The Civic Federation

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CHICAGO PUBLIC SCHOOLS
FY2022 PROPOSED BUDGET:
Analysis and Recommendations

July 28, 2021

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The Civic Federation is an independent, non-partisan government research organization working to maximize the quality and cost-effectiveness of government services in the Chicago region and State of Illinois.

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EXECUTIVE SUMMARY

The Civic Federation supports the Chicago Public Schools (CPS) proposed budget of $9.3 billion for FY2022 because it is balanced and supported by federal COVID-19 relief funding. CPS, along with all other state and local government agencies in the United States, has for the past year endured a once-in-a-century crisis and pandemic and related economic and educational disruption. Despite the challenges brought on by COVID-19, the CPS budget is making strides toward structural balance and has laid out plans for investments that will directly address the needs of students most impacted by the pandemic. However, the budget represents an increase of 10.8%, or $907.1 million, over last year's budget and the Federation is concerned about the District's ability to support new investments and the overall long-term sustainability of CPS' budget after federal relief funds expire in 2024.

The Federation is pleased that the federal government provided the support necessary to mitigate the impacts of the COVID-19 pandemic for school districts and state and local governments. Federal pandemic relief funding of $1.06 billion included in this year's proposed budget will enable CPS to address learning loss, return to in-person learning and make investments in programs that will help the students most impacted by the school closures and other disruptions caused by the pandemic. Last year, CPS adopted a budget that relied on $343 million in unappropriated federal funding. Now that this federal funding has come through, Chicago Public Schools and school districts and local governments nationwide are in better financial shape.

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

- Spending and personnel continue to increase with no apparent cost containment strategies;
- Student enrollment continues to decline, with the largest drop in recent years occurring in 2021 due to the pandemic. The enrollment losses in certain areas of the city and increases in others have resulted in building utilization imbalances;
- The District is still heavily reliant on short-term borrowing because reserve levels are not substantial enough to cover periods of low cash flow due to revenue timing; 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 plans to 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 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 2025.

The Civic Federation offers the following **key findings** from Chicago Public Schools' FY2022 Proposed Budget:

- The FY2022 proposed total spending plan for all funds of $9.3 billion is an increase of 10.8%, or $907.1 million, from the FY2021 adopted budget of $8.4 billion.
- Proposed FY2022 appropriations for general operating purposes of $7.8 billion are an increase of 13.1%, or $905.6 million, above the FY2021 operating budget of $6.9 billion.
- The FY2022 proposed capital budget of $706.6 million is a decrease of 6.8% from the prior year. The debt service budget of $763.4 million represents an increase of 7.4%, or $52.9 million, from the FY2021 adopted budget.
- The FY2022 proposed budget is supported by $2.1 billion in federal funding, which is an increase of $771.2 million, or 57.7%, over the prior year. This includes $1.06 billion in ESSER II and III pandemic relief funds for school districts.

- Property tax revenue is projected to increase by 3.5%, or $114.1 million, over the prior year budget to $3.7 billion in FY2022.
- CPS is budgeting for a total of 41,756.1 Full-Time Equivalent (FTE) positions in FY2022. This is an increase of 2,016.9 FTEs, or 5.1%, from 39,739.2 FTEs budgeted in FY2021.
- Salary expenses will increase in FY2022 from the prior year budget by $169.0 million, or 5.8%. Benefit expenses are expected to increase by $41.9 million or 3.1%. However, it is important to note that these salary and benefit estimates do not reflect new programmatic investments that the District will support students impacted by the pandemic because much of those funds are held in contingency until the District is ready to procure services and hire staff.
- Student enrollment has declined by 15.7%, or 63,433 over the past ten years, from 404,151 in FY2012 to 340,658 in FY2021. Over the ten-year period, preschool enrollment has declined by 12,738, or 52.62%, K-8 enrollment has declined by 42,079, or 15.8%, and high school enrollment has declined by 8,676, or 7.6%.
- 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 in FY2022 is $12 million.
- The District's long-term debt increased by 38.1% in the ten years from FY2011 through FY2020, with $7.2 billion in long-term debt (principal only) outstanding as of June 30, 2020;
- CPS is required to contribute $944.7 million to the Chicago Teachers' Pension Fund in FY2022. The State of Illinois will cover $277.5 million of that amount, including $264.8 million to cover the normal cost and retiree healthcare plus an additional statutorily required contribution of $12.6 million. Approximately $43.8 million of the CPS contribution will be covered by the dedicated property tax levy for teachers' pensions. The remaining $203.5 million will come out of CPS' operating budget; and
- The Chicago Teachers' Pension Fund was 46.7% funded on an actuarial basis as of June 30, 2020, compared to 59.9% funded ten years prior. The Pension Fund had an Unfunded Actuarial Accrued Liability of $12.8 billion as of June 30, 2020, compared to $6.8 billion ten years prior.

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

- Federal relief funding provided to CPS and other governments in response to COVID-19 pandemic;
- Continued improvement in structural budget balance, including improved level of operating reserves and improved liquidity; and
- The District has revised its Fund Balance Policy from 2008.

The Civic Federation has the following **concerns** about the CPS FY2022 Proposed Budget and financial situation:

- Sustainability of increased spending levels in the FY2022 budget and beyond;
- Personnel levels and expenditures are increasing amid continued declines in enrollment without a public long-term financial plan;
- The District continues to rely on short-term borrowing;
- The Civic Federation is concerned about a 21-member elected school board to be phased in beginning in 2025; and
- The District has not issued a five-year Capital Improvement Plan in several years.

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

- Develop a long-term financial plan;

- Issue a five-year capital improvement plan and provide more detail about project prioritization in the one-year capital plans;
- Address issues with the 21-member school board legislation before it goes into effect;
- Include expenditures and personnel sections in the budget book;
- Include actual revenues in the budget book;
- Extend the time period for review of the proposed budget before the public hearings and Board vote;
- Work to eliminate the remaining pick-up for non-teacher, union members of the City of Chicago Municipal Pension Fund; and
- 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.

CIVIC FEDERATION POSITION

The Civic Federation supports the Chicago Public Schools (CPS) proposed budget of $9.3 billion for FY2022 because it is balanced and supported by federal COVID-19 relief funding. CPS, along with all other state and local government agencies in the United States, has for the past year endured a once-in-a-century crisis and pandemic and related economic and educational disruption. Despite the challenges brought on by COVID-19, the CPS budget is making strides toward structural balance and has laid out plans for investments that will directly address the needs of students most impacted by the pandemic. However, the budget represents an increase of 10.8%, or $907.1 million, over last year's budget and the Federation is concerned about the District's ability to support new investments and the overall long-term sustainability of CPS' budget after federal relief funds expire in 2024.

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Issues the Civic Federation Supports

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

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

Thanks to federal ESSER II and III funds, the Civic Federation's fears about the District's revenue assumptions on which last year's budget were based have been assuaged. 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. The CPS FY2021 adopted budget relied on $343 million in federal revenue not yet approved by Congress. During the course of FY2021, the District received the federal funding it had counted on and more. The FY2022 proposed budget includes $1.06 billion in federal relief funding, leaving another $1.5 billion in federal funds to spend over the course of the next two years. In FY2022, the District plans to allocate this funding toward a number of purposes:

- $267 million to support the District's Moving Forward Together Plan that will provide flexible school funds, additional resources for academic and social-emotional resources and a number of targeted supports for students most impacted by the pandemic;
- $132 million to support the reopening of schools in fall 2021;
- $100 million for building and capital projects;
- $288 million for school-based investments such as special education, paraprofessionals, early childhood education and new academic programs;
- $178 million for additional school-based instructional positions; and
- $95 million as a proportionate share of ESSER funding to be directed to charter and contract schools.[1]

Continued Improvement in Structural Budget Balance

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[2] and an increase to the CPS property tax levy dedicated to teachers' pension funding. The economic crisis caused by the COVID-19 pandemic resulted in revenue losses and stagnation at all levels of government. Thanks to the federal funding approved in 2020 and 2021 through ESSER I, II and III, CPS received significant federal funds that offset those revenue declines.

[1] CPS FY2022 Proposed Budget, p. 10; and Chicago Public Schools, "Chicago Public Schools to Invest Over Half-Billion Dollars in Transformative Student Supports as Part of Moving Forward Together Initiative," *Press Release*, June 16, 2021, at https://www.cps.edu/press-releases/June-16-21.

[2] 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.

Improved Level of General Operating Reserves

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 and increased property tax revenues have helped stabilize the CPS budget. As of June 30, 2020, the unrestricted fund balance in the General Operating Fund was $488.0 million. The District's total operating fund balance—both restricted and unrestricted amounts—is expected to increase to $559.1 million by the end of FY2022.

Improvement in Cash Position

CPS' liquidity has improved since the State of Illinois passed Evidence-Based Funding and provided CPS with more State revenue and property tax revenue. By two liquidity measures—short-term assets compared to short-term liabilities and days of cash on hand—the District has strong levels of liquidity, meaning enough cash on hand to meet short-term obligations as they come due. As discussed above, the District relies on short-term borrowing through Tax Anticipation Notes to bridge periods of low revenue. The amount of TANs outstanding at fiscal year-end has decreased from a high of $1.3 billion in FY2017 to $500 million in FY2020, and TANs outstanding as of June 30, 2021 totaled $244 million. The District issued a maximum of $950 million in TANs during FY2021 and expects to issue $900 million in FY2022.

While CPS' liquidity has improved, it is still not sufficient to cover the cash flow needed 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 over $1 billion.

Revision of the District's Fund Balance Policy

Fund balances, or reserves, are reported annually in the Balance Sheet for the Governmental Funds in the Comprehensive Annual Finance Report (CAFR). Chicago Public Schools adopted a new fund balance policy in January 2021 to replace a previous policy adopted in 2008.[3] 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.

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[3] 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.

The Civic Federation commends the Board for updating the fund balance policy, as the old policy used outdated terms that had since been updated in fund balance reporting requirements through GASB Statement No. 54, effective beginning in FY2011.

CPS also sets a fund balance target in its annual budget. The FY2021 target is $1.1 billion. The actual fund balance at the end of FY2021 was $549.1 million. So, while $549.1 million is an improvement in the level of reserves available, the fund balance needs to double in coming years in order to meet the fund balance target.

Issues of Concern

The Civic Federation has the following concerns regarding the FY2022 Proposed Budget and CPS' current financial situation.

Sustainability of Increased Spending Levels in FY2022 Budget and Beyond

Thanks to federal COVID-19 relief funding, the District will receive a total of $2.6 billion through Elementary and Secondary School Emergency Relief Funds (ESSER) II and III funds between FY2021 and FY2024, $1.06 billion of which will be spent in FY2022.

As a result of these new investments and federal funding sources, the CPS general operating budget of $7.8 billion proposed for FY2022 is an increase of $905.6 million, or 13.1%, over the prior year adopted budget of $6.9 billion. While some of this investment is for non-personnel and capital funding, a large portion will fund additional staff positions to support new programmatic and educational investments. Total personnel are proposed to increase by more than 2,000 full-time equivalent (FTE) positions in FY2022. Much of these investments will support ongoing positions.

The Civic Federation is concerned about how CPS will continue to support these investments and staff positions after federal ESSER funds run out in FY2024. While the Federation fully supports the federal government stepping in to ameliorate the major issues caused by the pandemic, we are concerned about long-term sustainability and how the District will generate sufficient revenue to keep up with rising costs. Both State and local funding sources are also limited.

While funding from the State has increased considerably since passage of the Evidence-Based Funding formula, the State has not held up all of its commitments. The State will also be facing the same long-term problems once federal relief funds are used up. The State is supposed to appropriate an additional $350 million each year to the Base Funding Minimum. However, the State's FY2021 budget did not include this additional funding due to the State's serious fiscal challenges last year, which meant that CPS did not receive $60 million it would have received if the State had funded the increase in Evidence-Based Funding. The Governor's proposed FY2022 as introduced in February 2021 also did not include the $350 million increase, though this was added back into the budget after State revenues came in higher than projections for FY2021. The Evidence-Based Funding formula has significantly improved CPS' financial condition, but at the same time CPS is heavily reliant on the State to continue funding education increases while the State's own resources are limited.

Local revenue generated through the property tax has also been limited by the pandemic. The Cook County Assessor made a downward adjustment to all property valuations in accordance with the impact of COVID-19, which reduced the total equalized assessed value of all property in Chicago. Because of this adjustment, the District's dedicated property tax levy for the Chicago Teachers' Pension Fund came in $26.4 million below budget in FY2021. The economic impact of COVID-19 has also resulted lower inflation growth (falling from 2.3% for the FY2021 budget to 1.4% for use in the FY2022 budget). This limits the rate of growth that CPS can achieve through the Education Levy because annual increases are capped to the rate of inflation or 5.0%, whichever is less.

Additionally, CPS extended its revenue recognition period for property taxes to October 29, 2020 from August 29, 2020 last year because of a delay to late payment penalties imposed by Cook County that could have skewed accounting of which fiscal year property tax revenues had to be recorded. With a significant delay to the due date of property taxes, which according to the Cook County Treasurer is expected to be October 1 instead of August 1, CPS indicated it intends to do the same this year.[4]

We raise these issues with the aim of encouraging Chicago Public Schools to plan for longer periods into the future and discuss and release plans to the public for maximum transparency.

Significant Spending and Personnel Increases amid Continuing Enrollment Decline Without a Public Long-Term Financial Plan

While enrollment at CPS has been declining consistently over time, with an especially large decline in 2021, spending on personnel and other costs continue to rise. The Civic Federation is concerned about the District's ability to raise revenues sufficient to match rising costs in future years, especially after federal COVID-19 relief funding ends.

In the ten years between FY2012 and FY2021, CPS lost 63,493 students, or 15.7% of the student population. During that period, enrollment fell from 404,151 students to 355,156 students in fall 2020. Over the five-year period from FY2018 to FY2022, personnel has increased by 5,245 full-time equivalent positions, or 14.4%. In the same five-year period, spending on salaries and other employee benefits is projected to increase by 32.4% or $1.2 billion. Salaries alone will increase by 26.5% or $635.2 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 32.3% over the past five years, from $576.9 million in FY2018 to $763.4 in FY2022.

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, the Federation is concerned that a continuation of these trends could be unsustainable over the long term. The collective bargaining

[4] Chicago Public Schools, FY2020 CAFR, p. 58 and communication from the Chicago Public Schools Finance Office, July 23, 2021. See also https://www.cookcountytreasurer.com.

agreement reached with the Chicago Teachers Union for FY2020 through FY2024 was expected to require an additional $558.3 million over the five-year period. At the time the contract was approved in fall 2019, the District expected that its State and local revenue would grow by $200 to $250 million annually.[5] Growth in local and State revenue projected in FY2022, however, is only $140 million higher than last year's budget. We urge the District to produce a public multi-year plan outlining revenue and expenditure scenarios and steps the District could take in less optimistic scenarios.

Continued Reliance on Short-Term Borrowing

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. Ideally, CPS would use its operating reserves to cover periods of low cash-flow. However, CPS spent down its reserves in past years in order to balance annual budgets and make pension payments without making budget cuts. While reserves are higher now, the District does not have enough fund balance to match the amount on which it would need to draw, thus creating a cash shortfall.

CPS has operated with a negative cash balance for much of the fiscal year for the past several years, although the District's cash position has improved since the passage of the statewide Evidence-Based Funding formula in 2017, which resulted in increased State funding and property tax revenues for CPS. To cover its cash shortfall, CPS utilizes short-term borrowing through Tax Anticipation Notes (TANs) to generate enough cash to make payments throughout the year. At the height of the State's fiscal crisis in FY2017, CPS borrowed up to $1.55 billion, which has since been reduced to $950 million in FY2021. The District ended fiscal year 2021 with $244.0 million of TANs outstanding, compared to $500.0 million outstanding at the end of the prior year. This is a substantial decrease from prior years that indicates the District's structural budget problems have significantly improved.

The interest costs associated with the short-term borrowing has also decreased from $79 million budgeted in FY2018 to $12 million budgeted in FY2022.[6]

While CPS has been able to reduce the level of TANs used over the past few years, the District's annual reliance on short-term borrowing remains an issue that needs to be addressed because the District will always have timing issues between the receipt of revenues and disbursement of expenditures. Therefore, it is imperative that CPS come up with a multi-year plan to reduce its reliance on short-term borrowing and continue rebuilding its reserves to help manage the District's annual cash-flow issues.

[5] See Civic Federation blog post, "Chicago Public Schools Amends FY2020 Budget Based on Contract Agreements Reached with CTU and SEIU," November 26, 2019, at https://www.civicfed.org/civic-federation/blog/chicago-public-schools-amends-fy2020-budget-based-contract-agreements-reached.
[6] CPS Proposed FY2022 Budget, p. 218.

21-Member Elected School Board

The Civic Federation is concerned about the 21-member elected school board that was passed by the Illinois General Assembly in June 2021.[7] If signed by the Governor, the current seven-member appointed board would be phased out and replaced with a 21-member hybrid board in 20245 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; this 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 believes 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.

Such a large board would be too large to be effective and would make it difficult to focus on efficient administration or implementing the core educational mission of the school system. It would also be difficult for the district's chief administrators, who manage the schools on a day–to-day basis, to satisfy the demands of 21 elected members. A large board would be expensive to operate as members would likely require professional staff. The new governance structure would also create significant uncertainty around governance and finances. Uncertainty is detrimental to the credit health of a government and could potentially negatively impact the District's credit ratings.

There are also issues of financial entanglement between the City of Chicago and Chicago Public Schools. The City provides significant funding to CPS. The FY2022 proposed CPS budget includes over $400 million in direct funding from the City of Chicago—including $115 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, $4 million for capital projects funding, $4 million in grants for programs such as early childhood development and $136.9 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 become a fully

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[7] House Bill 2908, Illinois 102nd General Assembly.

independent government, 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.

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

The Federation remains concerned about the volume of debt that continues to be issued annually to fund the District's capital plans without an adequate level of transparency about how the funds are to be allocated and prioritized. CPS' long-term debt increased by 38.1% between FY2011 and FY2020, from $5.2 billion to $7.2 billion. Annual debt service payments to cover paying down principal and interest on these long-term bonds increased by 32.3% in the five years from FY2018 to FY2022, from $576.9 million to $763.4 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 FY2022 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 FY2022 capital plan does not constitute a five-year capital plan. Further, the one-year FY2022 capital plan is insufficient to allow the CPS community to fully understand why certain projects are prioritized over others or how they are financed.

Civic Federation Recommendations

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

Develop a Long-Term Financial Plan

While the federal ESSER funding will bolster the CPS budget for the next three fiscal years, the Federation is concerned about what will happen after that funding window closes if revenues do not grow at the pace needed to keep up with expenditures. The timing of when ESSER funds must be spent (by FY2024) also coincides with the timing of the hybrid 21-member interim school board taking effect. The larger board would be phased in with 10 members elected in the November 2024 election and 11 members appointed by the mayor. The appointed members would then be replaced by elected members two years later. This school district has a history of making unsustainable fiscal choices in times of financial stress. We believe the current Board of Education can and should begin scenario planning for the next five years and put guardrails and plans in place for the transition to the new board to ensure as smooth a transition as possible and to make poor fiscal choices by the new board less likely.

Strategic financial planning for school districts is a best practice recommended by the Government Finance Officers Association.[8] CPS has several reports that are linked to planning including the Educational Master Facilities Plan, Annual Regional Analysis and the Five-Year Vision 2019-2024, but the District does not currently have a multi-year financial plan that outlines how CPS can achieve those goals and initiatives. Each year, the City of Chicago and CPS leadership announce investments that will help reach the District's goals over time, but the publicly available information makes it difficult to assess progress and track spending.

The Chicago Board of Education needs to develop a long-term financial plan that lays out options for how the District can achieve its goals while also achieving financial stability. The financial plan should include a forecast of operating revenues and expenditures over the next five years, discussion of the assumptions behind the forecast and multiple scenarios that can be used by the Board of Education and staff to help make decisions. It should identify possible actions that could be taken to eliminate the structural deficit, build up reserves and further reduce short-term borrowing. The planning process would ideally involve and a number of stakeholders: the Board of Education, CPS leadership and financial management staff, City Hall and school representatives. It would be an iterative process, and projections would be updated as new information becomes available.

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] CPS said that it would not be releasing FY2017 and FY2018 Capital Improvement Plans due to the District's financial uncertainty and that it was treating the FY2019 capital budget as a multi-year plan. The FY2022 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. However, no further details are provided and it does not constitute a five-year capital plan.[10] 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 FY2016-FY2020 five-year capital plan did not include much more than each single-year capital plan, but rather than listing projects for a single year, it listed projects over a period of five years. 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.

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[8] For resources, see "Develop a Strategic Plan" by the GFOA at https://smarterschoolspending.org/resources/gfoa-best-practice-develop-strategic-financial-plan (last accessed August 21, 2020) and the strategic financial plan template available at https://smarterschoolspending.org/resources/strategic-financial-plan-template (last accessed August 21, 2020).

[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] CPS FY2022 Proposed Budget, pp. 205-206.

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 determined and prioritize projects;
- A description of funding sources for each project; and
- Updates on project costs and completion.

The following elements should also be included in a complete five-year Capital Improvement Plan:[11]

- 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.

Address Issues with Elected School Board Legislation

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, House Bill 2908, has many shortfalls noted above, but also fails to address several pressing issues. Sponsors of the bill indicated an intention to pass a trailer bill during the veto session this fall to work out those outstanding issues. Among those issues are 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.

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

[11] 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.

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.

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.[12] 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 FY2021 and FY2022 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 FY2022 is increasing by 2,016.9, which is a 5.1% increase over the prior year. This follows another large personnel increase of 4.5% last year. A portion of the FY2022 increase—734 positions —is due to the transfer of crossing guards from the City of Chicago budget to CPS. Another 400 positions are for school custodians, 334 for teachers, 160 additional central office personnel, 158 school support staff and 170 additional service providers. 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 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

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[12] See pp. 16-18 of the CPS FY2022 Proposed Budget.

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 FY2022 proposed budget, this would mean including actual revenues from FY2020. 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.

Consider Providing Longer Timeline between Budget Release and 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 July 13 and public hearings on the proposed budget were held one week later on July 20 and 21. The Board vote was two weeks later on July 28. 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.

Work to Eliminate the Remaining Pick-Up for Non-Teacher, Union Members of the City of Chicago Municipal Fund

CPS has phased out its practice of picking up a portion of employee contributions to the Chicago Teachers' Pension Fund and Municipal Fund for some employees. For teachers who are members of the Chicago Teachers' Pension Fund, CPS ended the 7.0% pick-up of the 9.0% annual employee pension contribution for those hired on or after January 1, 2017.[13] CPS also phased out picking up the 7.0% portion of the 8.5% employee contribution it used to make on behalf of non-teacher and non-union CPS employees who belong to the City of Chicago's Municipal Pension Fund.[14] The pension pick-up decreased from 7.0% to 5.0% in FY2016, then to 3.0% in FY2017, and was completely phased out in FY2018.

However, CPS still picks up the 7.0% portion of the 8.5% employee contribution to the Municipal Fund for non-teacher employees who are union members. This is estimated to cost $43.9 million in FY2022, up from $40.6 million in FY2021. The Civic Federation believes employees must share in the cost of their pension benefits. The pension pick-up is a costly benefit for CPS to cover and unsustainable for the long-term. The Civic Federation recommends that CPS work to negotiate with union leadership to phase out the 7.0% employee pick-up.

Consolidate the Chicago Teachers' Pension Fund with the Teachers' 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

[13] CPS still picks up the 7.0% portion of the 9.0% employee contribution for CTPF members hired before January 1, 2017, which in FY2021 will cost $128.9 million.
[14] Over half of the approximately 31,000 active members of the Chicago Municipal Pension Fund, both working and retired, are CPS employees.

suburban districts, but only covers for the normal pension costs for Chicago teachers' pensions. The FY2022 State contribution to the Teachers' Retirement System (TRS), the pension fund for teachers in all school districts outside of Chicago, is $5.69 billion. In contrast, the FY2022 State contribution to the Chicago Teachers' Pension Fund (CTPF) is $277.4 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* ($80.7 billion in unfunded liability for TRS and $12.8 billion in unfunded liability for CTPF as of FY2020, 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.

