The Civic Federation

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CHICAGO PUBLIC SCHOOLS FY2014 PROPOSED BUDGET:

Analysis and Recommendations

August 22, 2013

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EXECUTIVE SUMMARY

The Civic Federation **does not support** the Chicago Public Schools (CPS) proposed $6.6 billion budget for FY2014 and remains **very concerned** about the District's current and long-term fiscal health. The District's FY2014 Proposed Budget closes a monumental $977 million budget deficit with a complete drawdown of its unrestricted reserves, as well as use of restricted reserve funds, which are traditionally considered off-limits. The District narrowly avoided completely exhausting its unrestricted reserve funds in FY2013 due to reduced expenses and early payments from the State of Illinois. In addition to some carryover of fund balance from FY2013, the District will also use FY2012 fund balance that came from early receipt of property tax revenue and unexpected state contributions in FY2012 to balance the budget.

As CPS acknowledges, the proposed FY2014 budget plan is unsustainable as budget deficits of nearly $1 billion are already projected for FY2015 and FY2016. However, absent comprehensive pension reform or access to additional revenue sources, CPS has limited options for closing its budget shortfalls. Despite painful spending reductions including layoffs and school consolidations, the State's inaction on pension reform has plunged the District into an even deeper financial crisis.

CPS cannot afford its existing pension system. This is evident from the size of the FY2014 budget deficit that resulted from the partial pension contribution holiday. The $404 million pension funding cliff in FY2014 created by the contribution holiday has damaged the already unstable fiscal health of CPS. It is imperative that the Illinois General Assembly, Governor Quinn, Chicago Mayor Emanuel, the Chicago Board of Education and CPS stakeholders, including District employees, parents and community members, work together to reform the benefit structure and identify adequate funding sources for the teacher pension system. Another contribution holiday is not a viable solution. It would only further jeopardize the District's financial health by requiring even larger, unaffordable contributions in the future.

Significant structural changes to the District's expenditures and long-term obligations are urgently needed. Relying on one-time revenue sources is unsustainable. By depleting its reserves in FY2014, CPS's financial crisis will escalate further as it projects massive budget deficits to continue. The District needs to address its ongoing structural deficit and develop a formal, publicly-available long-term financial plan.

The Civic Federation offers the following **key findings** on the FY2014 Proposed Budget:

- The total proposed FY2014 CPS budget will increase by $750.2 million, or 12.9%, from the FY2013 final amended budget, rising from approximately $5.8 billion to $6.6 billion;
- Appropriations for the General Operating Funds will increase by $493.8 million, or 9.7%, to approximately $5.6 billion in FY2014 from FY2013 year-end estimates of approximately $5.1 billion;
- In FY2014, required pension contributions will grow by $404.0 million; and
- The District's General Obligation debt per capita increased from $1,939 in FY2011 to $2,171 in FY2012.

The Civic Federation has **concerns** about the following areas of the CPS FY2014 Proposed Budget:

- Continued inaction on the District's pension funding crisis by the Board of Education and CPS officials, the General Assembly and Governor Quinn, accelerating CPS into a deeper state of financial jeopardy;
- Lack of a publicly-shared long-term financial plan to provide the District with the necessary guidance and strategies to better address its financial challenges;

- Completely drawing down its unrestricted reserves to use a total of $697 million in one-time revenue sources to close its massive budget deficit of $977 million;
- Increasing long-term debt by 37.8%, or $1.6 billion, between FY2008 and FY2012;
- Insufficient amount of time allowed for the public to review the budget before the first public hearing; and
- Lack of personnel-related data and other budget format issues.

The Civic Federation **supports** several elements of the proposed budget, including:

- Implementing management efficiencies and cost-saving strategies that reduce expenditures by $111.6 million in FY2014;
- Increasing the property tax levy by the maximum amount allowed by the tax cap law, generating $87.4 million in much-needed additional revenue;
- Improvements to the transparency of the budget through the use of an interactive budget online.

The Civic Federation offers the following **recommendations** to improve CPS's financial management:

- Develop a pension reform plan in cooperation with the General Assembly, Governor Quinn, Mayor Emanuel, the Board of Education and other CPS stakeholders including employees, parents and community members to ensure a sustainable pension system;
- To stabilize CPS finances, implement a formal long-term financial plan that is shared with and reviewed by key policymakers and stakeholders, including the members of the Board of Education and the taxpaying public;
- Require consistent financial reporting for charter schools;
- Improve the transparency of the budget process by revising the public review and comment process and continue to add necessary information to the budget document to make it more useful for readers.

CIVIC FEDERATION POSITION

The Civic Federation **does not support** the Chicago Public Schools (CPS) proposed $6.6 billion budget for FY2014 and remains **very concerned** about the District's current and long-term fiscal health. The District's FY2014 Proposed Budget closes a monumental $977 million budget deficit with a complete drawdown of its unrestricted reserves, as well as use of restricted reserve funds, which are traditionally considered off-limits. The District narrowly avoided completely exhausting its unrestricted reserve funds in FY2013 due to reduced expenses and early payments from the State of Illinois. In addition to some carryover of fund balance from FY2013, the District will also use FY2012 fund balance that came from early receipt of property tax revenue and unexpected state contributions in FY2012 to balance the budget.

As CPS acknowledges, the proposed FY2014 budget plan is unsustainable as budget deficits of nearly $1 billion are already projected for FY2015 and FY2016. However, absent comprehensive pension reform or access to additional revenue sources, CPS has limited options for closing its budget shortfalls. Despite painful spending reductions including layoffs and school consolidations, the State's inaction on pension reform has plunged the District into an even deeper financial crisis.

CPS cannot afford its existing pension system. This is evident from the size of the FY2014 budget deficit that resulted from the partial pension contribution holiday. The $404 million pension funding cliff in FY2014 created by the contribution holiday has damaged the already unstable fiscal health of CPS. It is imperative that the Illinois General Assembly, Governor Quinn, Chicago Mayor Emanuel, the Chicago Board of Education and CPS stakeholders, including CPS employees, parents and community members, work together to reform the benefit structure and identify adequate funding sources for the teacher pension system. Another contribution holiday is not a viable solution. It would only further jeopardize the District's financial health by requiring even larger, unaffordable contributions in the future.

Significant structural changes to the District's expenditures and long-term obligations are urgently needed. Relying on one-time revenue sources is unsustainable. By depleting its reserves in FY2014, CPS's financial crisis will further escalate as the District is left with insufficient resources to fill massive deficits in FY2015 and FY2016. The District needs to address its ongoing structural deficit and develop a formal, publicly-available long-term financial plan.

In order to understand CPS's current financial crisis, it is important to be aware of the overall context of the situation. These key events and factors are described below.

Continuing Structural Deficit

As the graph below shows, CPS has been experiencing operating budget deficits since at least FY2008. While operating expenditures have steadily increased in all but one year since FY2008, recurring revenues in the operating funds have significantly fluctuated. The main contributor to the District's operating costs is personnel expenses (salaries and benefits), which account for 68% of CPS's total operating budget.[1] Increasing pension costs, as described in the next section,

[1] Personnel costs represent 68% of the CPS's total operating budget in FY2014. Between FY2008 and FY2013, personnel costs represented between 66% and 74% of the District's total operating budgets.

and significant increases in teacher compensation over the last several years have been primary factors driving the District's operating deficits.

To address its recent deficits, CPS increased its property tax levy to the maximum amount allowed under the State tax cap law in FY2012 and FY2013. The District proposes to increase its levy to the maximum amount allowable in FY2014 as well. These increases came after three years of relative restraint when the District froze the levy in FY2011 and increased it by less than the maximum amount allowable under law in FY2009 and FY2010.[2]

In addition to increasing its property tax levy, CPS has extensively used one-time revenue sources to close its budget deficits. Using one-time revenue sources is unsustainable by definition because these sources are not recurring. After a one-time revenue source is exhausted, it is not available the following year, creating revenue gaps in subsequent budgets. In FY2009 and FY2010 the District used approximately $143 million and $102 million, respectively, in reserves as it spent more than it received in revenues for those years.[3] In FY2011 the District depleted its $190 million in reserves and had to withdraw $75 million from a bank line of credit to meet expenditures in November 2010 before the State caught up on late payments. The City also accelerated tax increment financing (TIF) surplus distributions, allowing CPS to ultimately end FY2011 with a surplus.[4] In FY2012 CPS projected a budget shortfall of $712 million, primarily due to reductions in federal and state revenues. The shortfall was closed with spending cuts, an increase in the property tax levy and the use of $241 million in reserve funds.[5]

Last year, in FY2013, the District estimated a budget gap of $665 million and proposed to drain its unrestricted fund balance of $432 million to close the majority of the deficit. Due to expenditure savings during FY2013 and early distributions of State of Illinois revenue and Cook County property tax revenue[6], the District only used approximately $230 million of the proposed $432 million in fund balance. However, because of its persistent structural deficit, rising costs and limited revenue, CPS is again proposing to drain its unrestricted reserves in FY2014.

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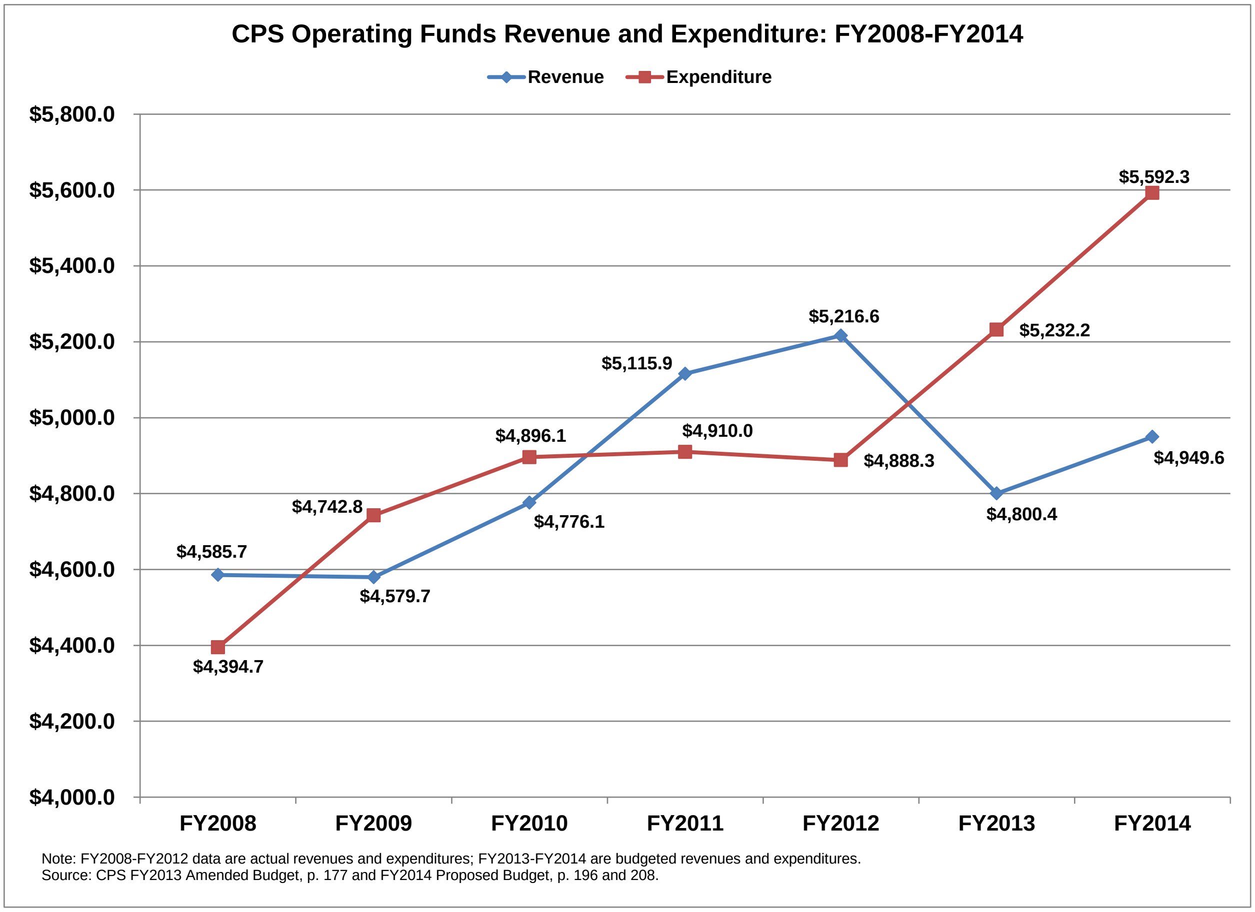
[2] CPS has taxed to the legal maximum 14 out of the 19 years (including the proposed tax year 2011 levy) that the tax cap law has been in effect. In FY1996, FY1999, FY2009 and FY2010, it increased the levy by less than the legal maximum. In FY2011, it kept the levy flat, but increased the levy to the maximum in FY2012. CPS Property Tax Fact Sheet, August 8, 2011.
[3] CPS FY2009 and FY2010 Comprehensive Annual Financial Reports, Statements of Revenues, Expenditures by Object, Other Financing Sources and Net Changes in Fund Balance – Final Appropriations vs. Actual – General Operating Fund.
[4] This $75 million borrowing cost $542,000 in fees and interest. Information provided by CPS Budget Office, August 12, 2011.
[5] See Civic Federation, Chicago Public Schools FY2012 Budget: Analysis and Recommendations for more information.
[6] See page 40 for more information.



Partial Pension Contribution Holiday

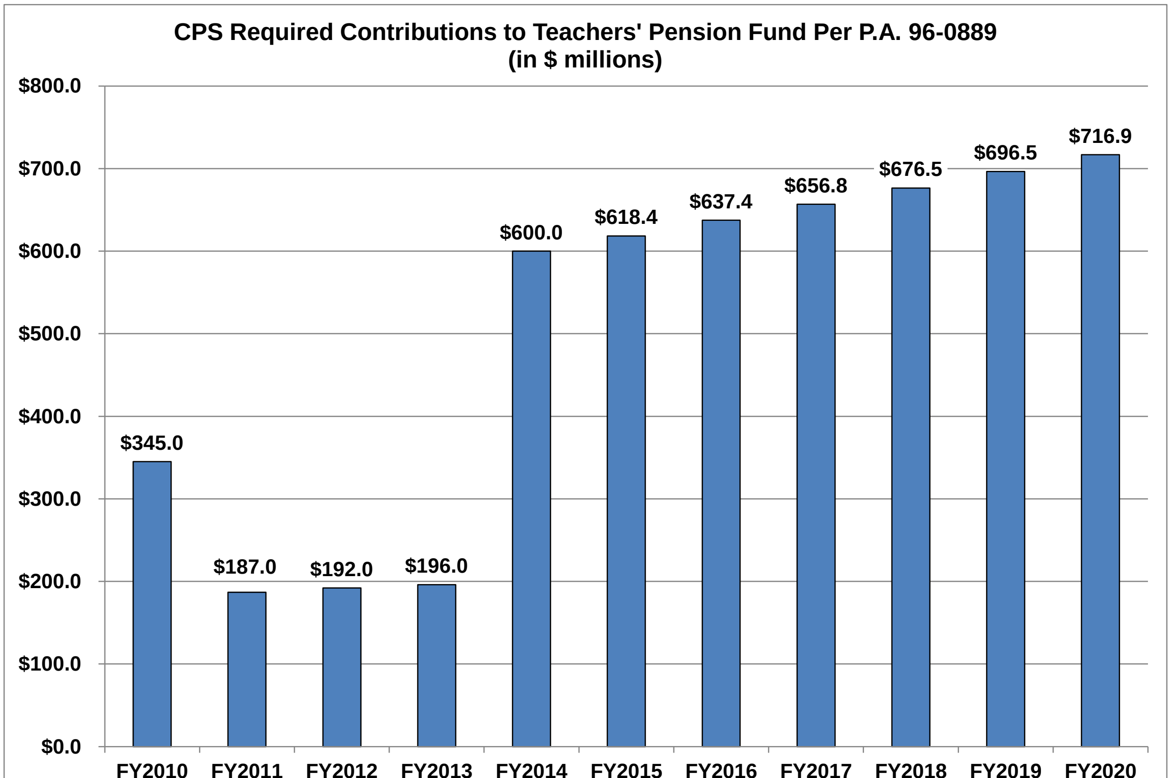
In April 2010, at the urging of prior CPS officials, Illinois enacted a three-year reduction in statutory pension contributions for CPS in Public Act 96-0889, which also created a different level of pension benefits for new employees in many state and local pension plans. The partial pension contribution holiday reduced CPS's required employer pension contributions for FY2011, FY2012 and FY2013 to an amount estimated to be equivalent to the normal cost.[7] The law also delayed the year that the Chicago Teachers' Pension Fund must reach a 90% funded ratio to 2059 from 2045.

Prior to the passage of P.A. 96-0889, the FY2011 CPS required pension contribution was calculated to be $586.9 million, or almost double the FY2010 amount. The partial pension holiday provided substantial budgetary relief by reducing the District's required FY2011 contribution to $187.0 million, which was $158.0 million, or 45.8%, less than the prior year contribution.[8] The partial pension contribution holiday expires in FY2014 and the District's

[7] "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.
[8] Actuarial projection by Goldstein & Associates for Kevin Huber, Executive Director of the Public School Teachers' Pension and Retirement Fund of Chicago, March 31, 2010.

pension payment will increase by $404.0 million, or 206.1%, to $600.0 million from $196.0 million in FY2013.[9]

CPS's pension payments will rise in future years, reaching $716.9 million in FY2020. These increases will contribute to future budget gaps and will likely result in even more painful cuts to the District, similar to the thousands of layoffs that occurred in 2013. For that reason, comprehensive pension reform that includes modifications to employee and employer contributions and benefits is essential.



Source: Public School Teachers' Pension and Retirement Fund of Chicago, *Statutorily Required Funding 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. 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*, December 2012, p. 121.

Reduction in State Pension Contributions

The State of Illinois has been reducing its own "employer contribution" to the Chicago Teachers' Pension Fund in recent years.[10] The State had traditionally contributed roughly $65 million each year to the Teachers' Pension Fund pursuant to 40 ILCS 5/17-127, which declares the General Assembly's "goal and intention" to contribute an amount equivalent to 20% or 30% of the contribution it makes to the downstate Teachers' Retirement System. The State employer contribution decreased from $65 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

[9] CPS also contributes a statutory amount related to benefit enhancements granted in the 1990s under P.A. 90-0582 equal to 0.58% of teacher payroll. The FY2014 contribution is estimated to be $12.7 million. See page 58 for more information.

healthcare costs paid out of the fund. There was no State "employer contribution" in FY2012 and FY2013, and the same is expected for FY2014.

The three-year reduction in required CPS employer pension contributions and the State's elimination of its regular contribution to the Chicago teacher pension system in concert with investment losses have rapidly weakened the financial health of the fund. The pension fund has fallen from 100% funded in FY2001 to only 54.5% in FY2012 on a market value of assets basis.

Stagnant Level of General State Aid

The State of Illinois' official foundation level of state funding for schools has remained at $6,119 per student since FY2010. The General State Aid (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. However, the statewide appropriation is insufficient to pay for the foundation level this year, so CPS will only receive 89.1%, or $1.1 billion, of its GSA in FY2014.

Future Outlook

CPS projects that it will continue to experience monumental budget deficits in future years, amounting to $914.3 million in FY2015 and $960.6 million in FY2016.[11] The District estimates that state and local revenue will decrease over the next two years by $168 million in FY2015 and $76 million in FY2016 as its costs rise by $104 million and $122 million, respectively.

Issues of Concern

The Civic Federation has the following concerns regarding the CPS FY2014 Proposed Budget.

Pension Funding Crisis

The funded level of the Chicago Teachers' Pension Fund has fallen significantly over the past ten years, from 81.2% in FY2003 to 54.5% in FY2012.[12] The District's partial pension contribution holiday expires this year, resulting in pension payment increases of 206.1%, or $404.0 million, over the FY2013 contribution. Inaction on pension reform by the Illinois General Assembly and Governor Quinn has plunged the District into an even deeper financial crisis. With limited revenue sources, CPS has few options to meet its required pension contributions except through spending reductions, including painful school consolidations and layoffs.

CPS cannot afford its existing pension system. This is evident from the size of the FY2014 budget deficit resulting in large part from the District's partial pension contribution holiday. The pension funding cliff created by this legislation has damaged the already unstable fiscal health of

[10] The State is statutorily required to make contributions equal to 0.544% of teacher payroll to the Teachers' Fund to offset a portion of the cost of benefit increases enacted under P.A. 90-0582. This contribution is not required if the funded ratio is at least 90%. The additional employer contribution from the State that has been cut is subject to appropriation. See page 58 for more information.
[11] CPS FY2014 Proposed Budget, p. 12.
[12] Funded ratios based on market value of assets. FY2012 data is the most recent information available.

CPS and must be addressed by reforming the benefit structure and identifying adequate funding sources for the teacher pension system. Another contribution holiday is not a viable solution as inadequate contributions to the fund now will only increase future required contribution amounts unless major changes are made to the pension system. Dramatic changes are necessary to reduce this heavy, continuous burden on the District. These changes can only be achieved through comprehensive pension reform enacted by the Illinois General Assembly and Governor Quinn.

Lack of Long-Term Financial Plan

For the past several years the Civic Federation has strongly recommended that CPS develop a publicly-shared long-term financial plan. The District has been cognizant of its impending pension cliff since the adoption of the partial pension contribution holiday legislation in FY2010, and a long-term financial plan would have provided the District with the necessary guidance and strategies to better address its financial challenges.

While the Civic Federation remains hopeful that the General Assembly, Governor Quinn and other important stakeholders will come together to enact comprehensive pension reform in the near future, it remains critical that the District publish a plan to address its unique ongoing structural deficit. A long-term financial plan would guide the District while State comprehensive pension reform is debated, as well as inform the legislature as to how the Chicago Teachers' Pension Fund would be best modified.

Draining Reserve Funds to Balance Budget

In FY2014 CPS faces a monumental budget deficit of $977.0 million. With limited revenue sources and few options to close the massive shortfall, the District proposes using $696.6 million in reserves to close its budget gap. This is the second year in a row that CPS has proposed to drain its reserves to balance its budget, a practice that is unsustainable. Of the $696.6 million proposed to close the shortfall, $603.9 million will come from unrestricted reserves, $38.8 million will be drawn down from the restricted tort fund balance and $53.8 million will come from debt service reserves.[13]

This proposal is an irresponsible stopgap to the District's larger ongoing structural deficit. By completely drawing down its unrestricted reserves, CPS also fails to follow its own fund balance policy. CPS's current fund balance policy was adopted in 2008. It states that its fund balance "should carry a minimum 5 percent of the operating and debt-service total budget in the following year's budget." In its proposed FY2014 budget, as was the case in its FY2013 budget, CPS recognizes that it will not be able to meet this policy within the next two years and proposes a request to the Board of Education to extend its replenishment deadline.[14]

The Federation strongly opposes the District's proposal to ignore its own fund balance policy and put off replenishing its fund balance by at least another two years. The budget does not

[13] Presentation to Chicago Board of Education on July 24, 2013, FY14 Budget Proposal, p. 17.
[14] CPS FY2014 Proposed Budget, p. 168.

provide concrete details regarding CPS's intentions to replenish its fund balance, and therefore is not a sound fiscal practice.[15]

Use of some 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, it is not a sound fiscal practice to consistently use a one-time resource such as reserve funds to maintain an operating budget. Such repeated use is a strong indicator of a structural deficit that must be addressed because reserves will eventually be depleted. By depleting its unrestricted fund balance and tapping into restricted reserves this year, CPS will have no reserves available next year when its financial crisis escalates further with estimated FY2015 and FY2016 budget deficits over $900 million.[16]

Increasing Long-Term Debt

CPS General Obligation debt increased by 37.8%, or approximately $1.6 billion, between FY2008 and FY2012. This is an increase from $4.3 billion to $5.9 billion. Between FY2011 and FY2012, general obligation debt rose by 12.3%, or $644.4 million, from $5.2 billion to nearly $5.9 billion. This represents an increase in general obligation debt per capita from $1,939 in FY2011 to $2,171 in FY2012. The increase reflects the District's large capital construction program over the past several years.

Following the release of CPS's FY2014 Proposed Budget, Moody's Investors Service lowered the District's general obligation rating to A3 from A2 over concerns about the significant debt and pension obligations of the District and overlapping governmental units and the proposed complete elimination of the District's reserves. Lower ratings generally lead to higher interest rates, which negatively impact a government's operating budget as a result of increased debt service and interest costs.

Insufficient Time for Public Review of Budget

The CPS FY2014 Proposed Budget was released on Wednesday, July 24, 2013 and its first public hearing was held on Thursday, August 1, 2013 – only six working days after the budget was released. This is an inadequate amount of time for the public to comprehend a complex budget document. All governments have a duty to allow for public input related to their proposed budgets. As an educational institution, CPS's failure to allow for sufficient time for public input on the proposed budget is a missed opportunity to help educate, inform and build support for their proposed $6.6 billion expenditure of tax dollars.

Lack of Data and Other Budget Format Issues

<u>No Breakdown of Budget Deficit</u>

[15] CPS notes in its budget narrative that it intends to implement several policies to help replenish its fiscal stabilization fund during FY2014. However, the policies mentioned are vague and do not constitute a substantial plan to rebuild budgetary reserves. CPS FY2014 Proposed Budget, p. 167-169.
[16] CPS FY2014 Proposed Budget, p. 12.

The overwhelming focus of CPS's proposed FY2014 budget is the $977 million deficit, but the budget document does not provide a detailed breakdown of this budget gap. This information was shown in a presentation to the Board of Education at its July 24, 2013 meeting; however, the information was not duplicated in the budget book. It is imperative that data be presented illustrating how the deficit came about in order for the public to fully comprehend the District's financial crisis and offer informed recommendations and perspective on how to resolve it.

Lack of Personnel Data

Information on CPS personnel by location and type (administrative, school-based and capital fund positions) in terms of full-time equivalent positions was not provided in the FY2014, FY2013 or FY2012 budgets. Information on the number of teachers, administrators and support staff is crucial data that should be presented clearly in annual budget documents. FTE data quantifies annualized hours for positions and provides a standard means of comparability that position data does not.

Omission of "What's New in the Budget Book" Section

In addition to the omission of data on full-time equivalent staffing levels, CPS did not include the "What's New in the Budget Book" section that was included in the FY2011 and FY2009 proposed budgets. This section provided useful information about changes in the budget's formatting since the previous year.

Inconsistencies between Budget Website and Budget Document

While the interactive budget webpages are an improvement to the District's transparency, the online version and the budget document do not provide identical information. The inconsistency between the two budget formats is confusing to readers examining both versions. For example, spending in the online budget is categorized differently from the historical trend tables in the appendices of the budget book.

Incomplete Historical Trends

The FY2014 Proposed Budget also lacked adequate year-end estimates for FY2013. This omission was especially problematic when looking at the historical trends tables in Appendix C of the budget document. The historical trends tables in this year's budget book do not include FY2013 year-end estimates, or FY2014 proposed figures, making it difficult to analyze the District's revenue and expenditure trends over time.

