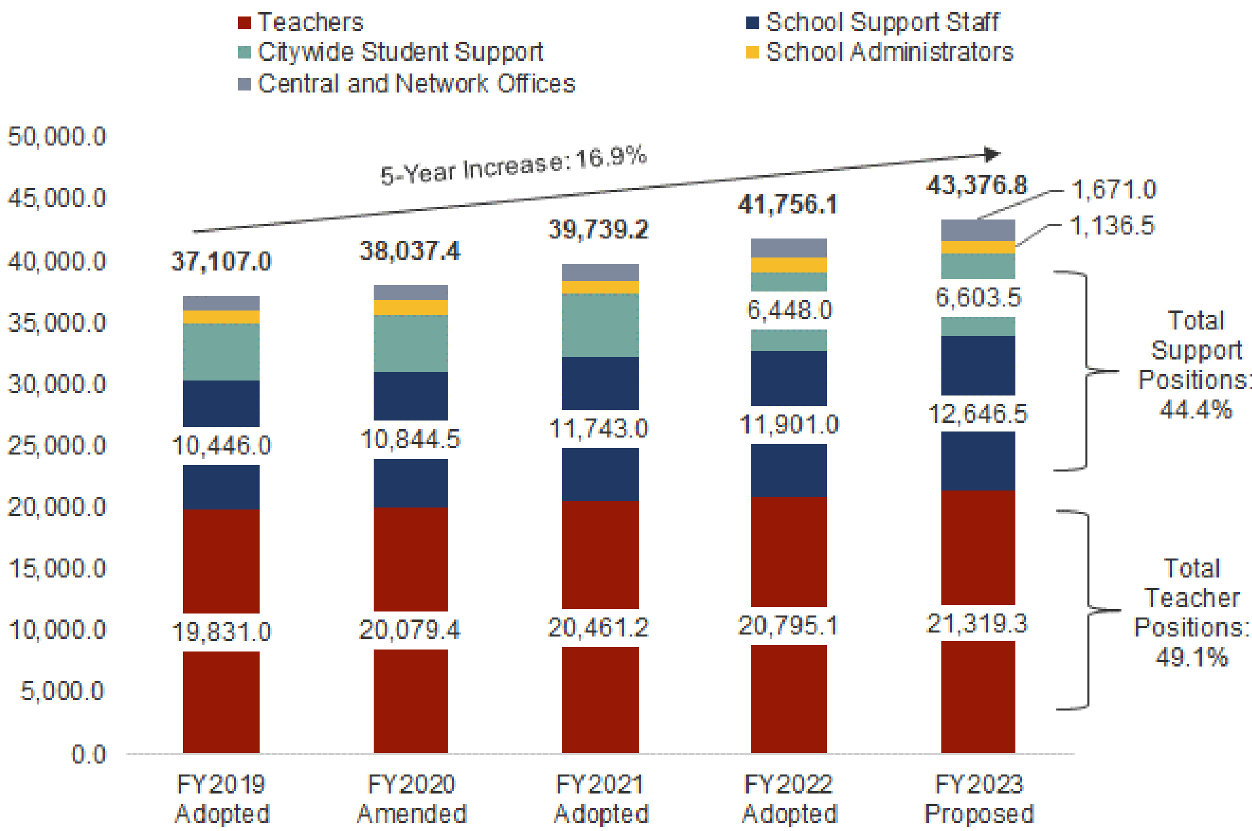
- Teacher positions will increase by 524.2 FTEs, or 2.5%. This increase includes the addition of more teacher positions, special education teachers, school counselors and lead coaches to provide instructional coaching.
- School support staff positions will increase by 745.5 FTEs, or 6.3%, from the prior year. This is primarily due to the addition of school assistants, security officers and special education classroom assistants.
- Citywide student support positions will increase by 155.5 FTEs or 2.4%, from the prior year. This includes the addition of school nurses, social workers and school psychologist positions.
- Central and Network Office positions will increase by 186.0 FTEs, or 12.5%, from the prior year.
- School Administrator positions will remain nearly flat from the prior year, with increase of 9.5 FTEs or 0.8%.

Over the five-year period from FY2019 to FY2023, the number of budgeted personnel will increase by nearly 17%, or 6,269 FTE positions, from 37,107 to 43,376.8 FTEs. The chart below shows the CPS personnel levels over this timeframe. Personnel levels have increased annually in each of the past five years, with the largest increase occurring in FY2022 with the addition of approximately 2,000 budgeted positions. The FY2022 budget included 734 crossing guard positions transferred from the City of Chicago budget to the CPS budget, as well as 400 new custodians and 170 various services providers.[53]

Over the five-year period beginning in FY2019, the number of teacher positions has grown by 1,488.3 FTEs, or 7.5%. School support staff positions have increased by 2,200.5 FTEs, or 21.1%. Citywide student support positions have increased by 1,991.5 FTEs, or 43.2%.

[53] Information provided to the Civic Federation by Chicago Public Schools budget staff on July 13, 2021.

CPS Full-Time Equivalent Positions by Type: FY2019-FY2023



Source: FY2019-FY2023 Interactive Budget Reports, Positions, available at www.cps.edu; and Information provided by Chicago Public Schools, August 22, 2019.

PERSONNEL APPROPRIATIONS IN THE GENERAL OPERATING FUNDS

Total compensation costs for salaries and benefits are projected to be $5.2 billion in FY2023. This is an increase of $350.8 million, or 7.3%, over the FY2022 adopted budget. Salaries constitute 63.7% of total employee compensation. CPS proposes a total budget of $3.3 billion for salaries in FY2023, an increase of $211.8 million, or 6.9%, from FY2022. Teacher salaries, totaling $2.4 billion, represent an increase of $134.7 million, or 5.9%, from the prior year. Education support salaries totaling $881.1 million represent an increase of $80.1 million, or 10.0%, over the prior year. The salary increases in FY2023 are due to cost of living adjustments of 3.5% agreed to as part of the collective bargaining agreement with the Chicago Teachers Union, as well as new positions in the FY2023 budget across a variety of positions including teachers, nurses, social workers, school counselors, lead coaches, school and classroom assistants and security officers.

Benefit costs are expected to be $1.9 billion in FY2023, an increase of $139.0 million, or 8.0%, from the FY2022 adopted budget. Benefit costs include pensions, health and dental insurance, unemployment compensation and payroll tax contributions for Social Security[54] and Medicare.

[54] Non-teaching staff contribute to Social Security.

The cost to CPS for teacher pensions in FY2023 is projected to be $954.7 million and the cost for education support pensions is projected to be $305.1 million. The $954.7 million contribution to the Teachers Pension Fund includes a required employer contribution of $824.9 million, of which the State of Illinois is contributing $308.7 million on behalf of CPS, and $129.9 million teacher pension "pick-up" on behalf of employees.[55] The teacher pension contributions represent a decrease of $154.5 million from the FY2022 contribution due to positive investment performance in FY2021.

The cost to CPS for the pensions of non-teacher employees who participate in the City of Chicago Municipal Employees' Annuity and Benefit Fund (MEABF) is $305.1 million in FY2023. This includes a statutorily required contribution of $264.2 million and a $41.0 million pension pick-up on behalf of non-teacher employees.[56] CPS picks up 7.0% of the 8.5% employee contribution for non-teacher union employees and 5.0% of the 8.5% contribution for non-teacher non-union employees hired before August 23, 2015. CPS previously picked up 7.0% of the 8.5% employee contribution for non-teacher, non-union employees, but partially phased out this practice in FY2016.[57]

Over the five-year period between FY2019 to FY2023, total compensation costs will increase by 29.3%, or $1.2 billion. Appropriations for teacher and non-teacher salaries will increase by $735.8 million, or 28.9%. Teacher salaries will increase by $474.7 million and non-teacher salaries will increase by $261.1 million. Appropriations for employee benefits will increase by 30.1%, or $432.1 million. The increase in benefit costs between FY2019 and FY2023 is driven by a $160.9 million increase in non-teacher pension contributions and a $214.6 million increase in the cost of hospitalization and other dental benefits.

[55] CPS contributes, or "picks up," 7.0% of the 9.0% employee contribution for participants in the Chicago Teachers Pension Fund who were hired before January 1, 2017. Teachers hired on or after January 1, 2017 are no longer eligible for the pension pick-up per the current FY2020-FY2024 Chicago Teachers Union contract.
[56] CPS picks up the 7.0% portion of the 8.5% employee contribution to the City of Chicago Municipal Employees' Annuity and Benefit Fund for non-teacher employees who are union members.
[57] CPS FY2017 Proposed Budget, p. 6; and information provided to the Civic Federation by CPS budget staff on June 21, 2022.

CPS Personnel Appropriations for General Operating Funds by Type: FY2019-FY2023
(in $ millions)

	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2022 Adopted	FY2023 Proposed	FY22-FY23 $ Change	FY22-FY23 % Change	FY19-FY23 $ Change	FY19-FY23 % Change
Salaries									
Teacher Salaries	$ 1,928.0	$ 1,990.3	$ 2,133.8	$ 2,268.0	$ 2,402.7	$ 134.7	5.9%	$ 474.7	24.6%
Ed. Support Salaries	$ 620.0	$ 706.7	$ 723.9	$ 804.0	$ 881.1	$ 80.1	10.0%	$ 261.1	42.1%
Total Salaries	**$ 2,548.0**	**$ 2,697.0**	**$ 2,857.7**	**$ 3,072.0**	**$ 3,283.8**	**$ 211.8**	**6.9%**	**$ 735.8**	**28.9%**
Employee Benefits									
Teacher Pension Employer Portion	$ 808.6	$ 854.5	$ 885.9	$ 978.0	$ 824.9	$ (153.1)	-15.7%	$ 16.3	2.0%
Teacher Pension Pickup*	$ 115.6	$ 113.5	$ 118.0	$ 131.2	$ 129.9	$ (1.3)	-1.0%	$ 14.3	12.3%
Total Teacher Pensions	**$ 924.2**	**$ 968.0**	**$ 1,003.9**	**$ 1,109.2**	**$ 954.7**	$ (154.5)	-13.9%	$ 30.6	3.3%
Ed. Support Pension Employer Portion	$ 111.8	$ 153.0	$ 184.0	$ 81.6	$ 264.2	$ 182.6	223.9%	$ 152.4	136.3%
Ed. Support Pension Pickup*	$ 32.4	$ 36.2	$ 37.2	$ 43.8	$ 41.0	$ (2.9)	-6.5%	$ 8.6	26.5%
Total Ed. Support Pension	**$ 144.2**	**$ 189.2**	**$ 221.2**	**$ 125.4**	**$ 305.1**	$ 179.8	143.4%	$ 160.9	111.6%
Hospitalization/Other Comp.	$ 304.9	$ 368.3	$ 398.4	$ 419.3	$ 519.5	$ 100.2	23.9%	$ 214.6	70.4%
Unemployment Compensation	$ 4.1	$ 9.0	$ 1.5	$ 8.7	$ 11.7	$ 3.0	34.9%	$ 7.5	181.4%
Medicare/Social Security	$ 36.3	$ 39.6	$ 40.8	$ 46.4	$ 49.1	$ 2.8	5.9%	$ 12.8	35.4%
Workers' Compensation	$ 24.0	$ 22.0	$ 17.6	$ 22.0	$ 29.6	$ 7.6	34.7%	$ 5.7	23.6%
Total Employee Benefits	**$ 1,437.7**	**$ 1,596.1**	**$ 1,683.4**	**$ 1,730.9**	**$ 1,869.8**	**$ 139.0**	**8.0%**	**$ 432.1**	**30.1%**
Total Compensation	**$ 3,985.7**	**$ 4,293.1**	**$ 4,541.1**	**$ 4,802.9**	**$ 5,153.6**	**$ 350.8**	**7.3%**	**$ 1,167.9**	**29.3%**

*CPS "picks up" 7% of the 9% annual employee pension contribution for teachers and other affiliated employees hired before January 1, 2017, meaning it pays 7% of the employee 9% contribution on behalf of the employees. However, those teachers and other afilliated employees hired after January 1, 2017 are not eligible for the pick up as a result of the collective bargaining agreement ratified on October 10, 2016. CPS also used to pick up 7% of the 8.5% employee contribution for non-teacher non-union employees. However, in FY2016 the District started to phase out the pick up for non-union non-teacher employees. The "pickup" decreased from 7% to 5% in FY2016, to 3% in FY2017 and 0% in FY2018.

Source: CPS Budget, Interactive Online Reports, FY2022-2023, Revenues & Expenditures, available at www.cps.edu; CPS FY2019 ACFR, pp. 80, 84 and 96; FY2020 ACFR pp. 84, 88, and 100; and FY2021 ACFR, pp. 80, 83 and 95.

ENROLLMENT

The FY2023 budget is based on 20th day enrollments for each school during the 2021-2022 school year. Previously, CPS used enrollment projections for the upcoming year to determine its budget. In FY2019, the District began using the 20th day enrollment from the prior school year for budgeting purposes. Because of this change in policy, schools that experience an enrollment decline in the fall will not see a budget reduction the following year. Schools with enrollment increases will receive additional funding to compensate for growing student population.[58]

In FY2023, CPS is providing an additional $14 million in Equity Grants to 238 small, under-enrolled schools and an additional $5 million to severely under-enrolled schools to ensure that no school will see core funding decline by more than 10% from the previous year.[59]

CPS student enrollment has been declining annually for the past two decades. Within the ten-year period from FY2013 to FY2022, enrollment declined by of 73,050 students, or 18.1%. The District had 330,411 students during the 2021-2022 school year, compared to 403,461 students ten years prior. Preschool enrollment saw the largest percentage decline over this period, at a decrease of 37.0%. Elementary school enrollment decreased by 21.1%, or 56,277 students. High school enrollment declined by 7,696 students or 6.8%. These enrollment figures are shown in the following chart.

