The Civic Federation

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CHICAGO PUBLIC SCHOOLS
FY2018 PROPOSED BUDGET:
Analysis and Recommendations

August 25, 2017

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EXECUTIVE SUMMARY

The Civic Federation **opposes** the Chicago Public Schools' (CPS) proposed Fiscal Year 2018 operating budget of $5.7 billion and total budget of $6.5 billion because it does not do enough to divert CPS from its dismal fiscal trajectory. This budget once again relies on uncertain revenues – this time from both the State of Illinois and the City of Chicago – and costly short-term and long-term borrowing for operations. CPS is in the midst of a budget crisis, a liquidity crisis, a debt crisis and a pension funding crisis. The District can no longer afford to make short-sighted financial decisions without considering the long-term implications for the City of Chicago as a whole and its future.

For the third year in a row, CPS' proposed budget includes State funding that has not yet been finalized, this time through the evidence-based funding model outlined in Senate Bill 1. While State leaders have announced that they have agreed in principle to a bipartisan evidence-based school funding formula, no details have been released as of this writing and a vote on the plan is not scheduled until Monday, when the Board of Education is also scheduled to vote on the CPS budget proposal. Like the rest of Illinois, the Civic Federation is hopeful that a sustainable solution will be reached and State funding will begin to go out to all schools. However, the Civic Federation must base our analysis on information that is currently available to the public.

Further, this budget proposal relies on $269 million from the City of Chicago, the source of which has not yet been publicly identified, and will require approval by the City Council. **The Civic Federation again urges CPS to identify and publicize for parents, students and employees what actions will need to be taken if the funding the budget is relying on from the City or the State fails to come through.** The Civic Federation urges CPS not to wait until mid-way through the school year to announce what cuts will be made to close a potential gap, as we have now seen painful mid-year cuts two years in a row.

The District's cash flow problems due to the timing of its revenues and expenditures have been exacerbated by delayed State payments as a result of the two-year State budget impasse and now the lack of an approved P-12 spending plan for FY2018. With negative general operating reserves, the District is completely reliant on short-term borrowing through Tax Anticipation Notes and Grant Anticipation Notes, which together are expected to cost the District nearly $100 million in interest in FY2018.

The volume at which CPS has been issuing long-term debt, as well as high interest costs due to the District's below investment grade credit rating, are extremely worrying. In the last two years alone, CPS has issued $2.1 billion in long-term debt, of which $1.9 billion is new debt, but it has no financial or capital plans in place. Stakeholders need to understand how a nearly insolvent entity can afford such debt or how it will be spent in the case of capital borrowing. The most recent bond issuance in July 2017 included $200 million in refunding through scoop and toss. While the scoop and toss mechanism will provide cash flow and liquidity relief in FY2018, annual debt service costs will increase significantly over the next several years due to this refunding. Continuing to issue massive amounts of long-term debt without a long-term financial plan that demonstrates how the District will balance payment of the debt and its obligations to students is not sustainable.

The Civic Federation recognizes that Chicago's public education funding is the joint responsibility of the State of Illinois, the City of Chicago and Chicago Public Schools. But ultimate responsibility and control lies in the hands of CPS. **Financial uncertainty does not preclude transparency nor adherence to best practices**. The Civic Federation urges the District to produce a forward-looking plan that identifies how the District will re-establish a healthy operating reserve, finance its long-term borrowing costs and restore structural balance without relying on one-time revenues and more borrowing. We also urge the District to bar the future use of scoop and toss, issue a five-year Capital Improvement Program and bring true pension parity to the District by working to consolidate the Chicago Teachers' Pension Fund with the downstate and suburban Teachers' Retirement System.

If CPS continues on its current trajectory toward fiscal insolvency, the Civic Federation offers two reorganization ideas as alternative paths forward. The Civic Federation does not recommend their implementation at the current moment, but presents them as options the District will be forced to consider if it fails to improve its fiscal condition. The first option would be reinstatement of the School Finance Authority, a joint City-State financial oversight body that could help bring the District back to financial stability through tough financial decisions such as budget cuts, administrative restructuring and revenue increases. The second option would dissolve the District as an independent government and merge it as a department within the City of Chicago. This is the model the New York City public school system uses and would free CPS from the tax caps that limit its property tax revenue and allow it to access the City's diverse revenue sources.

The Civic Federation offers the following **key findings** from the FY2018 Proposed Budget:

- The FY2018 proposed spending for general operations is projected to increase by $338.8 million, or 6.3%, compared to the amended FY2017 budget, primarily due to an increase in contingency appropriations of $183.8 million[1] as well as increases related to salaries, benefits, contracts and transportation expenses;
- The proposed budget relies on $269 million from the City of Chicago, the funding source of which has not been identified or approved by City Council, and on an additional $300 million from the State of Illinois contingent on the approval of a new statewide evidence-based school funding formula;
- Property tax revenue will increase by 4.5%, or $119.6 million, from the FY2017 amended budget to nearly $2.8 billion in FY2018, due to an increase in the property tax levy of 2.1% (which is the maximum increase under the tax cap) and taxing new property, property value growth captured by the recently reinstated property tax pension levy and revenue from the creation of a new Chicago Transit TIF district;
- Salary expenses will increase by $59.4 million, or 2.5%, in FY2018 from the FY2017 amended budget, primarily due to increased teacher salaries tied to collective bargaining agreements;
- The number of total Full-Time Equivalent (FTE) positions will decrease by 576.5, or 1.6%, between FY2017 and FY2018, and the number of teacher FTEs will decrease by 420.8, or 2.1%, which is primarily due to a decline in student enrollment;
- CPS projects an enrollment decline of 8,485 students, or 2.2%, from 381,349 in FY2017 to 372,864 in FY2018;
- The District is entering the 2018 fiscal year with a general operating reserve of negative $587.1 million due in part to late State Aid payments;
- The FY2018 proposed budget will again rely on short-term borrowing through $1.55 billion in Tax Anticipation Notes (TANs), and possible additional borrowing through Grant Anticipation Notes (GANs), with an estimated combined cost of $97.0 million in interest. The District had $1.3 billion in outstanding short-term debt as of June 30, 2017;
- The District's general obligation debt increased by 60.8%, or $2.5 billion, in the ten years from FY2007 until FY2016 to a total of $6.6 billion in outstanding long-term debt. As of June 30, 2017, CPS had $7.3 billion of outstanding general obligation long-term debt; and
- The Chicago Teachers' Pension Fund was 52.5% funded[2] as of June 30, 2016 and had an Unfunded Actuarial Accrued Liability of $9.6 billion.

[1] Contingencies include three types of funding: 1) funding that has been budgeted, but has yet to be allocated; 2) grant funding that has yet to be confirmed or allocated to a specific school or program; and 3) interest expenses tied to the District's line of credit.
[2] This is the funded ratio based on the actuarial value, not a market value basis.

The Civic Federation has **major concerns** about the CPS FY2018 Proposed Budget:

- The FY2018 budget relies on uncertain revenue from both the City of Chicago and the State of Illinois and provides no detailed alternative plan if City or State funding fails to materialize;
- The District's liquidity crisis has led to reliance on expensive short-term borrowing;
- The District has completely drained its operating reserves and will begin, and potentially end, the 2018 fiscal year with negative reserves in the General Operating Fund;
- The FY2018 budget uses "scoop and toss" refunding of long-term bonds to reduce debt service payments, a long-standing but unsustainable practice often utilized by CPS;
- The District is continuing to issue massive amounts of long-term debt despite a non-investment grade rating and budget instability, and without a detailed multi-year Capital Improvement Plan describing how capital funds will be spent; and
- This will be the second year in a row the District has not released a five-year Capital Improvement Plan detailing how it will fund its additional long-term debt.

The Civic Federation **supports** several of the District's initiatives in the FY2018 Proposed Budget:

- As part of the 2015-2019 Collective Bargaining Agreement with the Chicago Teachers Union, CPS has phased out the teacher pension pick-up for new hires, in addition to phasing out the pension pick-up for non-union employees last year;
- The District is continuing to pursue savings through management efficiencies; and
- CPS has continued to advocate for a more equitable school funding formula.

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

- Release details about how CPS will handle a possible funding shortfall;
- Conduct long-term financial planning and release details on how the District will rebuild its reserves, afford its large debt burden and return to structural balance;
- Consolidate the Chicago Teachers' Pension Fund (CTPF) with the Teachers' Retirement System to create a more equitable pension funding structure and relieve the burden of CTPF unfunded liabilities on CPS;
- Eliminate the practice of using of scoop and toss refinancing of long-term bonds;
- Refrain from additional long-term borrowing without a five-year Capital Improvement Plan in place;
- Issue a five-year Capital Improvement Plan and provide more detail in the one-year Capital Plan;
- Reinstate the practice of releasing a Popular Annual Financial Report and start producing a popular budget summary to better inform the community about CPS' finances; and
- Make Board of Education meetings more accessible by publicly live-streaming meetings and holding meetings during evening hours when stakeholders can attend without missing work and school.

If the Chicago Public Schools' financial situation continues to deteriorate, the Civic Federation presents these **alternative paths forward** as reorganizational ideas for consideration to bring CPS back to financial stability:

- Reinstatement of the School Finance Authority to supervise the District's finances for a finite period of time; and
- Making Chicago Public Schools an education department within the City of Chicago.

CIVIC FEDERATION POSITION

The Civic Federation **opposes** the Chicago Public Schools' (CPS) proposed Fiscal Year 2018 operating budget of $5.7 billion and total budget of $6.5 billion because it does not do enough to divert CPS from its dismal fiscal trajectory. This budget once again relies on uncertain revenues – this time from both the State of Illinois and the City of Chicago – and costly short-term and long-term borrowing for operations. CPS is in the midst of a budget crisis, a liquidity crisis, a debt crisis and a pension funding crisis. The District can no longer afford to make short-sighted financial decisions without considering the long-term implications for the City of Chicago as a whole and its future.

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Issues of Concern

The Civic Federation has the following concerns regarding the FY2018 Proposed Budget.

The FY2018 Budget Relies on Uncertain Revenue and Provides No Detailed Alternative Plan

While Chicago Public Schools (CPS) officials state that the FY2018 budget is balanced, it relies on two major assumptions:

1. A contribution of $269 million in local revenue from the City of Chicago which must be approved by the City Council. A funding source has not yet been identified; and
2. Approval of a new evidence-based statewide school funding formula set forth in Senate Bill 1, as amended and passed in the Illinois House and agreed to by the Senate. The bill would provide CPS with approximately $300 million in additional State funding. Senate Bill 1 was approved by the Illinois General Assembly, but Governor Bruce Rauner issued an amendatory veto that significantly changed portions of the funding formula and would reduce funding levels for CPS. The Illinois Senate voted to override the Governor's amendatory veto but the House has not taken action as of this writing. State leaders announced an agreement in principle on August 24, 2017 but details have not been released and no vote is scheduled until Monday, August 28th, when the Board of Education is scheduled to vote on the CPS budget.

This will be the third fiscal year in a row that CPS has proposed a budget that relies on revenues that have not yet been authorized. The FY2016 budget counted on $480.0 million in State pension aid that never materialized, which forced the District to use furlough days, mid-year layoffs and spending cuts to attempt to close the $480 million hole.

The FY2017 budget relied on $215.2 million in State pension funding. A bill that would have appropriated $215.2 million of State funding to cover the normal cost of Chicago teachers' pensions for fiscal year 2017, Senate Bill 2822, was passed by the General Assembly during the spring 2016 legislative session before CPS proposed its budget. However, Governor Rauner had not signed the bill into law and he eventually vetoed it. Both chambers of the General Assembly were not able to override the Governor's veto, and so the $215.2 million failed to materialize. The District was again forced to make mid-year adjustments through the use of furlough days, a freeze of non-personnel discretionary school funds and a cut in professional development.

The District describes the FY2018 budget proposal as a "framework for the District's eventual FY2018 budget,"[3] intended to fulfill the District's legal requirement to publish a budget, even though the State has not approved P-12 funding for the 2018 fiscal year. The District states that it will issue a "more detailed and specific budget" once lawmakers in Springfield approve a school funding formula.

The second largest school district in Illinois is using more conservative budget assumptions for the upcoming school year. Elgin School District U-46 has released a budget based on the level of State funding it received the prior year with the old funding formula, noting that the evidence-based formula is unresolved.[4]

CPS has not released any information about what it will do to balance the budget if the City or State funding the FY2018 proposal is relying on do not come through. It would be prudent if CPS were to release an alternative budget plan that showed what changes would have to be made to revenues and expenditures if relied-upon funding does not materialize. Waiting until months into the school year to announce adjustments to the budget is not a good option after two years of painful mid-year cuts. Principals, teachers, support staff, students and their families and Chicago taxpayers deserve to know what cuts may be coming ahead of time so they can plan accordingly.

Liquidity Crisis Has Led to Complete Reliance on Short-Term Borrowing

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 large expenses such as payroll and vendor payments must be disbursed consistently throughout the year.[5] In the past, CPS relied on its reserves to bridge the gap between incoming revenue and outgoing payments. However, the District depleted its reserves, and now in addition to its pension crisis and structural deficit, is experiencing a significant ongoing liquidity crisis.

After nearly depleting its reserves, the District began to rely on short-term borrowing through Tax Anticipation Notes (TANs), which are paid off once property tax revenues are received.

[3] CPS FY2018 Proposed Budget, Letter from CPS Leadership.
[4] School District U-46, FY2018 Budget Presentation (August 14, 2017), p. 7.
[5] CPS FY2018 Proposed Budget, p. 186.

The District used a $700.0 million line of credit to issue TANs in FY2015 to make year-end pension payments, and issued another $1.065 billion in TANs in FY2016. In FY2017 CPS approved the issuance of $1.55 billion in TANs to bridge the gap between revenue collections and expenses.[6] The FY2016 short-term borrowing was projected to increase debt service costs by up to $24.0 million. In FY2017 the District budgeted approximately $35.0 million in interest costs on short-term debt.[7]

Exacerbating the District's liquidity situation, the State of Illinois has been making late payments to school districts as a result of the budget impasse. As of June 30, 2017, the State still owed CPS $331 million in block grant payments. To address liquidity issues caused by delayed State grant payments, CPS issued $387 million in short term Grant Anticipation Notes (GANs) in June 2017, which will be repaid once CPS receives the delayed grant payments from the State. The interest on the notes is estimated to be a minimum of $7 million.[8]

The District as of June 30, 2017 had outstanding principal on short-term borrowing of $1.3 billion – $950 million from the TANs issued in FY2017 and $387 million from GANs issued in June 2017.[9]

CPS plans to borrow another $1.55 billion in TANs in FY2018, which it projects will cost $79 million in interest. Additional GANs may also need to be issued, for which the District has budgeted $18 million in interest costs. This means short-term borrowing in FY2018 could cost the District up to a total of $97 million in interest. Even if the State and City come through with the funding CPS has budgeted for this fiscal year, the District will still need to issue this short-term debt to alleviate its cash flow issues.

The short-term focus of the last several Chicago Public Schools budgets has a real cost both in terms of growing borrowing costs and in public and investor confidence in the District. The Civic Federation is very concerned about the District's heavy reliance on short-term borrowing. While the District appears to have run out of other options, it is imperative that it come up with a multi-year plan to end the short-term borrowing cycle and rebuild reserves.

Depleted General Operating Fund Reserves

Over the past several years, the District has completely depleted its operating reserves to close its ongoing budget deficits. The continual use of its fund balance to close the prior year's deficit has left the District with no cushion to handle everyday cash flow issues or to deal with financial emergencies.[10] In FY2017 the District entered the fiscal year with negative General Fund

[6] Board of Education of the City of Chicago, *Supplement to the Limited Offering Memorandum Dated November 10, 2016, Series 2016A-3*, January 10, 2017.
[7] Chicago Public Schools FY2017 Proposed Budget, p. 173.
[8] 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).
[9] CPS FY2018 Proposed Budget, p. 180.
[10] For further discussion of reserves, see p. 49 of this analysis.

reserves because it ended the 2016 fiscal year with a deficit and had no Unassigned General Fund fund balance to close the gap.[11]

CPS projects that its year-end General Operating Fund balance for FY2017 was negative $587.1 million due to delayed State payments. However, after CPS receives $331 in outstanding State block grant payments that were delayed as of the end of FY2017, the District projects that it will end FY2018 with a negative General Fund balance of $283.3 million. If the State catches up to the "historic norm," the District says it will return to a positive fund balance position.[12]

The District's policy is to maintain a stabilization fund to hold reserves available for general operations in the event of a financial emergency. The target for the stabilization fund is at least 5% of the combined operating and debt service budgets. In FY2018, the target is $317.1 million. However, the District will fall short of this target and all of its other fund balance targets in FY2018. The District's negative fund balance is a serious departure from the District's own fund balance goal, and a grave indicator of CPS' precarious financial position.

Building a financial cushion to deal with future economic downturns is a key element in restoring CPS to fiscal stability. The adequacy of reserves is one of the factors considered by credit rating agencies in assessing a state's financial condition. CPS has already received several credit rating downgrades since 2015, and its debt has been rated below investment grade by three out of four rating agencies for several years. The low credit rating makes it expensive to borrow money for cash flow, and therefore re-establishing and maintaining a stabilization fund balance is imperative.

CPS states that it plans to replenish the Stabilization Fund by encouraging the state to enact Senate Bill 1 to provide CPS with a fairer share of state education funding and closely monitor spending to achieve savings and efficiencies wherever possible and continue streamlining administrative expenses.[13] While the Civic Federation agrees that it is the State's responsibility to ensure fair and sufficient funding for CPS, the District needs to identify a more specific plan for rebuilding reserves through some combination of new revenue and expenditure cuts. The Federation urges CPS to outline the details of what measures it will take to restore its reserves.

Reliance on Scoop and Toss Borrowing

The 2017 fiscal year was the first in several years that CPS did not use scoop and toss borrowing to free up funds for its operating budget. Scoop and toss is a debt refinancing mechanism that allows a government to make more cash available in the budget by borrowing to make current debt service payments. This provides budgetary relief in the near term as debt service expenses are reduced, but in the long-term it increases the total cost of borrowing.

In its FY2016 proposed budget, CPS relied on $200.0 million dollars in "scoop and toss" bond refunding. Despite eliminating scoop-and-toss from its FY2017 budget, CPS again used the

[11] Note that General Operating Fund reserves are the reserves held just for that fund and can be balanced out for the District as a whole by positive reserves in the District's other funds. However, negative General Operating Fund reserves means that there is no available balance for use in general operations.
[12] CPS FY2018 Proposed Budget, pp. 189-190.
[13] CPS FY2018 Proposed Budget, p. 191.

practice in the first month of FY2018. The Series 2017AB debt issue included restructuring about $200 million of its outstanding debt so that payments originally scheduled to be made in FY2018 and FY2019 are re-borrowed and paid off through 2042, providing cash flow and liquidity relief. According to a *Chicago Tribune* analysis, the scoop and toss borrowing will add about $300 million in interest costs through 2042 when the debt would have otherwise been retired in 2022.[14]

In addition, the Board of Education is considering a resolution providing for the ongoing issuance of up to $385 million in refunding bonds, which could be used to scoop and toss additional debt costs in the future. The District's reliance on this funding method is of continuing concern to the Civic Federation. It is a costly and unsustainable way to address current budget deficits.

Ongoing Increases in Long-Term Borrowing

At the end of FY2017 (June 30, 2017), CPS had $7.3 billion of outstanding long-term debt.[15] Over a ten-year period from FY2007 through FY2016, the District's outstanding long-term debt increased by 60.8% from $4.1 billion to $6.6 billion.

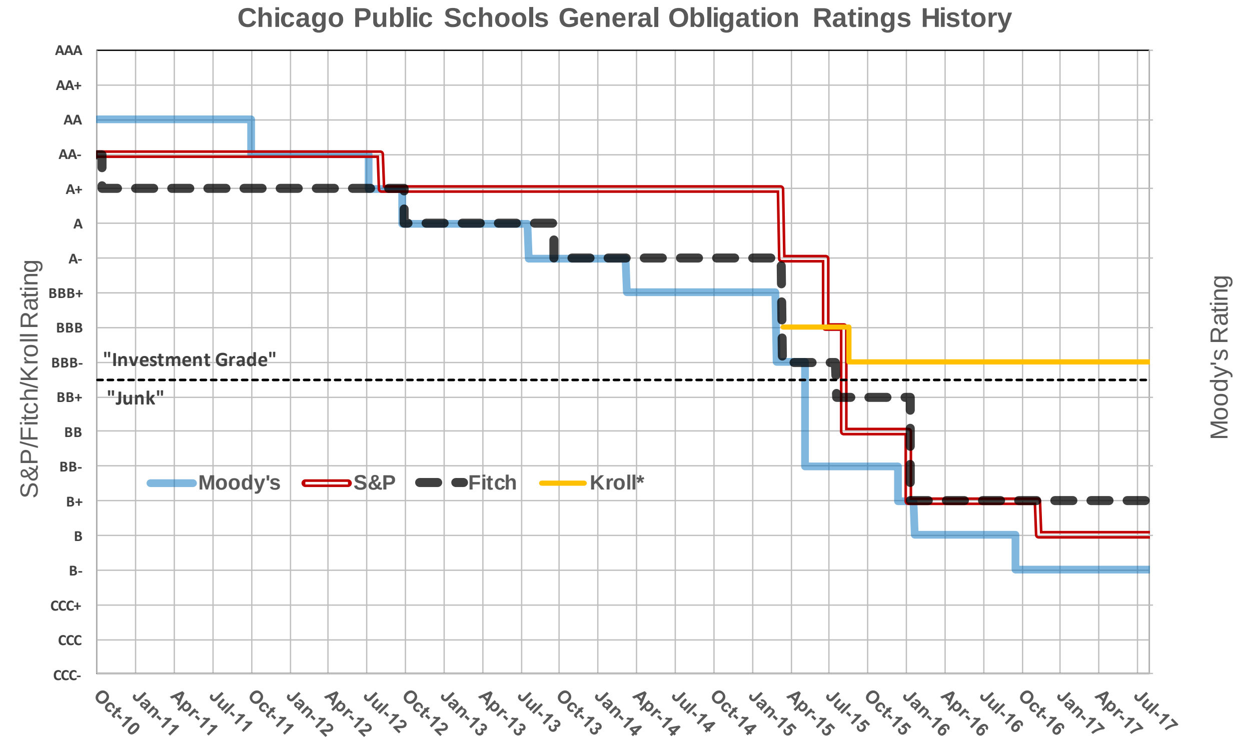
In the last two years alone, CPS has $1.9 billion in new long-term debt, as well as $200 million in refunding, for a total of $2.1 billion in long-term debt issuances:

- $725.0 million through Series 2016A issued in February 2016;
- $150.0 million through Series 2016B issued in July 2016;
- $729.6 million in Series 2016 Capital Improvement Tax Bonds issued in January 2017;
- $285.0 million through Series 2017A issued in July 2017 (includes $228.7 million used to reimburse the District for swap termination fees incurred in prior fiscal years); and
- $215.0 million in refunding bonds through Series 2017B issued in July 2017 (scoop and toss).

The volume at which CPS has been issuing long-term debt, as well as the high interest cost due to the District's below investment grade credit rating are of great concern to the Civic Federation.

[14] Juan Perez and Peter Matuszak, "CPS buys short-term relief with bonds that will carry costs for decades," *Chicago Tribune*, July 31, 2017.
[15] Chicago Public Schools FY2018 Budget, p. 172.

The District's credit rating has fallen steadily since 2015 as the District struggled to finance its mounting debt and pension obligations, and depleted its reserves.



*Kroll has assigned the Series 2016A a BBB rating. All other outstanding Alternate Revenue GO Bonds carry a BBB- rating.
Source: Moody's Investors Service, www.moodys.com; S&P Global Ratings, www.standardandpoors.com; Fitch Ratings, www.fitchratings.com; Kroll Bond Rating Agency, krollbondratings.com

Continuing to issue massive amounts of long-term debt in the midst of multiple financial crises and without a long-term financial plan that demonstrates how the District can afford that debt while still making investments in students is not sustainable.

Lack of a Five-Year Capital Improvement Plan

For the second year in a row, the District has not released a five-year plan detailing its plans for capital projects despite the fact that it is required by law. Public Act 97-0474 requires CPS to prepare and publish a five-year capital improvement plan (CIP), updated annually. In FY2017 CPS said its five-year Capital Improvement Plan (CIP) was delayed by the District's fiscal uncertainty. Once again this year, the District has said an updated FY2018 five-year CIP is not yet available due to the uncertainty of funding going forward.[16] However, the Civic Federation finds this argument unconvincing. In the past, when the District has faced less funding for capital projects, it has released a scaled down Capital Plan. The District could and should still issue an annually updated CIP with information about capital project needs and what projects it can finance with the funds available.

[16] CPS FY2018 Proposed Budget, p. 168.

The lack of a five-year CIP is problematic for several reasons: The District continues to issue increasing amounts of long-term debt, much of it for capital purposes, but without a CIP there is no way to know how and where CPS plans to allocate those funds. The District is experiencing population shifts that have led to school closures on the south and west sides of Chicago, as well as the need for school additions to relieve overcrowding in various parts of the City. Without a long-term capital plan, employees and families of CPS students cannot anticipate what action the District will take next to address its facility needs and urgent building safety needs.

Issues the Civic Federation Supports

The Civic Federation supports several of the District's recent initiatives.

Elimination of the Pension Pick-up for Newly Hired Teachers

As part of the most recent contract negotiated with the Chicago Teachers Union, the 2015-19 Collective Bargaining Agreement finalized in November 2016, CPS will no longer pick up the 7.0% portion of the 9.0% employee contribution to the Chicago Teachers' Pension Fund (CTPF) for teachers who are members of the Chicago Teachers Union hired on or after January 1, 2017.[17] Previously, CPS picked up 7.0% of the 9.0% employee contribution for teachers, in addition the employer contribution to the CTPF the District is already required to make annually.

CPS will continue to pick up the employee pension cost for existing teachers (those hired on or before December 31, 2016). The District's FY2018 cost for the 7.0% employee pick-up is approximately $111.4 million and is part of the District's budgeted pension appropriation.[18]

The Civic Federation opposed the pension pick-up when it was first proposed in 1981 and continues to believe employees must share in the increasing cost of their pension benefits. The Federation commends CPS for starting to eliminate what has become an unaffordable benefit by requiring new teachers to pay their full 9.0% employee contribution to the CTPF.

In addition to eliminating the teacher pension pick-up, the District has phased out the pension pick-up for non-union central office, regional and support staff employees as well. Previously, CPS picked up 7.0% of the 8.5% employee contribution for non-union employees. Now those employees will pay the full 8.5% contribution.[19] The District estimated that shifting the pickup costs to employees would save nearly $21.0 million through FY2018 and $11.1 million annually when fully phased in. The Civic Federation commends the District for completing its phase-out of the costly pension pick-up for non-union employees.

Continuing to Reduce Costs through Management Efficiencies

CPS has made a serious effort over the years to cut costs and better manage scarce resources by improving the District's operational efficiency. CPS estimates that it made $740 million in

[17] CPS FY2018 Proposed Budget, p. 42.
[18] CPS FY2018 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 $32.2 million in FY2018.
[19] CPS FY2017 Proposed Budget, p. 6.

expenditure reductions between FY2011 and FY2015 and another $800 million in cost reductions between FY2016 and FY2017. These included $547 million in structural management efficiencies, such as phasing out the pension pick-up for non-union employees and centralization of financial accounting functions, as well as $253 million in one-time cuts: central office layoffs, healthcare cuts, spending freezes and furlough days.[20]

While CPS says the FY2018 budget is balanced, contingent on additional funding from the City of Chicago and the State, a budget deficit could occur if either of those funding sources do not come through. The District says it intends to pursue several initiatives in FY2018 to reduce the deficit and redirect funds from administration to the classroom through initiatives such as Medicaid management improvements, procurement and purchasing savings, transportation spending reductions and auditing. [21]

The Civic Federation always supports governments operating more efficiently, but cutting costs wherever possible is especially important now when the District is operating in financial crisis mode. The Federation commends the District for implementing these management efficiencies and encourages it to continue to find ways to save money and bring the District back to financial stability.

Continued Advocacy for an Equitable School Funding Formula

The Civic Federation agrees with CPS that the State of Illinois needs a more equitable funding formula and that CPS needs pension funding parity with the rest of the State. Further, the Federation recognizes that the State of Illinois bears a part of the responsibility for CPS' financial troubles and must take responsibility and fulfill its duty to assist the State's largest school district.

While the Civic Federation has not taken a position on any particular school funding plan, the Federation agrees with the bipartisan consensus that a school funding overhaul is necessary because of the large resource disparity between property rich and property poor and large low-income population districts. Senate Bill 1 is the only recent attempt to steer the State in the direction of more equitable funding that has been passed by both chambers of the Illinois General Assembly. We commend the CPS administration for being a voice for school funding reform and continuing to push the State of Illinois to provide CPS with equitable school funding.

[20] CPS FY2018 Budget Overview, August 11, 2017.
[21] CPS FY2018 Proposed Budget, p. 12.

Civic Federation Recommendations

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

Release Details about How the District will Address Possible Funding Shortfall

The FY2018 budget proposal relies on $269 million from the City of Chicago, the funding source of which is still unidentified. The budget also relies on State funding that requires further action by State leaders. Relying on yet-to-be-authorized funding over the past two years has proven to be destructive, resulting in painful mid-year cuts – twice – and leading to rating downgrades further into junk status. The Civic Federation urges CPS to produce an alternative plan that identifies actions the District will be forced to take if City and State funding do not materialize.

Ideally, the back-up plan should not rely on additional borrowing for operations or other unsustainable actions. The District is already facing a precarious financial position with no stabilization fund reserves, a below investment grade rating that makes borrowing very costly, and has already used unsustainable scoop and toss of its debt payments to reduce debt costs in FY2018. The uncertainty surrounding its finances is damaging to the District's reputation among residents and investors. The Civic Federation strongly urges the Board of Education to request an alternative budget plan that provides stakeholders and lawmakers in Springfield with a detailed description of the significant cuts that will unfortunately be unavoidable in the absence of additional revenue.

Conduct Long-Term Financial Planning

The Civic Federation understands that the District's structural deficit is a product of the financial management decisions of many administrations and that the State of Illinois, City of Chicago, and Chicago Public Schools all must share responsibility in covering the cost of providing public education to Chicago's more than 370,000 P-12 students. However, CPS bears the ultimate responsibility for returning the District to financial stability. The District's short-term decisions have failed to consider their long-term consequences. CPS cannot continue to operate on the short-sighted basis it has for the last decade or more. It is imperative for the District to conduct forward thinking planning.

Eliminating the District's structural deficit will take many years to resolve and will require financial planning. While we understand the District is limited in revenue options and currently struggling to make it through each fiscal year, the Civic Federation strongly urges the District to make a full-faith effort to bring together stakeholders in a financial planning process. The District's three-year vision 2016-2019[22] includes three financial stability goals: district-wide purchasing, transferring routine accounting tasks to central office and working toward equitable state funding. The vision also discusses the establishment of several advisory councils to ensure stakeholder input in policy and decision-making. The Civic Federation would like to see the District build on this vision by adding to these financial stability goals. The planning process

[22] Available at http://www.cps.edu/sitecollectiondocuments/cpsvision.pdf.

should involve not only financial management staff, but a combination of management, board members, District employees and parents.

The Civic Federation also recommends that the District include a revenue and expenditure forecast of at least three years in its annual budget document. Several other major Chicago-area governments do this.[23] The District should disclose the assumptions underlying the forecast, and given the large amount of uncertainty in its revenues, it could also include best case and worst case scenarios to demonstrate what the District's finances would look like should State and City funding fail to materialize. The District should include in its financial plan or forecast a summary of financial goals and potential actions that can be taken to achieve those goals.

Specifically, CPS should detail a plan for rebuilding its budgetary reserves to avoid future cash flow crises. Because reserves are depleted, the District is projecting it will continue to rely on short-term borrowing to cover cash flows, which is extremely expensive. The resulting financial plan should provide a framework to create structural balance and replenish reserves to a level that complies with the District's fund balance policies. It should also explain how CPS will afford the $2.1 billion in long-term debt it has taken on over the past two years while also delivering essential services to students.

While we understand the uncertainty facing CPS, it does not preclude the District from providing financial transparency. A public long-term financial plan can set expectations and help convince stakeholders that the District will not remain in crisis forever and shed some light on how the District can return to stability.

Consolidate the Chicago Teachers' Pension Fund with the Teachers' Retirement System

The Civic Federation recommends that CPS work with the General Assembly and the Teachers' Retirement System to consolidate the Chicago Teachers' Pension Fund (CTPF) with TRS. The Teachers' Retirement System (TRS) is the pension fund for the teachers in all school districts outside of Chicago. CPS is the only school district in the State that is required to support the great majority of its pension system, which has placed an immense financial burden on CPS. Consolidating the CTPF and TRS would eliminate the current inequitable funding structure under which Chicago taxpayers pay for both nearly the entire cost of Chicago teachers' pensions and downstate and suburban teachers' pension costs. It could also achieve some cost efficiencies as duplicative functions are eliminated.

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

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[23] They include City Colleges of Chicago, the Metropolitan Water Reclamation District of Greater Chicago, the Chicago Transit Authority, Cook County, and the City of Chicago in its Annual Financial Analysis.