Issues the Civic Federation Supports

The Civic Federation supports the following elements of the proposed budget:

Implementing Management Efficiencies and Cost Saving Strategies

CPS proposes $111.6 million in expenditure reductions to the District's Central Office and administrative operations in FY2014 to help reduce its $977 million budget shortfall. This amount comes in addition to approximately $321.0 million in administrative cost reductions in

FY2012 and $177.0 million in FY2013.[17] The cost-savings outside the classroom proposed for FY2014 include spending reductions on facilities management, engineers, maintenance and lunchroom staff ($43.0 million) and streamlining of CPS's Central Office and improved supplier management ($19.4 million).[18] These spending reductions implemented and proposed by CPS demonstrate a serious effort to cut costs and better manage scarce resources by improving the District's operational efficiency. As CPS has acknowledged, additional efficiencies will need to be implemented in coming years to address the District's future budget gaps. The Civic Federation is encouraged that CPS management has continued to pursue additional efficiencies that will positively impact its financial health in the next fiscal year and beyond.

Property Tax Increase

This year CPS proposes to increase its property tax levy by 3.0% (the maximum amount allowed under the State tax cap law). This will generate $87.4 million in additional revenue for FY2014. CPS also increased its property tax levy to the maximum amount allowable in FY2012 and in FY2013. These increases came after three years of relative restraint as the District froze the levy in FY2011 and increased it by less than the maximum amount allowable under law in FY2009 and FY2010.[19]

The Civic Federation recognizes that property tax increases for homeowners and businesses in a time of economic uncertainty are painful. Given CPS's enormous fiscal challenges, the continued inconsistency of future funding from the State of Illinois and the District's commitment to reducing expenditures when possible, the Civic Federation supports the property tax increase as it will allow the District to access much-needed revenue. However, the Civic Federation maintains that the tax increase should be implemented in the context of a more fiscally responsible long-term financial plan.

Budget Format and Transparency Improvements

The Federation applauds the District for continuing to provide important information and data online through its interactive budget and capital improvement plan webpages. The online format allows citizens to explore all aspects of the budget and includes detailed charts and tables. These additions are important in working toward a transparent and financially accountable school district.

Civic Federation Recommendations

The Civic Federation offers several recommendations to improve the financial management of CPS.

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[17] CPS FY2014 Proposed Budget, p. 8.

[18] See page 9 of the FY2014 Proposed Budget for more information on the District's cost-savings strategies.

[19] CPS has taxed to the legal maximum 14 out of the 19 years that the tax cap law has been in effect. In FY1996, FY1999, FY2009 and FY2010, it increased the levy by less than the legal maximum. In FY2011, it kept the levy flat. CPS Property Tax Fact Sheet, August 8, 2011. The levy was increased to the maximum in FY2012 and FY2013. CPS FY2012 and FY2013 Proposed Budgets.

Develop and Present Pension Reform Plan to General Assembly

The District cannot afford its existing pension system and cannot simply wait for and assume that the General Assembly will include the District in any proposal for comprehensive pension reform. CPS should aggressively seek legislation to reform and re-establish its retirement system in a manner that is sustainable in the long-term for taxpayers and employees. The partial pension contribution holiday granted to CPS for FY2011, FY2012 and FY2013 provided temporary budgetary relief, but deepened the District's very critical pension situation by depriving the pension fund of badly needed contributions for three years. If the increased payments were to be postponed further by another funding holiday, as was proposed in the spring 2013 legislative session of the Illinois General Assembly, the pension fund would run a very real risk of running out of money to pay retirees in the near future.[20] For this reason, the Civic Federation opposes any extension to the partial pension contribution holiday and any future holidays.

In May 2012, City of Chicago Mayor Rahm Emanuel offered a plan to reform pensions for employees of the City, CPS and the Chicago Park District during a hearing of the Illinois House of Representatives Personnel and Pensions Committee. The Civic Federation was encouraged by Mayor Emanuel's pension reform initiative and considers the proposal to be a strong outline of a comprehensive, balanced solution that includes shared sacrifice by retirees, current employees and eventually taxpayers.[21] Taking the lead from the Mayor's Office, it is imperative that CPS aggressively seek legislation to reform and re-establish its retirement system in a manner that is sustainable in the long-term for both retirees and taxpayers.

At the same time, it is important to note that the actions CPS can take are limited. The Civic Federation calls on the General Assembly and Governor Quinn to widen their focus on pensions to include the difficult crises faced by local governments. Some of the reforms the District should pursue are listed below:[22]

Reduce Benefits For Current Employees and Retirees

The Board of Education and CPS leadership should seek to reduce benefits for current employees and retirees. They should obtain actuarial projections and legal opinions on the size and type of benefit reductions (e.g., raising the retirement age, reducing automatic annuity increase or and/or reducing final average salary) needed to make the teachers' and non-teachers' pension plans affordable and sustainable now and in the future. Reforms must also maintain a reasonable standard of living for CPS retirees, since they do not receive Social Security benefits. Alternatively, employees could be permitted to retain their current benefit plan, but be required to make higher contributions.[23]

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[20] See page 60 for more information on the proposal to extend the District's partial pension contribution holiday.

[21] For more information on Mayor Emanuel's pension reform proposal, see Civic Federation, "Mayor Emanuel Proposes Significant Pension Reform," blog post, May 10, 2012.

[22] In previous years' analyses, the Civic Federation recommended that the Chicago Teachers' Pension Fund consider consolidation with the State of Illinois' Teachers' Retirement System. However, given the current poor financial status of the State and the likelihood of the General Assembly transferring funding responsibility for some teacher pension liabilities to local school districts, the Civic Federation has removed this proposal from its recommendations for pension reform.

[23] Such an option could be similar to pension legislative initiatives proposed by the Metropolitan Water Reclamation District (MWRD) Retirement Board and approved by the General Assembly and Governor Quinn in August 2012.

A reduction in benefits may affect existing retirees and benefits already earned by current employees and would prospectively affect future benefits earned by current employees. Once the best options for ensuring the sustainability of the pension funds have been determined through legal and actuarial analysis, these options should be discussed with labor unions and presented to the General Assembly as soon as possible.

<u>Increase Employer and Employee Contributions to Meet the Actuarially-Based Needs of the Fund</u>

Employee contributions to the Chicago Teachers' Pension Fund and the Municipal Pension Fund are a fixed percentage of pay. The City of Chicago pays the employer contribution on behalf of non-teaching CPS employees who participate in the Municipal Fund, and this contribution is simply a multiple of past employee contributions with no relationship to the financial health of the plan. CPS pays the employer contribution to the Teachers' Fund, which is on an actuarially calculated schedule to reach 90% funded ratio by 2060.

The Civic Federation recommends that employer and employee contributions for both pension funds be tied to actuarial liabilities and funded ratios, such that contributions are at levels consistent with the actuarially calculated annual required contribution (ARC). Contribution increases should be implemented as soon as possible, because the longer they are postponed, the larger the increases will have to be in the future.

Currently, CPS pays for 7% of the 9% teachers' share of pension costs and 7% of the 8.5% of non-teaching employees' share of pension costs. Employees pay for the remaining 2% and 1.5% respectively. The Civic Federation believes that employees need to share in the rising costs of public pension plans. Employer and employee contributions should be restructured such that employees pay a proportion of required contributions, similar to the contribution formula used by the Chicago Transit Authority. A proportional relationship should be set whereby, for example, the employer pays 50% and the employees pay 50% of the annual required contribution. Whether the proportion is 50%/50%, 60%/40%, or some other ratio, it is critical that both parties pay a share of required contributions, and that those contributions relate to what is actually needed to maintain the fiscal health of the fund.

<u>Continue Work to End the City Subsidy of Chicago Public Schools' Employer Contribution to the Municipal Fund</u>

Eligible non-teaching employees of CPS participate in the City of Chicago's Municipal Employees' Annuity and Benefit Fund.[24] Approximately 17,042, or 53.3%, of the 31,976 active Municipal Fund members are CPS employees.[25] In its FY2012 budget, the City included a

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The legislation increases employee and employer pension contributions in order for the fund to reach 90% funded by 2050. It is important to note that this legislation, unlike other pension reforms that have been considered by State officials, does not change benefits for current employees or current retirees. The reforms required amending the MWRD Article of the Illinois Pension Code and therefore, approval from the Illinois General Assembly. For more information, see Civic Federation, "MWRD Retirement Fund," blog post, June 13, 2012.

[24] 40 ILCS 5/8-110

[25] CPS FY2012 Comprehensive Annual Financial Report, p. 78.

reimbursement cost shift from CPS of $32.5 million. However, given its financial difficulties, the City deferred the FY2012 and FY2013 reimbursement contributions from CPS and will defer the District's FY2014 reimbursement contribution as well.[26]

The Civic Federation encourages CPS and the City of Chicago to continue to work together to ensure that CPS starts to pay its share of the Municipal Fund employer contribution. The Chicago Board of Education should explore options for funding its non-teacher pensions as part of a comprehensive reform plan.

<u>Reform Governance of the Teachers' Pension Board</u>

The Public School Teachers' Pension and Retirement Fund of Chicago is governed by a 12-member Board of Trustees that includes two representatives from the Board of Education, six active members who are not principals, one active principal and three annuitants. Therefore the ratio of management to employee/retiree representatives is 2:10, one of the least balanced pension boards in Illinois.[27]

The proper role of a pension board is to safeguard the assets of the fund and to balance the interests of employees and retirees who receive pension benefits and taxpayers who pay for pension benefits. Each party has an interest in the management of the fund. However, the heavy tilt toward employees on the Teachers' pension board raises questions about how objective the Board can be in its work. The Civic Federation recommends that the composition of the Chicago Teachers' Pension Fund Board of Trustees be revised in three ways. The balance of employee and management representation on the boards should be changed so that employees do not hold the majority of seats. A tripartite structure should be created that includes independent taxpayer representation on the board. Finally, financial experts should be included on the pension boards and financial training for non-expert members should be required.[28]

We urge CPS to seek reform of the Chicago Teachers' Pension Fund governing structure through the General Assembly to ensure greater balance of interests.

Implement a Formal Long-Term Financial Plan to Stabilize CPS Finances

There is no doubt that some of the factors contributing to CPS's crisis are beyond its control, such as the lack of pension reform from the Illinois General Assembly and Governor Quinn and decreased funding from the State. However, it *is* within the District's control and ability to address its monumental structural deficit by developing a long-term financial plan. A long-term financial plan would educate and involve the public in exploring the options available to CPS. The Civic Federation remains optimistic that comprehensive pension reform will be reached in

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[26] CPS FY2014 Proposed Budget, p. 20 and information provided by the CPS Budget Office, August 19, 2013.
[27] See Civic Federation, "Recommendations to Reform Public Pension Boards of Trustees in Illinois," February 13, 2006.
[28] Government Finance Officers Association, "Best Practice: Governance of Public Employee Post-Retirement Benefits Systems (2010)." http://www.gfoa.org/downloads/GFOA_governanceretirementbenefitssystemsBP.pdf (last visited on February 9, 2011). See also Civic Federation, "Recommendations to Reform Public Pension Boards of Trustees in Illinois," February 16, 2006. http://www.civicfed.org/civic-federation/publications/recommendations-reform-public-pension-boards-trustees-illinois (last visited on February 9, 2011).

the near future, but CPS needs to have a contingency plan for resolving its financial crisis in the absence of reform.

While the District may internally use or implement features of a long-term financial plan, it does not currently develop a publicly-shared long-term financial plan. Given its present state of fiscal jeopardy, increasing pension payments and projected budget deficits of $914.3 million in FY2015 and $960.6 million in FY2016,[29] it is imperative that CPS institute a formal financial planning process. Resolving CPS's financial instability will require more deep and painful budget cuts throughout the District. Given that approximately 68.1% of CPS's budget is dedicated to personnel costs, these cuts may include more drastic reductions that impact the classroom level, such as additional layoffs.

It is important for governments to disclose forecasts to help stakeholders understand what their future financial situations will be and set a framework for future budgets and plans. This can be accomplished through the development and implementation of a formal long-term financial plan that is shared with and reviewed by key policymakers and stakeholders. This plan must also include concrete action steps to address the government's long-term fiscal balance.

The National Advisory Council on State and Local Budgeting (NACSLB) and the GFOA both recommend that all governments formally adopt a long-term financial plan as a key component of a sound budget process.[30] 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."[31] Among other benefits, involving all stakeholders can help staff refine forecasts, institutionalize planning processes and promote strategic decision-making.

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[29] CPS FY2014 Proposed Budget, p. 12.

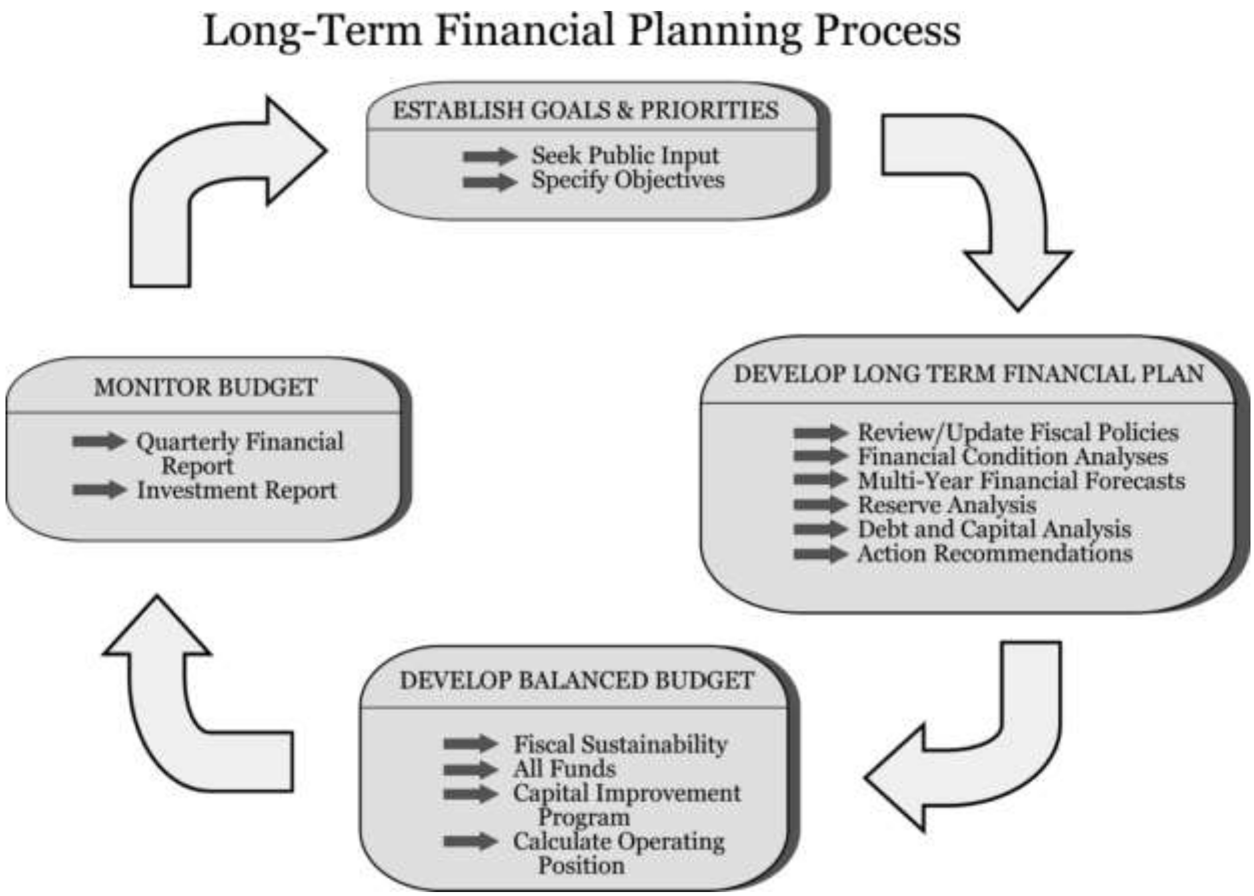
[30] More information on the National Advisory Council on State and Local Budgeting and the Government Finance Officers Association at www.gfoa.org.

[31] Government Finance Officers Association, "An Introduction to Financial Planning," (http://www.gfoa.org/downloads/LTFPbrochure.pdf (last visited on January 10, 2011). The following graphic illustration of the long-term financial planning process is based on the City of San Clemente, California's Long-Term Financial Plan and is reproduced in the Government Finance Officers Association document "Long-Term Financial Planning for Governments" available at http://www.gfoa.org/downloads/LTFPbrochure.pdf.

Along with a long-term financial plan, CPS needs to develop a plan for replenishing its fund balance. 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) (Budget and CAAFR) (new) at http://www.gfoa.org/index.php?option=com_content&task=view&id=1767 (last visited on July 16, 2012).

For governments undertaking a new long-term financial planning process, we recommend proceeding in four stages:

> Stage 1: Fiscal and programmatic goals and priorities should be articulated through public input.
>
> Stage 2: The long-term financial plan should evaluate financial and service data in order to determine how to accomplish the goals and priorities. It should include a review of the government's financial policies, a financial condition analysis that presents ten years of historical trend information, multi-year financial forecasts, a reserve analysis, an evaluation of debt and capital obligations and a series of action recommendations.
>
> Stage 3: The insights derived from the long-term financial plan should directly inform the development of a balanced budget that is fiscally sustainable each year.
>
> Stage 4: The plan should then be regularly monitored to ensure its viability by means of regular financial reports.



If a government chooses not to undertake a full long-term financial planning process, then at a minimum an annual document should be developed and published that would include:

1. A description of financial policies, service level targets and financial goals. Each policy should be reviewed using relevant forecasting data to determine if the policy is being followed, if the policy should be amended and if new policies should be added.
2. A scorecard or rating of the financial indicators as part of the financial analysis that assesses whether the trend is favorable, warrants caution, is a warning sign of potential problems or is unfavorable.
3. Possible strategies, actions and scenarios needed to address financial imbalances and other long-term issues. For example, a discussion of the long-term implications of continuing or ending existing programs or adding new ones. These actions should include information on fiscal impact and ease of implementation.
4. Sufficient stakeholder input including holding a public hearing for decision makers and the public to provide meaningful input on a long-term financial strategy to address the government's financial challenges.

Require Consistent Financial Reporting for Charter Schools

The lack of standardized, consistent categories for Chicago charter school financial reporting makes it very difficult for stakeholders to analyze the financial data and trends associated with these public schools. The Civic Federation believes that CPS should require all charter schools to prepare and publish their financial reports in a consistent manner, grouping individual line items into revenue and expense categories that are comparable across schools and with CPS financial categories. These categories should correspond to the categories in the CPS Statement of Activities in the District's Comprehensive Annual Financial Reports. This will allow for greater financial transparency and accountability as the schools' financial performance can be regularly assessed and compared by all stakeholders.

Proposed Charter School Fiscal Reporting Categories	
Expense Categories	**Revenue Categories**
Instruction	Federal
Pupil Support Services	State
Administrative Support Services	Local (CPS)
Facilities	School-Based
Other	Other

Increase Time Allowed for Public Review and Comment

More time should be allowed for the public to review and understand the CPS $6.6 billion budget. At a minimum, **ten working days** should be allowed for the public review period before the first public testimony is heard. This is the only way that that citizens can give fully informed commentary on one of the largest local government budgets in the Chicago area.

Further Improvements to Budget Format and Transparency

The Civic Federation applauds the District and its staff for increasing transparency of the budget through its use of an online interactive budget. However, the Federation offers the following additional recommendations to further increase the transparency and accessibility of the District's budget documents.

Additional Property Tax Information

The District should include much more information related to property taxes in its proposed budget. The following should be included in the property tax chapter:

- Ten years of data on the District's property tax levies by fund including actual tax revenues and year-end estimates when available;
- Estimates of projected revenue increases had the District maximized its property tax levy in those years that it did not; and
- Explanations of the Public Building Commission levy and abatement process.

Additional Section on Tax Increment Financing (TIF)

The Civic Federation recommends that the District create a detailed budget section on tax increment financing (TIF). This section should explain and provide data on:

- How TIF equalized assessed value (EAV) becomes available outside the property tax cap for one year following dissolution of the TIF and thus provides additional revenue if the District levies for it;
- How and when TIF surplus revenues have been distributed, either when surplus was declared by the City of Chicago or when TIF districts with fund balances expired;
- How TIF does not affect the maximum property tax levy available to CPS; and
- How much TIF revenue CPS has received in the form of new schools and facilities.

Significant public concern exists over the relationship between TIF and CPS. It is important to provide taxpayers with an accurate picture of how their tax dollars are being used. The Civic Federation urges the District to provide citizens with a more complete picture of how TIF and intergovernmental revenues affect the District's annual budgets.

Create Budget Section for Intergovernmental Agreements (IGA)

The Civic Federation recommends that CPS create a detailed budget section on intergovernmental agreements (IGA). This section should explain financial arrangements that CPS has with other units of government, such as:

- Capital support from the City of Chicago in the form of the Modern Schools Across Chicago (MSAC) program and other facilities construction;
- The relationship between the Public Building Commission (PBC) and CPS;
- The City of Chicago's Infrastructure Trust;
- Any joint purchasing agreements with other governments; and
- Any services provided by or to other governments, such as Chicago Police officers in schools.

Continue to Improve Format and Provide Sufficient Data

The District's FY2014 Proposed Budget did not include a detailed breakdown of the $977 million budget deficit. This information is necessary in order for taxpayers to provide informed opinions and recommendations regarding potential solutions to the District's financial challenges.

The District's FY2014 Proposed Budget also did not include data regarding CPS staffing positions according to full-time equivalent (FTE) status. This information was provided in previous budget documents in a table titled, "CPS All Positions by Location." This table presented the distribution of all full-time employees within the school district by position (Teachers, Assistant Principals, Principals and School Support Personnel) and by location (School Based, Central-Office, Area-Office and Citywide Support). This section provided pertinent information not found elsewhere in the budget book, especially regarding the number of teachers throughout the District. Therefore, it is critical that this data always be included in the budget.

Though the District has worked to add actual revenue and expenditure data to the budget books, the District should provide at least five years of actual data and/or year-end estimates for all financial tables, including the additional tables that present appropriations by functional and organizational level.

While the information available through CPS's online interactive budget portal is an improvement to the District's transparency, the online version and the budget document do not provide identical information. The inconsistency between the two budget formats is confusing to readers examining both versions. To ensure ease of use and accessibility, online versions of budgets should offer a "search" feature, an overview of all included data and explanations reconciling the differences between data provided on the budget website and in the budget book.

The District's FY2014 Proposed Budget also did not include the "What's New in the Budget Book" section that was included in the FY2011 and FY2009 proposed budgets. This section briefly highlighted changes in the budget's formatting since the previous year. The Civic Federation believes that this section should be included in every budget book because it reflects on CPS's commitment to creating an improved budget document every fiscal year.

ACKNOWLEDGEMENTS

We would like to express our appreciation to Chief Administrative Officer Tim Cawley and Budget Director Ginger Ostro and their staffs for their work in preparing this budget and their willingness to answer the Civic Federation's questions.

FY2014 DEFICIT DRIVERS AND GAP-CLOSING MEASURES

CPS proposes a FY2014 General Operating Funds budget of $5.6 billion, which is a 6.9%, or $360.1 million, increase from the FY2013 final amended budget of $5.2 billion.

In its proposed budget, CPS projects a FY2014 budget gap of over $977.0 million.[32] The largest portion of the total deficit, approximately $405.0 million, is attributable to the increase in the District's pension contributions to the Chicago Teachers' Pension Fund.

CPS FY2014 Proposed Budget Deficit Drivers (in $ millions)

	$ Amount
Projected FY2013 Deficit	**$ 334.6**
Revenue Losses	
Reduced State and Local Revenues	$ 41.0
Subtotal Revenue Losses	**$ 41.0**
Expenditure Increases	
Increase in Pension Payments	$ 405.0
Contractual Salary Increases	$ 93.0
Higher Program Investments	$ 12.4
Increase in Debt Service	$ 91.0
Subtotal Expenditure Increases	**$ 601.4**
Total Deficit	**$ 977.0**

Source: Presentation to Chicago Board of Education on July 24, 2013, FY14 Budget Proposal, p. 17.

[32] Presentation to Chicago Board of Education on July 24, 2013, FY14 Budget Proposal, p. 17.

CPS reports that it will close the $977.0 million shortfall with $111.6 million in expenditure reductions and administrative efficiencies, $68.0 million in reductions to school budgets, $88.6 million increase in property tax revenues and $696.5 million in use of reserve funds. Deficit-closing measures are shown in the table below.

CPS FY2014 Proposed Budget Deficit Closing Measures (in $ millions)		
Additional Revenue		
Increase in Property Tax Revenues	$	88.6
Subtotal Additional Revenue	**$**	**88.6**
Expenditure Savings		
Reductions to School Budgets	$	68.0
Reductions to Operations/Administration/Central Office	$	111.6
Better FY2013 Performance	$	12.2
Subtotal Expenditure Savings	**$**	**191.8**
Reserve Funds		
General Unrestricted	$	562.6
State of Illinois General State Aid	$	41.3
Tort (Restricted)	$	38.8
Debt Service	$	53.8
Subtotal Reserve Funds	**$**	**696.5**
Grand Total	**$**	**976.9**

Note: Totals may differ from budget due to rounding.
Source: Presentation to Chicago Board of Education on July 24, 2013, FY14 Budget Proposal, p. 17 and 29.

The $68.0 million reduction to school budgets was targeted at funding for core instruction, leading to layoffs of more than 2,000 teachers and support staff in July 2013.[33] The $111.6 million in cuts to operations, administration and the District's Central Office include:

- Spending reductions on facilities management, engineers, maintenance and lunchroom staff ($43.0 million);
- Search for new food provider(s) ($10.0 million);
- Streamlining of the Central Office and improved supplier management ($19.4 million); and
- Shifting the budgetary management of school-based athletic directors from the Central Office to individual schools ($1.3 million).[34]

The majority of the deficit will be closed using the District's reserves, including $38.8 million in restricted reserves from the Tort fund and $53.8 million from Debt Service fund balance. CPS reports that this will be the first time that it will draw money from its Debt Service reserves to cover increasing debt service costs.[35]

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[33] WBEZ, "CPS Announces 2,100 Layoffs," July 19, 2013.
[34] For more information on the District's proposed spending cuts, see page 9 of the FY2014 Proposed Budget.
[35] CPS FY2014 Proposed Budget, p. 11.

