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CIVIC FEDERATION CALLS FOR REJECTION OF \$5.3 BILLION CHICAGO PUBLIC SCHOOLS BUDGET

Lack of Long-Term Planning and Transparency Troubling Says Watchdog Group

The Civic Federation is calling on the CPS Board of Trustees to reject the staff-proposed \$5.3 billion budget because it lacks requisite detail and fails to address the District's daunting long-term fiscal challenges. The Federation's annual analysis of the CPS budget, which was released today, criticizes the budget for its lack of detailed timetables for how nearly \$1 billion dollars in City TIF and CPS capital improvement funds will be spent. The budget also fails to provide adequate information about programs and initiatives currently underway. The CPS Board is scheduled to consider the FY07 budget at their meeting on Wednesday, June 28th at 10:30 am.

The Federation's analysis finds that the \$5.3 billion dollar budget plugs a projected \$328 million deficit through \$87.5 million in reduced expenditures, more than \$165 million in increased revenues, and \$75.5 million in transfers from reserves to the operating budget. It includes an increase in the property tax levy to the maximum amount allowed under the Illinois tax cap law, marking the tenth time since 1996 that CPS has increased its levy to the limit. The budgeted appropriations for all funds will increase by 5.0% over last year, when the District held the line on spending.

Revenue increases in FY2007 include \$99.4 million in new funding from the state of Illinois, of which \$98.5 million will be used for operations, \$0.5 million for professional development, and \$0.4 million for the Teachers' Pension Fund. This will increase per-pupil spending by \$170 to \$5,334.

"The Civic Federation is disappointed and the members of the Chicago Board of Education should also be disappointed with this budget," said Laurence Msall, president of the Civic Federation. "Although CPS administrators have made important steps toward managing its resources more efficiently by reducing personnel and trimming unnecessary spending, the budget contains too many unanswered questions about the District's growing personnel costs even as enrollment falls. In addition, the budget fails to identify a real capital plan, which will be essential to make sure the proposed \$1 billion in new capital expenditures are efficiently and effectively implemented."

The Federation remains concerned that even though the District is levying the maximum level of property taxes allowed under law, personnel costs continue to outstrip revenue growth for the District. Employee benefit expenses are set to rise by 14.1% this year and pension costs are also ballooning. This year CPS must pay \$53.6 million more into its Teachers' Pension Fund than in FY2006, an increase of 23.7%. Since FY2003, compensation costs have risen by 21.2% and benefit costs by 40.6%. While the budget's proposed reduction of staffing will help slow the rate of growth in salary and benefit costs, CPS must develop a plan to address this serious and escalating fiscal problem.

The Civic Federation's analysis included recommendations to improve the Chicago Public Schools' financial management, such as containing pension expenses by capping annual benefit increases for new hires and increasing the employee share of pension costs. "The Chicago Public Schools made a promise to the people of Chicago three years ago that they would develop a capital improvement plan and financial planning process," Msall said. "Before they ask citizens to dig deeper into their pockets, the District must be able to prove that their money will be used efficiently."

The Civic Federation's complete Chicago Public Schools budget analysis, including detailed findings and recommendations, is available today on our website at www.civiced.org.

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The Civic Federation is an independent, non-partisan government research organization founded in 1894. The Federation's membership includes business and professional leaders from a wide range of Chicago area corporations, professional service firms and institutions.



**CHICAGO PUBLIC SCHOOLS
FY2007 RECOMMENDED BUDGET**

Analysis and Recommendations

**Prepared By
The Civic Federation
June 26, 2006**

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EXECUTIVE SUMMARY

The Chicago Public Schools (CPS) has proposed a \$5.3 billion budget for FY2007. CPS, the Illinois's largest school district, originally projected a \$328.0 million deficit. In the proposed budget, that deficit is addressed through \$87.5 million in reduced expenditures, more than \$165.0 million in increased revenues, and \$75.5 million in transfers from reserves to the operating budget. This budget includes an increase in the property tax levy to the maximum amount allowed under the State tax cap law.

Although the CPS is taking some important steps this year to manage its resources, including the elimination of over 2,000 positions and reduction of certain costs by over \$86 million, the Civic Federation is **disappointed** by this budget. We are also very concerned by the lack of transparency and failure to introduce a systematic capital plan or long-term operating strategy. For all these reasons, the Civic Federation urges the CPS trustees to demand both detailed capital plans and public disclosure of how the widening pension deficit will be addressed. This budget does not begin to address the many daunting fiscal and programmatic challenges faced by CPS this year and in future years through strategic or financial plans, it provides almost no specificity or detailed timetables for the almost \$1 billion dollars in capital improvement programming soon to be undertaken alone and in partnership with the City of Chicago, and it does not provide adequate information about the programs and initiatives currently underway.

CPS personnel costs continue to outstrip revenue growth even as student enrollment falls and pension costs are ballooning, costing the District an additional \$55.9 million this year. In FY2015, just nine years from now, pension payments could total as much as \$266.1 million. Despite these problems, CPS has not developed a long-term financial plan that would identify future problems and opportunities and ways to address them, nor does this budget evince any indication that CPS has begun to explore ways to contain pension costs.

Published reports indicate that CPS is about to join with the City of Chicago in a nearly \$1 billion infrastructure program. However, unlike the City of Chicago, the District still has not produced a Capital Improvement Plan. CPS administrators have promised for over three years that such a plan was in development.¹

The Federation's concerns about a lack of long-term perspective are compounded by the continued lack of consistent, comparative information in the budget. The budget also fails to provide even basic information about some of the District's important achievements in cutting certain costs and implementing efficiencies.

The Civic Federation offers the following **key findings** on the CPS FY2007 Recommended Budget:

- FY2007 budgeted appropriations for All Funds will **increase** by 5.0% from FY2006, rising from \$5.0 billion to \$5.3 billion.
- General Operating Funds appropriations for employee compensation, including salaries and benefits, will increase by 4.7% in FY2007, from \$3.1 billion to \$3.3 billion. Since FY2003,

¹ "Daley Hails \$1 Billion for Schools," *Chicago Tribune*, June 16, 2006.

compensation costs have risen by 21.2%, or \$570.1 million. Over that period, benefit costs have risen by 40.6%, from \$525.0 million to \$738.2 million. 25.1% of this \$213.2 million increase is attributable to the fact that in FY2007, CPS must pay \$53.6 million more into its Teachers' Pension Fund than it paid in FY2006.

- The budget deficit of \$328.0 million was closed by administrative job cuts and efficiencies (\$25.0 million in savings), program reductions (\$62.5 million in savings), increased funding from the State of Illinois (\$99.4 million), higher-than-expected Personal Property Replacement Tax revenues (\$10.0 million), and transfers from the District's reserve funds (\$75.5 million).
- The State of Illinois will provide \$99.4 million in new funding for CPS. Of that amount, \$98.5 million will support CPS operations, \$0.5 million will be used for professional development, and \$0.4 million is earmarked for the Teachers' Pension Fund. \$61.4 million of this new funding will be awarded to the District as General State Aid, increasing per-pupil spending by \$170. FY2007 per-pupil spending will be \$5,334.²
- The property tax levy will increase by \$70.0 million or 3.4%, from approximately \$1.6 billion to \$1.7 billion. A property tax increase of 3.4% on tax capped properties is projected to generate approximately \$55 million. New properties not covered by the tax cap account for the remaining \$15 million.
- A total of 2,062 positions – 1,992 school-based positions and 70 administrative positions – will be eliminated, cutting the District's overall headcount from 46,211 to 44,149.

The Civic Federation is **encouraged** by several elements of the proposed budget:

- The CPS proposes to reduce administrative and program expenditures by \$87.5 million. Of that amount, \$25.0 million will come from administrative reductions and the remaining \$62.5 million will be saved through program reductions, including \$26.0 million from the implementation of new staffing formulas in Special Education.
- Staffing will be reduced by over 2,000 positions in its FY2007 budget. This is a prudent measure that will certainly help slow the escalating rate of growth in benefit and salary costs for the CPS.
- The number of charter schools will continue to increase, rising from 23 schools on 30 campuses to 28 schools on 48 campuses. The number of charter school students is expected to increase significantly, by 5,000 or 32.7%.
- The CPS has allowed more time than in previous years for public review and comment, releasing its budget three weeks before the beginning of public testimony.

