The Civic Federation

Research * Information * Action * Est. 1894

CHICAGO PUBLIC SCHOOLS
FY2020 PROPOSED BUDGET:
Analysis and Recommendations

August 28, 2019

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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 for FY2020 because it demonstrates continued financial stability in the third year of Evidence-Based Funding from the State of Illinois. However, the Civic Federation continues to be concerned about the District's long-term financial sustainability.

The FY2020 CPS budget proposes total spending of $7.7 billion. This includes a $6.2 billion operating budget, a $700.3 million debt service budget and an $820.6 million capital budget. The operating budget includes increased State funding, increased property tax revenue from the dedicated teacher pension levy, a property tax increase to the cap within the Education Fund and nearly $100 million in TIF surplus. The District still needed to close an annual budget gap this year, but the gap has decreased significantly from approximately $1 billion annually between FY2014 and FY2016 to approximately $100 million in FY2020.

While the District has benefitted from increased revenue sources that are helping cover operating expenses and teacher pension funding, CPS still has significant issues to address: a dramatically underfunded teachers' pension fund, declining enrollment, building utilization imbalances due to shifting enrollment across the City, increasing personnel and personnel costs, debt service costs increasing over the next several years, and continued use of large amounts of short-term borrowing to cover low cash-flow due to the timing of large expenditures and property tax revenue receipts. All of these trends are occurring with no public long-term financial plan outlining how the District plans to address these challenges going forward.

CPS also continues to issue a significant volume of long-term debt for capital spending without an adequate level of transparency about how the capital funds are allocated and prioritized. CPS' lack of transparency offsets some of the positive aspects of the District's budget because the public cannot determine why decisions are made based on publicly available information. Providing more information about staffing levels, spending and capital projects would help explain the basis for budget decisions and build public trust.

The Civic Federation recommends that CPS develop a multi-year financial plan outlining how the District will achieve its operational goals over time and continue on a path of financial stability. Additionally, CPS should issue a comprehensive five-year Capital Improvement Plan that discloses more information about the project selection process and project updates each year.

The Civic Federation is encouraged that the new Board of Education has made a commitment to better transparency and public engagement. The Federation commends the Board for livestreaming Board of Education meetings and engaging in questions and debate at public meetings. The Civic Federation encourages the Board of Education to continue looking for opportunities to improve the District's transparency and communication with the public and all stakeholders.

The Civic Federation offers the following **key findings** from Chicago Public Schools' FY2020 Proposed Budget:

- The FY2020 proposed total spending plan for all funds of $7.7 billion is an increase of 1.5%, or $116.3 million, from the FY2019 adopted budget of $7.6 billion;
- Proposed FY2020 appropriations for general operating purposes of $6.2 billion are an increase of 3.2%, or $191.3 million, above the FY2019 adopted budget. The increase is primarily due to a $135.8 million increase in salaries and a $66.5 million increase in benefits;
- The FY2020 proposed capital budget of $820.6 million will be financed with about $552.8 million in long-term debt, $191.0 million in potential State capital funding and $76.9 million in other local and federal capital funding sources;
- Property tax revenue is projected to increase by 5.0%, or $150.2 million, from $3.0 billion in the FY2019 budget to $3.1 billion in FY2020. The increase is due to a 1.9% increase in the Education Fund property tax levy (which is the maximum increase under the tax cap), taxing new property, property value growth, $67 million from the Chicago Transit TIF district for the Red-Purple Modernization project and $47.6 million in revenue growth in the property tax levy dedicated to funding the Chicago Teachers' Pension Fund;
- CPS is budgeting for a total of 38,037.4 Full-Time Equivalent (FTE) positions in FY2020. This is an increase of 930.4 FTEs, or 2.5%, from 37,108 FTEs budgeted in FY2019. The largest increases include approximately 250 additional teacher positions, approximately 400 additional school support staff, and 150 additional network and central office positions. Much of the increase in teacher and school support positions is driven by special education positions;
- Salary expenses will increase in FY2020 from the prior year by $135.8 million, or 5.4%. This includes a 2.5% cost of living adjustment. Benefit expenses will increase by $66.5 million or 4.6%, primarily due to a net increase in the required CPS contribution toward the Chicago Teachers Pension Fund in FY2020. Total compensation costs are expected to increase by $202.4 million, or 5.4%, to $4.2 billion in FY2020 from $4.0 billion in FY2019.
- Student enrollment has declined by 11.6%, or 47,257 over the past ten years from 408,571 in FY2010 to 361,314 in FY2019. Enrollment is projected to decline another 2.2% to 353,360 in FY2020. The preliminary FY2020 enrollment projection includes a 2.9% decrease in K-8 and a 1.6% decrease in high school, but a 3.8% increase in preschool.
- CPS will again rely on short-term borrowing through Tax Anticipation Notes (TANs), but the reliance on TANs has decreased by about $700 million from FY2017, and the projected interest cost for the TANs has decreased from a high of $68 million in FY2018 to $12 million in FY2020;
- The District's general obligation long-term debt increased by 33.0% in the five years from FY2014 through FY2018. As of June 30, 2019, CPS had $8.4 billion in bonds outstanding;
- CPS is required to contribute $854.5 million to the Chicago Teachers' Pension Fund in FY2020. The State of Illinois will cover $257.4 million of that amount, including $245.5 million to cover the normal cost and retiree healthcare plus an additional statutorily required contribution of $11.9 million. Approximately $477 million of the contribution will be covered by the dedicated property tax levy for teachers' pensions; and
- The Chicago Teachers' Pension Fund was 47.9% funded on an actuarial basis as of June 30, 2018, compared to 73.6% funded ten years prior. The Pension Fund had an Unfunded Actuarial Accrued Liability of $12.0 billion as of June 30, 2018, compared to $4.1 billion ten years prior.

The Civic Federation **supports** several aspects of the District's FY2020 Proposed Budget:

- Chicago Public Schools' finances are more stable in the third year of State funding through the Evidence-Based Funding formula;
- Pension funding for the Chicago Teachers' Pension Fund is on more stable footing thanks to revenue measures included in the Evidence-Based Funding legislation;
- The District has started to livestream Board of Education meetings to the public;
- The Board of Education has committed to improving public access to board meetings and overall public engagement and transparency; and
- The District has begun providing operating revenue and expenditure updates to the Board of Education at the Finance and Audit Committee.

The Civic Federation has the following **concerns** about the CPS FY2020 Proposed Budget:

- The ongoing enrollment decline amid spending and personnel increases without sufficient explanation and with no long-term plan;
- Continued reliance on short-term borrowing;
- More planned increases in long-term borrowing without a five-year capital plan and little transparency about capital project selection;
- The District could potentially move from the Tier 1 district to a Tier 2 district under the Evidence-Based Funding formula, which would mean the possibility of losing out on future State funding increases;
- Declining trends in the Chicago Teachers' Pension Fund; and
- Differences between data presented in the budget book and the online interactive budget reports.

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;
- Revise the District's fund balance policy to correspond to fund balance reporting requirements and the District's current fund balance practices;
- Include expenditures and personnel sections in the budget book;
- Continue to provide revenue and expenditure reports on a regular basis at public Board or Committee meetings;
- 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 for FY2020 because it demonstrates continued financial stability in the third year of Evidence-Based Funding from the State of Illinois. However, the Civic Federation continues to be concerned about the District's long-term financial sustainability.

The FY2020 CPS budget proposes total spending of $7.7 billion. This includes a $6.2 billion operating budget, a $700.3 million debt service budget and an $820.6 million capital budget. The operating budget includes increased State funding, increased property tax revenue from the dedicated teacher pension levy, a property tax increase to the cap within the Education Fund and nearly $100 million in TIF surplus. The District still needed to close an annual budget gap this year, but the gap has decreased significantly from approximately $1 billion annually between FY2014 and FY2016 to approximately $100 million in FY2020.

While the District has benefitted from increased revenue sources that are helping cover operating expenses and teacher pension funding, CPS still has significant issues to address: a dramatically underfunded teachers' pension fund, declining enrollment, building utilization imbalances due to shifting enrollment across the City, increasing personnel and personnel costs, debt service costs increasing over the next several years, and continued use of large amounts of short-term borrowing to cover low cash-flow due to the timing of large expenditures and property tax revenue receipts. All of these trends are occurring with no public long-term financial plan outlining how the District plans to address these challenges going forward.

CPS also continues to issue a significant volume of long-term debt for capital spending without an adequate level of transparency about how the capital funds are allocated and prioritized. CPS' lack of transparency offsets some of the positive aspects of the District's budget because the public cannot determine why decisions are made based on publicly available information. Providing more information about staffing levels, spending and capital projects would help explain the basis for budget decisions and build public trust.

The Civic Federation recommends that CPS develop a multi-year financial plan outlining how the District will achieve its operational goals over time and continue on a path of financial stability. Additionally, CPS should issue a comprehensive five-year Capital Improvement Plan that discloses more information about the project selection process and project updates each year.

The Civic Federation is encouraged that the new Board of Education has made a commitment to better transparency and public engagement. The Federation commends the Board for livestreaming Board of Education meetings and engaging in questions and debate at public meetings. The Civic Federation encourages the Board of Education to continue looking for opportunities to improve the District's transparency and communication with the public and all stakeholders.

Issues the Civic Federation Supports

The Civic Federation supports several aspects of the District's FY2020 budget proposal and current financial situation.

CPS Finances are More Stable

Thanks to the passage of the Evidence-Based Funding formula in Public Act 100-0456, a statewide school funding law approved in August 2017, CPS is now in a more stable financial position. FY2020 is the third year CPS will receive State funding according to the Evidence-Based Funding model. CPS is budgeting for $2.3 billion in total State funding in FY2020, up 21% from $1.9 billion budgeted three years prior in FY2017 before the Evidence-Based Funding formula went into effect.

Public Act 100-0456 included an additional appropriation to cover the Chicago Teachers' Pension Fund normal cost[1] and the authority for CPS to increase its property tax levy dedicated to teachers' pension funding.

As a result of increased State funding and property tax funding, CPS has been able to reduce its reliance on using fund balance (general operating reserves) to close annual budget deficits and build it back up. CPS will budget $56.0 million in restricted reserves in FY2020 compared to a total of $940.4 million in reserves in FY2015. By FY2015 CPS had depleted its fund balance reserves, which resulted in the District needing to borrow extensively on a short-term basis to produce cash flows throughout the year. The State budget impasse in FY2016 and FY2017 resulted in decreased and delayed State funding, further exacerbating the District's cash flow problem. CPS issued Tax Anticipation Notes (TANs), a form of short-term borrowing, as well as Grant Anticipation Notes to be repaid once State revenue was received. CPS issued TANs in an amount of $1.55 billion in FY2017, and since then has decreased its reliance on TANs by approximately $700 million. Since the District's cash position has improved and it has relied less on short-term borrowing through TANs, the interest cost associated with short-term borrowing has also decreased from a high of $68 million in FY2018 to $12 million projected in FY2020.

Overall, CPS is now on more secure financial footing thanks to State-approved funding. However, in order to maintain financial stability in future years, the District will continue to rely on the State of Illinois to annually approve on-time, balanced budgets and fully fund the Evidence-Based Funding formula, as well as on the Chicago property tax base to continue growing in order to generate revenue growth.

Pension Funding on More Stable Footing

With the passage of the Evidence-Based Funding formula law, two major changes were made that are helping to improve CPS' ability to make annual contributions to the Chicago Teachers' Pension Fund (CTPF) without crowding out classroom funding. Public Act 100-0465 included authorization for CPS to increase its property tax levy dedicated to teacher pensions from a rate of 0.383% to a rate of 0.567%. The rate increase follows the reinstatement of a dedicated pension levy in FY2017 at a property tax rate of 0.383%. The District estimated the rate increase would

[1] The normal cost is the annual cost of future retiree benefits earned by active employees in the current year.

generate $130 million in additional property tax revenue in FY2018. The pension levy is projected to generate a total of $477.1 million in FY2020, up from $430 million budgeted in FY2019.

Public Act 100-0465 also included an ongoing appropriation for the Chicago Teachers' Pension Fund to cover the normal cost[2] of the CPS annual pension contribution and a contribution for retiree healthcare. That contribution in FY2020 is $245.5 million compared to $227 million the prior year. That amount combined with an additional $11.9 million in statutory State pension funding will result in a total State pension contribution of $257.4 million, which is an increase of $18.5 million over the FY2019 budget.

The increase in the property tax levy for teacher pensions and the State's normal cost pension contribution have significantly reduced the amount of funding that CPS needs to divert out of operating funds in order to make its annual contribution to the CTPF. The total required employer contribution to the CTPF in FY2020 is $854.5 million. With $257.4 million covered by the State and $477.1 million covered by property tax revenue, CPS must provide the remaining $120.0 million from its operating revenues to reach the required contribution level. This is a decrease from $140 million in FY2019. CPS estimates that the pension levy will fully cover the CPS portion of its employer contribution to the CTPF by 2031.

Livestreaming Board Meetings

After taking office in spring of 2019, Mayor Lightfoot appointed a new seven-member Board of Education. The new Board expressed its commitment to making Board of Education meetings more open and transparent. One of the first changes made was to begin livestreaming Board meetings online to the public in addition to the recordings that are posted to the Chicago Board of Education website after they take place.[3] The Board indicated that this would allow members of the community who are not able to make it to the meeting to monitor the full meeting in real time.[4] The July 24, 2019 Board meeting was the first to be livestreamed publicly.

Livestreaming meetings online brings CPS in line with many other school districts in Illinois and around the U.S., as well as other major local governments in Chicago including the City of Chicago and Cook County. The Civic Federation commends the Board of Education for taking the initiative to provide the CPS community and stakeholders with better access to real-time meeting proceedings. The Federation encourages the Board to livestream all public meetings including committee meetings and budget hearings.

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[2] The normal cost is the annual cost of retiree benefits earned by active employees in the current year.
[3] The meeting livestream is available on the CPS YouTube page, https://www.youtube.com/user/ChiPubSchools.
[4] Chicago Public Schools, "Chicago Board of Education Announces New Meeting Structure to Promote Transparency and Public Engagement," Press Release, June 26, 2019.

Board of Education Meetings Being Made More Accessible to the Public

Board President Miguel del Valle announced at his first board meeting in June that in an effort to improve transparency and community engagement, in addition to livestreaming meetings online, the Board would make several other changes including:[5]

- Discussing public agenda items openly and voting on the public agenda items before moving into closed session;
- Creating committees to focus on specific issues and holding committee meetings in community rather than downtown;
- Holding periodic board meetings around the city and after business hours;
- Posting policy changes a month before the board votes on them; and
- Translating meetings into Spanish.

Under prior practice, the previous CPS Board of Education rarely discussed or debated agenda items at public meetings or explained their policy decisions. The meeting format included a closed executive session to discuss sensitive or personnel-related agenda items, which occurred before the Board voted on the public agenda items. Under the new meeting format, the Board has committed to discussing and voting on public agenda items before moving into the closed executive session.

So far, the Board of Education has followed through on improving public engagement by openly discussing issues at public meetings, both at Board meetings and at the public hearings held on the FY2020 budget proposal. The Board has also begun providing Spanish translation at meetings. Additionally, the Board is exploring options to improve the public comment process, including the possibility of a lottery system. Currently 60 members of the public are allowed to address the Board at each meeting, but the speaker slots typically fill up within a matter of minutes. The Board is accepting feedback on the registration process online.[6]

The Civic Federation commends the Board for making a commitment to take these important steps to improve the transparency and accessibility of Board meetings. Once fully implemented, these initiatives will not only improve public access to meetings but will also result in more transparent and substantive discussions about decisions made by the Board.

Quarterly Financial Reporting

During FY2019 the District began providing budget updates at quarterly Finance and Audit Committee meetings. CPS finance staff provided the first update at the April 24, 2019 Finance and Audit Committee meeting, which reviewed budget-to-actual general operating revenues and expenditures and a comparison to prior year figures. Regular budget monitoring on a monthly or quarterly basis throughout the fiscal year is a financial planning best practice recommended by the Government Finance Officers Association. It is meant to track the accuracy of revenue and expenditure projections so that adjustments can be made when necessary. The Civic Federation

[5] Chicago Public Schools, "Chicago Board of Education Announces New Meeting Structure to Promote Transparency and Public Engagement," Press Release, June 26, 2019.
[6] An online survey to receive feedback on the registration process is available at www.cpsboe.org (last accessed August 26, 2019).

commends the District for beginning to provide periodic finance reports at a public meeting, and encourages CPS to continue doing so on a regular basis.

Issues of Concern

The Civic Federation has the following concerns regarding the FY2020 Proposed Budget.

Ongoing Enrollment Decline amid Spending and Personnel Increases Without a Public Long-Term Plan

Enrollment at CPS has been declining consistently over time and is expected to continue to decline in FY2020.[7] In the ten years between FY2010 and FY2019, CPS lost 47,257 students, or 11.6% of the student population. Based on 20th day enrollments, the District had 361,314 students in fall 2018, compared to 408,571 students in fall 2009. During that timeframe, the enrollment drops have been the largest in the most recent three years—FY2017, FY2018 and FY2019—with an average annual decrease of 2.7%. Preliminary projections show enrollment dropping another 2.2% to 353,360 during the 2019-2020 school year.[8]

While enrollment trends downward, spending pressures and school building utilization imbalances continue. As the City's population shifts, some schools on the south and west sides of the City have become underutilized, while some schools on the north and northwest sides of Chicago have become over-utilized. These shifts put CPS in a difficult position from a capital planning perspective, as the District must identify how and where to mitigate utilization problems while also addressing critical facility needs.

The Civic Federation is concerned that while enrollment continues to decline, spending continues to increase without a public multi-year plan outlining a path forward. Personnel count is increasing by 930 FTEs in FY2020 from the prior year budget. Spending on salaries will increase by $135.8 million, or 5.4%, and benefits will increase by $66.5 million or 4.6%. Appropriations for salaries and benefits collectively will increase by $202.3 million between FY2019 and FY2020. This includes accounting for a 2.5% cost of living adjustment based on the cost of living increases included in the last collective bargaining agreement with the Chicago Teachers Union (CTU) that expired at the end of FY2019. The District is currently negotiating with the CTU on a new contract, which could include even higher cost of living increases than accounted for in the budget proposal.

Debt service costs to pay the principal and interest of long-term bonds are also increasing. Debt service budgets have increased by 30.0% over the past five years, from $538.6 million in FY2016 to $700.3 million in FY2020.

All of these trends are occurring with no public long-term plan outlining what the District plans to do to address population shifts, building capacity issues and overall sustainability going forward.

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[7] CPS FY2020 Proposed Budget, p. 26.
[8] Information provided by Chicago Public Schools, August 22, 2019.

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 has spent down its reserves in recent years in order to balance annual budgets and make pension payments without making budget cuts. Without a sufficient fund balance for the District to draw on, this creates a cash shortfall.

CPS spent nearly all of FY2017 in a negative cash position. The District's cash position improved somewhat in FY2018 and FY2019, with a positive cash position for three months out of the year in FY2018 and a positive cash position for five months in FY2019.[9] CPS projects that it will again spend the majority of FY2020 in a negative cash position.[10]

Because CPS no longer has sufficient reserves to draw from, the District has used a line of credit and short-term borrowing through Tax Anticipation Notes (TANs) to generate enough cash to make payments throughout the year. The District borrowed, at any given time during the fiscal year, up to $700.0 million in TANs in FY2015, $1.07 billion in TANs in FY2016, $1.55 billion in FY2017, $1.1 billion in FY2018 and $884 million in FY2019. The District plans to borrow TANs of a similar size in FY2020 as the prior year.

While CPS has reduced the size of the TANs used since FY2017, short-term borrowing still comes at a cost. The District expects to spend $12 million in interest costs for the TANs in FY2020, compared to $21 million in interest in FY2019, $68 million in FY2018 and $34 million in FY2017.[11]

While CPS' liquidity crisis is improved thanks to increased and more stable funding from the State of Illinois, such heavy annual reliance on short-term borrowing is still an issue that needs to be addressed. The District will always have timing issues between the receipt of revenues and disbursement of expenditures, so it is imperative that CPS come up with a multi-year plan to reduce its reliance on short-term borrowing and rebuild reserves to help manage the District's annual cash-flow issues.

More Planned Increases in Long-Term Borrowing Without a Sufficient Multi-Year Capital Plan

This year CPS plans to finance the majority of its $820 million capital budget through long-term debt yet to be issued. Last year the District also approved a nearly $1 billion capital plan that was financed by $750 million in future bond sales. In the past three years alone, the District has issued $2.8 billion in general obligation bonds.[12] CPS currently has $8.4 billion in outstanding long-term debt. With the current level of debt, CPS projects debt service payments for principal and interest on outstanding bonds to increase from $700 million in FY2020 to over $800 million

[9] CPS FY2020 Proposed Budget, p. 179; and CPS FY2019 Adopted Budget, p. 180.
[10] Information provided at a Chicago Public Schools public budget hearing held on August 20, 2019.
[11] CPS FY2020 Proposed Budget, p. 178; and CPS FY2019 Adopted Budget, p. 179.
[12] Based on GO Series bonds issued in 2017 and 2018 as shown in the CPS FY2020 Proposed Budget, p. 172.

in FY2027.[13] This does not include an additional $552.7 million in bonds that the District plans to issue to cover capital spending approved in FY2020.

The Civic Federation acknowledges that CPS needs capital funding to keep up with needed maintenance and to make capital investments in schools. The Federation also acknowledges that the level of long-term debt held by the District is reasonable in relation to the size of the District's budget and population. However, the Federation remains concerned about the volume of debt that continues to be issued annually without an adequate level of transparency about how the funds are to be allocated and prioritized.

The information provided in the FY2020 capital plan is insufficient to allow the CPS community to understand why certain projects are prioritized over others or how they are financed. While related plans such as the Educational Facilities Master Plan provide helpful information and detail about CPS population shifts and school building utilization, they do not provide any project-specific information to help the public understand whether capital funding allocations throughout the District are fair or justified.

Possibility of Losing Tier 1 Status in Evidence-Based Funding Formula

The new statewide Evidence-Based Funding formula calculates the funding adequacy of school districts based on available resources rather than setting the same funding level for every student as did the prior General State Aid formula. The Evidence-Based Funding formula 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. School districts are separated into four tiers based on how close they are to their adequacy target.

CPS is currently a Tier 1 school district, which is the highest level of funding need. CPS has an FY2020 adequacy target of $5.59 billion, which is equivalent to $15,531 per student. Based on currently available local resources including property tax revenue and personal property replacement tax revenue, CPS only has $3.66 billion, or 65.6% of needed resources. CPS would still need an additional $1.93 billion to meet its adequacy target. CPS will remain a Tier 1 school in FY2020 because its resource levels are below the 67.4% statewide threshold, but the District notes it could become a Tier 2 school if enrollment and property value trends continue, meaning CPS could lose out on some future Evidence-Based Funding increases above the base funding minimum in future years.[14]

Evidence-Based Funding is calculated using the following formula:

Local Resources / Adequacy Target = Adequacy Percentage

There are several ways CPS could move into the Tier 2 category: an increase in local resources, a decrease in the District's adequacy target, or a change in the adequacy percentage threshold based on the amount of tier funding available statewide. The more statewide funding available, the higher the Tier 1 adequacy percentage threshold. Chicago property assessments have been

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[13] CPS FY2020 Proposed Budget, p.170.
[14] CPS FY2020 Proposed Budget, pp. 25-26.

increasing, which could result in more taxable property value, and therefore an increase the local resources available to CPS.

The adequacy target is in part based on the percentage of low income students in relation to total enrollment. If the percentage of low income students decreases, the adequacy target decreases. CPS' low income student population has been decreasing at a faster rate than overall enrollment, at an average annual decrease of 3.6% between 2014 and 2018.[15]

CPS is receiving a total of $1.67 billion in Evidence-Based Funding in FY2020, which includes $64.3 million in tier funding.[16] CPS estimates that if it were a Tier 2 rather than a Tier 1 school district, it would lose about $30 million in tier funding this year. It is important to note, however, that this does not mean CPS would lose any of its FY2020 tier funding going forward. The Evidence-Based Formula is set up so that tier funding received in the current year is rolled into the next year's base funding minimum. So if the District were to become a Tier 2 school district, it would receive the same level of Evidence-Based Funding as the prior year, but would potentially lose out on some future State funding increases.

The Civic Federation commends CPS for acknowledging the possibility of becoming a Tier 2 school within the next few years because highlighting the issue will allow the District to plan ahead and find other revenue sources or savings to make up for State funding increases.

Teacher Pension Funding Trends

The Civic Federation remains concerned about the ongoing decline of the Chicago Teachers' Pension Fund, which was only 47.9% funded on an actuarial basis as of the end of FY2018. This is in comparison to 73.6% funded ten years prior. The funded ratio fell from 50.1% funded in FY2017. The unfunded liability reached $12.0 billion in FY2018, up from $11.0 billion the prior year and $4.1 billion ten years prior in FY2009. The largest contributors to the CTPF's decline from 100% funded as recently as FY2001 to less than halfway funded now were pension holidays, employer underfunding, changes in actuarial assumptions and investment losses.

CPS is currently on a funding schedule to reach 90% funded by 2059. The statutorily required employer contribution to the pension fund from CPS in FY2020 is $854.5 million. Thanks to provisions in Public Act 100-0465, CPS is now better able to make its statutorily mandated annual payments to the pension fund and can divert less funding from classrooms and daily operations due to a dedicated property tax levy for pension funding and the State's commitment to provide annual normal cost and retiree healthcare payments. In FY2020 the State will contribute a total of $257.4 million for teachers' pensions and retiree healthcare benefits. The dedicated property tax levy for teacher pension funding will generate $477.1 million. That leaves $120.0 million remaining for CPS to cover for the pension contribution out of its operating funds.

