The Civic Federation

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CHICAGO PUBLIC SCHOOLS FY2015 PROPOSED BUDGET:

Analysis and Recommendations

July 23, 2014

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EXECUTIVE SUMMARY

The Civic Federation **CANNOT support** the Chicago Public Schools' (CPS) proposed $6.8 billion budget for FY2015 because it represents a short-term, short-sighted plan in the midst of a grave and ongoing fiscal crisis. Furthermore, the budget is only balanced by an accounting gimmick. In light of declining enrollment and reduced federal and state funding, the District could have chosen to hold its budget flat, increasing only non-discretionary spending, while it worked to create further cost savings and identify potential recurring funding streams for new programming. Instead, the District has chosen to grow an already massive cost structure by increasing spending on new programs and new schools, while simultaneously cutting existing programs and existing school budgets. By appropriating most of the District's reserves to close the FY2015 budget deficit and by increasing the District's real estate and programming footprint – and not providing equivalent savings or increased revenues to offset all these new costs – CPS is fiscally overcommitting itself. Because of what will be a near complete drawdown of the unrestricted fund balance by the close of the fiscal year, the FY2015 budget also provides no protection for next year's budget. The FY2015 budget exposes all budget items to the risk of even more dramatic and painful cuts in FY2016 when it is increasingly likely that CPS will not find enough revenue to sustain its current levels of spending.

The Civic Federation is **seriously concerned** about the worsening current and long-term fiscal health of CPS. The FY2015 budget only heightens our concern. The CPS FY2015 Proposed Budget – like the FY2009, FY2010, FY2013 and FY2014 budgets – closes a titanic $876.3 million budget deficit with a near complete drawdown of its unrestricted reserves, funds generated chiefly from a change in the CPS revenue recognition period. Additionally, because the District is using one-time revenue in the form of reserves to pay for ongoing expenditures, CPS will start FY2016 with a budget deficit the size of the reserves appropriated in FY2015.

The Civic Federation offers the following **key findings** on the FY2015 Proposed Budget:

- FY2015 Proposed Budget increases spending by $444.1 million, or 8.4%, from FY2014 year-end estimates and $164 million, or 2.9%, from the approved FY2014 budget;
- FY2015 proposed revenues are essentially flat, with a $2.7 million decrease over FY2014 year-end estimates; and
- CPS closes a projected $876.3 million projected deficit only through an accounting gimmick.

The Civic Federation has **major concerns** about the CPS FY2015 Proposed Budget:

- Increased spending on new schools and new programs adds to worsening structural deficit;
- Continued inaction on the pension funding crisis and lack of acknowledgement that pension reform is necessary but not sufficient to right the District's fiscal health; and
- Scarcity of appropriation and deficit details continue an ongoing lack of transparency that threatens public trust in the District's ability to be an efficient steward of taxpayer funds.

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

- Ground FY2016 budget in a long-term financial plan;
- Consolidate the Chicago Teachers' Pension Fund with the State Teachers' Retirement System;
- Provide a more transparent single budget document, including a more explicit accounting of where dollars are spent;
- Provide an explanation of how TIF monies can and cannot be used by the District;
- Require Chicago Board of Education participation at public hearings;
- Provide sufficient data on the drivers of the budget deficit; and
- Require consistent financial reporting for charter schools.

CIVIC FEDERATION POSITION

The Civic Federation **CANNOT support** the Chicago Public Schools' (CPS) proposed $6.8 billion budget for FY2015 because it represents a short-term, short-sighted plan in the midst of a grave and ongoing fiscal crisis. CPS is delaying the inevitable by not addressing this devastating financial reality and the FY2015 budget continues the District's practice of myopic budgeting, with no contingency planning. The budget is balanced only by an accounting gimmick that allows CPS to book more than twelve months of revenue into a single fiscal year. In light of declining enrollment and reduced federal and state funding, the District could have chosen to hold its budget flat, increasing only non-discretionary spending for pensions and contractual obligations, while it worked to create further cost savings and identify potential recurring funding streams for new programming. Instead, the District has chosen to grow an already massive cost structure by increasing discretionary spending on new programs and new schools, while simultaneously cutting existing programs and existing school budgets. By appropriating nearly all of the District's reserves to close the FY2015 budget deficit and by increasing the District's real estate and programming footprint – and not providing equivalent savings or increased recurring revenues to offset all these new costs – CPS is fiscally overcommitting itself. Because of what will be a near complete drawdown of the unrestricted fund balance by the close of the fiscal year, the FY2015 budget also ensures that there will be no protection for next year's budget. All budget items, including schools, will be exposed to the risk of even more dramatic and painful cuts in FY2016 when it is increasingly likely that CPS will not find enough revenue to sustain its current levels of spending.

The Civic Federation is **seriously concerned** about the worsening current and long-term fiscal health of CPS. The FY2015 proposed budget only heightens our concern. The CPS FY2015 Proposed Budget – like the FY2009, FY2010, FY2013, and FY2014 budgets before it – closes a titanic $876.3 million budget deficit with an almost complete drawdown of its unrestricted reserves, funds generated predominately from a change in the CPS revenue recognition period. The District narrowly avoided complete exhaustion of its unrestricted reserve funds in FY2013 and FY2014. Absent exceedingly large (and unlikely) cost savings over the course of FY2015, it is difficult to see how CPS will again avoid the scheduled near decimation of its unrestricted reserves by the start of FY2016. Additionally, because the District is using one-time revenue in the form of reserves to pay for ongoing expenditures, CPS will start FY2016 with a budget deficit the size of the reserves appropriated in FY2015.

It is important to acknowledge that CPS faces enormous challenges and that some of the factors contributing its fiscal challenges are beyond the District's control, most markedly declining state and federal funding. CPS has only three sources of revenue – federal, state and local – and it only has limited power over the latter due to property tax caps. That said it is equally important to recognize that CPS has played a very real and active role in the decline of its own fiscal health. CPS has made fiscally short-sighted choices in its annual budgets. These include (1) choosing not to make annual contributions to the Chicago Teachers' Pension Fund for nearly ten years and taking a three-year partial pension holiday just after the fund suffered a significant loss of assets in FY2009; (2) choosing not to address the District's monumental structural deficit by developing a long-term, actionable financial plan; (3) choosing to continue to adopt unsustainable fiscal practices like using one-time revenues to pay for ongoing expenditures; and (4) choosing to increase spending to create new programs and open new schools at a time when it is clear the District does not have the fiscal resources to pay for its existing programs and schools.

In order to understand the District's current financial crisis, it is important to be aware of the overall context of the situation. The key events and factors that have resulted in the ongoing structural deficit faced by CPS are described below.

Short-Sighted Decisions with Long-Term Consequences

CPS has laid the blame for the District's budgetary crisis at the feet of the State of Illinois, citing lack of reforms of the Chicago Teachers' Pension Fund and inadequate funding through General State Aid. There is no doubt that the State had a very significant role in creating the fiscal crisis faced by the District, both through failing over many years to appropriate enough in education funding to fund at the full foundation level and by passing legislation that allowed CPS to skip or short pension payments. However, the District bears the ultimate responsibility for its own fiscal crisis because it has a duty to plan for the long-term impacts of the budget decisions it makes annually. Partial pension contribution holidays provided temporary budget relief for CPS but did nothing to address the growing pension problem. On the contrary, skipping the payments only deepened the very serious pension situation by depriving the pension fund of badly needed contributions for three years. While partial pension holidays successfully delayed many difficult choices for a few years, depriving the pension fund of these payments greatly added to the unfunded liability, increased future payments and exacerbated the pension crisis CPS faces in FY2015 and beyond.

Furthermore, up until the District decided that it wanted to piggy-back on the State Teachers' Retirement System reforms passed by the Illinois General Assembly, CPS had not come forth with any idea or plan of its own to address its own fund's massive and growing unfunded liabilities. Both the City of Chicago and Cook County took the initiative to bring together their pension stakeholders to develop pension reform proposals that were presented to the Illinois legislature. CPS, at least publicly, has taken no steps toward actually achieving pension reform and instead places this responsibility on the State. Taking the lead from the City of Chicago and Cook County, it is imperative that CPS aggressively seek legislation to reform and re-establish its retirement system in a manner that is more sustainable in the long-term for both retirees and taxpayers.

While pension reform is necessary for the District to right its current financial predicament, pension reform alone will not be sufficient to achieve fiscal sustainability. CPS estimates $250 million in first year savings would be achieved by applying the reform measures that were passed by the Illinois legislature in December 2013 for the Teachers' Retirement System (TRS) to the Chicago Teachers' Pension Fund.[1] Saving a quarter of a billion dollars would clearly greatly improve the CPS budget situation. However, the CPS budget deficit is over three times the size of the savings that could be had from a pension reform package similar to that enacted for TRS. This means that while pension reform is a necessary component of a comprehensive

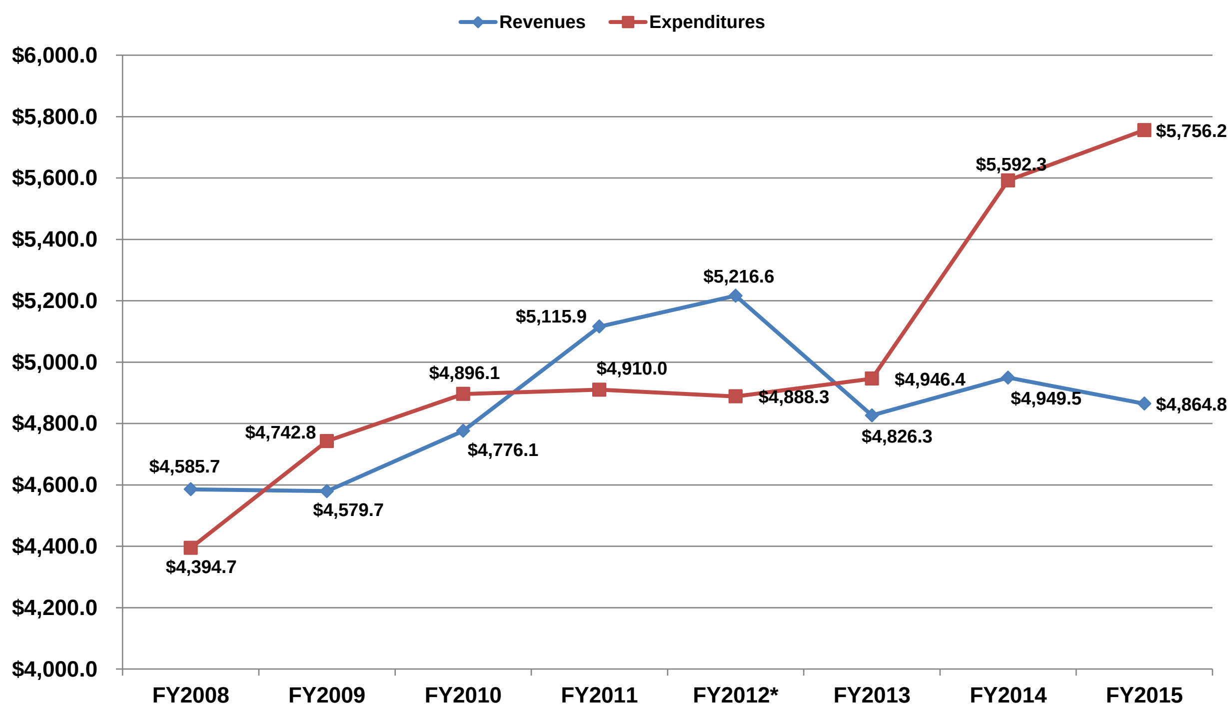
[1] David Vitale and Barbara Byrd-Bennett, "Op-Ed: CPS wants pension reform in Springfield this year", *Chicago Tribune,* March 7, 2014.

multi-year plan to begin to right-size the District's enormous cost structure, it is not sufficient on its own. Other cost-savings, spending reductions and revenue enhancements will all be necessary to fully tackle the $1 billion and growing projected deficits for FY2016 and beyond.

Worsening Structural Deficit

Since at least FY2009, CPS has failed to consistently match recurring expenditures to recurring revenues. This mismatch has resulted in a growing gap between the spending the District engages in and the revenues it collects. This gap can be seen in the graph below, which maps operating revenues against expenditures for FY2008-FY2015.

CPS General Operating Funds Revenues and Expenditures: FY2008-FY2015
(in $ millions)



*FY2012 revenues are greater than expenditures because of unexpected property tax receipts that came in during the revenue recognition period of FY2012.
Note: FY2008-FY2013 data are actual revenues and expenditures; FY2014-FY2015 are budgeted revenues and expenditures.
Source: CPS FY2013 Amended Budget, p. 177 and FY2014 Proposed Budget, pp. 196 and 208; FY2015 Proposed Budget p.7.

In order to better understand the development of the District's structural deficit, it is important to detail the **revenue streams and economic occurrences** over which CPS exercises little-to-no control and the **key events** in the District's financial decision-making, over which it exercises maximum control.

Revenue Streams and Economic Occurrences

CPS has three revenue sources: local, state and federal. Most local revenue comes from property tax receipts. The majority of state and federal revenue comes in the form of grants, which are based upon a number of factors including enrollment numbers and the percentage of the District's students qualified as low-income.

Federal Revenue

The District's federal revenue has declined for three reasons. First, CPS has seen enrollment decline over the last several years and some federal funding is tied to student enrollment. Secondly, the District's funding for low-income students has declined because the number of students in poverty nationwide has increased. Lastly, the scheduled decline of federal funding is related to the ratcheting down of American Recovery and Reinvestment Act (ARRA), or federal stimulus, funding.

State Revenue

Reduction in State Pension Contributions

The State of Illinois has reduced its "employer contribution" to the Chicago Teachers' Pension Fund in recent years. The State had traditionally contributed roughly $65 million[2] each year to the Teachers' Pension Fund despite 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 then 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 healthcare costs paid out of the fund. There was no State "employer contribution" in FY2012-FY2014.[3] In FY2015, the State appropriated an additional $50 million to the Chicago Teachers' Pension Fund, approximately 6% of the State's "goal and intention."

Stagnant Level of General State Aid

Public Act 90-548 created the Illinois Education Funding Advisory Board (EFAB) in 1997. As stated in 105 ILCS 5/18-8.05(M), the statutory charge of the EFAB is to "make recommendations [to the General Assembly] for the foundation level…and supplemental general State aid grant level." The majority of the State revenue received by CPS comes from the General State Aid (GSA) grant program. GSA is composed of two parts: a per-pupil formula grant and a supplemental GSA grant. The per-pupil formula grant is based upon the foundation level, whereas the supplemental grant (formerly referred to as the poverty grant) provides additional funding based on a district's percentage of low-income students. The GSA distribution to school districts is based on a number of factors, including local property tax capacity. The formula assumes that school districts will levy for all available local property taxes first before the State provides additional funding to reach the foundation level. Even though the EFAB has made recommendations to increase the statutory funding level, the foundation level has remained at $6,119 per student since FY2010. Furthermore, the statewide appropriation has been insufficient since FY2012 to pay for the full foundation level, resulting in a prorated amount of the funding: in FY2015, State grants will be made at 90% of the foundation level.

[2] A contribution of $65 million has not represented 20% of TRS funding since 1996.
[3] In FY2012-FY2014 the State made only the nominal statutorily required contribution related to a benefit enhancement granted in the 1990s.

Local Revenue

Property Tax

As the District only has three sources of income, the downward trend related to state and federal revenue has put increased pressure on local revenue. That said, because of the Property Tax Extension Limitation Law, also known as tax caps, CPS can only levy for increases based on a measure of the Consumer Price Index (CPI). However, the tax cap also allows the tax rate calculated on the value of existing property to be applied to new property and expiring TIF increment, generating additional revenue. As a result of the District's limited revenue options, CPS has increased its property tax levy to the maximum amount allowed under the State tax cap law and has levied to capture the growth from all new property in FY2015 as well as for expiring TIF increment. However, even maximizing the amount of local revenue available will only generate approximately $40 million, which does not begin to address the projected $876.3 million FY2015 deficit.

Tax Increment Financing (TIF)

It is a common misconception that TIF diverts property tax revenues from CPS. It is therefore important to briefly address the effects of TIF, what TIF monies are available to CPS and how those monies can be used.[4]

PTELL took effect in 1994, limiting the maximum growth in the CPS levy. Prior to 1994, the District's tax extension (the total amount of property tax revenue that a unit of local government is authorized to receive) 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. 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.

CPS can capture revenue from expiring TIF districts in two ways: (1) by levying for expiring TIF increment and (2) by receiving their proportionate share of the distribution of any remaining revenue in the TIF district when it is dissolved. Levying for expiring TIF increment generates extra revenue without increasing taxpayer burden. The year after a TIF district expires or is dissolved, a government that overlaps the TIF district is allowed to apply its tax rate[5] to the increment EAV in order to generate additional revenue for the government that would have previously gone to the TIF district. This increases the amount of money the government is able to access through its aggregate extension without increasing the taxes paid by taxpayers because the taxpayer previously paid the revenue to the TIF district and now pays it to the overlapping government instead.

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[4] For a more in-depth discussion on the effects of TIF, refer to the Civic Federation's updated property tax primer, The Cook County Property Tax Extension Process: a Primer on Levies, Tax Caps, Tax Bills and the Effects of Tax Increment Financing Districts, available at www.civicfed.org

[5] Calculated without including the increment equalized assessed value (EAV) in the tax base EAV, making the tax rate higher.

When TIF districts are allowed to expire, any remaining revenue in the TIF districts' accounts is distributed to all overlapping governments based on their portion of the overall tax bill. This is a one-time distribution, not an ongoing source of revenue.

Chicago Teachers' Pension Fund Investment Losses

When rates of return are positive and meet the fund's expected rate of return, investment income usually represents the majority of a pension fund's total income. This is true for a mature pension plan that has been in existence for a while. Employee and employer contribution amounts are relatively stable from year to year, but investment income can fluctuate widely. Multi-year investment gains or losses that deviate substantially from the assumed rate of return have a major impact on fund assets.

The strong investment market of the late 1990s produced several years of significant gains for pension funds. Likewise, the market decline of 2000-2002 created significant losses for the funds and the steep decline in equity markets beginning in 2008 resulted in negative returns for the Chicago Teachers' Pension Fund. Poor investment returns in FY2008 and FY2009 and later FY2012 reduced the funding level of the fund and increased the unfunded liability which the District must amortize with its annual contributions to reach 90% funded by the end of 2059. To put it in context, approximately $400 million of the District's current pension payment goes to paying down the fund's unfunded liability.

Key Events in CPS Fiscal Management

State-Sanctioned Pension Payment Holidays

The State of Illinois has played a real and active role in the fiscal crisis faced by CPS. The State passed two separate laws: one that allowed CPS to skip payments for a time and another that reduced the statutorily required payments for another spate of time. In 1995 the State enacted PA 89-15, which allowed the District to forgo pension payments as long as the pension fund was 90% funded or better. For almost ten years, from FY1995 to FY2005, CPS made no payments into its pension fund. Failure to pay the normal cost,[6] even when pension fund was well funded contributed to a dramatic decline in funded ratio. While PA 89-15 gave CPS the option to forgo pension payments, it did not require the District to do so. Furthermore, the legislation did not prevent the District from developing a long-term plan with contingencies that might have helped to mitigate fund asset losses.

Partial Pension Contribution Holiday

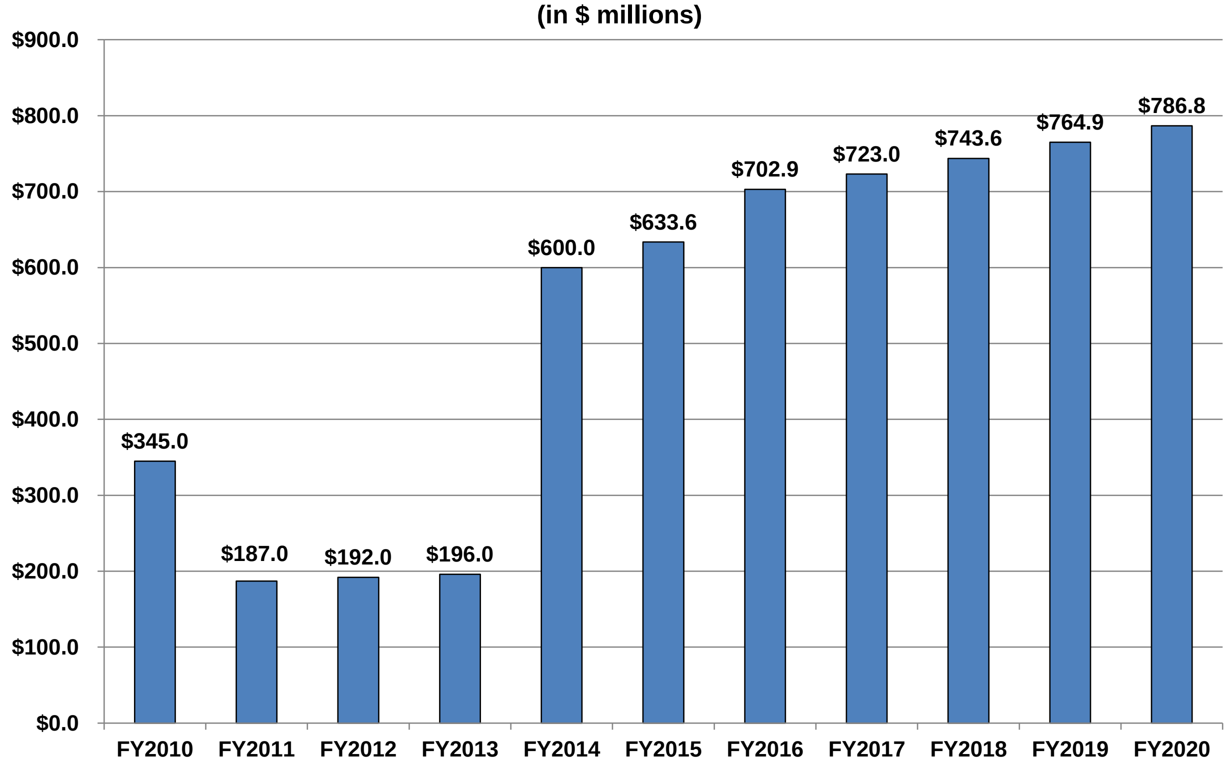
In April 2010, at the urging of prior CPS officials, Illinois enacted a three-year reduction in statutory pension contributions for CPS in Public Act 96-0889. The law also created a different level of pension benefits for new employees. The partial pension contribution holiday reduced the CPS required employer pension contributions for FY2011, FY2012 and FY2013 to an amount estimated to be equivalent to the normal cost, which only added to growing unfunded

[6] Normal cost is the portion of the cost of projected pension benefits allocated to the current plan year.

liability. The law also delayed the year that the pension fund must reach a 90% funded ratio from 2045 to the end of 2059.

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. The partial pension contribution holiday expired in FY2014 and the District's pension payment increased by $404.0 million, or 206.1%, from $196.0 million in FY2013 to $600.0 million. The CPS pension payments will continue to rise in future years, reaching $786.8 million in FY2020.

CPS Required Contributions to Teachers' Pension Fund Per P.A. 96-0889: FY2010-FY2020 (in $ millions)



Source: Chicago Public Schools FY2015 Proposed Budget, p. 147; Public School Teachers' Pension and Retirement Fund of Chicago, *Statutorily Required Funding Valuation as of June 30, 2013*, p. 25; *Actuarial Valuation as of June 30, 2012*, p. 25; *Actuarial Valuation as of June 30, 2011*, p. 16; *Actuarial Valuation as of June 30, 2011*, p. 15; and Public Act 96-0889.

<u>Increasing Spending without Securing New or Increasing Ongoing Revenue Streams</u>

In early 2013 CPS announced that starting in the fall of 2013, full-day kindergarten would be available district-wide to all 30,400 kindergarten-age children.[7] This enhanced program, because of greater staffing needs, cost the District $15 million more in FY2014 than in FY2013. In FY2014 the District funded the increase in spending by cutting costs in central office spending,

[7] CPS FY2014 Approved Budget, p. 2.

reducing overtime for some non-teaching positions, and renegotiating heat and electrical contracts.[8] Full-day kindergarten, as an ongoing program, now represents an ongoing expenditure that does not have a new or enhanced ongoing revenue stream tied to it. In addition, in FY2015 the District is planning to hire 84 art teachers and 84 physical education teachers. This new program is being mostly funded through TIF surplus, which by definition is a one-time revenue source. Thus, the new art and PE teachers are now proposed to be an ongoing expenditure without a matching ongoing revenue source. It is important to note that the Civic Federation is not critiquing programs or policy objectives, but rather the District's ongoing practice of increasing its cost structure without finding matching recurring revenues to support the increased costs over the long term. Additionally, in its FY2015 budget, CPS includes over $400 million in increased spending from FY2014 year-end estimates, most of which cannot be tied to specific programs or schools because of a dearth of appropriation data in the budget book. As this increased spending is tied to a decline in revenues, rather than an increase, it too represents the District's decision to increase its programming and real estate footprint without finding dedicated revenue streams to support these increases. While new programs that carry out the District's policy objectives are no doubt worthwhile, failing to match ongoing expenditures with ongoing revenues worsens the District's already grave structural deficit and prohibits a stable provision of funding year-to-year to existing schools and programs. Absent an increase in the size of the CPS revenue pie, the budgets for existing programs and schools have to be cut to free up funding for new programs and schools. Once the District exhausts its store of budget gimmicks, all programs and schools will at-risk of termination because of the District's inability to continue to finance them.

[8] Becky Vevea. "Mayor expands full-day kindergarten to all Chicago Public Schools." *WBEZ Chicago*. February 25, 2013. http://www.wbez.org/news/mayor-expands-full-day-kindergarten-all-chicago-public-schools-105748 (last visited July 18, 2014).

CIVIC FEDERATION RECOMMENDATIONS

The following section outlines specific concerns regarding the CPS FY2015 Proposed Budget and the Civic Federation's recommendations on how to begin to address these issues and improve the District's financial management.

Concern: Worsening Structural Deficit

As detailed above, CPS has experienced a structural deficit since at least FY2009. While CPS is required to pass a balanced budget, it has only satisfied the statutory definition without truly achieving a structurally balanced budget. The CPS practice of using non-recurring resources to fund ongoing expenditures is not financially sustainable and causes great instability in the funding provided to schools, programs and divisions within the District. CPS must craft a structurally balanced budget with a consistent and stable provision of funding for its schools and programs. Ongoing structural deficits have forced the District to perform an increasingly difficult juggling act each year as it attempts to appropriate limited resources for its priorities. The CPS structural deficit has resulted in instability for students, parents, teachers and the community in terms of school closings, massive layoffs and budget appropriations that fluctuate greatly from year-to-year for the same school. The District's lack of a long-term plan has made it more difficult for its schools to establish long-term plans and programming of their own, as funding provided one year might be completely cut the next year.[9]

Civic Federation Recommendation: Ground Fiscal Year 2016 Budget in a Comprehensive Long-Term Financial Plan

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

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.[10] Given its present state of

[9] See Lauren Fitzpatrick, "CPS 'welcoming schools' slated to lose 5% of their budgets," *Chicago Sun Times,* July 8, 2014 at http://politics.suntimes.com/article/chicago/cps-%E2%80%98welcoming-schools%E2%80%99-slated-lose-5-their-budgets/tue-07082014-610am (last visited July 17, 2014).