The Civic Federation has several **concerns** about the FY2007 Chicago Public Schools budget:

- The growth in CPS personnel costs continues to outstrip general operating revenue growth. CPS operating revenues rose by 18.7% in the 5-year period between FY2003 and FY2007, as the exhibit below shows. However, the rate of growth for total employee compensation rose slightly faster, at 20.8%, while the rate of growth for benefits alone rose by 40.1%. Total CPS personnel costs for salaries and benefits will rise 4.4% in FY2007, from \$3.1 billion to \$3.2 billion, even with the elimination of over 2,000 positions.

² Information provided by the CPS Office of Management and Budget. The remaining \$0.5 million will go to area not-for-profit organizations through the Building with Books program.

- At the same time CPS operating costs rise, enrollment continues to decline. In FY2007, it is estimated that enrollment will be approximately 415,000; this will be a drop of nearly 6,000 students from the previous year.
- The Chicago Public Schools must contribute an additional \$55.9 million to the Teachers' Pension Fund in FY2007, a hefty 23.7% increase from the previous year. CPS required contribution per year will rise to \$266.1 million between FY2006 and FY2015. However, the CPS has failed to develop a viable plan to begin to address what will become the most serious fiscal problems facing the District.
- CPS has to complete a Capital Improvement Plan even as it announces \$350 million in new debt issuance to finance a construction program and the District is partnering with the City of Chicago for an additional \$600 million in capital projects.
- The CPS public budget documents lack basic transparency. It is difficult in the new, slimmer budget volume to track and compare financial trends over time. Such comparisons are essential to determine how the District's financial situation has changed over time. Also, there is very little documentation of the District's progress toward meeting its budgetary goals.
- The budget documents fail to provide necessary details of management cost savings. Although the budget book mentions increased efficiencies, no specific information is provided about the actual savings these changes will generate.

The Civic Federation offers the following **recommendations** to improve the Chicago Public Schools' financial management:

- CPS should follow the lead of the City of Chicago and the State of Illinois and make its Budget Book format much more transparent. The Budget Book should detail the sources of its projected deficit and gap-closing plan, and should offer five years of comparable summary information about appropriations, expenditures, revenues and personnel.
- Escalating pension expenses should be contained by capping annual benefit increases for new hires at 3% or the rate of inflation, whichever is less. Currently, retirees receive an automatic 3% increase each year. The employee share of pension costs also should be increased. Of the 9% of salary that makes up the employee share of pension costs, CPS now picks up 7%; employees pay the remaining 2%. In its proposed budget for FY2007, the CPS pension pick-up costs total \$291 million. The Civic Federation believes the employee share should increase by at least one percentage point (to 3%) and that this shift of pension costs should be a top priority when CPS negotiates new collective bargaining agreements. The CPS should also seek to limit annual salary increases to the rate of its revenue source growth.
- CPS must prepare, and make publicly available, a long-term detailed Capital Improvement Plan. In its proposed budget, its Capital Program totals nearly \$625 million, and CPS intends to issue \$350 million in new bonds. It is time for CPS to make good on its 3-year promise to prepare, disclose and implement a formal CIP linked to a comprehensive District-wide financial planning process.
- CPS should develop a formal long-term financial plan that is shared with and/or reviewed by key policymakers and stakeholders, including the members of the Board of Education and the taxpaying public.
- The CPS should follow up on the success of its effort to purchase prescription drugs with other local governments and pursue joint purchasing of health insurance.

OVERVIEW OF ANALYSIS

The Civic Federation recently concluded an analysis of financial issues related to the Chicago Public Schools' (CPS) Recommended FY2007 \$5.3 billion budget. Based upon our review of the budget, we offer the following comments. The full text of our analysis follows this summary and is also available on our web site at www.civicfed.org.

The Civic Federation is **disappointed** by this budget. It does not begin to address the many daunting fiscal and programmatic challenges faced by CPS this year and in future years through strategic or financial plans; it provides no blueprint for the millions of dollars in capital improvement programming soon to be undertaken alone and in partnership with the City of Chicago; and it does not provide adequate information about the programs and initiatives currently underway. The CPS is taking some important steps this year to manage its resources, including the elimination of over 2,000 positions and cost reductions totaling over \$86 million. But, because it falls short in terms of planning and transparency, the Federation **cannot support the CPS budget this year.**

CPS personnel costs continue to outstrip revenue growth even as student enrollment falls. All employee benefit expenses will rise by 14.1% this year, from \$644.5 million to \$735.4 million, a \$91.4 million increase. Pension costs are ballooning, costing the District an additional \$55.9 million this year. In FY2015, just nine years from now, pension payments could total as much as \$266.1 million. Despite these problems, CPS has not developed a long-term financial plan that identifies future problems and opportunities, and outlines strategies for addressing them. Nor has it begun to explore ways to contain pension costs. Rather, the District advocates changing its payment schedule or seeking more State funds. Neither proposal addresses the underlying fiscal problem by capping benefits.

Published reports indicate that CPS is about to join with the City of Chicago in a nearly \$1 billion infrastructure program.³ Unlike the City of Chicago, however, the District still has not produced a Capital Improvement Plan three years after it announced that such a plan was in development.

Our concerns about the District's lacking a long-term perspective are compounded by the continued lack of consistent, comparative information in the budget. Surprisingly, the budget even fails to provide information about some of the District's important achievements in cutting costs and implementing efficiencies. We reiterate our belief that public proof of actual budget savings is needed to assure taxpayers that Chicago's public schools are being operated efficiently, and to build public confidence in the District's financial stewardship. Clear, accessible budget information is needed if CPS is to convince State officials or the public at large that additional funds are needed for the city's public school system.

Issues that The Civic Federation Supports

The Civic Federation is encouraged by several measures undertaken by the Chicago Public Schools this fiscal year. These efforts include reducing personnel, implementing some important cost reductions, and allowing the public more time for review of the budget proposal.

³ "Daley Hails \$1 Billion for Schools," *Chicago Tribune*, June 16, 2006.

Elimination of 2,061 Positions

CPS proposes to eliminate over 2,000 positions in its FY2007 budget. Given that student enrollment declined by 5,830 students between the fall of 2004 and the fall of 2005, and that this enrollment decline is projected to continue, the Civic Federation believes that staffing level reductions are most appropriate. It is a prudent measure that will certainly help slow the escalating rate of growth in benefit and salary costs for the CPS.

\$87.5 Million in Administrative and Program Expenditure Reductions

CPS proposes to reduce administrative and program expenditures by \$87.5 million. Of that amount, \$25.0 million will come from administrative reductions, including the elimination of 70 positions, the reduction of consultant expenses, and salary freezes for all administrators earning over \$40,000 annually. The remaining \$62.5 million will be saved through program reductions, including \$26.0 million from the implementation of new staffing formulas that will allow CPS to reduce personnel and reallocate existing resources in Special Education.

The Civic Federation salutes CPS efforts to re-prioritize and trim unnecessary spending, particularly expenses not directly related to classroom instruction or related support services. It is unfortunate, however, that little information about this significant achievement is provided in the budget document.

Continued Expansion of Charter Schools

In FY2007 the number of charter schools will increase from 23 schools on 30 campuses to 28 schools on 48 campuses. The number of charter school students is also expected to increase significantly, by 5,000 or 32.7%. Charter school student enrollment will grow from approximately 15,300 in FY2006 to 20,300 in FY2007. Proposed appropriations for charter schools will grow by 44.4%, from approximately \$90 million in FY2006 to \$130 million in FY2007. CPS will allocate another \$20 million for charter schools' share of categorical program spending in FY2007.

In addition to the new charter schools, one contract school and one performance school will also open in FY2007 under the Renaissance 2010 initiative.

The Civic Federation applauds the leadership of the Chicago Public Schools, both the Chicago Board of Education and CEO Arne Duncan, for continuing the District's commitment to providing greater opportunities for students and parents by expanding the numbers of schools of choice.

More Time Allowed for Public Review and Comment

The Civic Federation commends the CPS for allowing the public a period of several weeks to review and comment on the FY2007 budget. We believe that the taxpaying public is entitled to a reasonable amount of time to consider the policies contained in this \$5.3 billion budget. The increased review period for the FY2007 budget is a welcome improvement from previous years, when the public comment period was less than a week long.

Issues of Concern to The Civic Federation

The Civic Federation has several **concerns** about certain elements of the FY2007 budget.