Despite the improvements in funding sources for the CPS employer contribution to the Chicago Teachers' Pension Fund, payments will not be large enough to begin to reduce the unfunded

[15] CPS FY2020 Proposed Budget, p. 26.
[16] CPS FY2020 Proposed Budget, p. 25.

liability until 2039. The statutorily required funding schedule effectively back-loads contributions and significantly increases them after 2039, which creates less intergenerational equity.[17] Contributing an actuarially determined contribution amount calculated by the pension actuary would bring the funded ratio to 100% by 2043 and would avoid back-loading contributions to the pension fund. While the required employer contribution in FY2020 is $854.5 million, the actuarially determined contribution would be $1.1 billion.[18]

Differences Between Budget Book Data and Online Interactive Reports

CPS produces two versions of its budget: a PDF budget book and online interactive reports with more detail about school budgets. There are many differences between the data presented in the budget book and the online interactive reports:

- Revenue and expenditure data are classified differently using different funds.
- All funds revenues in the online interactive reports include line items that are not included in the budget overview of the budget book, such as use of fund balance and bond proceeds.
- Revenues and expenditures for the capital funds and debt funds in the interactive reports don't match the figures presented in the budget book. For example, the FY2020 estimate of debt proceeds for capital funding in the budget book is $553 million, while it is $675 million in the interactive reports.[19]
- Position counts across the two platforms do not match. While the positions by job group totals to the same amount, each category has a slightly different count between the online interactive report and the budget book.

The summary information provided in the budget book should match the summary information provided in the online interactive reports. For example, totals for large categories such as revenues, expenditures and personnel should be consistent across platforms.

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[17] Chicago Teachers' Pension Fund, *Actuarial Valuation Report as of June 30, 2018*, pp. 12-13.
[18] Chicago Teachers' Pension Fund, *Actuarial Valuation Report as of June 30, 2018*, p. 1.
[19] The District says the difference is that the $675 million in debt proceeds shown as revenue in the online interactive report consists of anticipated bond offerings that will be issued during FY2020 to fund portions of both the FY2019 and FY2020 capital plans. The $553 million refers to projects included in the FY2020 capital plan that will be financed by bonds and spent over the next several years.

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

Strategic financial planning for school districts is a best practice recommended by the Government Finance Officers Association.[20] 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 identify spending and funding sources.

CPS should develop a long-term financial plan that lays out how the District can achieve its goals and continue on a path of 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.[21] 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 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

[20] For resources, see "Develop a Strategic Plan" by the GFOA at https://www.gfoa.org/sites/default/files/GFOASchoolBudgetBP-4A-DevelopStrategicFinancialPlan_2017FINAL.pdf (last accessed August 22, 2019) and the strategic financial plan template available at https://smarterschoolspending.org/resources/strategic-financial-plan-template (last accessed August 22, 2019).

[21] 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.

understand the scope of the projects, how and why they were selected or prioritized, and updates on their completion.

The lack of transparency in CPS' capital planning process gives the public little confidence about the project selection process.

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;
- Updates on project costs and completion.

The following elements should also be included in a complete five-year Capital Improvement Plan:[22]

- 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.

Revise the District's Fund Balance Policy

Fund balance, 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 fund balance policy in FY2008[23] that establishes a target fund balance level for its general operating funds, referred to as the stabilization fund. The policy requires the Board to maintain an unreserved, designated (assigned) fund balance of a minimum of 5% and a maximum of 10%

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[22] 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.

[23] Fund Balance and Budget Management Policy, Adopted August 27, 2008 through Board Report 08-0827-PO8. Found in Section 403.10 of the Chicago Public Schools Policy Manual, available at https://policy.cps.edu/download.aspx?ID=62 (last accessed August 19, 2019).

of the operating and debt service budgets for the new fiscal year as a stabilization fund in the General Fund when the budget is adopted.[24]

Changes have since been made to fund balance reporting requirements through GASB Statement No. 54, effective beginning in FY2011, so the policy's terminology no longer matches the way fund balance is now presented in the District's Comprehensive Annual Financial Reports.[25] Additionally, the Government Finance Officers Association issued updated fund balance best practice guidelines in 2015 that clarify the unrestricted fund balance target to be about two months of operating expenditures, or approximately 17%. Previously, the target was no less than 5-15% of general operating expenditures.[26]

CPS currently sets its own general fund balance target at an amount between 5% and 10% of the total general operating and debt service budgets. In this target, CPS includes all categories of fund balance in the general fund, not only unrestricted amounts as in the GFOA guidelines. In the past several years, CPS has assigned a specific amount of fund balance for debt service, although this has been inconsistent as an assigned amount for debt service was not included in the FY2016 and FY2017 Balance Sheets for Governmental Funds.

The Civic Federation recommends that the Board of Education work with the Finance Department to review the current fund balance targets used in practice and update the District's 2008 fund balance policy to correspond with the updated terminology post-GASB Statement No. 54. The updated fund balance policy should clarify which categories of fund balance within the general fund (i.e., assigned, unassigned, etc.) are included in the CPS fund balance target. The policy should also set a goal for a sufficient reserve level to reduce the amount of short-term borrowing needed during low cash periods throughout the year, as well as a procedure for replenishing reserves after they have been used.

Include Expenditures and Personnel Sections in the Budget Book

The CPS budget book includes a budget overview that provides a broad summary of revenues, expenditures and personnel. In addition to revenues discussed in the budget overview section of the budget book, revenues are also explained in depth in a standalone revenue section. The Civic Federation recommends that the CPS budget staff also incorporate standalone sections providing more narrative and detail about expenditures and personnel.

Very little summary information is provided about District-wide operating expenditures and personnel trends in the budget book. They are explained in only three pages.[27] 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. The number

[24] CPS FY2019 Proposed Budget, p. 215.
[25] For more about the differences in fund balance reporting before and after GASB Statement No. 54, see p. 43 of this report.
[26] This guidance was sometimes misinterpreted as setting a minimum and a maximum target, whereas the GFOA intended for the range of 5-15% to be the minimum target. The new standards note that a lower level of reserves may be appropriate for the largest governments. Steven Gauthier, "GFOA Updates Best Practice on Fund Balance," *Government Finance Review*, December 2009.
[27] See pp. 13-15 of the CPS FY2020 Proposed Budget.

of FTE positions is increasing by 930 in FY2020 without explanation. The interactive reports do not clarify any questions one might have about increases in spending.

For example, spending on salaries in FY2020 is proposed to increase by $135.8 million from the adopted FY2019 budget. Based on available information in the budget book and online interactive reports, there is no way to tell how much of that increase is related to a personnel increase of 930 FTEs and how much is related to accounting for cost of living adjustments or step increases.

Members of the CPS stakeholder community have questioned statements made by CPS leadership and the Chicago Mayor about additional school support positions, such as positions to support the English Language Learner program, because there is no way to determine where those positions are accounted for in the budget.[28] Likewise, based on the position counts in the online interactive reports by school and position title, it is difficult to determine the total number of positions that fall into broader categories such as special education teachers, social workers, nurses and librarians. CPS could provide a summary overview of FTE changes between the proposed budget and prior year budget and provide an explanation for why certain categories are increasing or decreasing.

The District can address discrepancies head-on and build public trust by providing more information. The Civic Federation recommends that the CPS budget office incorporate a standalone expenditures section and a personnel section in the FY2021 budget with narrative and summaries that explain the basis for year-to-year changes in these two major budget components.

Provide Regular Revenue and Expenditure Reports

Budget monitoring throughout the budget year is a best practice recommended by the Government Finance Officers Association (GFOA),[29] which involves presenting an analysis of budgeted revenues and expenditures compared to actual or year-to-date figures and with comparisons to previous years as additional reference points. Many Chicago-based local governments provide monthly finance reports at public board or committee meetings, where discussion can take place between board members and staff in a public forum. The purpose of this kind of reporting is to keep the governing board and the public updated so that shortfalls can be anticipated and mid-year adjustments can be made. Doing so in a public forum is critical to maintaining the integrity and transparency of the government. A few examples of Chicago-based governments that do this are Cook County, the Chicago Transit Authority and the Forest Preserve District of Cook County. The City of Chicago also publishes quarterly financial reports on its website.

CPS finance staff provided such a finance update at the April 24, 2019 Finance and Audit Committee meeting. The financial report presented budget-to-actual general operating revenues and expenditures and a comparison to prior year figures. The Civic Federation commends the

[28] For example, CPS officials said English Learner supports are spread throughout the budget, so there is no way to easily track spending on bilingual education. Sarah Karp, "5 Things to Know About Chicago Public Schools' Budget," *WBEZ News*, August 19, 2019.
[29] See Budget Monitoring, a best practice approved by the Government Finance Officers Association Executive Board in March 2018, at https://www.gfoa.org/budget-monitoring (last accessed August 19, 2019).

District for beginning to provide periodic finance reports at a public meeting and encourages CPS to continue doing so on a regular basis. The Federation recommends that the Board of Education work with the Finance Department to formalize the budget monitoring and reporting process, and create a policy to institutionalize such financial reporting.

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.[30] 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.[31] 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 $35.1 million in FY2020. 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 and teachers in the rest of Illinois is inequitable. The State of Illinois pays for the normal cost and the unfunded liability for all downstate and suburban districts, but only covers for the normal pension costs for Chicago teachers' pensions. The FY2020 State contribution to the Teachers' Retirement System (TRS), the pension fund for teachers in all school districts outside of Chicago, is $4.9 billion.[32] The FY2020 State contribution to the Chicago Teachers' Pension Fund (CTPF) is $257.4 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 ($75.3 billion in unfunded liability for TRS and $12.0 billion in unfunded liability for CTPF as of FY2018), and for school districts to cover the normal cost for their teachers' pensions (the future benefits accrued by active employees in the current year).

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[30] CPS still picks up the 7.0% portion of the 9.0% employee contribution for CTPF members hired before January 1, 2017, which in FY2020 cost $126.3 million.

[31] Over half of the approximately 31,000 active members of the Chicago Municipal Pension Fund, both working and retired, are CPS employees.

[32] CPS FY2020 Proposed Budget, p. 33.

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

We would like to express our appreciation to Chicago Public Schools Senior Vice President of Finance Ronald DeNard, Budget Director Heather Wendell and Assistant Budget Director Michael Sitkowski for their work in preparing this budget, providing the Civic Federation staff with a budget briefing and for answering the Civic Federation's questions.

FY2020 BUDGET GAP-CLOSING MEASURES

Chicago Public Schools (CPS) has operated with a structural budget deficit in recent years because operating expenditures have regularly outpaced available revenues due to prior decreases in State education funding and insufficient pension funding from the State of Illinois. CPS has seen annual operating deficits as high as $1.14 billion in FY2017, which was mainly a result of the State budget crisis. To close budget deficits in past years the District has used one-time funding sources, drained budgetary reserves, restructured long-term debt to extend bond payments and has made budget cuts and layoffs.

CPS' financial situation has improved significantly since changes were made to State law through Public Act 100-0465, enacting Evidence-Based Funding for school districts statewide and additional revenue sources for CPS teacher pensions. This has resulted in much smaller budget gaps in FY2019 and FY2020. In FY2019 the District started the year with a budget gap of $59 million and in FY2020 CPS estimates a budget gap of $105 million.[33] CPS plans to close the FY2020 budget gap and achieve a balanced operating budget by taking into account the savings initiatives listed in the table below.

CPS FY2020 Budget Gap Closing (in $ millions)		
FY2020 Beginning of Year Deficit	**$**	**(105.0)**
Cost Savings Initiatives		
Accelerating FY2020 Payments into FY2019	$	45.0
Increase in the Vacancy Savings Assumption from $94 mllion to $114 million	$	20.0
Refunding of $432 million in Bonds	$	20.0
Healthcare Cost Savings	$	10.0
More Aggressive Grant Revenue Strategy	$	10.0
Total Savings	**$**	**105.0**
Ending Deficit	**$**	**-**

Source: Information provided by the CPS Budget Office, August 22, 2019.

As shown in the table, CPS plans to achieve $45 million in savings by accelerating payments for initiatives such as Curriculum Equity from FY2020 into FY2019, which allows for significant contract savings over the life of the contracts. The District also increased the assumption for savings from vacant positions, which means CPS expects to save an additional $20 million from positions left unstaffed through natural attrition. CPS plans to achieve $20 million in savings by refunding $432 million in existing long-term bonds, which will save on interest cost by moving from variable interest rates to fixed rates. Another $10 million in healthcare savings and $10 million in grant revenue from a more aggressive grant strategy are expected to close the $105 million deficit. All together these savings balance out to an ending deficit of $0.

It should also be noted that CPS is budgeting for $96.9 million in Tax Increment Financing (TIF) Surplus as revenue in the FY2020 budget. TIF surplus is a one-time revenue source from the City of Chicago and may not be available at the same level in future years.

[33] Information provided by the CPS Budget Office on July 10 and 17, 2018 and August 22, 2019.

RESOURCES

This section presents total resources that CPS will use in FY2020 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 FY2020

CPS projects total resources for all funds in FY2020 to be $7.6 billion, compared to $7.0 billion the prior year.

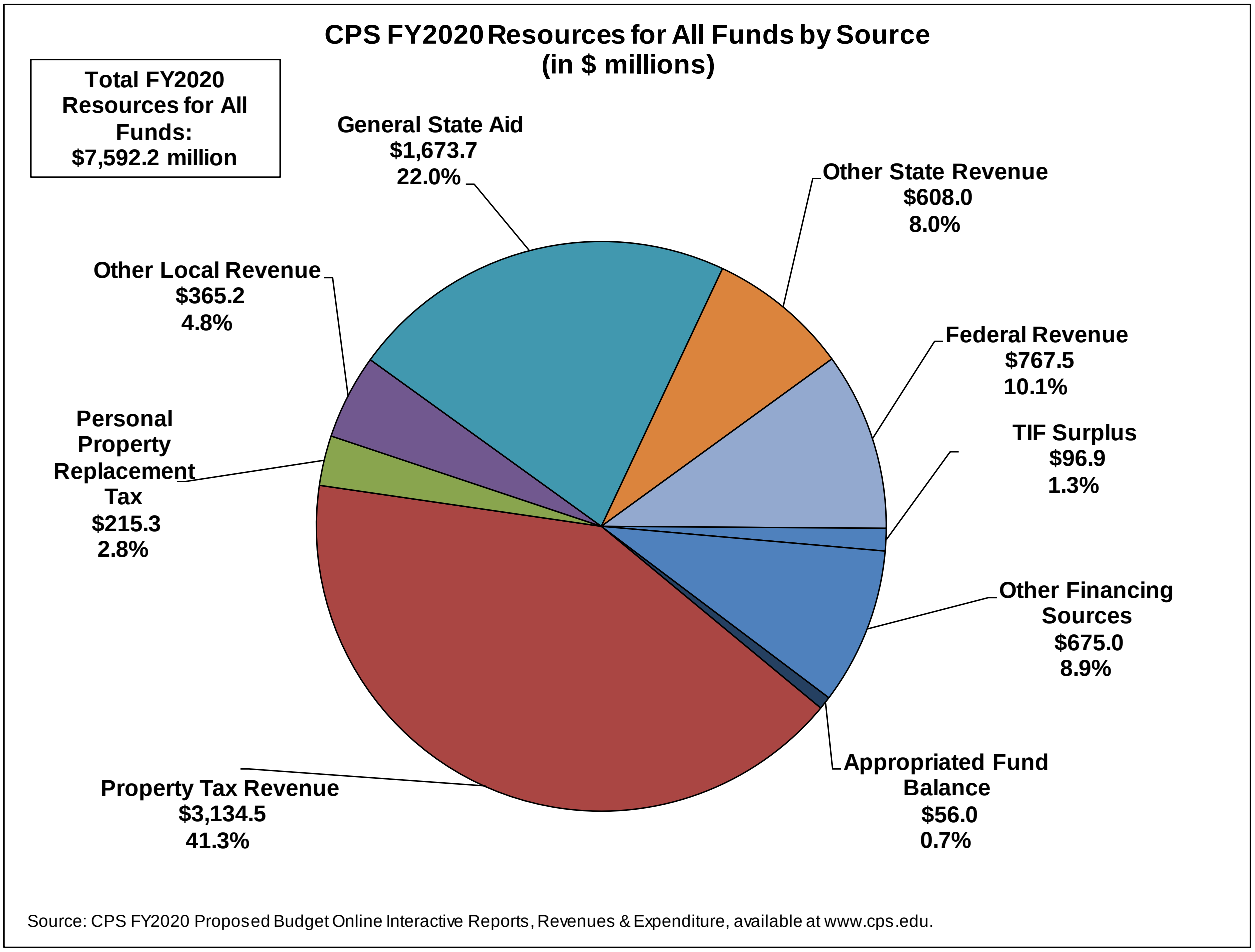
It should be noted that total resources differ from total appropriations in FY2020. While CPS plans to generate $7.6 billion in resources, the District plans to appropriate $7.7 billion in spending. This is due to differences in the debt service and capital budgets. CPS plans to authorize $820.6 million in capital spending, but the District will only generate $752.2 million in financing for capital projects.[34] Not all capital expenditures appropriated in FY2020 will occur that same year; rather, expenditures for capital projects will occur over time.

Likewise, the debt service funds will generate $664.4 million in revenue in FY2020, while expenditures will total $700.3 million. The difference is made up by financing that will become available from future debt issuances.[35]

The pie chart below presents the District's total projected resources and revenues by source for FY2020. The largest revenue source is the property tax, which is expected to generate $3.1 billion, or 41.3%, of the District's total resources. State revenue will constitute the second largest revenue source, at 30.0% of total resources – including $1.7 billion, or 22.0%, in General State Aid (now Evidence-Based Funding) and $608.0 million, or 8.0%, in other State revenue. Other State revenue includes block grants and other grants, State pension aid for teachers and driver's education funding. Federal funds are expected to make up 10.1% of total resources, or $767.5 million. Personal Property Replacement Tax revenue will account for $215.3 million, or 2.8% of total resources. CPS also plans to use $56.0 million in fund balance, which this year consists of unspent reserves from prior years that is restricted, or required to be used for specific purposes.[36] Other financing sources, which are anticipated proceeds from the future sale of bonds, will account for $675.0 million, or 8.9% in resources. In FY2020 CPS is budgeting $96.9 million in

[34] CPS FY2020 Proposed Budget Online Interactive Reports, Revenues & Expenditures, available at cps.edu/budget.
[35] CPS FY2020 Proposed Budget, p. 169.
[36] CPS FY2020 Proposed Budget, p. 181.

Tax Increment Financing (TIF) Surplus, which are excess TIF funds declared by the City of Chicago and distributed to local taxing bodies.



The following table details the total resources proposed for FY2020 by fund. The General Operating Fund accounts for the majority, 81.3%, of total resources in FY2020. The District projects general operating revenue from local, state and federal sources to be $6.0 billion. With an additional $96.9 million in TIF Surplus and $56.0 million in restricted fund balance, this brings the total general operating resources to $6.2 billion.

Capital funding is proposed at $752.2 million in FY2020, which includes $675 million in anticipated bond proceeds for debt the District plans to issue. The debt service fund is budgeted to receive $664.4 million in revenue from local, state and federal sources. The capital fund accounts for 9.9% of total proposed FY2020 resources and the debt service fund accounts for 8.8%.

CPS FY2020 Revenues and Resources by Fund Type (in $ millions)	General Operating	Capital	Debt Service	Total
Property Taxes	$ 3,073.8	$ 9.6	$ 51.1	$ 3,134.5
Replacement Tax	$ 151.0	$ -	$ 64.3	$ 215.3
Other Local Revenue	$ 197.8	$ 25.2	$ 142.3	$ 365.2
Subtotal Local Revenue	**$ 3,422.5**	**$ 34.8**	**$ 257.7**	**$ 3,715.0**
General State Aid/Evidence-Based Funding	$ 1,291.8	$ -	$ 382.0	$ 1,673.7
Other State Grants	$ 575.6	$ 32.4	$ -	$ 608.0
Subtotal State Revenue	**$ 1,867.4**	**$ 32.4**	**$ 382.0**	**$ 2,281.8**
Federal Revenue	$ 732.7	$ 10.1	$ 24.7	$ 767.5
Total Revenues	**$ 6,022.6**	**$ 77.2**	**$ 664.4**	**$ 6,764.2**
Other Financing Sources	$ -	$ 675.0	$ -	$ 675.0
TIF Surplus	$ 96.9	$ -	$ -	$ 96.9
Appropriated Fund Balance	$ 56.0	$ -	$ -	$ 56.0
Total Resources	**$ 6,175.5**	**$ 752.2**	**$ 664.4**	**$ 7,592.1**
Percent of Total	**81.3%**	**9.9%**	**8.8%**	

Source: CPS FY2020 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 9, 2019).

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 FY2016 to FY2020. In the two years between FY2019 and FY2020, the proposed FY2020 budget represents an 8.3% increase of $580.4 million from the FY2019 budget of $7.0 billion.

Total proposed resources in FY2020 are projected to increase by 9.0%, or $625.9 million, from the FY2016 budget of $7.0 billion. Over the five-year period, several revenue sources have increased significantly. Property tax revenue is projected to increase by 32.8%, or $774.7 million, from $2.4 billion in FY2016 to $3.1 billion in FY2020. General State Aid, which is now referred to as Evidence-Based Funding, also has increased significantly by 75.8%. However, this is partially offset by a reduction in other state revenue due to reclassifying some grants to be included in the evidence-based formula. Overall, state revenue is projected to increase by $85.2 million or 3.9%. Federal funding has decreased over the five-year period by 13.8% or $122.4 million.

Each funding source is discussed in additional detail below.

CPS Revenues and Resources All Funds by Source: FY2016-FY2020 (in $ millions)									
Source	**FY2016 Budget**	**FY2017 Amended**	**FY2018 Amended**	**FY2019 Budget**	**FY2020 Proposed**	**Two-Year $ Change**	**Two-Year % Change**	**Five-Year $ Change**	**Five-Year % Change**
Property Taxes	$ 2,359.8	$ 2,659.8	$ 2,909.4	$ 2,984.3	$ 3,134.5	$ 150.2	5.0%	$ 774.7	32.8%
Replacement Taxes	$ 207.8	$ 188.8	$ 148.7	$ 161.1	$ 215.3	$ 54.2	33.6%	$ 7.5	3.6%
Other Local Revenue*	$ 336.2	$ 310.6	$ 393.4	$ 364.4	$ 365.2	$ 0.9	0.2%	$ 29.0	8.6%
Subtotal Local Revenue	**$ 2,903.8**	**$ 3,159.2**	**$ 3,451.6**	**$ 3,509.7**	**$ 3,715.0**	**$ 205.2**	**5.8%**	**$ 811.1**	**27.9%**
General State Aid / Evidence-Based Funding	$ 952.2	$ 1,059.9	$ 1,546.2	$ 1,646.3	$ 1,673.7	$ 27.4	1.7%	$ 721.5	75.8%
Other State Revenue	$ 1,244.3	$ 827.2	$ 534.3	$ 546.1	$ 608.0	$ 61.9	11.3%	$ (636.3)	-51.1%
Subtotal State Revenue	**$ 2,196.5**	**$ 1,887.1**	**$ 2,080.5**	**$ 2,192.4**	**$ 2,281.8**	**$ 89.4**	**4.1%**	**$ 85.2**	**3.9%**
Federal Revenue	$ 889.9	$ 860.7	$ 813.4	$ 836.7	$ 767.5	$ (69.2)	-8.3%	$ (122.4)	-13.8%
Total Revenues	**$ 5,990.2**	**$ 5,907.0**	**$ 6,345.5**	**$ 6,538.8**	**$ 6,764.2**	**$ 225.4**	**3.4%**	**$ 774.0**	**12.9%**
Bond Proceeds	$ 849.5	$ 331.0	$ -	$ 388.0	$ 675.0	$ 287.0	74.0%	$ (174.5)	-20.5%
TIF Surplus	$ 87.2	$ 87.5	$ 22.3	$ 22.3	$ 96.9	$ 74.6	335.0%	$ 9.7	11.1%
Fund Balance Use / (Sources)	$ 79.2	$ 80.8	$ 57.8	$ 62.6	$ 56.0	$ (6.6)	-10.6%	$ (23.2)	-29.3%
Operating Transfers In/Out	$ (40.0)	$ 4.6	$ -	$ -	$ -	$ -	-	$ 40.0	-100.0%
Total Resources	**$ 6,966.2**	**$ 6,410.9**	**$ 6,425.5**	**$ 7,011.7**	**$ 7,592.1**	**$ 580.4**	**8.3%**	**$ 625.9**	**9.0%**

*Other Local Revenue includes interest income.

Note: CPS has classified TIF surplus as a local revenue and as other financing sources in the five years examined. For consistency, the Civic Federation has classified TIF Surplus separately under Resources.

Source: CPS Budget Interactive Online Reports FY2016-FY2020, Revenues & Expenditures, available at www.cps.edu.

Local Revenue

Local revenue is expected to total $3.7 billion in FY2020, which is an increase of 5.8% over the prior year budget and a 27.9% increase in the five-year period starting in FY2016. Local revenues consist of property tax, Personal Property Replacement Tax and other local revenue sources from the City of Chicago.

Property tax revenue will increase by 5.0%, or $150.2 million in the two-year period from FY2019 to FY2020. The increase is due to several factors. First, the District will increase its Education Fund property tax levy by 1.9%, which is the maximum increase allowed under the Property Tax Extension Law Limit (PTELL) based on the FY2019 inflation rate. This levy increase will account for an additional $39 million. Second, levying for new property will generate an additional $17 million in revenue. Third, the District will receive $67 million from the creation of a Transit TIF district in FY2018 for the Red-Purple Modernization rail project. Fourth, the District projects an additional $4 million from anticipated property assessment value growth of 2%.[37] Additionally, the pension levy for the Teachers' Pension Fund is expected to generate an additional $47.6 million over the prior year levy. These increases are partially offset

[37] CPS FY2020 Proposed Budget, pp. 19-20.

by a $30.1 million decrease in the property tax levy used for the debt service funds.[38] The property tax revenue changes projected from FY2019 to FY2020 are shown in the table below.