[10] Along with a long-term financial plan, CPS needs to develop a plan for replenishing its fund balance, in keeping with the District's own fund balance policy. The GFOA also offers "best practice" recommendations on

fiscal jeopardy, increasing pension payments and projected budget deficits of $1.2 billion in FY2016 and $1.4 billion in FY2017,[11] it is imperative that CPS institute a formal and public financial planning process. Resolving CPS's financial instability will require more dramatic and painful budget cuts throughout the District. Given that approximately 64.3% of the CPS budget is dedicated to school-based budgets, these cuts may include more drastic reductions that further impact the classroom, including more school closings and additional layoffs.

The National Advisory Council on State and Local Budgeting (NACSLB) and the Government Finance Officers Association (GFOA) both recommend that all governments formally adopt a long-term financial plan as a key component of a sound budget process.[12] 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."[13] Among other benefits, involving all stakeholders can help staff refine forecasts, institutionalize planning processes and promote strategic decision-making.

The GFOA has developed a four-phase approach[14] to financial planning for school districts: the mobilization phase, the analysis phase, the decision phase and the execution phase as illustrated in the GFOA infographic below.

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replenishment of a government's General Fund fund balance. See GFOA, "Replenishing Fund Balance in the General Fund" (2011).

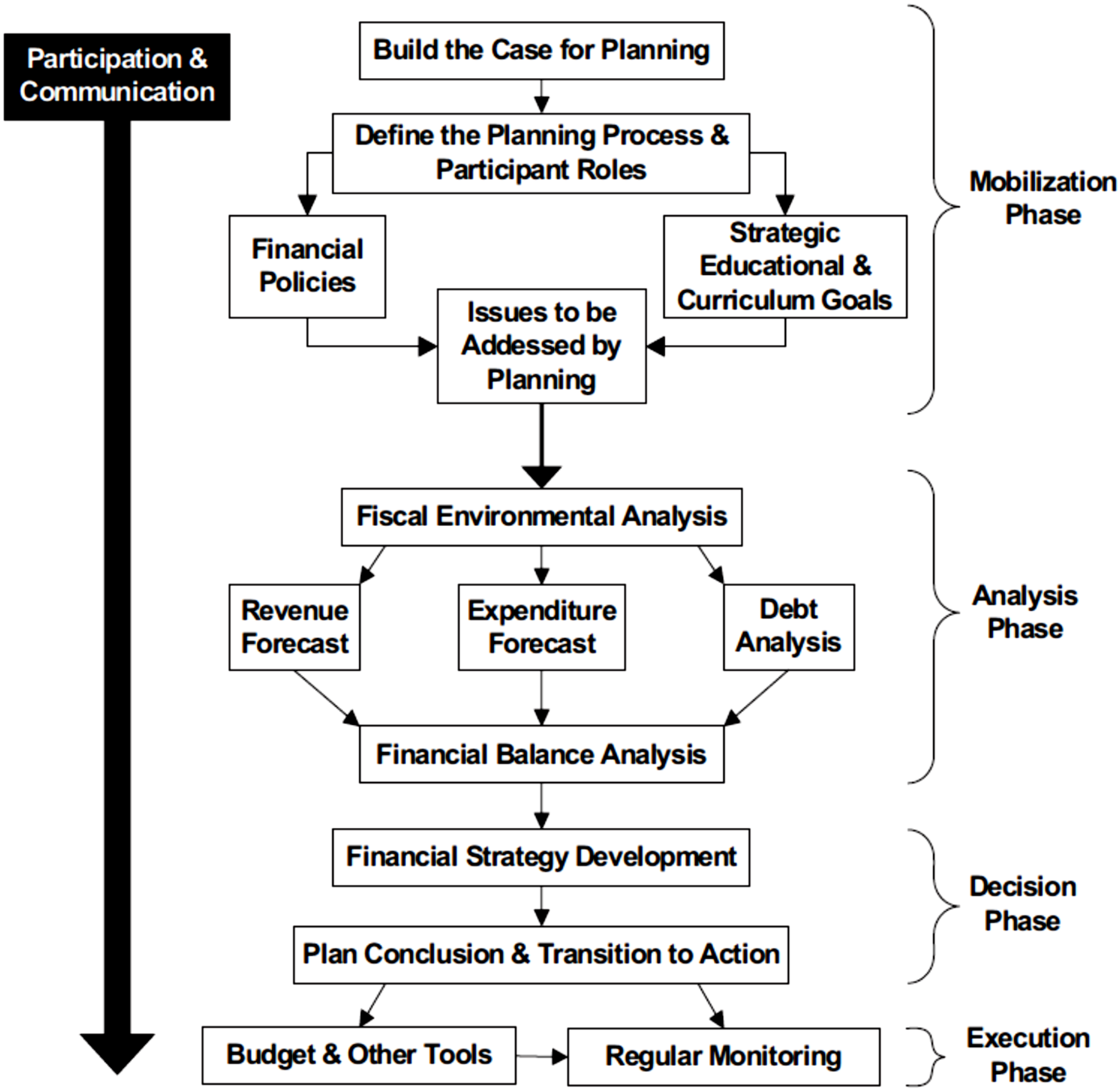
[11] CPS FY2015 Proposed Budget, p. 15.

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

[13] Government Finance Officers Association, "An Introduction to Financial Planning," (http://www.gfoa.org/downloads/LTFPbrochure.pdf (last visited on January 10, 2011).

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

The Four Phases of Long-Term Financial Planning



The GFOA notes that "for a variety of reasons, true structural balance may not be possible for a government at a given time. In such a case, using reserves to balance the budget may be considered but only in the context of a plan to return to structural balance, replenish fund balance, and ultimately remediate the negative impacts of any other short-term balancing actions that may be taken."[15] CPS has experienced a structural imbalance for over half a decade. Furthermore, it has repeatedly used one-time revenue to pay for ongoing expenditures without providing any plan for how it would undo the negative impacts of its short-term balancing act.

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

By developing a long-term financial plan in the model presented by the GFOA for school districts and already utilized successfully by other school districts in Illinois,[16]
CPS can link its annual budgets together into a cohesive program that better articulates its needs with the public and policymakers. CPS says it needs both more money and pension reform from the State. The District must, therefore, make a case and show the consequences of a failure to come up with spending and revenue reforms.

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

Concern: Pension Funding Crisis

The Chicago Teachers' Pension Fund was 100% funded in FY2001. Since then, the fund's funding level has fallen significantly: from 81.2% in FY2003 to 51.0% in FY2013.[17] With the expiration of the District's partial pension contribution holiday in FY2014, CPS saw pension payments increase by 206.1%, or $404.0 million, over the FY2013 contribution. A shortfall in employer contributions compared to actuarially required pension payments, investment losses and a lack of pension reform have accelerated the District into a deeper state of financial crisis.

The pension funding cliff created by this legislation has further damaged the District's already unstable finances and must be addressed by reforming the benefit structure and identifying adequate funding sources for the teacher pension system. Dramatic changes are necessary to make sustainable a pension fund that will require annual District contributions of $786.8 million in 2020 and over $1 billion in 2030. The Civic Federation continues to support pension benefit and funding reform for the Chicago Teachers' Pension Fund, but provides the following additional recommendation to generate discussion on the extraordinary measures that will be necessary to make CPS finances stable over the long-term.

Civic Federation Recommendation: Consolidate Chicago Teachers' Pension Fund with the State Teachers' Retirement System

Because of the depth of the fiscal crisis faced by CPS, the District will require expansive and innovative reforms to right-size its spending to match revenues in order to meet the present and future educational needs of the City of Chicago's children. Blame for the fiscal predicament lies with both the State and CPS, so it is essential that both governments work together to develop solutions to the crisis. In previous years the Federation has made recommendations that the District pursue reforms ranging from benefit changes to governance improvements. We have

[16] See discussion of Geneva Community Unit School District 304 in Illinois in Government Finance Officers Association, "Making the Grade: Long-Term Financial Planning for Schools."
[17] Funding levels here are reported on a market, not actuarial, basis.

also recommended that the District consider consolidating with the Teachers' Retirement System (TRS), which covers all public school teachers in Illinois except for CPS teachers.

TRS is mainly funded by the State of Illinois through all State taxpayers, while the CTPF is mainly funded by Chicago taxpayers. This treatment is fundamentally unfair to Chicago taxpayers whose tax dollars are used to fund pensions for both downstate and Chicago teachers, while the remainder of the State does not share the burden for funding Chicago teachers' pensions. Since CPS wants the Illinois General Assembly to apply the TRS pension reforms contained in Public Act 98-0599 to the Chicago Teachers' Pension Fund and also seeks to increase State funding of Chicago teachers' pensions, such a consolidation makes eminent sense as the State of Illinois would be responsible for funding Chicago teachers' pensions equally with teachers in the suburbs and downstate. While previously much better funded than TRS, the CTPF's funded ratio fell to 51.0% on a market value basis in FY2013 while the TRS FY2013 market value funded ratio was 42.5%. Since both funds are now similarly unfunded, fears that Chicago teachers' pension assets would prop up funding levels at TRS with no benefit to Chicago's funding levels no longer have merit.

In December 2012, a group of legislators introduced groundbreaking legislation, House Bill 6258, which was not passed but provided the blueprint for comprehensive pension reforms passed by the Illinois General Assembly in December 2013. However, one key portion of HB6258 was not part of Public Act 98-0599: a gradual shift of the funding of pension normal costs to school districts, the employers responsible for salary decisions. [18] The normal cost is the projected cost of teacher pensions during a fiscal year, but does not include payments that are necessary to reduce the unfunded liability. Under the proposal included in HB6258, the State of Illinois would have retained responsibility for amortizing the TRS unfunded liability. At the time, actuarial analysis showed the cost shift alone would reduce the State's contribution to TRS by increasing increments of $50 million per year until the entire normal cost was taken over by school districts.

Should State legislators in the future introduce legislation that would shift the normal cost of TRS members' pensions to their employers and CPS becomes a member of TRS, the District's finances would still improve from their current situation where CPS must make nearly 90% of the $708.7 million employer contribution to its teachers' pensions. The normal cost of Chicago teachers' current pension benefits are approximately $200 million, so if the State were to take over the District's annual payments to amortize the unfunded liability that are currently approximately $400 million, a significant portion of the District's annual shortfall could still be eliminated. While $400 million would be a significant increase in the State's annual pension contribution, if TRS pension reforms were applied to the CTPF, the State's required contribution would be much smaller. According to statements made by CPS CEO Barbara Byrd Bennett, the reforms contained in P.A. 98-0599 would have reduced the District's FY2014 pension contribution of $600 million by approximately $250 million.[19] Additionally, much of the

[18] Versions of the normal cost shift for downstate and suburban teachers were also included in Senate Bill 35 and House Bill 98. SB35 failed in the Senate and HB98 was never brought to hearing in committee.
[19] CPS CEO Barbara Byrd Bennett made her remarks at the February 26, 2014 Board of Education meeting. Part of the $250 million savings would be a reduction in the amortization payment and part would be a reduction in the normal cost of benefits.

increase in funding to the Chicago teachers' pensions would eventually be offset by increased funding from downstate and suburban school districts. The result would be a more equitable system in which the State of Illinois makes payments to amortize the unfunded liability of all Illinois teachers' pensions and each school district, which holds the responsibility for determining a worker's salary, makes payments for the annual cost of the pension program.

The Civic Federation recommends that CPS work with TRS and legislators to consolidate its separate pension fund and that at the very least the State of Illinois increase its level of funding for the Chicago Teachers' Pension Fund to improve pension funding equity between Chicago and downstate and suburban taxpayers.

Concern: A Growing Deficit of Public Trust

As a result of the ongoing unsustainable fiscal practices that have both allowed the District to delay facing the consequences of its mismatched expenditures and revenues and annual use of gimmicks that have allowed, technical but not real,[20] budgetary balance, the District's credibility is being questioned by the public. Additionally, by touting inadequate funds while simultaneously increasing spending on new programs and new schools, the District obfuscates its own fiscal reality. If the public cannot believe that CPS is an effective steward of the taxpayer resources, there will be dire consequences, including a lack of support for increased taxpayer funding that will be a necessary part of a comprehensive financial restructuring of CPS. At the Wilbur Wright Community College budget hearing on July 16, 2014, CPS officials referred to the budget as complex and difficult to understand. This is true, but it is also the District's responsibility to provide adequate explanations for the public. To address the growing deficit in public trust, CPS should implement reforms aimed at increasing transparency and accountability. The following six recommendations grow out of the Civic Federation's concern regarding transparency and financial accountability of the District.

Civic Federation Recommendation 1: Provide Expenditure Details

Unlike in previous years, and in contrast to the in-depth description of the District's revenue trends, the CPS budget book provided little to no discussion of the District's spending trends this year. Other than discussing, in broad strokes, the increase in per pupil funding, it did not provide the public with information to give context to the numbers and the rationale behind key decisions. The Civic Federation supports the granular level of detail in expenditures made available on the District's online budget website. However, it is essential that CPS provide context and explanation in the budget book in addition to raw online numbers if the public is both to understand how CPS is spending scarce tax dollars and to be able to evaluate that spending. For example, expenditures are projected to increase by 8% over FY2014 year-end projections, but the budget book does not explain the drivers behind this increase, rendering any attempt to evaluate spending trends impossible.

[20] In the GFOA's Best Practice: Achieving a Structurally Balanced Budget, it notes "A government needs to make sure it is aware of the distinction between satisfying the statutory definition and achieving a true structurally balanced budget." http://www.gfoa.org/achieving-structurally-balanced-budget (last visited July 17, 2014).

Civic Federation Recommendation 2: Provide a More Transparent Single Budget Document That Includes All Revenues and Expenditures and a More Explicit Accounting of Where Dollars are Spent.

CPS currently provides an online interactive budget tool that allows users to search for budgets by school or by fund. However, there are also several inherent problems with its current format. As an online tool, it is accessible only to those with internet capability and is subject to technical issues that prevent access when the site goes down. By including the most important revenue and expenditure information found in the interactive budget also in the PDF budget book, the public could print or save the file to have uninterrupted access to this data, regardless of website or internet disruptions.

Civic Federation Recommendation 3: Provide an Explanation of How TIF Monies Can and Cannot be Used by the District

The Civic Federation recommends that the District produce detailed sections regarding tax increment financing district funds in its forthcoming budget documents. The District should create stand-alone sections in its annual budget document that explain the interaction of TIF districts and CPS, and how the money generated by TIF districts is appropriated to CPS.

There is growing concern over the accessibility of information surrounding TIF districts voiced at the District's annual public hearings. The Civic Federation urges the District to provide citizens with a more complete picture of how their tax dollars are spent.

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;
- How much TIF revenue CPS has received in the form of new schools and facilities; and
- How TIF revenue cannot legally be "raided" to close the CPS budget deficit.

Civic Federation Recommendation 4: Require Chicago Board of Education Participation at Public Budget Hearings

The Civic Federation recommends that CPS consider revising its public comment schedule and format to allow for greater consideration of stakeholder input. This year, CPS provided one evening of public hearings at three locations around the city for public comment on its FY2015 budget. In 2014 and historically, Board members have not been present. These hearings and a final meeting before a Board of Trustees meeting immediately after which the Board votes on the budget are the public's only opportunities to express its concerns to the Board. Most other governments in the region require the Board members to be present at public budget hearings and hold these meetings several days, or weeks, prior to the governing body voting on the budget. We believe that this type of public comment system is preferable to CPS's current system as it allows members of the governing board sufficient time to consider the opinions of various stakeholders before making a final decision.

Civic Federation Recommendation 5: Provide sufficient data on the budget deficit

In contrast to some previous years, the District's FY2015 Proposed Budget did not include a detailed breakdown of the $876.3 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 and for a clear accounting of where dollars are being spent. While CPS notes some increased spending pressures, including $86.0 million in salary increases and $34 million increase in pension payments, much of the massive deficit is not accounted for in the budget document.

Civic Federation 6: 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 taxpayer funded 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

ACKNOWLEDGEMENTS
We would like to express our appreciation to Chief Financial Officer Ginger Ostro and the staff of the CPS Budget Office for their work in preparing this budget and their willingness to answer the Civic Federation's questions.

FY2015 DEFICIT DRIVERS AND GAP-CLOSING MEASURES

In the FY2015 Proposed Budget book, CPS provided a lack of expenditure detail that is unprecedented. This lack of information makes it impossible to do a full accounting of the increases in spending that are driving the deficit. Out of the $876.3 million projected General Operating Fund deficit, $429.5 million is attributable to one-time revenues utilized in FY2014, $444.1 comes from new spending above FY2014 year-end budget estimates, and $2.7 million is attributable to a decrease in total revenue below FY2014 year-end estimates. To close the nearly $1 billion deficit, the District plans to appropriate $811.6 million in unrestricted fund balance, nearly $650 million of which is being made available by the change in the CPS revenue recognition period.[21] The remainder of the deficit will be closed by appropriating $64.4 million in Special Revenue Funds reserves.

[21] See page 30, Timing of CPS Property Tax Receipts and the New Revenue Recognition Policy, for more information.

RESOURCES

The following section presents revenues and resources that CPS plans to appropriate for the upcoming fiscal year. It also includes a discussion of federal, state and local resources for all funds and two-year and five-year resource and revenue trend analyses.

Fund Descriptions and Structure

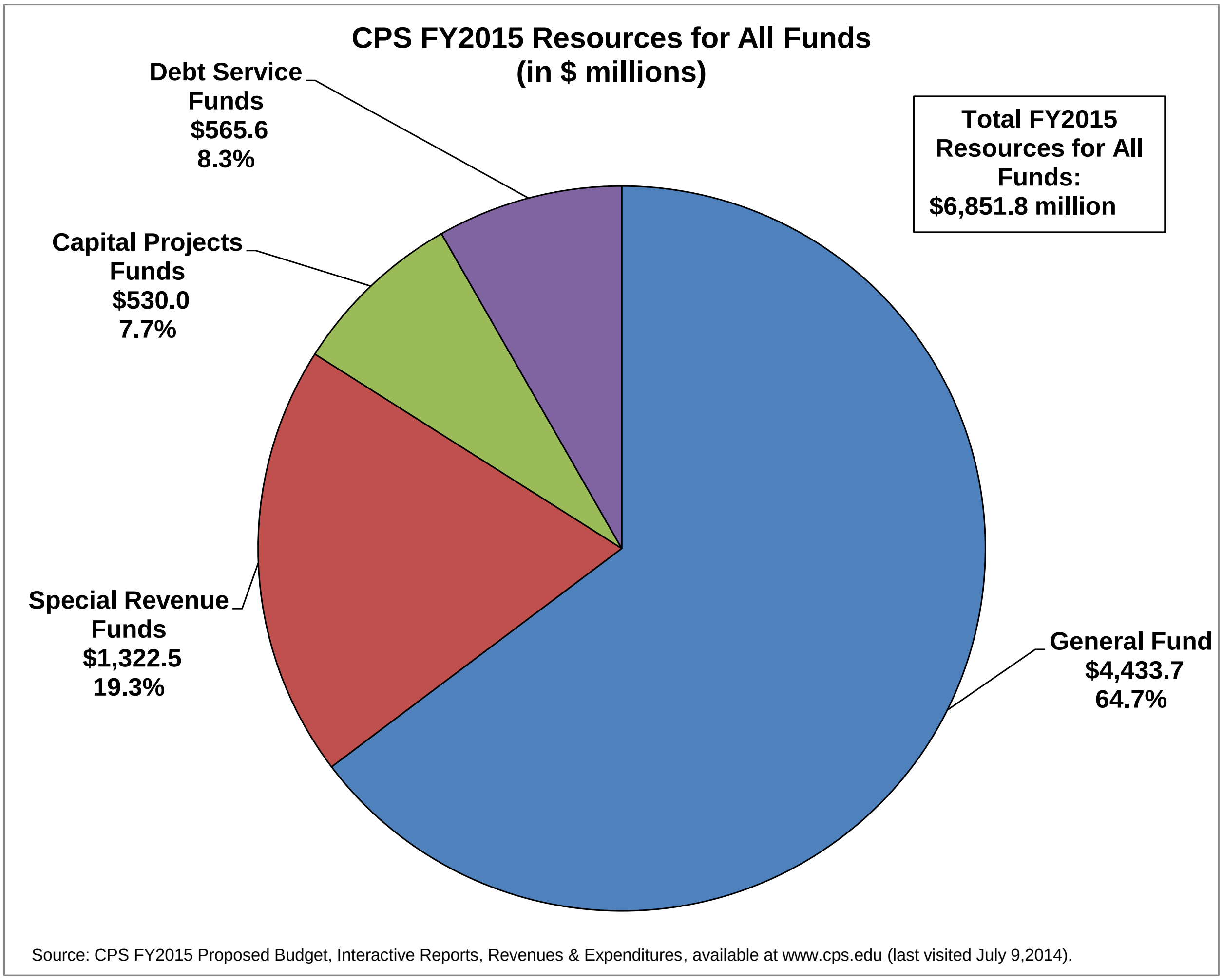
CPS funds are grouped slightly differently in the online interactive budget[22] as compared to the CPS FY2015 Budget Book. According to CPS, the online Interactive Reports display funds from a practical spending perspective rather than a strict accounting perspective. For instance, two accounts under the School Generated Fund are listed under the General Fund section of the budget book but grouped as "School Generated" on the website. This is because, while these funds are classified under General Fund from an accounting perspective, these funds are for practical purposes like Special Revenue Funds and are limited to use by the schools that generated them. The District believes this modification in fund grouping is easier to understand and thus will help the interactive budget be more user-friendly for the public.

For Civic Federation purposes, our analysis will rely on the fund structure as outlined in the FY2015 budget book, which conforms to Generally Accepted Accounting Principles (GAAP). CPS has three fund types: General Operating Fund, Debt Service Funds and Capital Projects Funds. The General Operating Fund consists of both the General Fund and Special Revenue Funds. The General Fund is the primary operating fund of CPS and consists of the Education Fund and Building Operations and Maintenance Fund. The Special Revenues Funds account for specific revenue sources that are restricted for specific purposes other than debt service or capital projects.

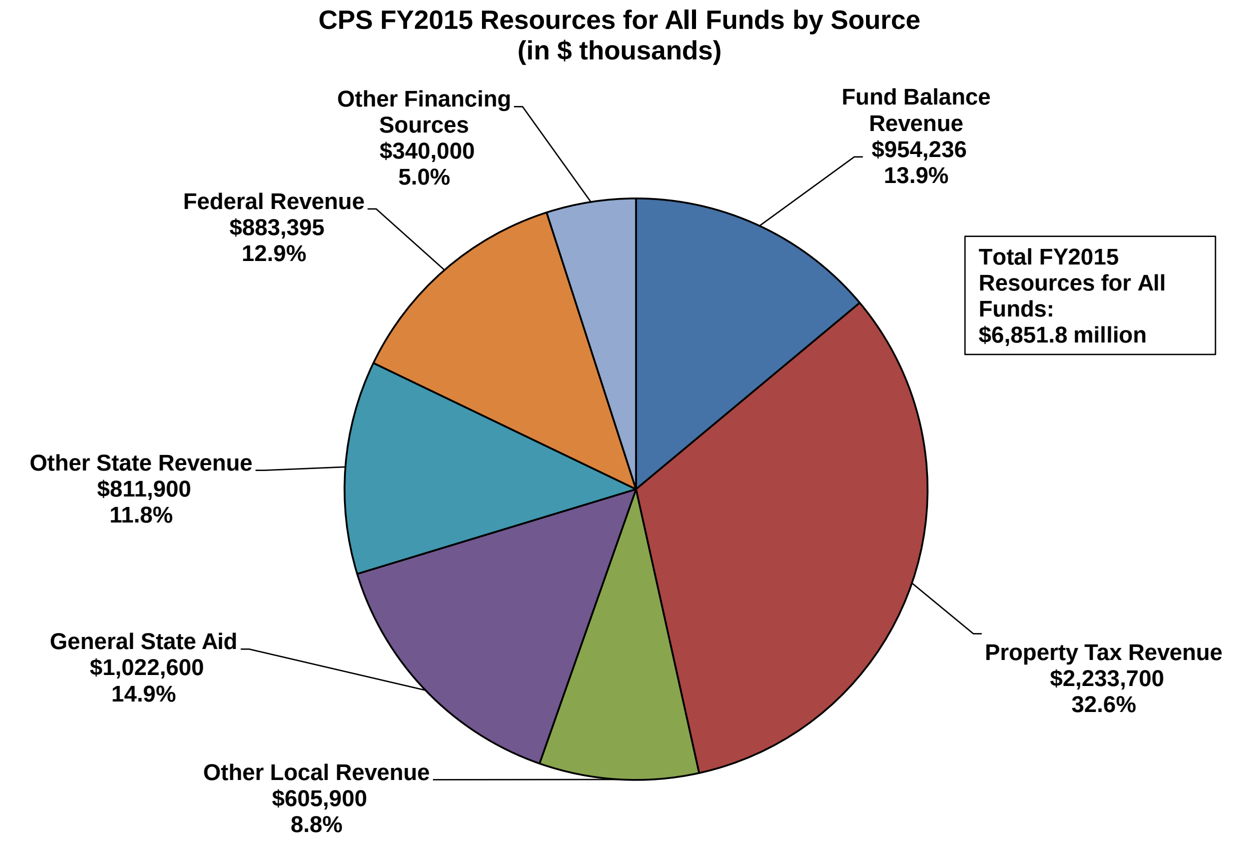
Total Resources for FY2015

In FY2015 CPS will appropriate over $6.8 billion in local, state and federal revenues and other resources, including $954.2 million of appropriated fund balance. The General Fund will hold the majority of resources with 64.7%, or $4.4 billion, of total resources. This includes $876.2 million of appropriated General Operating Fund fund balance. Special Revenue Funds will comprise 19.3% of CPS resources, totaling $1.3 billion. As noted previously, Special Revenue Funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for purposes other than debt service or capital projects. CPS' Special Revenue Funds include the Supplemental General State Aid (SGSA) Fund, Workers' Compensation/Tort Fund, School Lunch Funds, and federal and state grant funds. Capital Projects Funds, which account for financial resources used for major capital acquisition or construction activities, will total $530.0 million or 7.7% of total resources. Debt Service Funds, which account for principal and interest on long-term debt, will total $565.6 million or 8.3% of total resources.

[22] The interactive portion of the CPS Proposed FY2015 Budget can be found online on the CPS budget website: www.cps.edu/budget.


CPS FY2015 Resources for All Funds
(in $ millions)
Debt Service Funds $565.6 8.3%
Capital Projects Funds $530.0 7.7%
Special Revenue Funds $1,322.5 19.3%
General Fund $4,433.7 64.7%
Total FY2015 Resources for All Funds: $6,851.8 million
Source: CPS FY2015 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 9,2014).

In FY2015 32.6% of all CPS resources, or $2.2 billion, will come from local property tax revenues. General State Aid will provide the second largest component of the CPS revenue stream, at 14.9% or just over $1 billion. Appropriated fund balance will provide 13.9% of the District's resources at $954.2 million. Federal funds will be the fourth largest source of revenues at 12.9% of the total or $883.4 million. Other State Revenue, Other Local Revenue and Other Financing Sources account for the remaining 25.6% of FY2015 appropriated resources. Other State Revenue, which encompasses all revenue from the State less General State Aid, includes block and other grants, State Pension Aid for Teachers and Driver's Education monies. Other Financing Sources include capitalized interest and bond premiums. Other Local Revenues is the subtotal of all local revenue less property tax revenue and includes City of Chicago Pension Contributions, Intergovernmental Agreements with the City of Chicago, rental incomes and TIF Surplus.[23]



Source: CPS FY2015 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 9, 2014).