Currently the State pays for normal costs and toward the unfunded liability for downstate and suburban districts, but only a small portion of pension costs for CPS. Senate Bill 1, as both passed by the General Assembly and in the Governor's amendatory veto, attempts to make pension funding for CPS more equitable to the rest of the State by including the normal cost of pensions and for retiree healthcare benefits for Chicago teachers, which would provide CPS with additional funding of approximately $221 million in FY2018. However, the State picking up the normal cost of Chicago teachers' pensions is not pension parity. Rather, the Civic Federation believes the State should pay for the unfunded liability of the pension fund, and CPS should be responsible for the normal cost. This would be a much more feasible structure for CPS and would maintain the District's "skin in the game" by requiring CPS to pay for the annual cost of the pension program, while the State takes on the legacy cost of the underfunding that it allowed.

In FY2018 the State's statutorily required contribution to TRS is $4.034 billion.[24] It is reasonable for the State of Illinois to continue to assume financial responsibility for the unfunded liability of all school districts because the State created the current expensive and unsustainable situation that has led to $71.4 billion in unfunded liability and a funded ratio of 39.8% for TRS as of June 30, 2016 and $9.6 billion in unfunded liability and a funded ratio of 52.4% for CTPF. Paying these enormous costs is beyond the capability of local school districts to readily absorb. Rather, all school districts should begin to cover the normal cost for all of their teachers' pensions.

The Civic Federation has recommended consolidation of the two teachers' retirement systems in past years, and continues to support this recommendation because the State assuming responsibility for the CTPF's unfunded pension liabilities would relieve much of the District's fiscal structural challenges and end a source of education funding inequity in Illinois.

Eliminate the Practice of Scoop and Toss Borrowing

The Civic Federation commended the District for refraining from the use of scoop and toss in the FY2017 budget, but the District utilized the refunding method again at the tail end of the 2017 fiscal year to help balance the FY2018 budget. Scoop and toss reduces debt service payments in the short-term by borrowing to pay for them, thereby pushing debt payments to future years. This frees up money in the short term but creates a larger debt burden and higher borrowing costs in the long term. The District has used this practice regularly in recent years, which has increased costs for taxpayers. The Civic Federation continues to recommend that CPS establish a policy that prohibits the use of refunding long-term bonds to make current year debt payments (scoop and toss). By requiring level principal payment or reducing the amount of debt service pushed off into the future, CPS would reduce the cost of its long-term debt while ensuring current expenses and capital expenses are not borne entirely by future generations.

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

As noted above, the District has not released a five-year plan detailing capital projects for the past two years despite the fact that it is required by law. A capital improvement plan identifies

[24] Teachers Retirement System of the State of Illinois, "TRS Follows New Law and Lowers the State's FY2018 Contribution by $531 million," Press Release, August 23, 2017.

and prioritizes capital needs throughout the District, provides a timeline for completing projects and identifies funding sources for projects.

The District did release a one-year one-page Capital Plan for FY2018 that consists only of a list of projects with their start dates, end dates and cost. More detail is provided in the online interactive capital budget about the types of projects budgeted in FY2018 and their location, but it still does not provide sufficient information about project criteria, updates on progress or changes in cost. The District's recent annual capital plans do not provide nearly enough information for stakeholders to understand the scope of the projects because there is no narrative providing a description, justification for or updates of the capital projects.

In the past, CPS included much more detail in its one-year capital plans, such as narratives about major initiatives, specific projects and project summaries that detailed the scope, cost estimates, funding sources, and completion progress.[25] These narratives and project summaries included in the Capital Plan were very helpful to understanding the justification for projects and each project's status. The District should include the in its one-year capital plans a narrative of project descriptions, prioritization criteria, funding source, project justification, purpose and need, and updates on project costs and completion.

According to best practices for capital budgeting, a complete capital improvement plan (CIP) should include the following elements:[26]

- A narrative description of the CIP process including how criteria for projects were determined and whether materials and meetings were made available to the public;
- 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;
- 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.

Despite the fact that CPS' future funding is unknown, the District should still issue an updated comprehensive five-year Capital Improvement Plan (CIP) with information about capital project needs and what projects it can finance with the funds available, especially before considering

[25] For an example, see the Chicago Public Schools FY2013 Capital Plan at http://cps.edu/About_CPS/Policies_and_guidelines/Documents/CapitalPlan/FY2013.pdf.
[26] 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.

issuing any further long-term debt. The CIP should include the best practice elements listed above.

Release a Popular Annual Financial Report and Popular Budget Summary

There are two major financial reports that CPS releases each year: its annual budget and an annual Comprehensive Annual Financial Report (CAFR). The budget is typically forward-looking to the upcoming fiscal year, and the CAFR provides audited and historical information through the prior fiscal year. The CAFR is very lengthy and can be complicated to understand for non-finance experts. In the past, CPS also released a Popular Annual Financial Report, which provided a snapshot of the CAFR and that CPS said "highlights information that parents, teachers, supporters, and community and state leaders should find helpful for improving their understanding of our operations."[27] The most recent Popular Annual Financial Report was released for the 2010 fiscal year. The report included a quick glance of relevant CPS facts such as enrollment and student demographics, employee information, and number of schools; a summary of CPS' financial condition and performance in the prior year; and easy-to-consume summaries of the District's revenues, expenditures, capital plan and long-term debt.

The Civic Federation believes that a major part of building trust among stakeholders involves transparency and education. The Popular Annual Financial Report made the District's financial information more accessible for members of the CPS community. We recommend that CPS reinstate the practice of producing a Popular Annual Financial Report to help better inform CPS stakeholders.

Further, many governments also produce a popular budget summary. Similar to a Popular Annual Financial Report, a popular budget summary provides a snapshot of the annual budget. For an example, see the Budget in Brief produced by the Metropolitan Water Reclamation District.[28] A popular budget is more understandable to the general public because it presents key budget figures in an easily consumable format. CPS should consider creating a popular budget summary in addition to the budget book to help stakeholders understand the District's financial information for the upcoming school year.

Increase Accessibility of Board of Education Meetings

As the largest school district in Illinois, Chicago Public Schools should be a leader in the openness and transparency of its board meetings. Compared to other school Districts around the State of Illinois, CPS has room to improve the amount of access the public has to the Board of Education's meetings.

Of the 15 largest school districts in Illinois by enrollment size, six provide ways for the public to view board meetings live, and all 15, except CPS, hold board meetings during evening hours, which is a more accessible time to many members of the CPS community. With enrollment of

[27] CPS FY2010 Popular Annual Finance Report, p. 3. Available at http://cps.edu/About_CPS/Financial_information/Documents/FY2010_PAFR.pdf.
[28] Available at https://www.mwrd.org/pv_obj_cache/pv_obj_id_4760DAE816371678AD4B235D3352E87B238E3800/filename/2017_Budget_In_Brief.pdf.

over 370,000 students, the District has a large stakeholder community to accommodate. Therefore it makes practical sense for meetings be streamed live to ensure that those who cannot attend in person still remain aware of the meeting's proceedings. Holding daytime meetings requires teachers, principals, students and parents to miss school and work in order attend board meetings.

Other large public school districts in Milwaukee, Cincinnati and Minneapolis also live stream their board meetings. The Civic Federation urges Chicago Public Schools to join these school districts in live streaming board meetings online and consider holding board meetings when working parents, teachers and other stakeholders can attend outside of normal work and school hours.

Alternative Paths Forward

Chicago Public Schools is in the midst of a budget crisis, liquidity crisis, debt crisis and pension funding crisis. If the District's financial situation deteriorates any further, extraordinary actions may need to be considered. The District should be open to every option that could turn around its current trajectory toward financial ruin. The Civic Federation presents two options for the District's reorganization that could help bring CPS back to financial stability. The Civic Federation is not recommending these paths at this time, but presents them as a warning as to the knife-edge on which the District's solvency stands.

Re-establishment of the School Finance Authority

Because Chicago Public Schools' financial situation is so dire, some observers have recommended that CPS file for bankruptcy. The Civic Federation strongly opposes bankruptcy as the first option for CPS. School districts' financial issues are usually more complex and technical than simply involving debt adjustment, and bankruptcy produces a stigma that can limit a school district's access to credit markets in the future and/or increase future borrowing costs by at least 1% to 3% annually.

Acknowledging CPS' dire need to return to financial stability, the Civic Federation notes that during an earlier financial crisis, the State and City came together to create a School Finance Authority (SFA). A School Finance Authority oversight panel was authorized in 1980 in the wake of CPS's 1979/1980 financial crisis by the Illinois General Assembly, when CPS faced a liquidity crisis and lost access to capital markets.[29] The SFA was responsible for exercising financial control over and providing financial assistance to the Chicago Board of Education. It had the power to issue bonds for CPS expenses and levy a separate property tax for the debt service. The principal responsibility for the education policies of the public schools remained with the Chicago Board of Education.

Stabilizing CPS finances will require painful decisions, including budget cuts, administrative restructuring and revenue increases. An SFA would have the ability to work with all stakeholders to develop a long-term, multi-year plan to establish financial stability for CPS. It could consider options such as expenditure reductions, revenue enhancements, employee benefit changes, labor

[29] See the School Finance Authority statute, 105 ILCS 5/34A.

contract negotiations and debt adjustment. In addition, by stabilizing the District's finances, the SFA might help to reduce the current extraordinarily high cost of borrowing.

Twenty-four states have enacted statutes allowing them to take over the governance of a school district. Currently, three school districts in Illinois have state financial oversight panels: Proviso Township High School District 209, East St. Louis School District 189 and North Chicago School District 187.[30]

As proposed by the Civic Federation, the SFA would be a quasi-judicial joint City-State body that would provide a supervised forum to assist CPS in finding solutions to stabilize the District's finances. It would only hold financial control, while the Board of Education and CPS administration would retain control over educational decisions. The SFA's members would be jointly appointed by the Mayor of Chicago and the Illinois Governor. The Chicago Board of Education would remain as the school district's governing body.

A revived SFA could improve the District's finances by:

- Helping reduce the current extraordinarily high cost of borrowing by allowing CPS to access the investment grade credit rating of the State of Illinois;
- Bringing together all stakeholders to develop a long-term, multi-year plan to establish financial stability for CPS;
- Submitting an increase to the District's property tax levy to voters for consideration;
- Stabilizing the finances of CPS until such time that broader school finance and pension issues are resolved and stronger financial credit standing is available;
- Evaluating union contracts and other expenditures as the SFA would subject any contracts to fiscal discipline through a balanced budget test;
- Buying time for the City of Chicago and for the State of Illinois to get their respective fiscal houses in order; and
- Linking the City of Chicago and the State of Illinois as financial partners in resolving CPS longstanding financial stabilization and sustainability.[31]

After CPS finances have been stabilized, the District should be returned to full local control.

Make Chicago Public Schools a Department within the City of Chicago

Another alternative for CPS would be to dissolve as an independent government entity and merge with the Chicago municipal government as an Education Department. This is the model used in New York City. Under this structure, the Mayor would be directly accountable for school performance and administration, and the City Council would provide financial oversight. There could still be an appointed Board of Education and Superintendent to govern the department on a day-to-day basis, as well as Local School Councils. From a tax standpoint, such a move would free CPS from the property tax caps imposed upon it as a non-home rule unit of government.

[30] However, Proviso Township High School District 209 is now in a transition period to exit financial oversight.
[31] Information provided in a communication from Donald Haider, Chicago School Finance Authority Director, 1995-2010 and current Professor of Strategy and Director of the Center for Nonprofit Management, Kellogg School of Management, Northwestern University on March 10, 2016.

Only the City of Chicago's own self-imposed property tax limits would apply. CPS would also have access to the diverse tax revenue options the City of Chicago enjoys as a home rule unit of government.

While this is an unusual structure for school districts, as no other school districts in Illinois function as a department of a municipality, the Civic Federation recognizes the significant structural change needed in response to the depth of the District's financial crisis. We are not presenting this as a recommendation, but rather as an option for consideration. For additional governance structure options for CPS, see the Civic Federation's issue brief, *Chicago Public Schools Board of Education Governance: A History and Review of Other Cities' Practices*.[32]

[32] Available at http://www.civicfed.org/sites/default/files/cpsgovernancebrief.pdf.

ACKNOWLEDGEMENTS

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FY2018 BUDGET DEFICIT

For the past several years, the District has operated with a structural deficit driven by the consistent use of one-time funding sources, draining budgetary reserves, decreases in General State Aid (GSA) and a lack of pension funding from the State of Illinois. CPS has experienced annual structural operating deficits ranging from $500 million to $1.14 billion. The District has attempted to close these deficits using one-time revenues, operating reserves, debt restructuring to extend long-term debt payments, short-term borrowing and budget cuts.[33]

In FY2017 CPS faced a massive budget deficit of $1.14 billion. The District identified a list of cost-cutting measures it planned to take throughout the year to close the deficit such as eliminating vacant positions, implementing centralized purchasing, improving Medicaid collection and savings from eliminating the pension pick-up for non-school-based employees. Additionally, several steps were taken in FY2016 that carried over into FY2017 including school budget reductions, increased internal efficiencies, central office staff position eliminations, decreasing non-union employee pension and healthcare contributions made by CPS,[34] new property tax revenue for the Chicago Teachers' Pension Fund and increased state funding.

CPS says that the FY2018 budget is balanced, contingent on two assumptions: 1) The City of Chicago provides $269 million in additional local resources, which have yet to be identified by the City and must be approved by the City Council; and 2) Senate Bill 1 is enacted as passed by the General Assembly, which results in CPS receiving an additional $300 million.[35]

The following chart identifies the deficit drivers and revenue sources behind the initial budget deficit of $544 million as identified by the District in its financial disclosures associated with a debt issuance in July 2017.[36] As stated above, if the District does not receive the $269 million in unidentified local revenues and SB1 is not enacted as originally passed by the Illinois General

[33] *Official Statement, Series 2017AB*, Board of Education of the City of Chicago, July 2017, p. 22.
[34] CPS FY2017 Proposed Budget, pp. 6-7.
[35] CPS FY2018 Budget Overview, August 11, 2017.
[36] See Official Statement, Series 2017AB, Board of Education of the City of Chicago, July 2017, p. 76.

Assembly, the District will again need to address how it will close the $544 million budget deficit.

CPS FY2018 Initial Budget Deficit Drivers (in $ millions)		
Deficit Drivers		
Governor Bruce Rauner Veto of CPS Pension Funding in FY2017	$	215.0
Salary and Benefit Increases	$	99.0
One-Time Non-recurring Cost Reductions	$	72.0
Use of Reserves in FY2017 - Not Available in FY2018	$	67.0
Increased Debt Service Expenses	$	67.0
Increase in Statutorily Required Pension Contributions	$	52.0
Increased Healthcare, Transportation, Energy and Labor Expenses	$	45.0
Revenue Increases		
Increased PPRT Revenue	$	(38.0)
Expenditure Reductions	$	(35.0)
Total Budget Deficit	**$**	**544.0**

Source: Official Statement, Series 2017AB, Board of Education of the City of Chicago, July 2017, p. 76.

CPS refers to its FY2018 proposal as a "framework for the District's eventual FY2018 budget."[37] The currently proposed FY2018 budget depends on the City of Chicago to provide $269 million, but the funding source has not yet been identified. Additionally, the budget relies on new funding contained within an evidence-based statewide school funding model, known as Senate Bill 1. The evidence-based model would drastically change the funding formula for school districts, and is estimated to provide an additional $300 million to CPS.[38] Senate Bill 1 passed both chambers of the Illinois General Assembly, but Governor Bruce Rauner issued an amendatory veto that would reduce the level of funding to CPS. The Senate overrode the Governor's amendatory veto, but the House has yet to take action as of the publication of this report. Therefore, the State funding to be allocated to CPS is in flux due to uncertainty around the evidence-based model in Senate Bill 1.

This is the third year in a row that the CPS budget is relying on funding from the State of Illinois that has not yet been authorized. The FY2016 budget counted on $480.0 million in State pension aid that never materialized. The District implemented furlough days, mid-year layoffs and spending cuts that covered $225 million of the $480 million hole, leaving a negative fund balance at the beginning of the 2017 fiscal year.

The FY2017 budget again relied on $215.2 million in State pension funding that required the Governor and General Assembly's approval. The Governor vetoed the funding and the General Assembly failed to override the veto, so the $215.2 million failed to materialize.

Chicago Public Schools has completely depleted its operating fund balance over the years to close its ongoing budget deficits. The continual use of its fund balance to close the prior year's

[37] CPS FY2018 Proposed Budget, Letter from CPS Leadership.
[38] CPS FY2018 Proposed Budget, p. 17.

deficit has left the District no cushion to handle everyday cash flow issues.[39] Additionally, the District's required pension contributions have increased significantly since the termination of a pension holiday after FY2013 and will continue to rise steadily each year. Total pension contributions are projected to increase from $784.0 million in FY2018 to $889.0 million in FY2021.[40] CPS is counting on the State to cover at least a portion of those contributions.

CPS says it has implemented over $547 million in structural management efficiencies between FY2016 and FY2017, plus another $253 million in one-time cuts including central office layoffs, healthcare cuts, spending freezes and furlough days.[41] Even if CPS receives the funds it is counting on, the District says it intends to pursue several initiatives to reduce the deficit and allow schools to redirect funds from administration and inefficiencies into the classroom:[42]

- Implement Medicaid management improvements for special education services and program enrollment through increased use of technology, improved processes, management and training; these steps will ensure that reimbursable Medicaid costs incurred by CPS are being documented and claimed;
- Continue efficiency in the reimbursement of federal and state grants;
- Reduce transportation spending by increasing the usage of cost effective para-transit vehicles and increasing the percentage of shared routes between schools;
- Continue to implement procurement strategies for professional services, construction and educational services that leverage the District's purchasing power and drive savings;
- Continue personnel management efficiencies including methods of filling vacancies and allocating resources between departments to fill seasonal requirements; and
- Continue efficiencies with the management and auditing of Alternative Learning Opportunity programs.

[39] For further discussion of reserves, see p. 46 of this analysis.
[40] CPS FY2018 Proposed Budget, p. 18.
[41] CPS FY2018 Budget Overview, August 11, 2017.
[42] CPS FY2018 Proposed Budget, p. 12.

RESOURCES

This section presents total resources that CPS plans to generate in FY2018 and includes a discussion of resource and revenue trends and a discussion of the property tax levy. Resources include all local, state and federal revenue plus other non-revenue sources such as appropriated fund balance.

CPS acknowledges that the proposal detailed for FY2018, which CPS refers to as a "budget framework," is subject to change pending State and City action.[43] Chicago Public Schools' FY2018 proposed budget includes two assumptions:

1. A contribution of $269 million in local revenue from the City of Chicago which must be approved by the City Council; and
2. Approval of a new evidence-based statewide school funding formula set forth in Senate Bill 1, which would provide CPS with $300 million in additional State funding. Senate Bill 1 was passed by the General Assembly, but the Governor issued an amendatory veto that significantly changed portions of the funding formula and would reduce funding levels for CPS. The Illinois Senate voted to override the Governor's amendatory veto but the House has not taken action as of this writing. State leaders announced an agreement in principle on August 24, 2017 but details have not been released and no vote is scheduled until Monday, August 28th, when the Board of Education is scheduled to vote on the CPS budget.

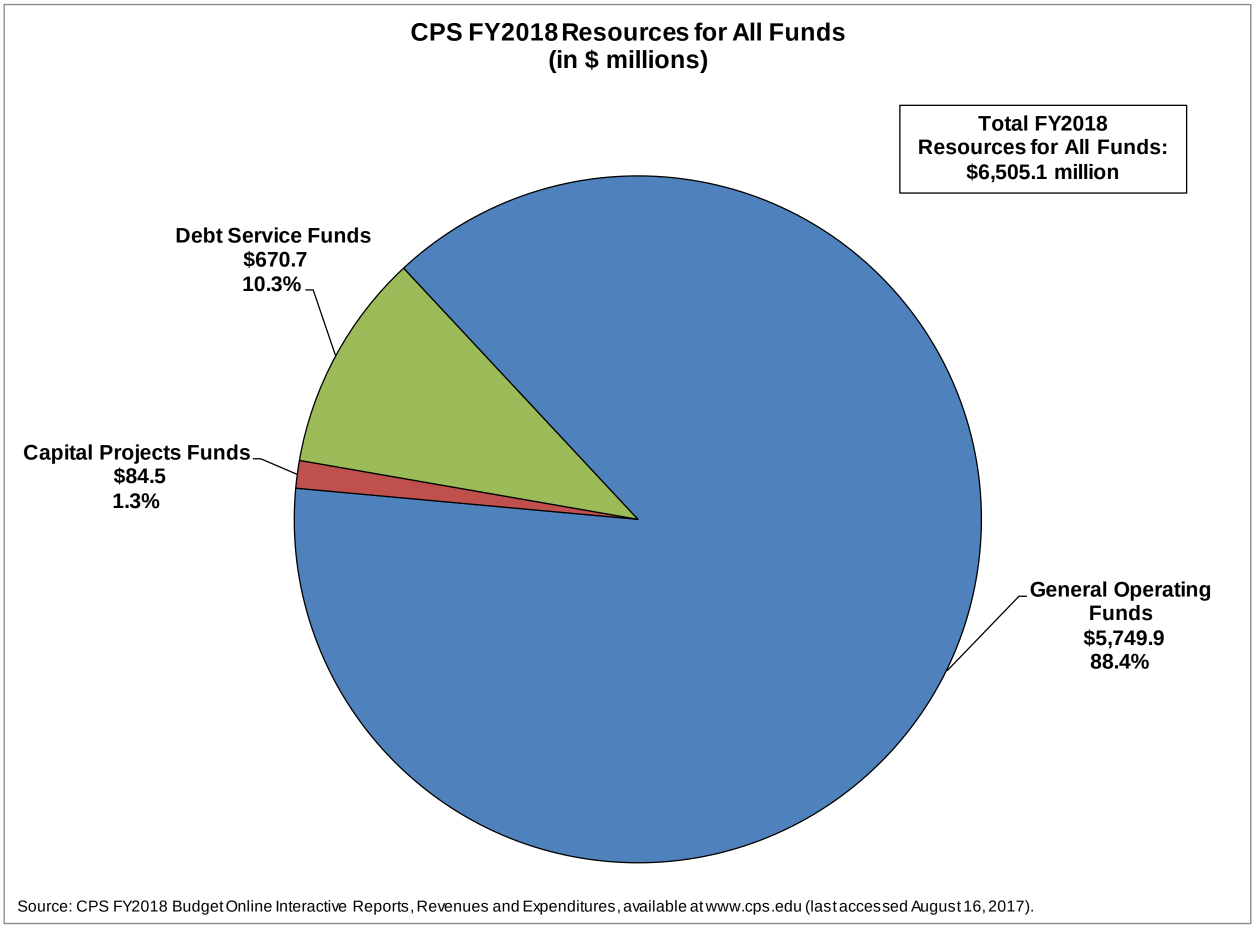
Total Resources FY2018 Snapshot

CPS projects total resources for all funds to be $6.5 billion in FY2018. The breakdown of the total budget among the District's three main fund types – General Operating Funds, Debt Service Funds and Capital Funds[44] – is shown in the pie chart below. The General Operating Funds will account for the majority of resources at 88.4%, or $5.7 billion. The Capital Projects Funds, which account for financial resources used for major capital acquisition or construction activities, will total $84.5 million, or 1.3%, of total resources. Debt Service Funds, which are

[43] "CPS Proposes FY18 Budget that Builds on Academic Success," Press Release, Chicago Public Schools, August 11, 2017.

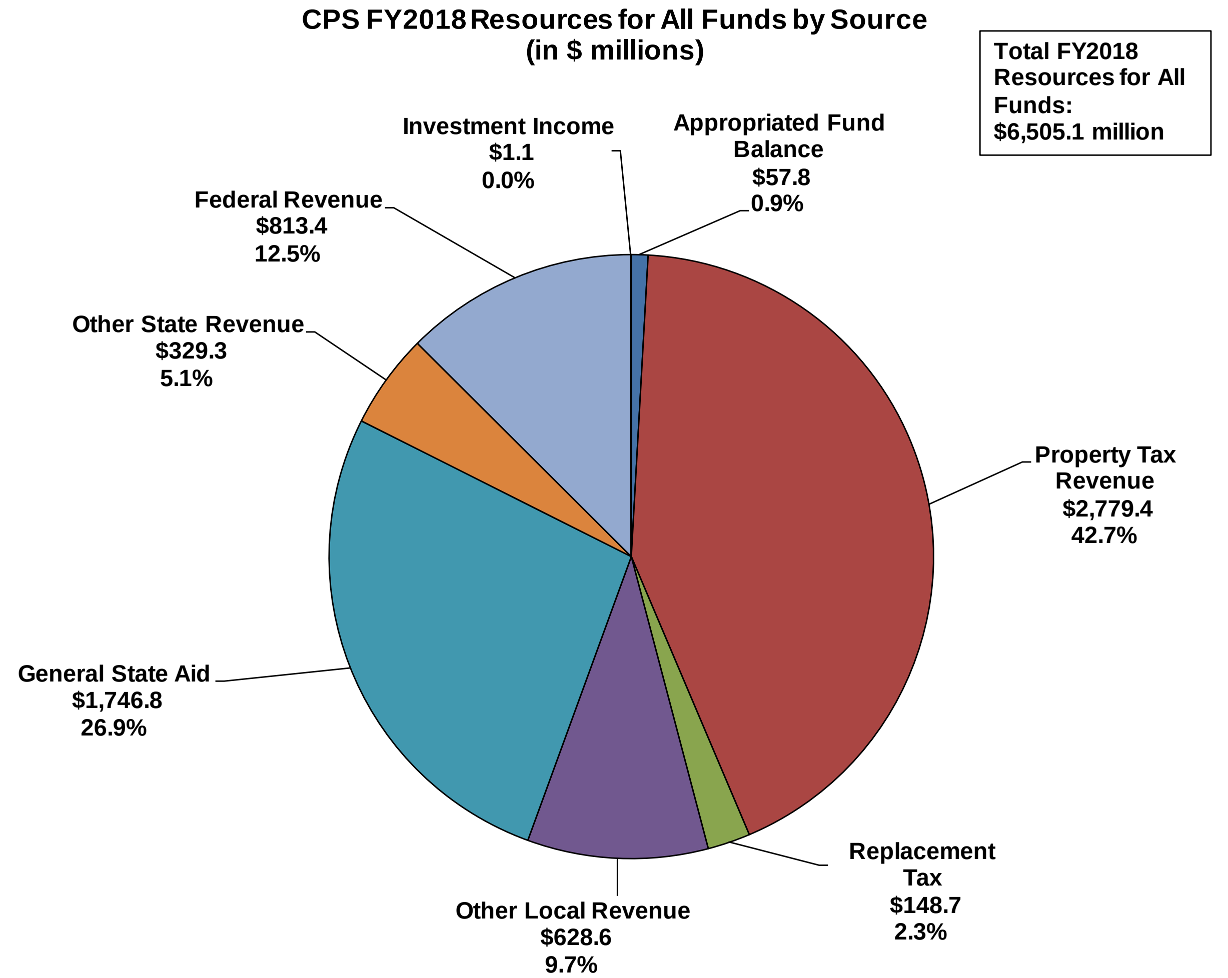
[44] Note that the three main fund types discussed here are used in the budget book and conform to Generally Accepted Accounting Principles (GAAP). The funds in the budget book differ from the funds used in the online interactive budget reports,

used to pay principal and interest on long-term debt, will total $670.7 million, or 10.3%, of total resources.



The next pie chart presents the District's resources and revenues by source. The largest revenue source is the property tax, which is expected to generate $2.8 billion in FY2018, or 42.7% of the District's total revenues. State revenue will constitute the second largest revenue source, at over 30% total – including $1.7 billion in General State Aid and $329.3 million in other State revenue. Other State revenue includes block grants and other grants, State pension aid for teachers and driver's education funding. Federal funds will make up 12.5% of total resources, or $813.4 million. CPS also plans to use $57.8 million in fund balance for the FY2018 budget.

Other local revenue, Personal Property Replacement Tax and investment income will account for the remaining 12.0%, or $778.4 million, of FY2018 resources.



Note: Differences in totals from the budget book are due to rounding.
Source: CPS FY2018 Proposed Budget, pp. 15-16 and 28; and CPS FY2018 Online Interactive Reports, Revenues & Expenditure, available at www.cps.edu (last accessed August 16, 2017).

The following table details the resources shown above, separated by fund (General Operating, Capital and Debt Service). Of total resources of $6.5 billion in FY2018, resources available for general operating purposes are projected to be $5.7 billion. This includes revenues from local, state and federal sources totaling just under $5.7 billion, plus $57.3 million in appropriated fund balance. Total resources for the Capital Fund are expected to be $84.5 million, and total resources for the debt service fund are expected to be $670.7 million.

In FY2018 the District estimates that it will receive nearly $3.6 billion in local government revenue, including almost $2.8 billion in property tax revenues. State revenues in FY2018 are projected to be more than $2.0 billion. However, this is assuming that funding from the new school funding formula set forth in Senate Bill 1 materializes. Nearly $400 million of State funding would be used for the Debt Service Fund, leaving $1.4 billion in General State Aid for general operations. Federal aid is expected to be $813.4 million. The District plans to use $57.3

million in fund balance for the General Operating Fund, as well as $500,000 in fund balance for Debt Service.

CPS FY2018 Revenues and Resources by Fund Type (in $ millions)	General Operating	Capital	Debt Service	Total
Property Taxes	$ 2,678.7	$ 5.1	$ 95.6	$ 2,779.4
Replacement Tax	$ 90.4	$ -	$ 58.3	$ 148.7
Other Local Revenue	$ 483.4	$ 49.7	$ 95.5	$ 628.6
Subtotal Local Revenue	**$ 3,252.5**	**$ 54.8**	**$ 249.4**	**$ 3,556.7**
General State Aid	$ 1,350.7	$ -	$ 396.1	$ 1,746.8
Other State Grants	$ 315.3	$ 14.0	$ -	$ 329.3
Subtotal State Revenue	**$ 1,666.0**	**$ 14.0**	**$ 396.1**	**$ 2,076.1**
Federal Revenue	$ 773.0	$ 15.7	$ 24.7	$ 813.4
Investment Income	$ 1.1	$ -	$ -	$ 1.1
Total Revenues	**5,692.6**	**84.5**	**$ 670.2**	**$ 6,447.3**
Appropriated Fund Balance	$ 57.3	$ -	$ 0.5	$ 57.8
Total Resources	**$ 5,749.9**	**$ 84.5**	**$ 670.7**	**$ 6,505.1**

Note: Because of rounding, differences may occur from budget book.
Source: CPS FY2018 Proposed Budget, pp. 15-16 and 28; and FY18 Online Interactive Reports, Revenues & Expenditures.

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

This section examines two-year and five-year trends in total revenues and resources for all funds, shown in the table below. A more detailed discussion of the District's local, state and federal revenue sources follows.

CPS approved the FY2017 budget in August 2016, which was subsequently amended twice: once in December 2016 to account for a new contract with the Chicago Teachers Union,[45] and again in February 2017 to account for a gap in funding due to $215.2 million in pension funding from the State that the FY2017 budget counted on and was approved by the Illinois General Assembly but vetoed by the Governor. A bill that would have appropriated $215.2 million of State funding to cover the normal cost of Chicago teachers' pensions for fiscal year 2017, Senate Bill 2822, was passed by the General Assembly during the spring 2016 legislative session. Governor Bruce Rauner vetoed the bill on December 1, 2016, stating in his veto message that he and the General Assembly had not reached comprehensive statewide pension reforms, on which Senate Bill 2822 was contingent. The Senate overrode the Governor's veto, but he House adjourned before it was able to override the veto.

Therefore, CPS did not receive the additional $215.2 million in pension funding relied on in the FY2017 budget and had to make mid-year adjustments in an attempt to fill the $215.2 million gap. CPS amended its budget in February 2017, which reduced expenses by $104.0 million through the use of furlough days, a freeze of non-personnel discretionary school funds, a cut in professional development and a proportionate reduction to charter schools for the

[45] CPS covered the additional $55.0 million cost of the contract with an extra $55.0 million in TIF revenue from the City of Chicago.

aforementioned cuts.[46] The FY2017 budget as amended in February 2017 is used for comparison to the FY2018 budget proposal the in this section.

In FY2018 estimated total revenue will increase by 5.7% or $349.1 million over the FY2017 amended budget. However, total resources will actually decline slightly by $9.6 million compared to the prior year. Despite the increase in revenues, total resources remain relatively flat primarily because the District is not utilizing Other Financing Sources in FY2018, which in past years consisted of proceeds from the sale of bonds.

Over the five-year period between FY2014 and FY2018, total revenues have increased by 18.5% or $1.0 billion. Total resources have increased slightly by 1.6% over the same period. The District has historically relied on one-time sources of funding to balance its budget. The level of fund balance the District has appropriated has decreased significantly since FY2014. In FY2014, CPS used $823.7 million in fund balance compared to $57.8 million in FY2018. This represents a 93.0% decrease in the use of fund balance.

The District is projecting that it will receive investment income revenue of $1.1 million in FY2018. Investment income dropped from $15.6 million in FY2014 to negative levels in FY2015 and FY2016, to an estimate of zero in FY2017.