ACKNOWLEDGEMENTS

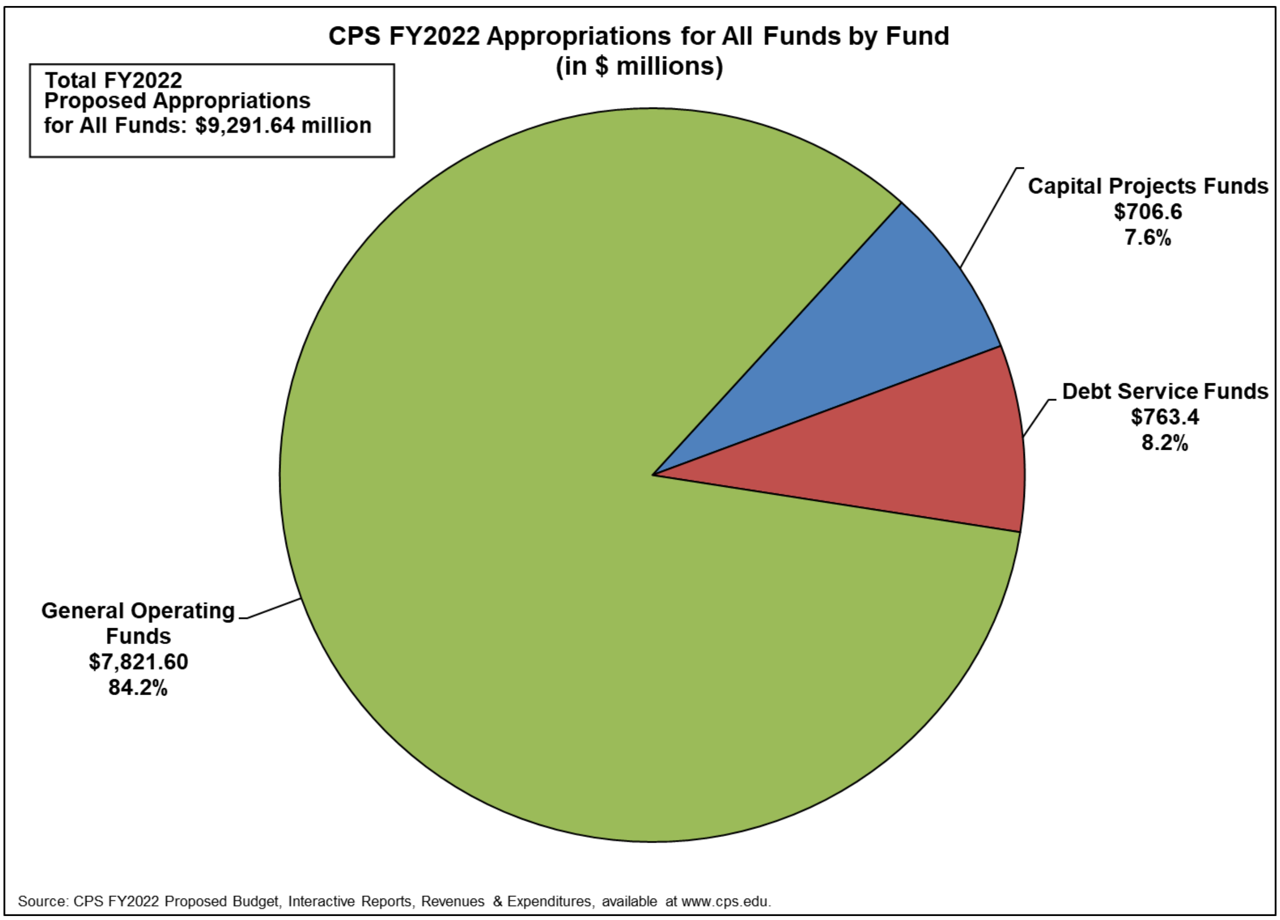
The Civic Federation would like to express our appreciation to Chicago Public Schools Chief Financial Officer Miroslava Krug, Treasurer Walter Stock, Budget Director Heather Wendell and Assistant Budget Director Michael Sitkowski for their work in preparing the budget, providing the Federation staff with a budget briefing and for 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 and two- and five-year appropriation trends for general operating funds. Proposed FY2022 appropriations are compared with FY2021 adopted appropriations, FY2020 amended appropriations, FY2019 adopted appropriations and FY2018 amended appropriations.

Total Appropriations for All Funds in FY2022

The following chart shows total FY2022 proposed appropriations for all funds. The Chicago Public Schools' FY2022 Proposed Budget of $9.29 billion consists of appropriations of approximately $7.82 billion in General Operating Funds, $706.6 million in Capital Project Funds and $763.4 million in Debt Service Funds. The General Operating Funds represent 84.2% of the total budget, the Capital Projects Funds represent 7.6% and the Debt Service Funds represent 8.2% of total appropriations for all funds.



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 or committed to specific expenditures 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]

Five-Year Appropriation Trends for All Funds by Fund and Type

The FY2022 total proposed budget of $9.3 billion across all funds is an increase of $907.1 million or 10.8% from the FY2021 budget of $8.4 billion. Appropriations for General Operating Funds of $7.8 billion represent an increase of $905.6 million, or 13.1%, from the FY2021 operating budget. The $905.6 million increase in the General Operating Funds is primarily due to increases of $167.5 million in salaries, $75.1 million in benefits, a $0.9 million increase in transportation, a $103.8 million increase in contracts and a $605 million increase in contingencies. The Capital Projects Funds will decrease by $51.4 million, or 6.8% over a two-year period, from $758 million to $706.6 million. The FY2022 Capital Project's Funds are budgeted to cover critical facility needs, interior improvements, programmatic investments, site improvements, IT upgrades and security upgrades.[16] The Debt Service Funds will increase by $52.9 million, or 7.4% over a two-year period to $763.4 million in FY2022. The increase in debt service is primarily for long-term debt service payments and approximately $12 million is for interest on short-term debt.[17]

Over the five-year period, total appropriations for all funds will increase by nearly $2.9 billion or 44.9%, from $6.4 billion in the FY2018 amended budget to nearly $9.3 billion in the FY2022 proposed budget. The General Operating Funds will increase over the five-year period by 37.2%, or $2.1 million, from $5.7 billion in FY2018 to $7.8 billion in FY2022. The Capital Projects Funds will see the largest percentage increase of 418.7%, or $570.4 million, over the five-year period. The Debt Service Funds will increase by $186.5 million, or 32.3%, over the five-year period.

CPS Appropriations for All Funds by Fund: FY2018-FY2022
(in $ millions)

Fund Type	FY2018 Amended	FY2019 Adopted	FY2020 Amended	FY2021 Adopted	FY2022 Proposed	Two-Year $ Change	Two-Year %	Five-Year $ Change	Five-Year % Change
General Operating Funds	$ 5,699.3	$ 5,984.2	$ 6,319.3	$ 6,916.0	$ 7,821.6	$ 905.6	13.1%	$ 2,122.3	37.2%
Capital Projects Funds	$ 136.2	$ 989.0	$ 820.6	$ 758.0	$ 706.6	$ (51.4)	-6.8%	$ 570.4	418.7%
Debt Service Funds	$ 576.9	$ 606.9	$ 700.3	$ 710.5	$ 763.4	$ 52.9	7.4%	$ 186.5	32.3%
Total Appropriation	**$ 6,412.4**	**$ 7,580.1**	**$ 7,840.1**	**$ 8,384.5**	**$ 9,291.6**	**$ 907.1**	**10.8%**	**$ 2,879.2**	**44.9%**

Note: Due to rounding, minimal differences may occur in totaling rows and columns.
Source: Source: CPS FY2018-FY2022 Interactive Budget Reports, Revenues & Expenditures, available at www.cps.edu.

The chart below shows a five-year trend analysis of appropriations for all funds by type of expense between the FY2018 amended budget and the proposed FY2022 budget. Appropriations for contingencies will see the largest dollar increase from last year, rising by $605 million, or 130.2% from $464.7 million in FY2021 to $1.06 billion in FY2022. The significant increase in contingencies is due to an influx of COVID-19 relief funds from the federal government that will support a variety of investments. The District says 37% of the funds will support the *Moving*

[15] CPS FY2022 Proposed Budget, Fund Descriptions, p. 223-225.
[16] CPS FY2022 Capital Plan.
[17] CPS FY2022 Proposed Budget p. 12.

Forward Together Initiative and costs associated with fall school reopenings. Funds held in contingency will be transferred to spending accounts to procure services and hire staff. The *Moving Forward Together* initiative is a $525 million investment over FY2022 and FY2023 to address students' social and emotional needs, learning acceleration, and preparation for success beyond the pandemic. The distribution of the investment will be split into three ways: flexible school funds, priority resources for everyone, and targeted student interventions.[18] Contingencies in FY2022 also include higher levels of grant contingencies, which the District says will account for potential new state or federal funding related to pandemic-response strategies, COVID testing, technology and other needs that are being prioritized at the state and federal levels.[19]

Appropriations for salaries will increase by $167.5 million or 5.8% between FY2021 and FY2022. The salary budget reflects cost of living adjustments for union staff and investments in school-based staff. Benefits also increase by $75.1 million or 4.5% over the same two-year period. The FY2022 proposed budget increases benefits for pension contributions for teachers and non-teaching staff, including the projected growth of healthcare costs. Contract spending will increase by $103.8 million or 7.2%, over a two-year period due to tuition for charter and therapeutic schools, payments or clinicians that are not CPS staff, and early childhood education programs. Contract expenses also includes repairs, legal services, waste removal, janitorial services and engineering.[20]

Over the five-year period between FY2018 and FY2022, total appropriations will increase by $1.9 billion or 30.1%. The largest dollar increase over the five-year period by type is for contingencies, which is expected to increase by $767 million or 253.4%. Appropriations for salaries will increase by $660.5 million or 27.4% over the five-year period. Benefits will increase by $330.7 million or 23.6%. Appropriations for contracts will increase by $318.6 million or 26.0%. Commodities will increase by $27.1 million or 11.2%. Lastly, transportation expenses will increase by $13.7 million, or 12.9%, rising from $106.7 million in FY2018 to $120.4 million in FY2022.

CPS Appropriations for All Funds by Type: FY2018 - FY2022
(in $ millions)

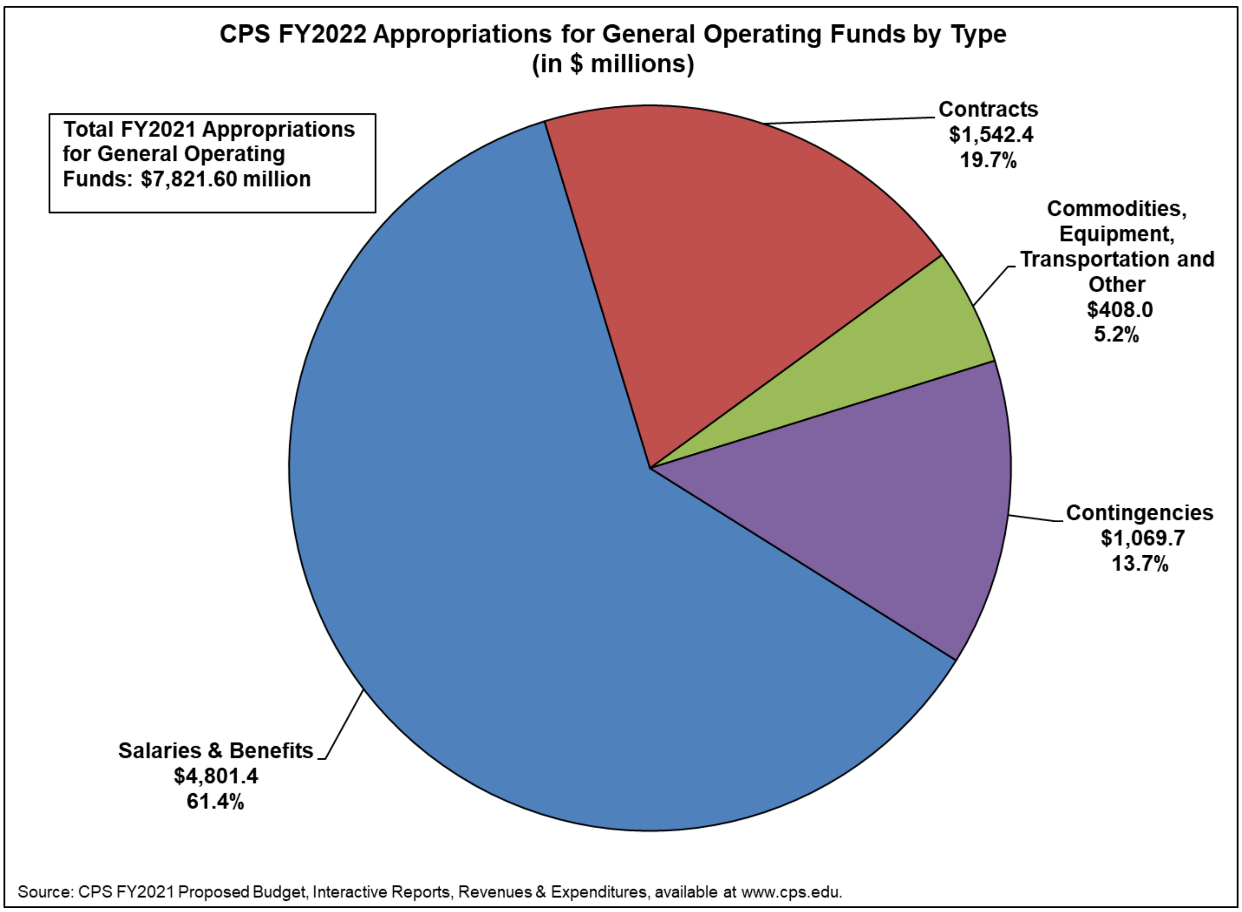
	FY2018 Amended	FY2019 Adopted	FY2020 Amended	FY2021 Adopted	FY2022 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries	$ 2,410.0	$ 2,504.6	$ 2,640.3	$ 2,903.0	$ 3,070.5	$ 167.5	5.8%	$ 660.5	27.4%
Benefits	$ 1,400.2	$ 1,451.3	$ 1,655.8	$ 1,655.8	$ 1,730.9	$ 75.1	4.5%	$ 330.7	23.6%
Contracts	$ 1,223.8	$ 1,294.6	$ 1,324.5	$ 1,438.6	$ 1,542.4	$ 103.8	7.2%	$ 318.6	26.0%
Commodities	$ 242.8	$ 243.4	$ 241.1	$ 297.7	$ 269.9	$ (27.8)	-9.3%	$ 27.1	11.2%
Equipment	$ 152.4	$ 1,005.3	$ 831.9	$ 795.2	$ 17.6	$ (777.6)	-97.8%	$ (134.8)	-88.4%
Transportation	$ 106.7	$ 106.2	$ 107.5	$ 119.5	$ 120.4	$ 0.9	0.7%	$ 13.7	12.9%
Contingencies	$ 302.7	$ 370.5	$ 340.5	$ 464.7	$ 1,069.7	$ 605.0	130.2%	$ 767.0	253.4%
Debt	$ 573.9	$ 604.3	$ 698.5	$ 710.0	$ -	$ (710.0)	-100.0%	$ (573.9)	-100.0%
Other	$ 0.002	$ -	$ -	$ -	$ 522.000	$ 522.0	-	$ 521.998	23727172.7%
Total	**$ 6,412.4**	**$ 7,580.1**	**$ 7,840.1**	**$ 8,384.5**	**$ 8,343.4**	**$ (41.1)**	**0.5%**	**$ 1,931.0**	**30.1%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns.
Source: CPS FY2018-FY2022 Interactive Budget Reports, Revenues & Expenditures, available at www.cps.edu.

[18] CPS FY2022 Proposed Budget, p. 18.
[19] CPS Moving Together Forward Initiative, at https://www.cps.edu/strategic-initiatives/moving-forward-together.
[20] CPS FY2022 Proposed Budget, p. 17.

FY2022 Appropriations for General Operating Funds by Type

The chart below shows the proposed FY2022 General Operating Funds appropriations by type. The largest single portion is earmarked for salaries and benefits. Approximately 61.4% or $4.8 billion, will be for teacher salaries, non-teacher salaries and employee benefits. Contracts total approximately $1.5 billion or 19.7% of the total 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 make up $408 million or 5.2% 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 $1.0 billion or 13.7% of the general operating funds.[21]

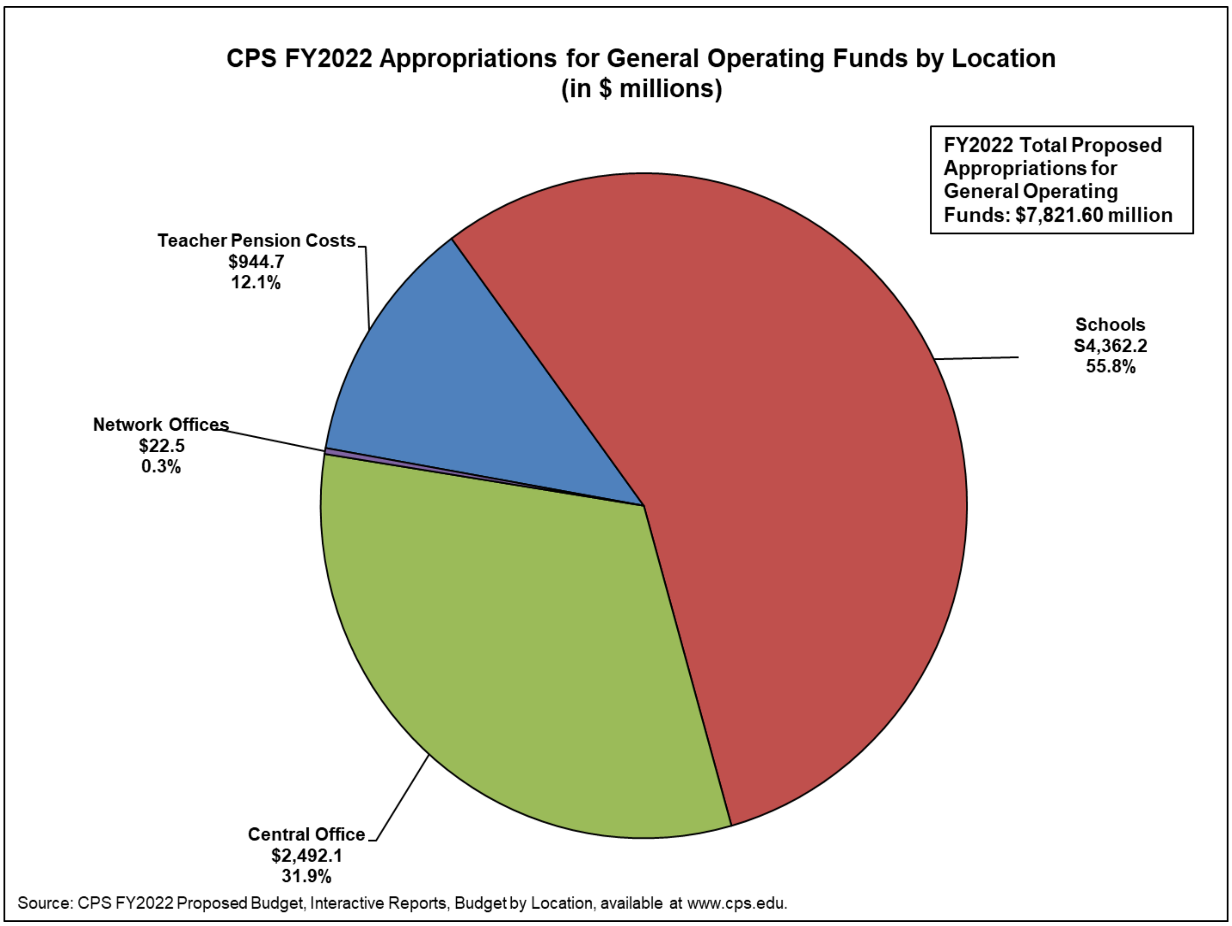


[21] CPS FY2022 Proposed Budget, pp. 17-18.

Appropriations for General Operating Funds by Location

The exhibit below shows the breakdown of proposed FY2022 General Operating Funds appropriations by location. School spending will compose 55.8% or $4.3 billion of operating appropriations. This includes increasing teacher salaries in CTU contracts, school-based equity grants, increasing Supplemental Aid applications for students from low-income households, and maintaining school-based Title I funding.

Chicago Public Schools will continue to receive the Student Based Budgeting (SBB) funding. Appropriations for the Central Office will represent 31.9% or $2.4 billion of general operating appropriations. Network Offices will compose $22.5 million or 0.3% of general operating appropriations. Network Office provide administrative support, strategic direction, and leadership development to the schools within their network. There are a total of 17 networks within the District.[22]



The following table shows budgeted appropriations by location within the General Operating Funds for the five-year period from FY2018 to FY2022, as presented on CPS' FY2022 Interactive Budget Report.[23] Between FY2021 and FY2022 the total General Operating Funds

[22] CPS FY2022 Proposed Budget, p.48.
[23] CPS FY2022 Interactive Budget, at https://biportal.efs.cps.edu/analytics/saw.dll?Dashboard.

appropriations will increase by $905.5 million or by 13.1%. School-based appropriations will increase over the two-year period by $266.9 million or 6.5%, from $4.1 billion in FY2021 to $4.3 billion in FY2022. Appropriations for the Central Office are projected to increase by $589.4 million or 31% over a two-year period. Central Office appropriations include some school-based operational expenses that are managed centrally such as food service, bus aides, engineers and custodians.[24] Appropriations for teacher pension costs will increase by $58.8 million or 6.6%, over the two-year period due to an increase in the required contributions to the fund. Network offices appropriations will decline over the two-year period by 29.9% or approximately $9.6 million.

Over the five-year period between FY2018 and FY2022, the General Operating funds appropriations will increase by 37.2% or $2.1 billion. Teacher pension costs will increase by $160.3 million, or 20.4%, over the five-year period. Appropriations for schools will decline by 8.7% or $415.7 million. Central Office appropriations will increase by 2099.9% or $2.3 billion, over a five-year period. Lastly, network offices will decline by 5.4% or $1.3 billion. These large shifts in school and central office spending are due in large part 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.

CPS Appropriations for General Operating Funds by Location: FY2018-FY2022
(in $ millions)

Location	FY2018 Amended	FY2019 Adopted	FY2020 Amended	FY2021 Adopted	FY2022 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Teacher Pension Costs	$ 784.4	$ 808.8	$ 854.5	$ 885.9	$ 944.7	$ 58.8	6.6%	$ 160.3	20.4%
Schools	$ 4,777.9	$ 4,904.9	$ 5,154.2	$ 4,095.3	$ 4,362.2	$ 266.9	6.5%	$ (415.7)	-8.7%
Central Office	$ 113.3	$ 245.5	$ 279.1	$ 1,902.7	$ 2,492.1	$ 589.4	31.0%	$ 2,378.8	2099.9%
Network Offices	$ 23.8	$ 25.1	$ 31.4	$ 32.1	$ 22.5	$ (9.6)	-29.9%	$ (1.3)	-5.4%
Total	**$ 5,699.3**	**$ 5,984.2**	**$ 6,319.3**	**$ 6,916.0**	**$ 7,821.5**	**$ 905.5**	**13.1%**	**$ 2,122.2**	**37.2%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns.
Source: CPS FY2018-FY2022 Interactive Budget Reports, Budget by Location, available at www.cps.edu.

RESOURCES

This section presents total resources that CPS will use in FY2022 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.

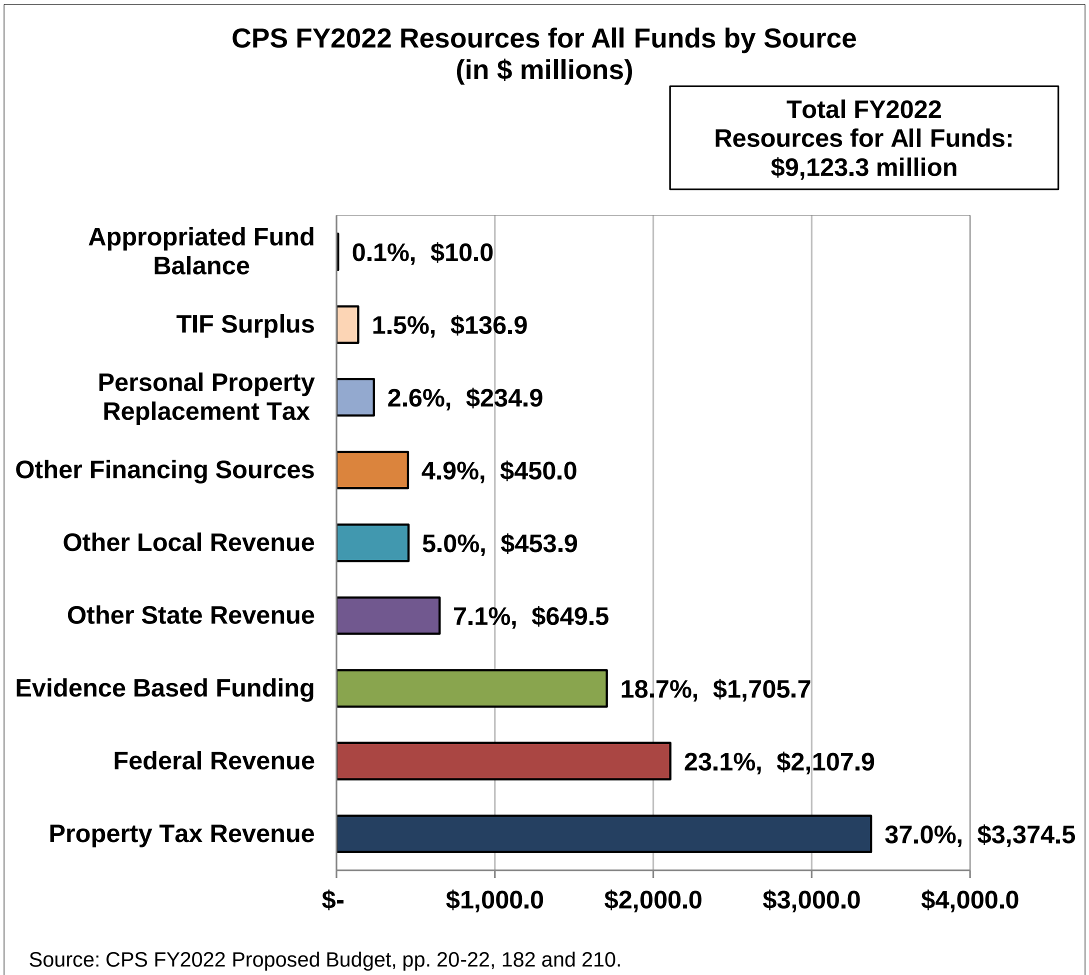
Total Resources for All Funds in FY2022

CPS projects total resources for all funds in FY2022 to be $9.3 billion, compared to $8.4 billion the prior year.

