The Civic Federation

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CHICAGO PUBLIC SCHOOLS FY2021 PROPOSED BUDGET:

Analysis and Recommendations

August 25, 2020

The Civic Federation ● 10 N. Dearborn Street ● Chicago, IL 60602 ● civicfed.org

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.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Prior to the COVID-19 pandemic, Chicago Public Schools had reached more stable financial footing than in previous years due to an influx in State-approved funding. Public Act 100-0456, passed in August 2017, instituted the new Evidence-Based Funding formula for statewide P-12 education funding, as well as additional funding for the Chicago Teachers' Pension Fund normal cost[1] and an increase to the CPS property tax levy dedicated to teachers' pension funding. The economic crisis caused by the pandemic has resulted in significant revenue losses at all levels of government and there is uncertainty regarding how long it will take the economy to recover. For reasons beyond the Chicago Public Schools' control, several of the District's revenue sources are now experiencing stagnation or declines at a time when the District needs revenue growth to meet its rising expenditures.

The Civic Federation supports the Chicago Public Schools (CPS) proposed budget for FY2021 as a reasonable plan given the current economic situation facing all state and local governments. However, the Federation has serious concerns about the additional $343 million in uncertain federal funding on which the budget relies. The Federation is also concerned about risks associated with state funding and property tax revenue, as they are the major sources on which the District depends to fund its schools and programs each year.

The FY2021 CPS budget proposes total spending of $8.4 billion, which is a 6.9% increase over the FY2020 budget of $7.8 billion that was amended to include new provisions for the collective bargaining agreements with the Chicago Teachers Union and the Service Employees International Union. The District is counting on uncertain federal funding to cover revenue losses in some state and local revenue sources, as well as remote learning costs and school reopening contingencies.

In addition to the uncertainties presented by the pandemic, the District has major budget issues to address: continued use of large amounts of short-term borrowing, underfunded teachers' pensions, declining enrollment and associated building utilization imbalances, and increasing costs for personnel and debt service to cover capital spending. All of these trends are occurring with no public long-term financial plan outlining how the District plans to address its challenges going forward.

The Civic Federation calls on the federal government to approve additional COVID-19 relief funding for State and local governments, including school districts, to use for general operating purposes and to cover revenue loss. The Civic Federation also calls on CPS to be transparent about what actions will be taken in the event that more federal funding does not come through in FY2021.

The Civic Federation is encouraged by the Board of Education continuing to demonstrate its commitment to improving transparency and public engagement. The Federation also commends CPS for being forthcoming about revenue challenges in FY2021 in the budget book narrative. Additionally, the Federation is pleased to see that the District continues to rebuild its general operating reserves.

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

The Civic Federation offers the following **key findings** from Chicago Public Schools' FY2021 Proposed Budget:

- The FY2021 proposed total spending plan for all funds of $8.4 billion is an increase of 6.9%, or $544.4 million, from the FY2020 amended budget of $7.8 billion;
- Proposed FY2021 appropriations for general operating purposes of $6.9 billion are an increase of 9.4%, or $596.7 million, above the FY2020 operating budget of $6.3 billion. The increase is primarily due to a $262.6 million, or 9.9%, increase in salaries; a $114.1 million increase in contracts; and a $124.3 million, or 36.5%, increase in contingencies. Salaries are increasing significantly because of the addition of positions for teachers, school support staff and citywide support including nurses and social workers;
- The FY2021 proposed capital budget of $758.0 million will be financed with $653.0 million in long-term debt, $47.3 million in State funding and $47.5 million in local funding and $10.1 million in federal capital funding sources;
- Property tax revenue is projected to increase by 4.2%, or $130.5 million, from $3.1 billion in the FY2020 budget to $3.3 billion in FY2021. The increase is due to a 2.3% inflationary increase in the Education Fund property tax levy (which is the maximum increase under the tax cap), taxing new property, capturing revenue from expiring TIF districts, $13 million from the Chicago Transit TIF district and $13 million in revenue growth in the property tax levy dedicated to funding the Chicago Teachers' Pension Fund;
- CPS is budgeting for a total of 39,739.2 Full-Time Equivalent (FTE) positions in FY2021. This is an increase of 1,701.8 FTEs, or 4.5%, from 38,037.4 FTEs budgeted in FY2020. The largest increases include 381.8 additional teacher positions, 898.5 additional school support staff (primarily classroom assistant positions), and 349.5 additional citywide student support positions including nurses and social workers;
- Salary expenses will increase in FY2021 from the prior year by $262.6 million, or 9.9%. Benefit expenses are expected to remain flat to FY2020 budgeted levels.
- Student enrollment has declined by 11.8%, or 47,525 over the past ten years, from 402,681 in FY2011 to 355,156 in FY2020. Over the ten-year period, preschool enrollment has declined by 6,213, or 26.2%, K-8 enrollment has declined by 32,405, or 12.2%, and high school enrollment has declined by 8,907, or 7.8%.
- CPS will again rely on short-term borrowing through Tax Anticipation Notes (TANs), but the reliance on TANs has decreased from $1.55 billion in FY2017 to $830 million in FY2020. The budgeted interest cost for short-term borrowing in FY2021 is $19 million;
- The District's long-term debt increased by 44.1% in the five years from FY2015 through FY2019, with $9.0 billion in long-term debt outstanding as of FY2019;
- CPS is required to contribute $885.9 million to the Chicago Teachers' Pension Fund in FY2021. The State of Illinois will cover $266.9 million of that amount, including $254.6 million to cover the normal cost and retiree healthcare plus an additional statutorily required contribution of $12.3 million. Approximately $490 million of the CPS contribution will be covered by the dedicated property tax levy for teachers' pensions. The remaining $128.8 million will come out of CPS' operating budget; and
- The Chicago Teachers' Pension Fund was 47.4% funded on an actuarial basis as of June 30, 2019, compared to 67.1% funded ten years prior. The Pension Fund had an Unfunded Actuarial Accrued Liability of $12.2 billion as of June 30, 2019, compared to $5.4 billion ten years prior.

The Civic Federation has the following **concerns** about the CPS FY2021 Proposed Budget and financial situation:

- Serious revenue risks and challenges, including:
  - The FY2021 budget relies on a significant amount of additional federal funding not yet approved by Congress;
  - State of Illinois funding is unstable due to COVID-19; and
  - There are risks associated with future property tax revenues due to COVID-19;
- Personnel levels and expenditures are increasing amid continued declines in enrollment without a public long-term financial plan;
- The District continues to rely on short-term borrowing; and
- The District has not issued a five-year Capital Improvement Plan in several years.

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

- Improved level of general operating reserves;
- Transparency on revenue challenges; and
- The Board of Education livestreaming meetings and holding remote meetings during the COVID-19 pandemic.

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

- The Chicago Board of Education Should Work with Illinois' Federal Delegation to Encourage the Federal Government to Provide Additional COVID-19 Funding Relief to School Districts and Other State and Local Governments;
- Publicly release actions to be taken if additional federal funding is not provided to CPS;
- 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;
- Include expenditures and personnel sections in the budget book;
- 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

Prior to the COVID-19 pandemic, Chicago Public Schools had reached more stable financial footing than in previous years due to an influx in State-approved funding. Public Act 100-0456, passed in August 2017, instituted the new Evidence-Based Funding formula for statewide P-12 education funding, as well as additional funding for the Chicago Teachers' Pension Fund normal cost[2] and an increase to the CPS property tax levy dedicated to teachers' pension funding. The economic crisis caused by the pandemic has resulted in significant revenue losses at all levels of government and there is uncertainty regarding how long it will take the economy to recover. For reasons beyond the Chicago Public Schools' control, several of the District's revenue sources are now experiencing stagnation or declines at a time when the District needs revenue growth to meet its rising expenditures.

The Civic Federation supports the Chicago Public Schools (CPS) proposed budget for FY2021 as a reasonable plan given the current economic situation facing all state and local governments. However, the Federation has serious concerns about the additional $343 million in uncertain federal funding on which the budget relies. The Federation is also concerned about risks associated with state funding and property tax revenue, as they are the major sources on which the District depends to fund its schools and programs each year.

The FY2021 CPS budget proposes total spending of $8.4 billion, which is a 6.9% increase over the FY2020 budget of $7.8 billion that was amended to include new provisions for the collective bargaining agreements with the Chicago Teachers Union and the Service Employees International Union. The District is counting on uncertain federal funding to cover revenue losses in some state and local revenue sources, as well as remote learning costs and school reopening contingencies.

In addition to the uncertainties presented by the pandemic, the District has major budget issues to address: continued use of large amounts of short-term borrowing, underfunded teachers' pensions, declining enrollment and associated building utilization imbalances, and increasing costs for personnel and debt service to cover capital spending. All of these trends are occurring with no public long-term financial plan outlining how the District plans to address its challenges going forward.

The Federation calls on the federal government to approve additional COVID-19 relief funding for State and local governments, including school districts, to use for general operating purposes and to cover revenue loss. The Civic Federation also calls on CPS to be transparent about what actions will be taken in the event that more federal funding does not come through in FY2021.

The Civic Federation is encouraged by the Board of Education continuing to demonstrate its commitment to improving transparency and public engagement. The Federation also commends CPS for being forthcoming about revenue challenges in FY2021 in the budget book narrative. Additionally, the Federation is pleased to see that the District continues to rebuild its general operating reserves.

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

Issues of Concern

The Civic Federation has the following concerns regarding the FY2021 Proposed Budget and CPS' current financial situation.

Serious Revenue Risks and Challenges

Budget Relies on Significant Amount of Additional Federal Revenue Not Yet Approved by Congress

The CPS FY2021 proposed budget relies on $343 million in federal revenue not yet approved by Congress. CPS received $206 million in federal funding through the CARES Act. But negotiations regarding additional federal funds proposed in Congress, including the HEROES Act passed in the U.S. House and the HEALS Act introduced in the U.S. Senate, have stalled. Without additional federal funding, CPS will have a large budget hole to fill. CPS says it has identified ways it would close the budget gap if the federal funding does not materialize, including using reserves from the debt service stabilization fund, grant contingencies or cutting the budgets of schools and departments.

The Civic Federation recognizes the urgent need for federal aid to replace revenue lost to state and local governments due to economic disruptions caused by COVID-19, and calls on Congress to pass legislation providing funds that are imperative to stabilize government units in distress, including school districts. In the event that additional federal funding is not approved in FY2021, however, the Civic Federation urges CPS to publicly share detailed contingency plans for how it would address the resulting budget gap.

State Funding Unstable

The economic impact of COVID-19 caused a decline in State of Illinois revenues of $1.8 billion, or 4.8%, in FY2020 compared to actual revenue the prior year.[3] The adopted FY2021 State budget did not include an increase to P-12 education funding and instead held education funding flat to FY2020 due to the State's serious fiscal challenges. This impacts Chicago Public Schools because the State did not appropriate the $350 million increase in the Base Funding Minimum for FY2021 that was intended to be appropriated each year based on the Evidence-Based Funding formula law. Therefore, CPS will not receive approximately $60 million in additional funding it would have received if the State had funded the increase in Evidence-Based Funding. The Evidence-Based Funding formula has significantly improved CPS' financial condition, but at the same time CPS is heavily reliant on the State to continue providing funding education increases while the State's finances are unstable.

Another source of revenue collected by the State of Illinois and disbursed to local governments, the personal property replacement tax (PPRT), which is a corporate income tax, is expected to decline in FY2021 due to the economic impact of COVID-19 on businesses. CPS is projecting a decline in PPRT revenue in FY2021 of $20 million from the prior year budget due to a statewide decline in corporate income tax revenues related to COVID.

[3] CPS FY2021 Proposed Budget, p. 19.

Additionally, CPS is not the only government relying upon additional federal funding to balance its budget. The State of Illinois' FY2021 budget also relies on $5.0 billion in additional federal funding. If this funding does not materialize, the State has said it will borrow from the Federal Reserve Bank's Municipal Liquidity Facility. But there is also a risk that the State could allow its backlog of unpaid bills to grow as a way of dealing with the deficit, as happened during the budget impasse in FY2016 and FY2017. The result was that distributions of State education funding were delayed, contributing to the District's concurrent financial distress.

Risks Associated with Future Property Tax Revenues due to COVID-19

The CPS proposed budget for FY2021 discusses several risks associated with local property tax revenues as a result of economic declines related to COVID-19. The Civic Federation echoes the District's concerns, including the following:

- The Cook County Assessor has announced plans to decrease property valuations in accordance with the impact of COVID-19, which could impact future revenue generated from the CPS property tax levy dedicated to teacher pension funding because it is based on the total equalized assessed value of all property in Chicago. If the Assessor were to decrease property values by 10%, CPS could see property tax revenue loss of $39 million from its pension levy, which would impact the FY2022 budget.
- The economic impact of COVID-19 has resulted in a drop in inflation from 2.3% in 2019 to 0.6% in 2020, on which CPS' FY2022 property tax levy will be based. Because CPS' Education Levy is tax-capped to the rate of inflation or 5.0%, whichever is less, the decrease in inflation would limit the size of the District's property tax revenue increase. CPS projects that the inflation slow-down could impact FY2022 property tax revenues to the Education Levy by $44 million.
- There has been a slow-down in property value growth in FY2020 because of decline in new construction due to COVID-19. The FY2021 budget assumes new property valued at $609 million based on a decline in construction of 29%, compared to $859.9 million in new property in FY2020.[4] A continuation of the slow-down in FY2021 could limit how much revenue CPS is able to generate for its Education Levy outside of the inflation cap described above. In addition to inflation-based increases in the Education Levy, CPS is able to levy for new property outside of the caps imposed by the property tax extension limitation law (PTELL).
- CPS does not anticipate any major long-term impact on property tax revenue due to Cook County waiving the late penalty for payment of property taxes by 60 days. However, it will remain to be seen if significant amounts of tax year 2019 (payable 2020) revenues will be collected outside the revenue recognition period due to the penalty interest waiver and therefore count as FY2021 revenues rather than FY2020 revenues. There is also the possibility of reduced collection rates from businesses or homeowners who are unable to pay their property taxes.

The Civic Federation commends CPS for explaining these anticipated challenges in detail in the budget book and being transparent about how these factors could put stress on the District's

[4] CPS FY2021 Proposed Budget, p. 25.

revenue sources. Revenue losses could impact the District's ability to meet expenditure levels in upcoming years.

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

While enrollment at CPS has been declining consistently over time, spending on personnel and other costs continue to rise without sufficient revenues to match them. In the ten years between FY2011 and FY2010, CPS lost 47,525 students, or 11.8% of the student population. The District had 355,156 students in fall 2019 compared to 402,681 students in fall 2010. Over the five-year period from FY2017 to FY2021, personnel has increased by 7.2%, or 2,651.8 full-time equivalent positions. In the same five-year period, spending on salaries and other employee benefits is projected to increase by 22.6% or $841.8 million. Salaries alone will increase by 21.1% or $506.0 million.

The collective bargaining agreement reached with the Chicago Teachers Union for FY2020 through FY2024 is expected to require an additional $558.3 million over the five-year period. At the time the contract was approved in fall 2019, the District expected that its State and local revenue would grow by $200 to $250 million annually.[5] The COVID-19 pandemic has seriously compromised the likelihood of meeting those expectations.

The District also has a massive capital footprint, with maintenance and construction costs covered by long-term debt issuances. The annual debt service budget to pay for the principal and interest on debt has increased by 26.0%, or $146.8 million, over the past five years.

While the Civic Federation recognizes that spending increases are tied to contractual obligations to increase staffing levels and salaries according to the collective bargaining agreement with the Chicago Teachers Union and statutorily required increases in pension contributions, the Federation is concerned that a continuation of these trends will be unsustainable over the long term. We urge the District to produce a public multi-year plan outlining options the District can use to balance its budgets in the event of continued revenue stagnation or declines.

Continued Reliance on Short-Term Borrowing

CPS experiences annual cash-flow problems due to the timing of debt and pension payments that occur just before the District receives its two installments of property tax revenue, while large expenses such as payroll and vendor payments must be disbursed consistently throughout the year. Ideally, CPS would use its operating reserves to cover periods of low cash-flow. However, CPS spent down its reserves in past years in order to balance annual budgets and make pension payments without making budget cuts. While reserves are higher now, the District does not have enough fund balance to match the amount on which it would need to draw, thus creating a cash shortfall.

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

CPS has operated with a negative cash balance for much of the fiscal year for the past several years, although the District's cash position has improved since the passage of the statewide Evidence-Based Funding formula in 2017, which resulted in increased State funding and property tax revenues for CPS. The District spent nearly all of FY2017 in a negative cash position compared to holding positive cash position for five months in FY2019 and FY2020.

To cover its cash shortfall, CPS utilizes short-term borrowing through Tax Anticipation Notes (TANs) to generate enough cash to make payments throughout the year. At the height of the State's fiscal crisis in FY2017, CPS borrowed up to $1.55 billion, which has since been reduced to $830 million in FY2020. The interest costs associated with the short-term borrowing has also decreased from $79 million budgeted in FY2018 to $19 million budgeted for FY2021.

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

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

The Federation remains concerned about the volume of debt that continues to be issued annually to fund the District's capital plans without an adequate level of transparency about how the funds are to be allocated and prioritized. Based on State statute CPS is supposed to prepare and publish a five-year capital improvement plan (CIP) on an annual basis. However, the last full five-year capital plan was published in FY2016. CPS does publish other planning documents such as the Educational Facilities Master Plan that provide helpful information and detail about CPS population shifts and school building utilization, but they do not provide any project-specific information to help the public understand whether capital funding allocations throughout the District are fair or justified. The information provided in the FY2021 capital plan is insufficient to allow the CPS community to fully understand why certain projects are prioritized over others or how they are financed.

Issues the Civic Federation Supports

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

Improved Level of General Operating Reserves

CPS has begun building back up its general operating reserves, measured as the "unrestricted" fund balance (fund balance without any spending constraints) in the General Operating Fund. Fund balance is generally kept in reserve and used in times of financial emergency. However, CPS depleted its reserves between FY2013 and FY2015 in order to close operating budget gaps without making budget cuts. In FY2016 and FY2017, the general operating fund balance fell to negative levels. Since then, increased State of Illinois revenues from the adoption of Evidence-

Based Funding and increased property tax revenues have helped stabilize the CPS budget. As of FY2019, the unrestricted fund balance in the General Operating Fund was $441.0 million.

The FY2021 proposed CPS budget reports that the total General Operating Fund fund balance for both restricted and unrestricted funds was $501.6 million. This is a positive trend, as higher levels of reserves will help CPS to weather the economic downturn caused by COVID-19. However, this level is still not sufficient to cover the level of cash flow needed throughout the year to cover payroll and other ongoing expenses while awaiting large property tax receipts, so the District will continue to rely on short-term borrowing to meet cash-flow needs.

Transparency on Revenue Challenges

As noted above, the FY2021 budget includes a description of several challenges and risks associated with revenue sources including State of Illinois funding and local property tax funding. While these challenges are worrying, the Civic Federation commends CPS for explaining these anticipated challenges in detail in the budget book and for being candid about how these factors could put stress on the District's revenue sources because revenue losses could impact the District's ability to meet expenditure levels in upcoming years. The Federation applauds CPS for keeping stakeholders and the public informed.

Board of Education Livestreaming Meetings and Holding Remote Meetings During COVID-19

The current Chicago Board of Education appointed in spring of 2019 by Mayor Lori Lightfoot has taken several steps to improve transparency and public engagement. The Board began livestreaming Board meetings to the public on the CPS YouTube channel in July 2019. Additionally, the Board created committees to focus on specific topics such as workforce development and early childhood education. The Civic Federation commends the Board of Education for streaming meetings live to the public and increasing transparency by holding substantive discussions during public Board meetings rather than behind closed doors.

When the COVID-19 pandemic halted in-person gatherings in March 2020, the Chicago Board of Education was one of the first large Chicago-area local governments to begin holding Board hearings remotely via videoconference. The Civic Federation was pleased to see Chicago Public Schools and the Board of Education move quickly to change its meeting format in order to avoid a lapse in meetings and critical decision-making, and the continued practice of livestreaming those remote meetings.

Civic Federation Recommendations

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

The Chicago Board of Education Should Work with Illinois' Federal Delegation to Encourage the Federal Government to Provide Additional COVID-19 Funding Relief to School Districts and Other State and Local Governments

The Civic Federation supports additional federal COVID-19 relief funding for local governments, including school districts, to use for general operating purposes and to cover revenue losses. The Federation recommends that the Chicago Public Schools and Board of Education take an active role in working with Illinois' federal delegation to advocate for additional funding for school districts. The District should be clear with the public about what the consequences would be in the absence of additional funding.

Prior to the COVID-19 pandemic, Chicago Public Schools had reached more stable financial footing than in previous years. This was a result of the passage of Public Act 100-0456 in August 2017, which instituted the new Evidence-Based Funding formula for statewide P-12 education funding, as well as additional funding for the Chicago Teachers' Pension Fund normal cost[6] and the authority for CPS to increase its property tax levy dedicated to teachers' pension funding. The economic crisis caused by the pandemic has resulted in significant revenue losses at all levels of government, both state and local, and there is much uncertainty regarding how long it will take the economy to recover from the slowdown. For reasons out of the Chicago Public Schools' control, several of the District's revenue sources are now experiencing stagnation or at a time when the District needs revenue growth to meet its rising expenditures due to increased staffing and inflationary spending increases.

While some government units entered the pandemic in stable financial condition, and some (such as the Chicago Public Schools) much less so, all state and local governments are now in major distress. No state or local government is responsible for the economic calamity caused by the coronavirus. Nor does any state or local government have the fiscal capacity to weather the crisis on its own. The U.S. government is the only entity that can—and therefore must—take action to help all of its governments maintain programs and services and avoid a worse recession tied to reduced state and local government spending.

Publicly Release Actions to be Taken if Additional Federal Funding is Not Provided

The Civic Federation understands that CPS is in a difficult position and therefore calls on CPS to proceed with transparency on what actions will need to be taken under the various scenarios that may occur related to COVID-19. There are a number of questions stakeholders and the public need to know the answers to:

- If the majority or all of the school year ends up being held remotely, how will this affect staffing levels? Would all positions still be necessary for the FY2021 school year? How would resources be shifted?

[6] The normal cost is the annual cost of pensions earned by employees that year.

- How would CPS fill any budget hole left by a lack of sufficient federal funding? How much of the general operating reserves would be used? What areas of the budget would be cut?

The Federation recommends that CPS publicly discuss and release contingency plans for the various scenarios that could take place this school year given the uncertainties presented by the coronavirus.

Develop a Long-Term Financial Plan

Strategic financial planning for school districts is a best practice recommended by the Government Finance Officers Association.[7] 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.

Economic pressures due to the COVID-19 pandemic have created some instability and risk for CPS' revenue streams, while the District must meet obligations for increased spending and personnel levels. CPS should develop a long-term financial plan that lays out options for how the District can achieve its goals while also achieving financial stability. The financial plan should include a forecast of operating revenues and expenditures over the next five years, discussion of the assumptions behind the forecast and multiple scenarios that can be used by the Board of Education and staff to help make decisions. It should identify possible actions that could be taken to eliminate the structural deficit, build up reserves and further reduce short-term borrowing. The planning process would ideally involve and a number of stakeholders: the Board of Education, CPS leadership and financial management staff, City Hall and school representatives. It would be an iterative process, and projections would be updated as new information becomes available.