CPS Property Tax Revenue for All Funds: FY2019-FY2020 (in $ millions)				
	FY2019	FY2020	Two-Year $ Change	Two-Year % Change
General Education Fund	$ 2,051.6	$ 2,164.8	$ 113.2	5.5%
CTPF Pension Levy Fund	$ 429.5	$ 477.1	$ 47.6	11.1%
Workers Compensation/Tort Fund	$ 75.7	$ 78.7	$ 3.1	4.0%
Public Building Commission Fund	$ 342.6	$ 353.1	$ 10.5	3.1%
Subtotal General Operating Funds	**$ 2,899.4**	**$ 3,073.7**	**$ 174.4**	**6.0%**
Debt Service Funds	$ 81.2	$ 51.1	$ (30.1)	-37.1%
Capital Funds	$ 3.7	$ 9.6	$ 5.9	160.2%
Total	**$ 2,984.2**	**$ 3,134.4**	**$ 150.2**	**5.0%**

Source: CPS FY2019 Budget and FY2020 Proposed Budget, Interactive Online Reports, Revenues and Expenditures available at cps.edu.

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 $54.2 million, or 33.6%, from $161.1 million in FY2019 to $215.3 million in FY2020. The increase is primarily due to strong economic performance and increasing corporate profits, resulting in an increase in corporate income tax receipts.[39]

Other local revenues include City of Chicago pension contributions, donations, rental and fee revenues, intergovernmental agreements with the City of Chicago, interest income and other miscellaneous revenue sources.[40] Other local revenues are projected to remain fairly flat in FY2020 compared to the prior year. Over the five-year period starting in FY2016, other local revenue will increase by $29.0 million or 8.6%. Local revenue in FY2020 includes a $60.5 million contribution from the City of Chicago to cover the pension payment for non-teacher CPS employees who are part of the Municipal Employees Pension Fund.[41]

State Revenue

FY2020 will be the third 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 $2.3 billion in State funding in FY2020, compared to $2.2 billion in FY2019, an increase of $89.4 million, or 4.1%. 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.

[38] CPS FY2020 Proposed Budget, p. 20.
[39] CPS FY2020 Proposed Budget, pp. 22-23.
[40] CPS FY2020 Proposed Budget, Online Interactive Reports, Revenues and Expenditures, available at cps.edu.
[41] CPS FY2020 Proposed Budget, p. 24.

Prior to FY2018, the State of Illinois provided school district funding 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 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.[42]

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.[43] 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. CPS has an FY2020 adequacy target of $5.59 billion, which is equivalent to $15,531 per student. Based on currently available resources including State Evidence-Based Funding, property tax revenue and replacement tax revenue, CPS only has $3.66 billion, or 65.6% of needed resources. CPS would still need an additional $1.93 billion to meet its adequacy target. CPS will remain a Tier 1 school in FY2020 because its resource levels are below the 67.4% threshold, but the District notes it could become a Tier 2 school if enrollment and property value trends continue, meaning CPS could lose out on future Evidence-Based Funding increases above the base funding minimum in future years.[44]

The new formula required an increase of $350 million for allocation statewide to reach a Minimum Funding Level. The State of Illinois FY2020 budget appropriated $375 million for this purpose, but $50 million of that amount is dedicated to the Property Tax Relief Fund and $12.4 million is diverted to be included in the base funding minimum for Regional Offices of

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[42] 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.
[43] 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.
[44] CPS FY2020 Proposed Budget, pp. 25-26.

Education, leaving $312 million remaining for funding for all four tiers.[45] CPS will receive $64.3 million of this money in FY2020.

Public Act 100-0465 also included an ongoing State appropriation for the Chicago Teachers' Pension Fund (CTPF) to cover the normal cost, or the cost of future benefits earned annually by current employees, and other post-employment benefits (OPEB) for retirees. The normal cost and $65 million OPEB contribution from the State for the CTPF totals $245.5 million in FY2020. That combined with an additional $11.9 million in statutory State pension funding will result in a total State pension contribution of $257.4 million.[46] This is an increase of $18.5 million over the FY2019 budget.[47]

Federal Revenue

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.[48] Federal revenue has decreased by 13.8% in the five years since FY2016. It will decline by $69.2 million from the FY2019 adopted budget because of decreases in federal grants and the replacement of pre-K Head Start funding with state and local funding.[49]

Title I funds make up the majority of the District's federal funding and are calculated based upon Census data related to the number of children in poverty relative to other districts. In FY2020 CPS expects to receive Title I-A – Low Income funding, which is the largest grant received under the No Child Left Behind Act (now Every Student Succeeds Act), of $254.6 million including $26.4 million in allowable carryover funds.[50]

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 plans to generate $675.0 million in bond proceeds, an increase of $287.0 million, or 74.0%, from $388.0 million the prior year. The future bond proceeds will be used to cover capital expenses.

CPS is anticipating $96.9 million in TIF surplus revenues from the City of Chicago in FY2020 compared to $22.3 million budgeted in FY2019. TIF surplus is excess money remaining in a TIF fund after revenues have been pledged for 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. While the District budgeted for $22.3 million in TIF surplus in FY2019, the year-end estimate is actually $96.9 million due to a larger than expected surplus

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[45] CPS FY2020 Proposed Budget, p. 25.
[46] CPS FY2020 Proposed Budget, p. 34.
[47] CPS FY2020 Proposed Budget, p. 19.
[48] CPS FY2020 Proposed Budget, p. 28.
[49] CPS FY2020 Proposed Budget, p. 16.
[50] CPS FY2020 Proposed Budget, p. 28.

declared by the City of Chicago. TIF surplus is considered a one-time rather than a recurring source of revenue.

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 FY2020 the District plans to appropriate $56.0 million in general operating fund balance. However, as CPS notes in the proposed budget, this is comprised of unspent restricted prior year revenues from federal nutrition funding, State funding for early childhood, and school-generated revenue that must be used for specific purposes.[51]

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 2019 (payable in 2020), the tax cap law permits a 1.9% increase on existing property value for property tax funds subject to the law. 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.

The tax year 2019 extension is paid by taxpayers in calendar year 2020 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.[52] 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. Since 2012, the second installment tax bill has been due on August 1.

Property Tax Revenue Distribution

CPS expects its FY2020 property tax revenues to total $3.13 billion compared to $2.98 billion in the FY2019 adopted budget.[53] This represents an increase of $150.2 million, or 5.0%, over the prior year.

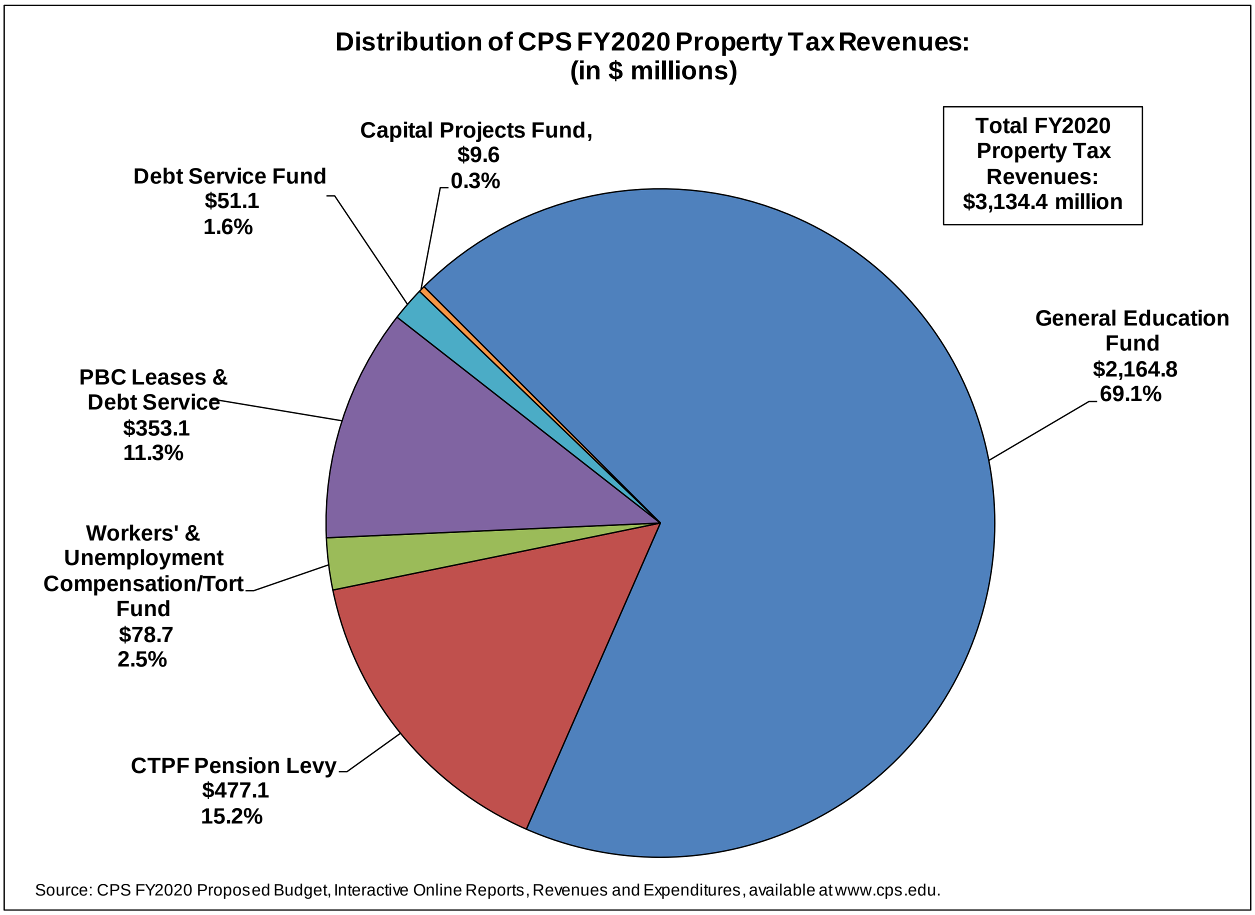
The following chart shows the allocation of projected FY2020 property tax revenues among the District's funds. The General Education Fund, Workers' Compensation/Tort Fund, Public Building Commission (PBC) Fund and Pension Levy Fund all fall within the District's general

[51] CPS FY2020 Proposed Budget, p. 181.
[52] 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.
[53] CPS FY2020 Proposed Budget, p. 17.

operating funds.[54] The majority of FY2020 property tax revenue, 69.1%, or $2.2 billion will be distributed to the General Education Fund.

The Chicago Teachers' Pension Fund property tax levy will account for 15.2%, or $477.1 million, of property tax revenue in FY2020. A dedicated property tax levy to fund teacher pensions was reinstated in FY2017 at a tax rate of 0.383%. CPS 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.

CPS will designate $353.1 million, or 11.3%, of property tax revenue to the Public Building Commission Fund for PBC leases and debt service payments; $78.7 million, or 2.5%, to the Workers' and Unemployment Compensation/Tort Fund; $51.1 million, or 1.6%, to the Debt Service Fund; and $9.6 million, or 0.3%, to the Capital Projects Fund.



[54] 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) and the Building Operations and Maintenance Fund, and the Special Revenue Funds which include the Supplemental General State Aid Fund, Workers' and Unemployment Compensation/Tort Fund, School Lunch Funds and Federal and State Grant Funds.

Trend in Property Tax Revenue

The next table presents CPS' property tax revenues from FY1991 through FY2020. Figures for FY1991 through FY2018 are actual property tax revenues received based on the most recent audited data available, while FY2019 figures are year-end estimates and FY2020 figures are proposed.

Between FY1991 and FY2020, property tax revenues are projected to increase by 272.1%, or $2.3 billion, from $842.3 million in FY1991 to $3.1 billion in FY2020. Over the 25-year period between FY1996, the first fiscal year that the tax cap law could limit CPS property tax revenues, and FY2020, the compound annual growth rate of revenues is 3.8%. The average annual growth rate is 4.0%.

In FY2017 CPS saw an increase in property tax revenue of 12.7% over the prior year due to the reinstatement of the District's dedicated pension levy. The District estimated this would allow it to capture $250.0 million in new revenue to fund the Chicago Teachers' Pension Fund outside of PTELL.[55] In FY2020 the District estimates that the pension levy will generate approximately

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

$477 million in property tax revenue.[56] The estimated property tax revenue for year-end FY2020 is a 3.2% increase over FY2019 estimated revenue levels.

CPS Property Tax Revenue: FY1991-FY2020 (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 Estimated	$ 3,037,800	$ 139,930	4.8%
FY2020 Proposed	$ 3,134,511	$ 96,711	3.2%

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

Source: CPS Comprehensive Annual Financial Reports, FY2018, pp. 124-125; FY2017, pp.114-115; FY2007, pp. 92-93; FY1999, pp. 80-81; and CPS FY2020 Proposed Budget, p. 17.

[56] CPS FY2020 Proposed Budget, Interactive Online Reports, Revenues and Expenditures, available at cps.edu/budget.

Trend in Property Tax Extension

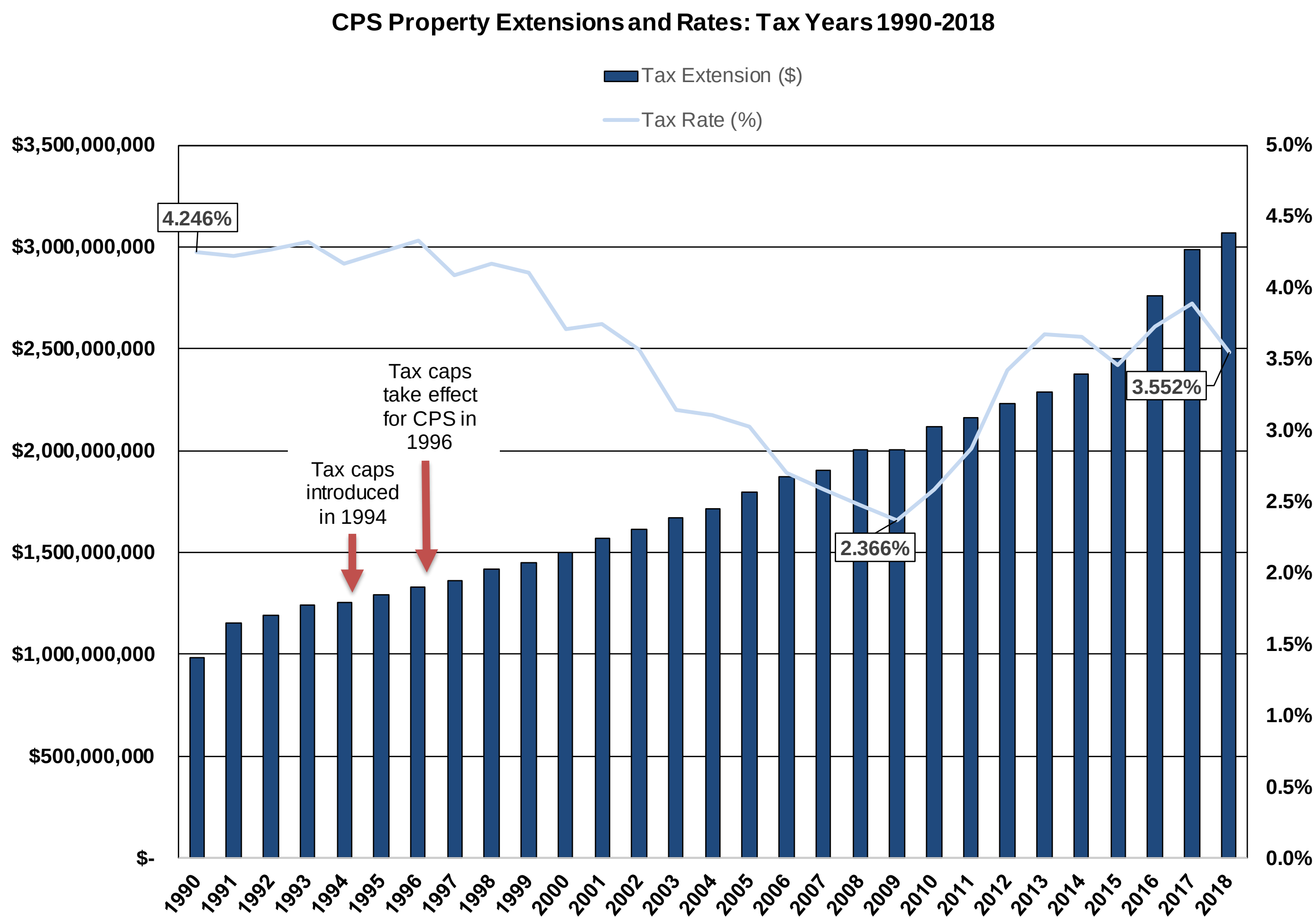
Property tax years are the same as calendar years, while the CPS fiscal year runs July 1 to June 30. There is also a one-year lag in Cook County between when property taxes are levied and when they are collected. For example, taxes levied in 2019 will actually be received in 2020. Previous to a change in the District's revenue recognition period in FY2015, CPS' property tax revenue was drawn from two separate tax years. However, since the District now counts revenue collected 60 days after the end of its fiscal year on June 30 as revenue for the previous year, CPS now receives the majority of both installments in the same fiscal year. The District's upcoming FY2020 property tax revenue will be drawn from the first and second installments of the 2019 tax year payments in March and August.

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.[57] 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.[58]

The following graph illustrates the increase in CPS property tax extensions between tax year 1990 (payable in 1991) and tax year 2018 (payable in 2019) and the change in tax rates during that period. Tax year 2018 is the most recent year for which tax extension and rate data are available from the Cook County Clerk. 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 $3.1 billion in tax year 2018. 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, and 2.7% in tax year 2018.

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 (rate = 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 3.552% in tax year 2018.

[57] 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.
[58] 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 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.[59] 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.[60] More importantly, the revenue recognition policy was used as an accounting mechanism to close the budget gap in FY2015.

APPROPRIATIONS

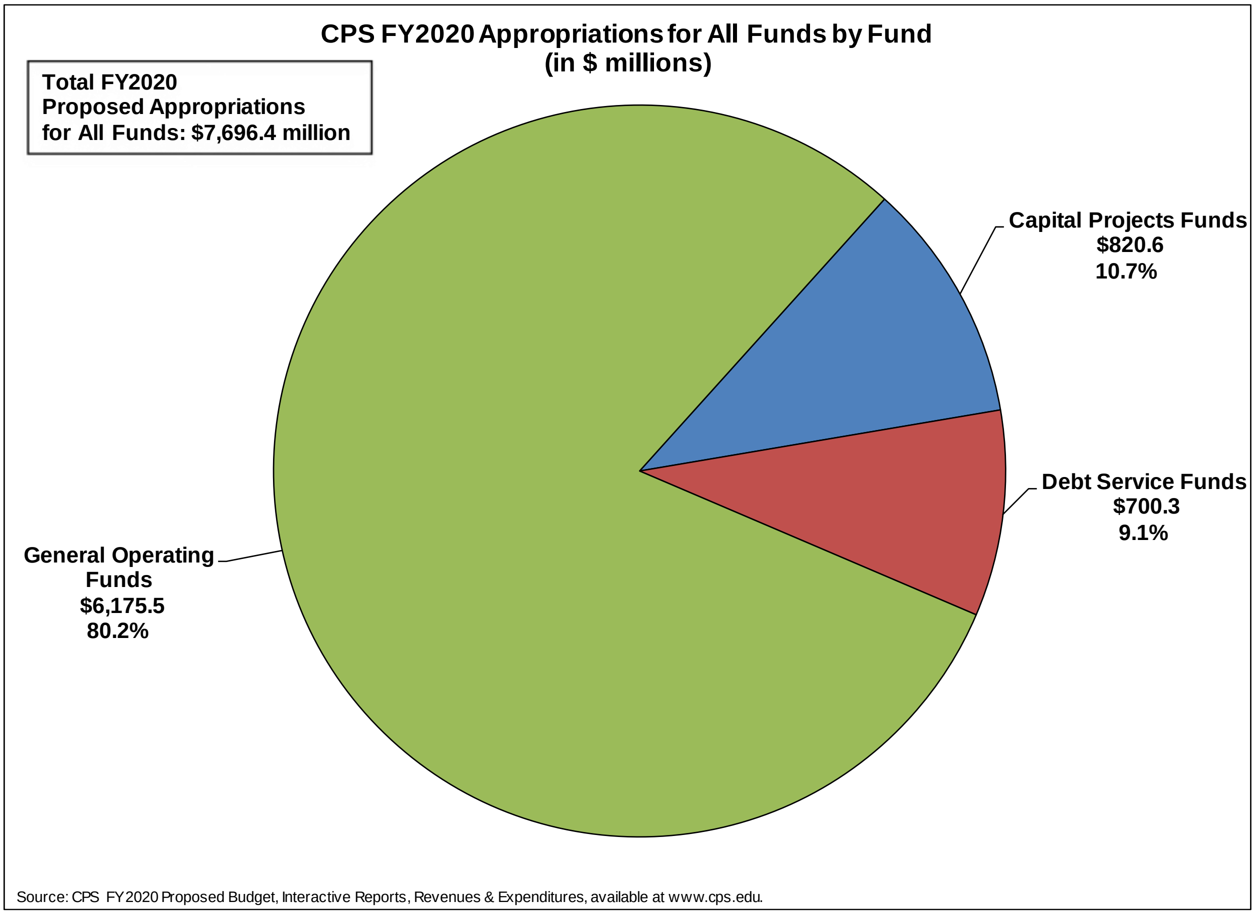
This section presents an analysis of CPS appropriation trends by source, type and location. The section includes two- and five-year appropriation trends for all funds and two- and five-year appropriation trends for general operating funds. Proposed FY2020 appropriations are compared with FY2019 adopted appropriations, FY2018 and FY2017 amended appropriations, and FY2016 adopted appropriations.

Total Appropriations for All Funds in FY2020

The following chart shows total FY2020 proposed appropriations for all funds. The Chicago Public Schools' FY2020 Proposed Budget of $7.7 billion consists of appropriations of approximately $6.2 billion in the General Operating Funds, $820.6 million in the Capital Projects Funds and $700.3 million in the Debt Service Funds. The General Operating Funds represent 80.2% of the total budget, the Capital Projects Funds represent 10.7% and the Debt Service

[59] CPS FY2019 Adopted Budget, p. 217.
[60] CPS FY2015 Adopted Budget, pp. 9-10.

Funds represent 9.1% 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 used for instructional, professional, maintenance and administrative activities. The Special Revenue Funds receive revenues that are legally required to be expended only for specific purposes such as school breakfast and lunch programs and other grant funds. The Capital Projects Funds are for the acquisition and construction of capital facilities or equipment. The Debt Service Funds are for the payment of principal and interest on long-term debt.[61]

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

The FY2020 proposed budget of $7.7 billion is an increase of 1.5%, or $116.3 million, from the FY2019 adopted budget of $7.6 billion. Appropriations for the General Operating Funds will increase by 3.2%, or $191.3 million, above the FY2019 adopted budget. The $191.3 million increase in the General Operating Funds is primarily due to a $135.8 million increase in salaries and a $66.5 million increase in benefits. The Capital Projects Funds will decrease by $168.4 million, or 17.0%, over the two-year period, from $989.0 million to $820.6 million. The FY2020

[61] CPS FY2020 Proposed Budget, Appendix E – Glossary.

Capital Projects Funds is budgeted to cover critical facility needs, interior improvements, educational programs, site improvements and IT and security upgrades.[62] The Debt Service Funds will increase by 15.4%, or $93.4 million, over the two-year period to $700.3 million in FY2020. The increase in debt service is primarily for increased payments due on alternate bonds, capital improvement tax bonds and Public Building Commission bonds.[63]

Over the five-year period, total appropriations for all funds will increase by $1.3 billion, or 20.1%, from $6.4 billion in the FY2016 adopted budget to approximately $7.7 billion in the FY2020 proposed budget. The Capital Projects Funds will see the largest dollar and percentage increase over the five-year period, increasing by $643.0 million, or 362.2%, from $177.6 million to $820.6 million. Appropriations for the General Operating Funds will increase by $483.7 million, or 8.5%, above the FY2016 adopted budget. The Debt Service Funds will increase by $161.7 million, or 30.0%, over the five-year period.

CPS Appropriations for All Funds by Fund: FY2016-FY2020
(in $ millions)

Fund Type	FY2016 Adopted	FY2017 Amended	FY2018 Amended	FY2019 Adopted	FY2020 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
General Operating Funds	$ 5,691.8	$ 5,411.1	$ 5,699.3	$ 5,984.2	$ 6,175.5	$ 191.3	3.2%	$ 483.7	8.5%
Capital Projects Funds	$ 177.6	$ 337.5	$ 136.2	$ 989.0	$ 820.6	$ (168.4)	-17.0%	$ 643.0	362.2%
Debt Service Funds	$ 538.6	$ 563.7	$ 576.9	$ 606.9	$ 700.3	$ 93.4	15.4%	$ 161.7	30.0%
Total Appropriation	**$ 6,408.0**	**$ 6,312.3**	**$ 6,412.4**	**$ 7,580.1**	**$ 7,696.4**	**$ 116.3**	**1.5%**	**$ 1,288.4**	**20.1%**

Note: Due to rounding, minimal differences may occur in totaling rows and columns.
Source: Source: CPS FY2016-FY2020 Interactive Budget Reports, Revenues & Expenditures, available at www.cps.edu.