CPS Revenues and Resources All Funds by Source: FY2014-FY2018
(in $ millions)

Source	FY2014 Restated*	FY2015 Actual	FY2016 Actual	FY2017 Amended	FY2018 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Property Taxes	$2,204.3	$ 2,304.7	$ 2,408.4	$ 2,659.8	$ 2,779.4	$ 119.6	4.5%	$ 575.1	26.1%
Replacement Taxes	$ 188.0	$ 202.1	$ 161.5	$ 188.8	$ 148.7	$ (40.1)	-21.2%	$ (39.3)	-20.9%
Other Local Revenue	$ 286.5	$ 377.3	$ 437.0	$ 398.1	$ 628.6	$ 230.5	57.9%	$ 342.1	119.4%
Subtotal Local Revenue	**$2,678.7**	**$ 2,884.1**	**$ 3,006.9**	**$ 3,246.7**	**$ 3,556.7**	**$ 310.0**	**9.5%**	**$ 878.0**	**32.8%**
General State Aid	$1,091.6	$ 1,014.4	$ 971.6	$ 1,059.9	$ 1,746.8	$ 686.9	64.8%	$ 655.2	60.0%
Other State Revenue	$ 751.1	$ 832.7	$ 580.7	$ 931.0	$ 329.3	$ (601.7)	-64.6%	$ (421.8)	-56.2%
Subtotal State Revenue	**$1,840.8**	**$ 1,847.1**	**$ 1,552.3**	**$ 1,990.9**	**$ 2,076.1**	**$ 85.2**	**4.3%**	**$ 235.3**	**12.8%**
Federal Revenue	$ 907.2	$ 798.9	$ 809.0	$ 860.6	$ 813.4	$ (47.2)	-5.5%	$ (93.8)	-10.3%
Investment Income	$ 15.6	$ (92.8)	$ (95.7)	$ -	$ 1.1	$ 1.1	100.0%	$ (14.5)	-92.9%
Total Revenues	**$5,442.4**	**$ 5,437.3**	**$ 5,272.6**	**$ 6,098.2**	**$ 6,447.3**	**$ 349.1**	**5.7%**	**$ 1,004.9**	**18.5%**
Other Financing Sources	$ 138.9	$ 200.2	$ 509.1	$ 335.7	$ -	$ (335.7)	-100.0%	$ (138.9)	-100.0%
Appropriated Fund Balance	$ 823.7	$ 891.2	$ 381.7	$ 80.8	$ 57.8	$ (23.0)	-28.5%	$ (765.9)	-93.0%
Total Resources	**$6,405.0**	**$ 6,851.7**	**$ 6,163.4**	**$ 6,514.7**	**$ 6,505.1**	**$ (9.6)**	**-0.1%**	**$ 100.1**	**1.6%**

Note: Because of rounding, differences may occur from budget book.
*Due to a change in the revenue recognition period that occurred in FY2015, FY2014 values were restated retroactively in the FY2015 CAFR. State revenue values were not available in the restatement, so they do not add up to the restated subtotal of state revenue.
Source: CPS FY2018 Proposed Budget, pp. 15-16 and 28; CPS FY2017 Budget Amended February 2017, pp. 23-24 and 178; CPS 2014-2016 Comprehensive Annual Financial Reports.

Local Revenue

As shown in the table above, total local revenue is expected to increase by 9.5%, or $310.0 million, in FY2018 compared to the FY2017 amended budget. Local revenues consist of property tax, Personal Property Replacement Tax and other local revenue sources from the City of Chicago including TIF surplus. The increase in local revenue is largely attributable to an increase in Other Local Revenue: $269 million CPS is relying on from the City of Chicago to

[46] CPS Amended FY2017 Budget: Board Update, presented at the February 22, 2017 Chicago Board of Education meeting.

close the budget gap.[47] The source of that revenue has not yet been publicly identified by CPS or the City of Chicago.

Property tax revenue will increase by 4.5%, or $119.6 million, from the FY2017 amended budget to nearly $2.8 billion. The increase in FY2018 is due to several factors: first, the District will increase its property tax levy by 2.1%,[48] which is the maximum increase allowed under the Property Tax Extension Law Limit (PTELL); second, property value growth will generate additional revenue for the property tax levy dedicated to teacher pensions that was reinstated in FY2017;[49] and third, the District will receive property tax revenue from the creation of a new Transit TIF district.[50]

The Personal Property Replacement Tax (PPRT), which is a corporate income tax the State collects from corporations and other business entities and distributes to local taxing districts, is expected to decrease by $40.1 million, or 21.2%, from FY2017 to $148.7 million in FY2018. A total of $58.3 million of the PPRT revenue will be used for debt service, leaving $90.4 million for operations.[51] The decrease in PPRT is driven by an anticipated increase in the refund rate to clear a backlog of refunds at IDOR, a decline in corporate income tax receipts, and the expiration of the one-time increase due to IDOR accounting system changes in FY2017.[52]

CPS is also anticipating $22.0 million in TIF surplus revenues from the City of Chicago in FY2018, as well as $51.0 million from the City to cover the pension payment for CPS employees who are part of the Municipal Employees Pension Fund.[53] Both of these sources fall within Other Local Revenue.

Over the five-year period from FY2014 to FY2018, total local revenue is projected to increase by 32.8%, or $878.0 million, from $2.7 billion in FY2014 to nearly $3.6 billion in FY2018. Over that period, the District's property tax revenue is projected to increase by $575.1 million or 26.1%.

State Revenue

The FY2018 CPS budget as proposed relies on increased State funding through a new evidence-based school funding formula that would provide total State funding of nearly $2.1 billion, compared to the amount of just under $2.0 billion in the FY2017 amended budget. This would be a 4.3%, or $85.2 million, increase from the level approved in the FY2017 amended budget. It is important to note, however, that the FY2017 figures shown in the table above do not account for the decrease in State funding of at least $215.2 million due to the pension funding that failed to materialize. Therefore, the level of Other State Revenue at FY2017 year-end is actually much lower than $931.0 million. The CPS budget notes that it expects to receive a net total of $292

[47] CPS FY2018 Proposed Budget, p. 31.
[48] CPS FY2018 Proposed Budget, p. 30.
[49] CPS FY2018 Proposed Budget, p. 29.
[50] CPS FY2018 Proposed Budget, p. 29.
[51] CPS FY2018 Proposed Budget, p. 30.
[52] CPS FY2018 Proposed Budget, p. 31.
[53] CPS FY2017 Proposed Budget, p. 31.

million in additional State funding in FY2018 from the evidence-based model included in Senate Bill 1.

The evidence-based model would make changes to the funding formula that would decrease the level of state funding outside of General State Aid, such as block grants, but would significantly increase General State Aid. The changes within the evidence-based model compared to historical State funding for CPS are discussed further below.

Also of note, State block grant payments were delayed throughout FY2017 in part due to the State budget impasse. As of June 30, 2017, the State still owed CPS $331 million in block grant payments.[54]

Federal Revenue

Federal revenue has declined by 10.3% in the five year period since FY2014. Federal revenues are expected to decrease by $47.2 million, or 5.5%, from FY2017 to FY2018. The decline is attributed to a combination of reduced federal spending, CPS enrollment declines and a reduction in the concentration of poverty in Chicago according to federal Census Bureau data.[55] Most federal funding is restricted and can only be used to provide supplemental programs and services such as those for low income, non-English speaking or delinquent children, or for school food programs.[56]

Similar to the way GSA funding is calculated, Title I funds, which make up the majority of the District's federal funding, are calculated based upon Census data related to the number of children in poverty relative to other districts. The reduction in Title I funds has been tempered because the Illinois State Board of Education (ISBE) has a 95.0% hold harmless provision for high poverty school districts, limiting the amount of an annual reduction.[57] In FY2017 CPS expects to receive Title I-A – Low Income funding, which is the largest grant received under the No Child Left Behind Act, of $255.0 million including $22.0 million in allowable carryover funds.[58]

Comparison of Historical State Funding vs. Evidence-Based Model in Senate Bill 1

If the school funding provisions of Senate Bill 1 are approved without modifications, CPS expects to receive a net additional $292 million in State funding.[59]

Previously, the State of Illinois provided funding to CPS via General State Aid, other State grants (including block grants for specific services) and funding for capital projects. The following is a summary of the traditional State funding mechanism through General State Aid and block grants, and the changes that would affect CPS' State funding in the proposed evidence-based funding model in Senate Bill 1.

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[54] CPS FY2018 Proposed Budget, p. 186.
[55] CPS FY2018 Proposed Budget, p. 17.
[56] CPS FY2018 Proposed Budget, pp. 26 and 35.
[57] Communication with CPS Office of Budget and Management, July 16, 2014.
[58] CPS FY2017 Proposed Budget, p. 32.
[59] CPS FY2018 Proposed Budget, pp. 34.

CPS' school funding from the State has historically consisted of the following components:

- General State Aid:
  - The Equalization Formula Grant supplements each school district's resources to equalize funding across the state to reach a base "foundation level." First school districts levy for all available local property taxes, and then the State provides supplemental funding to reach the foundation level, which has been held at $6,119.0 per pupil since FY2010.[60] In past years, the State prorated the foundation level funding per pupil because it was not fully funded, leading to lower amounts of GSA for CPS and other school districts.
  - The Supplemental Low Income Grant ("Poverty" Grant) is meant to supplement districts with higher concentrations of low income children.
  - An Equity Grant was provided to CPS for the first time in FY2017 as an additional supplement to the poverty grant meant to account for a greater need for funding for districts with high concentrations of low income students.
- Other state funding:
  - The General Education Block Grant consists of grants for early childhood education, truants alternative optional education program and agricultural education.
  - The Educational Services Block Grant consists of grants for special education, state free and reduced meals and transportation.
  - Categorical grants provide additional State funding for bilingual education, vocational education and driver's education.
  - CPS receives statutory annual payments to fund capital projects.
  - CPS has received a statutory annual payment of about $12 million for teacher pensions since FY2011, with the exception of an additional $50.0 million in FY2015. The pension payment from the State has been well below the statutory goal of contributing an amount equivalent to 20-30% of the contribution made to the downstate Teachers' Retirement System (TRS) pension fund,[61] which in FY2017 would total approximately $740 million.[62]

Senate Bill 1 would make the following changes to the way CPS is funded by the State:[63]

- Replaces the General State Aid equalization formula with an evidence-based funding formula that 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;
- Includes a base funding minimum set at current State funding levels (referred to as hold harmless), which results in CPS keeping $203 million in funding previously provided through block grants that will now be included in the GSA formula;

[60] CPS FY2018 Proposed Budget, p. 33.
[61] The "goal and intention" for the State to contribute 20-30% of the Teachers' Retirement System (TRS) contribution is noted in 40 ILCS 5/17-127.
[62] CPS FY2017 Proposed Budget, p. 150.
[63] CPS FY2018 Proposed Budget, pp. 31-35.

- Some of the block grants would sunset and roll into the base funding minimum calculation within the evidence-based formula; nine of the block grants would remain in their current form outside the evidence-based formula;
- No changes would be made to the early childhood education funding grant, and it would include an increased State appropriation of $11.5 million for early childhood education.
- Of an additional $350 million from the new formula available for allocation statewide, CPS would receive $71 million (approximately 20%);
- The categorical State grant for bilingual education would be rolled into the evidence-based formula. Another new bilingual education supplemental grant would provide an additional $13 million to CPS;
- CPS would receive $221 million to help cover the normal cost of teacher pensions; and
- The statutory payment for capital projects would remain unchanged.

After netting out the elimination of block grants that fall outside the evidence-based funding formula and would no longer be included as State funding, CPS expects to receive a net increase in State funding of $292 million.[64]

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. For tax year 2017 (payable in 2018), the tax cap law permits a 2.1% increase on existing property value for property tax funds subject to the law. The tax cap 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 2017 extension is paid by taxpayers in calendar year 2018 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.[65] The second installment includes the full year's tax extension minus the amount already paid in the first installment, so extension increases for a tax year are recognized by the second installment when new tax rates are computed. Since 2012, the second installment tax bill has been due on August 1.

Property Tax Revenue Distribution

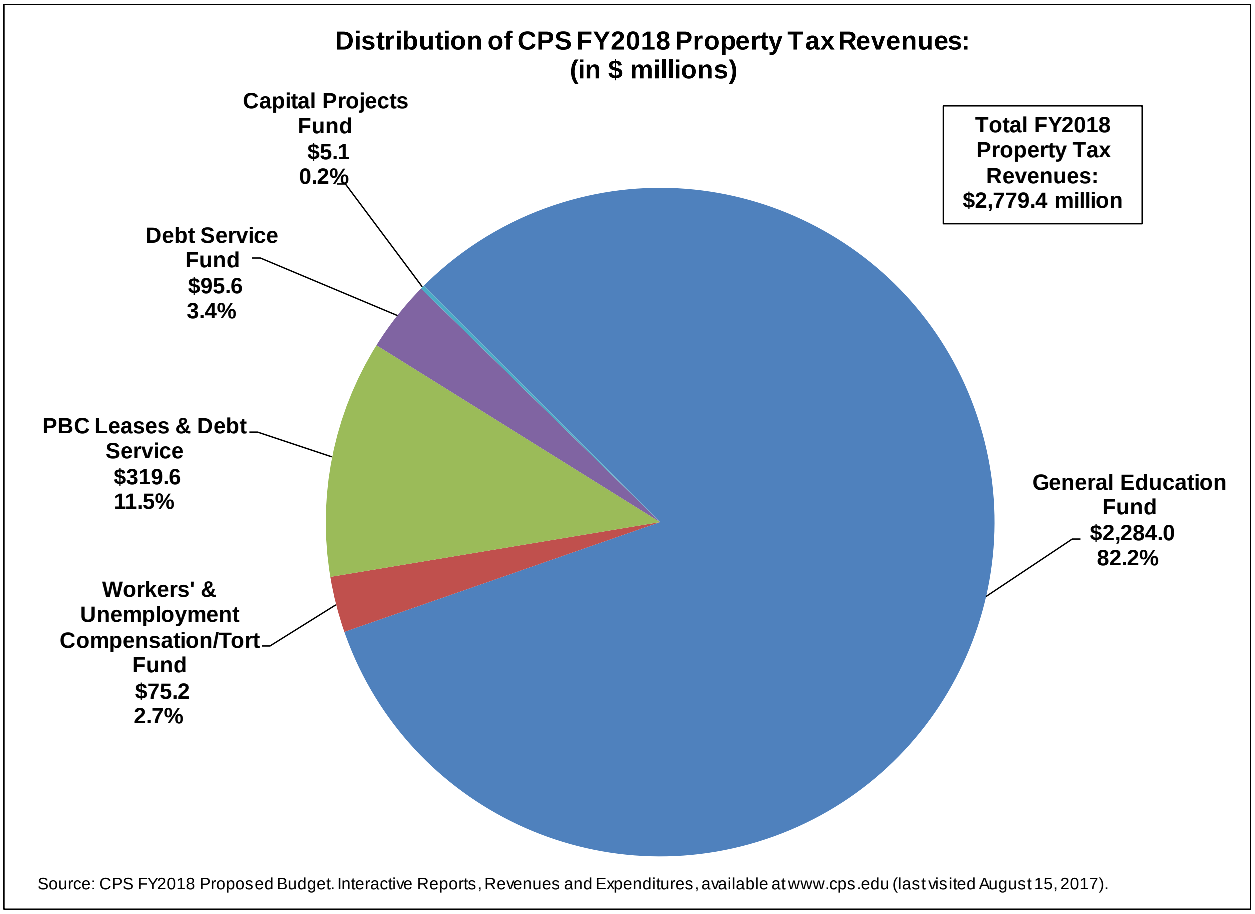
CPS expects its FY2018 property tax revenues to total $2.78 billion compared to $2.66 billion approved in the FY2017 budget, which represents an increase of nearly $120 million.
The following graph presents the allocation of expected FY2018 property tax revenues among the District's funds. Note that the General Education Fund, Workers' Compensation/Tort Fund, and Public Building Commission (PBC) Fund all fall within the District's general operating

[64] CPS FY2018 Proposed Budget, pp. 34.

[65] 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.

funds, according to the fund structure used in the CPS online interactive budget reports, which differ from the general operating funds used in the budget book.[66]

The majority of FY2018 property tax revenue, 82.2%, or $2.3 billion will be distributed to the General Education Fund. The second largest amount, $319.6 million, or 11.5%, will be designated to Public Building Commission Fund for PBC leases and debt service payments. CPS will appropriate $75.2 million, or 2.7%, for the Workers' and Unemployment Compensation/Tort Fund; $95.6 million, or 3.4%, will be dedicated to the debt service fund; and $5.1 million, or 0.2%, will be used for the Capital Projects Fund.



Trend in Property Tax Revenue

The next table presents CPS' actual property tax revenues from FY1991 to FY2016, estimated property tax revenues in FY2017 and proposed property tax revenues for FY2018. Between FY1991 and FY2018, property tax revenues are projected to rise by 230%, or $1.9 billion, from $842.3 million to nearly $2.8 billion. Between FY1991 and FY2016, the most recent year for which audited data are available, CPS property tax revenues have increased by 185.9% or nearly

[66] 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.

$1.6 billion. Since FY1996, the first fiscal year that the tax cap law could limit CPS property tax revenues, through FY2016, the compound annual growth rate of revenues was 4.2%.

In FY2017 CPS saw an increase in property tax revenue of 9.4% over the prior year due to the reinstatement of the District's dedicated pension levy, which the District estimated would allow it to capture $250.0 million in new revenue to fund the Chicago Teachers' Pension Fund outside of PTELL.[67]

CPS Property Tax Revenue: FY1991-FY2018 (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)	21.5%
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 Estimated	$ 2,634,500	$ 226,084	9.4%
FY2018 Proposed	$ 2,779,400	$ 144,900	5.5%

Source: CPS Comprehensive Annual Financial Reports, FY2016, pp.112-113; FY2007, pp. 92-93; FY1999, pp. 80-81; and CPS FY2018 Proposed Budget, p. 27.

[67] CPS FY2017 Proposed Budget, pp. 26-27.

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 2017 will actually be received in 2018. Previous to a change in the District's revenue recognition period in FY2015, the effect was that 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, it now receives both installments in the same fiscal year. The District's upcoming FY2018 property tax revenue will be drawn from the first and second installments of the 2017 tax year payments in March and August.

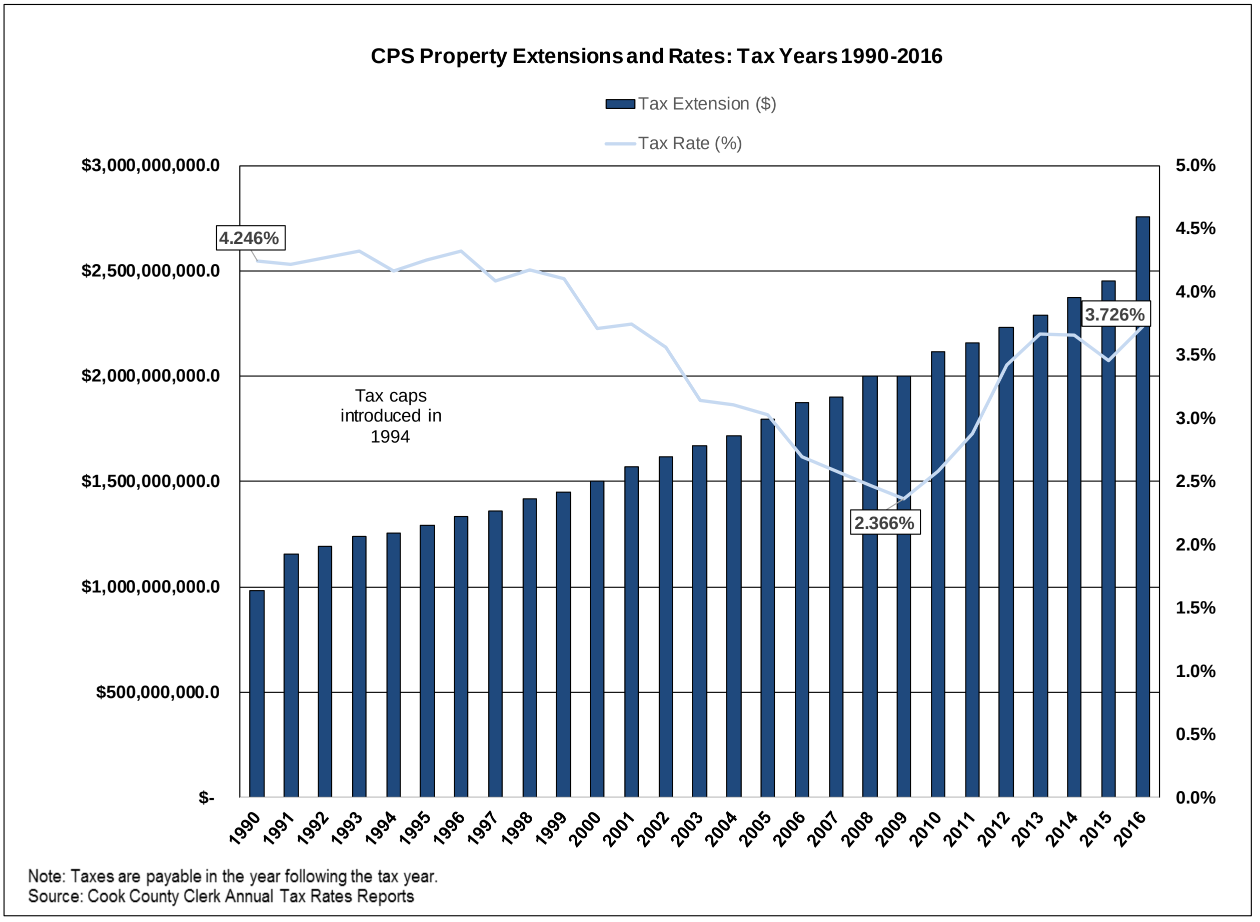
The Property Tax Extension Limitation Law, or tax caps, limits maximum growth in the CPS levy. Prior to 1994, the District's tax extension was limited by a maximum rate for each property tax fund. The fund rate limits still exist, but the tax cap law, not rate limits, has been the operative limit on CPS tax increases since 1994.[68] The limiting effect of the tax cap has also meant that since 1994, tax increment financing has not diverted property tax revenue 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.[69]

The following graph illustrates the increase in CPS property tax extensions between tax year 1990 (payable in 1991) and tax year 2016 (payable in 2017) and the change in tax rates during that period. 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 consistently from $981.0 million in tax year 1990 to nearly $2.8 billion in tax year 2016. There was a significant 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 tax rate decreased from 4.246% in tax year 1990 to 2.366% in tax year 2009. 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

[68]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.
[69] 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.

of property in Chicago fell significantly. The tax rate decreased again in tax year 2015, then rose again to 3.726% in tax year 2016.



Timing of CPS Property Tax Receipts and the New Revenue Recognition Policy

Prior to FY2015, property tax revenues that arrived after the end of the fiscal year could be accounted for 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 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.[70] 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.[71] More importantly, it was used as an accounting mechanism to close the budget gap in FY2015.

APPROPRIATIONS

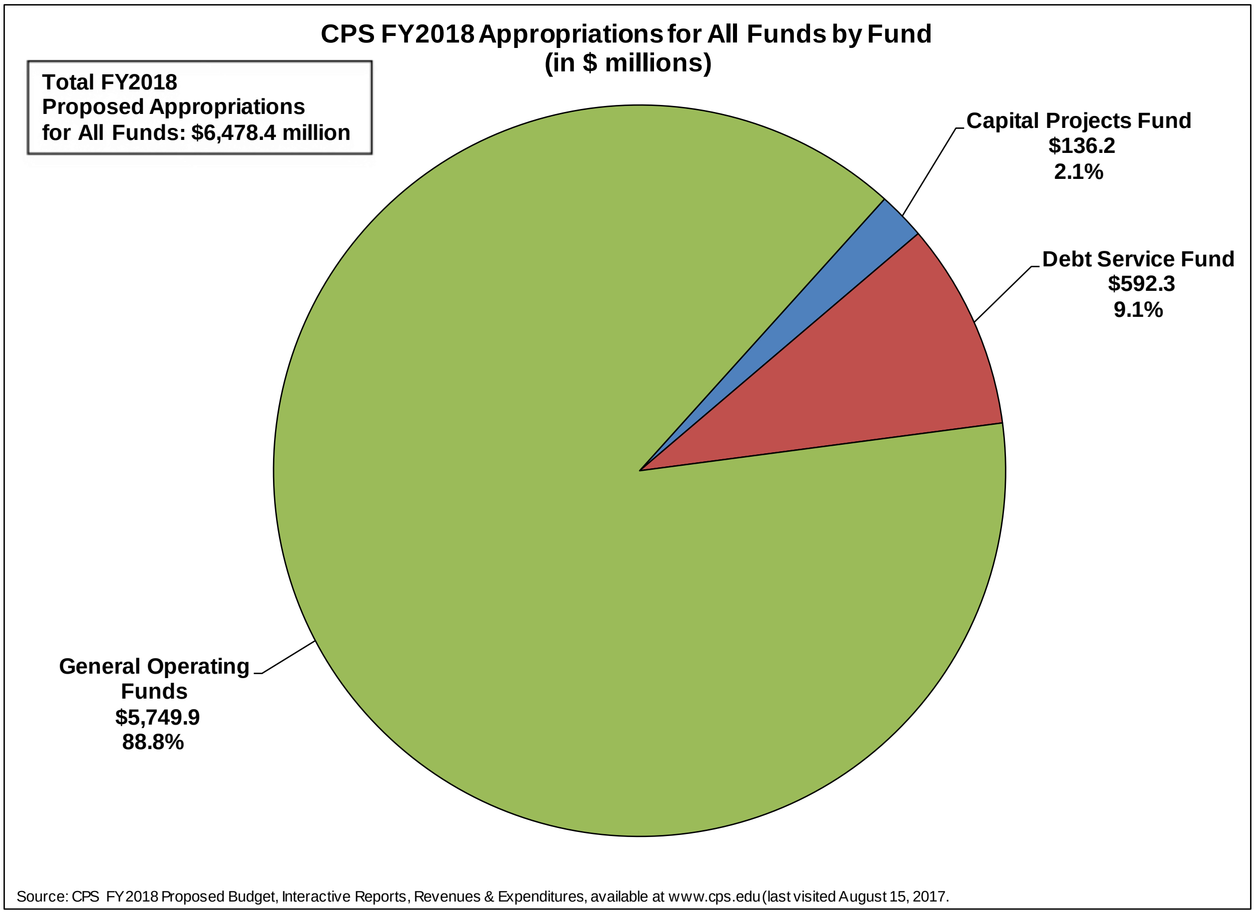
This section presents an analysis of CPS appropriation trends by source, type and location. The section includes two- and five-year appropriation trends for all funds and two- and five-year appropriation trends for general operating funds. Proposed FY2018 appropriations are compared with FY2017 amended appropriations approved in February 2017 and FY2014, FY2015 and FY2016 actuals when available or adopted appropriations.

Total Appropriations for FY2018

The following chart shows total FY2018 proposed appropriations for all funds. The Chicago Public Schools' FY2018 Proposed Budget of $6.5 billion consists of appropriations of approximately $5.7 billion in the General Operating Fund, $136.2 million in the Capital Projects Funds and $592.3 million in the Debt Service Funds. The General Operating Fund represents 88.8% of the total budget, the Capital Projects Fund represents 2.1% and the Debt Service Fund

[70] CPS FY2018 Proposed Budget, p. 223.
[71] CPS FY2015 Proposed Budget, pp. 9-10.

represents 9.1% of total appropriations for all funds.



The General Operating Fund finances employees' salaries and benefits, contractual services, charter school tuition transfers and other day-to-day expenditures. The General Operating Fund includes 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, Supplemental General State Aid for additional instruction to low-income students 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 accumulation of resources for, and the payment of, principal and interest on long-term debt.[72]

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

The FY2018 proposed budget of $6.5 billion is an increase of 2.6%, or $166.1 million, from the FY2017 amended budget of $6.3 billion. Appropriations for the General Operating Fund, which consists of the General Fund and Special Revenue Funds, will increase by 6.3%, or $338.8 million, above the FY2017 amended budget. The $338.8 million increase in the General Fund

[72] CPS FY2018 Proposed Budget, Appendix E – Glossary.

and Special Revenue Funds is primarily due to the District eliminating one-time cost saving measures implemented in FY2017 as well as higher pension contributions, increased debt service expenditures related to short-term borrowing, rising healthcare costs, transportation expenses and non-teacher labor costs.[73] The Capital Projects Funds will decrease by $201.3 million, or 59.6%, over the two-year period. The Capital Projects Funds are budgeted to cover urgent facility renovations and maintenance, investments in IT related projects and school security equipment.[74] The Debt Service Funds will increase by 5.1%, or $28.5 million, over the two-year period to $592.3 million in FY2018. The increase in debt service is primarily attributable to increased short-term borrowing costs in order to deal with mid-year cash shortfalls.[75]

Over the five-year period, total appropriations for all funds will decrease by $76.2 million, or 1.2%, from $6.55 billion in the FY2014 adopted budget to approximately $6.5 billion in the FY2018 proposed budget. The General Operating Funds will increase by $157.6 million, or 2.8%, over the five-year period. Appropriations for the Capital Projects Fund will decrease by $212.9 million, or 61.0%, below the FY2014 approved budget. The Debt Service Funds will decrease by 3.4%, or $20.9 million, over the five-year period.

CPS Appropriations for All Funds by Fund: FY2014-FY2018
(in $ millions)

Fund Type	FY2014 Adopted	FY2015 Adopted	FY2016 Adopted	FY2017 Amended	FY2018 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
General Operating Funds	$ 5,592.3	$ 5,756.2	$ 5,691.8	$ 5,411.1	$ 5,749.9	$ 338.8	6.3%	$ 157.6	2.8%
Capital Projects Funds	$ 349.1	$ 509.9	$ 177.6	$ 337.5	$ 136.2	$ (201.3)	-59.6%	$ (212.9)	-61.0%
Debt Service Funds	$ 613.2	$ 603.8	$ 538.6	$ 563.7	$ 592.3	$ 28.5	5.1%	$ (20.9)	-3.4%
Total Appropriation	**$ 6,554.5**	**$ 6,869.9**	**$ 6,408.0**	**$ 6,312.3**	**$ 6,478.4**	**$ 166.1**	**2.6%**	**$ (76.2)**	**-1.2%**

Note: Due to rounding, minimal differences may occur in totaling rows and columns.
Source: CPS FY2014 Approved Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last accessed August 15, 2017); CPS FY2015 Approved Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 15, 2017); FY2016 Approved Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 15, 2017); and FY2017 Amended Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 15, 2017); and FY2018 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 15, 2017).

The chart below shows a trend analysis of appropriations for all funds by type of expense for the FY2018 proposed budget, FY2017 amended budget, and FY2016, FY2015 and FY2014 approved budgets. Between FY2017 and FY2018 appropriations for equipment will decline by $208.7 million or 57.8%. Appropriations for contingencies will increase by the largest dollar amount, rising by $183.8 million, or an increase of 92.4% over the two-year period. Contingencies include three types of funding: 1) funding that has been budgeted, but has yet to be allocated, 2) grant funding that has yet to be confirmed or allocated to a specific school or program, and 3) interest expenses tied to the District's line of credit. Once the item, program or school allocation has been decided, the funds are moved to a separate line item of the budget.[76] Contracts will see the second largest increase in appropriations, increasing by $62.0 million, or 5.5%. This is primarily due to the District outsourcing facilities management services.[77] Salaries and benefits will also increase over the two-year period by $59.4 million and $38.8 million, respectively, totaling approximately $98.0 million. The increase is due to increased teacher and

[73] CPS FY2018 Proposed Budget, p. 15.
[74] CPS FY2018 Proposed Budget, p. 19.
[75] CPS FY2018 Proposed Budget, pp. 15, 19, 175 and 187.
[76] CPS FY2018 Proposed Budget, p. 25.
[77] CPS FY2018 Proposed Budget, p. 25.

non-teacher labor expenses.[78]

Over the five-year period between FY2014 and FY2018, appropriations for all funds will decrease by $76.2 million or 1.2%. The largest dollar increase over the five-year period by type is debt, which increased by $589.2 million. This is primarily due to the District issuing debt to cover operating expenses and its capital construction program. The second largest dollar increase over the five-year period is benefits, which increased by $148.8 million, or 11.9%. The increase in benefits appropriations is primarily due to increased teacher pension contributions and increased healthcare costs.[79] Contingencies will decrease by the largest dollar amount over the five-year period, declining from $876.4 million in FY2014 to$382.7 million in FY2018. As noted above, contingencies include funding that has been budgeted but has yet to be allocated. Appropriations for Equipment will decline by $232.7 million, or 60.4%. Salaries will also see a decline over the five-year period decreasing by $152.6 million, or 6.0%, below FY2014 appropriations of nearly $2.6 billion. The decline in salaries is primarily the result of layoffs, vacancy savings.[80] However, the decline in salaries is offset by an increase of $148.8 million in benefit expenses, primarily due to increased pension contributions and rising healthcare costs.[81]

CPS Appropriations for All Funds by Type: FY2014 - FY2018
(in $ millions)

	FY2014 Approved	FY2015 Approved	FY2016 Approved	FY2017 Amended	FY2018 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries	$ 2,562.6	$ 2,612.3	$ 2,554.7	$ 2,350.6	$ 2,410.0	$ 59.4	2.5%	$ (152.6)	-6.0%
Benefits	$ 1,251.4	$ 1,310.0	$ 1,332.5	$ 1,361.4	$ 1,400.2	$ 38.8	2.8%	$ 148.8	11.9%
Contracts	$ 1,110.3	$ 1,133.1	$ 1,153.9	$ 1,132.3	$ 1,194.4	$ 62.0	5.5%	$ 84.1	7.6%
Commodities	$ 257.0	$ 260.6	$ 264.1	$ 248.9	$ 242.8	$ (6.0)	-2.4%	$ (14.2)	-5.5%
Equipment	$ 385.0	$ 550.3	$ 197.9	$ 361.0	$ 152.4	$ (208.7)	-57.8%	$ (232.7)	-60.4%
Transportation	$ 111.8	$ 99.5	$ 100.1	$ 98.4	$ 106.7	$ 8.2	8.4%	$ (5.1)	-4.6%
Contingencies	$ 876.4	$ 303.6	$ 269.2	$ 198.9	$ 382.7	$ 183.8	92.4%	$ (493.7)	-56.3%
Debt	$ -	$ 600.7	$ 535.6	$ 560.7	$ 589.2	$ 28.5	5.1%	$ 589.2	-
Other	$ -	-	$ -	$ 0.001	$ 0.002	$ 0.001	120.0%	-	-
Total	**$ 6,554.5**	**$ 6,869.9**	**$ 6,408.0**	**$ 6,312.3**	**$ 6,478.4**	**$ 166.1**	**2.6%**	**$ (76.2)**	**-1.2%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns.
Source: CPS FY2017 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 17, 2016); and FY2016 Approved Budget, Revenues & Expenditures, available at www.cps.edu (last visited August 17, 2016); FY2015 Approved Budget, Revenues & Expenditures, available at www.cps.edu (last visited August 17, 2016); FY2014 Approved Budget, Revenues & Expenditures, available at www.cps.edu (last visited August 17, 2016); and FY2013 Amended Budget, Revenues & Expenditures, available at www.cps.edu (last visited August 17, 2016).

