The Civic Federation

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CHICAGO PUBLIC SCHOOLS
FY2016 PROPOSED BUDGET:
Analysis and Recommendations

August 25, 2015

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

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EXECUTIVE SUMMARY

The Civic Federation **opposes** the Chicago Public Schools' (CPS) proposed Fiscal Year 2016 operating budget of $5.7 billion because it assumes the State of Illinois will provide an additional $480.0 million at some point this year. Such funds have not been appropriated by the State, so the budget is not balanced. **We urge the Board of Education to reject this budget and call for a budget with a detailed contingency plan**.

It is financially risky for the District to base its spending on the hope of additional funds from the State of Illinois and it is irresponsible that they did not provide a detailed alternative spending plan should the State, which has not been able to pass its own budget, fail to provide nearly half a billion dollars in additional funding to CPS. In the budget document, CPS says it will make cuts and/or engage in "unsustainable borrowing" if the State of Illinois does not provide additional pension funding. This is not an appropriate contingency plan. The Civic Federation strongly believes that all stakeholders, including students, parents, employees, taxpayers and legislators, are entitled to information about precisely what consequences will follow if gridlock continues at the State and no additional funds are appropriated.

The Board of Education should call for an alternative spending plan that specifies the actions CPS will take if it doesn't receive additional revenue from the State of Illinois. Such a contingency plan must be realistic and must not rely on borrowing for operations or other unsustainable actions such as a pension funding holiday. Unfortunately, and in the absence of additional operating resources, the plan will have to rely on significant and painful spending cuts. While the Federation understands that the District might not want to unduly frighten parents and employees with a "doomsday budget" it is also true that the uncertainty surrounding their proposed plan is damaging to the District's reputation, as seen in a recent downgrade of the District's credit rating by Standard & Poor's to below investment grade that was partly made in response to its proposed deficit budget. It would also be helpful for State legislators to understand the exact consequences of a failure to act on their part.

The Chicago Public Schools has played a significant role in its own crisis and the massive $1.2 billion initial budget shortfall it faced this year, but it is also important to recognize that many factors directly impacting the District's finances are beyond its control, including falling state and federal revenue and insufficient pension funding from the State of Illinois. While it is imprudent for the District to count on additional funding from a dysfunctional State of Illinois, this does not absolve the State of its duty to step in and assist its largest school district. Whether through additional pension funding, permission to levy a larger property tax or consolidating the Chicago Teachers' Pension Fund with the downstate and suburban Teachers' Retirement System, or some combination of these actions, it is imperative that the State take responsibility for its role in the CPS crisis and do its part to help set the District on a sustainable fiscal path.

The Civic Federation believes CPS has reached a very precarious and potentially devastating short-term and long-term financial position where the District faces a cash crisis, its bond status is rated below investment grade by three of the four major bond rating agencies and it faces enormous and growing legacy debt and pension obligations, to name only several of its multiplicity of dire fiscal issues. While for the last several years the District has been able to use budget gimmicks to achieve short-term balance at the cost of long-term financial stability, it has now run out of ways to delay the inevitable and has reached a turning point. If stakeholders do not come together to develop a multi-year plan to restore fiscal structure to the District that involves increased revenues, difficult cuts and pension changes, the Federation is deeply concerned that CPS could fail, with devastating and lasting consequences for the future of Chicago and Illinois.

The Civic Federation offers the following **key findings** on the FY2016 Proposed Budget:

- The proposed FY2016 total all funds budget of $6.4 billion is a decrease of 6.8%, or $466.0 million, from the FY2015 adopted total all funds approved budget of $6.9 billion. The Capital Projects Funds will decline by $332.3 million, or 65.2%, over the two-year period;
- The proposed FY2016 operating budget of $5.69 billion is a decrease of 1.2% or $68.5 million from the FY2015 adopted operating budget of $5.76 billion;
- The District will rely on the hope of $480.0 million in additional pension funding from the State of Illinois to balance its budget;
- The District is turning to short-term borrowing, or Tax Anticipation Notes (TANs) with an additional borrowing cost of $24.0 million,[1] to secure cash flow since it has drained its budgetary reserves;
- The District's FTE position count in FY2016 will decrease by 847.4 FTEs, or 2.2%, from the FY2015 approved budget. In the two-year period, the largest reduction in positions will be school support staff, which will decline by 3.9%, or 409.9 FTEs;
- In FY2016 CPS will continue to deplete its dwindling operating fund reserves to balance its budget and will not maintain its stabilization fund fund balance at targeted levels; and
- The FY2016 State of Illinois K-12 education budget, signed into law by Governor Rauner on June 24, 2015, did not include any contribution to Chicago teachers' pensions other than the statutory contribution.

The Civic Federation has **major concerns** about the CPS FY2016 Proposed Budget:

- The District is proposing an unbalanced budget, which relies on $480.0 million in pension relief from the State of Illinois and no alternative budget has been provided to detail the actions the District would take if Illinois does not provide additional funding;
- The District has an ongoing structural deficit;
- The District continues to face a pension crisis that has been exacerbated by recent court decisions;
- The District is also experiencing a significant liquidity crisis due to the drawdown of nearly its entire budgetary reserves over the last several years and the change to the revenue recognition period in FY2015;
- The District has repeatedly used one-time revenue resources to pay for ongoing expenditures; and
- The District is understandably reducing the scope of its capital investments, but deferring maintenance will add to long-term costs.

The Civic Federation **supports** several of the District's initiatives in the FY2016 Proposed Budget:

- The District's $200.0 million in proposed cuts to the budget are a step toward aligning expenditures with ongoing revenues;
- The District's proposal to increase its property tax levy by 0.8% (the maximum allowed under State tax law) and levy for new property;
- Action by Mayor Emanuel to outline two proposals to end the budget crisis at CPS, involving the State of Illinois and other stakeholders; and
- Improvements made by the District to the FY2016 budget by including a new cash-flow chapter and more information about expenditure trends.

[1] TANs are backed by anticipated property tax revenues.

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

- The Board should reject the FY2016 Proposed Budget based on the previously mentioned concerns and call for a detailed alternative budget should the hoped-for $480 million in extra pension funding from the State of Illinois not be realized;
- The District must implement and make publicly available a long-term financial plan;
- The State should consolidate the Chicago Teachers' Pension Fund with the State Teachers' Retirement System or at least significantly increase its funding to the Chicago Teachers' Pension Fund;
- The District should implement additional healthcare cost sharing with employees;
- The District should reinstate the pension fund property tax levy only as part of a comprehensive plan to improve Chicago Public Schools financial sustainability;
- The District should end the pension "pickup" of 7.0% for all employees; and
- The District must find the means to rebuild its budgetary reserves once it has overcome its current fiscal crisis so it can address cash-flow issues in the future without resorting to borrowing.

CIVIC FEDERATION POSITION

The Civic Federation **opposes** the Chicago Public Schools' (CPS) proposed Fiscal Year 2016 operating budget of $5.7 billion because it assumes the State of Illinois will provide an additional $480.0 million at some point this year. Such funds have not been appropriated by the State, so the budget is not balanced. **We urge the Board of Education to reject this budget and call for a budget with a detailed contingency plan**.

It is financially risky for the District to base its spending on the hope of additional funds from the State of Illinois and it is irresponsible that they did not provide a detailed alternative spending plan should the State, which has not been able to pass its own budget, fail to provide nearly half a billion dollars in additional funding to CPS. In the budget document, CPS says it will make cuts and/or engage in "unsustainable borrowing" if the State of Illinois does not provide additional pension funding. This is not a contingency plan. The Civic Federation strongly believes that all stakeholders, including students, parents, employees, taxpayers and legislators, are entitled to information about precisely what consequences will follow if gridlock continues at the State and no additional funds are appropriated.

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The Civic Federation believes CPS has reached a very precarious and potentially devastating short-term and long-term financial position where the District faces a cash crisis, its bond status is rated below investment grade by three of the four major bond rating agencies and it faces enormous and growing legacy debt and pension obligations, to name only several of its multiplicity of dire fiscal issues. While for the last several years the District has been able to use budget gimmicks to achieve short-term balance at the cost of long-term financial stability, it has now run out of ways to delay the inevitable and has reached a turning point. If stakeholders do not come together to develop a multi-year plan to restore fiscal structure to the District that involves increased revenues, difficult cuts and pension changes, the Federation is deeply concerned that CPS could fail, with devastating and lasting consequences for the future of Chicago and Illinois.

Issues of Concern

The Civic Federation has the following concerns regarding the FY2016 Proposed Budget.

The FY2016 Proposed Budget Is Not Balanced and No Alternative Budget Has Been Provided

The CPS Proposed Budget is not balanced because it is depends on the vague hope that the District will receive $480.0 million dollars in pension relief from the State of Illinois. The District states explicitly, "To present a balanced budget and to ensure that we are continuing to protect classrooms, CPS is relying on $500 million in pension funding equity from Springfield."[2] Relying on nonexistent money and on nearly $400.0 million in non-recurring revenues[3] to balance the budget is financially risky and conflicts with public budgeting and finance fundamentals. The State of Illinois faces its own deep fiscal crisis, with a multi-billion dollar budget deficit and if it does not provide additional funding to CPS, the District will run at least a $480.0 million deficit. Worse, the District has not provided a detailed alternative plan that would address the deficit. Simply stating that CPS will be forced to make larger cuts and/or "unsustainable" borrowing is not enough. Students, teachers, parents and taxpayers deserve to know and plan for what would happen if the District's unbalanced budget is implemented.

Ongoing Structural Deficit

Since at least FY2009, CPS has failed to consistently match expenditures to ongoing revenues. This mismatch has resulted in a growing gap between the spending the District engages in and the revenues it collects. The structural deficit has been exacerbated by the District's reliance on one-time resources such as fund balances—rather than cuts to expenditures—to close its budget gaps. In FY2016 the District is once again relying on non-recurring resources such as scoop and toss borrowing to fill much of the budget gap in addition to the hope that the State will provide an additional $480.0 million in pension funding.

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[2] CPS FY2016 Proposed Budget, p. 4.

[3] Chicago Public Schools, "FY 16 Budget Overview," August 10, 2015, p. 11. CPS is using $255 million in non-recurring savings from debt restructuring, $62 million in TIF surplus and $75 million in reserves, in addition to $200 million in previously announced cuts, increased recurring property tax revenues of $80 million and the hope for $480 million in extra pension funding from the State of Illinois to close a $1.2 billion shortfall. See page 22 of this report for more information.

Recently, Ernst & Young, a financial consulting and accounting firm, prepared a report for CPS which analyzed its financial condition and provided deficit projections.[4] The firm's analysis indicated that the District's structural deficit between FY2011 and FY2014 has been obscured by its use of one-time revenues and pension payment holidays. It attributes the structural deficit, which Ernst & Young pegged at $500.0 million, to the following factors:

- State funding issues;
- Long-term liabilities;
- Compensation increases; and
- Operational problems.

The following sections discuss these deficit drivers, adding the Civic Federation's analysis and calculations to those contained in the Ernst & Young report.

State Funding Issues

Reduction in State Pension Contributions and Inequitable Pension Funding Structure

The State of Illinois has reduced its "employer contribution" to the Chicago Teachers' Pension Fund (CTPF) in recent years. The State had traditionally contributed roughly $65.0 million[5] each year to the Teachers' Pension Fund in addition to statutorily required contribution for previous benefit enhancements. This is despite 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. The State's total employer contribution decreased from $65.0 million in FY2009 to $32.5 million in FY2010. In FY2011 the State appropriated $32.5 million for the Teachers' Fund, but designated it specifically for retiree healthcare costs paid out of the fund. There was no State "employer contribution" in FY2012-FY2014 or in FY2016.[6] In FY2015 the State appropriated an additional $50.0 million to the Chicago Teachers' Pension Fund, approximately 6.0% of the State's "goal and intention," but made no additional contribution in the FY2016 K-12 Education Budget. This treatment is fundamentally unfair to Chicago taxpayers, whose tax dollars are used to fund pensions for both downstate and Chicago teachers, while the remainder of the State does not share the burden for funding Chicago teachers' pensions. CPS made its full required FY2015 contribution of $634.0 million to the CTPF only through short-term borrowing and its FY2016 contribution is scheduled to increase to $671.0 million. In part because the State has not lived up to its stated funding goal for Chicago teachers' pensions and has cut even its small previous contribution, CPS funding that could be devoted to the classroom is instead used for its pension contribution.

Decreases in General State Aid

Public Act 90-548 created the Illinois Education Funding Advisory Board (EFAB) in 1997. As stated in 105 ILCS 5/18-8.05(M), the statutory charge of the EFAB is to "make commendations [to the General Assembly] for the foundation level…and supplemental general State aid grant

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[4] Ernst & Young, "Board of Education—City of Chicago Structural Deficit Discussion Document." May 22, 2015. http://www.scribd.com/doc/269588560/CPS-Discussion-Document.

[5] A contribution of $65 million has not represented 20% of TRS funding since 1996.

[6] In FY2012-FY2014 the State made only the nominal statutorily required contribution related to a benefit enhancement granted in the 1990s.

level." The foundation level is the State of Illinois' sanctioned minimum level of funding per pupil that is achieved through a combination of State and local funds. The majority of the State revenue received by CPS comes from the General State Aid (GSA) grant program. GSA is composed of two parts: a per-pupil formula grant and a supplemental GSA grant. The per-pupil formula grant is based upon the foundation level, whereas the supplemental grant (formerly referred to as the poverty grant) provides additional funding based on a district's percentage of low-income students. The GSA distribution to school districts is based on a number of factors, including local property tax capacity. The formula assumes that school districts will levy for all available local property taxes first before the State provides additional funding to reach the foundation level. Even though the EFAB has made recommendations to increase the statutory funding level, the foundation level has remained at $6,119.0 per student since FY2010. Furthermore, the statewide appropriation has been insufficient since FY2012 to pay for the full foundation level, resulting in a prorated amount of the funding: in FY2016, State grants will be made at 92.0% of the foundation level. CPS is estimating State revenue losses of $110.0 million from FY2015 to FY2016. Again, because of the decreases in GSA, less money is available for students, classrooms and operations.

Long-Term Liabilities

The District's long-term liabilities grew by over $2.9 billion, or 33.4%, between FY2010 and FY2014 to a total of $11.6 billion. Long-term liabilities will continue to increase in FY2016 as the District plans to issue an additional $849.5 million in bonds.[7] Because the District has been and continues to borrow to cover operations, its debt service costs, already large, will continue to increase in the future. CPS currently has $6.2 billion in outstanding debt. Debt service for FY2016 will be approximately $538.6 million, which is usually paid largely through GSA. However, in FY2016, CPS will once again look to bond restructuring and one-time revenues to free up $254.0 million in GSA which can be appropriated to operations. This is a sign that the District's level of indebtedness may not be sustainable with current revenue sources. The District's long-term liabilities are expected to grow dramatically in FY2016 due to the recently authorized sale of $1.2 billion in General Obligation bonds.

In addition to the District's bonded indebtedness, it also faces $9.4 billion in unfunded pension liabilities and growing annual contributions for the next forty-odd years. Annual contributions will reach $757.8 million in FY2020, $1.0 billion in FY2030 and nearly $1.5 billion in FY2059 as CPS makes the required contributions to raise the funding level from the current 51.7% on an actuarial basis to 90.0% by the end of 2059. As noted above, CPS is unique among school districts in the State of Illinois because the District is required to cover nearly the entire cost of its teacher pensions. All other downstate and suburban teachers' pension costs are covered almost entirely by the State of Illinois. This places a heavy burden on Chicago taxpayers, the Chicago tax base and the District's budget, that has been compounded by a CPS-requested and state-granted three-year partial pension holiday that ended in FY2014.

[7] CPS FY2016 Budget Interactive Reports, Revenues and Expenditures available at www.cps.edu (last accessed August 19, 2015).

Compensation Increases

Other drivers of the structural deficit identified in the Ernst & Young report include compensation issues.[8] Ernst & Young noted that annual growth in teacher salaries of 4.0-5.0% per year on average was much higher than annual revenue growth, leading to budgetary pressures. The District's practice of "picking up" seven percentage points of its employees' pension contributions was cited as another source of pressure on the budget and one that puts Chicago teachers' pension contributions outside the mainstream nationwide.[9] In FY2016 CPS is budgeting a total of $171.0 million for the 7.0% pickup.[10] The final source of compensation pressures Ernst & Young highlighted in their report was comparatively low levels of healthcare cost sharing with employees. Their analysis showed that CPS employees contribute less toward their insurance premiums than the national average, particularly for dependent coverage.[11]

Operational Problems

Ernst & Young attribute part of the blame for the District's structural deficit on budgeting practices which include insufficient budget cuts to match expenditures to available revenues.[12] While the District includes $200.0 million in difficult cuts in the FY2016 budget and says it has made $748.0 million in central office cuts in previous years, they have not been sufficient to offset declining revenue and growing expenditures. Instead, the District has used one-time revenues to close its deficits, leading to its ongoing liquidity crisis and even higher expenses from short-term cash flow borrowing.

While the District was able to put off making tough choices to structurally balance its budget for several years through budget gimmicks and unsustainable use of nonrecurring revenue, it has reached a point where it must work with all stakeholders to raise revenue and cut expenditures so that it can provide essential services that are affordable to taxpayers.

Pension Funding Crisis

The Civic Federation continues to be deeply concerned about the growing pension funding crisis the District faces, which has been compounded by recent court decisions. The Chicago Teachers' Pension Fund was 100.0% funded on an actuarial basis in FY2001. Since then, the fund's funding level has fallen significantly: from 79.0% in FY2005 to 51.7% in FY2014.[13] Since FY2005 unfunded liabilities have increased by $6.6 billion or 237.8%, rising to $9.4 billion in ten years. In just one year, from FY2012 to FY2013, unfunded liabilities grew by $1.6 billion. A shortfall in employer contributions compared to actuarially required pension payments, a three-year partial pension holiday, investment losses and a lack of pension reform have all contributed

[8] Ernst & Young, "Board of Education—City of Chicago Structural Deficit Discussion Document." May 22, 2015, p. 20-21. http://www.scribd.com/doc/269588560/CPS-Discussion-Document.
[9] Ernst & Young, "Board of Education—City of Chicago Structural Deficit Discussion Document." May 22, 2015, pp. 20-21, 32. http://www.scribd.com/doc/269588560/CPS-Discussion-Document.
[10] CPS FY2016 Proposed Budget, p. 141.
[11]Ernst & Young, "Board of Education—City of Chicago Structural Deficit Discussion Document." May 22, 2015. http://www.scribd.com/doc/269588560/CPS-Discussion-Document.
[1212] Ernst & Young, "Board of Education—City of Chicago Structural Deficit Discussion Document." May 22, 2015, p. 21. http://www.scribd.com/doc/269588560/CPS-Discussion-Document.
[13] Funding levels here are reported on an actuarial basis.

to the District's enormous pension obligations and accelerated the District into a deeper state of financial crisis.

Last year, the District announced that it was seeking the same pension benefit reforms for Chicago teachers that were passed by the State of Illinois for downstate and suburban teachers' pensions in December 2013.[14] CPS estimated it could save $250.0 million from its nearly $700.0 million FY2015 projected contribution to the fund through the reform measures. However, since that announcement was made, the State reform law has been struck down by the Illinois Supreme Court as a violation of the Illinois Constitution's pension protection clause.[15] The pension funding and benefit reforms for non-teacher CPS employees enrolled in the City of Chicago's Municipal Pension Fund that were passed by the State of Illinois in Spring 2014 were struck down by Cook County Circuit Court Judge Rita Novak on July 24, 2015.[16] In her ruling, Judge Novak cited the Illinois Supreme Court's ruling against the State pension reform legislation. Immediately following the verdict, the City of Chicago announced that it would appeal the ruling and soon thereafter the Illinois Supreme Court said it would hear the case, with oral arguments set for November 2015.[17] While the City of Chicago says that its arguments for the constitutionality of its reforms are different from the police powers argument used by the State of Illinois, it remains to be seen whether the Illinois Supreme Court will allow any changes to existing public pension benefits for any pension fund. If no changes can be made to the pension benefits for current or retired Chicago teachers, it will make it even more difficult and more expensive for the District to balance its budget going forward and end its fiscal crisis, absent additional funding from the State of Illinois or devastating cuts.

Cash-Flow 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

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[14] David Vitale and Barbara Byrd-Bennett, "Op-Ed: CPS wants pension reform in Springfield this year," Chicago Tribune, March 7, 2014.

[15] Illinois Supreme Court, *In re Pension Reform Litigation, 2015 IL 118585*, May 8, 2015. Available at http://www.illinoiscourts.gov/OPINIONS/SupremeCourt/2015/118585.pdf. See also https://www.civicfed.org/iifs/blog/supreme-court-pension-ruling-adds-fy2016-budget-pressures.

[16] Judge Novak's opinion and order is available at http://chicagotonight.wttw.com/sites/default/files/article/file-attachments/Chicago%20Pension%20Ruling.pdf. The City of Chicago provides the employer funding for the approximately 17,095, or 55.8%, of the 30,647 active Municipal Fund members who are CPS employees, so the ruling would not impact the District's pension contribution. However, the case is important to the process of litigating whether any pension benefits can be changed after they are granted.

[17] Associated Press, "Illinois Supreme Court to hear Chicago pensions case," August 13, 2015. http://abc7chicago.com/politics/illinois-supreme-court-to-hear-chicago-pensions-case/927904/

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.[18]

The District will rely on an increased level of short-term borrowing in FY2016 to cover anticipated cash flow difficulties. The District will access $935.0 million of short-term borrowing to bridge the gap between revenue collections and expenses throughout the fiscal year.[19] The funds will be secured through lines of credit and commercial loans and payable with dedicated revenues including property tax collections. The District's lack of fund balance and resulting liquidity crisis has a price. The short-term borrowing will increase debt service costs by approximately $24.0 million in FY2016. The District anticipates it will need to use all of the $935.0 million line of credit to make its pension payment at the end of the year, even if it gets an extra $480.0 million from the State of Illinois and not taking into account any salary increases that could result from still ongoing negotiations with the Chicago Teachers Union.[20] The short-term focus of the last several Chicago Public Schools budgets have a real cost both in terms of borrowing cost and public and investor confidence in the District.

Repeated Use of One-time Revenues

The District has repeatedly used one-time revenue to pay for ongoing expenditures without providing any detailed plan for how it would undo the negative impacts of its short-term balancing act. Having nearly drained its budgetary reserves in prior years, this year CPS is relying on $200.0 million dollars in "scoop and toss" bond refunding, $55.0 million in one-time sources to pay debt service, $62.0 million in Tax Increment Finance (TIF) surplus from the City of Chicago and $75.0 million in its dwindling reserves for a total of $392 million in one-time resources to help close its $1.2 billion deficit. [21] Such one-time sources are in addition to the vague hope that the District will receive $480.0 million in funding from the State. The National Advisory Council on State and Local Budgeting Practice advises that one-time, or non-recurring, revenues cannot be "relied on in future budget periods."[22] Occasional use of reserve funds may be reasonable, particularly if there is a severe economic situation or if a government has historically maintained an adequate cushion for contingencies or delayed revenues. However, as noted above, Chicago Public Schools has maintained a structural deficit for many years and has almost completely depleted its fund balance to close its previous year's deficit, with the result

[18] CPS FY2016 Proposed Budget, p. 169.
[19] CPS FY2016 Proposed Budget, p. 13.
[20] CPS FY2016 Proposed Budget, p. 169.
[21] CPS FY2016 Proposed Budget, p. 4; Communication with Chicago Public Schools Budget Office, August 10, 2015.
[22] National Advisory Council on State and Local Budgeting Practice, A Framework for Improved State and Local Government Budgeting and Recommended Budget Practices, 1998. http://www.co.larimer.co.us/budget/budget_practices.pdf.

that it faces a severe cash crisis. This crisis was not unforeseeable and is the direct result of the unsound fiscal practice of consistently use one-time resources. The table below exhibits how the District will close 34.0% of the $1.2 billion deficit with one-time resources.

CPS Actions to Close the FY2016 Budget Gap (in $ millions)		
Cuts	$	200.0
Additional State Pension Funding	$	480.0
Debt Restructuring	$	255.0
Property Tax	$	80.0
TIF Surplus	$	62.0
Reserves	$	75.0
Total	$	1,152.0

Source: Communication with CPS Office of Budget and Management, August 10, 2015.

Growing Deferred Maintenance Costs as a Result of the Austerity Capital Budget

The Capital Projects Funds will decline by $332.3 million, or 65.2%, between FY2015 and FY2016 to $177.6 million. The District will only make investments in some previously approved projects and will instead focus on setting aside funds for emergency repairs and maintenance. The Civic Federation understands and supports this move as necessary given the District's deepening fiscal crisis. However, we are also concerned that the crisis is forcing the District to defer non-emergency, but still critical, capital spending projects which will only become more costly the longer they are delayed. Rather than providing funds for overcrowding relief, technology upgrades and school programs, as outlined in previous five-year capital plans, the District will only dedicate funds to basic building needs, such as chimneys and roofs. CPS states that most of their buildings are over 75 years old and all necessary repair costs total nearly $4.0 billion dollars.[23] The cost of the District's fiscal crisis is not limited to the FY2016 budget, but will continue in the future through higher debt service costs and deferred maintenance.

Issues the Civic Federation Supports

The Civic Federation supports several of the District's initiatives in the FY2016 Proposed Budget.

Continuing to Implement Cost-Cutting Measures

The District announced in July 2015 that it would make $200.0 million in cuts to help balance the FY2016 budget.[24] The cuts included eliminating nearly 1,400 positions, including 350 vacant positions. Other reductions included $42.3 million in the Diverse Learners program; $17.4 million in Network Offices; $11.6 million in professional development for turnaround schools, $15.8 million in start-up funding for newly approved charter schools; $11.1 million in cuts to the facility repair and maintenance budget; and $3.2 million in central office funding for other

[23] CPS FY2016 Proposed Budget, pp. 147-148.
[24] Chicago Public Schools, "After Springfield Inaction, CPS Reducing Expenses by $200 Million," July 1, 2015.

school programs. The District had planned to save $9.2 million from changing high school start times, but will save less than planned due to a reduction to the number of schools impacted by the change in response to parent criticism.[25] These lost savings will be partially offset by savings garnered for FY2016 from the District phasing out of the pension "pick-up" for non-union employees over three years.[26] This initiative was announced on August 12, 2015, after the release of the FY2016 Proposed Budget.

The expenditure reductions by CPS in FY2016 and the $740 million in expenditure reductions made between FY2011 and FY2015 reflect a serious effort to cut costs and better manage scarce resources by improving the District's operational efficiency.

Property Tax Increase

This year CPS proposes to increase its property tax levy by 0.8% (the maximum amount allowed under the State tax cap law). In FY2016 nearly $2.4 billion, or 33.7% of all CPS resources, will come from local property tax revenues. This will generate an additional $19.0 million over FY2015. The District also plans to levy for a significant amount of new property that has been made available outside the tax cap, as allowed under state law. Levying for new property will bring in approximately $61.0 million in much-needed additional property tax revenue in FY2016.

The Civic Federation recognizes that property tax increases for homeowners and businesses can be painful. Given CPS' enormous fiscal challenges and the continued inconsistency of future funding from the State of Illinois, the Civic Federation supports the property tax increase as it will allow the District to access a reliable source of ongoing revenue. However, the Federation notes the tax increase might be more palatable to stakeholders if it were implemented in the context of a more fiscally responsible budget plan.

Mayor Emanuel Has Made Various Proposals to End CPS' Budget Crisis

On July 1, 2015, Chicago Mayor Rahm Emanuel laid out his comprehensive plans to address the nearly $1.2 billion deficit and ongoing fiscal crisis at CPS. The Mayor presented two alternatives to Springfield and all CPS stakeholders. Option A, or the "Uniform Approach," would consolidate pension systems for all teachers in the state. Option B, or the "All In Approach" would have the State contribute the normal pension costs for CPS, restore the pension levy to the 0.26% rate, employees would pick up the entire 9.0% pension costs, the State would increase education funding by 25.0% and other school districts around Illinois would contribute to their own pension funds.[27] The Civic Federation commends Mayor Emanuel for putting forward plans

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[25] Juan Perez, Jr. "Chicago Public Schools backs off on schedule changes," Chicago Tribune, August, 10, 2015. http://www.chicagotribune.com/news/ct-cps-bell-schedule-met-0811-20150810-story.html.

[26] Chicago Public Schools, "New Employees Will Not Be Eligible For Pickup, Which Will Be Phased Out For Existing Employees," August, 12, 2015. http://cps.edu/News/Press_releases/Pages/PR1_8_12_2015.aspx. And Communication with Chicago Public Schools Budget Office, August 20, 2015.

[27] Office of the Mayor of the City of Chicago Press Office, "Comprehensive Plan to Address CPS Budget Crisis, Warns of Deeper Cuts," July 1, 2015. http://www.cityofchicago.org/city/en/depts/mayor/press_room/press_releases/2015/july/mayor-emanuel-lays-out-comprehensive-plan-to-address-cps-budget-.html

that, if accepted and implemented by Springfield, CPS management and the unions, would address the District's fiscal crisis through shared sacrifice. It is important for State leaders, unions and the public to understand the scope of the actions that will be necessary to improve CPS' fiscal future and Mayor Emanuel's proposals helped to advance that understanding.

Improvements to the Budget Book

The Federation is pleased the District made some improvements to its budget book, including a new cash-flow analysis chapter and some additional information about expenditure trends. The Cash Management chapter provides additional detail about the timing of revenues and expenditures and how they do not match up throughout the year, requiring budgetary reserves to compensate for lags between levying for revenues and when they are received, compared to when major expenditures are made. The chapter also provides a chart showing the District's cash balances throughout FY2015 and projected into FY2016, showing where cash flow borrowing has been and will continue to be necessary to cover its debt service and pension payments.

Last year, the Civic Federation highlighted a dearth of information about expenditure trends on a District-wide basis in the budget book, particularly in comparison to the wealth of information provided about revenues. While the Federation appreciates the sheer amount of granular data on the budget the District is able to provide through its online interactive budget, we noted that it is important for CPS to continue to provide context to the numbers through textual explanations that can only be provided in the budget book. This year, the budget book contained a section dedicated to explaining expenditure trends, an improvement over last year.

Civic Federation Recommendations

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

The Chicago Board of Education Should Reject the CPS FY2016 Proposed Budget and Request a Balanced Budget Plan

The Chicago Public Schools proposed Fiscal Year 2016 operating budget is not balanced. It assumes the State of Illinois will provide an additional $480.0 million at some point this year, despite the State's own significant multi-billion deficit and lack of an enacted budget. No detailed alternative plan has been put forth by the District that would inform stakeholders of what will happen should the State not appropriate nearly half a billion dollars to CPS. The Civic Federation strongly believes that the public is entitled to information about the consequences of a failure to act on the part of the State of Illinois. Therefore, the Federation urges the Board of Education to reject the proposed financially risky FY2016 deficit budget and call for a budget with a detailed contingency plan.