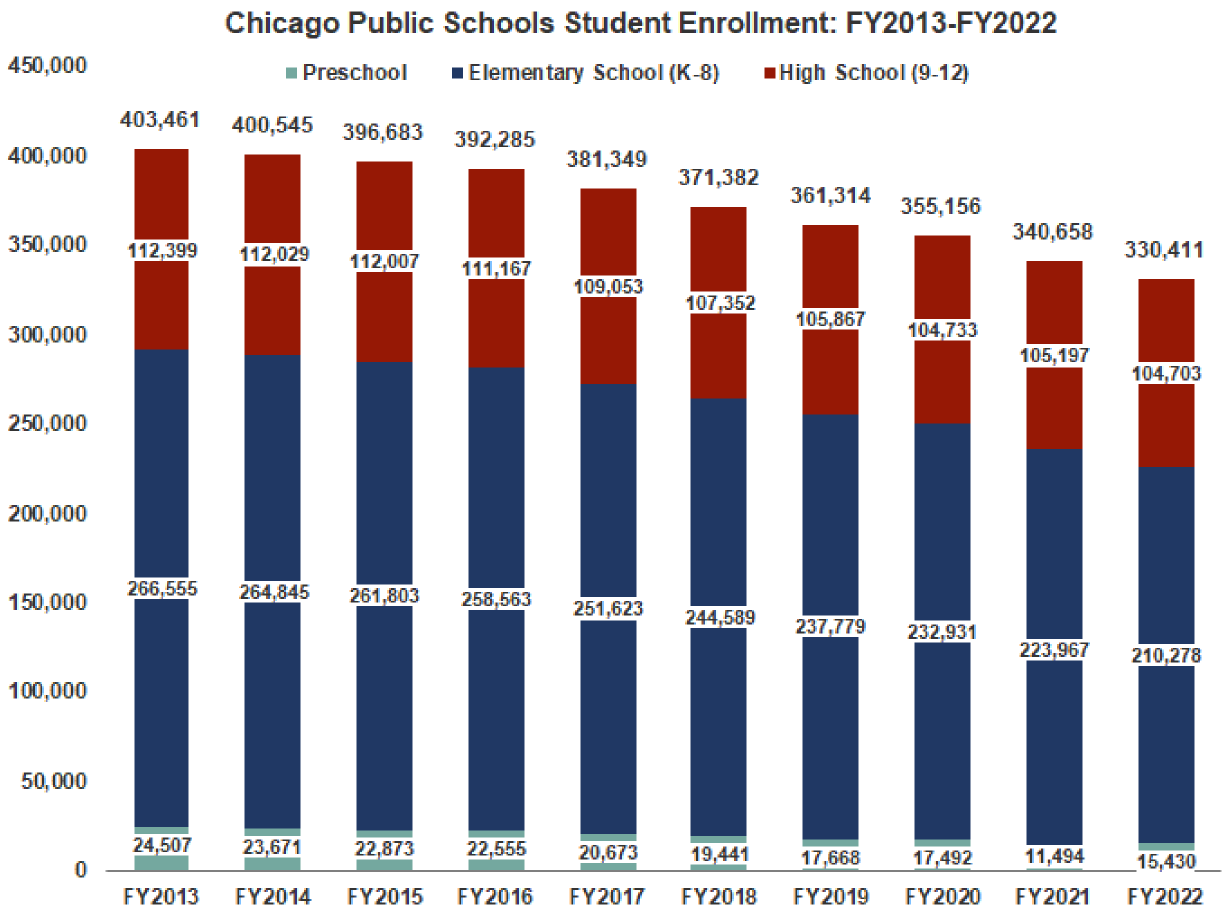
The decline in enrollment is likely due to a number of factors including population declines in Chicago among black and Latinx communities and lower birth rates.[60] Additionally, the COVID-

[58] Chicago Public Schools FY2023 Proposed Budget, p. 8.
[59] Chicago Public Schools FY2023 Proposed Budget, p. 8.
[60] *Crains Chicago Business*, "What's driving enrollment declines at CPS?" February 15, 2022, available at https://www.chicagobusiness.com/juice/chicago-public-schools-enrollment-declines-ad-qa-juice-podcast-explores.

19 pandemic contributed to a major decline in student enrollment in 2020, especially among pre-k and kindergarten students.[61]

Pre-K enrollment actually increased between FY2021 and FY2022 from 11,494 to 15,430 pre-k students (an increase of 34.2%). The FY2023 budget continues CPS' expansion of universal pre-k, with an additional $10 million to add 29 new free, full-day pre-k classrooms. The goal is to have programs in all 77 Chicago communities by fall 2023.[62]

Both elementary and high school enrollment declined between FY2021 and FY2022. Elementary school enrollment decreased by 6.1% or 13,689 students, while high school enrollment only decreased by 0.5%, or 494 students.



Source: CPS FY2023 Proposed Budget, p. 211.

[61] Sarah Karp, "Chicago Public Schools Enrollment Plummets," *WBEZ Chicago*, October 16, 2020, available at https://www.wbez.org/stories/chicago-public-schools-enrollment-plummets/671fe6d5-084d-4422-8195-3ab07fa82184.
[62] Chicago Public Schools FY2023 Proposed Budget, p. 10.

RESERVES

This section describes the Chicago Public Schools' fund balance and other reserve funds. Fund balance is a term used to describe the net assets of a governmental fund and serves as a measure of budgetary reserves.[63]

The Governmental Accounting Standards Board (GASB) Statement No. 54 has established five components of fund balance:

- ***Nonspendable fund balance*** – resources that inherently cannot be spent such as pre-paid rent or the long-term portion of loans receivable. In addition, this category includes resources that cannot be spent because of legal or contractual provisions, such as the principal of an endowment.
- ***Restricted fund balance*** – net fund resources subject to legal restrictions that are externally enforceable, including restrictions imposed by the constitution, creditors or laws and regulations of non-local governments.
- ***Committed fund balance*** – net fund resources with self-imposed limitations set at the highest level of decision-making which remain binding unless removed by the same action used to create the limitation.
- ***Assigned fund balance*** – the portion of fund balance reflecting the government's intended use of resources, with the intent established by government committees or officials in addition to the governing board. Appropriated fund balance, or the portion of existing fund balance used to fill the gap between appropriations and estimated revenues for the following year, would be categorized as assigned fund balance.
- ***Unassigned fund balance*** – in the General Fund, the remaining surplus of net resources after funds have been identified in the four categories above.[64]

The first two components of fund balance involve legal or contractual limitations on the use of those funds. The other three components involve constraints that can be lifted by the government; they are guidelines rather than legal limitations.[65] **Unrestricted fund balance** that could potentially be used for any purposes, therefore, includes all funds identified as:

- Committed fund balance;
- Assigned fund balance; and
- Unassigned fund balance.

GFOA FUND BALANCE BEST PRACTICES

The Government Finance Officers Association (GFOA) provides guidelines on the appropriate level of fund balance that governments should maintain. GFOA recommends that "general purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures."[66] Two months of operating expenditures is approximately

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[63] Government Finance Officers Association (GFOA), Fund Balance Guidelines for the General Fund (Adopted September 2015). Available at http://www.gfoa.org/fund-balance-guidelines-general-fund.
[64] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009.
[65] GFOA, Fund Balance Guidelines for the General Fund (Adopted September 2015).
[66] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015). Available at http://www.gfoa.org/appropriate-level-unrestricted-fund-balance-general-fund.

16.7%. GFOA also states that in practice, a level of unrestricted fund balance lower than the recommended minimum may be appropriate for states and America's largest governments, such as cities and counties, because they can often better predict contingencies and they typically have diverse revenue streams. Further, the statement directs governments to consider the financial resources available in other funds when determining an adequate unrestricted General Fund fund balance level.

GFOA also recommends that governments establish a formal unrestricted fund balance policy that considers the government's specific circumstances.[67] GFOA specifies several factors that should be considered when establishing a fund balance policy: revenue predictability and expenditure volatility; perceived exposure to one-time disasters or immediate expenses; the potential drain on general fund resources from other funds and the availability of resources in other funds; the potential impact on the government's bond rating and borrowing costs; and funds that are already committed or assigned for specific purposes.

CHICAGO PUBLIC SCHOOLS UNRESTRICTED FUND BALANCE

This section examines the Chicago Public Schools General Operating Fund unrestricted fund balance as a percent of general fund expenditures based on audited data from the District's most recent Annual Comprehensive Financial Reports. This ratio is a measure of whether a government is maintaining adequate levels of fund balance to mitigate current and future risks and ensure stable tax rates.[68]

The District's fund balance fell from a high of 18.5% of expenditures in FY2012 to negative levels in FY2016 and FY2017. The unrestricted fund balance fell significantly in subsequent years due to the fact that reserves were used to balance several budgets. The decline to negative numbers in FY2016 and FY2017 resulted from an operating deficit caused in part by a decline in State funding and an increase in pension obligations.[69] The unrestricted fund balance was restored to a positive balance of $261.7 million in FY2018, or 4.7% of General Fund expenditures, due to an increase in revenues related to the new statewide Evidence-Based Funding formula law passed in 2017.[70] The fund balance improved again in FY2019 through FY2021, rising from 7.5% to 11.4% of general fund expenditures.

[67] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015).
[68] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015).
[69] CPS FY2017 Comprehensive Annual Financial Report, p. 8.
[70] CPS FY2018 Comprehensive Annual Financial Report, p. 13.

CPS Unrestricted General Operating Fund Fund Balance Ratio: FY2012-FY2021

	General Operating Fund Balance	General Fund Expenditures	Ratio
FY2012	$ 902,872,000	$ 4,888,328,000	18.5%
FY2013	$ 819,004,000	$ 4,946,370,000	16.6%
FY2014	$ 354,719,000	$ 5,450,131,000	6.5%
FY2015	$ 254,328,000	$ 5,620,366,000	4.5%
FY2016	$ (227,031,000)	$ 5,414,846,000	-4.2%
FY2017	$ (354,861,000)	$ 5,297,758,000	-6.7%
FY2018	$ 261,715,000	$ 5,513,880,000	4.7%
FY2019	$ 441,029,000	$ 5,858,860,000	7.5%
FY2020	$ 488,799,000	$ 6,163,647,000	7.9%
FY2021	$ 738,749,000	$ 6,507,858,000	11.4%

Sources: CPS Annual Comprehensive Financial Reports, Statements of Revenues, Expenditures and Changes in Fund Balance and Balance Sheets - Governmental Funds.

CPS Fund Balance Policy

Chicago Public Schools adopted a new fund balance policy in January 2021 to replace a previous policy adopted in 2008.[71] The policy establishes a target fund balance level for its general operating funds, referred to as the stabilization fund. The CPS policy requires the Board to maintain an assigned fund balance totaling 15% of the operating and debt service budget (net of any budgeted non-cash expenditures or budgeted expenses derived from the dedicated Chicago Teachers' Pension Fund property tax levy) in each year. According to the policy, this 15% level is estimated to be the historical minimum cash required to provide sufficient cash flow for stable financial operations and to reduce short-term borrowing costs. The stabilization fund will not be utilized unless there is an unforeseen financial emergency and a corresponding consensus decision among the Board members.

Annually, CPS sets a fund balance target based on this policy. The fund balance target is arrived at by calculating 15% of the general operating expenditures plus debt service expenditures, less certain non-cash expenditures related to the Municipal Employees Pension Fund, State of Illinois pension contributions to the Chicago Teachers' Pension Fund and property tax levy expenditures related to the CTPF. CPS is then supposed to set aside the target amount within the General Operating Fund as a stabilization fund at the annual adoption of the budget.

As of June 30, 2022, CPS estimates that its general fund balance will be approximately $1.03 billion. This is short of the 15% policy target amount of $1.2 billion. CPS acknowledges that it will need to continue building up its reserves over time to meet the target. Going into FY2023, there are no Tax Anticipation Notes (TANs) outstanding.[72]

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[71] Fund Balance and Budget Management Policy, Adopted January 27, 2021 through Board Report 21-0127-PO2. Found in Section 403.10 of the Chicago Public Schools Policy Manual, available at https://policy.cps.edu/download.aspx?ID=62.
[72] CPS FY2023 Proposed Budget, pp. 200 and 204-205.

GENERAL OPERATING RESERVES IN FY2022 AND FY2023

While the Annual Comprehensive Financial Reports only provide information about fund balance through FY2021, the CPS budget provides information about the District's projected fund balance levels in FY2022 and FY2023 for the total General Operating Fund. This includes not just the unrestricted portion of the operating fund balance discussed above, but all components of fund balance (nonspendable, restricted, committed, assigned and unassigned fund balance).

