

# Update to Civic Federation: Final Agreements with CTU and SEIU + FY2020 Amended Budget

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**DRAFT - CONFIDENTIAL**

# Table of Contents

- 1) Overview of Agreements with CTU and SEIU
- 2) FY2020 Amended Budget
- 3) Progress in Credit Fundamentals



# Overview of Agreements with CTU and SEIU



## Key Takeaways:

- Five-year contract terms provides stability.
- Average annual wage increases are moderate compared to historical standards.
- Structural deficits in FY21-24 are manageable in size.



# Five-year agreements with CTU and SEIU build on commitments included in original FY2020 budget

Term: 5 years

**Base Compensation Increases:** 16% cost of living adjustment over five years (3% in FY2020)

## Staffing Increases:

- 209 additional social workers by 7/30/2023, one assigned to every school
- 250 additional nursing positions by 7/30/2023, one assigned to every school
- 180 additional case managers by 7/30/2023, 280 by end of contract (and 60 above July commitment)
- 120 equity positions by FY23 for highest needs schools, including counselors, restorative justice coordinators, and librarians
- English Learner Program Teachers (ELPT): lower threshold for full-time ELPT from 200 English learners to 150
- Students in Temporary Living Situations Support (STLS): full time School Community Representative in all schools with 75 or more STLS and 2 full time positions in schools with 140 or more STLS
- Maintain at least current clinician staffing levels

} Previously announced in July

## Other Major Investments

- \$35 million annually in FY2021 - FY2024 to reduce class size throughout the district
- \$5 million annually in FY2021 - FY2024 to support sports programming
- \$5 million annually for veteran teachers
- Restructured wage scales for CTU and SEIU support staff to help recruit and retain employees
- Investments in pipeline and tuition reimbursement programs



# Wage increases align with prior CTU contracts

- Average annual increase of **3.20%** is moderate by historical standards.
- Wage increases averaged **3.43%** annually from 1980-2019.

Contract Length	Fiscal Year	Wage Increase	Steps & Lanes	Pension Pick up	Increase in HC Contributions For all (Yes/No)	HC Plan Design Change(Yes/No)
4-Years	1996	3%	Yes	7%	No	No
	1997	3%	Yes	7%	No	No
	1998	3.25%	Yes	7%	No	No
	1999	3.375%	Yes	7%	No	No
4-Years	2000	3%	Yes	7%	No	No
	2001	3%	Yes	7%	No	No
	2002	3%	Yes	7%	No	No
	2003	3%	Yes	7%	No	No
4-Years	2004	4%	Yes	7%	No	No
	2005	4%	Yes	7%	No	Yes
	2006	4%	Yes	7%	No	No
	2007	4%	Yes	7%	No	No
5-Years	2008	4%	Yes	7%	No	No
	2009	4%	Yes	7%	No	No
	2010	4%	Yes	7%	No	No
	2011	4%	Yes	7%	No	No
3-Years	2012	0%	Yes	7%	No	No
	2013	3%	Yes	7%	Yes	Yes
	2014	2%	Yes	7%	Yes	Yes
	2015	2%	Yes	7%	Yes	Yes
4-Years	2016	0%	No	7%	No	No
	2017	0%	Yes	7%, new hires 0%	Yes	Yes
	2018	2%	Yes	7%, new hires 0%	Yes	Yes
	2019	2.5%	Yes	7%, new hires 0%	Yes	Yes
5-Years	2020	3%	Yes	7%, new hires 0%	No	No
	2021	3%	Yes	7%, new hires 0%	No	No
	2022	3%	Yes	7%, new hires 0%	No	No
	2023	3.5%	Yes	7%, new hires 0%	Yes	No
	2024	3.5%	Yes	7%, new hires 0%	Yes	No



# Contracts include \$558M growth in annual commitments by year five

The final contracts with CTU and SEIU include annualized investments of \$558 million by the end of each contract.

(\$ millions)	FY20	FY21	FY22	FY23	FY24	Total
CTU	\$115.0	\$127.1	\$92.7	\$91.9	\$77.4	<b>\$504.2</b>
SEIU	\$22.2	\$9.6	\$12.0	\$10.3	\$ -	<b>\$54.1</b>
<b>Total</b>	<b>\$137.2</b>	<b>\$136.7</b>	<b>\$104.7</b>	<b>\$102.2</b>	<b>\$77.4</b>	<b>\$558.3</b>

\$137M in FY20 includes \$89M approved in August budget and \$48M of additional cost added to amended budget.