Structural Problems: Rising Personnel Costs, Falling Enrollment

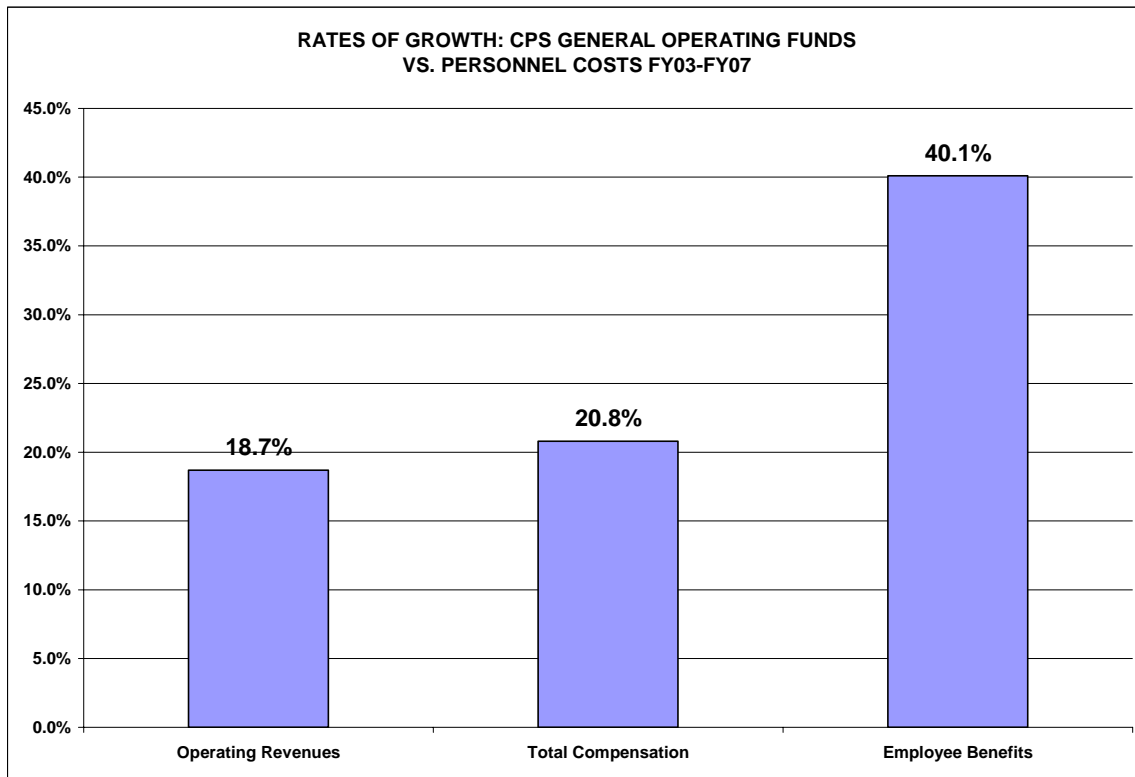
Chicago Public Schools finances face several daunting structural problems:

- **Rising Personnel Costs.** Total CPS personnel costs for salaries and benefits will rise 4.4% in FY2007, from \$3.1 billion to \$3.2 billion, despite the elimination of over 2,000 positions.
- **Skyrocketing Benefit Costs.** Pension, health insurance, workers' compensation and related employee benefits will rise by 14.1% this year, from \$644.5 million to \$735.4 million. This is nearly a \$91 million increase.
- **Falling Enrollment.** As CPS operating costs rise, enrollment continues to decline. In FY2007 it is estimated that enrollment will be approximately 415,000, a drop of nearly 6,000 students from the previous year.⁴ Based on the FY2007 projection, total CPS enrollment will have declined by 23,523 students, or by 5.4% since the fall of 2002.

Unfortunately, the growth in CPS personnel costs continues to outstrip general operating revenue growth. CPS operating revenues⁵ rose by 18.7% in the 5-year period between FY2003 and FY2007, as the exhibit below shows. However, the rate of growth for total employee compensation rose at the slightly faster rate of 20.8%, and benefits alone grew by 40.1%. This trend is worrisome. Unless it is mitigated by an infusion of new revenues or substantial cost reductions, this trend indicates that the District will face continued financial difficulties in future years.

⁴ *Chicago Public Schools Budget FY2007*, p. 61.

⁵ "Operating revenues" here refers to General and Special Revenue Funds.



No Plan to Address Rising Pension Costs

Chicago Public Schools must contribute an additional \$55.9 million to the Teachers' Pension Fund in FY2007, a hefty 23.7% increase over the previous year. Most of the increase, or \$53.6 million, can be attributed to the requirement of PA 89-15. This law requires CPS to contribute additional funds to the Teachers' Pension Fund so that the Fund's total assets will reach 90% of total actuarial liabilities by the end of FY2045. This situation will get much worse in future years unless steps are taken to control pension costs. Unfortunately, the CPS has failed to develop a viable plan that addresses what will become one of the most serious fiscal problems facing the District.

According to the actuarial valuation report submitted to the District on December 20, 2005, CPS's required annual contribution will rise from \$15.8 million to \$266.1 million between FY2006 and FY2015. The increases in required contributions are driven in part by the statutory mandate that the Teachers' Pension Fund maintain a 90% funded ratio. The Actuarial Valuation Report estimates that the Teachers Pension Fund's funded ratio will never exceed 80% in the period between FY2006 to FY2015.⁶

Chicago Public Schools must carefully consider taking steps to reduce the mounting fiscal burden of its pension costs. Reducing the number of staff positions in this fiscal year (and future years) will help mitigate the situation to some extent, but much more must be done. CPS has indicated that it will pursue two long-term strategies to address the financial situation:

⁶ Public School Teachers' Pension and Retirement Fund of Chicago. *Actuarial Valuation as of June 30, 2005*, p. 16.

- 1. Pursuing legislation requiring the state to assume greater responsibility for funding CPS' pension fund.** For example, the CPS could ask the state to contribute the equivalent of 20-30% of its contribution to the downstate Teachers' Retirement System to CPS. FY2007 state contributions to CPS are at roughly 7.3% of TRS contributions. State statute indicates that it is the state's intention to fund CPS at 20-30% of its TRS contribution (40 ILCS 5/17127).

The prospects for this solution are uncertain at best. The State of Illinois remains in a precarious financial position. Perhaps some of the funds from a proposed lease of the State Lottery could be directed to the Teachers' Pension Fund. But that transaction has not yet taken place and the details remain to be worked out. The adamant opposition of Governor Blagojevich to any income or sales tax increase for education makes it unlikely that the State will provide relief from General Fund revenues if he is re-elected. The position of gubernatorial challenger Judy Baar Topinka is unknown at this point.

- 2. Pursuing legislation that would smooth the annual funding requirement schedule, which currently is structured with a steep ramp through 2010.⁷**

This proposal will help the CPS avoid a very steep ramp-up in payments through FY2010 (after which payments would rise more gradually). Under the CPS plan, payments would ease up more gradually over the next few years, essentially backloading the payments. Ultimately, this proposal simply defers payments that still must be made at a later date and increases the total payments required. It is not a solution, just a short-term fix.

The core issue for the Chicago Public School District, as for many Illinois governments, is that the District provides a retirement package it can no longer afford given resource restraints. A long-term problem requires a long-term solution. Therefore, the Civic Federation repeats the recommendation it made last year and urges the District to implement cost containment measures, including a two-tier system that provides reduced benefits to new hires.

No Capital Improvement Plan

Three years ago, the CPS announced it was working to develop a Capital Improvement Plan (CIP). That plan has not yet been completed, even though CPS has announced \$350 million in new debt issuance to finance a construction program, and an additional \$600 million in projects that the District will undertake in partnership with the City of Chicago. The Civic Federation is extremely disappointed in the District's apparent inability to produce this significant planning document. The Civic Federation supports reasonable efforts to rehabilitate existing capital plant, or to construct necessary capital improvements. However, before millions of dollars in public funds are used for these purposes, the taxpaying public has a right to know details of the District's capital plan, to review that plan, and to offer commentary on its features.

If CPS is to effectively prioritize projects and clearly identify funding needs and sources, a multi-year capital plan is essential. Given the size of its capital budget, which will exceed \$625 million in FY2007, it is imperative that CPS move toward better and more transparent planning for its infrastructure needs. CPS has indicated that it is working on a three-year CIP. We believe that

⁷ Information provided by Chicago Public Schools Office of Management and Budget, June 6, 2006.

the District should move beyond that target and develop a five-year CIP that is fully integrated into a comprehensive, formal, long-term financial plan.⁸

Transparency and Comparability of Budget Document

The Civic Federation appreciates the CPS Office of Management and Budget's efforts to streamline its budget document and move toward a shorter, more accessible executive summary. We believe, however, that much more work remains to be done before CPS's budget document achieves sufficient clarity and comprehensiveness. We are particularly troubled by two problems with the FY2007 budget.