In FY2022 CPS ended the year with a General Operating Fund balance of $803.8 million, and began the next fiscal year, FY2023, with the same operating fund balance. In that fiscal year, CPS used $10.0 million of fund balance to cover operating expenses. In FY2023, no fund balance is projected to be used as the District has sufficient resources from the Elementary and Secondary School Emergency Relief (ESSER) fund to cover its operating expenses.[73]

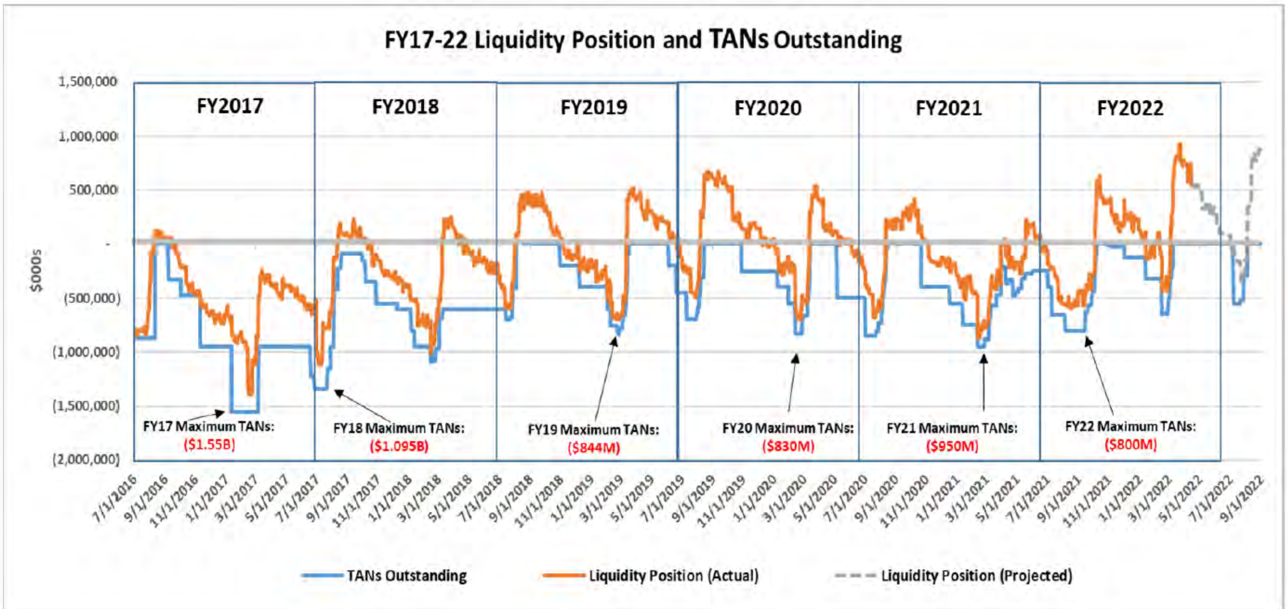
CPS FY2023 Use of Total Operating Funds Fund Balance (in $ millions)		
FY2022 Beginning Balance	$	803.8
FY2022 Estimated Sources / (Use)	$	(10.0)
FY2022 Estimated End of Year Balance	**$**	**793.8**
FY2023 Estimated Beginning Balance	$	1,032.6
FY2023 Estimated Sources / (Use)	$	-
FY2023 Estimated End of Year Balance	**$**	**1,032.6**

Source: CPS FY2023 Proposed Budget, p. 204.

[73] CPS FY2023 Proposed Budget, pp. 200 and 203-204.

CASH FLOW ISSUES

CPS experiences annual cash flow problems due to the timing of debt and pension payments that occur just before the District receives its two installments of property tax revenue, while large expenses such as payroll and vendor payments must be disbursed consistently throughout the year. The following chart, reproduced from the FY2023 budget book, shows how cashflow for CPS has improved in recent years.



While many governments use reserves to address short term cash shortfalls, CPS often has drawn down its reserves to balance annual budgets and make pension payments without making budget cuts. The cash position of CPS has improved since the passage of the statewide Evidence-Based Funding formula in 2017, which resulted in increased State funding for CPS. However, the District continued to report negative cash balances for much of the fiscal year for the past several years. FY2020 ended with a negative $234 million cash position while FY2021 ended with a negative cash position of $62 million.[74]

Because it has not had adequate reserves to address cash flow issues in recent years, CPS has had to rely on short-term borrowing through the issuance of tax anticipation notes (TANs), which are repaid once property tax revenues are received.[75] TANs carry associated interest costs. Over time, these costs have decreased as CPS has reduced the level of TANs used. In FY2018, CPS budgeted $79 million in interest costs on TANs.[76] This fell to $12 million in FY2022.[77]

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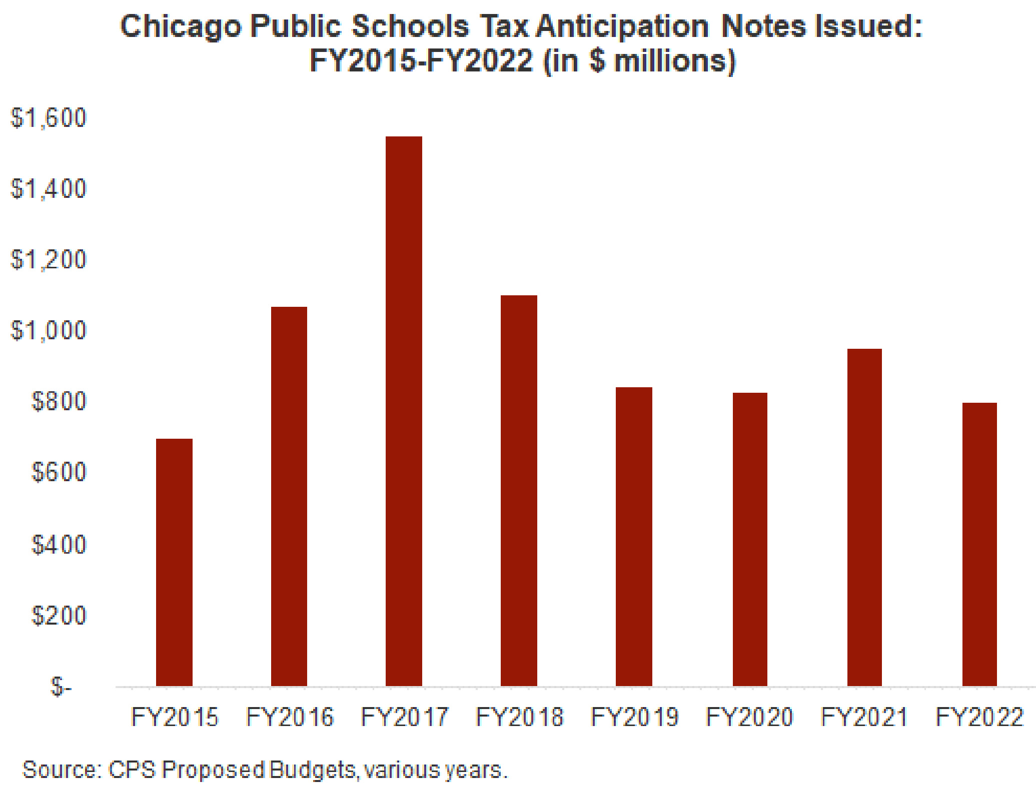
[74] CPS FY2022 Budget Overview provided to the Civic Federation, July 13, 2021.
[75] CPS also adopted a new revenue recognition policy in FY2015 that allows the District to recognize property tax revenues for up to 60 days after the close of the fiscal year. Formerly the revenue recognition period was 30 days. This change was intended to reduce the volatility in property tax collection timing.
[76] CPS FY2019 Budget, p. 179.
[77] CPS FY2022 Proposed Budget, p. 218.

The chart below shows trends in the issuance of TANS by CPS from FY2015 to FY2022. The District issued $700.0 million in TANs in FY2015, $1.07 billion in FY2016,[78] $1.55 billion in FY2017,[79] $1.1 billion in FY2018, $844 million in FY2019; $830 million in FY2020; $950 million in FY2021[80] and $800 million in FY2022.[81] Between FY2017 and FY2022, CPS reduced its short-term borrowing significantly by 48.4%, or $750 million.



CPS anticipates issuing educational purpose TANs in FY2023 for cash flow and liquidity purposes related in part to late issuance of second installment property tax bills. The District will appropriate $9 million to pay for debt service on TANs.[82]

There will be no TANs outstanding at the end of FY2022. This is a reduction from FY2021, when $244 million in TANS were outstanding. The amount of TANs outstanding at the end of future fiscal years is anticipated to be reduced to $150 million. The District plans to increase the number of months that no TANs are outstanding from two to four months, a measure that should save up to $9 million in interest costs annually. CPS attributes its improved financial situation to federal stimulus funds, a higher fund balance and the timing of revenues and expenditures.[83]

[78] CPS FY2017 Budget, p. 173.
[79] CPS FY2019 Budget, p. 179.
[80] CPS FY2021 Adopted Budget, p. 202; and CPS FY2022 Proposed Budget, p. 219.
[81] CPS Proposed FY2023 Budget, p. 201.
[82] CPS FY2023 Proposed Budget, p. 201.
[83] Chicago Public Schools Proposed FY2023 Budget, p. 200.

MUNICIPAL EMPLOYEES' PENSION FUND[84]

Eligible non-teaching employees of CPS participate in the City of Chicago's Municipal Employees' Annuity and Benefit Fund.[85] As of December 31, 2020, approximately 17,469, or nearly 55.8%, of the 31,327 active Municipal Fund members were CPS employees.[86]

The employer contribution for CPS employees participating in the Municipal Fund is made by the City of Chicago, not by CPS. However, CPS entered into an intergovernmental agreement with the City in 2019 to partially reimburse those contributions. The City makes most of the Municipal Fund employer contribution through its property tax levy, the water-sewer usage tax on consumers and through reimbursements from its enterprise and special revenue funds.[87] CPS estimates that the FY2023 Municipal Fund contribution for CPS employees will be $228.6 million.[88] CPS will reimburse the City of Chicago $175 million of this amount and will record $53.6 million from the City as revenue.

CPS does make some additional contributions to the Municipal Fund on behalf of its employees. For union employees, CPS "picks up" seven percentage points of the annual non-teacher employee pension contribution of 8.5%. CPS partially phased out the pick-up for non-union, non-teacher employee pensions in FY2016. The District's FY2023 cost for the non-teacher employee pick-up is approximately $41.0 million and is part of the District's budgeted pension appropriation.[89] The District additionally reimburses the City for the employer pick-up of employees funded by federal grants; this reimbursement is budgeted at $13.0 million in FY2023.[90]

Budget legislation approved in July 2017 included provisions to change the way the City of Chicago must fund its Municipal and Laborers' pension plans.[91] Public Act 100-0023 statutorily mandates increased employer funding of the Municipal Fund and the increased contributions are partially funded through a water-sewer usage tax on consumers imposed through the City's home rule powers. The City will increase payments over a 40-year plan to get to 90% funded. Another provision of the legislation creates a new tier of benefits for employees hired after January 1, 2017 that will increase employee contributions by three percentage points and reduce the retirement age to 65 from the Tier 2 level of 67.

The financial status of the Municipal Fund is examined in the Civic Federation's annual analysis of the City's budget proposal.[92] The next section focuses on the Chicago Teachers' Pension Fund.

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[84] As of the release of this report, the Municipal Employees' Annuity and Benefit Fund had not publicly released its FY2021 financial report or actuarial valuation. This section is therefore based on FY2020 data.
[85] 40 ILCS 5/8-110.
[86] Chicago Public Schools FY2021 Annual Comprehensive Financial Report, p. 83.
[87] City of Chicago FY2022 Budget Overview, p. 60-61.
[88] CPS FY2023 Proposed Budget, p. 43 and Interactive Proposed Budget, Revenues and Expenditures, available at https://www.cps.edu/about/finance/budget/budget-2023/. In the interactive budget, City contribution amount is shown net of CPS reimbursement
[89] CPS FY2023 Interactive Proposed Budget, Revenues and Expenditures, available at https://www.cps.edu/about/finance/budget/budget-2023/.
[90] CPS FY2023 Interactive Proposed Budget, Revenues and Expenditures, available at https://www.cps.edu/about/finance/budget/budget-2023/.
[91] Public Act 100-0023. See also http://www.meabf.org/legislature for more information about the legislation.
[92] All reports are available at civicfed.org.

TEACHERS' PENSION FUND

This section examines the budgetary impact of Chicago Public Schools' contributions to its pension fund. The Civic Federation additionally analyzes indicators of the fiscal health of its pension funds and presents multi-year trend data. Additional descriptive information about teachers' pension benefits and history can be found in past budget analyses.[93]

Certified CPS teachers are enrolled in the Public School Teachers' Pension and Retirement Fund of Chicago (known as the Chicago Teachers' Pension Fund or CTPF). The data presented below are for the Teachers' Pension Fund only. Members of the Chicago Teachers Pension Fund do not participate in the Social Security program, so they are not eligible for Social Security benefits related to their CPS employment when they retire. Along with most other public pension plans in the State of Illinois, benefits for new County employees were reduced in 2011.

In FY2021, there were 31,215 active teachers participating in the pension fund and 27,610 beneficiaries. The following table shows the changes in CTPF membership over time and the ratio of actives to beneficiaries.

CPS Teachers' Pension Fund Membership: FY2012-FY2021

Fiscal Year	Retirees & Beneficiaries Receiving Benefits	Active Employee Members	Total	Ratio of Active to Beneficiary
FY2012	25,926	30,366	56,292	1.17
FY2013	27,440	30,969	58,409	1.13
FY2014	27,722	30,654	58,376	1.11
FY2015	28,114	29,706	57,820	1.06
FY2016	28,298	29,543	57,841	1.04
FY2017	28,439	28,855	57,294	1.01
FY2018	28,549	28,958	57,507	1.01
FY2019	28,317	29,295	57,612	1.03
FY2020	28,015	30,091	58,106	1.07
FY2021	27,610	31,215	58,825	1.13

Note: Excludes terminated members entitled to benefits but not yet receiving them.
Source: Chicago Teachers' Pension Fund, Actuarial Valuations, FY2012-FY2021.

PENSIONS IN THE FY2023 CHICAGO PUBLIC SCHOOLS BUDGET

The Chicago Teachers' Pension Fund is severely underfunded. A combination of pension holidays, statutory underfunding, benefit enhancements, optimistic assumptions and other long-term problems have all contributed to its condition. The CTPF was put on a 50-year funding plan in 1995 which requires employer contributions from CPS when the fund falls below a 90% funded ratio. Relatively small additional amounts are required from the State and from CPS pursuant to benefit enhancements enacted in P.A. 90-582. Effectively, this meant that CPS did not make more than a minimal employer contribution between 1995 and 2004, when the funded ratio fell to 86% and CPS resumed payments in 2006.[94] The funding schedule was altered in April 2010 by Public Act 96-0889, which reduced the CPS required pension contribution for

[93] See for example Civic Federation, "Chicago Public Schools FY2022 Proposed Budget: Analysis and Recommendations," July 28, 2021, pp. 52-66. Available at https://www.civicfed.org/CPS_FY2022.
[94] CPS FY2023 Proposed Budget, p. 41.

FY2011, FY2012 and FY2013 to an amount estimated to be equivalent to the employer's normal cost as a response to a budget crisis at the District.[95] The law also delayed the year the pension fund must be 90% funded to 2059 from 2045.