The Board should specify that the contingency plan be realistic and not rely on borrowing for operations or the other unsustainable actions the District has hinted it might use to close its deficit if funds from the State do not materialize.[28] It must also not rely on a pension holiday, as

[28] CPS FY2016 Proposed Budget, p. 4.

is being considered in legislation that was recently approved by the Illinois Senate.[29] The alternative budget should provide stakeholders with a detailed description of the significant cuts that will unfortunately be unavoidable in the absence of additional revenue. While the Federation understands that the District might not want to alarm the people of Chicago with a "doomsday budget" that might not come to pass, it is also true that the uncertainty surrounding their finances is damaging to the District's reputation among residents and investors. The latter can be seen in recent downgrades of the District's debt rating to below investment grade by three rating agencies, particularly S&P's August 2015 downgrade that was made partly in direct response to the proposed deficit budget.[30] The Federation also strongly believes that it would also be helpful for state leaders to better understand the negative consequences of Illinois' own budget standoff on local governments.

Implement a Formal Long-Term Financial Plan

To successfully navigate this current fiscal crisis, the District will need to go beyond crafting ad hoc budgets that address expenditures and revenues for one year only. Going forward, CPS needs to take a long-term, comprehensive approach that will articulate the present and future educational needs of its students, the actions the District must take to meet those needs and the District's plan to fund those needs. While there is no doubt that there are contributing factors to the District's fiscal crisis that are beyond its control, the District bears the ultimate responsibility for its crisis and needs to begin the process of addressing its monumental structural deficit by developing a comprehensive, publicly-shared, long-term financial plan. A long-term financial plan would educate and involve the public by presenting to them the District's education policy objectives, while exploring options available to CPS to achieve these goals. The CPS fiscal crisis is a product of many years of short-sighted budgeting and will take many more years to resolve. Only by explicitly outlining a comprehensive, long-term plan that includes both revenue and expenditure reforms, can CPS right its current cost structure and commit to a real estate and programming footprint that is sustainable going forward. With this budgetary year, it will also be important for the District to outline a role for the State of Illinois in helping to right the District's finances, though it should also plan the alternatives that would be necessary if no help comes from Springfield this year or in future years.

While the District provides budgetary projections through FY2020 in its budget book and may internally use or implement features of a long-term financial plan, it does not currently develop a publicly-shared long-term financial plan.[31] Given its present state of fiscal jeopardy, increasing pension payments and projected budget deficits of $931.0 million in FY2017, $938.8 million in FY2018, and $929.0 million in FY2019[32] it is imperative that CPS institute a formal and public

[29] Senate Bill 318, Amendments 1-3.
http://ilga.gov/legislation/billstatus.asp?DocNum=318&GAID=13&GA=99&DocTypeID=SB&LegID=84279&SessionID=88
[30] Standard & Poor's, "Chicago Board of Education GO Rating Lowered To 'BB' From 'BBB' On Structural Imbalance And Low Liquidity," August 14, 2015.
[31] Along with a long-term financial plan, CPS needs to develop a plan for replenishing its fund balance, in keeping with the District's own fund balance policy. The GFOA also offers "best practice" recommendations on replenishment of a government's General Fund fund balance. See GFOA, "Replenishing Fund Balance in the General Fund" (2011).
[32] CPS FY2016 Proposed Budget, p. 15.

financial planning process. Resolving CPS's financial instability will require more dramatic and painful budget cuts throughout the District. Given that the majority of the CPS budget is dedicated to school-based budgets, these cuts may include more drastic reductions that further impact the classroom, including more cuts and additional layoffs.

The National Advisory Council on State and Local Budgeting (NACSLB) and the Government Finance Officers Association (GFOA) both recommend that all governments formally adopt a long-term financial plan as a key component of a sound budget process.[33] A long-term financial plan typically includes the following components:

- A review of historical financial and programmatic trends;
- Multi-year projections of revenues, expenditures and debt;
- An analysis of those multi-year trends and projections; and
- Modeling of options to address problems and opportunities, which helps governments address fiscal challenges before they become fiscal crises.

A key component of financial planning is engaging all stakeholders in the process of developing the plan. The GFOA describes long-term financial planning as "not just a staff-driven process. It is consensus-driven and inclusive, involving elected officials, staff and the public."[34] Among other benefits, involving all stakeholders can help staff refine forecasts, institutionalize planning processes and promote strategic decision-making.

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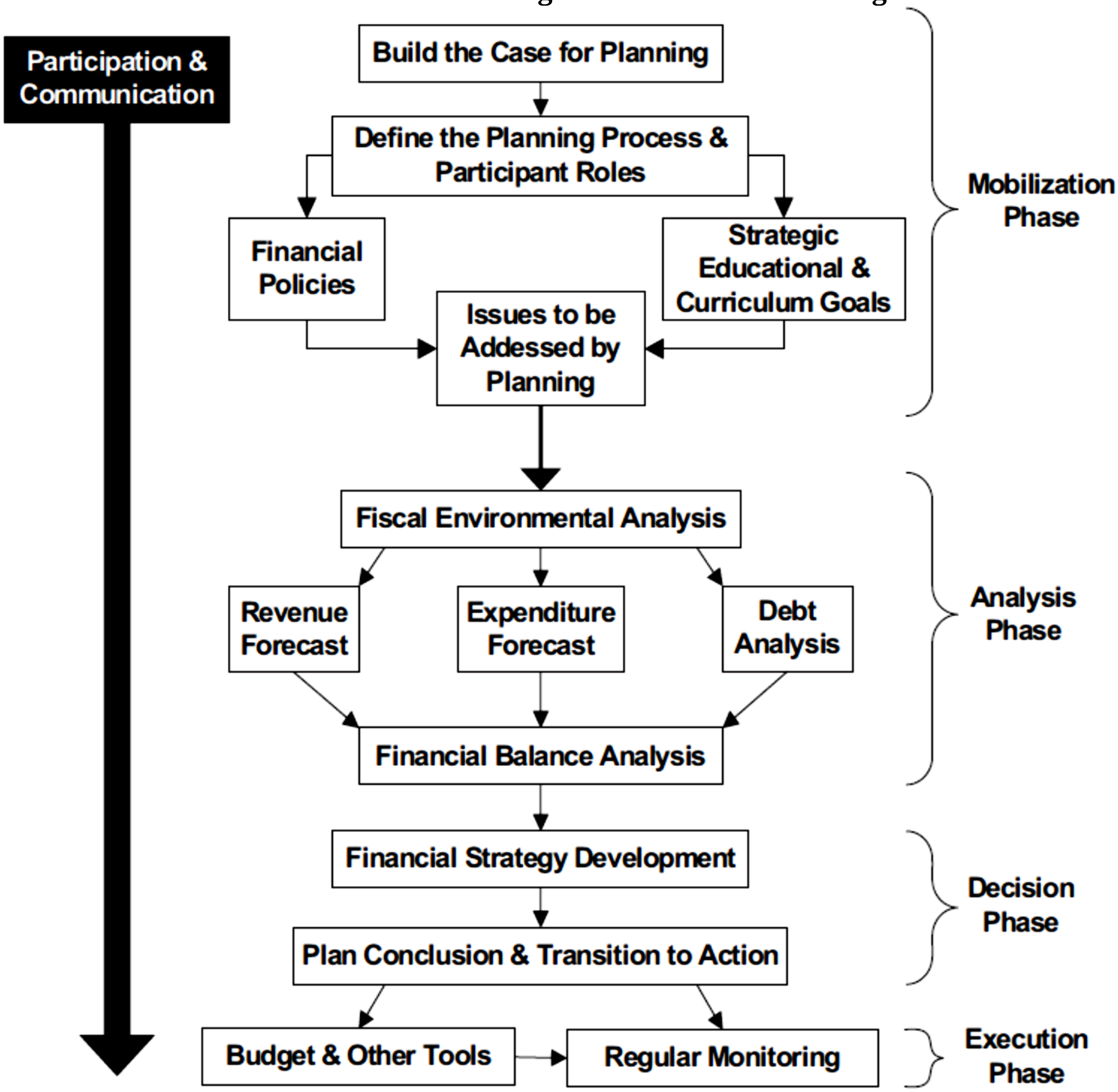
[33] More information on the National Advisory Council on State and Local Budgeting and the Government Finance Officers Association at www.gfoa.org.

[34] Government Finance Officers Association, "An Introduction to Financial Planning," (http://www.gfoa.org/downloads/LTFPbrochure.pdf.

The GFOA has developed a four-phase approach[35] to financial planning for school districts: the mobilization phase, the analysis phase, the decision phase and the execution phase as illustrated in the following GFOA infographic.

The Four Phases of Long-Term Financial Planning



The GFOA notes that "for a variety of reasons, true structural balance may not be possible for a government at a given time. In such a case, using reserves to balance the budget may be considered but only in the context of a plan to return to structural balance, replenish fund balance, and ultimately remediate the negative impacts of any other short-term balancing actions

[35] Government Finance Officers Association, "Making the Grade: Long-Term Financial Planning for Schools" http://www.gfoa.org/sites/default/files/GFOAMakingtheGradeLTFPforSchools.pdf (last visited on July 17, 2014).

that may be taken."[36] CPS has experienced a structural imbalance for over half a decade. Furthermore, it has repeatedly used one-time revenue to pay for ongoing expenditures without providing any plan for how it would undo the negative impacts of its short-term balancing act. This year CPS is relying on an unappropriated revenue from the State totaling $480.0 million and nearly $400.0 million in various non-recurring revenue sources. By developing a long-term financial plan in the model presented by the GFOA for school districts and already utilized successfully by other school districts in Illinois,[37] CPS can link its annual budgets together into a cohesive program that better articulates its needs with the public and policymakers. CPS says it needs pension funding assistance from the State. The District must, therefore, make a case and show the consequences of a failure to come up with spending and revenue reforms.

In order to achieve a proper and equitable right-sizing strategy and to meet the needs of all Chicago students, the District must establish and publicly release a detailed, prioritized long-term plan. The plan should address explicitly the District's policy and programming priorities and how CPS plans to use the District's resources to address these priorities. The plan should be updated yearly as it should serve as an important accountability component to each year's budget by informing stakeholders how CPS plans to achieve its mission.

Consolidate the Chicago Teachers' Pension Fund with the Teachers' Retirement System or Increase State Funding for Chicago Teachers' Pensions

In previous years the Federation made recommendations that the District pursue pension reforms ranging from benefit changes to governance improvements in order to improve the administration, transparency, accountability and fiscal sustainability of the Chicago Teachers' Pension Fund (CTPF). With the constitutionality of pension benefit reforms in question until all litigation surrounding recent reform legislation has been adjudicated, the Federation makes the following recommendations to improve the financial sustainability of the CTPF.

The Civic Federation recommends that CPS work with legislators and the Teachers' Retirement System (TRS), which covers all public school teachers in Illinois except for CPS teachers to consolidate the Chicago Teachers' Pension Fund with TRS.

If consolidation fails, at the very least the State of Illinois should significantly increase its level of funding for the Chicago Teachers' Pension Fund to improve pension funding equity between Chicago taxpayers and downstate and suburban taxpayers.

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[36] Government Finance Officers Association, "Making the Grade: Long-Term Financial Planning for Schools" http://www.gfoa.org/sites/default/files/GFOAMakingtheGradeLTFPforSchools.pdf (last visited on July 17, 2014).
[37] See discussion of Geneva Community Unit School District 304 in Illinois in Government Finance Officers Association, "Making the Grade: Long-Term Financial Planning for Schools."

End Employer "Pickup" of Employee Pension Contributions for All Employees

Employee contributions to the CTPF are statutorily set at 9.0% of the employee's salary. Employee contributions by non-teacher employees to the Chicago Municipal Fund are set at 9.0% of the employee's salary for 2015.[38]

CPS "picks up" 7.0% of the 9.0% annual employee pension contribution for both teachers and non-teaching staff, meaning it pays seven percentage points of the employee 9.0% contribution on behalf of employees. Therefore, in 2015, employees effectively pay 2.0% of their annual salary toward their pensions. The District's FY2016 cost for the 7% employee pick-up for teachers is approximately $131.0 million and is part of the District's budgeted pension appropriation.[39] CPS administration has said that they would like to phase out the pickup for teachers as part of a pending contract still being negotiated with the Chicago Teachers Union (CTU). The CTU has called the end of the pickup a pay cut and a possible cause for a strike, but has not completely ruled out phasing out the pickup.[40] The FY2016 cost for the pickup for non-teacher employees is $40.0 million.[41]

CPS announced it would be phasing out the pension pickup for central office, regional and non-union support staff employees in August 2015 and eliminated it completely for new employees in those offices. The District estimates that shifting the pickup costs to employees will save nearly $21.0 million over the next three years and $11.1 million annually when fully phased in.

- In FY2016, existing employees will pick up an added 2.0% of their pension costs, which will save $2.8 million;
- In FY2017, existing employees will pick up another 2.0% of their pension costs, which will save $3.9 million; and,
- In FY2018, employees will pick up the full employee pension costs, which will save $4.3 million.[42]

The Civic Federation believes employees must share in the increasing cost of their pension benefits and supports the District in its goal to eliminate what has become an unaffordable benefit.

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[38] Per the pension benefit reforms included in Public Act 98-0641, employee contributions to the Municipal Fund, including Board of Education employee members, increase by half a percentage point per year over five years. Starting January 1, 2015, employee contributions for members of the Municipal Fund increased from 8.5% to 9.0%. If the reforms are upheld in the Illinois Supreme Court, contributions will increase again to 9.5% on January 1, 2016. If the reforms are struck down, the increased contributions made by employees at the City of Chicago and CPS will likely be refunded.
[39] CPS FY2016 Proposed Budget, p. 141.
[40] Lauren Fitzpatrick and Fran Spielman, "Emanuel to ask CTU to phase out 7 percent pension pickup," *Chicago Sun-Times*, August 13, 2015, p. 10.
[41] CPS FY2016 Proposed Budget, p. 141
[42] Chicago Public Schools, New Employees Will Not Be Eligible For Pickup, Which Will Be Phased Out For Existing Employees, August, 12, 2015. http://cps.edu/News/Press_releases/Pages/PR1_8_12_2015.aspx.

Implement Additional Cost Sharing with Employees for Employee Healthcare

As described above, the consulting firm Ernst & Young prepared a report for CPS which analyzed its financial condition and provided deficit projections.[43] Their analysis showed that CPS employees contribute less toward their health insurance premiums than the national average, particularly for dependent coverage.[44] In order to lower costs and make the benefits the District provides more fiscally sustainable, CPS should explore increasing the level of contributions employees must make toward their own and their dependents' health insurance. In addition to higher contributions toward premiums, the District should also look into savings it might garner from increasing co-pays and adjusting its networks. As with the phase-out of the pension pickup, CPS should move to increase cost sharing for healthcare immediately for central office, regional and non-union support staff employees and then work to include such changes in union contracts.

Reinstate the Pension Fund Property Tax Levy Only as Part of a Comprehensive Plan to Improve Chicago Public Schools Financial Sustainability

On May 3, 1993, the Civic Federation warned that unless the State of Illinois increased its financial commitment to provide state revenue for education, CPS and other school districts in the State would fall into deeper financial trouble. The Civic Federation warned that in order to fix the basic funding problem, the State needed to provide a stable source of revenues to schools while demanding more accountability from schools for educational performance and more efficient administration.[45] The Civic Federation was also concerned that redirecting the pension fund tax levy to fund general operations would have a serious impact on the funded ratio of the CTPF. Both concerns have come to fruition. The Civic Federation recommends that the pension fund property tax levy be reinstated, but only in the context of a comprehensive, long-term financial plan. It is also important that the pension levy not be transferred from the operating levy, as proposed in various pieces of legislation currently being considered in the Illinois General Assembly, which would only exacerbate the District's budget deficit.[46]

Rebuild Budgetary Reserves to Avoid Cash Crises

The Civic Federation recommends that as part of its long-term financial plan CPS should rebuild its budgetary reserves to avoid future cash-flow crises. In FY2016 CPS will continue to deplete its operating fund reserves to balance its budget and will not maintain its stabilization fund balance at targeted levels. A total of $75.1 million in operating fund reserves is budgeted for use, including $4.5 million in appropriated general fund reserves. CPS projects that $67.5 million will be left in the district's operating fund stabilization fund at year-end. Short-term borrowing to cover cash-flows rather than reserves is extremely expensive and will cost the District approximately $24.0 million in FY2016.

[43] Ernst & Young, "Board of Education—City of Chicago Structural Deficit Discussion Document." May 22, 2015. http://www.scribd.com/doc/269588560/CPS-Discussion-Document.

[44] Ernst & Young, "Board of Education—City of Chicago Structural Deficit Discussion Document." May 22, 2015. http://www.scribd.com/doc/269588560/CPS-Discussion-Document

[45] Civic Federation, Statement on the Chicago Public Schools Budget, Bulletin No. 1089, September 2, 1993.

[46] House Bill 3695 and Senate Bill 318, among other plans include this unsustainable provision.

CPS also will use $47.6 million in its debt service stabilization fund to pay for debt service expenses in FY2016, leaving just $9.5 million in the fund at the end of the fiscal year. CPS is using Debt Service Fund reserves to pay for debt service because this maneuver will allow the District to allocate State GSA funding, which would otherwise have gone directly to pay for debt service, to general operations.[47]

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."[48] Two months of operating expenditures is approximately 17.0%. Chicago Public Schools is a special purpose government, not a general purpose government, but its 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.[49] In August 2008, CPS adopted its Fund Balance policy which would maintain the minimum target fund balance of 5.0% of spending. However, the CPS FY2015 Proposed Budget—like the FY2009, FY2010, FY2013, and FY2014 budgets before it—closed an $876.3 million budget deficit with an almost complete drawdown of its unrestricted reserves leaving only $75.1 million in reserves for FY2016 which are dedicated to the General Operating Fund,[50] a reserve of only 1.1%. CPS must find a way to replenish its reserves once it exits its fiscal crisis from new revenue combined with expenditure cuts.

Release Separate Popular Budget Summary

CPS funds are grouped slightly differently in the online interactive budget[51] as compared to the CPS FY2016 Budget Book. According to CPS, the online Interactive Reports display funds from a practical spending perspective rather than a strict accounting perspective. For instance, there are four Special Revenue Funds included in the General Fund in the Budget Book, but they are broken out into separate funds, although though they are still part of the General Fund, in the Interactive Budget. The Special Revenue Funds include the School Generated Fund, Lunchroom Fund, No Child Left Behind Fund, and Other Grants. These funds are classified under the General Fund from an accounting perspective, but funds are earmarked for special purposes and are limited to use by the schools that generated them. The District believes this modification in fund grouping is easier to understand and will help the interactive budget be more user-friendly for the public. However, having numbers that do not match between the budget book and the online interactive budget can be confusing for readers. If the District wishes to make its budget more understandable to the general public, it should consider creating a popular budget summary in addition to the budget book and online interactive data portal. In this way, the interactive budget could serve as an extension of the budget book, providing more detailed data, and the

[47] CPS FY2016 Proposed Budget, p. 11 and 146.
[48] GFOA, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).
[49] GFOA, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009). "Unrestricted fund balance" includes Committed, Assigned and Unassigned fund balances.
[50] CPS FY2016 Proposed Budget, p. 171.
[51] The interactive portion of the CPS Proposed FY2016 Budget can be found online on the CPS budget website: https://supplier.csc.cps.k12.il.us/analytics/saw.dll?Dashboard.

popular budget summary would serve as a practical summary of the District's spending plans for the general public.

ACKNOWLEDGEMENTS

We would like to express our appreciation to Chief Financial Officer Ginger Ostro, Treasurer Jennie Huang Bennett, Budget Director Michael Moss and the staff of the CPS Budget Office for their work in preparing this budget and their willingness to answer the Civic Federation's questions.

FY2016 DEFICIT DRIVERS AND GAP-CLOSING MEASURES

In FY2016, the District faces a massive budget deficit of nearly $1.2 billion. This section details some of the drivers of the annual deficit and the structural deficit the District has run for at least half a decade.

Deficit Drivers

As noted above, a recent report provided to CPS by Ernst & Young, the consulting and accounting firm, stated that the District has effectively been running a $500.0 million structural deficit for the past four budget years, FY2011 through FY2014, but it has been obscured by the use of one-time revenue sources and partial pension holidays. Ernst & Young said the four primary deficit drivers for the District were funding issues, long-term liabilities, compensation increases and operational problems.[52] Both CPS and Ernst & Young identify decreases in General State Aid (GSA) and lack of pension funding from the State of Illinois as major deficit drivers.

An additional driver of the FY2016 $1.2 billion budget deficit was the use of one-time resources to balance the FY2015 budget. Because the hundreds of millions of dollars in fund balance that were used in FY2015 to help close that year's deficit are not recurring revenues, the District could not use them again in FY2016, leaving a shortfall in resources.

Gap-Closing Measures

The District announced in July 2015 that it would make $200.0 million in cuts to help balance the FY2016 budget.[53] The cuts included eliminating nearly 1,400 positions, including 350 vacant positions. Other reductions included $42.3 million in the Diverse Learners program; $17.4 million in Network Offices; $11.6 million in professional development for turnaround schools, $15.8 million in start-up funding for newly approved charter schools; $11.1 million in cuts to the facility repair and maintenance budget; and $3.2 million in central office funding for other school programs.

The District has repeatedly used one-time revenue to pay for ongoing expenditures without providing any detailed plan for how it would undo the negative impacts of its short-term balancing act. Having nearly drained its budgetary reserves in prior years, this year CPS is relying on $200.0 million dollars in "scoop and toss" bond refunding, $55.0 million in one-time sources to pay debt service, $62.0 million in Tax Increment Finance (TIF) surplus from the City of Chicago and $75.0 million in its dwindling reserves for a total of $392 million in one-time resources to help close its $1.2 billion deficit. [54] Such one-time sources are in addition to the vague hope that the District will receive $480.0 million in funding from the State. The National Advisory Council on State and Local Budgeting Practice advises that one-time, or non-recurring,

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[52] Ernst & Young, "Board of Education—City of Chicago Structural Deficit Discussion Document." May 22, 2015. http://www.scribd.com/doc/269588560/CPS-Discussion-Document.

[53] Chicago Public Schools, "After Springfield Inaction, CPS Reducing Expenses by $200 Million," July 1, 2015.

[54] CPS FY2016 Proposed Budget, p. 4; Communication with Chicago Public Schools Budget Office, August 10, 2015.

revenues cannot be "relied on in future budget periods."[55] Occasional use of reserve funds may be reasonable, particularly if there is a severe economic situation or if a government has historically maintained an adequate cushion for contingencies or delayed revenues. However, as noted above, Chicago Public Schools has maintained a structural deficit for many years and has almost completely depleted its fund balance to close its previous year's deficit, with the result that it faces a severe cash crisis. This crisis was not unforeseeable and is the direct result of the unsound fiscal practice of consistently use one-time resources. The table below exhibits how the District will close 34.0% of the $1.2 billion deficit with one-time resources.

CPS Actions to Close the FY2016 Budget Gap (in $ millions)		
Cuts	$	200.0
State Pension Relief	$	480.0
Debt Restructuring	$	255.0
Property Tax	$	80.0
TIF Surplus	$	62.0
Reserves	$	75.0
Total	$	1,152.0

Source: Communication with CPS Budget Office, August 10, 2015.

APPROPRIATIONS

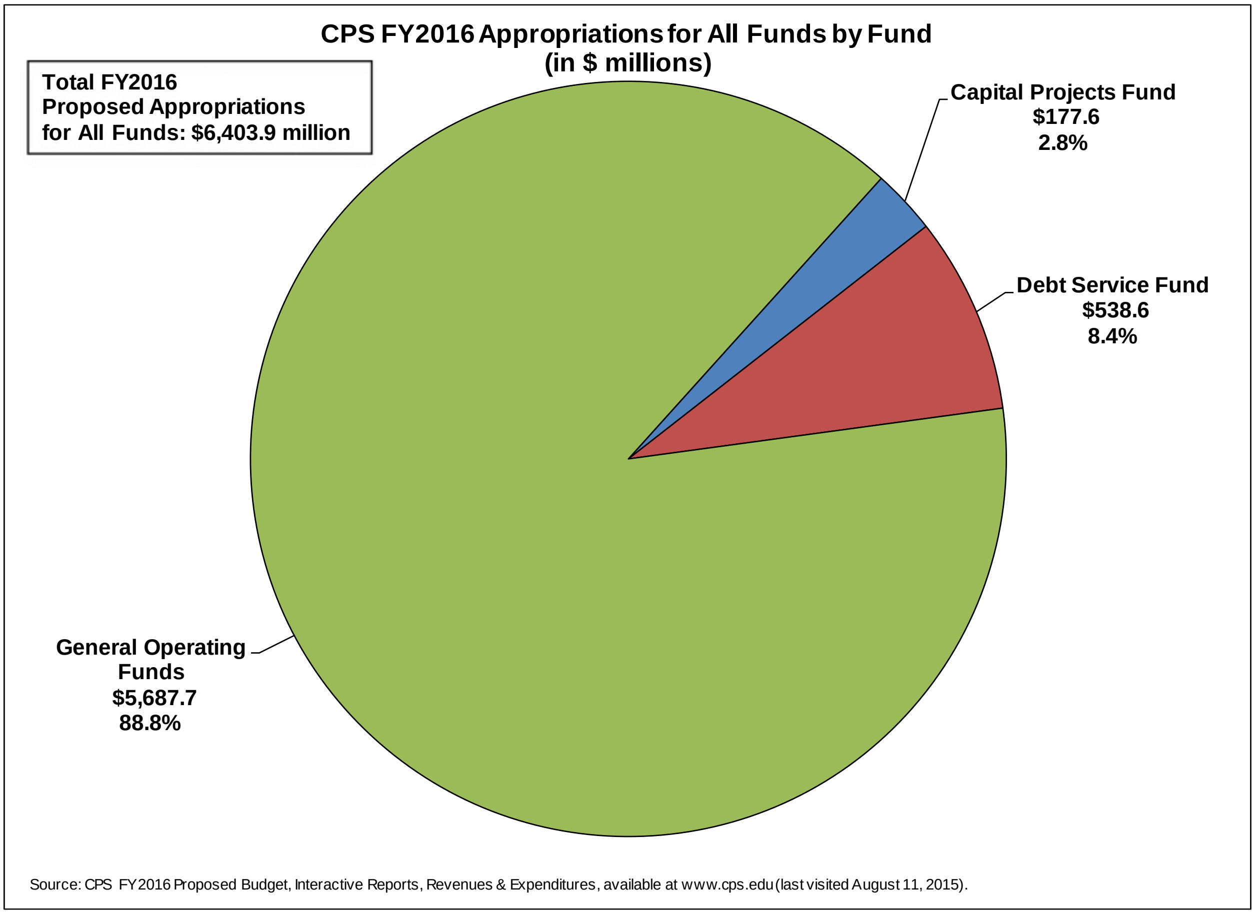
This section presents an analysis of CPS appropriation trends, including appropriations by type, source and location. The section includes two- and five-year appropriation trends for all funds and two- and five-year appropriation trends for general operating funds.[56] Proposed FY2016 appropriations are compared with FY2012, FY2013 and FY2014 actuals and FY2015 approved appropriations.

[55] National Advisory Council on State and Local Budgeting Practice, A Framework for Improved State and Local Government Budgeting and Recommended Budget Practices, 1998. http://www.co.larimer.co.us/budget/budget_practices.pdf.

[56] The Civic Federation has traditionally analyzed five-year appropriation trends for all funds, but the FY2016 Proposed Budget does not provide consistent data for fiscal years 2012 through 2016. Therefore, five-year historical trend comparisons cannot be completed for all sections of the appropriations section of this analysis.

Total Appropriations for FY2016

The $6.4 billion CPS FY2016 Proposed Appropriations Budget consists of an approximately $5.7 billion appropriation in the General Operating Fund, $177.6 million in the Capital Projects Funds and $538.6 million in the Debt Service Funds. The General Operating Fund represents 88.8% of the total budget, the Capital Projects Fund represents 2.8% and the Debt Service Fund represents 8.4%. The following chart shows total FY2016 proposed 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 construction and other capital expenditures. The Debt Service Funds are for payment of long-term debt, such as bond issuances and lease obligations.[57]

[57] CPS FY2016 Proposed Budget, Appendix E – Glossary.

Two-Year and Five-Year Appropriation Trends for All Funds

The proposed FY2016 $6.4 billion budget is a decrease of 6.8%, or $466.0 million, from the FY2015 approved budget of $6.9 billion. The Capital Projects Funds will decline by $332.3 million, or 65.2%, over the two-year period. Appropriations for the General Operating Fund, which consists of the General Fund and Special Revenue Funds, will decline by 1.2%, or $68.5 million, over the FY2015 approved budget. The Debt Service Funds will decrease by 10.8%, or $65.2 million, in FY2016.

Over the five-year period total appropriations for all funds will increase by $492.7 million, or 8.3%, increasing from $5.9 billion from the FY2012 approved budget to $6.4 billion proposed in FY2016. The General Operating Funds will increase by $577.5 million, or 11.3%, over the five-year period. Appropriations for the Capital Projects Fund will decrease by $213.5 million, or 54.6%, below the FY2012 approved budget. The Debt Service Funds will increase by 31.4%, or $128.7 million, over the five-year period.

CPS Appropriations for All Funds by Fund: FY2012-FY2016 (in $ millions)

Fund Type	FY2012 Approved	FY2013 Approved	FY2014 Appproved	FY2015 Approved	FY2016 Proposed	FY2015 to FY2016 $ Change	FY2015 to FY2016 % Change	FY2012-FY2016 $ Change	FY2012-FY2016 % Change
General Operating Funds	$ 5,110.2	$ 5,162.3	$ 5,592.3	$ 5,756.2	$ 5,687.7	$ (68.5)	-1.2%	$ 577.5	11.3%
Capital Projects Funds	$ 391.1	$ 169.8	$ 349.1	$ 509.9	$ 177.6	$ (332.3)	-65.2%	$ (213.5)	-54.6%
Debt Service Funds	$ 409.9	$ 394.5	$ 613.2	$ 603.8	$ 538.6	$ (65.2)	-10.8%	$ 128.7	31.4%
Total Appropriation	**$ 5,911.2**	**$ 5,726.6**	**$ 6,554.5**	**$ 6,869.9**	**$ 6,403.9**	**$ (466.0)**	**-6.8%**	**$ 492.7**	**8.3%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns.
Source: CPS FY2012 Approved Budget, p. 21; CPS FY2013 Approved Budget, p. 19; CPS FY2014 Approved Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last accessed August 17, 2015); CPS FY2015 Approved Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 11, 2015); and FY2016 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 11, 2015).