# Manageable Five-Year Impact

- For the first time in decades, CPS has both financial stability and long-range planning ability around its biggest cost center
- \$558M of additional annual cost by year five represents an increase in commitments but not increase in total cost
  - \$89 of the \$558 million was included in balanced budget approved in August
  - CPS projects ability to absorb \$30M to \$40M of contractual commitments into its existing cost structure
  - Growth in state pension aid expected to offset nearly 10 percent of growth in contractual commitments
- Local and state revenues are projected to grow by \$200M to \$250M annually over next five years.
- Cumulative total of contractual commitments (\$1.5 billion) represents less than 5 percent of overall spending over life of contract (\$30+ billion)
- Projected deficits over the next four fiscal years are manageable





# FY2020 Amended Budget



# The amended budget includes \$144 million of new operating revenues and expenses

The amended budget totals \$7.84 billion including \$6.32 billion in operating expenses, reflecting increases of \$144 million from the budget approved in August.

<b>Original FY2020 Operating Budget</b>	<b>\$6,175M</b>	<b>\$6,175M</b>
<b>Material Changes</b>	<b>Revenue Change</b>	<b>Expense Change</b>
Increase in FY20 CTU costs		+\$33M
Increase in FY20 SEIU costs		+\$15M
Loss of city subsidy for MEABF	(\$60M)	
Increase in TIF funding	+\$66M	
Decreased expenses from days lost to strike		(\$68M)
Short-term debt reduction		+\$26M
<b>Total - Material Changes</b>	<b>+\$6M</b>	<b>+\$6M</b>
<b>Non-Material Changes</b>		
Accounting treatment of remaining MEABF subsidy from city (net zero budget impact)	+\$138M	+\$138M
<b>Total - All Changes</b>	<b>+\$144M</b>	<b>+\$144M</b>
<b>Amended FY2020 Operating Budget</b>	<b>\$6,319M</b>	<b>\$6,319M</b>



# \$48 million in increased labor costs is tied mainly to wage increases

\$33 million of increased expense in the FY2020 amended budget reflects the following items in the CTU collective bargaining agreement:

- \$15 million for increased wages and benefits, due primarily to the incremental cost of 3 percent cost of living adjustments
- \$11 million for a restructured wage scale for teaching assistants, nurses, and other school support staff
- \$5 million for substitute teacher incentives for hard to staff schools, and pipeline initiatives for nurses, social workers, and case managers
- \$2 million for additional class size reduction

\$15 million of increased expense in the FY2020 amended budget reflects the following items in the SEIU collective bargaining agreement:

- \$2 million for the incremental cost of 3 percent cost of living adjustments
- \$13 million for a restructured wage scale or new stipends for special education classroom assistants, security guards, custodians, and bus aides



# Two changes to budgeting for support staff pensions

The FY2020 amended budget includes two updates – one material and one non-material – to CPS’s budgeting for support staff pensions.

- 1) CPS will reimburse the city for \$60 million, reflecting the recent annual payments the city has made to the Municipal Employees Annuity and Benefit Fund (MEABF) on behalf of CPS

*This represents a reduction in revenue of \$60 million.*

- 2) CPS will budget an additional \$138 million in offsetting revenue and expense to reflect the city’s additional payments towards CPS portion of MEABF’s unfunded liability

*This represents a non-material update to reflect accounting treatment of the additional payment made on CPS’s behalf.*



# Two changes to budgeting for support staff pensions

The total estimated 2020 employer contribution to MEABF for CPS employees is \$198 million.

Total covered by CPS (previously covered by City of Chicago)	\$60 million	Included in amended budget as reduction in revenue	} Material update
Total covered by City of Chicago	\$138 million	Included in amended budget as offsetting revenue and expense	
<b>Total estimated 2020 employer contribution to MEABF</b>	<b>\$198 million</b>		} Non-material update