In 2016 a State law passed as part of the State's stopgap budget allowed CPS to levy a property tax dedicated to the Chicago Teachers' Pension Fund, without the levy being subject to the Property Tax Extension Limitation Law (PTELL). The District had a dedicated pension levy until 1990, when it was transferred to fund general operating expenses and salary increases.[96] The original 0.383% rate was expected to generate approximately $250 million a year starting in FY2017, partially offsetting the CPS contribution from funds that would otherwise go to classrooms. A year later, the rate was increased to 0.567%. The pension levy is projected to generate $551.6 million in FY2023.

The State of Illinois had traditionally contributed $65 million per year to the Teachers' Fund pursuant to State statute, which declares the General Assembly's "goal and intention" to contribute an amount equivalent to 20%-30% of the contribution it makes to the downstate Teachers' Retirement System.[97] However, $65 million provided nowhere near the 20-30% goal. The State is also required to make small additional contributions to offset a portion of the cost of benefit increases enacted under Public Act 90-0582.

Illinois State legislation to change how P-12 education is funded, Public Act 100-0465, which was signed into law on August 31, 2017, included provisions to increase the State's funding to Chicago teachers' pensions starting in FY2018 to an amount equal to the annual cost of the pension plan's benefits —the normal cost—and $65 million for retiree healthcare. The State normal cost and healthcare contribution offsets part of the statutorily required contribution. In FY2023, the total required contribution is $860.3 million, of which the State of Illinois will contribute $308.7 million, effectively reducing the CPS contribution to $551.7 million.

The following chart breaks down the sources of revenue for the employer contribution to CTPF. The chart does not include CPS' expense for the pension "pick up" that offsets most teachers' contributions. That expense is projected to total $129.8 million in FY2023.[98]

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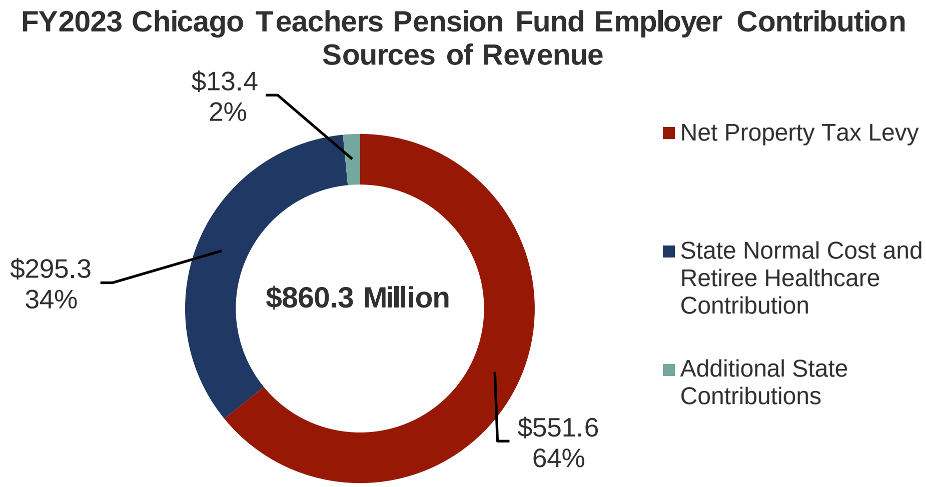
[95] "Normal cost" is an actuarially-calculated amount representing that portion of the present value of pension plan benefits and administrative expenses which is allocated to a given valuation year.

[96] See Civic Federation, "Chicago Public Schools Reinstates Teachers Pension Levy," August 26, 2016. https://www.civicfed.org/civic-federation/blog/chicago-public-schools-reinstates-teachers-pension-levy

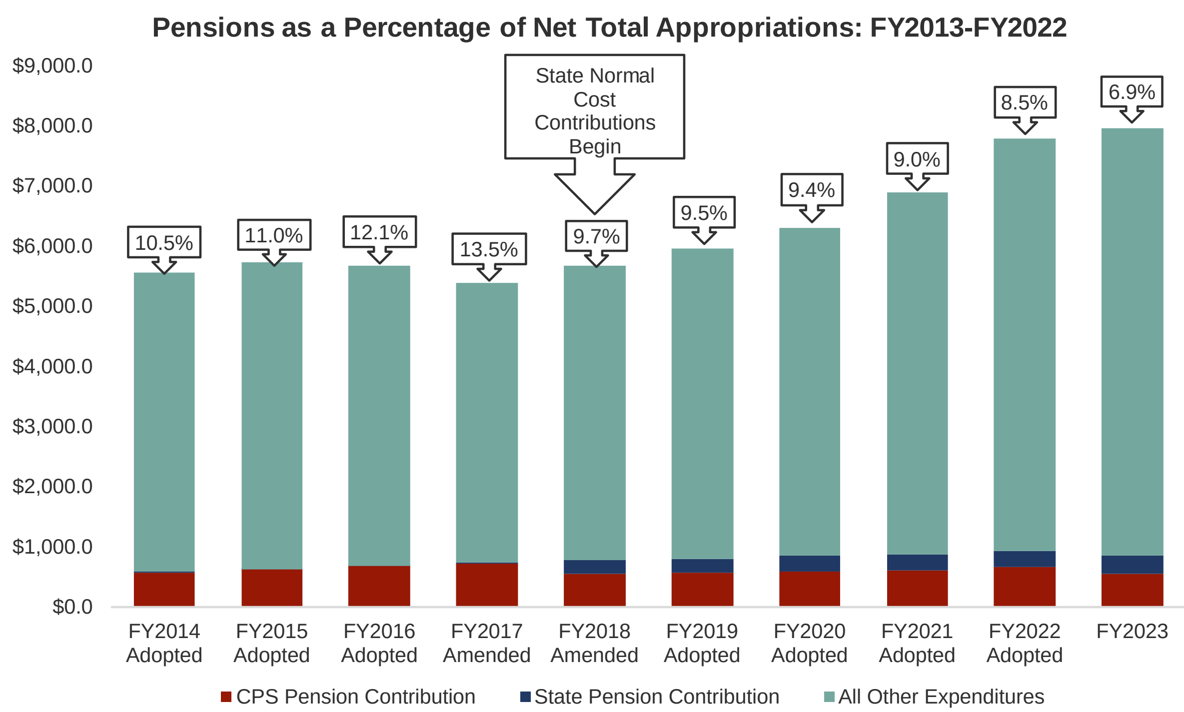
[97] 40 ILCS 5/17-127

[98] CPS FY2023 Interactive Proposed Budget, Revenues and Expenditures, available at https://www.cps.edu/about/finance/budget/budget-2023/.



Source: FY2023 CPS Proposed Budget, p. 38.

As shown in the following chart, the year before the State started making normal cost pension payments, pensions made up $733.2 million or 13.5% of CPS's operating spending in FY2017. However, the following year that decreased to $551.4 million or 9.7%. The percentage of the operating budget dedicated to pensions declined slowly over the next several years and in FY2023, CPS's pension contribution declined to 6.9% of the operating budget because of increases in the budget but also because the required contribution declined due to extraordinary investment returns in FY2021.

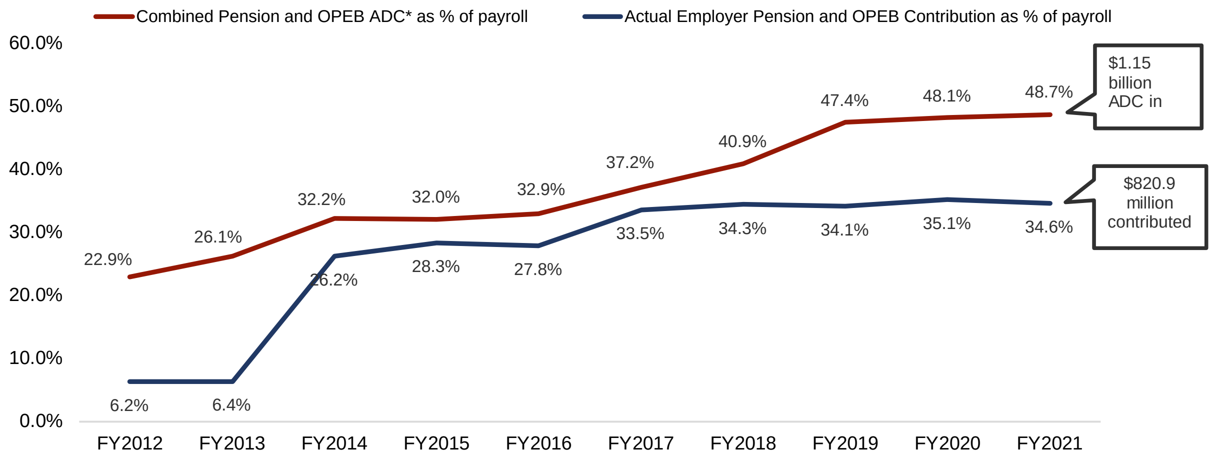


Source: CPS Budgets, FY2014-FY2023.

In order to analyze how far short of sufficient past years' contributions have been, it is useful to compare the District's actual contributions to an objective measure of how much it would need to contribute in order to pay off its unfunded liability over a set period of time. That measure, the Actuarially Determined Contribution (ADC), is a reporting requirement of the Governmental Accounting Standards Board and is reported in each pension fund's annual actuarial reports.

The following chart compares the total actual employer contribution made by CPS and the State of Illinois to the CTPF as a percentage of payroll to the ADC as a percentage of payroll. The spread between the two amounts fell from a shortfall in FY2012 of 13.7 percentage points, or $371.4 million, during the District's three-year pension funding holiday, to a gap of 3.7 percentage points in FY2018 due to CPS resuming pension funding, before growing again to a gap of 14.1 percentage points. In other words, to fund the pension plans at a level that would both cover normal cost and amortize the unfunded liability over 23 years, CPS and the State of Illinois would have needed to contribute an additional 14.1% of payroll, or nearly $334.0 million, in FY2021.

CPS Actuarially Determined Contribution* vs. Actual Total Employer Contribution: FY2012-FY2021**



* Annual Required Contribution prior to FY2014.
** Total Employer Contribution includes both CPS and State contributions to CTPF.
Source: Chicago Teachers' Pension Fund Financial Statements and Combined Actuarial Valuations, FY2012-2021.

Employee Contributions

Employee contributions to the Teachers' Pension Fund are statutorily set at 9.0% of the employee's salary. One percent of that 9.0% amount is for survivors' and children's pension benefits.

For teachers hired before January 1, 2017, CPS "picks up" 7.0% of the 9.0% annual employee pension contribution, meaning it pays seven percentage points of the employee 9.0% contribution on behalf of teachers. The 2015-19 and 2020-24 Collective Bargaining Agreements with the Chicago Teacher's Union ended the pension pick-up for teachers hired on or after January 1, 2017. Therefore, most teachers effectively pay 2.0% of their annual salary toward their pensions.

Funding Status of the Chicago Teachers' Pension Fund

In addition to evaluating whether an employer is contributing enough to the pension fund through a comparison to the ADC, it is important to understand how well-funded a pension plan is and whether funding is improving or declining over time. Pension fund status indicators show how well a pension fund is meeting its goal of accruing sufficient assets to cover its liabilities. Ideally, a pension fund should hold exactly enough assets to cover all of its actuarial accrued liabilities.

The Civic Federation analyzes three measures over time to evaluate funding status:

- Funded ratio;
- Unfunded actuarial accrued liabilities; and
- Investment rate of return.

Funded Ratio: The most basic indicator of pension fund status is its ratio of assets to liabilities, or "funded ratio." In other words, this indicator shows how many pennies of assets a fund has per dollar of liabilities. For example, if a plan had $100 million in liabilities and $90 million in assets, it would have a 90% funded ratio and about 90 cents in assets per dollar of obligations to its employees and retirees.

When a pension fund has enough assets to cover all its accrued liabilities, it is considered 100% funded. This does not mean that further contributions are no longer required. Instead, it means that the plan is funded at the appropriate level at a certain date. A funding level under 100% means that a fund does not have sufficient assets on the date of valuation to cover its actuarial accrued liability.

Unfunded Liability: Unfunded actuarial accrued liabilities (UAAL) are obligations not covered by assets. Unfunded liability is calculated by subtracting the value of assets from the actuarial accrued liability of a fund. For example, if a plan had $90 million in assets and $100 million in liabilities, its unfunded liability would be $10 million.

One of the purposes of examining the unfunded liability is to measure a fund's ability to bring assets in line with liabilities. Healthy funds are able to reduce their unfunded liabilities over time. On the other hand, substantial and sustained increases in unfunded liabilities are a cause for concern.

Investment Rate of Return: A pension fund invests the contributions of employers and employees in order to generate additional revenue over an extended period of time. Investment income provides the majority of revenue for an employee's pension over the course of a typical career. In addition to the actual annual rate of return, the assumed investment rate of return plays an important role in the calculation of actuarial liabilities. It is used to discount the present value of projected future benefit payments and has been the subject of considerable debate in recent years.[99] The assumed rate of return for CTPF was reduced to 6.5% in FY2021 from 6.75% in FY2020.

[99] For a short description of the debate see Thomas J. Healey, "Commentary: A note on the discount rate," *Pensions and Investments*, October 8, 2019. Available at https://www.pionline.com/industry-voices/commentary-note-discount-rate.