The following chart details the nearly $5.6 billion of revenues and nearly $6.9 billion in resources within the proposed CPS FY2015 budget. In FY2015 the District will receive $2.8

[23] For a full listing of all revenue line items, see the CPS FY2015 Budget Interactive Reports Revenues and Expenditures accessible at www.cps.edu/budget

billion in local government revenue, including $2.2 billion in property tax revenues. State revenues in FY2015 will total $1.8 billion. Federal aid is expected to total $883.4 million. The District plans to use $954.2 million in appropriated reserves as resources in FY2015, including $811.6 million of General Fund fund balance. In addition, CPS will issue approximately $340 million in new bonds to finance the capital program, bringing total FY2015 resources to nearly $6.9 billion.

CPS FY2015 Appropriated Resources All Funds by Fund Type (in $ thousands)

	General Fund	Special Revenue	Subtotal Operating Funds	Capital	Debt Service	Total
Property Taxes	$ 2,178,493	$ -	$ 2,178,493	$ -	$ 55,207	$ 2,233,700
Replacement Tax	$ 132,735	$ -	$ 132,735	$ -	$ 56,165	$ 188,900
Other Local Revenue	$ 152,484	$ 43,542	$ 196,026	$ 108,760	$ 97,004	$ 417,090
Sub-total Local Revenue	**$ 2,463,712**	**$ 43,542**	**$ 2,507,254**	**$ 108,760**	**$ 208,376**	**$ 2,839,690**
General State Aid	$ 586,658	$ 261,000	$ 847,658	$ -	$ 191,262	$ 1,022,620
Other State Revenue	$ 503,697	$ 156,385	$ 660,082	$ 72,400	$ 63,120	$ 811,902
Sub-total State Revenue	**$ 1,090,355**	**$ 417,385**	**$ 1,507,740**	**$ 72,400**	**$ 254,382**	**$ 1,834,522**
Federal Revenue	$ 52,724	$ 797,062	$ 849,786	$ 8,860	$ 24,748	$ 883,394
Total Revenues	**$ 3,606,791**	**$ 1,257,989**	**$ 4,864,780**	**$ 190,020**	**$ 487,506**	**$ 5,557,606**
Other Financing Sources	$ -	$ -	$ -	$ 340,000	$ -	$ 340,000
Appropriated Fund Balance	$ 811,618	$ 64,542	$ 876,160	$ -	$ 78,076	$ 954,236
Total Resources	**$ 4,418,409**	**$ 1,322,531**	**$ 5,740,940**	**$ 530,020**	**$ 565,582**	**$ 6,851,842**

Source: CPS FY2015 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 10, 2014).

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

The FY2015 budget projects a 3.1%, or $205.4 million, increase in resources from the FY2014 approved budget. Total revenues, the sum total of local, state and federal revenues, not including appropriated fund balance and other financing sources, will decrease by 0.5% or $27.2 million.

CPS Appropriated Resources All Funds by Source: FY2011-FY2015 (in $ millions)

	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Adopted	FY2015 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Property Taxes	$1,936.7	$2,352.1	$ 2,211.6	$ 2,193.4	$ 2,233.7	$ 40.3	1.8%	$ 297.0	15.3%
Replacement Taxes	$ 197.8	$ 181.9	$ 185.9	$ 162.5	$ 188.9	$ 26.4	16.3%	$ (8.9)	-4.5%
Other Local Revenue	$ 430.9	$ 324.5	$ 330.1	$ 452.7	$ 417.0	$ (35.7)	-7.9%	$ (13.9)	-3.2%
Sub-total Local Revenue	**$2,565.4**	**$2,858.5**	**$ 2,727.6**	**$ 2,808.6**	**$ 2,839.6**	**$ 31.0**	**1.1%**	**$ 274.2**	**10.7%**
General State Aid	$1,147.1	$1,136.5	$ 1,078.4	$ 1,085.6	$ 1,022.6	$ (63.0)	-5.8%	$ (124.5)	-10.9%
Other State Revenue	$ 802.7	$ 829.4	$ 737.4	$ 757.6	$ 811.9	$ 54.3	7.2%	$ 9.2	1.1%
Sub-total State Revenue	**$1,949.8**	**$1,965.9**	**$ 1,815.8**	**$ 1,843.2**	**$ 1,834.5**	**$ (8.7)**	**-0.5%**	**$ (115.3)**	**-5.9%**
Federal Revenue	$1,144.9	$ 936.0	$ 845.8	$ 932.9	$ 883.4	$ (49.5)	-5.3%	$ (261.5)	-22.8%
Other Financing Sources	$ 384.2	$ 403.6	$ 549.4	$ 300.0	$ 340.0	$ 40.0	13.3%	$ (44.2)	-11.5%
Apppropriated Fund Balance	$ -	$ -	$ 120.0	$ 761.6	$ 954.2	$ 192.6	25.3%		
Total Revenues	**$5,660.1**	**$5,760.4**	**$ 5,389.2**	**$ 5,584.7**	**$ 5,557.5**	**$ (27.2)**	**-0.5%**	**$ (102.6)**	**-1.8%**
Total Resources	**$6,044.3**	**$6,164.0**	**$ 6,058.6**	**$ 6,646.3**	**$ 6,851.7**	**$ 205.4**	**3.1%**	**$ 807.4**	**13.4%**

Source: CPS Proposed FY2015 Budget, p. 20 and FY2015 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 10, 2014).

Total Local Revenues are projected to stay essentially flat with only a 1.1%, or $31.0 million, variance from FY2014 resources. By increasing the property tax levy to the 1.7% maximum amount allowable and levying for new property and expiring TIF increment, projected revenues from property taxes will increase by $40.3 million, or 1.8%, to just over $2.2 billion. Personal

Property Replacement Taxes (PPRT), which are primarily driven by corporate income tax receipts, are expected to increase by $26.4 million or 16.3%. This increase is based on the State's projected increases in corporate profits which will result in a higher projected net growth rate of PPRT. The State collects and distributes PPRT to local taxing districts. CPS receives 27.1 % of the total Cook County PPRT share, which is equivalent to 14% of the statewide total.[24]

General State Aid (GSA) for the District will decrease by $63.0 million, or 5.8%, from FY2014. The District will receive approximately 90% of the State-determined foundation level of $6,119 per pupil.[25] Some of the $63.0 million decrease in GSA funding is attributable to changes in Chicago property values, which decrease the State's contribution.[26] The State also deducts required payments to state approved charter schools from the GSA that the District would have otherwise received. Because of increasing debt payment obligations, a greater portion of GSA is going to debt service in FY2015 than in previous years, which further decreases the amount of GSA available for the operating budget.[27] Other State revenues include the General Education Block Grant and Educational Services Block Grant, which include funding for specific programs such as REI Initiative, Summer Bridges and Preschool at Risk.

Federal revenues are expected to decrease by $49.5 million, or 5.3%, from FY2014. Because much of federal revenue is allocated to schools for specific funding purposes and then not spent in the fiscal year during which it was received, CPS has historically carried over federal funding from year to year. This carryover obscures the actual decline in federal funding, which would be greater if not for carryover funds. It is important to note that most federal funding is restricted and can only be used to provide supplemental programs and services to at-risk children from low-income or non-English speaking families or for neglected or delinquent children from Pre-K through high school. Only Medicaid reimbursement and Impact Aid are unrestricted funds and together only account for $47.8 million, or 5.4% of Federal revenues. Federal reimbursements for CPS's universal school breakfast programs will increase from $201.1 million in FY2014 to $207.9 million in FY2015 as a result of a higher reimbursement rate, higher concentration of donated food and an increased participation rate.[28]

Similar to the way GSA funding is calculated, Title I funds, which make up the majority of the District's federal funding, are calculated based upon Census data related to the number of children in poverty relative to other districts. The vast majority of CPS students, 85%[29], receive a free or reduced-price lunch, which is an indicator of poverty frequently used within school districts to determine a school's eligibility for Title I funds.[30] However, because the percentage

[24] CPS FY2015 Proposed Budget, p. 23.
[25] For more information about State of Illinois funding for CPS, see p. 5 of the CF CPS FY2015 Proposed Budget analysis.
[26] CPS FY2015 Proposed Budget, p. 22.
[27] CPS FY2015 Proposed Budget, p. 22.
[28] CPS FY2015 Proposed Budget, p. 26.
[29] CPS Office of Accountability, last updated April 2014, http://www.cps.edu/about_cps/at-a-glance/pages/stats_and_facts.aspx
[30] The State of Illinois instead uses the number of students receiving services through Medicaid, Supplemental Nutrition Assistance Program (SNAP) and Temporary Assistance for Needy Children (TANF) in its determination of Supplemental General State Aid (SGSA).

of children living in poverty nationwide has increased,[31] CPS's proportion has continued to decline. The reduction in Title I funds has been tempered because the Illinois State Board of Education (ISBE) has a 95% hold harmless provision for high poverty school districts, limiting the amount of an annual reduction.[32] In FY2014 CPS received $264 million in Title I funds and expects to receive $255 million in FY2015 or 96% of last year's allocation.

In FY2015 the category of Other Financing Sources represents the District's plan to issue approximately $340 million of bonds to fund its capital program. In FY2015 the District also plans to appropriate $954.2 million in fund balance, bringing total resources for the FY2015 budget up to nearly $6.9 billion. This is an increase of a 3.1%, or $205.4 million, in total resources over the FY2014 budget.

Over the five-year period from FY2011 to FY2015, the only revenue source projected to increase is total local revenue. While both Personal Property Replacement and Other Local Revenues have been on the decline, the increases in the District's property tax levy since FY2011 has yielded a 10.7% increase in local revenues, from just under $2.6 billion in FY2011 to just over $2.8 billion expected in FY2015. State revenues have been declining since FY2011, mostly due to a decrease in General State Aid. CPS anticipates a nearly 6.0% decline in state funding from FY2011 to FY2015. General State Aid will fall by $124.5 million between FY2011 and FY2015. This represents a 10.9% drop. Federal revenue has also been declining over the five-year period. In FY2015 the District expects to receive only 77% of the federal funding it received in FY2011. The majority of this decline happened from FY2011 to FY2012, when the amount of federal stimulus resources from the American Recovery and Reinvestment Act (ARRA) Elementary and Secondary Education Act (ESEA) grant declined 62.2%, from $261.6 million to $99.0 million.[33]

In both the two-year and the five-year trend analysis, total revenues are trending downward, while total resources are trending upward. While total revenues include local, state and federal revenues, total resources include all total revenues as well as the proceeds of bond sales and one time revenue sources like appropriated fund balance. The upward trend in total resources represents the District's reliance on unsustainable fiscal practices like drawing down fund balance reserves to close its ongoing and worsening structural deficit.

State of Illinois Funding

The State of Illinois will provide for a total of just over $1.8 billion of revenues in the FY2015 budget, which is an $8.7 million decrease from the FY2014 proposed budget.

The General State Aid (GSA) foundation level is the State of Illinois sanctioned minimum level of funding per pupil that is achieved through a combination of State and local funds.[34] The GSA

[31] National Center for Education Statistics, Table 102.40. Poverty rates for all persons and poverty status of 5- to 17-year-olds, by region and state: Selected years, 1990 through 2012.
[32] Communication with CPS Office of Budget and Management, July 16, 2014.
[33] FY2015 Proposed Budget, Interactive Reports, Historical Revenues, available at www.cps.edu (last visited July 11, 2014).
[34] CPS FY2015 Proposed Budget, pp. 23-24.

distribution to school districts is based on a number of factors, including local property tax capacity. The GSA distribution formula assumes that school districts will levy for all available local property taxes first before the State provides additional funding to reach the foundation level.

The State's foundation level will remain at $6,119 per pupil in FY2015, the same level since FY2010. The last time the foundation level increased 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 90% of their calculated GSA. GSA revenue is estimated to be just over $1.0 billion in FY2015, a decrease of $63 million from the FY2014 budget. Of this amount, $191 million will be used for debt service, $261 million will be special purpose revenues and the remaining $570.4 million will be allocated to the General Fund.

For the first time since FY2011, the State has appropriated funds beyond the statutorily required contribution to the Chicago Teachers' Pension Fund to offset a portion of the cost of benefit increases enacted under Public Act 90-0582.[35] In FY2015, the State will contribute an additional $50 million to the Chicago Teachers' Pension Fund. It is important to note that this appropriation by the State is well below the "goal and intention," as noted by the General Assembly in 40 ILCS 5/17-127, to contribute an amount equivalent to 20% or 30% of the contribution made to the downstate Teacher's Retirement System (TRS) pension fund.[36] For FY2015 the State has appropriated $3.5 billion for TRS. If the State would follow through on its "goal and intention" of a 20%-30% contribution to the Chicago Teachers' Pension Fund, this would amount to a $700.0 million to $1.1 billion payment to the District's pension fund, approximately equivalent to the total required employer contribution.

Property Tax Levy and Revenue

CPS expects its FY2015 property tax revenues to total nearly $2.2 billion, an increase of $40.3 million from the FY2014 approved budget. The increase is the result of an increase in the levy to 1.7%, the maximum amount allowed by law, and levying to capture of growth from all new property and expiring TIF increment.

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 tax year 2014, the tax cap law permits a 1.7% increase on existing property value for property tax funds subject to the law. The tax cap also allows the tax rate calculated on the value of existing property to be applied to new property, thus generating additional revenue.[37]

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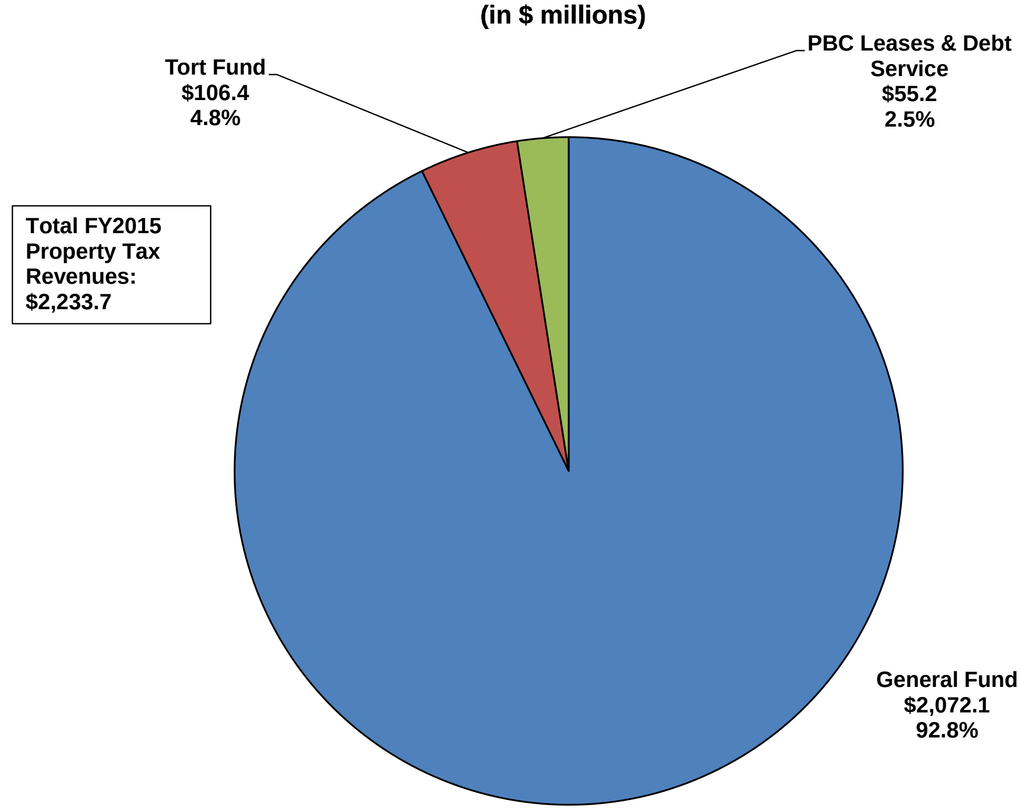
[35] In FY2015, the statutorily required amount is $11.9 million.
[36] See page 59 of the Civic Federation's CPS FY2015 Budget analysis for more information.
[37] For more information on how this process works see the Civic Federation's The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts.

The tax year 2014 extension is paid by taxpayers in 2015 in first and second installments. The first installment is equal to 55% of the prior year's total tax bill.[38] The second installment includes the full year's tax extension minus the amount already paid in the first installment, so extension increases for a tax year are recognized by the second installment when new tax rates are computed.

The following graph depicts the allocation of expected FY2015 property tax revenues among funds. Just over $2.0 billion, or 92.8%, is distributed to the General Fund to finance CPS operations. The second largest amount, $106.4 million, or 4.8%, will be designated for the Workers and Unemployment Compensation Tort Immunity Fund, while the remaining 2.5%, or $55.2 million, will be used for the Public Building Commission lease and debt service payments.

Distribution of CPS FY2015 Property Tax Revenues:
(in $ millions)



Source: CPS FY2015 Proposed Budget. Interactive Reports, Revenues and Expenditures, available at www.cps.edu (last visited July14, 2014).

The next exhibit presents CPS property tax revenues from FY1990 actual revenues to FY2015 projected revenues. Over that period, property tax revenues are projected to rise by 165.2% or over $1.3 billion, from $842.3 million to $2.2 billion. Between FY1990 and FY2013, the most recent year for which audited data is available, CPS property tax revenues have increased by

[38] 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.

162.6% or $1.5 billion. Since FY1996, the first fiscal year that the tax cap law could limit CPS property tax revenues, the compound annual growth rate of revenues (through FY2013 actual) was 3.7%. The Consumer Price Index compound annual growth rate from 1996-2012 was 2.5%.[39]

CPS Property Tax Revenue: FY1990-FY2015 (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	$ 2,211,568	$ (140,568)	-6.0%
FY2014 Estimated	$ 2,197,000	$ (14,568)	-0.7%
FY2015 Proposed	$ 2,233,700	$ 36,700	1.7%

*FY2012 represents a 21.5% increase over FY2013 because CPS's former revenue recognition policy counted revenues received in the 30 days after the end of the fiscal year in the former fiscal year's totals

Source: CPS Comprehensive Annual Financial Reports, FY2013, p.112, FY2012, pp. 106-107; FY2010, pp. 98-99; FY1999, pp. 80-81; and CPS FY2015 Proposed Budget, p. 20.

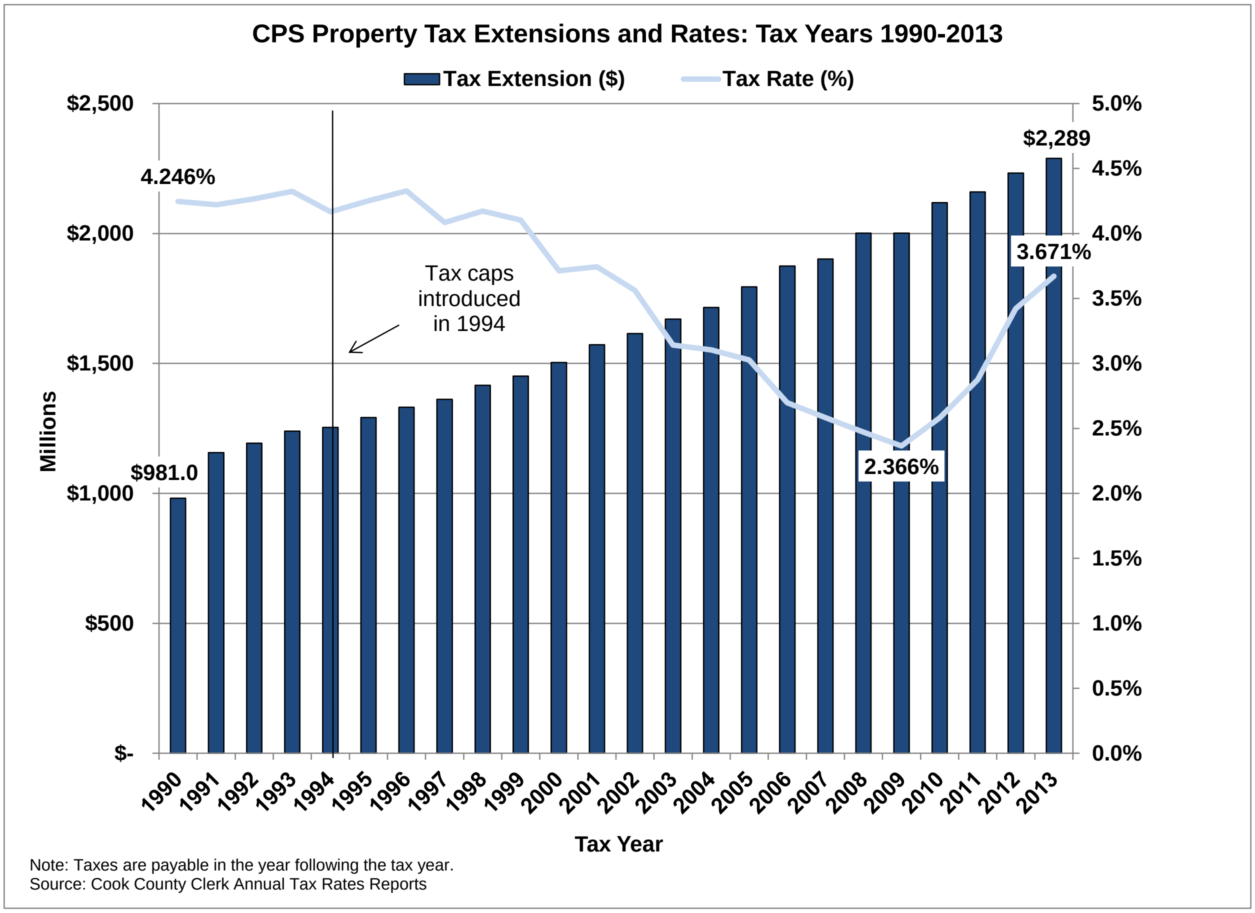
The following graph illustrates the increase in CPS property tax extensions (different from fiscal year revenues) between tax year 1990 (payable in 1991) and tax year 2013 (payable in 2014) as well as the decrease in tax rates up through tax year 2009 before rates began to grow again in tax year 2010. Property tax years are the same as calendar years. However, the CPS fiscal year runs July 1 to June 30. There is also a one-year lag in Cook County between when property taxes are levied and when they are collected. Taxes levied in 2014 will actually be received in 2015. The

[39] U.S. Bureau of Labor Statistics, Databases, Tables & Calculators by Subject, Consumer Price Index - Annual All Urban Consumers, data extracted on July 14, 2014.

effect is that property tax funds available during the District's upcoming FY2015 will be drawn from part of tax year 2013 and part of tax year 2014. The tax extension was $981.0 million in tax year 1990 and rose gradually to $2.3 billion in tax year 2013. The CPS tax rate fell from 4.246% in tax year 1990 to 2.366% in tax year 2009 before rising to 3.671% in tax year 2013. The District's tax rate fell after the implementation of the tax cap law even though its extension rose because taxable property value was growing much faster than extensions (rate = extension ÷ taxable value). Starting in tax year 2010, the District's rate started to rise again because the taxable value of property in Chicago fell significantly.

The Property Tax Extension Limitation Law, or tax caps, took effect in 1994, limiting the maximum growth in the levy. Prior to 1994, the District's tax extension was limited by a maximum rate for each property tax fund. The fund rate limits still exist, but the tax cap law, not rate limits, has been the operative limit on CPS tax increases since 1994.[40] 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.[41]

[40] 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.
[41] 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 and the New Revenue Recognition Policy

CPS announced in April 2014[42] that the District would be extending its revenue recognition period in FY2015 from 30 days after the close of the fiscal year to 60 days after the close of the fiscal year. CPS noted that this change would reduce property tax collection volatility, but more importantly, it would be used as an accounting mechanism to close the FY2015 budget gap.

Under the prior revenue recognition period, property tax revenues were recognized in the same fiscal year as long as the revenues were received within 30 days of the close of the fiscal year, or through July 30. Between July 1 and July 30, 2012, the District collected $244 million in property tax revenues that had been budgeted for receipt in FY2013. The early payment was due to the fact that Cook County, which administers the property tax system, sent the second installment 2011 property tax bills out on time for the first time in over 30 years, with a due date of August 1, 2012. The continuation of the August 1st due date in FY2013 thus "normalized" collections over the fiscal year's budgeted property tax extension and the result was an overall decrease in FY2013 collections as compared to FY2012, as CPS basically booked 13 months of property tax payments in FY2012 and 12 months in FY2013. Historically, the County sent property tax bills out late and thus received payments late, which led to delayed distributions of revenue to all of its taxing bodies, including CPS.

[42] See CPS press release, "CPS Projects to Boost Base Per Pupil Spending by Nearly $250," from April 9, 2014.

CPS acknowledges that this volatility in the timing of tax receipts does not impact the total amount of property tax revenue received by the District, but that the timing of the property tax receipts instead impacts the fiscal year in which the revenue must be recorded.[43] 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 assumed a similar amount of property tax revenue to what was collected in July 2012 to be collected in July 2013 and July 2014.

CPS is projecting that by extending the revenue recognition period to 60 days for the FY2015 budget, the District will see an increase of approximately $654 million in reserves, based on August property tax collections.[44] The FY2015 budget relies on this change in the revenue recognition period – from 30 days to 60 days – to close the $876.3 million deficit. However, it is important to note that CPS will be unable to book the same extra revenues for FY2016, which, because of the nature of one-time revenues, opens up a budget deficit in FY2016 equal to the reserves appropriated for FY2015.

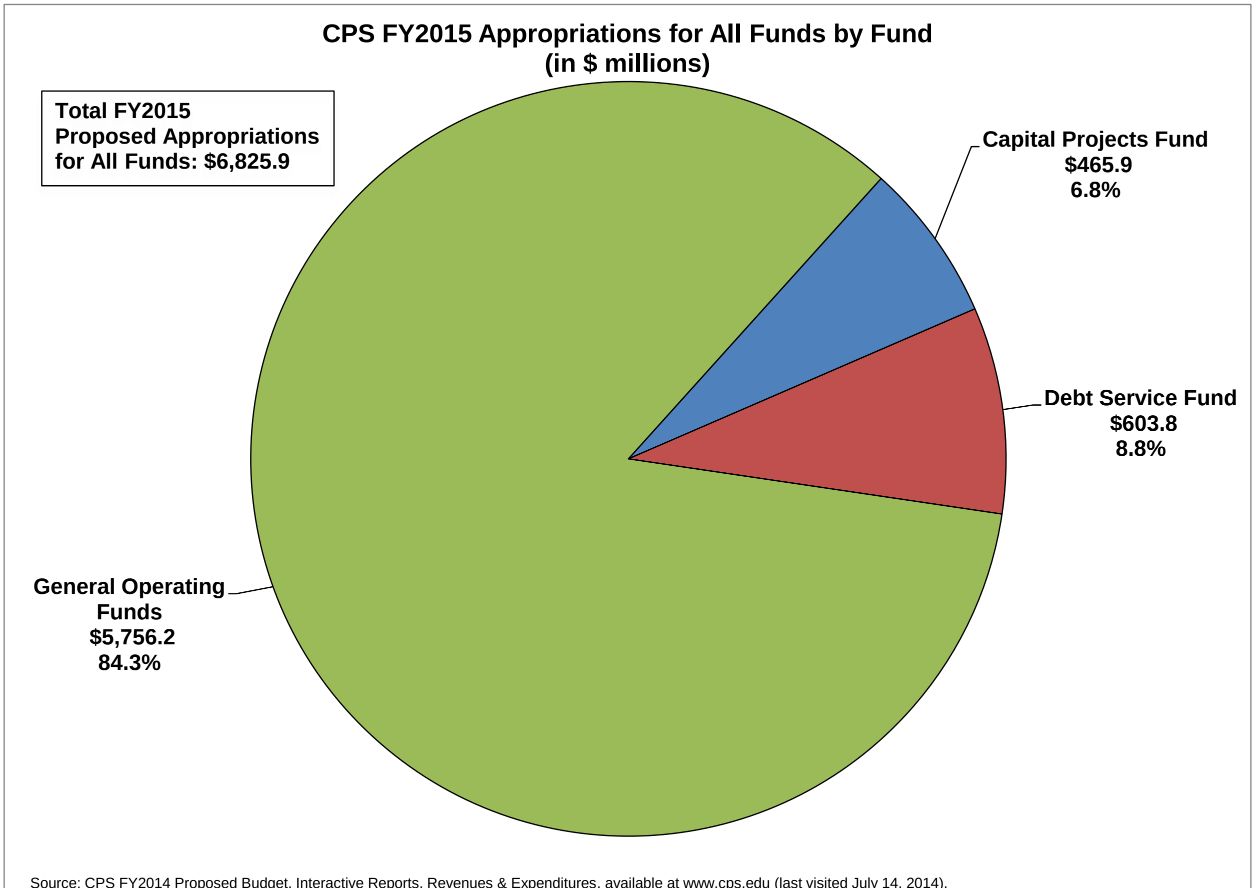
[43] CPS FY2015 Proposed Budget, pp. 9-10.
[44] CPS FY2015 Proposed Budget, p. 10.