The chart below presents the District's total projected resources and revenues by source for FY2022. The largest revenue source is the property tax, which is expected to generate $3.4 billion, or 36.2%, of the District's total resources. Federal revenue will constitute the second

[24] CPS FY2022 Proposed Budget, p. 47.

largest revenue source, at 22.6% of total resources or $2.1 billion. Combined, state revenue from Evidence-Based Funding and other state revenue will provide the District with $2.4 billion. Other State revenue includes block grants and other grants, State pension funding for teachers and driver's education funding. Other local revenue, including City of Chicago pension contributions and intergovernmental agreements with the City of Chicago, are expected to account for $453.9 million, or 5.0%, of revenue in FY2022. Other financing sources, which are anticipated proceeds from the sale of bonds to fund the District's capital projects, are expected to account for 7.8% of resources. Smaller portions of resources including personal property replacement tax, Tax Increment Financing (TIF) Surplus, which are excess TIF funds declared by the City of Chicago and distributed to local taxing bodies, and a small amount of restricted fund balance carried over from the prior year.



Source: CPS FY2022 Proposed Budget, pp. 20-22, 182 and 210.

The following table details the total resources proposed for FY2022 by fund. The General Operating Fund accounts for the majority, 85.7%, of total resources. The District projects general operating revenue from local, state and federal sources to be nearly $7.7 billion. With an additional $136.9 million in TIF Surplus and $10.0 million in restricted fund balance, this brings the total general operating resources to $7.8 billion.

Capital funding is proposed at $554.9 million in FY2022. This amount reflects the amount of revenue and other sources, primarily bond proceeds, which are anticipated to flow into the Capital Fund in FY2022. This includes $104.9 million in local, state and federal revenue, and $450 million in anticipated bond proceeds. The debt service fund is budgeted to receive $746.9 million in revenue from local, state and federal sources. The capital fund accounts for 6.1% of total FY2022 resources and the debt service fund accounts for 8.2%.

CPS FY2022 Revenues and Resources by Fund Type (in $ millions)	General Operating	Capital	Debt Service	Total
Property Taxes	$ 3,318.1	$ 5.3	$ 51.1	$ 3,374.5
Replacement Tax	$ 195.5	$ -	$ 39.4	$ 234.9
Other Local Revenue*	$ 260.4	$ 42.2	$ 151.3	$ 453.9
Subtotal Local Revenue	**$ 3,774.0**	**$ 47.5**	**$ 241.8**	**$ 4,063.3**
General State Aid/Evidence-Based Funding	$ 1,225.3	$ -	$ 480.4	$ 1,705.7
Other State Grants	$ 602.2	$ 47.3	$ -	$ 649.5
Subtotal State Revenue	**$ 1,827.5**	**$ 47.3**	**$ 480.4**	**$ 2,355.2**
Federal Revenue	$ 2,073.1	$ 10.1	$ 24.7	$ 2,107.9
Total Revenues	**$ 7,674.6**	**$ 104.9**	**$ 746.9**	**$ 8,526.4**
Other Financing Sources	$ -	$ 450.0	$ -	$ 450.0
TIF Surplus	$ 136.9	$ -	$ -	$ 136.9
Appropriated Fund Balance	$ 10.0	$ -	$ -	$ 10.0
Total Resources	**$ 7,821.5**	**$ 554.9**	**$ 746.9**	**$ 9,123.3**
Percent of Total	**85.7%**	**6.1%**	**8.2%**	

*Other Local Revenue includes interest income.

Note: Figures in table may not match budget figures exactly due to rounding.

Source: CPS FY2022 Proposed Budget, pp. 20-22, 182 and 210.

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 FY2018 to FY2022. In the two-year period between FY2021 and FY2022, the proposed FY2022 budget represents a 12.0% increase of $978.2 million from the FY2021 budget of $8.1 billion.

Over the five-year period from FY2018 to FY2022, total budgeted resources have increased by 34.4%, or $2.3 billion, from $6.8 billion to $9.1 billion. During this period, several revenue sources have increased significantly. Property tax revenue is projected to increase by 16.0%, or $465.1 million, from $2.9 billion in FY2017 to $3.4 billion in FY2021. Evidence-Based Funding has increased by 10.3%. Total state revenue is projected to increase by $274.7 million or 13.2%. Federal funding had been decreasing over the years, but CPS has received an influx of federal revenue through ESSER II and III funds that will be used to support the FY2022 budget, which results in a federal funding increase of $1.2 billion, or 159.1%, over the five-year period.

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

CPS Revenues and Resources All Funds by Source: FY2018-FY2022 (in $ millions)									
Source	FY2018 Amended	FY2019 Adopted	FY2020 Amended	FY2021 Adopted	FY2022 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Property Taxes	$ 2,909.4	$ 2,984.3	$ 3,134.5	$ 3,260.4	$ 3,374.5	$ 114.1	3.5%	$ 465.1	16.0%
Replacement Taxes	$ 148.7	$ 161.1	$ 215.3	$ 194.9	$ 234.9	$ 40.0	20.5%	$ 86.2	58.0%
Other Local Revenue*	$ 393.4	$ 364.4	$ 442.7	$ 484.6	$ 453.9	$ (30.7)	-6.3%	$ 60.5	15.4%
Subtotal Local Revenue	**$ 3,451.5**	**$ 3,509.7**	**$ 3,792.5**	**$ 3,939.9**	**$ 4,063.3**	**$ 123.5**	**3.1%**	**$ 611.8**	**17.7%**
Evidence-Based Funding	$ 1,546.2	$ 1,646.3	$ 1,673.7	$ 1,665.7	$ 1,705.7	$ 40.0	2.4%	$ 159.5	10.3%
Other State Revenue	$ 534.3	$ 546.1	$ 608.0	$ 673.0	$ 649.5	$ (23.5)	-3.5%	$ 115.2	21.6%
Subtotal State Revenue	**$ 2,080.5**	**$ 2,192.4**	**$ 2,281.8**	**$ 2,338.7**	**$ 2,355.2**	**$ 16.5**	**0.7%**	**$ 274.7**	**13.2%**
Federal Revenue	$ 813.4	$ 836.7	$ 767.5	$ 1,336.7	$ 2,107.9	$ 771.2	57.7%	$ 1,294.5	159.1%
Total Revenues	**$ 6,345.4**	**$ 6,538.8**	**$ 6,841.8**	**$ 7,615.2**	**$ 8,526.4**	**$ 911.2**	**12.0%**	**$ 2,181.0**	**34.4%**
Bond Proceeds	$ 361.0	$ 340.5	$ 598.3	$ 411.0	$ 450.0	$ 39.0	9.5%	$ 89.0	24.7%
TIF Surplus	$ 22.3	$ 22.3	$ 163.1	$ 96.9	$ 136.9	$ 40.0	41.3%	$ 114.6	513.9%
Fund Balance Use / (Sources)	$ 57.8	$ 62.6	$ 56.0	$ 22.0	$ 10.0	$ (12.0)	-54.5%	$ (47.8)	-82.7%
Total Resources	**$ 6,786.5**	**$ 6,964.2**	**$ 7,659.2**	**$ 8,145.1**	**$ 9,123.3**	**$ 978.2**	**12.0%**	**$ 2,336.8**	**34.4%**

*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.

Source: CPS Budget Interactive Online Reports FY2018-FY2022, Revenues & Expenditures, available at www.cps.edu; and CPS FY2018 Amended Budget, p. 170 and 176; CPS FY2019 Adopted Budget, pp. 161 and 171; FY2020 Amended Budget, pp. 163 and 169; FY2021 Adopted Budget, pp. 182 and 191; and FY2022 Proposed Budget, pp. 20-22, 182 and 210.

Local Revenue

Local revenue is expected to total $4.1 billion in FY2022, which is an increase of 3.1% over the prior year budget and a 17.7% increase over the five-year period beginning in FY2018. 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 3.5%, or $114.1 million in the two-year period between FY2021 and FY2022. The increase is due to several factors. First, the District will increase its Education Fund property tax levy by 1.4%, which is the maximum increase allowed under the Property Tax Extension Law Limit (PTELL) based on the 2020 inflation rate.[25] This levy increase will account for an additional $38 million. Second, an additional $39 million will result from levying for new property and property in recently expired TIF districts. Third, the District anticipates it will receive $65 million thanks to legislation passed by the Illinois General Assembly in May 2021 that 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.[26] 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. If signed into law, the recapture levy would allow CPS to recoup the revenue it lost.

While overall property tax revenue is expected to increase in FY2022 compared to the FY2021 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. The District's dedicated property tax levy for the Chicago Teachers' Pension Fund came in $26.4 million below budget as a result of the decrease in assessed property values. Property tax revenue from

[25] CPS FY2022 Proposed Budget, p. 22.
[26] Senate Bill 508, Illinois 10nd General Assembly. As of this publication, the legislation is awaiting the Governor's signature to become law.

the Transit TIF district for the Red-Purple Modernization rail project on the north side of Chicago also will be reduced slightly by $1 million compared to the FY2021 budgeted revenue of $79.3 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 $40.0 million, or 20.5%, from $194.9 million in FY2021 to $234.9 million in FY2022. The District anticipated a decrease in collections by the State due to the economic slowdown caused by COVID-19 at the time of the adoption of the FY2021 budget. However, PPRT collections outperformed FY2021 expectations and this trend is expected to continue in FY2022.[27]

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.[28] Other local revenues are projected to be $453.9 million in FY2022, which is a decrease of $30.7 million, or 6.3%, from the prior year. The largest portions of this revenue consist of $150 million through intergovernmental agreements with the City of Chicago ($142.3 million of which is for debt service funding) and a $115 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). In FY2020, CPS agreed to begin absorbing a portion of those payments to the Municipal Fund. In the last two years CPS contributed $60 million per year and in FY2022 CPS will contribute $100 million.[29]

State Revenue

FY2022 will be the fifth year CPS will receive State revenue according to the Evidence-Based Funding formula for P-12 public school districts across Illinois that was signed into law in August 2017. CPS is budgeting for a total of $2.36 billion in State funding in FY2022, compared to $2.1 billion in FY2018, an increase of $274.7 million, or 13.2%. 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 FY2022, CPS expects to receive $1.7 billion in Evidence-Based Funding and $649.5 million in other state revenue. Other State revenue in FY2022 includes a $277.5 million state contribution to the Chicago Teachers' Pension Fund, $340.5 million in categorical grants and $23.3 million in capital funding. Evidence-Based Funding is increasing in FY2022 from the prior year by $40.0 million or 2.4%. CPS anticipates receiving an additional $58.0 million over the prior year for its designation as a Tier 1 school district as part of the $362.1 million increase in EBF funding appropriated statewide.

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 was intended to equalize each school district's resources by

[27] CPS FY2022 Proposed Budget, p. 25.
[28] CPS FY2022 Proposed Budget, Online Interactive Reports, Revenues and Expenditures, available at cps.edu.
[29] CPS FY2022 Proposed Budget, p. 26.

supplementing property tax revenue available to districts and reach a base foundation level per student. The foundation level had been held level at $6,119 per pupil since FY2010, and 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. A Supplemental Low Income Grant (Poverty Grant) was provided to supplement districts with higher concentrations of low income children including CPS. In addition to GSA, CPS also received block grants, categorical grants, statutory capital funding and an annual statutory pension payment of approximately $12 million.[30]

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. The Evidence-Based Funding model uses a more equitable formula based on funding adequacy of school districts. EBF sets a target funding level ("adequacy target") 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. The Evidence-Based formula decreased the level of State funding outside of General State Aid, such as block grants, but significantly increased General State Aid. The EBF formula held school districts harmless, meaning they kept the same funding levels previously included in four block grants, which were rolled into their base funding minimum.[31] The base funding minimum does not decrease from year to year regardless of enrollment declines.

CPS is currently a Tier 1 school district, which is the highest level of funding need, measured as having available local resources below 67.4% of the District's adequate funding target. CPS had an FY2020 (the most recent available) adequacy target of $5.59 billion and only 65.6% of needed resources based on available State funding, property tax revenue and replacement tax revenue. CPS would still need an additional $1.92 billion to meet its adequacy target.[32]

The new formula required an increase of $350 million for allocation statewide annually to reach a Minimum Funding Level. The State of Illinois FY2020 budget appropriated $375 million for this purpose, of which $312 million was distributed for funding for all four tiers.[33] CPS received $64.3 million of this money in FY2020. The State budget for FY2021 did not appropriate the $350 million Minimum Funding Level due to revenue shortfalls related to COVID-19, so CPS did not receive any additional EBF funding in FY2021. Because the State appropriated an additional $362.1 million in EBF for FY2022, the District will receive another $58 million this year.

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-

[30] The State had a "goal and intention" to contribute 20-30% of the Teachers' Retirement System (TRS) pension fund contribution as noted in 40 ILCS 5/17-127. However, the pension payment from the State fell well below the 20-30% TRS contribution. For example, if the State had met the funding goal in FY2016, it would have contributed $740 million to the Chicago Teachers' Pension Fund rather than $12 million. CPS FY2017 Budget, p. 150.
[31] Nine block grants remain in their current form outside the evidence-based formula including Early Childhood, Driver's Education and Special Education Tuition and Transportation block grants.
[32] CPS FY2021 Proposed Budget, p. 32.
[33] CPS FY2020 Proposed Budget, p. 25.

employment benefits (OPEB) for retirees. The State of Illinois will provide $277.5 million toward CPS' required contribution to the Chicago Teachers' Pension Fund (CTPF) in FY2022, an increase of $10.6 million from the prior year.[34]

Federal Revenue

In past years, federal revenue typically accounted for about 12% of CPS' total revenues. That proportion has increased to 23.1% in FY2022 thanks to a large influx of federal COVID-19 relief funding through the Elementary and Secondary School Emergency Relief Funds (ESSER). CPS will receive a total of $2.6 billion through ESSER II and III between FY2021 and FY2024, $1.06 billion of which will be spent in FY2022.[35] Federal funding across all funds in FY2022 of $2.1 billion represents an increase of $771.2 million over the prior year, or 57.7%.

Federal funding also increased significantly in FY2021 due to the first round of coronavirus relief funding, ESSER I, through the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The District received $206 million in CARES Act funding in FY2021 and allocated $339 million of ESSER II in FY2021. Total federal revenue in FY2021 of $1.34 billion, represented an increase of $569.2 million, or 74.2%, from the FY2020 budget. Federal funds made up 16% of total revenue for CPS in FY2021.

ESSER III funds for CPS total $1.8 billion. Of that total, $602 million is allocated in the FY2022 budget. The FY2022 budget also includes $458 million in ESSER II funds. The District plans to allocate this funding toward a number of purposes in FY2022:

- $267 million to support the District's Moving Forward Together Plan that will provide flexible school funds, additional resources for academic and social-emotional resources and a number of targeted supports for students most impacted by the pandemic;
- $132 million to support the reopening of schools in fall 2021;
- $100 million for building and capital projects;
- $288 million for school-based investments such as special education, paraprofessionals, early childhood education and new academic programs;
- $178 million for additional school-based instructional positions; and
- $95 million as a proportionate share of ESSER funding to be directed to charter and contract schools.[36]

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.

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[34] CPS FY2022 Proposed Budget, p.27.
[35] CPS FY2022 Proposed Budget, Letter from the Chief Executive Officer.
[36] CPS FY2022 Proposed Budget, p. 10; and Chicago Public Schools, "Chicago Public Schools to Invest Over Half-Billion Dollars in Transformative Student Supports as Part of Moving Forward Together Initiative," *Press Release,* June 16, 2021, at https://www.cps.edu/press-releases/June-16-21.

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 $276.2 million in FY2022. Title I funds are calculated based upon Census data related to the number of children in poverty relative to other districts;
- Individuals with Disabilities 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 $230.7 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 FY2022; 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 FY2022 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 $706.6 million in FY2022 will be funded by additional bond issuances and other resources anticipated to be received beyond the current fiscal year.

CPS is anticipating $136.9 million in TIF surplus revenues from the City of Chicago in FY2022, which is a significant increase from $96.9 million in FY2021. The increase is due to a larger than normal TIF surplus expected 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 increased exponentially since FY2018 when TIF surplus was budgeted at $22.3 million. This represents an increase of 513.9% over the five-year period.

In past years, CPS has relied heavily on using prior year general operating fund balance 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 FY2022 the District plans to appropriate $10.0 million in general operating fund balance. However, this use of fund balance is comprised of unspent restricted prior year revenues that must be used for specific purposes.[37] Over the five-year period from FY2018 to FY2022, the amount of budgeted fund balance has decreased by 82.7% from $57.8 million.

[37] CPS FY2022 Proposed Budget, p. 220.

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 2021 (payable in 2022), the tax cap law permits a 1.4% 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 2020 will actually be received in 2021. The tax year 2021 extension is paid by taxpayers in calendar year 2022 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.[38] 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. Previous 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.

Between 2012 and 2019, the second installment tax bill was due on August 1. However, this timing has been impacted in both 2020 and 2021 (CPS FY2021 and FY2022). 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 have been delayed for the first time since 2012. As of the date of publication of this report, the Cook County Treasurer estimates that property tax bills will not be sent out to property owners until late August, with an anticipated due date of October 1, 2021.[39] Because of this delay, and in order to avoid having to record property tax revenue in the next fiscal year, CPS plans to once again extend its revenue recognition period for property taxes to October 29 so that the second installment property tax revenue can be recorded in the 2021 fiscal year rather than FY2022.[40]

[38] 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.
[39] See www.cookcountytreasurer.com.
[40] Communication from the Chicago Public Schools Finance Office, July 23, 2021.

Property Tax Revenue Distribution

CPS expects its FY2022 property tax revenues to total $3.37 billion, compared to $3.26 billion in the FY2021 adopted budget. This represents an increase of $114.1 million, or 3.5%, over the prior year.[41]

The following chart shows the distribution of projected FY2021 property tax revenues among the District's 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.[42] The majority of FY2022 property tax revenue, 68.9%, or $2.3 billion will be distributed to the General Education Fund.

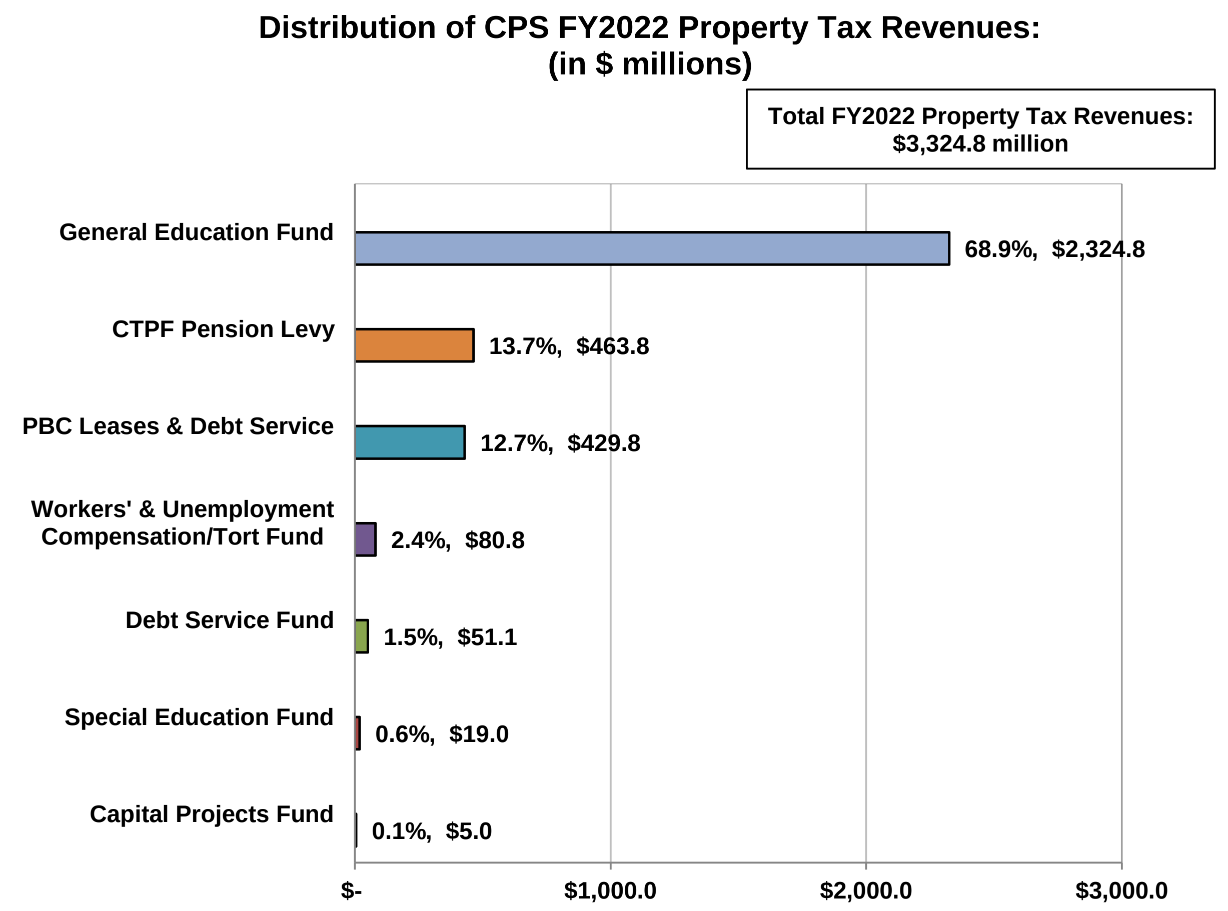
The Chicago Teachers' Pension Fund property tax levy will generate $463.8 million property tax revenue in FY2022, accounting for 13.7% of the levy. A dedicated property tax levy to fund teacher pensions was reinstated in FY2017 at a tax rate of 0.383%. CPS then received authority to increase the rate 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 $429.8 million, or 12.7%, of property tax revenue to the Public Building Commission Fund for PBC leases and debt service payments; $80.8 million, or 2.4%, to the Workers' and Unemployment Compensation/Tort Fund; $51.1 million, or 1.5%, to the Debt

[41] The projection does not reflect the change to the due date of second installment 2020 tax bills.

[42] 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).

Service Fund; $19.0 million, or 0.6%, to the Special Education Fund; and $5.0 million, or 0.1%, to the Capital Projects Fund.



Source: CPS FY2022 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 FY2022. Figures for FY1991 through FY2020 are actual property tax revenues received based on the most recent audited data available, while FY2021 figures are year-end estimates and FY2022 figures are proposed.[43] 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 300.6%, or $2.5 billion, from $842.3 million in FY1991 to $3.4 billion in FY2022. 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 3.8%. The average annual growth rate is 4.0%.

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.[44] This amount has grown to an estimated $463.8 million in FY2022, which is actually a decrease of $26.4 million from $490 million the prior year due to a decrease in the total assessed value of property in

[43] These numbers do not reflect the potential impact of the change to the due date of second installment tax year 2020 property tax bills.
[44] CPS FY2017 Amended Budget, pp. 26-27.

Chicago related to the COVID-19 pandemic. The total estimated property tax revenue for FY2022 is a 4.4% increase over FY2021 year-end estimate.