Two-Year and Five-Year Appropriation Trends for General Operating Funds

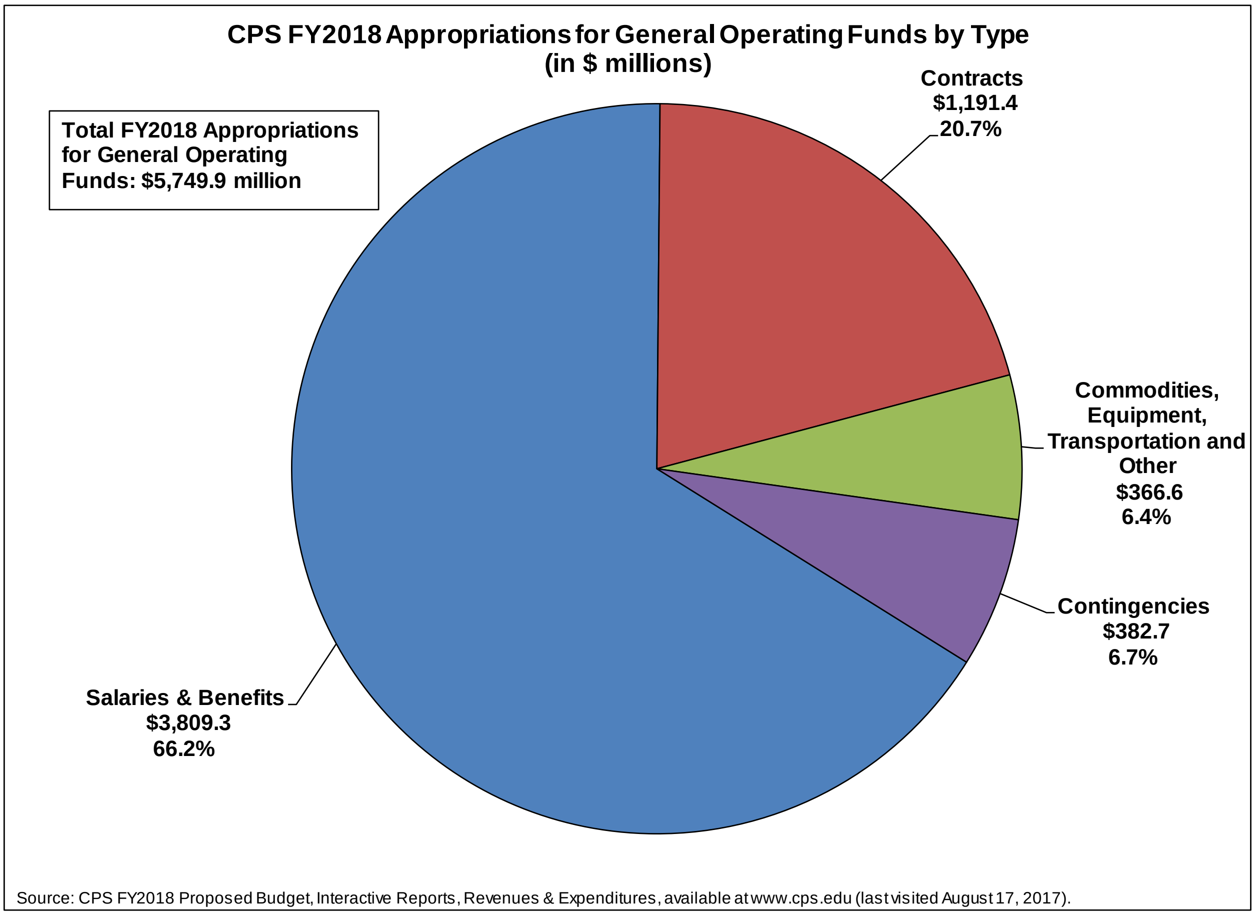
The following section shows trend data for operating funds appropriations by type and location for FY2014, FY2015 and FY2016 actual appropriations, FY2017 amended appropriations and the FY2018 proposed appropriations.

Appropriations for General Operating Funds by Type

The exhibit below shows the breakdown of the proposed FY2018 General Operating Funds appropriations by type. The largest single portion is earmarked for salaries and benefits.

[78] CPS FY2018 Proposed Budget, p. 15.
[79] CPS FY2018 Proposed Budget, p. 25.
[80] CPS FY2016 Adopted Budget, p. 4; CPS FY2017 Amended Budget, p. 22; and CPS FY2018 Proposed Budget, p. 25.
[81] CPS FY2014, Adopted Budget, p. 15, CPS FY2015 Adopted Budget, p. 8, CPS FY2016 Adopted Budget, p, 23, CPS FY2017 Amended Budget, p. 22; and CPS FY2018 Proposed Budget, p. 25.

Approximately 66.2% of the operating funds, or $3.8 billion, will be for teacher salaries, non-teacher salaries and employee benefits. Contracts, totaling approximately $1.2 billion, or 20.7%, 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. Appropriations for commodities, equipment and transportation make up $366.6 million, or 6.4%, of the operating budget, and contingencies account for $382.7 million, or 6.7%. Commodities include utilities, food, instructional supplies and other supplies.[82] As previously explained, contingencies include three types of funding: 1) funding that has been budgeted but has yet to be allocated, 2) grant funding that has yet to be confirmed or allocated to a specific school or program, and 3) interest expenses tied to the District's operating line of credit. Once the item, program or school allocation has been decided, the funds are moved to a separate line item of the budget.



The next exhibit compares the proposed FY2018 General Operating Fund appropriations by type with FY2014, FY2015 and FY2016 actual spending and the FY2017 amended budget.

Total General Operating Funds will increase by $338.8 million, or 6.3%, between FY2017 and FY2018, primarily due to an increase in contingency appropriations of $183.8 million and

[82] CPS FY2018 Proposed Budget, p. 25.

smaller increases related to salaries, benefits and contractual expenses. As stated previously, contingencies include funding that has been budgeted but has yet to be allocated: This is primary reason why the budgeted amounts for the FY2017 amended and the FY2018 proposed budget are higher than actual spending for contingencies in FY2014, FY2015 and FY2016.

Salary expenses will increase by $59.4 million, or 2.5% over the two-year period. This is primarily due to increased teacher salaries tied to collective bargaining agreements as well as non-teacher labor costs.[83] Benefit expenses will increase over the two-year period by $38.8 million, or 2.8%. The increase is primarily attributable to increased pension contributions and rising healthcare costs.[84] Appropriations for Contracts will increase by $62.0 million, or 5.5%. This is primarily due to the District outsourcing facilities management services.[85] Transportation appropriations are budgeted to increase by $8.2 million, or 8.4% due to increases in the contracts with the bus companies. Appropriations for commodities and equipment will decrease over the two-year period by a total of approximately $13.4 million.

Over the five-year period between FY2014 and FY2018, total General Operating Funds appropriations will rise by $157.6 million, or 2.8%, primarily due to increases in benefits, contract expenses and contingencies, but are offset by a decline in salary expenses. Employee benefits will increase by $149.0 million, or 11.9%, over the five-year period, primarily due to increased contributions to the Chicago Teachers' Pension Fund in recent years.[86] Appropriations for contracts will increase by $90.1 million, or 8.2%. As previously noted, contracts include professional services and contractual payments to outside organizations that provide school support services as well as charter school tuition transfers. Appropriations for salaries will decrease by $152.1 million, or 5.9% over the five-year period. Appropriations for commodities, equipment, transportation and other expenses will decrease by a total of nearly $40.0 million over the five-year period.

CPS Appropriations for Operating Funds by Type: FY2014-FY2018
(in $ millions)

Type	FY2014 Adopted	FY2015 Adopted	FY2016 Adopted	FY2017 Amended	FY2018 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries	$ 2,561.3	$ 2,611.5	$ 2,553.4	$ 2,349.9	$ 2,409.3	$ 59.4	2.5%	$ (152.1)	-5.9%
Benefits	$ 1,251.0	$ 1,309.7	$ 1,332.2	$ 1,361.2	$ 1,400.0	$ 38.8	2.8%	$ 149.0	11.9%
Contracts	$ 1,101.3	$ 1,129.0	$ 1,150.9	$ 1,129.3	$ 1,191.4	$ 62.0	5.5%	$ 90.1	8.2%
Commodities	$ 257.0	$ 260.6	$ 264.1	$ 248.9	$ 242.8	$ (6.0)	-2.4%	$ (14.2)	-5.5%
Equipment	$ 37.6	$ 41.4	$ 22.0	$ 24.5	$ 17.1	$ (7.4)	-30.2%	$ (20.5)	-54.6%
Transportation	$ 111.8	$ 99.5	$ 100.1	$ 98.4	$ 106.7	$ 8.2	8.4%	$ (5.1)	-4.6%
Contingencies	$ 272.3	$ 304.6	$ 269.2	$ 198.9	$ 382.7	$ 183.8	92.4%	$ 110.4	40.6%
Other	$ -	$ -	$ -	$ 0.001	$ 0.002	$ 0.001	120.0%	-	-
Total	**$ 5,592.3**	**$ 5,756.2**	**$ 5,691.8**	**$ 5,411.1**	**$ 5,749.9**	**$ 338.8**	**6.3%**	**$ 157.6**	**2.8%**

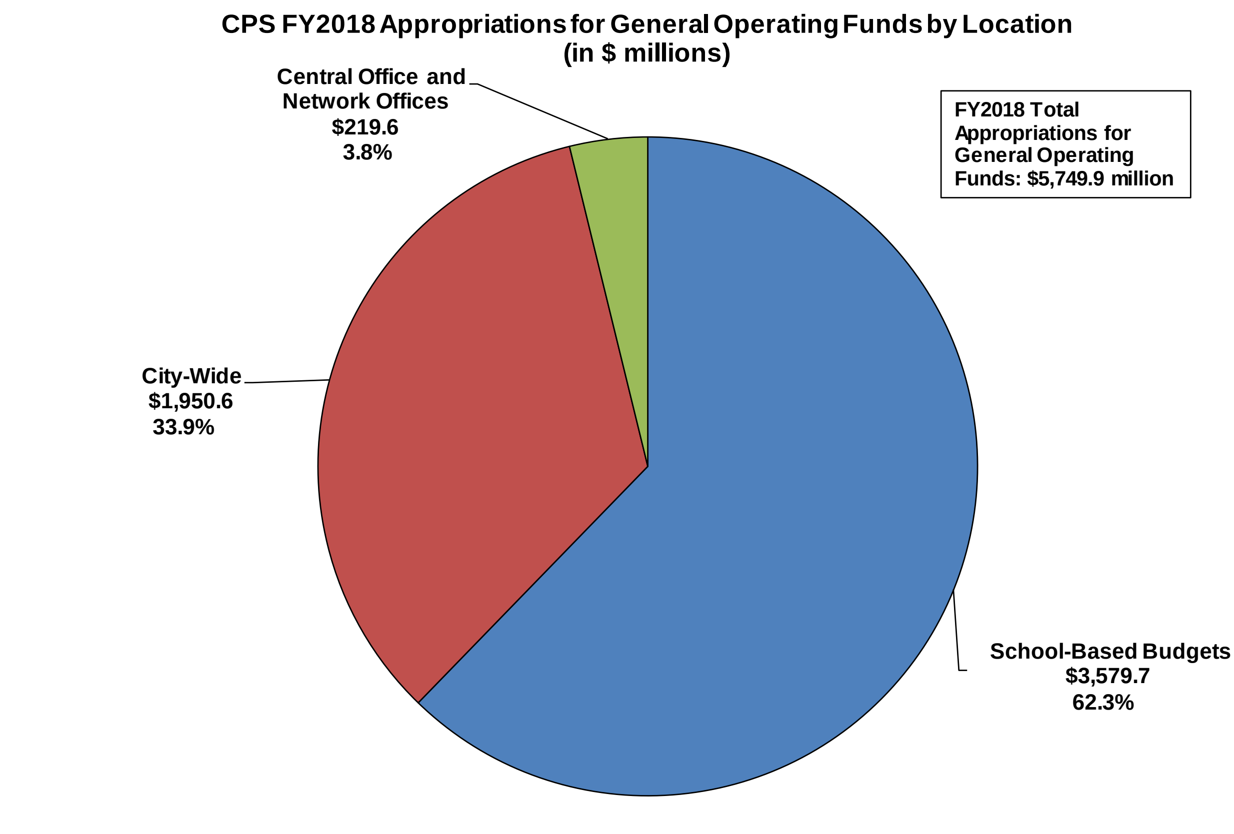
Source: CPS FY2017 Amended Budget, p. 20; FY2018 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 17, 2017).

Appropriations for Operating Funds by Location

The exhibit below shows the breakdown of proposed FY2018 General Operating Funds appropriations by location. School-based budgets compose 62.3% of operating appropriations, or

[83] CPS FY2018 Proposed Budget, p. 15.
[84] CPS FY2018 Proposed Budget, p. 15.
[85] CPS FY2018 Proposed Budget, p. 25.
[86] CPS FY2018 Proposed Budget, p. 45.

nearly $3.6 billion. This includes direct costs for CPS, charter and alternative schools. Approximately 33.9%, or nearly $2.0 billion, will be for City-Wide appropriations. These are programs and services that directly impact multiple schools across the District and include teacher pension contributions. Appropriations for Central and Network Offices will represent 3.8%, or $219.6 million, of operating appropriations.



Source: CPS FY2018 Proposed Budget, Interactive Reports, Find Your School Budget, available at www.cps.edu (last visited August 17, 2017).

The following chart compares two-year and five-year trends by location for the proposed FY2018 budget to the amended budget for FY2017 and the approved or amended budgets for FY2013, FY2014 and FY2015. Actual expenditures by location from prior years are not provided in the budget documents.

Over the two-year period the General Operating funds appropriations will increase by $338.8 million, or 6.3%. City-wide appropriations will increase by the largest dollar amount of the two-year period, increasing from $1.7 billion in FY2017 to nearly $2.0 in FY2018. The increase is primarily due to contingencies being included in City-wide appropriations. As stated previously, contingencies include funding that has been budgeted but has yet to be allocated. School-based budget appropriations will increase by $28.5 million, or 0.8%, over the two-year period. The increase in school budgets is primarily related to personnel costs.[87]

[87] CPS FY2018 Proposed Budget, p. 47.

Network Offices appropriations will remain relatively flat over the two-year period.[88] However, they were reclassified and categorized under Central Office expenditures beginning in FY2018. Central Office/Network Offices appropriations will increase by 56.4%, or $79.2 million.

Over the five-year period between the FY2014 adopted budget and FY2018 proposed budget, the General Operating Funds appropriations for school-based budgets will increase by 1.2%, or $42.2 million. Appropriations for City-wide Offices will rise by 13.8% or $236.9 million. This is likely due to teacher pension contributions and contingencies being accounted for in the City-wide Offices. The Central Office appropriations will decrease by 31.2%, or $99.4 million, over the five-year period. Central Office appropriations have declined significantly since FY2015, primarily due to the District reducing Central Office staff by 400 positions. However, because Network Offices were reclassified and categorized under Central Office beginning in FY2018, there is a larger increase. The decline in Central Office appropriations between FY2015 and the amended FY2017 budget is due to a number of personnel reductions, management reforms and efficiencies that have been implemented in recent years.[89] The proposed FY2018 budget continues to reduce Central Office expenditures by through administrative efficiencies and reforms.[90]

CPS Appropriations for General Operating Funds by Location: FY2014-FY2018
(in $ millions)

Location	FY2014 Approved	FY2015 Approved	FY2016 Approved	FY2017 Amended	FY2018 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
School-Based Budgets	$ 3,537.5	$ 3,698.5	$ 3,728.4	$ 3,551.3	$ 3,579.7	$ 28.5	0.8%	$ 42.2	1.2%
City-wide	$ 1,713.7	$ 1,755.2	$ 1,762.6	$ 1,678.0	$ 1,950.6	$ 272.6	16.2%	$ 236.9	13.8%
Central Office	$ 319.0	$ 261.8	$ 153.1	$ 140.4	$ 219.6	$ 79.2	56.4%	$ (99.4)	-31.2%
Network Offices*	$ 22.0	$ 40.8	$ 47.7	$ 41.4	$ -	$ (41.4)	-100.0%	$ (22.0)	-100.0%
Total	**$ 5,592.3**	**$ 5,756.2**	**$ 5,691.8**	**$ 5,411.1**	**$ 5,749.9**	**$ 338.8**	**6.3%**	**$ 157.6**	**2.8%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns.
*Beginning in FY2018 Network Offices is now classified under Central Office.
Source: FY2014 Approved Budget, Interactive Reports, Find Your School Budget, available at www.cps.edu (last visited August 10, 2016); FY2015 Approved Budget, Interactive Reports, Find Your School Budget, available at www.cps.edu (last visited August 10, 2016); FY2016 Approved Budget, Interactive Reports, Find Your School Budget, available at www.cps.edu (last visited August 10, 2016); and FY2017 Amended Budget, Interactive Reports, Find Your School Budget, available at www.cps.edu (last visited August 17, 2017); and FY2018 Proposed Budget, Interactive Reports, Find Your School Budget, available at www.cps.edu (last visited August 17, 2017).

[88] CPS FY2018 Proposed Budget, p. 58.
[89] CPS FY2017 Amended Budget, pp. 6 and 8; CPS FY2016 Approved Budget, pp. 4 and 10; and CPS FY2015 Approved Budget, pp. 4 and 7.
[90] CPS FY2018 Proposed Budget, p. 12.

RESERVES

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

- An Overview of the way fund balance is classified and reported based on standards set by the Governmental Accounting Standards Board;
- Best practices for fund balance set by the Government Finance Officers Association;
- An assessment of CPS' audited unrestricted fund balance compared to the GFOA guidelines;
- An assessment of the District's assigned fund balance for stabilization compared to its own fund balance policy;
- The use of CPS' reserves for the FY2018 budget; and
- A Discussion of cash flow issues that impact the District's use of reserves.

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.[91] Prior to FY2011, CPS reported *unreserved* fund balance, or resources available for appropriation without any external legal restrictions or constraints.[92] Starting in FY2011, the audited financial statements for CPS include a modification in fund balance reporting, as recommended by the Governmental Accounting Standards Board (GASB). GASB Statement No. 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."[93]

GASB Statement No. 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

[91] 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.
[92] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009.
[93] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009 and GASB Statement No. 54, paragraph 5.

fund balance used to fill the gap between appropriations and estimated revenues for the following year, would be categorized as assigned fund balance.

- *Unassigned fund balance* – in the General Fund, the remaining surplus of net resources after funds have been identified in the four categories above.[94]

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."[95] ***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."[96] Two months of operating expenditures is approximately 17%. Chicago Public Schools is a special purpose government, not a general purpose government. However, the District's size and the relative instability of its revenue stream make it prudent for the District to maintain adequate reserves. The GFOA statement adds that each unit of government should adopt a formal policy that considers the unit's own specific circumstances and that a smaller fund balance ratio may be appropriate for the largest governments.[97]

Audited Fund Balance Ratio: FY2006-FY2016

This section examines the District's fund balance between FY2006 and FY2016, which is the most recent year of audited financial information available. A complete ten-year trend analysis of the District's fund balance ratio is not possible because data starting in FY2011 was classified to reflect the implementation of GASB 54. Prior to FY2011, the District categorized its *unreserved* fund balance into *designated to provide operating capital* and *undesignated* fund balance. A *designation* is a subset of the unreserved balance where a limitation is placed on the use of the fund balance by the government itself for planning purposes or to earmark funds.[98] A *designation* is a loose classification and can be changed by the government relatively easily. As such, when assessing ***unreserved*** fund balance levels, we examine both ***designated*** and ***undesignated*** fund balance.

The table below shows five years of CPS General Operating Fund balance and its ratio to General Operating Fund expenditures. Between FY2006 and FY2010, the District's unreserved fund balance fluctuated during that time, with a high of 9.8% in FY2007 and FY2008 and a low of 4.1% in FY2010. In FY2009 and FY2010 the fund balance ratio decreased significantly due to an increase in General Operating Fund expenditures and a drawdown of fund balance. The level

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[94] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009.
[95] GFOA, Fund Balance Guidelines for the General Fund (Adopted September 2015).
[96] GFOA, Fund Balance Guidelines for the General Fund (Adopted September 2015).
[97] GFOA, Fund Balance Guidelines for the General Fund (Adopted September 2015).
[98] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009.

of fund balance maintained during this period falls well below the GFOA's recommendation of 17%.

CPS Unreserved General Operating Fund Fund Balance Ratio: FY2006-FY2010			
	Unreserved General Operating Fund Balance	**General Fund Expenditures**	**Ratio**
FY2006	$ 307,720,000	$ 4,085,093,000	7.5%
FY2007	$ 404,843,000	$ 4,146,369,000	9.8%
FY2008	$ 432,391,000	$ 4,394,685,000	9.8%
FY2009	$ 311,422,000	$ 4,742,779,000	6.6%
FY2010	$ 198,461,000	$ 4,896,142,000	4.1%

Source: CPS FY2004-FY2010 Comprehensive Annual Financial Reports.

The following table presents ***unrestricted*** fund balance for FY2011 through FY2016 following implementation of the GASB 54 changes in fund classifications, which includes ***committed***, ***assigned*** and ***unassigned*** fund balance within the General Operating Fund. The increase in fund balance to 18.5% at the end of FY2012 was due primarily to timing shifts in property tax revenue receipts, which shifted approximately $350 million in revenue from FY2013 to FY2012.[99] Between FY2013 and FY2016 unrestricted fund balance fell more than 20 percentage points from 16.6% of general fund expenditures to negative 4.2%. This is a significant decline and reflects the fact that reserves were used to balance several budgets. The fund balance levels in FY2014 through FY2016 are well below the GFOA's recommendations. CPS has its own fund balance policy, which is discussed in the next section.

CPS Unrestricted General Operating Fund Fund Balance Ratio: FY2011-FY2016			
	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%

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

In addition to the negative fund balance of $227.0 million at the end of FY2016 shown in the table above, CPS projects that its year-end fund balance for FY2017 was negative $644.4 million. This is the lowest the District's fund balance has ever dipped. However, after CPS receives outstanding State block grant payments that were delayed as of the end of FY2017, the District projects that its year-end General Fund balance for FY2018 will be negative $283.3

[99] CPS FY2012 Comprehensive Annual Financial Report, p. 12; see also page 40 of this report.

million.[100] This level of negative fund balance still concerning, but at least is an improvement from the FY2017 year-end balance.

Since a ten-year trend analysis of the District's fund balance ratio is not possible, in the interest of government transparency, the Civic Federation recommends that all local governments, including CPS, provide ten years of fiscal data in the GASB 54 format in the statistical section of their audited financial statements if possible. The government should also provide a guide as to how different fund balance lines were reclassified. An accurate trend analysis can only be conducted with reclassified data.

CPS Stabilization Fund Balance Policy

Chicago Public Schools adopted a fund balance policy in FY2008 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 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.[101] 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.[102]

The following table presents CPS' assignment of fund balance to its stabilization fund between FY2008 and FY2016. In FY2010 and FY2012-FY2016, the District did not designate any fund balance for stabilization and instead assigned fund balance to close the following years' budget

[100] CPS FY2018 Proposed Budget, p. 190.
[101] CPS FY2018 Proposed Budget, p. 221.
[102] CPS FY2018 Proposed Budget, p. 221.

gaps. The only years the District met its own stated fund balance policy of maintaining a minimum of 5% stabilization fund balance were in FY2008 and FY2011.

CPS Designated/Assigned General Operating Fund Fund Balance for Stabilization: FY2008-FY2016			
	General Operating Fund Balance Designated/ Assigned for Stabilization Fund	General Operating and Debt Service Expenditures	Ratio
FY2008	$ 258,000,000	$ 4,655,123,000	5.5%
FY2009	$ 181,200,000	$ 5,043,948,000	3.6%
FY2010	$ -	$ 5,280,029,000	0.0%
FY2011	$ 289,000,000	$ 5,242,049,000	5.5%
FY2012	$ -	$ 5,262,822,000	0.0%
FY2013	$ -	$ 5,336,779,000	0.0%
FY2014	$ -	$ 5,918,035,000	0.0%
FY2015	$ -	$ 6,153,859,000	0.0%
FY2016	$ -	$ 5,870,131,000	0.0%

Source: CPS Comprehensive Annual Financial Reports, FY2008-FY2016, Balance Sheet - Governmental Funds.

Note: CPS stated in its FY2013 and FY2014 Proposed Budgets that the stabilization fund is equivalent to an "assigned" fund balance under GASB 54. However, in FY2013 through FY2016, CPS projected spending down its entire fund balance, meaning it assigned no fund balance for stabilization, only for balancing the following year's budget.

Use of Reserves to Balance the FY2018 Budget

The CPS fund balance target for the General Operating Fund in FY2018 is $317.1 million. This target is 5.0% of the combined operating and debt service budgets, which together equal a total of $6.4 billion.[103] However, CPS projects that the FY2018 budget will begin and end the year with negative General Operating Fund reserves. The District estimates that it ended the FY2017 year with a negative unassigned General Fund balance of $644.4 million, but that it will gain $361.1 once delayed FY2017 State block grants are paid to the District. CPS projects that it will

[103] CPS FY2018 Proposed Budget, p. 191.

end FY2018 with a negative fund balance of $283.3 million. CPS also plans to use $57.2 million in fund balance for general operations and $500,000 in fund balance for debt service in FY2018.

CPS FY2018 Use of Fund Balance (in $ millions)			
	FY2017 Estimated End of Year Balance	FY2018 Budgeted Sources / (Use)	FY2018 End of Year Balance
General Fund - Unassigned	**$ (644.4)**	**$ 361.1**	**$ (283.3)**
Workers' Comp/Tort Fund	$ -	$ -	$ -
Supplemental GSA	$ 14.4	$ (14.4)	$ -
Other Special Revenue	$ 42.9	$ (42.9)	$ -
Total Operating Funds Budgeted for Use	**$ (587.1)**	**$ 303.8**	**$ (283.3)**

Source: CPS FY2018 Proposed Budget, p. 190.

The FY2018 budget indicates that CPS will ask the Board to extend the deadline to replenish the fund balance for FY18 and FY19 while the District continues to seek a long-term solution to the pension inequity issue and reform state education funding.[104] CPS also states that it will plan to replenish the Stabilization Fund by encouraging the state to enact SB1 to provide CPS with a fairer share of state education funding and closely monitor spending to achieve savings and efficiencies wherever possible and continue streamlining administrative expenses.[105]

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.[106] In the absence of a fund balance for the District to draw on, this creates a cash shortfall. In order to avoid making cuts, CPS relied on spending down its budgetary reserves between FY13 and FY2015 to balance its budgets and to make its annual pension payment.[107]

By FY2015, reserves had been depleted and the Board began to use a line of credit to cover cash flow needs between property tax payments. CPS issued $700.0 million in Tax Anticipation Notes (TANs)[108] in FY2015 and $1.065 billion in TANs in FY2016.[109]

Adding to the cash flow difficulties in FY2017, the District did not receive $215.2 million in State revenue that the budget counted on for pension funding. To cover anticipated cash flow difficulties, the District issued $1.55 billion of short-term borrowing through Tax Anticipation

[104] CPS FY2018 Proposed Budget, p. 191.
[105] CPS FY2018 Proposed Budget, p. 191.
[106] CPS FY2018 Proposed Budget, p. 186.
[107] CPS FY2018 Proposed Budget, p. 186. 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.
[108] TANs are backed by anticipated property tax revenues.
[109] CPS FY2017 Proposed Budget, p. 173.

Notes during the first half of the fiscal year to bridge the gap between revenue collections and expenses.[110] Interest on the TANs was estimated to be $35 million.[111]

The State of Illinois also delayed block grant payments as a result of the budget impasse, resulting in $331 million in outstanding State payments as of June 30, 2017. To address the shortfall from the delayed payments, CPS issued $387 million in short-term Grant Anticipation Notes (GANs) in June 2017 that would be paid off once the delayed State grant payments were received. This financing allowed the Board to make a partial pension payment to the Chicago Teachers' Pension Fund of $464 million on June 30, 2017. The remaining $250 million payment will be made using the proceeds from a property tax increase that will be paid by property owners in Chicago in July and August.[112] The GANs contain provisions that they can be exchanged for Tax Anticipation Notes if the pledged grants have not been received by January 10, 2018.[113] Interest on the GANs is estimated to cost at least $7 million for a three month period.[114] 733

With its FY2017 line of credit outstanding, CPS estimates that it had $186 million of cash as of June 30, 2017.[115] However, in FY2018 the District projects that its cash position will be negative for the duration of the fiscal year. CPS plans to issue TANs of a similar size in FY18 and has budgeted approximately $79 million in interest costs for the TANs.[116] CPS also may issue additional GANs in FY2018 depending on the extent to which State grant payments continue to be delayed. In FY2018, the District has budgeted $18 million in interest costs for the GANs.[117]

In summary, the amount of principal on short-term borrowing through TANs and GANs outstanding as of June 30, 2017 was $1.3 billion – $950 million from TANs issued in FY2017 (due in December 2017), and $387 million from GANs issued in June 2017 (due in March 2018).[118] Interest costs in FY2018 are budgeted to equal a total of $97 million. As of June 30, 2017, $161 million of grants have been paid, leaving $226 million of net Grant Anticipation Notes remaining to be paid.[119]

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

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[110] Board of Education of the City of Chicago, *Supplement to the Limited Offering Memorandum Dated November 10, 2016, Series 2016A-3*, January 10, 2017.
[111] Chicago Public Schools Amended FY2017 Budget, p. 173.
[112] Chicago Teachers' Pension Fund, *Current News*, http://www.ctpf.org/current_news/currentindex.htm.
[113] Master Trust Indenture Securing Board of Education of the City of Chicago Grant Anticipation Notes, June 1, 2017, p. 21, http://www.cpsboe.org/content/actions/2017_05/17-0524-RS2.pdf (last visited on August 15, 2017).
[114] 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).
[115] CPS FY2018 Proposed Budget, p. 186.
[116] CPS FY2018 Proposed Budget, p. 187.
[117] CPS FY2018 Proposed Budget, p. 187.
[118] CPS FY2018 Proposed Budget, p. 180.
[119] CPS FY2018 Proposed Budget, p. 187.

compares the FY2018 proposed budget to the FY2014, FY2015, FY2016 and FY2017 approved and amended budgets and actuals when available.

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

The District's FTE position count in FY2018 will decrease by 576.5 FTEs, or 1.6%, from the FY2017 amended budget. Over the two-year period, the largest reduction in FTEs will be teachers, which will decline by 2.1%, or 420.8 FTEs. The reduction in teacher positions is primarily due to an overall decline in student enrollment.[120] The second largest reduction in position count will be school support staff, which will decrease by 1.4%, or 143.5 FTEs. City-wide student support staff will decline by 0.2%, or 10.5 FTEs. The central and network offices will see the smallest reduction, which will decline by 0.3%, or 2.7 FTEs. School administrators will increase by 0.1%, or 1.0 FTE.

Between FY2014 and FY2018, total FTE positions for the District will decrease by 6.0%, or 2,340.7 FTEs. School support staff will see the largest decline in positions at 981.3 FTEs, or 8.9%, over the five-year period. The large decline in school support staff is the result of efficiencies, streamlining and restructuring of operations related to food service, custodial and engineering services.[121] The second largest decline will be teacher positions, which will see a decline of 780.5 FTEs, or 3.8%, over the five-year period. School administrators and central and network offices will also see declines of 115.0 FTEs and 441.6 FTEs, or 10.6% and 30.9%, respectively. City-wide student support will see the smallest reduction in positions by 22.3 FTEs, or 0.5% over the five-year period.