The chart below shows a trend analysis of appropriations for all funds by type of expense for the FY2020 proposed budget, FY2019 adopted budget, FY2018 and FY2017 amended budgets, and FY2016 adopted budget. Appropriations for salaries will see the largest dollar increase, rising by $135.8 million, or 5.4%, from $2.5 billion in FY2019 to $2.6 billion in FY2020 as the District plans to increase the number of full-time equivalent employees by 930.4. The increase in salaries includes a 2.5% cost-of-living-adjustment.[64] Appropriations for salaries and benefits collectively will increase by $202.3 million between FY2019 and FY2020. Contingencies will decrease by $35.7 million, or 9.6%, over the two-year period. It is important to note that funds held in contingency are often transferred and spent on salaries and benefits throughout the school year.[65] Contingencies include funding that has been budgeted but has yet to be allocated and grant funding that has yet to be confirmed or allocated to a specific school or program.[66] Spending on Equipment will see the largest dollar and percentage decline over the two-year period between FY2019 and FY2020. This is due to higher-than-budgeted spending in FY2019 to provide uniform technology within classrooms. Equipment spending increases during the school year as schools transfer funds into the equipment account from other areas of their budgets.[67] Contract spending will increase by $29.9 million, or 2.3%, over the two-year period.

Over the five-year period between FY2016 and FY2020, appropriations for all funds will increase by $1.3 billion or 20.1%. The largest dollar and percentage increase over the five-year

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[62] CPS FY2020 Proposed Budget, p. 10.
[63] CPS FY2020 Proposed Budget, p. 165.
[64] Information provided by Chicago Public Schools on August 19, 2019.
[65] CPS FY2020 Proposed Budget, pp. 14-15.
[66] CPS FY2020 Proposed Budget, p. 15.
[67] CPS FY2020 Proposed Budget, p. 15.

period by type is equipment, which is expected to increase by $634.0 million or 320.4%. This is primarily due to the District's FY2020 capital improvement program. The second largest dollar increase over the five-year period is benefit expenses, which are budgeted to increase by $185.3 million or 13.9%. The increase in benefits appropriations is primarily due to increased teacher pension contributions.[68] Appropriations for contracts will increase by $170.6 million, or 14.8%, over the five-year period beginning in FY2016. The increase is primarily due to the District outsourcing facility management services.[69] Spending for commodities will see the only decrease over the five-year period, dropping from $264.1 million in FY2016 to $241.1 million in FY2020.

CPS Appropriations for All Funds by Type: FY2016 - FY2020 (in $ millions)

	FY2016 Adopted	FY2017 Amended	FY2018 Amended	FY2019 Adopted	FY2020 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries	$ 2,554.7	$ 2,350.6	$ 2,410.0	$ 2,504.6	$ 2,640.3	$ 135.8	5.4%	$ 85.7	3.4%
Benefits	$ 1,332.5	$ 1,361.4	$ 1,400.2	$ 1,451.3	$ 1,517.8	$ 66.5	4.6%	$ 185.3	13.9%
Contracts	$ 1,153.9	$ 1,132.3	$ 1,223.8	$ 1,294.6	$ 1,324.5	$ 29.9	2.3%	$ 170.6	14.8%
Commodities	$ 264.1	$ 248.9	$ 242.8	$ 243.4	$ 241.1	$ (2.3)	-0.9%	$ (23.0)	-8.7%
Equipment	$ 197.9	$ 361.0	$ 152.4	$ 1,005.3	$ 831.9	$ (173.4)	-17.2%	$ 634.0	320.4%
Transportation	$ 100.1	$ 98.4	$ 106.7	$ 106.2	$ 107.5	$ 1.4	1.3%	$ 7.4	7.4%
Contingencies	$ 269.2	$ 198.9	$ 302.7	$ 370.5	$ 334.7	$ (35.7)	-9.6%	$ 65.6	24.4%
Debt	$ 535.6	$ 560.7	$ 573.9	$ 604.3	$ 698.5	$ 94.2	15.6%	$ 162.9	30.4%
Other	$ -	$ 0.001	$ 0.002	$ -	$ -	$ -	-	$ -	-
Total	**$ 6,408.0**	**$ 6,312.3**	**$ 6,412.4**	**$ 7,580.1**	**$ 7,696.4**	**$ 116.3**	**1.5%**	**$ 1,288.4**	**20.1%**

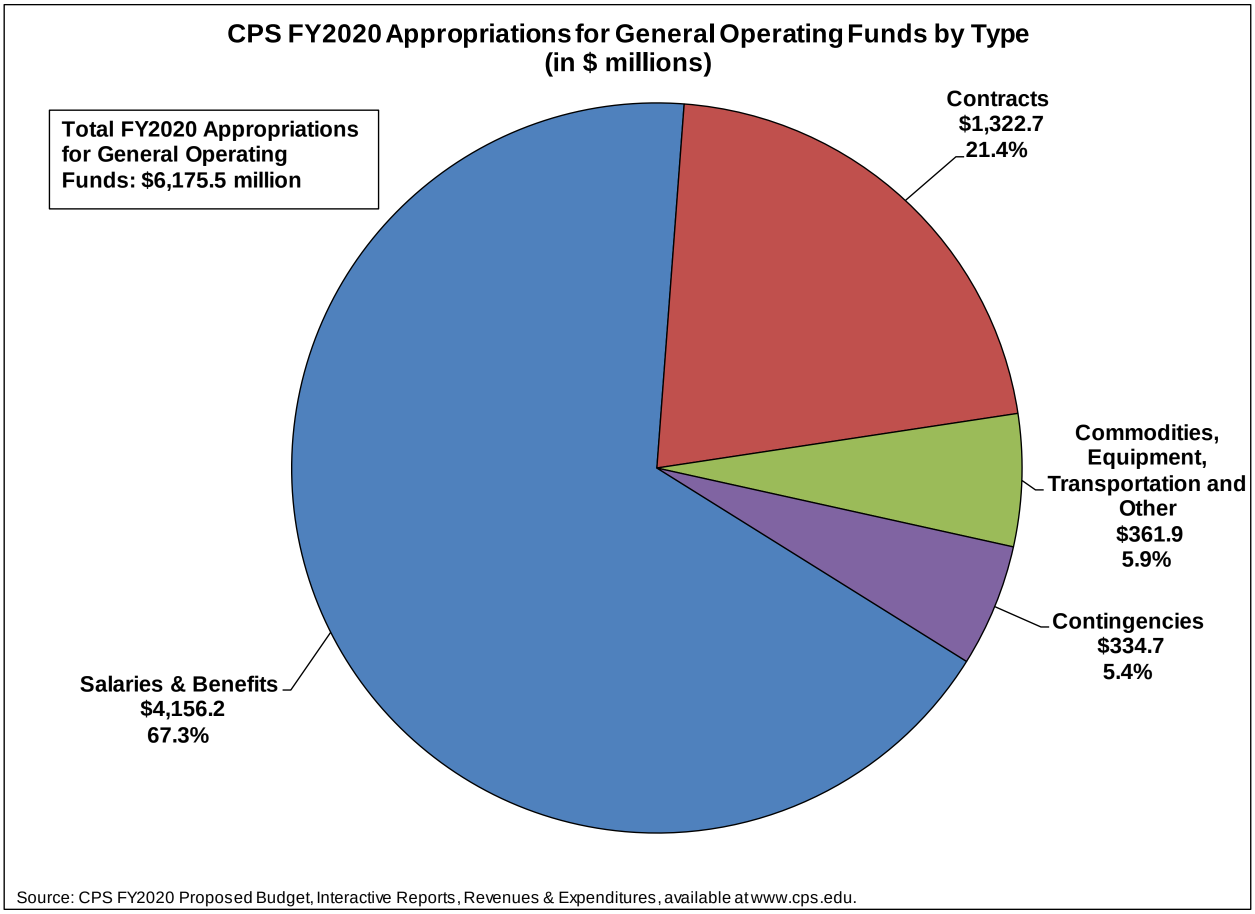
Note: Because of rounding, minimal differences may occur in totaling rows and columns.
Source: CPS FY2016-FY2020 Interactive Budget Reports, Revenues & Expenditures, available at www.cps.edu.

FY2020 Appropriations for General Operating Funds by Type

The chart below shows a breakdown of the proposed FY2020 General Operating Funds appropriations by type. The largest single portion is earmarked for salaries and benefits. Approximately 67.3% of the operating funds, or $4.2 billion, will be for teacher salaries, non-teacher salaries and employee benefits. Contracts, totaling approximately $1.3 billion, or 21.4%, of the total operating budget, include professional services and contractual payments to outside organizations that provide school support services as well as charter school tuition transfers. Some of the non-personnel service appropriations support compensation costs of persons who provide direct services to CPS but are not CPS employees, such as physical therapists and nurses and are included under contracts. Appropriations for commodities, equipment and transportation

[68] CPS FY2020 Proposed Budget, p. 38.
[69] CPS FY2018 Amended Budget, p. 25 and CPS FY2019 Adopted Budget, p. 16

make up $361.9 million, or 5.9%, of the operating budget, and contingencies account for $334.7 million, or 5.4%. Commodities include utilities, food, instructional supplies and other supplies.[70]

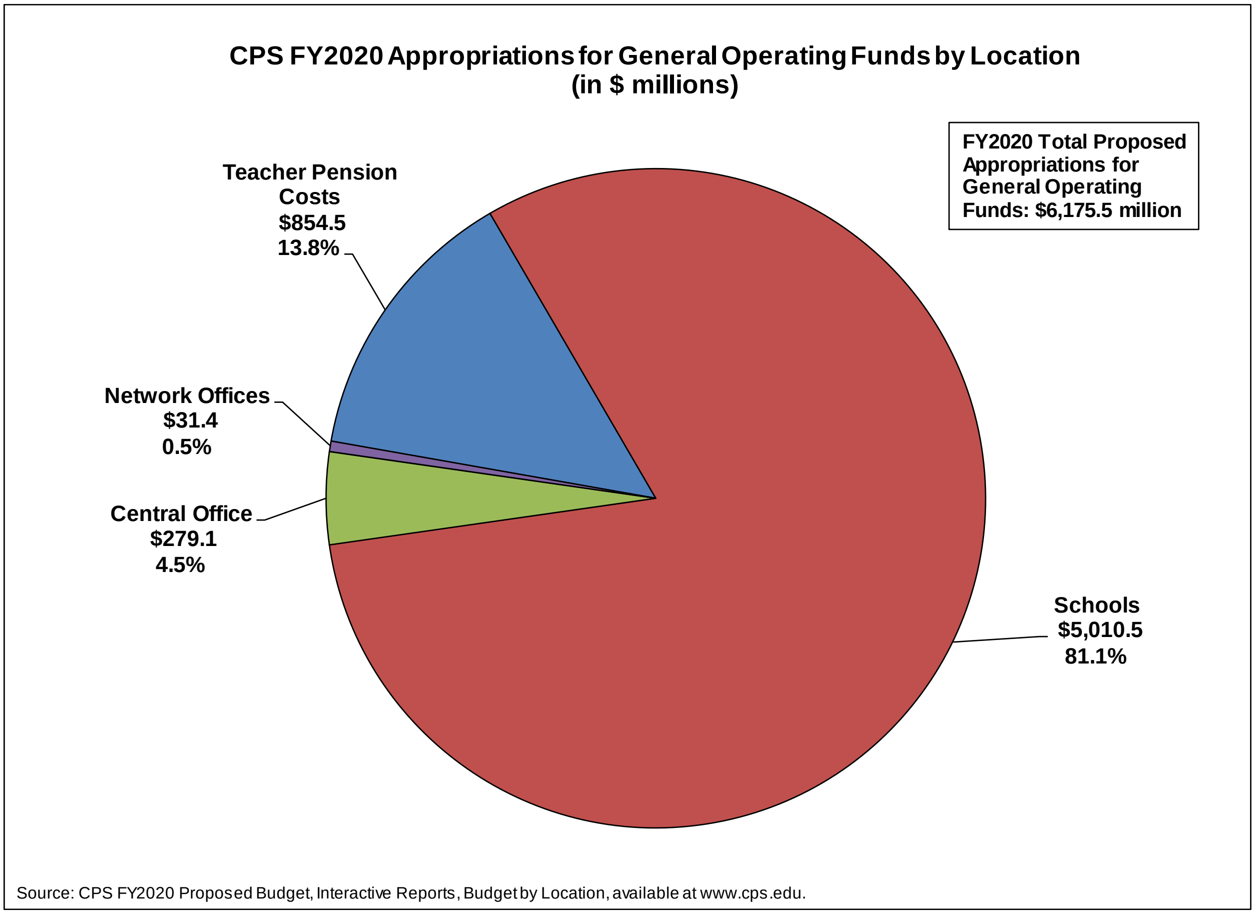


Appropriations for General Operating Funds by Location

The exhibit below shows the breakdown of proposed FY2020 General Operating Funds appropriations by location. School spending will compose 81.1% of operating appropriations, or $5.0 billion. This includes direct costs for CPS, charter and alternative schools. Approximately 13.8%, or $854.5 million, will be appropriated for teacher pension costs. Appropriations for Central Office will represent 4.5%, or $279.1 million, of general operating appropriations. Network Offices will compose $31.4 million, or 0.5% of general operating appropriations.

[70] CPS FY2020 Proposed Budget, p. 15.

Network Offices provide administrative support, strategic direction and leadership development to the schools within their network. There are a total of 17 networks within the District.[71]



The following chart compares two-year and five-year CPS budget trends by location.

Between FY2019 and FY2020 the General Operating Funds appropriations will increase by $191.3 million or 3.2%. School-based budget appropriations will increase by the largest dollar amount over the two-year period, rising by $105.6 million, or 2.2%, from $4.9 billion in FY2019 to just over $5.0 billion in FY2020. This is primarily due to increased funding from the State through the Evidence-Based Funding formula.

Appropriations for teacher pension costs will see the second largest increase, rising by $45.7 million, or 5.7%, over the two-year period. The increase is due to an increase in the required contributions to the fund. See the pension section on p. 55 for more information.

Network offices will see the largest percentage increase, rising by 25.3% or $6.4 million between FY2019 and FY2020. Appropriations for the Central Office are projected to increase by 13.7%, or $33.6 million, over the two-year period.

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[71] CPS FY2020 Proposed Budget, p. 48.

Over the five-year period between the FY2016 and FY2020, the General Operating Funds appropriations will increase by 8.5% or $483.7 million. Appropriations for schools will rise by 4.1% or $195.3 million. Central Office appropriations will increase by 82.3%, or $126.0 million, over the five-year period. Teacher pension costs will increase by 26.4%, or $178.6 million, over the five-year period.

CPS Appropriations for General Operating Funds by Location: FY2016-FY2020 (in $ millions)									
Location	FY2016 Approved	FY2017 Amended	FY2018 Amended	FY2019 Adopted	FY2020 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Teacher Pension Costs	$ 675.9	$ 721.0	$ 784.4	$ 808.8	$ 854.5	$ 45.7	5.7%	$ 178.6	26.4%
Schools	$ 4,815.2	$ 4,464.6	$ 4,777.9	$ 4,904.9	$ 5,010.5	$ 105.6	2.2%	$ 195.3	4.1%
Central Office	$ 153.1	$ 192.7	$ 113.3	$ 245.5	$ 279.1	$ 33.6	13.7%	$ 126.0	82.3%
Network Offices	$ 47.7	$ 32.7	$ 23.8	$ 25.1	$ 31.4	$ 6.4	25.3%	$ (16.2)	-34.0%
Total	**$ 5,691.8**	**$ 5,411.1**	**$ 5,699.3**	**$ 5,984.2**	**$ 6,175.5**	**$ 191.3**	**3.2%**	**$ 483.7**	**8.5%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns.
Source: CPS FY2016-FY2020 Interactive Budget Reports, Budget by Location, available at www.cps.edu.

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 set by the Government Finance Officers Association;
- 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 FY2019 and FY2020 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.[72] Prior to FY2011, CPS reported *unreserved* fund balance, or resources available for appropriation without any external legal restrictions or constraints.[73] 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."[74]

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

[72] 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.
[73] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009.
[74] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009 and GASB Statement No. 54, paragraph 5.

- *Nonspendable fund balance* – resources that inherently cannot be spent such as pre-paid rent or the long-term portion of loans receivable. In addition, this category includes resources that cannot be spent because of legal or contractual provisions, such as the principal of an endowment.
- *Restricted fund balance* – net fund resources subject to legal restrictions that are externally enforceable, including restrictions imposed by the constitution, creditors or laws and regulations of non-local governments.
- *Committed fund balance* – net fund resources with self-imposed limitations set at the highest level of decision-making which remain binding unless removed by the same action used to create the limitation.
- *Assigned fund balance* – the portion of fund balance reflecting the government's intended use of resources, with the intent established by government committees or officials in addition to the governing board. Appropriated fund balance, or the portion of existing fund balance used to fill the gap between appropriations and estimated revenues for the following year, would be categorized as assigned fund balance.
- *Unassigned fund balance* – in the General Fund, the remaining surplus of net resources after funds have been identified in the four categories above.[75]

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."[76] ***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."[77] 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.[78]

Audited Fund Balance Ratio: FY2011-FY2018

The table below presents the District's unrestricted fund balance for FY2011 through FY2018. The table begins with FY2011 because this was the first year in which CPS implemented the fund balance reporting changes of GASB 54 described above, and ends in FY2018 because it is the most recent year of audited financial information available.

[75] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009.
[76] GFOA, Fund Balance Guidelines for the General Fund (Adopted September 2015).
[77] GFOA, Fund Balance Guidelines for the General Fund (Adopted September 2015).
[78] GFOA, Fund Balance Guidelines for the General Fund (Adopted September 2015).

In FY2012 the unrestricted fund balance increased from 11.8% to 18.5% due primarily to timing shifts in property tax revenue receipts, which shifted approximately $350 million in revenue from FY2013 to FY2012.[79] The unrestricted fund balance fell significantly in subsequent years due to the fact that reserves were used to balance several budgets. The fund balance level fell to negative numbers in FY2016, and again in FY2017 due to an operating deficit caused in part by a decline in State funding and an increase in pension obligations.[80] The unrestricted fund balance was restored to a positive balance of $261.7 million in FY2018, or 4.7% of General Fund expenditures, due to an increase in revenues related to the new statewide Evidence-Based Funding formula law passed in 2017.[81]

CPS Unrestricted General Operating Fund Fund Balance Ratio: FY2011-FY2018

	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%

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; and FY2018, pp. 47 and 49.

CPS Stabilization Fund Balance Policy

Chicago Public Schools adopted a fund balance policy in FY2008[82] that 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 unreserved, designated (assigned) fund balance of a minimum of 5% and a maximum of 10% of the operating and debt service budgets for the new fiscal year as a stabilization fund in the General Fund when the budget is adopted.[83] If the stabilization fund falls below 5% of the upcoming operating and debt service budget, the Chief Financial Officer must present to the Board of Education a plan to replenish the reserves within twelve months. If restoration is not possible within twelve months, the Board must approve an extension of the restoration plan.[84]

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[79] CPS FY2012 Comprehensive Annual Financial Report, p. 12.
[80] CPS FY2017 Comprehensive Annual Financial Report, p. 8.
[81] CPS FY2018 Comprehensive Annual Financial Report, p. 13.
[82] Fund Balance and Budget Management Policy, Adopted August 27, 2008 through Board Report 08-0827-PO8. Found in Section 403.10 of the Chicago Public Schools Policy Manual, available at https://policy.cps.edu/download.aspx?ID=62 (last accessed August 8, 2019).
[83] CPS FY2020 Proposed Budget, p. 211.
[84] CPS FY2020 Proposed Budget, p. 211.

However, because the fund balance policy was adopted before the GASB 54 changes to fund balance reporting, the policy's terminology no longer matches the way fund balance is presented in the District's Comprehensive Annual Financial Reports.[85] Further, the way CPS refers to its operating fund balance does not correspond to the 2008 policy. CPS now considers its unrestricted fund balance to be the combined amounts of the "unassigned" portion of the General Operating Fund fund balance and the Debt Service Stabilization Fund.[86] In recent years, reporting of the Debt Service Stabilization Fund has been inconsistent. From FY2011 through FY2015 and in FY2018, the District's Balance Sheet for Governmental Funds included an amount "Assigned for Debt Service." In FY2016 and FY2017, the Balance Sheet for Governmental Funds did not include fund balance "Assigned for Debt Service," but did include an "unassigned" portion of fund balance.

The following table presents CPS' audited fund balance according to its own interpretation of fund balance from FY2011 (the first year in which the GASB 54 reporting changes took effect) through FY2018. The table shows the sum of unassigned General Operating Fund fund balance and the Debt Service Stabilization fund balance as a percentage of the total combined general operating and debt service expenditures for that same year. According to this measure, the District had a positive yet declining fund balance ratio from FY2011 through FY2015 and a negative balance in FY2016 and FY2017, which then returned to a positive balance in FY2018.

CPS Reserves in the General Operating and Debt Service Funds
Fund Balance Ratio: FY2011-FY2018

	Unassigned General Operating Fund Balance	Debt Service Stabilization Fund Balance	Unassigned General Operating + Debt Service Stabilization Fund Balance	General Operating + Debt Service Expenditures	Ratio
FY2011	$5,293,000	$231,413,000	$236,706,000	$5,242,049,000	4.5%
FY2012	$443,575,000	$254,967,000	$698,542,000	$5,262,822,000	13.3%
FY2013	$150,664,000	$269,176,000	$419,840,000	$5,336,779,000	7.9%
FY2014	$0	$193,877,000	$193,877,000	$5,918,035,000	3.3%
FY2015	$102,002,000	$57,057,000	$159,059,000	$6,153,859,000	2.6%
FY2016	($227,031,000)	($65,809,000)	($292,840,000)	$5,870,131,000	-5.0%
FY2017	($354,861,000)	($85,691,000)	($440,552,000)	$5,828,717,000	-7.6%
FY2018	$243,671,000	$341,000	$244,012,000	$6,134,311,000	4.0%

Note: The Debt Service Stabilization Fund balance for FY2011-FY2015 and FY2018 is categorized as "Assigned for Debt Service," whereas the Debt Service fund balance for FY2016 and FY2017 is categorized as "Unassigned."

Sources: CPS Comprehensive Annual Financial Reports FY2011-FY2018, Balance Sheet - Governmental Funds and Statement of Revenues, Expenditures and Net Changes in Fund Balances - Governmental Funds; and Information provided by the CPS Budget Office on July 12, 2018.

The Civic Federation urges CPS to revise the Board's fund balance policy to correspond with the updated terminology post-GASB 54 and with the District's current fund balance practices.

General Operating Reserves in FY2019 and FY2020

While the Comprehensive Annual Financial Reports only provide information about fund balance through FY2018, the CPS budget provides information about the District's projected fund balance levels in FY2019 and FY2020 for the total General Operating Fund. This includes not just the unrestricted portion of the operating fund balance discussed above, but all

[85] Fund balance is reported in the Balance Sheet – Governmental Funds.
[86] Information provided by the CPS Budget Office on July 12, 2018.

components of fund balance (nonspendable, restricted, committed, assigned and unassigned fund balance).

In FY2018 CPS ended the year with a General Operating Fund balance of $323.8 million. As shown in the table below, the District began FY2019 with the same balance. During the course of FY2019, the fund balance improved by $41.6 million due to $59 million in higher local and State revenues than anticipated, offset by $18 million in spending over budget.[87] This is projected to increase the District's FY2019 end of year General Operating Fund fund balance to $365.4 million.

CPS is budgeting for the use of $56.0 million in restricted operating fund balance in FY2020. This would result in a decrease in fund balance to an estimated $309.4 million by the end of FY2020, if there is not additional budget surplus or deficit. The FY2019 General Operating Fund fund balance target was $329.5 million, or 5.0% of the combined operating and debt service budgets,[88] which together totaled $6.6 billion. FY2019 would be the first year since FY2015 CPS has met its own fund balance target.[89]

CPS FY2020 Use of Total Operating Funds Fund Balance (in $ millions)	
FY2019 Beginning Balance	$ 323.8
FY2019 Estimated Sources / (Use)	$ 41.6
FY2019 Estimated End of Year Balance	**$ 365.4**
FY2020 Estimated Beginning Balance	$ 365.4
FY2020 Estimated Sources / (Use)	$ (56.0)
FY2020 Estimated End of Year Balance	**$ 309.4**

Source: CPS FY2020 Proposed Budget, p. 182.

[87] CPS FY2020 Proposed Budget, p. 181.
[88] CPS FY2020 Proposed Budget, p. 182.
[89] CPS FY2020 Proposed Budget, p. 182.

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.[90] Other governments rely on using their budgetary reserves during these periods of low cash flow. However, CPS has spent down its reserves in recent years in order to balance annual budgets and make pension payments without making budget cuts.[91] Without a sufficient fund balance for the District to draw on, this creates 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 slightly 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, which improved to a positive cash position for three months out of the year in FY2018 and a positive cash position for five months in FY2019.[92]

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),[93] 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,[94] $1.55 billion in FY2017,[95] $1.1 billion in FY2018[96] and $884 million in FY2019.[97] The District notes that reducing usage of TANs by $250 million from FY2018 to FY2019 saved $33 million in interest cost.[98]

In FY2020 CPS plans to issue TANs of a similar size to FY2019. The District is budgeting $12 million in interest costs for the TANs in FY2020, compared to $21 million in interest in FY2019, $68 million in FY2018 and $34 million in FY2017.[99]

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90 CPS FY2020 Proposed Budget, pp. 177-179.
91 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.
92 CPS FY2020 Proposed Budget, p. 179; and CPS FY2019 Adopted Budget, p. 180.
93 TANs are backed by anticipated property tax revenues.
94 CPS FY2017 Budget, p. 173.
95 CPS FY2019 Budget, p. 179.
96 CPS FY2019 Budget, p. 179.
97 CPS FY2020 Proposed Budget, p.177.
98 CPS FY2020 Proposed Budget, p.177.
99 CPS FY2020 Proposed Budget, p. 178; and CPS FY2019 Budget, p. 179.