CPS Property Tax Revenue: FY1991-FY2022 (in $ thousands)			
	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 Estimated	$ 3,232,700	$ 158,609	5.2%
FY2022 Estimated	$ 3,374,200	$ 141,500	4.4%

*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 Comprehensive Annual Financial Reports, FY2020, pp. 124-125; FY2017, pp.114-115; FY2007, pp. 92-93; FY1999, pp. 80-81; and CPS FY2022 Proposed Budget, p. 20.

Trend in Property Tax Extension

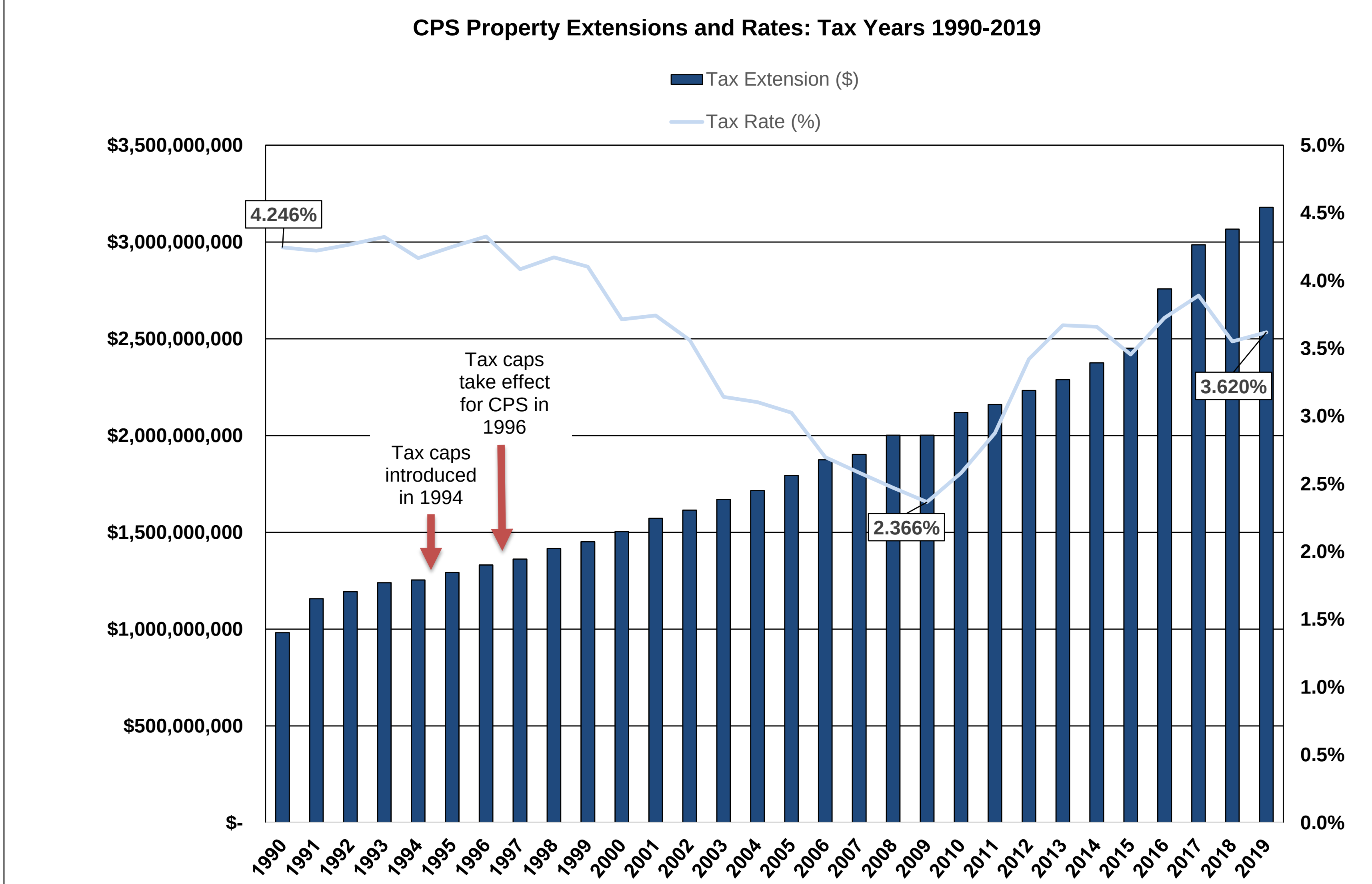
The Property Tax Extension Limitation Law, or tax caps, limits maximum growth in the CPS levy. Prior to 1994, the District's tax extension was limited by a maximum rate for each property tax fund. Some of the fund rate limits still exist, but the tax cap law, not rate limits, has been the operative limit on CPS tax increases since 1994.[45]

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.[46]

The following graph illustrates the increase in CPS property tax extensions between tax year 1990 (payable in 1991) and tax year 2019 (payable in 2020) and the change in tax rates during that period. Tax year 2019 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 $3.2 billion in tax year 2019. 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 2020 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.

[45] 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.
[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.



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 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.[47] 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.[48] More importantly, the revenue recognition policy was used as an accounting mechanism to close the budget gap in FY2015.

In 2020 Cook County waived the interest penalty for property tax payments due August 1 until October 1, 2020. This resulted in some property tax revenue coming in outside of the District's 60 day revenue recognition period. In order to avoid a significant decline in property tax revenue for FY2020 due to the late payments, the District extended its revenue recognition period for FY2020 from August 29, 2020 (60 days after year end) to October 29, 2020 (120 days after year end) for property taxes.[49] As of the date of publication of this report, the Cook County Treasurer estimates that property tax bills will not be sent out to property owners until late August, with an anticipated due date of October 1, 2021.[50] CPS indicated it intends to once again extend 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.[51] The District noted the highly unusual circumstance necessitating this change in the revenue recognition period specific to property taxes. However, this is now the second year such a change has been required and there is no guarantee that Cook County tax bills will get back on schedule next year, especially due to 2021 being a Chicago reassessment year.

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[47] CPS FY2019 Adopted Budget, p. 217.
[48] CPS FY2015 Adopted Budget, pp. 9-10.
[49] Chicago Public Schools, FY2020 CAFR, p. 58.
[50] See www.cookcountytreasurer.com.
[51] Communication from the Chicago Public Schools Finance Office, July 23, 2021.

RESERVES

This section describes Chicago Public Schools' reserves, or fund balance. It includes discussion of the following:

- An overview of definitions describing the way fund balance is classified and reported based on standards set by the Governmental Accounting Standards Board;
- Best practices for fund balance established by the Government Finance Officers Association (GFOA);
- An assessment of CPS' audited unrestricted fund balance compared to the GFOA guidelines;
- An assessment of the District's stabilization fund balance compared to its own fund balance policy; and
- A discussion of the use of CPS' reserves in the FY2021 and FY2022 budgets.

Fund Balance Definitions and Components

Fund balance is a term commonly used to describe the net assets of a governmental fund and serves as a measure of budgetary reserves.[52] Prior to FY2011, CPS reported *unreserved* fund balance, or resources available for appropriation without any external legal restrictions or constraints.[53] Starting in FY2011, the audited financial statements for CPS include a modification in fund balance reporting, as recommended by the Governmental Accounting Standards Board through GASB Statement No. 54 (GASB 54). GASB 54 shifts the focus of fund balance reporting from the availability of fund resources for budgeting purposes to the "extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent."[54]

GASB 54 creates five components of fund balance, though not every government or governmental fund will report all components. The five components are:

- *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

[52] 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.
[53] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009.
[54] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009 and GASB Statement No. 54, paragraph 5.

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.[55]

The current method of measuring fund balance per GASB 54 is through *unrestricted* fund balance, which is identified by the GFOA as "only resources without a constraint on spending or for which the constraint on spending is imposed by the government itself."[56] ***Unrestricted*** fund balance includes the combined total of ***committed*** fund balance***, assigned*** fund balance and ***unassigned*** fund balance.

GFOA Best Practices

The Government Finance Officers Association (GFOA) recommends "at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures."[57] Two months of operating expenditures is approximately 17%. Chicago Public Schools is a special purpose government, not a general purpose government. However, the District's size and the relative instability of its revenue stream make it prudent for the District to maintain adequate reserves. The GFOA statement adds that each unit of government should adopt a formal policy that considers the unit's own specific circumstances and that a smaller fund balance ratio may be appropriate for the largest governments.[58]

Audited Fund Balance Ratio: FY2011-FY2020

The table below presents the District's unrestricted fund balance for FY2011 through FY2020, the most recent year for which audited financial information is available. The District's restricted fund balance (consisting of committed, assigned and unassigned amounts as defined by GASB) within the General Fund totaled $488.8 million at the end of FY2020. Compared to total General Fund expenditures that year, the unrestricted fund balance comprises 7.9% of expenditures.

Over the ten-year period, the District's fund balance fell from a high of 18.5% of expenditures in FY2012 to negative levels in FY2016 and FY2017. Between FY2011 and FY2012, the unrestricted fund balance increased from 11.8% to 18.5% due primarily to timing shifts in the reporting of property tax revenue receipts, which shifted approximately $350 million in revenue from FY2013 to FY2012.[59] 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.[60] 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

[55] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009.
[56] GFOA, Fund Balance Guidelines for the General Fund (Adopted September 2015).
[57] GFOA, Fund Balance Guidelines for the General Fund (Adopted September 2015).
[58] GFOA, Fund Balance Guidelines for the General Fund (Adopted September 2015).
[59] CPS FY2012 Comprehensive Annual Financial Report, p. 12.
[60] CPS FY2017 Comprehensive Annual Financial Report, p. 8.

Funding formula law passed in 2017.[61] The fund balance improved again in FY2019 and FY2020 due to surpluses in general operating revenues compared to expenditures.[62]

CPS Unrestricted General Operating Fund Fund Balance Ratio: FY2011-FY2020			
	General Operating Fund Balance	General Fund Expenditures	Ratio
FY2011	$ 577,756,000	$ 4,909,952,000	11.8%
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%

Source: CPS Comprehensive Annual Financial Report, FY2011, p. 40 and 42; FY2012, p. 42 and 44 and 103; FY2013, p. 44 and 46; FY2014, p. 36 and 38; FY2015, p. 32 and 34; FY2016, pp. 38 and 40; FY2017, pp. 40 and 42; FY2018, pp. 47 and 49; FY2019, pp. 47 and 49; and FY2020, pp. 49 and 51.

CPS Fund Balance Policy

Chicago Public Schools adopted a new fund balance policy in January 2021 to replace a previous policy adopted in 2008.[63] 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. However, as CPS

[61] CPS FY2018 Comprehensive Annual Financial Report, p. 13.
[62] CPS FY2019 Comprehensive Annual Financial Report, p. 25.
[63] 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.

begins to implement the policy, it acknowledges it will have to continue to build up enough reserves over several years to meet the target, which was $1.14 billion for FY2021.

In FY2020, which was before the policy was implemented, but is the most recent year for which final fund balance data are available, the unrestricted General Fund balance $488.8 million, which is approximately 8% of expenditures and about 7 percentage points short of the target. The target of 15% would have been $918.3 million that same year.[64]

General Operating Reserves in FY2021 and FY2022

While the Comprehensive Annual Financial Reports only provide information about fund balance through FY2020, the CPS budget provides information about the District's projected fund balance levels in FY2021 and FY2022 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 FY2020 CPS ended the year with a General Operating Fund balance of $517.1 million, and began the next fiscal year, FY2021, with the same operating fund balance. During the course of FY2020, the fund balance improved by $42.0 million due to an operating surplus. This resulted in an estimated year-end fund balance of $559.1 million.

In FY2022 CPS is budgeting for the use of $10.0 million in restricted operating fund balance, which would result in a decrease in the total operating fund balance to $549.1 million by the end of FY2022 if there is no additional budget surplus or deficit. The $10.0 million in appropriated fund balance is for restricted amounts carried over from the prior year that must be used for a specific purpose.

CPS FY2022 Use of Total Operating Funds Fund Balance (in $ millions)		
FY2021 Beginning Balance	$	517.1
FY2021 Estimated Sources / (Use)	$	42.0
FY2021 Estimated End of Year Balance	**$**	**559.1**
FY2022 Estimated Beginning Balance	$	559.1
FY2022 Estimated Sources / (Use)	$	(10.0)
FY2022 Estimated End of Year Balance	**$**	**549.1**

Source: CPS FY2022 Proposed Budget, Fund Balance Statement, at https://www.cps.edu/about/finance/budget/budget-2022/fund-balance-statement-2022.

[64] Information provided by Chicago Public Schools, July 23, 2021.

CASH-FLOW ISSUES

CPS experiences annual cash-flow issues due to the timing of debt and pension payments that occur just before the District receives its two installments of property tax revenue, while payroll and vendor payments must be disbursed consistently throughout the year.[65] Other governments rely on using their budgetary reserves during these periods of low cash flow. However, CPS spent down its reserves in past years in order to balance annual budgets and make pension payments without making budget cuts.[66] While the level of reserves has improved in recent years, the District still lacks sufficient fund balance for the District to draw on. Therefore, CPS like some other governments relies on short-term borrowing to mitigate its cash shortfall.

CPS operated with a negative cash balance for much of the fiscal year for the past several years. The District's cash position has improved since the passage of the statewide Evidence-Based Funding formula in 2017, which resulted in increased State funding for CPS. The District held a negative cash position for the majority of FY2017. This improved to a positive cash position for three months out of the year in FY2018, five months in both FY2019 and FY2020, and four months out of the year in FY2021.[67] CPS ended the 2021 fiscal year with a negative cash position of $62 million compared to negative $234 million at the end of the prior year.[68]

After depleting reserves between FY2013 and FY2015, CPS began to use a line of credit to cover cash-flow needs between property tax payments. CPS currently borrows on a short-term basis through Tax Anticipation Notes (TANs),[69] which are then repaid once property tax revenues are received. The District issued a maximum, at any one time during the fiscal year, of $700.0 million in TANs in FY2015, $1.07 billion in TANs in FY2016,[70] $1.55 billion in FY2017,[71] $1.1 billion in FY2018, $844 million in FY2019; $830 million in FY2020; and $950 million in FY2021.[72] As of June 30, 2021, CPS had $244 million in TANs outstanding. CPS plans to continue issuing TANs in FY2022.

The TANs carry associated interest costs, which have decreased as CPS has reduced the level of TANs used over the years. In FY2018, CPS budgeted for $79 million in interest costs on the TANs,[73] compared to $19 million budgeted for short-term borrowing interest costs in FY2021.[74] CPS is budgeting for $12 million in interest costs from TANS in FY2022.[75]

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65 CPS FY2022 Proposed Budget, p. 217.

66 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.

67 CPS FY2022 Proposed Budget, p. 219; CPS FY2021 Proposed Budget, p. 201; CPS FY2020 Proposed Budget, p. 179; and CPS FY2019 Adopted Budget, p. 180.

68 CPS FY2022 Budget Overview provided to the Civic Federation, July 13, 2021.

69 TANs are backed by anticipated property tax revenues.

70 CPS FY2017 Budget, p. 173.

71 CPS FY2019 Budget, p. 179.

72 CPS FY2021 Adopted Budget, p. 202; and CPS FY2022 Proposed Budget, p. 219.

73 CPS FY2019 Budget, p. 179.

74 CPS FY2021 Proposed Budget, p. 200.

75 CPS FY2022 Proposed Budget, p. 218.

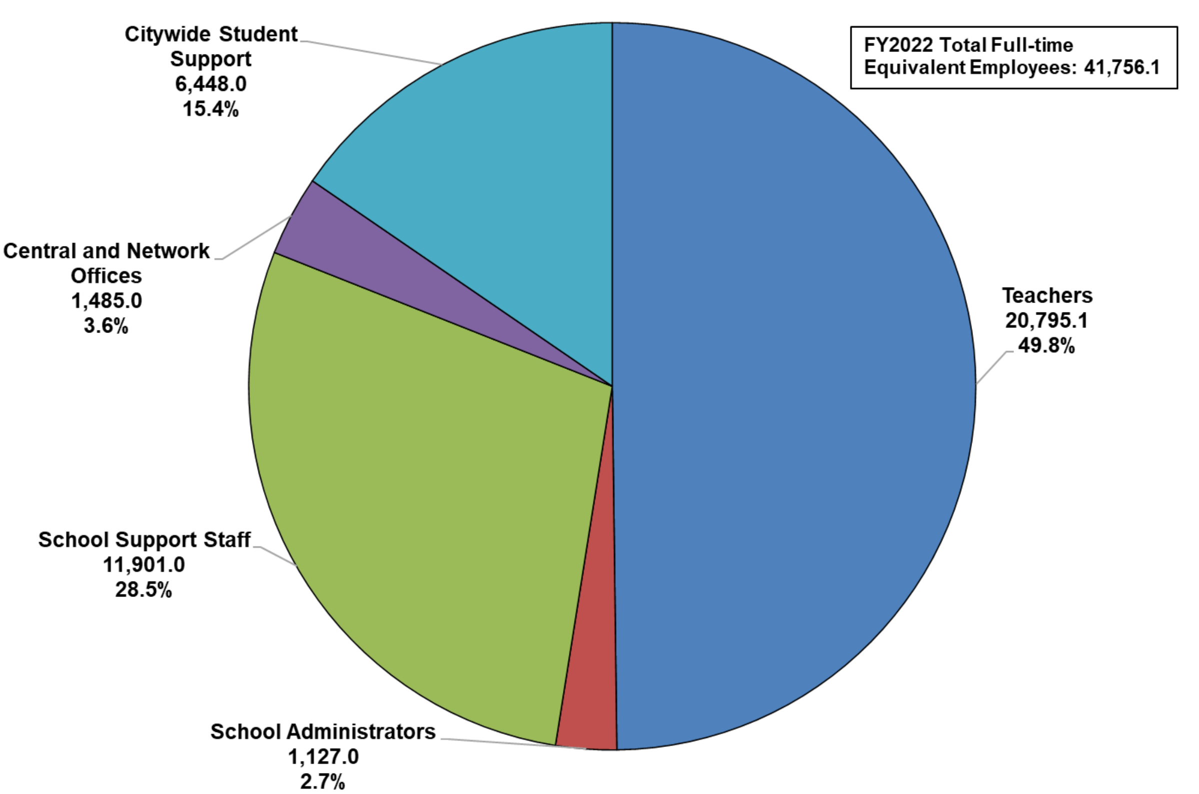
PERSONNEL

This section of the analysis presents the District's full-time equivalent (FTE) position count by type and personnel appropriation trends for general operating funds by type. The analysis compares the FY2022 proposed budget to the FY2018 through FY2021 approved and amended budgets and actual budgets when available.

FY2022 Proposed Budget FTE Positions by Type

The chart below provides a breakdown of the full-time equivalent employees in the FY2022 proposed budget. The District is proposing an increase in the number of full-time equivalent employees by 2,016.9 FTEs, from 39,739.2 FTEs in FY2021 to 41,756.1 FTEs in FY2022. Teachers will make up 49.8% of the workforce, or 20,795.1 FTEs. School Support Staff will compose the second largest position type at 28.5%, or 11,901.0 FTEs. School Support Staff includes classroom assistants, security officers, school clerks and lunchroom staff. Citywide Student Support, which include nurses, social workers, custodians and other administrative and support staff positions, will compose 15.4% of the workforce, or 6,448.0 FTEs. School Administrators, which include principals and assistant principals, will compose 2.7% of the workforce, totaling 1,127.0 FTEs. Central Office and Network Offices staff will compose 3.6% of the workforce or 1,485.0 FTEs.

Chicago Public Schools Proposed Budget FTE Positions by Type: FY2022



Source: Chicago Public Schools, FY2022 Proposed Budget, Interactive Reports, Positions, available at www.cps.edu.

Two-Year and Five-Year Full-Time Equivalent (FTE) Positions by Type

Between FY2021 and FY2022 the District's FTE position count will increase by 2,016.9 FTEs or 5.1%. Citywide Support Staff FTEs will see the largest increase over 2021, representing over half of the total personnel increases for CPS. An additional 1,379.0 FTEs will join the ranks in this category in 2022, a 27.2% increase over the previous year. According to the CPS Finance Office, these additional hires include 734 crossing guards transferring from the City of Chicago to the CPS budget, 400 new custodians, and 170 various services providers.[76]

The number of full-time equivalent Teachers will increase by 1.6%, or 333.9 FTEs in FY2021 to 20,795.1 FTEs total. Over the two-year period, School Support Staff will increase by 158.0 FTEs or 1.3%. During the same period, the number of full-time equivalent employees in Central and Network Officers will increase 10.6% or 142.0 FTEs.

Over the five-year period beginning in FY2018, total FTE positions for the District will increase by 14.4%, or 5,245.2 FTEs. School Support staff will increase by 1,795.5 FTEs or 17.8%. The number of teachers will increase by 1,202.6 FTEs, or 6.1%, over the five-year period. School Administrators will increase by 158.0 FTEs or 16.3%. Citywide Student Support staff will increase by 1,592.5 FTEs or 32.8%. The number of FTE employees in Central and Network Offices will increase by 50.2% or 496.6 FTEs.

Chicago Public Schools Full-Time Equivalent (FTE) Positions By Type
FY2018-FY2022

	FY2018 Amended	FY2019 Adopted	FY2020 Amended	FY2021 Adopted	FY2022 Proposed	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Teachers	19,592.5	19,831.0	20,079.4	20,461.2	20,795.1	333.9	1.6%	1,202.6	6.1%
School Administrators	969.0	1,062.0	1,113.0	1,123.0	1,127.0	4.0	0.4%	158.0	16.3%
School Support Staff	10,105.5	10,446.0	10,844.5	11,743.0	11,901.0	158.0	1.3%	1,795.5	17.8%
Central and Network Offices	988.4	1,157.0	1,281.0	1,343.0	1,485.0	142.0	10.6%	496.6	50.2%
Citywide Student Support	4,855.5	4,612.0	4,719.5	5,069.0	6,448.0	1,379.0	27.2%	1,592.5	32.8%
Total	**36,510.9**	**37,107.0**	**38,037.4**	**39,739.2**	**41,756.1**	**2,016.9**	**5.1%**	**5,245.2**	**14.4%**

Note I: Totals may not match budget book due to rounding.
Note II: The number of FTEs in the CPS FY2019 Proposed Budget Book, p. 15 differ from the number of FTEs listed in the CPS FY2019 Adopted Budget, Interactive Reports, Positions, available at www.cps.edu. Information presented in the the FY2019 column above was provided by Chicago Public Schools staff.
Source: FY2018-FY2022 Interactive Budget Reports, Positions, available at www.cps.edu; and Information provided by Chicago Public Schools, August 22, 2019.

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

Between FY2021 and FY2022 CPS total compensation costs are expected to increase by $244.2 million, or 6.1%. Salaries, which constitute 64.0% of all employee compensation, are expected to increase by $169.0 million or 5.8% over FY2021. Benefit costs are expected to increase by $75.2 million or 5.6%. Benefit costs include pensions, health and dental insurance, unemployment compensation and payroll tax contributions for Social Security[77] and Medicare. The Teacher Pension Employer Portion of the CPS required contribution to the Chicago Teachers' Pension Fund is expected to increase by $58.8 million or 6.6%, while the employer contribution for education support positions is expected to decrease by $52.1 million or 38.9%.

[76] Information provided to the Civic Federation by Chicago Public Schools budget staff on July 13, 2021.
[77] Non-teaching staff contribute to Social Security.

The District's $1.1 billion total contribution toward teacher pensions in FY2022 includes a statutorily required employer contribution of $944.7 million and $131.1 million for the 7.0% pension pick-up of the 9.0% annual employee contributions that the District covers for unionized teaching positions hired before January 1, 2017. Included in the statutory $944.7 million employer pension contribution shown in the table below is the State of Illinois' contribution of $277.4 million toward the cost of Chicago teachers' pensions in FY2022.[78]

CPS previously picked up 7.0% of the 8.5% employee contribution for non-teacher, non-union employees. However, the District started to phase out this pension pick-up in FY2016 and completely phased out this practice in FY2018. Non-union employees now contribute the full employee portion toward their pensions.[79] In addition, new teachers hired on or after January 1, 2017 are no longer eligible for the pension pick-up per the current Chicago Teachers Union contract. The District still picks up 7.0% of the 8.5% employee contribution for non-teacher union member participants in the Municipal Fund, which is budgeted at $43.8 million in FY2022.

Over the five-year period between FY2018 to FY2022, total compensation costs will increase by 32.4% or $1.2 billion. Appropriations for teacher and non-teacher salaries will increase by $635.2 million or 26.5%. Appropriations for employee benefits will increase by 48.5%, or $531.9 million, between FY2018 and FY2022, rising from $1.65 billion to $1.7 billion. The increase in benefit costs between FY2018 and FY2022 is driven primarily by a $393.3 million, or 71.3%, increase in teacher pension contributions.