APPROPRIATIONS

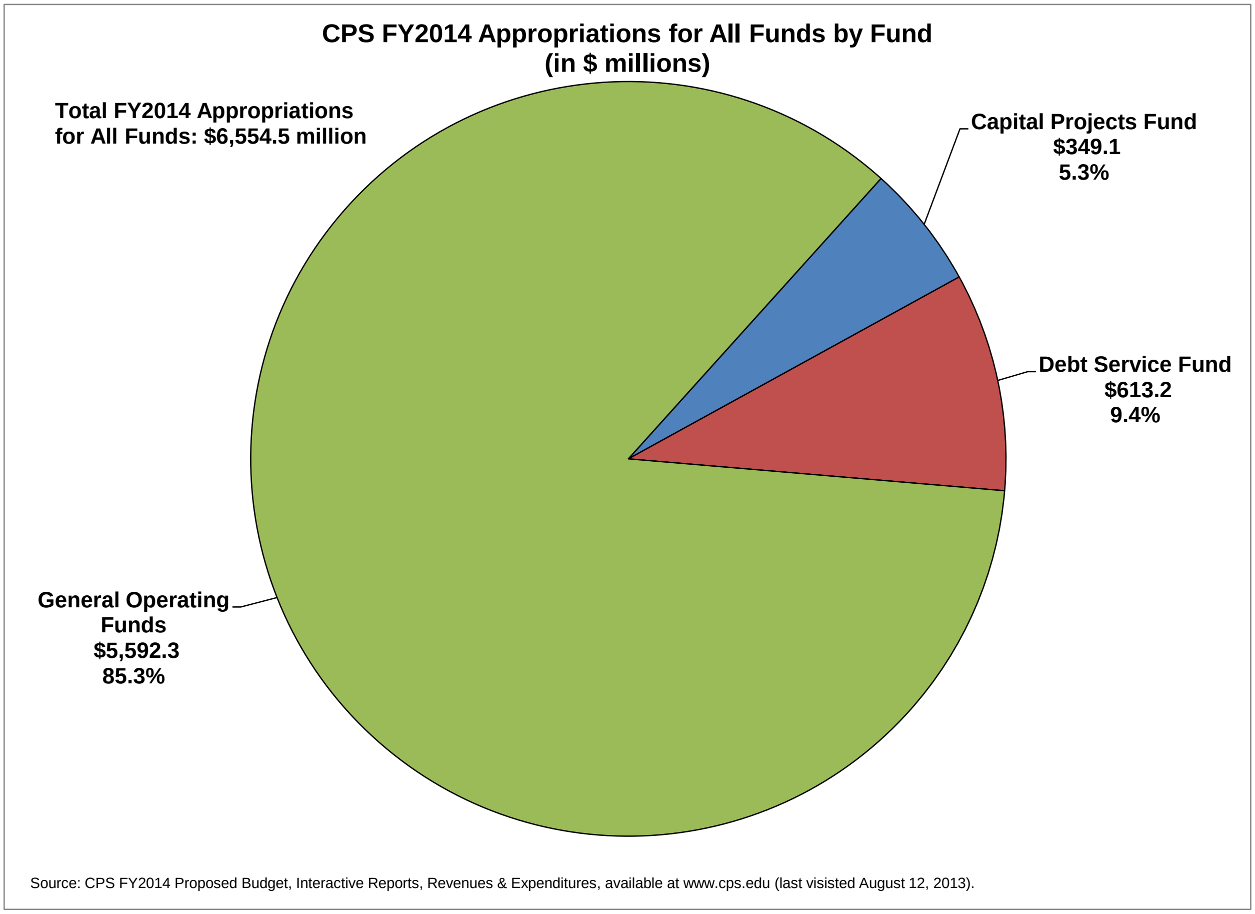
This section presents an analysis of CPS appropriation trends, including appropriations by type, source and location. Proposed FY2014 appropriations are compared with FY2013 final amended budget appropriations, FY2013 year-end estimates, FY2012 actual appropriations and FY2010 budgeted appropriations when available. The Civic Federation has traditionally analyzed five-year appropriation trends, but the FY2014 Proposed Budget does not provide consistent data for fiscal years 2010 through 2014. Therefore, five-year historical trend comparisons cannot be completed.

Total Appropriations for FY2014

The $6.6 billion CPS FY2014 Proposed Budget consists of approximately $5.6 billion in General Operating Funds, $349.1 million in the Capital Projects Fund and $613.2 million in the Debt Service Fund. General Operating Funds represent 85.3% of the total budget, the Capital Projects Fund represents 5.3% and the Debt Service Fund represents 9.4%.

General Operating Funds finance employees' salaries and benefits, contractual services, charter school tuition transfers and other day-to-day expenditures. General Operating Funds include the General Fund and the Special Revenues Fund. The General Fund is the primary fund used for instructional, professional, maintenance and administrative activities. The Special Revenue Fund receives 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 Fund is for construction and other capital expenditures. The Debt Service Fund is for payment of long-term debt, such as bond issuances and lease obligations.[36]

[36] CPS FY2014 Proposed Budget, Appendix F – Glossary.


CPS FY2014 Appropriations for All Funds by Fund
(in $ millions)
Total FY2014 Appropriations
for All Funds: $6,554.5 million
Capital Projects Fund
$349.1
5.3%
Debt Service Fund
$613.2
9.4%
General Operating
Funds
$5,592.3
85.3%
Source: CPS FY2014 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visisted August 12, 2013).

Two-Year Appropriation Trends for All Funds

The proposed FY2014 $6.6 billion budget is an increase of 12.9%, or $750.2 million, from the FY2013 amended budget of $5.8 billion. The Capital Projects Fund will grow by $179.3 million, or 105.6%, over the two-year period. Appropriations for the General Operating Funds, which consist of the General Fund and Special Revenue Fund, will increase by 6.9%, or $360.1 million, over the FY2013 amended budget. The Debt Service Fund will also increase significantly, by 52.4%, or $210.9 million, in FY2014.

CPS Appropriations for All Funds by Fund: FY2013 & FY2014 (in $ millions)

Fund Type	FY2013 Amended	FY2014 Proposed	FY2013 to FY2014 $ Change	FY2013 to FY2014 % Change
General Operating Funds	$ 5,232.2	$ 5,592.3	$ 360.1	6.9%
Capital Projects Fund	$ 169.8	$ 349.1	$ 179.3	105.6%
Debt Service Fund	$ 402.3	$ 613.2	$ 210.9	52.4%
Total Appropriation	**$ 5,804.3**	**$ 6,554.5**	**$ 750.2**	**12.9%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns.
Source: CPS FY2013 Amended Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 12, 2013) and FY2014 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 12, 2013).

The chart below shows a comparison of appropriations for all funds by type of expense for the FY2013 amended budget and the FY2014 proposed budget. Appropriations for employee benefits will grow by the largest dollar amount between the two years, increasing by $349.2 million, or 38.8%. Contingencies appropriations will also increase significantly, rising by $309.9 million, or 54.1%. Contingencies includes two types of funds: 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.[37]

CPS Appropriations for All Funds by Type: FY2013 & FY2014 (in $ millions)

Type	FY2013 Amended	FY2014 Proposed	FY2013 to FY2014 $ Change	FY2013 to FY2014 % Change
Salaries	$ 2,655.7	$ 2,559.3	$ (96.4)	-3.6%
Benefits	$ 899.5	$ 1,248.8	$ 349.2	38.8%
Contracts	$ 991.1	$ 1,110.3	$ 119.1	12.0%
Commodities	$ 346.2	$ 257.0	$ (89.2)	-25.8%
Equipment	$ 217.6	$ 385.0	$ 167.4	76.9%
Transportation	$ 121.6	$ 111.8	$ (9.8)	-8.1%
Contingencies	$ 572.5	$ 882.3	$ 309.9	54.1%
Others	$ -	$ -	$ -	-
Total	**$ 5,804.3**	**$ 6,554.5**	**$ 750.2**	**12.9%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns.
Source: CPS FY2013 Amended Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 14, 2013) and FY2014 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 14, 2013).

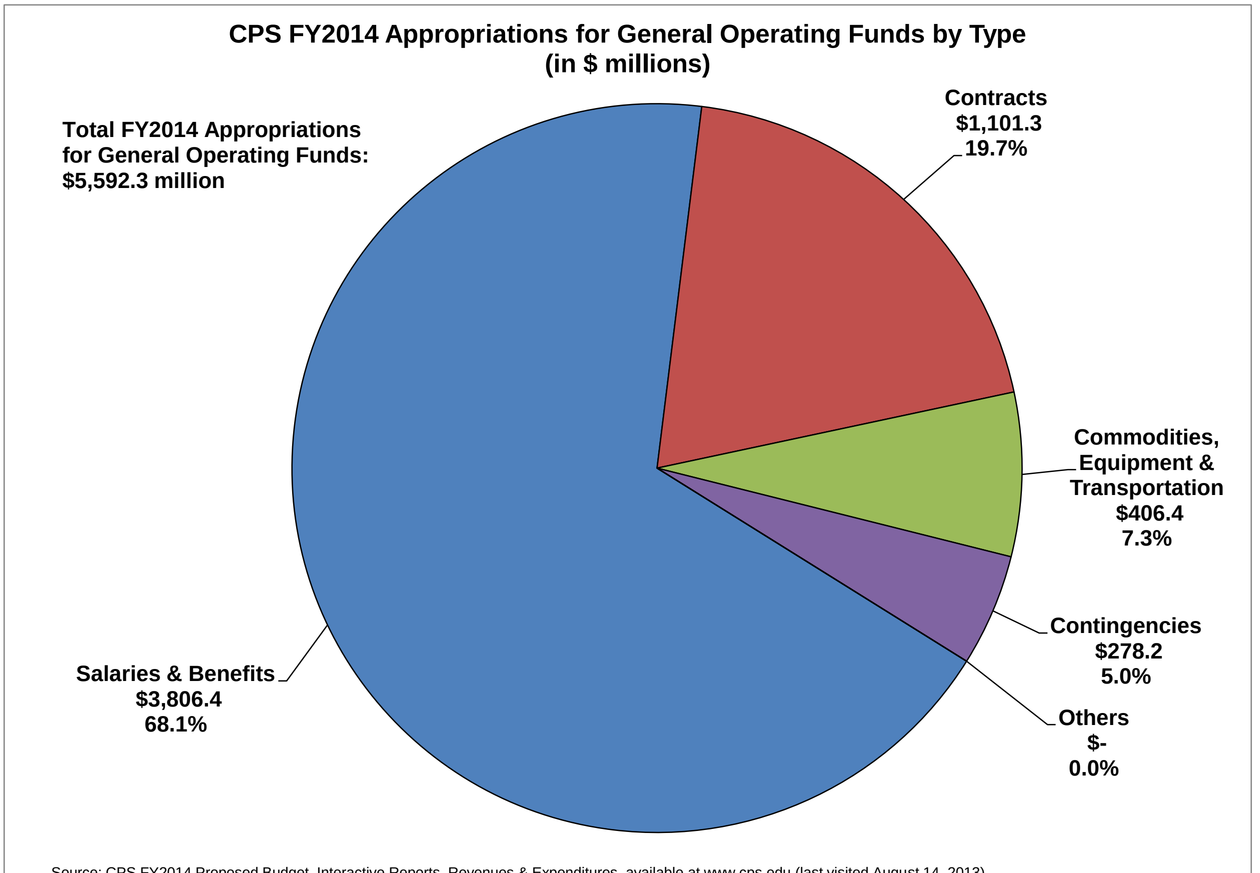
[37] CPS FY2014 Proposed Budget, p. 16.

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

The following sections show trend data for operating funds appropriations by type, source and location for FY2012 actual appropriations, FY2013 year-end estimates and the FY2014 proposed appropriations.

Appropriations for General Operating Funds by Type

The exhibit below shows the breakdown of FY2014 General Operating Funds appropriations by type. The largest single portion is earmarked for salaries and benefits. Approximately 68.1% of the operating funds, or $3.8 billion, will be for teacher salaries, non-teacher salaries and employee benefits. Contracts, totaling over $1.1 billion, or 19.7% 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 $406.4 million, or 7.3% of the operating budget, while contingencies account for $278.2 million, or 5.0%. Commodities include utilities, food, instructional supplies and other supplies.[38]



Source: CPS FY2014 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 14, 2013).

[38] CPS FY2014 Proposed Budget, p. 16.

The chart below provides a comparison of appropriations from the FY2013 amended budget, FY2013 year-end estimates of actual spending and proposed appropriations from the FY2014 proposed budget. Year-end expenditures for FY2013 are estimated to be $133.7 million, or 2.6%, below the amount budgeted for FY2013. The District estimates that it will exceed its FY2013 budget by $51.2 million for salaries, $49.5 million for contracts and $19.4 million for equipment. The remaining types of spending are projected to be below budget, with contingencies estimated to be below FY2013 budgeted appropriations by $177.9 million, or 99.5%. As described earlier, contingencies includes funding that has been budgeted, but has yet to be allocated, which is why the budgeted amount for contingencies is higher than actual spending for contingencies.

The FY2014 proposed operating budget is $360.1 million, or 6.9%, larger than the FY2013 amended operating budget. The budgeted appropriation for salaries is $97.7 million, or 3.7%, lower in FY2014 than in FY2013. Appropriations for commodities, equipment and transportation are also lower in FY2014, by a sum of approximately $109.3 million. Benefits and contracts appropriations are budgeted at higher amounts for FY2014 by $348.9 million and $118.8 million, respectively. The budgeted appropriation for contingencies is also proposed to be larger in FY2014, by $99.4 million.

CPS Appropriations for Operating Funds by Type: FY2013-FY2014
(in $ millions)

Type	FY2013 Amended	FY2013 Year-End	FY2014 Proposed	FY2013 Amended to FY2013 Year-End $ Change	FY2013 Amended to FY2013 Year-End % Change	FY2013 Amended to FY2014 Proposed $ Change	FY2013 Amended to FY2014 Proposed % Change
Salaries	$ 2,655.7	$ 2,706.8	$ 2,558.0	$ 51.2	1.9%	$ (97.7)	-3.7%
Benefits	$ 899.5	$ 883.1	$ 1,248.4	$ (16.5)	-1.8%	$ 348.9	38.8%
Contracts	$ 982.5	$ 1,032.0	$ 1,101.3	$ 49.5	5.0%	$ 118.8	12.1%
Commodities	$ 346.2	$ 298.4	$ 257.0	$ (47.8)	-13.8%	$ (89.2)	-25.8%
Equipment	$ 47.8	$ 67.3	$ 37.6	$ 19.4	40.6%	$ (10.3)	-21.5%
Transportation	$ 121.6	$ 109.9	$ 111.8	$ (11.7)	-9.6%	$ (9.8)	-8.1%
Contingencies	$ 178.8	$ 0.9	$ 278.2	$ (177.9)	-99.5%	$ 99.4	55.6%
Others	$ -	$ 0.0	$ -	$ 0.0	-	$ -	-
Total	**$ 5,232.2**	**$ 5,098.5**	**$ 5,592.3**	**$ (133.7)**	**-2.6%**	**$ 360.1**	**6.9%**

Source: CPS FY2013 Amended Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 14, 2013) and FY2014 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 14, 2013).

The following exhibit compares proposed FY2014 General Operating Funds appropriations by type with FY2012 actual expenditures and FY2013 year-end expenditure estimates. Total General Operating Funds will increase by $493.8 million, or 9.7%, between FY2013 and FY2014, mostly due to an increase in benefits expenses of $365.4 million, or 41.4%. Salary appropriations will decrease by $148.8 million, or 5.5%, over the two-year period. Appropriations for commodities and equipment will also decline between FY2013 and FY2014 by a total of approximately $71.1 million, while appropriations for contracts and contingencies will increase by $69.3 million and $277.2 million, respectively.

In the three-year period between FY2012 and FY2014, total General Operating Funds appropriations will rise by $739.0 million, or 15.2%, primarily due to significant increases in costs for employee benefits and contingencies. As stated above, contingencies includes funding that has been budgeted, but has yet to be allocated, which is primarily why the FY2014 proposed budgeted amount for contingencies is higher than actual and estimated spending for contingencies in FY2012 and FY2013. Employee benefits will increase by $410.9 million, or 49.1%, over the three-year period. Appropriations for contracts will increase by $147.2 million, or 15.4%, while commodities expenses will fall by $31.2 million, or 10.8%.

CPS Appropriations for Operating Funds by Type: FY2012-FY2014
(in $ millions)

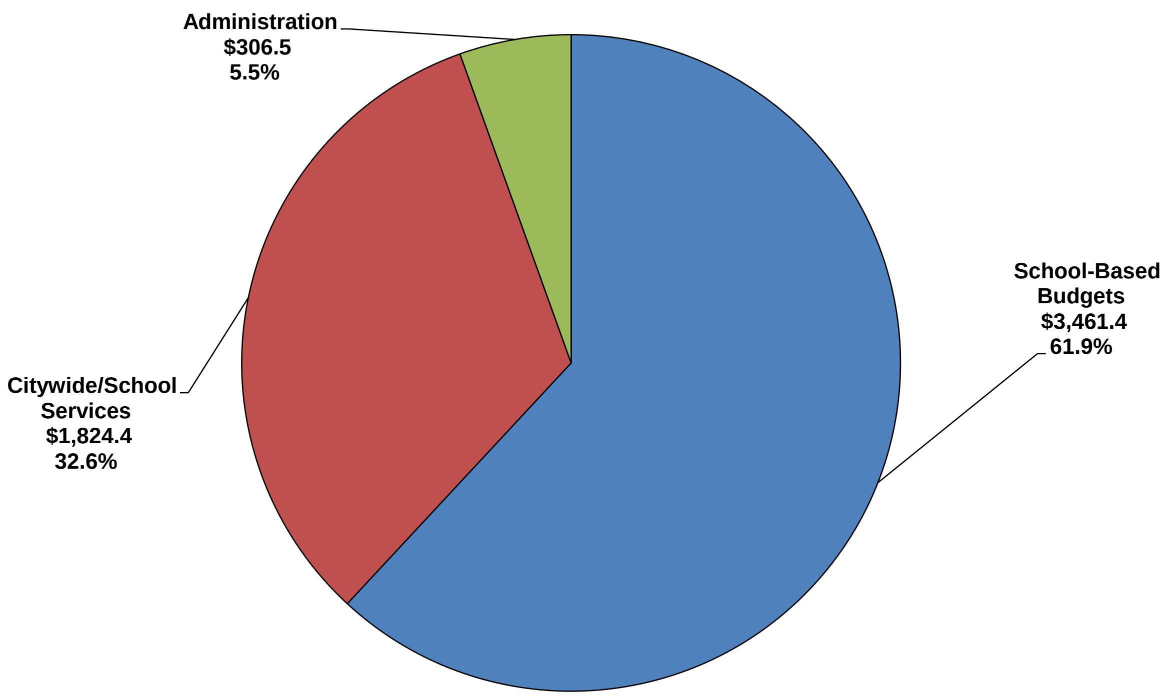
Type	FY2012 Actual	FY2013 Year-End	FY2014 Proposed	FY2013 to FY2014 $ Change	FY2013 to FY2014 % Change	FY2012 to FY2014 $ Change	FY2012 to FY2014 % Change
Salaries	$ 2,624.6	$ 2,706.8	$ 2,558.0	$ (148.8)	-5.5%	$ (66.6)	-2.5%
Benefits	$ 837.5	$ 883.1	$ 1,248.4	$ 365.4	41.4%	$ 410.9	49.1%
Contracts	$ 954.1	$ 1,032.0	$ 1,101.3	$ 69.3	6.7%	$ 147.2	15.4%
Commodities	$ 288.2	$ 298.4	$ 257.0	$ (41.4)	-13.9%	$ (31.2)	-10.8%
Equipment	$ 39.5	$ 67.3	$ 37.6	$ (29.7)	-44.1%	$ (2.0)	-5.0%
Transportation	$ 109.0	$ 109.9	$ 111.8	$ 1.8	1.7%	$ 2.8	2.6%
Contingencies	$ 0.3	$ 0.9	$ 278.2	$ 277.2	29,555.2%	$ 277.9	83,089.4%
Others	$ -	$ 0.0	$ -	$ (0.0)	-	$ -	-
Total	**$ 4,853.2**	**$ 5,098.5**	**$ 5,592.3**	**$ 493.8**	**9.7%**	**$ 739.0**	**15.2%**

Source: CPS FY2014 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 14, 2013).

Appropriations for Operating Funds by Location

The exhibit below shows the breakdown of proposed FY2014 General Operating Funds appropriations by location. School-based budgets comprise 61.9% of operating appropriations, or approximately $3.5 billion. This includes direct costs for CPS, charter and alternative schools. Approximately 32.6%, or $1.8 billion, will be for citywide/school services. These are programs and services that directly impact multiple schools across the district. Appropriations for Central Office administration will represent 5.5%, or $306.5 million, of operating appropriations.

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



Source: CPS FY2014 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 14, 2013).

The following chart compares two-year and five-year trends by location for the FY2014 proposed budget to the final amended budget for FY2013 and the final budget for FY2010. Year-end estimates and actual expenditures from prior years are not provided in the budget documents.

School-based budget appropriations will decrease by 3.9%, or $139.0 million, in FY2014 from FY2013 final appropriations. Conversely, citywide/school services will increase by 30.4%, or $425.8 million, while administration expenditures will increase by 31.4%, or $73.2 million. A portion of the increase in administration expenses is a result of the transfer of the budgets for lunchroom workers and bus aides from school budgets to Central Office administration. Lunchroom workers and bus aides account for 3,330 positions and approximately $120 million.[39] At the same time, approximately $1.3 million is being shifted from Central Office administration to school-based budgets due to transferring budgetary responsibility and management of athletic directors from the Central Office to individual schools.[40]

Between FY2010 and FY2014, General Operating Funds proposed appropriations for school-based budgets will decline slightly by 0.3%, or $11.4 million. Appropriations for citywide/school services will rise by 11.8%, or $193.1 million. Administration appropriations will increase by 37.0%, or $82.8 million, over the five-year period. However, it should also be noted that administration appropriations declined each year between FY2010 and FY2012 before increasing in FY2013 and in FY2014. The increase between FY2012 and FY2013 was in part due to a shift of approximately $70 million from school-based budgets to administration as a result of the restructuring of 700 engineer positions from being budgeted and managed by individual schools to being controlled by the Central Office.[41]

CPS Appropriations for General Operating Funds by Location: FY2010-FY2014 (in $ millions)

Location	FY2010 Budget	FY2011 Budget	FY2012 Budget	FY2013 Amended	FY2014 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
School-Based Budgets	$ 3,472.8	$ 3,658.0	$ 3,838.9	$ 3,600.4	$ 3,461.4	$ (139.0)	-3.9%	$ (11.4)	-0.3%
Citywide/School Services	$ 1,631.3	$ 1,337.4	$ 1,091.4	$ 1,398.6	$ 1,824.4	$ 425.8	30.4%	$ 193.1	11.8%
Administration	$ 223.8	$ 181.4	$ 179.9	$ 233.3	$ 306.5	$ 73.2	31.4%	$ 82.8	37.0%
Total	**$ 5,327.9**	**$ 5,176.8**	**$ 5,110.2**	**$ 5,232.2**	**$ 5,592.3**	**$ 360.1**	**6.9%**	**$ 264.4**	**5.0%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns.
Source: CPS FY2010 Proposed Budget, p. 20-21; FY2011 Proposed Budget, p. 44-45; FY2012 Proposed Budget, Appendices, Appropriations by Functions and Organizational Level - General Operating Funds; FY2013 Amended Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 14, 2013) and FY2014 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 14, 2013).

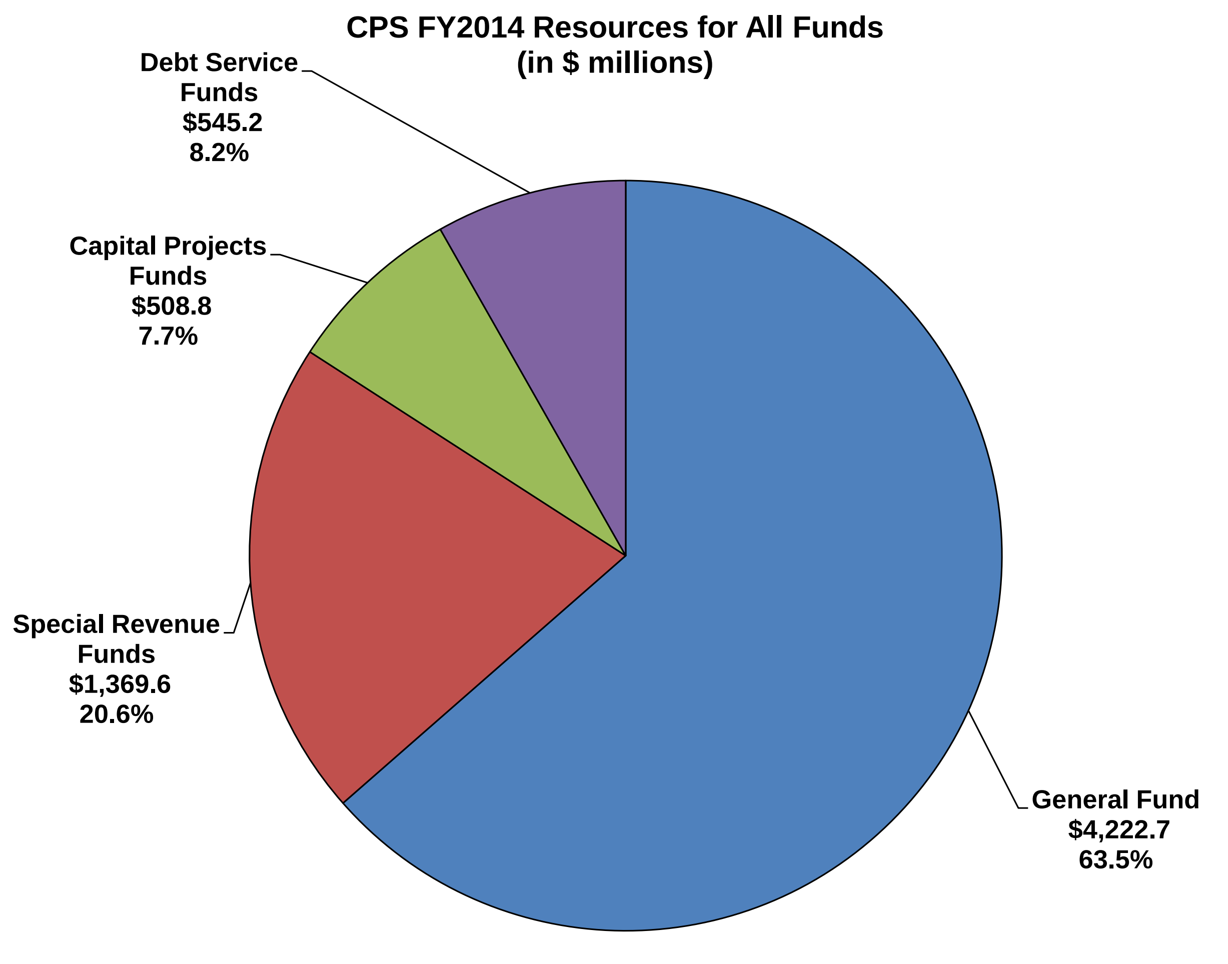
[39] CPS FY2014 Proposed Budget, p. 13.
[40] CPS FY2014 Proposed Budget, p. 9.
[41] CPS FY2013 Proposed Budget, p. 13.

RESOURCES

The following section presents revenues and resources that CPS is planning to utilize for the upcoming fiscal year and also includes an analysis of federal, state and local resources for all funds.