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

The District has not released a public five-year plan detailing capital projects since FY2016 despite the fact that it is required by law.[8] 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

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

[8] 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.

criteria, updates on progress, changes in cost and impact on future budgets. The FY2016-FY2020 five-year capital plan did not include much more than each single-year capital plan, but rather than listing projects for a single year, it listed projects over a period of five years. The District's recent single-year capital plans do not provide nearly enough information for stakeholders to understand the scope of the projects, the selection process, why certain projects are prioritized over others, and updates on their completion.

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

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

The following elements should also be included in a complete five-year Capital Improvement Plan:[9]

- 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[10] 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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[9] 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.

[10] 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 21, 2020).

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.[11]

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.[12] 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.[13]

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

[11] CPS FY2019 Proposed Budget, p. 215.
[12] For more about the differences in fund balance reporting before and after GASB Statement No. 54, see p. 43 of this report.
[13] 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.

District-wide operating expenditures and personnel trends are explained in only three pages in the budget book.[14] While the interactive reports provide very detailed data, there is no textual explanation to describe why certain expenditure or personnel categories are changing from one year to another. Given the recent significant increases in expenditures and staffing levels, more detail is needed to understand why increases are occurring. For example, the FY2021 proposed budget includes large expenditure increases for salaries, contracts and contingencies. Additional details are needed to understand the year over year changes—for example, how much of the salary increases are due to cost of living adjustments versus new positions, and what kinds of contracts are driving the increases.

Total FTE counts in FY2021 are increasing by 1,701.8, which is a 4.5% increase over the prior year. Based on data in the online interactive budget reports for FY2021, it appears that a significant portion of this increase is for additional classroom assistants, as well as teachers, nurses and social workers. Context for the rationale behind the staffing increases is needed. Additionally, the position counts in the online interactive reports by school and position title are not grouped in such a way that makes it possible to determine the total number of positions that fall into broader categories such as special education teachers, social workers, nurses and librarians. CPS should provide a summary overview of FTEs within these types of categories and an explanation for why certain categories are increasing or decreasing.

Provide Regular Revenue and Expenditure Reports

CPS finance staff began providing quarterly financial reports to the Board of Education 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. This is in line with best practices recommended by the Government Finance Officers Association (GFOA).[15] However, this practice has not continued on a regular basis.

The Civic Federation encourages CPS to continue providing financial reports on a regular basis in order to keep the Board of Education 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 integrity and transparency. The Federation further 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.[16] CPS also

[14] See pp. 13-15 of the CPS FY2020 Proposed Budget.
[15] 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).
[16] CPS still picks up the 7.0% portion of the 9.0% employee contribution for CTPF members hired before January 1, 2017, which in FY2021 will cost $128.9 million.

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.[17] 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 $40.6 million in FY2021, up from $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 versus teachers in the rest of Illinois is inequitable. The State of Illinois pays for the normal cost and the unfunded liability for all downstate and suburban districts, but only covers for the normal pension costs for Chicago teachers' pensions. The FY2021 State contribution to the Teachers' Retirement System (TRS), the pension fund for teachers in all school districts outside of Chicago, is $5.1 billion.[18] In contrast, the FY2021 State contribution to the Chicago Teachers' Pension Fund (CTPF) is $266.9 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 ($78 billion in unfunded liability for TRS and $12.2 billion in unfunded liability for CTPF as of FY2019), and for school districts to cover the normal cost for their teachers' pensions (the future benefits accrued by active employees in the current year).

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

Under a consolidation plan, the CTPF and TRS systems would be managed by a single pension board that would have proportional representation for both teachers' pension funds. However, the current member plans would be maintained as separate accounts, so contributions by and for

[17] Over half of the approximately 31,000 active members of the Chicago Municipal Pension Fund, both working and retired, are CPS employees.
[18] CPS FY2021 Proposed Budget, p. 39.

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 Chief Financial Officer Miroslava Krug, Treasurer Walter Stock, 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 about the proposed budget.

FY2021 BUDGET DEFICIT

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, increases in required pension contributions and insufficient pension funding from the State of Illinois. CPS had an annual operating deficit of $1.14 billion in FY2017, which was primarily 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 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 through FY2021. In FY2019 the District started the year with a budget gap of $59 million and in FY2020 CPS estimated a budget gap of $105 million.[19]

In FY2021 CPS anticipates a budget gap of $321 million caused by revenue losses and one-time expenses related to COVID-19, as shown in the table below. The District plans to close the deficit with a total of $321 million in federal funding, including $72 million in CARES Act funding and $249 million in additional funding CPS anticipates receiving from the federal government. However, Congress has not approved either of the additional COVID-19 relief bills introduced in the U.S. House (HEROES Act) and Senate (HEALS Act) and it remains to be seen if, when and how much another federal coronavirus relief bill will allocate to P-12 school districts. If the second round of federal funding does not come through, CPS says it will balance the budget without federal funds through use of reserves, grant contingencies or budget cuts.[20]

CPS FY2021 Budget Gap Closing (in $ millions)		
FY2021 Beginning of Year Deficit	**$**	**321.0**
Deficit Drivers		
Loss in Anticipated State Evidence-Based Funding and Other State Grants	$	83.0
Loss in Anticipated Personal Property Replacement Tax Revenue	$	76.0
Lower Property Tax Revenue Estimate due to Decline in New Property Value	$	8.0
Lower Medicaid Receipts due to School Shutdown	$	6.0
School Reopening and Remote Learning Expenses	$	75.0
One-Time Expenses for Student Corrective Actions (non-COVID-19)	$	26.0
Contingency for School Reopening Expenses and Remote Learning Support	$	47.0
Total Federal Funding to Support FY2021 Expenses	**$**	**321.0**
Ending Deficit	**$**	**-**

Source: Information provided by the CPS Budget Office, August 20, 2020.

[19] Information provided by the CPS Budget Office on July 10 and 17, 2018 and August 22, 2019.
[20] Communication with CPS Budget Office, August 10, 2020.

RESOURCES

This section presents total resources that CPS will use in FY2021 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.

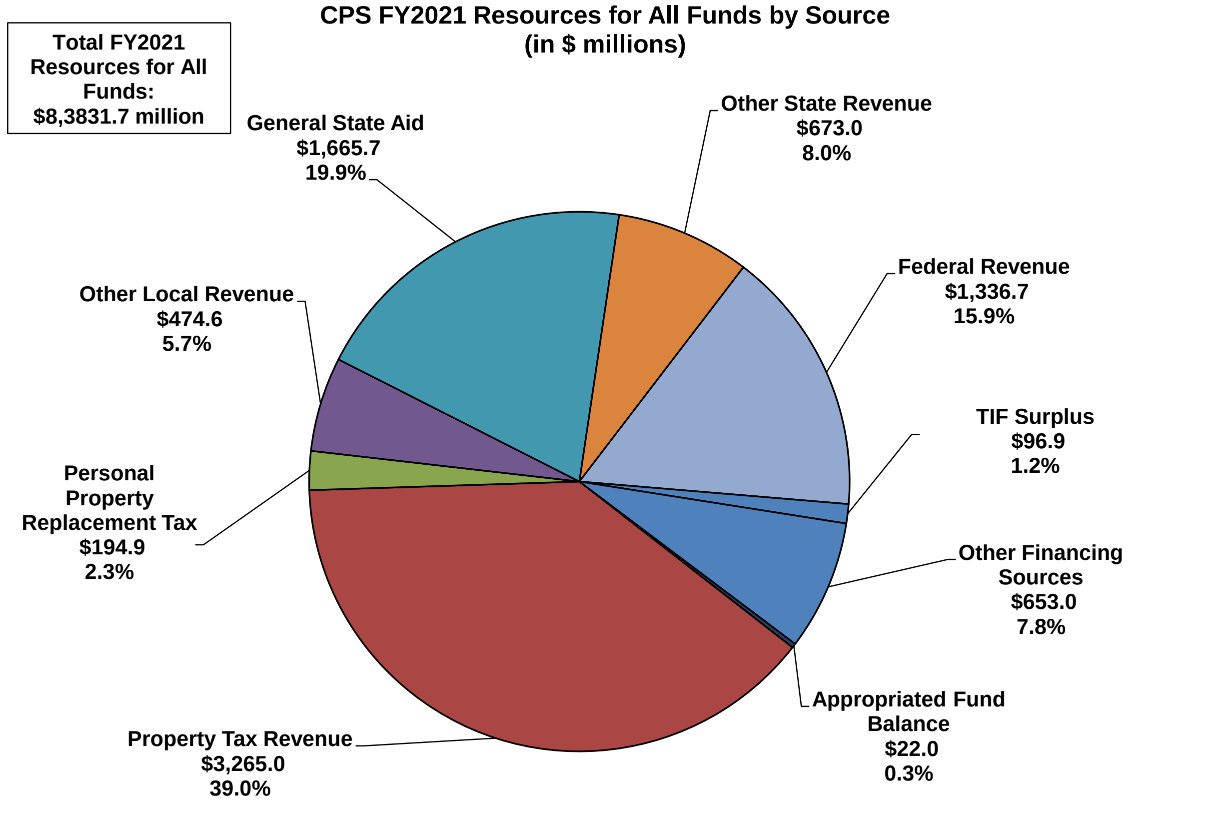
Total Resources FY2021

CPS projects total resources for all funds in FY2021 to be $8.4 billion, compared to $7.8 billion budgeted the prior year.

The pie chart below presents the District's total projected resources and revenues by source for FY2021. The largest revenue source is the property tax, which is expected to generate $3.3 billion, or 39.0%, of the District's total resources. State revenue will constitute the second largest revenue source, at 27.9% of total resources – including $1.7 billion, or 19.9%, in General State Aid (now Evidence-Based Funding) and $673.0 million, or 8.0%, in other State revenue. Other State revenue includes block grants and other grants, State pension funding for teachers and driver's education funding. The District is expecting to receive $1.3 billion in federal funds, which includes $206 million from the CARES Act and $343 million in additional federal legislation related to COVID-19 that has not yet been provided. Personal Property Replacement Tax revenue will account for $194.9 million, or 2.3% of total resources. CPS also plans to use $22.0 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.[21] Other financing sources, which are anticipated proceeds from the future sale of bonds, are expected to account for $653.0 million, or 7.8% in resources to fund the District's capital projects. In FY2020 CPS is budgeting $96.9

[21] CPS FY2021 Proposed Budget, p. 203.

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



Source: CPS FY2021 Proposed Budget, pp. 22-23, 182 and 191; and Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 12, 2020).

The following table details the total resources proposed for FY2021 by fund. The General Operating Fund accounts for the majority, 82.5%, of total resources. The District projects general operating revenue from local, state and federal sources to be $6.8 billion. With an additional $96.9 million in TIF Surplus and $22.0 million in restricted fund balance, this brings the total general operating resources to $6.9 billion.

Capital funding is proposed at $757.9 million in FY2021, which includes $653 million in anticipated proceeds for bonds the District plans to issue. The debt service fund is budgeted to receive $707.8 million in revenue from local, state and federal sources. The capital fund accounts for 9.0% of total proposed FY2021 resources and the debt service fund accounts for 8.4%.

CPS FY2021 Revenues and Resources by Fund Type (in $ millions)				
	General Operating	Capital	Debt Service	Total
Property Taxes	$ 3,204.0	$ 5.3	$ 55.7	$ 3,265.0
Replacement Tax	$ 155.5	$ -	$ 39.4	$ 194.9
Other Local Revenue*	$ 290.1	$ 42.2	$ 142.3	$ 474.6
Subtotal Local Revenue	**$ 3,649.6**	**$ 47.5**	**$ 237.4**	**$ 3,934.4**
General State Aid/Evidence-Based Funding	$ 1,220.1	$ -	$ 445.6	$ 1,665.7
Other State Grants	$ 625.7	$ 47.3	$ -	$ 673.0
Subtotal State Revenue	**$ 1,845.8**	**$ 47.3**	**$ 445.6**	**$ 2,338.7**
Federal Revenue	$ 1,301.8	$ 10.1	$ 24.8	$ 1,336.7
Total Revenues	**$ 6,797.1**	**$ 104.9**	**$ 707.8**	**$ 7,609.8**
Other Financing Sources	$ -	$ 653.0	$ -	$ 653.0
TIF Surplus	$ 96.9	$ -	$ -	$ 96.9
Appropriated Fund Balance	$ 22.0	$ -	$ -	$ 22.0
Total Resources	**$ 6,916.0**	**$ 757.9**	**$ 707.8**	**$ 8,381.7**
Percent of Total	**82.5%**	**9.0%**	**8.4%**	

*Other Local Revenue includes interest income.

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

Source: CPS FY2021 Proposed Budget, pp. 22-23, 182 and 191; and Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 12, 2020).

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 FY2017 to FY2021. In the two-year period between FY2020 and FY2021, the proposed FY2021 budget represents a 6.8% increase of $532.3 million from the FY2020 budget of $7.8 billion.

Over the five-year period from FY2017 to FY2021, total budgeted resources have increased by 30.7%, or $2.0 billion, from $6.4 billion to $8.4 billion. During this period, several revenue sources have increased significantly. Property tax revenue is projected to increase by 22.8%, or $605.2 million, from $2.7 billion in FY2017 to $3.3 billion in FY2021. General State Aid, which is now Evidence-Based Funding, also has increased significantly by 54.8%. This is partially offset by a decrease 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 $451.6 million or 23.9% over the five-year period. Federal funding had been decreasing over the years, but CPS has proposed an increase of $476.0 million, or 55.3% in the FY2021 budget, due to anticipated federal funding related to COVID-19 that CPS is expecting but Congress has not approved.

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

CPS Revenues and Resources All Funds by Source: FY2017-FY2021 (in $ millions)									
Source	FY2017 Amended	FY2018 Amended	FY2019 Adopted	FY2020 Amended	FY2021 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Property Taxes	$ 2,659.8	$ 2,909.4	$ 2,984.3	$ 3,134.5	$ 3,265.0	$ 130.5	4.2%	$ 605.2	22.8%
Replacement Taxes	$ 188.8	$ 148.7	$ 161.1	$ 215.3	$ 194.9	$ (20.4)	-9.5%	$ 6.1	3.2%
Other Local Revenue*	$ 310.5	$ 393.4	$ 364.4	$ 442.7	$ 474.6	$ 31.9	7.2%	$ 164.1	52.8%
Subtotal Local Revenue	**$ 3,159.1**	**$ 3,451.6**	**$ 3,509.7**	**$ 3,792.5**	**$ 3,934.5**	**$ 142.0**	**3.7%**	**$ 775.3**	**24.5%**
General State Aid / Evidence-Based Funding	$ 1,076.1	$ 1,546.2	$ 1,646.3	$ 1,673.7	$ 1,665.7	$ (8.0)	-0.5%	$ 589.6	54.8%
Other State Revenue	$ 810.9	$ 534.3	$ 546.1	$ 608.0	$ 673.0	$ 65.0	10.7%	$ (137.9)	-17.0%
Subtotal State Revenue	**$ 1,887.1**	**$ 2,080.5**	**$ 2,192.4**	**$ 2,281.8**	**$ 2,338.7**	**$ 56.9**	**2.5%**	**$ 451.6**	**23.9%**
Federal Revenue	$ 860.7	$ 813.4	$ 836.7	$ 767.5	$ 1,336.7	$ 569.1	74.2%	$ 476.0	55.3%
Total Revenues	**$ 5,906.9**	**$ 6,345.5**	**$ 6,538.8**	**$ 6,841.7**	**$ 7,609.8**	**$ 768.1**	**11.2%**	**$ 1,702.9**	**28.8%**
Bond Proceeds	$ 335.6	$ -	$ 963.5	$ 788.6	$ 653.0	$ (135.6)	-17.2%	$ 317.4	94.6%
TIF Surplus	$ 87.5	$ 22.3	$ 22.3	$ 163.1	$ 96.9	$ (66.2)	-40.6%	$ 9.4	10.7%
Fund Balance Use / (Sources)	$ 80.8	$ 57.8	$ 62.6	$ 56.0	$ 22.0	$ (34.0)	-60.7%	$ (58.9)	-72.8%
Total Resources	**$ 6,410.8**	**$ 6,425.5**	**$ 7,587.2**	**$ 7,849.4**	**$ 8,381.7**	**$ 532.3**	**6.8%**	**$ 1,970.9**	**30.7%**

*Other Local Revenue includes interest income.

Note: Fund balance budgeted in FY2021 is unspent restricted funds from prior years that must be used for specific purposes.

Source: CPS Budget Interactive Online Reports FY2017-FY2021, Revenues & Expenditures, available at www.cps.edu; and CPS FY2019 Adopted Budget, pp. 161 and 171; FY2020 Amended Budget, pp. 160 and 169; and FY2021 Proposed Budget, pp. 182 and 191.

Local Revenue

Local revenue is expected to total $3.9 billion in FY2021, which is an increase of 3.7% over the prior year budget and a 24.5% increase over the five-year period beginning in FY2017. Local revenues consist of property taxes, Personal Property Replacement Tax and other local revenue sources from the City of Chicago.

Property tax revenue will increase by 4.2%, or $130.5 million in the two-year period from FY2020 to FY2021. The increase is due to several factors. First, the District will increase its Education Fund property tax levy by 2.3%, which is the maximum increase allowed under the Property Tax Extension Law Limit (PTELL) based on the 2019 inflation rate.[22] This levy increase will account for an additional $66 million. Second, levying for new property will generate an additional $20 million in revenue. Third, the District will receive $13 million from the Transit TIF district for the Red-Purple Modernization rail project. Fourth, the District expects to receive $18 million from expiring TIF districts.[23] Additionally, the pension levy for the Teachers' Pension Fund is expected to generate $13 million more than the prior year levy.

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 decrease by $20.4 million, or 9.5%, from $215.3 million in FY2020 to $194.9 million in FY2021. The decrease is due to a decrease in collections by the State due to the economic slowdown caused by COVID-19.[24]

[22] CPS FY2021 Proposed Budget, p. 24.
[23] CPS FY2021 Proposed Budget, p. 24.
[24] CPS FY2021 Proposed Budget, p. 29.

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.[25] Other local revenues are projected to increase by $31.9 million, or 7.2%, in FY2021 compared to the prior year. Over the five-year period from FY2017 to FY2021, other local revenue is projected to increase by $164.1 million or 52.8%. The increase is due in part to an increase in the pension contribution made by the City of Chicago to the Municipal Employees Pension Fund on CPS' behalf to cover the pension payment for non-teacher CPS employees (which is recorded as revenue). CPS estimates that the FY2021 Municipal Fund contribution from the City will be $184 million, of which CPS will reimburse the City $60 million.[26] In FY2020 CPS agreed to begin absorbing $60 million of these payments annually.[27]

State Revenue

FY2020 will be the fourth 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 $2.34 billion in State funding in FY2021, compared to $2.28 billion in FY2020, an increase of $56.9 million, or 2.5% with increases in expected capital and pension funding offsetting a decrease in evidence-based funding. 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. CPS expects to receive $1.7 billion in Evidence-Based Funding and $673 million in other State revenue, including grants and pension funding, in FY2021. Total State funding over the past five years has increased by $451.6 million, or 23.9%. Evidence-Based Funding is decreasing in FY2021, due to the State holding holding its EBF budget flat in FY2021 and CPS underperforming its budget in FY2020.[28]

Prior to Evidence-Based Funding in 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.[29]

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[25] CPS FY2021 Proposed Budget, Online Interactive Reports, Revenues and Expenditures, available at cps.edu.
[26] Communication with CPS Budget Office August 20, 2020 and CPS FY2020 Proposed Budget, p. 24 and Interactive Proposed Budget, Revenues and Expenditures, available at cps.edu/budget.
[27] CPS FY2020 Proposed Budget, p. 24.
[28] CPS FY2021 Proposed Budget, p. 31.
[29] 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.

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.[30] The base funding minimum does not decrease from year to year regardless of enrollment declines.

CPS is currently a Tier 1 school district, which is the highest level of funding need, measured as having available local resources below 67.4% of the District's adequate funding target. CPS had an FY2020 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 $1.92 billion to meet its adequacy target.[31]

The new formula required an increase of $350 million for allocation statewide annually to reach a Minimum Funding Level. The State of Illinois FY2020 budget appropriated $375 million for this purpose, of which $312 million was distributed for funding for all four tiers.[32] CPS received $64.3 million of this money in FY2020. However, as noted above the State budget for FY2021 did not appropriate the $350 million Minimum Funding Level due to revenue shortfalls related to COVID-19. Therefore, CPS will not receive the additional $65 million in FY2021.

The State of Illinois will provide $266.9 million toward CPS' required contribution to the Chicago Teachers' Pension Fund (CTPF) in FY2021. Public Act 100-0465 also included an ongoing State appropriation for the pension fund to cover the normal cost, or the cost of future benefits earned annually by current employees, and other post-employment benefits (OPEB) for retirees. The normal cost and $65 million OPEB contribution from the State for the CTPF totals $254.6 million in FY2021.[33] That, combined with an additional $12.3 million in statutory State pension funding, will result in a total State pension contribution of $266.9 million, which is an increase of $9.5 million over the FY2020 budget.[34]

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

[30] 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.
[31] CPS FY2021 Proposed Budget, p. 32.
[32] CPS FY2020 Proposed Budget, p. 25.
[33] CPS FY2021 Proposed Budget, p. 38.
[34] CPS FY2021 Proposed Budget, p. 11.

delinquent children, or for school food programs. Federal revenue had been decreasing annually between FY2017 and FY2020. In that time period, federal funding to CPS declined by 10.8% from $860.7 million to $767.5 million. The CPS FY2021 budget counts on a federal funding increase of $569.1 million, or 74.2%, from the FY2020 budgeted level. This increase includes $206 million of funding appropriated by Congress in March 2020 as part of the CARES Act and an additional $343 million that has not yet been approved by Congress. This additional funding may not transpire as expected and is not based on any amount previously introduced in the U.S. House or Senate.[35] A portion of the $206 million CARES Act funding, $78 million, will be used for COVID-19 related costs incurred in FY2020, and $128 million will be used for costs incurred in FY2021.[36]

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 FY2021 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 $252.5 million including $30 million in allowable carryover funds.[37]

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 fund its capital expenses approved in FY2021 with $653.0 million in anticipated bond proceeds from future debt issuances. The amount of bond proceeds fluctuates from year to year based on the timing of capital projects. It is important to note that the actual bond proceeds CPS expects to generate in FY2021 total $400 million, which would be used to cover outstanding expenses for the prior year in addition to the upcoming fiscal year, whereas the FY2021 capital budget would be financed through a total $653 million in additional bond issuances, some of which may be issued later than FY2021.

CPS is anticipating $96.9 million in TIF surplus revenues from the City of Chicago in FY2021 compared to $163.1 million in FY2020 due to a larger than normal TIF surplus that year. 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. 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 FY2021 the District plans to appropriate $22.0 million in general operating fund balance. However, as CPS notes in the proposed budget, this is comprised

[35] CPS FY2021 Proposed Budget, p. 20.
[36] CPS FY2021 Proposed Budget, p. 19.
[37] CPS FY2021 Proposed Budget, p. 33.

of unspent restricted prior year revenues that must be used for specific purposes.[38] Over the five-year period from FY2017 to FY2021, the amount of budgeted fund balance has decreased by 72.8% from $80.8 million to $22.0 million.

Property Tax Levy and Revenue

CPS and other non-home rule taxing bodies in Cook County have been subject to the Property Tax Extension Limitation Law (PTELL) since tax year 1994 (payable in 1995). In general, the tax cap law allows tax extensions on existing property to rise each year by the lesser of 5.0% or the increase in the Consumer Price Index the previous year. For tax year 2020 (payable in 2021), the tax cap law permits a 2.3% 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 2020 extension is paid by taxpayers in calendar year 2021 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.[39] 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. However, for tax year 2019 (payment year 2020), the Cook County Board passed an ordinance waiving interest on second installment taxes paid on or before October 1, 2020.[40]

Property Tax Revenue Distribution

CPS expects its FY2021 property tax revenues to total $3.26 billion compared to $3.13 billion in the FY2020 adopted budget.[41] This represents an increase of $130.5 million, or 4.2%, over the prior year.