# Credit Fundamentals Continue to Show Measurable Progress



# Key Credit Concerns Successfully Addressed

Prior Concern	Solution
<b>Structural Imbalance</b>	<ul style="list-style-type: none"> <li>• CPS has structurally increased its revenues by nearly \$900M over the past two years</li> <li>• Improved fund balance exceeds CPS policy target</li> <li>• FY19 unrestricted general fund balance projected at \$365M (target was \$330M)</li> </ul>
<b>High Fixed Costs</b>	<ul style="list-style-type: none"> <li>• Labor, debt and pension are covered by dedicated revenues or management controlled expenses on a long-term sustainable basis</li> <li>• Hold harmless feature of the State funding formula promotes better operational stability</li> <li>• Labor costs declined 1% annually over last 10 years</li> <li>• In FY20, 88% of CPS pension costs covered by pension levy and State contribution – projected to be fully covered by dedicated revenues by FY31</li> <li>• Non-operating revenues support capital program</li> <li>• Long-term interest rates have declined from an average of 8.41% in FY16 to 4.61% in FY19</li> </ul>
<b>Liquidity</b>	<ul style="list-style-type: none"> <li>• Reduction in TANs borrowing evidence of improved liquidity</li> <li>• Max TANs outstanding reduced to \$844M</li> <li>• TANs outstanding for a shorter period of time – 5 ½ months with zero TANs outstanding</li> <li>• Reduced interest rates, cash management initiatives and use of competitive sales resulted in a reduction of approximately \$10M in short-term interest costs in FY19</li> </ul>
<b>Dependency on Market Access</b>	<ul style="list-style-type: none"> <li>• Market demand for the Board’s offerings continued to strengthen and expand in FY19</li> <li>• Use of competitive sales diversifies the Board’s borrowing methods and reached new lenders</li> <li>• 2019A TAN sale resulted in lowest short-term borrowing cost to date</li> </ul>



# CPS' Financial Condition Continues to Improve

- The financial condition of the Board has improved significantly since the enactment of the new State Evidence Based Funding (“EBF”) model in FY18
- The State now pays the normal cost as well as a contribution for healthcare – CPS still pays the unfunded liability which is funded from its dedicated property tax levy and operating budget

FY14: \$404M increase in pension cost drove \$393M increase in deficit and drained fund balance

\$M	FY12	FY13	FY14 <sup>2</sup>	FY15 <sup>3</sup>	FY16	FY17	FY18	FY19*
Operating Surplus/(Deficit) <sup>1</sup>	328	(120)	(513)	(710)	(486)	(149)	599	0-60
Operating Funded Pension Cost	193	197	→ 601	613	676	733	551 <sup>4</sup>	106 <sup>4</sup>
General Fund Balance	1,068	949	→ 436	360	(127)	(275)	324	365
Net Cash Balance (as of June 30)	1,292	1,042	→ 102	(588)	(803)	(1,013)	(320)	(115)*
Max TANS Outstanding	n/a	n/a	131	700	1,065	1,550	1,095	844