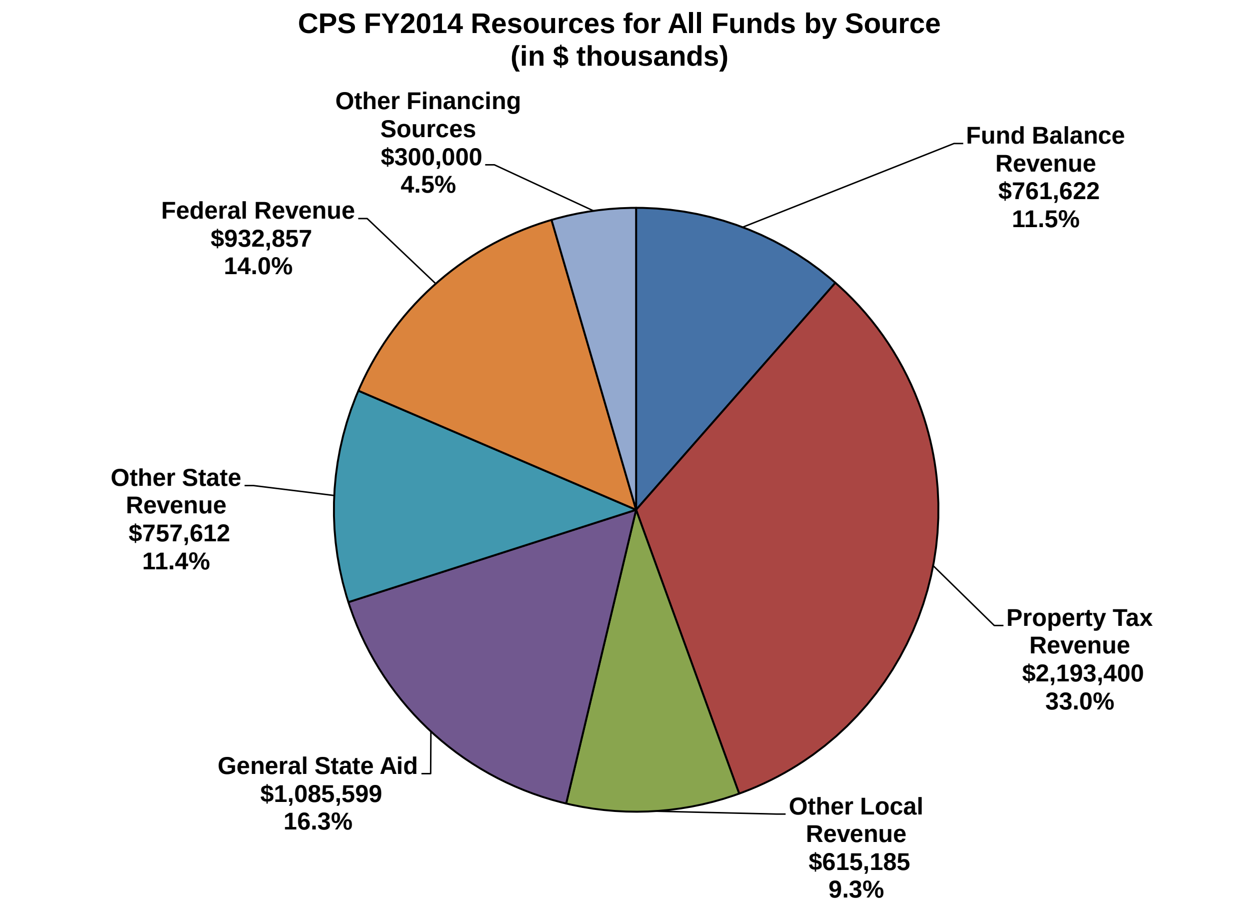
Total Resources for FY2014

In FY2014 CPS will receive approximately $6.6 billion of local, state and federal revenues and other resources, including $761.6 million of appropriated fund balance. The General Fund will hold the majority of resources with approximately 63.5% or $4.2 billion, of total resources. This includes $601.5 million of General Fund fund balance. The second largest component is the Special Revenue Funds, with nearly $1.4 billion, or 20.6%, of total resources. Special Revenue Funds are used to account for the proceeds of specific revenue sources legally restricted to expenditures for their purposes. Capital Projects Funds will receive $508.8 million, or 7.7%, of total resources, which can be used for major capital facilities or equipment. Debt Service Funds, which account for principal and interest on long-term debt, will receive $545.2 million, or 8.2%, of total resources. Included in these resources are $118.8 million of Debt Service Funds reserves of which $53.8 million is spending related to the operating budget.



Source: CPS FY2014 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 8, 2013).

In FY2014 33.0% of all CPS resources, or nearly $2.2 billion, will come from local property tax revenues. General State Aid will provide the second largest component of the CPS revenue stream, with 16.3% of the total, or nearly $1.1 billion. Federal funds will be the third largest source of revenues at 14.0% of the total, or $932.9 million. Fund balance to be appropriated will provide 11.5% of the District's resources with $761.6 million.



Source: CPS FY2014 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 8, 2013).

The following chart details the nearly $5.6 billion of revenues within the proposed CPS FY2014 budget. In FY2014 the District will receive $2.8 billion in local government revenue, including nearly $2.2 billion in property tax revenues. State revenues in FY2014 total $1.8 billion. Federal aid is expected to total $932.9 million. The District will use approximately $761.6 million of reserves to be appropriated as resources in FY2014, including $601.5 million of General Fund fund balance. In addition, CPS will issue approximately $300 million in new bonds to finance the capital program, bringing total FY2014 resources to over $6.6 billion.

CPS FY2014 Appropriated Resources by Fund Type (in $ thousands)

	General Fund	Special Revenue	Subtotal Operating Funds	Capital	Debt Service	Total
Appropriated Fund Balance	**$ 601,509**	**$ 41,300**	**$ 642,809**	**$ -**	**$ 118,813**	**$ 761,622**
Property Taxes	$ 2,141,418	$ -	$ 2,141,418	$ -	$ 51,982	$ 2,193,400
Other Local Revenue	$ 201,897	$ 76,333	$ 278,229	$ 182,920	$ 154,036	$ 615,185
Sub-total Local Revenue	**$ 2,343,315**	**$ 76,333**	**$ 2,419,648**	**$ 182,920**	**$ 206,017**	**$ 2,808,585**
General State Aid	$ 704,518	$ 261,000	$ 965,518	$ -	$ 120,081	$ 1,085,599
Other State Revenue	$ 502,953	$ 152,995	$ 655,948	$ 25,864	$ 75,800	$ 757,612
Sub-total State Revenue	**$ 1,207,471**	**$ 413,995**	**$ 1,621,466**	**$ 25,864**	**$ 195,881**	**$ 1,843,211**
Federal Revenue	**$ 70,372**	**$ 837,980**	**$ 908,352**	**$ -**	**$ 24,505**	**$ 932,857**
Other Financing Sources	**$ -**	**$ -**	**$ -**	**$ 300,000**	**$ -**	**$ 300,000**
Total Revenues	**$ 3,621,158**	**$ 1,328,307**	**$ 4,949,465**	**$ 208,784**	**$ 426,403**	**$ 5,584,653**
Total Resources	**$ 4,222,667**	**$ 1,369,607**	**$ 5,592,274**	**$ 508,784**	**$ 545,217**	**$ 6,646,275**

Source: CPS FY2014 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 8, 2013).

Two-Year and Five-Year All Fund Resources Trends by Source

The FY2014 budget projects a 14.8%, or $855.3 million, increase in resources from FY2013 year-end estimates. Total revenues, which do not include appropriated fund balance and other financing sources, will increase by 4.8%, or $257.7 million.

Local revenues are expected to increase by 9.6%, or $246.6 million, to over $2.8 billion. By increasing the property tax levy to the 3% maximum amount allowable, projected revenues from property taxes will increase by $87.4 million, or 4.2%, to nearly $2.2 billion. Personal Property Replacement Taxes (PPRT), which are a corporate income tax, are expected to decrease by $23.5 million, or 12.6%. This is primarily due to a bump in PPRT revenues in FY2013 that will not recur in the coming fiscal year. The bump can be attributed to the anticipation of the expiration of tax cuts at the federal level, which led to accelerated corporate tax payments in FY2013.[42] The significant increase in other local revenues is due to anticipated reimbursements for capital projects and debt service from the City of Chicago. Other local revenues include $20.1 million in tax increment financing (TIF) surplus.[43]

General State Aid for the District will increase by $9.6 million, or 0.9% from the FY2013 year-end estimate. The District receives approximately 89.1% of the $6,119 per pupil foundation level, which has been even for the past three years. Other State revenues include the General Education Block Grant and Educational Services Block Grant, which are computed by the State

[42] CPS FY2014 Proposed Budget, p. 20.
[43] CPS FY2014 Proposed Budget, p. 20.

according to a formula. Historically, because of fiscal constraints at the State level, the State has delayed payments of these grants. However in FY2013, the State caught up on its payments.[44]

Federal revenues are expected to decrease by $14.3 million, or 1.6%, from the FY2013 year-end estimate. This is partly due to the District's allocation of Title 1, its main federal revenue source, declining from $287 million in FY2013 to $269 million in FY2014.[45] Federal reimbursements for CPS's universal school breakfast programs will increase from $194.7 million in FY2013 to $201.1 million in FY2014 as a result of a higher reimbursement rate, higher concentration of donated food and an increased participation rate.[46]

Other financing sources in FY2014 include the use of $761.6 million of reserves, including $601.5 million of General Fund fund balance. The District additionally plans to issue approximately $300 million of bonds to fund its capital program.

CPS total resources are projected to increase by 8.9% between FY2010 actual resources and FY2014 projected resources. This is a $541.3 million increase from $6.1 billion in FY2010 to $6.6 billion in FY2014. Over the five-year period, the only revenue source to decline is federal revenue. Since FY2010, federal revenue will fall by $247.2 million, or 21.0%. The majority of this decline is in FY2012, when the amount of federal stimulus resources from the American Recovery and Reinvestment Act dropped significantly.[47] Total local revenues will increase by 9.2%, or $236.8 million, over the five-year period. The increase is driven by $146.2 million, or 7.1%, growth in revenues collected from property taxes and $80.6 million, or 21.7%, growth in other local revenue. The $452.7 million of other local revenue projected for FY2014 is an increase of $182.7 million from FY2013 year-end estimates. Other local revenue in FY2014 includes $334.6 million in capital reimbursements from the City of Chicago for various intergovernmental agreements.[48]

CPS Appropriated Resources by Source: FY2010-FY2014
(in $ millions)

	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Year-End Estimates	FY2014 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Property Taxes	$2,047.2	$1,936.7	$2,352.1	$ 2,106.0	$ 2,193.4	$ 87.4	4.2%	$ 146.2	7.1%
Replacement Taxes	$ 152.5	$ 197.8	$ 181.9	$ 186.0	$ 162.5	$ (23.5)	-12.6%	$ 10.0	6.5%
Other Local Revenue	$ 372.1	$ 431.0	$ 324.5	$ 270.0	$ 452.7	$ 182.7	67.7%	$ 80.6	21.7%
Sub-total Local Revenue	**$2,571.8**	**$2,565.5**	**$2,858.5**	**$ 2,562.0**	**$ 2,808.6**	**$ 246.6**	**9.6%**	**$ 236.8**	**9.2%**
General State Aid	$ 985.5	$1,147.1	$1,136.5	$ 1,076.0	$ 1,085.6	$ 9.6	0.9%	$ 100.1	10.2%
Other State Revenue	$ 566.6	$ 802.7	$ 829.4	$ 770.4	$ 757.6	$ (12.8)	-1.7%	$ 191.0	33.7%
Sub-total State Revenue	**$1,552.1**	**$1,949.8**	**$1,965.9**	**$ 1,846.4**	**$ 1,843.2**	**$ (3.2)**	**-0.2%**	**$ 291.1**	**18.8%**
Federal Revenue	**$1,180.1**	**$1,144.9**	**$ 936.0**	**$ 918.6**	**$ 932.9**	**$ 14.3**	**1.6%**	**$ (247.2)**	**-21.0%**
Other Financing Sources	**$ 801.0**	**$ 384.2**	**$ 403.6**	**$ 464.0**	**$ 1,061.6**	**$ 597.6**	**128.8%**	**$ 260.6**	**32.5%**
Total Revenues	**$5,304.0**	**$5,660.2**	**$5,760.4**	**$ 5,327.0**	**$ 5,584.7**	**$ 257.7**	**4.8%**	**$ 280.7**	**5.3%**
Total Resources	**$6,105.0**	**$6,044.4**	**$6,164.0**	**$ 5,791.0**	**$ 6,646.3**	**$ 855.3**	**14.8%**	**$ 541.3**	**8.9%**

Source: CPS Proposed FY2014 Budget, p. 17 and 207 and FY2014 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 8, 2013).

[44] CPS FY2014 Proposed Budget, p. 21.
[45] CPS FY2014 Proposed Budget, p. 18.
[46] CPS FY2014 Proposed Budget, p. 23-24.
[47] CPS FY2014 Proposed Budget, p. 207.
[48] CPS FY2014 Proposed Budget, p. 20.

State of Illinois Funding

The State of Illinois will provide a total of nearly $1.8 billion of revenues in the FY2014 budget, which is an $8.2 million decrease from the FY2013 proposed budget.

The General State Aid (GSA) foundation level is the financial support per student representing combined state and local resources available resulting from the general state aid formula.[49] 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 foundation level for the District will remain at $6,119 per pupil in FY2014, the same level since FY2010. The last time the foundation level rose was between FY2009 and FY2010, when it rose by $160, 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 only 89.1% of their GSA. GSA revenue is estimated to be nearly $1.1 billion in FY2014, an increase of $9.6 million from the FY2013 budget. Of this amount, $120.1 million will be used for debt service and the remaining $965.5 million will be allocated to the General Fund. Although the State has a history of delaying payments to the District, the State caught up on its payments in FY2013. The District assumes that the State will make FY2014 payments on time.

The State will contribute only the statutorily required contribution in Teacher pension aid to offset a portion of the cost of benefit increases enacted under Public Act 90-0582. This amount is $11.9 million. In previous years the State contributed an additional $65 million to the Chicago Teachers' Pension Fund.[50]

With the State's adoption of a major new school capital program in FY2010, CPS is expected to receive $446.0 million in capital funding over six years. In FY2014 the District anticipates receiving approximately $54.1 million, which is the final expected payment.[51]

Property Tax Levy and Revenue

CPS expects its FY2014 property tax revenues to total nearly $2.2 billion, an increase of $87.4 million from the FY2013 proposed budget. The increase is the result of an increase in the levy of 3%, the maximum amount allowed by law, and the capture of growth from all new property.

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% or the increase in Consumer Price Index. For levy year 2012, the tax cap law permits a 3.0% increase on existing property value for property tax funds subject to the law. The tax cap also allows the

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[49] CPS FY2014 Proposed Budget, p. 20-21.
[50] See page 58 for more information.
[51] CPS FY2014 Proposed Budget, p. 21.

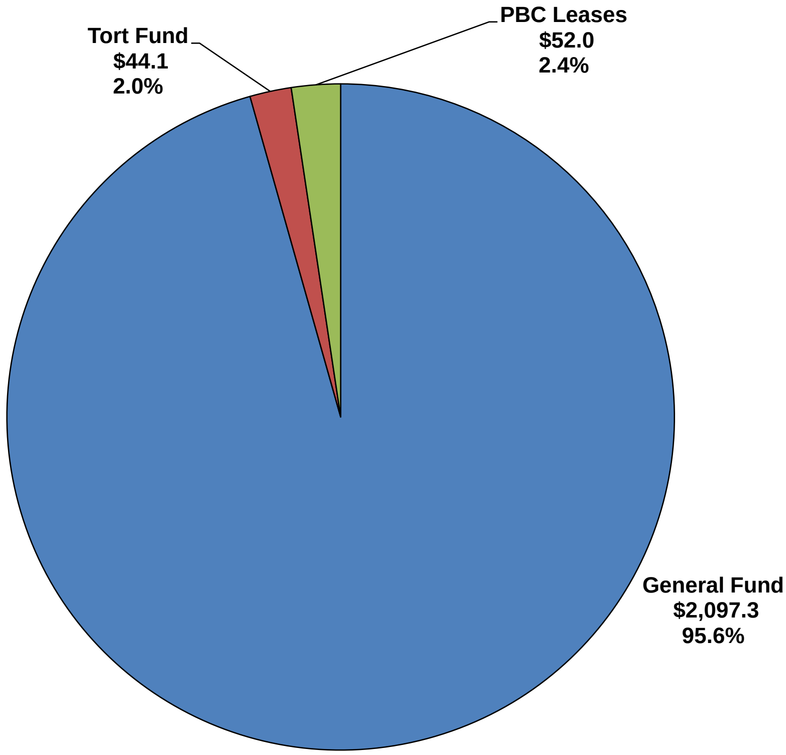
tax rate calculated on the value of existing property to be applied to new property, thus generating additional revenue.[52]

The tax year 2012 extension is paid by taxpayers in 2013 first and second installments. The first installment is equal to 55% of the prior year's total tax bill.[53] 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 increase in property tax **revenue** received in FY2014 is expected to be higher than the increase in the tax year 2012 **extension** amount due primarily to the timing of property tax receipts. The CPS FY2014 fiscal year is July 1, 2013 through June 30, 2014, and thus will include second installment tax year 2012 tax receipts (payable in 2013) and the first installment tax year 2013 receipts (payable in 2014, which are equal to 55% of the prior year's total tax bill).[54] The interaction of these factors and assumptions results in a property tax revenue increase that is higher than the extension increase. However, the same interaction that produces this acceleration of revenue will also result in a property tax revenue decline for FY2015 if CPS does not again raise its levy.

[52] For more information on how this process works see the Civic Federation's *The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts*.
[53] 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.
[54] Due to a change in the timing of property tax revenues, the FY2014 budget will technically include the part of the second installment 2012 tax bill revenue collected on and after July 31, 2013, all of the first installment 2013 revenue and the part of the second installment 2013 revenue that the District expects to collect in July 2014. This change to timing will not increase revenue for FY2014. See page 40 for more information on this change in the District's property tax revenue recognition cycle.

The following graph depicts the allocation of expected FY2014 property tax revenues among funds. Approximately 95.6%, or nearly $2.1 billion, is distributed to the General Fund to finance CPS operations. The second largest amount, $52.0 million, or 2.4%, will be used for the Public Building Commission lease payments, while $44.1 million, or 2.0% of the revenues, will be designated for the Workers and Unemployment Compensation Tort Immunity Fund.

Distribution of CPS FY2014 Property Tax Revenues:
(in $ millions)



Source: CPS FY2014 Proposed Budget. Interactive Reports, Revenues and Expenditures, available at www.cps.edu (last visited August 12, 2013).

The next exhibit presents CPS property tax revenues from FY1990 actual revenues to FY2014 projected revenues. Over that period, projected property tax revenues have risen by 154.2% or nearly $1.3 billion, from $842.3 million, to $2.1 billion. Between FY1990 and FY2012, the most recent year for which audited data is available, CPS property tax revenues have increased by 179.2%, or $1.5 billion. Since FY1996, the first fiscal year that the tax cap law could limit CPS property tax revenues (tax year 1994 levy), the compound annual growth rate of revenues (through FY2012 actual) has been 4.1%. The Consumer Price Index compound annual growth rate from 1996-2012 was 2.4%.[55]

CPS Property Tax Operating Revenue: FY1990-FY2014
(in $ thousands)

	Property Tax Revenue	$ Change from Previous Year	% Change from Previous Year
FY1990	$ 842,339	--	--
FY1991	$ 882,181	$ 39,842	4.7%
FY1992	$ 1,008,481	$ 126,300	14.3%
FY1993	$ 1,205,322	$ 196,841	19.5%
FY1994	$ 1,206,008	$ 686	0.1%
FY1995	$ 1,245,539	$ 39,531	3.3%
FY1996	$ 1,239,249	$ (6,290)	-0.5%
FY1997	$ 1,278,734	$ 39,485	3.2%
FY1998	$ 1,311,664	$ 32,930	2.6%
FY1999	$ 1,368,081	$ 56,417	4.3%
FY2000	$ 1,403,657	$ 35,576	2.6%
FY2001	$ 1,429,871	$ 26,214	1.9%
FY2002	$ 1,479,968	$ 50,097	3.5%
FY2003	$ 1,546,335	$ 66,367	4.5%
FY2004	$ 1,571,065	$ 24,730	1.6%
FY2005	$ 1,639,237	$ 68,172	4.3%
FY2006	$ 1,718,249	$ 79,012	4.8%
FY2007	$ 1,767,760	$ 49,511	2.9%
FY2008	$ 1,813,917	$ 46,157	2.6%
FY2009	$ 1,896,540	$ 82,623	4.6%
FY2010	$ 2,047,163	$ 150,623	7.9%
FY2011	$ 1,936,655	$ (110,508)	-5.4%
FY2012*	$ 2,352,136	$ 415,481	21.5%
FY2013 (Estimate)*	$ 2,052,800	$ (299,336)	-12.7%
FY2014 (Proposed)	$ 2,141,400	$ 88,600	4.3%

* Between July 1 and July 30, 2012, the District received $244 million in property tax revenues that had been budgeted for receipt in FY2013.

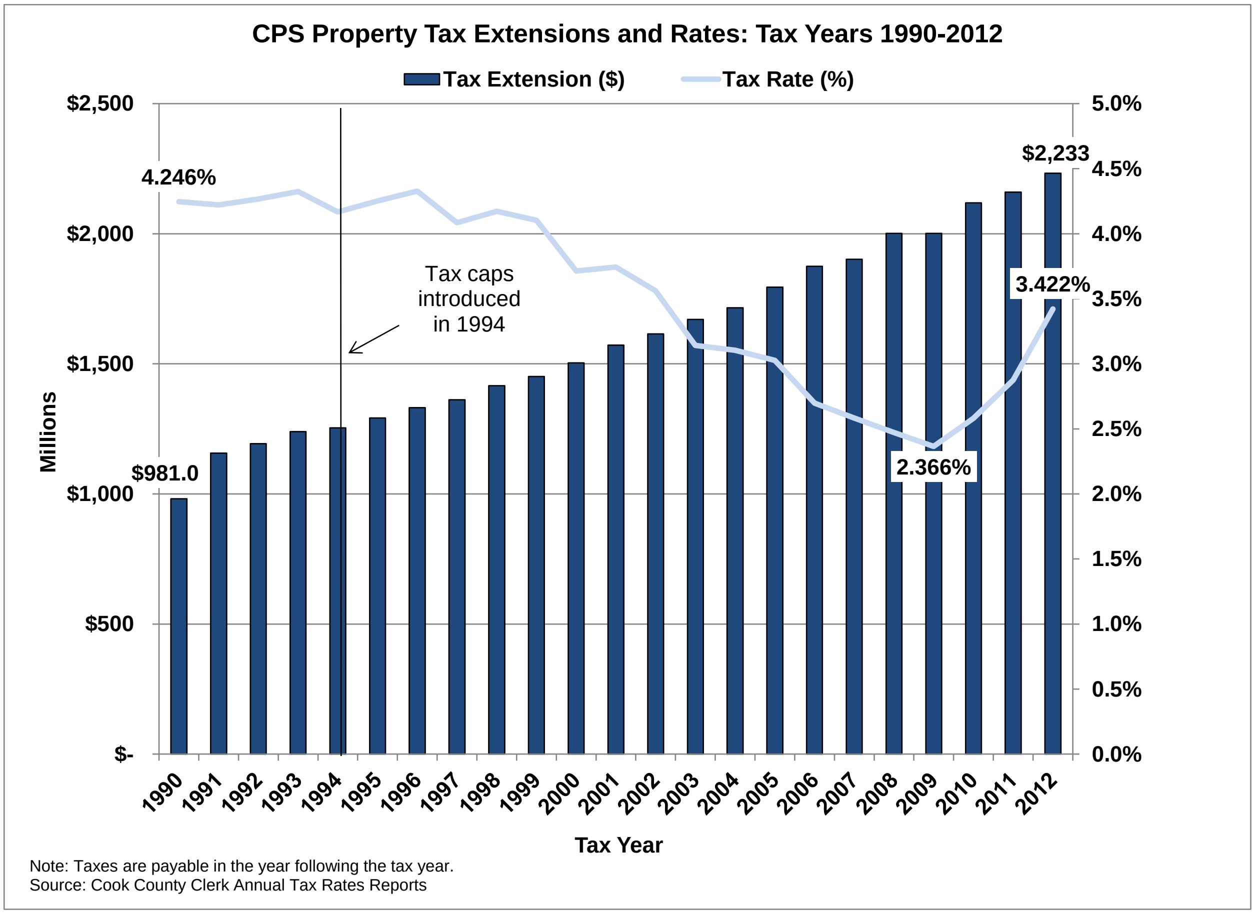
Source: CPS Comprehensive Annual Financial Reports, FY2012, p. 104-105; FY2010, p. 98-99; FY1999, p. 80-81; and CPS FY2014 Proposed Budget, p. 19.

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 2012 (payable in 2013) as well as the decrease in tax rates through tax year 2009 before they began to grow again in tax year 2010. The tax extension was $981.0 million in tax year 1990 and rose gradually to $2.3

[55] U.S. Bureau of Labor Statistics, Annual All Urban Consumers.

billion in tax year 2012. The CPS tax rate fell from 4.246% in tax year 1990 to 2.366% in 2009 before rising to 3.422% in tax year 2012. 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 was falling significantly.

The tax cap 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.[56] 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.[57]



56 See the Civic Federation's *The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts* for detail on rate limits and tax caps.
57 See the Civic Federation's *The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax increment Financing Districts* for detail on how the interaction of PTELL and TIF means that taxing districts in tax-capped counties do not lose revenue to TIF.

Timing of CPS Property Tax Receipts

Although the District's fiscal year ends on June 30, there is a one month revenue recognition policy whereby the District allows cash receipts received 30 days after the end of the fiscal year to be included as prior year revenue. Between July 1 and July 30, 2012, the District received $244 million of property tax revenues that had been budgeted for receipt in FY2013. The early payment is 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. 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 notes that this volatility in the timing of tax receipts does not impact the total amount of property tax revenue received by the District, but instead impacts the fiscal year in which the revenue must be recorded.[58] 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 million of unexpected additional fund balance. The FY2014 proposed budget assumes that a similar amount of property tax revenue to what was collected in July 2012 will be collected in July 2013 and July 2014 and depends on using the majority of the reserves from the 2012 change in timing. It is important to note that because the District has in effect shifted the start of its property tax receipt collection year to July 31 from July 1, it will experience a shortfall in revenue if the County fails to send out property tax bills on time in any future year or if fewer taxpayers pay their bills early.

PERSONNEL

Historically, this section has presented an analysis of CPS personnel trends based on full-time equivalent (FTE) positions by location and type: administrative, school-based and capital fund. An FTE position count includes full-time, part-time, hourly and seasonal wage earners and represents the total employee count as a factor of full-time employees. In contrast, a position count reflects a headcount of total employees. FTE data is preferred because it presents a more comprehensive and accurate account of a government's workforce.

FTE information was not provided in the CPS FY2013 or FY2014 Proposed Budgets. Therefore, an analysis of FTE trends by location and type could not be conducted. This section examines the District's position count by type and personnel appropriations trends.