APPROPRIATIONS

This section presents an analysis of CPS appropriation trends, including appropriations by type, source and location. The section includes two-year appropriation trends for all funds and two-, three-, and five-year appropriation trends for the General Operating Fund.[45] Proposed FY2015 appropriations are compared with FY2011, FY2012 and FY2013 actuals and FY2014 approved appropriations when available.

Total Appropriations for FY2015

The $6.8 billion CPS FY2015 Proposed Budget consists of an approximately $5.8 billion appropriation in the General Operating Fund, $466.0 million in the Capital Projects Funds and $603.8 million in the Debt Service Funds. The General Operating Fund represents 84.3% of the total budget, the Capital Projects Funds represent 6.8% and the Debt Service Funds represent 8.8%. The following chart shows total FY2015 proposed appropriations for all funds.



Source: CPS FY2014 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 14, 2014).

The General Operating Fund finances employees' salaries and benefits, contractual services, charter school tuition transfers and other day-to-day expenditures. The General Operating Fund

[45] The Civic Federation has traditionally analyzed five-year appropriation trends for all funds, but the CPS FY2015 Proposed Budget does not provide consistent data for fiscal years 2010 through 2015. Therefore, five-year historical trend comparisons cannot be completed for all sections of the appropriations section of this analysis.

includes the General Fund and the Special Revenue Funds. The General Fund is the primary fund used for instructional, professional, maintenance and administrative activities. The Special Revenue Funds receive revenues that are legally required to be expended only for specific purposes such as School Breakfast and Lunch Programs, Supplemental General State Aid for additional instruction to low-income students and other grant funds. The Capital Projects Funds are for construction and other capital expenditures. The Debt Service Funds are for payment of long-term debt, such as bond issuances and lease obligations.[46]

Two-Year Appropriation Trends for All Funds

The proposed FY2015 $6.8 billion budget is an increase of 4.1%, or $271.4 million, from the FY2014 approved budget. The Capital Projects Funds will grow by $116.8 million, or 33.5%, over the two-year period. Appropriations for the General Operating Fund, which consists of the General Fund and Special Revenue Funds, will increase by 2.9%, or $164.0 million, over the FY2014 approved budget. The Debt Service Funds will decrease by 1.5%, or $9.4 million, in FY2015.

CPS Appropriations for All Funds by Fund: FY2014 & FY2015 (in $ millions)

Fund Type	FY2014 Adopted	FY2015 Proposed	FY2014 to FY2015 $ Change	FY2014 to FY2015 % Change
General Operating Fund	$ 5,592.3	$ 5,756.2	$ 164.0	2.9%
Capital Projects Funds	$ 349.1	$ 465.9	$ 116.8	33.5%
Debt Service Funds	$ 613.2	$ 603.8	$ (9.4)	-1.5%
Total Appropriation	**$ 6,554.5**	**$ 6,825.9**	**$ 271.4**	**4.1%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns.
Source: CPS FY2014 Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 8, 2014); and FY2015 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 8, 2014).

[46] CPS FY2015 Proposed Budget, Appendix E – Glossary.

The chart below shows a comparison of appropriations for all funds by type of expense for the FY2014 approved budget and the FY2015 proposed budget.[47] Appropriations for equipment will grow by the largest dollar amount between the two years, increasing by $121.2 million or 31.5%. Appropriations for employee benefits will also increase significantly, rising by $58.6 million or 4.7%. Contingencies will rise between the two years, increasing $32.3 million or 11.8%. Contingencies include two types of funding: 1) funding that has been budgeted, but has yet to be allocated and 2) grant funding that has yet to be confirmed or allocated to a specific school or program. Once the item, program or school allocation has been decided, the funds are moved to a separate line item of the budget.[48] Debt payments will decrease by 0.6% or $3.5 million between the approved FY2014 and proposed FY2015 budgets.

CPS Appropriations for All Funds by Type: FY2014 & FY2015 (in $ millions)

Type	FY2014 Adopted	FY2015 Proposed	FY2014 to FY2015 $ Change	FY2014 to FY2015 % Change
Salaries	$ 2,562.6	$ 2,612.3	$ 49.7	1.9%
Benefits	$ 1,251.4	$ 1,310.0	$ 58.6	4.7%
Contracts	$ 1,110.3	$ 1,132.1	$ 21.8	2.0%
Commodities	$ 257.0	$ 260.6	$ 3.5	1.4%
Equipment	$ 385.0	$ 506.3	$ 121.2	31.5%
Transportation	$ 111.8	$ 99.5	$ (12.3)	-11.0%
Contingencies	$ 272.3	$ 304.6	$ 32.3	11.8%
Debt	$ 604.1	$ 600.7	$ (3.5)	-0.6%
Total	**$ 6,554.5**	**$ 6,825.9**	**$ 271.4**	**4.1%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns.
Source: CPS FY2014 Approved Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 8, 2014); and FY2015 Proposed Budget, Revenues & Expenditures, available at www.cps.edu (last visited July 17, 2014).

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

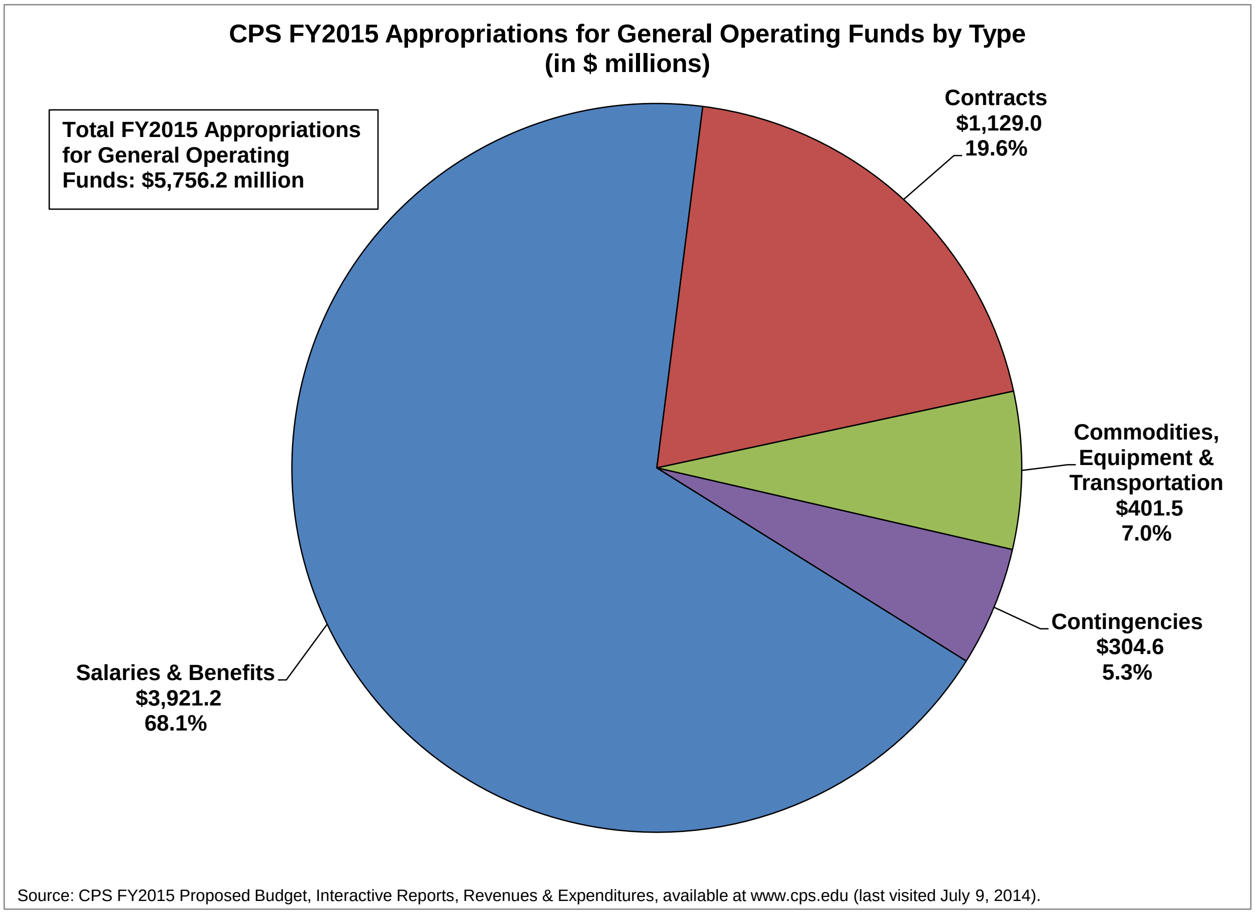
The following section shows trend data for operating funds appropriations by type and location for FY2011, FY2012 and FY2013 actual appropriations, FY2014 adopted appropriations and FY2015 proposed appropriations.

Appropriations for General Operating Funds by Type

The exhibit below shows the breakdown of FY2015 General Operating Funds appropriations by type. The largest single portion is earmarked for salaries and benefits. Approximately 68.1% of the operating funds, or $3.9 billion, will be for teacher salaries, non-teacher salaries and employee benefits. Contracts, totaling over $1.1 billion, or 19.6% 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

[47] Due to the lack of expenditure detail in the CPS FY2015 Proposed Budget, the Civic Federation is unable to provide an explanation of why appropriations by type increased by their noted amounts.
[48] CPS FY2014 Proposed Budget, p. 16.

not CPS employees. Appropriations for commodities, equipment and transportation make up $401.5 million, or 7.0%, of the operating budget, while contingencies account for $304.6 million, or 5.3%. Commodities include utilities, food, instructional supplies and other supplies.[49] As was previously noted, contingencies account for budgeted but not yet allocated funds and unconfirmed or unallocated grant funding. Once the funds are allocated or confirmed, the funds are moved out of contingencies and into a separate line item of the budget.



The following exhibit compares proposed FY2015 General Operating Fund appropriations by type with FY2012 actual, FY2013 actual and FY2014 adopted expenditure estimates.
The FY2015 proposed operating budget is $164.0 million, or 2.9%, larger than the FY2014 adopted operating budget. The budgeted appropriation for salaries and benefits is $108.9 million, or 3.0%, higher in FY2015 than in FY2014. Appropriations for contracts, commodities, equipment and contingencies are also higher in FY2015, by a sum of approximately $67 million. Transportation appropriations for FY2015 decreased by $12.3 million or 11.0%.

In the four-year period between FY2012 and FY2015, the total General Operating Fund appropriations will rise by $867.9 million, or 17.8%, due to the end of a partial-pension funding holiday, contracts and contingencies that total approximately $966.7 million. As stated above, contingencies include funding that has been budgeted, but has yet to be allocated, which is

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

primarily why the FY2015 proposed budgeted amount for contingencies is higher than actual spending for contingencies in FY2012 and FY2013. Employee benefits will increase by $470.8 million, or 56.1%, over the four-year period. Appropriations for contracts will increase by $191.3 million or 20.4%. Appropriations for salaries, commodities, equipment, transportation and other expenses will decrease by $98.7 million or 3.0%.

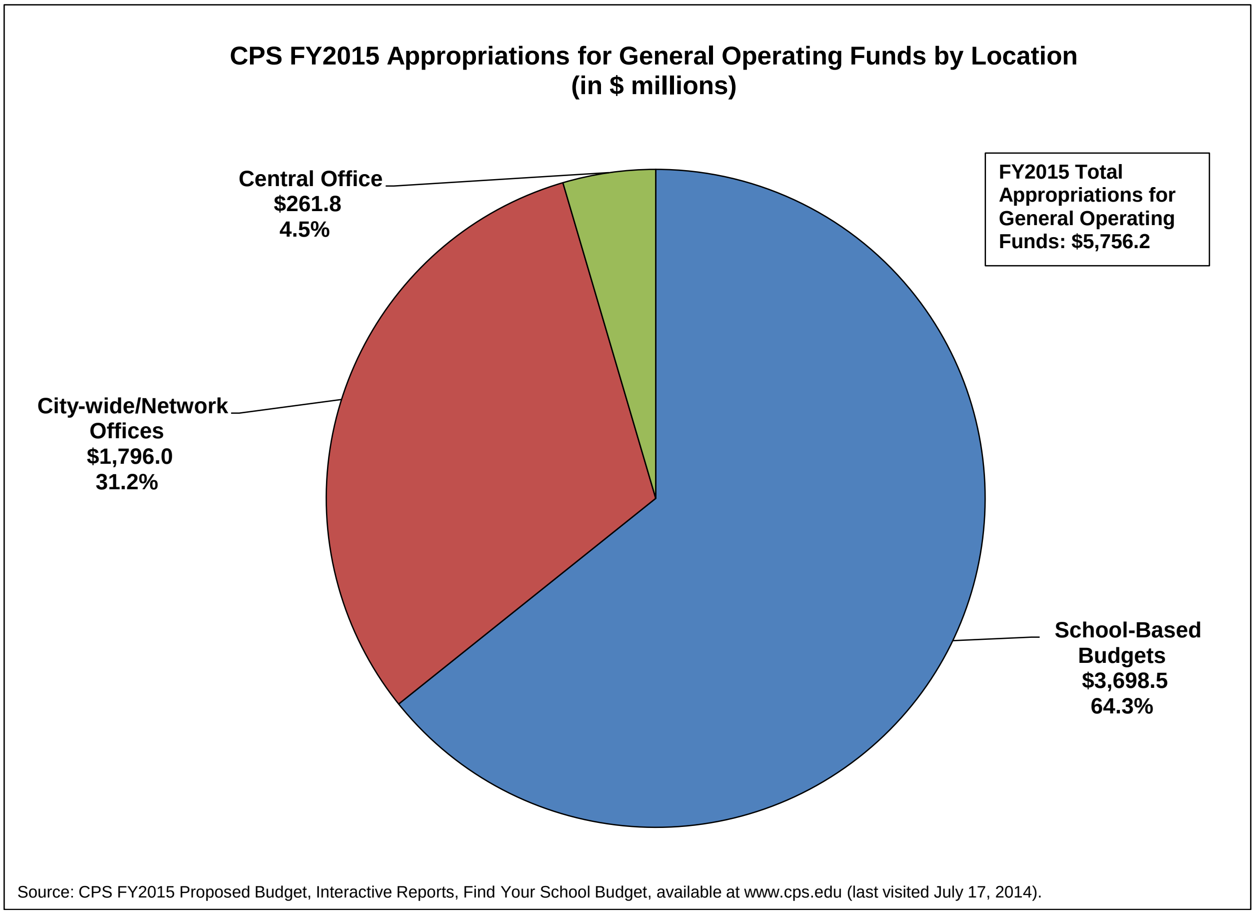
CPS Appropriations for Operating Funds by Type: FY2012-FY2015
(in $ millions)

Type	FY2012 Actual	FY2013 Actual	FY2014 Adopted	FY2015 Proposed	FY2014 to FY2015 $ Change	FY2014 to FY2015 % Change	FY2012 to FY2015 $ Change	FY2012 to FY2015 % Change
Salaries	$ 2,645.1	$ 2,575.5	$ 2,561.3	$ 2,611.5	$ 50.1	2.0%	$ (33.6)	-1.3%
Benefits	$ 838.9	866.2	$ 1,251.0	$ 1,309.7	$ 58.7	4.7%	$ 470.8	56.1%
Contracts	$ 937.7	997.4	$ 1,101.3	$ 1,129.0	$ 27.7	2.5%	$ 191.3	20.4%
Commodities	$ 272.7	305.5	$ 257.0	$ 260.6	$ 3.5	1.4%	$ (12.1)	-4.4%
Equipment	$ 74.8	86.1	$ 37.6	$ 41.4	$ 3.9	10.3%	$ (33.4)	-44.6%
Transportation	$ 109.4	106.9	$ 111.8	$ 99.5	$ (12.3)	-11.0%	$ (9.9)	-9.0%
Contingencies	$ -	$ -	$ 272.3	$ 304.6	$ 32.3	11.8%	$ 304.6	-
Other	$ 9.7	8.6	$ -	$ -	$ -	-	$ (9.7)	-
Total	**$ 4,888.3**	**$ 4,946.2**	**$ 5,592.3**	**$ 5,756.2**	**$ 164.0**	**2.9%**	**$ 867.9**	**17.8%**

Source: CPS FY2015 Proposed Budget, Interactive Reports, Budget by Account and Historical Expenditures, available at www.cps.edu (last visited July 14, 2014).

Appropriations for Operating Funds by Location

The exhibit below shows the breakdown of proposed FY2015 General Operating Fund appropriations by location. School-based budgets comprise 64.3%, or $3.7 billion, of operating appropriations. This includes direct costs for CPS, charter and alternative schools. Approximately 31.2%, or $1.8 billion, will be for city-wide/network offices. These are programs and services that directly impact multiple schools across the District and include teacher pension contributions. Appropriations for central office will represent 4.5%, or $261.8 million, of operating appropriations.



The following chart compares two-year and five-year trends by location for the FY2015 proposed budget to the adopted budget for FY2014 and the final budget for FY2011. Actual expenditures by location from prior years are not provided in the budget documents.

School-based budget appropriations will increase by 4.6%, or $161.0 million, in FY2015 from FY2014. The city-wide/network offices will increase by 3.5%, or $60.3 million, while central office expenditures will decrease by 17.9% or $57.2 million.

Between FY2011 and FY2015, General Operating Fund proposed appropriations for school-based budgets will increase by 1.1% or $40.5 million. Appropriations for city-wide/network offices will rise by 34.3% or $458.6 million. The central office appropriations will increase by 44.3%, or $80.4 million, over the five-year period. The increase during this period was in part due to a shift between FY2012 and FY2013 of approximately $70 million from school-based budgets to central office 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.[50] In FY2015 the proposed budget, CPS states that it plans to redirect the $57.2 million reduction in central office expenditures into school-based budgets.[51]

CPS Appropriations for General Operating Funds by Location: FY2011-FY2015 (in $ millions)

Location	FY2011 Adopted	FY2012 Adopted	FY2013 Amended	FY2014 Adopted	FY2015 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
School-Based Budgets	$ 3,658.0	$ 3,838.9	$ 3,600.4	$ 3,537.5	$ 3,698.5	$ 161.0	4.6%	$ 40.5	1.1%
Citywide/Network Offices	$ 1,337.4	$ 1,091.4	$ 1,398.6	$ 1,735.7	$ 1,796.0	$ 60.3	3.5%	$ 458.6	34.3%
Central Office	$ 181.4	$ 179.9	$ 233.3	$ 319.0	$ 261.8	$ (57.2)	-17.9%	$ 80.4	44.3%
Total	**$ 5,176.8**	**$ 5,110.2**	**$ 5,232.2**	**$ 5,592.2**	**$ 5,756.2**	**$ 164.0**	**2.9%**	**$ 579.4**	**11.2%**

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 Proposed Budget, Interactive Reports, Find Your School Budget, available at www.cps.edu (last visited July 17, 2014); FY2014 Approved Budget, Interactive Reports, Find Your School Budget, available at www.cps.edu (last visited July 17, 2014); and FY2015 Proposed Budget, Interactive Reports, Find Your School Budget, available at www.cps.edu (last visited July 17, 2014).

[50] CPS FY2013 Proposed Budget, p. 13.
[51] CPS FY2015 Proposed Budget, p. 7.

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 or headcount reflects a tally 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 FY2014 Approved Budget or FY2015 Proposed Budget. 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 provides personnel appropriations trends.

Two-Year Position Count by Type

The District's total position count in FY2015 will increase by 355 positions, or 0.9%, from the FY2014 approved budget. The large increase in teachers is partially due to 168 new, partially TIF-funded Art and Physical Education teachers at selected schools throughout the District. The declines in school support staff and central and network offices are the result of planned layoffs due to declining enrollment.[52] In the two-year period, the District's position count for teachers will increase by 3.5%, or 708 positions, while school administrators will decline by 5.4% or 58 positions. The position count for city-wide student support will increase by 8.5% or 413 positions. The increase in city wide student support is primarily due to the increased number of education support personnel such as custodial workers and engineers.[53]

Chicago Public Schools Position Count: FY2014 & FY2015

	FY2014 Approved	FY2015 Proposed	Two-Year # Change	Two-Year % Change
Teachers	20,373	21,081	708	3.5%
School Administrators	1,084	1,026	-58	-5.4%
School Support Staff	11,087	10,510	-577	-5.2%
Central and Network Offices	1,430	1,300	-131	-9.1%
City-wide Student Support	4,878	5,291	413	8.5%
Total	**38,852**	**39,206**	**355**	**0.9%**

Source: CPS FY2014 Adopted Budget, Interactive Reports, Positions, available at www.cps.edu (last visited July 9, 2014); and FY2015 Proposed Budget, Interactive Reports, Positions, available at www.cps.edu (last visited July 9, 2014).

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

In FY2015 CPS personnel appropriations are expected to increase by $108.6 million, or 2.8%, from the FY2014 approved budget. Salaries, which constitute 66.2% of all employee compensation, will increase by $50.1 million, or 2.0%, over the two-year period. Benefit costs,

[52] Juan Perez Jr., "CPS announces layoffs of more than 1,100," *Chicago Tribune*, June 26, 2014.
[53] CPS FY2015 Proposed Budget, Interactive Reports, Find Your School Budget, available at www.cps.edu (last visited July 17, 2014).

which include pensions, hospital and dental insurance, unemployment compensation and payroll tax contributions for Social Security[54] and Medicare, will increase by 4.7%, or $58.5 million, in FY2015. The vast majority of this increase can be attributed to a $34.0 million net increase in the CPS contribution toward the Chicago Teachers Pension Fund in FY2015.[55] The District's $795.1 million total contribution toward teacher pensions in FY2015 includes a 7% "pick up" of the 9% annual employee contributions. With Public Act 96-0889, the Illinois General Assembly granted the District partial pension payment holidays 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.[56] In FY2015 the State will contribute $50.0 million towards the Chicago Teachers' Pension Fund, decreasing the amount that Chicago Public Schools will have to contribute to the fund.[57]

Over the five-year period between FY2011 to FY2015, total compensation costs will increase by 7.5%, or $273.8 million. Appropriations for teacher salaries will decline by $37.5 million, while appropriations for Education Support staff salaries will increase by $14.8 million. Appropriations for employee benefits will increase by 29.3%, or $296.6 million, between FY2011 and FY2015, rising from $1.0 billion to $1.3 billion. This increase in benefit costs can be attributed to a $359.0 million increase in total teacher pension contributions including the employee contribution pick-up between FY2011 and FY2015.

CPS Personnel Appropriations for General Operating Funds by Type: FY2011-FY2015 (in $ millions)

Expenditure Type	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Approved	FY2015 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries									
Teacher Salaries	$ 2,023.5	$ 2,026.8	$ 1,942.0	$ 1,940.2	$ 1,986.0	$ 45.7	2.4%	$ (37.5)	-1.9%
Ed. Support Salaries	$ 610.7	$ 618.3	$ 633.5	$ 621.1	$ 625.5	$ 4.4	0.7%	$ 14.8	2.4%
Total Salaries	**$ 2,634.2**	**$ 2,645.1**	**$ 2,575.5**	**$ 2,561.3**	**$ 2,611.5**	**$ 50.1**	**2.0%**	**$ (22.7)**	**-0.9%**
Employee Benefits									
Teacher Pension Employer Portion	$ 306.1	$ 335.7	$ 374.6	$ 617.6	$ 661.4	$ 43.9	7.1%	$ 355.3	116.1%
Teacher Pension Pickup*	$ 130.0	$ 130.4	$ 129.1	$ 128.5	$ 133.7	$ 5.2	4.0%	$ 3.7	2.8%
Total Teacher Pensions	**$ 436.1**	**$ 466.1**	**$ 503.7**	**$ 746.1**	**$ 795.1**	**$ 49.0**	**6.6%**	**$ 359.0**	**82.3%**
Ed. Support Pension Employer Portion	$ 102.2	$ 100.0	$ 102.3	$ 60.6	$ 61.1	$ 0.5	0.8%	$ (41.1)	-40.2%
Ed. Support Pension Pickup*	$ 38.2	$ 38.4	$ 39.3	$ 40.0	$ 40.3	$ 0.3	0.8%	$ 2.1	5.6%
Total Ed. Support Pension	**$ 140.4**	**$ 138.4**	**$ 141.6**	**$ 100.6**	**$ 101.4**	**$ 0.8**	**0.8%**	**$ (39.0)**	**-27.8%**
Hospitalization/Other Comp.	$ 353.9	$ 324.9	$ 319.8	$ 330.5	$ 341.4	$ 11.0	3.3%	$ (12.5)	-3.5%
Unemployment Compensation	$ 22.0	$ 17.1	$ 9.1	$ 12.4	$ 9.1	$ (3.3)	-26.5%	$ (12.9)	-58.4%
Medicare/Social Security	$ 35.0	$ 34.9	$ 36.4	$ 37.9	$ 39.5	$ 1.7	4.4%	$ 4.5	13.0%
Workers' Compensation	$ 25.9	$ 26.0	$ 24.0	$ 23.9	$ 23.2	$ (0.7)	-2.9%	$ (2.7)	-10.3%
Total Employee Benefits	**$ 1,013.3**	**$ 1,007.4**	**$ 1,034.6**	**$ 1,251.4**	**$ 1,309.9**	**$ 58.5**	**4.7%**	**$ 296.6**	**29.3%**
Total Compensation	**$ 3,647.5**	**$ 3,652.5**	**$ 3,610.1**	**$ 3,812.7**	**$ 3,921.3**	**$ 108.6**	**2.8%**	**$ 273.8**	**7.5%**

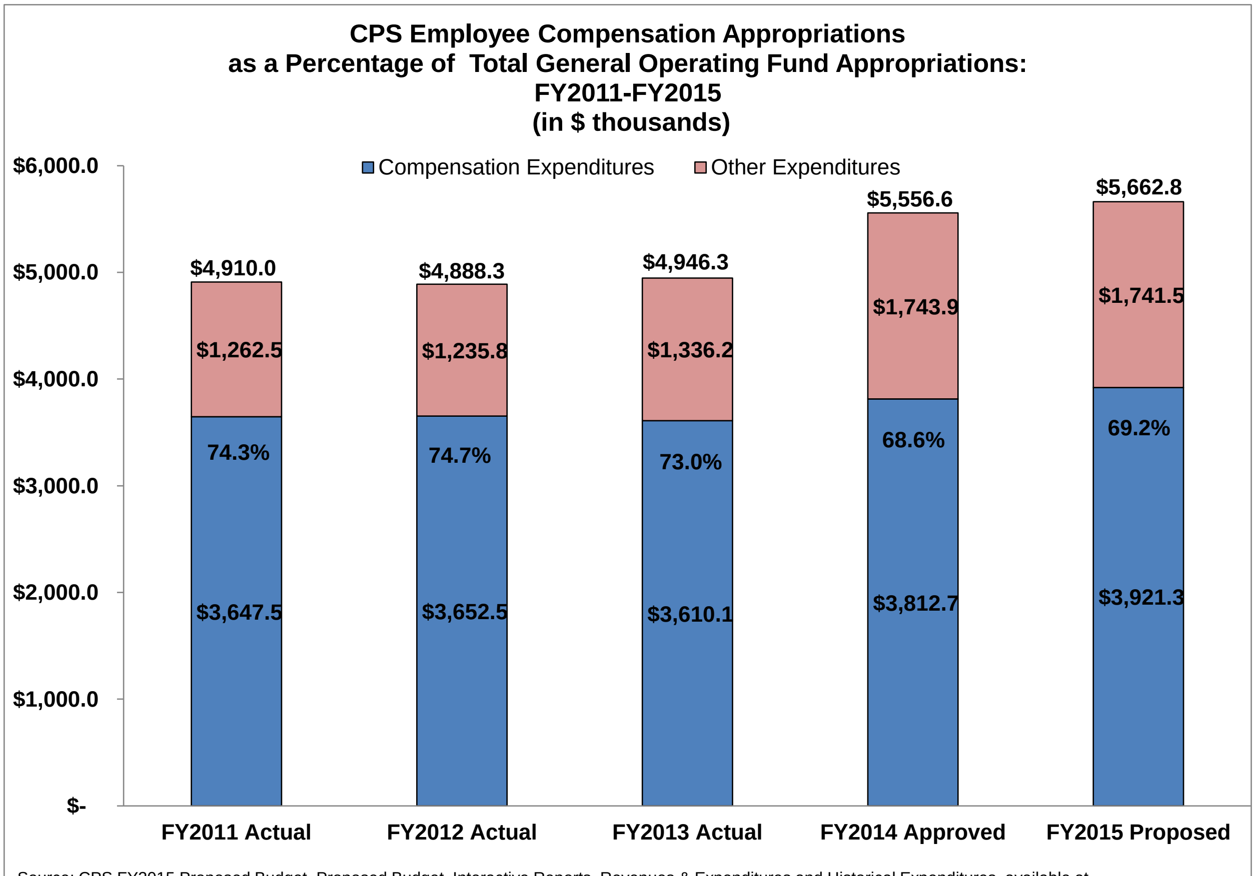
*CPS "picks up" 7% of the 9% annual employee pension contribution, meaning it pays 7% of the employee 9% contribution on behalf of teachers and 7% of the 8.5% contribution on behalf of non-teacher employees.