CPS Personnel Appropriations for General Operating Funds by Type: FY2018-FY2022
(in $ millions)

	FY2018 Actual	FY2019 Actual	FY2020 Actual	FY2021 Adopted	FY2022 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries									
Teacher Salaries	$1,841.3	$1,928.0	$1,990.3	$2,187.4	$2,268.0	$ 80.6	3.7%	$ 426.7	23.2%
Ed. Support Salaries	$ 595.5	$ 620.0	$ 706.7	$ 715.6	$ 804.0	$ 88.4	12.4%	$ 208.5	35.0%
Total Salaries	**$2,436.8**	**$2,548.0**	**$2,697.0**	**$2,903.0**	**$3,072.0**	**$ 169.0**	**5.8%**	**$ 635.2**	**26.5%**
Employee Benefits									
Teacher Pension Employer Portion	$ 551.4	$ 569.7	$ 597.2	$ 885.9	$ 944.7	$ 58.8	6.6%	$ 393.3	71.3%
Teacher Pension Pickup*	$ 116.3	$ 115.6	$ 113.5	$ 128.9	$ 131.1	$ 2.2	1.7%	$ 14.8	12.7%
Total Teacher Pensions	**$ 667.7**	**$ 685.3**	**$ 710.7**	**$1,014.8**	**$1,075.8**	$ 61.0	6.0%	$ 408.1	61.1%
Ed. Support Pension Employer Portion	$ 81.1	$ 111.8	$ 153.0	$ 133.8	$ 81.7	$ (52.1)	-38.9%	$ 0.6	0.7%
Ed. Support Pension Pickup*	$ 32.9	$ 32.4	$ 36.2	$ 40.6	$ 43.8	$ 3.2	7.8%	$ 10.9	33.1%
Total Ed. Support Pension	**$ 114.0**	**$ 144.2**	**$ 189.2**	**$ 174.4**	**$ 125.5**	$ (48.9)	-28.0%	$ 11.5	10.1%
Hospitalization/Other Comp.	$ 319.3	$ 304.9	$ 368.3	$ 393.3	$ 419.4	$ 26.1	6.6%	$ 100.1	31.3%
Unemployment Compensation	$ 6.6	$ 4.1	$ 9.0	$ 9.0	$ 8.6	$ (0.4)	-4.4%	$ 2.0	30.2%
Medicare/Social Security	$ 34.6	$ 36.3	$ 39.6	$ 42.3	$ 46.4	$ 4.1	9.6%	$ 11.8	34.1%
Workers' Compensation	$ 23.5	$ 24.0	$ 22.0	$ 22.0	$ 22.0	$ 0.0	0.0%	$ (1.5)	-6.6%
Total Employee Benefits	**$1,165.8**	**$1,198.8**	**$1,338.8**	**$1,655.8**	**$1,697.7**	**$ 41.9**	**3.1%**	**$ 531.9**	**45.6%**
Total Compensation	**$3,602.6**	**$3,746.9**	**$4,035.8**	**$4,558.8**	**$4,769.7**	**$ 210.9**	**5.2%**	**$1,167.1**	**32.4%**

*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 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, FY2021-2022, Revenues & Expenditures, available at www.cps.edu; CPS FY2018 CAFR, pp. 83, 88 and 99; CPS FY2019 CAFR, pp. 80, 84 and 96; and FY2020 CAFR pp. 84, 88, and 100.

[78] CPS FY2022 Proposed Budget, p. 34.
[79] CPS FY2017 Proposed Budget, p. 6.

ENROLLMENT

The FY2022 budget is based on 20th day enrollments for each school during the 2020-2021 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.[80]

CPS Student Enrollment: FY2012-FY2021														
	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	2. Yr # Chg	2. Yr % Chg	10. Yr # Chg	10. Yr % Chg
Pre.K	24,232	24,507	23,671	22,873	22,555	20,673	19,441	17,668	17,492	11,494	(5,998)	-34.3%	(12,738)	-52.6%
K-8	266,046	266,555	264,845	261,803	258,563	251,623	244,589	237,779	232,931	223,967	(8,964)	-3.8%	(42,079)	-15.8%
H.Sch	113,873	112,399	112,029	112,007	111,167	109,053	107,352	105,867	104,733	105,197	464	0.4%	(8,676)	-7.6%
Total	**404,151**	**403,461**	**400,545**	**396,683**	**392,285**	**381,349**	**371,382**	**361,314**	**355,156**	**340,658**	**(14,498)**	**-4.1%**	**(63,493)**	**-15.7%**

Source: CPS FY2022 Proposed Budget, p. 228.

As the table above indicates, CPS has experienced a decrease in student enrollment of 63,493 over the last ten years. This is a decline of 15.7% from FY2012 to FY2021. CPS does not provide a reason for this decrease, although in previous years it has cited lower birth rates as one possible factor.[81] There have also been population shifts in the City, including decreases in the Black and Hispanic populations on Chicago's south and west sides, that may be a contributing factor.[82] Additionally, the COVID-19 pandemic contributed to a major decline in student enrollment in 2020, especially among pre-k and kindergarten students.[83]

Over the ten-year period from FY2012 to FY2021, preschool enrollment has dropped by 12,738 students or 51.5%. At the same time, CPS is increasing spending to support its universal pre-k initiative. In 2022 CPS plans to spend an additional $16 million on pre-k program expansion.[84] In 2021 CPS spent $100 on a capital plan to convert classrooms to accommodate pre-k instruction and will spend another $80 million in FY2022. CPS expects to serve an additional 1,200 pre-k students in 2022.

Elementary school enrollment has decreased by 15.8%, or 42,079 students, over this ten-year period. High school enrollment declined by 7.6% or 8,676 students.

Enrollment at CPS has been on a downward trend that has decreased by about 10,000 students on average each fiscal year over the past five years. The chart below illustrates that major declines beginning in 2017 have continued through to 2021. Total enrollment between 2012 and 2021 has shrunk by 15.7% or 63,493 students. Enrollment declines between FY2011 and FY2016 were small—about 1% or less annually—followed by a larger drop in FY2017 when total enrollment fell from 392,285 to 381,349, a loss of 10,936 students, or 2.8%. Similar declines occurred

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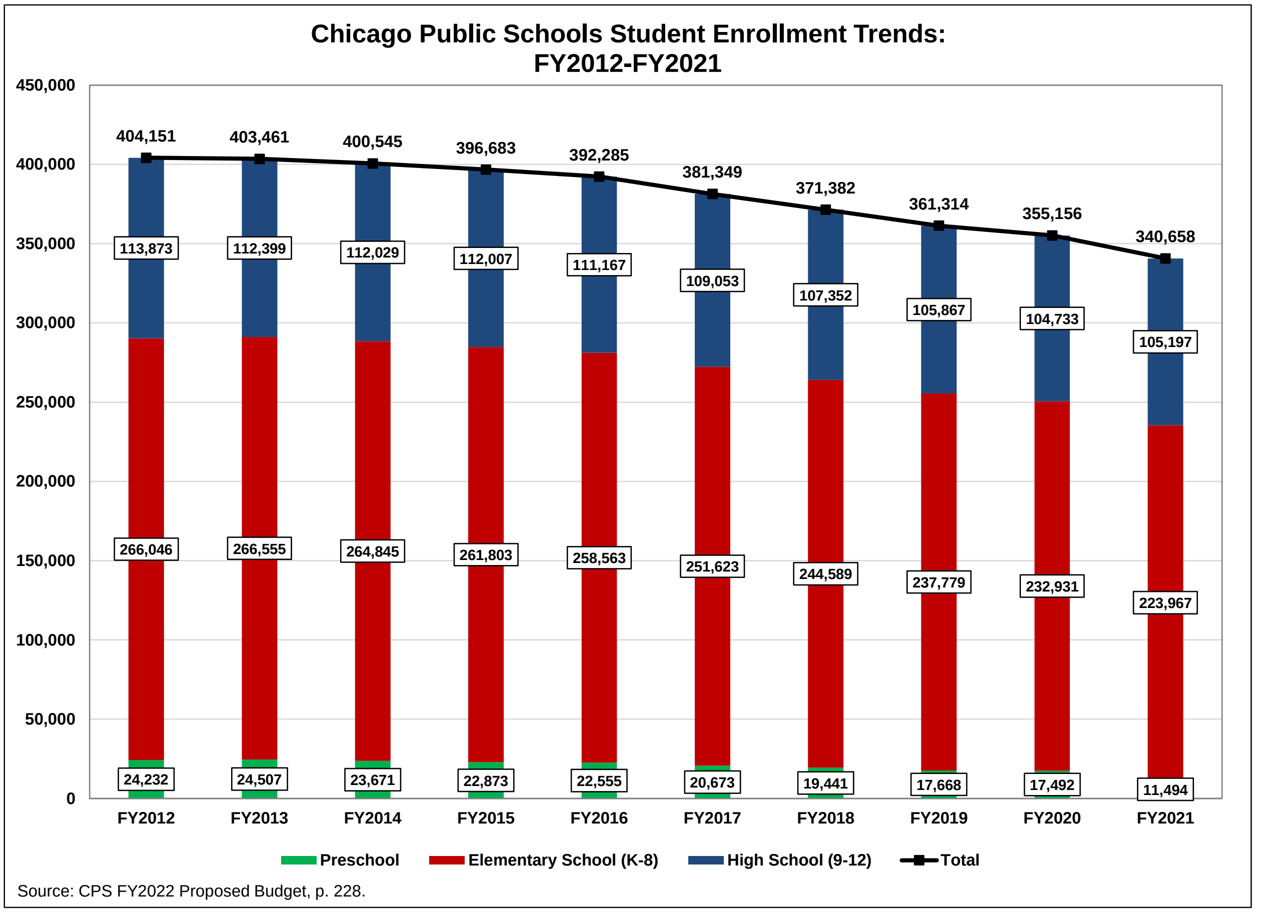
[80] Chicago Public Schools FY2022 Proposed Budget, p. 39.
[81] Chicago Public Schools FY2019 Proposed Budget, p. 189.
[82] University of Illinois at Chicago Great Cities Institute, *Fact Sheet: Black Population Loss in Chicago*, July 2019, available at https://greatcities.uic.edu/wp-content/uploads/2019/08/Black-Population-Loss-in-Chicago.pdf.
[83] 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.
[84] Chicago Public Schools FY2022 Proposed Budget, p. 5.

through FY2020. The FY2021 enrollment decline is the largest single-year drop in enrollment within the entire ten-year period, with a loss of 14,498 students, or 4.1% of the student population.

The District is moving to full in-person classroom instruction this Fall, but it is unclear how many students will return following remote learning during the COVID-19 pandemic.



Source: CPS FY2022 Proposed Budget, p. 228.

MUNICIPAL EMPLOYEES' PENSION FUND

Eligible non-teaching employees of CPS participate in the City of Chicago's Municipal Employees' Annuity and Benefit Fund.[85] As of December 31, 2019, approximately 17,857, or 55.5%, of the 32,162 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 FY2022 Municipal Fund contribution from the City will be $215 million.[88] CPS will reimburse $100 million of this amount and will record $115 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 phased out the pick-up for non-union, non-teacher employee pensions in FY2018. The District's FY2021 cost for the non-teacher union employee pick-up is approximately $43.9 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 $11.0 million in FY2022.[90]

Budget legislation approved in July 2017 by the Illinois General Assembly over the veto of Governor Bruce Rauner included provisions to change the way the City of Chicago must fund two of its four pension funds.[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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[85] 40 ILCS 5/8-110.
[86] Chicago Public Schools FY2020 Comprehensive Annual Financial Report, p. 87.
[87] City of Chicago FY2021 Budget Overview, p. 58.
[88] CPS FY2022 Proposed Budget, p. 32 and Interactive Proposed Budget, Revenues and Expenditures, available at cps.edu/budget. In the interactive budget, City contribution amount is shown net of CPS reimbursement
[89] CPS FY2022 Interactive Proposed Budget, Revenues and Expenditures, available at cps.edu/budget.
[90] CPS FY2022 Interactive Proposed Budget, Revenues and Expenditures, available at cps.edu/budget.
[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

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. The following subsections include a plan description, membership data, benefits provided, employer and employee contributions, future funding projections and pension fund indicators. There is also a discussion of the Fund's liabilities as reported according to accounting standards required by Governmental Accounting Standards Board Statements Number 67 and 68 (GASB 67 and 68). Unless otherwise stated, the numbers used in this chapter are statutorily required numbers used for funding purposes.

The fiscal year of the Teachers' Pension Fund begins on July 1 and ends on June 30, as does the fiscal year of CPS. The most recent data available are for FY2020, which ended on June 30, 2020.

Plan Description

The Public School Teachers' Pension and Retirement Fund of Chicago is a cost-sharing multiple-employer defined benefit pension plan created by the Illinois legislature in 1895 to provide retirement, death and disability benefits for teachers and employees of the Fund. Members include certified teachers at the Chicago Public Schools and charter schools.[93] Plan benefits and contributions can only be amended through state legislation.[94]

The fund is governed by a 12-member Board of Trustees. As prescribed in state statute, six trustees are elected by the teacher members of the fund, three are elected by the annuitants, one is elected by the principal and administrative members of the Fund and two are appointed by the Chicago Board of Education.

Members of the Chicago Teachers' Pension Fund do not participate in the federal Social Security system.[95]

Membership

In FY2020 the Teachers' Pension Fund had 58,106 members, including 28,015 retirees and beneficiaries receiving benefits and 30,091 active employee members. In the ten years since FY2011, the number of retirees and beneficiaries receiving benefits increased by 11.2%, or 2,816. In contrast, the number of active employee members has declined by 0.1%, or 42 members, over the same period. The ratio of active employees to beneficiaries has fallen every year since FY2008, except for FY2019 and FY2020. A decline in the ratio of active employees to retirees can create fiscal stress for an underfunded pension fund like the CTPF because it

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93 Chicago Teachers' Pension Fund, FY2020 Comprehensive Annual Financial Report, p. 32.

94 The Chicago Teachers' Pension Fund statute is 40 ILCS 5/17, but the fund is also governed by other parts of the pension code such as 40 ILCS 5/1-160, which defines the changes to benefits for new employees enacted in P.A. 96-0889.

95 CPS did not participate in Medicare until 1986 but most CTPF members are now eligible for Medicare.

means there are fewer dollars in employee contributions going into the fund and more in annuity payments flowing out of the fund.

CPS Teachers' Pension Fund Membership: FY2011-FY2020				
Fiscal Year	Retirees & Beneficiaries Receiving Benefits	Active Employee Members	Total	Ratio of Active to Beneficiary
FY2011	25,199	30,133	55,332	1.20
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

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

Source: Chicago Teachers' Pension Fund, Actuarial Valuations, FY2011-FY2020.

Summary of Key Teachers' Pension Fund Benefits

In April 2010, Illinois enacted P.A. 96-0889, which created a reduced level of pension benefits for employees hired on or after January 1, 2011 and granted a temporary pension contribution reduction to CPS.[96]

The following table lists major benefits for members hired before and after January 1, 2011. Major changes for new hires include the increase in full retirement age to 67 and early retirement age to 62; the reduction of final average salary from the highest four-year average to the highest eight-year average; the cap on pensionable salary; and the reduction of the automatic annuity

[96] A "trailer bill," or amendment bill, was enacted in December 2010 as P.A. 96-1490 to correct technical problems with P.A. 96-0889.

increase from 3.0% compounded to the lesser of 3.0% or one-half of the increase in Consumer Price Index, simple interest.

Major Chicago Teachers' Pension Fund Benefit Provisions*		
	Employees hired before 1/1/2011	**Employees hired on or after 1/1/2011**
Full Retirement Eligibility: Age & Service	age 55 with 34 years of service; age 60 with 20 years of service; age 62 with 5 years of service	age 67 with 10 years of service
Early Retirement Eligibility: Age & Service	age 55 with 20 years of service	age 62 with 10 years of service
Final Average Salary	highest average monthly salary for any 48 consecutive months within the last 10 years of service	highest average monthly salary for any 96 consecutive months within the last 10 years of service; pensionable salary capped at $115,929**
Annuity Formula	2.2% of final average salary for each year of service***	
Early Retirement Formula Reduction	0.5% per month under age 60	0.5% per month under age 67
Maximum Annuity	75% of final average salary	
Annual Automatic COLA on Retiree or Surviving Spouse Annuity	3% compounded; begins at anniversary date of retirement or 61st birthday, whichever is later	lesser of 3% or one-half of the annual increase in CPI-U, not compounded; begins at the later of age 67 or the first anniversary of retirement

* Public Act 100-0023 created a third tier of benefits for new members if a resolution or ordinance occurs. The third tier has not been implemented so it is not included here.

**The maximum pensionable salary automatically increases by the lesser of 3% or one-half of the annual increase in the CPI-U. $115,929 is the 2020 limitation. FY2020 CAFR, p. 33.

***For service prior to 1998 there are different formulas for different amounts of service.

Note: New hires are prohibited from simultaneously receiving a salary and a pension from any public employers covered by the State Pension Code (i.e. "double-dipping").
Source: Public School Teachers' Pension and Retirement Fund of Chicago, CAFR as of June 30, 2020, p. 32-34.

Pension Contributions

The Teachers' Pension Fund is funded through a combination of State, CPS and employee contributions as described below.

Employer Contributions

The State statutes governing the Chicago Teachers' Pension Fund require employer contributions when the fund falls below a 90.0% funded ratio. As described on the following pages, relatively small amounts are required from the State and from CPS pursuant to benefit enhancements enacted in P.A. 90-582. Much larger contributions are required by CPS pursuant to P.A. 89-0015 and P.A. 96-0889 in order to bring the fund up to a 90.0% funded ratio over a 50-year period and by the State pursuant to P.A. 100-0465. The total required employer contribution to the CTPF in FY2022 is $944.7 million.

State Employer Contribution: 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 and take into account the fact that the funding CPS must provide to teachers' pensions cannot be spent in the classroom. Under the new funding law, the State of Illinois will provide in FY2022 a contribution of $264.8 million for the annual cost of the pension plan's benefits —the normal cost—and retiree healthcare.[97]

Additional State Contribution: The State is required to make additional contributions in FY2022 of 0.544% of teacher payroll to the Teachers' Fund to offset a portion of the cost of benefit increases enacted under Public Act 90-0582. No additional contributions are required if the funded ratio is at least 90.0%. Because the CTPF is funded below the 90.0% threshold, the required additional State contribution in FY2022 is projected at $12.6 million, up from $12.3 million in FY2021.[98]

Additional CPS Contribution: CPS must make additional contributions of 0.58% of teacher payroll to offset a portion of the cost of benefit increases enacted under Public Act 90-0582. No additional contributions are required if the funded ratio is at least 90.0%. The required additional contribution in FY2022 is projected at $13.5 million, up from $13.2 million in FY2021.[99]

CPS Required Contribution: Under the funding plan established by P.A. 89-0015, the minimum contribution to the Teachers' Pension Fund was previously an amount needed to bring the total assets of the fund up to 90.0% of the total actuarial liabilities by the end of FY2045. The calculation for determining the CPS required contribution was the total amount of the employer contribution less additional state appropriations, additional CPS appropriations and other employer appropriations.[100] The funding schedule established in P.A. 89-0015 was changed by P.A. 96-0889, enacted in April 2010. The new law reduced CPS's required employer pension contribution for FY2011, FY2012 and FY2013 to an amount estimated to be equivalent to the employer's normal cost.[101] It also delayed the year that the pension fund must reach a 90.0% funded ratio from 2045 to the end of 2059. After the end of the three-year partial pension funding holiday in FY2014, the District's contribution jumped to $600.0 million and increased thereafter.[102]

P.A. 100-0465 increased the required State contribution, as described above, and therefore reduced the required Board of Education contribution starting in FY2018. The FY2022 State contribution for normal cost and retiree healthcare of $264.8 million will reduce the CPS required contribution from $932.0 million to $667.2 million.

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97 Public School Teachers' Pension and Retirement Fund of Chicago Actuarial Valuation Report as of June 30, 2020, p. 1. For more about the evidence-based funding formula, see Civic Federation, "What the New Illinois School Funding Formula Means for Chicago Public Schools," September 1, 2017. Available at https://www.civicfed.org/civic-federation/blog/what-new-illinois-school-funding-formula-means-chicago-public-schools.
98 Chicago Teachers' Pension Fund Actuarial Valuation, FY2020, p. 1.
99 Chicago Teachers' Pension Fund Actuarial Valuation, FY2020, p. 1.
100 This annual required contribution must be calculated by February 28 each year, per 40 ILCS 5/17-129.
101 "Normal cost" is an actuarially calculated amount representing that portion of the present value of the pension plan benefits and administrative expenses which is allocated to a given valuation year.
102 Public School Teachers' Pension and Retirement Fund of Chicago, *Statutorily Required Funding Valuation as of June 30, 2012*, p. 25; Chicago Public Schools FY2015 Proposed Budget, p. 147; Public School Teachers' Pension and Retirement Fund of Chicago, *Statutorily Required Funding Valuation as of June 30, 2014*, p. i; Public School Teachers' Pension and Retirement Fund of Chicago, *Actuarial Valuation and Review as of June 30, 2015*, p. ii.

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. The District's FY2022 cost for the 7.0% employee pick-up is approximately $131.2 million and is part of the District's budgeted employer pension appropriation.[103]

Pension Fund Indicators

The Civic Federation uses three measures to present a multi-year evaluation of the fiscal health of the Teachers' pension fund: funded ratios, unfunded actuarial accrued liabilities (UAAL) and the investment rate of return. Note that the numbers used in the following section are calculated as laid out in Illinois statute for funding purposes. A section at the end of this chapter will explore the funding and liabilities as calculated for *reporting* purposes under Governmental Accounting Standards Board Statements 67 and 68. The most recent data from the Teachers' fund is as of FY2019 and therefore does not include any impact from the COVID-19 pandemic.

Funded Ratios

This report 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 over a period of three to five years.[104] 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 the actuarial and market value funded ratios for the Chicago Teachers' Pension Fund over the last ten years. The fund was 59.9% funded on an actuarial value basis in FY2011, and this funded ratio fell to 49.7% in FY2013 before rising slightly and then

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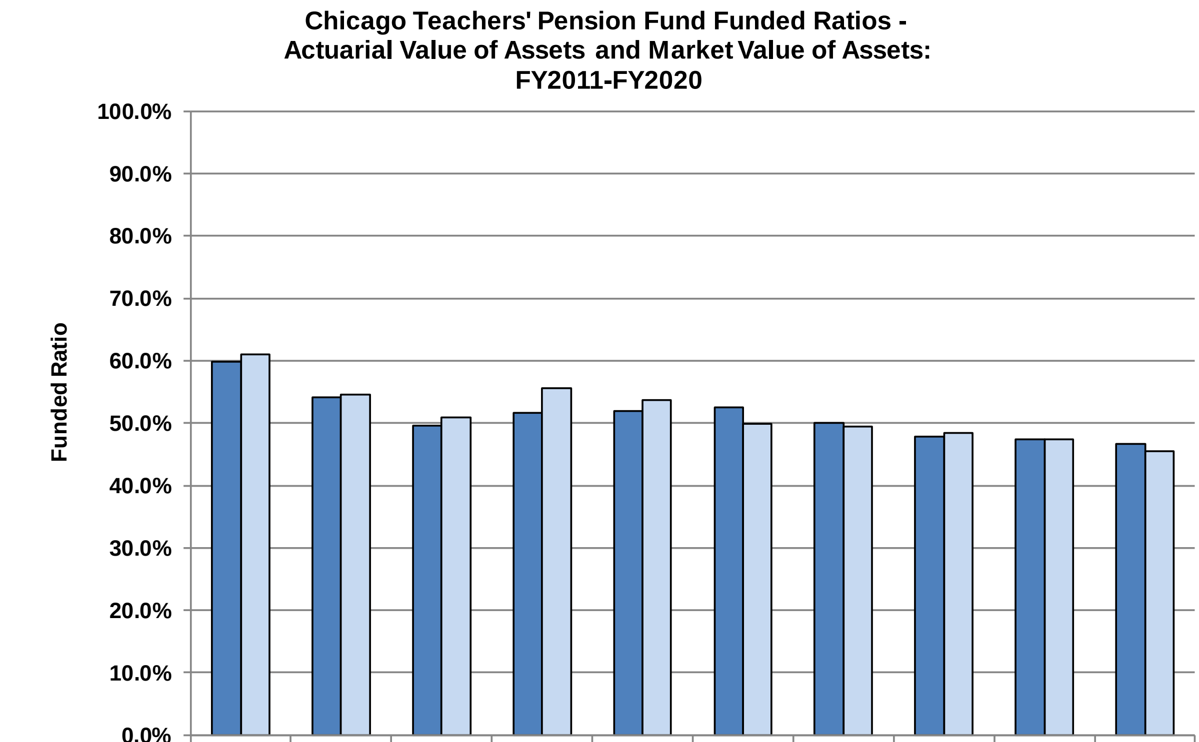
[103] CPS FY2022 Interactive Proposed Budget, Revenues and Expenditures, available at cps.edu/budget. CPS also "picks up" 7.0% of employee contributions to the Chicago Municipal Fund for some eligible non-teacher employees at a projected cost of $43.9 million in FY2022.