The following chart shows the distribution of projected FY2021 property tax revenues among the District's funds. The General Education Fund, Workers' Compensation/Tort Fund, Public Building Commission (PBC) Fund and Pension Levy Fund all fall within the District's general operating funds.[42] The majority of FY2021 property tax revenue, 69.4%, or $2.3 billion will be distributed to the General Education Fund.

The Chicago Teachers' Pension Fund property tax levy will account for 15.0%, or $490.2 million, of property tax revenue in FY2021. A dedicated property tax levy to fund teacher

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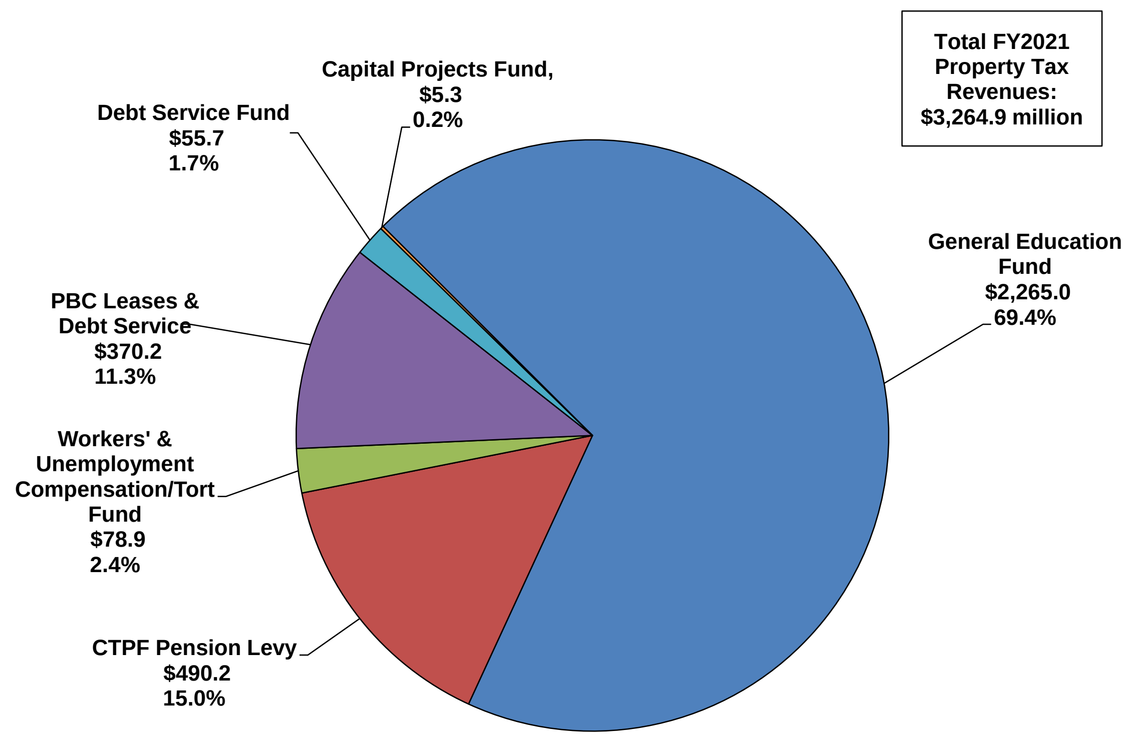
[38] CPS FY2021 Proposed Budget, p. 203.
[39] P.A. 96-490 changed this amount from 50% to 55% of the prior year's tax bill for tax year 2009 (first installment due March of 2010) and thereafter. The rationale for this change was that it would mitigate taxpayers' "sticker shock" resulting from tax increases that appear on second installment tax bills.
[40] Cook County Ordinance 20-2479.
[41] CPS FY2020 Proposed Budget, p. 17.
[42] Fund classifications in the online interactive budget reports differ from the fund classifications in the budget book. In the budget book, the General Fund includes the Education Fund (consisting of the Regular Education, Special Education, Tuition-Based Preschool and School Special Income Funds) 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.

pensions was reinstated in FY2017 at a tax rate of 0.383%. CPS then received authority to increase the rate for the pension levy to 0.567% through Public Act 100-0465, the law enacting the new Evidence-Based Funding formula.

CPS will designate $370.2 million, or 11.3%, of property tax revenue to the Public Building Commission Fund for PBC leases and debt service payments; $78.9 million, or 2.4%, to the Workers' and Unemployment Compensation/Tort Fund; $55.7 million, or 1.7%, to the Debt Service Fund; and $5.3 million, or 0.2%, to the Capital Projects Fund.

Distribution of CPS FY2021 Property Tax Revenues:
(in $ millions)



Source: CPS FY2021 Proposed Budget, Interactive Online Reports, Revenues and Expenditures, available at www.cps.edu.

Trend in Property Tax Revenue

The next table presents CPS' property tax revenues from FY1991 through FY2021. Figures for FY1991 through FY2019 are actual property tax revenues received based on the most recent audited data available, while FY2020 figures are year-end estimates and FY2021 figures are proposed.

Between FY1991 and FY2021, property tax revenues are projected to increase by 287.6%, or $2.4 billion, from $842.3 million in FY1991 to $3.3 billion in FY2021. Over the 25-year period between FY1996, the first fiscal year that the tax cap law could limit CPS property tax revenues, and FY2021, the compound annual growth rate of revenues is 3.9%. The average annual growth rate is 4.1%.

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.[43] In FY2021 the District estimates that the pension levy will generate approximately

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

$490 million in property tax revenue.[44] The estimated property tax revenue for FY2021 is a 3.6% increase over FY2020 year-end estimate.

CPS Property Tax Revenue: FY1991-FY2021 (in $ thousands)			
	Property Tax Revenue	$ Change from Previous Year	% Change from Previous Year
FY1991	$ 842,339	--	--
FY1992	$ 882,181	$ 39,842	4.7%
FY1993	$ 1,008,481	$ 126,300	14.3%
FY1994*	$ 1,205,322	$ 196,841	19.5%
FY1995	$ 1,206,008	$ 686	0.1%
FY1996	$ 1,245,539	$ 39,531	3.3%
FY1997	$ 1,239,249	$ (6,290)	-0.5%
FY1998	$ 1,311,664	$ 72,415	5.8%
FY1999	$ 1,368,081	$ 56,417	4.3%
FY2000	$ 1,403,657	$ 35,576	2.6%
FY2001	$ 1,429,871	$ 26,214	1.9%
FY2002	$ 1,479,968	$ 50,097	3.5%
FY2003	$ 1,546,335	$ 66,367	4.5%
FY2004	$ 1,571,065	$ 24,730	1.6%
FY2005	$ 1,639,237	$ 68,172	4.3%
FY2006	$ 1,718,249	$ 79,012	4.8%
FY2007	$ 1,767,760	$ 49,511	2.9%
FY2008	$ 1,813,917	$ 46,157	2.6%
FY2009	$ 1,896,540	$ 82,623	4.6%
FY2010	$ 2,047,163	$ 150,623	7.9%
FY2011	$ 1,936,655	$ (110,508)	-5.4%
FY2012	$ 2,352,136	$ 415,481	21.5%
FY2013	$ 2,211,568	$ (140,568)	-6.0%
FY2014	$ 2,204,252	$ (7,316)	-0.3%
FY2015	$ 2,304,656	$ 100,404	4.6%
FY2016	$ 2,408,416	$ 103,760	4.5%
FY2017	$ 2,714,956	$ 306,540	12.7%
FY2018	$ 2,897,870	$ 182,914	6.7%
FY2019	$ 2,984,026	$ 86,156	3.0%
FY2020 Estimated	$ 3,150,300	$ 166,274	5.6%
FY2021 Proposed	$ 3,264,900	$ 114,600	3.6%

*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, FY2019, pp. 122-123; FY2017, pp.114-115; FY2007, pp. 92-93; FY1999, pp. 80-81; and CPS FY2021 Proposed Budget, p. 21.

[44] 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 2020 will actually be received in 2021. 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. However, this could be impacted for FY2020 by the waiver of penalty interest by Cook County if enough taxpayers delay their payments to take advantage of the waiver. The District's upcoming FY2021 property tax revenue will be drawn from the first and second installments of the 2020 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.[45]

The limiting effect of the tax cap has also meant that **since 1994, tax increment financing has not diverted property tax revenue away from CPS**. CPS receives the full extension to which it is entitled by the tax cap law. The effect of TIF is to raise tax rates for all property taxpayers, not to divert revenue from local governments.[46]

The following graph illustrates the increase in CPS property tax extensions between tax year 1990 (payable in 1991) and tax year 2019 (payable in 2020) and the change in tax rates during that period. Tax year 2019 is the most recent year for which tax extension and rate data are available from the Cook County Clerk. The property tax extension is the amount of property tax revenue a government is authorized to receive and bill to taxpayers. CPS' property tax extension increased from $981.0 million in tax year 1990 to $3.2 billion in tax year 2019. There was a 12.5% increase in the tax extension in tax year 2016 to $2.76 billion from $2.45 billion in tax year 2015 due to a new tax levy to fund teacher pensions. The extension increased by another 8.3% in tax year 2017, followed by smaller increases in 2018 and 2019.

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 3.620% in tax year 2019.

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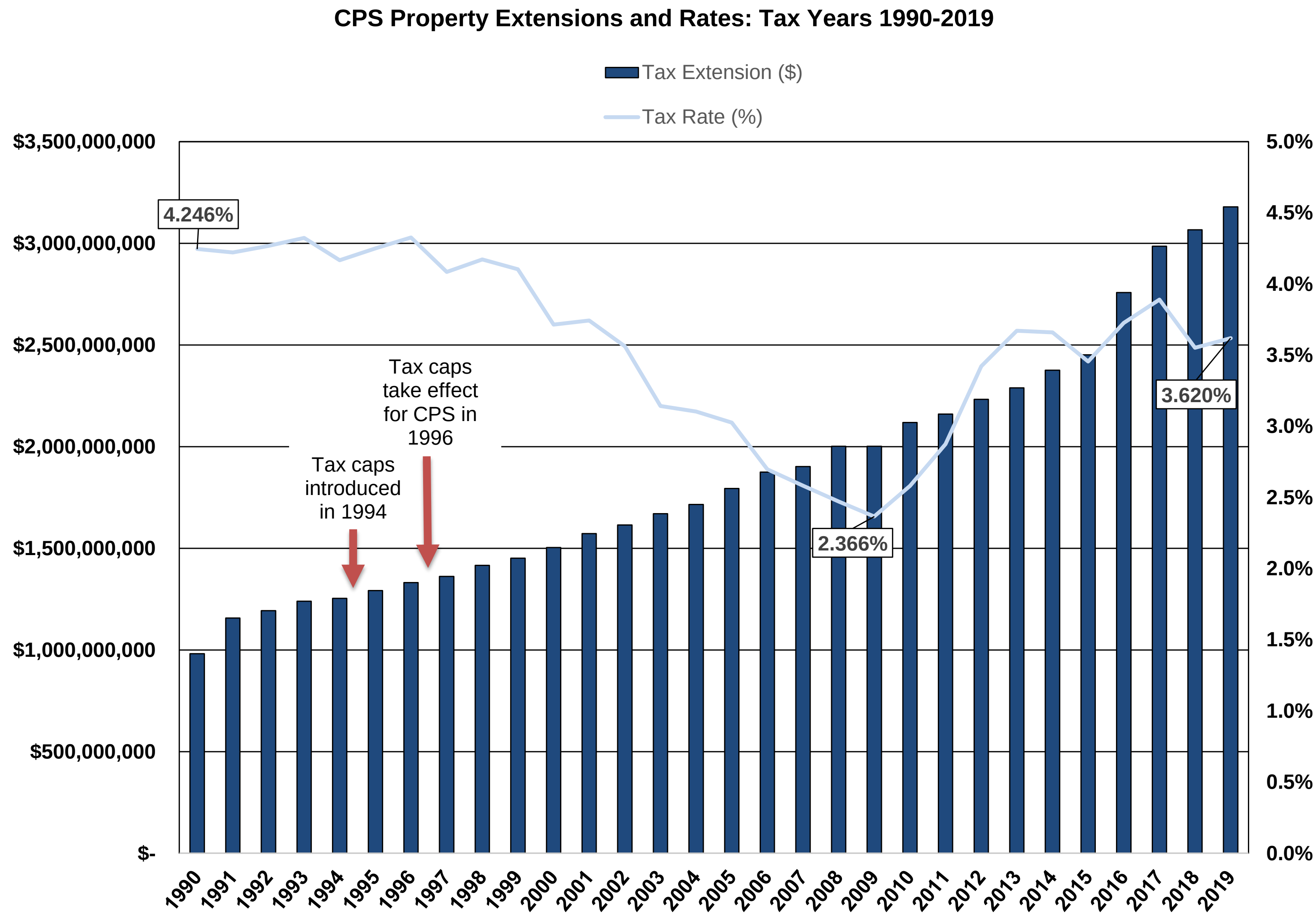
[45] Civic Federation, "The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts," June 22, 2013.
[46] Civic Federation, "The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment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



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

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

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

Beginning in FY2015, CPS adopted a new revenue recognition policy extending the period in which property tax revenues can be recognized from 30 days after the close of the fiscal year to 60 days after the close of the fiscal year.[47] CPS noted that this change would reduce the volatility in property tax collection timing. The District acknowledges that its policy does not impact the total amount of property tax revenue received by the District but that the timing of the property tax receipts does impact the fiscal year in which the revenue must be recorded.[48] More importantly, the revenue recognition policy was used as an accounting mechanism to close the budget gap in FY2015. It will remain to be seen if significant amounts of tax year 2019 (payable 2020) revenues will be collected outside the revenue recognition period due to the penalty interest waiver and therefore count as FY2021 revenues rather than FY2020 revenues.

APPROPRIATIONS

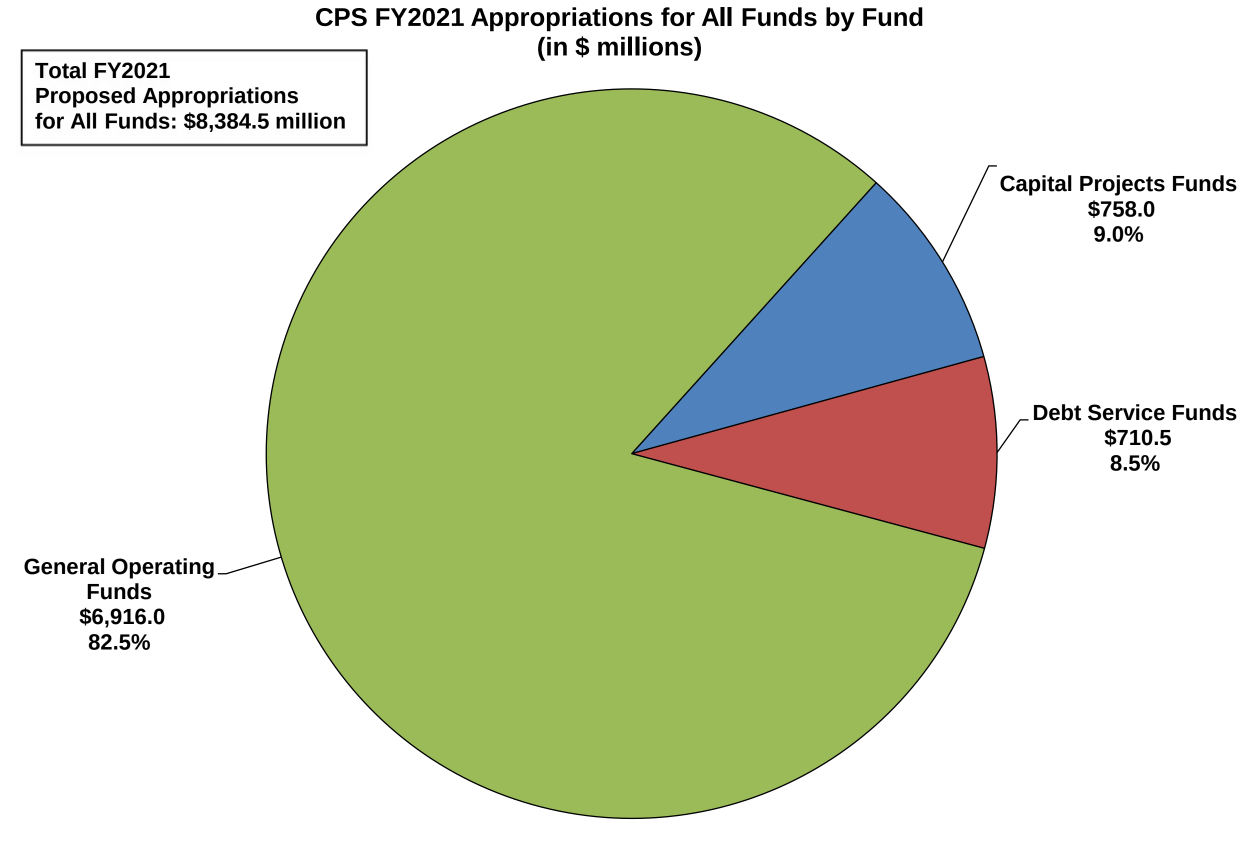
This section presents an analysis of CPS appropriation trends by fund, type and location. The section includes two- and five-year appropriation trends for all funds and two- and five-year appropriation trends for general operating funds. Proposed FY2021 appropriations are compared with FY2020 amended appropriations, FY2019 adopted appropriations and FY2018 and FY2017 amended appropriations.

Total Appropriations for All Funds in FY2021

The following chart shows total FY2021 proposed appropriations for all funds. The Chicago Public Schools' FY2021 Proposed Budget of $8.4 billion consists of appropriations of approximately $6.9 billion in the General Operating Funds, $758.0 million in the Capital Projects Funds and $710.5 million in the Debt Service Funds. The General Operating Funds represent 82.5% of the total budget, the Capital Projects Funds represent 9.0% and the Debt Service Funds

[47] CPS FY2019 Adopted Budget, p. 217.
[48] CPS FY2015 Adopted Budget, pp. 9-10.

represent 8.5% of total appropriations for all funds.



Source: CPS FY2021 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu.

The General Operating Funds finance employees' salaries and benefits, contractual services, charter school tuition transfers and other day-to-day expenditures. The General Operating Funds include the General Fund and the Special Revenue Funds. The General Fund is the primary fund 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.[49]

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

The FY2020 proposed budget of $8.4 billion is an increase of 6.9%, or $544.4 million, from the FY2020 amended budget of $7.8 billion. Appropriations for the General Operating Funds will increase by 9.4%, or $596.7 million, above the FY2020 amended budget. The $596.7 million increase in the General Operating Funds is primarily due to a $262.2 million increase in salaries, a $124.3 million increase in contingencies and $115.4 million increase in contracts. The Capital Projects Funds will decrease by $62.6 million, or 7.6%, over the two-year period, from $820.6

[49] CPS FY2021 Proposed Budget, Appendix E – Glossary.

million to $758.0 million. The FY2021 Capital Projects Funds are budgeted to cover critical facility needs, interior improvements, programmatic investments, overcrowding relief, site improvements, and IT and security upgrades.[50] The Debt Service Funds will increase by 1.5%, or $10.2 million, over the two-year period to $710.5 million in FY2021. The increase in debt service is primarily for increased payments due on alternate bonds and capital improvement tax bonds.[51]

Over the five-year period, total appropriations for all funds will increase by nearly $2.1 billion, or 32.8%, from $6.3 billion in the FY2017 amended budget to nearly $8.4 billion in the FY2021 proposed budget. The Capital Projects Funds will see the largest percentage increase over the five-year period, increasing by 124.6%, or $420.5 million, from $337.5 million in FY2017 to $758.0. million in FY2021. Appropriations for the General Operating Funds will see the largest dollar increase at $1.5 billion, or 27.8%, over the five-year period. The Debt Service Funds will increase by $146.8 million, or 26.0%, over the five-year period.

CPS Appropriations for All Funds by Fund: FY2017-FY2021
(in $ millions)

Fund Type	FY2017 Amended	FY2018 Amended	FY2019 Adopted	FY2020 Amended	FY2021 Proposed	Two-Year $ Change	Two-Year %	Five-Year $ Change	Five-Year % Change
General Operating Funds	$ 5,411.1	$ 5,699.3	$ 5,984.2	$ 6,319.3	$ 6,916.0	$ 596.7	9.4%	$ 1,504.9	27.8%
Capital Projects Funds	$ 337.5	$ 136.2	$ 989.0	$ 820.6	$ 758.0	$ (62.6)	-7.6%	$ 420.5	124.6%
Debt Service Funds	$ 563.7	$ 576.9	$ 606.9	$ 700.3	$ 710.5	$ 10.2	1.5%	$ 146.8	26.0%
Total Appropriation	**$ 6,312.3**	**$ 6,412.4**	**$ 7,580.1**	**$ 7,840.1**	**$ 8,384.5**	**$ 544.4**	**6.9%**	**$ 2,072.2**	**32.8%**

Note: Due to rounding, minimal differences may occur in totaling rows and columns.
Source: Source: CPS FY2017-FY2021 Interactive Budget Reports, Revenues & Expenditures, available at www.cps.edu.

The chart below shows a five-year trend analysis of appropriations for all funds by type of expense between the FY2017 amended budget and the proposed FY2021 budget. Appropriations for salaries will see the largest dollar increase from last year, rising by $262.6 million, or 9.9%, from $2.6 billion in FY2020 to $2.9 billion in FY2021 as the District plans to increase the number of full-time equivalent employees by approximately 1,702. The increase in FTEs is due in part to the hiring of additional teachers as well as school and citywide support staff.[52] Budgeted benefit costs will remain flat over the two-year period at nearly $1.7 billion. Contingencies will increase by $124.3 million, or 36.5%, 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.[53] 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. In FY2021 it also includes expenses related to remote learning and school reopening.[54] Equipment is the only type of expense that is projected to decline over the two-year period between FY2020 and FY2021. Equipment spending typically increases during the school year as schools transfer funds into the equipment account from other areas of their budgets.[55]

[50] CPS FY2021 Proposed Budget, p. 12.
[51] CPS FY2021 Proposed Budget, p. 188.
[52] CPS FY2021 Proposed Budget, p. 17.
[53] CPS FY2021 Proposed Budget, pp. 17-18.
[54] CPS FY2021 Proposed Budget, p. 18.
[55] CPS FY2021 Proposed Budget, p. 18.

Contract spending will increase by $114.1 million, or 8.6%, over the two-year period due in part to increases in charter school funding and inflation in vendor contracts.[56]

Over the five-year period between FY2017 and FY2021, appropriations for all funds will increase by nearly $2.1 billion or 32.8%. The largest dollar increase over the five-year period by type is salaries, which is expected to increase by $552.0 million or 23.5%. Appropriations for benefits will increase by $294.4 million, or 21.6% over the five-year period. Equipment expenses will increase by $434.1 million or 120.2%. Appropriations for contracts will increase by $306.2 million, or 27.0%. Contingency spending will increase by 133.7%, or $265.8 million over the five-year period, rising from $198.9 million in FY2017 to $464.7 million in FY2021.