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 approved appropriations for the Teacher Pension Employer Portion and the Ed. Support Pension Employer Portion, respectively. $20.3 million and $5.3 million in federal funds contribute to FY2015 proposed appropriations for the Teacher Pension Employer Portion and the Ed. Support Employer Portion, respectively.

Source: CPS FY2015 Proposed Budget, p. 149; CPS FY2015 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 15, 2014); Chicago Public Schools Comprehensive Annual Report (CAFR) FY2013, pp. 80 and 83; FY2012 CAFR, pp. 76 and 78 and FY2011 CAFR, pp. 73 and 75.

[54] Some non-teaching staff contribute to Social Security.
[55] CPS FY2015 Proposed Budget, p. 147.
[56] "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.
[57] CPS FY2015 Proposed Budget, p. 8.

The next exhibit shows the District's employee compensation expenditures as a percentage of all General Operating Fund expenditures. The chart compares actual expenditures from FY2011 through FY2013 to approved FY2014 and proposed FY2015 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 General Operating Fund appropriations dedicated to personnel has averaged 72.0%, with a low of 68.6% in FY2014 and a high of 74.7% in FY2012. Since FY2011, compensation expenditures have increased by 7.5%, while other operating expenditures have increased by 37.9%, 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.



Source: CPS FY2015 Proposed Budget, Proposed Budget, Interactive Reports, Revenues & Expenditures and Historical Expenditures, available at www.cps.edu (last visited July 15, 2014).

ENROLLMENT

CPS is projecting essentially flat overall student enrollment across the system in FY2015 as compared to FY2014 total enrollment. According to the FY2015 proposed budget, actual FY2014 enrollment was 400,545 students, which is about 5,000 less than FY2014 projected enrollment. The projected enrollment for FY2015 is 400,445 students.

CPS Student Actual and Projected Enrollment: FY2014-FY2015			
Actual 2013-2014	Projected 2014-2015	# Change	% Change
400,545	400,445	(100)	0.0%

Source: CPS FY2015 Proposed Budget, p. 29

As the following exhibits indicate, total actual enrollment is projected to drop by 2,236 students, or 0.6%, between FY2011 and FY2015. While there was a slight uptick in enrollment in FY2012, enrollment on the whole has been declining since FY2009, when the number of CPS students fell by 5,890. Since FY2009 CPS has experienced a net enrollment decline of 8,126 students or 2% of the District's FY2014 enrollment.

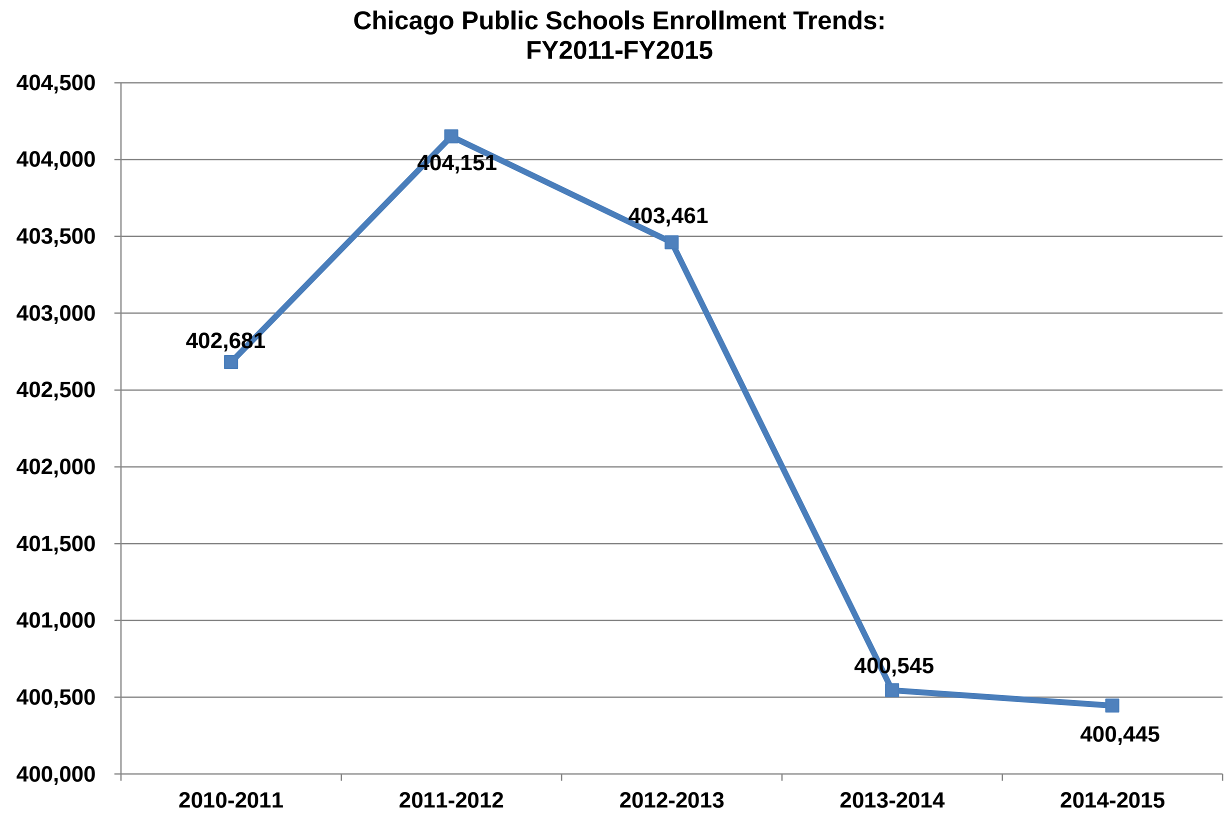
CPS is projecting declines in enrollment at all school levels: preschool, elementary and high school. Enrollment for high school students is expected to decrease by 1,528 students, or 1.3%, between FY2010 and FY2014. Elementary school, which includes kindergarten-8th grade, enrollment will fall by 342 students or 0.1%. Preschool enrollment is slated to decline by 366 students or 1.5%. 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.[58]

CPS Actual and Projected Student Enrollment: FY2011-FY2015*							
	Actual 2010-2011	Actual 2011-2012	Actual 2012-2013	Actual 2013-2014	Projected 2014-2015	FY2010-FY2014 # Change	FY2010-FY2014 % Change
Preschool	23,705	24,232	24,507	23,671	23,339	(366)	-1.5%
Elementary, K-8	265,336	266,046	266,555	268,127	264,994	(342)	-0.1%
High School	113,640	113,873	112,399	112,167	112,112	(1,528)	-1.3%
Total	402,681	404,151	403,461	400,545	400,445	(2,236)	-0.6%

*Chart refers to enrollment by school years and by fiscal years. School year 2010-2011 as FY2011; 2011-2012 as FY2012; 2012-2013 as FY2013; 2013-2014 as FY2014; 2014-2015 as FY2015
Source: CPS FY2014 Proposed Budget, p. 174 and information provided by CPS Budget Office, July 16, 2014.

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

The following graphically illustrates the overall downward trend in CPS total enrollment from FY2011 to FY2015.



Source: CPS FY2014 Proposed Budget, p. 174; CPS FY2015 Proposed Budget, p. 29.

RESERVES

This year CPS is proposing to appropriate $876.3 million of operating reserves as part of its plan to balance the budget. This includes $811.6 million from the General Fund fund balance, or 85% of the District's fund balance. In addition, CPS will use $64.6 million of Supplemental General State Aid reserves and other special revenue funds and $54.0 million of Debt Service Funds reserves.[59] The proposed depletion of the District's unrestricted General Fund fund balance continues a trend from the previous two fiscal years. The FY2013 budget included $348.9 million of appropriated fund balance and the FY2014 budget included $642.8 million, though each year the District has ended up using less in reserves than projected. The continuous and growing use of reserves to balance its operating budget is a serious cause for concern as the District will no longer have sufficient 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 and an analysis of General Operating Funds budget to actual variances.

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.[60] 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."[61] 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.[62]

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."[63] 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:

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[59] CPS FY2015 Proposed Budget, p. 11.
[60] Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).
[61] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009 and GASB Statement No. 54, paragraph 5.
[62] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009.
[63] Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).

- *Nonspendable fund balance* – resources that inherently cannot be spent such as pre-paid rent or the long-term portion of loans receivable. In addition, this category includes resources that cannot be spent because of legal or contractual provisions, such as the principal of an endowment.
- *Restricted fund balance* – net fund resources subject to legal restrictions that are externally enforceable, including restrictions imposed by the constitution, creditors or laws and regulations of non-local governments.
- *Committed fund balance* – net fund resources with self-imposed limitations set at the highest level of decision-making which remain binding unless removed by the same action used to create the limitation.
- *Assigned fund balance* – the portion of fund balance reflecting the government's intended use of resources, with the intent established by government committees or officials in addition to the governing board. Appropriated fund balance, or the portion of existing fund balance used to fill the gap between appropriations and estimated revenues for the following year, would be categorized as assigned fund balance.
- *Unassigned fund balance* – in the General Fund, the remaining surplus of net resources after funds have been identified in the four categories above.[64]

GFOA Best Practices

The Government Finance Officers Association (GFOA) recommends "at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures."[65] 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.[66]

Audited Fund Balance

The exhibit below shows seven years of CPS General Operating Fund fund balance and its ratio to General Operating Fund expenditures. A complete ten-year trend analysis of the District's fund balance ratio including the most recent FY2013 numbers is not possible because data for FY2011 and beyond has been classified differently. Data after FY2011 reflect the implementation of GASB 54, which changed the guidelines for how governments should report fund balances.

Prior to FY2011, the District categorized its unreserved fund balance into *designated to provide operating capital* and *undesignated* fund balance. A *designation* is a subset of the unreserved balance where a limitation is placed on the use of the fund balance by the government itself for

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

planning purposes or to earmark funds.[67] A *designation* is a loose classification and can be changed by the government relatively easily. As such, when comparing unreserved fund balance levels, we examine both *designated* and *undesignated* fund balance. Between FY2004 and FY2010, the District's unreserved fund balance fluctuated between 4.1% in FY2010 and 9.8% in FY2007 and FY2008.[68] In FY2009 and FY2010 the fund balance ratio decreased significantly due to an increase in General Operating Fund expenditures and a drawdown of fund balance.

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

	General Operating Fund Balance	General Fund Expenditures	Ratio
FY2004	$ 196,510,000	$ 3,758,510,000	5.2%
FY2005	$ 248,546,000	$ 3,862,396,000	6.4%
FY2006	$ 307,720,000	$ 4,085,093,000	7.5%
FY2007	$ 404,843,000	$ 4,146,369,000	9.8%
FY2008	$ 432,391,000	$ 4,394,685,000	9.8%
FY2009	$ 311,422,000	$ 4,742,779,000	6.6%
FY2010	$ 198,461,000	$ 4,896,142,000	4.1%

Source: CPS Comprehensive Annual Financial Reports, FY2004-FY2010.

The following chart presents unrestricted fund balance for FY2011, FY2012 and FY2013. In this exhibit, the District's net resources including self-imposed constraints amount to $819.0 million, or 16.6% of general fund expenditures in FY2013. These resources include those assigned for commitments and contracts, $105.7 million, and appropriated fund balance, $562.7 million. The unassigned portion of fund balance – the District's net resources without constraints, self or externally imposed – accounts for approximately $150.7 million, or 3%, of General Fund expenditures.[69] The increase in fund balance at the end of FY2012 was due primarily to timing shifts in property tax revenue receipts. The two revenue sources shifted approximately $350 million in revenue from FY2013 to FY2012.[70]

[67] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009.
[68] 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.
[69] CPS FY2013 Comprehensive Annual Financial Report, p. 44.
[70] CPS FY2012 Comprehensive Annual Financial Report, p. 12.

CPS Unreserved, Designated/Assigned General Operating Fund Fund Balance Ratio: FY2008-FY2013			
	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%
FY2013	$ 668,346,000	$ 5,336,779,000	12.5%

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

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

Chicago Board of Education Fund Balance Policy

Chicago Public Schools adopted a fund balance policy during FY2008. This policy previously referred specifically to the unreserved designated General Operating Fund fund balance as a ratio of operating and debt service budgets. Post implementation of GASB 54, CPS policy requires the Board to maintain an assigned fund balance of a minimum of 5% and a maximum of 10% of the operating and debt service budgets for the new fiscal year as a stabilization fund in the General Fund when the budget is adopted.[71] 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.[72]

This CPS fund balance ratio remained relatively stable and within the policy's acceptable 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.

[71] CPS FY2015 Proposed Budget, p. 209 and CPS FY2014 Proposed Budget, p. 216 for prior stabilization fund language.
[72] CPS FY2015 Proposed Budget, p. 209.

CPS Unreserved, Designated/Assigned General Operating Fund Fund Balance Ratio: FY2008-FY2013			
FY2008	$ 258,000,000	$ 4,655,123,000	5.5%
FY2009	$ 181,200,000	$ 5,043,948,000	3.6%
FY2010	$ -	$ 5,280,029,000	0.0%
FY2011	$ 515,224,000	$ 5,242,049,000	9.8%
FY2012	$ 459,297,000	$ 5,262,822,000	8.7%
FY2013	$ 668,346,000	$ 5,336,779,000	12.5%

Source: CPS Comprehensive Annual Financial Reports, FY2008-FY2013.
Note: CPS stated in its FY2013 and FY2014 Proposed Budgets that the stabilization fund is equivalent to an "assigned" fund balance under GASB 54. Thus, the FY2011, FY2012 and FY2013 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 funding ratio attached to it. Instead, the policy says that "the amount should be sufficient to cover potential risks as determined by the Treasury Department."[73]

As of the FY2013 year-end audit, there was $467.0 million in restricted and $269.2 million in assigned Debt Service fund balance for a total of $736.1 million. CPS estimates that approximately $54.0 million is available for use in FY2015.[74]

CPS is using Debt Service Funds reserves to pay for 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.[75] This maneuver essentially increases the amount of General Operating Funds available for appropriation in FY2015. The District proposes to pay for capital expenditures using Debt Service Fund fund balance on an interim basis. When available fund balance is used to the extent possible, the District will use a $300 million line of credit established in FY2014. 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.[76]

Budgeted Fund Balance

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

Additional fund balance is also available for appropriation in FY2015 because of additional property tax revenue CPS received during the July 1-July 30, 2013 period that had to be counted

[73] CPS FY2015 Proposed Budget, p. 177.
[74] CPS FY2015 Proposed Budget, p. 11.
[75] CPS FY2015 Proposed Budget, pp. 11 and 146.
[76] CPS FY2015 Proposed Budget, p. 158.

as FY2013 revenue instead of FY2014 revenue because it was collected during the 30-day revenue recognition period. CPS used this extra property tax revenue to reduce its FY2013 year-end budget deficit. Along with other adjustments, this left only a $119 million deficit at the end of FY2013 to be covered with fund balance. Because CPS did not decide to reduce expected FY2014 revenues by the amount of extra property tax revenue and instead decided to count on collecting the same amount in July of FY2014 as in July of FY2013, there is a greater amount of fund balance at the end of FY2013 than had been expected. This means that there is additional fund balance left after covering the lower than expected FY2014 deficit that can be used to close the FY2015 deficit.[77] As a result, CPS projects the General Fund unrestricted fund balance at the beginning of FY2015 to be $309.0 million. In addition, CPS will use $64.6 million of Supplemental General State Aid reserves and other special revenue funds and $54.0 million of Debt Service Funds reserves to balance its FY2015 budget.[78]

Finally, adding to the District's end of year FY2014 General Fund fund balance available to close the FY2015 deficit is a change in the revenue recognition period. Before FY2015, the District's revenue recognition period, that is the amount of time after the end of the fiscal year on June 30 that revenue received by CPS counts toward the previous fiscal year's revenue rather than the current fiscal year, was 30 days. So revenue received by the District between July 1, 2013 and July 30, 2013 counted as FY2013 revenue rather than FY2014 revenue even though it was technically received after the start of FY2014.

In order to generate additional revenue to use in FY2015 to close its budget deficit, the District will extend its revenue recognition period to a total of 60 days in FY2015. This means that revenue received by CPS between July 1, 2015 and August 29, 2015 will count toward FY2015 instead of FY2016. According to CPS, due to the need to restate FY2014 results when performing the FY2015 audit, the result of the FY2015 policy change will be a fund balance increase that will create additional fund balance at the beginning of FY2014. This will flow through to the end of FY2014 because it will not be needed to close the FY2014 year-end deficit. The District states that the additional fund balance generated by this 30-day extension of the revenue recognition period is expected to be $648.0 million. Thus, total General Fund fund balance available at the end of FY2014 will be nearly $960 million, of which the District is budgeting $811.6 million for use to close the FY2015 year-end deficit. The District will have $145.3 million of General Fund fund balance left at the end of FY2015.

While other local governments and school districts have a 60-day revenue recognition policy and there are some reasonable accounting reasons for CPS to change its policy, the continued appropriation of significant portions 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 FY2016 budget gap of nearly $1.2 billion.[79] Additionally, CPS cannot again extend its revenue recognition period to generate significant

[77] CPS FY2013 Comprehensive Annual Financial Report, p. 38.
[78] CPS FY2015 Proposed Budget, p. 11.
[79] CPS FY2015 Proposed Budget, p. 15.

amounts of one-time resources. This is because property tax bills are due August 1 and therefore little property tax revenue is received between August 30 and September 28th.[80]

General Operating Fund Budget to Actual Variances: FY2009-FY2013

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.

Pursuant to State statute,[81] CPS must balance its budget annually, ensuring that expenditures are paid for with available resources. The resources available to meet the District's spending goals include revenues from taxes, federal aid and state aid, as well as non-revenue sources such as fund balance, short-term borrowing and transfers from other funds. If appropriated expenditures exceed appropriated revenues, it indicates that the District expects to use fund balance or other resources to cover the gap between revenues and expenditures. If the District does not use resources such as fund balance to meet spending, it may close the gap by reducing its spending from the original appropriated amount. While it may be possible for the District to annually spend more than it receives in revenue for a few years, this is not a sustainable long-term practice because it ultimately drains reserve funds and other resources.

The exhibit below shows the District's General Operating Fund budget to actual variances between FY2009 and FY2013. For each of the five years, the final appropriated expenditures exceeded revenues, meaning that the District had budgeted some other resource such as fund balance to make up the difference. In FY2011 and FY2012, the District was able to finish the year with expenditures less than revenues—a positive outcome. Although the District spent less than was originally appropriated, the FY2009, FY2010 and FY2013 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.

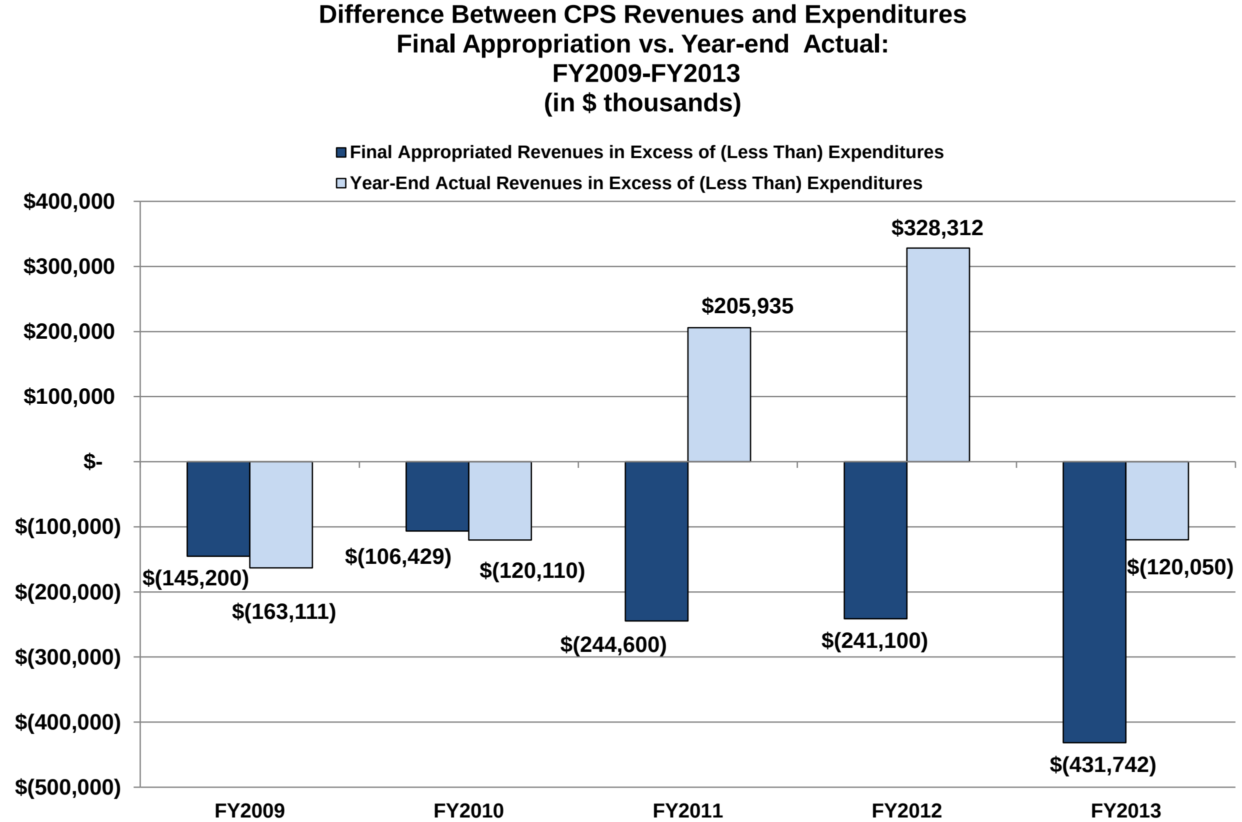
[80] Communication with CPS budget staff, July 16, 2014. Between August 30 and September 28, 2013, CPS received $42,643,193 and $38,032,778.
[81] 105 ILCS 5/34-43.

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 current spending obligations. This strategy is not sustainable in the long-term as fund balance is eventually depleted. In FY2011 a slight increase in actual revenues and a significant cut in expenditures led to a positive variance of $450.5 million. In FY2012 the District received revenue from property taxes and from the State of Illinois earlier than anticipated, causing a bump in revenues recorded for the fiscal year such that the District ended the year with $328.3 million more in revenue than expenditures. In FY2013 a significant reduction of actual expenditures and some additional property tax revenues becoming available during the revenue recognition period resulted in a decrease in the year-end budget shortfall to $120.1 million from a projected $431.7 million. The remaining shortfall, as described above, was closed with General Fund fund balance.

CPS Budget to Actual General Operating Fund Variances: FY2009-FY2013 (in $ thousands)				
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	
FY2013	**Final Appropriation**	**Year-end Actual**	**Variance: Final Appropriation to Actual**	**% Variance**
Revenues	$ 4,800,480	$ 4,826,320	$ 25,840	0.5%
Expenditures	$ 5,232,222	$ 4,946,370	$ (285,852)	-5.5%
Revenues in Excess of or (Less Than) Expenditures	$ (431,742)	$ (120,050)	$ 311,692	

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, FY2009-FY2013.

The next exhibit graphically displays the difference described above between CPS revenues and expenditures from FY2009 through FY2013.



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, FY2009-FY2013.