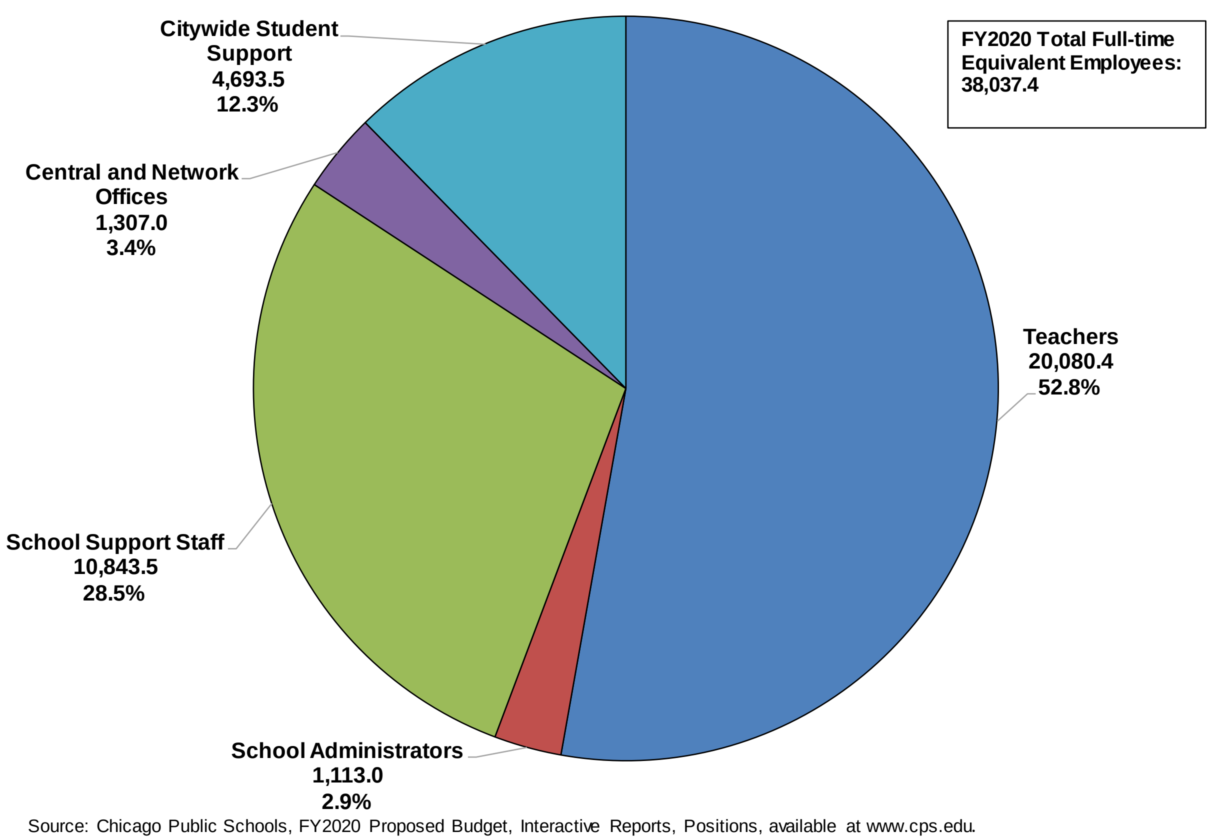
PERSONNEL

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 FY2020 proposed budget to the FY2016 through FY2019 approved and amended budgets and actual budgets when available.

FY2020 Proposed Budget FTE Positions by Type

The chart below provides a breakdown of the full-time equivalent employees in the FY2020 proposed budget. The District is proposing to increase the number of full-time equivalent employees by 930.4 FTEs, from 37,107.0 FTEs in FY2019 to 38,037.4 FTEs in FY2020. Teachers will make up 52.8% of the workforce, or 20,080.4 FTEs. School Support Staff will compose the second largest type of position by type at 28.5%, or 10,843.5 FTEs. Citywide Student Support will compose 12.3% of the workforce, or 4,693.5 FTEs. School Administrators, which include principals and assistant principals, will compose 2.9% of the workforce, totaling 1,130.0 FTEs. Central Office and Network Offices staff will compose 3.4% of the workforce or 1,307.0 FTEs.

Chicago Public Schools Proposed Budget FTE Positions by Type: FY2020



Source: Chicago Public Schools, FY2020 Proposed Budget, Interactive Reports, Positions, available at www.cps.edu.

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

Between FY2019 and FY2020 the District's FTE position count will increase by 930.4 FTEs or 2.5%. Over the two-year period, the largest increase in the number of FTEs will be School Support Staff, which will rise by 397.5 FTEs or 3.8%. The increase in School Support Staff includes 270 new special education classroom assistants, as well as additional increases for teacher assistants, lunchroom and security staff and other positions.[100] During the same period, the number of full-time equivalent employees in Central and Network Officers will increase 13.0% or 150.0 FTEs. Citywide Student Support FTEs will increase by 1.8% or 81.5 FTEs. The number of full-time equivalent Teachers will increase by 1.3%, or 249.4 FTEs, over the two-year period.

Over the five-year period beginning in FY2016, total FTE positions for the District will decrease by 0.8%, or 321.6 FTEs. Citywide student support staff will decrease by 577.5 FTEs. Teachers will decrease by 680.0 FTEs, or 3.3%, over the five-year period. School Support Staff will increase by 743.9 FTEs or 7.4%. The number of FTE employees in Central and Network Offices will increase by 7.8% or 95.0 FTEs.

Chicago Public Schools Full-Time Equivalent (FTE) Positions By Type
FY2016-FY2020

	FY2016 Approved	FY2017 Amended	FY2018 Amended	FY2019 Adopted	FY2020 Proposed	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Teachers	20,760.4	20,013.3	19,592.5	19,831.0	20,080.4	249.4	1.3%	-680.0	-3.3%
School Administrators	1,016.0	968.0	969.0	1,062.0	1,113.0	51.0	4.8%	97.0	9.5%
School Support Staff	10,099.6	10,249.0	10,105.5	10,446.0	10,843.5	397.5	3.8%	743.9	7.4%
Central and Network Offices	1,212.0	991.1	988.4	1,157.0	1,307.0	150.0	13.0%	95.0	7.8%
Citywide Student Support	5,271.0	4,866.0	4,855.5	4,612.0	4,693.5	81.5	1.8%	-577.5	-11.0%
Total	**38,359.0**	**37,087.4**	**36,510.9**	**37,107.0**	**38,037.4**	**930.4**	**2.5%**	**-321.6**	**-0.8%**

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: FY2016-FY2020 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 FY2019 and FY2020 CPS total compensation costs are expected to increase by $202.4 million, or 5.1%. Salaries, which constitute 63.5% of all employee compensation, will increase by $135.8 million, or 5.4%, over the two-year period. Benefit costs, which include pensions, health and dental insurance, unemployment compensation and payroll tax contributions for Social Security[101] and Medicare, will increase by 4.6%, or $66.6 million, in FY2020. The vast majority of this increase can be attributed to a $45.7 million net increase in the CPS contribution toward the Chicago Teachers Pension Fund in FY2020.

The District's $980.8 million total contribution toward teacher pensions in FY2020 includes a required employer contribution of $854.5 million and a 7.0% pension pick-up of the 9.0% annual employee contributions for unionized teaching positions, which totals $126.3 million for FY2020.[102] In FY2019 the State contributed a total of $238.9 million for the annual cost of

[100] Information provided by Chicago Public Schools, August 22, 2019.
[101] Non-teaching staff contribute to Social Security.
[102] For more information on pensions see p. 55.

Chicago teachers' pensions.[103] In FY2020 the State will contribute a total of $257.3 million to help cover the CPS required employer pension contribution and OPEB expenses.

Over the five-year period between FY2016 to FY2020, total compensation costs will increase by 9.3% or $354.1 million. Appropriations for teacher and non-teacher salaries will increase by $163.3 million or 6.6%. Appropriations for employee benefits will increase by 14.4%, or $190.8 million, between FY2016 and FY2020, rising from $1.3 billion to $1.5 billion.

Between FY2016 and FY2020 the increase in benefit costs is driven primarily by a $169.8 million, or 20.9%, increase in required employer teacher pension contributions. CPS also picked up 7.0% 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 pension pick-up decreased from 7.0% to 5.0% in FY2016 and then to 3.0% in FY2017. In FY2018 the District completely phased out this practice, and non-union employees now contribute the full employee portion toward their pensions.[104] In addition, new teachers hired on or after January 1, 2017 are no longer eligible for the pension pick-up per the new Chicago Teachers Union contract. The District still picks up 7.0% of the 8.5% employee contribution from union member non-teacher participants in the Municipal Fund, which is budgeted at $35.0 million in FY2020.

CPS Personnel Appropriations for General Operating Funds by Type: FY2016-FY2020 (in $ millions)

	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Adopted	FY2020 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries									
Teacher Salaries	$ 1,869.7	$ 1,815.3	$ 1,841.3	$ 1,926.9	$ 2,012.8	$ 86.0	4.5%	$ 143.1	7.7%
Ed. Support Salaries	$ 605.8	$ 581.7	$ 595.5	$ 576.2	$ 626.0	$ 49.8	8.6%	$ 20.2	3.3%
Total Salaries	**$ 2,475.5**	**$ 2,397.0**	**$ 2,436.8**	**$ 2,503.1**	**$ 2,638.8**	**$ 135.8**	**5.4%**	**$ 163.3**	**6.6%**
Employee Benefits									
Teacher Pension Employer Portion	$ 688.0	$ 733.2	$ 551.4	$ 808.8	$ 854.5	$ 45.7	5.7%	$ 166.5	24.2%
Teacher Pension Pickup*	$ 123.1	$ 119.2	$ 116.3	$ 125.8	$ 126.3	$ 0.5	0.4%	$ 3.3	2.7%
Total Teacher Pensions	**$ 811.0**	**$ 852.4**	**$ 667.7**	**$ 934.6**	**$ 980.8**	**$ 46.3**	**5.0%**	**$ 169.8**	**20.9%**
Ed. Support Pension Employer Portion	$ 67.2	$ 65.5	$ 81.1	$ 58.1	$ 62.6	$ 4.5	7.7%	$ (4.5)	-6.7%
Ed. Support Pension Pickup*	$ 35.8	$ 34.0	$ 32.9	$ 33.7	$ 35.0	$ 1.3	4.0%	$ (0.8)	-2.1%
Total Ed. Support Pension	**$ 102.9**	**$ 99.5**	**$ 114.0**	**$ 91.8**	**$ 97.6**	**$ 5.8**	**6.4%**	**$ (5.3)**	**-5.1%**
Hospitalization/Other Comp.	$ 348.1	$ 306.9	$ 319.3	$ 356.2	$ 368.3	$ 12.2	3.4%	$ 20.3	5.8%
Unemployment Compensation	$ 9.4	$ 7.0	$ 6.6	$ 9.0	$ 9.0	$ (0.0)	0.0%	$ (0.4)	-4.6%
Medicare/Social Security	$ 34.8	$ 33.7	$ 34.6	$ 37.3	$ 39.6	$ 2.3	6.2%	$ 4.8	13.7%
Workers' Compensation	$ 20.3	$ 20.5	$ 23.5	$ 22.0	$ 22.0	$ -	0.0%	$ 1.7	8.2%
Total Employee Benefits	**$ 1,326.6**	**$ 1,320.0**	**$ 1,165.8**	**$ 1,450.8**	**$ 1,517.4**	**$ 66.6**	**4.6%**	**$ 190.8**	**14.4%**
Total Compensation	**$ 3,802.1**	**$ 3,717.0**	**$ 3,602.6**	**$ 3,953.9**	**$ 4,156.2**	**$ 202.4**	**5.1%**	**$ 354.1**	**9.3%**

*CPS "picks up" 7% of the 9% annual employee pension contribution for teachers and other affiliated employees hired before January 1, 2017, meaning it pays 7% of the employee 9% contribution on behalf of the employees. However, those teachers and other afilliated employees hired after January 1, 2017 are not eligible for the pick up as a result of the collective bargaining agreement ratified on October 10, 2016. CPS also used to pick up 7% of the 8.5% employee contribution for non-teacher 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, FY2019-FY2020, Revenues & Expenditures, available at www.cps.edu; CPS FY2016 CAFR, pp. 70,71, 74 and 87; CPS FY2017 CAFR, pp. 74, 78 and 89; and CPS FY2018 CAFR, pp. 83, 88 and 99.

[103] CPS FY2019 Proposed Budget, p. 10.
[104] CPS FY2017 Proposed Budget, p. 6.

ENROLLMENT

The FY2020 budget is based on 20th day enrollments for each school during the 2018-2019 school year. Originally, CPS used enrollment projections for the upcoming year to determine its budget; that practice was last used for the FY2018 proposed budget. Because of this change in policy, schools that experience enrollment decline in the fall will not see a budget reduction. Schools with enrollment increases will receive additional funding to compensate for growing student population.[105]

As the table below indicates, CPS has experienced a decrease in student enrollment of 35,369 over the last five years. This is a decline of 8.9% from FY2015 to FY2019. CPS does not provide a reason for this decrease, although it has cited lower birth rates as one possible factor in previous years.[106]

Over the five-year period from FY2015 to FY2019, preschool enrollment has dropped by 5,205 students or 22.8%. Despite a 9.1% drop in preschool enrollment between FY2018 and FY2019, CPS plans to expand its free, full-day preschool program by 123 classrooms in FY2020.[107]

Student enrollment declines are less severe for elementary and high schools. Elementary school enrollment decreased by 9.2%, or 24,024 students, over this five-year period. High school enrollment declined by 5.5% or 6,140 students.

CPS Student Enrollment: FY2015-FY2019

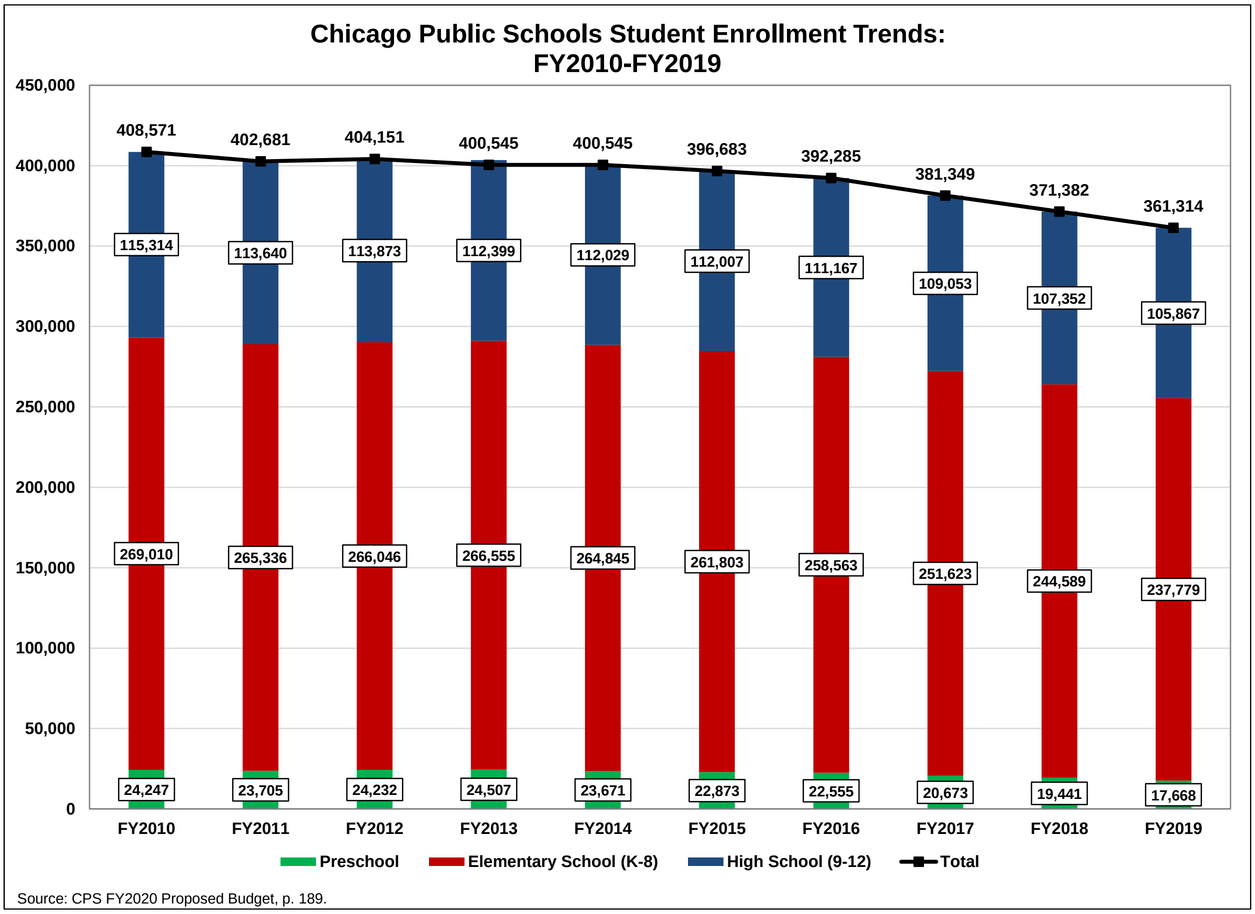
	FY2015	FY2016	FY2017	FY2018	FY2019	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Preschool	22,873	22,555	20,673	19,441	17,668	(1,773)	-9.1%	(5,205)	-22.8%
Elementary School (K-8)	261,803	258,563	251,623	244,589	237,779	(6,810)	-2.8%	(24,024)	-9.2%
High School (9-12)	112,007	111,167	109,053	107,352	105,867	(1,485)	-1.4%	(6,140)	-5.5%
Total	**396,683**	**392,285**	**381,349**	**371,382**	**361,314**	**(10,068)**	**-2.7%**	**(35,369)**	**-8.9%**

Source: CPS FY2020 Proposed Budget, p. 189.

Enrollment at CPS has been shrinking for longer than the last five years. The chart below details an 11.6% decrease overall—47,257 fewer students—over the ten-year period from FY2010 to FY2019. Enrollment declines were gradual through FY2016, with annual declines of under 2.0%, followed by a larger drop in FY2017 when overall enrollment dropped from 392,285 to 381, 349, a loss of 10,936 students, or 2.8%.

[105] Chicago Public Schools FY2020 Proposed Budget, p. 39
[106] Chicago Public Schools FY2019 Proposed Budget, p. 189
[107] Chicago Public Schools FY2020 Proposed Budget, p. 46.

Over this 10-year period, preschool enrollment declined by 6,579 students, or a rate of 27.1%. Elementary school enrollment decreased by 31,231 students, or 11.6%. High school enrollment decreased by 9,447 students, or 8.2%.



Preliminary enrollment projections for the 2019-2020 school year (FY2020) show that total CPS enrollment is expected to continue declining to 353,360 students. Preschool enrollment is expected to increase from FY2019 to by 3.8% to 18,340, while K-8 enrollment is projected to decrease by 2.9% to 230,858 and high school enrollment is projected to decrease by 1.6% to 104,162. Overall, a 2.2% decrease from last year is projected in FY2020.

MUNICIPAL EMPLOYEES' PENSION FUND

Eligible non-teaching employees of CPS participate in the City of Chicago's Municipal Employees' Annuity and Benefit Fund.[108] As of December 31, 2017, approximately 16,721, or 54.1%, of the 30,922 active Municipal Fund members were CPS employees.[109]

The employer contribution for CPS employees participating in the Municipal Fund is made by the City of Chicago, not by CPS. 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.[110] CPS estimates that the FY2020 Municipal Fund contribution from the City (recorded as revenue) will be nearly $60.5 million.[111]

CPS does make some contributions to the Municipal Fund on behalf of its employees. For union employees, CPS "picks up" 7 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 FY2020 cost for the non-teacher union employee pick-up is approximately $35.1 million and is part of the District's budgeted pension appropriation.[112] The District additionally reimburses the City for the employer pick-up of employees funded by federal grants; this reimbursement is budgeted at $2.3 million in FY2020.[113]

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.[114] 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.[115] The next section focuses on the Chicago Teachers' Pension Fund.

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[108] 40 ILCS 5/8-110.
[109] Chicago Public Schools FY2018 Comprehensive Annual Financial Report, p. 87.
[110] City of Chicago FY2018 Budget Overview, p. 36. In the City's FY2012 budget, the City included reimbursement from CPS for part of the statutory employer contribution the City made for CPS employees participating in the Municipal Fund. The reimbursement amount proposed for FY2012 was $32.5 million, but has been postponed indefinitely given the District's ongoing financial difficulties.
[111] CPS FY2020 Proposed Budget, p. 24 and Interactive Proposed Budget, Revenues and Expenditures, available at cps.edu/budget.
[112] CPS FY2020 Interactive Proposed Budget, Revenues and Expenditures, available at cps.edu/budget.
[113] CPS FY2020 Interactive Proposed Budget, Revenues and Expenditures, available at cps.edu/budget.
[114] Public Act 100-0023. See also http://www.meabf.org/legislature for more information about the legislation.
[115] 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 (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 FY2018, which ended on June 30, 2018.

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.[116] Plan benefits and contributions can only be amended through state legislation.[117]

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.[118]

Membership

In FY2018 the Teachers' Pension Fund had 57,507 members, including 28,549 retirees and beneficiaries receiving benefits and 28,958 active employee members. In the ten years since FY2009, the number of retirees and beneficiaries receiving benefits increased by 17.9%, or 4,331, and has grown each year. Conversely, the number of active employee members has declined by 9.2%, or 2,947 members, over the same period. The ratio of active employees to beneficiaries has fallen every year since FY2008. A decline in the ratio of active employees to retirees can create fiscal stress for an underfunded pension fund like the CTPF because it means

[116] Chicago Teachers' Pension Fund, FY2018 Comprehensive Annual Financial Report, p. 29.
[117] 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.
[118] CPS did not participate in Medicare until 1986 but most CTPF members are now eligible for Medicare.

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: FY2009-FY2018				
Fiscal Year	**Retirees & Beneficiaries Receiving Benefits**	**Active Employee Members**	**Total**	**Ratio of Active to Beneficiary**
FY2009	24,218	31,905	56,123	1.32
FY2010	24,600	31,012	55,612	1.26
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

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

Source: Chicago Teachers' Pension Fund, Actuarial Valuations, FY2009-FY2018.

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.[119]

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

[119] 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 $113,645*
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

*The maximum pensionable salary automatically increases by the lesser of 3% or one-half of the annual increase in the CPI-U. $113,645 is the 2018 limitation. FY2018 CAFR, p. 30.

** 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, 2018, p. 29-31.

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.

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 FY2020 a contribution of $245.5 million for the annual cost of providing retirement benefits for services performed by today's members —the normal cost—and retiree healthcare.[120]

Additional State Contribution: The State is required to make additional contributions in FY2020 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%. The required additional State contribution in FY2020 is projected at $11.9 million, down from FY2019.[121]

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 FY2020 is projected at $12.6 million, down slightly from FY2019.[122]

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.[123] 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.[124] 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.[125]

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 FY2020 State contribution for normal cost and retiree healthcare of $245.5 million will reduce the CPS required contribution from $830.0 million to $584.5 million.

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[120] Public School Teachers' Pension and Retirement Fund of Chicago Actuarial Valuation Report as of June 30, 2018, p. 1. For more about the new 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.

[121] Chicago Teachers' Pension Fund Actuarial Valuation, FY2018, p. 1.

[122] Chicago Teachers' Pension Fund Actuarial Valuation, FY2018, p. 1.

[123] This annual required contribution must be calculated by February 28 each year, per 40 ILCS 5/17-129.

[124] "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.

[125] 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 Collective Bargaining Agreement 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 FY2020 cost for the 7.0% employee pick-up is approximately $126.3 million and is part of the District's budgeted employer pension appropriation.[126]

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.

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.[127] 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 73.6% funded on an actuarial value basis in FY2009, and this funded ratio fell to 49.7% in FY2013 before rising slightly and then falling to 47.9% in FY2018. The market value funded ratio was 53.7% in FY2009 and recovered

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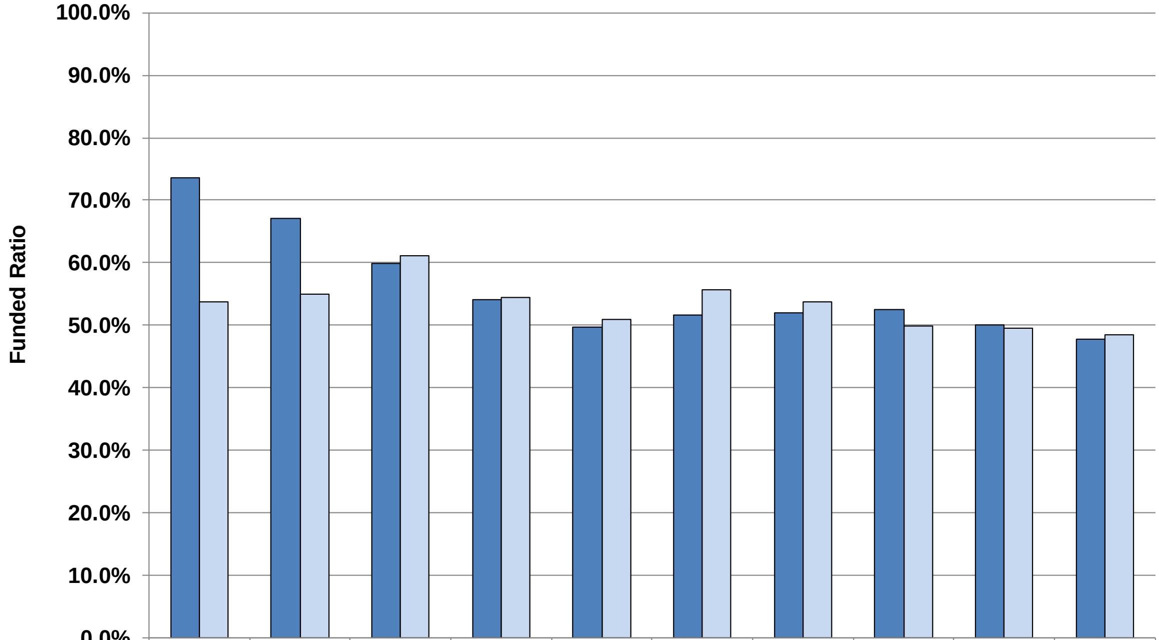
[126] CPS FY2020 Interactive Proposed Budget, Revenues and Expenditures, available at cps.edu/budget. CPS also "picks up" 7.0% of employee contributions to the Chicago Municipal Fund for some eligible non-teacher employees at a projected cost of $35.1 million in FY2020.