First, in this slimmer budget volume, it is difficult to track and compare financial trends over time. Such comparisons are essential if the public is to be able to make reasonable determinations about how the District's financial situation has changed over time.

Second, there still is very little information about management efficiencies and cost saving efforts proposed or undertaken by CPS. As in past years, the Civic Federation has discovered in conversations with CPS staff that many of these initiatives are worthwhile endeavors, and that they are saving CPS substantial sums each year. Many of these efforts will improve efficiency of operations and boost service quality. However, once again, the Budget Book itself provides no narrative and fails to quantify the savings achieved by these efficiencies. The continued lack of detail about these important achievements is both extremely disappointing and puzzling to us. The CPS should be willing to demonstrate and document what it is doing to increase efficiency and cut costs. Once again, we emphasize that the public will not have any confidence that CPS is taking necessary steps to increase efficiency and cut costs if little or no information is provided in its budget documents to demonstrate its efforts. A lack of evidence about efficiencies makes it hard to build a case for additional revenues.

The following is a summary list of some of our other concerns about the budget format:

- The CPS has pulled capital funds out of its expenditure analyses, complicating efforts to track spending and making it difficult to compare FY2007 data with previous years.
- Narrative explanations of the budget gap and the spending reductions implemented to close that gap are not included in the budget. These explanations should detail the types of program and personnel reductions and the savings associated with them.
- CPS budget information about employees continues to be inadequate. The section that describes in prose staffing levels for each administrative unit should be restored to future budgets. A breakdown by function of CPS's more than 44,000 teaching and support services personnel should also be provided.
- Personnel reductions should be explained more clearly and in more detail and the rationale for staffing reductions should be stated. The number of teaching positions eliminated due to declining enrollment, for example, should be clearly indicated. The savings corresponding to personnel reductions should be clearly documented.
- Separating out the positions funded by capital dollars has helped to make the presentation of overall headcounts consistent throughout the budget. The kind of positions funded by

⁸ The National Advisory Council on State and Local Budgeting (NACSLB) recommends that all governments develop a 5-year Capital Improvement Plan. See NACSLB. *Recommended Budget Practices*, (Chicago: Government Finance Officers Association, 1998), Recommended Budget Practice 9.6.

Capital, however, and the administrative or school-based units that they serve should be documented.

- The description of Education Improvement Programs is inadequate. Program description headings should correspond with budget line items so that the reader can easily see how much money different programs are costing. In the itemization of expenses, broad categories like “After School Programs” should only be used to label expenditure subtotals. Using that designation to encompass programs as diverse as community schools, academic enhancement programs, and school sports obscures how much the District is allocating for very different purposes.
- In the Education Improvement Programs section, the district should explain the priorities, goals, and policies guiding its spending decisions. The budget should also include multi-year spending trends for Education Improvement Programs so that the public can gauge the District’s success in realizing its goals.
- Major initiatives, like charter schools and the Renaissance 2010 program, should be discussed in detail. For these programs in particular, the data provided should include budgeted allocations, projected student enrollment, the number of schools and campuses, and year-to-year trends.
- The “Student Profile” section has become a catch-all. It includes appropriate information, like demographic data and student test scores, but it also includes information on school facilities, per-pupil spending, and the distribution of staff positions.

No Long Term Financial Plan

Clearly, Chicago Public Schools faces long-term structural problems. We believe that one of the best ways to deal with this situation is for the District to develop and publish a long-term financial plan. Undoubtedly, the CPS currently employs many of the techniques of a long-term financial planning process internally, including the projection of multi-year revenue trends. But the District does not develop a formal plan that is shared with and/or reviewed by key policymakers and stakeholders, including the Board of Education and the taxpaying public. This is unfortunate.

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.⁹ Such a plan includes a review of historic financial and programmatic trends; multi-year projections of revenues expenditures and debt; an analysis of those trends and projections; and the modeling of options to address problems or opportunities. A long-term financial plan would help better frame the issues and challenges facing the CPS, assist stakeholders in understanding those issues and challenges, and assist the District in focusing on concrete actions it can take in the future. Several local governments, including the City Colleges of Chicago and the Metropolitan Water Reclamation District, currently develop and publish their long-term financial plans in their budget documents. The Chicago Public Schools should do the same.

Property Tax Levy Once Again Increased to the Maximum Amount Allowed

⁹ See National Advisory Council on State and Local Budgeting and Government Finance Officers Association

The CPS property tax levy for all funds is projected to increase by 3.4%, or \$70 million, to \$1.74 billion in FY2007. Since FY1996, the District has increased property taxes to the maximum amount ten times. Approximately \$55 million of that amount will be generated from property taxes on tax capped properties while \$15 million will be derived from an estimate of taxes on new properties whose value is exempt from the tax cap law.

Approximately 49.4% of the tax bill for the average Chicago property owner goes to fund the Chicago Public Schools. This is an increase from 48.8% of the total bill last tax year.

The owner of a \$200,000 home receiving the minimum homeowner exemption of \$5,000 owed approximately \$1,121 in property taxes to CPS for tax year 2004, payable in 2005. The projected increase in property taxes for a homeowner with a single family home valued at \$200,000 will be in the range of \$21 to \$36, depending on the size of the homeowner exemption awarded.¹⁰ These projections indicate how much more a taxpayer would have owed in tax year 2004 as a result of the additional levy; they do not estimate the tax rate or equalized assessed value of property for tax year 2006.

Civic Federation Recommendations

The Civic Federation offers several **recommendations** regarding ways to improve the Chicago Public Schools' financial management and fulfill its ongoing financial obligations.

Contain Growing Retirement Costs

The Civic Federation believes it is imperative that the CPS begin to curb its growing retirement costs immediately. For new hires, the District should consider adopting recommendations proposed by the Governor's Blue Ribbon Commission on Pension Funding for the Teachers' Pension Fund. We propose that:

- A cap of 3% or CPI, whichever is less, should be imposed on annual pension benefit increases for new hires. Currently, retirees receive an automatic 3% increase.
- The employee share of pension costs should be increased. Currently, the CPS pays for 7% of the 9% employee share of costs; employees pay for the remaining 2%. In FY2007, CPS's share of employee costs totaled over \$291 million. We believe that employees should be required to pay for at least an additional 1% of the 9% employee share, so that the CPS share of employee payments drops to 6% and the employees' share increases to 3% of the total. This change should be a top priority for CPS when it negotiates a new collective bargaining agreement. CPS should also seek to match annual salary increases to the rate of its revenue source growth.

¹⁰ State law provides for a homeowner's exemption of \$5,000 to \$20,000 on residential property in Cook County.

Reform Governance of the Teachers' Pension Fund to Provide Balance between Annuitants, Government and, Taxpayers

The Public School Teachers' Pension and Retirement Fund of Chicago is governed by a 12-member Board of Trustees that includes: 2 representatives from the Board of Education, 6 active members who are not principals, 1 active principal and 3 annuitants.

Therefore the ratio of management to employee representatives is 2:10, one of the least balanced of the 17 Illinois pension boards recently surveyed by the Civic Federation.¹¹

The proper role of a pension board is to safeguard the assets of the fund and to balance the interests of employees and retirees who receive benefits with the interests of taxpayers who pay for pension benefits. All of these parties have an interest in the management of the fund. However, the heavy tilt toward employees on the Teachers' Pension board raises questions about how objective the Board can be in its work. In our view, a pension board should:

- Balance employee and management representation on pension boards;
- Develop a tripartite structure that includes citizen representation on pension boards, and
- Include financial experts on pension boards and require financial training for non-experts.

We urge the Chicago Public Schools to seek reform of the Teachers' Pension Fund governing structure to ensure greater balance of interests.

Develop a Multi-Year Capital Improvement Plan

The Civic Federation strongly urges the CPS to complete work as soon as possible on its long-delayed three-year Capital Improvement Plan (CIP). The District announced it was working on a CIP three years ago but still has not completed it. The CPS first developed a one-year CIP in 1996.¹² While that effort was a step in the right direction, a multi-year plan is essential for the CPS to be able to effectively prioritize projects and clearly identify funding needs and sources. Given the size of its capital budget, which will exceed \$625 million in FY2007, it is imperative that the CPS move toward better planning for its infrastructure needs. We urge the CPS in future years to consider a five-year CIP that is fully integrated into an overall formal financial plan.¹³

Implement a Formal Long-Term Financial Planning Process

The CPS undoubtedly employs many of the techniques of a long-term financial planning process internally, including the projection of multi-year revenue trends and modeling of various revenue and expenditure options. However, the District does not develop a formal plan that is shared with and/or reviewed by key policymakers and stakeholders. The Civic Federation recommends that the Chicago Public Schools develop and implement a formal long-term financial planning process that would allow input from the Board of Education and key external stakeholders.