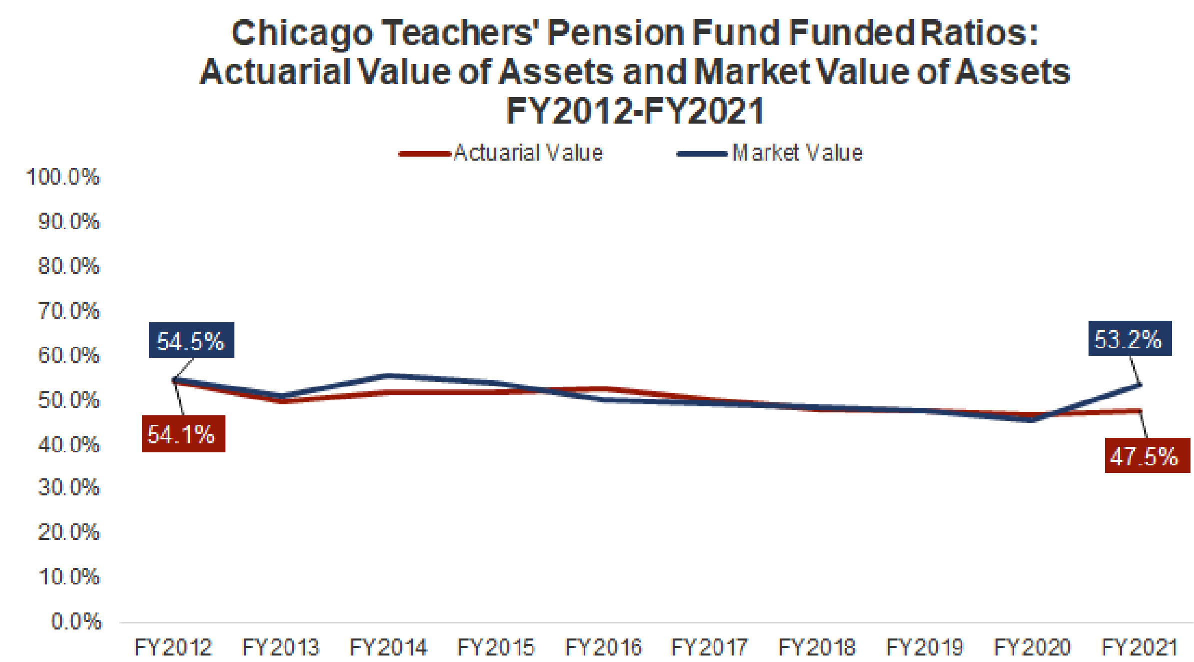
Other major contributors to a pension fund's financial status in addition to employer contributions and investment returns are benefit enhancements and changes to actuarial assumptions.

Funded Ratio

This section uses two measurements of pension plan funded ratio: the actuarial value of assets measurement and the market value of assets measurement. These ratios show the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting future obligations.

The actuarial value of assets measurement presents the ratio of assets to liabilities and accounts for assets by recognizing unexpected gains and losses smoothed out over a period of three to five years.[100] The market value of assets measurement presents the ratio of assets to liabilities by recognizing investments only at current market value. Market value funded ratios are more volatile than actuarial funded ratios due to the smoothing effect of actuarial value. However, market value funded ratios represent how much money is actually available at the time of measurement to cover actuarial accrued liabilities.

The following exhibit shows actuarial and market value funded ratios for the fund. Both the actuarial value funded ratio (47.5%) and market value funded ratio (53.2%) increased in FY2021. The larger increase in the market value funded ratio was due to high investment returns in FY2021 that will only be accounted for over four years in the actuarial value. The market value funded ratio has generally held flat over the last decade.



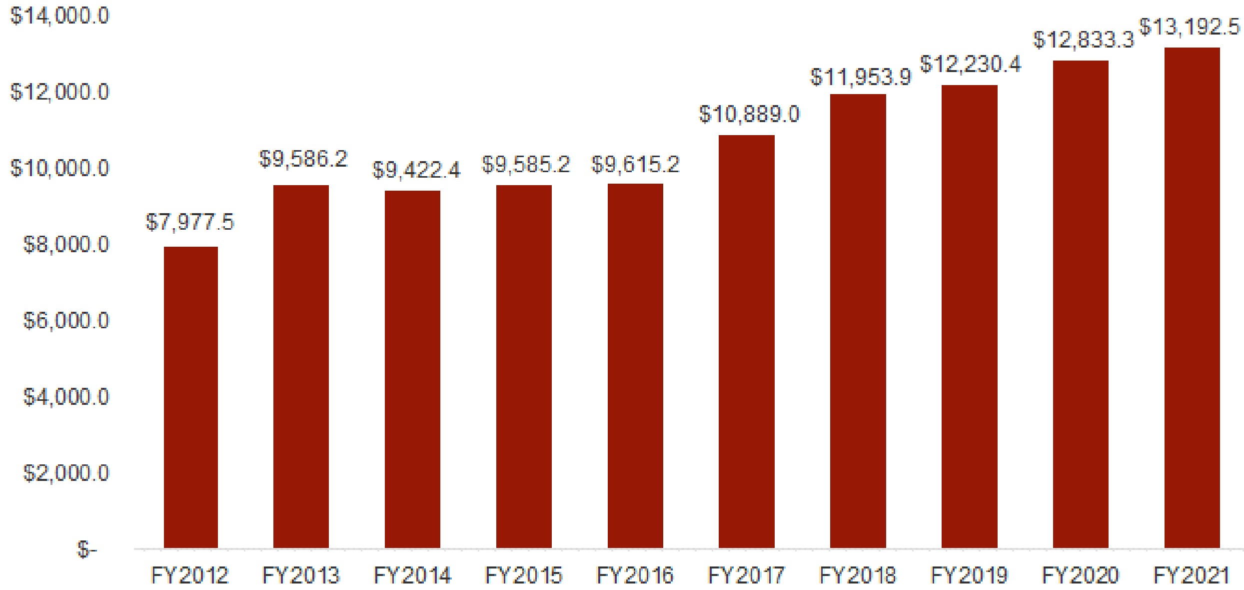
Source: Civic Federation calculations based on Chicago Teachers' Pension Fund Financial Statements, FY2012-FY2021.

[100] For more detail on the actuarial value of assets, see Civic Federation, *Status of Local Pension Funding FY2012,* October 2, 2014.

Unfunded Actuarial Accrued Liability

Over the past ten years, the unfunded liabilities of the pension fund have grown by $5.2 billion, or 65.4%. This was an increase from nearly $8.0 billion in FY2012. The total unfunded liabilities increased to $13.2 billion in FY2021 from $12.8 billion in FY2020, or by 2.8%. The unfunded liability increased in FY2021 despite record investment returns because of a change to the actuarial assumptions used by the fund, reducing the expected rate of return on investment to 6.5% from 6.75%.

Chicago Teachers' Pension Fund Unfunded Actuarial Accrued Liabilities: FY2012-FY2021 (in $ millions)



Source: Chicago Teachers' Pension Fund, Financial Statements, FY2012-FY2021.

A breakdown of the causes of the change in unfunded liability each year is available in the annual actuarial valuations of the fund. The table below summarizes the changes as calculated by the fund actuary from FY2012 to FY2021. The single largest contributor to the increase in unfunded liability is the has been changes to actuarial assumptions at $4.0 billion, followed by the consistent failure of the employer contribution to be sufficient to cover the employer's normal cost for service earned that year, as well as the interest accrued on the existing unfunded liability.[101] This deficiency in employer contributions added $3.4 billion to the unfunded liability between FY2011 and FY2021. Over the past 10 years, investment returns higher than assumed has reduced the unfunded liability by $510.0 million.

[101] Total increase in unfunded liability includes increase in FY2012 over FY2011, included in the first line of the chart below.

Chicago Teachers' Pension Fund Reasons for Change in Unfunded Actuarial Accrued Liability: FY2012-FY2021 (in $ millions)

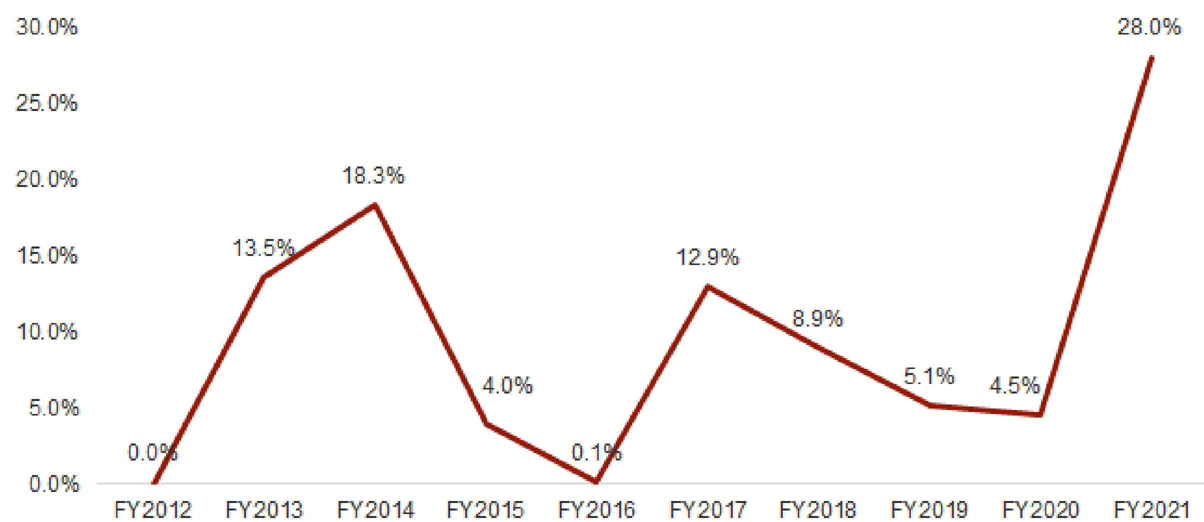
	Employer Contribution Lower/(Higher) than Normal Cost Plus Interest on Unfunded Liability	Investment Return Lower/(Higher) Than Assumed	Salary Increase (Lower)/Higher Than Assumed	Benefit Increases	Change in Actuarial Assumptions, Methods, or Data	Other	Total Net UAAL Change
FY2012	$ 532,383,133	$ 685,743,831	*	$ -	$ -	$ (40,655,176)	**$ 1,177,471,788**
FY2013	$ 621,672,350	$ (281,738,207)	*	$ -	$ 1,021,937,507	$ 246,886,533	**$ 1,608,758,183**
FY2014	$ 319,107,731	$ (454,691,436)	*	$ -	$ -	$ (28,259,604)	**$ (163,843,309)**
FY2015	$ 241,161,140	$ (45,212,951)	*	$ -	$ -	$ (33,120,109)	**$ 162,828,080**
FY2016	$ 260,150,252	$ (81,129,490)	*	$ -	$ -	$ (149,058,710)	**$ 29,962,052**
FY2017	$ 459,668,378	$ (80,937,857)	$ (180,217,505)	$ -	$ 1,074,523,844	$ 778,007	**$ 1,273,814,867**
FY2018	$ 233,351,269	$ 131,839,730	$ 6,927,266	$ -	$ 621,772,494	$ 71,037,664	**$ 1,064,928,423**
FY2019	$ 264,851,308	$ 98,317,079	$ (62,859,630)	$ -	$ -	$ (23,864,119)	**$ 276,444,638**
FY2020	$ 247,324,028	$ (22,146,029)	$ (118,074,777)	$ -	$ 565,206,537	$ (77,500,095)	**$ 594,809,664**
FY2021	$ 224,017,626	$ (460,056,077)	$ (46,401,560)	$ -	$ 727,707,442	$ (86,088,534)	**$ 359,178,897**
10-Year Total	**$ 3,403,687,215**	**$ (510,011,407)**	**$ (400,626,206)**	**$ -**	**$ 4,011,147,824**	**$ (119,844,143)**	**$ 6,384,353,283**

* Change in UAAL due to salary assumptions restored in FY2017 with new actuary. Previous actuary combined salary assumptions with Other between FY2012 and FY2016.
Source: Chicago Teachers' Pension Fund, Actuarial Valuations, FY2012-FY2021.

Investment Return

In FY2021 the CTPF experienced extraordinary investment returns far greater than its expected rates of return on investments, at 28.0%.[102] As noted above, the FY2021 investment assumption was 6.5%.

Chicago Teachers' Pension Fund Investment Rate of Return: FY2012-FY2021



Source: Civic Federation calculation based on Chicago Teachers' Pension Fund, Financial Statements, FY2012-FY2021.

102 The Civic Federation calculates investment rate of return using the following formula: Current Year Rate of Return = Current Year Gross Investment Income/ (0.5*(Previous Year Market Value of Assets + Current Year Market Value of Assets – Current Year Gross Investment Income)). This is not necessarily the formula used by the pension funds' actuaries and investment managers; thus investment rates of return reported here may differ from those reported in a fund's actuarial statements. However, it is a standard actuarial formula. Gross investment income includes income from securities lending activities, net of borrower rebates. It does not subtract out related investment and securities lending fees, which are treated as expenses.

OTHER POST EMPLOYMENT BENEFITS (OPEB)

Non-pension benefits provided to employees after employment ends are referred to as Other Post Employment Benefits (OPEB). OPEB includes health insurance coverage for retirees and their families, dental insurance, life insurance and long-term care coverage. It does not include termination benefits such as accrued sick leave and vacation. CPS has not established an irrevocable trust fund to account for its OPEB plan. Rather, these obligations are financed on a pay-as-you-go basis through the Chicago Teachers' Pension Fund (CTPF). This means that neither CTPF nor CPS are accumulating assets to pay for future OPEB benefits. Instead, benefit expenses are paid for as they come due.

The 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 additional cost of enrolling eligible dependents. However, the rebate does apply to eligible dependents who are survivors of deceased retirees. The Fund had previously provided reimbursement of 70.0% of the cost of pensioners' health insurance coverage, but it was reduced to 60.0% on January 1, 2011 and to 50.0% on January 1, 2015. According to Illinois statute, total payments from the Teachers' Pension Fund to reimburse retirees may not exceed 75.0% of total retiree health insurance costs.[103]

Beginning in FY2018, Public Act 100-0465 required the State of Illinois to begin contributing $65 million annually to the Chicago Teachers' Pension Fund health insurance subsidy. State law limits the amount of OPEB payments in any one year to $65 million plus any amounts unpaid from the preceding year.[104] Even though CPS does not contribute directly to OPEB benefits, it is required to report total OPEB liabilities in its Statement of Net Position starting in FY2018, according to GASB 75.