Two-Year Position Count by Type

The District's total position count in FY2014 will decrease by 2,217 positions, or 5.4%, from the FY2013 amended budget. The large decline in school support staff and increase in citywide student support can be attributed to an accounting change. The District shifted over 930 bus aide positions and 2,400 lunchroom positions away from school budgets. These positions will now be funded under central administration departments.[59] In the two-year period, the District's position

[58] CPS FY2014 Proposed Budget, p. 19-20.
[59] CPS FY2014 Proposed Budget, p. 13.

count for teachers will decline by 6.5%, or 1,413 positions, while school administrators will decline by 9.0%, or 107 positions.

Chicago Public Schools Position Count: FY2013 & FY2014				
	FY2013 Amended	FY2014 Proposed	Two-Year # Change	Two-Year % Change
Teachers	21,786	20,373	-1,413	-6.5%
School Administrators	1,191	1,084	-107	-9.0%
School Support Staff	13,014	8,496	-4,518	-34.7%
Central and Network Offices	1,413	1,430	17	1.2%
Citywide Student Support	3,461	7,266	3,805	109.9%
Total	**40,866**	**38,649**	**-2,217**	**-5.4%**

Source: CPS FY2013 Amended Budget, Interactive Reports, Positions, available at www.cps.edu (last visited August 14, 2013) and FY2014 Proposed Budget, Interactive Reports, Positions, available at www.cps.edu (last visited August 14, 2013).

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

CPS personnel appropriations are expected to increase by $346.4 million, or 10.0%, in FY2014 from the FY2013 proposed budget. Salaries, which constitute 67.2% of all employee compensation, will decrease by 0.6% over the two-year period. Benefit costs, which include pensions, hospital and dental insurance, unemployment compensation and payroll tax contributions for Social Security and Medicare, will increase by 40.6%, or $360.6 million, in FY2014. The vast majority of this increase can be attributed to a $402.0 million, or 186.4%, increase in the employer's contribution toward teacher pensions. The District's $746.1 million total contribution toward teacher pensions in FY2014, which includes a 7% "pick up" of the 9% annual employee contributions, marks the end of a three-year partial pension contribution holiday. With P.A. 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.[60]

[60] "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.

Over the five-year period between FY2010 to FY2014, total compensation costs will increase by 5.6%, or $202.0 million. Appropriations for teacher salaries will decline by $86.1 million, while appropriations for Education Support staff salaries will increase by $13.8 million. Appropriations for employee benefits will increase by 28.2%, or $274.3 million, between FY2010 and FY2014, rising from $974.1 million to $1.2 billion. This increase in benefit costs can be attributed to a $258.9 million increase in teacher pension contributions between FY2010 and FY2014.

CPS Personnel Appropriations for General Operating Funds by Type: FY2010-FY2014 (in $ millions)

Expenditure Type	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Amended	FY2014 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries									
Teacher Salaries	$ 2,026.3	$ 2,023.5	$ 2,026.8	$ 1,943.5	$ 1,940.2	$ (3.3)	-0.2%	$ (86.1)	-4.2%
Ed. Support Salaries	$ 604.0	$ 610.7	$ 618.3	$ 628.7	$ 617.8	$ (10.9)	-1.7%	$ 13.8	2.3%
Total Salaries	**$ 2,630.3**	**$ 2,634.2**	**$ 2,645.1**	**$ 2,572.2**	**$ 2,558.0**	**$ (14.2)**	**-0.6%**	**$ (72.3)**	**-2.7%**
Employee Benefits									
Teacher Pension Employer Portion	$ 355.8	$ 177.4	$ 335.7	$ 215.6	$ 617.6	$ 402.0	186.4%	$ 261.8	73.6%
Teacher Pension Pickup*	$ 131.4	$ 129.6	$ 130.0	$ 127.7	$ 128.5	$ 0.8	0.6%	$ (2.9)	-2.2%
Total Teacher Pensions	**$ 487.2**	**$ 307.0**	**$ 465.7**	**$ 343.3**	**$ 746.1**	**$ 402.8**	**117.3%**	**$ 258.9**	**53.1%**
Ed. Support Pension Employer Portion	$ 58.4	$ 63.3	$ 100.3	$ 60.5	$ 60.2	$ (0.3)	-0.6%	$ 1.8	3.0%
Ed. Support Pension Pickup*	$ 38.5	$ 38.2	$ 38.5	$ 40.0	$ 39.7	$ (0.3)	-0.8%	$ 1.2	3.1%
Total Ed. Support Pension	**$ 96.9**	**$ 101.5**	**$ 138.8**	**$ 100.5**	**$ 99.8**	**$ (0.7)**	**-0.7%**	**$ 2.9**	**3.0%**
Hospitalization/Other Comp.	$ 311.0	$ 353.9	$ 324.9	$ 360.2	$ 329.5	$ (30.7)	-8.5%	$ 18.5	6.0%
Unemployment Compensation	$ 16.0	$ 22.0	$ 17.1	$ 16.7	$ 12.4	$ (4.3)	-25.7%	$ (3.6)	-22.5%
Medicare/Social Security	$ 34.8	$ 35.0	$ 34.9	$ 37.3	$ 36.7	$ (0.6)	-1.6%	$ 1.9	5.5%
Workers' Compensation	$ 28.2	$ 25.9	$ 26.0	$ 29.8	$ 23.9	$ (5.9)	-19.9%	$ (4.3)	-15.4%
Total Employee Benefits	**$ 974.1**	**$ 845.3**	**$ 1,007.4**	**$ 887.8**	**$ 1,248.4**	**$ 360.6**	**40.6%**	**$ 274.3**	**28.2%**
Total Compensation	**$ 3,604.4**	**$ 3,479.5**	**$ 3,652.5**	**$ 3,460.0**	**$ 3,806.4**	**$ 346.4**	**10.0%**	**$ 202.0**	**5.6%**

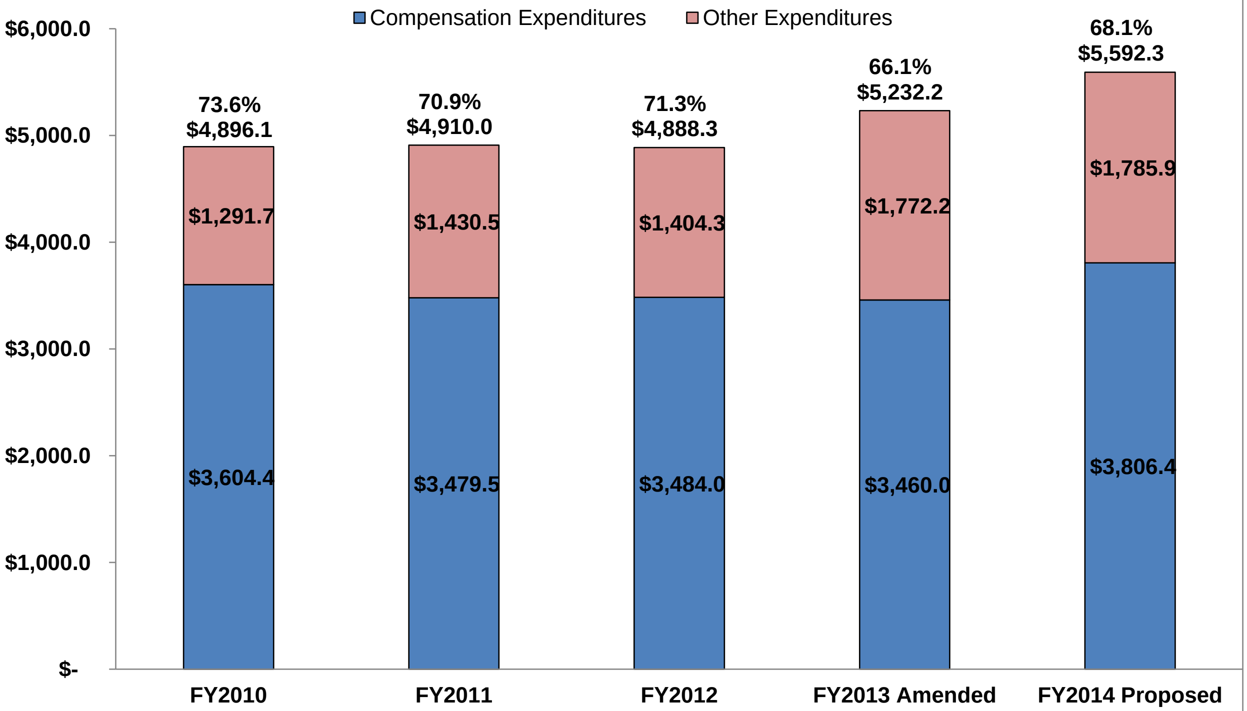
*CPS "picks up" 7% of the 9% annual employee pension contribution, meaning it pays 7% of the employee 9% contribution on behalf of teachers.

Note: $28.3 million and $10.3 million in federal funds contribute to FY2011 expenditures for the Teacher Pension Employer Portion and the Ed. Support Pension Employer Portion, respectively. $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 proposed appropriations for the Teacher Pension Employer Portion and the Ed. Support Pension Employer Portion, respectively.

Source: CPS FY2014 Proposed Budget, p. 196 and CPS FY2014 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 8, 2013).

The next exhibit shows the District's employee compensation expenditures as a percentage of all operating funds expenditures. The chart compares actual expenditures from FY2010 through FY2012 to amended FY2013 and proposed FY2014 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 70.0%, with a low of 66.1% in FY2013 and a high of 73.6% in FY2010. Since FY2010 compensation expenditures have increased by 5.6%, while other operating expenditures have increased by 38.3%, 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. Increasing non-personnel expenditures include growing contract expenses, which is due in part to new and expanding charter and contract schools.

CPS Employee Compensation Appropriations as a Percentage of Total Operating Funds Appropriations: FY2010-FY2014 (in $ thousands)



Source: CPS FY2014 Proposed Budget, p. 196 and CPS FY2014 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 8, 2013).

ENROLLMENT

CPS is projecting a slight increase in overall student enrollment across the system in FY2014 from FY2013. According to the FY2014 proposed budget, actual FY2013 enrollment reached 403,461 students. The estimated enrollment for FY2014 is 405,519 students, resulting in a projected increase of 2,058 students, or 0.5%.

CPS Student Actual and Projected Enrollment: FY2013-FY2014			
Actual 2012-2013	**Projected 2013-2014**	**# Change**	**% Change**
403,461	405,519	2,058	0.5%

Source: CPS FY2014 Proposed Budget, p. 174 and information provided by CPS Budget Office, August 20, 2013.

As the following exhibits indicate, total actual enrollment is projected to drop by 3,052 students, or 0.7%, between FY2010 and FY2014. Enrollment declined significantly, by 5,890, between FY2010 and FY2011. However, between FY2011 and FY2012, enrollment rose by 1,470 students before falling by 690 students between FY2012 and FY2013. Enrollment is projected to increase in FY2014 by 2,058 students from FY2013.

Enrollment for high school students is expected to decrease by 3,147 students, or 2.7%, between FY2010 and FY2014. Elementary enrollment will also fall, by 883 students, or 0.3%, while preschool enrollment rises by 978 students, or 4.0%. Reasons for the reduction in student enrollment may include transfers of students between public and nonpublic schools, public perception of school reform initiatives, changes in birth rates and migration rates or changes in CPS policies affecting grade progression, retention and graduation rates.[61]

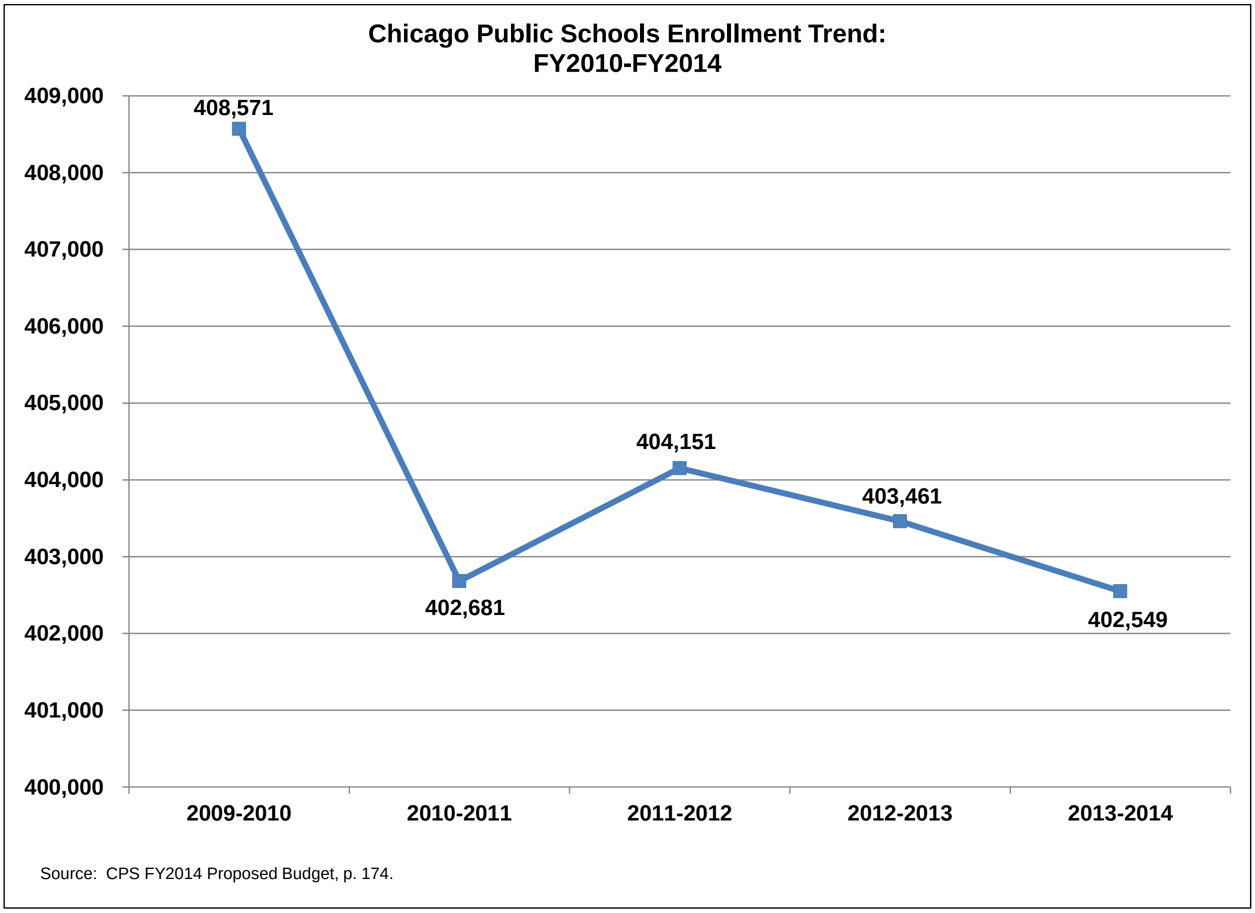
CPS Actual and Projected Student Enrollment: FY2010-FY2014*							
	Actual 2009-2010	**Actual 2010-2011**	**Actual 2011-2012**	**Actual 2012-2013**	**Projected 2013-2014**	**FY2010-FY2014 # Change**	**FY2010-FY2014 % Change**
Preschool	24,247	23,705	24,232	24,507	25,225	978	4.0%
Elementary, K-8	269,010	265,336	266,046	266,555	268,127	(883)	-0.3%
High School	115,314	113,640	113,873	112,399	112,167	(3,147)	-2.7%
Total	**408,571**	**402,681**	**404,151**	**403,461**	**405,519**	**(3,052)**	**-0.7%**

*Chart refers to enrollment by school years and by fiscal years. School year 2009-2010 as FY2010; 2010-2011 as FY2011; 2011-2012 as FY2012; 2012-2013 as FY2013; and 2013-2014 as FY2014.

Note: CPS Budget Office reported preschool projected 2013-2014 enrollment in FY2014 budget book of 22,255 as incorrect.

Source: CPS FY2014 Proposed Budget, p. 174 and information provided by CPS Budget Office, August 20, 2013.

[61] CPS FY2014 Proposed Budget, p. 174.



RESERVES

This year CPS is proposing to appropriate $642.8 million of operating reserves as part of its plan to balance the budget. This includes $562.6 million from the General Fund unrestricted fund balance, or the entirety of the District's unrestricted fund balance. The District will additionally use $41.3 million of reserves from the Supplemental General State Aid (SGSA) funds, $38.8 million of reserves from the tort funds and $53.8 million of Debt Service reserves.[62] The proposed depletion of the District's unrestricted General Fund fund balance continues a trend from the previous fiscal year. The FY2013 budget included $348.9 million of appropriated fund balance, though CPS estimates that it will use approximately $229.8 million from FY2012 reserves due to reduced expenses and an early payment of State of Illinois revenues. The continuous use of reserves to balance its operating budget is a serious cause for concern as the District will no longer have funds set aside for contingencies.

This section discusses five aspects of reserves: fund balance policy and definitions, a presentation of historical audited data, budgeted data, an analysis of General Operating Funds budget to actual variances and a brief discussion of the District's use of lines of credit.

[62] CPS FY2014 Proposed Budget, p. 7-8 and 11.

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.[63] Starting in FY2011, the audited financial statements for CPS include a modification in fund balance reporting, as recommended by the Governmental Accounting Standards Board (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."[64] 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.[65]

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 spending is imposed by the government itself." 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 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.[66]

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[63] Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).
[64] Gauthier, Steven, "Fund Balance: New and Improved," Government Finance Review, April 2009 and GASB Statement No. 54, paragraph 5.
[65] Gauthier, Steven, "Fund Balance: New and Improved," Government Finance Review, April 2009.
[66] Gauthier, Steven, "Fund Balance: New and Improved," Government Finance Review, April 2009.

CPS Policy and GFOA Best Practices

CPS took the prudent step of adopting a fund balance policy in FY2008. As noted in the policy, the goals of maintaining an adequate fund balance are to provide working capital for the District to ensure uninterrupted services, to provide for capital improvements and to achieve a balanced budget within a four-year period. The policy requires the District to maintain a minimum of 5% of the operating and debt service funds for each new fiscal year. Once that unreserved, designated fund balance is adequately established, any excess fund balance is unreserved, undesignated fund balance or unassigned fund balance, which can be appropriated under certain circumstances, including to offset a temporary reduction in revenues from local, state and federal sources.[67] If the stabilization fund falls below 5% of the upcoming operating and debt service budget, the Chief Financial Officer must present to the Board of Education a plan to replenish the reserves within twelve months. If restoration is not possible within twelve months, the Board must approve an extension of the restoration plan.[68]

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." Two months of operating expenditures is approximately 17%. 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.[69] Considering the large size of the District compared to other Chicago-area governments, their fund balance policy appears reasonable.

Audited Fund Balance

The exhibit below shows eight years of CPS's general operating fund balance and its ratio to general fund expenditures. A complete ten-year trend analysis of the District's fund balance ratio including the most recent FY2012 numbers is not possible because data for FY2011 and beyond has been classified differently. Post-FY2011 data reflects the implementation of GASB 54, which changed the guidelines for how governments should report fund balances.

Prior to FY2011, the District categorized their 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.[70] 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 FY2003 and FY2010, the District's unreserved fund balance fluctuated between a low of 4.1% in FY2010

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[67] Chicago Public Schools Policy Manual, Fund Balance and Budget Management Policy (Adopted August 2008) CPS FY2012 Proposed Budget, p. 297.
[68] CPS FY2014 Proposed Budget, p. 217.
[69] GFOA, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009). "Unrestricted fund balance" includes Committed, Assigned and Unassigned fund balances.
[70] Gauthier, Steven, "Fund Balance: New and Improved," Government Finance Review, April 2009.

and a high of 9.8% in FY2007 and FY2008.[71] In 2009 the fund balance ratio decreased significantly due to an increase in general fund expenditures and a drawdown of fund balance.

CPS Unreserved General Operating Fund Fund Balance Ratio: FY2003-FY2010			
	General Operating Fund Balance	**General Fund Expenditures**	**Ratio**
FY2003	$ 208,359,000	$ 3,595,441,000	5.8%
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 Comprehensive Annual Financial Reports, FY2003-FY2010.

The following chart presents unrestricted fund balance for FY2011 and FY2012. In this exhibit, the District's net resources including self-imposed constraints amount to $902.9 million, or 18.5% of general fund expenditures in FY2012. These resources include those assigned for commitments and contracts ($110.4 million) and appropriated fund balance ($348.9 million). The unassigned portion of fund balance – the District's net resources without constraints, self or externally imposed – amounts to approximately $443.6 million, or 9.1%, of general fund expenditures.[72] The increase in fund balance at the end of FY2012 was due to timing shifts in property tax revenue receipts and early State of Illinois block grant payments. The two revenue sources shifted approximately $350 million in revenue from FY2013 to FY2012.[73]

CPS Unrestricted General Operating Fund Fund Balance Ratio: FY2011-FY2012			
	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%

Source: CPS FY2011 Comprehensive Annual Financial Report, p. 40 and 42; FY2012, p. 42, 44 and 103.

A ten-year trend analysis of the District's fund balance ratio including the most recent FY2011 numbers is not possible because the data has been classified differently with implementation of GASB 54. 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

[71] 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.
[72] CPS FY2012 Comprehensive Annual Financial Report, p. 42.
[73] CPS FY2012 Comprehensive Annual Financial Report, p. 12.

provide a guide as to how different fund balance lines were reclassified. An accurate trend analysis can only be conducted with reclassified data.

The CPS fund balance policy refers specifically to the unreserved designated general operating fund balance as a ratio of operating and debt service budgets. CPS notes that the stabilization fund is equivalent to an assigned fund balance under GASB 54.[74] This fund balance ratio remained relatively stable and within the policy's range in FY2008, FY2011 and FY2012. The ratio declined in FY2009 and FY2010 to 3.6% and to 0%, respectively, before rising to 9.8% in FY2011. CPS attributes the FY2009 and FY2010 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-FY2012

	General Operating Fund Balance	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%

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

The Debt Service Fund fund balance is not included in the chart above because it is included in a separate section of the fund balance policy and does not have a specific ratio attached to it. CPS has long planned that the majority of this fund balance would be utilized for Qualified Zone Academy Bonds (QZAB) debt service because they become due in non-uniform increments and are difficult to match to recurring revenue.[75] The interest-free QZABs have 15-year maturities with no annual debt service payment required other than paying off the principal at maturity for these bonds.

As of the FY2012 year-end audit, there was $332.5 million in restricted and $255.0 million in assigned Debt Service fund balance for a total of $587.5 million. The estimated balance of reserves assigned for debt service at the end of FY2013 is $249.0 million and CPS estimates that approximately $53.8 million is available for use in FY2014.[76]

CPS is using Debt Service Fund reserves for the first time to pay for increasing debt service. The maneuver will allow the District to allocate State funding, which would otherwise have gone directly to pay for debt service, to general operations.[77] The District proposes to pay for capital expenditures using Debt Service Fund fund balance on an interim basis. When available fund

[74] CPS FY2012 Comprehensive Annual Financial Report, p. 216.
[75] Communication between Civic Federation and CPS, August 17, 2010.
[76] CPS FY2012 Comprehensive Annual Financial Report, p. 42 and FY2014 Proposed Budget, p. 11.
[77] CPS FY2014 Proposed Budget, p. 11 and 138.

balance is used to the extent possible, the District will use a $300 million line of credit. When the District hits a threshold of $300 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.[78]

Budgeted Fund Balance

The CPS FY2013 budget anticipated the full use of all of its appropriable fund balance of $432.0 million to close its deficit. However, the amount of unrestricted General Fund reserves used in FY2013 was approximately $229.8 million. This is the result of changes that occurred during FY2013 that increased revenues and decreased expenses, meaning CPS had a lower deficit than expected and had to use less fund balance to close it. Additional fund balance is also available for appropriation in FY2014 because of unexpected reserves that became available in FY2012 as a result of property tax timings and catch-up payments from the State of Illinois.[79] As a result, CPS projects the General Fund unrestricted fund balance at the beginning of FY2014 to be $562.7 million. In addition, CPS will use $38.8 million of tort reserves, $41.3 million of Supplemental General State Aid reserves and $53.8 million of Debt Service Fund reserves.[80]

The continued full appropriation of fund balance and particularly the use of restricted 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 contributes to the District's projected FY2015 budget gap of $914.3 million.[81]

General Operating Fund Budget to Actual Variances: FY2008-FY2012

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

Legally, 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

[78] CPS FY2014 Proposed Budget, p. 153.
[79] CPS FY2014 Proposed Budget, p. 11.
[80] CPS FY2014 Proposed Budget, p. 11.
[81] CPS FY2014 Proposed Budget, p. 12.

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 FY2008 and FY2012. 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 FY2008, FY2011 and FY2012, the District was able to finish the year with expenditures less than revenues—a positive outcome. Although the District continued to spend less than was originally appropriated, the FY2009 and FY2010 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.

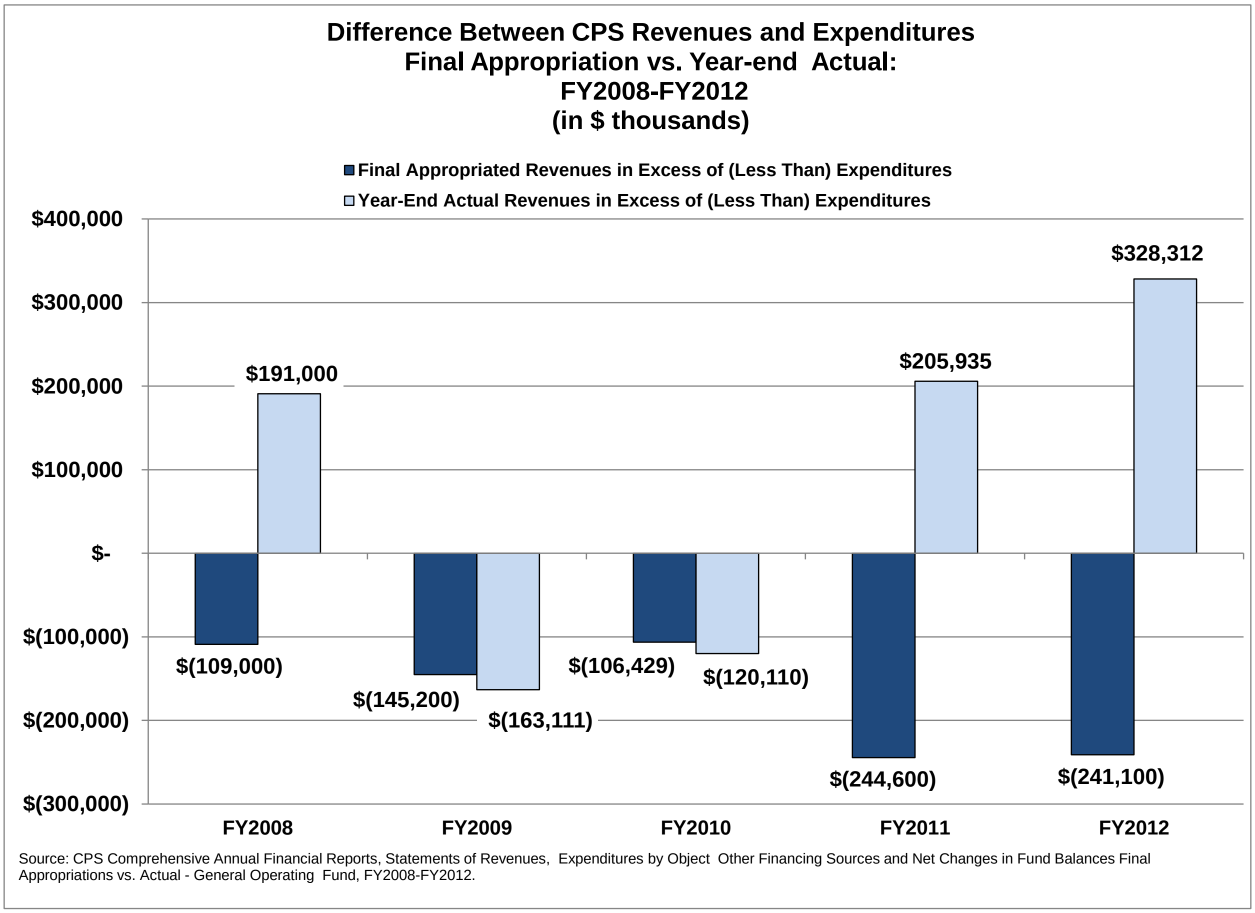
In FY2009 actual revenues were $130.0 million, or 2.8%, less than appropriated. The next year, revenues were $445.4 million, or 8.5%, less than appropriated. Despite spending reductions, the District ended FY2009 and FY2010 having spent $163.1 million and $120.1 million more, respectively, than it received 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 spending obligations. This strategy is not sustainable in the long-term as fund balance is 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.