The chart below shows a comparison of appropriations for all funds by type of expense for the FY2015 approved budget and the FY2016 proposed budget. Appropriations for equipment will decline by the largest dollar amount between the two years, decreasing by $352.4 million, or 64.0%. Appropriations for debt will decline significantly, shrinking by $65.0 million, or 10.8%. The decline in debt service is primarily due to the planned restructuring of bonds and one-time revenue sources to cover debt service payments in FY2016.[58] Salaries will also decline between the two years by $57.6 million. The decline in appropriations for salaries reflects the reduction of 1,400 positions, including 350 vacant positions.[59] Appropriations for benefits will increase over the two-year period by $25.4 million, which is primarily the result of a $42.0 million increase in pension contributions.[60] Contingencies will decline by $34.4 million, or 11.3% over the two-year period. Contingencies include two types of funding: 1) funding that has been budgeted, but has yet to be allocated and 2) grant funding that has yet to be confirmed or allocated to a specific school or program. Once the item, program or school allocation has been decided, the funds are moved to a separate line item of the budget.[61]

[58] CPS FY2016 Proposed Budget, p. 24.
[59] CPS FY2016 Proposed Budget, p. 22.
[60] CPS FY2016 Proposed Budget, p. 23.
[61] CPS FY2014 Proposed Budget, p. 16.

CPS Appropriations for All Funds by Type: FY2015 & FY2016 (in $ millions)				
Type	FY2015 Approved	FY2016 Proposed	FY2015 to FY2016 $ Change	FY2015 to FY2016 % Change
Salaries	$ 2,612.3	$ 2,554.7	$ (57.6)	-2.2%
Benefits	$ 1,310.0	$ 1,335.4	$ 25.4	1.9%
Contracts	$ 1,133.1	$ 1,153.9	$ 20.8	1.8%
Commodities	$ 260.6	$ 264.1	$ 3.5	1.3%
Equipment	$ 550.3	$ 197.9	$ (352.4)	-64.0%
Transportation	$ 99.5	$ 93.1	$ (6.4)	-6.4%
Contingencies	$ 303.6	$ 269.2	$ (34.4)	-11.3%
Debt	$ 600.7	$ 535.6	$ (65.0)	-10.8%
Total	**$ 6,869.9**	**$ 6,403.9**	**$ (466.0)**	**-6.8%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns.
Source: CPS FY2015 Approved Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 11, 2015); and FY2016 Proposed Budget, Revenues & Expenditures, available at www.cps.edu (last visited August 11, 2015).

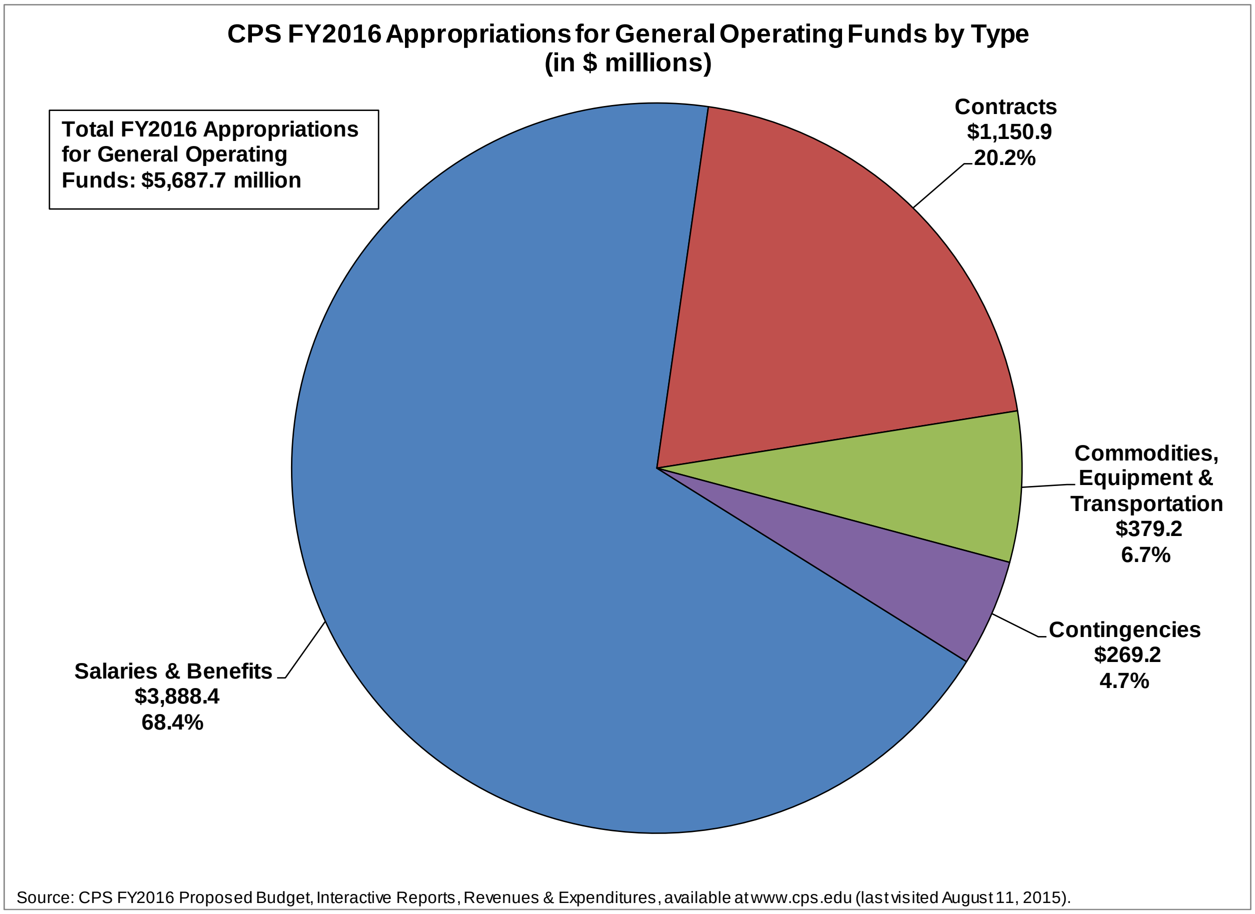
Two-Year and Five-Year Appropriation Trends for General Operating Funds

The following section shows trend data for operating funds appropriations by type and location for FY2012, FY2013 and FY2014 actual appropriations, FY2015 approved appropriations and the FY2016 proposed appropriations.

Appropriations for General Operating Funds by Type

The exhibit below shows the breakdown of FY2016 General Operating Funds appropriations by type. The largest single portion is earmarked for salaries and benefits. Approximately 68.4% of the operating funds, or $3.9 billion, will be for teacher salaries, non-teacher salaries and employee benefits. Contracts, totaling over $1.2 billion, or 20.2%, of the total operating budget, include professional services and contractual payments to outside organizations that provide school support services and 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 $379.2 million, or 6.7%, of the operating budget, while contingencies account for $269.2 million, or 4.7%. Commodities include utilities, food, instructional supplies and other supplies.[62] As previously explained, contingencies include two types of funding: 1) funding that has been budgeted but has yet to be allocated, and 2) grant funding that has yet to be confirmed or allocated to a specific school or program. Once the item, program or school allocation has been decided, the funds are moved to a separate line item of the budget.

[62] CPS FY2016 Proposed Budget, p. 23.



The next exhibit compares proposed FY2016 General Operating Fund appropriations by type with FY2012, FY2013 and FY2014 actuals and FY2015 approved expenditure estimates. Total General Operating Funds will decrease by $68.5 million, or 1.2%, between FY2015 and FY2016, mostly due to a decrease in salary expenses of $58.1 million, or 2.2%. Benefit appropriations will increase by $25.3 million, or 1.9%, over the two-year period. Appropriations for benefits, contracts and commodities will increase between FY2015 and FY2016 by a total of approximately $50.7 million.

In the five-year period between FY2012 and FY2016, total General Operating Funds appropriations will rise by $799.4 million, or 16.4%, due to significant increases in employee benefits, contracts and contingencies that total approximately $978.5 million. As stated above, contingencies include funding that has been budgeted but has yet to be allocated, which is primarily why the budgeted amounts for the FY2015 approved and FY2016 proposed budget is higher than actual spending for contingencies in FY2012, FY2013 and FY2014. Employee benefits will increase by $496.2 million, or 59.1%, over the five-year period. Appropriations for contracts will increase by $213.2 million, or 22.7%. Appropriations for salaries, commodities, equipment, transportation and other expenses will decrease by a total of $179.1 million over the five-year period.

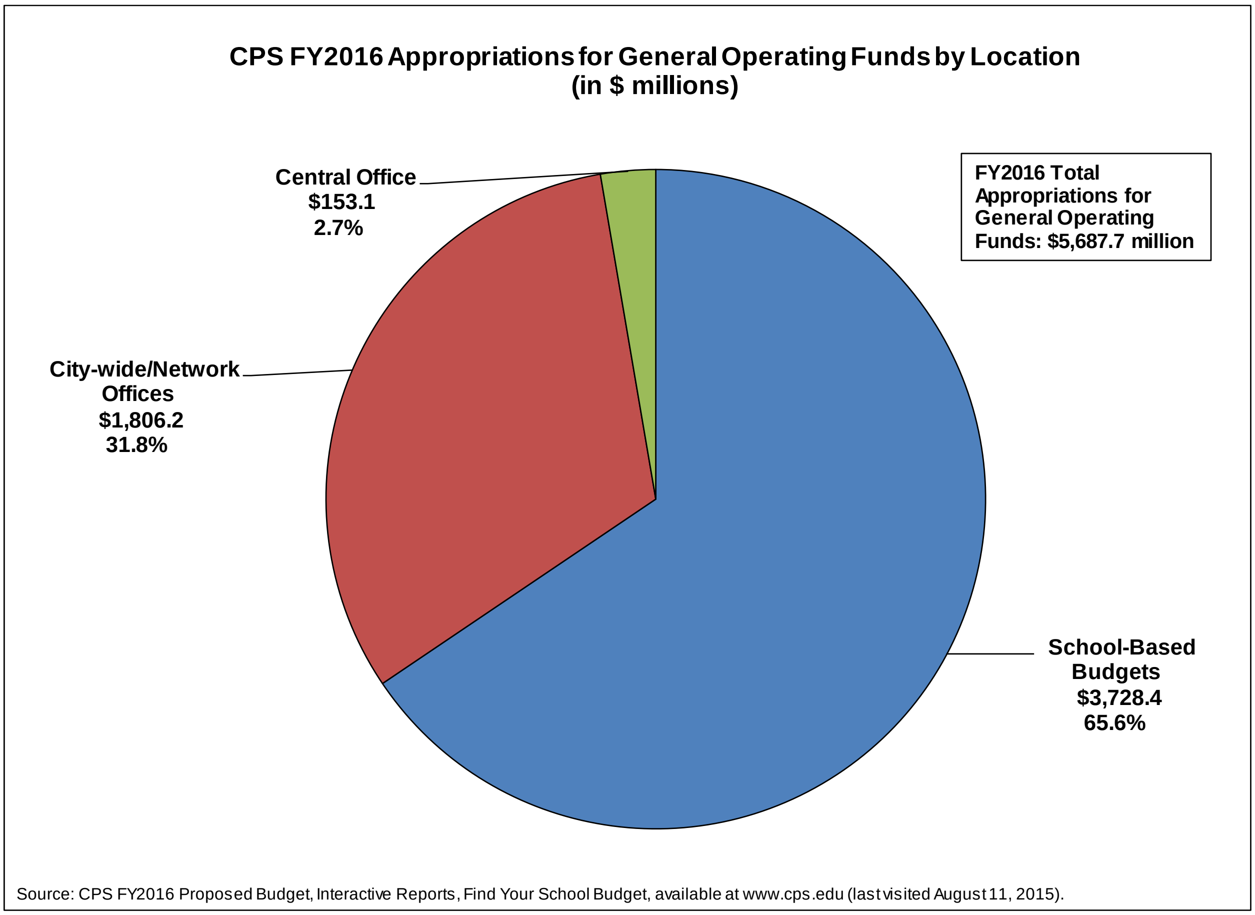
CPS Appropriations for Operating Funds by Type: FY2012-FY2016 (in $ millions)									
Type	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Adopted	FY2016 Proposed	FY2015 to FY2016 $ Change	FY2015 to FY2016 % Change	FY2012 to FY2016 $ Change	FY2012 to FY2016 % Change
Salaries	$ 2,645.1	$ 2,575.5	$ 2,541.5	$ 2,611.5	$ 2,553.4	$ (58.1)	-2.2%	$ (91.7)	-3.5%
Benefits	$ 838.9	$ 866.2	$ 1,263.6	$ 1,309.7	$ 1,335.1	$ 25.3	1.9%	$ 496.2	59.1%
Contracts	$ 937.7	$ 997.4	$ 1,145.3	$ 1,129.0	$ 1,150.9	$ 21.9	1.9%	$ 213.2	22.7%
Commodities	$ 272.7	$ 305.5	$ 293.0	$ 260.6	$ 264.1	$ 3.5	1.3%	$ (8.6)	-3.2%
Equipment	$ 74.8	$ 86.1	$ 94.5	$ 41.4	$ 22.0	$ (19.4)	-46.9%	$ (52.8)	-70.6%
Transportation	$ 109.4	$ 106.9	$ 104.4	$ 99.5	$ 93.1	$ (6.4)	-6.4%	$ (16.3)	-14.9%
Contingencies	$ -	$ -	$ -	$ 304.6	$ 269.2	$ (35.4)	-11.6%	$ 269.2	-
Other	$ 9.7	$ 8.6	$ 7.8	$ -	$ -	$ -	-	$ (9.7)	-100.0%
Capital Outlay		$ 0.1	$ -	$ -	$ -	$ -	-	$ -	-
Total	**$ 4,888.3**	**$ 4,946.3**	**$ 5,450.1**	**$ 5,756.2**	**$ 5,687.7**	**$ (68.5)**	**-1.2%**	**$ 799.4**	**16.4%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns.

Source: CPS FY2016 Proposed Budget, Interactive Reports, Budget by Account and Historical Expenditures, available at www.cps.edu (last visited August 11, 2015).

Appropriations for Operating Funds by Location

The exhibit below shows the breakdown of proposed FY2016 General Operating Funds appropriations by location. School-based budgets comprise 65.6% of operating appropriations or approximately $3.7 billion. This includes direct costs for CPS, charter and alternative schools. Approximately 31.8%, or $1.8 billion, will be for city-wide/network offices. These are programs and services that directly impact multiple schools across the District and include teacher pension contributions. Appropriations for central office will represent 2.7%, or $153.1 million, of operating appropriations.



The following chart compares two-year and five-year trends by location for the FY2016 proposed budget to the approved budget for FY2015 and the approved or amended budgets for FY2012, FY2013 and FY2014. Actual expenditures by location from prior years are not provided in the budget documents.

Over the two-year period school-based budget appropriations will increase by 0.8%, or $29.9 million, in FY2016 from FY2015. The city-wide/network offices will increase by 0.6%, or $10.2 million, while central office expenditures will decrease by 41.5%, or $108.6 million.

Over the five-year period between the FY2012 approved and FY2016 proposed budget, General Operating Funds proposed appropriations for school-based budgets will decrease by 2.9%, or

$110.5 million. Appropriations for city-wide/network offices will rise by 65.5% or $714.8 million. The central office appropriations will decrease by 14.9%, or $26.8 million, over the five-year period. The increase in central office appropriations between FY2012 and FY2014 of approximately $70.0 million was in part a result of restructuring 700 engineer positions from being budgeted and managed by individual schools to being controlled by the Central Office.[63] In FY2016 the proposed budget will reduce central office expenditures to preserve funding in classrooms.[64]

CPS Appropriations for General Operating Funds by Location: FY2012-FY2016 (in $ millions)

Location	FY2012 Approved	FY2013 Amended	FY2014 Approved	FY2015 Approved	FY2016 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
School-Based Budgets	$ 3,838.9	$ 3,600.4	$ 3,537.5	$ 3,698.5	$ 3,728.4	$ 29.9	0.8%	$ (110.5)	-2.9%
Citywide/Network Offices	$ 1,091.4	$ 1,398.6	$ 1,735.7	$ 1,796.0	$ 1,806.2	$ 10.2	0.6%	$ 714.8	65.5%
Central Office	$ 179.9	$ 233.3	$ 319.0	$ 261.8	$ 153.1	$ (108.6)	-41.5%	$ (26.8)	-14.9%
Total	**$ 5,110.2**	**$ 5,232.2**	**$ 5,592.2**	**$ 5,756.2**	**$ 5,687.7**	**$ (68.5)**	**-1.2%**	**$ 577.5**	**11.3%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns.
Source: FY2012 Proposed Budget, Appendices, Appropriations by Functions and Organizational Level - General Operating Funds; FY2013 Proposed Budget, Interactive Reports, Find Your School Budget, available at www.cps.edu (last visited July 17, 2014); FY2014 Approved Budget, Interactive Reports, Find Your School Budget, available at www.cps.edu (last visited August 11, 2015); and FY2015 Adopted Budget, Interactive Reports, Find Your School Budget, available at www.cps.edu (last visited August 11, 2015); and FY2016 Proposed Budget, Interactive Reports, Find Your School Budget, available at www.cps.edu (last visited August 11, 2015).

RESOURCES

The following section presents total revenues and total resources that CPS plans to appropriate in FY2016 and includes a discussion of federal, state and local resources for all funds and two-year and five-year resource and revenue trend analyses. Proposed FY2016 revenues and resources are compared with FY2012, FY2013 and FY2014 actuals and FY2015 approved revenues when available.

The FY2016 CPS budget projects 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 which, in the absence of a fund balance for the District to draw on, creates a cash crunch. In order to avoid making cuts and which, in the absence of pension reform, CPS has relied on spending down its budgetary reserves to balance its recent budgets.[65] However, its reserves are now depleted and the District is turning to short-term borrowing, or Tax Anticipation Notes (TANs),[66] to provide cash between property tax payments. In addition to the $700.0 million TAN issued in FY2015, the District plans to issue $935.0 million in short-term borrowing in FY2016, which will cost an additional $24.0 million in interest.[67] The budget also relies on a $480.0 million windfall in pension aid from the State which has not been introduced as legislation, passed by the General Assembly or approved by the Governor. If the State funding does not

[63] CPS FY2013 Proposed Budget, p. 13.
[64] CPS FY2016 Proposed Budget, p. 4.
[65] For more information on reserves see p. 48.
[66] TANs are backed by anticipated property tax revenues.
[67] CPS FY2016 Proposed Budget, p. 168.

materialize, the District proposes more unsustainable borrowing and further cuts, which could affect the classroom.

Fund Descriptions and Structure

CPS funds are grouped slightly differently in the online interactive budget[68] as compared to the CPS FY2016 Budget Book. According to CPS, the online Interactive Reports display funds from a practical spending perspective rather than a strict accounting perspective. For instance, there are four Special Revenue Funds included in the General Fund in the Budget Book, but they are broken out into separate funds, although though they are still part of the General Fund, in the Interactive Budget. The Special Revenue Funds include the School Generated Fund, Lunchroom Fund, No Child Left Behind Fund, and Other Grants. These funds are classified under the General Fund from an accounting perspective, but funds are earmarked for special purposes and are limited to use by the schools that generated them. The District believes this modification in fund grouping is easier to understand and will help the interactive budget be more user-friendly for the public.

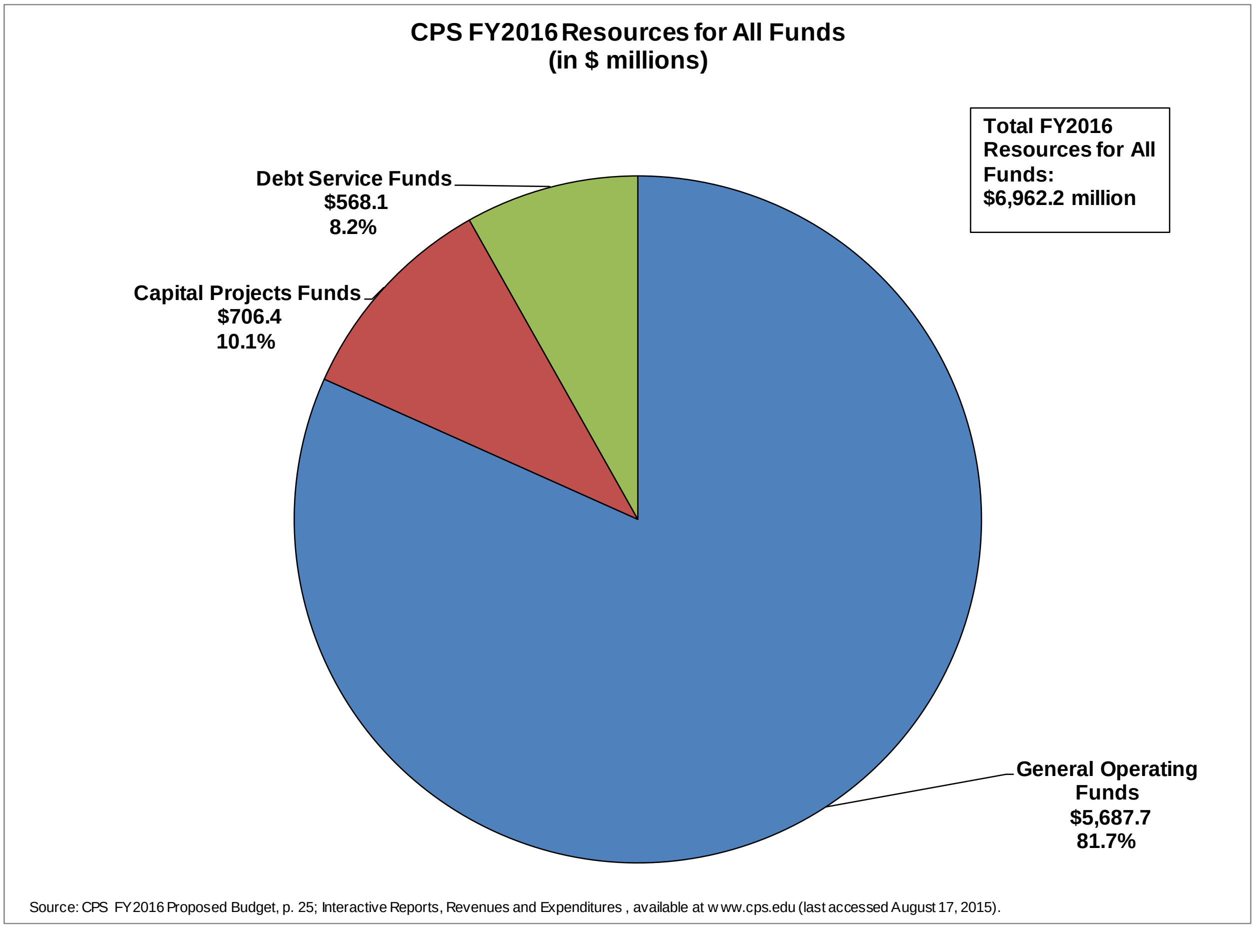
In this chapter, our analysis will rely on the fund structure as outlined in the FY2016 Proposed Budget, which conforms to Generally Accepted Accounting Principles (GAAP). CPS has three fund types: General Operating Fund, Debt Service Funds and Capital Projects Funds. The General Operating Fund consists of both the General Fund and Special Revenue Funds. The General Fund is the primary operating fund of CPS and consists of the General Education Fund, Building Operations and Maintenance Fund, Special Education Fund and the Workers' and Unemployment Compensation/Tort Fund. The Special Revenues Funds account for specific revenue sources that are restricted for specific purposes other than debt service or capital projects.

Total Resources for FY2016

In FY2016 CPS projects its total resources for all funds will be nearly $7.0 billion in local, state and federal revenues and other resources, including $75.1 million of appropriated fund balance and $480.0 million in state pension funding for which the District has budgeted but no appropriation has been made by the State of Illinois. The General Operating Fund will hold the majority of resources with 81.7%, or $5.7 billion. This includes the $75.1 million of appropriated General Operating Fund balance, which is a dramatic decrease of 92.0% from fund balance appropriated in FY2015 because CPS has spent down almost its entire budgetary reserves. The Capital Projects Funds, which account for financial resources used for major capital acquisition or construction activities, will total $706.4 million, or 10.1%, of total resources of which more than half will come from a $515.0 million in net bond proceeds. Debt Service Funds, which

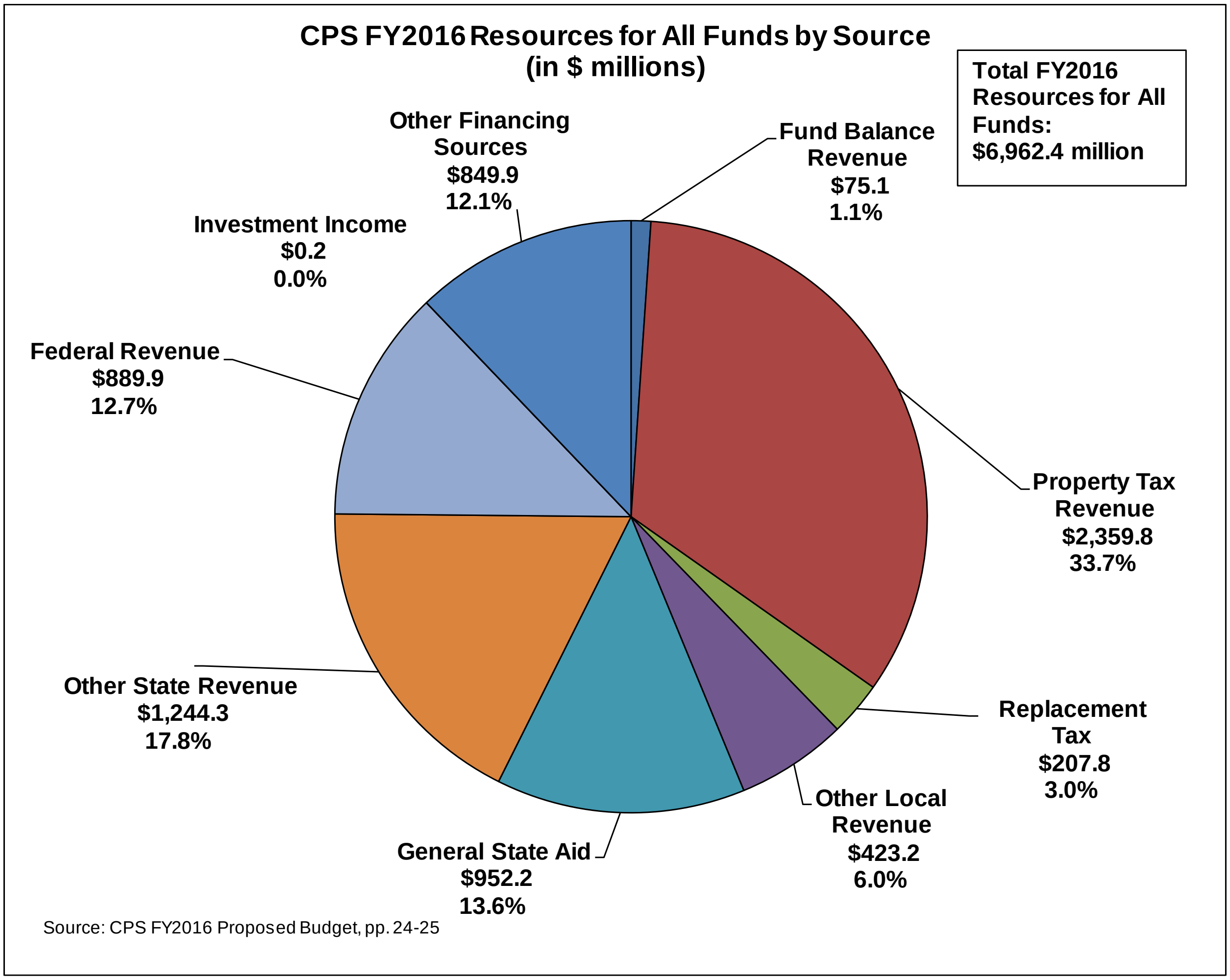
[68] The interactive portion of the CPS Proposed FY2016 Budget can be found online on the CPS budget website: https://supplier.csc.cps.k12.il.us/analytics/saw.dll?Dashboard.

account for principal and interest on long-term debt, will total $568.1 million, or 8.2%, of total resources.



In FY2016 33.7% of all CPS resources, or nearly $2.4 billion, will come from local property tax revenues. General State Aid provided the second largest component of the CPS revenue stream in FY2015, at 14.9% or just over $1.0 billion, but in FY2016 it is the third largest component of the budget at 13.6%, or $952.2 million. In FY2016, Other State Revenue, which encompasses all revenue from the State less General State Aid, including block and other grants, State Pension Aid for Teachers and Driver's Education monies, is the second largest component of the District's budget at 17.8%, or $1.2 billion, and is driven largely by the assumed $480.0 million pension aid and the statutorily required $12.1 million pension payment from the State. If Illinois does not contribute the $480.0 million to the District, Other State Revenue will decrease by 21.9% to $764.3 million. Federal funds will be the fourth largest source of revenues at 12.7% of the total, or $889.9 million, followed closely by Other Financing sources which is projected to bring in $849.9 million in revenues including $555.0 million in borrowing. Appropriated Fund Balance will provide only 1.1% of the District's resources at $75.1 million, down 92.0% from

FY2015. Other Local Revenue, the Personal Property Replacement Tax, and Investment Income account for the remaining 9.7% of FY2016 total resources for a total of $631.2 million.



The following chart details the nearly $6.1 billion in total revenues and $7.0 billion in total resources proposed in the CPS FY2016 budget. However, if there is no pension help from the state, there will only be approximately $5.6 billion in total revenues and $6.5 billion in total resources. In FY2016 the District will receive nearly $3.0 billion in local government revenue, including almost $2.4 billion in net property tax revenues. It is important to note that the District will be increasing its property tax levy at 0.8%, the maximum increase allowed under PTELL. This will bring in an additional $19.0 million over FY2015 plus an extra $61 million from levying for new property. State revenues in FY2016 could total $2.2 billion which, again, assumes a $480.0 million pension contribution from the state; otherwise, that number falls to $1.7 billion. Federal aid is expected to remain relatively flat totaling $889.9 million. The District plans to use $75.1 million in appropriated reserves as resources in FY2016 primarily because the District has depleted its reserves in past fiscal years to balance budgets. In addition, CPS will have approximately $515.0 million in net proceeds from new bonds to finance the capital program and $294.0 million in bonds to fund the debt service, bringing total FY2016 resources to nearly $7.0 billion.