[104] The Chicago Teachers' Pension Fund smooths returns over four years.

falling to 46.7% in FY2020. The market value funded ratio was 61.1% in FY2011 and fluctuated over the next several years before eventually falling to 45.4% in FY2020.



	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Actuarial Value	59.9%	54.1%	49.7%	51.7%	52.0%	52.5%	50.1%	47.9%	47.4%	46.7%
Market Value	61.1%	54.5%	51.0%	55.6%	53.7%	50.0%	49.5%	48.4%	47.5%	45.4%

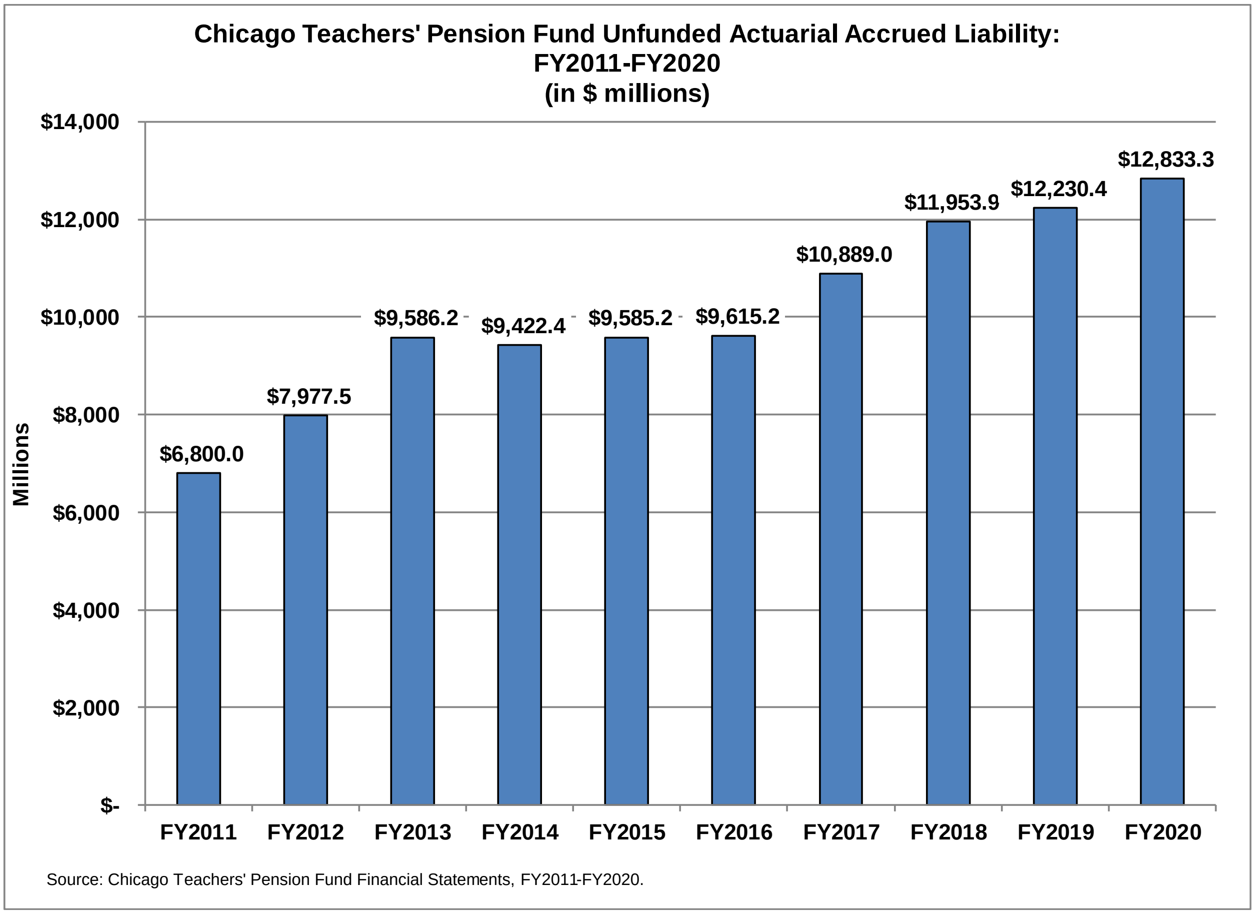
Source: Civic Federation calculations based on Chicago Teachers' Pension Fund Financial Statements, FY2011-FY2020.

Unfunded Actuarial Accrued Liability

Unfunded actuarial accrued liability is the dollar value of accrued liabilities not covered by the actuarial value of assets. As shown in the exhibit below, the unfunded liability for the Teachers' Pension Fund was $6.8 billion in FY2011. Since FY2011 unfunded liabilities have increased by 88.7%, rising to $12.8 billion in ten years. The UAAL increased significantly by nearly $1.3 billion in FY2017 due predominantly to a change in the actuarial assumptions of the fund, reducing the expected rate of return on investment to 7.25% from 7.75%, among other changes.[105] The UAAL increased again by nearly $1.1 billion in FY2018, due again in part to a reduction in the actuarial assumptions, including reducing the expected rate of return on

[105] Public School Teachers' Pension and Retirement Fund of Chicago Statutorily Required Funding Valuation as of June 30, 2017, p. 4.

investment to 7.0% from 7.25%.[106] The increase of $602.9 million in FY2020 over FY2019 was due predominantly to a further reduction in the rate of return to 6.75%.[107]



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 FY2011 to FY2020. The single largest contributor to the increase in unfunded liability is 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.[108] This deficiency in employer contributions added nearly $3.6 billion to the unfunded liability between FY2011 and FY2020. Over the past 10 years the second

[106] Public School Teachers' Pension and Retirement Fund of Chicago Statutorily Required Funding Valuation as of June 30, 2018, p. 2-3.
[107] Public School Teachers' Pension and Retirement Fund of Chicago Statutorily Required Funding Valuation as of June 30, 2020, p. 24.
[108] Total increase in unfunded liability includes increase in FY2011 over FY2010, included in the first line of the chart below.

largest contributor to the unfunded liability has been changes to actuarial assumptions at nearly $3.3 billion investment returns lower than assumed at $846.5 million.

Chicago Teachers' Pension Fund Reasons for Change in Unfunded Actuarial Accrued Liability: FY2011-FY2020							
	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
FY2011	$ 393,912,145	$ 896,407,893	$ (25,480,115)	$ -	$ -	$ 167,678,088	**$ 1,432,518,011**
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**
10-Year Total	**$ 3,573,581,734**	**$ 846,452,563**	**$ (379,704,761)**	**$ -**	**$ 3,283,440,382**	**$ 133,922,479**	**$ 7,457,692,397**

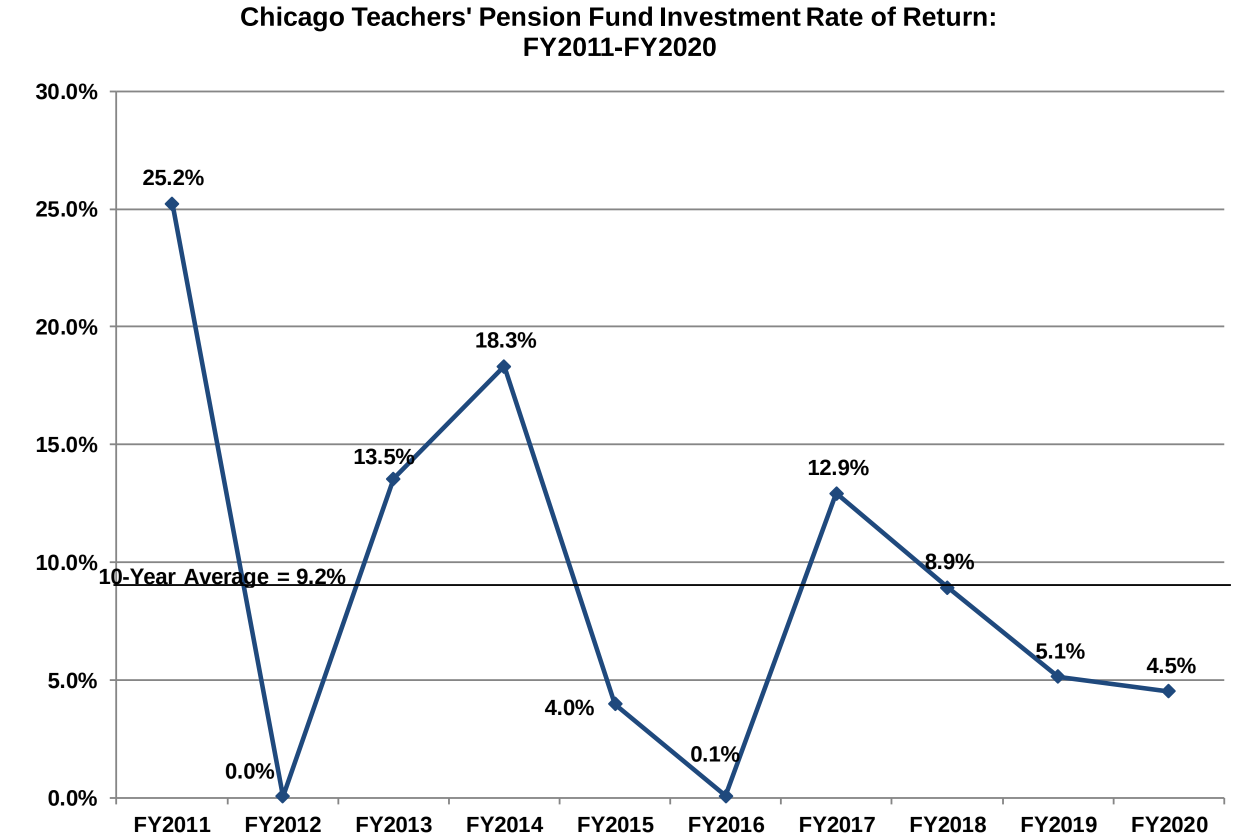
* Change in UAAL due to salary assumptions restored in FY2017 with new actuary. Previous actuary combined salary assumptions with Other between FY2012 and FY2016.
Source: Chicago Teachers' Pension Fund, Actuarial Valuations, FY2011-FY2020.

Investment Rate of Return

Investment income typically provides a significant portion of the funding for pension funds. Thus, declines over a period of time can have a negative effect on pension assets. Between FY2011 and FY2020, the Chicago Teachers’ Pension Fund average annual rate of return was 9.2%.[109] This is above the fund’s current assumed rate of return of 6.75%. Returns ranged from a

[109] 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 fund’s actuary and investment managers; thus investment rates of return reported here may differ from those reported in a fund’s actuarial statements. However, this 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.

high of 25.2% in FY2011 to a low of 0.0% in FY2012. The fund invests in international, domestic and private equities, fixed income, and real assets.



Source: Civic Federation calculations based on Chicago Teachers' Pension Fund Financial Statements, FY2011-FY2020.

Pension Liabilities as Reported Under Governmental Accounting Standards Board Statements Number 67 and 68

In 2012 the Governmental Accounting Standards Board (GASB) issued new accounting and financial reporting standards for public pension plans and for governments, Statements 67 and 68. According to GASB, the new standards were intended to "improve the way state and local governments report their pension liabilities and expenses, resulting in a more faithful representation of the full impact of these obligations."[110] Among other disclosures, pension funds and governments are now required to report total pension liability, fiduciary net position, net pension liability, pension expense and actuarially determined contribution (ADC), which are calculated on a different basis from previous GASB 25 and 27 pension disclosure requirements. Both pension funds and governments must also disclose additional information about pensions in the notes to the financial statements and in required supplementary information sections. It is important to note that GASB intended to separate pension reporting from pension funding. Thus, the numbers reported according to GASB 67 and 68 standards are not used to determine how

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[110] Governmental Accounting Standards Board, Pension Standards for State and Local Governments. Available at: http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176163528472.

much a government must contribute to its pensions. They are a reporting, NOT a funding requirement. Chicago Public Schools and other governments will continue to use traditional public pension accounting methods to determine funding requirements. However, as the GASB 67 and 68 numbers can provide important new ways to understand a fund's sustainability, the Federation will address them here.

The Chicago Teachers' Pension Fund began reporting according to GASB 67 in its FY2014 CAFR and actuarial valuations. The Chicago Public Schools began reporting according to GASB 68 in its FY2015 financial statements.

The total pension liability, fiduciary net position, net pension liability and ADC[111] are all calculated on a different basis both from what used to be required by GASB and from the traditional public pension actuarial basis.

Total Pension Liability: This number is similar in concept to the actuarial accrued liability (AAL) discussed above, but is NOT the same. The actuarial cost method and discount rate (among other things) are different. All plans are required to use:

- Entry age normal actuarial cost method and level percent of payroll. CTPF uses projected unit credit, a different cost allocation method, for statutory reporting and funding purposes.
- Single blended discount rate, instead of basing the discount rate only on projected investment earnings. The discount rate is used to calculate the present value of the future obligations of a pension fund. The discount rate has an inverse relationship to actuarial liabilities, such that a lower discount rate will result in higher liabilities.
    - If a government is projected to have enough assets to cover its projected benefit payments to current and inactive employees, it can use the expected return on investments as its discount rate.
    - If a government is projected to reach a crossover point beyond which projected assets are insufficient to cover projected benefit payments, then a blended discount rate must be used. Benefit payments projected to be made from that point forward are discounted using a high-quality municipal bond interest rate of 2.45%. The blended rate is a single equivalent rate that reflects the investment rate of return and the high-quality municipal bond interest rate.
    - The Chicago Teachers' Pension Fund was projected to reach the crossover point, so its GASB 67 and 68 reporting is discounted at 6.37%, rather than 6.75%.

Fiduciary Net Position: This number is essentially the market value of assets in the pension plan as of the end of the fiscal year, not the assets as calculated on an actuarially smoothed basis under previous reporting requirements. CTPF still uses smoothed actuarial value of assets to determine statutory employer contribution requirements.

Net Pension Liability: This number is similar in concept to the unfunded actuarial accrued liability, but again is NOT the same. It is the difference between the Total Pension Liability

[111] Other differences and newly reported numbers are not central to the discussion here.

and the Fiduciary Net Position of the fund. Governments are required to report the Net Pension Liability in their Statements of Net Position in their financial statements, according to GASB 68.

Actuarially Determined Contribution (ADC): Another change from previous standards is that funds are no longer required to report an Annual Required Contribution (ARC) based on standards promulgated by GASB. Instead, the funds will calculate an Actuarially Determined Contribution or ADC that reflects their own funding plan, unless that funding scheme does not follow actuarial standards of practice. Then the fund must report an ADC that is calculated according to actuarial standards of practice. It is again important to emphasize that the ADC is a reporting and not a funding requirement. See the discussion below for a summary of how the basis for calculating the Teachers' Fund ADC differs from the ARC.

Difference between the ADC and ARC

Depending on the employer's funding plan, a pension fund's ADC may be very similar to the previously reported ARC. The chart below summarizes the main assumptions behind the Chicago Teachers' Pension Fund calculations of ADC and ARC. The only difference between the two numbers is that the ADC has a closed amortization period and the ARC had an open amortization period. An open amortization period remains the same every year (e.g., each valuation amortizes UAAL over 30 years), while a closed amortization period declines as each year passes (e.g., successive valuations amortize at 30 years, 29 years, 28 years, etc.). The ADC uses the actuarially calculated UAAL number instead of the GASB 67 net pension liability number, which also makes it similar to the ARC. Additionally, the ADC need not follow the GASB 67 and 68 requirement of using the market value of assets. The CTPF uses a four-year smoothed valuation of assets.

Calculation of the Actuarially Required Contribution (ADC) vs the Annual Required Contribution (ARC)

	ADC (FY2014 and After)	**ARC (FY2013 and Earlier)**
Amortization Period	30-year closed (23 years remaining)	30-year open
Amortization Method	Level % of Payroll	Level % of Payroll
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit
Actuarial Value of Assets	4-year smoothed	4-year smoothed
Investment Rate of Return	6.75%	7.75%

Source: Chicago Teachers' Pension Fund FY2020 and FY2012 Actuarial Valuations.

Chicago Teachers' Pension Fund Reported Liabilities Under GASB Statements Number 67 and 68

The following table shows the Teachers' Fund pension financial reporting under GASB 67 and 68. Fiduciary Net Position as a percentage of Total Pension Liabilities is analogous to a funded ratio as calculated under actuarial standards. CTPF's pension liability reporting under GASB 67 and 68 is significantly different from its statutorily reported numbers calculated on an actuarial basis for FY2020. The reason is that projected assets are forecast to be insufficient to cover projected benefit payments after 2078 and therefore a lower municipal bond rate of 2.45% must be used as the discount rate for benefit payments after that year, increasing the amount of projected liabilities.[112]

Since the first year of reported GASB 67 pension liabilities, the total pension liability has increased by nearly 33.3% while assets reported as fiduciary net position have only increased by about 13.1%, with the result that net pension liability has grown even faster or 52.6%. The net pension liability growth is larger than unfunded liability growth of 33.9% over the same period because total pension liabilities are measured as being larger than actuarial liabilities because actuarial liabilities are calculated using the full 6.75% discount rate, not a lower blended rate.

Chicago Teachers' Pension Fund GASB 67 Reporting FY2013-FY2020

	Total Pension Liability	Fiduciary Net Position	Net Pension Liability	Fiduciary Net Position as a Percentage of Total Pension Liability	Actuarially Determined Contribution
FY2013	$ 19,795,922,569	$ 9,674,188,563	$ 10,121,734,006	48.87%	$ 585,444,539
FY2014	$ 20,316,899,952	$ 10,815,694,614	$ 9,501,205,338	53.23%	$ 719,781,746
FY2015	$ 20,713,217,296	$ 10,689,954,320	$ 10,023,262,976	51.61%	$ 728,488,520
FY2016	$ 21,124,697,012	$ 10,113,297,310	$ 11,011,399,702	47.87%	$ 749,796,517
FY2017	$ 23,175,590,999	$ 10,793,173,927	$ 12,382,417,072	46.57%	$ 754,764,093
FY2018	$ 24,547,482,873	$ 11,104,765,514	$ 13,442,717,359	45.24%	$ 855,752,559
FY2019	$ 25,166,179,329	$ 11,038,837,459	$ 14,127,341,870	43.86%	$ 855,752,559
FY2020	$ 26,377,865,250	$ 10,937,062,021	$ 15,440,803,229	41.46%	$ 1,032,170,031
Eight-Year Change	**$ 6,581,942,681**	**$ 1,262,873,458**	**$ 5,319,069,223**		**$ 446,725,492**
Eight-Year % Change	**33.25%**	**13.05%**	**52.55%**		**76.31%**

Source: FY2014-FY2020 Chicago Teachers' Pension Fund Actuarial Valuations and CAFRs. FY2013 numbers were presented in the FY2014 report.

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

[112] Public School Teachers' Pension and Retirement Fund of Chicago, CAFR, June 30, 2020, p. 49. For more on discount rates and how they impact measurements of the present value of liabilities, read the Civic Federation blog: https://www.civicfed.org/iifs/blog/state-pension-liabilities-rise-due-lower-expected-investment-returns and https://www.civicfed.org/civic-federation/blog/local-government-pension-funds-lower-their-expected-investment-rates-return-fy.

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.[113]

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.[114] 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, 2018, a total of 16,976 retirees and beneficiaries received health insurance benefits. There were also 11,573 retirees and beneficiaries entitled to benefits but not currently receiving them.[115] In FY2020 the Teachers' Pension Fund spent $51.4 million on OPEB.[116]

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 FY2011 to FY2020, insurance premium rebates paid to beneficiaries decreased by 34.8% or $27.5 million. The health insurance

[113] 40 ILCS 17-142.1.
[114] Chicago Teachers' Pension Fund, FY2020 Comprehensive Annual Financial Report, p. 91; 40 ILCS 17-142.1.
[115] Chicago Public Schools, FY2020 Comprehensive Annual Financial Report, p. 91.
[116] Chicago Teachers' Pension Fund, FY2020 Comprehensive Annual Financial Report, p. 31. Spending is net of $528,564 in administrative and miscellaneous expenses.

rebate has represented approximately 3.3% to 7.0% of total pension and OPEB benefit expenditures over the ten-year period.

Total Health Insurance Premium Rebates Paid to Retired CPS Teachers: FY2011-FY2020		
	Health Insurance Rebate Paid	% Change over Previous Year
FY2011	$ 78,892,292	--
FY2012	$ 69,011,323	-12.5%
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%
Ten-Year Change	**$ (27,458,316)**	**-34.8%**

Source: Chicago Teachers' Pension Fund, Comprehensive Annual Financial Report FY2020, p. 31, 144-145.

OPEB Liabilities as Reported Under Governmental Accounting Standards Board Statement Number 75

In 2015 the Governmental Accounting Standards Board (GASB) issued new accounting and financial reporting standards for governments' OPEB obligations, Statement 75. According to GASB, the new standards were intended to "improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions." 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, 2020, but measured as of June 30, 2019 of nearly $2.6 billion, up FY2019 total OPEB liability of $2.3 billion.[117] The District reported the liability in its Statement of Net Position for the first time in FY2018, which was an increase from

[117] Chicago Public Schools, FY2020 Comprehensive Annual Financial Report, p. 91.

the reported net OPEB obligation in FY2017 of $2.0 billion.[118] 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.

SHORT-TERM LIABILITIES

Short-term liabilities are financial obligations that must be satisfied within one year. They can include short-term debt, accounts payable, accrued payroll, amounts held for student activities and other current liabilities. CPS includes the following short-term liabilities in the Governmental Funds Balance Sheet in its annual Comprehensive Annual Financial Report:

- *Accounts payable*: Monies owed to vendors or employees for goods and services;
- *Accrued payroll and benefits*: Employee pay and benefits carried over from previous years;
- *Amounts held for student activities*: Deposits held in custody or funds that belong to individual school accounts; and
- *Tax/Grant Anticipation Notes*: Short-term borrowing in advance of the receipt of taxes or grants.

The following table shows CPS short-term liabilities from FY2016 through FY2020, which is the most recent data available in audited financial reports. Between FY2019 and FY2020 total short-term liabilities increased by 5.3%, or $64.4 million, rising from $1.21 billion to roughly $1.28 billion. Most of that increase was due to a $50.6 million increase in tax anticipation notes.

In the five-year period between FY2016 and FY2020, total short-term liabilities decreased by 9.8% or $138.3 million. The decrease was due in large part to a decrease in tax anticipation notes outstanding, partially offset by increases in other short-term liabilities. During the same period, accounts payable rose by 55.6%, or $199.1 million. Short-term borrowing, in the form of tax anticipation and grant anticipation notes outstanding, peaked in FY2017 at $1.3 billion. It declined to $500.0 million in FY2020 for tax anticipation notes as the district's financial and liquidity situations improved.

CPS Short-Term Liabilities in the Governmental Funds: FY2016-FY2020
(in $ thousands)

	FY2016	FY2017	FY2018	FY2019	FY2020	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Accounts Payable	$ 358,303	$ 404,731	$ 395,704	$ 565,292	$ 557,353	$ (7,939)	-1.4%	$ 199,050	55.6%
Accrued Payroll & Benefits	$ 144,686	$ 132,427	$ 128,012	$ 146,787	$ 167,637	$ 20,850	14.2%	$ 22,951	15.9%
Amount Held for Student Activities	$ 43,520	$ 41,288	$ 47,824	$ 52,238	$ 53,194	$ 956	1.8%	$ 9,674	22.2%
Tax Anticipation Notes	$ 869,996	$ 950,000	$ 599,911	$ 449,445	$ 500,000	$ 50,555	11.2%	$(369,996)	---
Grant Anticipation Notes	$ -	$ 386,994	$ -	$ -	$ -	$ -	---	$ -	---
Total	**$ 1,416,505**	**$ 1,915,440**	**$ 1,171,451**	**$ 1,213,762**	**$ 1,278,184**	**$ 64,422**	**5.3%**	**$(138,321)**	**-9.8%**

Source: CPS Comprehensive Annual Financial Reports, Balance Sheets - Governmental Funds, FY2016 -FY2020.