CPS Budget to Actual General Operating Fund Variances: FY2008-FY2012 (in $ thousands)

FY2008	Final Appropriation	Year-end Actual	Variance: Final Appropriation to Actual	% Variance
Revenues	$ 4,539,256	$ 4,585,685	$ 46,429	1.0%
Expenditures	$ 4,648,256	$ 4,394,685	$ (253,571)	-5.5%
Revenues in Excess of or (Less Than) Expenditures	$ (109,000)	$ 191,000	$ 300,000	
FY2009	**Final Appropriation**	**Year-end Actual**	**Variance: Final Appropriation to Actual**	**% Variance**
Revenues	$ 4,709,721	$ 4,579,668	$ (130,053)	-2.8%
Expenditures	$ 4,854,921	$ 4,742,779	$ (112,142)	-2.3%
Revenues in Excess of or (Less Than) Expenditures	$ (145,200)	$ (163,111)	$ (17,911)	
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	

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, FY2008-FY2012.

The next exhibit graphically displays the difference described above between CPS revenues and expenditures from FY2008 through FY2012. In FY2009 and FY2010, end of year losses were greater than anticipated due to insufficient revenues, despite efforts made by the District to reduce spending. In those years, meeting actual expenditures required relatively large infusions of fund balance resources.



Budgeted Fund Balance and Lines of Credit

Over the past few years, the District has planned to appropriate a significant amount of its fund balance in order to balance its annual budget. It is understandable that there would be a temporary deviation from the 5% fund balance target during a time of fiscal stress and revenue delays. However, a budget that utilizes a significant amount of its fund balance for consecutive years without a concrete plan to replenish its reserves is unsustainable and a serious cause for concern. The absence of adequate fund balance can cause a number of challenges and risks for a government, including significant cash flow issues which can inhibit the government's ability to pay its immediate expenses.

In order to address possible cash flow problems in FY2011 after depleting its fund balance, CPS employed a bank line of credit. On June 15, 2010, the Board of Education authorized the issuance of a note and obligations including a line of credit with a bank in an amount not to exceed $800 million.[82] In the fall of 2010 cash flow problems resulted from delayed State payments and delayed property tax collections. CPS implemented a $500 million line of credit from October 2010 through March 2011. It borrowed $75 million in November from the line of credit in order to meet payroll expenses. The District paid $542,000 in order to establish and access the line of credit.[83]

In FY2014 CPS will use Debt Service Fund fund balance to pay for capital expenditures on an interim basis. When that fund balance is exhausted, the District will use a $300 million line of credit. When the District hits a threshold of $300 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.[84]

MUNICIPAL EMPLOYEES' PENSION FUND

Eligible non-teaching employees of CPS participate in the City of Chicago's Municipal Employees' Annuity and Benefit Fund.[85] Approximately 17,042, or 53.3%, of the 31,976 active Municipal Fund members are CPS employees.[86]

Historically, the City of Chicago has made the employer contributions for CPS employees participating in the Municipal Fund. In the City's FY2012 budget, the City included reimbursement from CPS for part of the statutory employer contribution the City has traditionally made for CPS employees participating in the Municipal Fund. The reimbursement amount proposed for FY2012 was $32.5 million.[87] However, given its financial difficulties, the City deferred the FY2012 and FY2013 reimbursement contributions from CPS and will defer the District's FY2014 reimbursement contribution as well. CPS reimbursed the City for $9.1 million in FY2012 and budgeted $6.3 million in reimbursement to the City in FY2013 for the Municipal Fund employer contribution for employees funded by federal grants.[88]

CPS estimates that the FY2014 Municipal Fund contribution from the City (recorded as revenue) will be $54.6 million.[89] CPS budgeted $6.3 million to be reimbursed to the City for the employer pick-up of employees funded by federal grants for FY2013 and budgeted $5.6 million for FY2014.[90]

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. The next section focuses on the Chicago Teachers' Pension Fund.

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[82] Resolution 10-0615-RS3, June 15, 2010.
[83] Information provided by CPS Budget Office, August 12, 2011.
[84] CPS FY2014 Proposed Budget, p. 153.
[85] 40 ILCS 5/8-110
[86] CPS FY2012 Comprehensive Annual Financial Report, p. 78.
[87] City of Chicago FY2012 Budget Overview, p. 6 and 15.
[88] Information provided by CPS Budget Office, July 17, 2012.
[89] CPS FY2014 Proposed Budget, p. 20.
[90] Information provided by CPS Budget Office, July 17, 2012 and August 19, 2013.

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 is for FY2012, which ended on June 30, 2012.

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.[91] Plan benefits and contributions can only be amended through state legislation.[92]

The fund is governed by a twelve-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.

Membership

In FY2012 the Teachers' Pension Fund had 56,292 members, including 25,926 retirees and beneficiaries receiving benefits and 30,366 active employee members. In the ten years since FY2003, the number of retirees and beneficiaries receiving benefits increased by 39.6%, or 7,361, and has grown each year. Conversely, the number of active employee members has declined by 16.9%, or 6,182 members, over the same period. The number of actives generally declined until FY2009 and then increased by over 2,000 teachers in FY2010 and declined again by 3,617 between FY2010 and FY2012. The ratio of active employees to beneficiaries fell from 1.97 in FY2003 to 1.32 in FY2009 before rising slightly to 1.38 in FY2010 and declining sharply to 1.17 over the last two years. 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 and more in annuity payments.

[91] Chicago Teachers' Pension Fund, FY2012 Comprehensive Annual Financial Report, p. 28.
[92] 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.

CPS Teachers' Pension Fund Membership: FY2003-FY2012				
Fiscal Year	**Retirees & Beneficiaries Receiving Benefits**	**Active Employee Members**	**Total**	**Ratio of Active to Beneficiary**
FY2003	18,565	36,548	55,113	1.97
FY2004	19,266	37,362	56,628	1.94
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	33,983	58,583	1.38
FY2011	25,199	30,133	55,332	1.20
FY2012	25,926	30,366	56,292	1.17

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

Source: Chicago Teachers' Pension Fund, Actuarial Valuations, FY2003-FY2012.

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.[93]

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 4-year average to the highest 8-year average; the $106,800 cap on pensionable salary; and the reduction of the automatic annuity increase from 3% compounded to the lesser of 3% or one half of the increase in Consumer Price Index not compounded.

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 $106,800*
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	
Annuity 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 $106,800 maximum pensionable salary automatically increases by the lesser of 3% or one-half of the annual increase in the CPI-U.

** 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 ("double-dipping").

Sources: Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation as of June 30, 2010, p. 22-25; 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% funded ratio. As described on the following pages, relatively small amounts are required from the State and from CPS pursuant to benefit enhancements

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

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% funded ratio over a 50-year period.

State Employer Contribution: The State of Illinois had traditionally contributed roughly $65 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% or 30% of the contribution it makes to the downstate Teachers' Retirement System.[94] However, the traditional $65 million contribution was actually much less than the 20% or 30% intention stated in the statute. The State's enacted FY2010 budget reduced the usual $65 million appropriation by 50% to $32.5 million.[95] 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.[96] There was no State contribution other than the statutory state contribution described below in FY2012 and FY2013, and the same is expected for FY2014.[97]

Additional State Contribution: The State was required to make additional contributions in FY2012 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%. The required additional State contribution was $11.0 million for FY2012 and $10.9 million for FY2013.[98] In FY2014 the additional State contribution is projected to be $11.9 million.

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%. The required additional contributions for FY2012 and FY2013 were each approximately $11.7 million.[99] The required additional contribution in FY2014 is estimated to increase to $12.7 million.

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% 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.[100] The funding schedule established in P.A. 89-0015 was changed by P.A. 96-0889, enacted in April 2010. The new law reduced CPS's required employer pension contribution for FY2011, FY2012 and FY2013 to an amount estimated to be equivalent to the

[94] The downstate Teachers' Retirement System covers all public school teachers in Illinois except those in the Chicago Public Schools.
[95] Illinois State FY2011 Budget, p. 5-8.
[96] Information provided by the CPS budget office, August 17, 2010.
[97] Chicago Public Schools FY2014 Proposed Budget, p. 143.
[98] Chicago Teachers' Pension Fund Comprehensive Annual Financial Reports, FY2009, p. 75-76; FY2010, p. 80; and FY2011, p. 84.
[99] Chicago Teachers' Pension Fund Comprehensive Annual Financial Reports, FY2010, p. 81 and FY2011, p. 85.
[100] This annual required contribution must be calculated by February 28 each year, per 40 ILCS 5/17-129.

employer's normal cost.[101] It also delays the year that the pension fund must reach a 90% funded ratio from 2045 to 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 is approximately $158.0 million, or 45.8%, less than the prior year contribution.[102] The table below shows the required employer contributions for the FY2010-FY2014. The CPS required contribution for FY2013 was $196.0 million and the estimated FY2014 contribution is $600.0 million.[103]

Calculation of Required Employer Contributions to Teachers' Pension Fund FY2010-FY2014

		FY2010	FY2011 before P.A. 96-0889	FY2011 after P.A. 96-0889	FY2012	FY2013	FY2014
1	**Total Required Employer Contribution**	**$393,266,000**	**$608,492,000**	**$208,600,000**	**$214,700,000**	**$218,600,000**	**$624,603,000**
2	State Employer Contribution*	$ 32,522,400	-	-	-	-	
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
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
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**

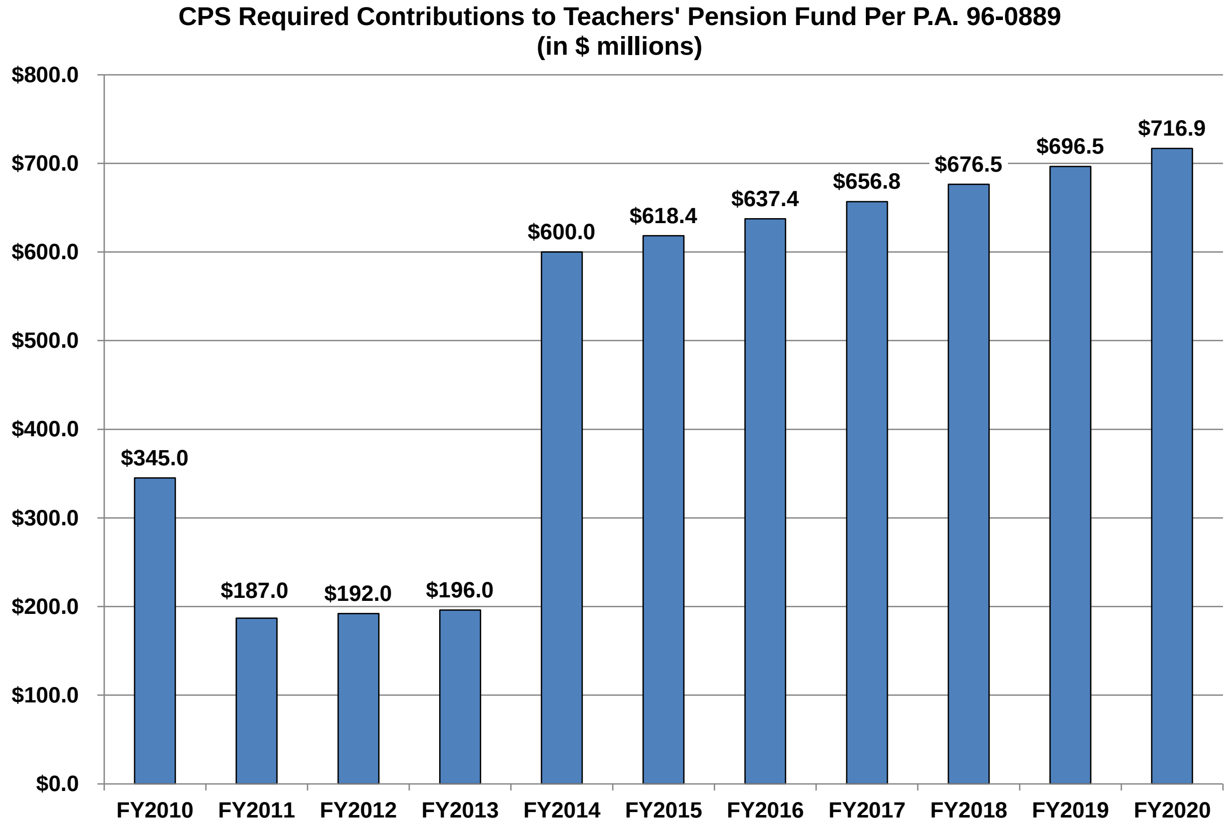
*At the time that the FY2010 required contribution was calculated, the State employer contribution was expected to be $65 million, and the Additional State Contribution was expected to be $10.1 million. These were the amounts used by the actuary to calculate the final CPS Required Contribution. The FY2010 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 FY2014 Proposed Budget, p. 143; Chicago Teachers' Pension Fund Comprehensive Annual Financial Reports, FY2009, p. 75-76; FY2010, p. 80-81; FY2011, p. 84-85; Public School Teachers' Pension and Retirement Fund of Chicago Actuarial Valuations, FY2010, p. 16 and FY2011, p. 15; 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.

101 "Normal cost" is an actuarially-calculated amount representing that portion of the present value of the pension plan benefits and administrative expenses which is allocated to a given valuation year.
102 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.
103 Public School Teachers' Pension and Retirement Fund of Chicago, *Statutorily Required Funding Valuation as of June 20, 2012*, p. 25.

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 will be actuarially determined as the schedule to reach 90% funded by 2060 begins. The projected FY2014 contribution nearly triples from the previous year, growing by $404.0 million from $196.0 million in FY2013 to $600.0 million in FY2014. The required employer contribution will be recalculated each year based on the fund experience.



Source: Public School Teachers' Pension and Retirement Fund of Chicago, *Statutorily Required Funding 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. 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*, December 2012, p. 121.

On May 31, 2013, the final day of the Illinois General Assembly's spring 2013 legislative session, House Amendment 2 was filed with Senate Bill 1920 which would have extended CPS's reduced employer pension contribution through FY2015. Compared to the current projected contributions of $600.0 million in FY2014 and $618.4 million in FY2015, the amendment would have reduced the contributions to $350 million in FY2014 and $500 million in FY2015. The proposed reduced FY2014 contribution was approximately equal to the total normal cost of the plan for FY2012, which was $364 million. The amendment also proposed to delay the year that the pension fund must reach a 90% funded ratio from 2060 to 2061. Senate Bill 1920 with House Amendment 2 ultimately failed in the House with 39 yeas, 78 nays and 1 present.[104]

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[104] See http://www.ilga.gov/legislation/BillStatus.asp?DocNum=1920&GAID=12&DocTypeID=SB&SessionID=85&GA=98

Employee Contributions

Employee contributions to the Teachers' Pension Fund are statutorily set at 9% of the employee's salary. One percent of that 9% amount is for survivors' and children's pension benefits.

CPS "picks up" 7% of the 9% annual employee pension contribution, meaning it pays 7% of the employee 9% contribution on behalf of teachers. The District's FY2014 cost for the 7% employee pick-up is approximately $128.5 million and is part of the District's budgeted pension appropriation.[105]

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 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.[106] 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 92.0% funded on an actuarial value basis in FY2003, and the funded ratio fell to 54.1% in FY2012. The market value funded ratio fell to its lowest point at 53.7% in FY2009 and recovered to 61.1% in FY2011 before falling again to 54.5% in FY2012. The sizeable difference between 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. The fact that the market value funded ratio in FY2011 was higher than the actuarial value reflects strong investment returns in FY2011 and that losses in FY2008 and FY2009 were still being recognized in the actuarial valuation. The

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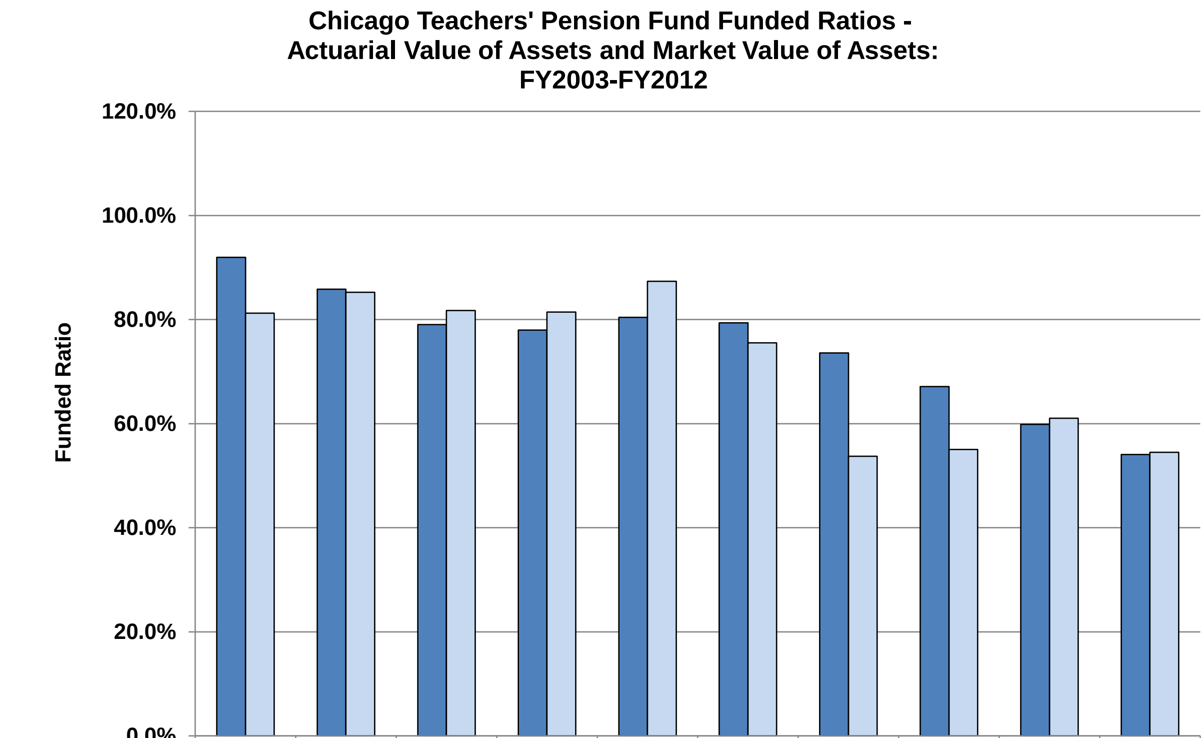
[105] CPS FY2014 Proposed Budget, p. 144. CPS also "picks up" 7% of employee contributions to the Chicago Municipal Fund for eligible non-teacher employees at a cost of $39.8 million in FY2014.
[106] For more detail on the actuarial value of assets, see Civic Federation, *Status of Local Pension Funding FY2010*, June 25, 2012, http://civicfed.org/FY2010LocalPensionsReport (last visited on July 13, 2012). The Chicago Teachers' Pension Fund smoothes returns over four years.

actuarial and market value funded ratios in FY2012 are similar at 54.1% and 54.5%, respectively.

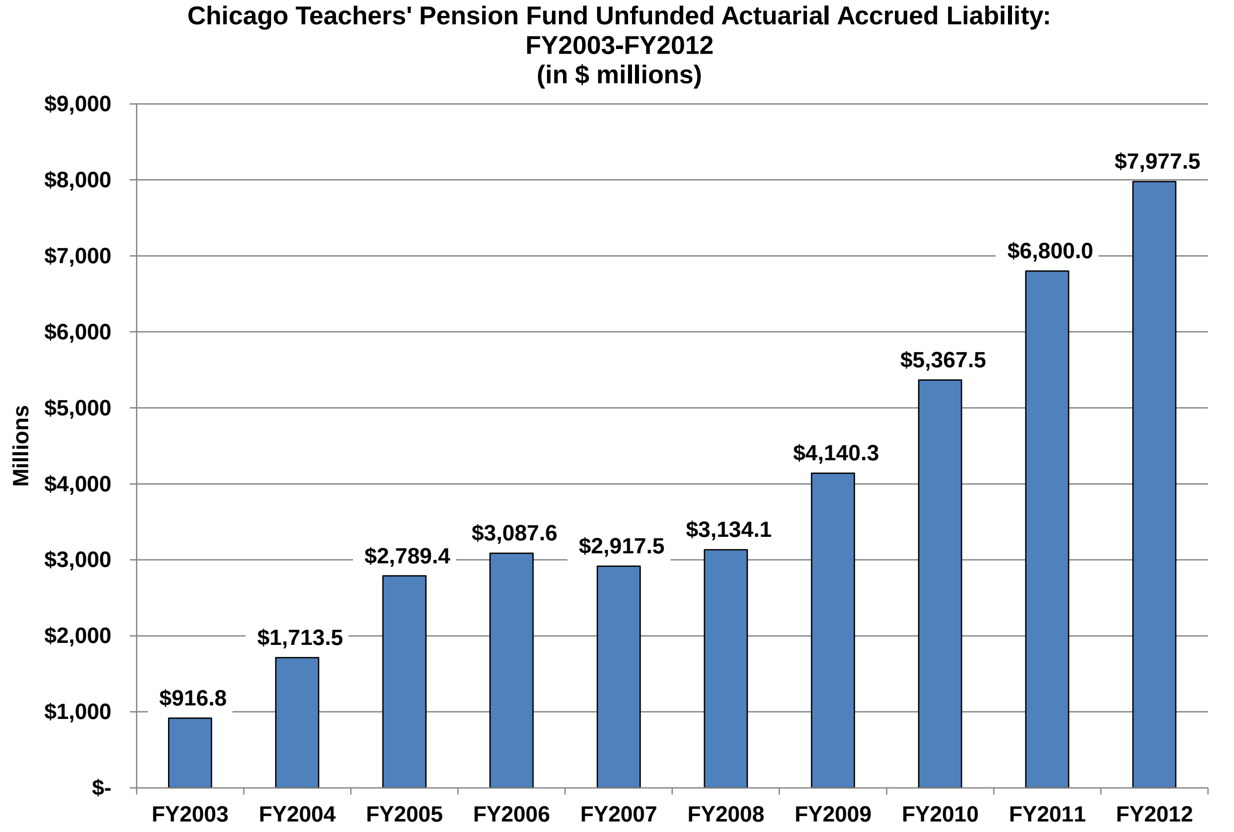


	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Actuarial Value	92.0%	85.8%	79.0%	78.0%	80.4%	79.4%	73.6%	67.1%	59.9%	54.1%
Market Value	81.2%	85.3%	81.7%	81.4%	87.3%	75.5%	53.7%	55.0%	61.1%	54.5%

Source: Civic Federation calculations based on Chicago Teachers' Pension Fund Financial Statements, FY2003-FY2012.

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 $916.8 million in FY2003. Since FY2003 unfunded liabilities have increased by 770.2%, rising to nearly $8.0 billion in ten years. In just one year, from FY2011 to FY2012, unfunded liabilities grew by $1.2 billion.



Source: Chicago Teachers' Pension Fund Financial Statements, FY2003-FY2012.

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 FY2003 to FY2012. The single largest contributor to the $7.6 billion increase in unfunded liability is the investment return. For the purpose of actuarial valuation, the fund assumes that it will earn an annual 8.0% investment return. The 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 8.0% assumption, the four-year smoothed return may not. This was the case in FY2011, when the market value rate of return was 24.7%, but the four-year smoothed return was -0.5%, reflecting losses in FY2008 and FY2009. However, in FY2012 the actual market value rate of return was -0.4%, which is far below the 8.0% assumption. Over the ten-year period, the failure of investment returns to meet the 8.0% assumption added $4.0 billion to the unfunded liability.

The second largest contributor to the growth in unfunded liability was 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 to keep it from growing. This deficiency in employer contributions added $2.5 billion to the unfunded liability between FY2003 and FY2012.

Another contributor to the growth in unfunded liability was the result of a pension overpayment settlement regarding the miscalculation and overpayment of annuitants' benefits in November 2012. The settlement reduces or eliminates the automatic annual increase for the effected annuitants over the next few years until the benefits are corrected. The settlement contributed $69.3 million to the fund's unfunded liability.