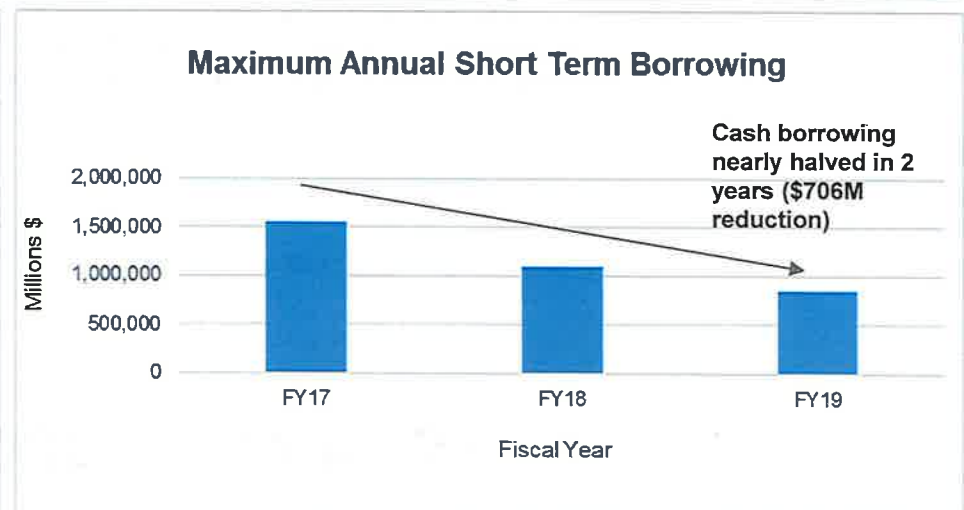
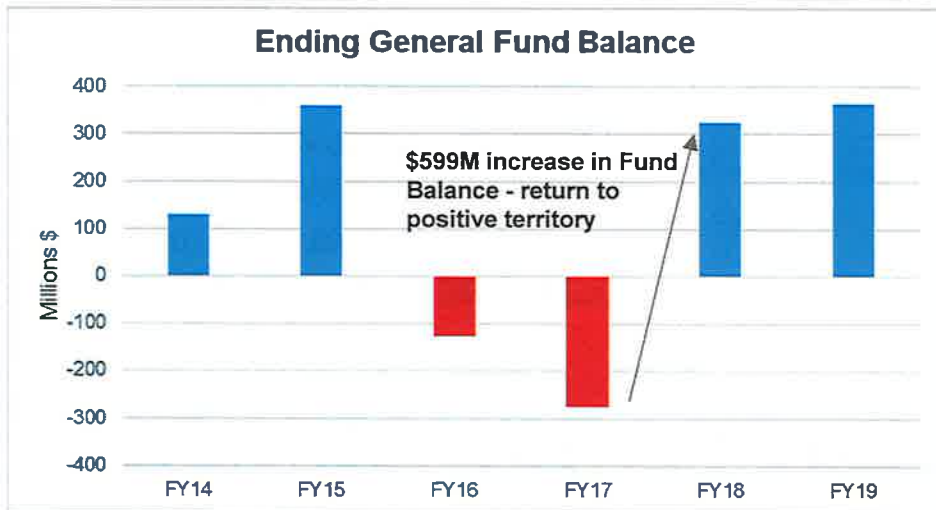
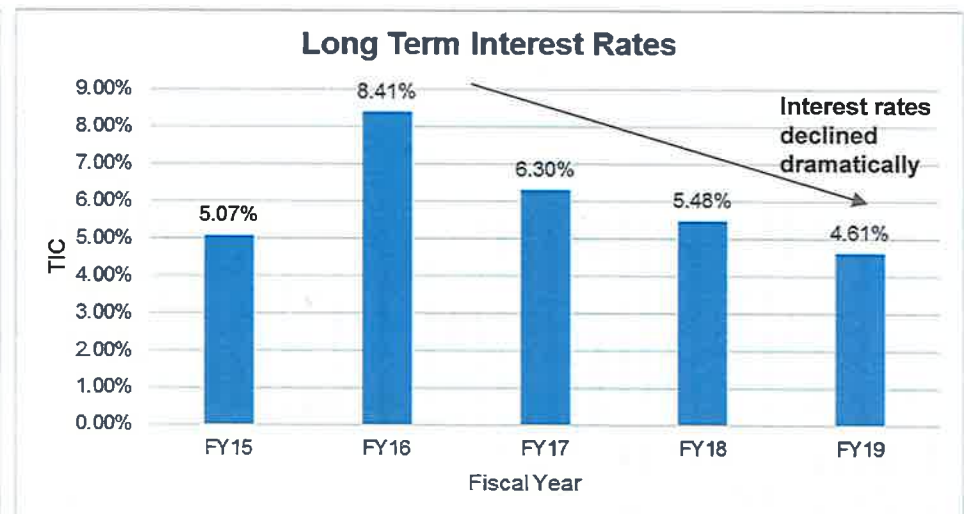
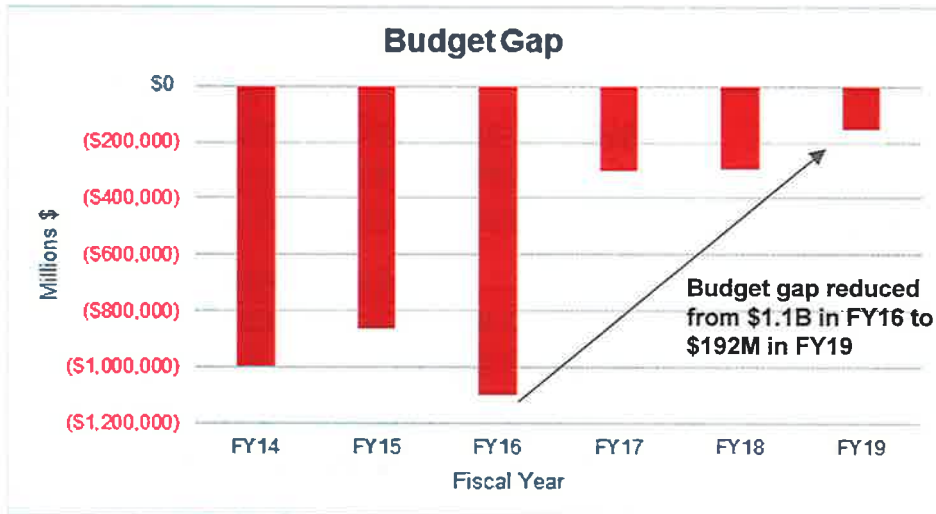
\*FY19 net cash balance is approx. \$150M higher due timing of payments and accruals

1. Includes Transfers in/out.
2. CPS short-term capital line of credit had \$131M drawn at FY14 year end.
3. Change in the revenue recognition policy restated FY14 year end general fund balance upwards by \$634M.
4. Excludes pension contribution funded by pension levy and State normal cost contribution.