MUNICIPAL EMPLOYEES' PENSION FUND

Eligible non-teaching employees of CPS participate in the City of Chicago's Municipal Employees' Annuity and Benefit Fund.[82] As of December 31, 2012, approximately 17,518, or 55.9%, of the 31,326 active Municipal Fund members are CPS employees.[83]

The employer contribution for CPS employees participating in the Municipal Fund is made by the City of Chicago, not by CPS. The City makes the Municipal Fund employer contribution through its property tax levy and personal property replacement tax revenues (PPRT).[84] CPS estimates that the FY2015 Municipal Fund contribution from the City (recorded as revenue) will be $55.9 million.[85] CPS does make some contributions to the Municipal Fund on behalf of its employees. CPS "picks up" 7% of the 8.5% annual non-teacher employee pension contribution, meaning it pays 7% of the 8.5% contribution on behalf of non-teachers and the employees in effect pay 1.5% of their salary toward their pensions. The District's FY2015 cost for the 7% employee pick-up is approximately $40 million and is part of the District's budgeted pension appropriation.[86] The District additionally reimburses the City for the employer pick-up of employees funded by federal grants; this reimbursement is budgeted at $5,259,268 in FY2015.[87]

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

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

Source: Public Act 98-0641

The provisions of Public Act 98-0641 will impact non-teacher employees of CPS, increasing their contributions toward the fund and affecting their automatic annual annuity increase once they retire. Current non-teacher retirees will be subject to the COLA "pause" and reductions to future annuity increases. However, since CPS does not make the employer contribution to the

[82] 40 ILCS 5/8-110.
[83] CPS FY2013 Comprehensive Annual Financial Report, p. 83.
[84] City of Chicago FY2014 Budget Overview, p. 162. In the City's FY2012 budget, the City included reimbursement from CPS for part of the statutory employer contribution the City made for CPS employees participating in the Municipal Fund. The reimbursement amount proposed for FY2012 was $32.5 million, but has been postponed indefinitely given the District's ongoing financial difficulties.
[85] CPS FY2015 Proposed Budget, p. 23.
[86] CPS FY2015 Proposed Budget, p. 149.
[87] CPS FY2015 Interactive Proposed Budget, Revenues and Expenditures, available at cps.edu/budget.

Municipal Fund, it is not impacted by the legislation's employer funding provisions. These provisions will instead increase the City of Chicago's contributions to the Municipal Fund over several years until the City is contributing at a level that will increase the funding level to 90% over 40 years.

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

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

TEACHERS' PENSION FUND

Certified CPS teachers are enrolled in the Public School Teachers' Pension and Retirement Fund of Chicago. The data presented below are for the Teachers' Pension Fund only. The following subsections include a plan description, membership data, benefits provided, employer and employee contributions, future funding projections and pension fund indicators.

The fiscal year of the Teachers' Pension Fund begins on July 1 and ends on June 30, as does the fiscal year of CPS. The most recent data available are for FY2013, which ended on June 30, 2013.

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.[89] Plan benefits and contributions can only be amended through state legislation.[90]

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.[91]

On September 19, 2013, the Chicago Teachers' Pension Fund Trustees, following the advice of their actuary, Segal Consulting, voted to lower the fund's assumed rate of return on investments from 8.0% to 7.75%. The assumed rate of return is used to calculate the present value of future pension obligations. Reducing the rate increases the present value of future commitments to employees and retirees and results in higher statutorily required employer pension contributions. If investment returns are assumed to be lower, then the CPS must increase its contributions to provide a given amount of retirement benefits. The recommendation for the change to the assumption was the result of an actuarial experience study conducted by Segal Consulting and was effective for the FY2013 actuarial valuations and financial statements of the Chicago Teachers' Pension Fund. The impact of the change is noted throughout this section of the report.

Membership

In FY2013 the Teachers' Pension Fund had 58,409 members, including 27,440 retirees and beneficiaries receiving benefits and 30,969 active employee members. In the ten years since FY2004, the number of retirees and beneficiaries receiving benefits increased by 42.4%, or

[89] Chicago Teachers' Pension Fund, FY2013 Comprehensive Annual Financial Report, p. 26.
[90] 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.
[91] CPS did not participate in Medicare until 1986 but most CTPF members are now eligible for Medicare.

8,174, and has grown each year. Conversely, the number of active employee members has declined by 17.1%, or 6,393 members, over the same period. The ratio of active employees to beneficiaries has fallen every year since FY2004. 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 are going into the fund and more in annuity payments is flowing out of the fund.

CPS Teachers' Pension Fund Membership: FY2004-FY2013

Fiscal Year	Retirees & Beneficiaries Receiving Benefits	Active Employee Members	Total	Ratio of Active to Beneficiary
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	31,012	55,612	1.26
FY2011	25,199	30,133	55,332	1.20
FY2012	25,926	30,366	56,292	1.17
FY2013	27,440	30,969	58,409	1.13

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

Source: Chicago Teachers' Pension Fund, Actuarial Valuations, FY2004-FY2013.

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.[92]

The following table lists major benefits for members hired before and after January 1, 2011. Major changes for new hires include the increase in full retirement age to 67 and early retirement age to 62; the reduction of final average salary from the highest four-year average to the highest eight-year average; the cap on pensionable salary; and the reduction of the automatic annuity increase from 3% compounded to the lesser of 3% or one half of the increase in Consumer Price Index simple interest.

Major Chicago Teachers' Pension Fund Benefit Provisions		
	Employees hired before 1/1/2011	Employees hired on or after 1/1/2011
Full Retirement Eligibility: Age & Service	age 55 with 34 years of service; age 60 with 20 years of service; age 62 with 5 years of service	age 67 with 10 years of service
Early Retirement Eligibility: Age & Service	age 55 with 20 years of service	age 62 with 10 years of service
Final Average Salary	highest average monthly salary for any 48 consecutive months within the last 10 years of service	highest average monthly salary for any 96 consecutive months within the last 10 years of service; pensionable salary capped at $109,971*
Annuity Formula	2.2% of final average salary for each year of service**	
Early Retirement Formula Reduction	0.5% per month under age 60	0.5% per month under age 67
Maximum Annuity	75% of final average salary	
Annual Automatic COLA on Retiree or Surviving Spouse Annuity	3% compounded; begins at anniversary date of retirement or 61st birthday, whichever is later	lesser of 3% or one-half of the annual increase in CPI-U, not compounded; begins at the later of age 67 or the first anniversary of retirement

*The maximum pensionable salary automatically increases by the lesser of 3% or one-half of the annual increase in the CPI-U. $109,971 is the 2013 limitation per the Illinois Department of Insurance.

** For service prior to 1998 there are different formulas for different amounts of service.

Note: New hires are prohibited from simultaneously receiving a salary and a pension from any public employers covered by the State Pension Code (i.e. "double-dipping").

Sources: Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation as of June 30, 2013, p. 32-35; 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

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

small amounts are required from the State and from CPS pursuant to benefit enhancements enacted in P.A. 90-582. Much larger contributions are required by CPS pursuant to P.A. 89-0015 and P.A. 96-0889 in order to bring the fund up to a 90% 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.[93] 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.[94] 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.[95] There was no State contribution other than the statutory state contribution described below in FY2012, FY2013, and FY2014.[96] The State of Illinois' FY2015 budget includes a $50 million contribution to the Chicago Teachers' Pension Fund that is in addition to the statutory contribution described below. This reduces the amount CPS must contribute to the fund by $50 million.[97]

Additional State Contribution: The State is required to make additional contributions in FY2015 of 0.544% of teacher payroll to the Teachers' Fund to offset a portion of the cost of benefit increases enacted under Public Act 90-0582. No additional contributions are required if the funded ratio is at least 90%. The required additional State contribution is projected to be $12.1 million in FY2015 and was $10.9 million in FY2013 and $11.9 million in FY2014.[98]

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 FY2013 and FY2014 were $11.7 million and $12.7 respectively.[99] The required additional contribution in FY2015 is estimated to increase to $12.9 million.[100]

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

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93 The downstate Teachers' Retirement System covers all public school teachers in Illinois except for those teaching in Chicago Public Schools.
94 Illinois State FY2011 Budget, pp. 5-8.
95 Information provided by the CPS budget office, August 17, 2010.
96 Chicago Public Schools FY2015 Proposed Budget, p. 147.
97 Chicago Public Schools FY2015 Proposed Budget, p. 147.
98 Chicago Teachers' Pension Fund Comprehensive Annual Financial Reports, FY2013, p. 84, FY2011, p. 84 and FY2012, p. 77.
99 Chicago Teachers' Pension Fund Comprehensive Annual Financial Reports, FY2011, p. 85 and FY2012, p. 77.
100 Chicago Teachers' Pension Fund Comprehensive Annual Financial Report, FY2013, p. 84.

other employer appropriations.[101] The funding schedule established in P.A. 89-0015 was changed by P.A. 96-0889, enacted in April 2010. The new law reduced CPS's required employer pension contribution for FY2011, FY2012 and FY2013 to an amount estimated to be equivalent to the employer's normal cost.[102] It also delayed the year that the pension fund must reach a 90% funded ratio from 2045 to the end of 2059.

Prior to the passage of P.A. 96-0889, the CPS required contribution for FY2011 was calculated to be $586.9 million, or almost double the FY2010 amount. P.A. 96-0889 reduced CPS's required FY2011 contribution to $187.0 million, which was approximately $158.0 million, or 45.8%, less than the prior year contribution.[103] The table below shows the required employer contributions for the FY2010-FY2015. The CPS required contribution for FY2013 was $196.0 million, the FY2014 contribution was $600.0 million and the estimated FY2015 contribution is $633.6 million.[104]

Calculation of Required Employer Contributions to Teachers' Pension Fund
FY2010-FY2015

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

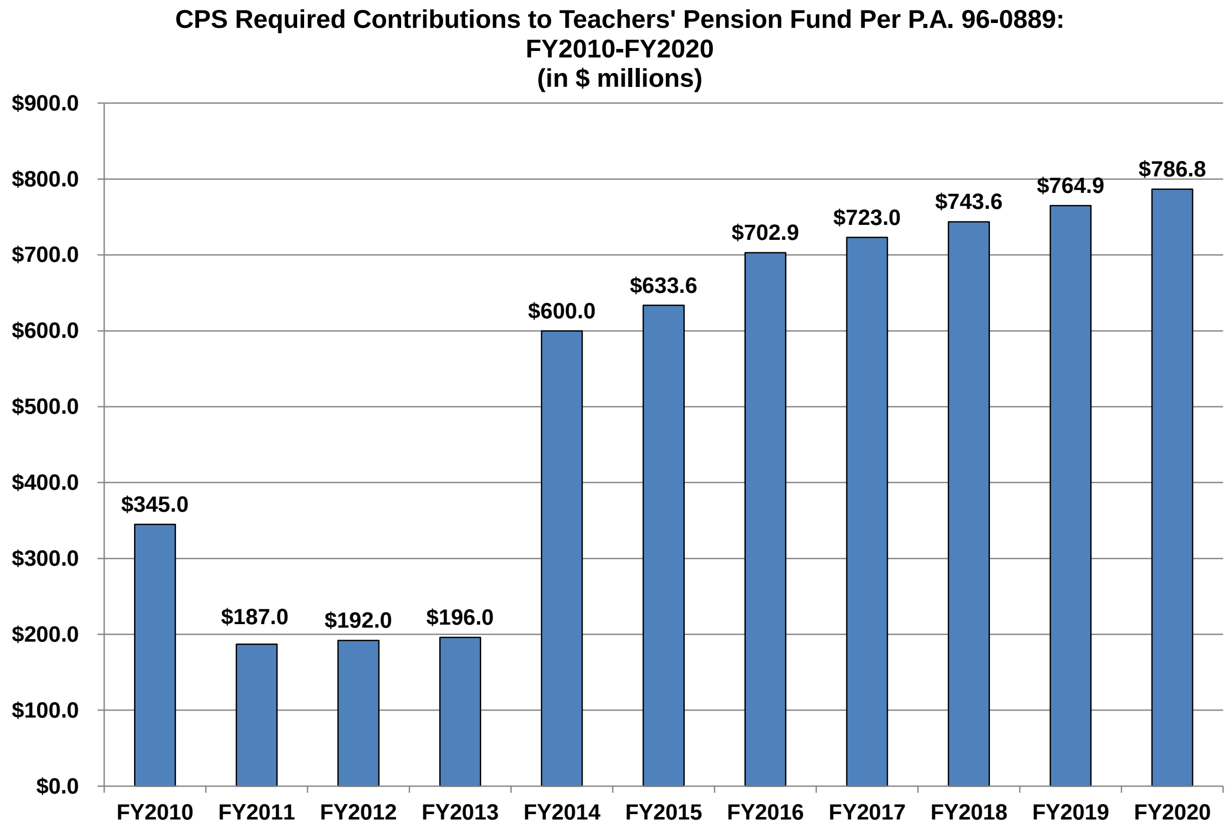
*At the time that the FY2010 required contribution was calculated, the State employer contribution was expected to be $65 million, and the Additional State Contribution was expected to be $10.1 million. These were the amounts used by the actuary to calculate the final CPS Required Contribution. The FY2010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

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

Source: Chicago Public Schools FY2015 and FY2014 Proposed Budgets, p. 147 and 143; Chicago Teachers' Pension Fund Comprehensive Annual Financial Reports, FY2009, p. 75-76; FY2010, p. 80-81; FY2011, p. 84-85; Public School Teachers' Pension and Retirement Fund of Chicago Actuarial Valuations, FY2010, p. 16, FY2011, p. 15, FY2012, p. iii, FY2013, p. iv; 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] This annual required contribution must be calculated by February 28 each year, per 40 ILCS 5/17-129.
[102] "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.
[103] 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.
[104] Public School Teachers' Pension and Retirement Fund of Chicago, *Statutorily Required Funding Valuation as of June 20, 2012*, p. 25 and Chicago Public Schools FY2015 Proposed Budget, p. 147.

The exhibit below shows actuarial projections of required CPS contributions to the Teachers' Pension Fund from FY2010 to FY2020 based on P.A. 96-0889. This exhibit does not include extra amounts contributed for benefit enhancements. As noted above, the FY2011, FY2012 and FY2013 amounts were fixed in State statute, but in FY2014 the required contribution was actuarially determined as the schedule to reach 90% funded by the end of 2059 began. The FY2014 contribution tripled from the previous year, growing by $404.0 million from $196.0 million in FY2013 to $600.0 million in FY2014. The FY2015 required contribution increases by $33.6 million over FY2014. As described above, the FY2015 employer contribution would have been larger if the State of Illinois had not appropriated $50 million in additional funding for the Chicago Teachers' Pension Fund. The required employer contribution will be recalculated each year based on the fund experience, which includes such things as investment return performance.



Source: Chicago Public Schools FY2015 Proposed Budget, p. 147; Public School Teachers' Pension and Retirement Fund of Chicago, *Statutorily Required Funding Valuation as of June 30, 2013*, p. 25; *Actuarial Valuation as of June 30, 2012*, p. 25; *Actuarial Valuation as of June 30, 2011*, p. 16; *Actuarial Valuation as of June 30, 2011*, p. 15; and Public Act 96-0889.

Employee Contributions

Employee contributions to the Teachers' Pension Fund are statutorily set at 9% 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 seven percentage points of the employee 9% contribution on behalf of teachers. Therefore, teachers effectively pay 2% of their annual salary toward their pensions. The District's FY2015 cost for the 7% employee pick-up is approximately $134 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 (UAAL) and the investment rate of return.

Funded Ratios

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

The actuarial value of assets measurement presents the ratio of assets to liabilities and accounts for assets by recognizing unexpected gains and losses over a period of three to five years.[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 85.8% funded on an actuarial value basis in FY2004, and this funded ratio fell to 49.7% in FY2013. The market value funded ratio fell from 85.3% in FY2004 to 53.7% in FY2009 and recovered to 61.1% in FY2011 before falling again to 51.0% in FY2013. 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. In FY2013 the market value funded ratio is higher in part because it fully incorporates high investment returns in FY2013, while the actuarial value smoothes higher than expected returns over the four years.

As noted above, the CTPF Board of Trustees voted to lower the Teachers' fund expected rate of return for FY2013 onward. There were additional changes made to the actuarial assumptions for the FY2013 financial statements that also impacted the funded status of CTPF. [107] The actuarial assumption changes increased the actuarial accrued liability (AAL) or the projected benefit obligation due to past service by employees and retirees—the denominator of the funded ratio calculation—and therefore decreased the funded ratio as compared to what the ratio would have been if the actuarial changes had not been made. According to data provided by the fund's

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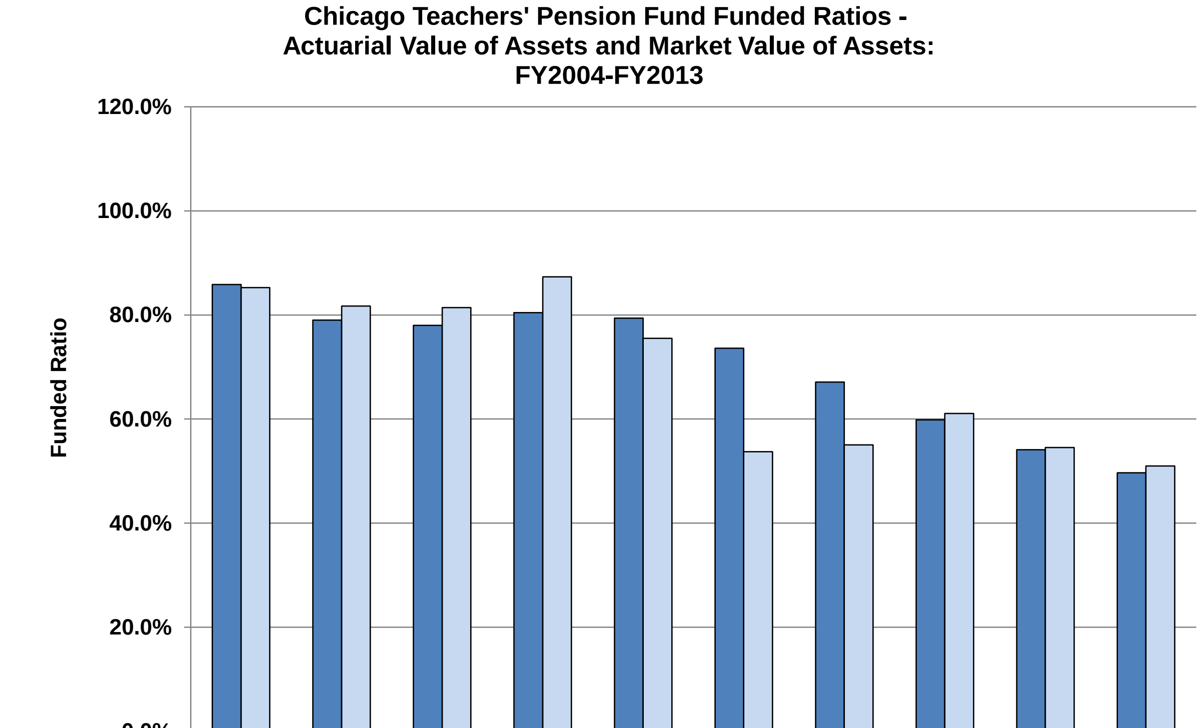
[105] CPS FY2015 Proposed Budget, p. 149. CPS also "picks up" 7% of employee contributions to the Chicago Municipal Fund for eligible non-teacher employees at a cost of $40 million in FY2015.

[106] For more detail on the actuarial value of assets, see Civic Federation, Status of Local Pension Funding FY2011, May 21, 2013, http://www.civicfed.org/sites/default/files/StatusofLocalPensionFundingFiscalYear2011.pdf. The Chicago Teachers' Pension Fund smoothes returns over four years.

actuary, the actuarial funded ratio would have been 52.5% in FY2013 if the actuarial assumptions had not been changed.[108]



	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Actuarial Value	85.8%	79.0%	78.0%	80.4%	79.4%	73.6%	67.1%	59.9%	54.1%	49.7%
Market Value	85.3%	81.7%	81.4%	87.3%	75.5%	53.7%	55.0%	61.1%	54.5%	51.0%

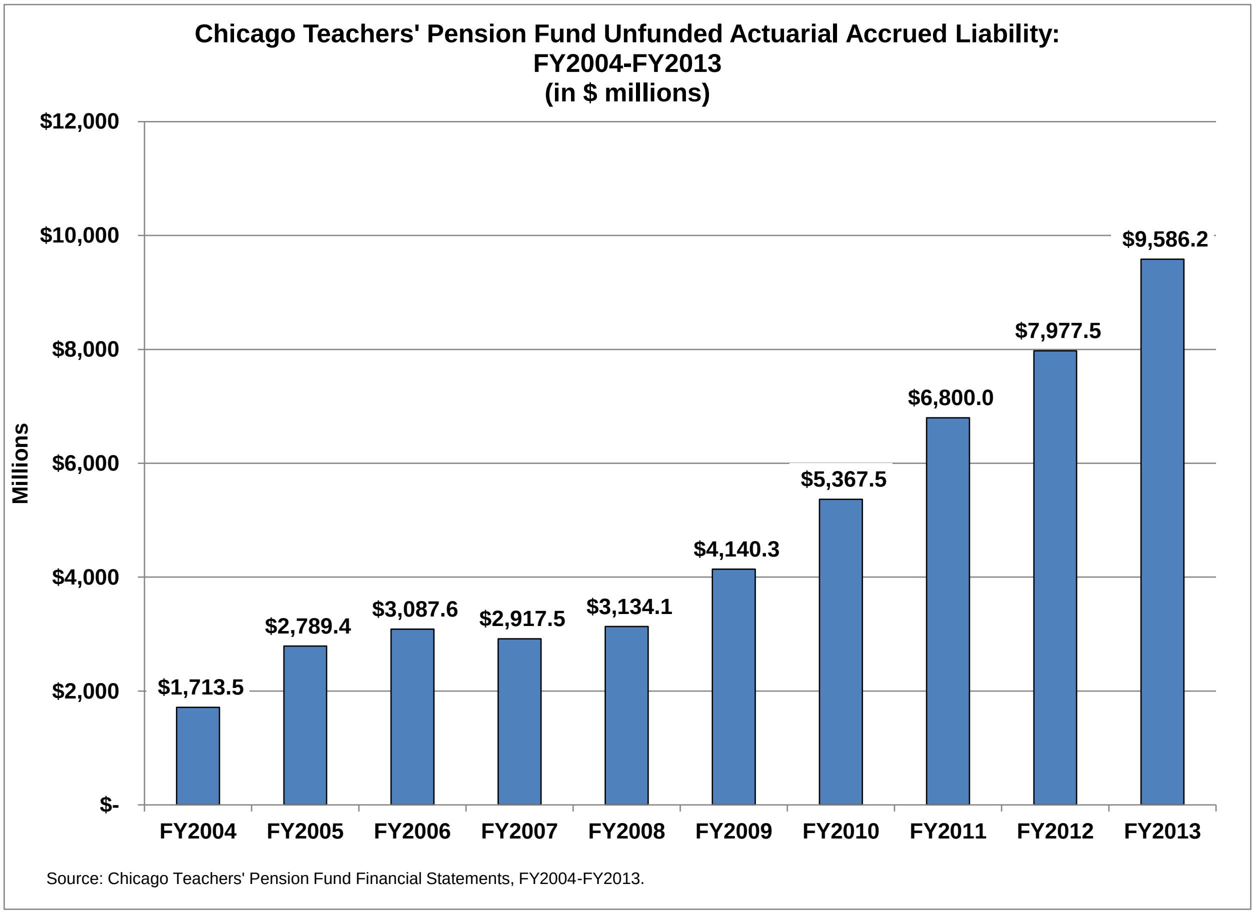
Source: Civic Federation calculations based on Chicago Teachers' Pension Fund Financial Statements, FY2004-FY2013.

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 $1.7 billion in FY2004. Since FY2004 unfunded liabilities have increased by 459.5%, rising to nearly $9.6 billion in ten years. In just one year, from FY2012 to FY2013, unfunded liabilities grew by $1.6 billion. The significant increase in FY2013 despite higher than expected investment returns (see next section) is due to changes in the actuarial assumptions of the fund. The changes increased the fund's unfunded actuarial accrued liability by more than $1.0 billion compared to what the UAAL would have been without the assumption changes. If

[107] The actuarial assumption changes also included a decrease in the inflation assumption, a decrease in the expected payroll growth rate and some changes to mortality assumptions, in addition to the change to expected rate of return on investments.
[108] Chicago Teachers' Pension Fund FY2013 GASB 25 Actuarial Valuation, p. iv and FY2013 Statutory Actuarial Valuation, p. iv. Civic Federation calculation.

the changes had not been made, the UAAL for the CTPF in FY2013 would have been nearly $8.6 billion.[109]



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 FY2004 to FY2013. The single largest contributor to the $8.7 billion increase in unfunded liability is the investment return.[110] 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 assumption, the four-year smoothed return may not. This was the case in FY2011, when the market value rate of return was 24.7%, but the four-year smoothed return was -0.5%, reflecting losses in FY2008 and FY2009. Conversely, in FY2013 the actual market value rate of return was 13.1%, far above the 7.75% assumption, and the smoothed rate of return was 11.2% because FY2009 losses were no longer incorporated into the valuation, resulting in a gain of $281.7 million. However, over the ten-year period, the failure of investment returns to meet the 8.0% or 7.75% assumption added $3.2 billion to the unfunded liability.

[109] Chicago Teachers' Pension Fund FY2013 GASB 25 Actuarial Valuation, p. iv and FY2013 Statutory Actuarial Valuation, p. iv. Civic Federation calculation.
[110] Total increase in unfunded liability includes increase in FY2004 over FY2003, included in the first line of the chart below.

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 nearly $3.0 billion to the unfunded liability between FY2004 and FY2013.

The largest contributor to the increase in the unfunded liability in FY2013, as described above, is the reduction in the assumed investment rate of return and other actuarial assumptions, which contributed over 60% of the $1.6 billion increase in the unfunded liability.