Short-Term Liabilities as a Percentage of Net Operating Revenues

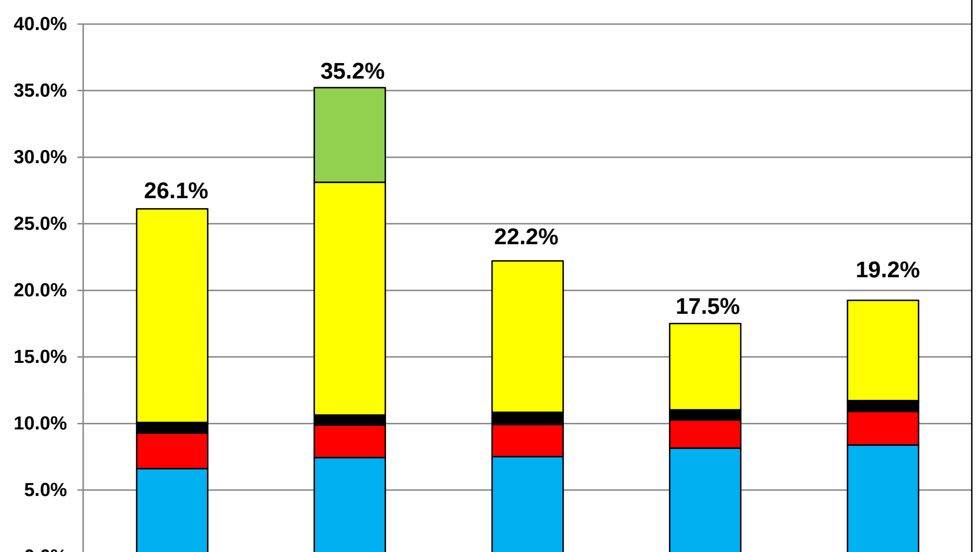
Increasing short-term (current) liabilities at the end of the year in a government's operating funds as a percentage of net operating revenues may be a warning sign of a government's future

[118] Chicago Public Schools, FY2017 Comprehensive Annual Financial Report, p. 38.

financial difficulties.[119] This ratio indicator, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending.

The following graph shows the five-year trend in the District's short-term liabilities as a percentage of operating revenues by category. Between FY2016 and FY2017, the ratio rose from 26.1% to 35.2%, before dropping to 17.5% in FY2019. The increase in FY2017 was due primarily to the $870.0 million in Tax Anticipation Notes issued in FY2016 and $1.3 billion in short-term borrowing in FY2017. At the end of FY2018 CPS issued approximately $600.0 million in tax anticipation notes and an additional $449.4 million in FY2019. The ratio rose in FY2020 to 19.2% because of an increase in tax anticipation notes from $449.4 million to $500.0 million. The financial situation has improved since FY2017 due to the approval of additional state and federal funding for the District.

Chicago Public Schools Short Term Liabilities in Governmental Funds as a % of Operating Revenues: FY2016-FY2020



	FY2016	FY2017	FY2018	FY2019	FY2020
Grant Anticipation Notes	0.0%	7.1%	0.0%	0.0%	0.0%
Tax Anticipation Notes	16.0%	17.5%	11.4%	6.5%	7.5%
Amount Held for Student Activities	0.8%	0.8%	0.9%	0.8%	0.8%
Accrued Payroll	2.7%	2.4%	2.4%	2.1%	2.5%
Accounts Payable	6.6%	7.4%	7.5%	8.2%	8.4%

Source: Chicago Public Schools Comprehesive Annual Financial Reports, FY2016-FY2020.

119 The General Operating Fund for CPS is its Governmental Funds, which are those funds used to account for general operations. See Karl Nollenberger, Sanford Groves and Maureen G. Valente, *Evaluating Financial Condition: A Handbook for Local Government* (International City/County Management Association, 2003), p. 77 and p. 169.

Short-Term Borrowing

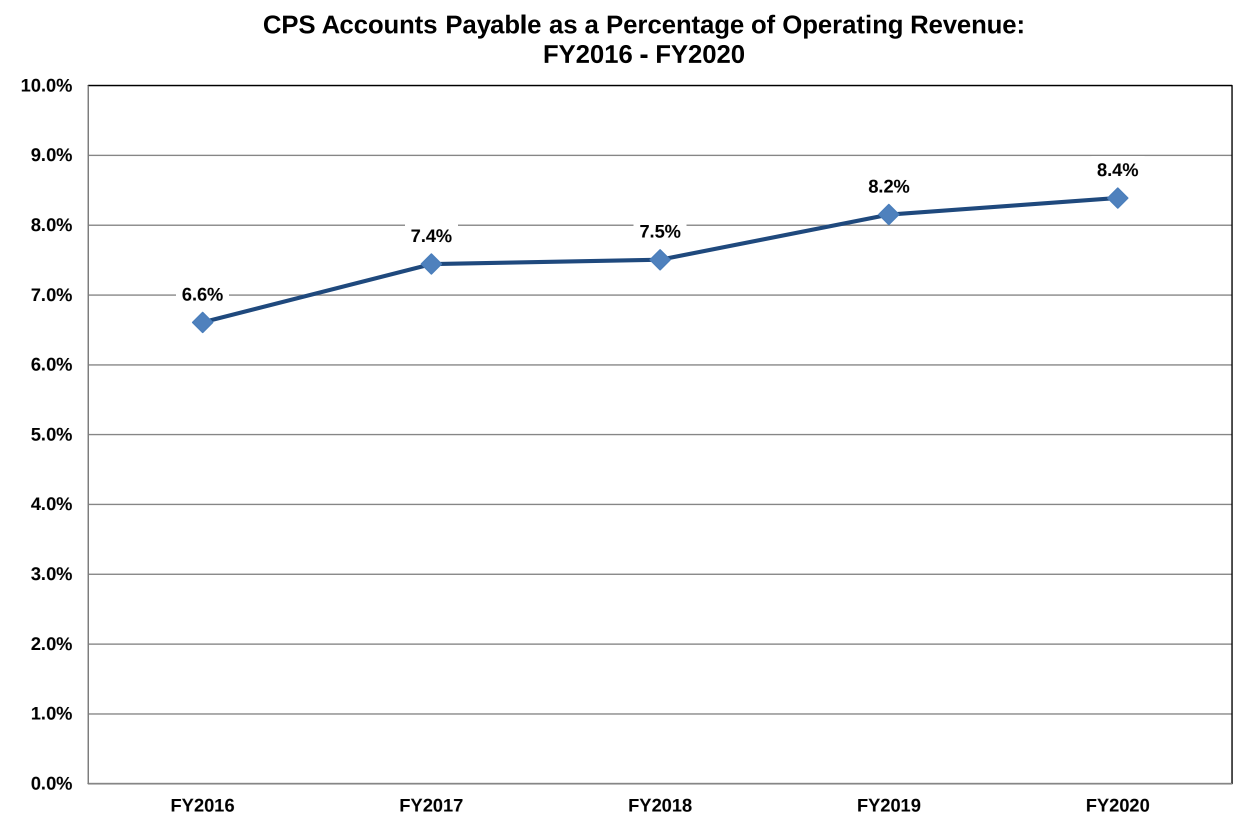
In FY2016 through FY2020 CPS relied on short-term borrowing through the mechanism of Tax Anticipation Notes (TANS) secured by dedicated property tax revenues to cover cash-flow difficulties. However, educational funding reforms approved by the General Assembly and the Governor, budget reductions and improved cash management strategies have improved the District's cash position.

CPS was able to reduce its amount of short-term borrowing in FY2019 by $250 million from the prior year to $844 million, saving approximately $33 million in interest expenses that year. [120] CPS issued $830.0 million in TANs in FY2020 to cover operating cash-flow needs.[121] CPS issued $950.0 million in TANs FY2021 to cover operating cash-flow needs. The district had approximately $244.0 million of TANs outstanding as of June 30, 2021, as compared to $500.0 million outstanding in FY2020. The Board has budgeted approximately $12 million in interest costs for FY2022 TANs.[122]

[120] Chicago Public Schools FY2019 Comprehensive Annual Financial Report, p. 14.
[121] CPS FY2021 Budget, p. 200.
[122] CPS Proposed FY2022 Budget, p. 218.

Accounts Payable Trends

The District's ratio of accounts payable in the Governmental Funds to operating revenues has increased in the five-year period analyzed. It increased from 6.6% in FY2016 to 8.4% five years later. The average ratio over the five year period analyzed was 7.6%.



Source: CPS Comprehensive Annual Financial Reports, FY2016-FY2020.

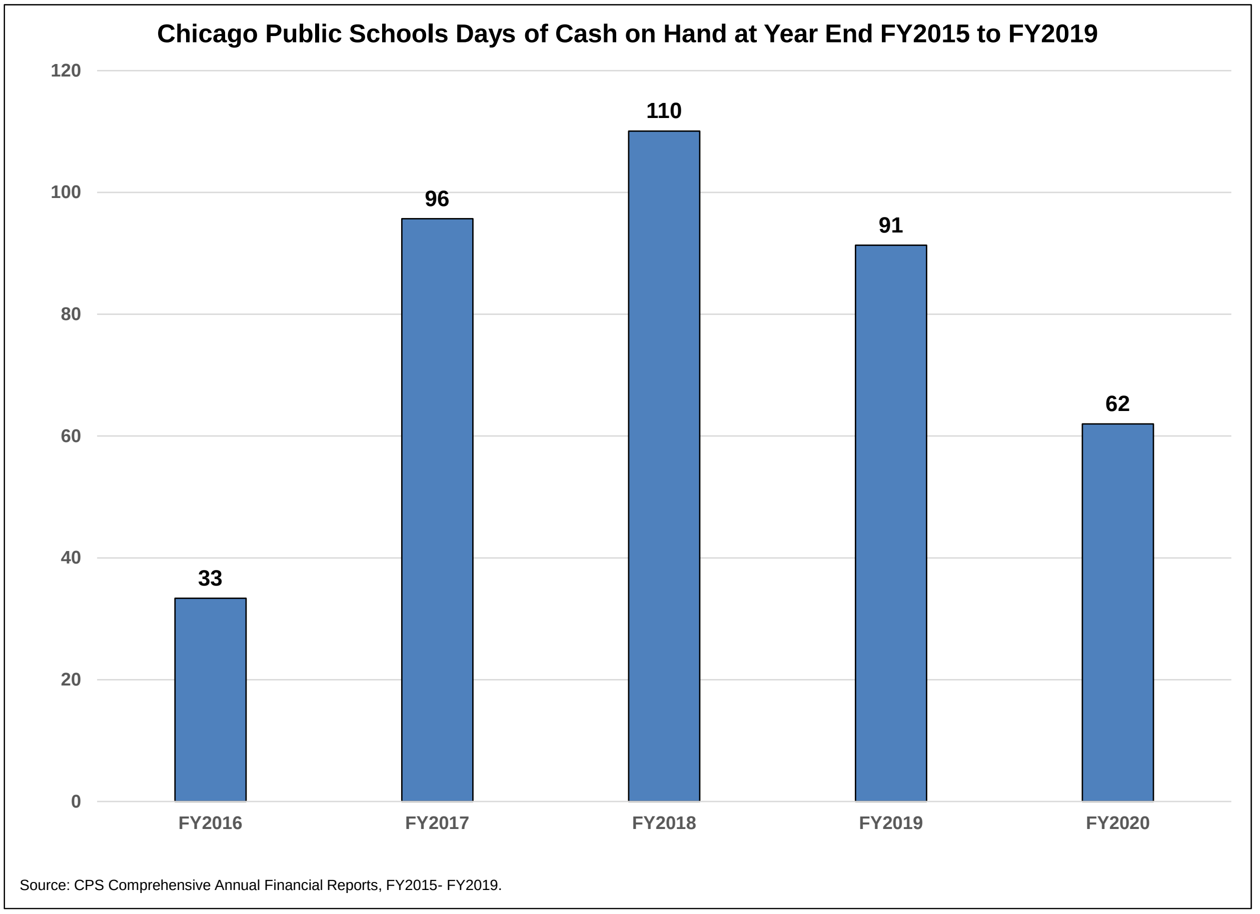
Days of Cash on Hand

Days of cash on hand is a widely used liquidity ratio. It shows how long an organization could meet its daily expenses using the cash on hand or assets that can quickly be turned into cash. It is calculated by dividing the amount of cash and marketable securities in the governmental funds by daily operating expenses in those funds. A government should maintain several months' worth of cash to pay bills as they come due. It is a sound practice to have at least enough cash on hand to exceed the length of a typical billing period, or 30 to 60 days.[123]

Between FY2016 and FY2018, Chicago Public Schools reported that the days of cash on hand at year end rose significantly to 110, which is a positive sign. That increase reflects the District's improved cash position since FY2017 due to the approval of additional State funding for CPS.

[123] Steven A. Finkler, *Financial Management for Public, Health, and Not-for-Profit Organizations*, p. 535.

However, in FY2019, the ratio fell to 100 days and in FY2020, it declined to 62 days. These metrics are still considered a reasonable level of liquidity.



Current Ratio

The current ratio is another measure of liquidity. It assesses whether a government has enough cash and other liquid resources to meet its short-term obligations as they come due. The current ratio is calculated by dividing short-term assets by short-term liabilities. A ratio of 1.0 means that current assets are equal to current liabilities and are sufficient to cover obligations in the near term. Generally, a government's current ratio should be close to 2.0 or higher.[124] In addition to the short-term liabilities listed in the previous section, the current ratio formula uses the current assets of the District:

- *Cash and investments* are (1) assets that are cash or can be converted into cash immediately including petty cash, demand deposits and certificates of deposit and/or (2) any investments that the District has made that will expire within one year including stocks and bonds that can be liquidated quickly;
- *Cash and investments in escrow* in the Debt Service Fund represent the amount available for debt service payments on the Unlimited Tax General Obligation Bonds and Public

[124] Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations,* Upper Saddle River, NJ, 2001, p. 476.

Building Commission Leases. The cash and investments in escrow in the Capital Projects Funds represent the unspent proceeds from the Unlimited Tax General Obligation Bonds, Public Building Commission Building Revenue Bonds, State Technology Revolving Loan Fund and other revenues;[125]

- *Cash and investments held in school internal accounts* represent the book balance for checking and investments for individual schools;[126]
- *Receivables* are monetary obligations owed to the government including property taxes, replacement taxes and state or federal aid; and
- *Other assets* include prepaid assets and deferred charges recorded as expenditures in the governmental funds. Deferred charges are for bond issuance costs.[127]

The CPS current ratio was 2.5 in FY2020, the most recent year for which audited financial data are available. This was a 14.2% decrease from the ratio of 3.0 in FY2019. The decrease was primarily due to a $345.0 million decrease in assets as the amount of cash and investments declined.

Between FY2016 and FY2018, the ratio rose from 1.8 to 3.1. In FY2018, the District's financial situation improved significantly due to the approval of additional State funding for CPS and the other school districts in Illinois. Correspondingly, the ratio rose to 3.1 as short-term liabilities fell by 38.8% or $744.0 million. It then declined to 2.5 by FY2020.

Over the past five years, the District's current ratio averaged 2.5. This is above the benchmark of 2.0, which is considered a good level of liquidity.

CPS Current Ratio in the Governmental Funds: FY2016-FY2020
(in $ thousands)

	FY2016	FY2017	FY2018	FY2019	FY2020	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Current Assets									
Cash and Investments	$ 33,915	$ 120,596	$ 164,784	$ 266,269	$ 192,789	$ (73,480)	-27.6%	$ 158,874	468.4%
Cash and Investments in Escrow	$ 519,099	$ 1,454,162	$ 1,606,949	$ 1,458,760	$ 1,010,680	$ (448,080)	-30.7%	$ 491,581	94.7%
Cash and Investments Held in School Internal Accounts	$ 43,520	$ 41,288	$ 47,824	$ 52,238	$ 53,194	$ 956	1.8%	$ 9,674	22.2%
Receivables: Property Taxes, Net	$ 1,134,583	$ 1,395,299	$ 1,430,486	$ 1,391,559	$ 1,466,936	$ 75,377	5.4%	$ 332,353	29.3%
Receivables: Replacement Taxes	$ 33,320	$ 32,296	$ 28,668	$ 29,956	$ 28,867	$ (1,089)	-3.6%	$ (4,453)	-13.4%
Receivables: State Aid, Net	$ 618,190	$ 431,478	$ 137,723	$ 140,161	$ 170,867	$ 30,706	21.9%	$ (447,323)	-72.4%
Receivables: Federal Aid	$ 115,785	$ 98,148	$ 144,176	$ 115,567	$ 191,833	$ 76,266	66.0%	$ 76,048	65.7%
Receivables: Other	$ 59,730	$ 62,889	$ 66,819	$ 140,694	$ 134,997	$ (5,697)	-4.0%	$ 75,267	126.0%
Other Assets	$ -	$ 2,356	$ -	$ -	$ -	$ -	---	$ -	---
Total Current Assets	**$ 2,558,142**	**$ 3,638,512**	**$ 3,627,429**	**$ 3,595,204**	**$ 3,250,163**	**$ (345,041)**	**-9.6%**	**$ 692,021**	**27.1%**
Current Liabilities									
Accounts Payable	$ 358,303	$ 404,731	$ 395,704	$ 565,292	$ 557,353	$ (7,939)	-1.4%	$ 199,050	55.6%
Accrued Payroll & Benefits	$ 144,686	$ 132,427	$ 128,012	$ 146,787	$ 167,637	$ 20,850	14.2%	$ 22,951	15.9%
Amount Held for Student Activities	$ 43,520	$ 41,288	$ 47,824	$ 52,238	$ 53,194	$ 956	1.8%	$ 9,674	22.2%
Tax Anticipation Notes	$ 869,996	$ 950,000	$ 599,911	$ 449,445	$ 500,000	$ 50,555	11.2%	$ (369,996)	---
Grant Anticipation Notes	$ -	$ 386,994	$ -	$ -	$ -	$ -	---	$ -	---
Total Current Liabilities	**$ 1,416,505**	**$ 1,915,440**	**$ 1,171,451**	**$ 1,213,762**	**$ 1,278,184**	**$ 64,422**	**5.3%**	**$ (138,321)**	**-9.8%**
Current Ratio	**1.8**	**1.9**	**3.1**	**3.0**	**2.5**		**-14.2%**		**40.8%**

Source: CPS Comprehensive Annual Financial Reports, Balance Sheets - Governmental Funds, FY2016-FY2020.

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-

125 CPS FY2020 Comprehensive Annual Financial Report, p. 67.
126 CPS FY2020 Comprehensive Annual Financial Report, p. 67.
127 CPS FY2020 Comprehensive Annual Financial Report, p. 61.

term liabilities are all of the obligations owed by a government over time.[128] Increases in long-term liabilities over time may be a sign of fiscal stress. They include long-term debt as well as:

- *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*: Beginning in FY2015, 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. Previously, this liability was reported in the Statement of Net Position as a Net Pension Obligation or NPO. As a result of the reporting change for pensions involved in implementing GASB 68, 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 NPO pension measurement did not. The amount owed by CPS to the CTPF has not significantly changed. It is only being reported more transparently; and
- *Net Other Post Employment Benefit (OPEB) Obligation*s:[129] 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

[128] 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 FY2020 Comprehensive Annual Financial Report, pp. 80-82.

[129] 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.

of service less the amount of the OPEB plan's fiduciary net position.[130] 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 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 FY2016 and FY2020, total CPS long-term liabilities increased by 31.7%, or by $6.1 billion, rising from approximately $19.2 billion to $25.3 billion. Most of this increase was due to increase in net pension liabilities of roughly $4.1 billion and net OPEB obligations of $659.8 million.

Total other long-term liabilities, which includes accrued sick leave and vacation pay, net pension liabilities and net OPEB obligations grew by 37.6%, or nearly $4.7 billion, over the five-year period. Net pension liabilities alone increased by 40.9%, or $4.1 billion, while net OPEB obligations grew by 34.8%, rising from approximately $1.9 billion to nearly $2.6 billion. The net pension and OPEB obligation increases reflect the reporting changes required by GASB Statements 68 and 75. The amount owed by CPS for pensions or retiree health insurance has not significantly changed. It is only being reported more transparently and holistically.

Total long-term CPS debt increased by $1.4 billion, or 20.6%, 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: FY2016-FY2020
(in $ thousands)

Type of Obligation	FY2016	FY2017	FY2018	FY2019	FY2020	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
General Obligation Bonds*	$ 6,578,983	$ 6,617,275	$ 7,281,448	$ 7,475,068	$ 7,247,856	$ (227,212)	-3.0%	$ 668,873	10.2%
Leases Securing PBC Bonds	$ 157,780	$ 116,850	$ 875	$ 700	$ 525	$ (175)	-25.0%	$ (157,255)	-99.7%
Capital Leases	$ 1,225	$ 1,050	$ 73,520	$ 27,675	$ -	$ (27,675)	-100.0%	$ (1,225)	-100.0%
Dedicated Capital Improvement Tax Bonds	$ -	$ 729,600	$ 794,480	$ 880,480	$ 880,480	$ -	0.0%	$ 880,480	---
Subtotal Long-Term Debt	**$ 6,737,988**	**$ 7,464,775**	**$ 8,150,323**	**$ 8,383,923**	**$ 8,128,861**	**$ (255,062)**	**-3.0%**	**$ 1,390,873**	**20.6%**
Other Accrued Liabilities	$ 15,446	$ 29,840	$ 26,808	$ 30,187	$ 23,256	$ (6,931)	-23.0%	$ 7,810	50.6%
Accrued Sick Pay Benefits	$ 311,378	$ 289,818	$ 272,526	$ 246,264	$ 231,373	$ (14,891)	-6.0%	$ (80,005)	-25.7%
Accrued Vacation Pay Benefits	$ 51,260	$ 49,520	$ 48,764	$ 61,701	$ 57,606	$ (4,095)	-6.6%	$ 6,346	12.4%
Accrued Workers' Compensation Claims	$ 114,891	$ 114,290	$ 103,672	$ 92,902	$ 90,692	$ (2,210)	-2.4%	$ (24,199)	-21.1%
Accrued General and Automobile Claims	$ 13,508	$ 21,085	$ 30,009	$ 29,961	$ 29,738	$ (223)	-0.7%	$ 16,230	120.2%
Tort Liabilities and Other Claims	$ 17,700	$ 19,216	$ 16,388	$ 16,549	$ 8,034	$ (8,515)	-51.5%	$ (9,666)	-54.6%
Net Pension Liability	$ 10,023,263	$ 11,011,400	$ 12,382,417	$ 13,442,717	$ 14,127,342	$ 684,625	5.1%	$ 4,104,079	40.9%
Net OPEB Obligation	$ 1,895,045	$ 2,329,607	$ 2,270,891	$ 2,272,125	$ 2,554,892	$ 282,767	12.4%	$ 659,847	34.8%
Subtotal Other Long-Term Liabilities	**$12,442,491**	**$13,864,776**	**$15,151,475**	**$16,192,406**	**$17,122,933**	**$ 930,527**	**5.7%**	**$4,680,442**	**37.6%**
Grand Total Long-Term Liabilities	**$ 19,180,479**	**$ 21,329,551**	**$ 23,301,798**	**$ 24,576,329**	**$ 25,251,794**	**$ 675,465**	**2.7%**	**$ 6,071,315**	**31.7%**

* Outstanding principal - par value.

Source: CPS Comprehensive Annual Financial Reports, Notes 8, 9, 11 and 12, FY2016-FY2020.