As of June 30, 2020, a total of 16,248 retirees and beneficiaries received health insurance benefits. There were also 11,767 retirees and beneficiaries entitled to benefits but not currently receiving them.[105] In FY2021 the Teachers' Pension Fund allocated $51.4 million to the Health Insurance Fund.[106]

The following exhibit shows the extent to which the aggregate cost of the CTPF's health insurance subsidy has changed over the past decade. From FY2012 to FY2021, insurance premium rebates paid to beneficiaries decreased by 26.5%, or $18.3 million. The health insurance rebate has represented approximately 3.2% to 5.8% of total pension and OPEB benefit expenditures over the ten-year period.

[103] 40 ILCS 17-142.1.

[104] Chicago Teachers' Pension Fund, FY2020 Comprehensive Annual Financial Report, p. 91; 40 ILCS 17-142.1.

[105] Chicago Public Schools, FY2021 Comprehensive Annual Financial Report, p. 86.

[106] Chicago Teachers' Pension Fund, FY2021 Comprehensive Annual Financial Report, p. 86. Spending is net of $528,564 in administrative and miscellaneous expenses.

Total Health Insurance Premium Rebates Paid to Retired CPS Teachers: FY2012-FY2021

	Health Insurance Rebate Paid	% Change over Previous Year
FY2012	$69,011,323	--
FY2013	$71,763,523	4.0%
FY2014	$72,874,594	1.5%
FY2015	$79,316,153	8.8%
FY2016	$66,104,598	-16.7%
FY2017	$48,451,055	-26.7%
FY2018	$66,333,655	36.9%
FY2019	$58,611,532	-11.6%
FY2020	$51,433,976	-12.2%
FY2021	$50,715,931	-1.4%
Ten-Year Change	**($18,295,392)**	**-26.5%**

Source: Chicago Teachers' Pension Fund, Comprehensive Annual Financial Report FY2021, p. 32, 144-145.

OPEB Liabilities

In 2015 the Governmental Accounting Standards Board (GASB) issued new accounting and financial reporting standards for governments' OPEB obligations, Statement 75. Pension funds and governments are now required to report additional information in the financial statements about OPEB liabilities, assets (if any) and expenses that are calculated on a different basis from previous GASB 45 OPEB disclosure requirements. Both pension funds and governments must also disclose additional information about OPEB in the notes to the financial statements and in required supplementary information sections.

Previously, governments reported OPEB liabilities in the Statement of Net Position to the extent the required contribution was not funded. The new statement requires the full net liability to be reported. As noted above, Chicago Public Schools has not set aside assets in trust for OPEB, so the District reports Total OPEB Liability, which is similar in concept to the previously reported actuarial accrued liability, but the method by which the OPEB liability is measured has changed.

CPS reported a total OPEB liability as of June 30, 2021, but measured as of June 30, 2020 of $2.9 billion, up FY2020 total OPEB liability of nearly $2.6 billion.[107] The District reported the liability in its Statement of Net Position for the first time in FY2018, which was an increase from the reported net OPEB obligation in FY2017 of $2.0 billion.[108] However, it is important to note that the cost of the program has not increased—it is how the obligation is measured that has changed.

[107] Chicago Public Schools, FY2021 Comprehensive Annual Financial Report, p. 86.
[108] Chicago Public Schools, FY2017 Comprehensive Annual Financial Report, p. 38.

DEBT AND LONG-TERM LIABILITIES

This section examines trends in CPS long-term liabilities. It includes a review of trends in the District's total long-term liabilities and a discussion of its tax-supported long-term debt. Long-term liabilities are all of the obligations owed by a government over time. Increases in long-term liabilities over time may be a sign of fiscal stress. They include long-term debt as well as: [109]

- *Accrued Sick Pay Benefits*: CPS provides sick pay benefits for nearly all of its employees. After July 1, 2012, unused sick days at the end of a fiscal year are no longer carried over to the next fiscal year. Payout of the value of any unused sick days is no longer paid out to employees. CPS budgets an amount each year in the General Operating Fund for these estimated payments to employees terminated in the current fiscal year;
- *Accrued Vacation Pay Benefits*: For eligible employees, the maximum number of accumulated unused vacation days permitted is 40 days for those employees with up to ten years of service, 53 days for those with 11 to 20 years of service and 66 days for those with more than 20 years of service. Eligible employees are entitled to receive 100.0% of accumulated vacation days at their current salary rate when they retire. These amounts are paid from the General Operating Fund;
- *Accrued Workers Compensation Claims, Accrued General and Automobile Claims and Tort Liabilities and Other Claims*: CPS is substantially self-insured and assumes risk of loss as follows: CPS maintains commercial excess property insurance for "all risks" of physical loss or damage with limits of $250,000,000 and Boiler and Machinery Insurance with limits of $100,000,000 with the following deductibles:
    - Data Processing Equipment & Media $50,000
    - Mechanical Breakdown $50,000
    - All Other Losses $500,000;
- *Net Pension Liabilities*: CPS reports 100% of the Chicago Teachers' Pension Fund's (CTPF) net pension liability in the Statement of Net Position to comply with GASB Statement 68 requirements.; and
- *Net Other Post Employment Benefit (OPEB) Obligation*s:[110] Beginning with the FY2018 CAFR, Chicago Public Schools implemented GASB Statement 75 requirements to report net OPEB liability as the portion of the present value of projected benefit payments to current active and inactive employees that is attributed to those employees' past periods of service less the amount of the OPEB plan's fiduciary net position.[111] Prior to FY2018, under the requirements of GASB Statement 45, net Other Post-Employment Benefit (OPEB) liabilities were reported as the cumulative difference between the annual OPEB cost and the employer's contributions to its OPEB Plan. As a result of the reporting

[109] Descriptions of accrued sick pay benefits, accrued vacation pay benefits, accrued workers compensation claims, and accrued general and automobile claims and tort liabilities and other claims are found in Note 11: Other Benefits and Claims, CPS FY2021 Annual Comprehensive Financial Report, pp. 77-78.

[110] Non-pension benefits provided to employees after employment ends are referred to as Other Post-Employment Benefits (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. CPS has not established an irrevocable trust fund to account for its OPEB plan. These obligations are financed on a pay-as-you-go basis through the Chicago Teachers' Pension Fund. It is important to note that these benefits are funded by the retirement system, not by CPS.

[111] Governmental Accounting Standards Board, Summary of Statement No. 75: Accounting and Financial Reporting For Postemployment Benefits Other Than Pensions at: https://www.gasb.org/cs/ContentServer?cid=1176166370763&d=&pagename=GASB%2FPronouncement_C%2FGASBSummaryPage.

change for other post-employment liabilities involved in implementing GASB 75, the amount of CPS long-term liabilities **reported** has increased substantially. This is because it reflects a more holistic approach to measuring the liabilities of the government, which the previous net other post-employment measurement did not. The amount owed by CPS for retiree health insurance to its pension funds has not significantly changed. It is only being reported more transparently.

Between FY2017 and FY2021, total CPS long-term liabilities increased by 27.4%, or by $5.8 billion, rising from approximately $21.3 billion to $27.2 billion. Most of this increase was due to increase in net pension liabilities of roughly $4.4 billion and net OPEB obligations of $578.8 million.

Total other long-term liabilities, which includes accrued sick leave and vacation pay, net pension liabilities and net OPEB obligations, grew by 35.6%, or nearly $4.9 billion, over the five-year period. Net pension liabilities alone increased by 40.2%, or $4.4 billion, while net OPEB obligations grew by 24.8%, rising from approximately $2.3 billion to $2.9 billion. The net OPEB obligation increase reflects the reporting changes required by GASB Statement 75. The amount owed by CPS for retiree health insurance has not significantly changed. It is only being reported more transparently and holistically.

Total long-term CPS debt increased by $913.8 million, or 12.2%, over the five-year period. CPS long-term debt includes general obligation bonds, leases securing Public Building Commission bonds, capital leases and Capital Improvement Tax bonds. These liabilities are secured by property tax revenues or State of Illinois school construction grants.

CPS Long-Term Liabilities: FY2017-FY2021
(in $ thousands)

Type of Obligation	FY2017	FY2018	FY2019	FY2020	FY2021	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
General Obligation Bonds*	$ 6,617,275	$ 7,281,448	$ 7,475,068	$ 7,247,856	$ 7,498,076	$ 250,220	3.5%	$ 880,801	13.3%
Leases Securing PBC Bonds	$ 116,850	$ 875	$ 700	$ 525	$ -	$ (525)	-100.0%	$ (116,850)	-100.0%
Capital Leases	$ 1,050	$ 73,520	$ 27,675	$ -	$ -	$ -	---	$ (1,050)	-100.0%
Dedicated Capital Improvement Tax Bonds	$ 729,600	$ 794,480	$ 880,480	$ 880,480	$ 880,480	$ -	0.0%	$ 150,880	---
Subtotal Long-Term Debt	**$ 7,464,775**	**$ 8,150,323**	**$ 8,383,923**	**$ 8,128,861**	**$ 8,378,556**	**$ 249,695**	**3.1%**	**$ 913,781**	**12.2%**
Other Accrued Liabilities	$ 29,840	$ 26,808	$ 30,187	$ 23,256	$ 23,912	$ 656	2.8%	$ (5,928)	-19.9%
Accrued Sick Pay Benefits	$ 289,818	$ 272,526	$ 246,264	$ 231,373	$ 236,727	$ 5,354	2.3%	$ (53,091)	-18.3%
Accrued Vacation Pay Benefits	$ 49,520	$ 48,764	$ 61,701	$ 57,606	$ 62,500	$ 4,894	8.5%	$ 12,980	26.2%
Accrued Workers' Compensation Claims	$ 114,290	$ 103,672	$ 92,902	$ 90,692	$ 87,121	$ (3,571)	-3.9%	$ (27,169)	-23.8%
Accrued General and Automobile Claims	$ 21,085	$ 30,009	$ 29,961	$ 29,738	$ 26,337	$ (3,401)	-11.4%	$ 5,252	24.9%
Tort Liabilities and Other Claims	$ 19,216	$ 16,388	$ 16,549	$ 8,034	$ 18,233	$ 10,199	126.9%	$ (983)	-5.1%
Net Pension Liability	$ 11,011,400	$ 12,382,417	$ 13,442,717	$ 14,127,342	$ 15,440,803	$ 1,313,461	9.3%	$ 4,429,403	40.2%
Net OPEB Obligation	$ 2,329,607	$ 2,270,891	$ 2,272,125	$ 2,554,892	$ 2,908,390	$ 353,498	13.8%	$ 578,783	24.8%
Subtotal Other Long-Term Liabilities	**$ 13,864,776**	**$ 15,151,475**	**$ 16,192,406**	**$ 17,122,933**	**$ 18,804,023**	**$ 1,681,090**	**9.8%**	**$ 4,939,247**	**35.6%**
Grand Total Long-Term Liabilities	**$ 21,329,551**	**$ 23,301,798**	**$ 24,576,329**	**$ 25,251,794**	**$ 27,182,579**	**$ 1,930,785**	**7.6%**	**$ 5,853,028**	**27.4%**

* Outstanding principal - par value.

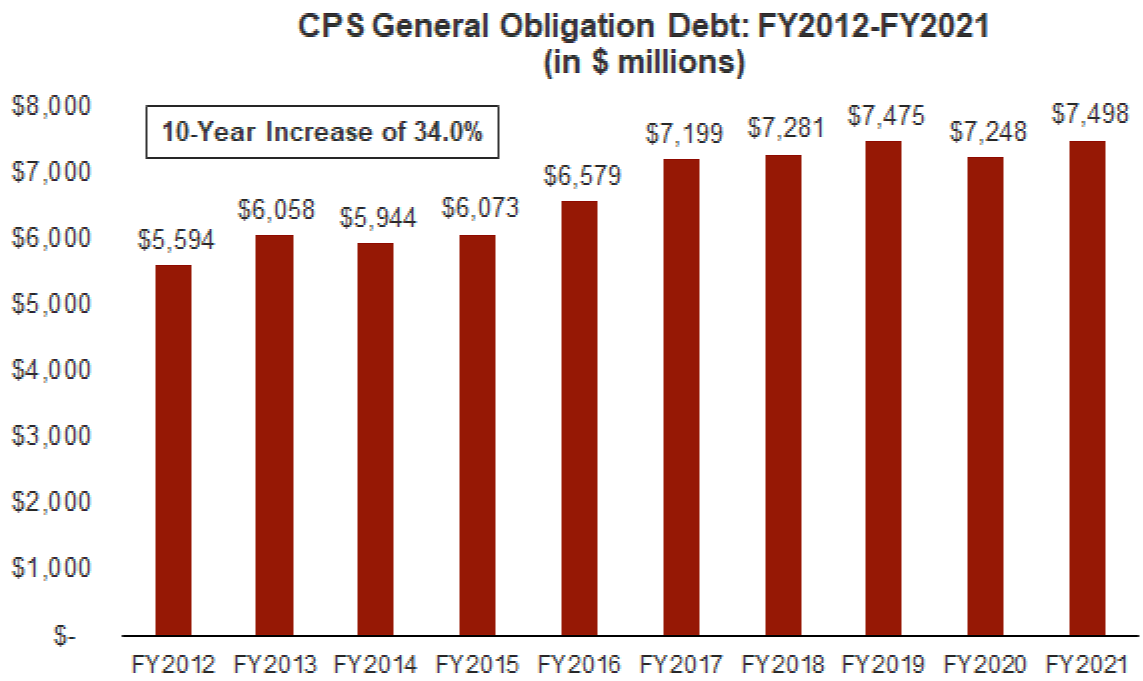
Source: CPS Annual Comprehensive Financial Reports, Notes 8, 9, 11 and 12, FY2017-FY2021.

CPS Long-Term Debt

Increases in government-issued general obligation debt bear watching as they are a potential sign of escalating financial risk. The concern is that unless a government secures additional revenues or reduces spending at the same time that it increases its debt burden, it may have difficulty making principal and interest payments at some point in the future.