Chicago Teachers' Pension Fund Reasons for Change in Unfunded Actuarial Accrued Liability: FY2004-FY2013

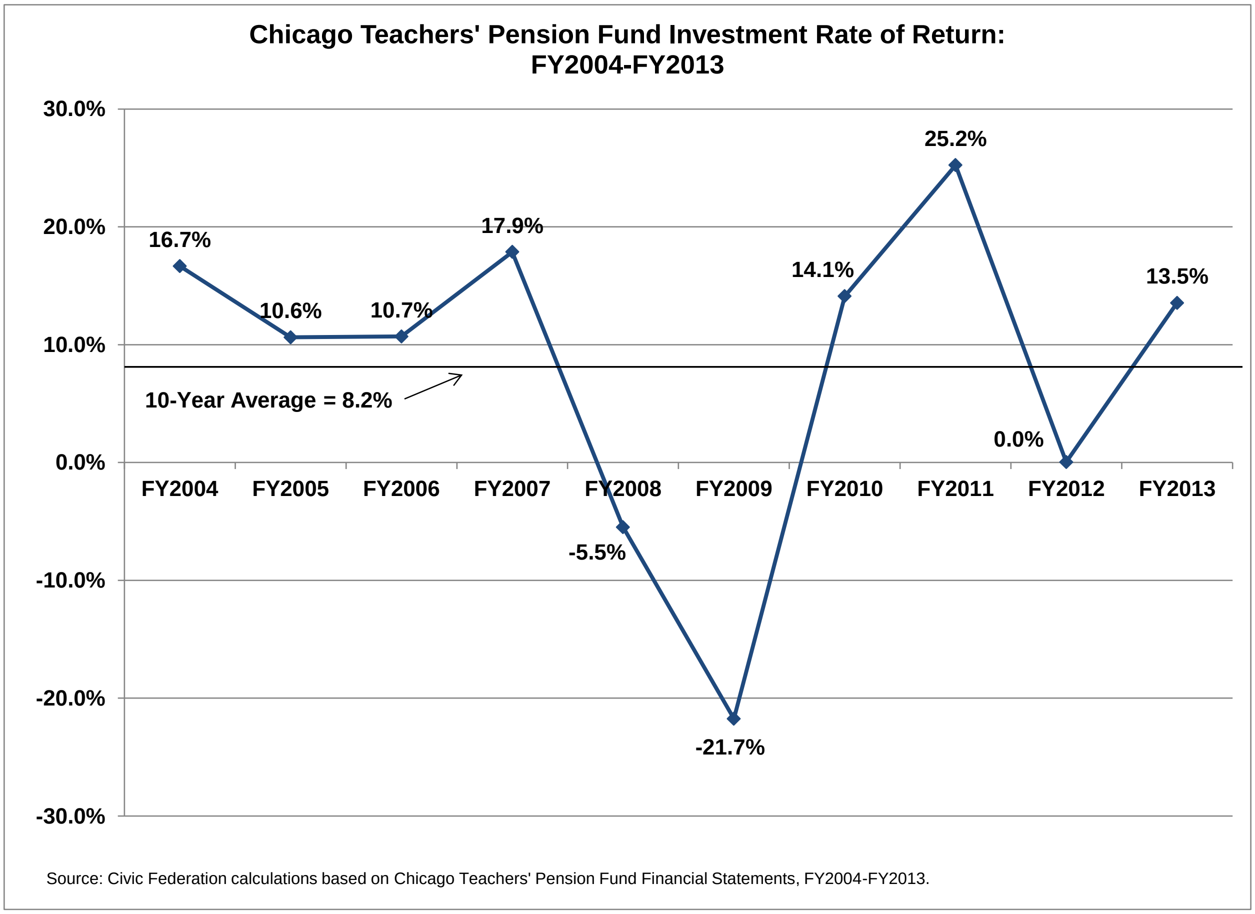
	Employer Contribution Lower/(Higher) than Normal Cost Plus Interest on Unfunded Liability	Investment Return Lower/(Higher) Than Assumed	Salary Increase (Lower)/Higher Than Assumed	Benefit Increases	Change in Actuarial Assumptions, Methods, or Data	Other	Total Net UAAL Change
FY2004	$ 157,713,698	$ 500,523,724	$ (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	*	$ -	$ -	$ (40,655,176)	**$ 1,177,471,788**
FY2013	$ 621,672,350	$ (281,738,207)	*	$ -	$ 1,021,937,507	$ 246,886,533	**$ 1,608,758,183**
10-Year Total	**$ 2,972,771,557**	**$ 3,164,711,830**	**$ 38,357,268**	**$ -**	**$ 709,381,168**	**$ 1,784,221,433**	**$ 8,669,443,256**

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

Source: Chicago Teachers' Pension Fund, Actuarial Valuations, FY2004-FY2013.

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 FY2004 and FY2013, the Chicago Teachers' Pension Fund average annual rate of return was 8.2%.[111] This is above the fund's assumed rate of return of 7.75%. Returns ranged from a high of 25.2% in FY2011 to a low of -21.7% in FY2009.



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

OTHER POST EMPLOYMENT BENEFITS (OPEB)

Non-pension benefits provided to employees after employment ends are referred to as Other Post Employment Benefits (OPEB). OPEB includes health insurance coverage for retirees and their families, dental insurance, life insurance and term care coverage. It does not include termination benefits such as accrued sick leave and vacation. CPS has not established an irrevocable trust fund to account for its OPEB plan. Rather, these obligations are financed on a pay-as-you-go basis through the Chicago Teachers' Pension Fund (CTPF). It is important to note that these benefits are funded by the retirement system, not by CPS.

The CTPF provides a "rebate" for a significant portion of the monthly premiums owed by those who enroll. The rebate only applies to the retired teacher's portion of these insurance policies, not to the additional cost of enrolling eligible dependents. However, the rebate does apply to eligible dependents who are survivors of deceased retirees. The Fund had previously provided reimbursement of 70% of the cost of pensioners' health insurance coverage, but it was reduced to 60% on January 1, 2011. According to Illinois statute, total payments from the Teachers' Pension Fund to reimburse retirees may not exceed 75% of total retiree health insurance costs.[112]

In FY2013 a total of 18,140 retirees and beneficiaries received health insurance benefits. There were also 4,502 terminated employees who may be entitled to OPEB benefits but are not yet receiving them and 9,300 retirees and beneficiaries entitled to benefits but not currently receiving them.[113] 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.[114] In FY2013 the Teachers' Pension Fund spent $71.8 million on OPEB.[115]

[112] 40 ILCS 17-142.1.
[113] Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2013 in Accordance with GASB Statement No. 43, p. 3.
[114] 40 ILCS 17-142.1.
[115] Chicago Teachers' Pension Fund, FY2013 Comprehensive Annual Financial Report, p. 22.

The following exhibit shows the extent to which the aggregate cost of the CTPF's health insurance subsidy has increased over the past decade. From FY2004 to FY2013, insurance premium rebates paid to beneficiaries increased by 35.1%, or $18.7 million. The health insurance rebate has increased year over year, with year-to-year increases ranging from 2.5% in FY2005 to 12.6% in FY2008. The exceptions were FY2011 and FY2012, when the subsidy decreased by 1.3% and 12.5%, respectively, due to the reduction to the reimbursement percent on January 1, 2011. The health insurance rebate has represented approximately 5.0% to 8.6% of total pension and OPEB benefit expenditures over the ten-year period.

Total Health Insurance Premium Rebates Paid to Retired CPS Teachers: FY2004-FY2013		
	Health Insurance Rebate Paid	**% Change over Previous Year**
FY2004	$ 53,106,379	-
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	-1.3%
FY2012	$ 69,011,323	-12.5%
FY2013	$ 71,763,523	4.0%
Ten-Year Change	**$ 18,657,144**	**35.1%**

Source: Chicago Teachers' Pension Fund, Comprehensive Annual Financial Report FY2013, pp. 123 and 124.

The following exhibit shows the funded status of the teachers' OPEB plan. The total actuarial liability fluctuated from $2.7 billion in FY2009 to just under $2.4 billion in FY2013. Assets as a percentage of the actuarial liability were 1.9% in FY2009 and 1.5% in FY2013. The actuarial assumptions used included a 4.5% discount rate and an annual healthcare cost trend rate which is projected to decline by 0.5% points a year from 8.0% in 2013 to 5.0% gradually over the next six years.[116]

Funded Status of the Chicago Public Schools Pension Fund Other Post Employment Benefit (OPEB) Plan: FY2009-FY2013				
	Total Actuarial Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Assets as a % of Actuarial Liability
FY2009	$ 2,670,282,662	$ 49,691,750	$ 2,620,590,912	1.9%
FY2010	$ 2,864,877,305	$ 34,857,732	$ 2,830,019,573	1.2%
FY2011	$ 3,071,516,739	$ 31,324,572	$ 3,040,192,167	1.0%
FY2012	$ 3,110,316,263	$ 34,124,958	$ 3,076,191,305	1.1%
FY2013	$ 2,386,105,927	$ 35,796,904	$ 2,350,309,023	1.5%

Source: Chicago Teachers' Pension Fund, Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2013 in Accordance with GASB Statement No. 43, p. 4; Chicago Teachers' Pension Fund, Actuarial Valuation of Retiree Health Insurance Benefits as of June 30, 2011 in Accordance with GASB Statement No. 43, p. 1; Chicago Teachers' Pension Fund, Actuarial Valuation of Retiree Health Insurance Plan as of June 30, 2010 in Accordance with GASB Statement No. 43, p. 1; and Chicago Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation of Retiree Health Insurance Plan as of June 30, 2009 in Accordance with GASB Statement No. 43, p. 1.

[116] Chicago Teachers' Pension Fund, Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2013 in Accordance with GASB Statement No. 43, p. 5.

LIABILITIES

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

Short-Term Liabilities

Short-term liabilities are financial obligations that must be satisfied within one year. They can include short-term debt, accounts payable, accrued payroll, amounts held for student activities and other current liabilities. The District currently reports no short-term debt. CPS currently includes the following short-term liabilities in the Governmental Funds Balance Sheet in its annual Comprehensive Annual Financial Report:

- *Accounts payable*: monies owed to vendors or employees for goods and services
- *Accrued payroll*: employee pay carried over from previous years
- *Amounts held for student activities*: deposits held in custody or funds that belong to individual school accounts

Short-term liabilities in the Governmental Funds increased by approximately $58.8 million, or 6.7%, from FY2009 to FY2013. The largest portion of the increase in this five-year period is for accounts payable, which grew by nearly $52.0 million or 14.1%. In the two-year period between FY2012 and FY2013, total short-term liabilities rose by 0.2% or $2.0 million, while accounts payable fell by 14.7% or $72.9 million.

CPS Short-Term Liabilities in the Governmental Funds: FY2009 - FY2013
(in $ thousands)

	FY2009	FY2010	FY2011	FY2012	FY2013	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Accounts Payable	$369,499	$347,225	$ 464,286	$494,371	$421,491	$ (72,880)	-14.7%	$ 51,992	14.1%
Accrued Payroll	$471,602	$520,769	$ 518,652	$399,792	$473,189	$ 73,397	18.4%	$ 1,587	0.3%
Amount Held for Student Activities	$ 30,359	$ 31,647	$ 34,840	$ 34,026	$ 35,536	$ 1,510	4.4%	$ 5,177	17.1%
Total	**$871,460**	**$899,641**	**$1,017,778**	**$928,189**	**$930,216**	**$ 2,027**	**0.2%**	**$ 58,756**	**6.7%**

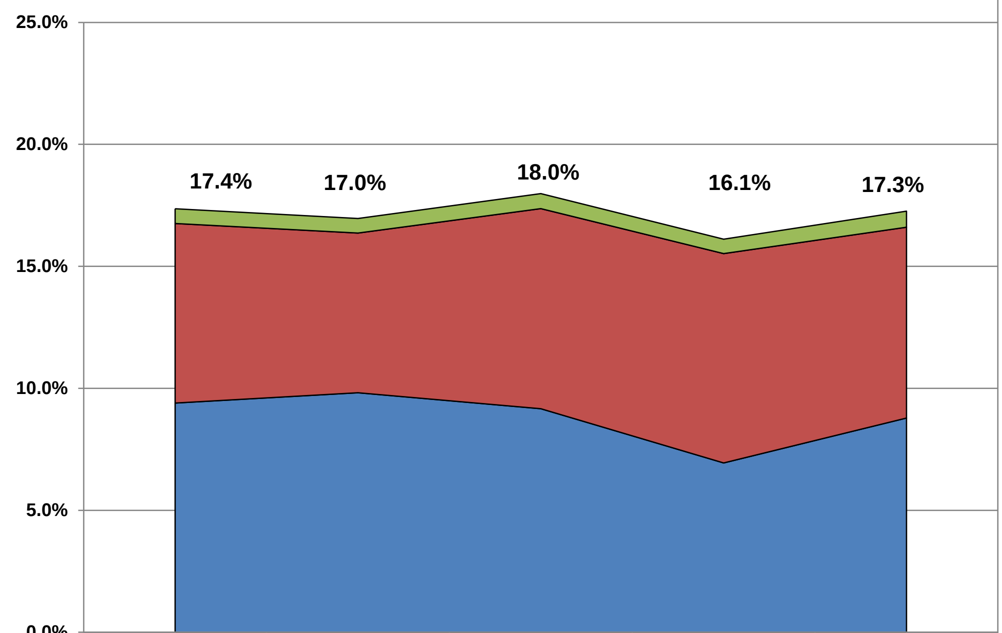
Source: CPS Comprehensive Annual Financial Reports, Balance Sheets - Governmental Funds, FY2009 - FY2013.

Short-Term Liabilities as a Percentage of Net Operating Revenues

Increasing short-term (current) liabilities at the end of the year in a government's operating funds as a percentage of net operating revenues may be a warning sign of a government's future financial difficulties.[117] This ratio indicator, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending.

The following graph shows the five-year trend in the District's short-term liabilities by category. Between FY2009 and FY2013, the ratio averaged 17.1%, fluctuating slightly from 16.1% in FY2012 to 18.0% in FY2011. Between FY2012 and FY2013 the ratio increased from 16.1% to 17.3%. Future increases will bear watching.

Chicago Public Schools Short Term Liabilities in Governmental Funds as a % of Operating Revenues: FY2009-FY2013



	FY2009	FY2010	FY2011	FY2012	FY2013
Amount for Student Activities	0.6%	0.6%	0.6%	0.6%	0.7%
Accounts Payable	7.4%	6.5%	8.2%	8.6%	7.8%
Accrued Payroll	9.4%	9.8%	9.2%	6.9%	8.8%

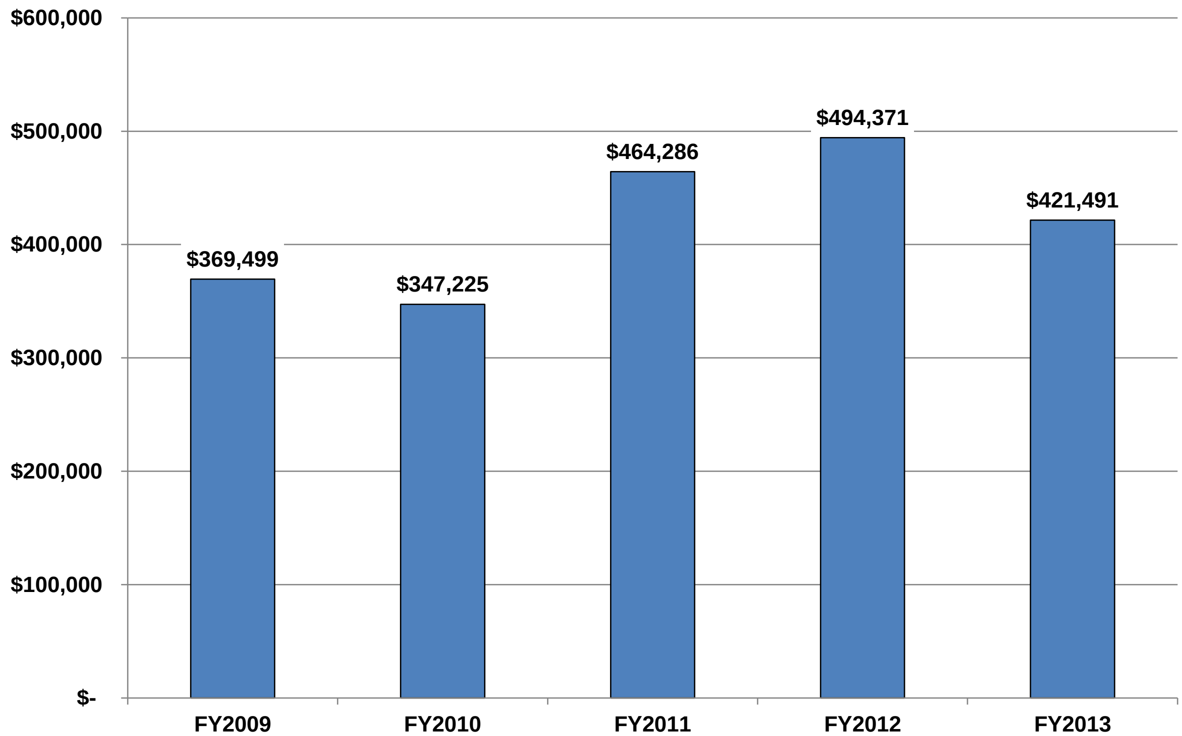
Source: Chicago Public Schools Comprehesive Annual Financial Reports, FY2009-FY2013.

[117] The General Operating Fund for CPS is its Governmental Funds, which are those funds used to account for general operations. See Karl Nollenberger, Sanford Groves and Maureen G. Valente. *Evaluating Financial Condition: A Handbook for Local Government* (International City/County Management Association, 2003), p. 77 and p. 169.

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 14.1% in total accounts payable, or approximately $52.0 million, from FY2009 to FY2013. This represented an increase from $369.5 million to $421.5 million. A portion of the increase between FY2010 and FY2011, or approximately $43.0 million, was attributable to a payment accrual made to the Chicago Police Department for police services.[118] There was a decrease of $72.9 million or 14.7% between FY2012 and FY2013; this is a positive sign.

CPS Total Accounts Payable in Governmental Funds: FY2009-FY2013 (in $ thousands)



Source: CPS Comprehensive Annual Financial Reports, FY2009- FY2013.

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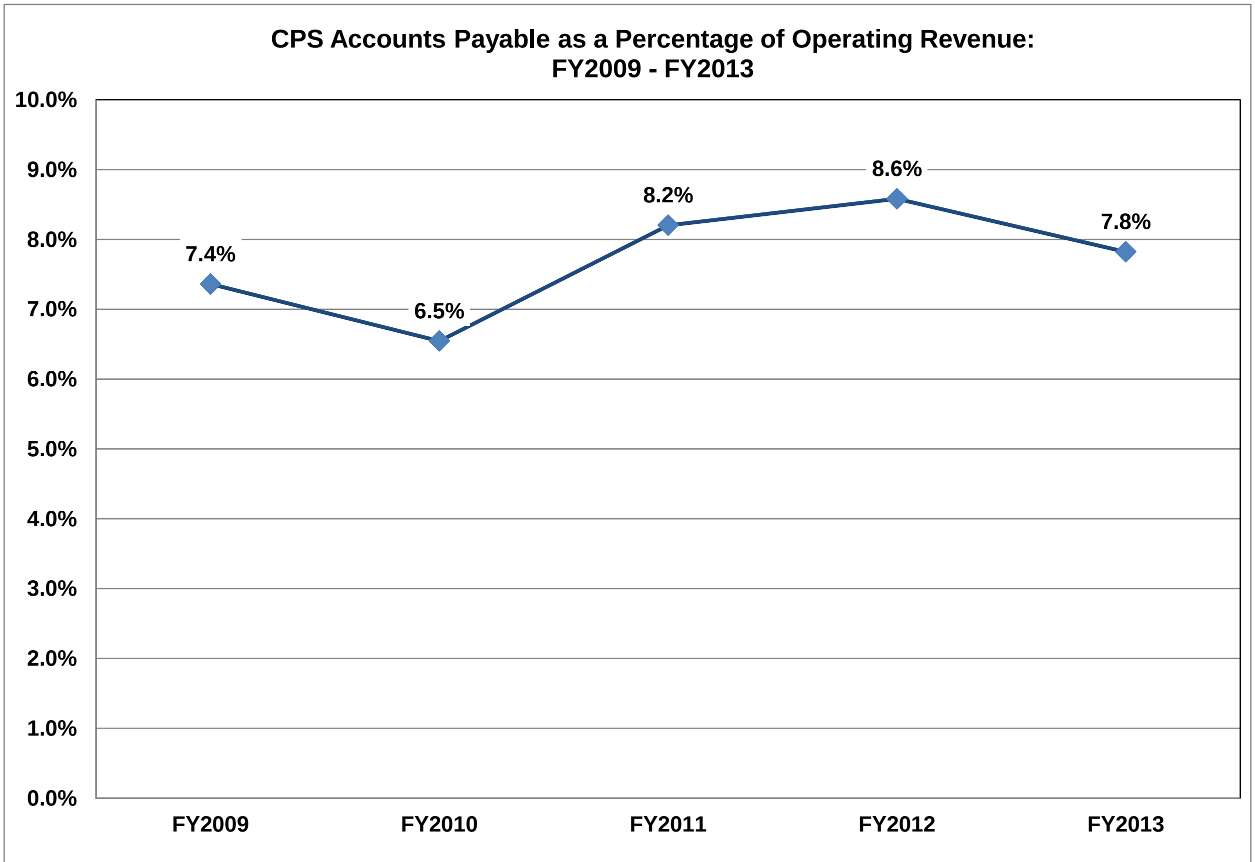
[118] Information provided by CPS Budget Office, July 17, 2012.

The District's ratio of accounts payable in the Governmental Funds to operating revenues has increased slightly from 7.4% in FY2009 to 7.8% in FY2013. The ratio increased from 6.5% in FY2010 to 8.6% in FY2012 before dropping to 7.8% in FY2013. These changes primarily reflect the $147.1 million, or 42.4%, increase in accounts payable between FY2010 and FY2012 and then the subsequent decrease of $72.9 million between FY2012 and FY2013.



Source: CPS Comprehensive Annual Financial Reports, FY2009-FY2013.

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.[119] 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

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

that the District has made that will expire within one year including stocks and bonds that can be liquidated quickly;

- *Cash and investments in escrow* in the Debt Service Fund represent the amount available for debt service payments on the Unlimited Tax General Obligation Bonds and Public Building Commission Leases. The cash and investments in escrow in the Capital Projects Funds represent the unspent proceeds from the Unlimited Tax General Obligation Bonds, Public Building Commission Building Revenue Bonds, State Technology Revolving Loan Fund and other revenues;[120]
- *Cash and investments held in school internal accounts* represent the book balance for checking and investments for individual schools;[121]
- *Receivables* are monetary obligations owed to the government including property taxes, replacement taxes and state or federal aid; and
- *Other assets* include prepaid assets and deferred charges recorded as expenditures in the governmental funds. Deferred charges are for bond issuance costs.[122]

The CPS current ratio was 4.4 in FY2013, the most recent year for which data is available. In the past five years, the District's current ratio averaged 4.3, which is greater than the benchmark of 2.0, and thus demonstrates a healthy level of liquidity. Over the five-year period, current assets rose by 12.1% while current liabilities rose by 6.7%.

CPS Current Ratio in the Governmental Funds: FY2009-FY2013
(in $ thousands)

	FY2009	FY2010	FY2011	FY2012	FY2013	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Current Assets									
Cash and Investments	$1,250,988	$ 857,002	$1,157,460	$1,470,892	$1,259,273	$ (211,619)	-14.4%	$ 8,285	0.7%
Cash and Investments in Escrow	$ 583,415	$ 951,546	$ 778,083	$ 649,471	$ 755,025	$ 105,554	16.3%	$ 171,610	29.4%
Cash and Investments Held in School Internal Accounts	$ 30,359	$ 31,647	$ 34,840	$ 34,026	$ 35,536	$ 1,510	4.4%	$ 5,177	17.1%
Receivables: Property Taxes, Net	$1,055,561	$ 906,944	$1,022,827	$ 996,968	$1,061,198	$ 64,230	6.4%	$ 5,637	0.5%
Receivables: Replacement Taxes	$ 29,417	$ 22,829	$ 24,342	$ 33,182	$ 35,870	$ 2,688	8.1%	$ 6,453	21.9%
Receivables: State Aid, Net	$ 612,208	$ 807,665	$ 775,970	$ 613,199	$ 514,760	$ (98,439)	-16.1%	$ (97,448)	-15.9%
Receivables: Federal Aid	$ 52,276	$ 156,023	$ 277,650	$ 202,462	$ 291,336	$ 88,874	43.9%	$ 239,060	457.3%
Receivables: Other	$ 56,052	$ 40,209	$ 146,247	$ 40,533	$ 159,492	$ 118,959	293.5%	$ 103,440	184.5%
Other Assets	$ 4,356	$ 4,595	$ 2,095	$ 8,581	$ 5,687	$ (2,894)	-33.7%	$ 1,331	30.6%
Total Current Assets	**$3,674,632**	**$3,778,460**	**$4,219,514**	**$4,049,314**	**$4,118,177**	**$ 68,863**	**1.7%**	**$ 443,545**	**12.1%**
Current Liabilities									
Accounts Payable	$ 369,499	$ 347,225	$ 464,286	$ 494,371	$ 421,491	$ (72,880)	-14.7%	$ 51,992	14.1%
Accrued Payroll	$ 471,602	$ 520,769	$ 518,652	$ 399,792	$ 473,189	$ 73,397	18.4%	$ 1,587	0.3%
Amount Held for Student Activities	$ 30,359	$ 31,647	$ 34,840	$ 34,026	$ 35,536	$ 1,510	4.4%	$ 5,177	17.1%
Total Current Liabilities	**$ 871,460**	**$ 899,641**	**$1,017,778**	**$ 928,189**	**$ 930,216**	**$ 2,027**	**0.2%**	**$ 58,756**	**6.7%**
Current Ratio	**4.2**	**4.2**	**4.1**	**4.4**	**4.4**				

Source: CPS Comprehensive Annual Financial Reports, Balance Sheets - Governmental Funds, FY2009 - FY2013.

[120] Chicago Public Schools FY2013 Comprehensive Annual Financial Report, p. 58.
[121] Chicago Public Schools FY2013 Comprehensive Annual Financial Report, p. 59.
[122] Chicago Public Schools FY2013 Comprehensive Annual Financial Report, p. 45.

Long-Term Liabilities

This section examines trends in CPS long-term liabilities. It includes a review of trends in the District's total long-term liabilities and a discussion of its tax supported long-term debt. Long-term liabilities are all of the obligations owed by a government over time.[123] Increases in long-term liabilities over time may be a sign of fiscal stress. They include long-term debt as well as:

- *Accrued Sick Pay Benefits***:** CPS provides sick pay benefits for nearly all of its employees. Eligible employees were able to accumulate a maximum of 325 sick days granted before July 1, 2012. If an employee reached age 65, had a minimum of 20 years of service at the time of resignation or retirement or death, the employee (or surviving dependent in case of employee death) was entitled to receive, as additional cash compensation, all or a portion of her or his accumulated sick leave days. After July 1, 2012, unused sick days at the end of a fiscal year will no longer be carried over to the next fiscal year. Payout of the value of any unused sick days will no longer be paid out to employees. CPS budgets an amount each year in the General Operating Fund for these estimated payments to employees terminated in the current fiscal year.
- *Accrued Vacation Pay Benefits***:** For eligible employees, the maximum number of accumulated unused vacation days permitted is 40 days for those employees with up to ten years of service, 53 days for those with 11 to 20 years of service and 66 days for those with more than 20 years of service. Eligible employees are entitled to receive 100% of accumulated vacation days at their current salary rate. These amounts are paid from the General Operating Fund.
- *Accrued Workers' Compensation Claims, Accrued General and Automobile Claims and Tort Liabilities and Other Claims:* CPS is substantially self-insured and assumes risk of loss as follows:

  CPS maintains commercial excess property insurance for "all risks" of physical loss or damage with limits of $250,000,000 and Boiler and Machinery Insurance with limits of $100,000,000 with the following deductibles:
    - Data Processing Equipment & Media $50,000
    - Mechanical Breakdown $50,000
    - All Other Losses $500,000
- *Net Pension Obligations (NPO):* NPO is the cumulative difference, since the effective date of GASB Statement 27, between the annual pension cost and the employer's contributions to the plan. This includes the pension liability at transition (beginning pension liability) and excludes short-term differences and unpaid contributions that have been converted to pension-related debt.
- *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.[124]

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

[124] 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

Between FY2009 and FY2013, total CPS long-term liabilities increased by 45.3%, or over $3.5 billion, rising from approximately $7.8 billion to $11.3 billion. Long-term debt increased by $1.6 billion, or 34.0%, 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 61.9% or nearly $2.0 billion. Net pension obligations rose by 56.5%, from $1.9 billion to $3.0 billion while net OPEB obligations grew by 103.1%, rising from approximately $756.6 million to $1.5 billion.