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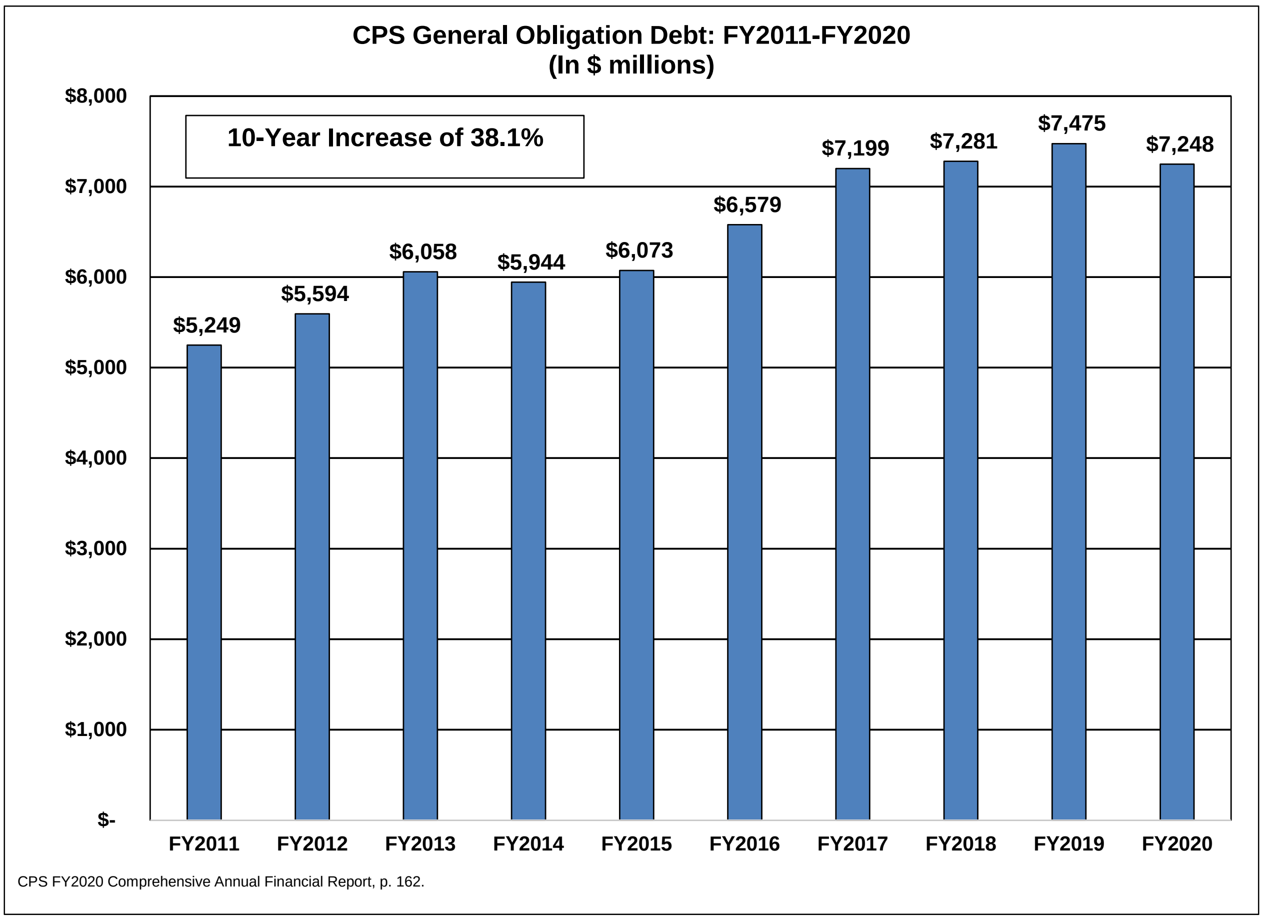
130 Governmental Accounting Standards Board, Summary of Statement No. 75: Accounting and Financial Reporting For Postemployment Benefits Other Than Pensions at: https://www.gasb.org/cs/ContentServer?cid=1176166370763&d=&pagename=GASB%2FPronouncement_C%2FGASBSummaryPage.

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 38.1% between FY2011 and FY2020, rising from $5.2 billion to $7.2 billion. Long term debt rose to $7.5 billion in FY2019 before falling by $227.0 million the following year. The large debt burden for CPS is 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 2021 CPS issued $557.5 million in general obligation bonds. Of that amount, $450.0 million were unlimited tax Series 2021A GO bonds to be used for funding the district's capital improvement plan and $107.5 million were Series 2021B GO refunding bonds.[131]

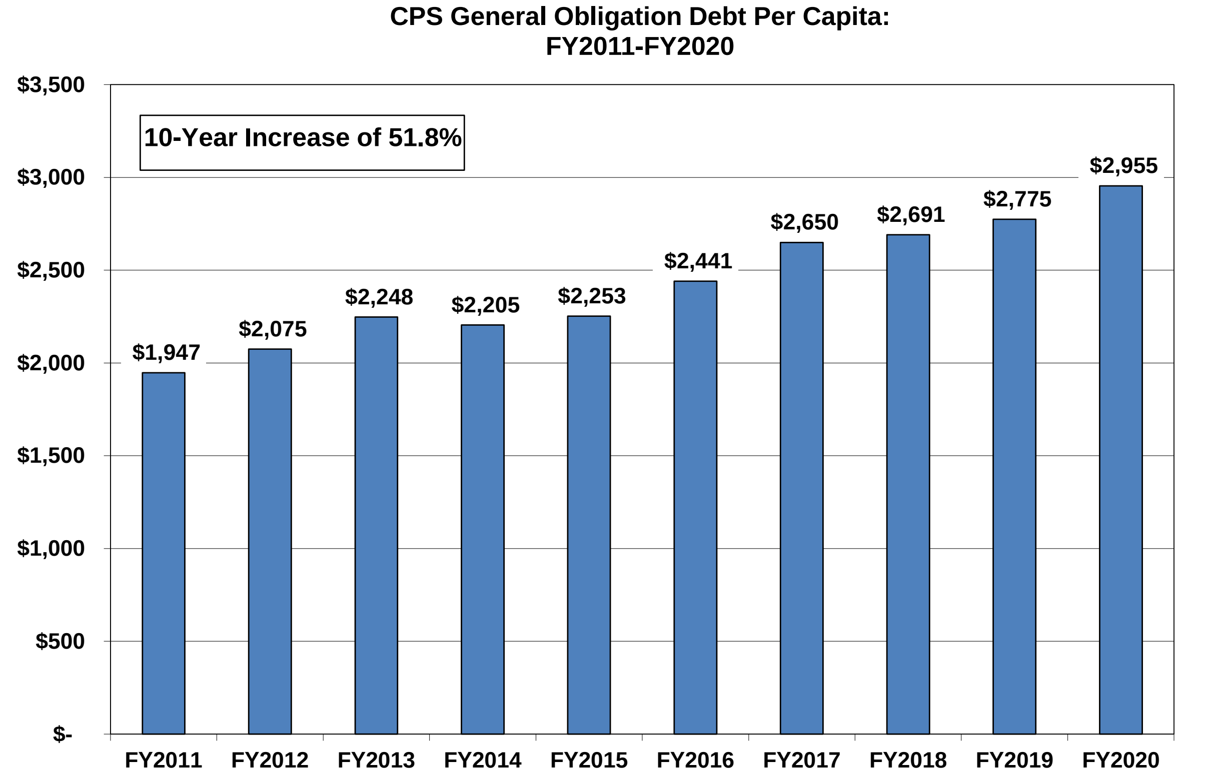


A commonly used measure of the debt burden on citizens is general obligation debt per capita.

[131] Chicago Public Schools. $557,505,000 Board of Education of the City of Chicago Official Statement, January 28, 2021.

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 51.8% between FY2011 and FY2020, rising from $1,947 to $2,955. The increase reflects a significant increase in direct debt. Between FY2013 and FY2014, CPS general obligation debt per capita declined slightly by 1.9% from $2,248 to $2,205. However, since then it has risen steadily to $2,955 in FY2020.



Source: CPS FY2020 Comprehensive Annual Financial Report, p.163.

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%.[132] The CPS debt service ratio has been

[132] 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.

below the 15% threshold between FY2018 and FY2022. Over the five-year period reviewed, the ratio is expected to average 10.5%.

Chicago Public Schools Budgeted Debt Service Appropriations as % of Operating Appropriations: FY2018-FY2022							
	FY2018 Actual	FY2019 Actual	FY2020 Actual	FY2021 Estimated	FY2022 Proposed	$ Change	% Change
Debt Service Appropriations	$ 620.4	$ 629.6	$ 653.8	$ 682.2	$ 763.4	$ 143.00	23.0%
Operating Appropriations	$ 5,513.9	$ 5,858.8	$ 6,163.6	$ 6,820.0	$ 7,821.6	$ 2,307.70	41.9%
Debt Service as a % of Total Appropriations	11.3%	10.7%	10.6%	10.0%	9.8%		

Sources: CPS Proposed FY2022 Budget, pp. 17 and 210 (for FY2020, FY2021 and FY2022 figures), CPS Adopted FY2020 Budget, pp. 14 and 169 (for FY2018 and 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 new and substantial financial assistance. The federal American Rescue Plan approved in 2021 provided additional financial assistance. Since that time, Moody's Investors Services and Standard and Poor's have upgraded CPS credit ratings for general obligation debt. The district's current general obligation credit ratings are provided below.

Chicago Public Schools General Obligation Bond Credit Ratings: 2011-July 2021											
Name of Agency	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Kroll Bond Rating Agency*					BBB-	BBB	BBB	BBB	BBB	BBB-	BBB-
Fitch Ratings	A+	A	A-	A-	BBB-	B+	BB-	BB-	BB-	BB	BB
Standard & Poor's	AA-	A+	A+	A+	A-	BB	B	B+	B+	BB-	BB
Moody's Investor Services	Aa3	A2	A3	Baa1	Ba3	B2	B3	B2	B2	B1	Ba3

* BBB for all GO bonds issued from 2016 to 2019. BBB- for all other bond issues (ncluding bonds issued before 2016).

Chicago Public Schools. CPS Credit Ratings at https://www.cps.edu/about/finance/credit-ratings/.

2021 Credit Upgrades

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.[133]

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

133 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.

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.[134]

Previous Credit Rating Changes

In August 2020, Standard & Poor's, Moody's Investors Services and Fitch Ratings rate 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.[135] The 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.[136]

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.[137]

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.[138]

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.[139] In mid-July 2018 Moody's Investors services upgraded Chicago Public Schools debt from B3 to B2 because of the approval of the State's new

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[134] 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.

[135] 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.

[136] 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.

[137] 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.

[138] 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.

[139] 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.

school funding formula and the approval of a new dedicated pension levy. These actions have substantially improved the District's fiscal condition.[140]

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.[141] Kroll has not changed its CIT credit ratings, but Fitch did change the rating to A- with a stable outlook in 2020.[142]
In January 2021 CPS issued $557.5 million in general obligation bonds. Of that amount, $450.0 million were unlimited tax Series 2021A GO bonds to be used for funding the district's capital improvement plan and $107.5 million were Series 2021B GO refunding bonds.

CAPITAL SPENDING

In the FY2022 budget book, CPS proposes appropriating $706.6 million to be spent over time for capital projects.[143] The capital budget includes funding for projects that will be built over a period of several years, unlike the operating budget, which includes spending for the upcoming fiscal year.

The largest single amount in the proposed capital spending plan, $328.6 million or 46.5% of the total, will be spent on facility needs, including repairs to roofs and mechanical systems. The second largest amount, $110.5 million, is anticipated to be used for educational programming. Smaller amounts will be earmarked for Americans with Disability Act accessibility projects;

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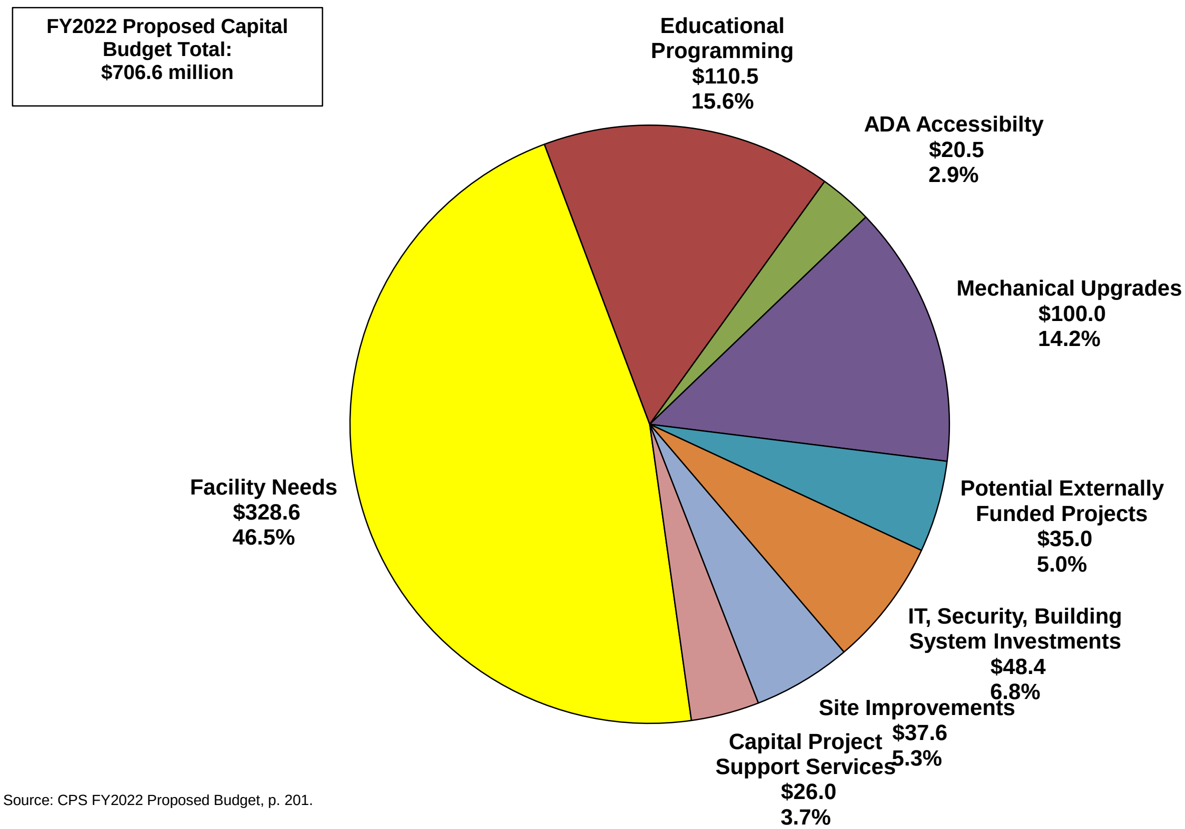
140 Fran Spielman, "Bond ratings for Chicago and Chicago Public Schools a tad less junky," *Chicago Sun-Times*, July 12, 2018.
141 Chicago Public Schools, "Credit Ratings" at https://cps.edu/About_CPS/Financial_information/Pages/CreditRatings.aspx, April 1, 2019.
142 See Chicago Public Schools Proposed FY2022 Budget, p. 209.
143 CPS FY2022 Proposed Budget, p. 201.

information technology and building systems investments; capital project support services, site improvements and potentially externally funded projects.[144]

CPS FY2022 Proposed Multi-Year Capital Spending (in $ millions)

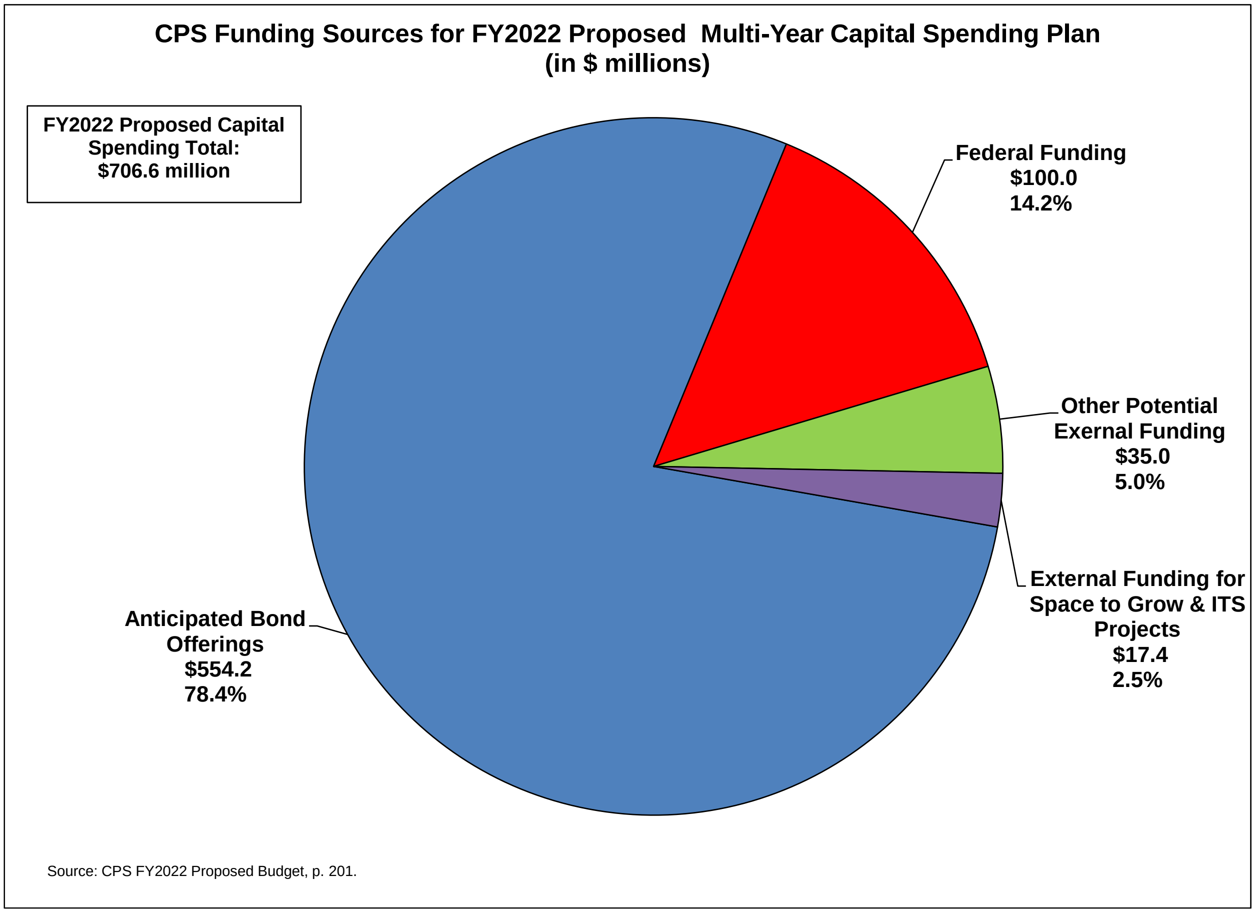


Source: CPS FY2022 Proposed Budget, p. 201.

The FY2022 capital spending plan will be funded over several years, primarily with debt proceeds. Roughly $554.2 million, or 78.4% of all resources used, will be financed by new anticipated debt issuances that will be repaid with state evidence-based funding formula resources. About 14.2%, or $100.0 million, will come from federal sources; these funds will be used for mechanical upgrades on school campuses. Other external funding sources are expected to finance $35.0 million in projects. Roughly $17.4 million is projected to be spent on programs

[144] CPS FY2022 Proposed Budget, p. 201.

implemented by the CPS Department of Information and Technology Services (ITS) and Space to Grow, a public-private partnership funding the renovation of schoolyards.[145]



Capital Project Revenues and Spending: FY2018-FY2022

This section presents information about trends in CPS capital plan spending over the past five years.

The table below shows capital revenues and expenses (outlays) from FY2018-FY2022. The capital outlays of $583.8 million in FY2022 will be incurred that year regardless of the year in which projects were appropriated. The fund balance amount shown is the difference between expected FY2022 capital expenses versus revenues. The amount unspent in one fiscal year carries forward into the next fiscal year.[146]

The following are some of the significant two-year changes between the FY2021 estimated and the FY2022 proposed budget:

- Total capital revenues from state, local and federal sources will increase by $30.2 million, or 136.7%, from $22.1 million to $52.3 million;

[145] CPS FY2022 Proposed Budget, p. 201.
[146] CPS FY2022 Proposed Budget, p. 204.

- State of Illinois revenues are expected to increase from $14.1 million to $23.3 million. Of the latter amount, $13.3 million will be derived from gaming revenue for new construction projects and $10.0 million will come from other potential State of Illinois grants;[147]
- Local revenues will increase from $5.0 million in FY2021 to $19.0 million. Approximately $4.0 million of the FY2021 amount will be from TIF-related reimbursement, $5.0 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;[148] and
- Federal revenues will increase from $1.0 million to $10. million. These revenues are expected to be derived from anticipated federal funding for school mechanical systems.[149]

On the expenditure side, capital outlays will rise from $532.3 million in FY2021 to $583.8 million in FY2022; this is an increase of 9.7% or $51.5 million. The $583.8 million figure represents amounts originally budgeted in prior years that will be spent in FY2022 as well as the estimated $82.0 million to be budgeted and spent in FY2022.[150]

In the same two-year period, proceeds from bond issuances will fall from $532.2 million to $450.0 million. The sale of capital assets will decrease from $0.5 million to $0. Finally, the District's end of year fund balance is expected to fall by 39.8%, from $204.6 million to $12.1 million.

Over the five-year period between FY2018 and FY2022, total capital revenues are expected to decrease by 34.2% or $27.2 million. Capital outlays will increase by 100.0% or $291.9 million, rising from $291.9 million to $583.8 million. Bond issuances will rise by 26.6%, increasing from $355.4 million to $450.0 million. The end of year fund balance will drop from $964.7 million to

[147] CPS FY2022 Proposed Budget, p. 205.
[148] CPS FY2022 Proposed Budget, p. 205.
[149] CPS FY2022 Proposed Budget, p. 205.
[150] CPS FY2022 Proposed Budget, p. 205.

$123.1 million, an 87.2%, or $841.6 million, decrease. The FY2022 capital budget will begin the year with a $204.6 million balance of unspent revenue received in prior years.

CPS Capital Revenues and Expenses (Outlays) FY2018-FY2022 (in $ millions)									
	FY2018 Actual Budget	FY2019 Actual Budget	FY2020 Actual Budget	FY2021 Estimated Budget	FY2022 Proposed Budget	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Beginning of Year Fund Balance	$ 822.2	$ 895.1	$ 716.7	$ 182.1	$ 204.6	$ 22.5	12.4%	$ (617.6)	-75.1%
Revenues									---
Local Revenue	$ 46.0	$ 63.0	$ 24.8	$ 5.0	$ 19.0	$ 14.0	280.0%	$ (27.0)	-58.7%
State Revenue	$ 14.0	$ 13.0	$ 10.7	$ 14.1	$ 23.3	$ 9.2	65.2%	$ 9.3	66.4%
Federal Revenue	$ 19.5	$ 1.0	$ -	$ 1.0	$ 10.0	$ 9.0	---	$ (9.5)	-48.7%
Interest & Investment Earnings	$ -	$ -	$ 12.8	$ 2.0	$ -	$ (2.0)		$ -	---
Total Revenue	**$ 79.5**	**$ 77.0**	**$ 48.3**	**$ 22.1**	**$ 52.3**	**$ 30.2**	**136.7%**	**$ (27.2)**	**-34.2%**
Expenditures									
Capital Outlay	$ 291.9	$ 613.0	$ 583.4	$ 532.3	$ 583.8	$ 51.5	9.7%	$ 291.9	100.0%
Bond Proceeds	$ 355.4	$ 356.4	$ -	$ 532.2	$ 450.0	$ (82.2)	---	$ 94.6	26.6%
Sales of Capital Assets	$ (0.5)	$ 1.2	$ 0.4	$ 0.5	$ -	$ (0.5)	-100.0%	$ 0.5	----
End of Year Fund Balance	**$ 964.7**	**$ 716.7**	**$ 182.1**	**$ 204.6**	**$ 123.1**	**$ (81.5)**	**-39.8%**	**$ (841.6)**	**-87.2%**

Total figures may not sum due to rounding.
Sources: CPS FY2020 Proposed Budget at https://www.cps.edu/about/finance/budget/budget-2020/capital-2020/; CPS FY2021 Proposed Budget, pp. 186-187; and CPS FY2022 Proposed Budget, p. 204.

Actual Capital Spending: FY2017-FY2022

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 FY2017. In FY2022, of the $706.6 million to be appropriated for capital projects, CPS intends to actually spend $82.0 million. Approximately $624.6 million of the FY2022 capital appropriation will be spent in subsequent years. A total of $1.6 billion will be spent in future years that was originally appropriated between FY2017 and FY2022.

CPS Capital Spending Year by Year FY2017-FY2022 ($Millions)								
	Total Appropriations	FY2017 Actual	FY2018 Actual	FY2019 Actual	FY2020 Estimated	FY2021 Estimated	FY2022 Estimated	All Funds Remaining Appropriation
Prior Year/Other Expenditures		$ 131.3	$ 29.7	$ 5.2				
FY2017 Capital Budget	$ 847.8	$ 73.5	$ 211.5	$ 266.4	$ 127.0	$ 48.5	$ 35.0	$ 85.9
FY2018 Capital Budget	$ 136.2		$ 50.7	$ 64.7	$ 4.3	$ 3.1	$ 2.7	$ 10.7
FY2019 Capital Budget	$ 989.0			$ 276.7	$ 333.8	$ 174.5	$ 116.4	$ 87.6
FY2020 Capital Budget	$ 820.6				$ 118.3	$ 211.2	$ 136.5	$ 354.6
FY2021 Capital Budget	$ 758.0					$ 95.0	$ 211.2	$ 451.8
FY2022 Capital Budget	$ 706.6					$ -	$ 82.0	$ 624.6
Total Spending Year by Year		**$ 204.8**	**$ 291.9**	**$ 613.0**	**$ 583.4**	**$ 532.3**	**$ 583.8**	**$ 1,615.2**

Source: CPS FY2022 Proposed Budget, p. 205.

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.[151] The CPS website does provide summary information on the district's five-year capital plan.[152] But CPS has not yet published a full FY2022-FY2026 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.

[151] Chicago Public Schools, Educational Facilities Master Plan Update, October 1, 2018 at https://schoolreports.cps.edu/EFMP/EducationalFacilitiesMasterPlan_2018_update.pdf.
[152] Chicago Public Schools. Capital Plan FY2022 at https://www.cps.edu/about/finance/capital-plan/capital-plan-fy2022/.