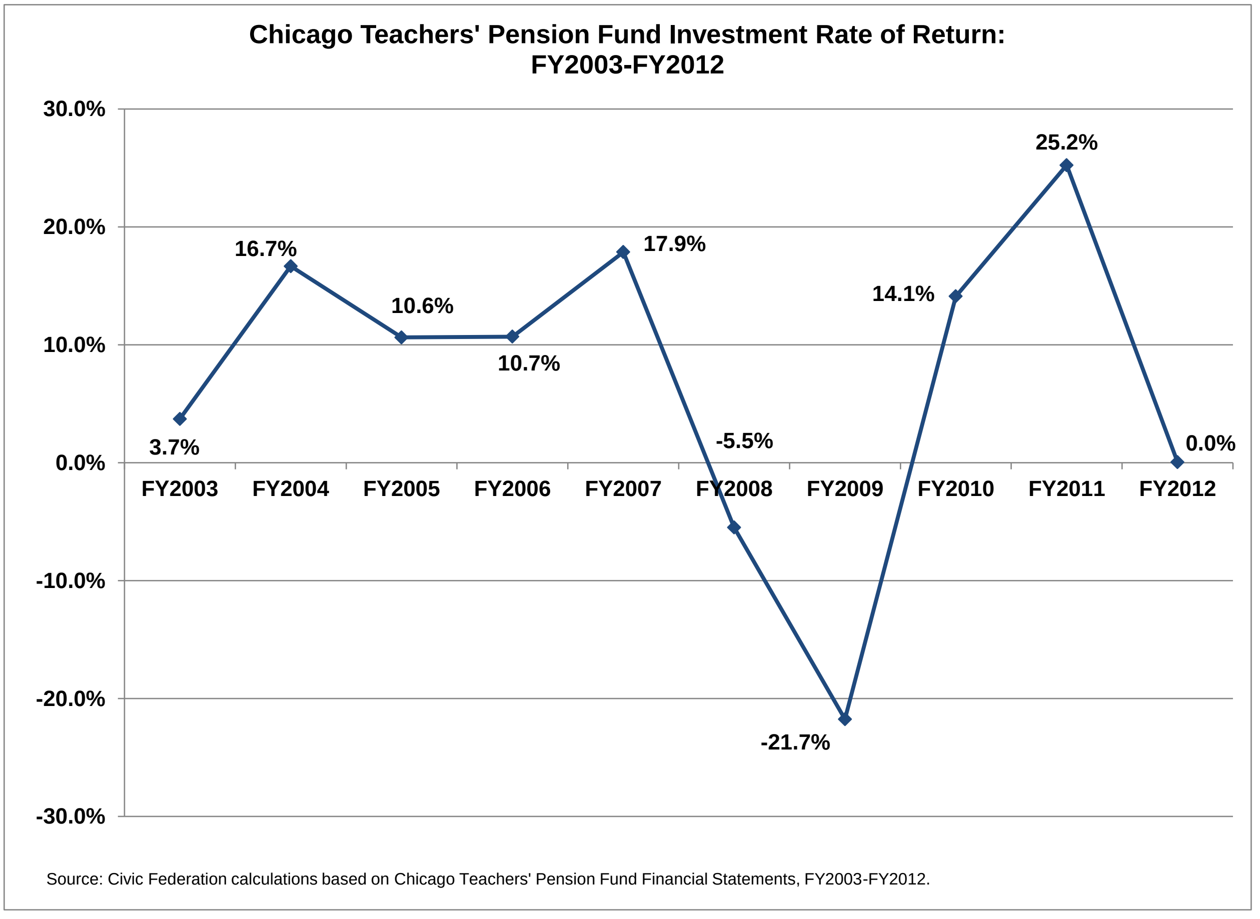
Chicago Teachers' Pension Fund Reasons for Change in Unfunded Actuarial Accrued Liability: FY2003-FY2012

	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
FY2003	$ 134,336,830	$ 599,200,884	$ (360,506,774)	$ -	$ 179,292,049	$ (41,970,075)	**$ 510,352,914**
FY2004	$ 157,713,698	$ 500,523,724	$ (163,105,603)	$ -	$ 74,032,562	$ 227,549,415	**$ 796,713,796**
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	$ 1,401,162	$ -	$ -	$ 28,680,271	**$ 1,248,208,397**
10-Year Total	**$ 2,485,436,037**	**$ 4,045,650,921**	**$ (320,748,344)**	**$ -**	**$ (133,264,290)**	**$ 1,564,700,272**	**$ 7,641,774,596**

Source: Chicago Teachers' Pension Fund, Actuarial Valuations, FY2003-FY2012.

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 FY2003 and FY2012, the Chicago Teachers' Pension Fund average annual rate of return was 7.2%.[107] This is below the fund's assumed rate of return of 8.0%.[108] Returns ranged from a high of 25.2% in FY2011 to a low of -21.7% in FY2009.



[107] 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, it 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.

[108] In the Chicago Teachers' Pension Fund FY2012 Actuarial Valuation, the actuary states that it plans to work with the fund's Board of Trustees to study its assumed investment rate of return and modify the rate if necessary. Public School Teachers' Pension and Retirement Fund of Chicago, *Statutorily Required Funding Valuation as of June 20, 2012*, p. ii.

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. 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 CPS.

The Teachers' Pension Fund 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. For the last several years the Fund has provided reimbursement of 70% of the cost of pensioners' health insurance coverage. Total payments from the Teachers' Pension Fund to reimburse retirees may not exceed 75% of total retiree health insurance costs.[109]

In FY2012 a total of 17,091 retirees and beneficiaries were receiving health insurance benefits. There were 4,245 terminated employees entitled to OPEB benefits but not yet receiving them and 8,835 retirees and beneficiaries entitled to benefits but not currently receiving them.[110] The Illinois Pension Code limits total annual payments paid by the pension fund's Board of Trustees to $65 million per year plus amounts authorized in previous years but not spent.[111] In FY2012 the Teachers' Pension Fund spent $69.0 million on OPEB.[112]

[109] 40 ILCS 17-142.1
[110] Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2012 in Accordance with GASB Statement No. 43, p. 3.
[111] 40 ILCS 17-142.1
[112] Chicago Teachers' Pension Fund, FY2012 Comprehensive Annual Financial Report, p. 24.

The following exhibit shows the extent to which the aggregate cost of the Pension Fund's health insurance subsidy has increased over the past decade. From FY2003 to FY2012, insurance premium rebates paid to beneficiaries increased by 34.3%, or $17.6 million. The health insurance rebate has represented approximately 7% to 9% of total benefit expenditures over the ten-year period.

Health Insurance Premium Rebates Paid to Retired CPS Teachers: FY2003-FY2012		
	Health Insurance Benefits Paid	% Change over Previous Year
FY2003	$ 51,395,920	-
FY2004	$ 53,106,379	-3.3%
FY2005	$ 54,410,887	-2.5%
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	5.5%
FY2012	$ 69,011,323	12.5%
Ten-Year Change	**$ 17,615,403**	**34.3%**

Source: Chicago Teachers' Pension Fund, Comprehensive Annual Financial Reports, FY2012, p. 128; FY2008, p. 94; and FY2007, p. 94.

The following exhibit shows the funded status of the teachers' OPEB plan. The total actuarial liability grew from $2.4 billion in FY2008 to nearly $3.1 billion in FY2012. Assets as a percentage of the actuarial liability were 1.9% in FY2008 and 1.1% in FY2012. The actuarial assumptions used included a 4.5% discount rate and an annual healthcare cost trend rate which is projected to decline from 8.5% in 2012 to 5.0% over the next seven years.[113]

Funded Status of the Chicago Public Schools Pension Fund Other Post Employee Benefit (OPEB) Plan: FY2008-FY2012				
	Total Actuarial Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Assets as a % of Actuarial Liability
FY2008	$ 2,407,122,492	$ 44,989,385	$ 2,362,133,107	1.9%
FY2009	$ 2,670,282,662	$ 49,691,750	$ 2,620,590,912	1.9%
FY2010	$ 2,864,877,305	$ 34,857,732	$ 2,830,019,573	1.2%
FY2011	$ 3,071,516,739	$ 31,324,572	$ 3,040,192,167	1.0%
FY2012	$ 3,076,191,305	$ 34,124,958	$ 3,042,066,347	1.1%

Source: Chicago Teachers' Pension Fund, Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2012 in Accordance with GASB Statement No. 43, p. 4.

[113] Chicago Teachers' Pension Fund, Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2012 in Accordance with GASB Statement No. 43, p. 5.

LIABILITIES

This section of the analysis provides an overview of 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 and other current liabilities. The District currently reports no short-term debt. CPS does include the following short-term liabilities in the statement of net assets 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;
- *Other accrued liabilities*: these can include self insurance funds, unclaimed property and other unspecified liabilities; and
- *Amounts held for student activities*: these are deposits held in custody or funds that belong to individual school accounts.

In the Governmental Funds, short-term liabilities increased by approximately $283.1 million, or 36.4%, from FY2008 to FY2012. The largest portion of the increase is in accounts payable, which grew by $209.7 million over the five-year period. The details of this trend are provided further in the short-term liabilities analysis.

CPS Short-Term Liabilities in the Governmental Funds: FY2008-FY2012 (in $ thousands)

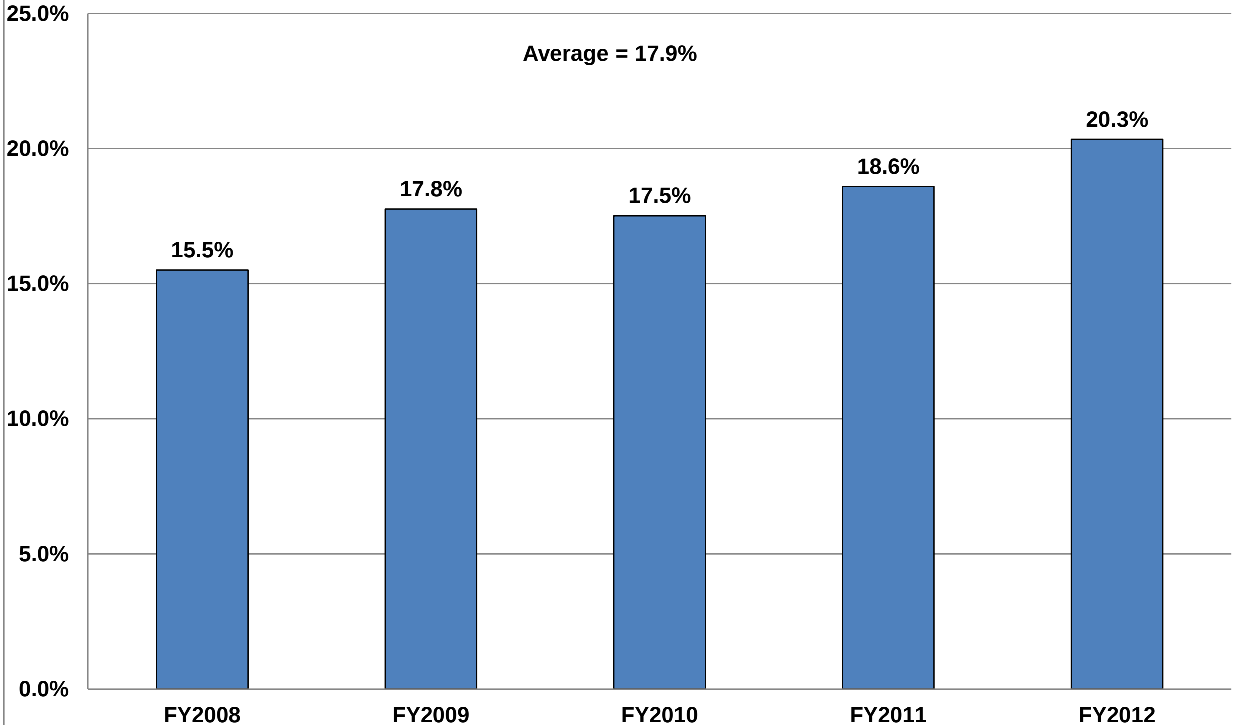
	FY2008	FY2009	FY2010	FY2011	FY2012	Five-Year $ Change	Five-Year % Change
Accounts Payable	$ 284,650	$ 369,499	$ 347,225	$ 464,286	$ 494,371	$209,721	73.7%
Accrued Payroll	$ 428,753	$ 471,602	$ 520,769	$ 518,652	$ 498,598	$ 69,845	16.3%
Amount Held for Student Activities	$ 30,167	$ 30,359	$ 31,647	$ 34,840	$ 34,026	$ 3,859	12.8%
Interest Payable	$ 23,481	$ 20,138	$ 20,158	$ 24,439	$ 25,108	$ 1,627	6.9%
Other Accrued Liabilities	$ 10,932	$ -	$ 9,124	$ 10,549	$ 8,964	$ (1,968)	-18.0%
Total	**$ 777,983**	**$ 891,598**	**$ 928,923**	**$1,052,766**	**$1,061,067**	**$283,084**	**36.4%**

Source: CPS Comprehensive Annual Financial Reports, FY2008-FY2012.

Short-Term Liabilities as a Percentage of Net Operating Revenues

Increasing short-term (current) liabilities in a government's operating funds at the end of the year as a percentage of net operating revenues may be a warning sign of a government's future financial difficulties.[114] 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. Between FY2008 and FY2012, the ratio averaged 17.9%, fluctuating slightly from a low of 15.5% in FY2008 to a high of 20.3% in FY2012. With the exception of FY2010, the ratio has steadily increased over the past five years. The upward movement bears watching.

CPS Short-Term Operating Liabilities as a Percentage of Operating Revenues for Governmental Funds: FY2008-FY2012



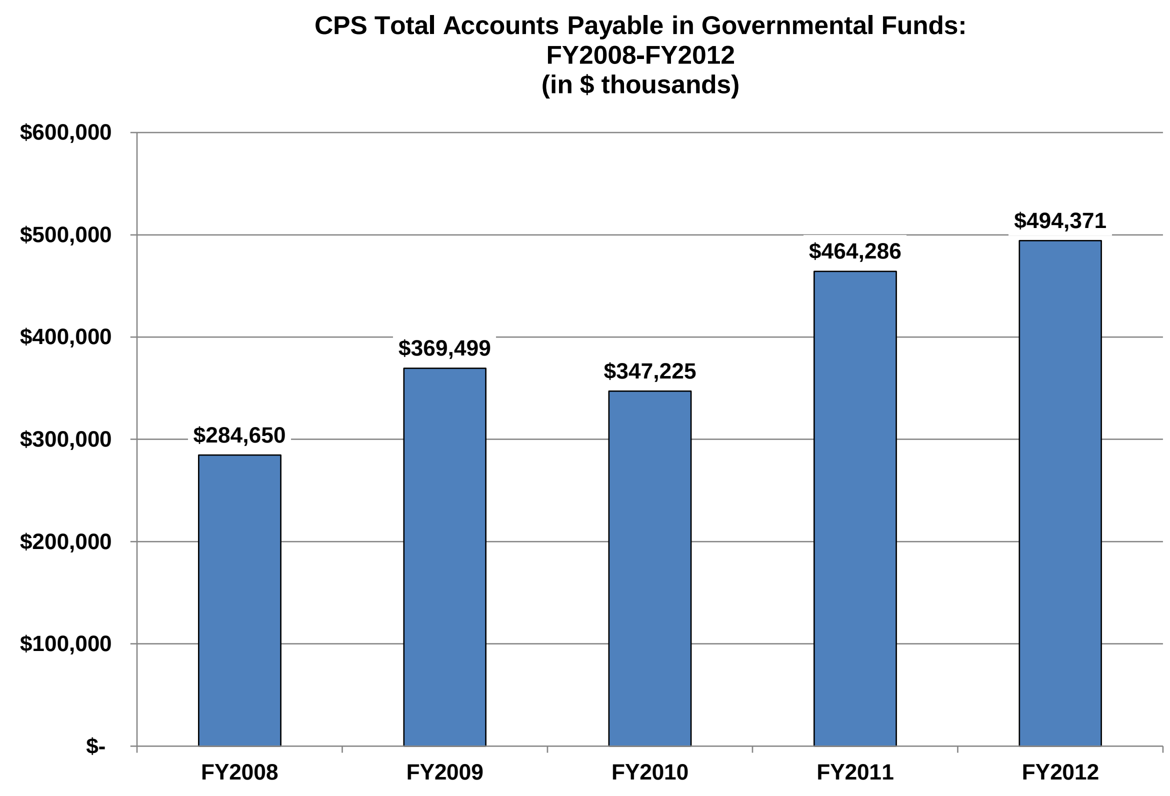
Source: CPS Comprehensive Annual Financial Reports, FY2008-FY2012.

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 an increase of 73.7% in total accounts payable, or $209.7 million, from FY2008 to FY2012. A portion of this increase,

[114] Operating funds for CPS are 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.

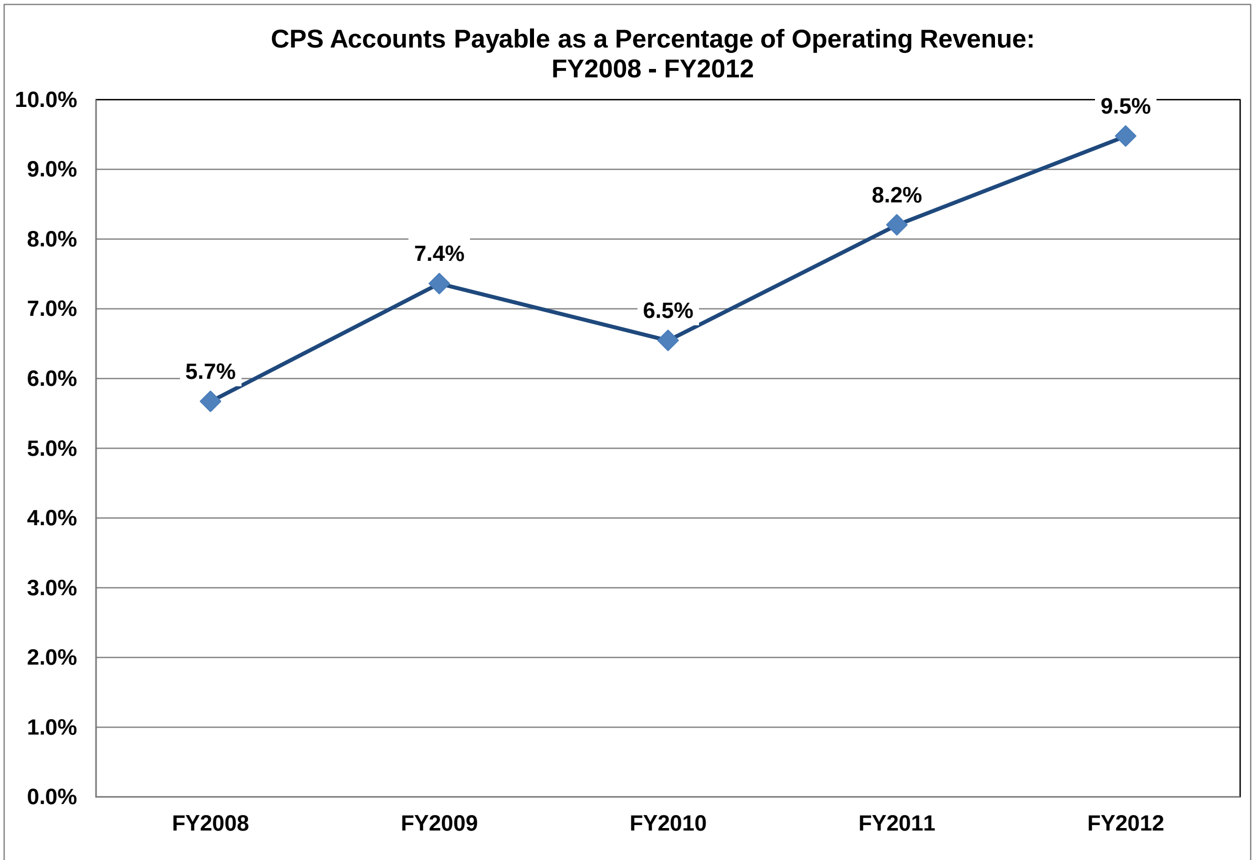
$43 million, is attributable to a payment accrual made to the Chicago Police Department for police services.[115]



Source: CPS Comprehensive Annual Financial Reports, FY2008-FY2012.

[115] Information provided by CPS Budget Office, July 17, 2012.

The CPS ratio of accounts payable in the Governmental Funds to operating revenues has increased from 5.7% in FY2008 to 9.5% five years later. With the exception of FY2010, the ratio has increased steadily over the last five years. Since FY2008, the District's operating revenues have increased by 4.0%, or $198.2 million, while accounts payable have increased by 73.7%, or $209.7 million.



Source: CPS Comprehensive Annual Financial Reports, FY2008-FY2012.

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.[116] 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

[116] 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 Fund 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;[117]
- *Cash and investments held in school internal accounts* represent the book balance for checking and investments for individual schools;[118]
- *Receivables* are monetary obligations owed to the government including property taxes, replacement taxes and state or federal aid;
- *Due from other funds* represents Interfund borrowings that are repaid between major programs at year end. The balances result from operating transactions between funds and are repaid during the fiscal year within the normal course of business;[119] and
- *Other assets* include prepaid assets and deferred charges recorded as expenditures in the governmental funds. Deferred charges are for bond issuance costs.[120]

CPS's current ratio was 3.6 in FY2012, the most recent year for which data is available. In the past five years, the District's current ratio averaged 4.4, which is greater than the benchmark of 2.0, and thus demonstrates a healthy level of liquidity. While current assets fluctuated over the past five years, current liabilities steadily increased from $778.0 million in FY2008 to $1.1 billion in FY2012.

[117] Chicago Public Schools FY2009 Comprehensive Annual Financial Report, p. 50.
[118] Chicago Public Schools FY2009 Comprehensive Annual Financial Report, p. 57.
[119] Chicago Public Schools FY2009 Comprehensive Annual Financial Report, p. 54
[120] Chicago Public Schools FY2009 Comprehensive Annual Financial Report, p. 39.

CPS Current Ratio in the Governmental Funds: FY2008-FY2012 (in $ thousands)							
	FY2008	FY2009	FY2010	FY2011	FY2012	Five-Year $ Change	Five-Year % Change
Current Assets							
Cash and Investments	$1,117,433	$1,250,988	$ 857,002	$1,157,460	$1,470,892	$ 353,459	31.6%
Cash and Investments in Escrow	$ 969,166	$ 583,415	$ 951,546	$ 778,083	$ 435,650	$(533,516)	-55.0%
Cash and Investments Held in School Internal Accounts	$ 30,167	$ 30,359	$ 31,647	$ 34,840	$ 34,026	$ 3,859	12.8%
Receivables: Property Taxes, Net	$1,009,746	$1,055,561	$ 906,944	$1,022,827	$ 996,968	$ (12,778)	-1.3%
Receivables: Replacement Taxes	$ 32,511	$ 29,417	$ 22,829	$ 24,342	$ 33,182	$ 671	2.1%
Receivables: State Aid, Net	$ 515,087	$ 612,208	$ 807,665	$ 775,970	$ 613,199	$ 98,112	19.0%
Receivables: Federal Aid	$ 223,988	$ 52,276	$ 156,023	$ 277,650	$ 202,462	$ (21,526)	-9.6%
Receivables: Other	$ 57,983	$ 56,052	$ 40,209	$ 146,247	$ 40,533	$ (17,450)	-30.1%
Due from Other Funds	$ 128,217	$ 138,229	$ 319,624	$ 249,516	$ -	$(128,217)	-100.0%
Other Assets	$ 5,098	$ 4,356	$ 4,595	$ 2,095	$ 39,664	$ 34,566	678.0%
Total Current Assets	**$4,089,396**	**$3,812,861**	**$4,098,084**	**$4,469,030**	**$3,866,576**	**$(222,820)**	**-5.4%**
Current Liabilities							
Accounts Payable	$ 284,650	$ 369,499	$ 347,225	$ 464,286	$ 494,371	$ 209,721	73.7%
Accrued Payroll	$ 428,753	$ 471,602	$ 520,769	$ 518,652	$ 498,598	$ 69,845	16.3%
Amount Held for Student Activities	$ 30,167	$ 30,359	$ 31,647	$ 34,840	$ 34,026	$ 3,859	12.8%
Interest Payable	$ 23,481	$ 20,138	$ 20,158	$ 24,439	$ 25,108	$ 1,627	6.9%
Other Accrued Liabilities	$ 10,932	$ -	$ 9,124	$ 10,549	$ 8,964	$ (1,968)	-18.0%
Total Current Liabilities	**$ 777,983**	**$ 891,598**	**$ 928,923**	**$ 1,052,766**	**$ 1,061,067**	**$ 283,084**	**36.4%**
Current Ratio	**5.3**	**4.3**	**4.4**	**4.2**	**3.6**		

Source: CPS Comprehensive Annual Financial Reports, FY2008-FY2012.

Long-Term Liabilities

This section of the analysis examines trends in CPS's 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.[121] 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 can accumulate a maximum of 320 sick days. If an employee reaches age 65, has a minimum of 20 years of service at the time of resignation or retirement or dies, the employee is entitled to receive, as additional cash compensation, all or a portion of their accumulated sick leave days. 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% of accumulated vacation days at their current salary rate. These amounts are paid from the General Operating Fund.

[121] 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 FY2012 Comprehensive Annual Financial Report, p. 72-73.

- *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 $25,000
    - 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.
- *Net Other Post Employment Benefit (OPEB) Obligation*s: This is the cumulative difference, since the effective date of GASB Statement 45, between the annual OPEB cost and the employer's contributions to its OPEB Plan.[122]

Between FY2008 and FY2012, total CPS long-term liabilities increased by 35.2%, or over $2.8 billion, rising from approximately $7.6 billion to $10.4 billion. Long-term debt increased by $1.2 billion, or 25.5%, 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 56.3% or $1.6 billion. Net pension and net OPEB obligations combined grew by 62.3%, rising from approximately $2.4 billion to $4.0 billion.

[122] 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 CPS.