CPS Appropriations for All Funds by Type: FY2017 - FY2021 (in $ millions)

	FY2017 Amended	FY2018 Amended	FY2019 Adopted	FY2020 Amended	FY2021 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries	$ 2,350.6	$ 2,410.0	$ 2,504.6	$ 2,640.3	$ 2,903.0	$ 262.6	9.9%	$ 552.3	23.5%
Benefits	$ 1,361.4	$ 1,400.2	$ 1,451.3	$ 1,655.8	$ 1,655.8	$ 0.0	0.0%	$ 294.4	21.6%
Contracts	$ 1,132.3	$ 1,223.8	$ 1,294.6	$ 1,324.5	$ 1,438.6	$ 114.1	8.6%	$ 306.2	27.0%
Commodities	$ 248.9	$ 242.8	$ 243.4	$ 241.1	$ 297.7	$ 56.6	23.5%	$ 48.8	19.6%
Equipment	$ 361.0	$ 152.4	$ 1,005.3	$ 831.9	$ 795.2	$ (36.8)	-4.4%	$ 434.1	120.2%
Transportation	$ 98.4	$ 106.7	$ 106.2	$ 107.5	$ 119.5	$ 12.0	11.2%	$ 21.1	21.4%
Contingencies	$ 198.9	$ 302.7	$ 370.5	$ 340.5	$ 464.7	$ 124.3	36.5%	$ 265.8	133.7%
Debt	$ 560.7	$ 573.9	$ 604.3	$ 698.5	$ 710.0	$ 11.5	1.7%	$ 149.3	26.6%
Other	$ 0.001	$ 0.002	$ -	$ -	$ -	$ -	-	$ (0.001)	-100.0%
Total	**$ 6,312.3**	**$ 6,412.4**	**$ 7,580.1**	**$ 7,840.1**	**$ 8,384.5**	**$ 544.4**	**6.9%**	**$ 2,072.2**	**32.8%**

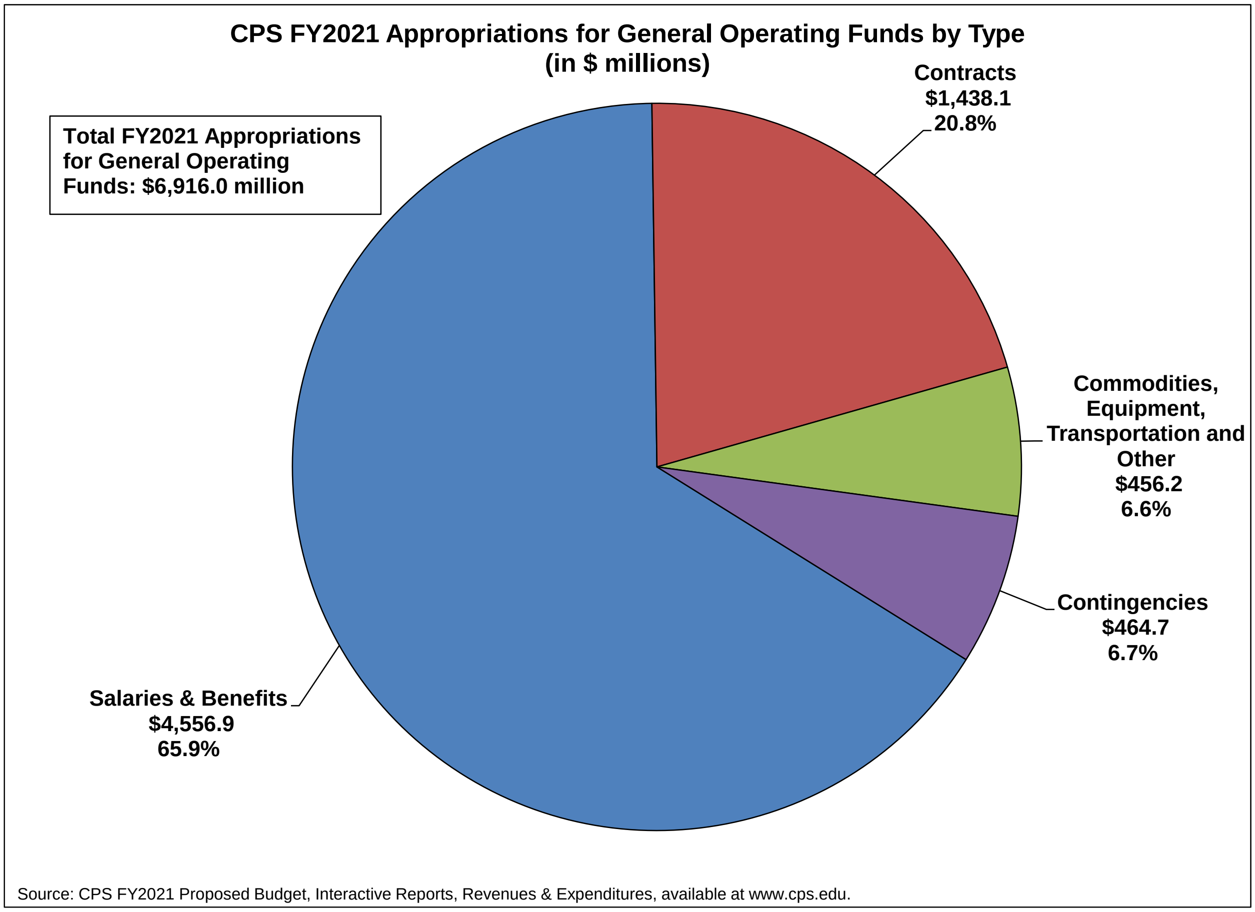
Note: Because of rounding, minimal differences may occur in totaling rows and columns.
Source: CPS FY2017-FY2021 Interactive Budget Reports, Revenues & Expenditures, available at www.cps.edu.

FY2021 Appropriations for General Operating Funds by Type

The chart below shows the proposed FY2021 General Operating Funds appropriations by type. The largest single portion is earmarked for salaries and benefits. Approximately 66.0% of the operating funds, or $4.6 billion, will be for teacher salaries, non-teacher salaries and employee benefits. Contracts, totaling approximately $1.4 billion, or 20.8%, 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. Appropriations for commodities, equipment and transportation make up $456.2 million, or 6.6%, of the operating

[56] CPS FY2021 Proposed Budget, p. 10.

budget, and contingencies account for $464.7 million, or 6.7%. Commodities include utilities, food, instructional supplies and other supplies.[57]



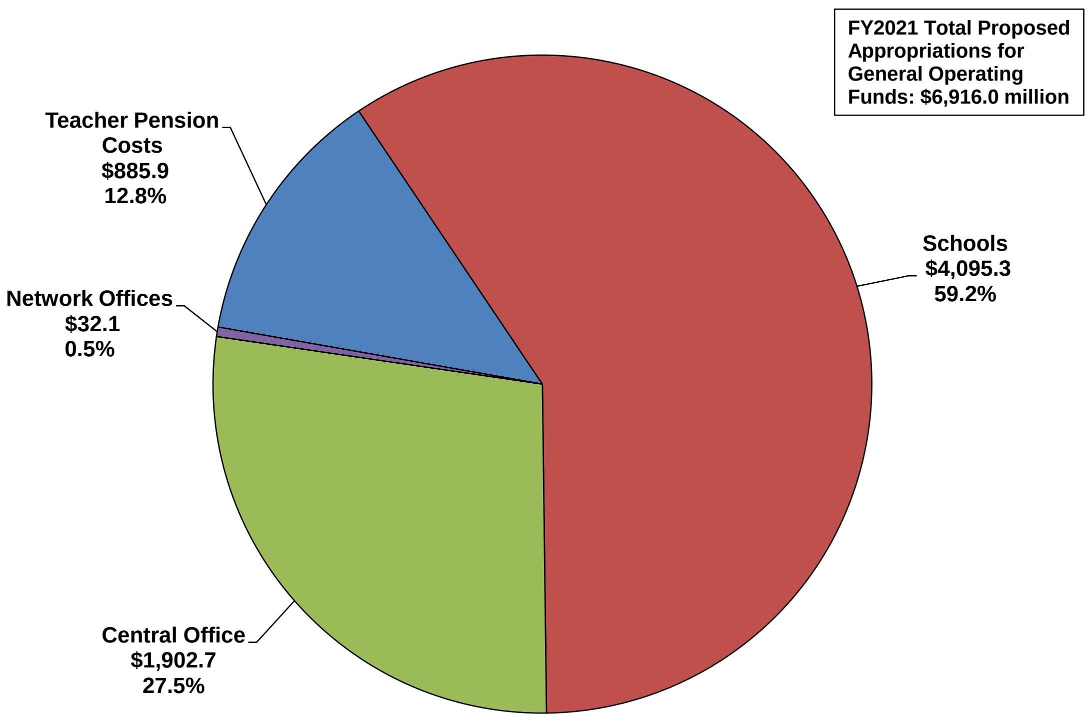
Appropriations for General Operating Funds by Location

The exhibit below shows the breakdown of proposed FY2021 General Operating Funds appropriations by location. School spending will compose 59.2% of operating appropriations, or $4.1 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 27.5%, or $1.9 billion, of general operating appropriations. Network Offices will compose $32.1 million, or 0.5% of general operating appropriations.

[57] CPS FY2021 Proposed Budget, p. 18.

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.[58]

CPS FY2021 Appropriations for General Operating Funds by Location (in $ millions)



Source: CPS FY2021 Proposed Budget, Interactive Reports, Budget by Location, available at www.cps.edu.

The following table shows budgeted appropriations by location within the General Operating Funds for the five-year period from FY2017 to FY2021, as presented on CPS' FY2021 Interactive Budget Report.[59] Between FY2020 and FY2021 the total General Operating Funds appropriations will increase by $596.7 million or 9.4%. School-based budget appropriations will decrease over the two-year period by $1.1 billion, or 20.5%, from $5.2 billion in FY2020 to $4.1 billion in FY2021. Appropriations for the Central Office are projected to increase by $1.6 billion or 581.7%. The large shift between Schools and Central Office are primarily due to the District recategorizing certain expenses that were previously included in school budgets into the Central Office budget. The expenses that were previously included in school budgets did provide direct support to schools, but it was not consist with how the District defines school budgets in its budget book. Beginning in FY2021 the District updated how it categorizes major expenses to be more consistent with how it describes expenses elsewhere in the budget, particularly between the interactive budget report and the budget book.[60] When examining appropriations for general operating funds by location in the budget book rather than the interactive report, appropriations

[58] CPS FY2021 Proposed Budget, p. 54.
[59] Differences in appropriations occur between the interactive budget reports and budget book due to how the District accounts for expenses.
[60] Information provided to the Civic Federation by CPS budget staff on August 20, 2020.

for schools actually increase from $3.8 billion in FY2020 to $4.1 billion in FY2021.[61]

Appropriations for teacher pension costs will increase by $31.4 million, or 3.7%, over the two-year period due to an increase in the required contributions to the fund. Network offices will increase over the two-year period by 2.1% or approximately $700,000.

Over the five-year period between the FY2017 and FY2021, the General Operating Funds appropriations will increase by 27.8% or $1.5 billion. Teacher pension costs will increase by 22.9%, or $164.9 million, over the five-year period. Appropriations for schools will decline by 8.3% or $369.4 million. Central Office appropriations will increase by 887.4%, or $1.7 billion, over the five-year period. As previously noted, in FY2021 the District changed the way it categorizes certain expenses in FY2021 to be more consistent across budget documents, which resulted in a shift between appropriations for schools and the central office between FY2020 and FY2021.

CPS Appropriations for General Operating Funds by Location: FY2017-FY2021 (in $ millions)

Location	FY2017 Amended	FY2018 Amended	FY2019 Adopted	FY2020 Amended	FY2021 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Teacher Pension Costs	$ 721.0	$ 784.4	$ 808.8	$ 854.5	$ 885.9	$ 31.4	3.7%	$ 164.9	22.9%
Schools	$ 4,464.6	$ 4,777.9	$ 4,904.9	$ 5,154.2	$ 4,095.3	$ (1,058.9)	-20.5%	$ (369.4)	-8.3%
Central Office	$ 192.7	$ 113.3	$ 245.5	$ 279.1	$ 1,902.7	$ 1,623.6	581.7%	$ 1,710.0	887.4%
Network Offices	$ 32.7	$ 23.8	$ 25.1	$ 31.4	$ 32.1	$ 0.7	2.1%	$ (0.6)	-1.8%
Total	**$ 5,411.1**	**$ 5,699.3**	**$ 5,984.2**	**$ 6,319.3**	**$ 6,916.0**	**$ 596.7**	**9.4%**	**$ 1,504.9**	**27.8%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns.
Source: CPS FY2017-FY2021 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 established by the Government Finance Officers Association (GFOA);
- An assessment of CPS' audited unrestricted fund balance compared to the GFOA guidelines;
- An assessment of the District's stabilization fund balance compared to its own fund balance policy; and
- A discussion of the use of CPS' reserves in the FY2020 and FY2021 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.[62] Prior to FY2011, CPS reported *unreserved* fund balance, or resources available for appropriation without any external legal restrictions or

[61] See CPS FY2020 Adopted Budget Book, p. 42 and CPS FY2021 Proposed Budget Book, p. 47.
[62] 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.

constraints.[63] 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."[64]

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

- *Nonspendable fund balance*: resources that inherently cannot be spent such as pre-paid rent or the long-term portion of loans receivable. In addition, this category includes resources that cannot be spent because of legal or contractual provisions, such as the principal of an endowment.
- *Restricted fund balance*: net fund resources subject to legal restrictions that are externally enforceable, including restrictions imposed by the constitution, creditors or laws and regulations of non-local governments.
- *Committed fund balance*: net fund resources with self-imposed limitations set at the highest level of decision-making which remain binding unless removed by the same action used to create the limitation.
- *Assigned fund balance*: the portion of fund balance reflecting the government's intended use of resources, with the intent established by government committees or officials in addition to the governing board. Appropriated fund balance, or the portion of existing 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.[65]

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."[66] ***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."[67] Two months of operating expenditures is approximately 17%. Chicago Public Schools is a special purpose government, not a general purpose

[63] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009.
[64] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009 and GASB Statement No. 54, paragraph 5.
[65] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009.
[66] GFOA, Fund Balance Guidelines for the General Fund (Adopted September 2015).
[67] GFOA, Fund Balance Guidelines for the General Fund (Adopted September 2015).

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.[68]

Audited Fund Balance Ratio: FY2011-FY2019

The table below presents the District's unrestricted fund balance for FY2011 through FY2019. 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 FY2019 because it is the most recent year of audited financial information available.

In FY2012 the unrestricted fund balance increased from 11.8% to 18.5% due primarily to timing shifts in the reporting of property tax revenue receipts, which shifted approximately $350 million in revenue from FY2013 to FY2012.[69] 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.[70] 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

[68] GFOA, Fund Balance Guidelines for the General Fund (Adopted September 2015).
[69] CPS FY2012 Comprehensive Annual Financial Report, p. 12.
[70] CPS FY2017 Comprehensive Annual Financial Report, p. 8.

Evidence-Based Funding formula law passed in 2017.[71] The fund balance increased again in FY2019 due to a surplus in general operating revenues compared to expenditures that year.[72]

CPS Unrestricted General Operating Fund Fund Balance Ratio: FY2011-FY2019			
	General Operating Fund Balance	General Fund Expenditures	Ratio
FY2011	$ 577,756,000	$ 4,909,952,000	11.8%
FY2012	$ 902,872,000	$ 4,888,328,000	18.5%
FY2013	$ 819,004,000	$ 4,946,370,000	16.6%
FY2014	$ 354,719,000	$ 5,450,131,000	6.5%
FY2015	$ 254,328,000	$ 5,620,366,000	4.5%
FY2016	$ (227,031,000)	$ 5,414,846,000	-4.2%
FY2017	$ (354,861,000)	$ 5,297,758,000	-6.7%
FY2018	$ 261,715,000	$ 5,513,880,000	4.7%
FY2019	$ 441,029,000	$ 5,858,860,000	7.5%

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

CPS Stabilization Fund Balance Policy

Chicago Public Schools adopted a fund balance policy in FY2008[73] 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.[74] 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.[75]

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.[76] 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.[77] In recent years,

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[71] CPS FY2018 Comprehensive Annual Financial Report, p. 13.
[72] CPS FY2019 Comprehensive Annual Financial Report, p. 25.
[73] 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).
[74] CPS FY2020 Proposed Budget, p. 211.
[75] CPS FY2020 Proposed Budget, p. 211.
[76] Fund balance is reported in the Balance Sheet – Governmental Funds.
[77] Information provided by the CPS Budget Office on July 12, 2018.

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-FY2019

	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%
FY2019	$346,296,000	$20,080,000	$366,376,000	$6,488,415,000	5.6%

Note: The Debt Service Stabilization Fund balance for FY2011-FY2015 and FY2018-FY2019 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-FY2019, 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. The CPS FY2021 budget notes that the District is working on updating the fund balance policy to align with the Government Finance Officers' Association recommendations.[78]

General Operating Reserves in FY2020 and FY2021

While the Comprehensive Annual Financial Reports only provide information about fund balance through FY2019, the CPS budget provides information about the District's projected fund balance levels in FY2020 and FY2021 for the total General Operating Fund. This includes not just the unrestricted portion of the operating fund balance discussed above, but all

[78] CPS FY2021 Proposed Budget, p. 205.

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

In FY2019 CPS ended the year with a General Operating Fund balance of $471.8 million, compared to $323.8 million in FY2018. As shown in the table below, the District began FY2020 with the same balance of $471.8 million. During the course of FY2020, the fund balance improved by $51.8 million due to an operating surplus in which revenues exceeded expenditures by $41.1 million, plus a $10.7 million transfer in to the General Operating Fund.[79] This resulted in a projected year-end fund balance of $523.6 million.

In FY2021 CPS is budgeting for the use of $22.0 million in restricted operating fund balance, which would result in a decrease in fund balance from $523.6 million to $501.6 million by the end of FY2021, if there is not an additional budget surplus or deficit. This would meet the CPS General Operating Fund fund balance target of $329.5 million, or 5.0% of the combined operating and debt service budgets in FY2020.[80] FY2020 was the first year since FY2015 that CPS met its own fund balance target.[81]

CPS FY2021 Use of Total Operating Funds Fund Balance (in $ millions)		
FY2020 Beginning Balance	$	471.8
FY2019 Estimated Sources / (Use)	$	51.8
FY2019 Estimated End of Year Balance	**$**	**523.6**
FY2020 Estimated Beginning Balance	$	523.6
FY2020 Estimated Sources / (Use)	$	(22.0)
FY2020 Estimated End of Year Balance	**$**	**501.6**

Source: CPS FY2021 Proposed Budget, p. 204.

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.[82] 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.[83] 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

[79] CPS FY2021 Proposed Budget, p. 204.
[80] CPS FY2021 Proposed Budget, p. 204.
[81] CPS FY2021 Proposed Budget, p. 204.
[82] CPS FY2021 Proposed Budget, p. 199.
[83] 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.

to a positive cash position for three months out of the year in FY2018 and a positive cash position for five months in FY2019 and FY2020.[84]

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),[85] 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,[86] $1.55 billion in FY2017,[87] $1.1 billion in FY2018, $844 million in FY2019 and $830 million in FY2020.[88] CPS plans to continue issuing TANs in FY2021.

The TANs carry associated interest costs, which have decreased as CPS has reduced the level of TANs used over the years. In FY2018, CPS budgeted for $79 million in interest costs on the TANs,[89] compared to $19 million budgeted for short-term borrowing interest costs in FY2021.[90]

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 FY2021 proposed budget to the FY2017 through FY2020 approved and amended budgets and actual budgets when available.

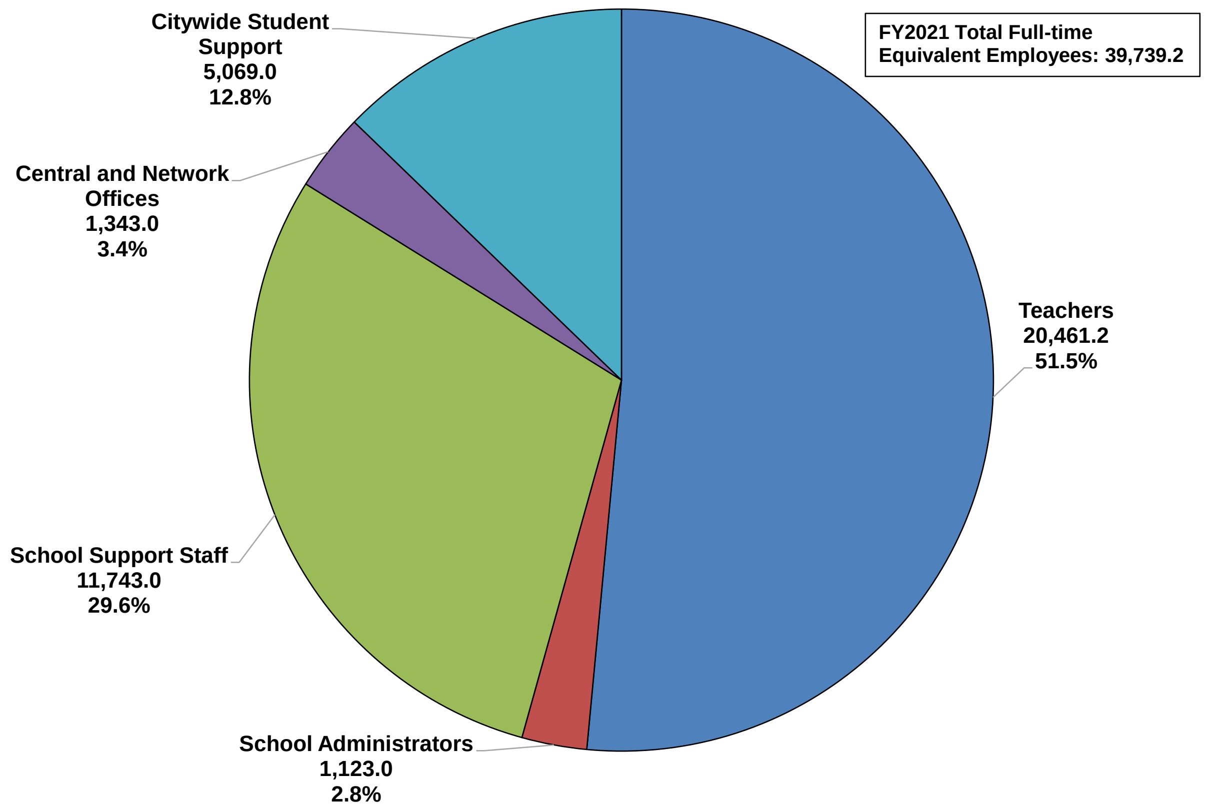
FY2021 Proposed Budget FTE Positions by Type

The chart below provides a breakdown of the full-time equivalent employees in the FY2021 proposed budget. The District is proposing to increase the number of full-time equivalent employees by 1,701.8 FTEs, from 38,037.4 FTEs in FY2020 to 39,739.2 FTEs in FY2021. Teachers will make up 51.5% of the workforce, or 20,461.2 FTEs. School Support Staff will compose the second largest type of position by type at 29.6%, or 11,743.0 FTEs. School Support Staff includes classroom assistants, security officers, school clerks and lunchroom staff. Citywide Student Support, which include nurses, social workers, custodians, and other administrative and support staff positions, will compose 12.8% of the workforce, or 5,069.0 FTEs. School Administrators, which include principals and assistant principals, will compose

[84] CPS FY2021 Proposed Budget, p. 201; CPS FY2020 Proposed Budget, p. 179; and CPS FY2019 Adopted Budget, p. 180.
[85] TANs are backed by anticipated property tax revenues.
[86] CPS FY2017 Budget, p. 173.
[87] CPS FY2019 Budget, p. 179.
[88] CPS FY2021 Proposed Budget, p. 202.
[89] CPS FY2019 Budget, p. 179.
[90] CPS FY2021 Proposed Budget, p. 200.