Improve the Budget Format

¹¹ Civic Federation, *Recommendations to Reform Public Pension Boards of Trustees in Illinois*, forthcoming.

¹² Chicago Public Schools. *1996-2000 Capital Improvement Plan*. Adopted January 24, 1996. See p. 3 of the CIP.

¹³ The National Advisory Council on State and Local Budgeting (NACSLB) recommends that all governments develop a 5-year Capital Improvement Plan. See NACSLB. *Recommended Budget Practices*, (Chicago: Government Finance Officers Association, 1998), Recommended Budget Practice 9.6.

The Civic Federation recommends that the CPS budget format be revised to include the following information:

- A “walk-up” that describes the sources of the current fiscal year budget deficit in the introductory pages of the budget.
- A “walk-down” that clearly identifies the steps taken to eliminate the budget deficit and that specifies the location of personnel reductions.
- Narrative detail and cost information regarding the management efficiencies listed in the introductory section of the budget.
- Information about which of the management efficiencies listed in the previous fiscal year budget were implemented and what savings each generated.
- Narrative descriptions of the schools and school-based units similar to those provided for the various administrative units in Section XI of the FY2006 budget document, “CPS Program Summaries by Unit.”
- Five years of summary financial information, including:
 - Appropriations and Expenditures for each Administrative and School-Based Unit and
 - Appropriations and Expenditures by Object Classification and Fund
- Five years of comparable personnel information that shows Positions by Fund and Positions for each Administrative and School-Based Unit, including positions by type (e.g., teachers, principals, engineers, special ed., teachers aides, nurses, secretaries, etc.).
- Five years of comparable expenditure and revenue figures for each fund.
- Restoration of the Chicago Public Schools program summaries by unit section of the budget, which was omitted from the FY2007 budget.
- A printed hard copy of the entire budget. A CD-ROM is a nice addition, but should simply be an electronic version of the complete printed budget. This is standard practice for other government budgets, such as the State of Illinois and the Chicago Transit Authority.

Pursue Joint Purchasing of Employee Health Insurance with Other Local Governments

The Civic Federation urges the CPS to pursue consolidated health insurance purchasing with the City of Chicago, Cook County, Chicago Park District, Chicago Transit Authority, City Colleges of Chicago, and the Chicago Housing Authority. The substantial savings that can be achieved from an insurance pool would be extremely beneficial to CPS's future financial situation.

ACKNOWLEDGMENTS

We would like to express our appreciation to Chief Executive Officer Arne Duncan, Office of Management and Budget Director Pedro Martinez, Chief Administrative Officer David Vitale, Chief Financial Officer John Maiorca and their staffs for their hard work in preparing this budget and their willingness to provide the Civic Federation with a budget briefing as well as answers to many of our budget questions.

FY2007 BUDGET HIGHLIGHTS

The Chicago Public Schools have proposed a FY2007 budget of \$5.3 billion. The District's deficit, which was originally projected at \$328.0 million, was eliminated through a combination of expenditure reductions, increased state funding, increased Personal Property Replacement Tax revenues, a property tax increase, and a transfer of reserve funds.

Appropriations: 5.0% Increase from FY2006

The proposed FY2007 Chicago Public Schools budget will increase by 5.0%, rising from \$5.0 billion to \$5.3 billion. This is a \$251.8 million increase. Appropriations for the General Operating Funds, which comprises both the General Fund and the Special Revenue Fund, will increase by 4.7%, or by \$198.8 million.

CPS Appropriations: All Funds FY2006 & FY2007 (In Millions of Dollars)				
Fund Type	FY2006 Proposed	FY2007 Proposed	\$ Change	% Change
General Operating Funds	\$ 4,207.0	\$ 4,405.7	\$ 198.7	4.7%
Capital Projects Fund	\$ 596.4	\$ 625.6	\$ 29.2	4.9%
Debt Service Fund	\$ 239.8	\$ 263.7	\$ 23.9	10.0%
Total Appropriation	\$ 5,043.2	\$ 5,295.0	\$ 251.8	5.0%

Source: CPS Budget FY2007, p. 5

Resources: \$251 Million Increase in FY2007

The total appropriated resources available to the Chicago Public Schools in FY2007 will increase by \$251 million or 5.0% from FY2006. Resources include local revenues, state and federal intergovernmental aid, appropriated fund balance carried over from the previous fiscal year and certain non-revenue sources such as bond proceeds. General Operating Fund resources will increase by 4.7% or \$198.7 million. Debt service fund resources in FY2007 will increase by 10.0% or a net figure of \$23.9 million while resources in the Capital Projects Fund will rise by 4.9%.

Chicago Public Schools FY2006 Appropriated Resources by Fund Type (In Millions of Dollars)				
	FY2006 Proposed	FY2007 Proposed	\$ CHG	% CHG
General Operating Funds				
General Fund	\$ 2,661.0	\$ 2,798.6	\$ 137.6	5.2%
Special Revenue	\$ 1,546.0	\$ 1,607.1	\$ 61.1	4.0%
Subtotal General Operating Fund	\$ 4,207.0	\$ 4,405.7	\$ 198.7	4.7%
Capital Projects Fund	\$ 596.4	\$ 625.6	\$ 29.2	4.9%
Debt Service Fund	\$ 239.8	\$ 263.7	\$ 23.9	10.0%
Total Resources	\$ 5,043.2	\$ 5,295.0	\$ 251.8	5.0%

Source: Chicago Public Schools FY2007 Budget, pp. 18 & 22.

Deficit Drivers

The Chicago School District's \$328.0 million deficit is primarily due to personnel-related cost increases. Approximately \$144.3 million of the deficit is due to salary increases and \$88.8 million is related to increases in benefits such as health insurance, pensions, and unemployment insurance costs. Approximately 24.1% of the deficit, or \$80.1 million, can be attributed to increases in non-personnel items such as contractual costs (including charter schools), increased energy costs, and debt service.

FY2007 CPS DEFICIT DRIVERS (In Thousands of Dollars)		
	Amount	% of Total Deficit
Salaries	\$ 144,275	43.3%
Benefits		
Health Insurance	\$ 20,476	6.1%
Retirement	\$ 62,654	18.8%
Taxes/Other Benefits	\$ 5,638	1.7%
Subtotal Benefits	\$ 88,768	26.6%
Contractual Costs	\$ 40,071	12.0%
Utilities (e.g. Energy)	\$ 10,000	3.0%
Transportation	\$ 2,508	0.8%
Food Costs	\$ 2,746	0.8%
Text Books	\$ 1,783	0.5%
Debt Service	\$ 20,031	6.0%
Other	\$ 2,991	0.9%
Subtotal Non-Personnel Expenditures	\$ 80,130	24.1%
FY2006 Net Deficit	\$ 20,000	6.0%
Projected Revenue Growth	\$ (5,652)	
Total	\$ 327,521	

Source: CPS Office of Management and Budget

Gap-Closing Measures

The CPS reported a \$328.0 million deficit for FY2007, \$54.0 million more than the shortfall that CPS faced at the beginning of FY2006.

The District proposes to close the budget gap with \$87.5 million in expenditure reductions, \$165.0 million in revenue enhancements, and \$75.5 million in reserve fund transfers. The expenditure reductions will be made in two areas: 1) \$25.0 million will come from administrative reductions, including the elimination of 70 positions, the reduction of consultant expenses, and salary freezes for all administrators earning over \$40,000 annually, and 2) \$62.5 million will be saved through program reductions. Of this \$62.5 million, \$26.0 million will come from the implementation of new staffing formulas that will allow CPS to reduce personnel and reallocate existing resources in Special Education. There will also be across-the-board reductions to core initiatives like reading, math and science, and after-school programs.¹⁴ Revenue enhancements include a 3.4% or \$55.0 million property tax increase,¹⁵ \$100.0 million in new State funds, and \$10.0 million from higher-than-expected Personal Property Replacement Tax revenues.¹⁶

¹⁴ Information provided by the Chicago Public Schools Office of Management and Budget, June 2, 2006.