CPS FY2016 Revenues and Resources by Fund Type (in $ millions)

	General Operating	Capital	Debt Service	Total
Property Taxes	$ 2,307.8	$ -	$ 52.0	$ 2,359.8
Replacement Tax	$ 149.5	$ -	$ 58.3	$ 207.8
Other Local Revenue	$ 245.2	$ 82.5	$ 95.5	$ 423.2
Subtotal Local Revenue	**$ 2,702.5**	**$ 82.5**	**$ 205.8**	**$ 2,990.8**
General State Aid	$ 909.3	$ -	$ 42.9	$ 952.2
Other State Revenue	$ 668.0	$ 96.3	$ -	$ 764.3
Budgeted Add'l State Pension Funding	$ 480.0	$ -	$ -	$ 480.0
Subtotal State Revenue	**$ 2,057.3**	**$ 96.3**	**$ 42.9**	**$ 2,196.5**
Federal Revenue	$ 852.6	$ 12.5	$ 24.8	$ 889.9
Investment Income	$ 0.1		$ 0.1	$ 0.2
Total Revenues	**5,612.5**	**191.3**	**$ 273.6**	**$ 6,077.4**
Other Financing Sources	$ -	$ 515.0	$ 294.5	$ 809.5
Appropriated Fund Balance	$ 75.1	$ -	$ -	$ 75.1
Total Resources	**$ 5,687.6**	**$ 706.3**	**$ 568.1**	**$ 6,962.0**

Note: Because of rounding, differences may occur from budget book.

Source: CPS FY2016 Proposed Budget pp. 9, 24-25 and Interactive Reports, Revenues and Expenditures (last accessed August 17, 2015).

Two-Year and Five-Year All Funds Resource Trends by Source

The FY2016 budget projects a 2.8%, or $188.5 million, increase in total resources from the FY2015 approved budget. Without the $480 million in additional pension aid from the State of Illinois, total resources will actually decrease by 4.3%, or $291.5 million. Total revenues are the sum total of local, state and federal revenues and investment income which will increase by 9.1% or $506.2 million. If the state does not provide the $480.0 million in pension relief, revenues will only increase by 0.5% or $25.2 million.

CPS Revenues and Resources All Funds by Source: FY2012-FY2016 (in $ millions)

	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Adopted	FY2016 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Property Taxes	$ 2,352.1	$ 2,211.6	$ 2,213.3	$ 2,282.5	$ 2,359.8	$ 77.3	3.4%	$ 7.7	0.3%
Replacement Taxes	$ 181.9	$ 185.9	$ 188.0	$ 188.9	$ 207.8	$ 18.9	10.0%	$ 25.9	14.2%
Other Local Revenue	$ 303.7	$ 322.9	$ 280.0	$ 368.2	$ 423.3	$ 55.1	15.0%	$ 119.6	39.4%
Subtotal Local Revenue	**$ 2,837.7**	**$ 2,720.4**	**$ 2,681.3**	**$ 2,839.6**	**$ 2,990.9**	**$ 151.3**	**5.3%**	**$ 153.2**	**5.4%**
General State Aid	$ 1,120.2	$ 1,078.4	$ 1,075.3	$ 1,022.6	$ 952.2	$ (70.4)	-6.9%	$ (168.0)	-15.0%
Other State Revenue	$ 845.6	$ 737.4	$ 767.4	$ 811.9	$ 764.3	$ (47.6)	-5.9%	$ (81.3)	-9.6%
Budgeted Add'l State Pension Funding	$ -	$ -	$ -	$ -	$ 480.0	$ 480.0	-	$ 480.0	-
Subtotal State Revenue	**$ 1,965.8**	**$ 1,815.8**	**$ 1,842.7**	**$ 1,834.5**	**$ 2,196.5**	**$ 362.0**	**19.7%**	**$ 230.7**	**11.7%**
Federal Revenue	$ 936.0	$ 845.8	$ 904.2	$ 897.2	$ 889.9	$ (7.3)	-0.8%	$ (46.1)	-4.9%
Investment Income	$ 20.8	$ 7.3	$ 15.6	$ 0.1	$ 0.2	$ 0.1	100.0%	$ (20.6)	-99.0%
Total Revenues	**$ 5,760.3**	**$ 5,389.3**	**$ 5,443.8**	**$ 5,571.3**	**$ 6,077.5**	**$ 506.2**	**9.1%**	**$ 317.2**	**5.5%**
Other Financing Sources	$ 403.6	$ 549.4	$ 138.9	$ 340.0	$ 809.5	$ 469.5	92.0%	$ 405.9	100.6%
Apppropriated Fund Balance	$ -	$ 120.0	$ 513.3	$ 862.3	$ 75.1	$ (787.2)	-91.3%	$ 75.1	N/A
Total Resources	**$ 6,163.9**	**$ 6,058.7**	**$ 6,096.0**	**$ 6,773.6**	**$ 6,962.1**	**$ 188.5**	**2.8%**	**$ 798.2**	**12.9%**

Note: Because of rounding, differences may occur from budget book.

Source: CPS Proposed FY2016 Budget; p.24, CPS Adopted Budget FY2015, p. 20; CPS FY2016 Propsed Budget, Interactive Reports; Revenues and Expenditures and Historical Revenues, available at www.cps.edu (last accessed August 14, 2015), CPS 2014 Comprehensive Annual Financial Report.

Total Local Revenues are projected to increase by 5.3%, or $151.3 million from FY2015. By increasing the property tax levy to the 0.8% maximum amount allowable and by levying for new property, projected revenues from property taxes increase in FY2016 from FY2015 by $77.3 million, or 3.4%, to nearly $2.4 billion. TIF surplus is projected to increase from $25.0 million in FY2015 to $87.2 million in FY2016 or 248.8%. The large increase is due in part to spending freezes in downtown TIF districts. The Personal Property Replacement Tax (PPRT), which is primarily driven by corporate income tax receipts, is expected to increase by $18.9 million or 10.0% to $207.8 million in FY2016, of which $58.0 million is dedicated to debt service and $150.0 million for operations.[69] The increase is based on the State's anticipated increases in corporate profits, which will result in a higher projected net growth rate of PPRT. The State collects and distributes PPRT to local taxing districts. CPS receives 27.1% of the total Cook County PPRT share, which is equivalent to 14.0% of the statewide total.[70]

General State Aid (GSA) for the District will decrease again by $70.4 million, or 6.9%, from FY2015. The District will receive approximately 92.0% of the State-determined foundation level of $6,119.0 per pupil which is estimated to be a loss of $83.0 million. Some of the $70.4 million decrease in GSA funding is attributable to changes in Chicago property values, which decrease the State's contribution.[71] The State also deducts required payments to state approved charter schools from the GSA that the District would have otherwise received. Because of increasing debt payment obligations, a greater portion of GSA would have been going to debt service in FY2016 than in previous years if the District did not choose to use "scoop and toss" refunding to reduce its debt payment in FY2016.[72] Other State revenues include the General Education Block Grant and Educational Services Block Grant, which include funding for programs such as early childhood education and truants alternative optional education program (TAOEP). Federal revenues are expected to decrease by $7.3 million, or 0.8%, from FY2015. Because much of federal revenue is allocated to schools for specific funding purposes and then not spent in the fiscal year during which it was received, CPS has historically carried over federal funding from year to year. This carryover obscures the actual decline in federal funding, which would be greater if not for carryover funds. It is important to note that most federal funding is restricted and can only be used to provide supplemental programs and services to at-risk children from low-income or non-English speaking families or for neglected or delinquent children from Pre-K through high school.[73] Only Medicaid reimbursement and Impact Aid are unrestricted funds and together account for $48.1 million, or 5.4%, of Federal revenues. Federal reimbursements for CPS's universal school breakfast programs will increase from $207.9 million in FY2015 to $231.0 million in FY2016 as a result of a higher reimbursement rate, higher concentration of donated food and an increased participation rate.[74] The District is projecting that investment income revenue will increase 100.0% in FY2016 over FY2015 totaling $0.2 million.

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[69] CPS FY2016 Proposed Budget, p. 26.
[70] CPS FY2016 Proposed Budget, p. 26-27.
[71] CPS FY2016 Proposed Budget, p. 28.
[72] CPS FY2016 Proposed Budget, p. 29.
[73] CPS FY2016 Proposed Budget, p. 30.
[74] CPS FY2016 Proposed Budget, p. 32.

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 vast majority of CPS students, 86.0%,[75] are economically disadvantaged,[76] which is an indicator of poverty frequently used within school districts to determine a school's eligibility for Title I funds.[77] However, because the percentage of children living in poverty nationwide has increased,[78] CPS's proportion has continued to decline. 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.[79] In FY2016 CPS expects to receive $252.0 million in Title I funds with $69.0 million in allowable carryover funds, so the total grant amount will be $321.0 million.[80]

In FY2016 the category of Other Financing Sources represents the District's plan to issue approximately $515.0 million net amount of new bonds to fund its capital program and $294.5 million to fund its debt service fund. In FY2016 the District also plans to appropriate $75.1 million in fund balance, bringing total resources for the FY2016 budget up to nearly $7.0 billion. This is an increase of a 1.6%, or $110.4 million, in total resources over the FY2015 budget.

Over the five-year period from FY2012 to FY2016, General State Aid is projected to decrease by 15.0%, or $168.0 million; federal revenue is projected to decrease by 4.9%, or $46.1 million; and investment income is projected to decrease by 99.0%, or $20.6 million. Other State Revenue is projected to increase by 49.0%, or $409.1, million but that projection is skewed because CPS is assuming that they will receive a $480.0 million State pension contribution; without the pension aid, Other State Revenue actually decreases by 8.5%, or $70.9 million, from FY2012 to FY2016.The Personal Property Replacement Tax increases by $25.9 million, or 14.2%, and Other Local Revenue increases by $119.6 million, or 39.4%, due mostly to TIF surpluses and spending freezes in downtown TIF districts. The increase in the District's property tax levy in FY2016 compared to FY2012 is not significantly different with an increase of 0.3%, or $7.7 million. Local revenues increase by $153.2 million from $2.8 billion in FY2012 to nearly $3.0 billion in FY2016.

In both the two-year and the five-year trend analysis, total revenues and total resources are trending upwards. While total revenues include local, state and federal revenues, total resources include all total revenues as well as the proceeds of bond sales and one time revenue sources like appropriated fund balance. The upward trend in total resources represents the District's reliance

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[75] CPS Office of Accountability, last updated February, 2015, http://www.cps.edu/about_cps/at-a-glance/pages/stats_and_facts.aspx.
[76] Determined by those whose families' income is within 185.0% of the federal poverty line.
[77] The State of Illinois instead uses the number of students receiving services through Medicaid, Supplemental Nutrition Assistance Program (SNAP) and Temporary Assistance for Needy Children (TANF) in its determination of Supplemental General State Aid (SGSA).
[78] National Center for Education Statistics, Table 102.40. Poverty rates for all persons and poverty status of 5- to 17-year-olds, by region and state: Selected years, 1990 through 2012.
[79] Communication with CPS Office of Budget and Management, July 16, 2014.
[80] CPS FY2016 Proposed Budget, p. 30.

on unsustainable fiscal practices like drawing down fund balance reserves, borrowing, and an unrealized windfall to close its ongoing and worsening structural deficit.

State of Illinois Funding

The State of Illinois may provide a total of nearly $2.2 billion of revenues in the FY2016 budget, which is a $362.0 million increase from the FY2015 adopted budget. Without state intervention to help CPS with its pension payment to the Chicago Teachers' Pension Fund, the District will see a $118.0 million decrease from FY2015.

The General State Aid (GSA) foundation level is the State of Illinois' sanctioned minimum level of funding per pupil that is achieved through a combination of State and local funds and accounts for 16.0% of the total operating budget.[81] The GSA distribution to school districts is based on a number of factors, including local property tax capacity. The GSA distribution formula assumes that school districts will levy for all available local property taxes first before the State provides additional funding to reach the foundation level.

The State's foundation level will remain at $6,119.0 per pupil in FY2016, the same level since FY2010. The last time the foundation level increased was between FY2009 and FY2010, when it rose by $160.0, or 2.7%, from $5,959 to $6,119 per pupil. Because the statewide appropriation is insufficient to pay for the foundation level this year, all school districts will receive a proration of 92% of their calculated GSA. GSA revenue is estimated to be just over $952.2 million in FY2016, a decrease of $70.0 million from the FY2015 budget. Of this amount, $42.9 million will be used for debt service.

In FY2015, the first time since FY2011, the State appropriated funds beyond the statutorily required contribution to the Chicago Teachers' Pension Fund to offset a portion of the cost of benefit increases enacted under Public Act 90-0582. In FY2016, the statutorily required amount is $12.1 million. In FY2015 the State contributed an additional $50.0 million to the Chicago Teachers' Pension Fund. It is important to note that this appropriation by the State is well below the "goal and intention," as noted by the General Assembly in 40 ILCS 5/17-127, to contribute an amount equivalent to 20.0% or 30.0% of the contribution made to the downstate Teachers' Retirement System (TRS) pension fund. For FY2016 the State will appropriate $3.7 billion to TRS. In FY2015 if the State had followed through on its "goal and intention" of a 20.0%-30.0% contribution to the Chicago Teachers' Pension Fund, this would amount to a $700.0 million payment to the District's pension fund rather than its $62.1 million contribution.[82]

Property Tax Levy and Revenue

CPS expects its FY2016 property tax revenues to total nearly $2.4 billion, an increase of $77.3 million from the FY2015 approved budget. The increase is the result of an increase in the levy of 0.8%, the maximum amount allowed under state law and levying to capture growth from all new property.

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[81] CPS FY2016 Proposed Budget, pp. 27-28.
[82] CPS FY2016 Proposed Budget, p.142.

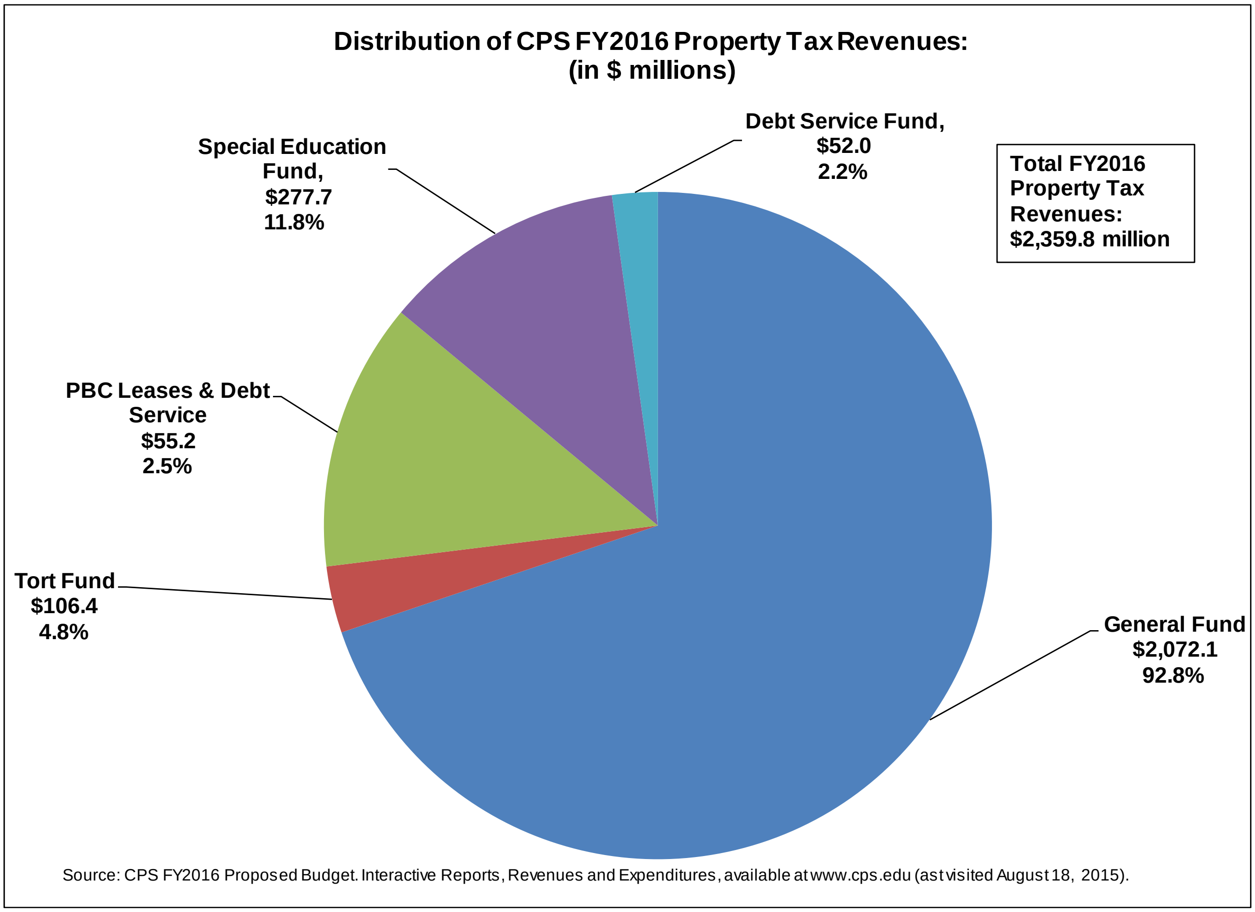
CPS and other non-home rule taxing bodies in Cook County have been subject to the Property Tax Extension Limitation Law (PTELL) since tax year 1994 (payable in 1995). In general, the tax cap law allows tax extensions on existing property to rise each year by the lesser of 5.0% or the increase in Consumer Price Index. For tax year 2015, the tax cap law permits a 0.8% 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.[83]

The tax year 2015 extension is paid by taxpayers in 2016 in first and second installments. The first installment is equal to 55.0% of the prior year's total tax bill.[84] 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.

The following graph depicts the allocation of expected FY2016 property tax revenues among funds. Just over $1.6 billion, or 71.4%, is distributed to the General Education Fund to finance CPS operations. The second largest amount, $306.5 million, or 13.3%, will be designated to Public Building Commission leases and debt service payments. CPS will appropriate $277.7 million, or 11.8%, to the Special Education Fund; $76.2 million, or 3.3%, will be used for the

[83] Civic Federation, "The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts," June22, 2013.
[84] 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.

Workers' and Unemployment Compensation/Tort Fund; and $52.0 million, or 2.2%, will be dedicated to the debt service fund.



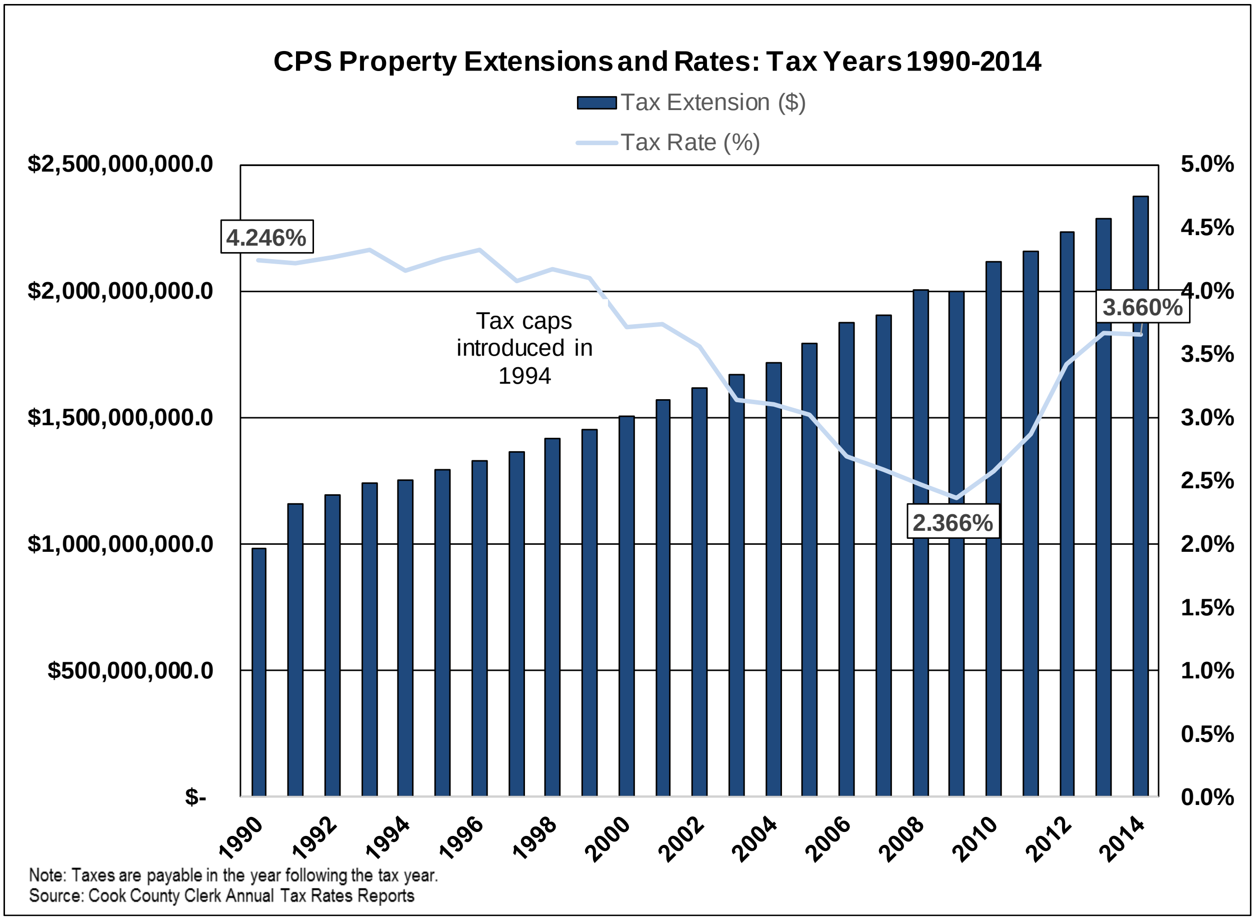
The next exhibit presents CPS actual property tax revenues from FY1991 actual revenues to FY2014 and FY2015-FY2016 proposed revenues. Over that period, property tax revenues are projected to rise by 64.3%, or over $1.5 billion, from $842.3 million to nearly $2.4 billion. Between FY1991 and FY2014, the most recent year for which audited data are available, CPS property tax revenues have increased by 61.9% or $1.4 billion. However, property tax collections in FY2014 declined by 6.0%, or $140.6 million, from FY2013. Since FY1996, the first fiscal year that the tax cap law could limit CPS property tax revenues, the compound annual growth rate of revenues (through FY2014 actual) was 3.7%.

CPS Property Tax Revenue: FY1991-FY2016 (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	$ 1,278,734	$ 39,485	3.2%
FY1999	$ 1,311,664	$ 32,930	2.6%
FY2000	$ 1,368,081	$ 56,417	4.3%
FY2001	$ 1,403,657	$ 35,576	2.6%
FY2002	$ 1,429,871	$ 26,214	1.9%
FY2003	$ 1,479,968	$ 50,097	3.5%
FY2004	$ 1,546,335	$ 66,367	4.5%
FY2005	$ 1,571,065	$ 24,730	1.6%
FY2006	$ 1,639,237	$ 68,172	4.3%
FY2007	$ 1,718,249	$ 79,012	4.8%
FY2008	$ 1,767,760	$ 49,511	2.9%
FY2009	$ 1,813,917	$ 46,157	2.6%
FY2010	$ 1,896,540	$ 82,623	4.6%
FY2011	$ 2,047,163	$ 150,623	7.9%
FY2012	$ 1,936,655	$ (110,508)	-5.4%
FY2013	$ 2,352,136	$ 415,481	21.5%
FY2014	$ 2,211,568	$ (140,568)	-6.0%
FY2015 Estimated	$ 2,289,000	$ 77,432	3.5%
FY2016 Proposed	$ 2,359,800	$ 70,800	3.1%

Source: CPS Comprehensive Annual Financial Reports, FY2013, p.112, FY2012, pp. 106-107; FY2010, pp. 98-99; FY1999, pp. 80-81; and CPS FY2016 Proposed Budget, p. 24.

The following graph illustrates the increase in CPS property tax extensions (different from fiscal year revenues) between tax year 1990 (payable in 1991) and tax year 2014 (payable in 2015) as well as the decrease in tax rates up through tax year 2009 before rates began to grow again in tax year 2010. Property tax years are the same as calendar years. However, 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. Taxes levied in 2015 will actually be received in 2016. The effect is that property tax funds available during the District's upcoming FY2016 will be drawn from part of tax year 2014 and part of tax year 2015. The tax extension was $981.0 million in tax year 1990 and rose gradually to $2.2 billion in tax year 2014. The CPS tax rate fell from 4.246% in tax year 1990 to 2.366% in tax year 2009 before rising to 3.671% in tax year 2013 and remained nearly flat for FY2014 at about 3.660%, the most recent year for which tax rate data are available. The District's tax rate fell after the implementation of the tax cap law even though its extension rose because taxable property value was growing much faster than extensions (rate = extension ÷ taxable value). Starting in tax year 2010, the District's rate started to rise again because the taxable value of property in Chicago fell significantly.

The Property Tax Extension Limitation Law, or tax caps, took effect in 1994, limiting the maximum growth in the 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.[85] 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.[86]



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[85]Civic Federation, "The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts," June22, 2013.
[86] Civic Federation, "The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts," June22, 2013..

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

CPS announced in April 2014[87] that the District would be extending its revenue recognition period in FY2015 from 30 days after the close of the fiscal year to 60 days after the close of the fiscal year. CPS noted that this change would reduce property tax collection volatility, but more importantly, it would be used as an accounting mechanism to close the FY2015 budget gap. The revenue recognition period remains the same for FY2016.

Under the prior revenue recognition period, property tax revenues were recognized in the same fiscal year as long as the revenues were received within 30 days of the close of the fiscal year, or through July 30. Between July 1 and July 30, 2012, the District collected $244.0 million in property tax revenues that had been budgeted for receipt in FY2013. The early payment was due to the fact that Cook County, which administers the property tax system, sent the second installment 2011 property tax bills out on time for the first time in over 30 years, with a due date of August 1, 2012. The continuation of the August 1 due date in FY2013 thus "normalized" collections over the fiscal year's budgeted property tax extension and the result was an overall decrease in FY2013 collections as compared to FY2012, as CPS basically booked 13 months of property tax payments in FY2012 and 12 months in FY2013. Historically, the County sent property tax bills out late and thus received payments late, which led to delayed distributions of revenue to all of its taxing bodies, including CPS.

CPS acknowledges that this volatility in the timing of tax receipts does not impact the total amount of property tax revenue received by the District, but that the timing of the property tax receipts instead impacts the fiscal year in which the revenue must be recorded.[88] The accelerated 2012 property tax receipts, along with earlier than expected State block grant payments, left the FY2012 year-end audited General Fund with $350.0 million of unexpected additional fund balance. The FY2014 proposed budget assumed a similar amount of property tax revenue to what was collected in July 2012 to be collected in July 2013 and July 2014. For FY2016 the District expects an additional $11.0 million in property tax revenue as a result of the 60 day recognition period.[89]

PERSONNEL

This section of the analysis presents the District's full-time equivalent (FTE) position count by type and personnel appropriation trends for general operating funds by type. The analysis compares the FY2016 proposed budget to the FY2012, FY2013, FY2014 and FY2015 approved budgets and FY2012 actuals when available.

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

The District's FTE position count in FY2016 will decrease by 847 FTEs, or 2.2%, from the FY2015 approved budget. In the two-year period, the largest reduction in FTEs will be school support staff, which will decline by 3.9%, or 409.9 FTEs. The second largest reduction in position count will be teachers, which will decrease by 1.5%, or 320.5 FTEs, while school

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[87] See CPS press release, "CPS Projects to Boost Base Per Pupil Spending by Nearly $250," from April 9, 2014.
[88] CPS FY2015 Proposed Budget, pp. 9-10.
[89] CPS FY2016 Proposed Budget, p. 9.

administrators will decline by 1.0%, or 10.0 FTEs. The position count for central and network offices will decline by 6.7%, or 87.5 FTEs. The position count for city wide student support will decrease by 0.4%, or 19.5 FTEs.

Over the five-year period, total FTE positions for the District will decrease by 4.2%, or 1,698 FTEs. Between FY2012 and FY2016 school support staff will decrease by 3,399.4, or 25.2% FTEs. 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.[90] City-wide student support will increase by 2,498 FTEs, or 90.1% over the five-year period.

Chicago Public Schools Full-Time Equivalent (FTE) Positions By Type FY2012-FY2016									
	FY2012 Approved	FY2013 Amended	FY2014 Approved	FY2015 Approved	FY2016 Proposed	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Teachers	21024.0	21786.4	20,373.0	21,080.9	20,760.4	-320.5	-1.5%	-263.6	-1.3%
School Administrators	1206.0	1191.0	1,084.0	1,026.0	1,016.0	-10.0	-1.0%	-190.0	-15.8%
School Support Staff	13499.0	13014.0	11,086.8	10,509.5	10,099.6	-409.9	-3.9%	-3,399.4	-25.2%
Central and Network Offices	1555.0	1413.0	1,430.0	1,299.5	1,212.0	-87.5	-6.7%	-343.0	-22.1%
City-wide Student Support	2773.0	3461.2	4,877.8	5,290.5	5,271.0	-19.5	-0.4%	2,498.0	90.1%
Total	**40,057.0**	**40,865.6**	**38,851.6**	**39,206.4**	**38,359.0**	**-847.4**	**-2.2%**	**-1,698.0**	**-4.2%**

Source: CPS FY2012 Approved Budget, p. 9; CPS FY2013 Amended Budget, Interactive Reports, Home, available at www.cps.edu (last visited August 20, 2015); CPS FY2014 Approved Budget, Interactive Reports, Positions, available at www.cps.edu (last visited August 20, 2015); CPS FY2015 Approved Budget, Interactive Reports, Positions, available at www.cps.edu (last visited August 11, 2015); and FY2016 Proposed Budget, Interactive Reports, Positions, available at www.cps.edu (last visited August 11, 2015).