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

to 61.1% in FY2011 before fluctuating over the next several years and eventually falling to 48.4% in FY2018.

Chicago Teachers' Pension Fund Funded Ratios - Actuarial Value of Assets and Market Value of Assets: FY2009-FY2018



	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Actuarial Value	73.6%	67.1%	59.9%	54.1%	49.7%	51.7%	52.0%	52.5%	50.1%	47.9%
Market Value	53.7%	55.0%	61.1%	54.5%	51.0%	55.6%	53.7%	50.0%	49.5%	48.4%

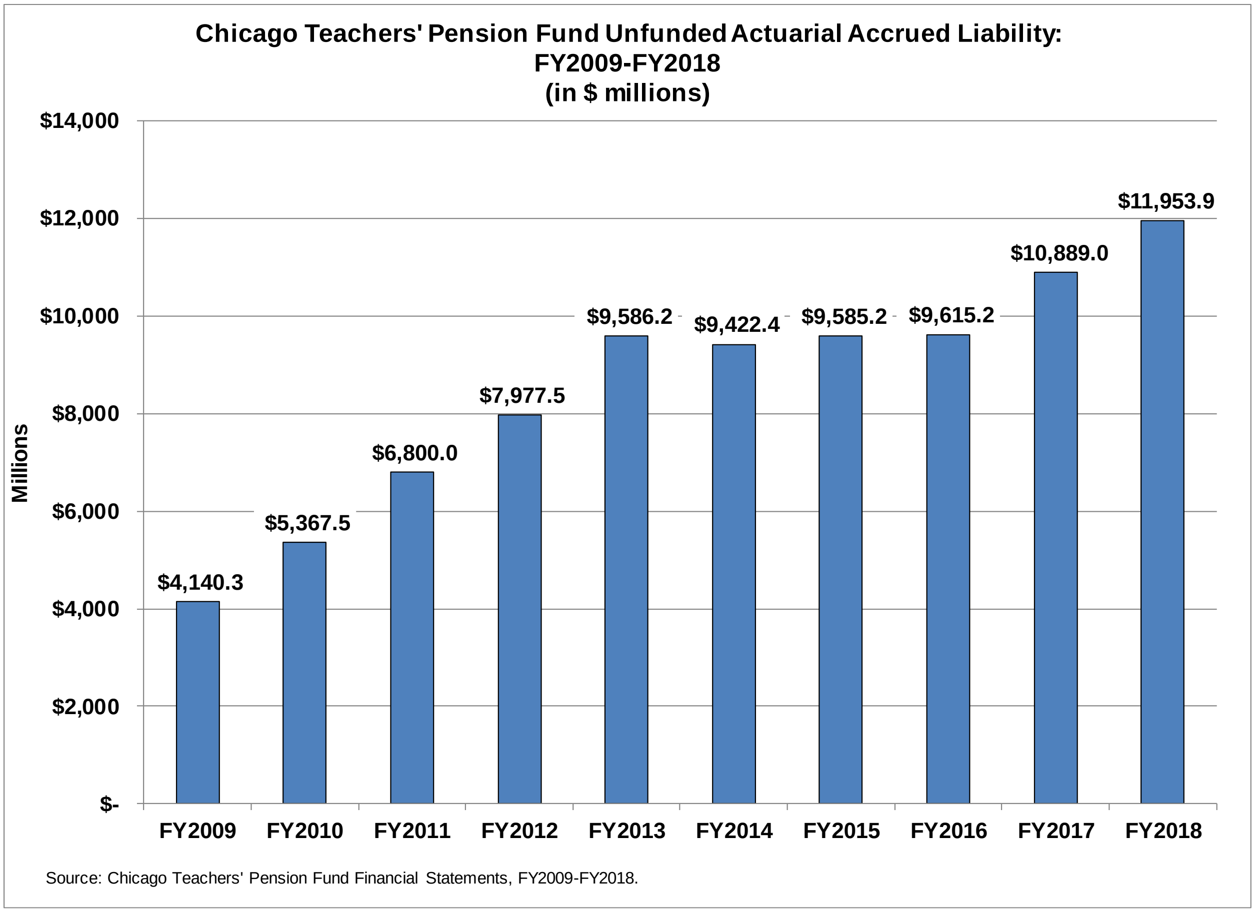
Source: Civic Federation calculations based on Chicago Teachers' Pension Fund Financial Statements, FY2009-FY2018.

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 $4.1 billion in FY2009. Since FY2009 unfunded liabilities have increased by 188.7%, rising to nearly $12.0 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.[128] The UAAL increased again by nearly $1.1 billion in FY2018, due again in part to a

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

reduction in the actuarial assumptions, including reducing the expected rate of return on investment to 7.0% from 7.25%.[129]



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 FY2009 to FY2018. 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.[130] This deficiency in employer contributions added nearly $3.4 billion to the unfunded liability between FY2009 and FY2018. Over the past 10 years the second

[129] Public School Teachers' Pension and Retirement Fund of Chicago Statutorily Required Funding Valuation as of June 30, 2018, p. 2-3.
[130] Total increase in unfunded liability includes increase in FY2008 over FY2007, included in the first line of the chart below.

largest contributor to the unfunded liability has been changes to actuarial assumptions at $2.7 billion followed by investment returns not meeting expectations, which contributed $2.6 billion.

Chicago Teachers' Pension Fund Reasons for Change in Unfunded Actuarial Accrued Liability: FY2009-FY2018							
	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
FY2009	$ 154,901,393	$ 923,403,137	$ 12,964,057	$ -	$ -	$ (40,308,708)	**$ 1,050,959,879**
FY2010	$ 146,648,566	$ 941,589,095	$ (118,648,048)	$ -	$ -	$ 257,585,304	**$ 1,227,174,917**
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**
10-Year Total	**$ 3,362,956,357**	**$ 2,635,273,745**	**$ (304,454,345)**	**$ -**	**$ 2,718,233,845**	**$ 452,563,289**	**$ 8,864,572,891**

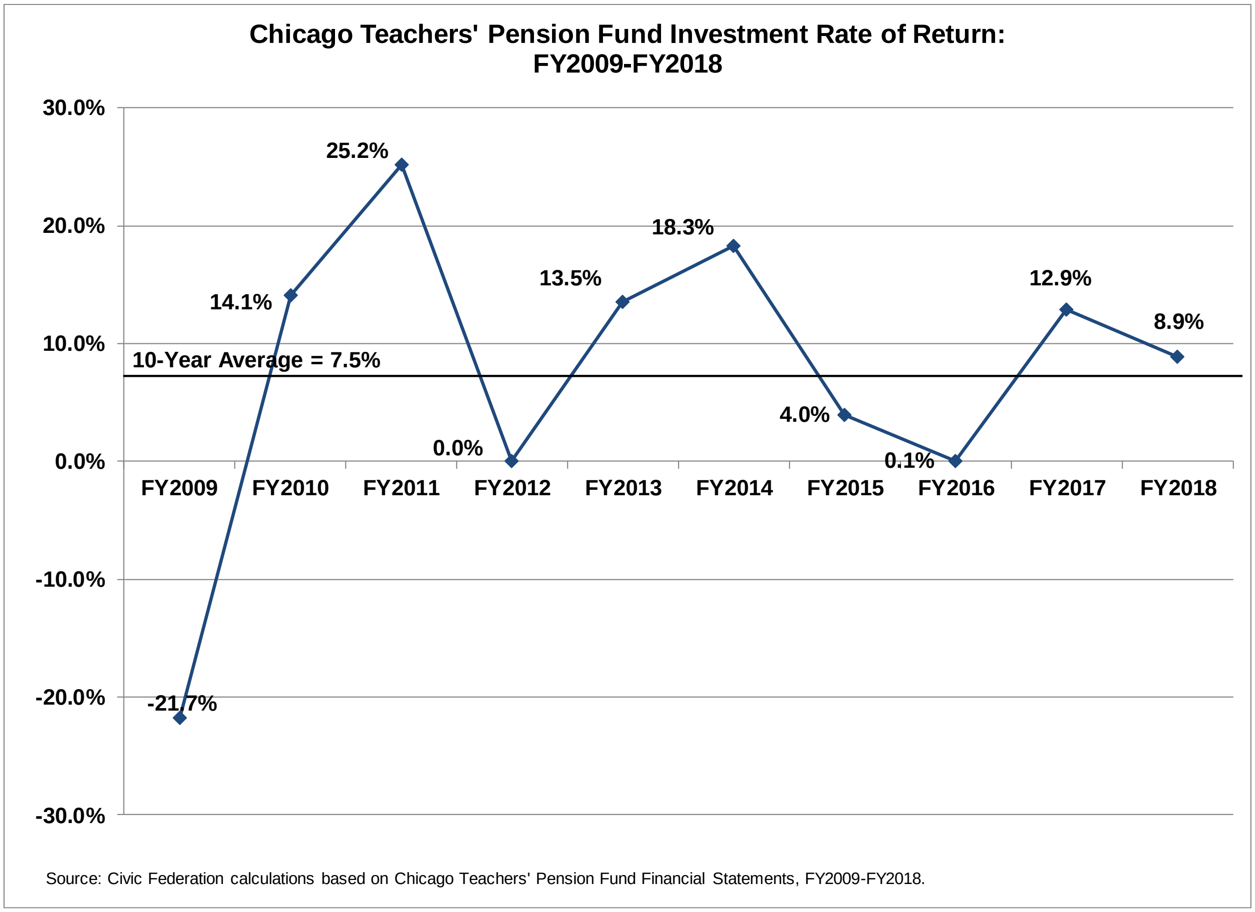
* Change in UAAL due to salary assumptions restored in FY2017 with new actuary. Previous actuary combined salary assumptions with Other between FY2012 and FY2016.

Source: Chicago Teachers' Pension Fund, Actuarial Valuations, FY2009-FY2018.

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 FY2009 and FY2018, the Chicago Teachers' Pension Fund average annual rate of return was

7.5%.[131] This is above the fund's current assumed rate of return of 7.0%. Returns ranged from a high of 25.2% in FY2011 to a low of -21.7% in FY2009.



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."[132] 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

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[131] 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.

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

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 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[133] 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 3.62%. 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 6.81%, rather than 7.0%.

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

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

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 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 (25 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	7.00%	7.75%

Source: Chicago Teachers' Pension Fund FY2018 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 FY2018. The reason is that projected assets are forecast to be insufficient to cover projected benefit payments after 2076 and therefore a lower municipal bond rate of 3.62% must be used as the discount rate for benefit payments after that year, increasing the amount of projected liabilities.[134]

Since the first year of reported GASB 67 pension liabilities, the total pension liability has increased by 24.0% while assets reported as fiduciary net position have only increased by 14.8%, with the result that net pension liability has grown even faster or 32.8%. The net pension liability growth is larger than unfunded liability growth of 24.7% because total pension liabilities are measured as being larger than actuarial liabilities because actuarial liabilities are calculated using the full 7% discount rate, not a lower blended rate.

Chicago Teachers' Pension Fund GASB 67 Reporting FY2013-FY2018

	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%	
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
Six-Year Change	**$ 4,751,560,304**	**$ 1,430,576,951**	**$ 3,320,983,353**		**$ 135,970,813**
Six-Year % Change	**24.00%**	**14.79%**	**32.81%**		**18.89%**

Source: FY2014-FY2018 Chicago Teachers' Pension Fund Actuarial Valuations and CAFRs. FY2013 numbers were presented in the FY2014 report.

[134] Public School Teachers' Pension and Retirement Fund of Chicago, CAFR, June 30, 2018, p. 86. 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.

OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

The CTPF provides a "rebate" for a significant portion of the monthly premiums owed by those who enroll. The rebate only applies to the retired teacher's portion of these insurance policies, not to the additional cost of enrolling eligible dependents. However, the rebate does apply to eligible dependents who are survivors of deceased retirees. The Fund had previously provided reimbursement of 70.0% of the cost of pensioners' health insurance coverage, but it was reduced to 60.0% on January 1, 2011 and to 50.0% on January 1, 2015. According to Illinois statute, total payments from the Teachers' Pension Fund to reimburse retirees may not exceed 75.0% of total retiree health insurance costs.[135]

Beginning in FY2018, Public Act 100-0465 required the State of Illinois to contribute to the Chicago Teachers' Pension Fund health insurance subsidy $65 million annually. State law limits the amount of OPEB payments in any one year to $65 million plus any amounts unpaid from the preceding year.[136] 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, 2017, a total of 17,073 retirees and beneficiaries received health insurance benefits. There were also 11,366 retirees and beneficiaries entitled to benefits but not currently receiving them.[137] In FY2018 the Teachers' Pension Fund spent $66.3 million on OPEB.[138]

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 FY2009 to FY2018, insurance premium rebates paid to beneficiaries increased by 12.5%, or $9.5 million. The health insurance

[135] 40 ILCS 17-142.1.
[136] Chicago Teachers' Pension Fund, FY2018 Comprehensive Annual Financial Report, p. 33; 40 ILCS 17-142.1.
[137] Chicago Teachers' Pension Fund, FY2018 Comprehensive Annual Financial Report, p. 90.
[138] Chicago Teachers' Pension Fund, FY2018 Comprehensive Annual Financial Report, p. 28.

rebate has represented approximately 3.4% to 7.8% of total pension and OPEB benefit expenditures over the ten-year period.

Total Health Insurance Premium Rebates Paid to Retired CPS Teachers: FY2009-FY2018		
	Health Insurance Rebate Paid	% Change over Previous Year
FY2009	$ 75,811,835	--
FY2010	$ 79,953,873	5.5%
FY2011	$ 78,892,292	-1.3%
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%
Ten-Year Change	**$ (9,478,180)**	**-12.5%**

Source: Chicago Teachers' Pension Fund, Comprehensive Annual Financial Report FY2018, p. 24, 28, 134-135.

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, 2018, but measured as of June 30, 2017 of nearly $2.27 billion, down from the restated FY2017 total OPEB liability of $2.32 billion.[139] The District reported the liability in its Statement of Net Position for the first time in FY2018, which

[139] Chicago Public Schools, FY2018 Comprehensive Annual Financial Report, p. 91.

was an increase from the reported net OPEB obligation in FY2017 of $2.0 billion.[140] 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;
- *Line of credit*: Funds borrowed at year-end to make required pension payments;[141] 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 FY2014 through FY2018, which is the most recent data available in audited financial reports. Between FY2017 and FY2018 total short-term liabilities decreased by 38.8%, or roughly $744.0 million, falling from $1.9 billion to $1.2 billion. Most of the decrease was due to the $737.1 million reduction in short-term borrowing through TANs and GANs. In this two-year period, accounts payable decreased slightly by 2.2%, or $9.0 million, and accrued payroll and benefits also decreased by 3.3%, or $4.4 million.

In the five-year period between FY2014 and FY2018, total short-term liabilities increased by 150.5% or $703.7 million. Most of the increase was due to short-term tax anticipation note borrowing. During the same period, accounts payable rose by 24.6%, or $78.2 million, and accrued payroll and benefits increased by 14.5%, or $16.2 million.

CPS Short-Term Liabilities in the Governmental Funds: FY2014 - FY2018
(in $ thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Accounts Payable	$ 317,488	$ 307,675	$ 358,303	$ 404,731	$ 395,704	$ (9,027)	-2.2%	$ 78,216	24.6%
Accrued Payroll & Benefits	$ 111,812	$ 144,133	$ 144,686	$ 132,427	$ 128,012	$ (4,415)	-3.3%	$ 16,200	14.5%
Amount Held for Student Activities	$ 38,413	$ 40,888	$ 43,520	$ 41,288	$ 47,824	$ 6,536	15.8%	$ 9,411	24.5%
Line of Credit	$ -	$ 700,000	$ -	$ -	$ -	$ -	---	---	---
Tax Anticipation Notes	$ -	$ -	$ 869,996	$ 950,000	$ 599,911	$ (350,089)	-36.9%	$ 599,911	---
Grant Anticipation Notes	$ -	$ -	$ -	$ 386,994	$ -	$ (386,994)	---	$ -	---
Total	**$ 467,713**	**$ 1,192,696**	**$ 1,416,505**	**$ 1,915,440**	**$ 1,171,451**	**$ (743,989)**	**-38.8%**	**$ 703,738**	**150.5%**

Source: CPS Comprehensive Annual Financial Reports, Balance Sheets - Governmental Funds, FY2014 - FY2018.

[140] Chicago Public Schools, FY2017 Comprehensive Annual Financial Report, p. 38.
[141] Chicago Public Schools FY2015 Comprehensive Annual Financial Report, p. 16.

Short-Term Liabilities as a Percentage of Net Operating Revenues

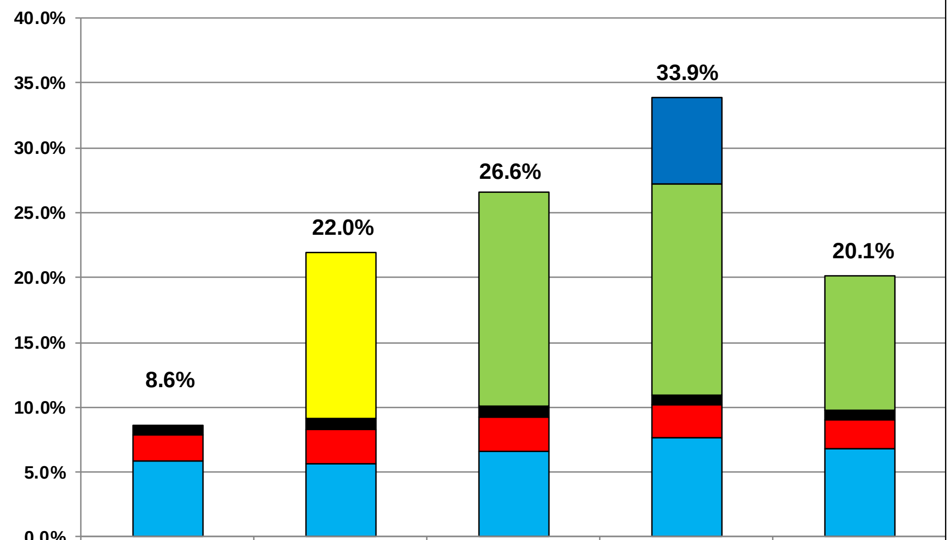
Increasing short-term (current) liabilities at the end of the year in a government's operating funds as a percentage of net operating revenues may be a warning sign of a government's future financial difficulties.[142] This ratio indicator, developed by the International City/County Management Association (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 FY2014 and FY2017, the ratio rose from 8.6% to 33.9%, before dropping to 20.1% in FY2018. The increase through FY2017 was due primarily to the $700.0 million line of credit CPS used in FY2015 at year-end to make pension payments,[143] the $870.0 million in Tax Anticipation Notes issued in FY2016 and $1.4 billion in short-term borrowing in FY2017. At the end of FY2018 CPS issued approximately $600.0 million in tax anticipation notes.

[142] 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.
[143] Chicago Public Schools FY2015 Comprehensive Annual Financial Report, p. 16.

The financial situation has improved since FY2017 due to the approval of additional state funding for the District. However, CPS still faces significant financial challenges going forward and will continue borrowing short-term debt to stabilize its finances.

Chicago Public Schools Short Term Liabilities in Governmental Funds as a % of Operating Revenues: FY2014-FY2018



	FY2014	FY2015	FY2016	FY2017	FY2018
Grant Anticipation Notes	0.0%	0.0%	0.0%	6.6%	0.0%
Tax Anticipation Notes	0.0%	0.0%	16.5%	16.3%	10.3%
Line of Credit	0.0%	12.9%	0.0%	0.0%	0.0%
Amount Held for Student Activities	0.7%	0.8%	0.8%	0.8%	0.8%
Accrued Payroll	2.1%	2.7%	2.7%	2.5%	2.2%
Accounts Payable	5.8%	5.7%	6.6%	7.7%	6.8%

Source: Chicago Public Schools Comprehesive Annual Financial Reports, FY2014-FY2018.

Short-Term Borrowing

In FY2015, FY2016, FY2017 and FY2018 CPS relied on short-term borrowing to cover cash-flow difficulties. In FY2018 CPS initially issued $1.1 billion in short-term debt to bridge the gap between revenue collections and expenses.[144] During the first half of the FY2017 fiscal year, the District issued a total of $1.55 billion of short-term borrowing; these funds were issued as Tax Anticipation Notes and secured with dedicated property tax revenues.[145] Additionally, to address liquidity issues caused by delayed State categorical funding payments, CPS issued $387.0 million in short-term Grant Anticipation Notes (GANs) in late June 2017. By August 2017 CPS had repaid and ended all of these outstanding TANs and GANs.[146]

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[144] CPS FY2019 Proposed Budget, p. 178.

[145] Board of Education of the City of Chicago, *Supplement to the Limited Offering Memorandum Dated November 10, 2016, Series 2016A-3*, January 10, 2017.

[146] CPS FY2017 Comprehensive Annual Financial Report, p. 84.

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 to $844 million, saving approximately $33 million in interest expenses that year. CPS anticipates issuing Tax Anticipation Notes (TANs) in FY2020 at roughly the same level as in FY2019 to cover operating cash-flow needs. The Board has budgeted approximately $12 million in interest costs for the FY2020 TANs.[147]

The District's ongoing liquidity problems have had a price. The FY2017 budget provided for up to $35 million in interest on the Tax Anticipation Notes,[148] while the Grant Anticipation Notes were estimated to cost the District at least $7 million for a three-month period.[149] The interest on the TANs cost the District $34 million in FY2017, $68 million in FY2018 and $21 million in FY2019.[150] As noted above, short-term interest costs are anticipated to drop to $12 million in FY2020 as the liquidity problem has eased.[151]

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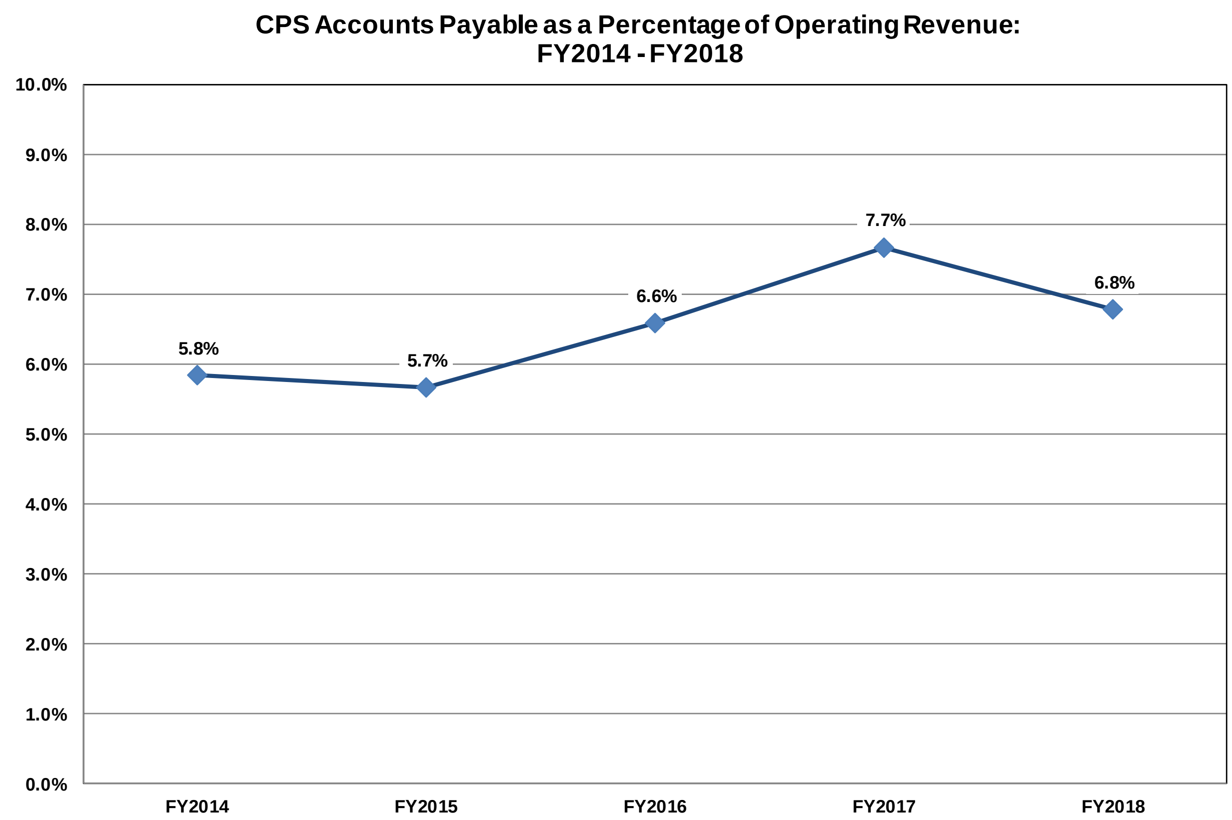
147 CPS FY2020 Budget, p. 178.
148 CPS Amended FY2017 Budget, p. 173.
149 Juan Perez, Jr. and Peter Matuszak, "$70,000 a day in interest — the cost of another short-term CPS budget solution," *Chicago Tribune*, June 27, 2017, http://www.chicagotribune.com/news/watchdog/ct-chicago-schools-expensive-loan-met-20170626-story.html (last visited on August 15, 2017).
150 CPS FY2020 Budget, p. 177.
151 CPS FY2020 Proposed Budget, p. 178.