¹⁵ The Property Tax Extension Limitation Law, commonly called "PTELL" or "tax caps," limits a taxing body's annual property tax extension increase to 5% or the rate of inflation, whichever is less (35 ILCS 200/18-185 through 35 ILCS 200/18-245). However, the value of new properties is exempted from the tax cap calculation, thus allowing for a greater total extension. For details see <http://www.revenue.state.il.us/LocalGovernment/PropertyTax/ptell.htm>.

¹⁶ Information provided by the Chicago Public Schools Office of Management and Budget.

GAP-CLOSING MEASURES IN FY2007 CHICAGO PUBLIC SCHOOLS BUDGET (In Millions of Dollars)	
	Amount
Projected Deficit	\$ 328.0
Deficit Reduction Measures	
Administrative Reductions	
Personnel	\$ 11.0
Salary Freeze for Central Office Employees	\$ 5.0
Contractual Services	\$ 6.0
Supplies and Equipment	\$ 3.0
Subtotal Administrative Reductions	\$ 25.0
Program Reductions	
Operations, Food, and Transportation	\$ 6.2
New Schools	\$ 1.3
Elementary School Programs	\$ 6.8
High School Programs	\$ 8.3
Specialized Services	\$ 26.5
Early Childerhood Programs	\$ 4.4
Literacy Programs	\$ 6.5
Math & Science Programs	\$ 1.0
Other	\$ 1.1
Subtotal Program Reductions	\$ 62.1
Subtotal Expenditure Reductions	\$ 87.1
Increased State Funding	\$ 100.0
Property Tax Increase	\$ 55.0
Increased PPRT Revenues	\$ 10.0
Subtotal Revenue Enhancements	\$ 165.0
Transfer from Reserves	\$ 75.5
Total	\$ 327.6

Source: CPS Office of Management and Budget

RESOURCES: REVENUES AND FUND BALANCE

The Chicago Public Schools proposes budgeting approximately \$5.3 billion in total resources for FY2007. This is an increase of 4.9%, or \$251.8 million over the previous fiscal year.

All funds resources include:

- \$4.9 billion in current revenues, including \$350.0 million of proceeds from new bond issues for the District's Capital Improvement Program; and
- \$371.3 million in prior-year fund balance carried over and appropriated for FY2007.

Chicago Public Schools FY2007 Appropriated Resources by Fund Type (In Thousands of Dollars)						
	General Fund	Special Revenue	Operating Funds	Debt Service	Capital	GRAND TOTAL
Fund Balance Appropriated	\$ 75,000	\$ 29,958	\$ 104,958	\$ -	\$ 266,300	\$ 371,258
Property Taxes	\$ 1,236,464	\$ 460,098	\$ 1,696,562	\$ 51,766	\$ -	\$ 1,748,328
PPRT	\$ 91,494	\$ -	\$ 91,494	\$ 54,106	\$ -	\$ 145,600
Investment Interest Income	\$ 19,911	\$ 2,000	\$ 21,911	\$ -	\$ 8,000	\$ 29,911
Lunchroom Sales	\$ -	\$ 14,637	\$ 14,637	\$ -	\$ -	\$ 14,637
Miscellaneous Local Revenue	\$ 31,927	\$ 25,000	\$ 56,927	\$ 23,125	\$ -	\$ 80,052
TIF	\$ -	\$ -	\$ -	\$ -	\$ 1,300	\$ 1,300
Bonds	\$ -	\$ -	\$ -	\$ -	\$ 350,000	\$ 350,000
Subtotal Local Revenue	\$ 1,379,796	\$ 501,735	\$ 1,881,531	\$ 128,997	\$ 359,300	\$ 2,369,828
General State Aid (GSA)	\$ 628,230	\$ 261,000	\$ 889,230	\$ 134,680	\$ -	\$ 1,023,910
State Aid - Teacher Pension	\$ 75,287	\$ -	\$ 75,287	\$ -	\$ -	\$ 75,287
Flat Grant ADA	\$ 14,660	\$ -	\$ 14,660	\$ -	\$ -	\$ 14,660
Block Grants: Ed. Serv. & Gen. Ed	\$ 539,419	\$ 10,394	\$ 549,813	\$ -	\$ -	\$ 549,813
Other State Aid	\$ 27,300	\$ 27,740	\$ 55,040	\$ -	\$ -	\$ 55,040
Subtotal State	\$ 1,284,896	\$ 299,134	\$ 1,584,030	\$ 134,680	\$ -	\$ 1,718,710
Elem & Sec. Ed.--NCLB	\$ 363	\$ 406,900	\$ 407,263	\$ -	\$ -	\$ 407,263
Child Nutrition	\$ -	\$ 149,595	\$ 149,595	\$ -	\$ -	\$ 149,595
Special Ed. -- IDEA	\$ -	\$ 100,507	\$ 100,507	\$ -	\$ -	\$ 100,507
Medicaid, ROTC, Other	\$ 58,500	\$ 119,339	\$ 177,839	\$ -	\$ -	\$ 177,839
Subtotal Federal	\$ 58,863	\$ 776,341	\$ 835,204	\$ -	\$ -	\$ 835,204
TOTAL REVENUES	\$ 2,723,555	\$ 1,577,210	\$ 4,300,765	\$ 263,677	\$ 359,300	\$ 4,923,742
TOTAL RESOURCES	\$ 2,798,555	\$ 1,607,168	\$ 4,405,723	\$ 263,677	\$ 625,600	\$ 5,295,000

Source: Chicago Public Schools FY2007 Budget, pp. 18 and 22.

General Fund resources will increase by approximately 5.2%, or \$137.5 million, from \$2.66 billion to \$2.80 billion. This year, CPS will use \$75 million of the prior-year end fund balance, leaving \$218.4 million in General Fund reserve fund balance for FY2007.

Special Revenue Fund resources will increase by 4.0%, or \$61.2 million.

The CPS Capital Projects Fund will receive \$625.6 million in FY2007, an increase of 4.9%, or \$29.2 million over FY2006. \$350 million, or 56%, of the FY2007 capital fund resources will be FY2007 proposed bonds, while \$266 million is reappropriation of existing bond funds from previous years.

Debt Service Fund resources will increase by \$23.9 million, or 10%, to \$263.7 million. This increase is primarily due to payments required for the proposed \$350 million FY2007 bond issuance.

Chicago Public Schools FY2007 Appropriated Resources by Fund Type (In Millions of Dollars)				
	FY2006 Adopted	FY2007 Proposed	\$ Change	% Change
General Operating Funds				
General Fund	\$ 2,661.0	\$ 2,798.5	\$ 137.5	5.2%
Special Revenue	\$ 1,546.0	\$ 1,607.2	\$ 61.2	4.0%
Subtotal General Operating Funds	\$ 4,207.0	\$ 4,405.7	\$ 198.7	4.7%
Debt Service Fund	\$ 239.8	\$ 263.7	\$ 23.9	10.0%
Subtotal General Operating + Debt Service	\$ 4,446.8	\$ 4,669.4	\$ 222.6	5.0%
Capital Projects Fund	\$ 596.4	\$ 625.6	\$ 29.2	4.9%
GRAND TOTAL ALL FUNDS	\$ 5,043.2	\$ 5,295.0	\$ 251.8	4.99%

Source: Chicago Public Schools FY2007 Budget, p. 5.

All Fund Revenues Overview: 5.5% increase in FY2007

The FY2007 budget projects a 5.5% increase in revenues for all funds from the previous year. This is a \$254.8 million increase.