2.8% of the workforce, totaling 1,123.0 FTEs. Central Office and Network Offices staff will compose 3.4% of the workforce or 1,343.0 FTEs.

Chicago Public Schools Proposed Budget FTE Positions by Type: FY2021



Source: Chicago Public Schools, FY2021 Proposed Budget, Interactive Reports, Positions, available at www.cps.edu.

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

Between FY2020 and FY2021 the District's FTE position count will increase by 1,701.8 FTEs or 4.5%. Over the two-year period, School Support Staff will see the largest increase in FTEs, rising by 898.5 FTEs or 8.3%. The increase in School Support Staff is mainly due to an increase in the number of classroom and teacher assistants. .[91] Citywide Student Support FTEs will increase between FY2020 and FY2021by 349.5 FTEs or 7.4%. The increase in Citywide Student Support positions is due in part to increases in the number of nurses and social workers as part of CPS' multi-year plan to increase student supports. During the same period, the number of full-time equivalent employees in Central and Network Officers will increase 4.8% or 62.0 FTEs. The number of full-time equivalent Teachers will increase by 1.9%, or 381.8 FTEs in FY2021 to 20,461.2 FTEs total.

Over the five-year period beginning in FY2017, total FTE positions for the District will increase by 7.2%, or 2,651.8 FTEs. School Support staff will see the largest increase in FTEs, rising by 1,494.0 FTEs or 14.6%. The number of teachers will increase by 447.9 FTEs, or 2.2%, over the

[91] CPS FY2021 Proposed Budget, pp. 6 and 17.

five-year period. School Administrators will increase by 155.0 FTEs or 16.0%. The number of FTE employees in Central and Network Offices will increase by 35.5% or 351.9 FTEs.

Chicago Public Schools Full-Time Equivalent (FTE) Positions By Type FY2017-FY2021									
	FY2017 Amended	FY2018 Amended	FY2019 Adopted	FY2020 Amended	FY2021 Proposed	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Teachers	20,013.3	19,592.5	19,831.0	20,079.4	20,461.2	381.8	1.9%	447.9	2.2%
School Administrators	968.0	969.0	1,062.0	1,113.0	1,123.0	10.0	0.9%	155.0	16.0%
School Support Staff	10,249.0	10,105.5	10,446.0	10,844.5	11,743.0	898.5	8.3%	1,494.0	14.6%
Central and Network Offices	991.1	988.4	1,157.0	1,281.0	1,343.0	62.0	4.8%	351.9	35.5%
Citywide Student Support	4,866.0	4,855.5	4,612.0	4,719.5	5,069.0	349.5	7.4%	203.0	4.2%
Total	**37,087.4**	**36,510.9**	**37,107.0**	**38,037.4**	**39,739.2**	**1,701.8**	**4.5%**	**2,651.8**	**7.2%**

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: FY2017-FY2021 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 FY2020 and FY2021 CPS total compensation costs are expected to increase by $262.6 million, or 6.1%. Salaries, which constitute 63.7% of all employee compensation, compose almost the entire increase over the two-year period. Benefit costs, which include pensions, health and dental insurance, unemployment compensation and payroll tax contributions for Social Security[92] and Medicare, will remain relatively flat from the amended FY2020 budget. The majority of this increase can be attributed to a $174.5 million increase in expenditures on teacher salaries.

The District's $1.01 billion total contribution toward teacher pensions in FY2021 includes a statutorily required employer contribution of $885.9 million and $128.9 million for the 7.0% pension pick-up of the 9.0% annual employee contributions that the District covers for unionized teaching positions hired before January 1, 2017.[93] Included in the statutory $885.9 million employer pension contribution shown in the table below is the State of Illinois' contribution of $266.9 million toward the cost of Chicago teachers' pensions in FY2021.[94]

Over the five-year period between FY2017 to FY2021, total compensation costs will increase by 22.6% or $841.8 million. Appropriations for teacher and non-teacher salaries will increase by $506.0 million or 21.1%. Appropriations for employee benefits will increase by 25.4%, or $335.8 million, between FY2017 and FY2021, rising from $1.3 billion to $1.7 billion.

Between FY2017 and FY2021 the increase in benefit costs is driven primarily by a $162.4 million, or 19.1%, increase in teacher pension contributions. CPS previously picked up 7.0% of the 8.5% employee contribution for non-teacher non-union employees. However, in FY2016 the District started to phase out the pick-up for non-union non-teacher employees. The 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.[95] In addition, new teachers hired on or after January 1, 2017 are no longer eligible for the pension pick-up per the current Chicago Teachers Union contract. The

[92] Non-teaching staff contribute to Social Security.
[93] For more information on pensions see p. 53.
[94] CPS FY2021 Proposed Budget, p. 42.
[95] CPS FY2017 Proposed Budget, p. 6.

District still picks up 7.0% of the 8.5% employee contribution for non-teacher union member participants in the Municipal Fund, which is budgeted at $40.6 million in FY2021.

CPS Personnel Appropriations for General Operating Funds by Type: FY2017-FY2021 (in $ millions)									
	FY2017 Actual	FY2018 Actual	FY2019 Actual	FY2020 Amended	FY2021 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries									
Teacher Salaries	$ 1,815.3	$ 1,841.3	$ 1,928.0	$ 2,012.8	$ 2,187.4	$ 174.5	8.7%	$ 372.0	20.5%
Ed. Support Salaries	$ 581.7	$ 595.5	$ 620.0	$ 627.5	$ 715.6	$ 88.1	14.0%	$ 133.9	23.0%
Total Salaries	**$ 2,397.0**	**$ 2,436.8**	**$ 2,548.0**	**$ 2,640.3**	**$ 2,903.0**	**$ 262.6**	**9.9%**	**$ 506.0**	**21.1%**
Employee Benefits									
Teacher Pension Employer Portion	$ 733.2	$ 551.4	$ 569.7	$ 854.5	$ 885.9	$ 31.4	3.7%	$ 152.7	20.8%
Teacher Pension Pickup*	$ 119.2	$ 116.3	$ 115.6	$ 126.3	$ 128.9	$ 2.6	2.0%	$ 9.7	8.1%
Total Teacher Pensions	**$ 852.4**	**$ 667.7**	**$ 685.3**	**$ 980.8**	**$ 1,014.8**	$ 34.0	3.5%	$ 162.4	19.1%
Ed. Support Pension Employer Portion	$ 65.5	$ 81.1	$ 111.8	$ 200.8	$ 133.8	$ (67.0)	-33.4%	$ 68.3	104.2%
Ed. Support Pension Pickup*	$ 34.0	$ 32.9	$ 32.4	$ 35.1	$ 40.6	$ 5.5	15.8%	$ 6.6	19.5%
Total Ed. Support Pension	**$ 99.5**	**$ 114.0**	**$ 144.2**	**$ 235.9**	**$ 174.4**	$ (61.5)	-26.1%	$ 74.9	75.3%
Hospitalization/Other Comp.	$ 306.9	$ 319.3	$ 304.9	$ 368.5	$ 393.3	$ 24.9	6.7%	$ 86.5	28.2%
Unemployment Compensation	$ 7.0	$ 6.6	$ 4.1	$ 9.0	$ 9.0	$ (0.0)	-0.1%	$ 2.0	27.8%
Medicare/Social Security	$ 33.7	$ 34.6	$ 36.3	$ 39.6	$ 42.3	$ 2.7	6.8%	$ 8.7	25.7%
Workers' Compensation	$ 20.5	$ 23.5	$ 24.0	$ 22.0	$ 22.0	$ (0.0)	-0.1%	$ 1.5	7.1%
Total Employee Benefits	**$ 1,320.0**	**$ 1,165.8**	**$ 1,198.8**	**$ 1,655.8**	**$ 1,655.8**	**$ 0.02**	**0.001%**	**$ 335.8**	**25.4%**
Total Compensation	**$ 3,717.0**	**$ 3,602.6**	**$ 3,746.9**	**$ 4,296.1**	**$ 4,558.8**	**$ 262.6**	**6.1%**	**$ 841.8**	**22.6%**

*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, FY2020-FY2021, Revenues & Expenditures, available at www.cps.edu; CPS FY2017 CAFR, pp. 74, 78 and 89; CPS FY2018 CAFR, pp. 83, 88 and 99; and CPS FY2019 CAFR, pp. 80, 84 and 96.

ENROLLMENT

The FY2021 budget is based on 20th day enrollments for each school during the 2019-2020 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 an 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.[96]

As the table below indicates, CPS has experienced a decrease in student enrollment of 37,129 over the last five years. This is a decline of 9.5% from FY2016 to FY2020. CPS does not provide a reason for this decrease, although it has cited lower birth rates as one possible factor in previous years.[97]

Over the five-year period from FY2016 to FY2020, preschool enrollment has dropped by 5,063 students or 22.4%. In FY2021 CPS plans to expand its free, full-day preschool program by 43 classrooms as part of the district's four-year plan to provide all four-year-olds in Chicago with access to early childhood education.[98]

Elementary school enrollment has decreased by 9.9%, or 25,632 students, over this five-year period. High school enrollment declined by 5.8% or 6,434 students.

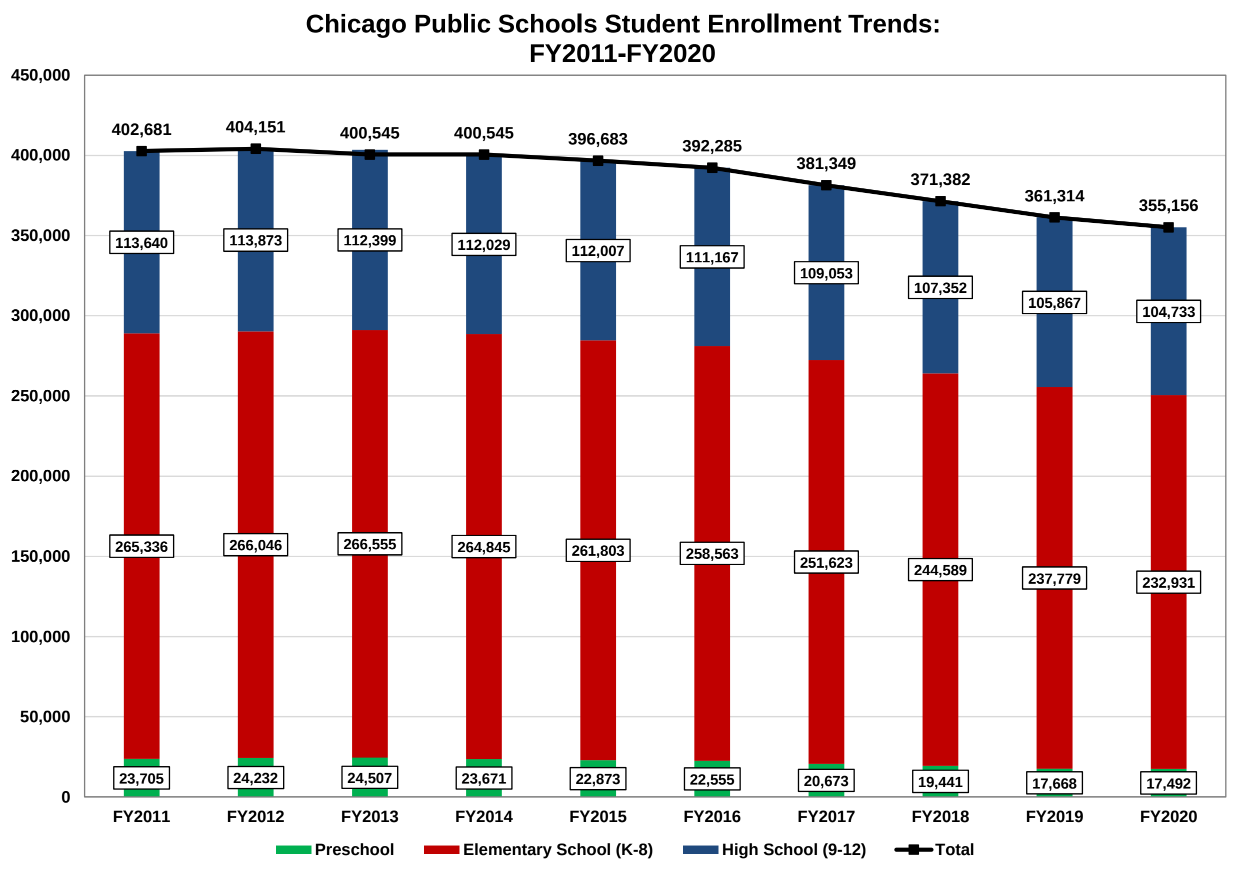
[96] Chicago Public Schools FY2021 Proposed Budget, p. 45.
[97] Chicago Public Schools FY2019 Proposed Budget, p. 189.
[98] Chicago Public Schools FY2021 Proposed Budget, p. 51.

CPS Student Enrollment: FY2016-FY2020									
	FY2016	FY2017	FY2018	FY2019	FY2020	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Preschool	22,555	20,673	19,441	17,668	17,492	(176)	-1.0%	(5,063)	-22.4%
Elementary School (K-8)	258,563	251,623	244,589	237,779	232,931	(4,848)	-2.0%	(25,632)	-9.9%
High School (9-12)	111,167	109,053	107,352	105,867	104,733	(1,134)	-1.1%	(6,434)	-5.8%
Total	**392,285**	**381,349**	**371,382**	**361,314**	**355,156**	**(6,158)**	**-1.7%**	**(37,129)**	**-9.5%**

Source: CPS FY2021 Proposed Budget, p. 211.

Enrollment at CPS has been shrinking for longer than the last five years. The chart below shows that enrollment has decreased by 11.8% or 47,525 students over the ten-year period from FY2011 to FY2020. Enrollment declines between FY2011 and FY2016 were small—about 1% or less annually—followed by a larger drop in FY2017 when total enrollment fell from 392,285 to 381, 349, a loss of 10,936 students, or 2.8%. Similar declines occurred in FY2018 and FY2019 before improving slightly in FY2020 with a decline of only 1.7%, or 6,158 students.

Over this 10-year period, preschool enrollment declined by 6,213 students, or by 26.2%. Elementary school enrollment decreased by 32,405 students or 12.2%. High school enrollment decreased by 8,907 students or 7.8%.



Source: CPS FY2021 Proposed Budget, p. 211.

The District was expecting a decline in enrollment for the upcoming fiscal year similar to what they experienced in FY2020. However, due to the COVID-19 pandemic CPS students will be learning remotely during the fall, which may have an adverse impact on enrollment for the upcoming fiscal year.[99]

[99] Information provided to the Civic Federation by Chicago Public Schools budget staff on August 20, 2020.

MUNICIPAL EMPLOYEES' PENSION FUND

Eligible non-teaching employees of CPS participate in the City of Chicago's Municipal Employees' Annuity and Benefit Fund.[100] As of December 31, 2018, approximately 17,146, or 54.8%, of the 31,285 active Municipal Fund members were CPS employees.[101]

The employer contribution for CPS employees participating in the Municipal Fund is made by the City of Chicago, not by CPS. However, CPS entered into an intergovernmental agreement with the City in 2019 to partially reimburse those contributions. The City makes most of the Municipal Fund employer contribution through its property tax levy, the water-sewer usage tax on consumers and through reimbursements from its enterprise and special revenue funds.[102] CPS estimates that the FY2021 Municipal Fund contribution from the City (recorded as revenue) will be $184 million.[103] CPS will reimburse $60 million of this amount.

CPS does make some additional contributions to the Municipal Fund on behalf of its employees. For union employees, CPS "picks up" seven percentage points of the annual non-teacher employee pension contribution of 8.5%. CPS phased out the pick-up for non-union, non-teacher employee pensions in FY2018. The District's FY2021 cost for the non-teacher union employee pick-up is approximately $40.6 million and is part of the District's budgeted pension appropriation.[104] The District additionally reimburses the City for the employer pick-up of employees funded by federal grants; this reimbursement is budgeted at $10.0 million in FY2021.[105]

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.[106] 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.[107] The next section focuses on the Chicago Teachers' Pension Fund.

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[100] 40 ILCS 5/8-110.
[101] Chicago Public Schools FY2019 Comprehensive Annual Financial Report, p. 83.
[102] City of Chicago FY2020 Budget Overview, p. 53.
[103] Communication with CPS Budget Office August 20, 2020 and CPS FY2020 Proposed Budget, p. 24 and Interactive Proposed Budget, Revenues and Expenditures, available at cps.edu/budget.
[104] CPS FY2021 Interactive Proposed Budget, Revenues and Expenditures, available at cps.edu/budget.
[105] CPS FY2021 Interactive Proposed Budget, Revenues and Expenditures, available at cps.edu/budget.
[106] Public Act 100-0023. See also http://www.meabf.org/legislature for more information about the legislation.
[107] All reports are available at civicfed.org.

TEACHERS' PENSION FUND

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

The fiscal year of the Teachers' Pension Fund begins on July 1 and ends on June 30, as does the fiscal year of CPS. The most recent data available are for FY2019, which ended on June 30, 2019.

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.[108] Plan benefits and contributions can only be amended through state legislation.[109]

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.[110]

Membership

In FY2019 the Teachers' Pension Fund had 57,612 members, including 28,317 retirees and beneficiaries receiving benefits and 29,295 active employee members. In the ten years since FY2010, the number of retirees and beneficiaries receiving benefits increased by 15.1%, or 3,717. In contrast, the number of active employee members has declined by 5.5%, or 1,717 members, over the same period. The ratio of active employees to beneficiaries has fallen every year since FY2008, except for FY2019. 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 there are

[108] Chicago Teachers' Pension Fund, FY2018 Comprehensive Annual Financial Report, p. 29.
[109] 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.
[110] CPS did not participate in Medicare until 1986 but most CTPF members are now eligible for Medicare.

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

CPS Teachers' Pension Fund Membership: FY2010-FY2019				
Fiscal Year	Retirees & Beneficiaries Receiving Benefits	Active Employee Members	Total	Ratio of Active to Beneficiary
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
FY2019	28,317	29,295	57,612	1.03

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

Source: Chicago Teachers' Pension Fund, Actuarial Valuations, FY2010-FY2019.

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.[111]

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

[111] 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 $114,952**
Annuity Formula	2.2% of final average salary for each year of service***	
Early Retirement Formula Reduction	0.5% per month under age 60	0.5% per month under age 67
Maximum Annuity	75% of final average salary	
Annual Automatic COLA on Retiree or Surviving Spouse Annuity	3% compounded; begins at anniversary date of retirement or 61st birthday, whichever is later	lesser of 3% or one-half of the annual increase in CPI-U, not compounded; begins at the later of age 67 or the first anniversary of retirement

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

**The maximum pensionable salary automatically increases by the lesser of 3% or one-half of the annual increase in the CPI-U. $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, 2019, p. 30-32.

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 FY2021 a contribution of $254.6 million for the annual cost of the pension plan's benefits —the normal cost—and retiree healthcare.[112]

Additional State Contribution: The State is required to make additional contributions in FY2021 of 0.544% of teacher payroll to the Teachers' Fund to offset a portion of the cost of benefit increases enacted under Public Act 90-0582. No additional contributions are required if the funded ratio is at least 90.0%. Because the CTPF is funded below the 90.0% threshold, the required additional State contribution in FY2021 is projected at $12.3 million, up from $11.9 million in FY2020.[113]

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 $13.2 million, up from $12.6 million in FY2019.[114]

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.[115] 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.[116] 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.[117]

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 FY2021 State contribution for normal cost and retiree healthcare of $254.6 million will reduce the CPS required contribution from $860.5 million to $605.9 million.

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[112] Public School Teachers' Pension and Retirement Fund of Chicago Actuarial Valuation Report as of June 30, 2019, 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.
[113] Chicago Teachers' Pension Fund Actuarial Valuation, FY2019, p. 1.
[114] Chicago Teachers' Pension Fund Actuarial Valuation, FY2019, p. 1.
[115] This annual required contribution must be calculated by February 28 each year, per 40 ILCS 5/17-129.
[116] "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.
[117] 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 FY2021 cost for the 7.0% employee pick-up is approximately $128.9 million and is part of the District's budgeted employer pension appropriation.[118]

Pension Fund Indicators

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

Funded Ratios

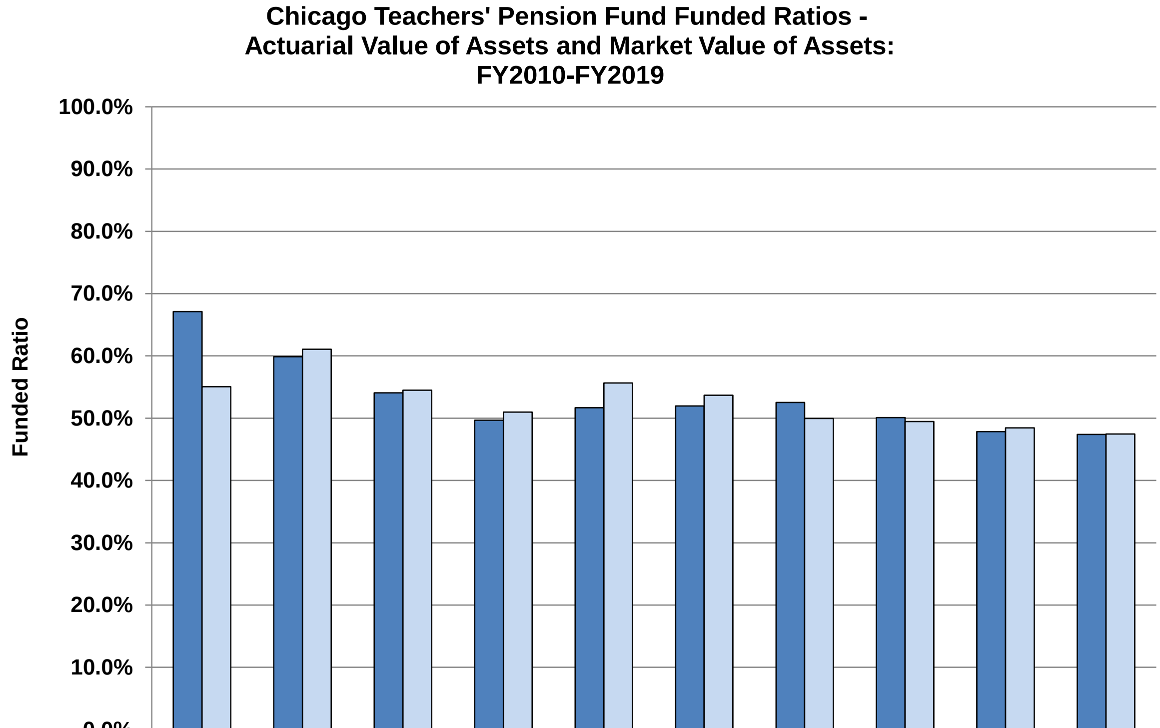
This report uses two measurements of pension plan funded ratio: the actuarial value of assets measurement and the market value of assets measurement. These ratios show the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting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

The actuarial value of assets measurement presents the ratio of assets to liabilities and accounts for assets by recognizing unexpected gains and losses over a period of three to five years.[119] 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 67.1% funded on an actuarial value basis in FY2010, and this funded ratio fell to 49.7% in FY2013 before rising slightly and then falling to 47.4% in FY2019. The market value funded ratio was 55.0% in FY2010 and recovered

[118] CPS FY2021 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 $40.6 million in FY2021.
[119] 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 47.5% in FY2019.