Accounts Payable Trends

The District's ratio of accounts payable in the Governmental Funds to operating revenues has remained relatively stable in the five-year period analyzed. It increased from 5.8% in FY2014 to 7.7% in FY2017 before falling to 6.8% one year later.

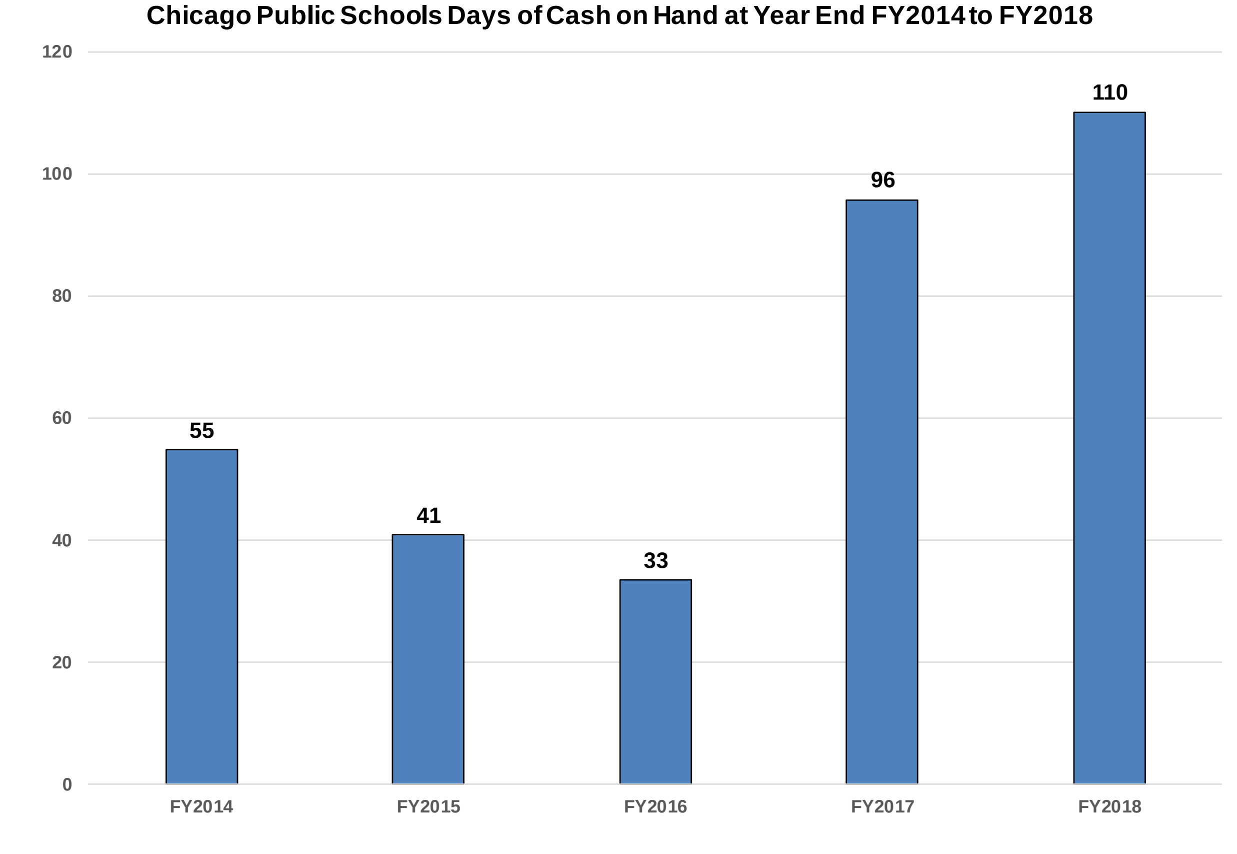


Source: CPS Comprehensive Annual Financial Reports, FY2014-FY2018.

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.[152]

Between FY2014 and FY2016, Chicago Public schools reported that the days of cash on hand at year end fell from 55 to just 33 days, indicating a steep drop in liquidity. However, the number of days rose to 110 by FY2018, which is a positive sign. The increase reflects the District's improved cash position since FY2017 due to the approval of additional State funding for CPS.



Source: CPS Comprehensive Annual Financial Reports, FY2014 - FY2018.

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

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.[153] 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 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;[154]
- *Cash and investments held in school internal accounts* represent the book balance for checking and investments for individual schools;[155]
- *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.[156]

[153] Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations,* Upper Saddle River, NJ, 2001, p. 476.
[154] CPS FY2018 Comprehensive Annual Financial Report, p. 63.
[155] CPS FY2018 Comprehensive Annual Financial Report, p. 63.
[156] CPS FY2018 Comprehensive Annual Financial Report, p. 57.

The CPS current ratio was 3.1 in FY2018, the most recent year for which audited financial data are available. This was a large 63.0% increase from a ratio of 1.9 the previous year

Between FY2014 and FY2017, the ratio fell sharply from 6.0 to 1.9. The decline was driven by a $1.4 billion, or 309.5%, increase in current liabilities, primarily fueled by large increases in short-term borrowing including the issuance of tax and grant anticipation notes and a line of credit. However, 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.

Over the past five years, the District's current ratio averaged 3.0. This is greater than the benchmark of 2.0, which is considered a healthy level of liquidity.

CPS Current Ratio in the Governmental Funds: FY2014-FY2018
(in $ thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Current Assets									
Cash and Investments	$ 254,551	$ 166,113	$ 33,915	$ 120,596	$ 164,784	$ 44,188	36.6%	$ (89,767)	-35.3%
Cash and Investments in Escrow	$ 580,457	$ 508,498	$ 519,099	$ 1,454,162	$ 1,606,949	$ 152,787	10.5%	$ 1,026,492	176.8%
Cash and Investments Held in School Internal Accounts	$ 38,413	$ 40,888	$ 43,520	$ 41,288	$ 47,824	$ 6,536	15.8%	$ 9,411	24.5%
Receivables: Property Taxes, Net	$ 1,064,710	$ 1,114,780	$ 1,134,583	$ 1,395,299	$ 1,430,486	$ 35,187	2.5%	$ 365,776	34.4%
Receivables: Replacement Taxes	$ 31,920	$ 33,183	$ 33,320	$ 32,296	$ 28,668	$ (3,628)	-11.2%	$ (3,252)	-10.2%
Receivables: State Aid, Net	$ 516,147	$ 600,980	$ 618,190	$ 431,478	$ 137,723	$ (293,755)	-68.1%	$ (378,424)	-73.3%
Receivables: Federal Aid	$ 211,090	$ 115,513	$ 115,785	$ 98,148	$ 144,176	$ 46,028	46.9%	$ (66,914)	-31.7%
Receivables: Other	$ 106,791	$ 58,090	$ 59,730	$ 62,889	$ 66,819	$ 3,930	6.2%	$ (39,972)	-37.4%
Other Assets	$ 1	$ -	$ -	$ 2,356	$ -	$ (2,356)	---	$ (1)	-100.0%
Total Current Assets	**$ 2,804,080**	**$ 2,638,045**	**$ 2,558,142**	**$ 3,638,512**	**$ 3,627,429**	**$ (11,083)**	**-0.3%**	**$ 823,349**	**29.4%**
Current Liabilities									
Accounts Payable	$ 317,488	$ 307,675	$ 358,303	$ 404,731	$ 395,704	$ (9,027)	-2.2%	$ 78,216	24.6%
Accrued Payroll & Benefits	$ 111,812	$ 144,133	$ 144,686	$ 132,427	$ 128,012	$ (4,415)	-3.3%	$ 16,200	14.5%
Amount Held for Student Activities	$ 38,413	$ 40,888	$ 43,520	$ 41,288	$ 47,824	$ 6,536	15.8%	$ 9,411	24.5%
Line of Credit	$ -	$ 700,000	$ -	$ -	$ -	---	---	$ -	---
Tax Anticipation Notes	$ -	$ -	$ 869,996	$ 950,000	$ 599,911	$ (350,089)	-36.9%	$ 599,911	---
Grant Anticipation Notes	$ -	$ -	$ -	$ 386,994	$ -	$ (386,994)	---	$ -	---
Total Current Liabilities	**$ 467,713**	**$ 1,192,696**	**$ 1,416,505**	**$ 1,915,440**	**$ 1,171,451**	**$ (743,989)**	**-38.8%**	**$ 703,738**	**150.5%**
Current Ratio	**6.0**	**2.2**	**1.8**	**1.9**	**3.1**		**63.0%**		**-48.4%**

Source: CPS Comprehensive Annual Financial Reports, Balance Sheets - Governmental Funds, FY2014- FY2018.

LONG-TERM LIABILITIES

This section examines trends in CPS long-term liabilities. It includes a review of trends in the District's total long-term liabilities and a discussion of its tax supported long-term debt. Long-term liabilities are all of the obligations owed by a government over time.[157] 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 Obligations (NPO)*: NPO is the cumulative difference, since the effective date of GASB Statement 27, between the annual pension cost and the employer's contributions to the plan. This includes the pension liability at transition (beginning pension liability) and excludes short-term differences and unpaid contributions that have been converted to pension-related debt. The last year NPO was reported was FY2014;

[157] 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 FY2018 Comprehensive Annual Financial Report, pp. 79-81.

- *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 (see description above). 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) Obligations*:[158] Beginning with the FY2018 CAFR, Chicago Public Schools will implement GASB Statement 75 requirements to report net OPEB liability as the portion of the present value of projected benefit payments to current active and inactive employees that is attributed to those employees' past periods of service less the amount of the OPEB plan's fiduciary net position.[159] 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.

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[158] 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.

[159] 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**.**

Between FY2014 and FY2018, total CPS long-term liabilities increased by 105.7%, or by $12.3 billion, rising from approximately $11.6 billion to $23.9 billion. Most of this increase was due to the change in pension reporting in FY2015 which led to an increase of roughly $9.2 billion in reported pension liability. As noted above, the new pension liability reporting requirements of GASB Statement 68 present a more transparent approach to measuring these liabilities than the previous approach, rather than a one-year large increase in liabilities.

Total other long-term liabilities, which includes accrued sick leave and vacation pay, net pension obligations/net pension liabilities and net OPEB obligations grew by 177.8% or nearly $9.7 billion over the five-year period. Net pension obligations/net pension liabilities alone increased by 288.1% or nearly $9.2 billion, while net OPEB obligations grew by 35.2%, rising from approximately $1.7 billion to nearly $2.3 billion. The net OPEB obligation increase reflects the reporting change required by GASB Statement 75. The amount owed by CPS for retiree health insurance has not significantly changed. It is only being reported more transparently and holistically.

Total long-term CPS debt increased by $2.6 billion, or 42.0%, 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: FY2014-FY2018
(in $ thousands)

Type of Obligation	FY2014	FY2015	FY2016	FY2017	FY2018	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
General Obligation Bonds*	$ 5,944,516	$ 6,073,049	$ 6,578,983	$ 7,198,714	$ 7,903,461	$ 704,747	9.8%	$ 1,958,945	33.0%
Leases Securing PBC Bonds	$ 232,940	$ 196,470	$ 157,780	$ 116,850	$ 875	$ (115,975)	579.9%	$ 561,540	241.1%
Capital Leases	$ 1,575	$ 1,400	$ 1,225	$ 1,050	$ 73,520	$ 72,470	6901.9%	$ 71,945	4567.9%
Dedicated Capital Improvement Tax Bonds	$ -	$ -	$ -	$ 729,600	$ 794,480	---	---	---	---
Subtotal Long-Term Debt	**$ 6,179,031**	**$ 6,270,919**	**$ 6,737,988**	**$ 8,046,214**	**$ 8,772,336**	**$ 726,122**	**9.0%**	**$ 2,593,305**	**42.0%**
Other Accrued Liabilities	$ 18,650	$ 18,650	$ 15,446	$ 29,840	$ 26,808				
Accrued Sick Pay Benefits	$ 357,321	$ 342,293	$ 311,378	$ 289,818	$ 272,526	$ (17,292)	-6.0%	$ (84,795)	-23.7%
Accrued Vacation Pay Benefits	$ 60,992	$ 59,044	$ 51,260	$ 49,520	$ 48,764	$ (756)	-1.5%	$ (12,228)	-20.0%
Accrued Workers' Compensation Claims	$ 129,280	$ 132,699	$ 114,891	$ 114,290	$ 103,672	$ (10,618)	-9.3%	$ (25,608)	-19.8%
Accrued General and Automobile Claims	$ 6,218	$ 8,212	$ 13,508	$ 21,085	$ 30,009	$ 8,924	42.3%	$ 23,791	382.6%
Tort Liabilities and Other Claims	$ 10,778	$ 21,578	$ 17,700	$ 19,216	$ 16,388	$ (2,828)	-14.7%	$ 5,610	52.1%
Net Pension Obligation/Net Pension Liability**	$ 3,190,380	$ 9,501,206	$ 10,023,263	$ 11,011,400	$12,382,417	$ 1,371,017	12.5%	$ 9,192,037	288.1%
Net OPEB Obligation	$ 1,680,247	$ 1,789,441	$ 1,895,045	$ 2,329,607	$ 2,270,891	$ (58,716)	-2.5%	$ 590,644	35.2%
Subtotal Other Long-Term Liabilities	**$ 5,453,866**	**$ 11,873,123**	**$12,442,491**	**$ 13,864,776**	**$15,151,475**	**$ 1,286,699**	**9.3%**	**$ 9,689,451**	**177.8%**
Grand Total Long-Term Liabilities	**$ 11,632,897**	**$ 18,144,042**	**$ 19,180,479**	**$ 21,910,990**	**$23,923,811**	**$ 2,012,821**	**9.2%**	**$ 12,290,914**	**105.7%**

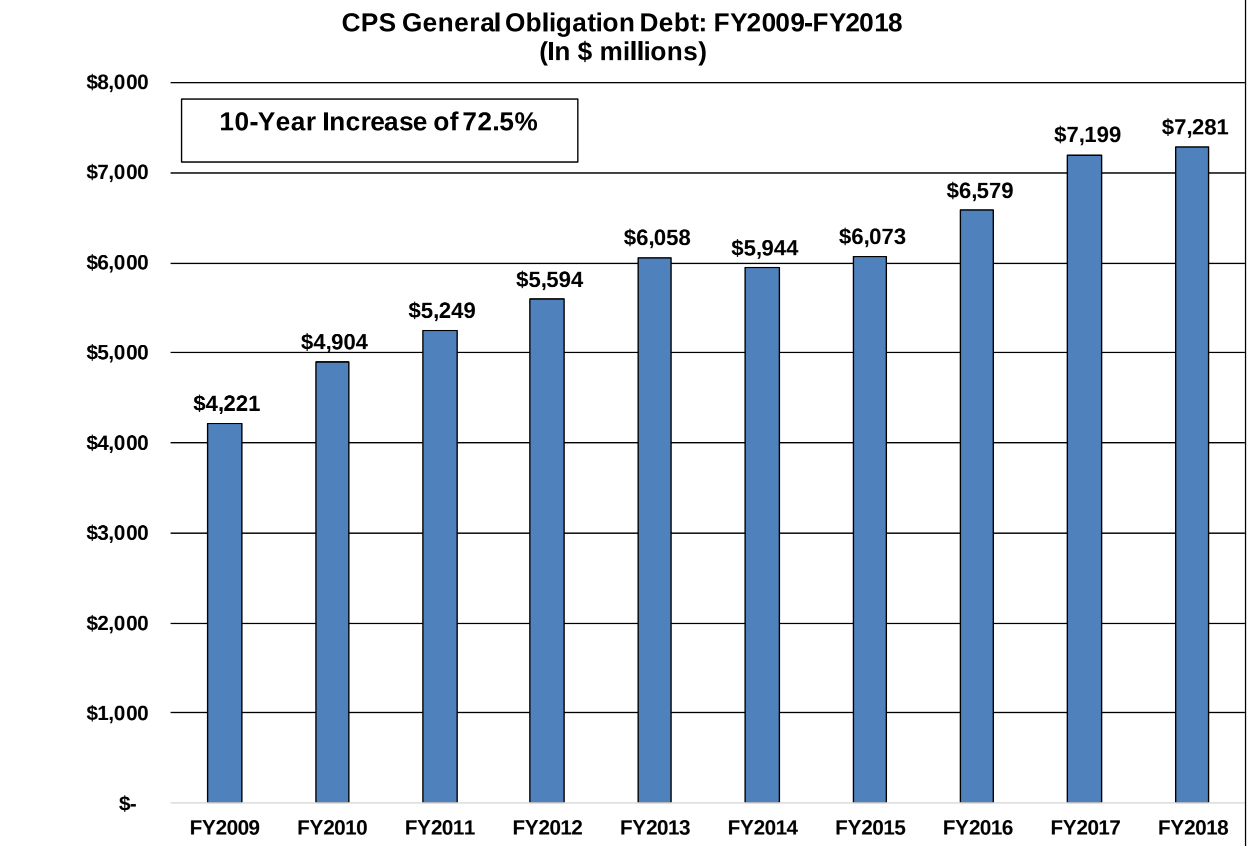
* Outstanding principal.
** Beginning in FY2015, Governments report 100% of their net pension liabilities rather than the net pension obligations.
Source: CPS Comprehensive Annual Financial Reports, Notes 8, 9, 11 and 12, FY2014-FY2018.

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 it that 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 72.5% between FY2009 and FY2018, rising from $4.2 billion to $7.3 billion. This large increase is a cause for concern because the District also faces serious and continuing challenges in meeting its rising expenditures in areas such as personnel and retirement costs.

The improved financial position of CPS since the approval of additional State of Illinois funding since 2018 through the new evidence-based state aid formula as well as pension relief has enabled the District to benefit from reduced interest costs for its debt issuances. For example, on February 3, 2016, CPS sold $725 million in 28-year tax-exempt long-term debt. The bond yields were priced at 8.5%, a very high rate reflecting the District's non-investment grade credit ratings.[160] In sharp contrast, $562.3 million in unlimited tax general obligation refunding bonds issued in May 2018 had 5.0% interest rates.[161] Similarly, a December 2018 bond issue for $763.4 million in unlimited tax general obligation refunding bonds also had a 5.0% interest rate.[162]

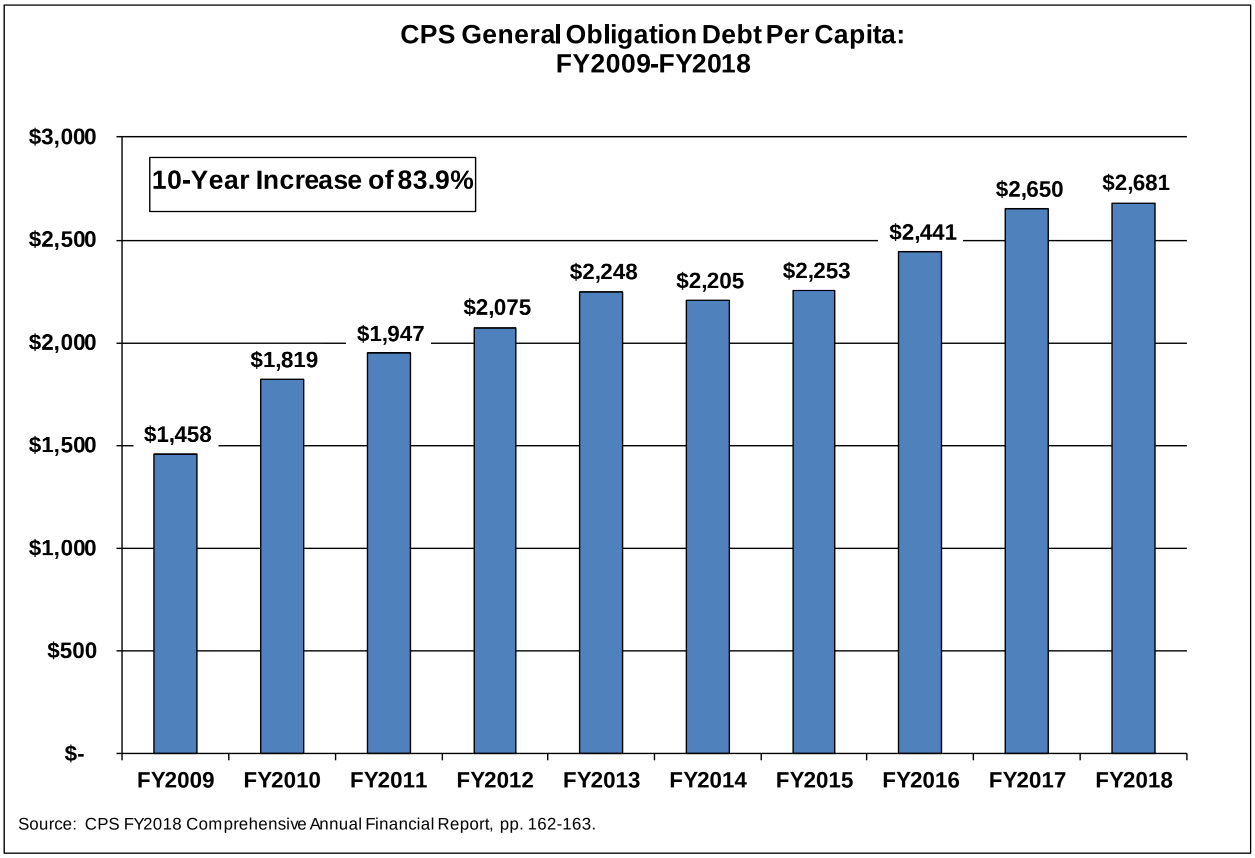


CPS FY2018 Comprehensive Annual Financial Report, pp. 162-163.

160 Heather Gillers. "CPS borrows at steep interest rate," *Chicago Tribune*, February 4, 2016.
161 Board of Education of the City of Chicago Official Statement for $562,250,000 unlimited tax general obligation refunding bonds, May 25, 2018.
162 Board Of Education of the City Of Chicago, Unlimited Tax General Obligation Bonds (Dedicated Revenues) Series 2018CD at:
https://www.cps.edu/About_CPS/Financial_information/Documents/FOS_CPS_2018CD_GO_Bonds_FINAL_12-10-18.pdf

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

Overall, CPS general obligation debt per capita increased by 83.9% between FY2009 and FY2018, rising from $1,458 to $2,681. The increase reflects a significant increase in direct debt, but is not the same as the dollar percentage increase over time for general obligation debt because the City's population has **decreased** by 6.2% over the time period, falling from 2,896,016 to 2,716,450.[163] Between FY2013 and FY2014, CPS general obligation debt per capita declined slightly by 1.9% from $2,248 to $2,205. However, it rose steadily to $2,681 by FY2018.[164]



[163] CPS FY2018 Comprehensive Annual Financial Report, p. 163.
[164] CPS FY2018 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%.[165] Although the debt service ratio for CPS will increase significantly from 8.0% in FY2016 to 11.3% in FY2020, it is still below the 15% threshold. Between FY2016 and FY2020, the debt service ratio is expected to average 10.2%.

Chicago Public Schools Budgeted Debt Service Appropriations as % of Operating Appropriations: FY2016-FY2020

	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Projected	FY2020 Proposed	$ Change	% Change
Debt Service Appropriations	$ 455.3	$ 531.0	$ 620.4	$ 623.5	$ 700.3	$ 244.97	53.8%
Operating Appropriations	$ 5,691.8	$ 5,411.0	$ 5,513.9	$ 5,860.2	$ 6,176.0	$ 484.20	8.5%
Debt Service as a % of Total Appropriations	**8.0%**	**9.8%**	**11.3%**	**10.6%**	**11.3%**		

Sources: CPS Proposed FY2020 Budget, pp. 14 and 169 (for FY2018, FY2019 and FY2020 figures); CPS Proposed FY2017 Budget, pp. 12 and 168; and CPS FY2016 Proposed Budget, pp. 9 and 161.

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.

As of July 2019, Standard & Poor's, Moody's Investors Services and Fitch Ratings rate CPS debt at B+, B2 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-. There was no change in credit rating for the December 2018 bond issue for $763.4 million in unlimited tax general obligation refunding bonds.[166]

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 rating.[167] CPS issued $86.0 million in additional capital improvement bonds in December 2018. These CIT credit ratings have not changed.[168]

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[165] 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.