CPS long-term tax supported debt increased by 34.0% between FY2012 and FY2021, rising from $5.6 billion to $7.5 billion. Long term debt rose to $7.5 billion in FY2019 before falling by $227.0 million the following year and then rising again by $250.0 million in FY2021. The large debt burden for CPS continues to be a cause for concern because the District will continue to face continuing challenges in meeting rising expenditures in areas such as personnel and retirement.

In January 2022, CPS issued $872.2 million in general obligation bonds. Of that amount, $500.0 million were unlimited tax Series 2022A GO bonds to be used for funding the district's capital improvement plan and $372.2 million were Series 2022B GO refunding bonds.[112] The bonds were rated BB with a stable outlook by S & P Global, BB+ with a stable outlook by Fitch Ratings and BBB with a stable outlook by Kroll Bond Rating Agency.[113]



Source: CPS FY2021 Annual Comprehensive Financial Report, p. 156.

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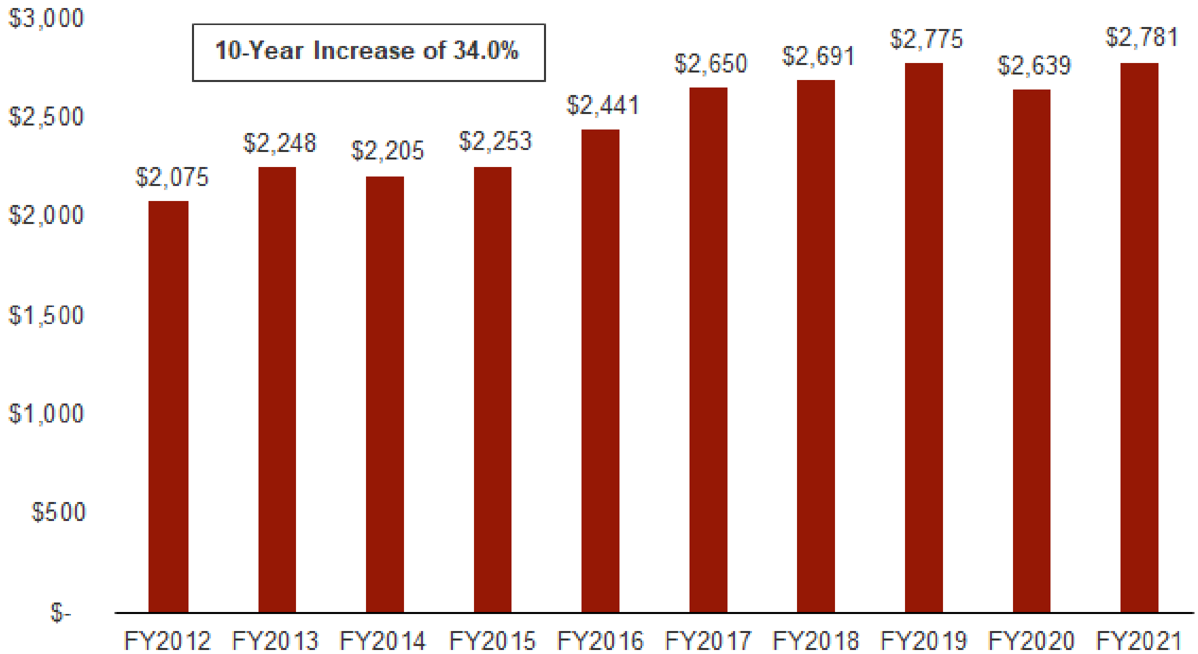
[112] Chicago Public Schools. $872,170,000 Board of Education of the City of Chicago Official Statement, January 13, 2022, p. 1.

[113] Chicago Public Schools. $872,170,000 Board of Education of the City of Chicago Official Statement, January 13, 2022, p. 77.

A commonly used measure of the debt burden on citizens is general obligation debt per capita. This indicator divides CPS general obligation debt by the population of the jurisdiction. Increases in the ratio bear watching as a potential sign of increasing financial risk in much the same manner as increases in total debt outstanding figures do.

Overall, CPS general obligation debt per capita increased by 34.0% between FY2012 and FY2021, rising from $2,075 to $2,781. This increase reflects a significant increase in direct debt. Direct debt per capita rose steadily to $2,775 in FY2019, before dipping slightly to $2,639 in FY2020 and then rising again to $2,781 the following year.

CPS General Obligation Debt Per Capita: FY2012-FY2021



Source: CPS FY2021 Annual Comprehensive Financial Report, p. 157.

Debt Service Appropriations as a Percentage of Operating Appropriations

The ratio of debt service expenditures as a percentage of total Governmental Fund expenditures is frequently used by rating agencies to assess debt burden. The rating agencies consider a debt burden high if this ratio is between 15.0% and 20.0%.[114] The CPS debt service ratio has been below the 15% threshold between FY2019 and FY2023. It has declined from 10.7% to 9.6%. Over the five-year period reviewed, the ratio is expected to average 10.1%.

CPS Budgeted Debt Service Appropriations as % of Operating Appropriations: FY2019-FY2023
(in $ millions)

	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2022 Estimated	FY2023 Proposed	$ Change	% Change
Debt Service Appropriations	$ 629.6	$ 653.8	$ 661.5	$ 763.3	$ 769.4	$ 139.80	22.2%
Operating Appropriations	$ 5,858.8	$ 6,163.6	$ 6,820.0	$ 7,821.6	$ 7,993.7	$ 2,134.90	36.4%
Debt Service as a % of Total Appropriations	**10.7%**	**10.6%**	**9.7%**	**9.8%**	**9.6%**		

Sources: CPS Proposed FY2023 Budget, pp. 16, 193-194 (for FY2021, FY2022 and FY2023 figures), CPS Adopted FY2022 Budget, p. 210 (for FY2020 figures), CPS Adopted FY2020 Budget, pp. 14 and 169 (for FY2019 figures).

CPS General Obligation Bond Ratings

In 2015, 2016 and 2017, the Chicago Public Schools was on a path of steadily falling credit ratings as the District struggled to finance its mounting debt and pension obligations and concurrently depleted its reserves. In FY2018, the financial situation improved as the State of Illinois approved legislation providing substantial financial support. The federal American Rescue Plan approved in 2021 provided additional financial assistance. In late 2021 and in 2022, Moody's Investors Services, Kroll and Fitch upgraded CPS credit ratings as the District's financial situation has improved from prior years. The district's current general obligation credit ratings are provided below.

Chicago Public Schools General Obligation Bond Credit Ratings: 2012-2022

Name of Agency	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Kroll Bond Rating Agency*				BBB+	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB
Fitch Ratings	A	A-	A-	BBB-	B+	BB-	BB-	BB-	BB	BB	BB+
Standard & Poor's	A+	A+	A+	A-	BB	B	B	B+	BB-	BB	BB
Moody's Investor Services	A2	A3	Baa1	Ba3	B2	B3	B3	B2	B1	Ba3	Ba2

* Kroll rates general obligation bond series issued from 2016 to 2019 as BBB+. All other outstanding bonds are rated BBB.
Source: Chicago Public Schools FY2023 Proposed Budget p. 192.

<u>2022 Credit Upgrades</u>

Moody's Investors Services upgraded CPS general obligation bonds to a Ba2 rating from Ba3 on March 3, 2022. The upgrade was based on the District's improved liquidity situation as well as and it's its revenue increases provided in large part by federal stimulus funding. However, Moody's warned that CPS's cash position is much more limited than its peers and that the District will continue to require cash flow borrowing. In addition, the District will face revenue declines when federal aid terminates in 2024.[115]

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[114] Standard & Poor's, Public Finance Criteria 2007, p. 64. See also Moody's, General Obligation Bonds Issued by U.S. Local Governments, October 2009, p. 18.
[115] Moody's Investor's Services. Rating Action: Moody's upgrades to Ba2 Chicago Board of Education, IL's issuer and GOULT; outlook stable, March 3, 2022.

Kroll Bond Rating Agency rated CPS Series 20922A and 202B general obligation bonds as BBB with a stable outlook in January 2022. At the same time, Kroll upgraded the District's unlimited tax general obligation bonds to BBB with a stable outlook from BBB-. The upgrade reflected the improved financial position of CPS due to increased support from the State of Illinois, dedicated funding for the pension system and federal stimulus funding. Kroll expressed several concerns in its rating report. While the liquidity position had improved, it remained narrow, forcing the District utilize short term borrowing to support operations. Finally, the funded ratio of the District's retirement system remained less than 50%.[116]

<u>2021 Credit Upgrades</u>

In December 2021, Fitch Ratings assigned a BB+ rating with a stable outlook to the Chicago Board of Education's $859.4 million general obligation bond issue. It also upgraded its ratings on outstanding tax supported general obligation bonds to BB+ from BB. The upgrade reflected the District's improved financial situation, particularly its strengthened liquidity and increase in reserves. Fitch noted ongoing contentious relations with the Chicago Teacher's Union and the District's limited ability to deal with budgetary downturns still posed significant credit risks. Fitch also upgraded CPS outstanding capital improvement tax bonds to A from A- with a stable outlook due the overall strengthening of the District's finances.[117]

On March 11, 2021, Moody's Investors Services upgraded the credit rating for CPS general obligation bonds from B1 to Ba3. The upgrade was due to the district's improved financial position from large increases in both state and local revenues. Moody's stated that in their view CPS would have sufficient resources to accommodate declining enrollment over the next few years.[118]

Standard and Poor's raised the CPS general obligation rating in April 2021 to BB from BB-minus with a stable outlook. The action was taken because federal funds from the American Rescue Plan coupled with increased state and local support will provide financial stability for the district. The upgrade moves CPS two notches away from investment grade status.[119]

<u>Previous Credit Rating Changes</u>

In August 2020, Standard & Poor's, Moody's Investors Services and Fitch Ratings rated CPS general obligation debt at BB-, B1 and BB respectively. These ratings are below investment grade status. Kroll, however, rates CPS debt issuances as investment grade with ratings of BBB and BBB-.

Moody's upgraded CPS credit to B1 from B2 in November 2019 because of the district's improved liquidity situation as a result of the infusion of new state and local revenues.[120] The

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[116] Kroll Bond Rating Agency. Rating Report: Chicago Public Schools (CPS) General Obligation Bonds. January 5, 2021.

[117] Fitch Ratings. Fitch Rates Chicago BOE, IL's ULTGOs 'BB+'; Outstanding Ratings Upgraded; Outlook Stable, December 29, 2021 at https://www.fitchratings.com/research/us-public-finance/fitch-rates-chicago-boe-il-ultgos-bb-outstanding-ratings-upgraded-outlook-stable-29-12-2021.

[118] Moody's Investor's Services. Moody's upgrades Chicago Board of Education's (IL) GO to Ba3; outlook is stable. March 11, 2021 at https://www.moodys.com/research/Moodys-upgrades-Chicago-Board-of-Education-ILs-GO-debt-to--PR_907011567.

[119] Yvette Shields, Chicago Public Schools awash in federal cash inches closer to investment grade, Bond Buyer, April 05, 2021 at https://www.bondbuyer.com/news/chicago-public-schools-awash-in-federal-cash-inches-closer-to-investment-grade.

[120] Moody's Investor's Services, Moody's upgrades Chicago Board of Education's (IL) GO to B1; outlook positive November 25, 2019 at https://www.moodys.com/research/Moodys-upgrades-Chicago-Board-of-Educations-IL-GO-to-B1--PR_906191888.

rating was affirmed in May 2020, although the outlook was changed from positive to stable. The change was due to concerns over the district's limited financial prospects as costs continue to outstrip revenues.[121]

Fitch upgraded its credit rating for the Chicago Public Schools in August 2019 from BB- to BB due to the district's restoration of reserves and improved financial position as a result of increased state aid. The rating outlook was changed from positive to stable.[122]

Standard & Poor's raised its Chicago Public Schools credit rating to BB- from B+ in August 2019. The upgrade was based on the rating agency's conclusion that the district's financial situation was much improved due to a restoring its positive fund balance, adopting a balanced budget (although it did include one-time resources), reducing reliance on short-term cash borrowing, and receiving increased state aid.[123]

Standard and Poor's, Moody's and Kroll all adjusted their outlooks on CPS debt in spring 2018 from negative to stable as a result of the approval of the State's new school funding and the approval of a new dedicated pension levy.[124] In mid-July 2018, Moody's Investor Services upgraded Chicago Public Schools debt from B3 to B2 because of the approval of the State's new school funding formula and the approval of a new dedicated pension levy. These actions have substantially improved the District's fiscal condition.[125]

[121] Moody's Investor's Services, Moody's affirms B1 on Chicago Board of Education's (IL); revises outlook to stable at https://www.moodys.com/research/Moodys-affirms-B1-on-Chicago-Board-of-Educations-IL-revises--PR_906427171.
[122] Fitch Ratings. Fitch Rates Chicago BOE, IL's $369MM ULTGOs 'BB' & Upgrades Outstanding Ratings; Outlook to Stable," August 26, 2019 at https://www.fitchratings.com/research/us-public-finance/fitch-rates-chicago-boe-il-369mm-ultgos-bb-upgrades-outstanding-ratings-outlook-to-stable-26-08-2019.
[123] Standard and Poor's Global Ratings, "Chicago Board of Education GO Bond Rating Raised To 'BB-' On Continued Financial Progress," August 28, 2019 at https://www.standardandpoors.com/en_US/web/guest/article/-/view/type/HTML/id/2289867.
[124] Juan Perez, Jr., "Wall Street offers slightly brighter outlook on CPS finances," *Chicago Tribune*, March 21, 2018 at http://www.chicagotribune.com/news/ct-met-chicago-school-board-roundup-20180321-story.html.
[125] Fran Spielman, "Bond ratings for Chicago and Chicago Public Schools a tad less junky," *Chicago Sun-Times*, July 12, 2018.