	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Actuarial Value	67.1%	59.9%	54.1%	49.7%	51.7%	52.0%	52.5%	50.1%	47.9%	47.4%
Market Value	55.0%	61.1%	54.5%	51.0%	55.6%	53.7%	50.0%	49.5%	48.4%	47.5%

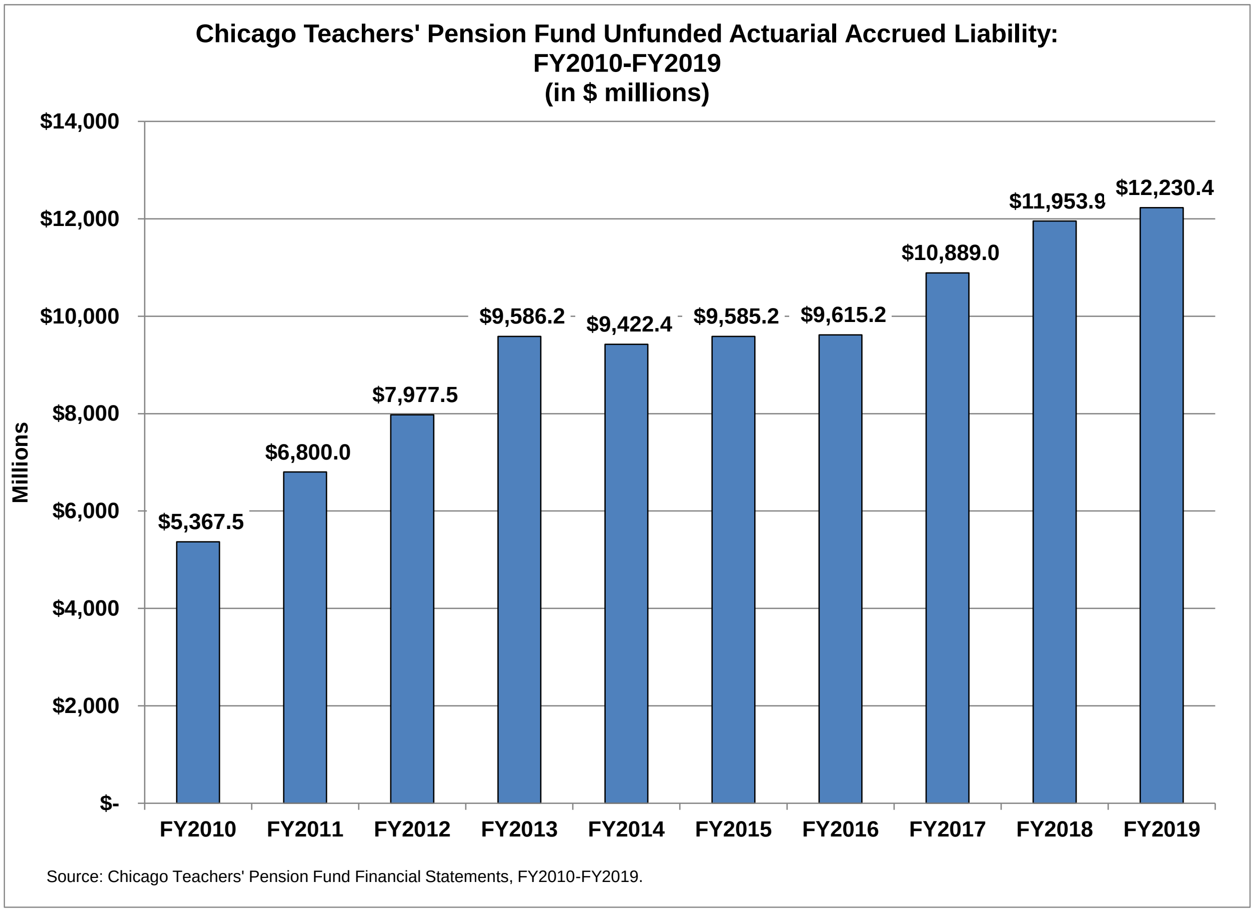
Source: Civic Federation calculations based on Chicago Teachers' Pension Fund Financial Statements, FY2010-FY2019.

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 $5.4 billion in FY2010. Since FY2010 unfunded liabilities have increased by 127.9%, rising to nearly $12.2 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.[120] The UAAL increased again by nearly $1.1 billion in FY2018, due again in part to a reduction in the actuarial assumptions, including reducing the expected rate of return on investment to 7.0% from 7.25%.[121] A smaller increase of $276.4 million in FY2019 was due

[120] Public School Teachers' Pension and Retirement Fund of Chicago Statutorily Required Funding Valuation as of June 30, 2017, p. 4.
[121] Public School Teachers' Pension and Retirement Fund of Chicago Statutorily Required Funding Valuation as of June 30, 2018, p. 2-3.

predominantly to employer contributions less than actuarial needs of the fund and investment returns less than expectations offset by lower than expected salary increases.[122]



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 FY2010 to FY2019. 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.[123] This deficiency in employer contributions added nearly $3.4 billion to the unfunded liability between FY2010 and FY2019. Over the past 10 years the second

[122] Public School Teachers' Pension and Retirement Fund of Chicago Statutorily Required Funding Valuation as of June 30, 2019, p. 24.
[123] Total increase in unfunded liability includes increase in FY2010 over FY2009, included in the first line of the chart below.

largest contributor to the unfunded liability has been changes to actuarial assumptions at nearly $3.5 billion followed by changes to actuarial assumptions, which contributed $2.7 billion.

Chicago Teachers' Pension Fund Reasons for Change in Unfunded Actuarial Accrued Liability: FY2010-FY2019							
	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**
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**
FY2019	$ 264,851,308	$ 98,317,079	$ (62,859,630)	$ -	$ -	$ (23,864,119)	**$ 276,444,638**
10-Year Total	**$ 3,472,906,272**	**$ 1,810,187,687**	**$ (380,278,032)**	**$ -**	**$ 2,718,233,845**	**$ 469,007,878**	**$ 8,090,057,650**

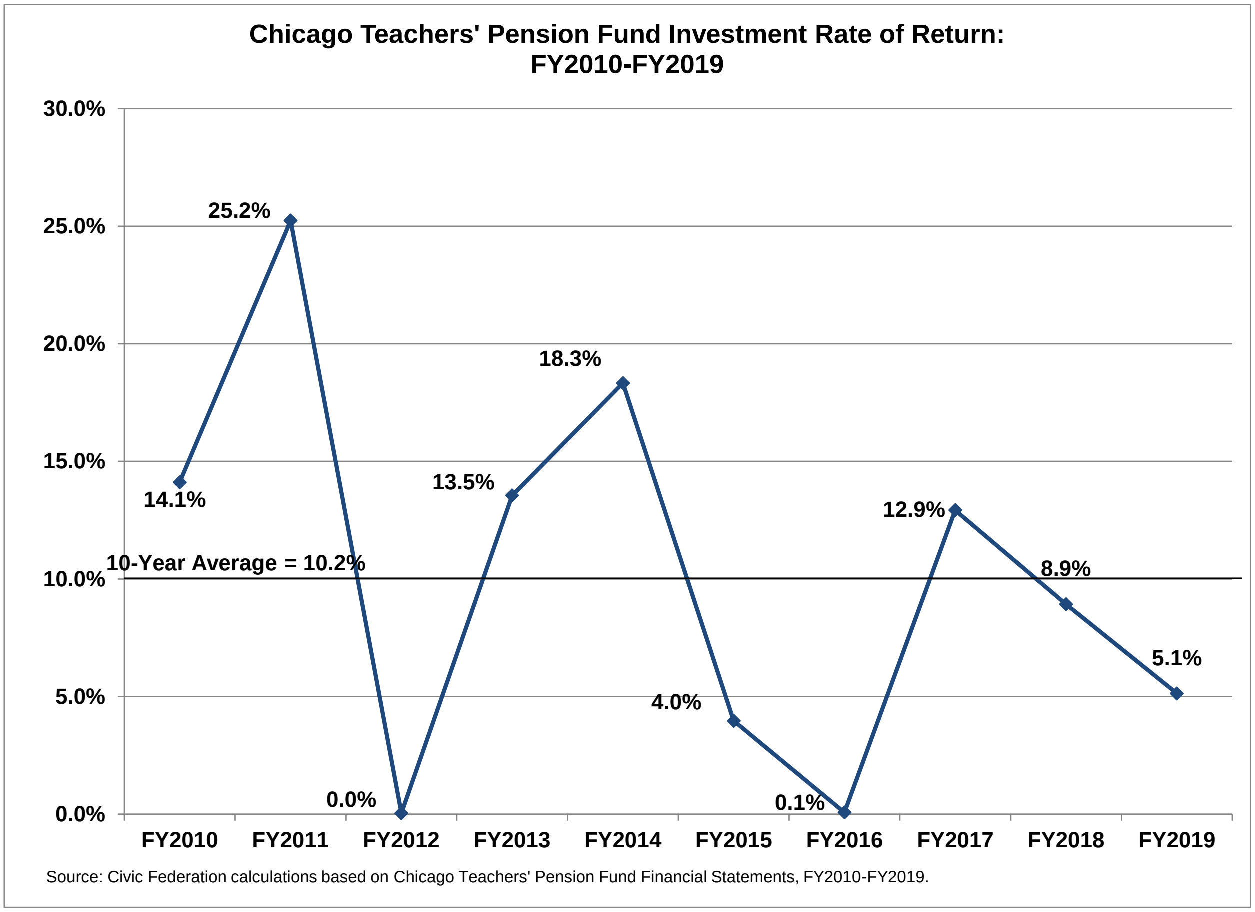
* Change in UAAL due to salary assumptions restored in FY2017 with new actuary. Previous actuary combined salary assumptions with Other between FY2012 and FY2016.
Source: Chicago Teachers' Pension Fund, Actuarial Valuations, FY2010-FY2019.

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 FY2010 and FY2019, the Chicago Teachers' Pension Fund average annual rate of return was 10.2%.[124] This is above the fund's current assumed rate of return of 7.0%. Returns ranged from a

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

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



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."[125] Among other disclosures, pension funds and governments are now required to report total pension liability, fiduciary net position, net pension liability, pension expense and actuarially determined contribution (ADC), which are calculated on a different basis from previous GASB 25 and 27 pension disclosure requirements. Both pension funds and governments must also disclose additional information about pensions in the notes to the financial statements and in required supplementary information sections. It is important to note that GASB intended to separate pension reporting from pension funding. Thus, the numbers reported according to GASB 67 and 68 standards are not used to determine how

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

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

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

The total pension liability, fiduciary net position, net pension liability and ADC[126] 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 3.13%. 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 6.72%, 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 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

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

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

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

Difference between the ADC and ARC

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

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

	ADC (FY2014 and After)	**ARC (FY2013 and Earlier)**
Amortization Period	30-year closed (24 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 FY2019 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 FY2019. The reason is that projected assets are forecast to be insufficient to cover projected benefit payments after 2077 and therefore a lower municipal bond rate of 3.13% must be used as the discount rate for benefit payments after that year, increasing the amount of projected liabilities.[127]

Since the first year of reported GASB 67 pension liabilities, the total pension liability has increased by 27.1% while assets reported as fiduciary net position have only increased by 14.1%, with the result that net pension liability has grown even faster or 39.6%. The net pension liability growth is larger than unfunded liability growth of 21.6% over the same period 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-FY2019					
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability	Fiduciary Net Position as a Percentage of Total Pension Liability	Actuarially Determined Contribution
FY2013	$ 19,795,922,569	$ 9,674,188,563	$ 10,121,734,006	48.87%	$ 585,444,539
FY2014	$ 20,316,899,952	$ 10,815,694,614	$ 9,501,205,338	53.23%	$ 719,781,746
FY2015	$ 20,713,217,296	$ 10,689,954,320	$ 10,023,262,976	51.61%	$ 728,488,520
FY2016	$ 21,124,697,012	$ 10,113,297,310	$ 11,011,399,702	47.87%	$ 749,796,517
FY2017	$ 23,175,590,999	$ 10,793,173,927	$ 12,382,417,072	46.57%	$ 754,764,093
FY2018	$ 24,547,482,873	$ 11,104,765,514	$ 13,442,717,359	45.24%	$ 855,752,559
FY2019	$ 25,166,179,329	$ 11,038,837,459	$ 14,127,341,870	43.86%	$ 855,752,559
Seven-Year Change	**$ 5,370,256,760**	**$ 1,364,648,896**	**$ 4,005,607,864**		**$ 270,308,020**
Seven-Year % Change	**27.13%**	**14.11%**	**39.57%**		**46.17%**

Source: FY2014-FY2019 Chicago Teachers' Pension Fund Actuarial Valuations and CAFRs. FY2013 numbers were presented in the FY2014 report.

OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

The CTPF provides a "rebate" for a significant portion of the monthly premiums owed by those who enroll. The rebate only applies to the retired teacher's portion of these insurance policies, not to the additional cost of enrolling eligible dependents. However, the rebate does apply to eligible dependents who are survivors of deceased retirees. The Fund had previously provided

[127] Public School Teachers' Pension and Retirement Fund of Chicago, CAFR, June 30, 2019, p. 47. 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.

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.[128]

Beginning in FY2018, Public Act 100-0465 required the State of Illinois to begin contributing $65 million annually to the Chicago Teachers' Pension Fund health insurance subsidy. State law limits the amount of OPEB payments in any one year to $65 million plus any amounts unpaid from the preceding year.[129] Even though CPS does not contribute directly to OPEB benefits, it is required to report total OPEB liabilities in its Statement of Net Position starting in FY2018, according to GASB 75.

As of June 30, 2018, a total of 16,976 retirees and beneficiaries received health insurance benefits. There were also 11,573 retirees and beneficiaries entitled to benefits but not currently receiving them.[130] In FY2019 the Teachers' Pension Fund spent $58.6 million on OPEB.[131]

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 FY20010 to FY2019, insurance premium rebates paid to beneficiaries decreased by 26.7%, or $21.3 million. The health

[128] 40 ILCS 17-142.1.
[129] Chicago Teachers' Pension Fund, FY2019 Comprehensive Annual Financial Report, p. 34; 40 ILCS 17-142.1.
[130] Chicago Public Schools, FY2019 Comprehensive Annual Financial Report, p. 87.
[131] Chicago Teachers' Pension Fund, FY2018 Comprehensive Annual Financial Report, p. 29.

insurance rebate has represented approximately 3.4% to 7.1% of total pension and OPEB benefit expenditures over the ten-year period.

Total Health Insurance Premium Rebates Paid to Retired CPS Teachers: FY2010-FY2019		
	Health Insurance Rebate Paid	% Change over Previous Year
FY2010	$ 79,953,873	--
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%
FY2019	$ 58,611,532	-11.6%
Ten-Year Change	**$ (21,342,341)**	**-26.7%**

Source: Chicago Teachers' Pension Fund, Comprehensive Annual Financial Report FY2019, p. 29, 137-138.

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, 2019, but measured as of June 30, 2018 of nearly $2.27 billion, up slightly from the restated FY2018 total OPEB liability of $2.27 billion.[132] The District reported the liability in its Statement of Net Position for the first time in

[132] Chicago Public Schools, FY2019 Comprehensive Annual Financial Report, p. 88.

FY2018, which was an increase from the reported net OPEB obligation in FY2017 of $2.0 billion.[133] 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;[134] 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 FY2015 through FY2019, which is the most recent data available in audited financial reports. Between FY2018 and FY2019 total short-term liabilities increased by 3.6%, or $42.3 million, rising from $1.17 billion to $1.21 billion. Most of the increase was due to a large 42.9%, or $169.6 million, increase in accounts payable. That increase occurred because certain FY2019 invoices were paid after the end of the fiscal year, requiring those expenses to be accrued. This increased the account payable balance relative to the previous year. The delay was primarily due to implementation of matching invoice software.[135]

In the five-year period between FY2015 and FY2019, total short-term liabilities increased by 1.8% or $21.0 million. During the same period, accounts payable rose by 83.7%, or $257.6 million. Short-term borrowing, in the form of tax anticipation and grant anticipation notes outstanding, peaked in FY2017 at $1.3 billion. It declined to $449.4 million in FY2019 as the district's financial and liquidity situations improved.

(in $ thousands)									
	FY2015	FY2016	FY2017	FY2018	FY2019	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Accounts Payable	$ 307,675	$ 358,303	$ 404,731	$ 395,704	$ 565,292	$ 169,588	42.9%	$ 257,617	83.7%
Accrued Payroll & Benefits	$ 144,133	$ 144,686	$ 132,427	$ 128,012	$ 146,787	$ 18,775	14.7%	$ 2,654	1.8%
Amount Held for Student Activities	$ 40,888	$ 43,520	$ 41,288	$ 47,824	$ 52,238	$ 4,414	9.2%	$ 11,350	27.8%
Line of Credit	$ 700,000	$ -	$ -	$ -	$ -	$ -	---	---	---
Tax Anticipation Notes	$ -	$ 869,996	$ 950,000	$ 599,911	$ 449,445	$ (150,466)	-25.1%	$ 449,445	---
Grant Anticipation Notes	$ -	$ -	$ 386,994	$ -	$ -	$ -	---	$ -	---
Total	**$ 1,192,696**	**$ 1,416,505**	**$ 1,915,440**	**$ 1,171,451**	**$ 1,213,762**	**$ 42,311**	**3.6%**	**$ 21,066**	**1.8%**

Source: CPS Comprehensive Annual Financial Reports, Balance Sheets - Governmental Funds, FY2015 -FY2019.

[133] Chicago Public Schools, FY2017 Comprehensive Annual Financial Report, p. 38.
[134] Chicago Public Schools FY2015 Comprehensive Annual Financial Report, p. 16.
[135] Information provided by CPS Budget Office, August 20, 2020.

Short-Term Liabilities as a Percentage of Net Operating Revenues

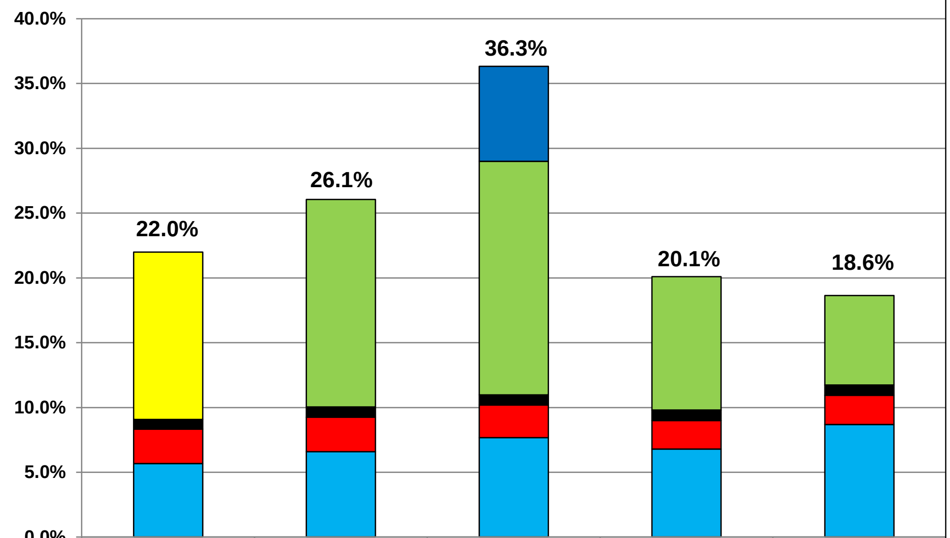
Increasing short-term (current) liabilities at the end of the year in a government's operating funds as a percentage of net operating revenues may be a warning sign of a government's future financial difficulties.[136] This ratio indicator, developed by the International City/County Management Association (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.

[136] 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.

The following graph shows the five-year trend in the District's short-term liabilities as a percentage of operating revenues by category. Between FY2015 and FY2017, the ratio rose from 22.0% to 36.3%, before dropping to 20.1% in FY2018 and then again to 18.6% in FY2019. 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,[137] the $870.0 million in Tax Anticipation Notes issued in FY2016 and $1.3 billion in short-term borrowing in FY2017. At the end of FY2018 CPS issued approximately $600.0 million in tax anticipation notes and an additional $449.0 million in F2019.

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: FY2015-FY2019



	FY2015	FY2016	FY2017	FY2018	FY2019
Grant Anticipation Notes	0.0%	0.0%	7.3%	0.0%	0.0%
Tax Anticipation Notes	0.0%	16.0%	18.0%	10.3%	6.9%
Line of Credit	12.9%	0.0%	0.0%	0.0%	0.0%
Amount Held for Student Activities	0.8%	0.8%	0.8%	0.8%	0.8%
Accrued Payroll	2.7%	2.7%	2.5%	2.2%	2.3%
Accounts Payable	5.7%	6.6%	7.7%	6.8%	8.7%

Source: Chicago Public Schools Comprehesive Annual Financial Reports, FY2015-FY2019.