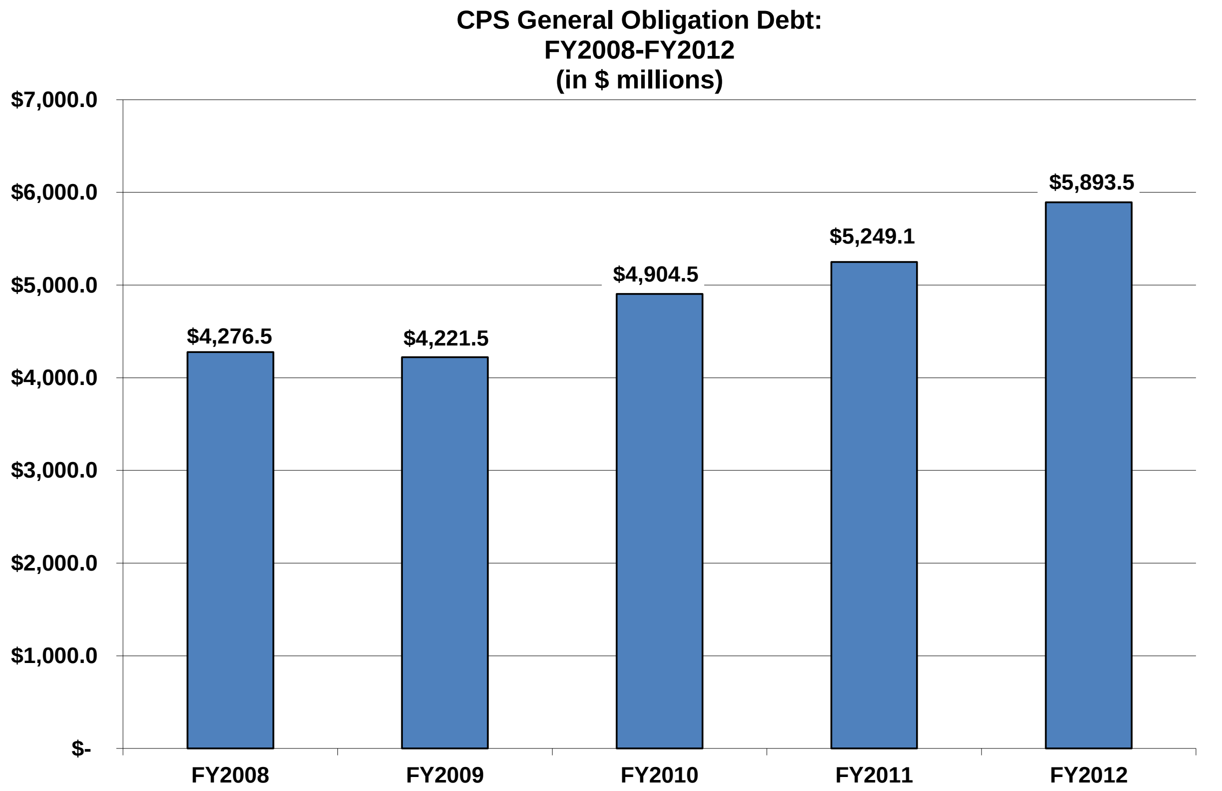
CPS Long-Term Liabilities: FY2008-FY2012 (in $ thousands)							
Type of Obligation	FY2008	FY2009	FY2010	FY2011	FY2012	Five-Year $ Change	Five-Year % Change
General Obligation Bonds	$ 4,276,507	$ 4,221,497	$ 4,904,510	$ 5,249,147	$ 5,593,686	$1,317,179	30.8%
Leases Securing PBC Bonds	$ 411,690	$ 386,385	$ 359,215	$ 330,375	$ 299,780	$ (111,910)	-27.2%
Capital Leases	$ 2,625	$ 2,450	$ 2,275	$ 2,100	$ 1,925	$ (700)	-26.7%
Asbestos Abatement Loan	$ 3,747	$ 2,710	$ -	$ -	$ -	$ (3,747)	-100.0%
Note Payable	$ 2,516	$ 1,318	$ -	$ -	$ -	$ (2,516)	-100.0%
Subtotal Long-Term Debt	**$ 4,697,085**	**$ 4,614,360**	**$ 5,266,000**	**$ 5,581,622**	**$ 5,895,391**	**$1,198,306**	**25.5%**
Accrued Sick Pay Benefits	$ 269,045	$ 295,302	$ 334,968	$ 459,823	$ 354,692	$ 85,647	31.8%
Accrued Vacation Pay Benefits	$ 73,890	$ 74,306	$ 75,508	$ 66,389	$ 65,518	$ (8,372)	-11.3%
Accrued Workers' Compensation Claims	$ 86,818	$ 91,791	$ 103,676	$ 109,735	$ 115,296	$ 28,478	32.8%
Accrued General and Automobile Claims	$ 10,149	$ 9,000	$ 5,531	$ 5,343	$ 5,398	$ (4,751)	-46.8%
Tort Liabilities and Other Claims	$ 1,400	$ 2,000	$ 2,500	$ 2,000	$ 2,000	$ 600	42.9%
Net Pension Obligation	$ 1,857,347	$ 1,929,885	$ 1,968,685	$ 2,262,010	$ 2,618,836	$ 761,489	41.0%
Net OPEB Obligation	$ 579,803	$ 756,653	$ 949,371	$ 1,130,197	$ 1,335,928	$ 756,125	130.4%
Subtotal Other Long-Term Liabilities	**$2,878,452**	**$3,158,937**	**$3,440,239**	**$4,035,497**	**$ 4,497,668**	**$1,619,216**	**56.3%**
Grand Total Long-Term Liabilities	**$ 7,575,537**	**$ 7,773,297**	**$ 8,706,239**	**$ 9,617,119**	**$10,393,059**	**$2,817,522**	**37.2%**

Source: CPS Comprehensive Annual Financial Reports, Notes 8, 9, 11 and 12, FY2008-FY2012.

General Obligation Debt

CPS general obligation debt is the largest component of the District’s long-term debt portfolio, averaging 92.0% of all long-term debt from FY2008 to FY2012. 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 amounts bear watching as a potential sign of escalating financial risk. The concern is that unless a government secures additional revenues or reduces spending at the same time it is increasing its debt burden, it may have difficulty making principal and interest payments at some point in the future.

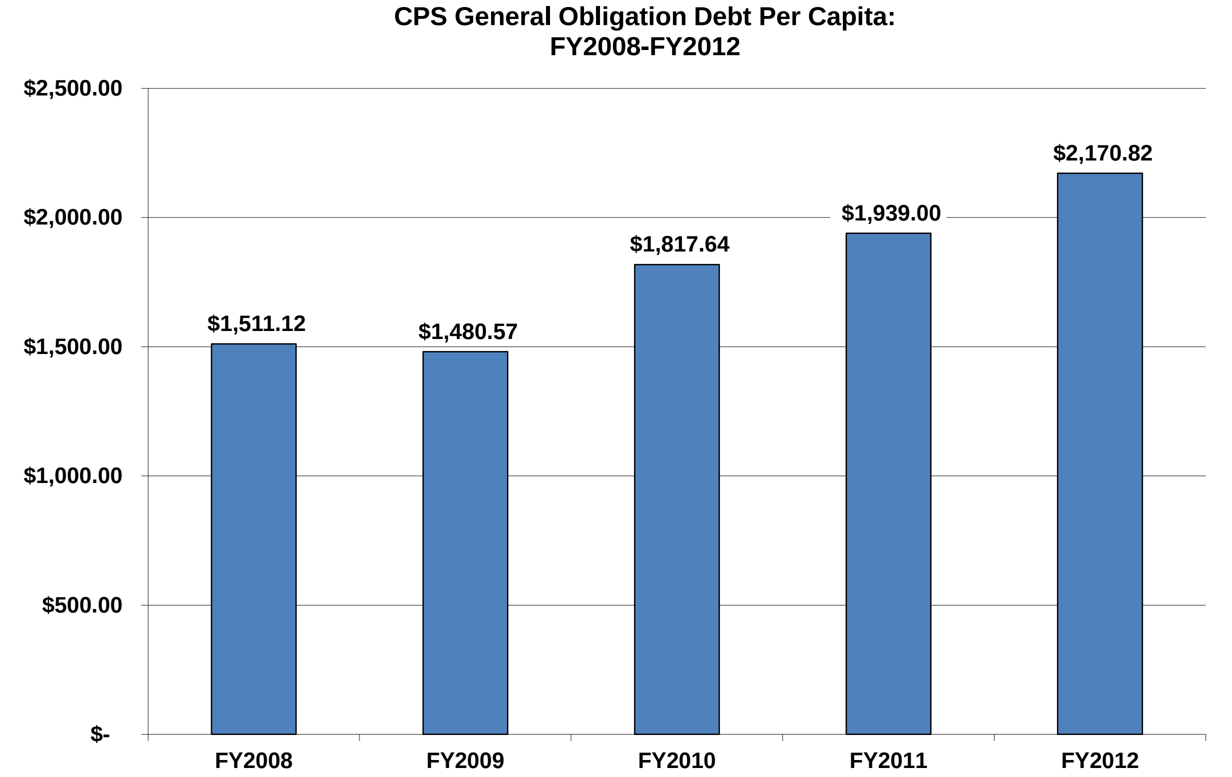
CPS general obligation debt increased by 37.8%, or approximately $1.6 billion, between FY2008 and FY2012. This represents an increase from $4.3 billion to $5.9 billion. There was a 12.3%, or $644.4 million, rise between FY2011 and FY2012. The increase reflects the District’s large capital construction program over the past several years. The rate of increase over time has been large and it bears watching, particularly as CPS faces continuing challenges in meeting its rising expenditures in areas such as personnel and retirement costs.



Source: CPS FY2012 Comprehensive Annual Financial Report, p. 154.

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. This indicator divides CPS general obligation debt per year by the population of the jurisdiction. Increases bear watching as a potential sign of increasing financial risk in much the same manner as increases in total direct debt figures. CPS general obligation debt per capita increased by 43.7% between FY2008 and FY2012, rising from $1,511.12 to $2,170.82. 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 estimates have decreased over the time period, according to the United States Census Bureau. Over the past two fiscal years, CPS direct debt per capita has jumped 12.0% from $1,939.00 to $2,170.82.



Source: Source: CPS FY2012 Comprehensive Annual Financial Report, p. 155.

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% and 20%.[123] Although the debt service ratio will

[123] 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.

increase significantly from 6.8% in FY2013 to 9.2% in FY2014, it is still below the 15% threshold. Between FY2010 and FY2014, the debt service ratio averaged 6.9%.

Chicago Public Schools Budgeted Debt Service Appropriations as of % of Total Appropriations: FY2010-FY2014					
	FY2010	FY2011	FY2012	FY2013 Amended	FY2014 Proposed
Debt Service Appropriations	$ 386.6	$ 332.1	$ 374.5	$ 393.6	$ 604.1
Total Appropriations	$ 5,971.8	$ 5,805.4	$ 5,839.7	$ 5,804.3	$ 6,554.5
Debt Service as a % of Total Appropriations	**6.5%**	**5.7%**	**6.4%**	**6.8%**	**9.2%**

Source: CPS FY2014 Proposed Budget, p. 195; FY13 and FY2014 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited August 14, 2013).

CPS Bond Ratings

In FY2013 the credit ratings for CPS remained at A+ from Fitch and A from Standard & Poor's, with negative outlooks.

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. Additionally, Moody's said that the rating downgrade reflects above-average debt burden and the expected narrowing of reserves to bridge the FY2014 budget gap.[124]

Chicago Public Schools Credit Ratings FY2009-FY2013					
	2009	2010	2011	2012	2013
Standard & Poor's Rating Services	AA-	AA-	AA-	A+	A+
Moody's Investor Services	A1	Aa2	Aa3	A2	A3
Fitch Ratings	A+	AA-	A+	A	A

Source: Chicago Public Schools, see website for more information at http://www.cps.edu/About_CPS/Financial_information/Pages/CreditRatings.aspx (last visited on August 1, 2013).

CAPITAL BUDGET

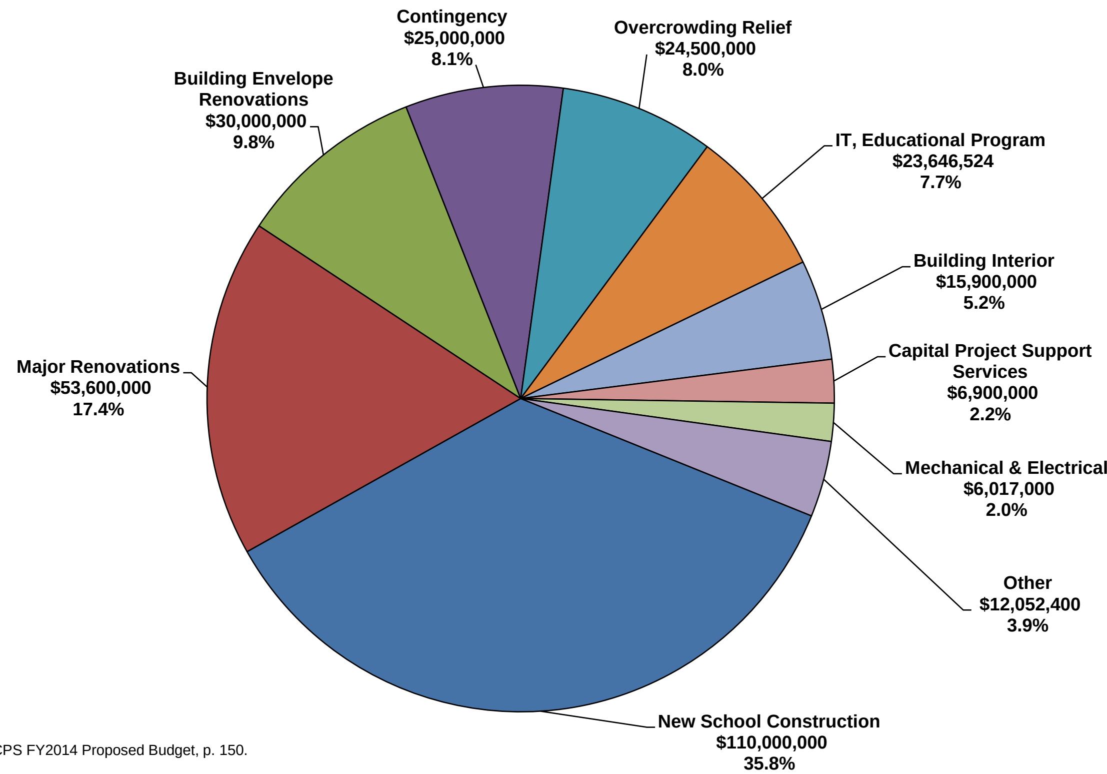
Information about CPS capital projects can be found in the capital budget section of the proposed FY2014 budget and in the FY2014-FY2018 capital improvement plan on the District's website.

FY2014 Capital Budget

In its FY2014 budget, CPS proposes spending $307.6 million for capital projects. The largest single amount will be $110.0 million for new school construction; this is 35.8% of all capital spending proposed. The next largest amounts will be $53.6 million, or 17.4% of the total, for major renovations and $30.0 million, or 9.8% of all spending, for building envelope renovations. The "Other" category, or $12.0 million, includes $5.5 million for facility site improvements, $4.2 million for career and technical education and $2.4 million for legal and regulatory requirements.

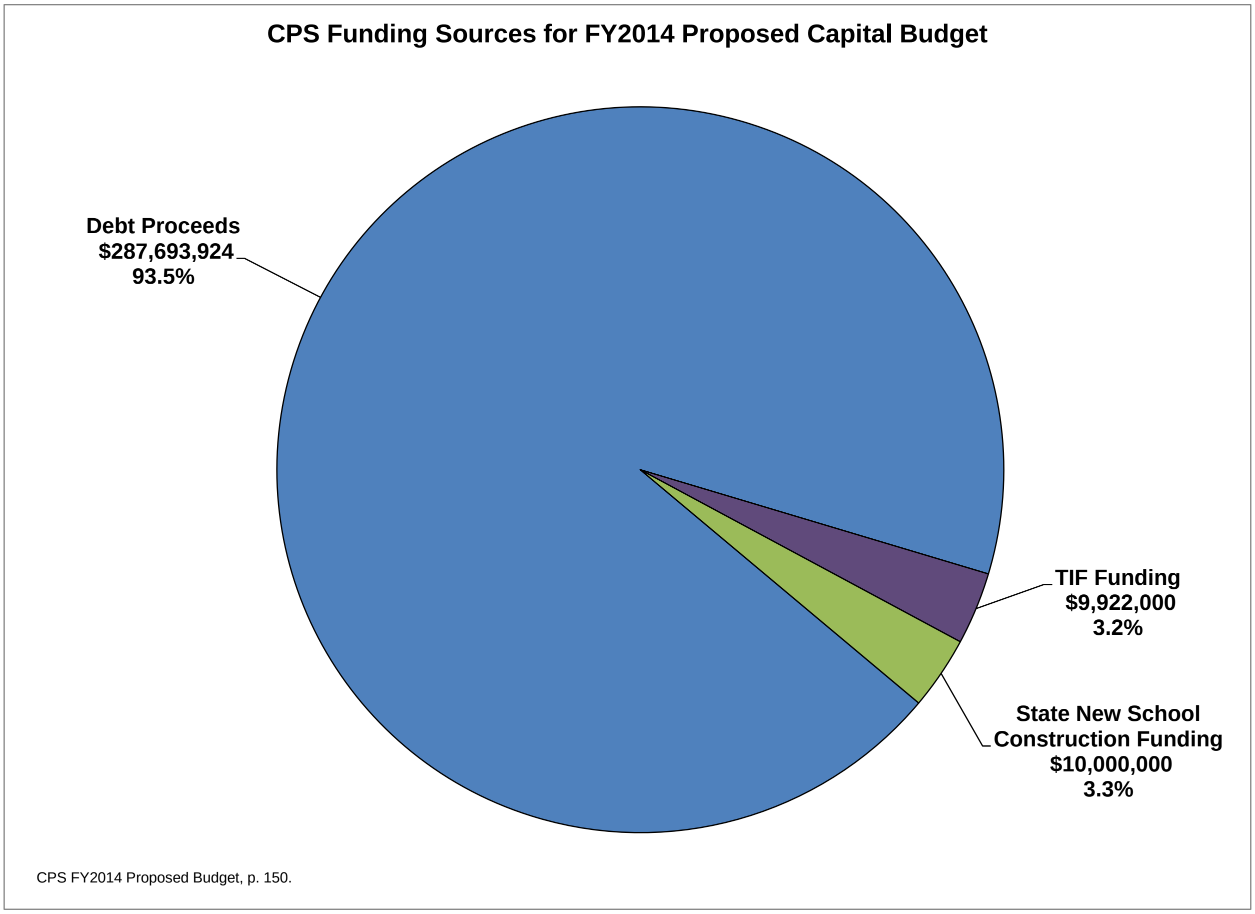
[124] CPS FY2013 Proposed Budget, p. 137-138.

CPS FY2014 Proposed Capital Budget



Source: CPS FY2014 Proposed Budget, p. 150.

The FY2014 capital budget will be funded primarily with debt proceeds. About $287.7 million, or 93.5% of all resources used, will be from debt. Approximately 3.3% of resources for the capital budget will derive from State of Illinois new school construction funding and 3.2% from tax increment financing (TIF) funding.



Capital Project Revenues and Spending: FY2010-FY2014

This section of the analysis presents information about trends in CPS capital budget spending. Here are some of the significant changes between the FY2013 estimated and the FY2014 proposed budget:

- In a comparison of the FY2013 year-end estimate and the FY2014 proposed budget, total capital revenues will increase by $171.4 million, or 458.3%, from $37.4 million to $208.8 million.
- State of Illinois revenues are expected to fall from $31.7 million to $25.9 million. Of that amount, $15.9 million is expected to be previously announced Department of Commerce and Economic Opportunity and Early Childhood grants as well as $10.0 million for new construction.[125]
- Local revenues are expected to rise sharply from $5.3 million in FY2013 to $182.9 million in FY2014. The increase is attributed to $9.9 million from new Chicago TIF-related projects while roughly $173.0 million will derive from prior-year TIF funded projects.[126]
- No federal revenues are expected in FY2014.

[125] CPS FY2014 Proposed Budget, p. 152.
[126] CPS FY2014 Proposed Budget, p. 152.

- Capital outlays will rise to $601.0 million in FY2014 from $460.9 million in the previous year. In the same period, bond issuance will decrease by 36.0%, declining from $468.9 million to $300.0 million.
- The end of year fund balance is expected to drop substantially by 68.7%, falling from $134.2 million to $42.0 million.

Over the five-year period between FY2010 actual spending and the FY2014 proposed budget, total capital revenues will rise by 114.4%, or $111.4 million. Capital outlays will fall by 13.1% or $90.8 million, dropping from $691.8 million to $601.0 million. The end of year fund balance will drop sharply from $263.4 million to $42.0 million, an 84.1% decline.

CPS FY2014 Capital Projects Fund Budget Summary: (in $ millions)

	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Estimate	FY2014 Proposed Budget	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Beginning of Year Fund Balance	$ 100.7	$ 263.4	$ 182.9	$ 88.8	$ 134.2	$ 45.4	51.1%	$ 33.5	33.3%
Revenues									
Local Revenue	$ 83.1	$ 93.4	$ 59.7	$ 5.3	$ 182.9	$ 177.6	3350.9%	$ 99.8	120.1%
State Revenue	$ -	$ 2.8	$ 1.3	$ 31.7	$ 25.9	$ (5.8)	-18.3%	$ 25.9	-
Federal Revenue	$ 12.3	$ 4.4	$ 18.1	$ 0.4	$ -	$ (0.4)	-100.0%	$ (12.3)	-100.0%
Interest Earnings	$ 2.0	$ -	$ -	$ -	$ -	$ -	-	$ (2.0)	-100.0%
Total Revenue	**$ 97.4**	**$ 100.6**	**$ 79.1**	**$ 37.4**	**$ 208.8**	**$ 171.4**	**458.3%**	**$ 111.4**	**114.4%**
Expenditures									
Capital Outlay	$ 691.8	$ 563.4	$ 576.9	$ 460.9	$ 601.0	$ 140.1	30.4%	$ (90.8)	-13.1%
Bond Issuance	$ 757.0	$ 382.3	$ 403.6	$ 468.9	$ 300.0	$ (168.9)	-36.0%	$ (457.0)	-60.4%
End of Year Fund Balance	**$ 263.4**	**$ 182.9**	**$ 88.8**	**$ 134.2**	**$ 42.0**	**$ (92.2)**	**-68.7%**	**$ (221.4)**	**-84.1%**

Source: CPS FY2012 Final Budget, p. 244, FY2013 Amended Budget, p. 131 and FY2014 Proposed Budget, p. 152.

CPS FY2014-FY2018 Capital Improvement Plan

Public Act 97-0474 requires CPS to prepare and publish a five-year capital improvement plan. It was amended in PA 97-1133 to also require development of a 10-year Educational Facilities Master Plan. That plan, which was released in draft form in May 2013 and is being finalized, will be used to guide completion of the FY2014 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 district plans to publish a second Annual Capital Expenditure Report by September 30, 2013. This will provide a comprehensive picture of the utilization, capital needs, and future direction for CPS's physical infrastructure. [127]

The CIP website features a summary page for each project. The project summaries provide information regarding a project's type and category, status, amount budgeted 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.[128] The rationale is based on the recent

[127] CPS Five-Year Capital Plan at http://www.cps.edu/Pages/CapitalPlan.aspx, p. 1.
[128] Information about CPS's prioritization and planning process can be found at http://www.cps.edu/About_CPS/Policies_and_guidelines/Documents/CapitalPlan/Planning2014.pdf

changes to the State of Illinois' School Code in Public Act 97-0474. CPS's capital website is interactive, providing users with information on planned and current projects. It allows them to select projects and review information by school, geographic area, type and year.[129]

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 GFOA and the National Advisory Council on State and Local Budgeting. These include identifying and describing the prioritization process used, providing a timeline for completing projects, identifying funding sources for projects and making the CIP publically available for stakeholders on the CPS website. In addition, the district accepts public input via the web site and at public hearings. The Board of Education votes to adopt the one-year capital budget each year, not the full five-year CIP.[130]

In April 2013 CPS approved an amended FY2013 capital budget which added $363.7 million on top of the original FY2013 capital budget of $109.7 million. The supplemental spending is intended to address the needs of schools that will experience an influx of new students coming from schools that will be closed as a result of the District's School Utilization plan. CPS refers to these schools as "welcoming schools" and will spend $155.0 million in investments and improvements including furniture and cosmetic upgrades, air conditioning, libraries and computers labs, building repairs, increased food service capacity, improvements to ADA (Americans with Disabilities Act) accessibility and expansion of the STEM (Science, Technology, Engineering, Mathematics) programs.[131]

As a result of the increased spending in FY2013, CPS proposes to make some changes to the FY2014-FY2017 capital budgets released last year. Capital funding in FY2014 will increase from $98.0 million to $162.0 million. However, in years FY2015 through FY2018, the capital plan will be scaled back to approximately $156.0 million or $157.0 million per year, reflecting the district's ongoing financial difficulties.[132]

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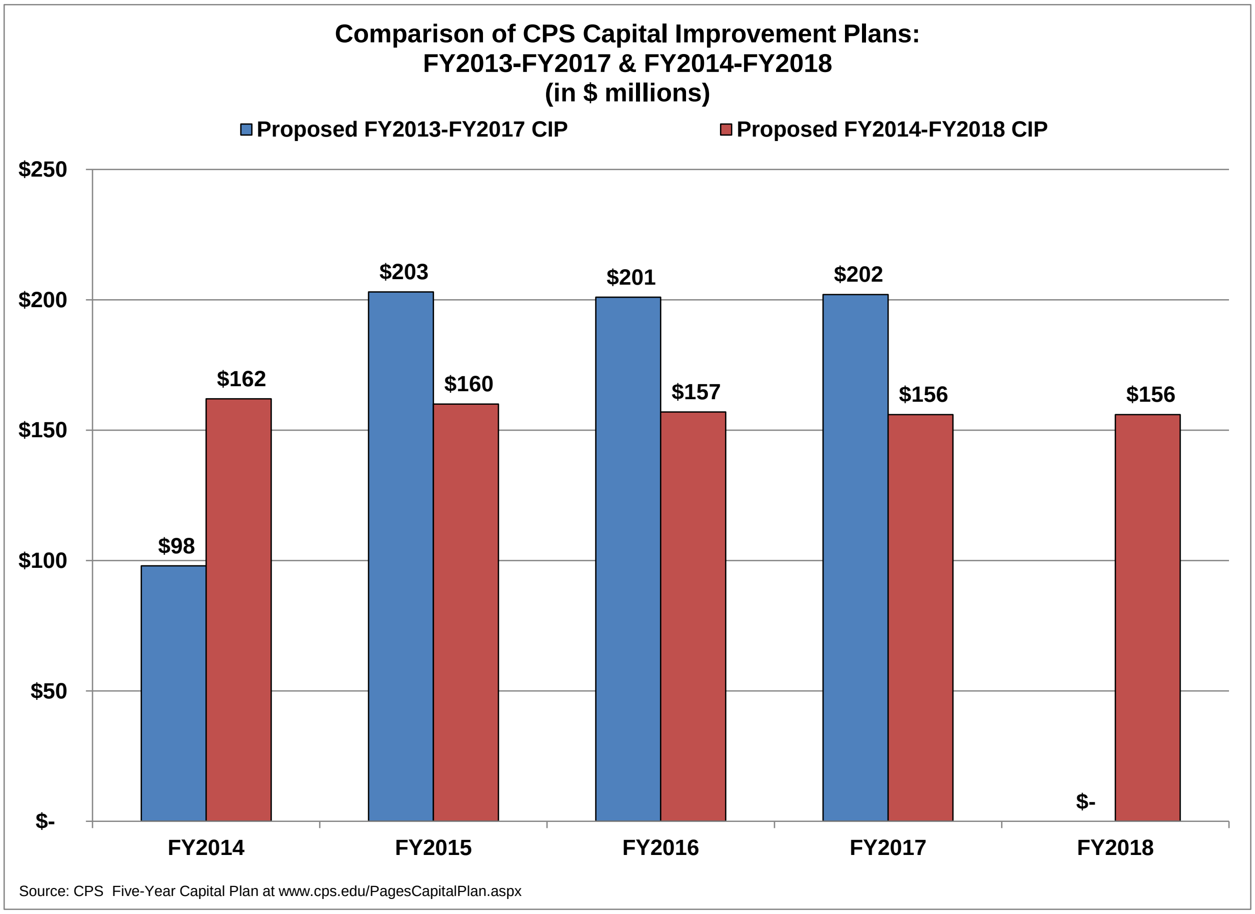
[129] See CPS Interactive Capital Budget at https://supplier.csc.cps.k12.il.us/analytics/saw.dll?Dashboard.
[130] Information provided by CPS Budget Office, July 17, 2012.
[131] For more information on the FY2013 supplemental capital budget, see Civic Federation, "CPS Proposes to Increase FY2013 Capital Budget by $363.7 Million," blog post, April 17, 2013.
[132] CPS Five-Year Capital Plan at http://www.cps.edu/Pages/CapitalPlan.aspx, p. 2.


Comparison of CPS Capital Improvement Plans:
FY2013-FY2017 & FY2014-FY2018
(in $ millions)
Proposed FY2013-FY2017 CIP
Proposed FY2014-FY2018 CIP
$250
$200
$150
$100
$50
$-
$98
$162
$203
$160
$201
$157
$202
$156
$-
$156
FY2014
FY2015
FY2016
FY2017
FY2018
Source: CPS Five-Year Capital Plan at www.cps.edu/PagesCapitalPlan.aspx