CPS Long-Term Liabilities: FY2009-FY2013
(in $ thousands)

Type of Obligation	FY2009	FY2010	FY2011	FY2012	FY2013	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
General Obligation Bonds*	$4,221,497	$4,904,510	$5,249,147	$ 5,593,686	$ 6,058,398	$ 464,712	8.3%	$1,836,901	43.5%
Leases Securing PBC Bonds	$ 386,385	$ 359,215	$ 330,375	$ 299,780	$ 267,330	$ (32,450)	-10.8%	$ (119,055)	-30.8%
Capital Leases	$ 2,450	$ 2,275	$ 2,100	$ 1,925	$ 1,750	$ (175)	-9.1%	$ (700)	-28.6%
Asbestos Abatement Loan	$ 2,710	$ -	$ -	$ -	$ -	$ -	0.0%	$ (2,710)	---
Note Payable	$ 1,318	$ -	$ -	$ -	$ -	$ -	0.0%	$ (1,318)	---
Accumulated Resources Restricted to Repayment of GO Debt Principal**	$ -	$ -	$ -	$ -	$ (144,852)	---	---	$ (144,852)	---
Subtotal Long-Term Debt	**$4,614,360**	**$5,266,000**	**$5,581,622**	**$ 5,895,391**	**$ 6,182,626**	**$ 287,235**	**4.9%**	**$1,568,266**	**34.0%**
Accrued Sick Pay Benefits	$ 295,302	$ 334,968	$ 459,823	$ 354,692	$ 365,299	$ 10,607	3.0%	$ 69,997	23.7%
Accrued Vacation Pay Benefits	$ 74,306	$ 75,508	$ 66,389	$ 65,518	$ 69,853	$ 4,335	6.6%	$ (4,453)	-6.0%
Accrued Workers' Compensation Claims	$ 91,791	$ 103,676	$ 109,735	$ 115,296	$ 114,268	$ (1,028)	-0.9%	$ 22,477	24.5%
Accrued General and Automobile Claims	$ 9,000	$ 5,531	$ 5,343	$ 5,398	$ 5,808	$ 410	7.6%	$ (3,192)	-35.5%
Tort Liabilities and Other Claims	$ 2,000	$ 2,500	$ 2,000	$ 2,000	$ 3,278	$ 1,278	63.9%	$ 1,278	63.9%
Net Pension Obligation	$1,929,885	$1,968,685	$2,262,010	$ 2,618,836	$ 3,020,049	$ 401,213	15.3%	$1,090,164	56.5%
Net OPEB Obligation	$ 756,653	$ 949,371	$1,130,197	$ 1,335,928	$ 1,536,593	$ 200,665	15.0%	$ 779,940	103.1%
Subtotal Other Long-Term Liabilities	**$3,158,937**	**$3,440,239**	**$4,035,497**	**$ 4,497,668**	**$ 5,115,148**	**$ 617,480**	**13.7%**	**$1,956,211**	**61.9%**
Grand Total Long-Term Liabilities	**$7,773,297**	**$8,706,239**	**$9,617,119**	**$10,393,059**	**$11,297,774**	**$ 904,715**	**8.7%**	**$3,524,477**	**45.3%**

* Outstanding principal.

** Beginning in FY2013, CPS will include information about accumulated resources restricted to repaying the principal of outstanding general obligation debt. These amounts will be subtracted from the total CPS GO debt in order to calculate a net total primary amount. For years prior to FY2013, total outstanding GO debt per capita is total debt divided by population. In FY2013 and succeeding years, the per capita ratio will be the net total GO debt divided by population. See the FY2013 CPS Comprehensive Annual Financial Report, p. 168.

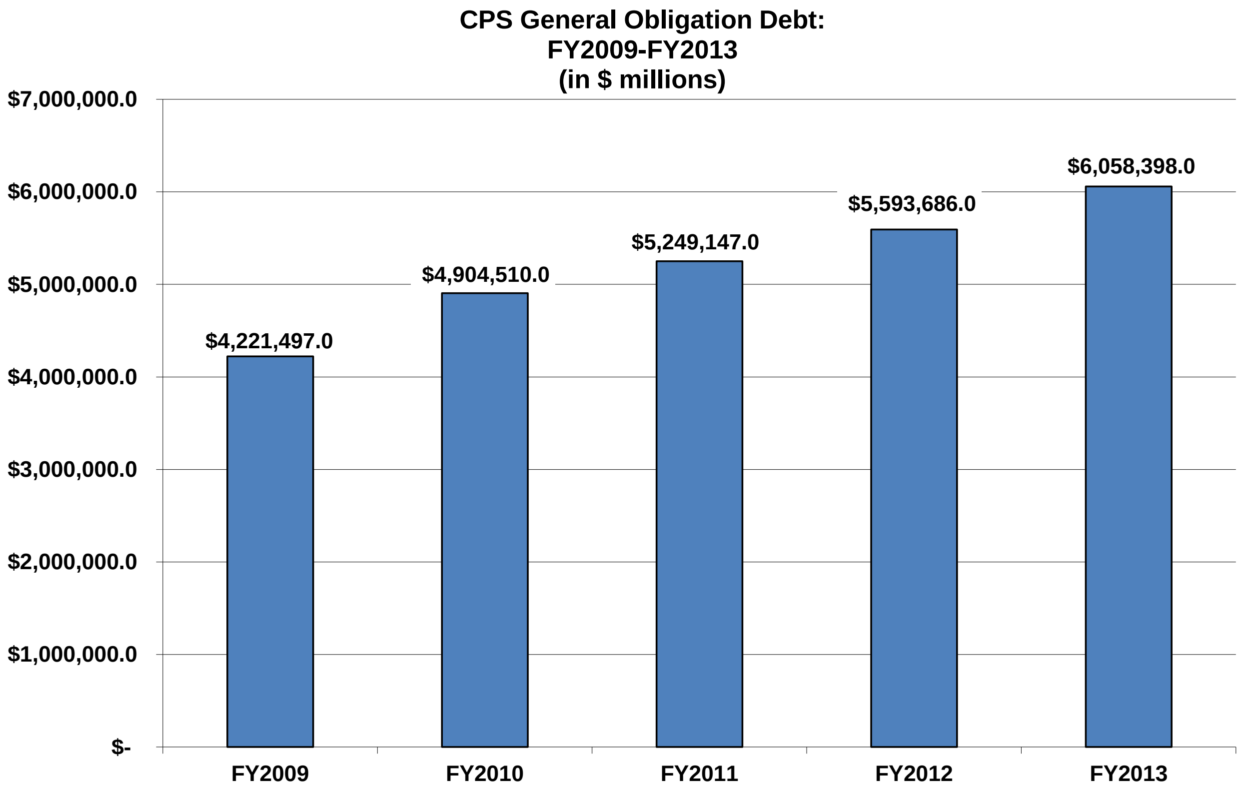
Source: CPS Comprehensive Annual Financial Reports, Notes 8, 9, 11 and 12, FY2009-FY2013.

General Obligation Debt

CPS general obligation debt is the largest component of the District's long-term debt portfolio, averaging 94.3% of total long-term debt from FY2009 to FY2013. 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 bears watching as it is 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.

pay-as-you-go basis through the Chicago Teachers' Pension Fund. It is important to note that these benefits are funded by the retirement system, not by CPS.

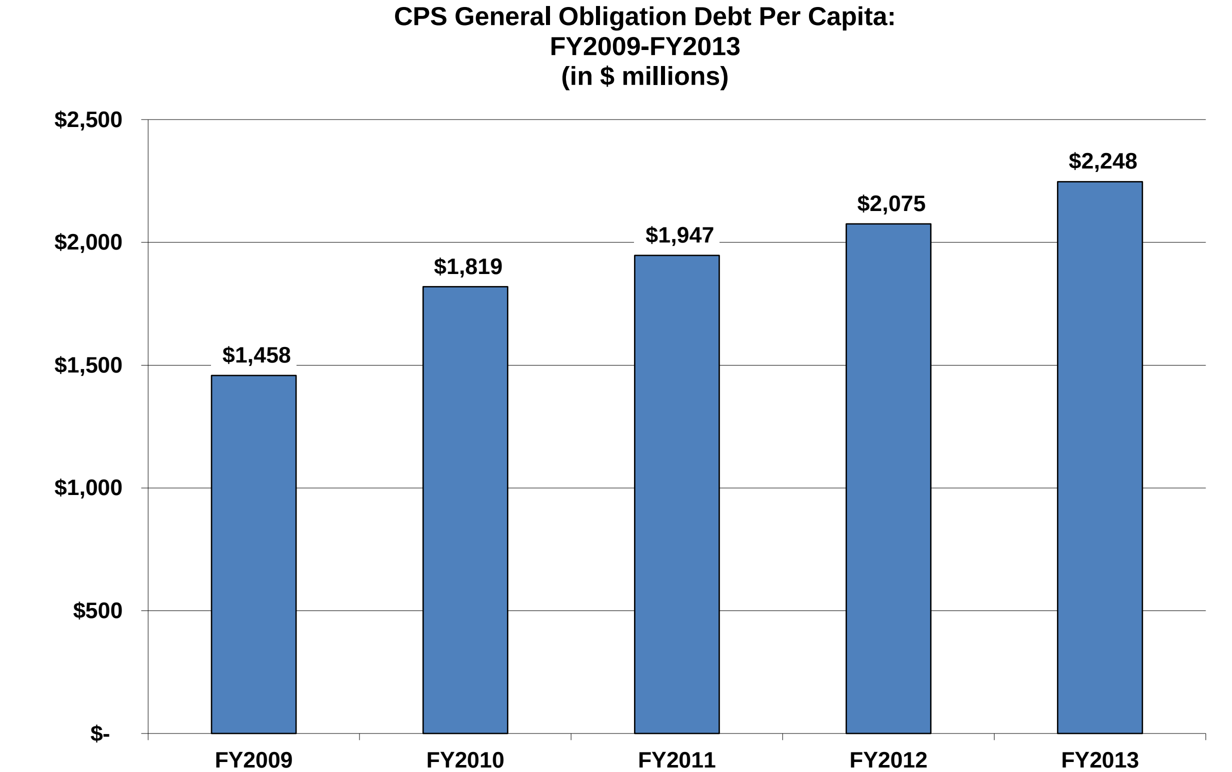
CPS general obligation debt principal increased by 43.5%, or $1.8 billion, between FY2009 and FY2013. This represents an increase from $4.2 billion to $6.1 billion. The increase reflects the District's large capital construction program over the past several years. The rate of increase over time has been significant 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 FY2013 Comprehensive Annual Financial Report, p. 169.

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 in the ratio bear watching as a potential sign of increasing financial risk in much the same manner as increases in total direct debt figures do. CPS general obligation debt per capita increased by 54.2% between FY2009 and FY2013, rising from $1,458 to $2,248. The increase reflects a significant increase in direct debt, but is not the same as the dollar percentage increase over time for general obligation debt because the City's population has decreased by 6.9% over the time period, falling from 2,896,016 to 2,695,598.[125] Over the past two fiscal years, CPS general obligation debt per capita has jumped 8.3% from $2,075 to $2,248.



Source: CPS FY2013 Comprehensive Annual Financial Report, p. 169.

[125] CPS FY2013 Comprehensive Annual Financial Report, p. 169.

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%.[126] Although the debt service ratio for CPS will increase significantly from 5.7% in FY2011 to 10.5% in FY2015, it is still below the 15% threshold. Between FY2011 and FY2015, the debt service ratio averaged 7.7%.

Chicago Public Schools Budgeted Debt Service Appropriations as of % of Total Appropriations: FY2011-FY2015

	FY2011	FY2012	FY2013	FY2014 Estimated	FY2015 Proposed	$ Change	% Change
Debt Service Appropriations	$ 332.1	$ 374.5	$ 390.4	$ 484.1	$ 603.8	$ 271.70	81.8%
Total Appropriations	$ 5,805.4	$ 5,839.7	$ 5,804.3	$ 5,312.2	$ 5,756.3	$ (49.10)	-0.8%
Debt Service as a % of Total Appropriations	5.7%	6.4%	6.7%	9.1%	10.5%		

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

[126] 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.

CPS Bond Ratings

In FY2014 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. At that time, Moody's said that the rating downgrade reflected above-average debt burden and the expected narrowing of reserves to bridge the FY2014 budget gap.[127] On March 14, 2014, Moody's Investors Services further downgraded CPS's credit rating for its general obligation debt to Baa1with a negative outlook, the same rating it gave to City of Chicago general obligation debt on March 4th of that year. Moody's issued the downgrade because of concerns about the district on drawing down its reserves in FY2014 to meet scheduled increases in pension payments and to balance its budget as well as the projected $900 billion shortfall for FY2015.[128]

Chicago Public Schools Credit Ratings
FY2009-FY2014

	2009	2010	2011	2012	2013	2014
Standard & Poor's Rating Services	AA-	AA-	AA-	A+	A+	A+
Moody's Investor Services	A1	Aa2	Aa3	A2	A3	Baa1
Fitch Ratings	A+	AA-	A+	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 July 7, 2014).

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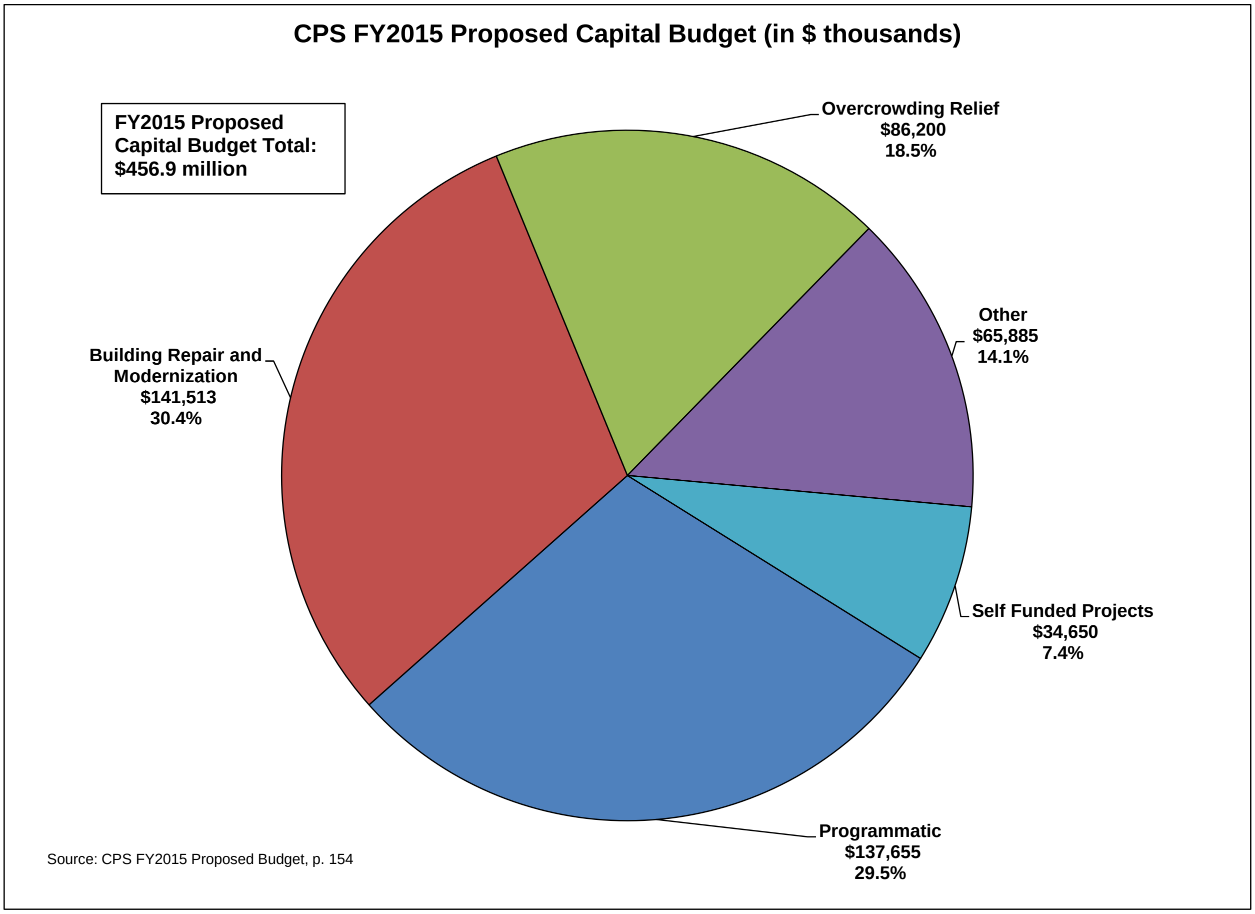
127 CPS FY2013 Proposed Budget, pp. 137-138.

128 Paul Merion, "Moody's cuts rating for Chicago schools, park district," *Crain's Chicago Business*, March 15, 2014.

CAPITAL BUDGET

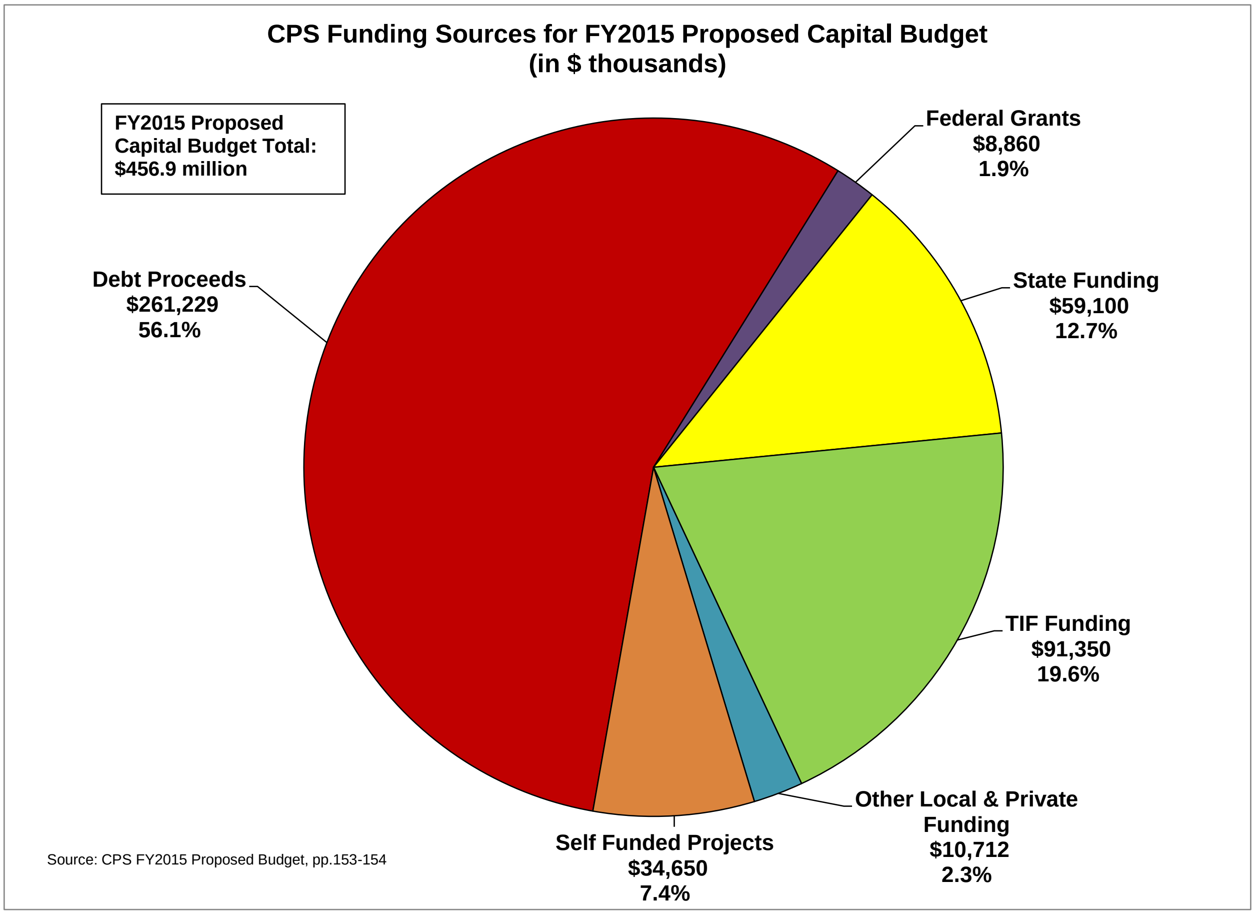
Information about CPS capital projects can be found in the capital budget section of the proposed FY2015 budget and in the FY2015-FY2019 capital improvement plan on the District's website.[129]

In its FY2015 budget, CPS proposes spending $465.9 million for capital projects. The largest single amount will be $141.5 million for building repair and modernization. This is followed by $137.7 million in funding that will support CPS programming such as enrollment expansion, the upgrade of Lane Tech, school restructuring and new labs. Funding for projects intended to provide relief from overcrowding will be budgeted at $86.2 million or 18.5% of all spending. The "other" category, which will be 14.1% of total spending, or $65.9 million, includes funding for capital project support services, legal and regulatory requirements and potential outside funded capital projects. Projects self-funded by CPS from its own resources will constitute $34.7 million or 7.4% of all capital spending.



129 Located at http://cps.edu/fy15budget/Pages/capital.aspx. Since the CPS capital budget plan was released on 5/1/14, the District has received an additional $36 million in capital funding (see CPS FY2015 Proposed Budget, p. 157).

The FY2015 capital budget will be funded primarily with debt proceeds. About $261.2 million, or 56.1% of all resources used, will be from debt. Approximately 19.6%, or $91.4 million, will be derived from Chicago tax increment financing (TIF) funding, 12.7%, or $59.1 million, from State funding, 7.4% will be self-funded by CPS, 2.3% will be financed from other local and private sources and 1.9% will come from federal grants.



Capital Project Revenues and Spending: FY2011-FY2015

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

Here are some of the significant two-year changes between the FY2014 estimated and the FY2015 proposed budget:

- Total capital revenues will increase by $77.8 million, or 69.3%, from $112.3 million to $190.1 million.
- State of Illinois revenues are expected to increase substantially from $37.9 million to $72.4 million. Of that amount, $35 million is from a state appropriation for school construction, $16.1 million is earmarked for overcrowding projects, $13.3 million will derive from new State construction projects, $7 million will be from expected

Department of Commerce and Economic Opportunity and other grants and $1 million is from the Illinois Emergency Management Association for a Safe Schools grant.[130]

- Local revenues are expected to rise from $61.1 million in FY2014 to $73.8 million in FY2015. Approximately $61.4 of the FY2015 amount will be from new TIF-related projects, $10.7 million from other local funding sources and $1.7 million will be from prior year TIF-funded projects.[131]
- Federal outlays will increase from $4.5 million to $8.9 million.
- Capital outlays will fall to $381.3 million in FY2015 from $520.1 million in the previous year; this is a decrease of 26.7%. In the same period, bond issuance will increase by 13.5%, rising from $299.6 million to $340.0 million.
- The end of year fund balance is expected to rise substantially by 143.1%, increasing from $65.6 million to $159.5 million.

The next exhibit shows capital revenues and expenses (outlays) to be incurred in FY2015 regardless of the year in which the project was appropriated. The fund balance amount shown is the difference between expected FY2015 capital expenses versus revenues; the amount unspent in one fiscal year carries forward into the next fiscal year.[132] Over the five-year period between FY2011 actual spending and the FY2015 proposed budget, total capital revenues will rise by 89.0%, or $89.5 million. Capital outlays will fall by 32.3% or $182.1 million, dropping from $563.4 million to $381.3 million. The end of year fund balance will increase by 17.2% from $182.9 million in FY2011 to $214.4 million in FY2015.

CPS Capital Revenues and Outlays to be Incurred in FY2015
(in $ millions)

	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Estimated Budget	FY2015 Proposed Budget	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Beginning of Year Fund Balance	$ 263.4	$ 182.9	$ 88.8	$ 173.8	$ 65.6	$ (108.2)	-62.3%	$ (197.8)	-75.1%
Revenues									
Local Revenue	$ 93.4	$ 59.7	$ 88.0	$ 61.1	$ 73.8	$ 12.7	20.8%	$ (19.6)	-21.0%
State Revenue	$ 2.8	$ 1.3	$ 6.9	$ 37.9	$ 72.4	$ 34.5	91.0%	$ 69.6	-
Federal Revenue	$ 4.4	$ 18.1	$ 13.6	$ 4.5	$ 8.9	$ 4.4	97.8%	$ 4.5	102.3%
Interest Earnings	$ -	$ -	$ 1.9	$ 8.8	$ 35.0	$ 26.2	-	$ 35.0	---
Total Revenue	**$ 100.6**	**$ 79.1**	**$ 110.4**	**$ 112.3**	**$ 190.1**	**$ 77.8**	**69.3%**	**$ 89.5**	**89.0%**
Expenditures									
Capital Outlay	$ 563.4	$ 576.9	$ 493.5	$ 520.1	$ 381.3	$ (138.8)	-26.7%	$ (182.1)	-32.3%
Bond Issuance	$ 382.3	$ 403.6	$ 468.0	$ 299.6	$ 340.0	$ 40.4	13.5%	$ (42.3)	-11.1%
End of Year Fund Balance	**$ 182.9**	**$ 88.8**	**$ 173.8**	**$ 65.6**	**$ 214.4**	**$ 148.8**	**226.8%**	**$ 31.5**	**17.2%**

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

CPS FY2015-FY2019 Capital Improvement Plan

Public Act 97-0474 requires CPS to prepare and publish a five-year capital improvement plan (CIP). This requirement was amended by P.A. 97-1133 to also require development of a 10-year Educational Facilities Master Plan. That plan will be used to guide completion of the 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.

[130] CPS FY2015 Proposed Budget, p. 154.
[131] CPS FY2015 Proposed Budget, p. 154.
[132] CPS FY2015 Proposed Budget, p. 156.

The CPS FY15 proposed One-and Five-Year Capital Plans are made available on the District's interactive capital website at www.cps.edu/capitalplan. The CIP website features a summary page for each project. The project summaries provide information regarding a project's type and category, status, budgeted amount and corresponding budget year, anticipated start and completion dates, funding source and the purpose and scope of the project.

The capital improvement plan includes a brief explanation of the rationale for identifying and prioritizing capital needs throughout the CPS district.[133] The rationale is based on the recent changes to the State of Illinois' School Code in Public Act 97-0474. The CPS capital website is interactive, providing users with information on planned and current projects. It allows users to select projects and review information by school, geographic area, type and year.[134]

Overall, the CPS capital improvement plan meets the requirements of P.A. 97-0474 for a five-year capital plan as well as most of the best practice requirements as defined by Government Finance Officers Association (GFOA) and the National Advisory Council on State and Local Budgeting. These best practices include identifying and describing the prioritization process used, providing a timeline for completing projects, identifying funding sources for projects and making the CIP publically available for stakeholders on the CPS website. In addition, the district accepts public input via the website and at public hearings. The Board of Education votes to adopt the one-year capital budget each year but not the full five-year CIP.[135]

The exhibit below shows the amounts proposed by CPS for FY2015-FY2019 for capital spending. In those five years, a total of nearly $1.2 billion has been forecast for projects.

CPS FY2015-FY2019 Capital Plan

	FY2015	FY2016	FY2017	FY2018	FY2019
CPS Funding	$ 261,229,318	$ 180,422,000	$ 183,232,000	$ 181,982,000	$ 178,832,000
Outside Funding/Self-Funding	$ 204,672,312	$ 3,500,000	$ -	$ -	$ -
Total	**$ 465,901,630**	**$ 183,922,000**	**$ 183,232,000**	**$ 181,982,000**	**$ 178,832,000**

Source: Comprehensive Capital Improvement Plan FY2015-2019, interactive capital budget, CPS w eb site at https://supplier.csc.cps.k12.il.us/analytics/saw .dll?dashboard (last visited July 14, 2014).

[133] Information about the CPS prioritization and planning process can be found at http://www.cps.edu/About_CPS/Policies_and_guidelines/Documents/CapitalPlan/Planning2014.pdf
[134] See CPS Interactive Capital Budget at cps.edu/budget
[135] Information provided by CPS Budget Office, July 17, 2012.