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

CPS personnel appropriations are expected to decrease by $32.9 million, or 0.8%, in FY2016 from the FY2015 approved budget. Salaries, which constitute 65.7% of all employee compensation, will decrease by $58.1 million, or 2.2%, over the two-year period. Benefit costs, which include pensions, hospital and dental insurance, unemployment compensation and payroll tax contributions for Social Security[91] and Medicare, will increase by 1.9%, or $25.5 million, in FY2016. The vast majority of this increase can be attributed to a $42.0 million net increase in the CPS contribution toward the Chicago Teachers Pension Fund in FY2016.[92] The District’s $818.0 million total contribution toward teacher pensions in FY2016 includes a 7% “pickup” 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.[93] In FY2015 the State contributed $62.0 million towards the Chicago Teachers’ Pension Fund. In FY2016 the State will contribute $12.0 million towards the Chicago Teachers’ Pension Fund, increasing the amount that Chicago Public Schools will have to contribute to teachers’ pensions.[94]

Over the five-year period between FY2012 to FY2016, total compensation costs will increase by 11.6%, or $404.7 million. Appropriations for teacher salaries will decline by $91.4 million, or 4.5%. Appropriations for employee benefits will increase by 59.2%, or $496.5 million, between

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[90] CPS FY2016 Proposed Budget, p. 11.
[91] Non-teaching staff contributes to Social Security.
[92] CPS FY2016 Proposed Budget, p. 8.
[93] “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.
[94] CPS FY2016 Proposed Budget, p. 143, See p. x for more information about Chicago Public Schools contributions to Teacher Pensions.

FY2012 and FY2016, rising from $838.6 million to $1.3 billion. This increase in benefit costs can be attributed to a $482.3 million increase in total teacher pension contributions including the employee contribution "pick-up" between FY2012 and FY2016.

CPS Personnel Appropriations for General Operating Funds by Type: FY2012-FY2016 (in $ millions)

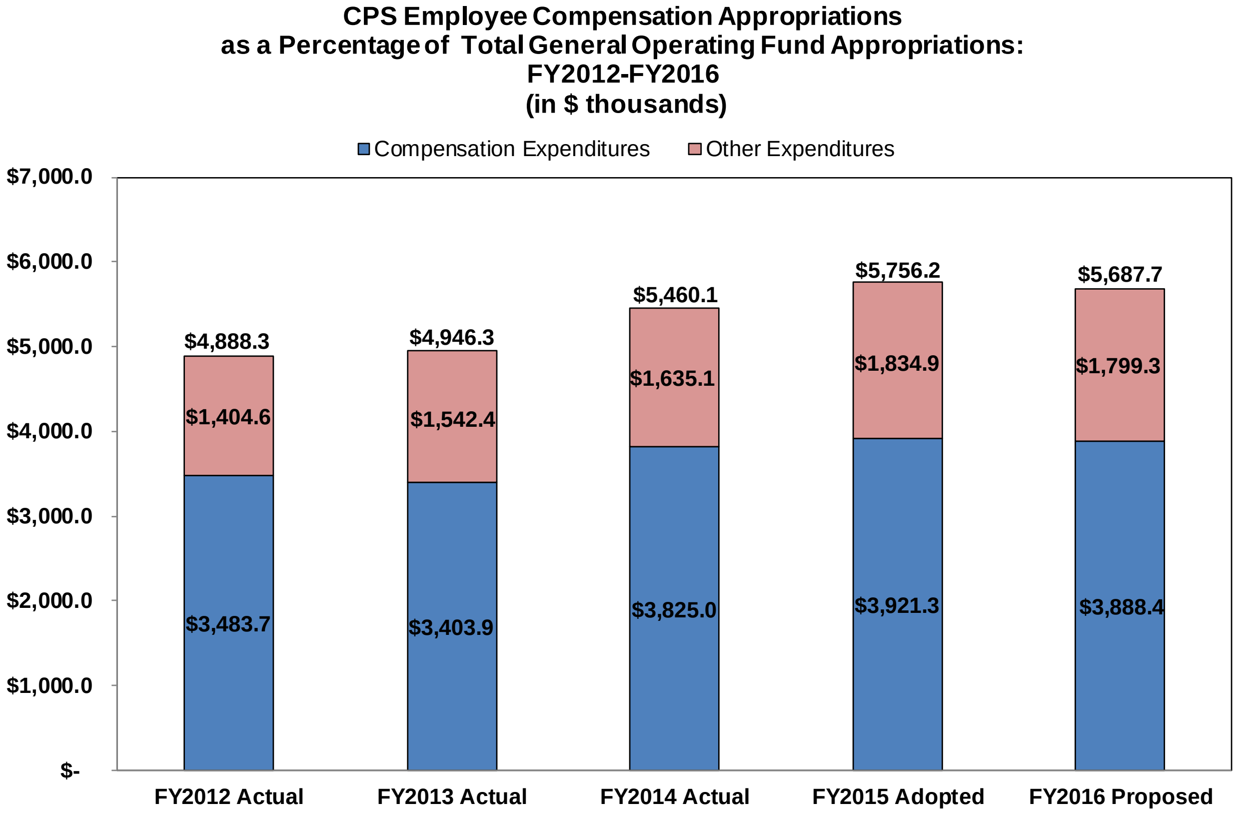
	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Adopted	FY2016 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries									
Teacher Salaries	$ 2,026.8	$ 1,942.0	$ 1,940.2	$ 1,986.0	$ 1,935.4	$ (50.6)	-2.5%	$ (91.4)	-4.5%
Ed. Support Salaries	$ 618.3	$ 633.5	$ 621.1	$ 625.5	$ 618.0	$ (7.5)	-1.2%	$ (0.3)	0.0%
Total Salaries	**$ 2,645.1**	**$ 2,575.5**	**$ 2,561.3**	**$ 2,611.5**	**$ 2,553.4**	**$ (58.1)**	**-2.2%**	**$ (91.7)**	**-3.5%**
Employee Benefits									
Teacher Pension Employer Portion	$ 205.3	$ 207.7	$ 613.0	$ 661.4	$ 687.1	$ 25.7	3.9%	$ 481.8	234.7%
Teacher Pension Pickup*	$ 130.4	$ 129.1	$ 127.4	$ 133.7	$ 130.9	$ (2.8)	-2.1%	$ 0.5	0.3%
Total Teacher Pensions	**$ 335.7**	**$ 336.8**	**$ 740.4**	**$ 795.1**	**$ 818.0**	**$ 22.8**	**2.9%**	**$ 482.3**	**143.7%**
Ed. Support Pension Employer Portion	$ 61.6	$ 63.0	$ 63.2	$ 61.1	$ 59.9	$ (1.2)	-1.9%	$ (1.7)	-2.7%
Ed. Support Pension Pickup*	$ 38.4	$ 39.3	$ 38.7	$ 40.3	$ 39.5	$ (0.8)	-2.1%	$ 1.1	2.8%
Total Ed. Support Pension	**$ 100.0**	**$ 102.3**	**$ 101.9**	**$ 101.4**	**$ 99.4**	**$ (2.0)**	**-2.0%**	**$ (0.6)**	**-0.6%**
Hospitalization/Other Comp.	$ 324.9	$ 319.8	$ 343.3	$ 341.4	$ 347.3	$ 5.8	1.7%	$ 22.4	6.9%
Unemployment Compensation	$ 17.1	$ 9.1	$ 16.4	$ 9.1	$ 8.9	$ (0.2)	-2.4%	$ (8.2)	-47.8%
Medicare/Social Security	$ 34.9	$ 36.4	$ 36.0	$ 39.5	$ 38.8	$ (0.7)	-1.8%	$ 3.9	11.2%
Workers' Compensation	$ 26.0	$ 24.0	$ 25.6	$ 23.2	$ 22.7	$ (0.6)	-2.4%	$ (3.3)	-12.8%
Total Employee Benefits	**$ 838.6**	**$ 828.4**	**$ 1,263.6**	**$ 1,309.9**	**$ 1,335.1**	**$ 25.2**	**1.9%**	**$ 496.5**	**59.2%**
Total Compensation	**$ 3,483.7**	**$ 3,403.9**	**$ 3,825.0**	**$ 3,921.3**	**$ 3,888.4**	**$ (32.9)**	**-0.8%**	**$ 404.7**	**11.6%**

*CPS "picks up" 7% of the 9% annual employee pension contribution, meaning it pays 7% of the employee 9% contribution on behalf of teachers and 7% of the 8.5% or 9.0% contribution on behalf of non-teacher employees.

Note: The City of Chicago makes employer contributions for non-teachers on behalf of Chicago Public Schools (CPS). CPS logs these contributions as revenue and passes them through to the Municipal Employees Pension Fund. See p. 60 for more information. $22.5 million and $6.8 million in federal funds contribute to FY2012 expenditures for the Teacher Pension Employer Portion and the Ed. Support Pension Employer Portion, respectively. $18.8 million and $6.3 million in federal funds contribute to FY2013 expenditures for the Teacher Pension Employer Portion and the Ed. Support Pension Employer Portion, respectively. $18.9 million and $5.6 million in federal funds contribute to FY2014 approved appropriations for the Teacher Pension Employer Portion and the Ed. Support Pension Employer Portion, respectively. $20.3 million and $5.3 million in federal funds contribute to FY2015 approved appropriations for the Teacher Pension Employer Portion and the Ed. Support Employer Portion, respectively. $21.6 million and $4.7 million in federal funds contribute to FY2016 proposed appropriations for the Teacher Pension Employer Portion and the Ed. Support Pension Employer Portion, respectively.

Source: CPS FY2016 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 12, 2015); Chicago Public Schools Comprehensive Annual Financial Report (CAFR) FY2014, pp. 69, 71 and 81; FY2013, pp. 81, 83 and 93; and FY2012 CAFR, pp. 76, 78 and 88..

The next exhibit shows the District's employee compensation expenditures as a percentage of all operating funds expenditures. The chart compares actual expenditures from FY2012 through FY2014 to approved FY2015 and proposed FY2016 appropriations. 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. The percentage of all operating funds appropriations dedicated to personnel has averaged 69.3%, with a low of 68.1% in FY2015 and a high of 71.3% in FY2012. Since FY2012, compensation expenditures have increased by 11.6%, while other operating expenditures have increased by 28.1%, indicating that while the District's operating budget has steadily increased, a growing portion of the budget has been dedicated to non-personnel related costs.



Source: CPS FY2016 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 12, 2015); CPS FY2015 Adopted Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 12, 2015); Chicago Public Schools Comprehensive Annual Financial Report (CAFR) FY2014, pp. 69, 71 and 81; FY2013, pp. 81, 83 and 93; and FY2012 CAFR, pp. 76, 78 and 88..

ENROLLMENT

CPS is projecting essentially flat overall student enrollment across the system in FY2016 as compared to FY2015 total enrollment. According to the FY2016 proposed budget, actual FY2015 enrollment was 396,683 but was projected to be 400,545 students or 3,862 more than FY2015 actual enrollment. The projected enrollment for FY2016 is 394,191 students.

CPS Student Actual and Projected Enrollment: FY2015 and FY2016

Projected 2015	Actual FY2015	Projected FY2016	# Change	% Change
400,545	396,683	394,191	(2,492)	-0.63%

Source: CPS FY2016 Proposed Budget, p. 34.

As the following exhibits indicate, total actual enrollment is projected to drop by 9,960 students, or 2.5%, between FY2012 and FY2016. Enrollment on the whole has been declining since FY2012.

CPS is projecting declines in enrollment at all school levels: preschool, elementary and high school. Enrollment for high school students is expected to decrease by 574 students, or 0.5%, between FY2012 and FY2016. Elementary school enrollment, which includes Kindergarten-eighth grade, will fall by 7,070 students, or 2.7%. Preschool enrollment is slated to decline by 2,316 students or 10.1%. Reasons for the reduction in student enrollment is primarily attributed to the decline in the number of births which have dropped from 60,242 to 39,571 between 1990 and 2013[95]. General State for FY2016 Aid is projected to decrease by $168.0 million, or 15.0%, from FY2012 to $952.2 million because state funding is based on the number of students enrolled in the district. The State-determined foundation level is $6,119 per pupil, but the District projects that it will only receive 92.0% of those funds.[96]

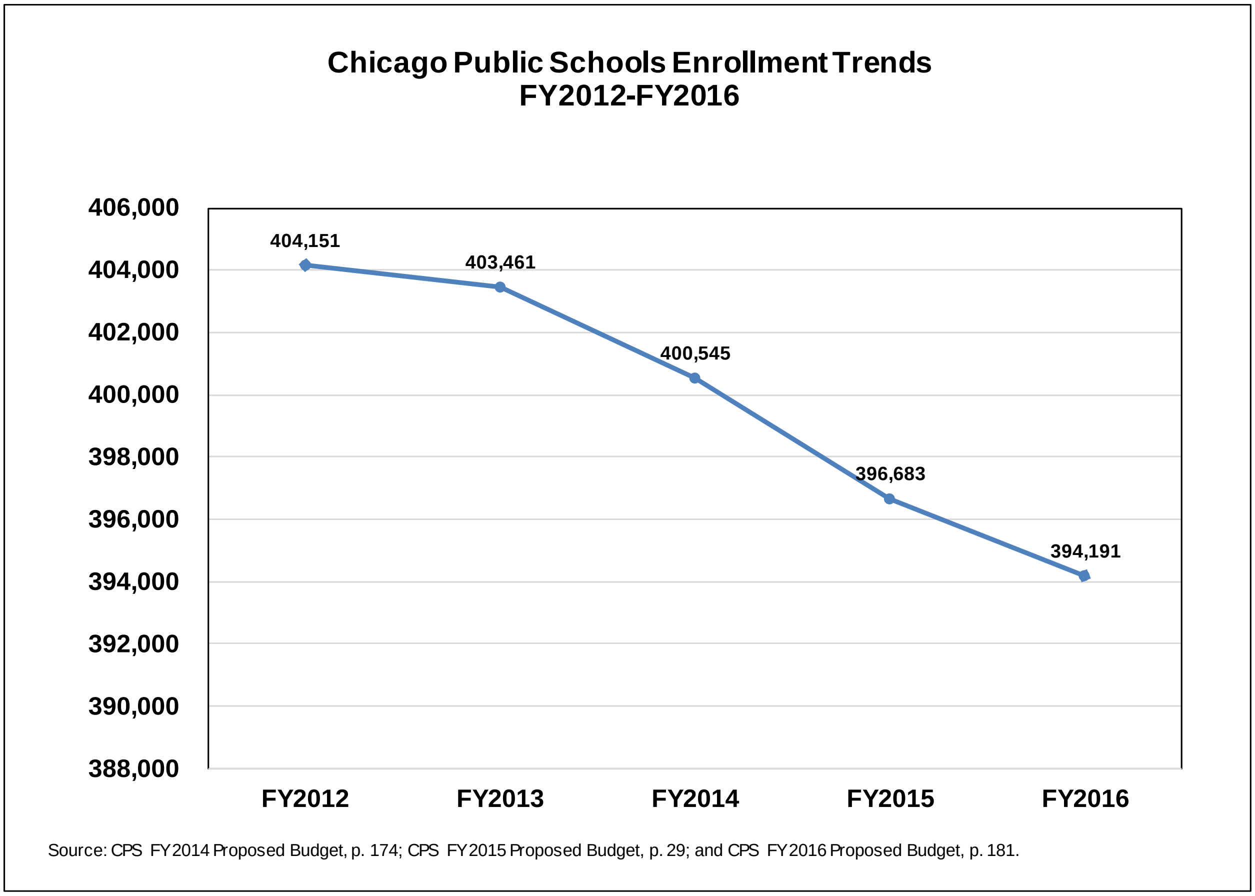
CPS Actual and Projected Student Enrollment: FY2012-FY2016

	Actual FY2012	Actual FY2013	Actual FY2014	Actual FY2015	Projected FY2016	FY2012-FY2016 # Change	FY2010-FY2016 % Change
Preschool	24,232	24,507	23,671	22,873	21,916	(2,316)	-9.6%
Elementary, K-8	266,046	266,555	264,845	261,803	258,976	(7,070)	-2.7%
High School	113,873	112,399	112,029	112,007	113,299	(574)	-0.5%
Total	**404,151**	**403,461**	**400,545**	**396,683**	**394,191**	**(9,960)**	**-2.5%**

Source: CPS FY2016 Proposed Budget, p. 181.

95 CPS FY2016 Proposed Budget, p. 180.
96 CPS FY2016 Proposed Budget. p. 6 and p. 28.

The following graphically illustrates the overall downward trend in CPS total enrollment from FY2012 to FY2016.



RESERVES

This section discusses five aspects of reserves: fund balance policy and definitions, a presentation of historical audited data, budgeted data and an analysis of General Operating Funds budget to actual variances.

Use of Reserves to Balance the FY2016 Budget

In FY2016, CPS will continue to deplete its operating fund reserves to balance its budget and will not maintain its stabilization fund balance at targeted levels. A total of $75.1 million in operating fund reserves is budgeted for use, including $4.5 million in appropriated general fund reserves. CPS projects that $67.5 million will be left in the district's operating fund stabilization fund at year-end. Roughly $87.5 million is not available for appropriation because it includes funds earmarked to pay for open purchase orders, goods and services received but not yet paid for and certain nonspendable fund balances (e.g., endowments and prepaid assets).[97]

[97] CPS FY2016 Proposed Budget, p. 171.

CPS also will use $47.6 million in its debt service stabilization fund to pay for debt service expenses in FY2016, leaving just $9.5 million in the fund at the end of the fiscal year. CPS is using Debt Service Fund reserves to pay for debt service because this maneuver will allow the District to allocate State funding, which would otherwise have gone directly to pay for debt service, to general operations.[98] The District proposes to pay for capital expenditures using Debt Service Fund fund balance on an interim basis. When available fund balance is used to the extent possible, the District will use a $300.0 million line of credit established in FY2014. When the District hits a threshold of $300.0 million in capital expenditures, it will sell fixed rate bonds, the proceeds of which will be used to pay for interest incurred on the line of credit.[99]

CPS FY2016 Use of Fund Balance (in $ millions)

	FY2015 Estimated End of Year Balance	FY2016 Budgeted Use	FY2016 End of Year Balance
Appropriated General Fund Reserves	$ -	$ 4.5	$ -
General Fund for Stabilization	**$ 72.0**	**$ -**	**$ 67.5**
Workers' Comp/Tort Fund	$ 29.2	$ 9.5	$ 19.7
Supplemental GSA	$ 48.3	$ 39.7	$ 8.6
Other Special Revenue	$ 26.1	$ 21.4	$ 4.7
Not Available for Appropriations	$ 87.5	$ -	$ 87.5
Total Operating Fund Budgeted for Use	**$ 263.1**	**$ 75.1**	**$ 188.0**
Debt Service Stabilization Fund	**$ 57.1**	**$ 47.6**	**$ 9.5**

Source: CPS FY2016 Budget, pp. 172-173.

Fund Balance Policy and Definitions

Fund balance is a term commonly used to describe the net assets of a governmental fund and serves as a measure of budgetary reserves.[100] 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."[101] Prior to GASB 54, the categories for fund balance focused on whether resources were available for appropriation. The *unreserved* fund balance thus referred to resources that did not have any external legal restrictions or constraints.[102]

The current method of measuring fund balance per GASB 54 examines *unrestricted* fund balance. In accordance with GASB 54 modifications, the GFOA identifies unrestricted fund balance as "only resources without a constraint on spending or for which the constraint on

[98] CPS FY2015 Proposed Budget, p. 11 and 146.
[99] CPS FY2015 Proposed Budget, p. 158.
[100] Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).
[101] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009 and GASB Statement No. 54, paragraph 5.
[102] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009.

spending is imposed by the government itself."[103] These resources are the combined total of *committed fund balance, assigned fund balance* and *unassigned fund balance*. The following section provides details on the current components of fund balance.

Components of Fund Balance

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 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.[104]

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."[105] Two months of operating expenditures is approximately 17.0%. Chicago Public Schools is a special purpose government, not a general purpose government, but its 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.[106]

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[103] Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).
[104] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009.
[105] GFOA, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).
[106] GFOA, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009). "Unrestricted fund balance" includes Committed, Assigned and Unassigned fund balances.

Audited Fund Balance Ratio: FY2004-FY2014

The exhibit below shows seven years of CPS General Operating Fund fund balance and its ratio to General Operating Fund expenditures. A complete ten-year trend analysis of the District's fund balance ratio including the most recent FY2014 numbers is not possible because data for FY2011 and beyond has been classified differently. Data after FY2011 reflect the implementation of GASB 54, which changed the guidelines for how governments should report fund balances.

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.[107] A *designation* is a loose classification and can be changed by the government relatively easily. As such, when comparing unreserved fund balance levels, we examine both *designated* and *undesignated* fund balance. Between FY2004 and FY2010, the District's unreserved fund balance fluctuated between 4.1% in FY2010 and 9.8% in FY2007 and FY2008.[108] 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.

CPS Unreserved General Operating Fund Fund Balance Ratio: FY2004-FY2010

	Unreserved General Operating Fund Balance	General Fund Expenditures	Ratio
FY2004	$ 196,510,000	$ 3,758,510,000	5.2%
FY2005	$ 248,546,000	$ 3,862,396,000	6.4%
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 chart presents unrestricted fund balance for FY2011 through FY2014. In FY2014, unrestricted fund balance fell to $354.7 million, or 6.5%, of general fund expenditures. This is down sharply from the 16.6% ratio in FY2013 as reserves were used to balance the budget. The increase in fund balance at the end of FY2012 was due primarily to timing shifts in property tax

[107] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009.
[108] The General Operating Fund and General Fund both refer to the CPS primary operating fund. The audit uses the term General Operating Fund while the budget uses General Fund.

revenue receipts. The two revenue sources shifted approximately $350.0 million in revenue from FY2013 to FY2012.[109]

CPS Unrestricted General Operating Fund Fund Balance Ratio: FY2011-FY2014			
	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%

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.

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.

Chicago Board of Education Fund Balance Policy

Chicago Public Schools adopted a fund balance policy during FY2008. This policy previously referred specifically to the unreserved designated General Operating Fund fund balance as a ratio of operating and debt service budgets. Post implementation of GASB 54, CPS policy requires the Board to maintain an assigned fund balance of a minimum of 5.0% and a maximum of 10.0% 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.[110] If the stabilization fund falls below 5.0% 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.[111]

Between FY2008 and FY2014, CPS met its stated stabilization fund balance policy in five of the seven years reviewed (FY2008, FY2011, FY2012, FY2013 and FY2014). In FY2009 and

[109] CPS FY2012 Comprehensive Annual Financial Report, p. 12; see also page 48 of this report.
[110] CPS FY2015 Proposed Budget, p. 209 and CPS FY2014 Proposed Budget, p. 216 for prior stabilization fund language.
[111] CPS FY2015 Proposed Budget, p. 209.

FY2010, CPS attributed the declines in the stabilization fund to a delay in payments from the State of Illinois.

CPS Unreserved, Designated/Assigned General Operating Fund Fund Balance Ratio: FY2008-FY2014 (Audited)			
	General Operating Fund Balance	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	$ 515,224,000	$ 5,242,049,000	9.8%
FY2012	$ 459,297,000	$ 5,262,822,000	8.7%
FY2013	$ 819,004,000	$ 5,336,779,000	15.3%
FY2014	$ 354,719,000	$ 5,918,035,000	6.0%

Source: CPS Comprehensive Annual Financial Reports, FY2008-FY2014.
Note: CPS stated in its FY2013 and FY2014 Proposed Budgets that the stabilization fund is equivalent to an "assigned" fund balance under GASB 54. Thus, the FY2011, FY2012, FY2013 and FY2014 fund balances are the sum of the assigned fund balances reported in their respective Comprehensive Annual Financial Reports.

In FY2015 CPS changed its revenue recognition policy from 30 to 60 days to capture revenues collected two months after the close of the fiscal year on June 30 (see discussion that follows). As a result of this policy, CPS was able to access $648.0 million from reserves in FY2015 for budgetary use. Most of these funds were used to balance the FY2015 budget; approximately $72.0 million was left in the FY2016 stabilization fund. Roughly $4.5 million of the $72.0 million will be used to close the FY2016 budget gap, leaving just $67.5 million available for General Fund stabilization purposes. The reserves in FY2015 and FY2016 are just 1.1% of general operating and debt service fund budgets, well below the CPS fund balance policy minimum target of 5%.[112]

CPS Unreserved, Designated/Assigned General Operating Fund Fund Balance Ratio: FY2015-FY2016 (Budgeted)			
	General Operating Fund Balance	General Operating and Debt Service Expenditures	Ratio
FY2015	$ 72,000,000	$ 6,360,100,000	1.1%
FY2016	$ 67,500,000	$ 6,226,300,000	1.1%

Sources: CPS FY2016 Proposed Budget, p. 173 and CPS FY2016 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 11, 2015).

[112] CPS FY2016 Proposed Budget, pp. 171-172.

Depletion of CPS Reserves

The CPS FY2014 budget anticipated using all available fund balance in the General Fund of $562.7 million to balance the budget. However, the actual amount of unrestricted General Fund reserves used in FY2014 was approximately $404.3 million. This was the result of much lower than estimated expenditures in FY2014 that led to a smaller than anticipated end of year budget deficit to close with fund balance.

Additional fund balance was available for appropriation in FY2015 because of two important fiscal events.

First, CPS received additional property tax revenue during the July 1-July 30, 2013 period that had to be counted as FY2013 revenue instead of FY2014 revenue because it was collected during the 30-day revenue recognition period. CPS used this extra property tax revenue to reduce its FY2013 year-end budget deficit. Along with other adjustments, this left only a $119.0 million deficit at the end of FY2013 to be covered with fund balance. Because CPS did not decide to reduce expected FY2014 revenues by the amount of extra property tax revenue and instead decided to count on collecting the same amount in July of FY2014 as in July of FY2013, there was a greater amount of fund balance at the end of FY2013 than had been expected. This meant that there was additional fund balance left after covering the lower than expected FY2014 deficit that was used to close the FY2015 deficit.[113]

Second, CPS changed its revenue recognition period. Before FY2015, the District's revenue recognition period, that is the amount of time after the end of the fiscal year on June 30 that revenue received by CPS counts toward the previous fiscal year's revenue rather than the current fiscal year, was 30 days. So revenue received by the District between July 1, 2013 and July 30, 2013 counted as FY2013 revenue rather than FY2014 revenue even though it was technically received after the start of FY2014. In order to generate additional revenue to use in FY2015 to close its budget deficit, the District extended its revenue recognition period to a total of 60 days in FY2015. This means that revenue received by CPS between July 1, 2015 and August 29, 2015 will count toward FY2015 instead of FY2016. According to CPS, due to the need to restate FY2014 results when performing the FY2015 audit, the result of the FY2015 policy change was a fund balance increase that created additional fund balance at the beginning of FY2014. This flowed through to the end of FY2014 because it was not needed to close the FY2014 year-end deficit. The additional fund balance generated by this 30-day extension of the revenue recognition period was $648.0 million. Thus, total General Fund fund balance available at the end of FY2014 was $915.6 million, or $648.0 million plus $267.6 million available for appropriation.[114]

Other local governments and school districts have a 60-day revenue recognition policy and there are some reasonable accounting reasons for CPS to change its policy. However, the appropriation of significant portions of fund balance to maintain operating expenses is a serious cause for concern. With the depletion of reserves, the use of fund balance will not be a viable option for closing future budget gaps and indeed has contributed to the District's FY2016 budget

[113] CPS FY2013 Comprehensive Annual Financial Report, p. 38.
[114] CPS FY2016 Proposed Budget, p. 172.

gap.[115] Additionally, CPS cannot again extend its revenue recognition period to generate significant amounts of one-time resources. This is because property tax bills are due August 1 and therefore little property tax revenue is received between August 30 and September 28.[116]

Use of Reserves to Balance CPS FY2015 Budget

To balance its FY2015 budget, CPS used a number of methods that relied heavily on a draw-down of reserves:

- First, CPS drew on $648.0 million in additional revenues available because of the change in the revenue recognition period. Next, it drew on the General Fund unrestricted fund balance at the end of FY2014 of $267.6 million. These two funding sources generated a total of $915.6 million. Of that amount, **$843.6 million** was used to balance the FY2015 budget.
- Also, approximately $22.8 million of reserve funds were used to increase reserves in the workers' compensation/tort fund, supplemental general state aid and other special revenue funds.
- In all, a total of **$820.8 million** in reserves was used to fund general operations.

CPS FY2015 Use of Fund Balance	
Appropriated General Fund Reserves	$ 843.6
Workers' Comp/Tort Fund	$ (9.4)
Supplemental GSA	$ (1.2)
Other Special Revenue	$ (12.2)
Total	**$ 820.8**

Source: CPS FY2016 Budget, p. 172.

General Operating Fund Budget to Actual Variances: FY2010-FY2014

A budget to actual variance report shows how closely a government's actual revenues and expenditures matched the originally appropriated amounts at year-end. There are two metrics presented:

1) **Variance: Final Appropriation to Actual -** This indicates the difference between how much was appropriated in revenues and expenditures in the final budget versus how much was actually received in revenues and spent that year. It shows the extent to which actual spending and revenues matched expectations.

2) **Revenues in Excess of (Less Than) Expenditures** – This indicates the difference between (1) final appropriation revenues versus expenditures and (2) actual revenues versus expenditures. A negative number indicates that revenues were insufficient to meet expenditures and that expenditures were instead covered by other financing resources

[115] CPS FY2015 Proposed Budget, p. 15.
[116] Communication with CPS budget staff, July 16, 2014. Between August 30 and September 28, 2013, CPS received $42,643,193 and $38,032,778.

and/or fund balance. A positive number indicates that revenues were sufficient to meet the fiscal year expenditures.

Pursuant to State statute,[117] CPS must balance its budget annually, ensuring that expenditures are paid for with available resources. The resources available to meet the District's spending goals include revenues from taxes, federal aid and state aid, as well as non-revenue sources such as fund balance, short-term borrowing and transfers from other funds. If appropriated expenditures exceed appropriated revenues, it indicates that the District expects to use fund balance or other resources to cover the gap between revenues and expenditures. If the District does not use resources such as fund balance to meet spending, it may close the gap by reducing its spending from the original appropriated amount. While it may be possible for the District to annually spend more than it receives in revenue for a few years, this is not a sustainable long-term practice because it ultimately drains reserve funds and other resources.

The exhibit below shows the District's General Operating Fund budget to actual variances between FY2010 and FY2014. For each of the five years, the final appropriated expenditures exceeded revenues, meaning that the District had budgeted some other resource such as fund balance to make up the difference. In FY2011 and FY2012, the District was able to finish the year with expenditures less than revenues—a positive outcome. Although the District spent less than was originally appropriated, the FY2010, FY2013 and FY2014 revenue deficits were more significant than cost savings, reflecting reductions in federal aid, reductions and slow payment of State source revenues and the impact of slow economic growth on Personal Property Replacement Tax receipts and investment returns.