- Local revenues are expected to increase by 7.1%, or \$157.6 million, to \$2.4 billion. This includes a \$10 million expected increase in Personal Property Replacement Tax revenues, and a \$70 million increase in property taxes, offset by a \$23.7 million decline in miscellaneous local revenue and \$5.3 million decline in lunchroom sales.
- Revenues provided by the State of Illinois are projected in rise by 6.2%, or \$100 million.
- Federal funding will drop by 0.3%, or \$2.8 million, primarily as a result of a small decline in the Chicago poverty count according to the U.S. Census Bureau.¹⁷

Chicago Public Schools Appropriated Resources by Source All Funds FY2006-FY2007 (In Thousands of Dollars)					
	FY2006 Budget	FY2007 Proposed	\$ Change	% Change	
Fund Balance Appropriated	\$ 374,301	\$ 371,258	\$ (3,043)	-0.8%	
Property Taxes	\$ 1,678,328	\$ 1,748,328	\$ 70,000	4.2%	
PPRT	\$ 135,600	\$ 145,600	\$ 10,000	7.4%	
Investment Interest Income	\$ 24,500	\$ 29,911	\$ 5,411	22.1%	
Lunchroom Sales	\$ 20,000	\$ 14,637	\$ (5,363)	-26.8%	
Miscellaneous Local Revenue	\$ 103,752	\$ 80,052	\$ (23,700)	-22.8%	
TIF	\$ -	\$ 1,300	\$ 1,300	--	
Bonds	\$ 250,000	\$ 350,000	\$ 100,000	40.0%	
Subtotal Local Revenue	\$ 2,212,180	\$ 2,369,828	\$ 157,648	7.1%	
General State Aid (GSA)	\$ 962,483	\$ 1,023,910	\$ 61,427	6.4%	
State Aid - Teacher Pension	\$ 74,922	\$ 75,287	\$ 365	0.5%	
Flat Grant ADA	\$ 12,929	\$ 14,660	\$ 1,731	13.4%	
Block Grants: Ed. Serv. & Gen. Ed	\$ 516,844	\$ 549,813	\$ 32,969	6.4%	
Other State Aid	\$ 51,499	\$ 55,040	\$ 3,541	6.9%	
Subtotal State	\$ 1,618,677	\$ 1,718,710	\$ 100,033	6.2%	
Elem & Sec. Ed.--NCLB	\$ 408,403	\$ 407,263	\$ (1,140)	-0.3%	
Child Nutrition	\$ 154,463	\$ 149,595	\$ (4,868)	-3.2%	
Special Ed. -- IDEA	\$ 114,915	\$ 100,507	\$ (14,408)	-12.5%	
Medicaid, ROTC, Other	\$ 160,237	\$ 177,839	\$ 17,602	11.0%	
Subtotal Federal	\$ 838,018	\$ 835,204	\$ (2,814)	-0.3%	
TOTAL REVENUES	\$ 4,668,875	\$ 4,923,742	\$ 254,867	5.5%	
TOTAL RESOURCES	\$ 5,043,176	\$ 5,295,000	\$ 251,824	5.0%	

Source: Chicago Public Schools FY2006 Budget, pp. 39 and 115; FY2007 Budget pp. 18 and 22.

Several key assumptions built into the FY2007 revenue projections include:¹⁸

- The property tax will increase to the maximum amount allowed under the tax cap law.
- Personal Property Replacement Taxes are projected to increase 7%, or \$10 million, based on state estimates for corporate profits.
- Projected statewide increases for categorical programs are expected as follows: \$56.7 million for mandated categoricals; \$45 million for the Early Childhood Block Grant; \$11.9 million for After School program; \$10 million for the ADA block grant; \$10 million for class size reduction; \$5 million for school security; \$5 million for the National

¹⁷ Chicago Public Schools FY2007 Budget, p.33.

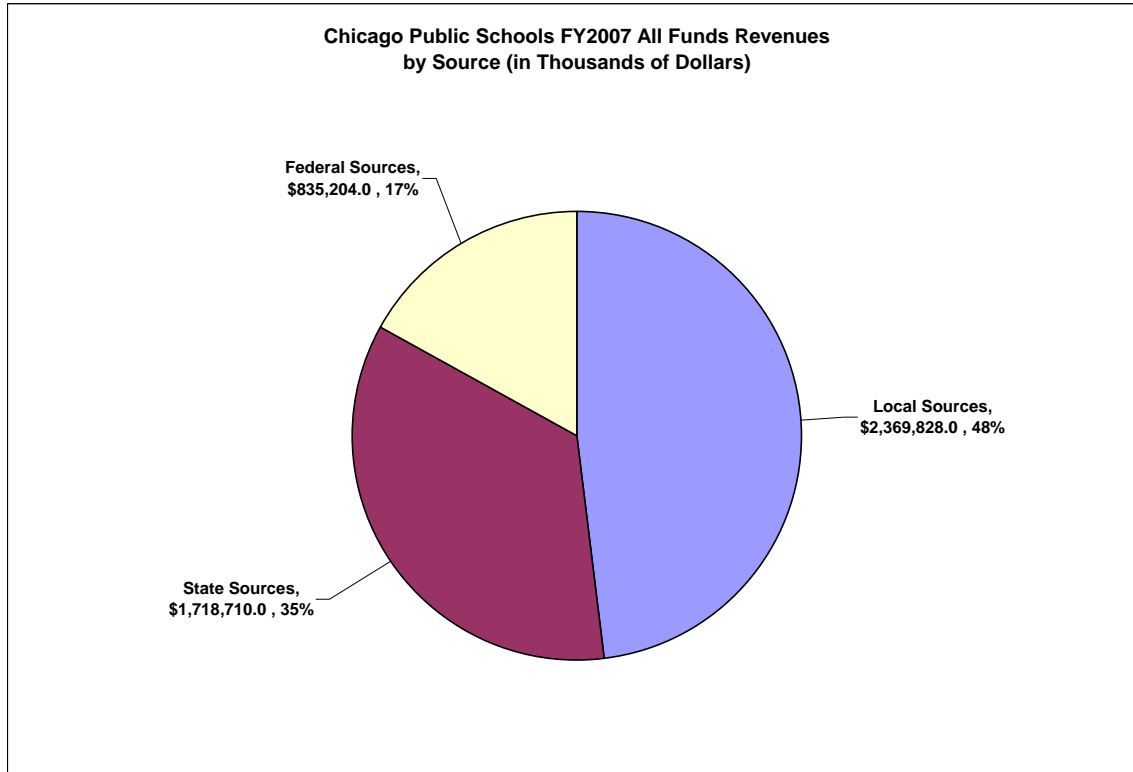
¹⁸ Chicago Public Schools FY2007 Budget, p.27.

Teacher Certification Program, and \$4 million for bilingual education. *CPS will receive a portion of those statewide increases.*

- The increase in General State Aid is based on an increase in the state foundation level from \$5164 to \$5334 per pupil.
- Under the terms of P.A. 93-845, CPS anticipates being allowed to file for a prior year EAV adjustment in FY2007; this is expected to generate an additional \$16.3 million.
- The General Assembly appropriated \$75.3 million in state pension aid to CPS.
- Federal revenue figures are based on federal FY2007 revenue appropriations as well as fund balance carryover from FY2006.

Chicago Public Schools All Funds Revenues by Source

In FY2007, 48% of all Chicago Public Schools revenues, or over \$2.3 billion, will come from local revenue sources (including bonds). The State of Illinois will provide the second largest component of the CPS revenue stream, with 35% of the total, or \$1.7 billion. Federal funds will be the third largest source of revenues at 17% of the total or \$835.2 million.



5-Year CPS Revenue Trend for All Funds: 13.5% increase

CPS revenues are projected to increase by 13.5%, between FY2003 and FY2007. This is a \$585.5 million increase, from \$4.3 billion to \$4.9 billion. Local revenues will increase by 9.1% over the five-year period, with property taxes, the largest local revenue source, rising by \$208.5 million. State revenues between FY2003 and FY2007 are projected to increase by 16.6%, from \$1.5 billion to \$1.7 billion. Federal funding is expected to show the largest percentage gain in revenues, up 20.9% to \$835.2 million.

Chicago Public Schools Appropriated Resources by Source All Funds FY2003-FY2007 (In Thousands of Dollars)				
	FY2003 Budget	FY2007 Proposed	\$ Change	% Change
Fund Balance Appropriated	\$ 274,146	\$ 371,258	\$ 97,112	35.4%
Property Taxes	\$ 1,539,824	\$ 1,748,328	\$ 208,504	13.5%
PPRT	\$ 127,000	\$ 145,600	\$ 18,600	14.6%
Investment Interest Income	\$ 52,863	\$ 29,911	\$ (22,952)	-43.4%
Lunchroom Sales	\$ 12,000	\$ 14,637	\$ 2,637	22.0%
Miscellaneous Local Revenue	\$ 213,400	\$ 80,052	\$ (133,348)	-62.5%
TIF	\$ -	\$ 1,300	\$ 1,300	--
Bonds	\$ 228,000	\$ 350,000	\$ 122,000	53.5%
Subtotal Local Revenue	\$ 2,173,087	\$ 2,369,828	\$ 196,741	9.1%
General State Aid (GSA)	\$ 771,617	\$ 1,023,910	\$ 252,293	32.7%
State Aid - Teacher Pension	\$ 65,045	\$ 75,287	\$ 10,242	15.7%
Flat Grant ADA	\$ 13,752	\$ 14,660	\$ 908	6.6%
Block Grants: Ed. Serv. & Gen. Ed	\$ 420,488	\$ 549,813	\$ 129,325	30.8%
Other State Aid	\$ 203,182	\$ 55,040	\$ (148,142)	-72.9%
Subtotal State	\$ 1,474,084	\$ 1,718,710	\$ 244,626	16.6%
Elem & Sec. Ed.--NCLB	\$ 318,818	\$ 407,263	\$ 88,445	27.7%
Child Nutrition	\$ 151,180	\$ 149,595	\$ (1,585)	-1.0%
Special Ed. -- IDEA	\$ 77,039	\$ 100,507	\$ 23,468	30.5%
Medicaid, ROTC, Other	\$ 143,985	\$ 177,839	\$ 33,854	23.5%
Subtotal Federal	\$ 691,022	\$ 835,204	\$ 144,182	20.9%
TOTAL REVENUES	\$ 4,338,193	\$ 4,923,742	\$ 585,549	13.5%
TOTAL RESOURCES	\$ 4,612,339	\$ 5,295,000	\$ 682,661	14.8%

Source: Chicago Public Schools FY2003 Budget, pp. 21 and 93; FY2007 Budget pp. 18 and 22.