Chicago Public Schools Full-Time Equivalent (FTE) Positions By Type
FY2014-FY2018

	FY2014 Approved	FY2015 Approved	FY2016 Approved	FY2017 Amended	FY2018 Proposed	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Teachers	20,373.0	21,080.9	20,760.4	20,013.3	19,592.5	-420.8	-2.1%	-780.5	-3.8%
School Administrators	1,084.0	1,026.0	1,016.0	968.0	969.0	1.0	0.1%	-115.0	-10.6%
School Support Staff	11,086.8	10,509.5	10,099.6	10,249.0	10,105.5	-143.5	-1.4%	-981.3	-8.9%
Central and Network Offices	1,430.0	1,299.5	1,212.0	991.1	988.4	-2.7	-0.3%	-441.6	-30.9%
City-wide Student Support	4,877.8	5,290.5	5,271.0	4,866.0	4,855.5	-10.5	-0.2%	-22.3	-0.5%
Total	**38,851.6**	**39,206.4**	**38,359.0**	**37,087.4**	**36,510.9**	**-576.5**	**-1.6%**	**-2,340.7**	**-6.0%**

Source: CPS FY2014 Approved Budget, Interactive Reports, Positions, available at www.cps.edu (last visited August 16, 2017); CPS FY2015 Approved Budget, Interactive Reports, Positions, available at www.cps.edu (last visited August 16, 2017); and FY2016 Approved Budget, Interactive Reports, Positions, available at www.cps.edu (last visited August 16, 2017); CPS FY2017 Amended Budget, Interactive Reports, Positions, available at www.cps.edu (last visited August 16, 2017); and FY2018 Proposed Budget, Interactive Reports, Positions, available at www.cps.edu (last visited August 16, 2017).

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

CPS total compensation costs are expected to increase by $78.1 million, or 2.1%, in FY2018 from the FY2017 amended budget. Salaries, which constitute 63.2% of all employee compensation, will increase by $39.4 million, or 1.7%, over the two-year period. Benefit costs, which include pensions, hospital and dental insurance, unemployment compensation and payroll tax contributions for Social Security[122] and Medicare, will increase by 2.8%, or $38.8 million, in FY2018. The vast majority of this increase can be attributed to a $52.1 million net increase in the

[120] Tanveer Ali, "How Will 956 CPS Layoffs Affect Your School? Here's the Whole List", DNAInfo, August 8, 2017, https://www.dnainfo.com/chicago/20170808/west-ridge/cps-2017-layoffs-chicago-public-schools-teachers-support-staff-school-by-school (last visited August 18, 2017).
[121] CPS FY2016 Proposed Budget, p. 11.
[122] Non-teaching staff contribute to Social Security.

CPS contribution toward the Chicago Teachers Pension Fund in FY2018. The District's $895.8 million total contribution toward teacher pensions in FY2018 includes a 7% pension pick-up of the 9% annual employee contributions. With Public Act 96-0889, the Illinois General Assembly had granted the District budgetary relief in FY2011, FY2012 and FY2013 by lowering its annual required pension contribution to the Chicago Teachers' Pension Fund to an amount equivalent to the normal cost for that fiscal year.[123] In FY2015 the State contributed $62.0 million towards the Chicago Teachers' Pension Fund.[124] In FY2016 the State contributed $12.0 million towards the Chicago Teachers' Pension Fund.[125] In FY2017 CPS was relying on the State to contribute $12.0 million towards the Chicago Teachers' Pension Fund, plus an additional $215.2 million towards the normal cost of pensions.[126] However, Governor Rauner vetoed the legislation that would have allocated the additional $215.2 million to CPS.[127] In FY2018 CPS expects to receive $221 million from the State to pay the normal cost of pensions through Senate Bill 1, which was also vetoed by the Governor.[128]

Over the five-year period between FY2014 to FY2018, total compensation costs will increase by 0.1%, or $4.2 million. Appropriations for teacher and non-teacher salaries will decline by $132.2 million or 5.2%. Appropriations for employee benefits will increase by 10.8%, or $136.4 million, between FY2014 and FY2018, rising from $1.3 billion to $1.4 billion. This increase in benefit costs can be partially attributed to a $155.4 million, or 21.0%, increase in total teacher pension contributions including the employee contribution pension pick-up between FY2014 and FY2018. CPS also picks 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 pension pick-up decreased from 7% to 5% and to 3% in FY2017. In FY2018 the District will completely phase out this practice and non-union employees will contribute the full employee portion toward their pensions.[129] In addition, new teachers hired on

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[123] "Normal cost" is an actuarially calculated amount representing that portion of the present value of pension plan benefits and administrative expenses which is allocated to a given valuation year.
[124] CPS FY2017 Approved Budget, p. 142.
[125] CPS FY2016 Approved Budget, p. 143.
[126] CPS FY2017 Proposed Budget, p. 150, See p. 66 of this analysis for more information about Chicago Public Schools contributions to teacher pensions.
[127] CPS FY2018 Proposed Budget, p. 7.
[128] CPS FY2018 Proposed Budget, p. 6.
[129] CPS FY2017 Proposed Budget, p. 6.

or after January 1, 2017 will not be eligible for the pension pick-up per the new Chicago Teachers Union contract.

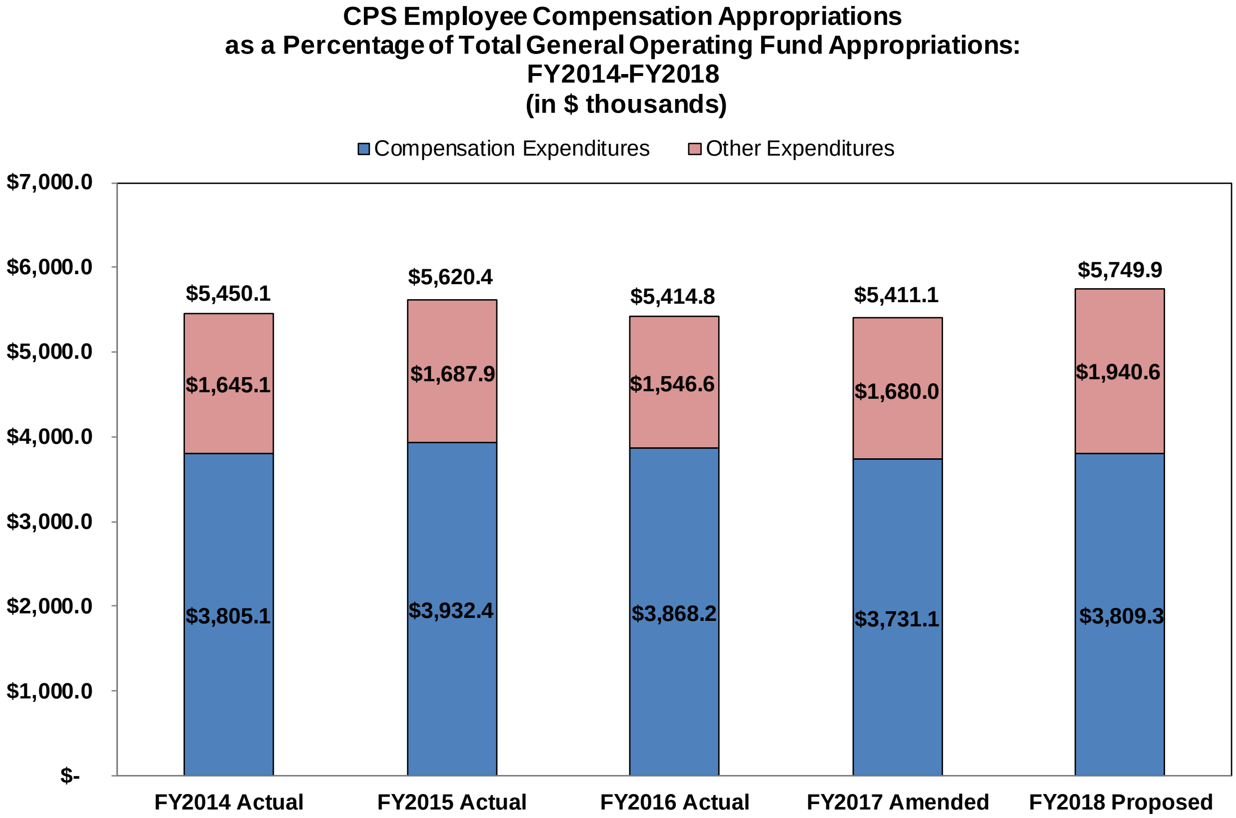
CPS Personnel Appropriations for General Operating Funds by Type: FY2014-FY2018 (in $ millions)									
	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Amended	FY2018 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries									
Teacher Salaries	$ 1,922.0	$ 1,953.9	$ 1,935.4	$ 1,801.8	$ 1,860.9	$ 59.1	3.3%	$ (61.1)	-3.2%
Ed. Support Salaries	$ 619.5	$ 622.6	$ 618.0	$ 568.1	$ 548.4	$ (19.7)	-3.5%	$ (71.1)	-11.5%
Total Salaries	**$ 2,541.4**	**$ 2,576.5**	**$ 2,553.4**	**$ 2,369.9**	**$ 2,409.3**	**$ 39.4**	**1.7%**	**$ (132.2)**	**-5.2%**
Employee Benefits									
Teacher Pension Employer Portion	$ 613.0	$ 696.5	$ 687.1	$ 721.0	$ 784.4	$ 63.3	8.8%	$ 171.4	28.0%
Teacher Pension Pickup*	$ 127.4	$ 129.7	$ 130.9	$ 122.6	$ 111.4	$ (11.2)	-9.2%	$ (16.0)	-12.6%
Total Teacher Pensions	**$ 740.4**	**$ 826.2**	**$ 818.0**	**$ 843.6**	**$ 895.8**	**$ 52.1**	**6.2%**	**$ 155.4**	**21.0%**
Ed. Support Pension Employer Portion	$ 63.2	$ 63.4	$ 57.0	$ 58.2	$ 56.7	$ (1.5)	-2.5%	$ (6.5)	-10.3%
Ed. Support Pension Pickup*	$ 38.7	$ 38.6	$ 39.5	$ 34.4	$ 32.2	$ (2.3)	-6.6%	$ (6.5)	-16.9%
Total Ed. Support Pension	**$ 101.9**	**$ 102.0**	**$ 96.5**	**$ 92.6**	**$ 88.9**	**$ (3.7)**	**-4.0%**	**$ (13.0)**	**-12.8%**
Hospitalization/Other Comp.	$ 343.3	$ 357.1	$ 334.5	$ 359.4	$ 348.0	$ (11.4)	-3.2%	$ 4.7	1.4%
Unemployment Compensation	$ 16.4	$ 8.1	$ 10.3	$ 8.5	$ 9.0	$ 0.5	5.8%	$ (7.4)	-45.2%
Medicare/Social Security	$ 36.0	$ 36.6	$ 34.8	$ 36.4	$ 36.4	$ (0.1)	-0.2%	$ 0.4	1.2%
Workers' Compensation	$ 25.6	$ 25.9	$ 20.8	$ 20.6	$ 22.0	$ 1.4	6.8%	$ (3.7)	-14.3%
Total Employee Benefits	**$ 1,263.6**	**$ 1,355.9**	**$ 1,314.9**	**$ 1,361.2**	**$ 1,400.0**	**$ 38.8**	**2.8%**	**$ 136.4**	**10.8%**
Total Compensation	**$ 3,805.1**	**$ 3,932.4**	**$ 3,868.2**	**$ 3,731.1**	**$ 3,809.3**	**$ 78.1**	**2.1%**	**$ 4.2**	**0.1%**

*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 picks up 7% of the 8.5% employee contribution for non-teacher union employees. However, in FY2016 the District started to phase out the pickup 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 FY2018 Proposed Budget, Interactive Reports, Historical Expenditures, available at www.cps.edu (last visited August 17, 2017); CPS FY2018 Proposed Budget, Interactive Reports, Revenues and Expenditures, available at www.cps.edu (last visited August 17, 2017); and CPS FY2017 Amended Budget (Adopted February 2017), p. 20; and CPS FY2017 Amended Budget, Interactive Reports, Revenues and Expenditures, available at www.cps.edu (last visited August 17, 2017).

The next exhibit shows the District's employee compensation expenditures as a percentage of all operating funds expenditures. The chart compares FY2018 proposed appropriations to FY2017 amended appropriations and actual expenditures from FY2014 through FY2016. Similar to the table above, total compensation expenditures include salaries and pension benefits for teachers and education support staff, health expenses, Medicare and Social Security, workers' compensation and unemployment compensation.

Over the five-year period the percentage of all operating funds appropriations dedicated to personnel has averaged 69.3%, with a low of 66.2% in FY2018 and a high of 71.4% in FY2016. Since FY2014 compensation expenditures have increased by 0.1% or $4.2 million. Other operating expenditures have increased by 18.0% or $295.6 million, rising from $1.6 billion in FY2014 to $1.9 billion in FY2018. The increase in other expenditures is primarily due to an increase in contractual and contingency expenditures. Contingencies include funding that has been budgeted but has yet to be allocated, which is primarily why the budgeted and proposed contingency expenditures are higher than actual spending for contingencies.



Source: CPS FY2018 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 17, 2017); CPS FY2017 Amended Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 17, 2017); Chicago Public Schools Comprehensive Annual Financial Report (CAFR) FY2015, p. 87; FY2016 CAFR, p. 87.

ENROLLMENT

CPS is projecting an overall decline in student enrollment of 8,485 students in FY2018. According to the FY2018 proposed budget, actual FY2017 enrollment was 381,349 students, which was a decline of 1.5%, or 5,674 fewer students than originally projected. The original projection for FY2017 was a decline of 5,259, or 1.3%, from actual FY2016 enrollment. Projected enrollment for FY2018 is 372,864 students, which is a decline of 2.2%, or 8,485 students below FY2017 actual enrollment.

CPS Student Actual and Projected Enrollment: FY2017 and FY2018

Projected 2017	Actual FY2017	Projected FY2018	Projected 2017 - Actual 2017 # Change	Projected 2017 - Actual 2017 % Change	Actual FY2017 - Projected FY2018 # Change	Actual FY2017 - Projected FY2018 % Change
387,023	381,349	372,864	(5,674)	-1.5%	(8,485)	-2.2%

Source: CPS FY2018 Proposed Budget, p. 47; and CPS FY2017 Amended Budget, p. 37.

As the following exhibits indicate, total K-12 actual enrollment is projected to drop by 23,860 students, or 6.3%, between FY2014 and FY2018. CPS attributes the decline in student enrollment to the decline in birth rates, a national trend not restricted to Illinois.[130]

CPS projects preschool enrollment to decline from FY2017. Actual preschool enrollment for FY2017 was 20,673 students and is projected to decrease by nearly 4.0%, or 823 students, in FY2018. Despite declining enrollment, CPS has continued to expand its investment in early childhood education, including the addition of 75 full-day pre-schools opening in high-need communities in FY2018.[131] K-12 student enrollment is projected to decline over the two-year period, by 2.1%, or 7,662 students.

Over the five-year period from FY2014-FY2018 total student enrollment will decline by 6.9% or 27,681 students. Preschool student enrollment is projected to decrease 16.1%, or 3,821 students. K-12 student enrollment is projected to decline by 6.3%, or 23,860 students.

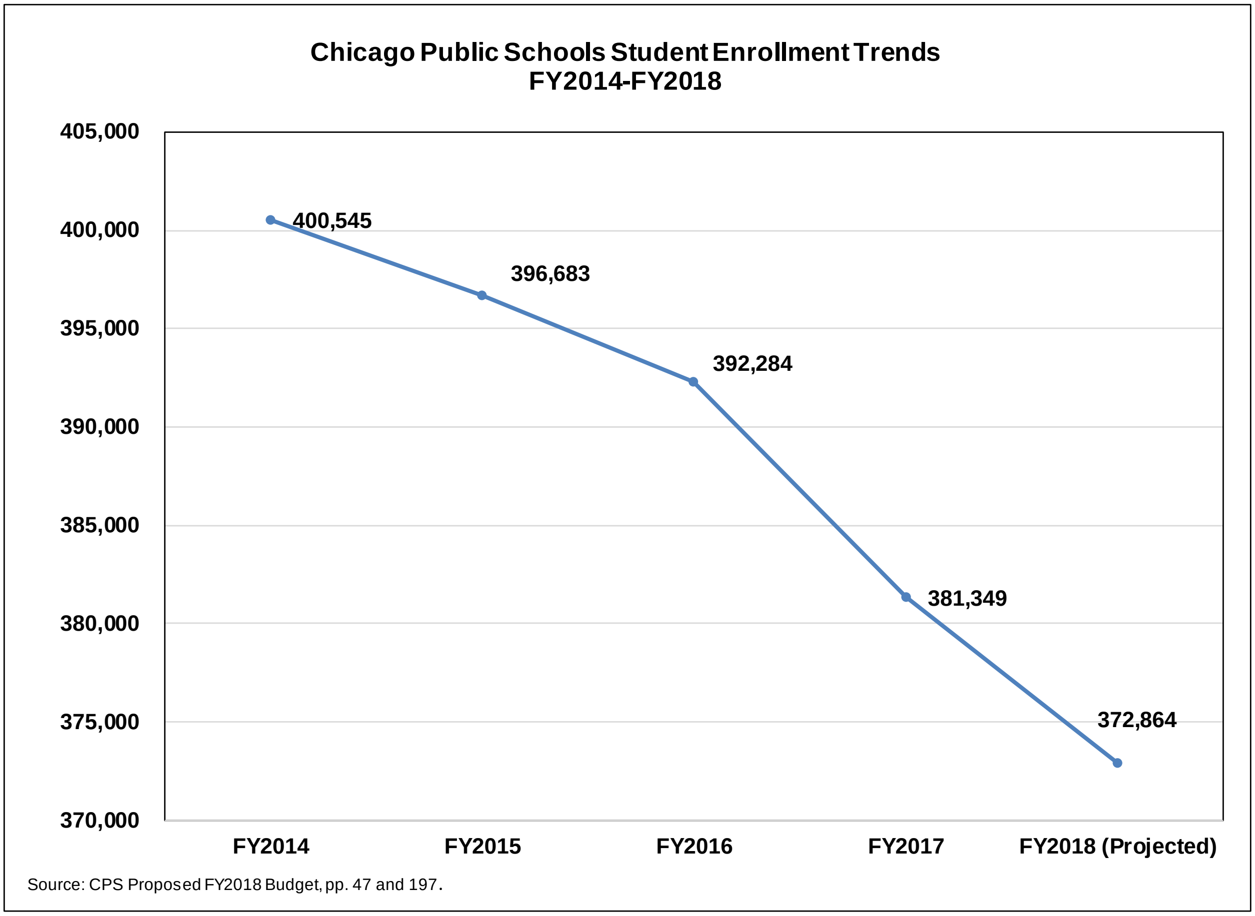
CPS Actual and Projected Student Enrollment: FY2013-FY2017

	Actual FY2014	Actual FY2015	Actual FY2016	Actual FY2017	Projected FY2018	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Preschool	23,671	22,873	22,555	20,673	19,850	(823)	-4.0%	(3,821)	-16.1%
K-12	376,874	373,810	369,729	360,676	353,014	(7,662)	-2.1%	(23,860)	-6.3%
Total	**400,545**	**396,683**	**392,284**	**381,349**	**372,864**	**(8,485)**	**-2.2%**	**(27,681)**	**-6.9%**

Source: CPS FY2018 Proposed Budget, pp. 47 and 197.

[130] CPS FY2018 Proposed Budget, p. 47.
[131] CPS FY2018 Proposed Budget, p. 47.

The following graphically illustrates the overall downward trend in CPS total student enrollment from FY2014 to FY2018.



MUNICIPAL EMPLOYEES' PENSION FUND

Eligible non-teaching employees of CPS participate in the City of Chicago's Municipal Employees' Annuity and Benefit Fund.[132] As of December 31, 2015, approximately 17,143, or 55.9%, of the 30,683 active Municipal Fund members were CPS employees.[133]

The employer contribution for CPS employees participating in the Municipal Fund is made by the City of Chicago, not by CPS. The City makes most of the Municipal Fund employer contribution through its property tax levy and through reimbursements from its enterprise and special revenue funds.[134] CPS estimates that the FY2016 Municipal Fund contribution from the City (recorded as revenue) will be nearly $51.1 million.[135] CPS does make some contributions to the Municipal Fund on behalf of its employees. For union employees, CPS "picks up" 7 percentage points of the annual non-teacher employee pension contribution of 8.5%. CPS phased out the pick-up for non-union, non-teacher employee pensions in FY2018. The District's FY2018 cost for the non-teacher employee pick-up is approximately $32.2 million and is part of the District's budgeted pension appropriation.[136] The District additionally reimburses the City for the employer pick-up of employees funded by federal grants; this reimbursement is budgeted at $5.8 million in FY2018.[137]

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.[138] The City of Chicago had previously announced that it had come to an agreement in principle with unions on how to put the Municipal Fund, "…on a path to solvency" but the reforms required changes to state law.[139] Public Act 100-0023 is intended to increase employer funding of the Municipal Fund through a new 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 would create a new tier of benefits for employees hired after January 1, 2017 that would increase employee contributions by three percentage points and reduce the retirement age to 65 from the Tier 2 level of 67.

On March 24, 2016, the Illinois Supreme Court struck down Public Act 98-0641 as unconstitutional under the Illinois Constitution's pension protection clause (Article XIII, Section 5). P.A. 98-0641 impacted non-teacher employees of CPS, increasing their contributions toward the fund and affecting their automatic annual annuity increase once they retire. This meant that

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[132] 40 ILCS 5/8-110.
[133] CPS FY2016 Comprehensive Annual Financial Report, p. 73.
[134] City of Chicago FY2017 Budget Overview, p. 28. In the City's FY2012 budget, the City included reimbursement from CPS for part of the statutory employer contribution the City made for CPS employees participating in the Municipal Fund. The reimbursement amount proposed for FY2012 was $32.5 million, but has been postponed indefinitely given the District's ongoing financial difficulties.
[135] CPS FY2018 Proposed Budget, p. 17 and Interactive Proposed Budget, Revenues and Expenditures, available at cps.edu/budget.
[136] CPS FY2018 Interactive Proposed Budget, Revenues and Expenditures, available at cps.edu/budget.
[137] CPS FY2018 Interactive Proposed Budget, Revenues and Expenditures, available at cps.edu/budget.
[138] Public Act 100-0023. See also http://www.meabf.org/legislature for more information about the legislation.
[139] City of Chicago Press Release, "Mayor Emanuel Announces Final Pension Funding Solution Reached in Partnership with Union Leaders for Municipal Employees' Annuity and Benefit Fund," August 3, 2016. Available at http://www.cityofchicago.org/content/dam/city/depts/mayor/Press%20Room/Press%20Releases/2016/July/8.3.16FinalPensionFunding.pdf.

as of January 1, 2015, non-teachers' contributions to the Municipal Fund were increased by 0.5% to 9.0% from the previous 8.5% level. Non-teacher retirees were made subject to a COLA "pause" and reductions to future annuity increases. However, since CPS does not make the employer contribution to the Municipal Fund, it was not impacted by the legislation's employer funding provisions. These provisions instead were to increase the City of Chicago's contributions to the Municipal Fund over several years until the City was contributing at a level that would increase the funding level to 90.0% over 40 years.

In December 2014, two lawsuits were filed in Cook County Circuit Court that challenged the constitutionality of pension reforms for the Chicago Municipal and Laborers' funds.[140] On July 24, 2015, Circuit Court Judge Rita Novak ruled that the legislation was unconstitutional and ordered that the increased contributions that had been made by employees starting January 1, 2015 be refunded.[141] The increased employer contributions were not made.

The financial status of the Municipal Fund is examined in the Civic Federation's annual analysis of the City's budget proposal.[142] The next section focuses on the Chicago Teachers' Pension Fund.

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[140] Civic Federation, "Chicago Pension Reform Litigation on Hold Pending Illinois Supreme Court Ruling," February 25, 2015, https://www.civicfed.org/civic-federation/blog/chicago-pension-reform-litigation-hold-pending-illinois-supreme-court-ruling.
[141] Judge Novak's opinion and order is available at http://chicagotonight.wttw.com/sites/default/files/article/file-attachments/Chicago%20Pension%20Ruling.pdf.
[142] All reports are available at civicfed.org.

TEACHERS' PENSION FUND

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

The fiscal year of the Teachers' Pension Fund begins on July 1 and ends on June 30, as does the fiscal year of CPS. The most recent data available are for FY2016, which ended on June 30, 2016.

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.[143] Plan benefits and contributions can only be amended through state legislation.[144]

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.[145]

Membership

In FY2016 the Teachers' Pension Fund had 57,841 members, including 28,298 retirees and beneficiaries receiving benefits and 29,543 active employee members. In the ten years since FY2007, the number of retirees and beneficiaries receiving benefits increased by 19.8%, or 4,675, and has grown each year. Conversely, the number of active employee members has declined by 10.4%, or 3,425 members, over the same period. The ratio of active employees to beneficiaries has fallen every year since FY2007. 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

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143 Chicago Teachers' Pension Fund, FY2016 Comprehensive Annual Financial Report, p. 27.
144 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.
145 CPS did not participate in Medicare until 1986 but most CTPF members are now eligible for Medicare.

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

CPS Teachers' Pension Fund Membership: FY2007-FY2016				
Fiscal Year	**Retirees & Beneficiaries Receiving Benefits**	**Active Employee Members**	**Total**	**Ratio of Active to Beneficiary**
FY2007	23,623	32,968	56,591	1.40
FY2008	23,920	32,086	56,006	1.34
FY2009	24,218	31,905	56,123	1.32
FY2010	24,600	31,012	55,612	1.26
FY2011	25,199	30,133	55,332	1.20
FY2012	25,926	30,366	56,292	1.17
FY2013	27,440	30,969	58,409	1.13
FY2014	27,722	30,654	58,376	1.11
FY2015	28,114	29,706	57,820	1.06
FY2016	28,298	29,543	57,841	1.04

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

Source: Chicago Teachers' Pension Fund, Actuarial Valuations, FY2007-FY2016.

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.[146]

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

[146] 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 $111,572*
Annuity Formula	2.2% of final average salary for each year of service**	
Early Retirement Formula Reduction	0.5% per month under age 60	0.5% per month under age 67
Maximum Annuity	75% of final average salary	
Annual Automatic COLA on Retiree or Surviving Spouse Annuity	3% compounded; begins at anniversary date of retirement or 61st birthday, whichever is later	lesser of 3% or one-half of the annual increase in CPI-U, not compounded; begins at the later of age 67 or the first anniversary of retirement

*The maximum pensionable salary automatically increases by the lesser of 3% or one-half of the annual increase in the CPI-U. $111,572 is the 2016 limitation. FY2016 CAFR, p. 28.

** 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").

Sources: Public School Teachers' Pension and Retirement Fund of Chicago, CAFR as of June 30, 2014, p. 27-28; 40 ILCS 5/9; Public Act 96-0889; and Public Act 96-1490.

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.

Illinois State legislation to change how P-12 education is funded, Senate Bill 1, which passed the General Assembly on May 31, 2017, includes provisions to increase the State's funding to Chicago Teachers' pensions and take into account the fact that the funding CPS must provide to teachers' pensions cannot be spent in the classroom. The bill would provide $221 million in FY2018 for the annual cost of teachers' pensions and retiree healthcare. On August 1 Governor Rauner issued an amendatory veto of the school funding bill, moving the pension funding to the pension code as a continuing appropriation and removing the provision that would require funding to recognize CPS spending on teachers' pensions.[147] As of publication of this report, the Illinois Senate has voted to override the Governor's veto, but the House has not yet taken action on the veto.

State Employer Contribution: The State of Illinois had traditionally contributed roughly $65.0 million each year to the Teachers' Fund pursuant to 40 ILCS 5/17-127, which declares the General Assembly's "goal and intention" to contribute an amount equivalent to 20.0% or 30.0% of the contribution it makes to the downstate Teachers' Retirement System.[148] However, the traditional $65.0 million contribution was actually much less than the 20.0% or 30.0% intention stated in the statute. The State's enacted FY2010 budget reduced the usual $65.0 million appropriation by 50.0% to $32.5 million.[149] For FY2011 the State appropriated $32.5 million for the Teachers' Fund, but designated it specifically for retiree healthcare costs paid out of the fund, so the amount is not considered part of the employer contribution in the calculation shown below.[150] There was no State contribution other than the statutory state contribution described below in FY2012, FY2013, and FY2014.[151] The State of Illinois' FY2015 budget included a $50.0 million contribution to the Chicago Teachers' Pension Fund that is in addition to the statutory contribution described below. This reduced the amount CPS must contribute to the fund by $50.0 million.[152] As noted above, the State may contribute more funding to CPS pensions in FY2018, depending on the outcome of negotiations on Senate Bill 1 and other proposed legislation that would reform the Illinois school funding formula.

Additional State Contribution: The State is required to make additional contributions in FY2018 of 0.544% of teacher payroll to the Teachers' Fund to offset a portion of the cost of benefit increases enacted under Public Act 90-0582. No additional contributions are required if the funded ratio is at least 90.0%. The required additional State contribution in FY2018 is projected at $11.7 million, down slightly from FY2017.[153]

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 FY2018 is projected at nearly $12.5 million, down slightly from FY2017.[154]

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 required CPS contribution was calculated as a level percentage of payroll over the years through

[147] For more about Senate Bill 1 and the Governor's amendatory veto, see Civic Federation, "Veto of SB1 Leaves School Funding in Doubt," August 4, 2017. Available at https://www.civicfed.org/iifs/blog/veto-sb1-leaves-school-funding-doubt.
[148] The downstate Teachers' Retirement System covers all public school teachers in Illinois except for those teaching in Chicago Public Schools.
[149] Illinois State FY2011 Budget, pp. 5-8.
[150] Information provided by the CPS budget office, August 17, 2010.
[151] Chicago Public Schools FY2015 Proposed Budget, p. 147.
[152] Chicago Public Schools FY2015 Proposed Budget, p. 147.
[153] Chicago Teachers' Pension Fund Comprehensive Annual Financial Report, FY2016, p. 93 and FY2015, p. 92.
[154] Chicago Teachers' Pension Fund Comprehensive Annual Financial Report, FY2016, p. 93 and FY2015, p. 92.

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.[155] 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.[156] It also delayed the year that the pension fund must reach a 90.0% funded ratio from 2045 to the end of 2059.

Prior to the passage of P.A. 96-0889, the CPS required contribution for FY2011 was calculated to be $586.9 million, or almost double the FY2010 amount. P.A. 96-0889 reduced CPS's required FY2011 contribution to $187.0 million, which was approximately $158.0 million, or 45.8%, less than the prior year's contribution.[157] 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.[158] However, the FY2018 required Board of Education contribution will be reduced from $760.2 million to $540.2 million if the Illinois General Assembly overrides the Governor's amendatory veto and implements the enrolled version of Senate Bill 1 that includes a $221 million contribution to the CTPF for employer normal costs and retiree healthcare. Until 2017, CPS made its employer contribution to the funds at the end of its fiscal year, in June. However, CPS only made a partial payment of $464 million to the fund on June 30, 2017 and was expected to pay the remaining $250 million balance with the proceeds from a property tax increase that will be paid by property owners in Chicago in July and August.[159]

The exhibit below shows actuarial projections of required CPS contributions to the Teachers' Pension Fund from FY2018 to FY2059 based on P.A. 96-0889. This exhibit does not include extra amounts contributed for benefit enhancements. As noted above, the contribution for

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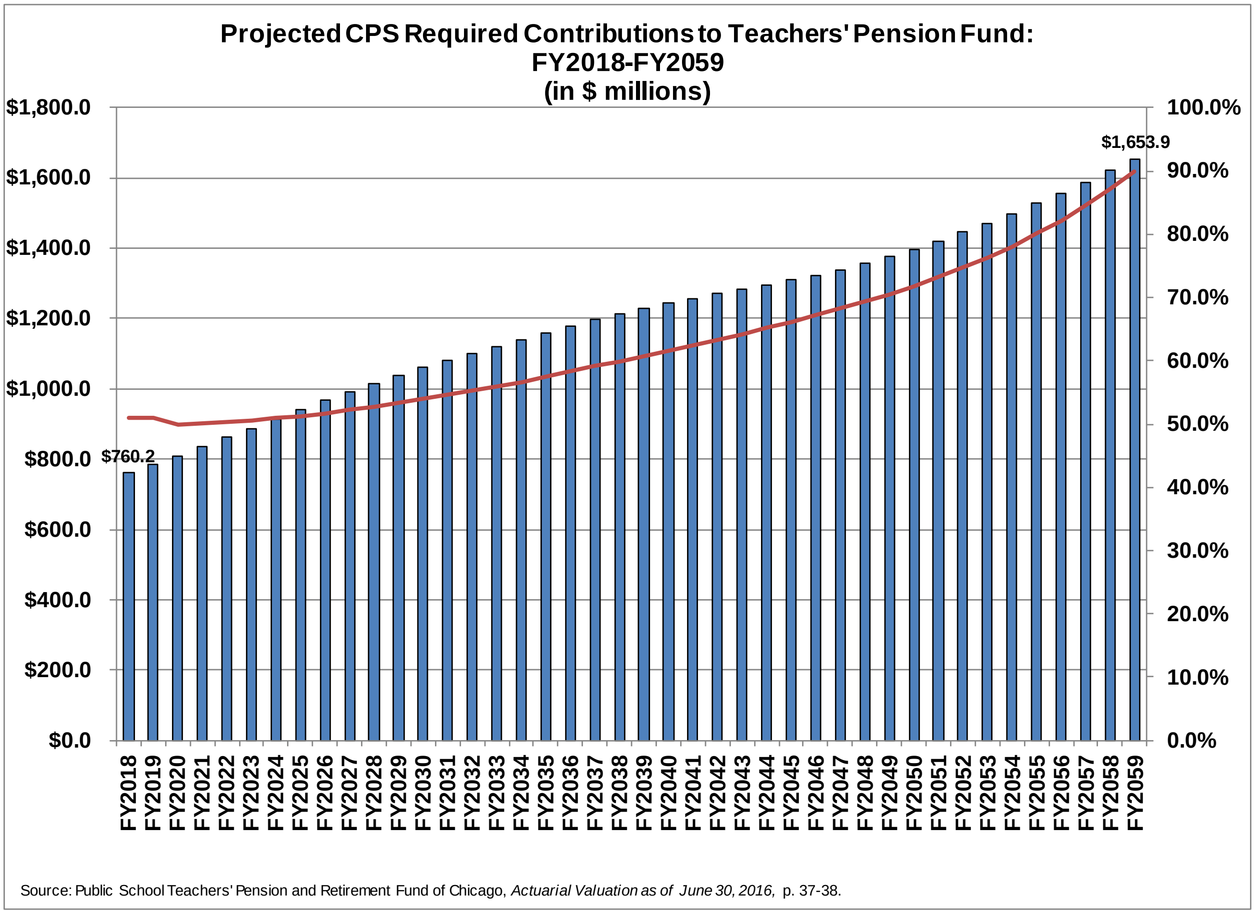
[155] This annual required contribution must be calculated by February 28 each year, per 40 ILCS 5/17-129.
[156] "Normal cost" is an actuarially calculated amount representing that portion of the present value of the pension plan benefits and administrative expenses which is allocated to a given valuation year.
[157] Actuarial projection by Goldstein & Associates for Kevin Huber, Executive Director of the Public School Teachers' Pension and Retirement Fund of Chicago, March 31, 2010. See also Illinois Commission on Government Forecasting and Accountability, *Illinois Public Retirement Systems: A Report on the Financial Condition of the Chicago, Cook County and Illinois Municipal Retirement Fund Systems of Illinois*, November 2010, p. 119.
[158] 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.
[159] Chicago Teachers' Pension Fund, *Current News*, http://www.ctpf.org/current_news/currentindex.htm.