[166] Board of Education of the City Of Chicago, Unlimited Tax General Obligation Bonds (Dedicated Revenues) Series 2018CD at: https://www.cps.edu/About_CPS/Financial_information/Documents/FOS_CPS_2018CD_GO_Bonds_FINAL_12-10-18.pdf

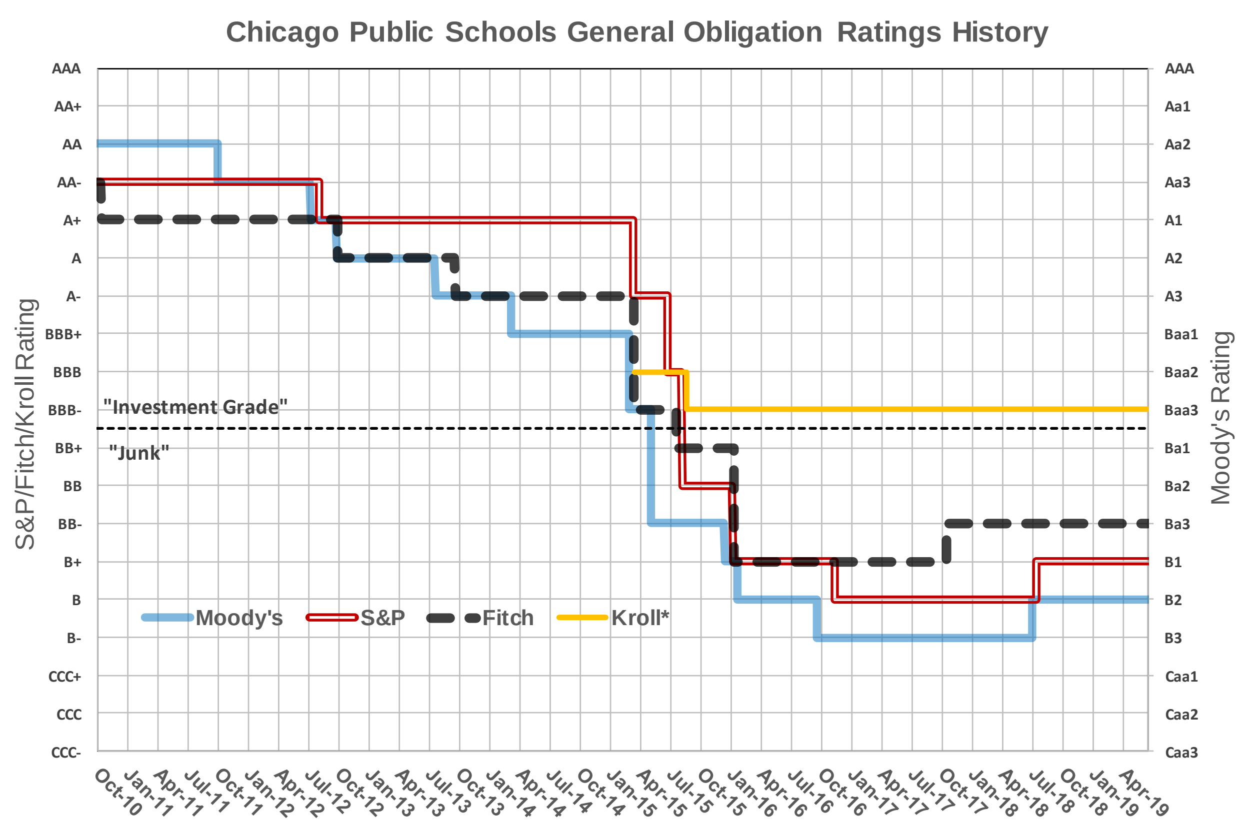
[167] Chicago Public Schools. "Credit Ratings" at https://cps.edu/About_CPS/Financial_information/Pages/CreditRatings.aspx, April 1, 2019.

[168] See Board of Education of the City of Chicago, Dedicated Capital Improvement Tax Bonds Series 2018 at https://www.cps.edu/About_CPS/Financial_information/Documents/OS_Series2018_Bonds.pdf and Chicago Public Schools. "Credit Ratings" at https://cps.edu/About_CPS/Financial_information/Pages/CreditRatings.aspx, April 1, 2019.

Chicago Public Schools General Obligation Bond Credit Ratings: 2006-July 2019														
Name of Agency	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Kroll Bond Rating Agency										BBB+	BBB (1)	BBB(3)	BBB (5)	BBB (5)
											BBB- (2)	BBB- (4)	BBB- (4)	BBB- (4)
Fitch Ratings	A+	A+	A+	A+	AA-	A+	A	A-	A-	BBB-	B+	BB-	BB-	BB-
Standard & Poor's	A+	AA-	AA-	AA-	AA-	AA-	A+	A+	A+	A-	BB	B	B+	B+
Moody's Investor Services	A2	A1	A1	A1	Aa2	Aa3	A2	A3	Baa1	Ba3	B2	B3	B2	B2

(1) BBB for Series 2016AB.
(2) BBB- for all Series issued prior to Series 2016AB.
(3) BBB for Series 2016AB, Series 2017BCDEFGH.
(4) BBB- for all Series issued prior to Series 2016AB and Series 2017A.
(5) BBB for Series 2016AB, Series 2017BCDEFGH, Series 2018ABCD.
Chicago Public Schools. CPS Credit Ratings at https://cps.edu/About_CPS/Financial_information/Pages/CreditRatings.aspx.

The following exhibit presents an overview of CPS general obligation ratings history from 2010 to the present.



*Kroll has assigned all Alternate Revenue GO Bonds issued since February 2016 a BBB rating. All series issued prior to 2016 carry a BBB- rating.
Source: Moody's Investors Service, www.moodys.com; S&P Global Ratings, www.standardandpoors.com; Fitch Ratings, www.fitchratings.com; Kroll Bond Rating Agency, krollbondratings.com

2018 Credit Upgrades

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.[169] 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 school funding formula and the approval of a new dedicated pension levy. These actions have substantially improved the District's fiscal condition.[170]

2017 Credit Upgrades

Fitch Ratings upgraded Chicago Public Schools' credit rating from B+ to BB- in October 2017 and changed the outlook from negative to stable. The reason for the upgrade was that the State of Illinois' new school funding formula would improve the amount and timing of state aid and that the new funds would help stabilize the District's revenue stream.[171]

2017 Credit Issues

In July 2017 Moody's Investors Services warned CPS that its general obligation rating was under review for further downgrades from its B3 rating. This action was prompted at that time by concern over the State of Illinois's failure to provide timely operating aid to the District.[172]

2016 Downgrades

Standard & Poor's lowered the credit rating for CPS general obligation debt to B from B+ on November 9, 2016. The reason given was the poor liquidity status of CPS combined with its heavy reliance on cash-flow borrowing and increased expenditures from the District's new labor contract.[173]

On September 26, 2016, Moody's Investors Services downgraded CPS credit to B3 from B2 because of the District's increasingly precarious liquidity position and its need for cash-flow borrowing to pay for operations. Moody's noted that the District's structural deficit was getting worse and that its budget relied on unrealistic assumptions including financial assistance from the cash-strapped State of Illinois.[174]

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[169] 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.

[170] Fran Spielman, "Bond ratings for Chicago and Chicago Public Schools a tad less junky," *Chicago Sun-Times*, July 12, 2018.

[171] Fran Spielman, "Wall Street agency upgrades CPS bond rating – for a change," *Chicago Sun-Times*, October 27, 2017.

[172] Yvette Shields, "Moody's places Chicago Board of Education, IL's B3 GO rating on review for downgrade." *The Bond Buyer*, July 6, 2017.

[173] Andy Grimm, "Standard & Poor's drops Chicago Public Schools' credit rating," *Chicago Sun-Times*, November 9, 2016.

[174] *Reuters*, "Update 2 – Moody's drops Chicago schools' credit rating deeper into junk," September 26, 2016 at https://www.reuters.com/article/chicago-education-ratings-idusl2n1c222h.

Moody's downgraded CPS credit on January 29, 2016 from B1 to B2 because of the District's continuing severe liquidity situation, its need to access the credit markets to fund ongoing operations and its structurally unbalanced budget.[175]

On January 19, 2016 Fitch Ratings downgraded Chicago Public Schools' approximately $6.1 billion of outstanding unlimited tax general obligation debt from BB+ to B+ with a negative rating outlook. The rating agency cited the District's FY2016 budget, which had a $480.0 million deficit, and its enormous unfunded pension liabilities as the reason for the downgrade.[176]

On January 15, 2016 Standard and Poor's downgraded CPS debt by two notches, from BB to B+ status. The rating agency cited a number of factors as the reason for the downgrade, including cash-flow concerns, a FY2016 budget built on an assumption of state assurance and union concessions and the District's limited ability to raise new revenues.[177]

<u>2015 Downgrades</u>

Moody's Investors Services downgraded CPS credit from Ba3 to B1 on December 21, 2015. The rating agency cited the District's precarious liquidity situation which has resulted in large scale cash-flow borrowing and the structurally unbalanced CPS budget.[178]

On August 27, 2015 Kroll Bond Rating Agency downgraded the credit rating of CPS general obligation bonds from BBB+ to BBB- and revised the outlook to negative. The decision was based on the District's adoption of a structurally unbalanced FY2016 budget, reliance on non-recurring revenue, its weak liquidity position and increased dependence on external cash-flow borrowing for operations.[179]

In August 2015, Standard & Poor's (S&P) downgraded CPS credit to BB from a BBB rating with a negative outlook. S&P cited the District's structural budget deficit, its decision to rely on $480.0 million in uncommitted state aid in its budget and its plan to borrow $200.0 million in order to push off debt payments coming due.[180]

In July 2015, Fitch downgraded the Chicago Public Schools' credit rating to BB+ from BBB- with a negative outlook. Fitch cited the District's structural budget gap, lack of reserves, enormous pension liabilities, high debt levels and a record of contentious negotiations with

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175 Moody's Investors Services, "Rating Update: Moody's downgrades Chicago Board of Education, IL's GO to B2; outlook negative," January 29, 2016.
176 Fitch Ratings, "Fitch Downgrades Chicago Board of Ed (IL) ULTGOs to 'B+'; Outlook Negative," January 19, 2016.
177 Juan Perez, Jr., "CPS gets harsh notice on debt: Standard & Poor's further downgrades district's rating," *Chicago Tribune*, January 16, 2016.
178 Moody's Investors Services, "Moody's downgrades Chicago Board of Education, IL's GO to B1; rating under review for further downgrade," December 2015.
179 Kroll Bond Rating Agency, "Kroll Bond Rating Agency Downgrades Rating on the Board of Education of the City of Chicago's General Obligation Bonds," August 27, 2015.
180 Standard & Poor's, "Chicago Board of Education GO Rating Lowered To 'BB' From 'BBB' On Structural Imbalance And Low Liquidity," August 14, 2015.

organized labor as the reasons for the downgrade. Fitch noted that CPS has limited options for improving the situation.[181]

In May 2015 Moody's dropped CPS' rating three notches to Ba3 from Baa3, with a continuing negative outlook.[182]

In March 2015 Fitch downgraded CPS' credit rating three notches to BBB- with a negative outlook. Moody's cut its rating two notches to Baa3, one level above non-investment grade status, and Standard & Poor's cut it two notches to A-.[183] The downgrades triggered penalties under the terms of the District's debt swap agreements with financial institutions of well over $200 million.[184]

CAPITAL SPENDING

In the FY2020 budget book, CPS proposes spending $820.6 million over time for capital projects.[185] 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, $263.2 million or 32.1% of the total, will be spent on facility needs, including repairs to roofs and mechanical systems. The second highest amount, $191.0 million, is anticipated to be used for state funded capital projects. Approximately 21.9% of the total, will be spent on $180.0 million for infrastructure improvements that support educational programs, including funds for building renovations, lab upgrades, pre-K centers and playgrounds. Smaller amounts will be used for information technology and security services, interior improvements, capital project services, site improvements and funding to support externally funded projects.[186]

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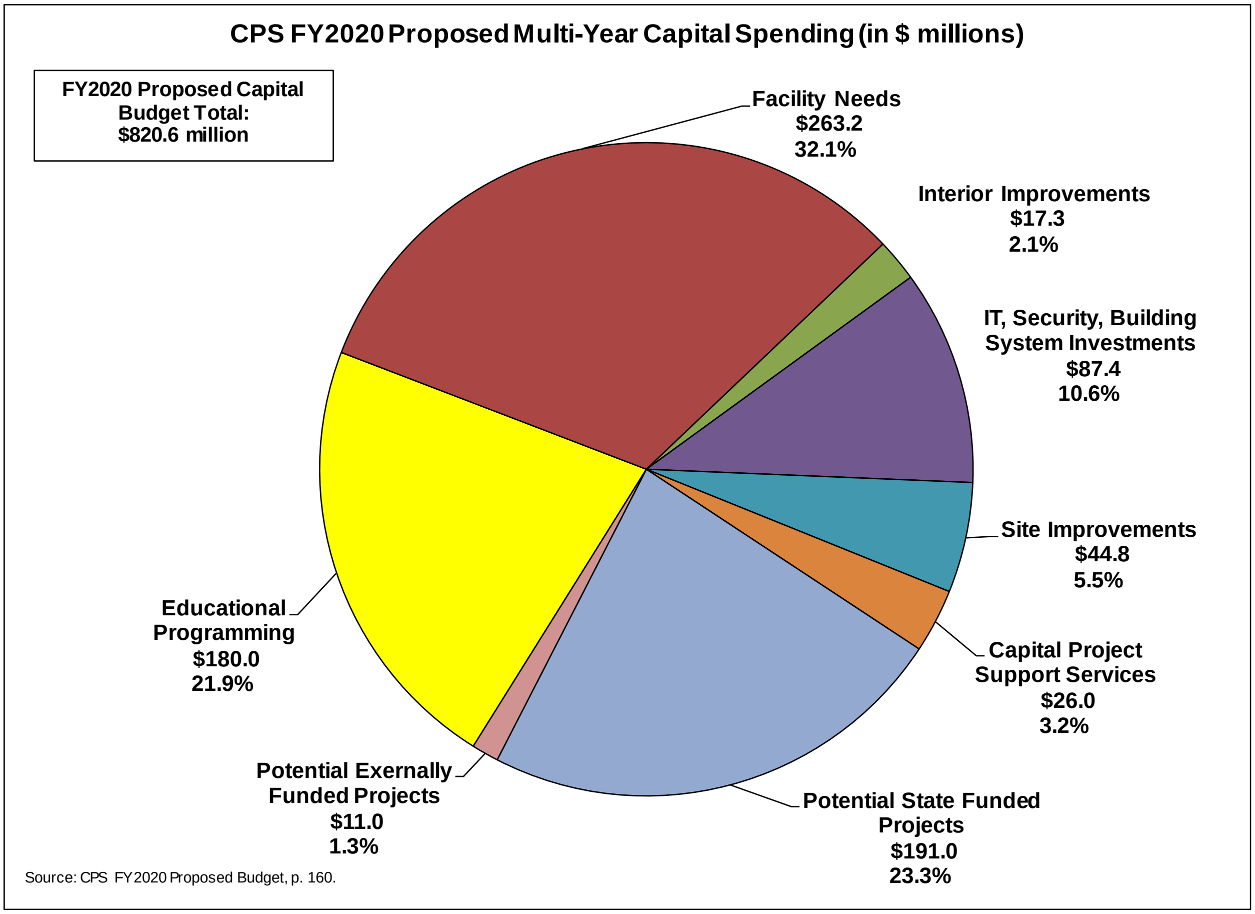
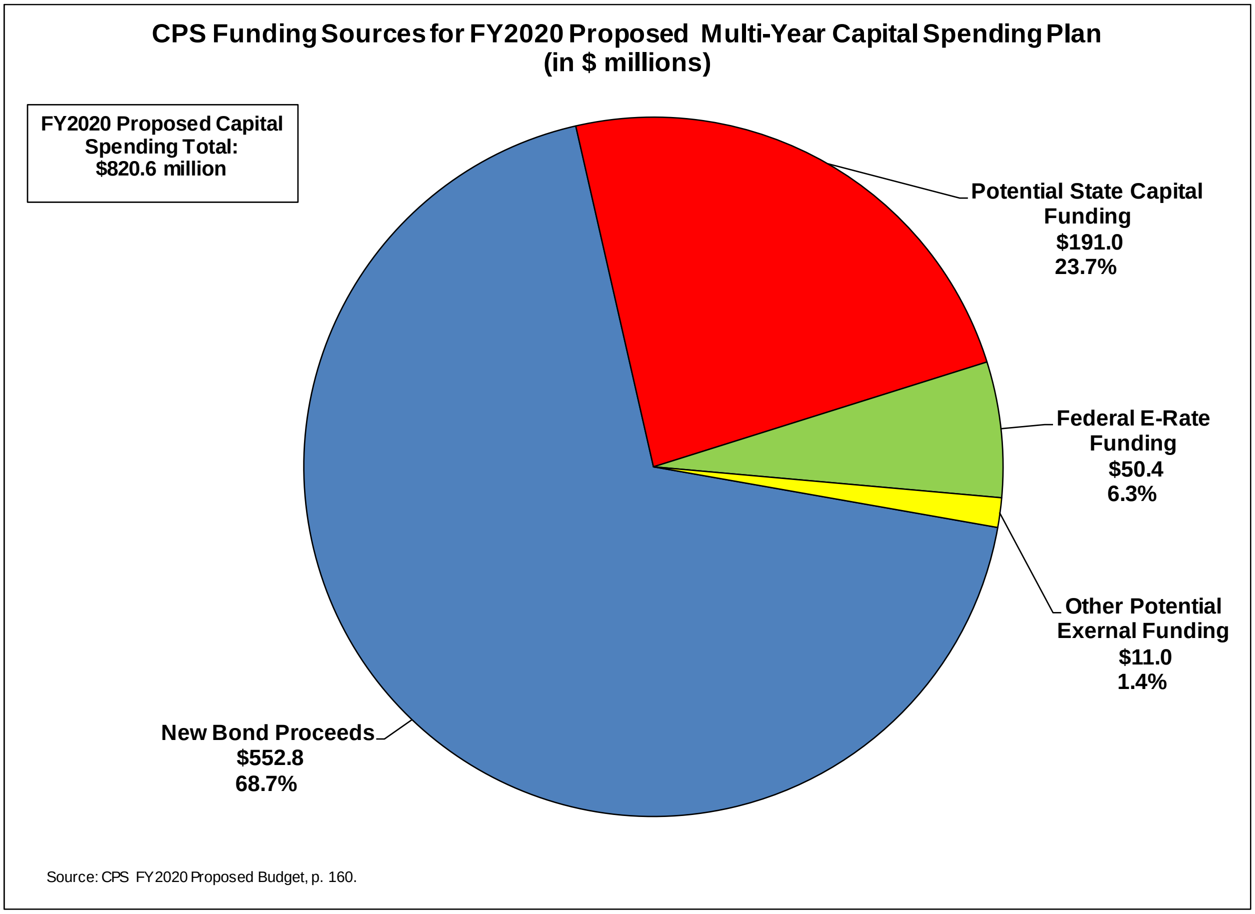
181 Fitch Ratings, "Fitch Downgrades Chicago Board of Ed (IL) ULTGOs to BBB+; Negative Watch," July 7, 2015.
182 Lauren FitzPatrick and Tina Sfondeles, "Chicago public schools and park district's debt downgraded to junk status," *Chicago Sun-Times*, May 13, 2015.
183 *Reuters*, "Update 2-Fitch Downgrades Chicago Board of Education rating to BBB-," March 20, 2015.
184 Dan Mihalopoulos and Lauren FitzPatrick, "CPS facing $200 million-plus penalties as bond ratings plunge," *Chicago Sun-Times*, March 20, 2015.
185 CPS FY2020 Proposed Budget, p. 160.
186 CPS FY2020 Proposed Budget, pp. 160-163.


CPS FY2020 Proposed Multi-Year Capital Spending (in $ millions)
FY2020 Proposed Capital Budget Total: $820.6 million
Facility Needs $263.2 32.1%
Interior Improvements $17.3 2.1%
IT, Security, Building System Investments $87.4 10.6%
Site Improvements $44.8 5.5%
Capital Project Support Services $26.0 3.2%
Potential State Funded Projects $191.0 23.3%
Potential Exernally Funded Projects $11.0 1.3%
Educational Programming $180.0 21.9%
Source: CPS FY2020 Proposed Budget, p. 160.

The FY2020 capital spending plan will be funded over time, primarily with debt proceeds. About $552.8 million, or 68.7% of all resources used, will be financed by new debt issuances. About 23.7% or $191.0 million, will be financed with potential state capital funds. Roughly 6.3%, or $50.4 million, will be derived from federal E-Rate funds and the remaining $1.4% or $11.0 million will come from other potential external funding sources.



Capital Project Revenues and Spending: FY2016-FY2020

This section presents information about two- and five-year trends in CPS capital plan spending.

The exhibit that follows shows capital revenues and expenses (outlays) to be incurred in FY2020 regardless of the year in which the project was appropriated. The fund balance amount shown is the difference between expected FY2020 capital expenses versus revenues. The amount unspent in one fiscal year carries forward into the next fiscal year.[187]

Here are some of the significant two-year changes between the FY2019 estimated and the FY2020 proposed budget:

- Total capital revenues will increase by $22.7 million, or 41.7%, from $54.4 million to $77.1 million;
- State of Illinois revenues are expected to increase from $13.3 million to $32.4 million. Of the $32.4 million amount, $13.3 million will be derived from gaming revenue for new construction projects, $0.8 million will be from Illinois Green Infrastructure Grants, $0.3 million will be funded by state environmental fines and $18.0 million will derive from other State of Illinois grants;[188]
- Local revenues will increase slightly from $34.5 million in FY2019 to $34.6 million. Approximately $13.0 million of the FY2018 amount will be from TIF-related projects and nearly $21.6 million will derive from other local funding sources;[189] and
- Federal revenues will increase from $6.6 million to $10.1 million. These revenues are expected to be derived from Federal E-Rate funding for upgrades to the District's information technology infrastructure.[190]

On the expenditure side, capital outlays will rise from $419.3 million in FY2019 to $522.8 million in FY2020; this is an increase of 24.7%. The $522.8 million figure represents amounts originally budgeted in prior years that will be spent in FY2020 as well as the estimated $150.0 million to be budgeted and spent in FY2020.

In the same two-year period, bond issuance will increase by 56.9%, rising from $352.5 million to $553.0 million. The sale of capital assets will increase from $0.5 million to $1.0 million. Finally, the District's end of year fund balance is expected to rise by 11.4%, from $952.9 million to $1.1 billion.

[187] CPS FY2020 Proposed Budget, p. 163.
[188] CPS FY2020 Proposed Budget, p. 164.
[189] CPS FY2020 Proposed Budget, p. 163.
[190] CPS FY2020 Proposed Budget, p. 164.

Over the five-year period between FY2016 and FY2020, total capital revenues are expected to decrease by 49.5% or $75.5 million. Capital outlays will increase by 78.4% or $229.8 million, rising from $293.0 million to $522.8 million. The end of year fund balance will rise from a negative balance of $131.9 million to $1.1 billion, a 904.5% increase. The FY2020 capital budget will begin the year with a $952.9 million balance of unspent revenue received in prior years.

CPS Capital Revenues and Outlays to be Incurred in FY2020 (in $ millions)

	FY2016 Actual Budget	FY2017 Actual Budget	FY2018 Actual Budget	FY2019 Estimated Budget	FY2020 Proposed Budget	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Beginning of Year Fund Balance	$ (131.0)	$ 138.9	$ 822.2	$ 964.7	$ 952.9	$ (11.8)	-1.2%	$ 1,083.9	-827.4%
Revenues									
Local Revenue	$ 42.6	$ 75.8	$ 46.0	$ 34.5	$ 34.6	$ 0.1	0.3%	$ (8.0)	-18.8%
State Revenue	$ 39.4	$ 30.1	$ 14.0	$ 13.3	$ 32.4	$ 19.1	143.6%	$ (7.0)	-
Federal Revenue	$ 7.7	$ 6.7	$ 19.5	$ 6.6	$ 10.1	$ 3.5	---	$ 2.4	31.2%
Other	$ 62.9	$ -	$ -	$ -	$ -	$ -	-	$ (62.9)	---
Total Revenue	**$ 152.6**	**$ 112.6**	**$ 79.5**	**$ 54.4**	**$ 77.1**	**$ 22.7**	**41.7%**	**$ (75.5)**	**-49.5%**
Expenditures									
Capital Outlay	$ 293.0	$ 204.8	$ 291.9	$ 419.3	$ 522.8	$ 103.5	24.7%	$ 229.8	78.4%
Bond Issuance	$ 363.9	$ 775.5	$ 355.4	$ 352.5	$ 553.0	$ 200.5	56.9%	$ 189.1	52.0%
Sales of Capital Assets	$ 15.0	$ -	$ (0.5)	$ 0.5	$ 1.0	$ 0.5	100.0%	$ (14.0)	---
End of Year Fund Balance	**$ (131.9)**	**$ 107.2**	**$ 964.7**	**$ 952.9**	**$ 1,061.2**	**$ 108.3**	**11.4%**	**$ 1,193.1**	**904.5%**

Sources: CPS FY2016 Proposed Budget, CPS FY2019 Proposed Budget, p. 165 and FY2020 Proposed Budget, p. 163.

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 exhibit shows the amount of capital funds spent each year that the funds were appropriated; this includes funds appropriated in prior years beginning in FY2015. In FY2020 alone, of the $820.6 million to be appropriated for capital projects, CPS intends to actually spend $150.0 million. Approximately $670.6 million of the FY2020 capital appropriation will be spent in subsequent time periods. A total of $1.58 billion will be spent in future years that was originally appropriated in budget years FY2015 through FY2020.

CPS Capital Spending Year by Year FY2015-FY2020 ($Millions)

	Total Appropriations	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Estimated	FY2020 Estimated	Remaining Appropriation
Prior Year/Other Expenditures		$ 231.9	$ 84.9	$ 32.8	$ 6.3	$ -	$ -	
FY2015 Capital Budget	$ 509.9	$ 152.6	$ 119.4	$ 42.0	$ 4.6	$ 2.6	$ 5.0	$ 183.7
FY2016 Capital Budget	$ 160.3	$ -	$ 66.8	$ 56.5	$ 18.8	$ 9.8	$ 8.4	$ -
FY2017 Capital Budget	$ 937.8	$ -	$ -	$ 73.5	$ 211.5	$ 251.3	$ 295.0	$ 106.5
FY2018 Capital Budget	$ 136.2	$ -	$ -	$ -	$ 50.7	$ 60.1	$ 25.4	$ -
FY2019 Capital Budget	$ 989.0	$ -	$ -	$ -	$ -	$ 157.1	$ 210.0	$ 621.9
FY2020 Capital Budget	$ 820.6						$ 150.0	$ 670.6
Total Spending Year by Year		**$ 384.5**	**$ 271.1**	**$ 204.8**	**$ 291.9**	**$ 480.9**	**$ 693.8**	**$ 1,582.7**

Source: CPS FY2020 Proposed Budget, p. 164.

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.[191] CPS has not yet published a FY2020-FY2024 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.

[191] Chicago Public Schools. Educational Facilities Master Plan Update, October 1, 2018 at https://schoolreports.cps.edu/EFMP/EducationalFacilitiesMasterPlan_2018_update.pdf.