In FY2010 actual revenues were $445.4 million, or 8.5%, less than appropriated. Despite spending reductions, the District ended FY2010 having spent $106.4 million and $120.1 million more, respectively, than it received in revenues. During those years, the District used non-revenue resources, primarily fund balance, to meet expenditures. In effect, CPS drew down its "savings account" or "rainy day" fund to pay for its current spending obligations. This strategy is not sustainable in the long-term as fund balance is eventually depleted. In FY2011 a slight increase in actual revenues and a significant cut in expenditures led to a positive variance of $450.5 million. In FY2012 the District received revenue from property taxes and from the State of Illinois earlier than anticipated, causing a bump in revenues recorded for the fiscal year such that the District ended the year with $328.3 million more in revenue than expenditures. In FY2013 a significant reduction of actual expenditures and some additional property tax revenues becoming available during the revenue recognition period resulted in a decrease in the year-end

[117] 105 ILCS 5/34-43.

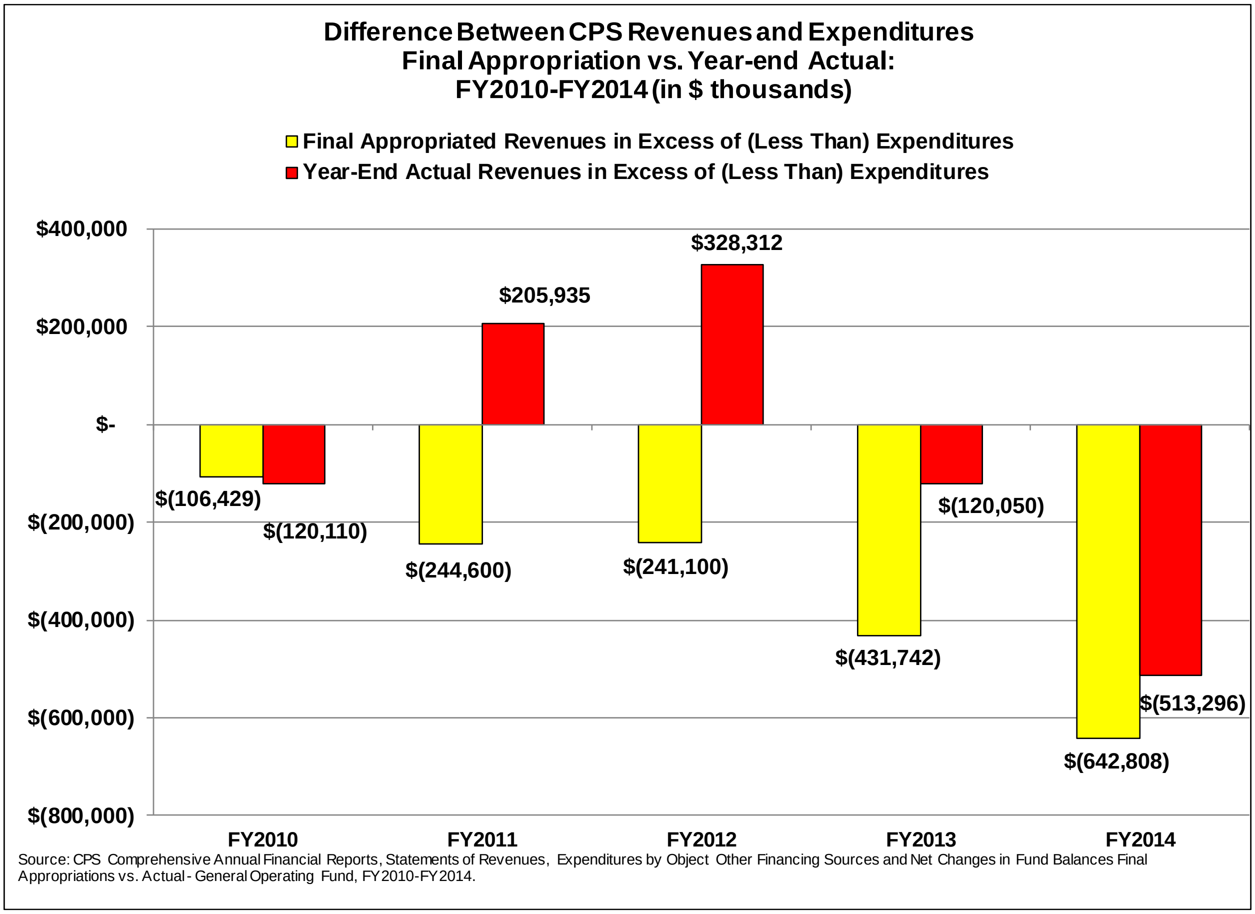
budget shortfall to $120.1 million from a projected $431.7 million. In FY2014, the change was primarily the result of a $142.1 million reduction in actual expenditures.[118]

CPS Budget to Actual General Operating Fund Variances: FY2010-FY2014 (in $ thousands)				
FY2010	**Final Appropriation**	**Year-end Actual**	**Variance: Final Appropriation to Actual**	**% Variance**
Revenues	$ 5,221,442	$ 4,776,032	$ (445,410)	-8.5%
Expenditures	$ 5,327,871	$ 4,896,142	$ (431,729)	-8.1%
Revenues in Excess of or (Less Than) Expenditures	$ (106,429)	$ (120,110)	$ (13,681)	
FY2011	**Final Appropriation**	**Year-end Actual**	**Variance: Final Appropriation to Actual**	**% Variance**
Revenues	$ 5,038,085	$ 5,115,887	$ 77,802	1.5%
Expenditures	$ 5,282,685	$ 4,909,952	$ (372,733)	-7.1%
Revenues in Excess of or (Less Than) Expenditures	$ (244,600)	$ 205,935	$ 450,535	
FY2012	**Final Appropriation**	**Year-end Actual**	**Variance: Final Appropriation to Actual**	**% Variance**
Revenues	$ 4,869,110	$ 5,216,640	$ 347,530	7.1%
Expenditures	$ 5,110,210	$ 4,888,328	$ (221,882)	-4.3%
Revenues in Excess of or (Less Than) Expenditures	$ (241,100)	$ 328,312	$ 569,412	
FY2013	**Final Appropriation**	**Year-end Actual**	**Variance: Final Appropriation to Actual**	**% Variance**
Revenues	$ 4,800,480	$ 4,826,320	$ 25,840	0.5%
Expenditures	$ 5,232,222	$ 4,946,370	$ (285,852)	-5.5%
Revenues in Excess of or (Less Than) Expenditures	$ (431,742)	$ (120,050)	$ 311,692	
FY2014	**Final Appropriation**	**Year-end Actual**	**Variance: Final Appropriation to Actual**	**% Variance**
Revenues	$ 4,949,465	$ 4,936,835	$ (12,630)	-0.3%
Expenditures	$ 5,592,273	$ 5,450,131	$ (142,142)	-2.5%
Revenues in Excess of or (Less Than) Expenditures	$ (642,808)	$ (513,296)	$ 129,512	

Source: CPS Comprehensive Annual Financial Reports, Statements of Revenues, Expenditures by Object Other Financing Sources and Net Changes in Fund Balances Final Appropriations vs. Actual - General Operating Fund, FY2010-FY2014.

[118] CPS FY2014 Comprehensive Annual Financial Report, pp. 30-32.

The next exhibit graphically displays the difference described above between CPS revenues and expenditures from FY2010 through FY2014.



MUNICIPAL EMPLOYEES' PENSION FUND

Eligible non-teaching employees of CPS participate in the City of Chicago's Municipal Employees' Annuity and Benefit Fund.[119] As of December 31, 2013, approximately 17,095, or 55.8%, of the 30,647 active Municipal Fund members were CPS employees.[120]

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 personal property replacement tax revenues (PPRT).[121] CPS estimates that the FY2016 Municipal Fund contribution from the City (recorded

119 40 ILCS 5/8-110.
120 CPS FY2014 Comprehensive Annual Financial Report, p. 71.
121 City of Chicago FY2015 Budget Overview, p. 154. Starting in FY2015, Chicago also budgeted for contributions from its enterprise funds. 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.

as revenue) will be approximately $55.0 million.[122] CPS does make some contributions to the Municipal Fund on behalf of its employees. CPS "picks up" 7 percentage points of the annual non-teacher employee pension contribution of 9.0%. The District's FY2016 cost for the 7.0% employee pick-up is approximately $40.0 million and is part of the District's budgeted pension appropriation.[123] The District additionally reimburses the City for the employer pick-up of employees funded by federal grants; this reimbursement is budgeted at $4,663,175 in FY2016.[124] The District announced in August 2015 that it would begin phasing out the "pickup" for non-union employees starting in September 2015, requiring them to pay an additional 2.0% of their salaries toward pensions, followed by another 2.0% and 3.0% in the following two years.[125]

On June 9, 2014, Governor Pat Quinn signed Public Act 98-0641, which made changes to benefits and employer and employee contributions to the Chicago Municipal Fund. The following table lists the major changes to benefits and employee contributions.

Summary of Chicago Municipal Fund Pension Benefit Changes Under Public Act 98-0641		
Plan Components	**Current Funding Plan**	**Reform Plan**
COLA Rate (Tier 1) 3% compounded	3% compounded	3% or 50% of CPI (whichever is less); simple interest
COLA pause years	None	2017, 2019, 2025
COLA delays	Varies for Tier 1 & Tier 2 - delayed until January 1 at least	1 additional year delay for both Tiers
Retirement Age	50-60 for Tier 1 depending on years of service; 67 for Tier 2	No change for Tier 1; Reduced to 65 for Tier 2
Employee Contributions	8.5% of payroll	1/2% increases in 2015-2019 for total increase of 2.5%; and total of 11%

Source: Public Act 98-0641

The provisions of Public Act 98-0641 impact non-teacher employees of CPS, increasing their contributions toward the fund and affecting their automatic annual annuity increase once they retire. This means that as of January 1, 2015, non-teachers' contributions to the Municipal Fund increased by 0.5% to 9.0% from the previous 8.5% level. Current non-teacher retirees were made subject to the 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 increase the City of Chicago's contributions to the Municipal Fund over several years until the City is contributing at a level that will increase the funding level to 90.0% over 40 years.

In December 2014, two lawsuits were filed in Cook County Circuit Court that challenge the constitutionality of pension reforms for the Chicago Municipal and Laborers' funds.[126] On July 24, 2015, Circuit Court Judge Rita Novak issued her opinion striking down the reform legislation

[122] CPS FY2016 Proposed Budget, p. 27.
[123] CPS FY2016 Proposed Budget, p. 141.
[124] CPS FY2016 Interactive Proposed Budget, Revenues and Expenditures, available at cps.edu/budget.
[125] Juan Perez Jr., "CPS to cut nonunion pension pickups," *Chicago Tribune*, August 13, 2015, p. 7.
[126] 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.

as unconstitutional under the public pension protection clause of the Illinois Constitution.[127] The City of Chicago has announced its intention to appeal the case to the Illinois Supreme Court.[128]

The financial status of the Municipal Fund is examined in the Civic Federation's annual analysis of the City's budget proposal and the Federation's annual *Status of Local Pension Funding* report.[129] The next section focuses on the Chicago Teachers' Pension Fund.

TEACHERS' PENSION FUND

Certified CPS teachers are enrolled in the Public School Teachers' Pension and Retirement Fund of Chicago. 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.

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 FY2014, which ended on June 30, 2014.

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.[130] Plan benefits and contributions can only be amended through state legislation.[131]

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.[132]

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[127] Judge Novak's opinion and order is available at http://chicagotonight.wttw.com/sites/default/files/article/file-attachments/Chicago%20Pension%20Ruling.pdf.

[128] Hal Dardick, "Judge finds city's changes to pension funds unconstitutional," *Chicago Tribune*, July 24, 2015. Available at http://www.chicagotribune.com/news/local/politics/ct-chicago-pension-ruling-met-20150724-story.html.

[129] All reports are available at civicfed.org.

[130] Chicago Teachers' Pension Fund, FY2014 Comprehensive Annual Financial Report, p. 27.

[131] 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.

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

Membership

In FY2014 the Teachers' Pension Fund had 58,376 members, including 27,722 retirees and beneficiaries receiving benefits and 30,654 active employee members. In the ten years since FY2005, the number of retirees and beneficiaries receiving benefits increased by 32.3%, or 6,768, and has grown each year. Conversely, the number of active employee members has declined by 17.5%, or 6,552 members, over the same period. The ratio of active employees to beneficiaries has fallen every year since FY2005. A decline in the ratio of active employees to retirees can create fiscal stress for the fund because it means there are fewer dollars in employee contributions going into the fund and more in annuity payments flowing out of the fund.

CPS Teachers' Pension Fund Membership: FY2005-FY2014				
Fiscal Year	Retirees & Beneficiaries Receiving Benefits	Active Employee Members	Total	Ratio of Active to Beneficiary
FY2005	20,954	37,521	58,475	1.79
FY2006	22,105	34,682	56,787	1.57
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

Note: Excludes terminated members entitled to benefits but not yet receiving them.
Source: Chicago Teachers' Pension Fund, Actuarial Valuations, FY2005-FY2014.

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.[133]

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

[133] 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 $109,971*
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. $110,631 is the 2014 limitation per the Illinois Department of Insurance.

** 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, Statutorily Required Funding Valuation as of June 30, 2014, p. 30-33; 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.

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.[134] 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

[134] The downstate Teachers' Retirement System covers all public school teachers in Illinois except for those teaching in Chicago Public Schools.

appropriation by 50.0% to $32.5 million.[135] 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.[136] There was no State contribution other than the statutory state contribution described below in FY2012, FY2013, and FY2014.[137] 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.[138] The FY2016 State of Illinois K-12 education budget, signed into law by Governor Rauner on June 24, 2015, did not include any contribution to Chicago teachers' pensions other than the statutory contribution.

Additional State Contribution: The State is required to make additional contributions in FY2015 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 FY2016 is projected at $12.1 million, level with FY2015.[139]

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 FY2016 is projected at $12.9 million, level with FY2015.[140]

CPS Required Contribution: Under the funding plan established by P.A. 89-15, 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 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.[141] 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.[142] 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

[135] Illinois State FY2011 Budget, pp. 5-8.
[136] Information provided by the CPS budget office, August 17, 2010.
[137] Chicago Public Schools FY2015 Proposed Budget, p. 147.
[138] Chicago Public Schools FY2015 Proposed Budget, p. 147.
[139] Chicago Teachers' Pension Fund Comprehensive Annual Financial Report, FY2014, p. 91 and FY2013, p. 84.
[140] Chicago Teachers' Pension Fund Comprehensive Annual Financial Report, FY2014, p. 91 and FY2013, p. 84.
[141] This annual required contribution must be calculated by February 28 each year, per 40 ILCS 5/17-129.
[142] "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.

45.8%, less than the prior year contribution.[143] The table below shows the required employer contributions for FY2010 through FY2016. The CPS required contribution for FY2013 was $196.0 million, the FY2014 contribution was $600.0 million, the FY2015 required contribution was $633.6 million and the FY2016 contribution is estimated at $675.1 million.[144] CPS makes its employer contribution to the funds at the end of its fiscal year, in June. In June 2015 due to the accounting gimmicks used to balance the FY2015 budget, CPS faced a serious shortage of cash and had to use short-term tax anticipation borrowing to make its payment on time.[145]

Calculation of Required Employer Contributions to Teachers' Pension Fund FY2010-FY2016

		FY2010	FY2011	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
			before P.A. 96-0889	after P.A. 96-0889					
1	**Total Required Employer Contribution**	**$393,266,000**	**$608,492,000**	**$208,600,000**	**$214,700,000**	**$218,600,000**	**$624,603,000**	**$708,667,000**	**$700,070,000**
2	State Employer Contribution*	$ 32,522,400	-	-	-	-	-	$ 50,000,000	-
3	Additional State Contribution (P.A. 90-582)*	$ 5,029,000	$ 10,449,000	$ 10,449,000	$ 11,001,000	$ 10,931,000	$ 11,903,000	$ 12,145,000	$ 12,105,000
4	Additional CPS Contribution (P.A. 90-582)	$ 10,723,000	$ 11,140,000	$ 11,140,000	$ 11,729,000	$ 11,654,000	$ 12,691,000	$ 12,948,000	$ 12,906,000
5	Other Employer Contributions**	-	-	-	-	-	-	-	
CPS Required Contribution (1-2-3-4-5) Per 40 ILCS 5/17-129		**$344,991,600**	**$586,903,000**	**$187,000,000**	**$192,000,000**	**$196,000,000**	**$600,009,000**	**$633,574,000**	**$675,059,000**

*At the time that the FY2010 required contribution was calculated, the State employer contribution was expected to be $65 million, and the Additional State Contribution was expected to be $10.1 million. These were the amounts used by the actuary to calculate the final CPS Required Contribution. The FY2010 enacted State Budget ultimately appropriated only $32.5 million for the State Employer Contribution and $5.0 million for the Additional State Contribution. State of Illinois FY2011 Budget, p. 5-8.

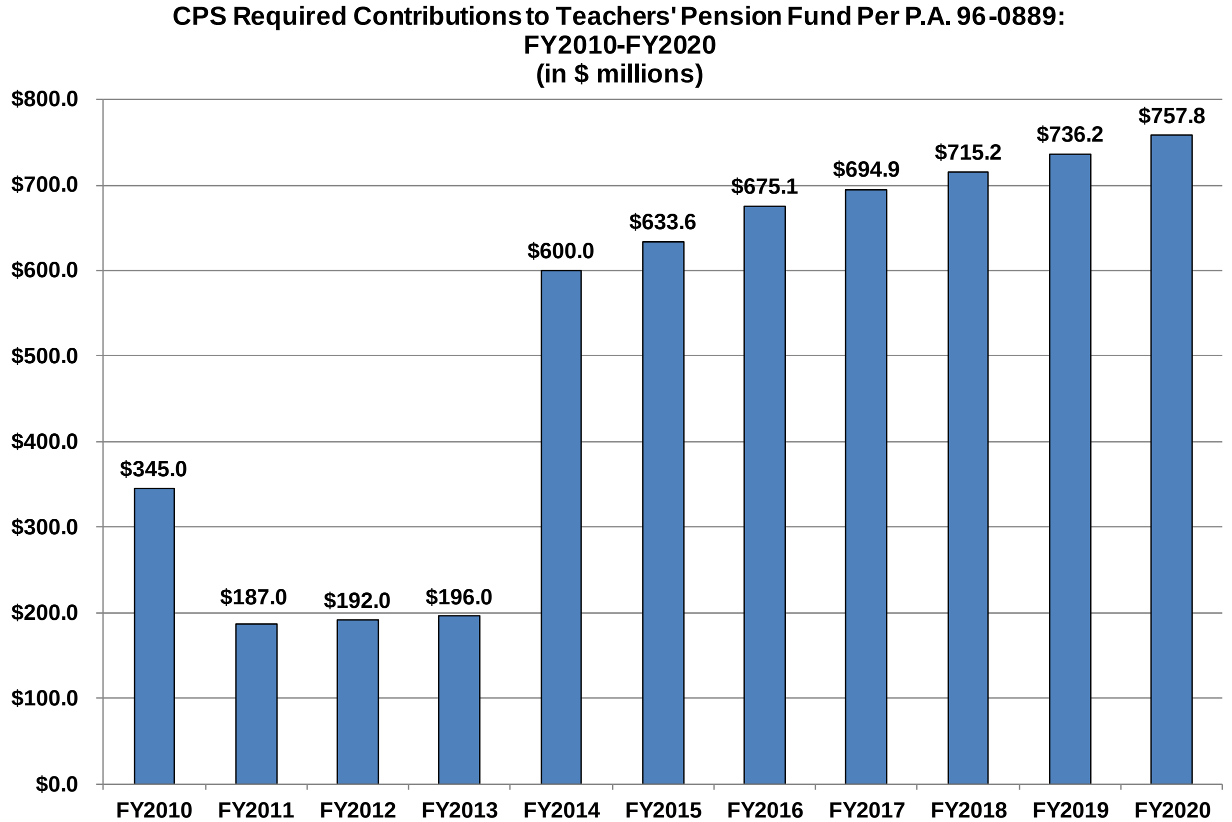
**Until FY2009, the Other category included pension funds from federal funds. These monies were applied to the CPS Required Contribution in FY2009 and FY2010.

Source: Chicago Public Schools FY2015 and FY2014 Proposed Budgets, p. 147 and 143; Chicago Teachers' Pension Fund Comprehensive Annual Financial Reports, FY2009, p. 75-76; FY2010, p. 80-81; FY2011, p. 84-85; FY2014, p. 91; Public School Teachers' Pension and Retirement Fund of Chicago Actuarial Valuations, FY2010, p. 16, FY2011, p. 15, FY2012, p. iii, FY2013, p. iv, FY2014, p. i; Illinois State FY2012 Budget, Chapter 6-8; Illinois State FY2013 Budget, Chapter 5-246; and actuarial projections by Goldstein & Associates for Kevin Huber, Executive Director of the Public School Teachers' Pension and Retirement Fund of Chicago, March 31, 2010.

The exhibit below shows actuarial projections of required CPS contributions to the Teachers' Pension Fund from FY2010 to FY2020 based on P.A. 96-0889. This exhibit does not include extra amounts contributed for benefit enhancements. As noted above, the FY2011, FY2012 and FY2013 amounts were fixed in State statute, but in FY2014 the required contribution was actuarially determined as the schedule to reach 90.0% funded by the end of 2059 began. The FY2014 contribution tripled from the previous year, growing by $404.0 million from $196.0 million in FY2013 to $600.0 million in FY2014. The FY2016 required contribution increases by $41.5 million over FY2015. The required FY2015 employer contribution would have been larger

[143] 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.
[144] 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 and Public School Teachers' Pension and Retirement Fund of Chicago, *Statutorily Required Funding Valuation as of June 30, 2014*, p. i.
[145] Sara Burnett, "Chicago schools make pension payment; 1,400 jobs 'impacted'," Associated Press, June 30, 2015. http://bigstory.ap.org/article/6086397f8ede4638a729f88fab98fe11/chicago-schools-make-pension-payment-classroom-cuts-likely.

if the State of Illinois had not appropriated $50.0 million in additional funding for the Chicago Teachers' Pension Fund. This extra funding was not appropriated for FY2016.



Source: 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. 24; *Actuarial Valuation as of June 30, 2012*, p. 25; *Actuarial Valuation as of June 30, 2011*, p. 16; *Actuarial Valuation as of June 30, 2011*, p. 15; and Public Act 96-0889.

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% 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 FY2016 cost for the 7.0% employee pick-up is approximately $131.0 million and is part of the District's budgeted pension appropriation.[146] CPS administration has said that they would like to phase out the pickup as part of a pending contract still being negotiated with the Chicago Teachers Union (CTU). The CTU has called the end of the pickup a pay cut and a possible cause for a strike, but has not completely ruled out phasing out the pickup.[147]

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[146] CPS FY2016 Proposed Budget, p. 141. CPS also "picks up" 7% of employee contributions to the Chicago Municipal Fund for eligible non-teacher employees at a projected cost of $40 million in FY2016.
[147] Lauren Fitzpatrick and Fran Spielman, "Emanuel to ask CTU to phase out 7 percent pension pickup," *Chicago Sun-Times*, August 13, 2015, p. 10.

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.

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.[148] 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 Teachers' Pension Fund over the last ten years. The fund was 79.0% funded on an actuarial value basis in FY2005, and this funded ratio fell to 49.7% in FY2013 before rising in FY2014 to 51.7%. The market value funded ratio fell from 81.7% in FY2005 to 53.7% in FY2009 and recovered to 61.1% in FY2011 before falling again to 51.0% in FY2013 and rising to 55.6% in FY2014. The sizeable difference between the FY2009 and FY2010 market value and actuarial value funded ratios is due to the fact that FY2009 investment returns were much lower than the returns smoothed out over four years. In FY2014 the market value funded ratio is higher in part because it fully incorporates high investment returns in FY2014, while the actuarial value smoothes higher than expected returns over the four years.

The CTPF Board of Trustees voted to lower the Teachers' fund expected rate of return for FY2013 onward. There were additional changes made to the actuarial assumptions for the FY2013 financial statements that also impacted the funded status of CTPF. [149] The actuarial assumption changes increased the actuarial accrued liability (AAL) or the projected benefit obligation due to past service by employees and retirees—the denominator of the funded ratio calculation—and therefore decreased the funded ratio as compared to what the ratio would have been if the actuarial changes had not been made. According to data provided by the fund's

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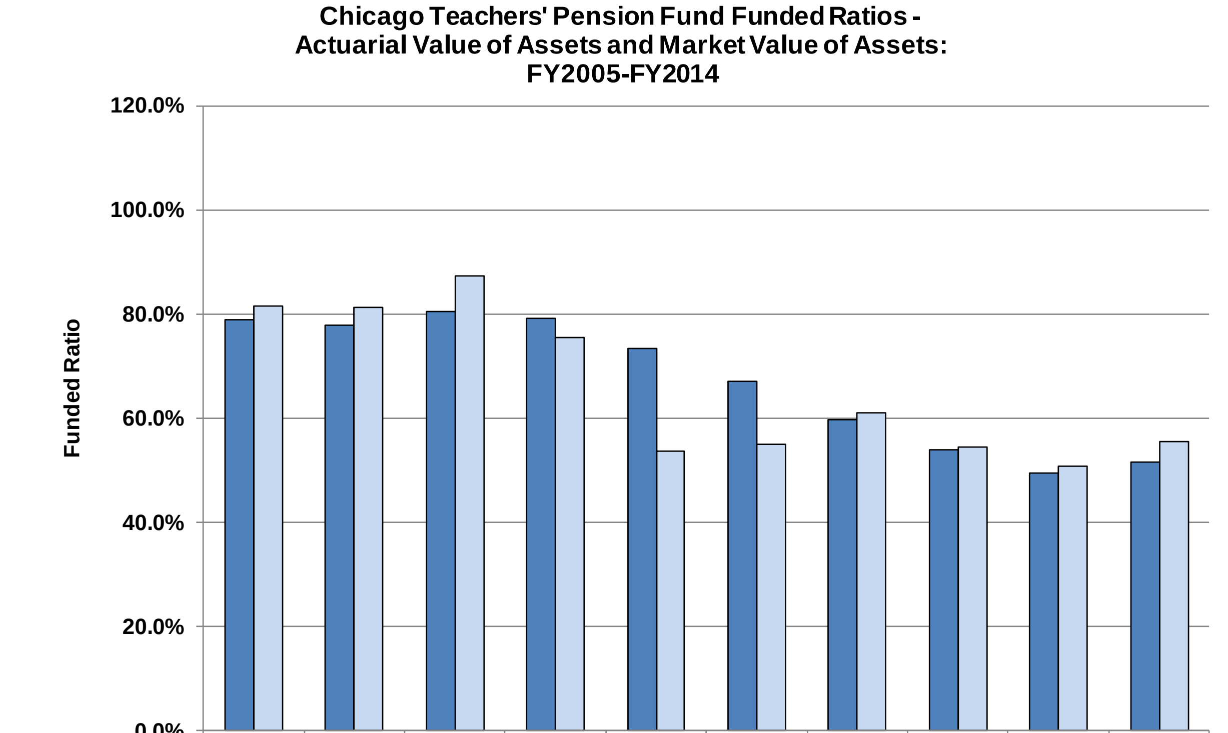
[148] For more detail on the actuarial value of assets, see Civic Federation, Status of Local Pension Funding FY2012, October 2, 2014, https://www.civicfed.org/sites/default/files/StatusOfLocalPensionFundingFY2012.pdf The Chicago Teachers' Pension Fund smoothes returns over four years.

[149] The actuarial assumption changes also included a decrease in the inflation assumption, a decrease in the expected payroll growth rate and some changes to mortality assumptions, in addition to the change to expected rate of return on investments.

actuary, the actuarial funded ratio would have been 52.5% in FY2013 if the actuarial assumptions had not been changed.[150]



	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
Actuarial Value	79.0%	78.0%	80.4%	79.4%	73.6%	67.1%	59.9%	54.1%	49.7%	51.7%
Market Value	81.7%	81.4%	87.3%	75.5%	53.7%	55.0%	61.1%	54.5%	51.0%	55.6%

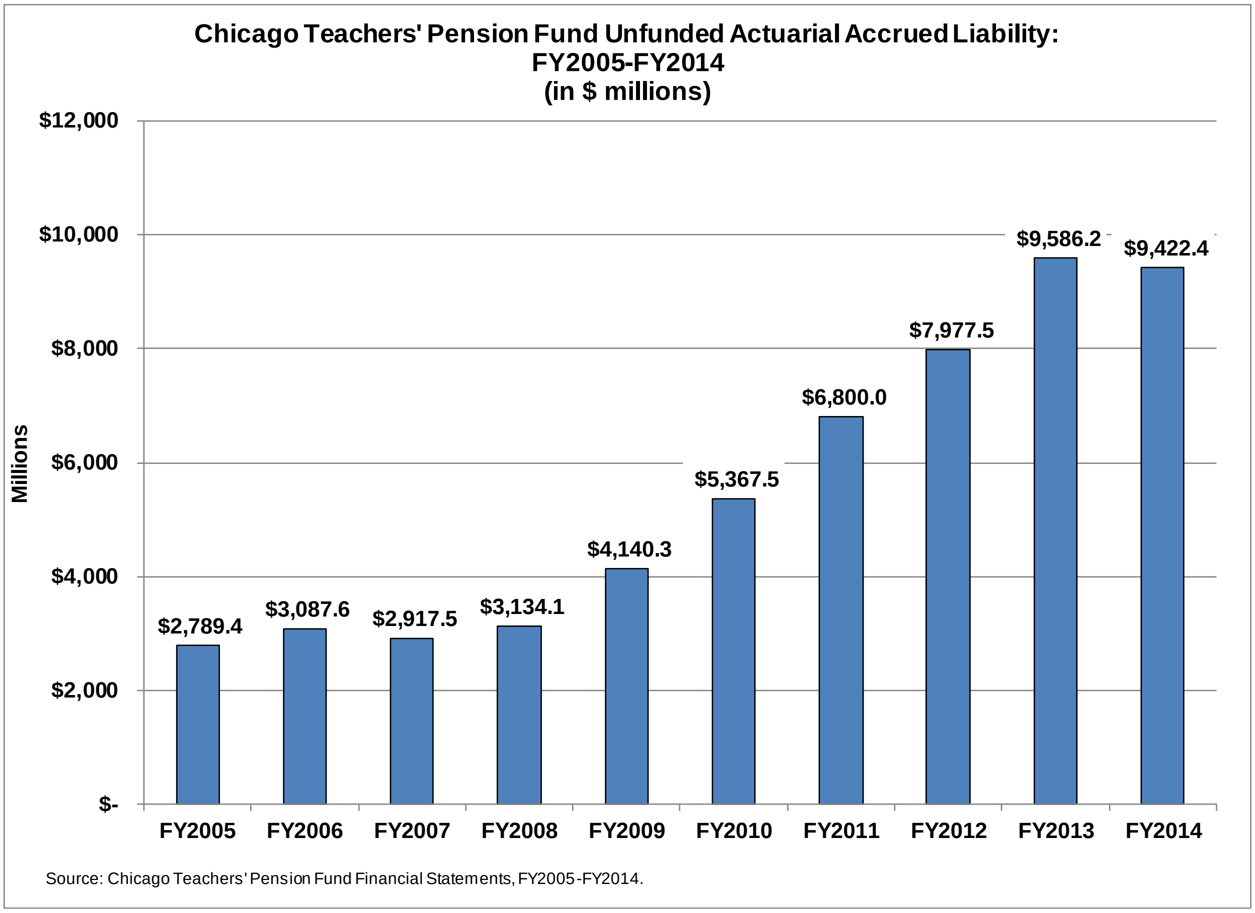
Source: Civic Federation calculations based on Chicago Teachers' Pension Fund Financial Statements, FY2005-FY2014.