FY2018 and all years going forward will decrease if Senate Bill 1, as enrolled becomes law over the Governor's amendatory veto.



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.

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. Therefore, teachers effectively pay 2.0% of their annual salary toward their pensions. The District's FY2018 cost for the 7.0% employee pick-up is approximately $111.4 million and is part of the District's budgeted pension appropriation.[160] The 2015-19 Collective Bargaining Agreement with the Chicago Teacher's Union ended the pension pickup for teachers hired on or after January 1, 2017.[161]

[160] CPS FY2018 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 $32.2 million in FY2018.
[161] CPS FY2018 Proposed Budget, p. 42.

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 new section at the end of this chapter will explore the funding and liabilities as calculated for *reporting* purposes under Governmental Accounting Standards Board Statements 67 and 68.

Funded Ratios

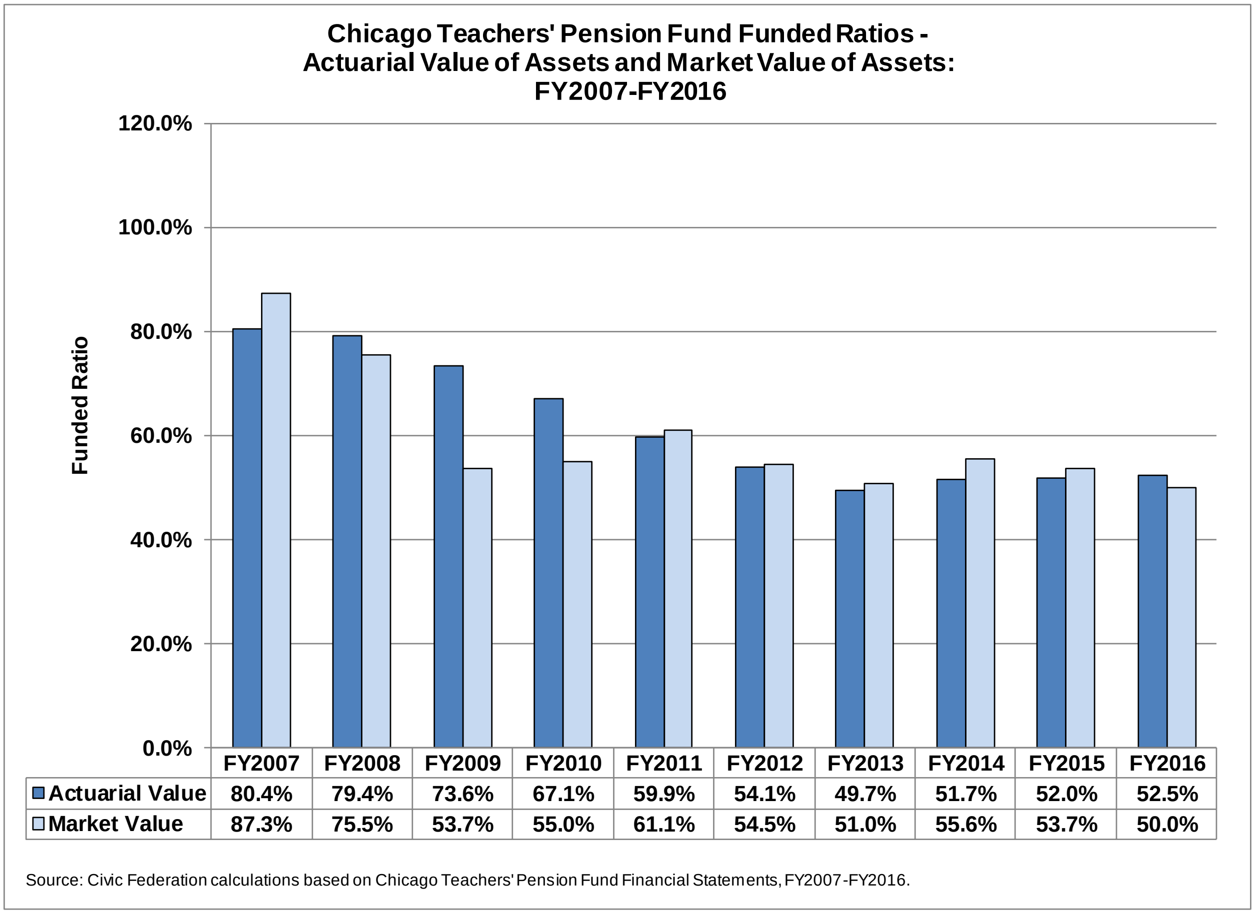
This report uses two measurements of pension plan funded ratio: the actuarial value of assets measurement and the market value of assets measurement. These ratios show the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting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

The actuarial value of assets measurement presents the ratio of assets to liabilities and accounts for assets by recognizing unexpected gains and losses over a period of three to five years.[162] 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 80.4% funded on an actuarial value basis in FY2007, and this funded ratio fell to 49.7% in FY2013 before rising in FY2015 to 52.5%. The market value funded ratio fell from 87.3% in FY2007 to 53.7% in FY2009 and

[162] For more detail on the actuarial value of assets, see Civic Federation, Status of Local Pension Funding FY2012, October 2, 2014, https://www.civicfed.org/sites/default/files/StatusOfLocalPensionFundingFY2012.pdf The Chicago Teachers' Pension Fund smoothes returns over four years.

recovered to 61.1% in FY2011 before fluctuating over the next several years and eventually falling to 50.0% in FY2016.

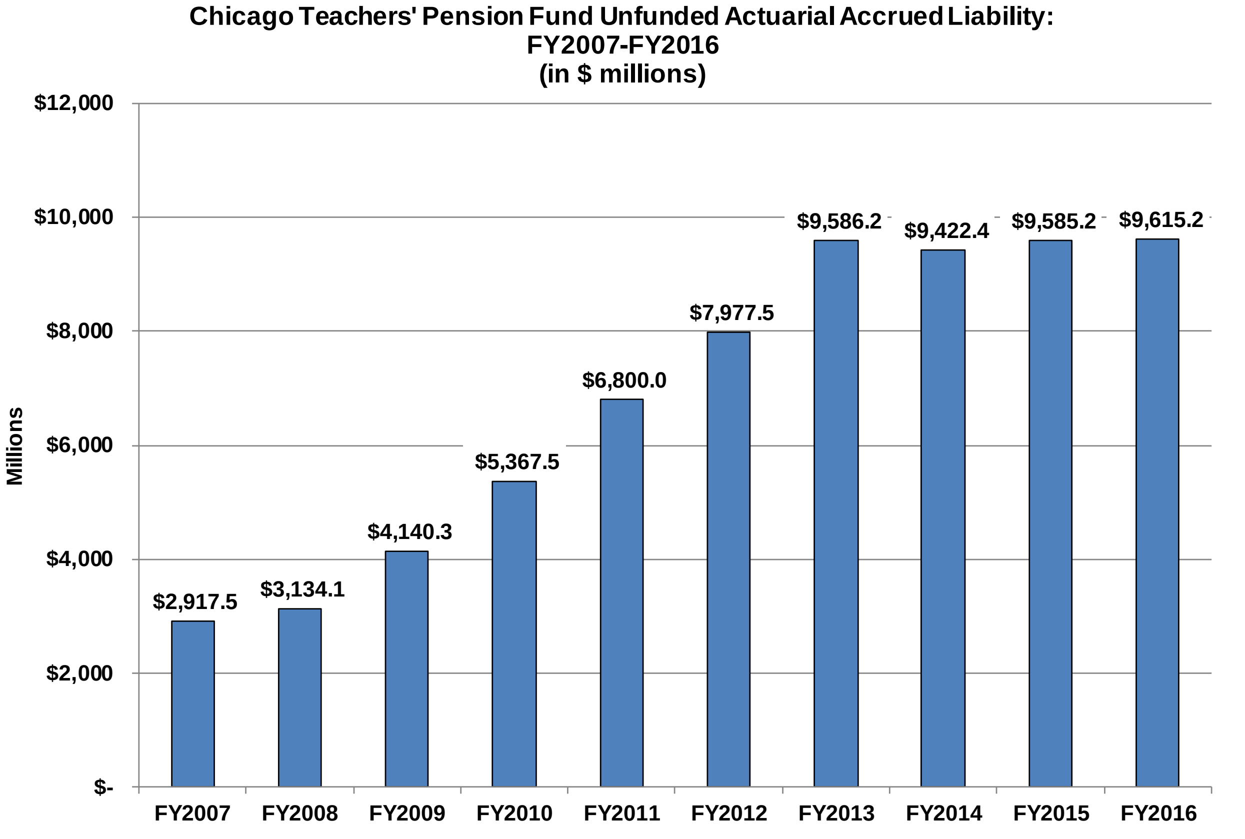


Unfunded Actuarial Accrued Liability

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 $2.9 billion in FY2007. Since FY2007 unfunded liabilities have increased by 229.6%, rising to $9.6 billion in ten years. In just one year, from FY2012 to FY2013, unfunded liabilities grew by $1.6 billion. The significant increase in FY2013 despite higher than expected investment returns (see next section) is due to changes in the actuarial assumptions of the fund. The changes increased the fund's unfunded actuarial accrued liability by more than $1.0 billion compared to what the UAAL would have been without the assumption changes. If the changes had not been made, the UAAL for the CTPF in FY2013 would have been nearly $8.6 billion.[163]

[163] Chicago Teachers' Pension Fund FY2013 GASB 25 Actuarial Valuation, p. iv and FY2013 Statutory Actuarial Valuation, p. iv. Civic Federation calculation.

The UAAL increased in FY2016 from FY2015, mostly due to insufficient employer contributions.[164]



Source: Chicago Teachers' Pension Fund Financial Statements, FY2007-FY2016.

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 FY2007 to FY2016. 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.[165] This deficiency in employer contributions added $3.1 billion to the unfunded liability between FY2007 and FY2016.

Over the past 10 years the second largest contributor to the unfunded liability is a shortfall in investment returns compared to expectations. The Fund's annual actuarial valuation smoothes the investment gains and losses over a period of four years, such that even if a single year's market rate of return exceeds the assumption, the four-year smoothed return may not. This was the case in FY2011, when the market value rate of return was 24.7%, but the four-year smoothed return was -0.5%, reflecting losses in FY2008 and FY2009. Conversely, in FY2014 the market

[164] Public School Teachers' Pension and Retirement Fund of Chicago Statutorily Required Funding Valuation as of June 30, 2016, p. 26.
[165] Total increase in unfunded liability includes increase in FY2007 over FY2006, included in the first line of the chart below.

value rate of return reported in the actuarial valuation was 3.6%, far below the 7.75% assumption, and the smoothed rate of return was 8.2% because high returns in FY2013 and FY2014 were still being incorporated.[166] However, over the ten-year period, the failure of investment returns to meet the 8.0% or 7.75% assumption added $2.0 billion to the unfunded liability.

Chicago Teachers' Pension Fund Reasons for Change in Unfunded Actuarial Accrued Liability: FY2007-FY2016

	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
FY2007	$ 264,371,299	$ (563,871,066)	$ 12,680,902	$ -	$ -	$ 69,273,370	**$ (217,545,495)**
FY2008	$ 181,412,779	$ 14,768,502	$ 168,853,909	$ -	$ (386,588,901)	$ 240,804,331	**$ 219,250,620**
FY2009	$ 154,901,393	$ 923,403,137	$ 12,964,057	$ -	$ -	$ (40,308,708)	**$ 1,050,959,879**
FY2010	$ 146,648,566	$ 941,589,095	$ (118,648,048)	$ -	$ -	$ 257,585,304	**$ 1,227,174,917**
FY2011	$ 393,912,145	$ 896,407,893	$ (25,480,115)	$ -	$ -	$ 167,678,088	**$ 1,432,518,011**
FY2012	$ 532,383,133	$ 685,743,831	*	$ -	$ -	$ (40,655,176)	**$ 1,177,471,788**
FY2013	$ 621,672,350	$ (281,738,207)	*	$ -	$ 1,021,937,507	$ 246,886,533	**$ 1,608,758,183**
FY2014	$ 319,107,731	$ (454,691,436)	*	$ -	$ -	$ (28,259,604)	**$ (163,843,309)**
FY2015	$ 241,161,140	$ (45,212,951)	*	$ -	$ -	$ (33,120,109)	**$ 162,828,080**
FY2016	$ 260,150,252	$ (81,129,490)	*	$ -	$ -	$ (149,058,710)	**$ 29,962,052**
10-Year Total	**$ 3,115,720,788**	**$ 2,035,269,308**	**$ 50,370,705**	**$ -**	**$ 635,348,606**	**$ 690,825,319**	**$ 6,527,534,726**

* Change in UAAL due to salary assumptions no longer supplied separately with change in actuary in FY2012. Salary assumptions combined with Other in FY2012 and after.

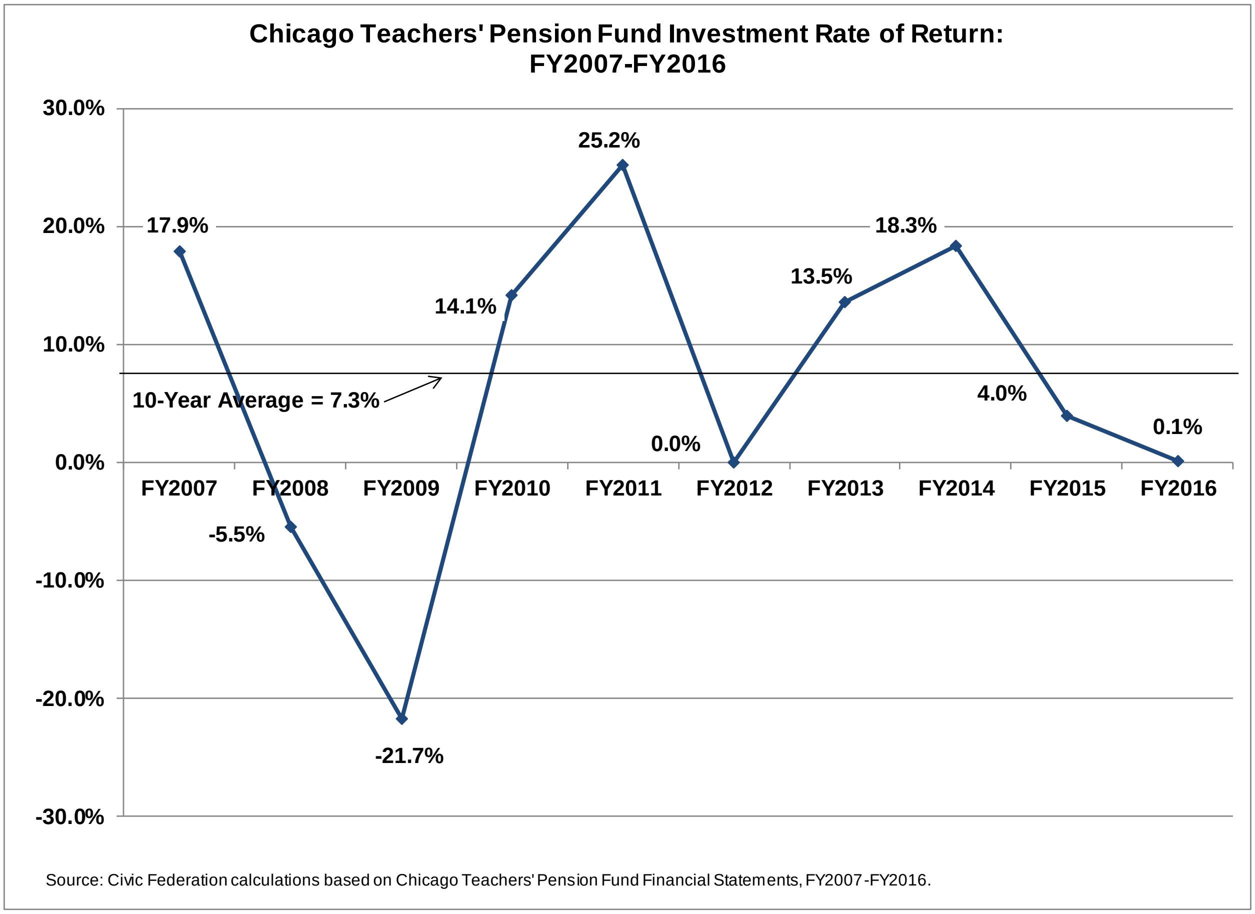
Source: Chicago Teachers' Pension Fund, Actuarial Valuations, FY2007-FY2016.

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 FY2007 and FY2016, the Chicago Teachers' Pension Fund average annual rate of return was

166 Chicago Teachers' Pension Fund FY2014 Statutory Actuarial Valuation, p. 6.

7.3%.[167] This is below the fund's assumed rate of return of 7.75%. Returns ranged from a high of 25.2% in FY2011 to a low of -21.7% in FY2009.



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

In 2012 the Governmental Accounting Standards Board (GASB) issued new accounting and financial reporting standards for public pension plans and for governments, Statements 67 and 68. According to GASB, the new standards were intended to "improve the way state and local governments report their pension liabilities and expenses, resulting in a more faithful representation of the full impact of these obligations."[168] Among other disclosures, pension funds and governments are now required to report total pension liability, fiduciary net position, net pension liability, pension expense and actuarially determined contribution (ADC), which are

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[167] 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.

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

calculated on a different basis from previous GASB 25 and 27 pension disclosure requirements. Both pension funds and governments must also disclose additional information about pensions in the notes to the financial statements and in required supplementary information sections. It is important to note that GASB intended to separate pension reporting from pension funding. Thus, the numbers reported according to GASB 67 and 68 standards are not used to determine how much a government must contribute to its pensions. They are a reporting, NOT a funding requirement. Chicago Public Schools and other governments will continue to use traditional public pension accounting methods to determine funding requirements. However, as the GASB 67 and 68 numbers can provide important new ways to understand a fund's sustainability, the Federation will address them here.

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

The total pension liability, fiduciary net position, net pension liability and ADC[169] 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. 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 not projected to reach the crossover point, so its GASB 67 and 68 reporting is discounted at the full 7.75% assumed rate of return.

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

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

basis under previous reporting requirements. CTPF still uses smoothed actuarial value of assets to determine statutory employer contribution requirements.

Net Pension Liability – This number is similar in concept to the unfunded actuarial accrued liability, but again is NOT the same. It is the difference between the Total Pension Liability and the Fiduciary Net Position of the fund. Governments are required to report the Net Pension Liability in their Statements of Net Position in their financial statements, according to GASB 68.

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

Difference between the ADC and ARC

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

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

	ADC (FY2014 and After)	ARC (FY2013 and Earlier)
Amortization Period	30-year closed (27 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	7.75%	7.75%

Source: Chicago Teachers' Pension Fund FY2016 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. In contrast to other Chicago-area governments, CTPF's pension liability reporting under GASB 67 and 68 is not significantly different from its statutorily reported numbers calculated on an actuarial basis. The reason is that projected assets are forecast to be sufficient to cover projected benefit payments and therefore the full expected rate of return on assets can be used as a discount rate. Other local governments have been projected to reach such a crossover point beyond which projected benefit payments will exceed assets and therefore must use a lower discount rate, which results in higher present values for liabilities and net pension liabilities.[170]

Chicago Teachers' Pension Fund GASB 67 Reporting FY2013-FY2016

	Total Pension Liability	Fiduciary Net Position	Net Pension Liability	Fiduciary Net Position as a Percentage of Total Pension Liability	Actuarially Determined Contribution
FY2013	$ 19,795,922,569	$ 9,674,188,563	$ 10,121,734,006	48.87%	
FY2014	$ 20,316,899,952	$ 10,815,694,614	$ 9,501,205,338	53.23%	$ 719,781,746
FY2015	$ 20,713,217,296	$ 10,689,954,320	$ 10,023,262,976	51.61%	$ 728,488,520
FY2016	$ 21,124,697,012	$ 10,093,067,588	$ 11,031,629,424	47.78%	$ 749,796,517
Four-Year Change	**$ 1,328,774,443**	**$ 418,879,025**	**$ 909,895,418**		**$ 30,014,771**
Four-Year % Change	**6.71%**	**4.33%**	**8.99%**		**4.17%**

Source: FY2014, FY2015 and FY2016 Chicago Teachers' Pension Fund Actuarial Valuations. 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). It is important to note that these benefits are funded by the retirement system, not by CPS.

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

[170] 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.[171]

In FY2016 a total of 18,063 retirees and beneficiaries received health insurance benefits. There were also 5,715 terminated employees who may be entitled to OPEB benefits but are not yet receiving them and 10,235 retirees and beneficiaries entitled to benefits but not currently receiving them.[172] The Illinois Pension Code limits total annual payments paid by the pension fund's Board of Trustees to $65.0 million per year plus amounts authorized in previous years but not spent.[173] In FY2016 the Teachers' Pension Fund spent $66.7 million on OPEB.[174]

The following exhibit shows the extent to which the aggregate cost of the CTPF's health insurance subsidy has increased over the past decade. From FY2007 to FY2016, insurance premium rebates paid to beneficiaries increased by 9.2%, or $5.6 million. The health insurance rebate has represented approximately 4.7% to 7.5% of total pension and OPEB benefit expenditures over the ten-year period.

Paid to Retired CPS Teachers: FY2007-FY2016

	Health Insurance Rebate Paid	% Change over Previous Year
FY2007	$ 61,028,841	--
FY2008	$ 68,691,191	12.6%
FY2009	$ 75,811,835	10.4%
FY2010	$ 79,953,873	5.5%
FY2011	$ 78,892,292	-1.3%
FY2012	$ 69,011,323	-12.5%
FY2013	$ 71,763,523	4.0%
FY2014	$ 72,874,594	1.5%
FY2015	$ 79,316,153	8.8%
FY2016	$ 66,673,226	-15.9%
Ten-Year Change	**$ 5,644,385**	**9.2%**

Source: Chicago Teachers' Pension Fund, Comprehensive Annual Financial Report FY2016, p. 147-148.

The following exhibit shows the funded status of the teachers' OPEB plan. The total actuarial liability fluctuated over the ten-year period from FY2007 to FY2016. The liability was $2.0 billion in FY2007, rose to $3.1 billion in FY2012, and fell over the next three years to $1.9 billion in FY2015 before rising again in FY2016 to $2.2 billion. Assets as a percentage of the actuarial liability were 2.3% in FY2006 and 0.9% in FY2016. The actuarial assumptions used in

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[171] 40 ILCS 17-142.1.
[172] Chicago Teachers' Pension Fund FY2016 Comprehensive Annual Financial Report, p. 132.
[173] 40 ILCS 17-142.1.
[174] Chicago Teachers' Pension Fund, FY2016 Comprehensive Annual Financial Report, p. 147.

the FY2016 valuation included a 3.5% discount rate and an annual healthcare cost trend rate that is projected to decline gradually from 7.75% to 4.5% over eight years.[175]

Funded Status of the Chicago Public Schools Pension Fund Other Post Employment Benefit (OPEB) Plan: FY2007-FY2016				
	Total Actuarial Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Assets as a % of Actuarial Liability
FY2007	$ 2,022,007,643	$ 47,401,758	$ 1,974,605,885	2.3%
FY2008	$ 2,407,122,492	$ 44,989,385	$ 2,362,133,107	1.9%
FY2009	$ 2,670,282,662	$ 49,691,750	$ 2,620,590,912	1.9%
FY2010	$ 2,864,877,305	$ 34,857,732	$ 2,830,019,573	1.2%
FY2011	$ 3,071,516,739	$ 31,324,572	$ 3,040,192,167	1.0%
FY2012	$ 3,110,316,263	$ 34,124,958	$ 3,076,191,305	1.1%
FY2013	$ 2,386,105,927	$ 35,796,904	$ 2,350,309,023	1.5%
FY2014	$ 1,938,855,895	$ 35,977,444	$ 1,902,878,451	1.9%
FY2015	$ 1,910,991,991	$ 21,713,159	$ 1,889,278,832	1.1%
FY2016	$ 2,222,546,319	$ 20,229,722	$ 2,202,316,597	0.9%

Source: Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation and Review as of June 30, 2016, p. 60.

LIABILITIES

This section of the analysis provides an overview of the short-term and long-term liabilities of Chicago Public Schools.

Short-Term Liabilities

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

- *Accounts payable*: monies owed to vendors or employees for goods and services;
- *Accrued payroll and benefits*: employee pay and benefits carried over from previous years;
- *Amounts held for student activities*: deposits held in custody or funds that belong to individual school accounts; and
- *Line of credit*: Funds borrowed at year-end to make required pension payments.[176]
- *Tax Anticipation Notes*: During FY 2016, the Board closed on five series of 2015 Educational Purposes Tax Anticipation Notes (TANs) with a total capacity of $1.065 billion for working capital purposes. Each of the TANs were backed by the Board’s 2015

[175] Chicago Teachers’ Pension Fund FY2016 CAFR, p. 133.
[176] Chicago Public Schools FY2015 Comprehensive Annual Financial Report, p. 16.

Education Property Tax Levy collected in two installments in 2016. As of June 30, 2016, a total of $870 million in 2015 Tax Anticipation Notes were outstanding.[177]

In the five-year period between FY2012 and FY2016, total short-term liabilities increased by 52.6% or $488.3 million. Much of the increase was due to the remaining $870.0 million short-term Tax Anticipation Notes CPS issued that were backed by the District's education property tax levy and was still outstanding as of June 30, 2016. During the same period, accounts payable declined by 27.5% or $136.1 million and accrued payroll and benefits fell by 63.8% or $255.1 million.

Between FY2015 and FY2016 all short-term liabilities rose by 18.8%, or $223.8 million, rising from $928.2 million to $1.4 billion. In this period, accounts payable increased by 16.5% or $50.6 million. However, here too, most of the increase was due to the $870.0 million short-term Tax Anticipation Notes that were still outstanding at the end of FY2016.

CPS Short-Term Liabilities in the Governmental Funds: FY2012 - FY2016
(in $ thousands)

	FY2012	FY2013	FY2014	FY2015	FY2016	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Accounts Payable	$ 494,371	$ 421,491	$ 317,488	$ 307,675	$ 358,303	$ 50,628	16.5%	$(136,068)	-27.5%
Accrued Payroll & Benefits	$ 399,792	$ 473,189	$ 111,812	$ 144,133	$ 144,686	$ 553	0.4%	$(255,106)	-63.8%
Amount Held for Student Activities	$ 34,026	$ 35,536	$ 38,413	$ 40,888	$ 43,520	$ 2,632	6.4%	$ 9,494	27.9%
Line of Credit	$ -	$ -	$ -	$ 700,000	$ -	$ (700,000)	---	$ -	---
Tax Anticipation Notes	$ -	$ -	$ -	$ -	$ 869,996	$ 869,996	---	$ 869,996	---
Total	**$ 928,189**	**$ 930,216**	**$ 467,713**	**$ 1,192,696**	**$ 1,416,505**	**$ 223,809**	**18.8%**	**$ 488,316**	**52.6%**

Source: CPS Comprehensive Annual Financial Reports, Balance Sheets - Governmental Funds, FY2012 - FY2016.

Short-Term Liabilities as a Percentage of Net Operating Revenues

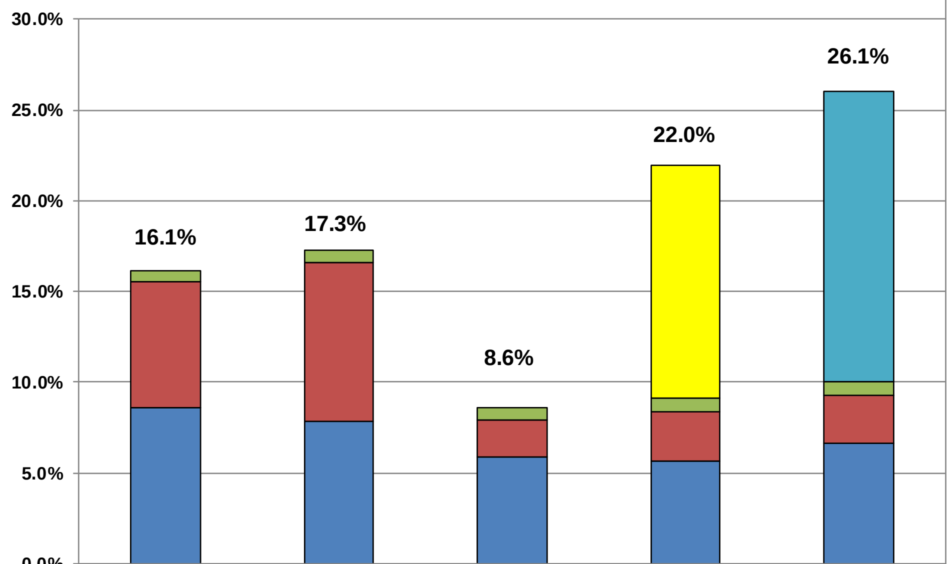
Increasing short-term (current) liabilities at the end of the year in a government's operating funds as a percentage of net operating revenues may be a warning sign of a government's future financial difficulties.[178] This ratio indicator, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending.

The following graph shows the five-year trend in the District's short-term liabilities as a percentage of operating revenues by category. Between FY2012 and FY2016, the ratio rose from 16.1% to 26.1%. The increase is due primarily to the $700.0 million line of credit CPS used in FY2015 at year-end to make pension payments[179] and the $870.0 million in Tax Anticipation Notes still outstanding at the end of FY2016. The increase is a cause for concern as the District

[177] Chicago Public Schools FY2016 Comprehensive Annual Financial Report, pp. 57-58.
[178] 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.
[179] Chicago Public Schools FY2015 Comprehensive Annual Financial Report, p. 16.

has relied on expensive short term borrowing in FY2015 and FY2016 to make operating budget payments. This has a negative impact on the ongoing financial position of the District.

Chicago Public Schools Short Term Liabilities in Governmental Funds as a % of Operating Revenues: FY2012-FY2016



	FY2012	FY2013	FY2014	FY2015	FY2016
Tax Anticipation Notes	0.0%	0.0%	0.0%	0.0%	16.0%
Line of Credit	0.0%	0.0%	0.0%	12.9%	0.0%
Amount Held for Student Activities	0.6%	0.7%	0.7%	0.8%	0.8%
Accrued Payroll	6.9%	8.8%	2.1%	2.7%	2.7%
Accounts Payable	8.6%	7.8%	5.8%	5.7%	6.6%

Source: Chicago Public Schools Comprehesive Annual Financial Reports, FY2012-FY2016.

Short-Term Borrowing

In FY2015, FY2016 and FY2017 CPS relied on short-term borrowing to cover anticipated cash flow difficulties. The District issued a total of $1.55 billion of short-term borrowing during the first half of the FY2017 fiscal year to bridge the gap between revenue collections and expenses.[180] The funds were issued as Tax Anticipation Notes and secured with dedicated property tax revenues.