CPS Capital Improvement Bond Ratings

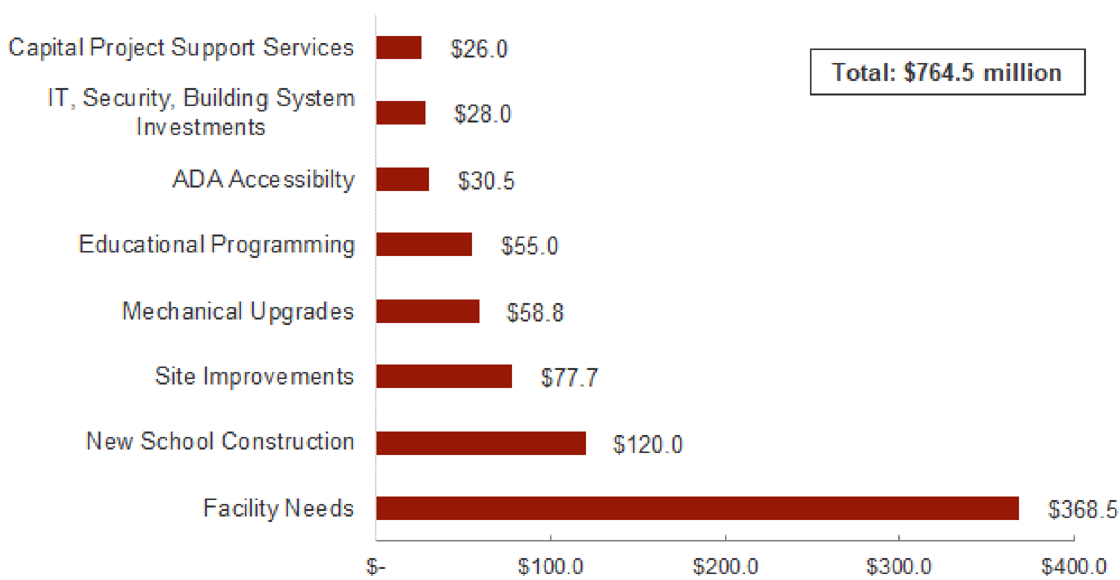
In FY2017, two rating agencies gave CPS bonds backed by the District's new Capital Improvement Tax (CIT) separate investment grade ratings. Fitch rated the CIT credit as A grade and Kroll gave it a BBB with a stable outlook rating.[126] In 2022, Kroll changed its CIT credit ratings to BBB+ from BBB. Fitch reduced the rating to A- in 2021, but then upgraded the rating to A in 2022.[127]

CAPITAL SPENDING

In the FY2023 budget book, CPS proposes appropriating $764.5 million to be spent over time for capital projects.[128] The capital budget includes funding for projects that will be built over a period of several years. This is unlike the operating budget, which includes spending for the upcoming fiscal year.

The largest single amount in the proposed capital spending plan, $368.5 million or 48.2% of the total, will be spent on facility needs, including renovations to ease overcrowding, improve ventilation and enhance student athletic and recreation facilities. The second largest amount, $120.0 million, is expected to be used for new school construction. Smaller amounts will be earmarked for site improvements; mechanical upgrades; educational programs; improving ADA accessibility, information technology and building system investments and capital project support services.[129]

CPS FY2023 Proposed Multi-Year Capital Spending (in $ millions)

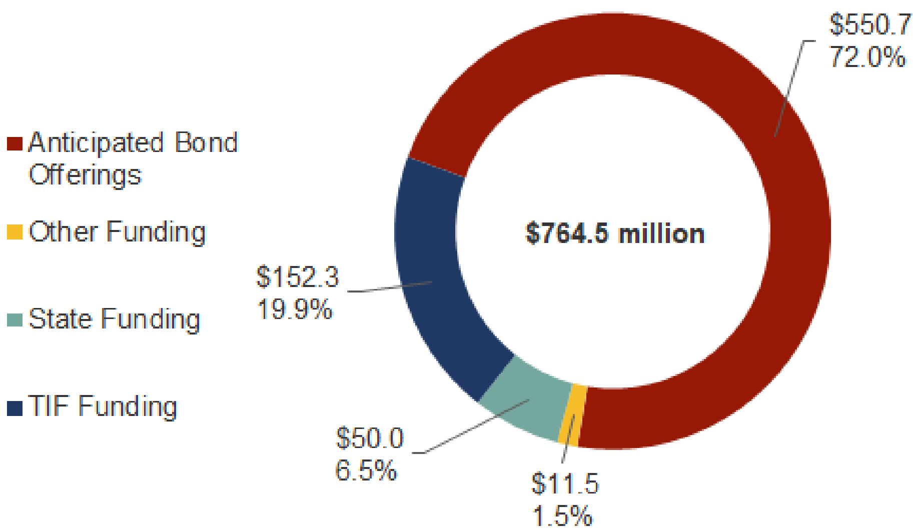


Source: CPS FY2023 Proposed Budget, p. 185.

126 Chicago Public Schools. FY2022 Proposed Budget, p. 192.
127 See Chicago Public Schools Proposed FY2023 Budget, p. 192.
128 CPS FY2023 Proposed Budget, p. 184.
129 CPS FY2023 Proposed Budget, pp. 184-185.

The FY2023 capital spending plan will be funded over several years, primarily with debt proceeds. Approximately $550.7 million, or 72.0% of all resources used, will be financed by debt issuances that will be repaid with evidence-based funding resources from the State of Illinois. About 20%, or $152.3 million, will come from tax-increment financing (TIF) funds. Other funding from the State of Illinois will account for $50.0 million, or 6.5% of all spending. Approximately $11.5 million will come from other sources; this includes $4.0 million from federal funds; $4 million from the space to grow initiative, which is a site improvement program operated with the Chicago Department of Water Management and Metropolitan Water Reclamation District; and $3.5 million from other unidentified potential external sources.[130]

CPS FY2023 Proposed Capital Funding Sources
(in $ millions)



Source: CPS FY2023 Proposed Budget, pp. 184-185.

[130] CPS FY2023 Proposed Budget, p. 80.

CAPITAL PROJECT REVENUES AND SPENDING: FY2019-FY2023

This section presents information about trends in CPS capital plan spending in the five-year period between FY2019 to FY2023.

Capital outlays of $549.3 million in FY2023 will be incurred that year regardless of the year in which projects were appropriated. The fund balance amount shown is the difference between expected FY2023 capital expenses versus revenues. The amount unspent in one fiscal year carries forward into the next fiscal year.[131]

The following are some of the significant two-year changes between the FY2022 estimated and the FY2023 proposed budget:

- Total capital revenues from state, local and federal sources will increase by $60.2 million, or 218.1%, from $27.6 million to $87.8 million;
- State of Illinois revenues are expected to increase from $8.9 million to $28.3 million. Of the latter amount, $13.3 million will be derived from gaming revenue for new construction projects and $15.0 million will come from other potential State of Illinois grants;[132]
- Local revenues will increase from $18.4 million in FY2022 to $59.5 million. Approximately $44.0 million of the FY2023 amount will be from TIF-related reimbursement, $5.5 million from the CPS Capital Improvement Tax levy and $10.0 million from other local funding sources such as City of Chicago aldermanic menu funds and the Metropolitan Water Reclamation District;[133] and
- No federal revenues were available in FY2022 or FY2023.

On the expenditure side, capital outlays will rise from $498.2 million in FY2022 to $549.3 million in FY2023; this is a 10.3%, $51.1 million increase. The $549.3 million figure represents amounts originally budgeted in prior years that will be spent in FY2023, as well as the estimated $169.0 million to be budgeted and spent in FY2023.[134]

In the same two-year period, proceeds from bond issuances will decrease from $540.4 million to $450.0 million, a $90.4 million or 16.7% reduction. The District's end of year fund balance is expected to fall by 4.4%, from $258.5 million to $247.0 million. There will be no proceeds from the sale of capital assets in FY2023.

Over the five-year period between FY2019 and FY2023, total capital revenues are expected to increase by 14.0% or $10.8 million. Capital outlays will decrease by 10.4% or $63.7 million, falling from $613.0 million to $549.3 million. Bond issuances will rise by 26.3%, increasing from $356.4 million to $450.0 million. The end-of-year fund balance will drop from $716.7 million to $247.0 million, a 65.5%, or $469.7 million, decrease. The FY2023 capital budget will begin the year with a $258.5 million balance of unspent revenue received in prior years.

[131] CPS FY2023 Proposed Budget, p. 188.
[132] CPS FY2023 Proposed Budget, p. 188.
[133] CPS FY2023 Proposed Budget, p. 188.
[134] CPS FY2023 Proposed Budget, p. 189.

CPS Capital Revenues and Expenses (Outlays) FY2019-FY2023
(in $ millions)

	FY2019 Actual Budget	FY2020 Actual Budget	FY2021 Actual Budget	FY2022 Estimated Budget	FY2023 Proposed Budget	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Beginning of Year Fund Balance	**$ 895.1**	**$ 716.7**	**$ 182.1**	**$ 188.7**	**$ 258.5**	**$ 69.8**	**37.0%**	**$ (636.6)**	**-71.1%**
Revenues									---
Local Revenue	$ 63.0	$ 24.8	$ 12.7	$ 18.4	$ 59.5	$ 41.1	223.4%	$ (3.5)	-5.6%
State Revenue	$ 13.0	$ 10.7	$ 17.5	$ 8.9	$ 28.3	$ 19.4	218.0%	$ 15.3	117.7%
Federal Revenue	$ 1.0	$ -	$ 7.6	$ -	$ -	$ -	---	$ (1.0)	-100.0%
Interest & Investment Earnings	$ -	$ 12.8	$ 1.1	$ 0.3	$ -	$ (0.3)	---	$ -	---
Total Revenue	**$ 77.0**	**$ 48.3**	**$ 38.9**	**$ 27.6**	**$ 87.8**	**$ 60.2**	**218.1%**	**$ 10.8**	**14.0%**
Expenditures									
Capital Outlay	$ 613.0	$ 583.4	$ 565.7	$ 498.2	$ 549.3	$ 51.1	10.3%	$ (63.7)	-10.4%
Bond Proceeds & Transfers In/Out	$ 356.4	$ -	$ 533.4	$ 540.4	$ 450.0	$ (90.4)	-16.7%	$ 93.6	26.3%
Sales of Capital Assets	$ 1.2	$ 0.4	$ -	$ -	$ -	$ -	---	$ (1.2)	----
End of Year Fund Balance	**$ 716.7**	**$ 182.1**	**$ 188.7**	**$ 258.5**	**$ 247.0**	**$ (11.5)**	**-4.4%**	**$ (469.7)**	**-65.5%**

Total figures may not sum due to rounding.
Sources: CPS FY2021 Proposed Budget, pp. 186-187; CPS FY2022 Proposed Budget, p. 204; CPS FY2023 Proposed Budget, p. 188.

Actual Capital Spending: FY2018-FY2023

There is a difference between the amount of funds appropriated for capital projects each year and the amount actually spent in that year. The next table shows the amount of actual capital expenditures spent each year compared to the total capital funds appropriated for that year; this includes funds appropriated in prior years beginning in FY2018. In FY2023, of the $644.5 million to be appropriated for capital projects, CPS intends to actually spend $169.0 million. Approximately $475.5 million of the FY2023 capital appropriation will be spent in subsequent years. A total of $1.5 billion will be spent in future years that was originally appropriated between FY2018 and FY2023. The difference between the total FY2023 capital budget of $764.5 million and the appropriated amount of $644.5 million shown below is because $120 million for new school construction in FY2023 will derive from funds appropriated in prior years.[135]

CPS Capital Spending Year by Year FY2018-FY2023 (in $ millions)

	Total Appropriations	FY2018 Actual	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2022 Estimated	FY2023 Proposed	All Funds Remaining Appropriation
Prior Year/Other Expenditures		$ 241.2	$ 271.6	$ 127.0	$ 41.3	$ 15.8	$ 6.5	
FY2018 Capital Budget	$ 136.2	$ 50.7	$ 64.7	$ 4.3	$ 16.5	$ -	$ -	$ -
FY2019 Capital Budget	$ 919.0		$ 276.7	$ 333.8	$ 191.6	$ 77.6	$ 12.9	$ 26.4
FY2020 Capital Budget	$ 820.6			$ 118.3	$ 216.4	$ 45.3	$ 70.9	$ 369.7
FY2021 Capital Budget	$ 708.0				$ 97.5	$ 276.9	$ 38.7	$ 294.9
FY2022 Capital Budget	$ 706.6					$ 82.6	$ 251.4	$ 372.6
FY2023 Capital Budget	$ 644.5					$ -	$ 169.0	$ 475.5
Total Spending Year by Year		**$ 291.9**	**$ 613.0**	**$ 583.4**	**$ 563.3**	**$ 498.2**	**$ 549.4**	**$ 1,539.1**

Source: CPS FY2023 Proposed Budget, p. 189.

135 Chicago Public Schools FY2023 Proposed Budget, p. 189.

CPS CAPITAL IMPROVEMENT PLAN

Public Act 97-0474 requires CPS annually to prepare and publish a five-year capital improvement plan (CIP). This requirement was amended by P.A. 97-1133 to also require development of a 10-year Educational Facilities Master Plan. That plan is supposed to be used to guide completion of the FY2018 capital budget and five-year capital improvement plan. The plan's goals include: 1) using educational goals to guide the direction of capital programming; 2) maintaining health and safety of students and staff; 3) supporting a full school day; 4) relieving overcrowding; and 5) identifying partners for external funding support. The latest update to the Master Plan is dated October 1, 2018.[136] The CPS website does provide summary information on the district's five-year capital plan,[137] but CPS has not yet published a full FY2023-FY2027 capital improvement plan. The last full five-year capital plan was published in FY2016. It consisted of a project list with appropriations over a five-year period.

[136] Chicago Public Schools, Educational Facilities Master Plan Update, October 1, 2018 at https://schoolreports.cps.edu/EFMP/EducationalFacilitiesMasterPlan_2018_update.pdf.
[137] Chicago Public Schools. Capital Plan FY2023 at https://www.cps.edu/about/finance/capital-plan/capital-plan-fy2023/.