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 nearly $2.8 billion in FY2005. Since FY2005 unfunded liabilities have increased by 237.8%, rising to $9.4 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

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

nearly $8.6 billion.[151] The UAAL fell in FY2014 from FY2013, mostly due to high investment returns.[152]



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 FY2005 to FY2014. 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.[153] This deficiency in employer contributions added $3.1 billion to the unfunded liability between FY2005 and FY2014.

The second largest contributor to the unfunded liability over the past 10 years 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

[151] Chicago Teachers' Pension Fund FY2013 GASB 25 Actuarial Valuation, p. iv and FY2013 Statutory Actuarial Valuation, p. iv. Civic Federation calculation.
[152] Public School Teachers' Pension and Retirement Fund of Chicago Statutorily Required Funding Valuation as of June 30, 2014, p. 15.
[153] Total increase in unfunded liability includes increase in FY2005 over FY2004, included in the first line of the chart below.

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 value rate of return reported in the actuarial valuation was 17.9%, far above the 7.75% assumption, and the smoothed rate of return was 12.7% because only losses in FY2012 were incorporated into the valuation, resulting in a gain of $454.7 million.[154] However, over the ten-year period, the failure of investment returns to meet the 8.0% or 7.75% assumption added $2.2 billion to the unfunded liability.

Chicago Teachers' Pension Fund Reasons for Change in Unfunded Actuarial Accrued Liability: FY2005-FY2014							
	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
FY2005	$ 231,938,546	$ 207,005,890	$ 158,843,367	$ -	$ -	$ 478,129,728	**$ 1,075,917,531**
FY2006	$ 287,817,648	$ (159,120,969)	$ (7,751,201)	$ -	$ -	$ 177,278,548	**$ 298,224,026**
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)**
10-Year Total	**$ 3,134,165,590**	**$ 2,209,496,670**	**$ 201,462,871**	**$ -**	**$ 635,348,606**	**$ 1,528,412,414**	**$ 7,708,886,151**

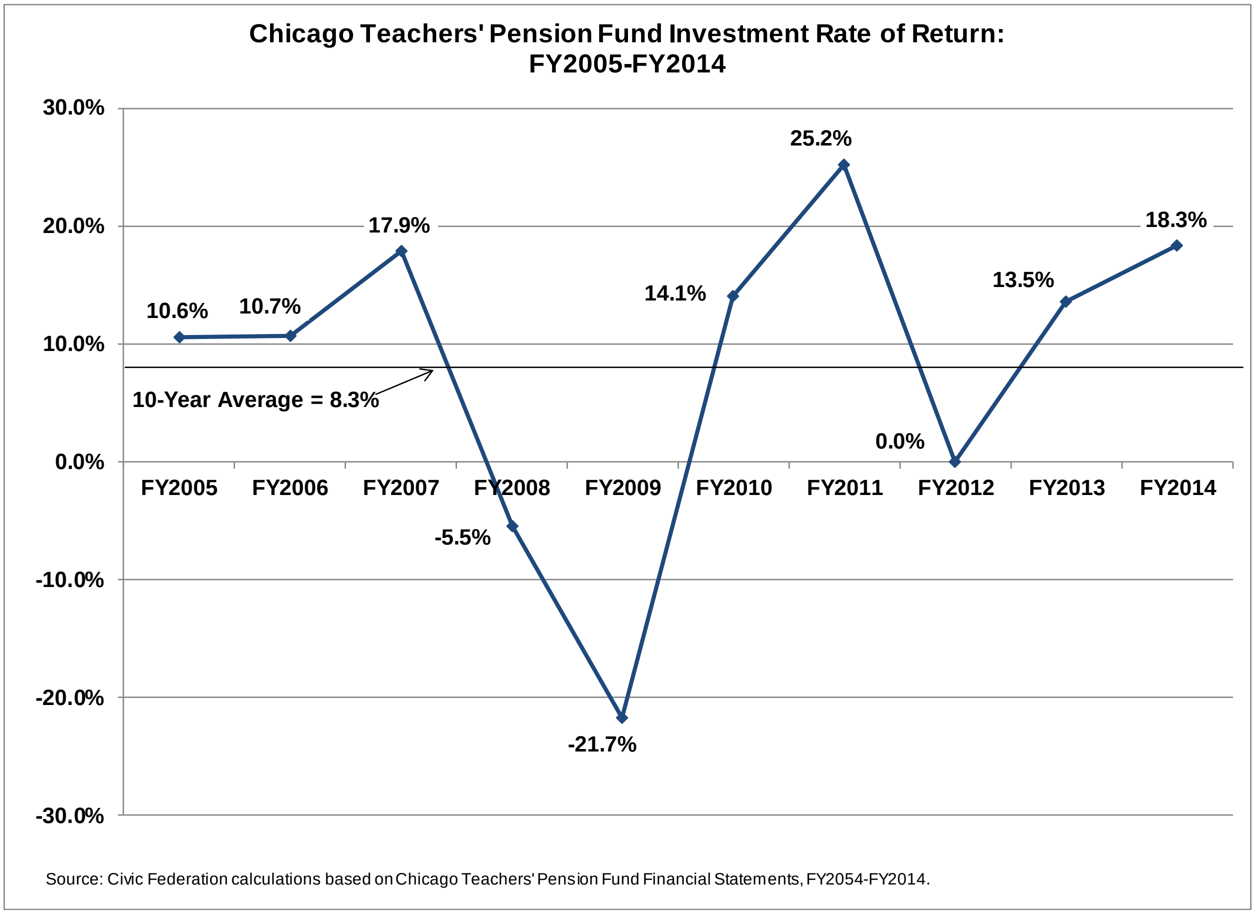
* Change in UAAL due to salary assumptions no longer supplied separately with change in actuary in FY2012. Salary assumptions combined with Other in FY2012 and after.
Source: Chicago Teachers' Pension Fund, Actuarial Valuations, FY2005-FY2014.

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 FY2005 and FY2014, the Chicago Teachers' Pension Fund average annual rate of return was

[154] Chicago Teachers' Pension Fund FY2014 Statutory Actuarial Valuation, p. 6.

8.3%.[155] This is above 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.



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 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.

[155] 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.

The CTPF provides a "rebate" for a significant portion of the monthly premiums owed by those who enroll. The rebate only applies to the retired teacher's portion of these insurance policies, not to the additional cost of enrolling eligible dependents. However, the rebate does apply to eligible dependents who are survivors of deceased retirees. The Fund had previously provided reimbursement of 70.0% of the cost of pensioners' health insurance coverage, but it was reduced to 60.0% on January 1, 2011 and to 50.0% on January 1, 2015. According to Illinois statute, total payments from the Teachers' Pension Fund to reimburse retirees may not exceed 75.0% of total retiree health insurance costs.[156]

In FY2014 a total of 18,171 retirees and beneficiaries received health insurance benefits. There were also 4,818 terminated employees who may be entitled to OPEB benefits but are not yet receiving them and 9,501 retirees and beneficiaries entitled to benefits but not currently receiving them.[157] 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.[158] In FY2014 the Teachers' Pension Fund spent $72.9 million on OPEB.[159]

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 FY2005 to FY2014, insurance premium rebates paid to beneficiaries increased by 31.9%, or $17.4 million. The health insurance rebate has increased year over year, with year-to-year increases ranging from 1.5% in FY2014 to 12.6% in FY2008. The exceptions were FY2011 and FY2012, when the subsidy decreased by 1.3% and 12.5%, respectively, due to the reduction to the reimbursement percent on January 1,

[156] 40 ILCS 17-142.1.
[157] Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation and Review of Other Post Employment Benefits (OPEB) as of June 30, 2014 in Accordance with GASB Statement No. 43, p. 3.
[158] 40 ILCS 17-142.1.
[159] Chicago Teachers' Pension Fund, FY2014 Comprehensive Annual Financial Report, p. 23.

2011. The health insurance rebate has represented approximately 5.4% to 7.7% of total pension and OPEB benefit expenditures over the ten-year period.

Total Health Insurance Premium Rebates Paid to Retired CPS Teachers: FY2005-FY2014		
	Health Insurance Rebate Paid	**% Change over Previous Year**
FY2005	$ 54,410,887	--
FY2006	$ 58,279,900	7.1%
FY2007	$ 61,028,841	4.7%
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%
Ten-Year Change	**$ 17,352,636**	**31.9%**

Source: Chicago Teachers' Pension Fund, Comprehensive Annual Financial Report FY2014, pp. 129 and 130.

The following exhibit shows the funded status of the teachers' OPEB plan. The total actuarial liability fluctuated over the five-year period from FY2010 to FY2014. The liability was nearly $2.9 billion in FY2010, rising to $3.1 billion in FY2012, before falling over the next two years to $1.9 billion in FY2014. Assets as a percentage of the actuarial liability were 1.2% in FY2009 and 1.9% in FY2014. The actuarial assumptions used included a 4.5% discount rate and an annual healthcare cost trend rate that is projected to decline by 0.5% points a year from 8.0% to 5.0% gradually over the six years.[160]

Funded Status of the Chicago Public Schools Pension Fund Other Post Employment Benefit (OPEB) Plan: FY2010-FY2014				
	Total Actuarial Liability	**Actuarial Value of Assets**	**Unfunded Actuarial Accrued Liability (UAAL)**	**Assets as a % of Actuarial Liability**
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%

Source: Chicago Teachers' Pension Fund, Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2014 in Accordance with GASB Statement No. 43, p. 8.

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. The District currently reports no short-term debt. 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*: employee pay carried over from previous years; and
- *Amounts held for student activities*: deposits held in custody or funds that belong to individual school accounts.

Short-term liabilities in the Governmental Funds decreased by approximately $431.9 million or 48.0%, from FY2010 to FY2014.

The largest portion of the decrease in this five-year period is for accrued payroll, which declined by nearly $408.9 million, or 78.5%. Most of that decrease occurred between FY2013 and FY2014, when accrued payroll fell by 76.4%, or from $473.2 million to $111.8 million. This was because in FY2014 CPS discontinued the practice of deferring a portion of non-52 week employee's payroll.[161]

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[160] Chicago Teachers' Pension Fund, Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2014 in Accordance with GASB Statement No. 43, p. 5.
[161] Information provided by the CPS Budget Office, August 21, 2015.

In the two-year period between FY2013 and FY2014, total short-term liabilities fell by 49.7%, or $462.5 million, while accounts payable fell by 24.7%, or $104.0 million. The reason for the accounts payable was that because of the discontinuation of deferred payroll noted above for accrued payroll, CPS had less federal and state payroll taxes withheld and payable.[162]

CPS Short-Term Liabilities in the Governmental Funds: FY2010 - FY2014 (in $ thousands)									
	FY2010	FY2011	FY2012	FY2013	FY2014	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Accounts Payable	$ 347,225	$ 464,286	$ 494,371	$ 421,491	$ 317,488	$ (104,003)	-24.7%	$ (29,737)	-8.6%
Accrued Payroll	$ 520,769	$ 518,652	$ 399,792	$ 473,189	$ 111,812	$ (361,377)	-76.4%	$(408,957)	-78.5%
Amount Held for Student Activities	$ 31,647	$ 34,840	$ 34,026	$ 35,536	$ 38,413	$ 2,877	8.1%	$ 6,766	21.4%
Total	**$ 899,641**	**$ 1,017,778**	**$ 928,189**	**$ 930,216**	**$ 467,713**	**$ (462,503)**	**-49.7%**	**$(431,928)**	**-48.0%**

Source: CPS Comprehensive Annual Financial Reports, Balance Sheets - Governmental Funds, FY2010 - FY2014.

Short-Term Liabilities as a Percentage of Net Operating Revenues

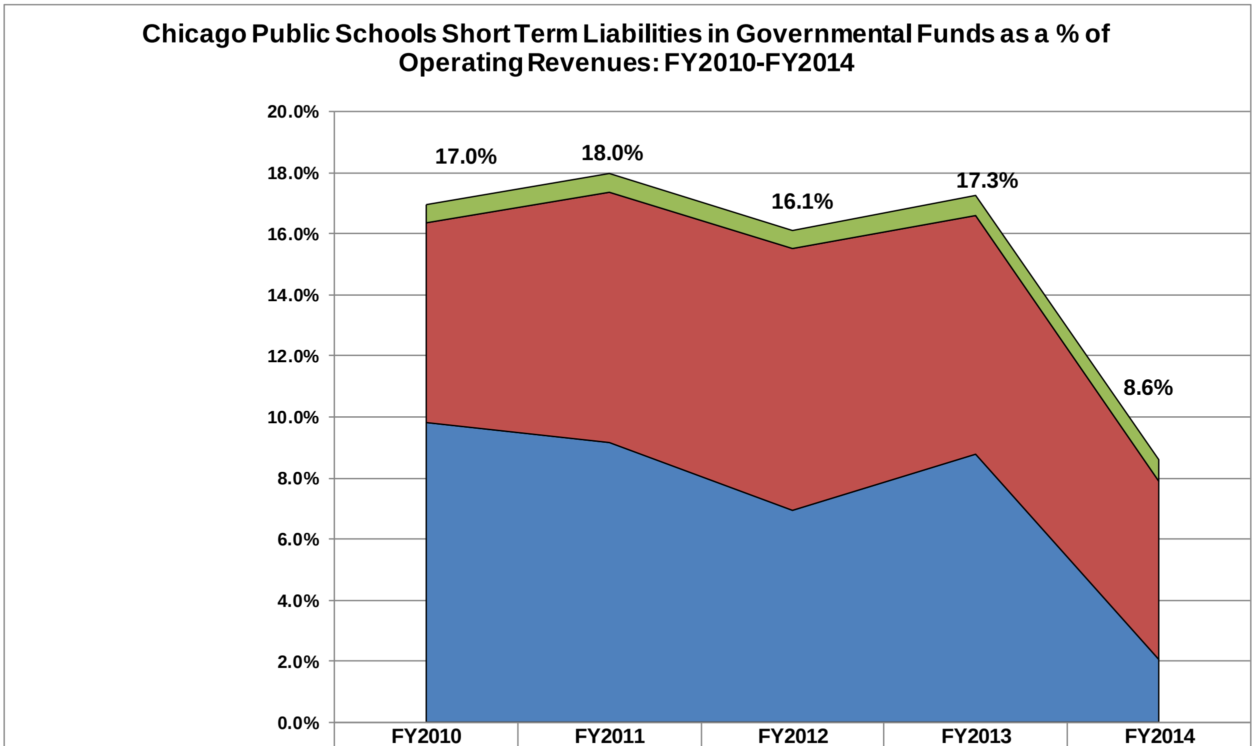
Increasing short-term (current) liabilities at the end of the year in a government's operating funds as a percentage of net operating revenues may be a warning sign of a government's future financial difficulties.[163] This ratio indicator, developed by the International City/County Management Association (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 FY2010 and FY2014, the ratio fell from 17.0% to 8.6%. The decrease is due primarily to large declines in accounts payable and accrued

[162] Information provided by the CPS Budget Office, August 21, 2015.

[163] 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.

payroll between FY2013 and FY2014. The decrease was a positive sign, but is expected to be reversed in FY2015 and FY2016.



	FY2010	FY2011	FY2012	FY2013	FY2014
Amount for Student Activities	0.6%	0.6%	0.6%	0.7%	0.7%
Accounts Payable	6.5%	8.2%	8.6%	7.8%	5.8%
Accrued Payroll	9.8%	9.2%	6.9%	8.8%	2.1%

Source: Chicago Public Schools Comprehesive Annual Financial Reports, FY2010-FY2014.

Short-Term Borrowing

Because CPS spent almost all of its budgetary reserves to balance its FY2015 budget, the District will rely on an increased level of short-term borrowing in FY2016. The District will access $900.0 million of short-term borrowing to bridge the gap between revenue collections and expenses throughout the fiscal year.[164] The funds will be secured through lines of credit and commercial loans and payable with dedicated revenues including property tax collections.

In the past CPS has used its available reserve funds and smaller amounts of short-term borrowing to smooth over the variance in its property tax collections and GSA payments from the State. As noted above, the majority of its reserves have been used as one-time resources to help close its deficits over the last several fiscal years and are no longer available for this purpose. Instead the short-term bonds will increase debt service cost by approximately $24.0 million in FY2016.[165]

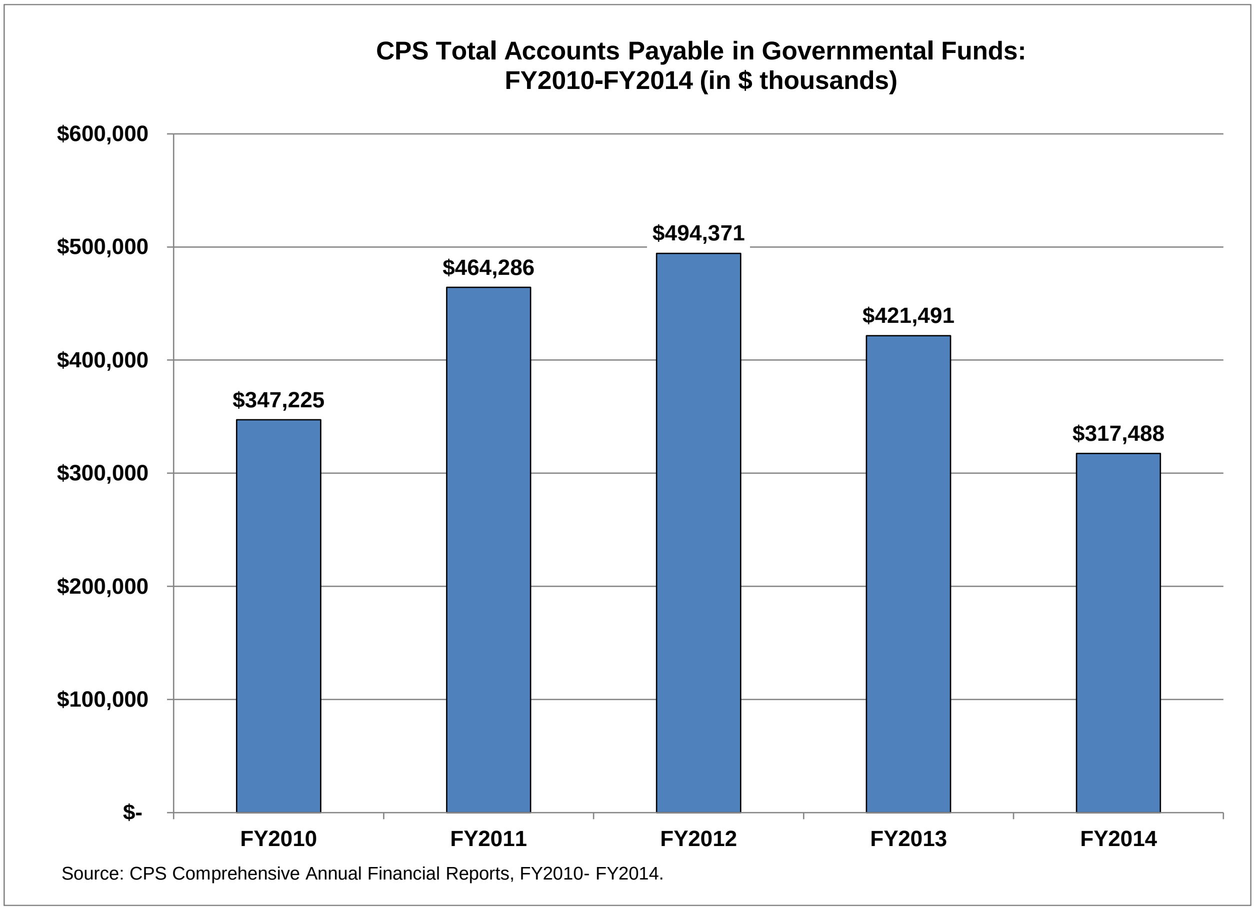
CPS receives property tax collections in August and March. However, it is required to make large debt service payments in February and its pension payment in June. Without access to the borrowed funds in FY2016, CPS would not be able to make these necessary payments on time. Likewise at the end of FY2015, CPS reported it would not have enough cash on hand to make its required $634.0 million pension payment. In order to make the payment, CPS cut $200.0 million for the operating budget through layoffs and borrowed the remaining funding. Short-term borrowing was used to provide the liquidity necessary to make the payment due to a negative cash balance that fell below $600.0 million between June 2015 and August 2015.[166]

Accounts Payable Trends

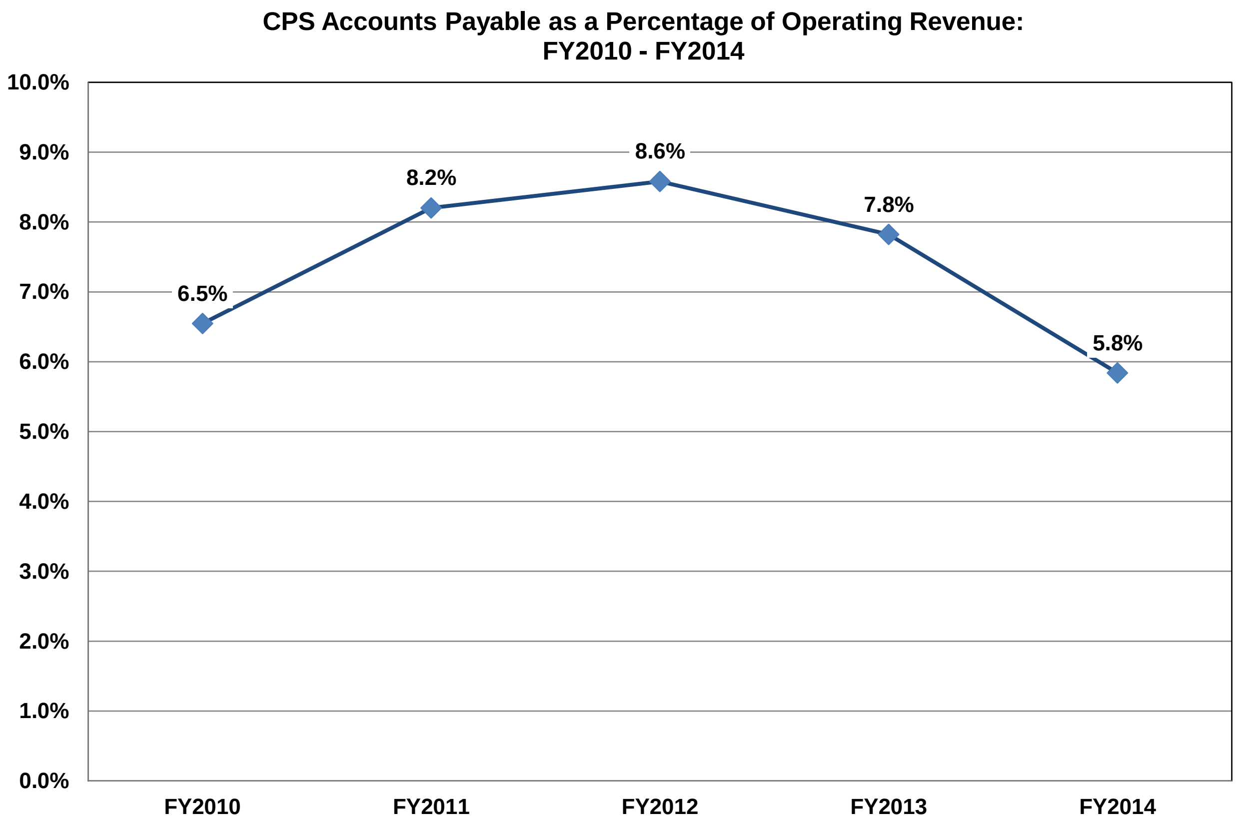
Rising amounts of accounts payable over time may indicate a government's difficulty in controlling expenses or keeping up with spending pressures. CPS reported a decrease of 8.6% in total accounts payable, or approximately $29.7 million, from FY2010 to FY2014. This was a

[164] CPS FY2016 Budget, p. 13.
[165] CPS FY2016 Budget, p. 13.
[166] CPS FY2016 Budget, p. 14.

decrease from $347.2 million to $317.5 million. There was a decrease of $104.0 million or 24.7% between FY2013 and FY2014; this was a positive sign.



The District's ratio of accounts payable in the Governmental Funds to operating revenues has decreased slightly from 6.5% in FY2010 to 5.8% in FY2014. The ratio increased from 6.5% in FY2010 to 8.6% in FY2012 before declining in subsequent years. Those changes primarily reflected the $147.1 million, or 42.4%, increase in accounts payable between FY2010 and FY2012.



Source: CPS Comprehensive Annual Financial Reports, FY2010-FY2014.

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.[167] 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

[167] 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;[168]
- *Cash and investments held in school internal accounts* represent the book balance for checking and investments for individual schools;[169]
- *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.[170]

The CPS current ratio was 6.0 in FY2014, the most recent year for which data are available. In the past five years, the District's current ratio averaged 4.6, which is greater than the benchmark of 2.0, which is considered a healthy level of liquidity. Over the five-year period, current assets fell by 25.8% while current liabilities declined by 48.0%.

CPS Current Ratio in the Governmental Funds: FY2010-FY2014
(in $ thousands)

	FY2010	FY2011	FY2012	FY2013	FY2014	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Current Assets									
Cash and Investments	$ 857,002	$1,157,460	$1,470,892	$1,259,273	$ 254,551	$ (1,004,722)	-79.8%	$ (602,451)	-70.3%
Cash and Investments in Escrow	$ 951,546	$ 778,083	$ 649,471	$ 755,025	$ 580,457	$ (174,568)	-23.1%	$ (371,089)	-39.0%
Cash and Investments Held in School Internal Accounts	$ 31,647	$ 34,840	$ 34,026	$ 35,536	$ 38,413	$ 2,877	8.1%	$ 6,766	21.4%
Receivables: Property Taxes, Net	$ 906,944	$1,022,827	$ 996,968	$1,061,198	$ 1,064,710	$ 3,512	0.3%	$ 157,766	17.4%
Receivables: Replacement Taxes	$ 22,829	$ 24,342	$ 33,182	$ 35,870	$ 31,920	$ (3,950)	-11.0%	$ 9,091	39.8%
Receivables: State Aid, Net	$ 807,665	$ 775,970	$ 613,199	$ 514,760	$ 516,147	$ 1,387	0.3%	$ (291,518)	-36.1%
Receivables: Federal Aid	$ 156,023	$ 277,650	$ 202,462	$ 291,336	$ 211,090	$ (80,246)	-27.5%	$ 55,067	35.3%
Receivables: Other	$ 40,209	$ 146,247	$ 40,533	$ 159,492	$ 106,791	$ (52,701)	-33.0%	$ 66,582	165.6%
Other Assets	$ 4,595	$ 2,095	$ 8,581	$ 5,687	$ 1	$ (5,686)	-100.0%	$ (4,594)	-100.0%
Total Current Assets	**$3,778,460**	**$4,219,514**	**$4,049,314**	**$4,118,177**	**$ 2,804,080**	**$ (1,314,097)**	**-31.9%**	**$ (974,380)**	**-25.8%**
Current Liabilities									
Accounts Payable	$ 347,225	$ 464,286	$ 494,371	$ 421,491	$ 317,488	$ (104,003)	-24.7%	$ (29,737)	-8.6%
Accrued Payroll	$ 520,769	$ 518,652	$ 399,792	$ 473,189	$ 111,812	$ (361,377)	-76.4%	$ (408,957)	-78.5%
Amount Held for Student Activities	$ 31,647	$ 34,840	$ 34,026	$ 35,536	$ 38,413	$ 2,877	8.1%	$ 6,766	21.4%
Total Current Liabilities	**$ 899,641**	**$ 1,017,778**	**$ 928,189**	**$ 930,216**	**$ 467,713**	**$ (462,503)**	**-49.7%**	**$ (431,928)**	**-48.0%**
Current Ratio	**4.2**	**4.1**	**4.4**	**4.4**	**6.0**				

Source: CPS Comprehensive Annual Financial Reports, Balance Sheets - Governmental Funds, FY2010 - FY2014.

Although the current ratio is above the healthy benchmark currently, CPS reported a cash flow crisis at the end of FY2015. The crisis was primarily caused by a drawdown of reserve funds to balance its FY2015 budget and reliance on revenues collected after the close of the fiscal year through its extended revenue recognition period. These measure left the District with limited resources on June 30, 2015, when it was required to make its FY2015 pension contribution totaling $634.0 million.

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168 Chicago Public Schools FY2014 Comprehensive Annual Financial Report, p. 58.
169 Chicago Public Schools FY2014 Comprehensive Annual Financial Report, p. 59.
170 Chicago Public Schools FY2014 Comprehensive Annual Financial Report, p. 45.

Although current data are not available to calculate the current ratio for FY2015 or project the FY2016 ratio, it is expected that the ratio will fall in these years due to increased current liabilities in the form of short-term borrowing and reduced current assets due to the reduction in reserves.

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.[171] 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.
- *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.

[171] Descriptions of accrued sick pay benefits, accrued vacation pay benefits, accrued workers' compensation claims, and accrued general and automobile claims and tort liabilities and other claims are found in Note 11: Other Benefits and Claims, CPS FY2013 Comprehensive Annual Financial Report, pp. 78-80.