Additionally, to address liquidity issues caused by delayed State categorical funding payments, CPS issued $387.0 million in short term Grant Anticipation Notes in late June. The notes contain provisions that they can be exchanged for Tax Anticipation Notes if the pledged grants have not

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

been received by January 10, 2018.[181] Interest on the notes is estimated to be a minimum of $7 million.[182]

The District's lack of fund balance and resulting liquidity crisis has a price. The FY2017 Budget planned for up to $35 million in interest on the Tax Anticipation Notes,[183] while the Grant Anticipation Notes were estimated to cost the district at least $7 million for a three month period.[184]

In FY2018 the District plans to issue up to another $1.55 billion in Tax Anticipation Notes at a cost of $79.0 million and has budgeted $18.0 million in interest costs for Grant Anticipation Notes.[185]

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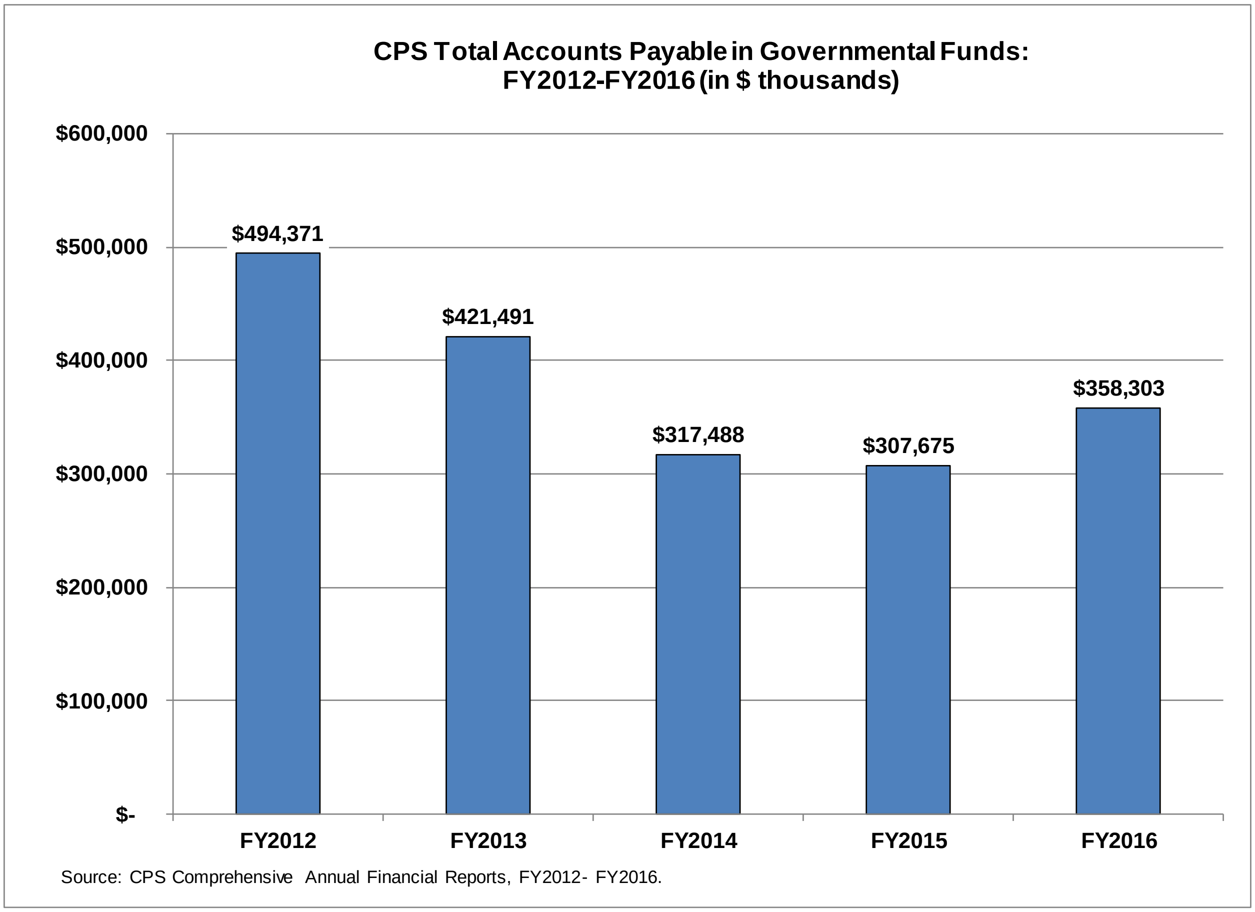
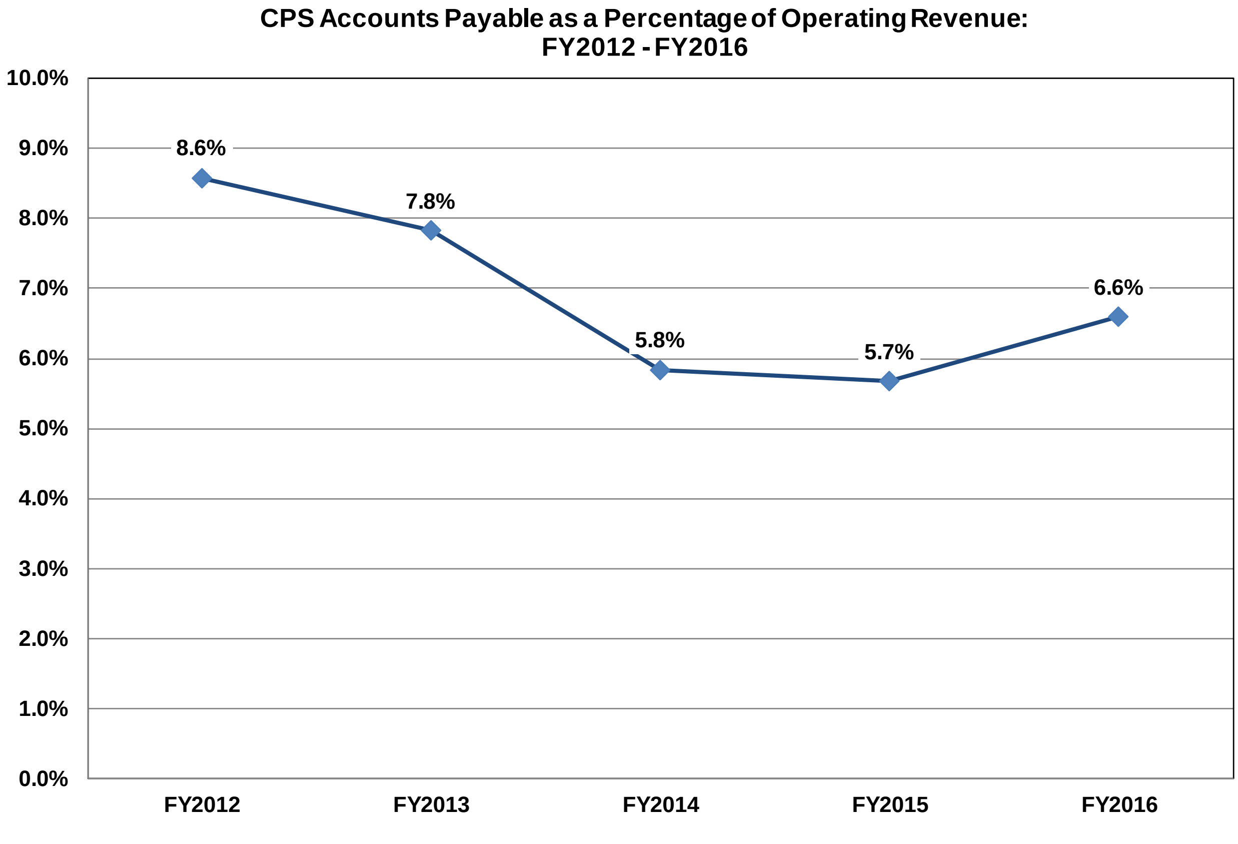
181 Master Trust Indenture Securing Board of Education of the City of Chicago Grant Anticipation Notes, June 1, 2017, p. 21, http://www.cpsboe.org/content/actions/2017_05/17-0524-RS2.pdf (last visited on August 15, 2017).
182 Juan Perez, Jr. and Peter Matuszak, "$70,000 a day in interest — the cost of 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).
183 Chicago Public Schools Amended FY2017 Budget, p. 173.
184 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).
185 FY2018 Chicago Public Schools Budget, p. 187.

Accounts Payable Trends

Rising amounts of accounts payable over time may indicate a government's difficulty in controlling expenses or keeping up with spending pressures. Between FY2012 and FY2016, accounts payable declined by 27.5% or $136.1 million. This was a decrease from $494.4 million to $358.3 million. While the accounts payable increased slightly in FY2016 over FY2015, overall the 5-year decrease was a positive sign.



The District's ratio of accounts payable in the Governmental Funds to operating revenues has decreased from 8.6% in FY2012 to 6.6% in FY2016. This change reflects the $136.1 million decrease in accounts payable over this five-year period. While the ratio did increase slightly between FY2015 and FY2016, overall this is a positive sign.



Source: CPS Comprehensive Annual Financial Reports, FY2012-FY2016.

Current Ratio

The current ratio is a 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.[186] 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

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

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;[187]
- *Cash and investments held in school internal accounts* represent the book balance for checking and investments for individual schools;[188]
- *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.[189]

The CPS current ratio was 1.8 in FY2016, the most recent year for which data are available. This was a sharp 58.6% decline from a ratio of 4.4 in FY2012. The decline was driven by:

- A 52.6% or $488.3 million increase in current liabilities primarily fueled by the inclusion of a $700.0 million line of credit in FY2015 and $870.0 million in yet outstanding tax anticipation borrowing in FY2016; and
- A 36.8%, or $1.5 billion, decline in current assets driven in large part by a $1.4 billion decrease in cash and investments on hand due to the drawdown of fund balance to close budget deficits.

[187] Chicago Public Schools FY2016 Comprehensive Annual Financial Report, p. 46.
[188] Chicago Public Schools FY2016 Comprehensive Annual Financial Report, p. 53.
[189] Chicago Public Schools FY2016 Comprehensive Annual Financial Report, p. 48.

Over the past five years, the District's current ratio averaged 3.8. This is greater than the benchmark of 2.0, which is considered a healthy level of liquidity. However, the continuously falling trend and the act that CPS fell below the 2.0 benchmark in FY2016 is a cause for concern.

CPS Current Ratio in the Governmental Funds: FY2012-FY2016 (in $ thousands)									
	FY2012	FY2013	FY2014	FY2015	FY2016	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Current Assets									
Cash and Investments	$1,470,892	$1,259,273	$ 254,551	$ 166,113	$ 33,915	$ (132,198)	-79.6%	$ (1,436,977)	-97.7%
Cash and Investments in Escrow	$ 649,471	$ 755,025	$ 580,457	$ 508,498	$ 519,099	$ 10,601	2.1%	$ (130,372)	-20.1%
Cash and Investments Held in School Internal Accounts	$ 34,026	$ 35,536	$ 38,413	$ 40,888	$ 43,520	$ 2,632	6.4%	$ 9,494	27.9%
Receivables: Property Taxes, Net	$ 996,968	$1,061,198	$1,064,710	$1,114,780	$ 1,134,583	$ 19,803	1.8%	$ 137,615	13.8%
Receivables: Replacement Taxes	$ 33,182	$ 35,870	$ 31,920	$ 33,183	$ 33,320	$ 137	0.4%	$ 138	0.4%
Receivables: State Aid, Net	$ 613,199	$ 514,760	$ 516,147	$ 600,980	$ 618,190	$ 17,210	2.9%	$ 4,991	0.8%
Receivables: Federal Aid	$ 202,462	$ 291,336	$ 211,090	$ 115,513	$ 115,785	$ 272	0.2%	$ (86,677)	-42.8%
Receivables: Other	$ 40,533	$ 159,492	$ 106,791	$ 58,090	$ 59,730	$ 1,640	2.8%	$ 19,197	47.4%
Other Assets	$ 8,581	$ 5,687	$ 1	$ -	$ -	$ -	---	$ (8,581)	-100.0%
Total Current Assets	**$4,049,314**	**$4,118,177**	**$2,804,080**	**$2,638,045**	**$ 2,558,142**	**$ (79,903)**	**-3.0%**	**$ (1,491,172)**	**-36.8%**
Current Liabilities									
Accounts Payable	$ 494,371	$ 421,491	$ 317,488	$ 307,675	$ 358,303	$ 50,628	16.5%	$ (136,068)	-27.5%
Accrued Payroll & Benefits	$ 399,792	$ 473,189	$ 111,812	$ 144,133	$ 144,686	$ 553	0.4%	$ (255,106)	-63.8%
Amount Held for Student Activities	$ 34,026	$ 35,536	$ 38,413	$ 40,888	$ 43,520	$ 2,632	6.4%	$ 9,494	27.9%
Line of Credit	$ -	$ -	$ -	$ 700,000	$ -	---	---	---	---
Tax Anticipation Notes	$ -	$ -	$ -	$ -	$ 869,996	---	---	---	---
Total Current Liabilities	**$ 928,189**	**$ 930,216**	**$ 467,713**	**$ 1,192,696**	**$ 1,416,505**	**$ 223,809**	**18.8%**	**$ 488,316**	**52.6%**
Current Ratio	**4.4**	**4.4**	**6.0**	**2.2**	**1.8**		**-18.4%**		**-58.6%**

Source: CPS Comprehensive Annual Financial Reports, Balance Sheets - Governmental Funds, FY2012 - FY2016.

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.[190] 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. Eligible employees were able to accumulate a maximum of 325 sick days granted before July 1, 2012. If an employee reached age 65, had a minimum of 20 years of service at the time of resignation or retirement or death, the employee (or surviving dependent in case of employee death) was entitled to receive, as additional cash compensation, all or a portion of her or his accumulated sick leave days. After July 1, 2012, unused sick days at the end of a fiscal year will no longer be carried over to the next fiscal year. Payout of the value of any unused sick days will no longer be 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. These amounts are paid from the General Operating Fund.

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[190] 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 12: Other Benefits and Claims, CPS FY2016 Comprehensive Annual Financial Report, pp. 68-69.

- *Accrued Workers' Compensation Claims, Accrued General and Automobile Claims and Tort Liabilities and Other Claims:* CPS is substantially self-insured and assumes risk of loss as follows:

  CPS maintains commercial excess property insurance for "all risks" of physical loss or damage with limits of $250,000,000 and Boiler and Machinery Insurance with limits of $100,000,000 with the following deductibles:

  - Data Processing Equipment & Media $50,000
  - Mechanical Breakdown $50,000
  - All Other Losses $500,000
- *Net Pension Obligations (NPO):* NPO is the cumulative difference, since the effective date of GASB Statement 27, between the annual pension cost and the employer's contributions to the plan. This includes the pension liability at transition (beginning pension liability) and excludes short-term differences and unpaid contributions that have been converted to pension-related debt. The last year NPO was reported was FY2014.
- *Net Pension Liabilities*: Beginning in FY2015, CPS will report 100% of the Chicago Teachers' Pension Fund's (CTPF) net pension liability in the Statement of Net Position to comply with GASB Statement 68 requirements. Previously, this liability was reported in the Statement of Net Position as a Net Pension Obligation or NPO (see description above). As a result of the reporting change for pensions involved in implementing GASB 68, the amount of CPS long-term liabilities **reported** will increase substantially. This is because it will reflect 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.
- *Net Other Post Employment Benefit (OPEB) Obligation*s: This is the cumulative difference, since the effective date of GASB Statement 45, between the annual OPEB cost and the employer's contributions to its OPEB Plan.[191]

Between FY2012 and FY2016, total CPS long-term liabilities increased by 84.4%, or nearly $8.8 billion, rising from approximately $10.4 billion to $19.2 billion. Most of this increase was due to the change in pension reporting in FY2015 which led to an increase of $7.4 billion in reported pension liability. As noted above, the new pension liability reporting requirements of GASB Statement 68 present a more transparent approach to measuring these liabilities than the previous approach, rather than a one-year large increase in liabilities.

Total other long-term liabilities, which includes accrued sick leave and vacation pay, net pension obligations/net pension liabilities and net OPEB obligations grew by 176.3% or more than $7.9 billion over the five-year period. As noted above, net pension obligations/net pension liabilities

[191] 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.

alone increased by 282.7% or $7.4 billion, while net OPEB obligations grew by 41.9%, rising from approximately $1.3 billion to nearly $1.9 billion.

Total long-term CPS debt increased by $842.6 million, or 14.3%, over the five-year period. CPS long-term debt includes general obligation bonds, leases securing Public Building Commission bonds and capital leases. These liabilities are secured by property tax revenues or State of Illinois school construction grants.

CPS Long-Term Liabilities: FY2012-FY2016
(in $ thousands)

Type of Obligation	FY2012	FY2013	FY2014	FY2015	FY2016	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
General Obligation Bonds*	$ 5,593,686	$ 6,058,398	$ 5,944,516	$ 6,073,049	$ 6,578,983	$ 505,934	8.3%	$ 985,297	17.6%
Leases Securing PBC Bonds	$ 299,780	$ 267,330	$ 232,940	$ 196,470	$ 157,780	$ (38,690)	-19.7%	$ (142,000)	-47.4%
Capital Leases	$ 1,925	$ 1,750	$ 1,575	$ 1,400	$ 1,225	$ (175)	-12.5%	$ (700)	-36.4%
Subtotal Long-Term Debt	**$ 5,895,391**	**$ 6,327,478**	**$ 6,179,031**	**$ 6,270,919**	**$ 6,737,988**	**$ 467,069**	**7.4%**	**$ 842,597**	**14.3%**
Accrued Sick Pay Benefits	$ 354,692	$ 365,299	$ 357,321	$ 342,293	$ 311,378	$ (30,915)	-9.0%	$ (43,314)	-12.2%
Accrued Vacation Pay Benefits	$ 65,518	$ 69,853	$ 60,992	$ 59,044	$ 51,260	$ (7,784)	-13.2%	$ (14,258)	-21.8%
Accrued Workers' Compensation Claims	$ 115,296	$ 114,268	$ 129,280	$ 132,699	$ 114,891	$ (17,808)	-13.4%	$ (405)	-0.4%
Accrued General and Automobile Claims	$ 5,398	$ 5,808	$ 6,218	$ 8,212	$ 13,508	$ 5,296	64.5%	$ 8,110	150.2%
Tort Liabilities and Other Claims	$ 2,000	$ 3,278	$ 10,778	$ 21,578	$ 17,700	$ (3,878)	-18.0%	$ 15,700	785.0%
Net Pension Obligation/Net Pension Liability**	$ 2,618,836	$ 3,020,049	$ 3,190,380	$ 9,501,206	$10,023,263	$ 522,057	5.5%	$ 7,404,427	282.7%
Net OPEB Obligation	$ 1,335,928	$ 1,536,593	$ 1,680,247	$ 1,789,441	$ 1,895,045	$ 105,604	5.9%	$ 559,117	41.9%
Subtotal Other Long-Term Liabilities	**$ 4,497,668**	**$ 5,115,148**	**$ 5,435,216**	**$ 11,854,473**	**$12,427,045**	**$ 572,572**	**4.8%**	**$ 7,929,377**	**176.3%**
Grand Total Long-Term Liabilities	**$ 10,393,059**	**$ 11,442,626**	**$ 11,614,247**	**$ 18,125,392**	**$19,165,033**	**$ 1,039,641**	**5.7%**	**$ 8,771,974**	**84.4%**

* Outstanding principal.
** Beginning in FY2015, Governments will report 100% of their net pension liabilities rather than the net pension obligations.

Beginning in FY2013, CPS includes information about accumulated resources restricted to repaying the principal of outstanding general obligation debt. These amounts are subtracted from the total CPS GO debt in order to calculate a net total primary amount. For years prior to FY2013, total outstanding GO debt per capita is total debt divided by population. In FY2013 and succeeding years, the per capita ratio is the net total GO debt divided by population. See the FY2014 CPS Comprehensive Annual Financial Report, p. 138.
Source: CPS Comprehensive Annual Financial Reports, Notes 8, 9, 11 and 12, FY2012-FY2016.

CPS Long-Term Debt

CPS has an enormous physical plant, with 652 schools and a downtown administrative headquarters that must be maintained.[192] To finance maintenance, rehabilitation and construction of the physical plant, CPS borrows funds by issuing long-term bonds.[193] Principal and interest costs are retired by annual debt service payments and funded by property taxes and other revenues. As these capital projects are expensive and utilized for public purposes over a period of decades, it is reasonable to spread the cost of funding them over the life of the project with borrowing. In that way, everyone benefiting from the projects helps pay for them, assuring intergenerational equity. This is in contrast to annual operations, which are financed from revenues on an annual or pay-as-you-go basis. At the end of FY2017 (June 30, 2017), CPS had $7.3 billion of outstanding long-term debt and $1.3 billion of outstanding short-term debt.[194]

[192] CPS Stats and Facts at http://www.cps.edu/About_CPS/At-a-glance/Pages/Stats_and_facts.aspx.
[193] They also pay for some capital costs from annual cash receipts on a pay-as-you-go basis, but large projects are typically paid for through borrowing.
[194] Chicago Public Schools FY2018 Budget, p. 172.

Financing CPS Debt

CPS long-term debt for capital and operating purposes consists of general obligation bonds, leases securing Public Building Commission (PBC) bonds, asbestos abatement loans, capital leases and notes payable. Debt service payments are made from a variety of resources, including:

- State Aid is the most significant source of funding for CPS debt issues. It includes: 1) General State Aid funds; and 2) State School Construction funds administered through the Illinois Capital Development Board;
- Property tax revenues provided to CPS from the City. There is an intergovernmental agreement between the City of Chicago and CPS through which the City levies taxes to pay for some of the school district's capital needs. The intergovernmental agreement was approved on October 1, 1997 and has been used to fund and refund several bond issuances.[195] These revenues are not listed as a line item in the City budget revenue estimates;[196]
- An additional Capital Improvement CPS property tax levy the City of Chicago approved for CPS as of 2016. In October 2015 a new Capital Improvement Tax Levy for CPS was approved and was implemented in the CPS FY2016 budget. The Capital Improvement Tax Levy was created by the Illinois State legislature in 2002, but not previously implemented. The Capital Improvement Tax Levy is outside of CPS's property tax cap limitation and may increase by the rate of inflation in future years. The statute authorizing the Capital Improvement Tax allows the levy to be used for either expenditures on capital projects or to pay for debt service on bonds that are used to finance capital projects; [197]
- Personal property replacement tax revenues distributed by the State of Illinois;
- Federal aid; and
- One-time local revenues from sources such as the District's share of tax increment financing (TIF) surpluses declared by the City of Chicago or revenues accruing to CPS upon the dissolution of a City of Chicago TIF district.

CPS Debt Crisis

CPS faces fiscal difficulties related to its outstanding debt burden and its risky financial practices. These include:

- Increasing amounts of outstanding long-term debt at the same time CPS faces multiple serious financial challenges;
- A rising debt burden on taxpayers;
- The use of costly scoop-and-toss financing that backloads debt service payments;

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[195] According to the debt service schedule for bonds covered by this intergovernmental agreement, City of Chicago payments for school bonds increased from $18.8 million in 2008 to $91.0 million in 2009 and will remain at $91.0 million annually through 2018. The intergovernmental agreement is not mentioned in the City's budget documents. See Board of Education of the City of Chicago Unlimited Tax General Obligation Refunding Bond Official Statement, Series 2007A, p. 2, available at http://emma.msrb.org/MS263138-MS238446-MD465315.pdf. See also Chicago Public Schools Comprehensive Annual Financial Report for the Year Ended June 30, 2008, pp. 57, 58, 155.
[196] City of Chicago, FY2016 Budget Recommendations, pp. 132-138.
[197] CPS FY2016 Comprehensive Annual Financial Report, pp. 81-82.

- The costly termination of interest rate swap agreements;
- Increasing amounts of short-term borrowing due to a liquidity crisis; and
- Bond credit ratings well below investment grade

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. The interest rate was an increase from the previous week when CPS had offered 25-year bonds at 7.75% interest before pulling the deals off the market.[198] CPS stated the bond sale was necessary to provide sufficient liquidity to operate the schools through the end of FY2016. The District noted in a press release that:[199]

- CPS would make its February 15 debt service payments;
- These bonds would largely reimburse the operating fund for expenses that the District had already paid, including capital expenses;
- The bonds include $206 million of debt restructuring to provide immediate budgetary relief in FY2016;
- CPS would postpone its plan to convert variable-rate debt to fixed-rate debt; and
- CPS would postpone reimbursing the general operating fund for some of the swap termination fees.

Increasing Long-Term Debt at Same Time CPS Faces Multiple Financial Pressures

General obligation debt is the largest component of the District's long-term debt portfolio, averaging 93.7% of total long-term debt issued from FY2007 to FY2016. Other forms of long-term debt issued by the District include leases securing Public Building Commission bonds and capital leases. General obligation debt is guaranteed by property taxes and is backed by the full faith and credit of the District.

CPS general obligation debt increased by 60.8%, or nearly $2.5 billion, between FY2007 and FY2016. This represents an increase from $4.1 billion to $6.6 billion.[200] General obligation debt fell slightly in FY2014 from the previous year by $113.8 million or 1.9%. However, it rose in FY2015 to $6.1 billion due to the issuance of $200.0 million in additional capital purpose bonds. CPS had also authorized the issuance of $1.16 billion in additional general obligation bonds for FY2016.

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[198] Heather Gillers. "CPS borrows at steep interest rate," *Chicago Tribune*, February 4, 2016.
[199] Chicago Public Schools. CPS Statement on Today's Bond Sale, February 3, 2016 at http://cps.edu/News/Press_releases/Pages/PR1_02_03_16.aspx.
[200] Beginning in 2013, CPS included information in its CAFR about accumulated resources that are restricted to paying the principal of outstanding general bonded debt. These accumulated resources will be subtracted from the total primary government amount in order to calculate a net total primary government amount. For all years prior to FY2013, total net outstanding debt per capita reported in the CAFR is the total primary government amount divided by population. CPS FY2015 Comprehensive Annual Financial Report, p. 146.

Despite concerns about continued market access after the troubled borrowing in FY2016,[201] CPS managed to continue to issue debt throughout FY2017. In July 2016 the District sold $150 million through a private placement with J.P. Morgan Chase Bank.[202] This issuance allowed the district to reimburse its operating fund for capital expenses that occurred while access to the market was lacking.[203]

In December 2016 CPS issued $729.6 million for capital projects backed by a new credit, the capital improvement tax authorized in 2015 by the City of Chicago on behalf of CPS.[204] The investment-grade credit sold at yields between 5.95% and 6.10%, significantly lower than previous CPS offerings.[205]

By July 2017, CPS was able to return to the market with its traditional pledge of State Aid revenues. The $500 million 2017AB offering funded $30.9 million of capital projects, reimbursed the District for $228.7 million in swap termination fees incurred in prior fiscal years, and restructured $200 million in existing debt for budgetary relief (the expensive practice known as "scoop-and-toss").[206]

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

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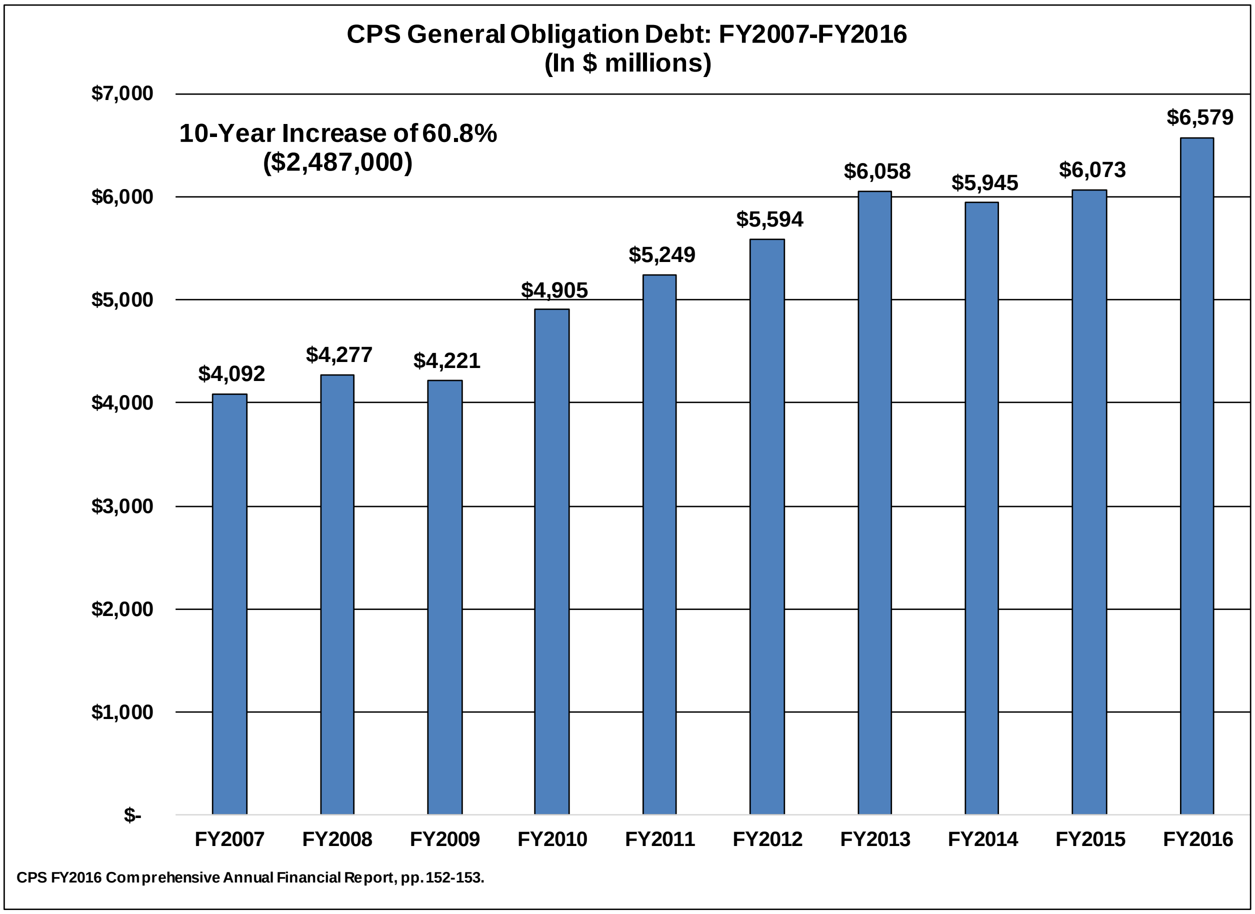
[201] Heather Gillers. "CPS borrows $725 million at extraordinarily high interest rate," *Chicago Tribune*, February 3, 2016 at http://www.chicagotribune.com/news/local/breaking/ct-chicago-public-schools-bonds-0204-20160203-story.html.
[202] *Official Statement, Series 2016B*, Board of Education of the City of Chicago, September 1, 2016, p. 86.
[203] *Official Statement, Series 2016B*, Board of Education of the City of Chicago, September 1, 2016, p. 27.
[204] *Official Statement, Capital Improvement Tax Bonds Series 2016*, Board of Education of the City of Chicago, December 15, 2016, p. 4.
[205] *Official Statement, Capital Improvement Tax Bonds Series 2016*, Board of Education of the City of Chicago, December 15, 2016, p. i.
[206] *Official Statement, Series 2017AB*, Board of Education of the City of Chicago, July 2017, p. 32.

CPS because the District also faces serious and continuing challenges in meeting its rising expenditures in areas such as personnel and retirement costs.



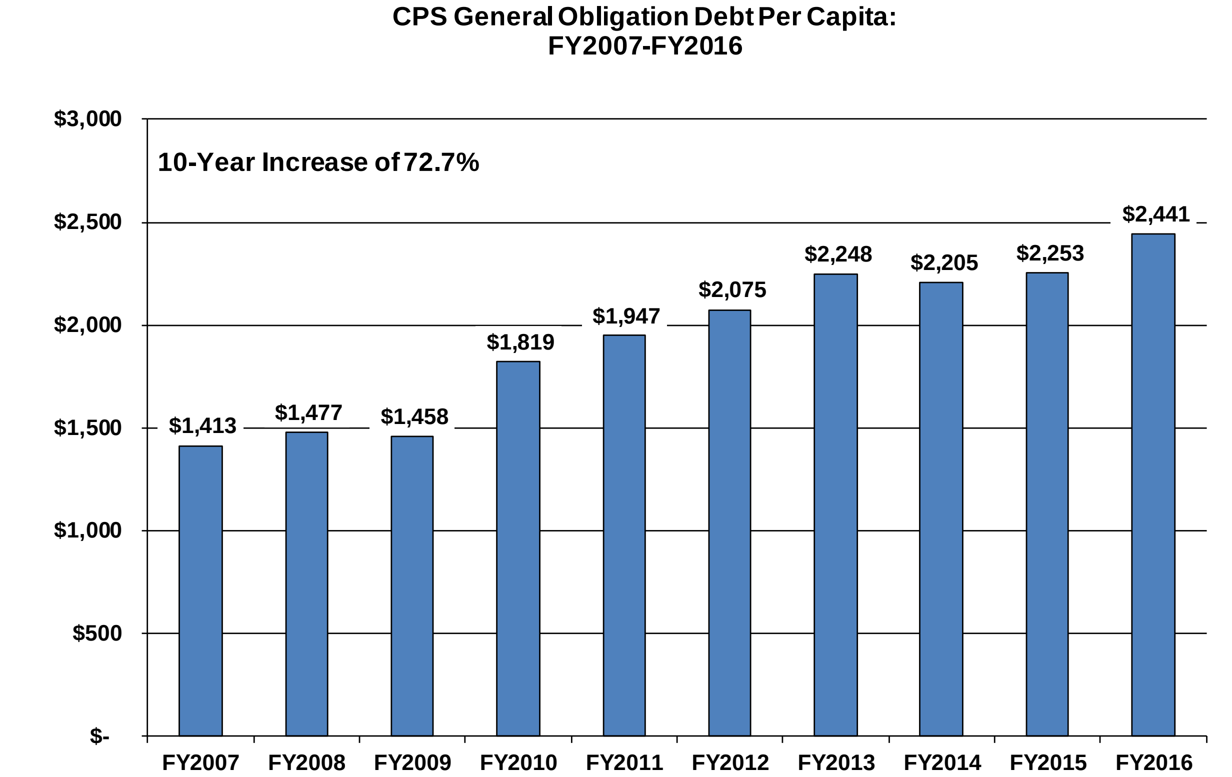
Rising Debt Burden on Taxpayers

A commonly used measure of the debt burden on citizens is general obligation debt per capita. This indicator divides CPS general obligation debt per year 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 72.7% between FY2007 and FY2016, rising from $1,413 to $2,441. The increase reflects a significant increase in direct debt, but is not the same as the dollar percentage increase over time for general obligation debt because the City's population has **decreased** by 6.9% over the time period, falling from 2,896,016 to 2,695,598.[207] Between FY2013 and FY2014, CPS general obligation debt per

[207] CPS FY2015 Comprehensive Annual Financial Report, p. 147.

capita declined slightly by 1.9% from $2,248 to $2,205. However, it rose to $2,253 in FY2015 and again to $2,441 in FY2016.[208]



Source: CPS FY2016 Comprehensive Annual Financial Report, pp. 152-153..