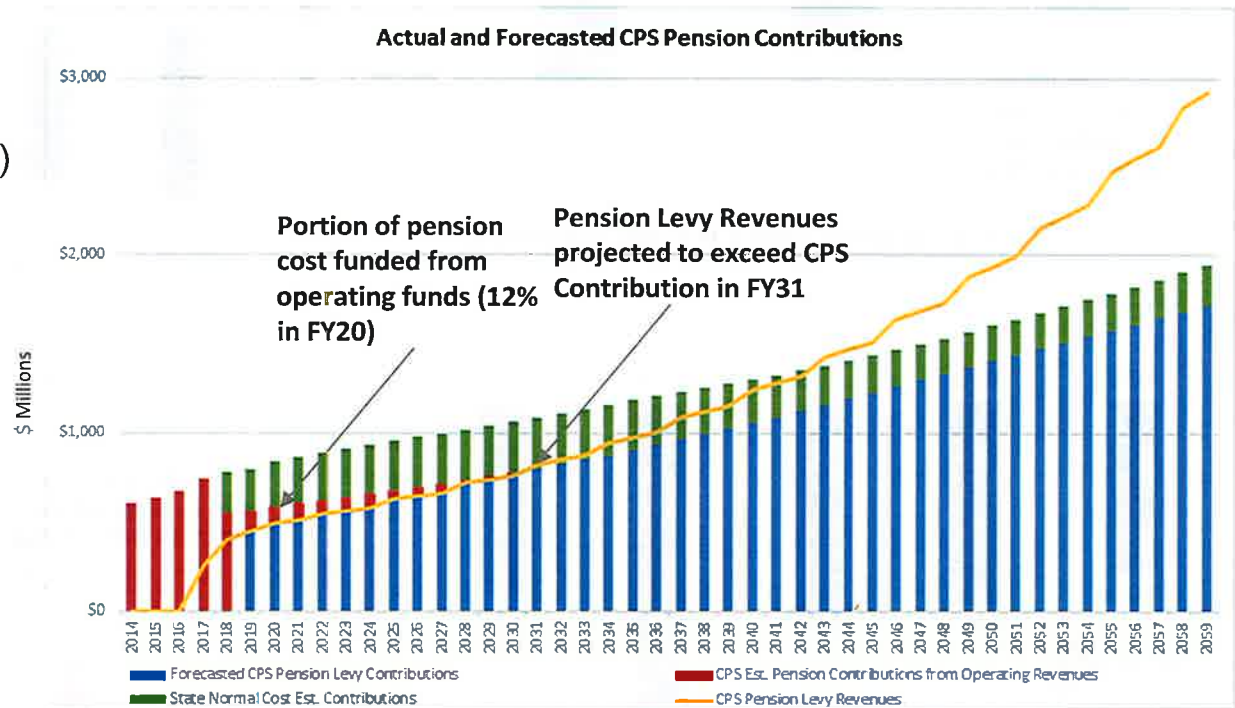


# CPS' Financial Condition Continues to Improve – By the Numbers



# Dedicated Revenues Expected to Cover CPS Employer Pension Contribution by FY31

- Funding sources for \$855M FY20 Required Employer Contribution
  - \$492M funded from pension levy (intercepted by the CTPF)
  - \$257M funded from State (normal cost contribution + healthcare)
  - \$106M funded from CPS operating funds (12%)**
- Dedicated revenues are projected to fully cover the annual pension contribution by FY31
- CPS has budgeted full statutorily-modified Actuarial Required Contribution to get CTPF to 90% funded by 2059



Source: Chicago Teachers Pension Fund (CTPF) Actuarial Report, FY2018.



# CPS Has Reduced Dependency on Short-Term Borrowing

- **Over the last 2 years, short-term borrowing nearly cut in half**
  - Maximum amount of TANs outstanding at one time was reduced by \$706M
    - From \$1.55B in FY17 to \$844M in FY19
  - FY19 actual cash flow borrowing improved from beginning of year projections by \$100M due to active cash management
- CPS spent 5 ½ months of FY19 in a net positive cash flow position with zero TANs outstanding