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

Short-Term Borrowing

In FY2015 through FY2019 CPS relied on short-term borrowing to cover cash-flow difficulties. During the first half of FY2017, the District issued a total of $1.55 billion of short-term borrowing; these funds were issued as Tax Anticipation Notes (TANs) and secured with dedicated property tax revenues.[138] 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.[139] In FY2018 CPS issued $1.1 billion in short-term debt to bridge the gap between revenue collections and expenses.[140]

Educational funding reforms approved by the General Assembly and the Governor, budget reductions and improved cash management strategies have improved the District's cash position. CPS was able to reduce its amount of short-term borrowing in FY2019 by $250 million from the prior year to $844 million, saving approximately $33 million in interest expenses that year. [141] CPS issued $830.0 million in Tax Anticipation Notes (TANs) in FY2020 to cover operating cash-flow needs. The Board has budgeted approximately $19 million in interest costs for FY2021 TANs.[142]

The District has paid a price for its ongoing liquidity problems due to the interest costs associated with short-term borrowing. The FY2017 budget provided for up to $35 million in interest on the Tax Anticipation Notes,[143] while the Grant Anticipation Notes were estimated to cost the District at least $7 million for a three-month period.[144] The interest on the TANs cost the District $34 million in FY2017, $68 million in FY2018, $21 million in FY2019[145] and an estimated $12 million in FY2020.[146] As noted above, short-term interest costs are anticipated to increase to $19 million in FY2021.[147]

Accounts Payable Trends

The District's ratio of accounts payable in the Governmental Funds to operating revenues has increased in the five-year period analyzed. It increased from 5.7% in FY2015 to 7.7% in FY2017 before falling to 6.8% one year later and then rising to 8.7% in FY2019. The FY2019 increase

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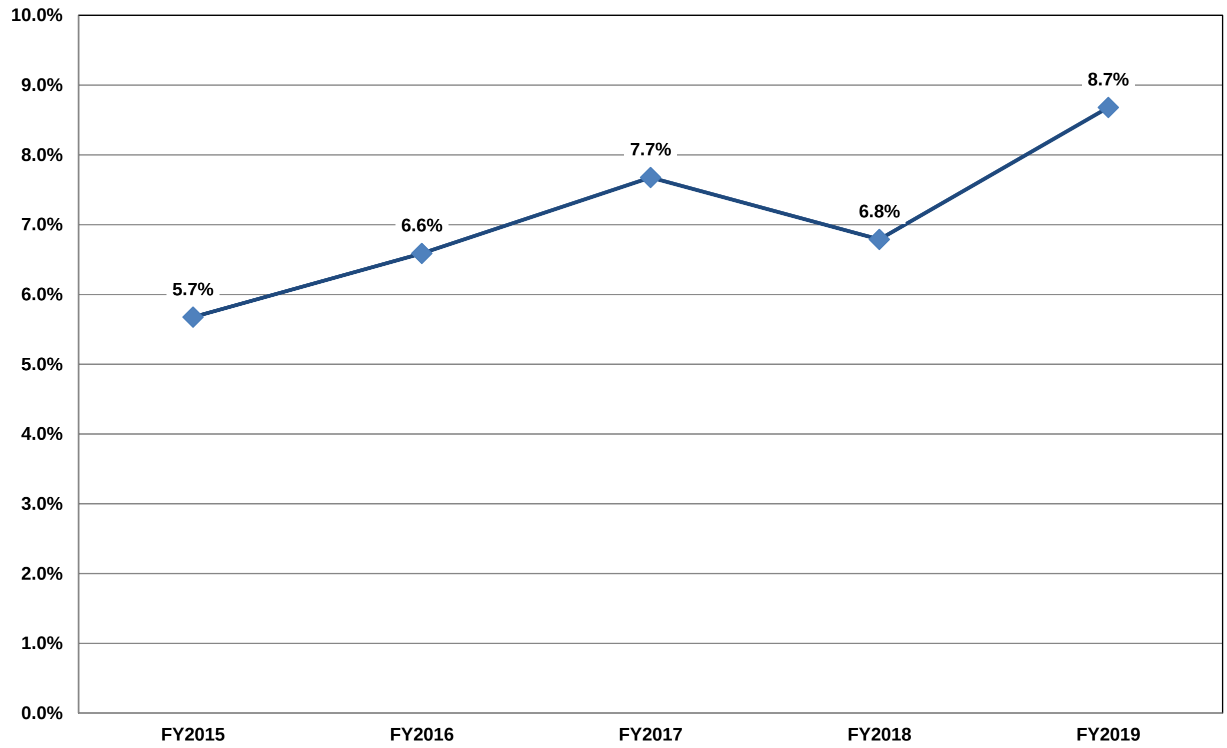
[138] Board of Education of the City of Chicago, *Supplement to the Limited Offering Memorandum Dated November 10, 2016, Series 2016A-3*, January 10, 2017.
[139] CPS FY2017 Comprehensive Annual Financial Report, p. 84.
[140] CPS FY2019 Proposed Budget, p. 178.
[141] Chicago Public Schools FY2019 Comprehensive Annual Financial Report, p. 14.
[142] CPS FY2021 Budget, p. 200.
[143] CPS Amended FY2017 Budget, p. 173.
[144] 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).
[145] CPS FY2020 Budget, p. 177.
[146] CPS FY2020 Adopted Budget, p. 178.
[147] CPS FY2021 Proposed Budget, p. 200.

reflects a 42.9%, or $169.6 million increase due to certain FY2019 invoices being paid after the end of the fiscal year. This requiring those expenses to be accrued.[148]

CPS Accounts Payable as a Percentage of Operating Revenue: FY2015 - FY2019



Source: CPS Comprehensive Annual Financial Reports, FY2015-FY2019.

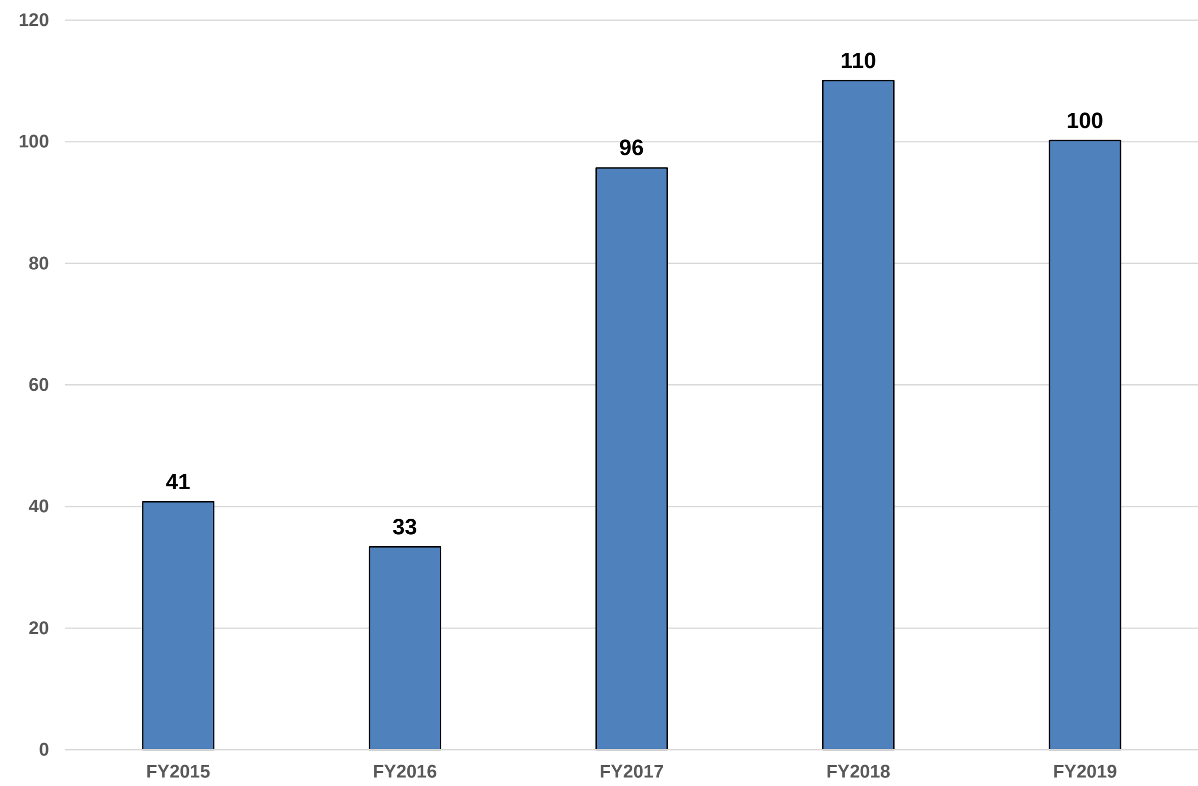
[148] Information provided by the CPS Budget Office, August 20, 2020.

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.[149]

Between FY2015 and FY2016, Chicago Public Schools reported that the days of cash on hand at year end fell from 41 to just 33 days, indicating a drop in liquidity. However, the number of days rose significantly to 110 by FY2018, which is a positive sign. That increase reflects the District's improved cash position since FY2017 due to the approval of additional State funding for CPS. However, in FY2019, the ratio fell to 100 days, which is still considered a reasonable level of liquidity.

Chicago Public Schools Days of Cash on Hand at Year End FY2015 to FY2019



Source: CPS Comprehensive Annual Financial Reports, FY2015- FY2019.

[149] 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.[150] 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;[151]
- *Cash and investments held in school internal accounts* represent the book balance for checking and investments for individual schools;[152]
- *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.[153]

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[150] Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations,* Upper Saddle River, NJ, 2001, p. 476.
[151] CPS FY2019 Comprehensive Annual Financial Report, p. 63.
[152] CPS FY2019 Comprehensive Annual Financial Report, p. 63.
[153] CPS FY2019 Comprehensive Annual Financial Report, p. 57.

The CPS current ratio was 3.0 in FY2019, the most recent year for which audited financial data are available. This was a 4.3% decrease from the ratio of 3.1 in FY2018.

Between FY2015 and FY2017, the ratio fell from 2.2 to 1.9. 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 2.4. This is above the benchmark of 2.0, which is considered a good level of liquidity.

CPS Current Ratio in the Governmental Funds: FY2015-FY2019
(in $ thousands)

	FY2015	FY2016	FY2017	FY2018	FY2019	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Current Assets									
Cash and Investments	$ 166,113	$ 33,915	$ 120,596	$ 164,784	$ 266,269	$ 101,485	61.6%	$ 100,156	60.3%
Cash and Investments in Escrow	$ 508,498	$ 519,099	$ 1,454,162	$ 1,606,949	$ 1,458,760	$ (148,189)	-9.2%	$ 950,262	186.9%
Cash and Investments Held in School Internal Accounts	$ 40,888	$ 43,520	$ 41,288	$ 47,824	$ 52,238	$ 4,414	9.2%	$ 11,350	27.8%
Receivables: Property Taxes, Net	$ 1,114,780	$ 1,134,583	$ 1,395,299	$ 1,430,486	$ 1,391,559	$ (38,927)	-2.7%	$ 276,779	24.8%
Receivables: Replacement Taxes	$ 33,183	$ 33,320	$ 32,296	$ 28,668	$ 29,956	$ 1,288	4.5%	$ (3,227)	-9.7%
Receivables: State Aid, Net	$ 600,980	$ 618,190	$ 431,478	$ 137,723	$ 140,161	$ 2,438	1.8%	$ (460,819)	-76.7%
Receivables: Federal Aid	$ 115,513	$ 115,785	$ 98,148	$ 144,176	$ 115,567	$ (28,609)	-19.8%	$ 54	0.0%
Receivables: Other	$ 58,090	$ 59,730	$ 62,889	$ 66,819	$ 140,694	$ 73,875	110.6%	$ 82,604	142.2%
Other Assets	$ -	$ -	$ 2,356	$ -	$ -	$ -	---	$ -	#DIV/0!
Total Current Assets	**$ 2,638,045**	**$ 2,558,142**	**$ 3,638,512**	**$ 3,627,429**	**$ 3,595,204**	**$ (32,225)**	**-0.9%**	**$ 957,159**	**36.3%**
Current Liabilities									
Accounts Payable	$ 307,675	$ 358,303	$ 404,731	$ 395,704	$ 565,292	$ 169,588	42.9%	$ 257,617	83.7%
Accrued Payroll & Benefits	$ 144,133	$ 144,686	$ 132,427	$ 128,012	$ 146,787	$ 18,775	14.7%	$ 2,654	1.8%
Amount Held for Student Activities	$ 40,888	$ 43,520	$ 41,288	$ 47,824	$ 52,238	$ 4,414	9.2%	$ 11,350	27.8%
Line of Credit	$ 700,000	$ -	$ -	$ -	$ -	---	---	$ (700,000)	---
Tax Anticipation Notes	$ -	$ 869,996	$ 950,000	$ 599,911	$ 449,445	$ (150,466)	-25.1%	$ 449,445	---
Grant Anticipation Notes	$ -	$ -	$ 386,994	$ -	$ -	$ -	---	$ -	---
Total Current Liabilities	**$ 1,192,696**	**$ 1,416,505**	**$ 1,915,440**	**$ 1,171,451**	**$ 1,213,762**	**$ 42,311**	**3.6%**	**$ 21,066**	**1.8%**
Current Ratio	**2.2**	**1.8**	**1.9**	**3.1**	**3.0**		**-4.3%**		**33.9%**

Source: CPS Comprehensive Annual Financial Reports, Balance Sheets - Governmental Funds, FY2015- FY2019.

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.[154] Increases in long-term liabilities over time may be a sign of fiscal stress. They include long-term debt as well as:

- *Accrued Sick Pay Benefits*: CPS provides sick pay benefits for nearly all of its employees. After July 1, 2012, unused sick days at the end of a fiscal year are no longer carried over to the next fiscal year. Payout of the value of any unused sick days is no longer paid out to employees. CPS budgets an amount each year in the General Operating Fund for these estimated payments to employees terminated in the current fiscal year;
- *Accrued Vacation Pay Benefits*: For eligible employees, the maximum number of accumulated unused vacation days permitted is 40 days for those employees with up to ten years of service, 53 days for those with 11 to 20 years of service and 66 days for those with more than 20 years of service. Eligible employees are entitled to receive 100.0% of accumulated vacation days at their current salary rate when they retire. These amounts are paid from the General Operating Fund;
- *Accrued Workers Compensation Claims, Accrued General and Automobile Claims and Tort Liabilities and Other Claims*: CPS is substantially self-insured and assumes risk of loss as follows:

  CPS maintains commercial excess property insurance for "all risks" of physical loss or damage with limits of $250,000,000 and Boiler and Machinery Insurance with limits of $100,000,000 with the following deductibles:
    - Data Processing Equipment & Media $50,000
    - Mechanical Breakdown $50,000
    - All Other Losses $500,000;
- *Net Pension Liabilities*: Beginning in FY2015, CPS reports 100% of the Chicago Teachers' Pension Fund's (CTPF) net pension liability in the Statement of Net Position to comply with GASB Statement 68 requirements. Previously, this liability was reported in the Statement of Net Position as a Net Pension Obligation or NPO. As a result of the reporting change for pensions involved in implementing GASB 68, the amount of CPS long-term liabilities **reported** has increased substantially. This is because it reflects a more holistic approach to measuring the liabilities of the government, which the previous NPO pension measurement did not. The amount owed by CPS to the CTPF has not significantly changed. It is only being reported more transparently; and
- *Net Other Post Employment Benefit (OPEB) Obligations*:[155] Beginning with the FY2018 CAFR, Chicago Public Schools implemented GASB Statement 75 requirements to report

[154] 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 FY2019 Comprehensive Annual Financial Report, pp. 77-78.

[155] 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.

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.[156] 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.

[156] 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 FY2015 and FY2019, total CPS long-term liabilities increased by 35.5%, or by $6.4 billion, rising from approximately $18.1 billion to nearly $24.6 billion. Most of this increase was due to increase in net pension liabilities of roughly $3.9 billion.

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 36.4%, or nearly $4.3 billion, over the five-year period. Net pension obligations/net pension liabilities alone increased by 41.5%, or $3.9 billion, while net OPEB obligations grew by 27.0%, rising from approximately $1.8 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 $2.1 billion, or 33.7%, 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. The amount reported in the table below for general obligation bonds reflects the par or face value.[157] It does not include amounts from unamortized premiums, arbitrage liability or the accretion of capital appreciation bonds. Only par values are factored into calculations of legal debt margins in Illinois.

CPS Long-Term Liabilities: FY2015-FY2019
(in $ thousands)

Type of Obligation	FY2015	FY2016	FY2017	FY2018	FY2019	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
General Obligation Bonds*	$ 6,073,049	$ 6,578,983	$ 6,617,275	$ 7,281,448	$ 7,475,068	$ 193,620	2.7%	$ 1,402,019	23.1%
Leases Securing PBC Bonds	$ 196,470	$ 157,780	$ 116,850	$ 875	$ 700	$ (175)	-20.0%	$ (195,770)	-99.6%
Capital Leases	$ 1,400	$ 1,225	$ 1,050	$ 73,520	$ 27,675	$ (45,845)	-62.4%	$ 26,275	1876.8%
Dedicated Capital Improvement Tax Bonds	$ -	$ -	$ 729,600	$ 794,480	$ 880,480	$ 86,000	10.8%	$ 880,480	---
Subtotal Long-Term Debt	**$ 6,270,919**	**$ 6,737,988**	**$ 7,464,775**	**$ 8,150,323**	**$ 8,383,923**	**$ 233,600**	**2.9%**	**$ 2,113,004**	**33.7%**
Other Accrued Liabilities	$ 18,650	$ 15,446	$ 29,840	$ 26,808	$ 30,187	$ 3,379	12.6%	$ 11,537	61.9%
Accrued Sick Pay Benefits	$ 342,293	$ 311,378	$ 289,818	$ 272,526	$ 246,264	$ (26,262)	-9.6%	$ (96,029)	-28.1%
Accrued Vacation Pay Benefits	$ 59,044	$ 51,260	$ 49,520	$ 48,764	$ 61,701	$ 12,937	26.5%	$ 2,657	4.5%
Accrued Workers' Compensation Claims	$ 132,699	$ 114,891	$ 114,290	$ 103,672	$ 92,902	$ (10,770)	-10.4%	$ (39,797)	-30.0%
Accrued General and Automobile Claims	$ 8,212	$ 13,508	$ 21,085	$ 30,009	$ 29,961	$ (48)	-0.2%	$ 21,749	264.8%
Tort Liabilities and Other Claims	$ 21,578	$ 17,700	$ 19,216	$ 16,388	$ 16,549	$ 161	1.0%	$ (5,029)	-23.3%
Net Pension Liability	$ 9,501,206	$ 10,023,263	$ 11,011,400	$ 12,382,417	$ 13,442,717	$ 1,060,300	8.6%	$ 3,941,511	41.5%
Net OPEB Obligation	$ 1,789,441	$ 1,895,045	$ 2,329,607	$ 2,270,891	$ 2,272,125	$ 1,234	0.1%	$ 482,684	27.0%
Subtotal Other Long-Term Liabilities	**$11,873,123**	**$ 12,442,491**	**$13,864,776**	**$ 15,151,475**	**$ 16,192,406**	**$ 1,040,931**	**6.9%**	**$ 4,307,746**	**36.4%**
Grand Total Long-Term Liabilities	**$18,144,042**	**$ 19,180,479**	**$21,329,551**	**$ 23,301,798**	**$ 24,576,329**	**$ 1,274,531**	**5.5%**	**$ 6,432,287**	**35.5%**

* Outstanding principal - par value.
Source: CPS Comprehensive Annual Financial Reports, Notes 8, 9, 11 and 12, FY2015-FY2019.

[157] Capital appreciation (and zero coupon) bonds are sold at a price less than their face value or par amount. These bonds usually typically pay interest only at maturity. See Municipal Securities Rulemaking Board at https://www.msrb.org/~/media/Files/Education/About-Zero-Coupon-and-Capital-Appreciation-Bonds.ashx. Accretion of capital appreciation bonds was $687.7 million in FY2019. Total debt including accreted interest and capitalized lease obligations totaled $9.0 billion. See Chicago Public Schools, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2019, Note 9.

CPS Long-Term Debt

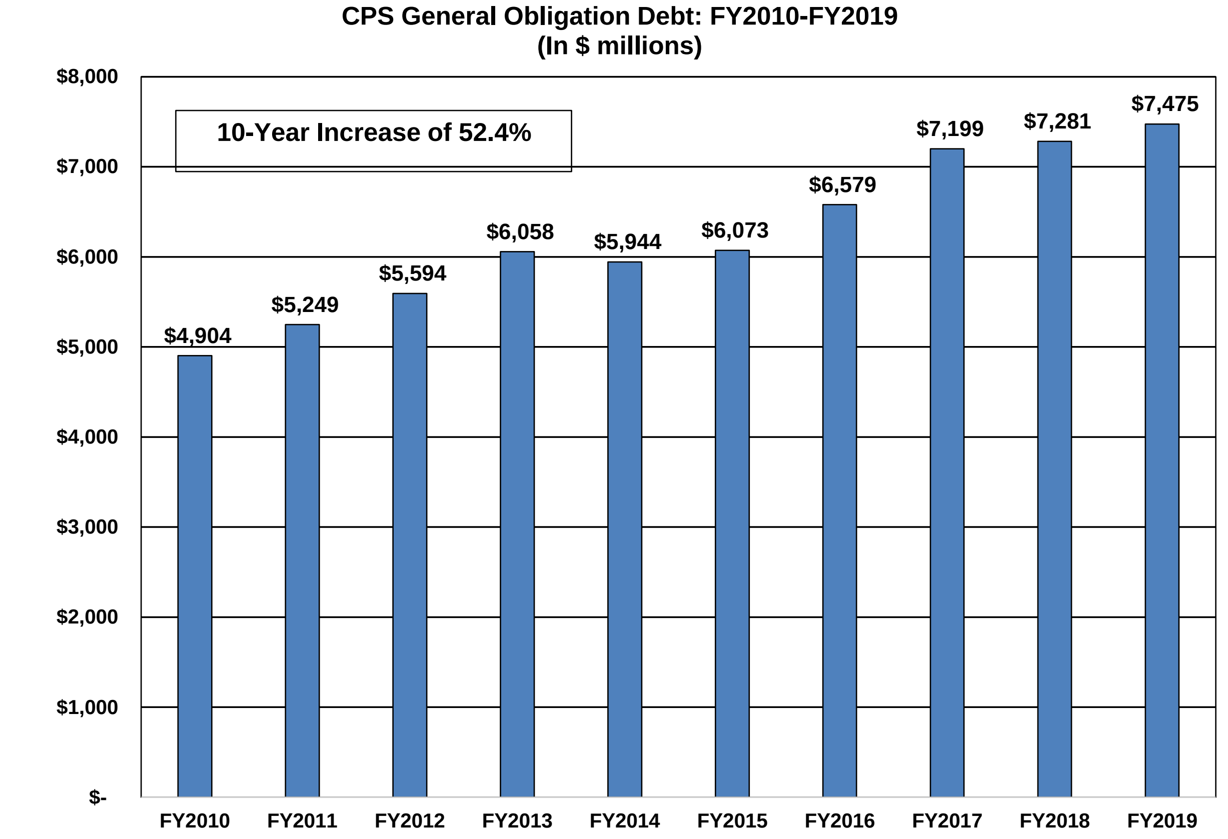
Increases in government-issued general obligation debt bear watching as they are a potential sign of escalating financial risk. The concern is that unless a government secures additional revenues or reduces spending at the same time that it increases its debt burden, it may have difficulty making principal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

CPS long-term tax supported debt increased by 52.4% between FY2010 and FY2019, rising from $4.9 billion to nearly $7.5 billion. This large increase is a cause for concern because the District continues to face serious and continuing challenges in meeting its rising expenditures in areas such as personnel and retirement costs as well as the fiscal challenges from the COVID-19 pandemic.

The improved financial position of CPS since the approval of additional State of Illinois funding since 2018 through increased State aid 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.[158] In sharp contrast, $562.3 million in unlimited tax general obligation refunding bonds issued in May 2018 had 5.0% interest rates.[159] Similarly, a December 2018 bond issue for $763.4 million in unlimited tax

[158] Heather Gillers, "CPS borrows at steep interest rate," *Chicago Tribune*, February 4, 2016.
[159] Board of Education of the City of Chicago Official Statement for $562,250,000 unlimited tax general obligation refunding bonds, May 25, 2018.

general obligation refunding bonds also had a 5.0% interest rate,[160] as did a September 2019 $349.1 million unlimited tax general obligation refunding bond issue.[161]



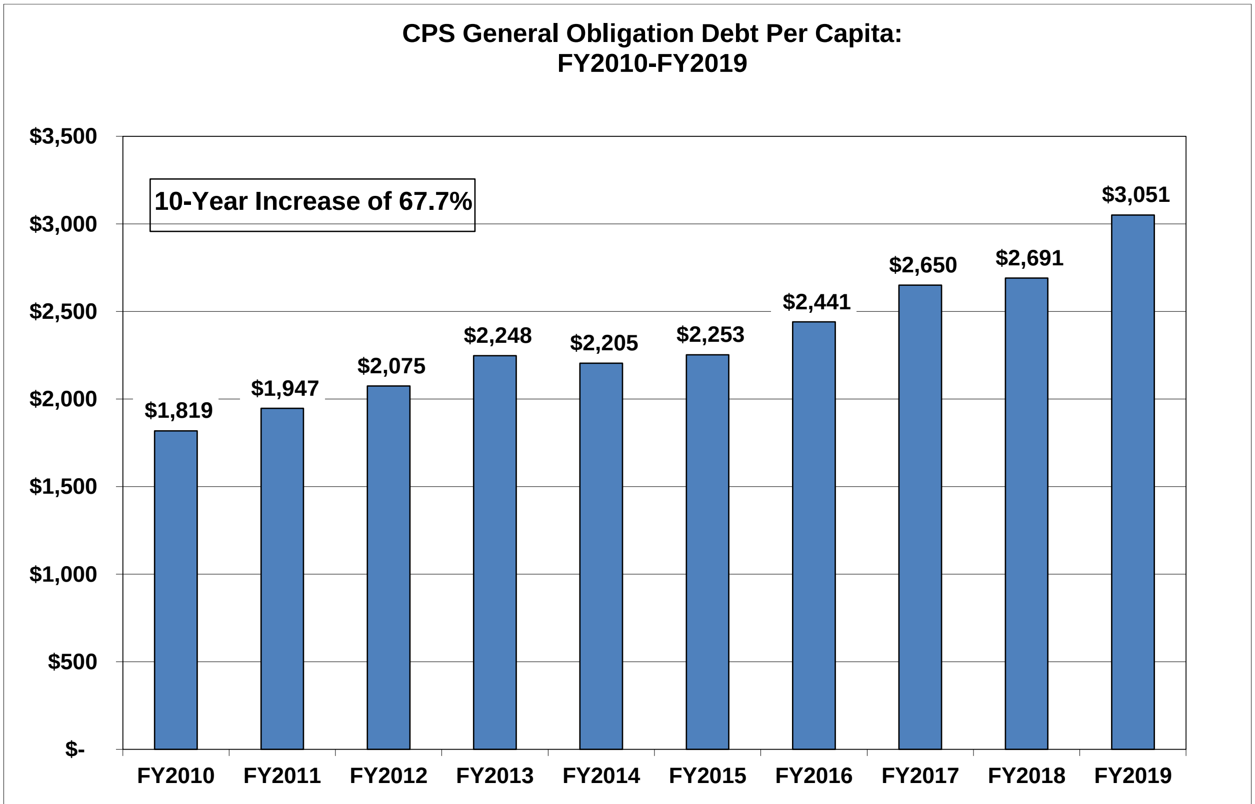
CPS FY2019 Comprehensive Annual Financial Report, p. 158.