The very large increase in debt burden over time is a cause of concern because pension funding challenges of the City of Chicago, which has coterminous boundaries with CPS, required that government to significantly raise its property tax levy in 2016 by 51.4% to $1.26 billion. Other overlapping governments such as the Metropolitan Water Reclamation District have also increased property taxes in the same period. Additionally, Chicago Public Schools began to levy its new capital improvement tax in 2015 and $250 million for pensions in tax year 2016. Therefore taxpayers' total per capita property tax burden in 2018 will rise dramatically for residents and businesses located in the City of Chicago.

Costly Termination of Interest Rate Swap Agreements

Between 2003 and 2007, CPS issued approximately $1 billion worth of auction rate securities. Most of these were paired with complex and risky interest rate swaps. Under terms of the swap agreements, CPS was required to maintain investment grade credit ratings. Failure to maintain such ratings would lead to termination of the agreements and the requirement that CPS make penalty payments to the lending institutions.[209]

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[208] CPS FY2016 Comprehensive Annual Financial Report, pp. 152-153.
[209] Dan Mihalopoulos and Lauren Fitzpatrick, *Chicago Sun-Times*, "CPS facing $200 million-plus penalties as bond ratings plunge," March 20, 2015.

In March 2015 Moody's Investors Services, Standard & Poor's and Fitch Ratings downgraded the credit of CPS to below investment grade status. This began to trigger certain defaults, termination events and increases in interest rates for various CPS debt instruments. In response, CPS terminated all ten of its outstanding interest rate swap agreements as of December 3, 2015.[210]

The original total estimated termination value of the swaps was $285 million. CPS was able to reduce the amount by roughly $50 million through negotiations to $234.3 million. That sum was proposed to be paid for with $142.3 million from the District's Stabilization Fund and $86.4 million from the proceeds of Tax Anticipation Notes.[211]

As noted above, by July 2017, CPS was able to return to the market with its traditional pledge of State Aid revenues. The $500 million 2017AB offering funded $30.9 million of capital projects, reimbursed the District for $228.7 million in swap termination fees incurred in prior fiscal years, and restructured $200 million in existing debt for budgetary relief (the expensive practice known as "scoop-and-toss").[212]

Interest Rate Swap Clawbacks

The issuance of variable rate debt with associated derivative instruments is a risky endeavor. Some governments, such as the Cities of Modesto, California and Houston, Texas have successfully negotiated settlements from investment banks after claiming that the banks did not provide sufficient warning about the risks of auction-rate debt. [213]

CPS failed to file such a claim to the Financial Industry Regulatory authority (FINRA), an industry self-regulatory arbitration panel during a six-year eligibility period. It could still seek damages through the Illinois court system, as no deadline applies in that venue.[214] Many have claimed that pursuing litigation to win "clawbacks" or refunds from the investment banks for these bond deals this could be a partial solution to CPS's fiscal problems.

The Civic Federation cannot opine on the possible outcome of litigation intended to claw back previous swaps payments or fees. However, it is important to point out that even if a large portion of the funds paid to the counterparties to these deals was returned, it would not be enough to solve the immediate financial crisis facing the Chicago Public Schools or any other government in a similar situation. It would also likely be a very lengthy process.

[210] *Preliminary Official Statement Dated January 14, 2016*, Board of Education of the City of Chicago, p. 65.
[211] *Preliminary Official Statement Dated January 14, 2016*, Board of Education of the City of Chicago, p. 65.
[212] *Official Statement, Series 2017AB*, Board of Education of the City of Chicago, July 2017, p. 32.
[213] Heather Gillers. *Chicago Tribune*, "Cash-crunched Chicago schools missed chance to file claim against banks," July 14, 2015.
[214] Heather Gillers. *Chicago Tribune*, "Cash-crunched Chicago schools missed chance to file claim against banks," July 14, 2015.

Use of Costly Scoop-and-Toss Financing that Backloads Debt Service Payments

The scoop-and-toss debt financing method involves refunding outstanding bonds to reduce current year payments by pushing off large principal debt payments to future years. This provides budgetary relief in the beginning years as debt service expenses are reduced, but in the long-term it increases the total cost of borrowing.

Despite eliminating scoop-and-toss from its FY2017 budget, CPS again used the practice to provide cash flow and liquidity relief in FY2018. The Series 2017AB included $200 million for scoop-and-toss, and also reimbursed the District for $228.7 million in swap termination fees incurred in prior fiscal years.[215]

Increased Amounts of Short-Term Borrowing Due to Liquidity Crisis

In addition to its pension crisis and structural deficit, CPS is also experiencing a significant liquidity crisis that is the result of both the drawdown of nearly its entire budgetary reserves over the last several budget years and the change to the revenue recognition period CPS used to close the FY2015 budget deficit. At the end of FY2015, CPS reported it would not have enough cash on hand to make its required $634.0 million pension payment. This was a result of the drawdown of its fund balance throughout FY2015 and the fact that CPS was relying on property tax revenue to balance its budget that would not come in until July and August, after the end of the fiscal year on June 30. CPS expanded its line of credit by $200.0 million to a total of $700.0 million in order to provide the liquidity necessary to make the full pension payment on time.[216]

The District relied on an increased level of short-term borrowing in FY2016 to cover anticipated cash flow difficulties. The District accessed $1.16 billion of short-term borrowing to bridge the gap between revenue collections and expenses throughout the fiscal year.[217] The funds were secured through lines of credit and commercial loans and payable with dedicated revenues including property tax collections.

In December 2015, after the FY2016 CPS budget was approved, the Board of Education approved an additional $130.0 million in short-term borrowing to smooth over delays in State funding. At that time, the State was late on providing $210.0 million in payments owed to CPS; this included $150.0 million in block grants.[218]

The District's lack of fund balance and resulting liquidity crisis has had a price. In FY2016, CPS issued a total of nearly $1.1 million in TANs to support liquidity. That short-term borrowing was projected to increase debt service costs by approximately $24.0 million. In FY2017 the District issued $1.55 billion in TANs and had budgeted approximately $35.0 million in interest costs.[219]

[215] *Official Statement, Series 2017AB*, Board of Education of the City of Chicago, July 2017, p. 32.
[216] CPS FY2016 Proposed Budget, p. 169.
[217] See Chicago Board of Education Regular Board Meeting, December 16, 2015 and CPS FY2016 Proposed Budget, p. 13.
[218] Chicago Board of Education Regular Board Meeting, Proceedings, December 16, 2015 at http://www.cpsboe.org/content/documents/dec16_2015proceedings.pdf.
[219] Chicago Public Schools FY2017 Proposed Budget, p. 173.

In sum, as of the end of FY2017 (June 30, 2017), CPS had $7.3 billion of outstanding long-term debt and $1.3 billion of outstanding short-term debt.[220]

In FY2018 the District plans to issue up to an additional $1.55 billion in Tax Anticipation Notes at a cost of $79.0 million and has budgeted $18.0 million in interest costs for Grant Anticipation Notes.[221]

The short-term focus of the last several Chicago Public Schools budgets has a real cost both in terms of borrowing cost and public and investor confidence in the District.

[220] Chicago Public Schools FY2018 Budget, p. 172.
[221] FY2018 Chicago Public Schools Budget, p. 187.

CPS General Obligation Bond Ratings are Below Investment Grade

In 2015, 2016 and 2017 the Chicago Public Schools continued on a path of steadily falling credit ratings as the District struggled to finance its mounting debt and pension obligations and depleted its reserves.

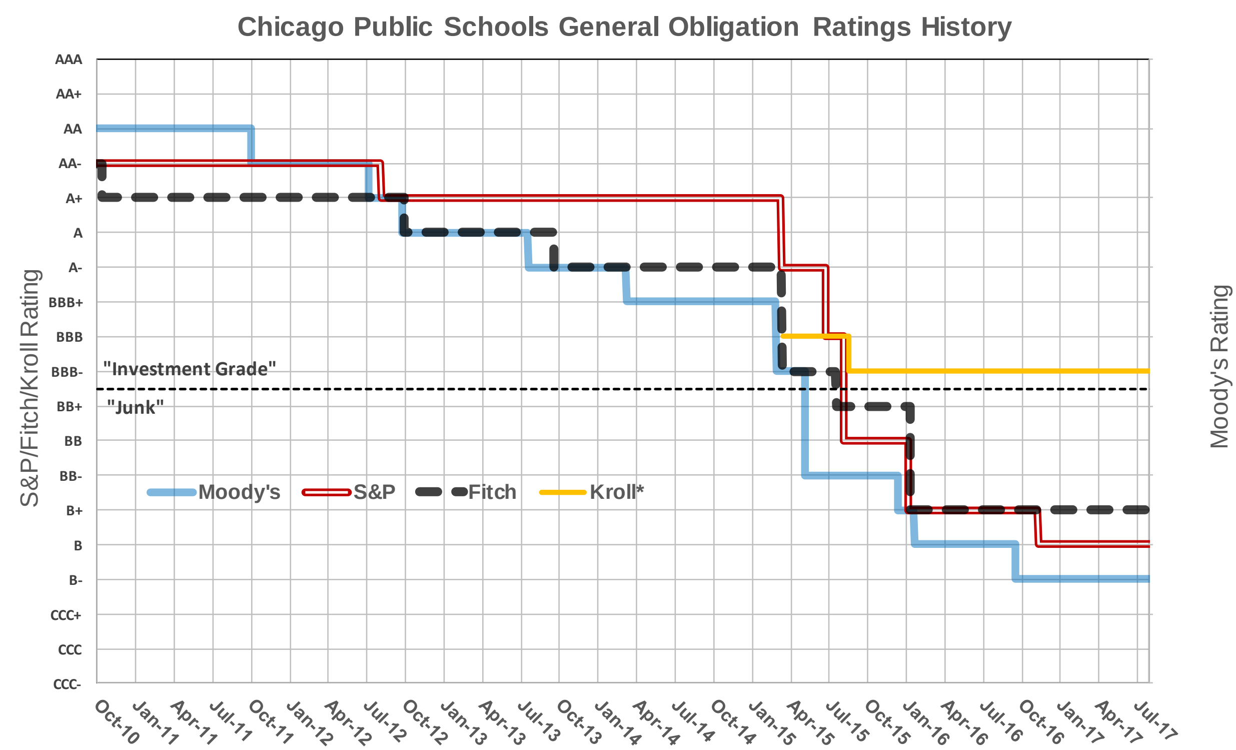
As of August 2017, Standard & Poor's, Moody's Investors Services and Fitch Ratings rate CPS debt as being below investment grade status, with ratings of B, B3 and B+ respectively. Kroll still rates CPS debt as investment grade with a rating BBB-. The most recent credit downgrades, by Moody's and S&P, came in late 2016.

Chicago Public Schools General Obligation Bond Credit Ratings: 2006-August 2017											
Name of Agency	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Kroll Bond Rating Agency										BBB+	BBB*	BBB*
											BBB- **	BBB- **
Fitch Ratings	A+	A+	A+	A+	AA-	A+	A	A-	A-	BBB-	B+	B+
Standard & Poor's	A+	AA-	AA-	AA-	AA-	AA-	A+	A+	A+	A-	B+	B
Moody's Investor Services	A2	A1	A1	A1	Aa2	Aa3	A2	A3	Baa1	Ba3	B3	B3

*Series 2016AB

** Prior Issues

Source: Chicago Public Schools FY2018 Proposed Budget, p. 174; Chicago Public Schools. "Credit Ratings at http://www.cps.edu/About_CPS/Financial_information/Pages/CreditRatings.aspx. Modified February 1, 2016; Juan Perez Jr. "Moody's downgrades Chicago Public schools further into junk status," Chicago Tribune, September 27, 2016.



*Kroll has assigned the Series 2016A a BBB rating. All other outstanding Alternate Revenue GO Bonds carry a BBB- rating.
Source: Moody's Investors Service, www.moodys.com; S&P Global Ratings, www.standardandpoors.com; Fitch Ratings, www.fitchratings.com; Kroll Bond Rating Agency, krollbondratings.com

CPS Capital Improvement Tax (CIT) Bond Credit Ratings

In FY2017 two rating agencies gave CPS bonds backed by the new Capital Improvement Tax (CIT) separate, investment grade ratings. Fitch rated the CIT credit as A grade and Kroll gave them a BBB rating.[222]

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.[223]

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.[224]

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.[225]

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.[226]

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 $480.0 million unbalanced FY2016 budget and its enormous unfunded pension liabilities as the reason for the downgrade.[227]

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

[222] Chicago Public Schools FY2018 Budget, p. 174.
[223] The Bond Buyer. "Moody's places Chicago Board of Education, IL's B3 GO rating on review for downgrade." July 6, 2017.
[224] Andy Grimm. "Standard & Poor's drops Chicago Public Schools' credit rating," Chicago Sun-Times, November 9, 2016.
[225] 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.
[226] Moody's Investors Services, "Rating Update: Moody's downgrades Chicago Board of Education, IL's GO to B2; outlook negative," January 29, 2016.
[227] Fitch Ratings. "Fitch Downgrades Chicago Board of Ed (IL) ULTGOs to 'B+'; Outlook Negative," January 19, 2016.

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.[228]

2015 Downgrades

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.[229]

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.[230]

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.[231]

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 organized labor as the reasons for the downgrade. Fitch noted that CPS has limited options for improving the situation.[232]

In May 2015 Moody's dropped CPS' rating three notches to Ba3 from Baa3, with a continuing negative outlook.[233]

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-.[234] The downgrades triggered penalties

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[228] Juan Perez, Jr., *Chicago Tribune*, "CPS gets harsh notice on debt: Standard & Poor's further downgrades district's rating," January 16, 2016.

[229] Moody's Investors Services. Moody's downgrades Chicago Board of Education, IL's GO to B1; rating under review for further downgrade," December 2015.

[230] 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 at https://www.krollbondratings.com/announcements/1598.

[231] Standard & Poor's, "Chicago Board of Education GO Rating Lowered To 'BB' From 'BBB' On Structural Imbalance And Low Liquidity," August 14, 2015.

[232] Fitch Ratings. "Fitch Downgrades Chicago Board of Ed (IL) ULTGOs to BBB+; Negative Watch," July 7, 2015.

[233] Lauren Fitzpatrick and Tina Sfondeles, "Chicago public schools and park district's debt downgraded to junk status," Chicago Sun-Times, May 13, 2015.

[234] Reuters, "Update 2-Fitch Downgrades Chicago Board of Education rating to BBB-," March 20, 2015.

under the terms of the District's debt swap agreements with financial institutions of well over $200 million.[235]

Debt Service Appropriations as a Percentage of Total 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%.[236] Although the debt service ratio for CPS will increase significantly from 8.8% in FY2014 to 10.3% in FY2018, it is still below the 15% threshold. Between FY2014 and FY2018, the debt service ratio averaged 9.3%.

Chicago Public Schools Budgeted Debt Service Appropriations as of % of Total Appropriations: FY2014-FY2018							
	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Estimated	FY2017 Proposed	$ Change	% Change
Debt Service Appropriations	$ 467.9	$ 533.5	$ 455.3	$ 538.6	$ 594.0	$ 126.10	27.0%
Total Appropriations	$ 5,312.2	$ 5,756.3	$ 5,691.8	$ 5,411.0	$ 5,749.9	$ 437.70	8.2%
Debt Service as a % of Total Appropriations	**8.8%**	**9.3%**	**8.0%**	**10.0%**	**10.3%**		

Sources: CPS Proposed FY2018 Budget, pp. 16 and 176; CPS Proposed FY2017 Budget, pp. 12 and 168; CPS FY2016 Proposed Budget, pp. 9 and 161; CPS FY2015 Proposed Budget at http://www.cps.edu/fy15budget/Pages/debtmanagement.aspx and FY2014 Estimated Budget, p. 7.

It is important to note that rather than pay the principal portion of the debt service owed in FY2016 using General State Aid, the District included a scoop-and-toss refunding as part of its proposed budget balancing actions. The District issued a refunding bond to repay the principal amounts owed in FY2016, which allowed CPS to use $254.0 million in General State Aid (GSA) that would have been dedicated to the principal payments and additional debt service reserves for operations instead. By pushing these principal payments due in FY2016 out into future years, the District will greatly increase the cost of the original capital projects and services paid for with the bonds to provide short-term budgetary relief.

CPS did not use scoop-and-toss refunding in its FY2017 budget. This meant that the GSA that was freed up for use on operating expenses in FY2016 as a result of that restructuring, could be used for debt service.[237] However, as noted previously, CPS again used scoop-and-toss refunding in July 2017 to provide cash flow and liquidity relief in FY2018.[238]

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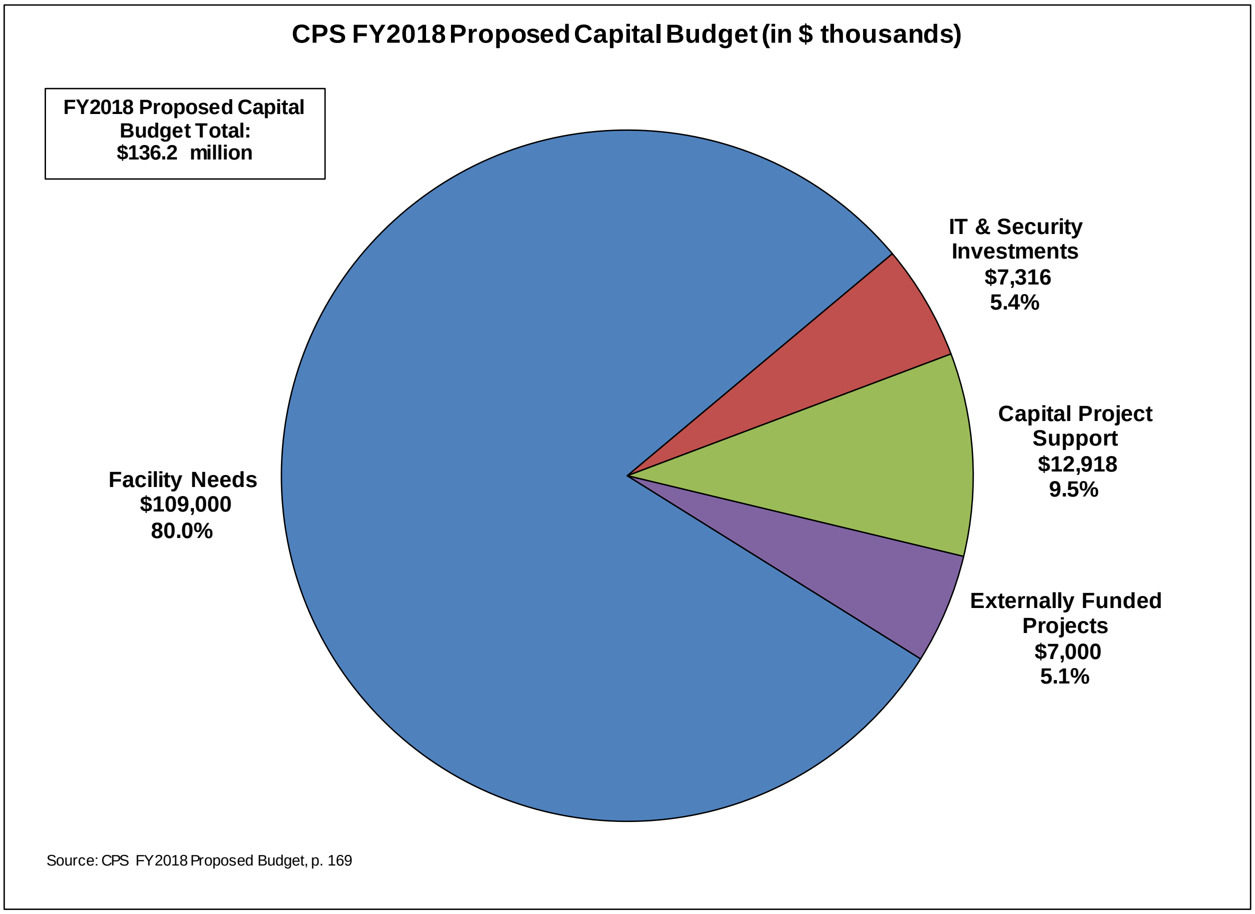
[235] Dan Mihalopoulos and Lauren Fitzpatrick, "CPS facing $200 million-plus penalties as bond ratings plunge," Chicago Sun-Times, March 20, 2015.
[236] Standard & Poor's, *Public Finance Criteria 2007*, p. 64. See also Moody's, *General Obligation Bonds Issued by U.S. Local Governments*, October 2009, p. 18.
[237] Chicago Public Schools FY2017 Proposed Budget, p. 24.
[238] *Official Statement, Series 2017AB,* Board of Education of the City of Chicago, July 2017, p. 32.

CAPITAL BUDGET

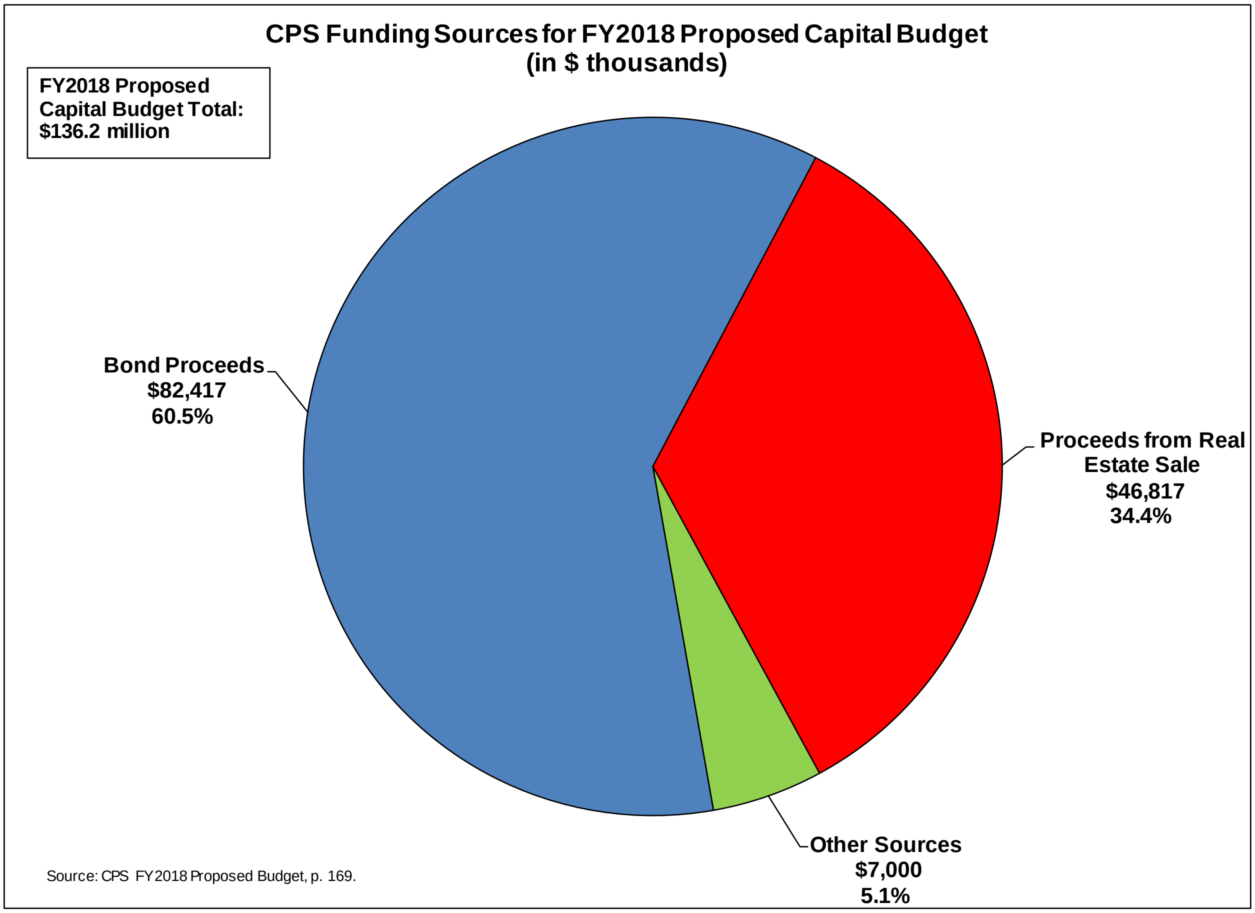
Information about CPS capital projects can be found in the capital budget section of the proposed FY2018 budget. CPS has indicated that its FY2018-2022 capital improvement plan is not yet available due to funding uncertainties.[239]

In its FY2018 budget, CPS proposes spending $136.2 million for capital projects.[240] The largest single amount in the proposed FY2018 budget, or 80.0% of the total, will be $109.0 million for addressing urgent facility needs. This is followed by funding for capital project support, which will provide funds for legal and regulatory requirements, invoice reconciliation and project management. It will consume $12.9 million or 9.5% of all capital spending. Smaller amounts will be used for information technology and secure services as well as funding to support externally funded projects.[241]



[239] Chicago Public Schools FY2018 Budget, p. 168 and at http://cps.edu/fy18budget/Pages/capital.aspx
[240] Chicago Public Schools FY2018 Budget, pp. 169.
[241] Chicago Public Schools FY2018 Budget, pp. 169-170.

The FY2018 capital budget will be funded primarily with debt proceeds. About $82.4 million, or 60.5% of all resources used, will be from debt. Roughly 34.4%, or $46.8 million, will be derived from sales of real estate and 5.1% will come from other unidentified sources.



Capital Project Revenues and Spending: FY2014-FY2018

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

The exhibit that follows shows capital revenues and expenses (outlays) to be incurred in FY2018 regardless of the year in which the project was appropriated. The fund balance amount shown is the difference between expected FY2018 capital expenses versus revenues; the amount unspent in one fiscal year carries forward into the next fiscal year.[242]

[242] CPS FY2018 Proposed Budget, p. 170.

Here are some of the significant two-year changes between the FY2017 estimated and the FY2018 proposed budget:

- Total capital revenues will decrease by $2.8 million, or 3.2%, from $87.3 million to $84.5 million;
- State of Illinois revenues are expected to decrease from $32.2 million to $14.0 million. Of the $14.0 million amount, $13.3 million will be derived from gaming revenue and will be used for new capital projects and $0.7 million will be Illinois Green Infrastructure Grants for prior year capital projects;[243]
- Local revenues are expected to increase slightly from $53.0 million in FY2017 to $54.8 million in FY2018. Approximately $37.0 million of the FY2018 amount will be reimbursements from TIF-related projects and nearly $18.0 million will derive from other local funding sources;[244] and
- Federal revenues will increase from $0 to $15.7 million. The federal revenue total is expected to be derived from Federal E-Rate funding for upgrades to the District's IT infrastructure.[245]

On the expenditure side, capital outlays will rise sharply from $184.6 million in FY2017 to $475.3 million in FY2018; this is an increase of 157.5%. In the same period, bond issuance will decrease by 96.0%, falling from $775.5 million to $30.9 million. The sale of capital assets will decrease from $7.0 million to $3.5 million. In the same period, the District's end of year fund balance is expected to fall from $792.3 million to $435.9 million.

Over the five-year period between FY2014 and FY2018, total capital revenues are expected to decrease by 6.0%, or $5.4 million. Capital outlays will fall by 2.4% or $11.7 million, dropping from $487.0 million to $475.3 million. The end of year fund balance will rise from a negative balance of $92.0 million to $435.9 million, a 573.8% increase.

CPS Capital Revenues and Outlays to be Incurred in FY2018 (in $ millions)

	FY2014 Actual	FY2015 Actual Budget	FY2016 Actual Budget	FY2017 Estimated Budget	FY2018 Proposed Budget	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Beginning of Year Fund Balance	$ 173.8	$ (92.0)	$ (131.0)	$ 107.2	$ 792.3	$ 685.1	639.1%	$ 618.5	355.9%
Revenues									
Local Revenue	$ 37.2	$ 155.5	$ 42.6	$ 53.0	$ 54.8	$ 1.8	3.4%	$ 17.6	47.3%
State Revenue	$ 37.8	$ 32.1	$ 39.4	$ 32.2	$ 14.0	$ (18.2)	-56.5%	$ (23.8)	-
Federal Revenue	$ 14.9	$ 6.4	$ 7.7	$ -	$ 15.7	$ 15.7	---	$ 0.8	5.4%
Other	$ -	$ -	$ 62.9	$ 2.1	$ -	$ (2.1)	-	$ -	---
Total Revenue	**$ 89.9**	**$ 194.0**	**$ 152.6**	**$ 87.3**	**$ 84.5**	**$ (2.8)**	**-3.2%**	**$ (5.4)**	**-6.0%**
Expenditures									
Capital Outlay	$ 487.0	$ 384.5	$ 293.0	$ 184.6	$ 475.3	$ 290.7	157.5%	$ (11.7)	-2.4%
Bond Issuance	$ 131.3	$ 148.5	$ 363.9	$ 775.5	$ 30.9	$ (744.6)	-96.0%	$ (100.4)	-76.5%
Sales of Capital Assets	$ -	$ -	$ 15.0	$ 7.0	$ 3.5	$ (3.5)	-50.0%	$ 3.5	---
End of Year Fund Balance	**$ (92.0)**	**$ (131.9)**	**$ 107.2**	**$ 792.3**	**$ 435.9**	**$ (356.4)**	**-45.0%**	**$ 527.9**	**573.8%**

Sources: CPS FY2016 Proposed Budget, p. 152; FY2017 Proposed Budget, p. 160 and CPS FY2018 Proposed Budget, p. 170.

[243] CPS FY2018 Proposed Budget, p. 171.
[244] CPS FY2018 Proposed Budget, p. 171.
[245] CPS FY2018 Proposed Budget, p. 171.

There is usually a difference between the amount of funds appropriated for capital projects each year and the amount actually spent. The next exhibit shows the amount of capital funds spent each year that the funds were appropriated. In FY2018, of the $136.2 million appropriated for capital projects, CPS intends to actually spend $79.7 million. Approximately $56.5 million will be spent in subsequent time periods.

CPS Capital Spending Year by Year FY2014-FY2018 ($Millions)							
	Total Appropriations	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Estimated	FY2018 Budgeted	Remaining Appropriation
Prior Year/Other Expenditures		$ 428.9	$106.2	$ 11.0	$ 1.9	$ 5.2	$ 20.5
FY2014 Capital Budget	$ 347.5	$ 84.7	$ 125.8	$ 73.9	$ 32.1	$ 10.5	$ 20.5
FY2015 Capital Budget	$ 509.9	$ -	$ 152.6	$ 119.4	$ 40.6	$ 11.9	$ 185.5
FY2016 Capital Budget	$ 160.3	$ -	$ -	$ 66.8	$ 57.9	$ 15.1	$ 20.5
FY2017 Capital Budget	$ 937.8	$ -	$ -	$ -	$ 52.2	$ 352.9	$ 532.7
FY2018 Capital Budget	$ 136.2	$ -	$ -	$ -	$ -	$ 79.7	$ 56.5
Total Spending Year by Year		**$ 513.6**	**$ 384.6**	**$ 271.1**	**$ 184.7**	**$ 475.3**	**$ 815.7**

Source: CPS FY2018 Proposed Budget, p. 171.

CPS FY2018-FY2022 Capital Improvement Plan

Public Act 97-0474 requires CPS 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 a draft dated July 1, 2016.[246] The FY2018-FY2022 capital improvement plan is not yet available due to the District's funding uncertainties.[247]

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[246] Chicago Public Schools. Preliminary Draft, Update to the Educational Facilities Master Plan, July 1, 2016 at http://cps.edu/About_CPS/Policies_and_guidelines/Documents/CPSEFMasterPlanPreliminaryDraft.pdf.
[247] Chicago Public Schools FY2018 Budget, p. 168 and at http://cps.edu/fy18budget/Pages/capital.aspx