- *Net Other Post Employment Benefit (OPEB) Obligations*: 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.[172]

Between FY2010 and FY2014, total CPS long-term liabilities increased by 33.4%, or over $2.9 billion, rising from approximately $8.7 billion to $11.6 billion. Long-term debt increased by $913.0 million, or 17.3%, 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. General obligation debt is the only type of long-term debt that increased in this time period. Other long-term liabilities such as accrued sick leave and vacation pay, net pension obligations and net OPEB obligations grew by 58.0% or nearly $2.0 billion. Net pension obligations rose by 62.1%, from $2.0 billion to $3.2 billion while net OPEB obligations grew by 77.0%, rising from approximately $949.4 million to nearly $1.7 billion.

CPS Long-Term Liabilities: FY2010-FY2014
(in $ thousands)

Type of Obligation	FY2010	FY2011	FY2012	FY2013	FY2014	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
General Obligation Bonds*	$ 4,904,510	$ 5,249,147	$ 5,593,686	$ 6,058,398	$ 5,944,516	$ (113,882)	-1.9%	$1,040,006	21.2%
Leases Securing PBC Bonds	$ 359,215	$ 330,375	$ 299,780	$ 267,330	$ 232,940	$ (34,390)	-12.9%	$ (126,275)	-35.2%
Capital Leases	$ 2,275	$ 2,100	$ 1,925	$ 1,750	$ 1,575	$ (175)	-10.0%	$ (700)	-30.8%
Subtotal Long-Term Debt	**$ 5,266,000**	**$ 5,581,622**	**$ 5,895,391**	**$ 6,327,478**	**$ 6,179,031**	**$ (148,447)**	**-2.3%**	**$ 913,031**	**17.3%**
Accrued Sick Pay Benefits	$ 334,968	$ 459,823	$ 354,692	$ 365,299	$ 357,321	$ (7,978)	-2.2%	$ 22,353	6.7%
Accrued Vacation Pay Benefits	$ 75,508	$ 66,389	$ 65,518	$ 69,853	$ 60,992	$ (8,861)	-12.7%	$ (14,516)	-19.2%
Accrued Workers' Compensation Claims	$ 103,676	$ 109,735	$ 115,296	$ 114,268	$ 129,280	$ 15,012	13.1%	$ 25,604	24.7%
Accrued General and Automobile Claims	$ 5,531	$ 5,343	$ 5,398	$ 5,808	$ 6,218	$ 410	7.1%	$ 687	12.4%
Tort Liabilities and Other Claims	$ 2,500	$ 2,000	$ 2,000	$ 3,278	$ 10,778	$ 7,500	228.8%	$ 8,278	331.1%
Net Pension Obligation	$ 1,968,685	$ 2,262,010	$ 2,618,836	$ 3,020,049	$ 3,190,380	$ 170,331	5.6%	$1,221,695	62.1%
Net OPEB Obligation	$ 949,371	$ 1,130,197	$ 1,335,928	$ 1,536,593	$ 1,680,247	$ 143,654	9.3%	$ 730,876	77.0%
Subtotal Other Long-Term Liabilities	**$3,440,239**	**$4,035,497**	**$ 4,497,668**	**$ 5,115,148**	**$ 5,435,216**	**$ 320,068**	**6.3%**	**$1,994,977**	**58.0%**
Grand Total Long-Term Liabilities	**$ 8,706,239**	**$ 9,617,119**	**$ 10,393,059**	**$ 11,442,626**	**$11,614,247**	**$ 171,621**	**1.5%**	**$2,908,008**	**33.4%**

* Outstanding principal.

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, FY2010-FY2014.

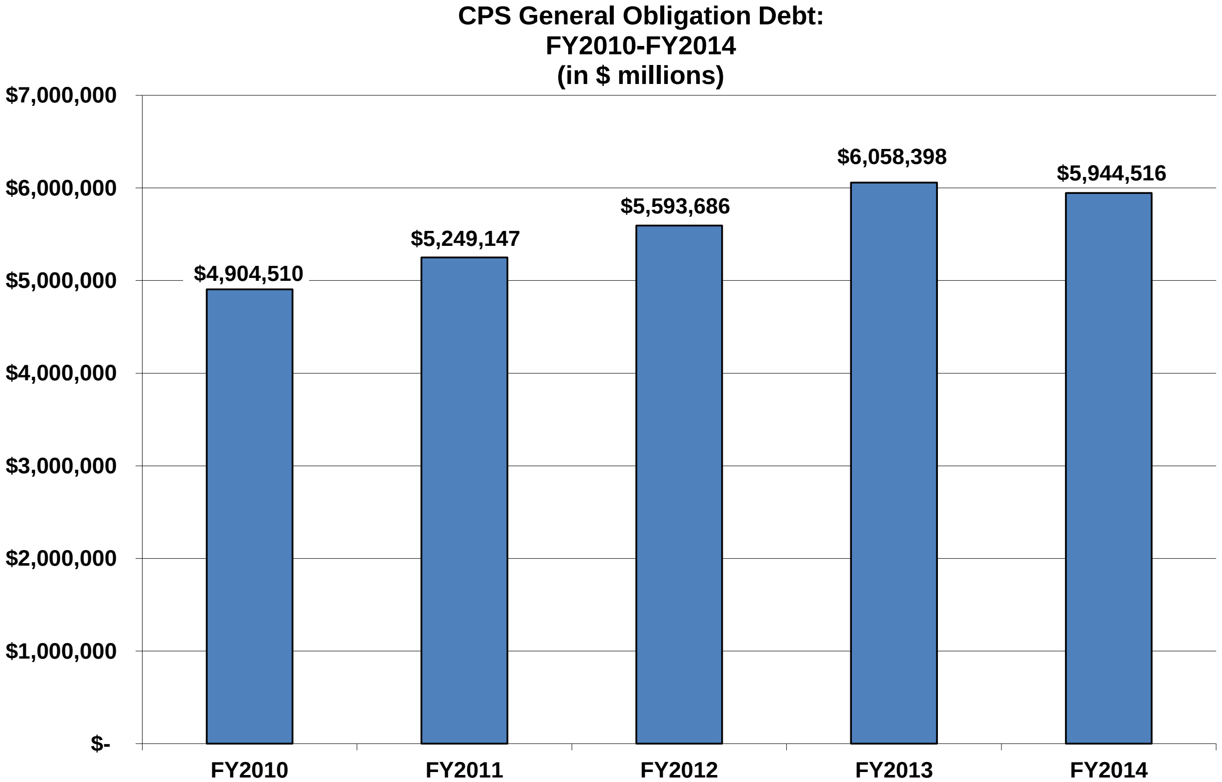
General Obligation Debt

CPS general obligation debt is the largest component of the District's long-term debt portfolio, averaging 94.9% of total long-term debt from FY2010 to FY2014. General obligation debt is funded by property taxes and is backed by the full faith and credit of the District. Increases in 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

[172] 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.

time it is increasing its debt burden, it may have difficulty making principal and interest payments at some point in the future.

CPS general obligation debt principal increased by 21.2%, or $1.0 billion, between FY2010 and FY2014. This represents an increase from $4.9 billion to $5.9 billion. The increase reflects an increase in the District's capital construction program over the past several years. The rate of increase over time bears watching, particularly as CPS faces continuing challenges in meeting its rising expenditures in areas such as personnel and retirement costs.

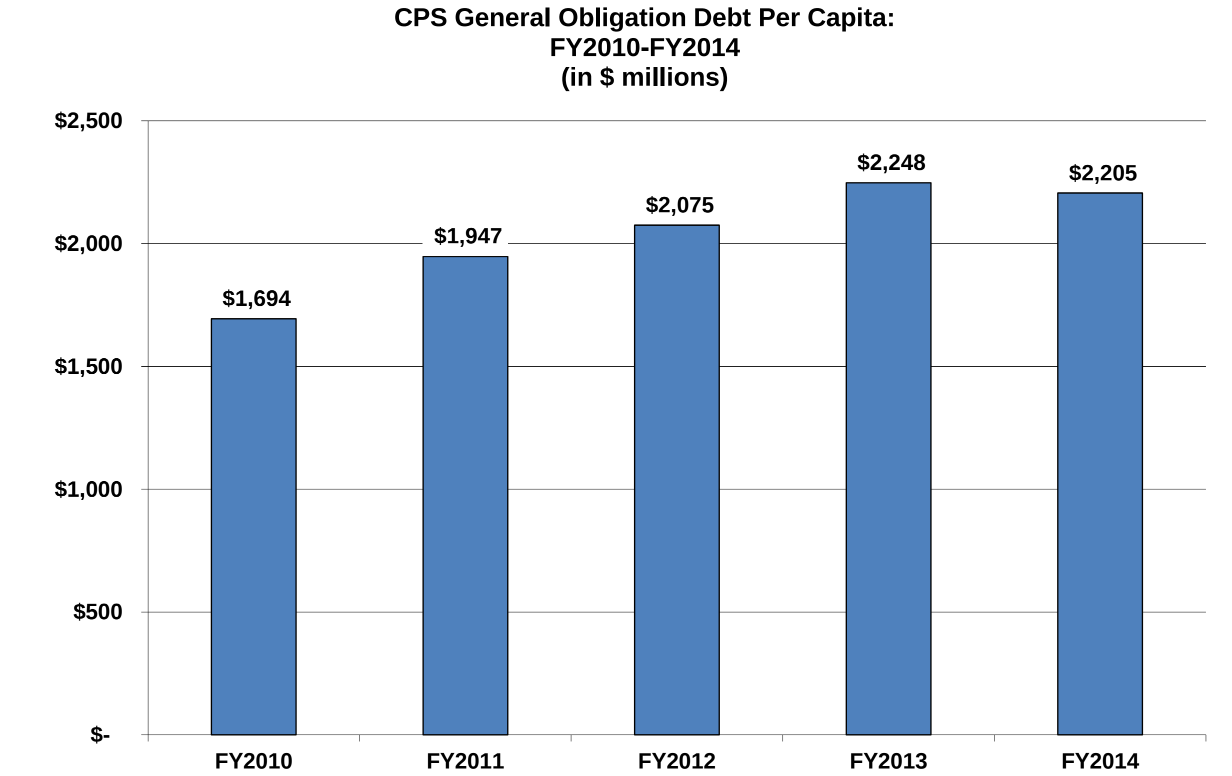


Source: CPS FY2014 Comprehensive Annual Financial Report, p. 138.

Despite the decrease in FY2014, the District's General Obligation debt increased in FY2015 due to the issuance of $200.0 million in additional capital purpose bonds. CPS has also authorized the issuance of $1.2 billion in additional General Obligation bonds for FY2016. Although more than $100.0 million of the new borrowing authority is intended to refund existing principal in order to scoop and toss existing debt into the future for budgetary relief, the remainder will increase the outstanding debt in the coming fiscal year.

General Obligation Debt Per Capita

General obligation debt per capita is a measure of a government's ability to maintain its current financial policies. This indicator is commonly used by rating agencies to measure debt burden across governments. It 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 direct debt figures do. CPS general obligation debt per capita increased by 30.2% between FY2010 and FY2014, rising from $1,694.0 to $2,205.0. 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.[173] Between FY2015 and FY2016, CPS general obligation debt per capita has declined slightly by 1.9% from $2,248 to $2,205.



.Source: CPS FY2014 Comprehensive Annual Financial Report, p. 138

As mentioned above, due to the additional bonds sold in FY2015 and the authorized sale of $1.2 billion in additional bonds in FY2016, the debt service per capita trend is expected to rise in subsequent years.

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%.[174] Although the debt service ratio for CPS

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[173] CPS FY2014 Comprehensive Annual Financial Report, p. 139.
[174] 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.

will increase significantly from 6.4% in FY2012 to 9.5% in FY2016, it is still below the 15% threshold. Between FY2012 and FY2016, the debt service ratio averaged 8.4%.

Chicago Public Schools Budgeted Debt Service Appropriations as of % of Total Appropriations: FY2012-FY2016							
	FY2012	FY2013	FY2014 Actual	FY2015 Estimated	FY2016 Proposed	$ Change	% Change
Debt Service Appropriations	$ 374.5	$ 390.4	$ 467.9	$ 603.8	$ 538.6	$ 164.10	43.8%
Total Appropriations	$ 5,839.7	$ 5,804.3	$ 5,312.2	$ 5,756.3	$ 5,687.7	$(152.00)	-2.6%
Debt Service as a % of Total Appropriations	**6.4%**	**6.7%**	**8.8%**	**10.5%**	**9.5%**		

Sources: CPS FY2016 Budget, pp. 9 and 161; CPS FY2015 Proposed Budget at http://www.cps.edu/fy15budget/Pages/debtmanagement.aspx and FY2014 Estimated Budget, p. 7; Previous budget data from www.cps.edu.

Rather than pay the principal portion of the debt service owed in FY2016 using General State Aid, the District has included a scoop and toss refunding as part of the proposed budget balancing actions. The District plans to issue a refunding bond to repay the principal amounts owed in FY2016, which will allow CPS to use $254.0 million in 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 Bond Ratings

In 2015 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 2015 Standard & Poor's, Moody's Investors Services and Fitch Ratings rate CPS debt as being below investment grade status, with ratings of BB, Ba3 and BB+ respectively. Kroll still rates CPS debt as investment grade with a rating BBB+.

FY2009-FY2015							
	2009	2010	2011	2012	2013	2014	2015
Standard & Poor's Rating Services	AA-	AA-	AA-	A+	A+	A+	BB
Moody's Investor Services	A1	Aa2	Aa3	A2	A3	Baa1	Ba3
Fitch Ratings	A+	AA-	A+	A	A	A-	BB+
Kroll	No rating	No rating	No rating	No rating	No rating	No rating	BBB+

Source: Chicago Public Schools FY2016 Budget, p. 159 and Standard & Poor's , "Chicago Board of Education GO Rating Lowered to 'BB' from 'BBB' on Structural Imbalance and Low Liquidity," August 14, 2015.

2015 Rating Downgrades

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.[175]

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. [176]

In May 2015 Moody's dropped CPS' rating three notches to Ba3 from Baa3, with a continuing negative outlook. [177]

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-.[178] The downgrades triggered penalties under the terms of the District's debt swap agreements with financial institutions of well over $200.0 million.[179]

Previous Downgrades

On July 24, 2013, Moody's Investors Service lowered the District's rating on general obligation debt from A2 to A3 with a negative outlook. Moody's cited the significant debt and pension obligations of the District and overlapping governmental units, including the City of Chicago. At that time, Moody's said that the rating downgrade reflected above-average debt burden and the expected narrowing of reserves to bridge the FY2014 budget gap.[180] On March 14, 2014, Moody's Investors Services further downgraded CPS's credit rating for its general obligation debt to Baa1 with a negative outlook, the same rating it gave to City of Chicago general obligation debt on March 4 of that year. Moody's issued the downgrade because of concerns about the District drawing down its reserves in FY2014 to meet scheduled increases in pension

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[175] Standard & Poor's, "Chicago Board of Education GO Rating Lowered To 'BB' From 'BBB' On Structural Imbalance And Low Liquidity," August 14, 2015.
[176] Fitch Ratings. "Fitch Downgrades Chicago Board of Ed (IL) ULTGOs to BBB+; Negative Watch," July 7, 2015.
[177] Lauren Fitzpatrick and Tina Sfondeles, "Chicago public schools and park district's debt downgraded to junk status," Chicago Sun-Times, May 13, 2015.
[178] Reuters, "Update 2-Fitch Downgrades Chicago Board of Education rating to BBB-," March 20, 2015.
[179] Dan Mihalopoulos and Lauren Fitzpatrick, "CPS facing $200 million-plus penalties as bond ratings plunge," Chicago Sun-Times, March 20, 2015.
[180] CPS FY2013 Proposed Budget, pp. 137-138.

payments and to balance its budget as well as the projected $900.0 million shortfall for FY2015.[181]

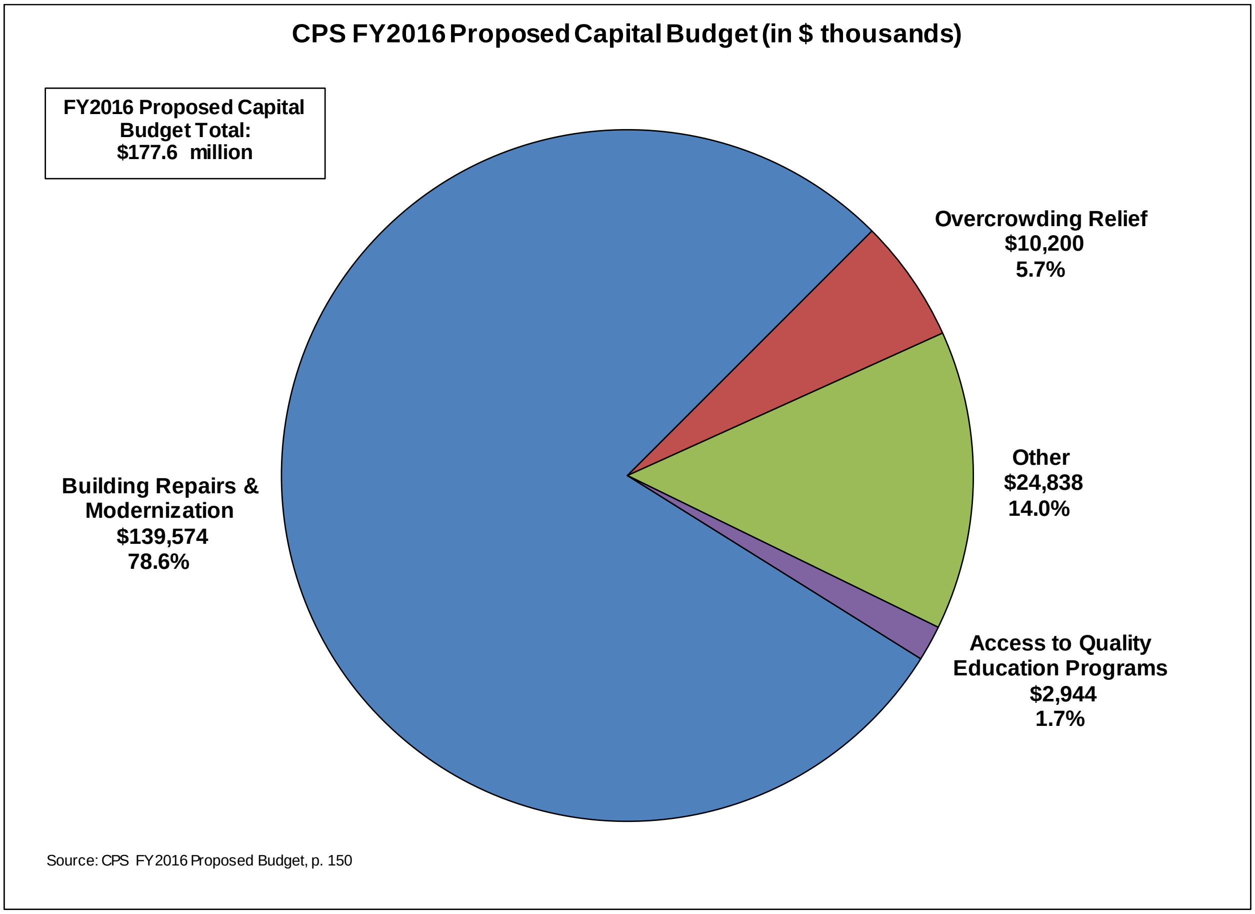
Capital Budget

Information about CPS capital projects can be found in the capital budget section of the proposed FY2016 budget and in the FY2016-FY2020 capital improvement plan on the District's website.[182]

In its FY2016 budget, CPS proposes spending $177.6 million for capital projects. The largest single amount, or 78.6% of the total, will be $139.6 million for building repair and modernization. This is followed by the "other" category, which will be 14.0% of total spending, or $24.8 million. It includes funding for capital project support services as well as legal and regulatory requirements. Next, funding for projects intended to provide relief from overcrowding will be budgeted at $10.2 million or 5.7% of all spending. Finally, $2.9 million will be spent

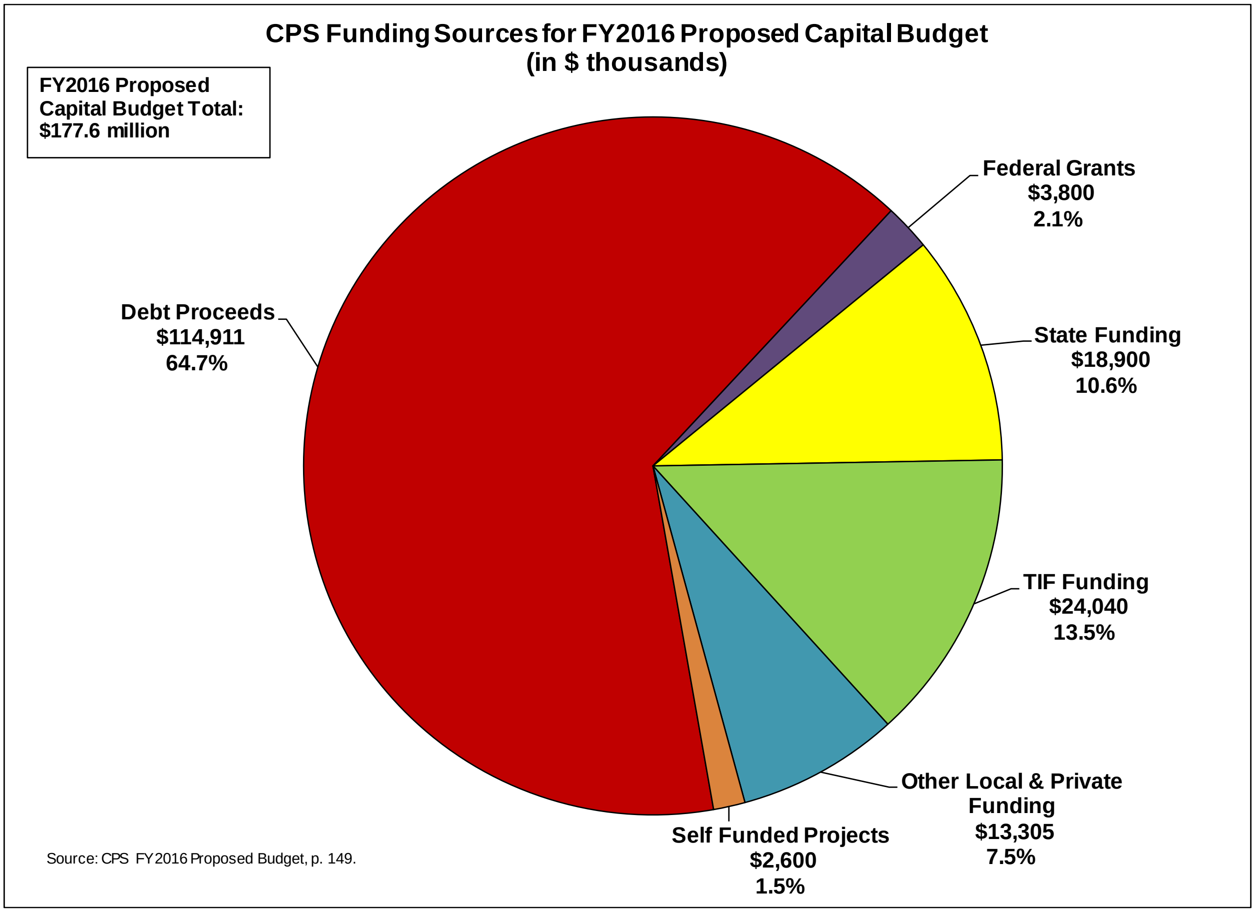
[181] Paul Merion, "Moody's cuts rating for Chicago schools, park district," *Crain's Chicago Business*, March 15, 2014.
[182] Located at http://cps.edu/fy16budget/Pages/capital.aspx and http://cps.edu/CapitalPlanFY16/Pages/CapitalPlanFY16.aspx.

under the rubric of Access to Quality Education Programs on programming and pre-kindergarten expansions.[183]



[183] Chicago Public Schools FY2016 Budget, pp. 50-152.

The FY2016 capital budget will be funded primarily with debt proceeds. About $114.9 million, or 64.7% of all resources used, will be from debt. Approximately 13.5%, or $24.0 million, will be derived from Chicago tax increment financing (TIF) funding, 10.6%, or $18.9 million, from State funding, 7.5% will be financed from other local and private sources, 2.1% will come from federal grants and 1.5% will be self-funded by CPS.



Capital Project Revenues and Spending: FY2012-FY2016

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 FY2016 regardless of the year in which the project was appropriated. The fund balance amount shown is the difference between expected FY2016 capital expenses versus revenues; the amount unspent in one fiscal year carries forward into the next fiscal year.[184]

[184] CPS FY2016 Proposed Budget, p. 152.

Here are some of the significant two-year changes between the FY2015 estimated and the FY2016 proposed budget:

- Total capital revenues will decrease by $4.7 million, or 2.6%, from $180.0 million to $175.3 million;
- State of Illinois revenues are expected to increase from $69.0 million to $80.3 million, or 16.4%. Of that amount, $13.3 million will be derived from gaming revenue and will be used for new capital projects, $6 million will be from the State of Illinois Department of Commerce and Economic Opportunity and energy efficiency grants;[185]
- Local revenues are expected to fall sharply from $111.0 million in FY2015 to $82.5 million in FY2016. Approximately $50.8 million of the FY2016 amount will from prior-year TIF-related projects, $15.0 million will be from new TIF-related projects, $12.4 million from other local funding sources and $36.9 million will be from the sale of property and other revenues;[186]
- Federal outlays will increase from zero to $12.5 million. They include $5.8 million from the Federal Revenue Administration for noise abatement and $6.6 million in Federal E-Rate funding for upgrades to CPS information technology infrastructure;
- Capital outlays will fall to $297.8 million in FY2016 from $384.1 million in the previous year; this is a decrease of 22.5%. In the same period, bond issuance will increase substantially by 273.7%, rising from $148.5 million to $555.0 million; and
- The end of year fund balance is expected to rise from $(147.6) million to $244.9 million.

Over the five-year period between FY2012 actual spending and the FY2016 proposed budget, total capital revenues will rise by 121.6%, or $96.2 million. Capital outlays will fall by 48.4% or $279.1 million, dropping from $576.9 million to $297.8 million. The end of year fund balance will increase by 175.8% from $88.8 million in FY2012 to $244.9 million in FY2016.

CPS Capital Revenues and Outlays to be Incurred in FY2016
(in $ millions)

	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Estimated Budget	FY2016 Proposed Budget	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Beginning of Year Fund Balance	$ 182.9	$ 88.8	$ 173.8	$ (92.0)	$ (147.6)	$ (55.6)	60.4%	$ (330.5)	-180.7%
Revenues									
Local Revenue	$ 59.7	$ 88.0	$ 37.2	$ 111.0	$ 82.5	$ (28.5)	-25.7%	$ 22.8	38.2%
State Revenue	$ 1.3	$ 6.9	$ 37.8	$ 69.0	$ 80.3	$ 11.3	16.4%	$ 79.0	-
Federal Revenue	$ 18.1	$ 13.6	$ 14.9	$ -	$ 12.5	$ 12.5	---	$ (5.6)	-30.9%
Interest Earnings	$ -	$ 1.9	$ -	$ -		$ -	-	$ -	---
Total Revenue	**$ 79.1**	**$ 110.4**	**$ 89.9**	**$ 180.0**	**$ 175.3**	**$ (4.7)**	**-2.6%**	**$ 96.2**	**121.6%**
Expenditures									
Capital Outlay	$ 576.9	$ 493.5	$ 487.0	$ 384.1	$ 297.8	$ (86.3)	-22.5%	$ (279.1)	-48.4%
Bond Issuance	$ 403.6	$ 468.0	$ 131.3	$ 148.5	$ 555.0	$ 406.5	273.7%	$ 151.4	37.5%
Transfer to Debt Stabilization Fund	$ -	$ -	$ -	$ -	$ 40.0				
End of Year Fund Balance	**$ 88.8**	**$ 173.8**	**$ (92.0)**	**$ (147.6)**	**$ 244.9**	**$ 392.5**	**-265.9%**	**$ 156.1**	**175.8%**

Source: CPS FY2012 Final Budget, p. 244, FY2013 Amended Budget, p. 131, FY2015 Proposed Budget, p. 157 and FY2016 Proposed Budget, p. 150.

[185] CPS FY2016 Proposed Budget, p. 153.
[186] CPS FY2016 Proposed Budget, p. 152.

CPS FY2016-FY2020 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 will be used to guide completion of the FY2016 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 CPS FY2016 proposed One-and Five-Year Capital Plans are made available on the District's interactive capital website at www.cps.edu/capitalplan. The CIP website features a summary page for each project. The project summaries provide information regarding a project's type and category, status, budgeted amount and corresponding budget year, anticipated start and completion dates, funding source and the purpose and scope of the project.

The capital improvement plan includes a brief explanation of the rationale for identifying and prioritizing capital needs throughout the CPS district.[187] The rationale is based on the recent changes to the State of Illinois' School Code in Public Act 97-0474. The CPS capital website is interactive, providing users with information on planned and current projects. It allows users to select projects and review information by school, geographic area, type and year.[188]

Overall, the CPS capital improvement plan meets the requirements of P.A. 97-0474 for a five-year capital plan as well as most of the best practice requirements as defined by Government Finance Officers Association (GFOA) and the National Advisory Council on State and Local Budgeting. These best practices include identifying and describing the prioritization process used, providing a timeline for completing projects, identifying funding sources for projects and making the CIP publicly available for stakeholders on the CPS website. In addition, the District accepts public input via the website and at public hearings. The Board of Education votes to adopt the one-year capital budget each year but not the full five-year CIP.[189]

The exhibit below shows the capital spending amounts proposed by CPS for FY2016-FY2020 for capital spending. In those five years, a total of $579.8 million has been forecast for projects.

CPS FY2016-FY2020 Capital Plan

	FY2016	FY2017	FY2018	FY2019	FY2020	Total
CPS Funding	$ 114,911,361	$ 90,158,361	$ 86,678,361	$ 83,478,361	$ 90,978,361	$ 466,204,805.00
Outside Funding/Self-Funding	$ 62,645,000	$ 36,000,000	$ 15,000,000	$ -	$ -	$ 113,645,000.00
Total	**$ 177,556,361**	**$ 126,158,361**	**$ 101,678,361**	**$ 83,478,361**	**$ 90,978,361**	**$ 579,849,805.00**

Source: Comprehensive Capital Improvement Plan FY2016-2020, interactive capital budget, CPS web site at http://cps.edu/CapitalPlanFY16/Documents/Five-YearCapitalPlan.pdf (last visited August 11, 2015).

[187] Information about the CPS prioritization and planning process can be found at http://www.cps.edu/About_CPS/Policies_and_guidelines/Documents/CapitalPlan/Planning2014.pdf
[188] See CPS Interactive Capital Budget at http://cps.edu/fy16budget/Pages/capital.aspx.
[189] Information provided by CPS Budget Office, July 17, 2012.