[160] 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

[161] Board of Education of the City of Chicago Official Statement for $349,078,872.25 unlimited tax general obligation refunding bonds, September 5, 2019.

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 67.7% between FY2010 and FY2019, rising from $1,819 to $3,051. 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 7.0% over the time period, falling from 2,896,016 to 2,693,976.[162] Between FY2013 and FY2014, CPS general obligation debt per capita declined slightly by 1.9% from $2,248 to $2,205. However, since then it has risen steadily to $3,051 in FY2019.[163]



Source: CPS FY2019 Comprehensive Annual Financial Report, pp.158-159.

[162] United States Census Bureau, QuickFacts at: https://www.census.gov/quickfacts/fact/table/chicagocityillinois,US/PST045219.
[163] CPS FY2019 Comprehensive Annual Financial Report, p. 159.

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%.[164] The CPS debt service ratio has been below the 15% threshold between FY2017 and FY2021. Over the five-year period reviewed, the ratio is expected to average 10.7%.

Chicago Public Schools Budgeted Debt Service Appropriations as % of Operating Appropriations: FY2017-FY2021							
	FY2017 Actual	FY2018 Actual	FY2019 Actual	FY2020 Estimated	FY2021 Proposed	$ Change	% Change
Debt Service Appropriations	$ 531.0	$ 620.4	$ 629.6	$ 687.4	$ 710.5	$ 179.50	33.8%
Operating Appropriations	$ 5,297.8	$ 5,513.9	$ 5,858.8	$ 6,182.3	$ 6,916.0	$ 1,618.20	30.5%
Debt Service as a % of Total Appropriations	**10.0%**	**11.3%**	**10.7%**	**11.1%**	**10.3%**		

Sources:CPS Proposed FY2021 Budget, p. 17 and 191 (for FY2019, FY2020 and FY2021 figures), CPS Adopted FY2020 Budget, pp. 14 and 169 (for FY2018 figures); CPS Approved FY2019 Budget, pp. 16 and 171 (for FY2017 figures).

CPS General Obligation Bond Ratings

In 2015, 2016 and 2017 the Chicago Public Schools was on a path of steadily falling credit ratings as the District struggled to finance its mounting debt and pension obligations and concurrently depleted its reserves. In FY2018, the financial situation improved as the State of Illinois approved legislation providing new and substantial financial assistance.

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

Moody's upgraded CPS credit to B1 from B2 in November 2019 because of the district's improved liquidity situation as a result of the infusion of new state and local revenues.[165] The rating was affirmed in May 2020, although the outlook was changed from positive to stable. The change was due to concerns over the district's limited financial prospects as costs continue to outstrip revenues.[166]

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[164] 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.

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

[166] Moody's Investor's Services, Moody's affirms B1 on Chicago Board of Education's (IL); revises outlook to stable at https://www.moodys.com/research/Moodys-affirms-B1-on-Chicago-Board-of-Educations-IL-revises--PR_906427171.

Fitch upgraded its credit rating for the Chicago Public Schools in August 2019 from BB- to BB due to the district's restoration of reserves and improved financial position as a result of increased state aid. The rating outlook was changed from positive to stable.[167]

Standard & Poor's raised its Chicago Public Schools credit rating to BB- from B+ in August 2019. The upgrade was based on the rating agency's conclusion that the district's financial situation was much improved due to a restoring its positive fund balance, adopting a balanced budget (although it did include one-time resources), reducing reliance on short-term cash borrowing, and receiving increased state aid.[168]

Chicago Public Schools General Obligation Bond Credit Ratings: 2006-August 2020

Name of Agency	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Kroll Bond Rating Agency										BBB+	BBB (1)	BBB(3)	BBB (5)	BBB (5)	BBB (5)
											BBB- (2)	BBB- (4)	BBB- (4)	BBB- (4)	BBB- (4)
Fitch Ratings	A+	A+	A+	A+	AA-	A+	A	A-	A-	BBB-	B+	BB-	BB-	BB-	BB
Standard & Poor's	A+	AA-	AA-	AA-	AA-	AA-	A+	A+	A+	A-	BB	B	B+	B+	BB-
Moody's Investor Services	A2	A1	A1	A1	Aa2	Aa3	A2	A3	Baa1	Ba3	B2	B3	B2	B2	B1

(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://www.cps.edu/about/finance/credit-ratings/#a_general-obligation-bonds.

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.[169] CPS issued $86.0 million in additional capital improvement bonds in December 2018. Kroll has not changed its CIT credit ratings, but Fitch did change the rating to A- with a stable outlook in 2020.[170]

[167] Fitch Ratings. Fitch Rates Chicago BOE, IL's $369MM ULTGOs 'BB' & Upgrades Outstanding Ratings; Outlook to Stable," August 26, 2019 at https://www.fitchratings.com/research/us-public-finance/fitch-rates-chicago-boe-il-369mm-ultgos-bb-upgrades-outstanding-ratings-outlook-to-stable-26-08-2019.
[168] Standard and Poor's Global Ratings, "Chicago Board of Education GO Bond Rating Raised To 'BB-' On Continued Financial Progress," August 28, 2019 at https://www.standardandpoors.com/en_US/web/guest/article/-/view/type/HTML/id/2289867.
[169] Chicago Public Schools, "Credit Ratings" at https://cps.edu/About_CPS/Financial_information/Pages/CreditRatings.aspx, April 1, 2019.
[170] 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, July 7, 2020.

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.[171] 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.[172]

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.[173]

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.[174]

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.[175]

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.[176]

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[171] 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.
[172] Fran Spielman, "Bond ratings for Chicago and Chicago Public Schools a tad less junky," *Chicago Sun-Times*, July 12, 2018.
[173] Fran Spielman, "Wall Street agency upgrades CPS bond rating – for a change," *Chicago Sun-Times*, October 27, 2017.
[174] Yvette Shields, "Moody's places Chicago Board of Education, IL's B3 GO rating on review for downgrade," *The Bond Buyer*, July 6, 2017.
[175] Andy Grimm, "Standard & Poor's drops Chicago Public Schools' credit rating," *Chicago Sun-Times*, November 9, 2016.
[176] *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.[177]

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.[178]

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.[179]

<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.[180]

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.[181]

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.[182]

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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[177] Moody's Investors Services, "Rating Update: Moody's downgrades Chicago Board of Education, IL's GO to B2; outlook negative," January 29, 2016.
[178] Fitch Ratings, "Fitch Downgrades Chicago Board of Ed (IL) ULTGOs to 'B+'; Outlook Negative," January 19, 2016.
[179] Juan Perez, Jr., "CPS gets harsh notice on debt: Standard & Poor's further downgrades district's rating," *Chicago Tribune*, January 16, 2016.
[180] Moody's Investors Services, "Moody's downgrades Chicago Board of Education, IL's GO to B1; rating under review for further downgrade," December 2015.
[181] 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.
[182] 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.[183]

In May 2015 Moody's dropped CPS' rating three notches to Ba3 from Baa3, with a continuing negative outlook.[184]

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-.[185] The downgrades triggered penalties under the terms of the District's debt swap agreements with financial institutions of well over $200 million.[186]

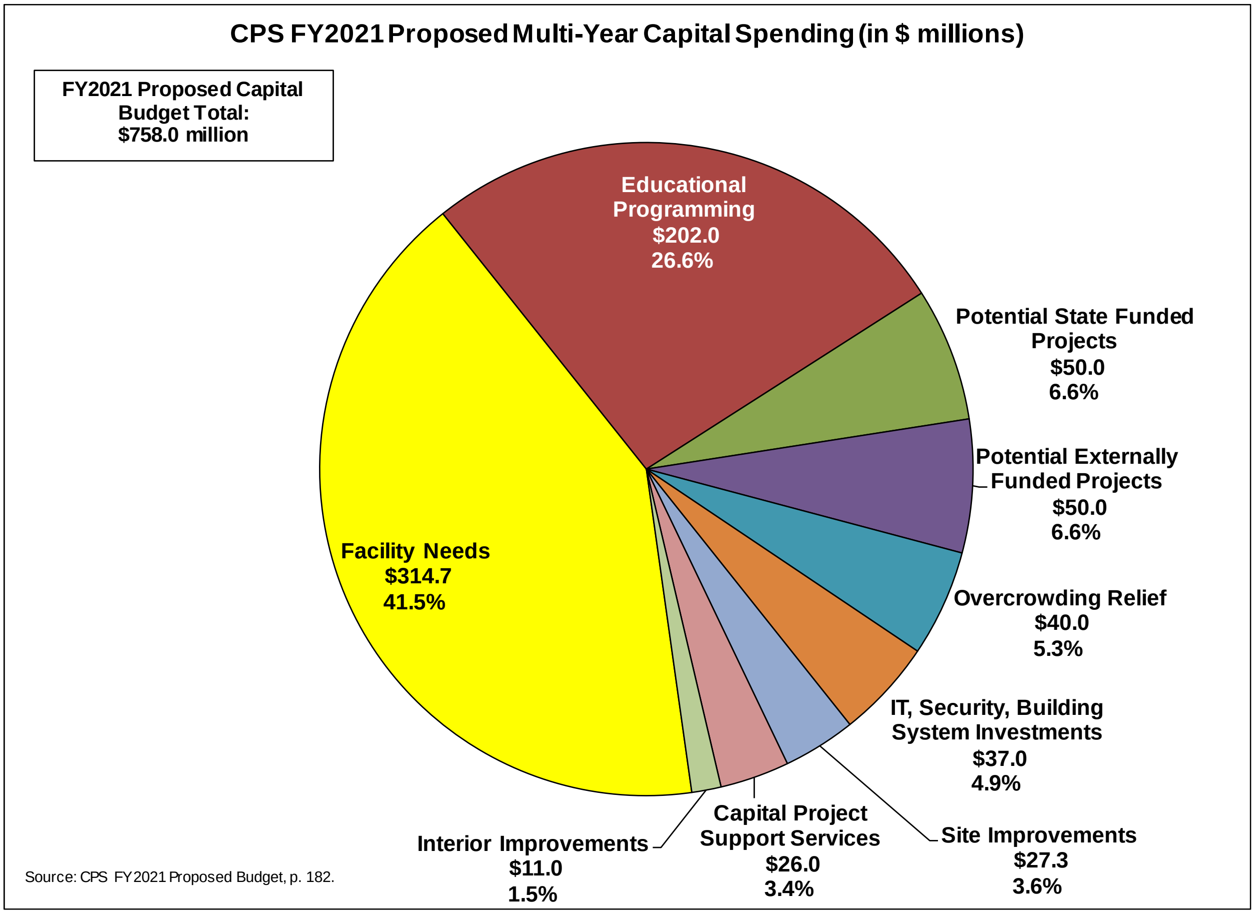
CAPITAL SPENDING

In the FY2021 budget book, CPS proposes spending $758.0 million over time for capital projects.[187] 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, $314.7 million or 45.1% of the total, will be spent on facility needs, including repairs to roofs and mechanical systems. The second largest amount, $202.0 million, is anticipated to be used for infrastructure improvements that support educational programs, including funds for new science labs, converted and upgraded classrooms and classroom technology.[188] Smaller amounts will be earmarked for potential state funded projects, overcrowding relief, information technology and security services, interior

[183] Fitch Ratings, "Fitch Downgrades Chicago Board of Ed (IL) ULTGOs to BBB+; Negative Watch," July 7, 2015.
[184] Lauren FitzPatrick and Tina Sfondeles, "Chicago public schools and park district's debt downgraded to junk status," *Chicago Sun-Times*, May 13, 2015.
[185] *Reuters*, "Update 2-Fitch Downgrades Chicago Board of Education rating to BBB-," March 20, 2015.
[186] Dan Mihalopoulos and Lauren FitzPatrick, "CPS facing $200 million-plus penalties as bond ratings plunge," *Chicago Sun-Times*, March 20, 2015.
[187] CPS FY2021 Proposed Budget, p. 181.
[188] CPS FY2021 Proposed Budget, p. 185.

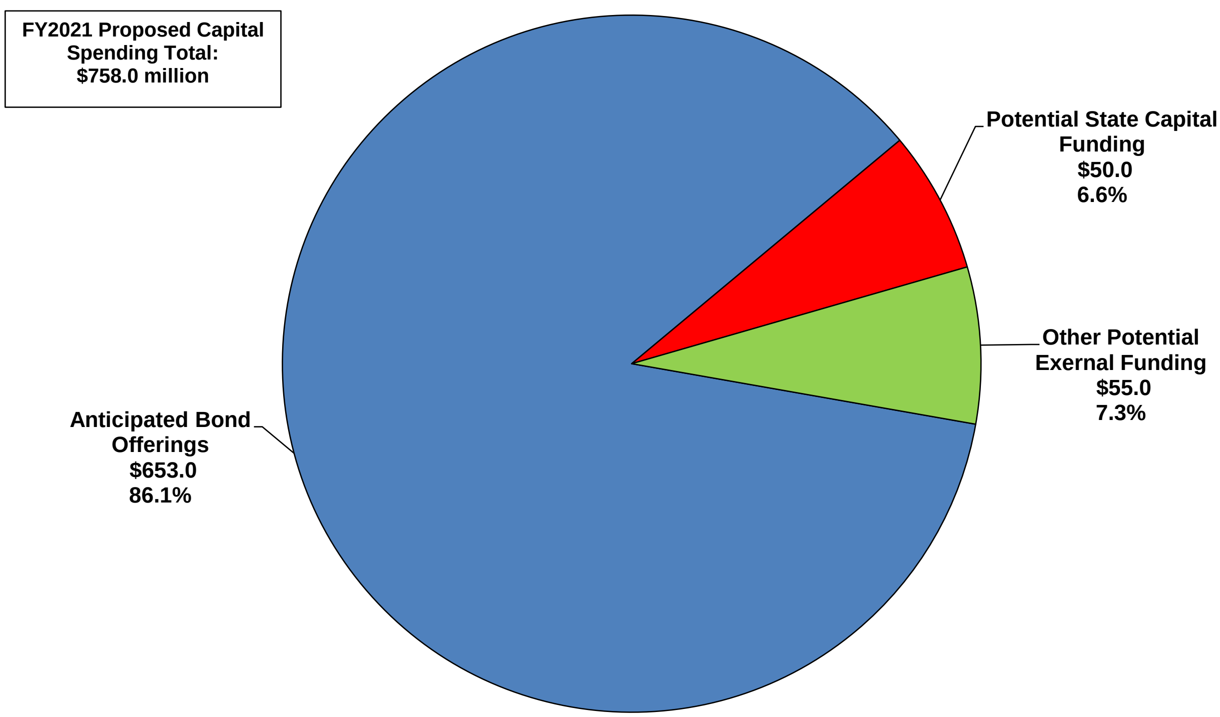
improvements, capital project services, site improvements and funding to support externally funded projects.[189]



[189] CPS FY2021 Proposed Budget, pp. 184-185

The FY2021 capital spending plan will be funded over time, primarily with debt proceeds. Roughly $653.0 million, or 86.1% of all resources used, will be financed by new anticipated debt issuances. About 7.3% or $55.0 million will come from other potential external funding sources and the remaining 6.6% or $50.0 million, will be potentially financed with State capital funds.

CPS Funding Sources for FY2021 Proposed Multi-Year Capital Spending Plan (in $ millions)



Source: CPS FY2021 Proposed Budget, p. 182.

Capital Project Revenues and Spending: FY2017-FY2021

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

The table below shows capital revenues and expenses (outlays) from FY2017-FY2021. The capital outlays of $635.9 million in FY2021 are incurred that year regardless of the year in which projects were appropriated. The fund balance amount shown is the difference between expected FY2021 capital expenses versus revenues. The amount unspent in one fiscal year carries forward into the next fiscal year.[190]

The following are some of the significant two-year changes between the FY2020 estimated and the FY2021 proposed budget:

- Total capital revenues from state, local and federal sources will increase by $25.3 million, or 31.8%, from $79.5 million to $104.8 million;
- State of Illinois revenues are expected to increase significantly from $15.7 million to $47.3 million. Of the latter amount, $13.3 million will be derived from gaming revenue for new construction projects and $34.0 million will derive from other potential State of Illinois grants;[191]
- Local revenues will decrease by 13.0%, from $54.5 million in FY2020 to $47.4 million. Approximately $38.7 million of the FY2021 amount will be from TIF-related reimbursements and nearly $8.8 million will derive from other local funding sources such as City of Chicago aldermanic menu funds and the Metropolitan Water Reclamation District;[192] and
- Federal revenues will decrease slightly from $10.6 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.[193]

On the expenditure side, capital outlays will rise from $596.4 million in FY2020 to $639.5 million in FY2021; this is an increase of 7.2% or $43.1 million. The $639.5 million figure represents amounts originally budgeted in prior years that will be spent in FY2021 as well as the estimated $95.0 million to be budgeted and spent in FY2021.[194]

In the same two-year period, proceeds from bond issuances will rise from $0 to $410.0 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 fall sharply by 61.8%, from $200.3 million to $76.6 million.

[190] CPS FY2021 Proposed Budget, p. 185.
[191] CPS FY2021 Proposed Budget, p. 186.
[192] CPS FY2021 Proposed Budget, p. 186.
[193] CPS FY2021 Proposed Budget, p. 186.
[194] CPS FY2021 Proposed Budget, p. 186.

Over the five-year period between FY2017 and FY2021, total capital revenues are expected to decrease by 6.9% or $7.8 million. Capital outlays will increase by 212.3% or $434.7 million, rising from $204.8 million to $639.5 million. Bond issuances will fall by 47.1%, decreasing from $775.5 million to $410.0 million. The end of year fund balance will drop from $107.2 million to $76.6 million, a 28.5% decrease. The FY2021 capital budget will begin the year with a $200.3 million balance of unspent revenue received in prior years.

CPS Capital Revenues and Expenses (Outlays) FY2017-FY2021 (in $ millions)

	FY2017 Actual Budget	FY2018 Actual Budget	FY2019 Actual Budget	FY2020 Estimated Budget	FY2021 Proposed Budget	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Beginning of Year Fund Balance	$ 138.9	$ 822.2	$ 895.1	$ 716.7	$ 200.3	$ (516.4)	-72.1%	$ 61.4	44.2%
Revenues									---
Local Revenue	$ 75.8	$ 46.0	$ 63.0	$ 54.5	$ 47.4	$ (7.1)	-13.0%	$ (28.4)	-37.5%
State Revenue	$ 30.1	$ 14.0	$ 13.0	$ 15.7	$ 47.3	$ 31.6	201.3%	$ 17.2	57.1%
Federal Revenue	$ 6.7	$ 19.5	$ 1.0	$ 10.6	$ 10.1	$ (0.5)	---	$ 3.4	50.7%
Total Revenue	**$ 112.6**	**$ 79.5**	**$ 77.0**	**$ 79.5**	**$ 104.8**	**$ 25.3**	**31.8%**	**$ (7.8)**	**-6.9%**
Expenditures									
Capital Outlay	$ 204.8	$ 291.9	$ 613.0	$ 596.4	$ 639.5	$ 43.1	7.2%	$ 434.7	212.3%
Bond Proceeds	$ 775.5	$ 355.4	$ 356.4	$ -	$ 410.0	$ 410.0	---	$ (365.5)	-47.1%
Sales of Capital Assets	$ -	$ (0.5)	$ 1.2	$ 0.5	$ 1.0	$ 0.5	100.0%	$ 1.0	----
End of Year Fund Balance	**$ 107.2**	**$ 964.7**	**$ 716.7**	**$ 200.3**	**$ 76.6**	**$ (123.7)**	**-61.8%**	**$ (30.6)**	**-28.5%**

Total figures may not sum due to rounding.

Sources: CPS FY2019 Proposed Budget, p. 165, FY2020 Proposed Budget, p. 163 and FY2021 Proposed Budget, pp. 185-186.

Actual Capital Spending: FY2015-FY2021

There is a difference between the amount of funds appropriated for capital projects each year and the amount actually spent in that year. The next table shows the amount of actual capital expenditures spent each year compared to the total capital funds appropriated for that year; this includes funds appropriated in prior years beginning in FY2015. In FY2021, of the $758.0 million to be appropriated for capital projects, CPS intends to actually spend $95.0 million. Approximately $663.0 million of the FY2021 capital appropriation will be spent in subsequent time periods. A total of $1.06 billion will be spent in future years that was originally appropriated in budget years FY2015 through FY2021.

CPS Capital Spending Year by Year FY2015-FY2021 ($Millions)

	Total Appropriations	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Actual	FY2020 Estimated	FY2021 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	$ 1.7	$ 6.6	$ -	$ -
FY2016 Capital Budget	$ 160.3	$ -	$ 66.8	$ 56.5	$ 18.8	$ 3.5	$ 0.2	$ 0.3	$ -
FY2017 Capital Budget	$ 937.8	$ -	$ -	$ 73.5	$ 211.5	$ 293.8	$ 163.9	$ 73.0	$ 26.0
FY2018 Capital Budget	$ 136.2	$ -	$ -	$ -	$ 50.7	$ 37.3	$ 36.2	$ 5.6	$ -
FY2019 Capital Budget	$ 989.0	$ -	$ -	$ -	$ -	$ 276.7	$ 291.6	$ 236.0	$ 72.2
FY2020 Capital Budget	$ 820.6	$ -	$ -	$ -	$ -	$ -	$ 97.9	$ 229.6	$ 302.2
FY2021 Capital Budget	$ 758.0	$ -	$ -	$ -	$ -	$ -	$ -	$ 95.0	$ 663.0
Total Spending Year by Year		**$ 384.5**	**$ 271.1**	**$ 204.8**	**$ 291.9**	**$ 613.0**	**$ 596.4**	**$ 639.5**	**$ 1,063.4**

Source: CPS FY2021 Proposed Budget, p. 186

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.[195] CPS has not yet published a FY2021-FY2025 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.

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