General Operating Fund Revenues: 3.5% increase from previous year

General Operating Funds include the Chicago Public Schools' General and Special Revenue Funds. Together, these funds account for the general operations of the CPS. Eighty-seven percent of all fund revenues in FY2007 are earmarked for the two General Operating Funds.

In FY2007, General Operating Funds resources are expected to rise by 4.7%, from \$4.2 to \$4.34 billion. This is an increase of \$198.7 million, including \$54.9 million in additional fund balance that will be made available for appropriation.

CPS's local revenues will provide \$1.8 billion of all General Operating Funds revenues. State sources will provide the second largest amount, or \$1.6 billion. Federal funds are expected to total \$835.2 in FY2007.

Chicago Public Schools General Fund and Special Revenue Fund Resources FY2006-FY2007 (In Thousands of Dollars)				
	FY2006 Budget	FY2007 Proposed	\$ Change	% Change
Fund Balance Appropriated	\$ 50,000	\$ 104,958	\$ 54,958	109.9%
Property Taxes	\$ 1,626,968	\$ 1,696,562	\$ 69,594	4.3%
PPRT	\$ 82,051	\$ 91,494	\$ 9,443	11.5%
Investment Interest Income	\$ 16,500	\$ 21,911	\$ 5,411	32.8%
Lunchroom Sales	\$ 20,000	\$ 14,637	\$ (5,363)	-26.8%
Miscellaneous Local Revenue	\$ 66,464	\$ 56,927	\$ (9,537)	-14.3%
TIF	\$ -	\$ -	\$ -	--
Bonds	\$ -	\$ -	\$ -	--
Subtotal Local Revenue	\$ 1,811,983	\$ 1,881,531	\$ 69,548	3.8%
General State Aid (GSA)	\$ 850,803	\$ 889,230	\$ 38,427	4.5%
State Aid - Teacher Pension	\$ 74,922	\$ 75,287	\$ 365	0.5%
Flat Grant ADA	\$ 12,929	\$ 14,660	\$ 1,731	13.4%
Block Grants: Ed. Serv. & Gen. Ed	\$ 516,844	\$ 549,813	\$ 32,969	6.4%
Other State Aid	\$ 51,499	\$ 55,040	\$ 3,541	6.9%
Subtotal State	\$ 1,506,997	\$ 1,584,030	\$ 77,033	5.1%
Elem & Sec. Ed.--NCLB	\$ 408,403	\$ 407,263	\$ (1,140)	-0.3%
Child Nutrition	\$ 154,463	\$ 149,595	\$ (4,868)	-3.2%
Special Ed. -- IDEA	\$ 114,915	\$ 100,507	\$ (14,408)	-12.5%
Medicaid, ROTC, Other	\$ 160,237	\$ 177,839	\$ 17,602	11.0%
Subtotal Federal	\$ 838,018	\$ 835,204	\$ (2,814)	-0.3%
TOTAL REVENUES	\$ 4,156,998	\$ 4,300,765	\$ 143,767	3.5%
TOTAL RESOURCES	\$ 4,206,998	\$ 4,405,723	\$ 198,725	4.7%

Source: Chicago Public Schools FY2006 Budget, pp. 39 and 115; FY2007 Budget pp. 18 and 22.

The next exhibit shows a 5-year trend in General Operating Funds resources and revenues, from the FY2003 proposed budget to the FY2007 proposed budget. Over this 5-year period, general operating resources, including appropriated fund balances, increased by 20.2%, or \$738.9 million.

Chicago Public Schools General Fund and Special Revenue Fund Resources				
FY2003-FY2007 (In Thousands of Dollars)				
	FY2003 Budget	FY2007 Proposed	\$ Change	% Change
Fund Balance Appropriated	\$ 43,670	\$ 104,958	\$ 61,288	140.3%
Property Taxes	\$ 1,488,500	\$ 1,696,562	\$ 208,062	14.0%
PPRT	\$ 69,892	\$ 91,494	\$ 21,602	30.9%
Investment Interest Income	\$ 27,014	\$ 21,911	\$ (5,103)	-18.9%
Lunchroom Sales	\$ 12,000	\$ 14,637	\$ 2,637	22.0%
Miscellaneous Local Revenue	\$ 61,700	\$ 56,927	\$ (4,773)	-7.7%
TIF	\$ -	\$ -	\$ -	--
Bonds	\$ -	\$ -	\$ -	--
Subtotal Local Revenue	\$ 1,659,106	\$ 1,881,531	\$ 222,425	13.4%
General State Aid (GSA)	\$ 727,124	\$ 889,230	\$ 162,106	22.3%
State Aid - Teacher Pension	\$ 65,045	\$ 75,287	\$ 10,242	15.7%
Flat Grant ADA	\$ 13,752	\$ 14,660	\$ 908	6.6%
Block Grants: Ed. Serv. & Gen. Ed	\$ 420,488	\$ 549,813	\$ 129,325	30.8%
Other State Aid	\$ 46,582	\$ 55,040	\$ 8,458	18.2%
Subtotal State	\$ 1,272,991	\$ 1,584,030	\$ 311,039	24.4%
Elem & Sec. Ed.--NCLB	\$ 318,818	\$ 407,263	\$ 88,445	27.7%
Child Nutrition	\$ 151,180	\$ 149,595	\$ (1,585)	-1.0%
Special Ed. -- IDEA	\$ 77,039	\$ 100,507	\$ 23,468	30.5%
Medicaid, ROTC, Other	\$ 143,985	\$ 177,839	\$ 33,854	23.5%
Subtotal Federal	\$ 691,022	\$ 835,204	\$ 144,182	20.9%
TOTAL REVENUES	\$ 3,623,119	\$ 4,300,765	\$ 677,646	18.7%
TOTAL RESOURCES	\$ 3,666,789	\$ 4,405,723	\$ 738,934	20.2%

Source: Chicago Public Schools FY2003 Budget, pp. 21 and 93; FY2007 Budget pp. 18 and 22.

State Funding for Programs: \$1.6 billion in FY2007

The State of Illinois will provide \$1.6 billion in revenues for CPS operating budget programs in FY2007. In addition, the State will provide a \$75.3 million contribution to the Chicago teachers' pension fund.

The exhibit below shows the distribution of new state monies. State operating support, excluding pensions, will increase by 8.3%, or \$126.1 million. General State Aid will increase by 8.1%, or \$77.7 million, including the expected EAV adjustment. Chicago Block Grant funds will increase by 6.4%, or \$32.9 million.

Detail of State Funding for CPS General Operating Budget (excluding Pensions) in FY2007 (In Thousands of Dollars)				
	Estimate FY2006	May, 2006 Estimate FY2007	\$ Change	% Change
Revenue				
General State Aid (Net)*	\$ 962,466.2	\$1,040,210.0	\$ 77,743.8	8.1%
Alternative Education/Regional Safe Schools	\$ 3,609.8	\$ 3,700.0	\$ 90.2	2.5%
Career & Technical Ed	\$ 6,392.5	\$ 7,300.0	\$ 907.5	14.2%
Illinois Charter Schools	\$ 3,000.0	\$ 3,000.0	\$ -	0.0%
Orphanage Regular 18-3	\$ 7,400.0	\$ 7,000.0	\$ (400.0)	-5.4%
School Safety & Ed Improvement Block Grant	\$ 12,759.6	\$ 14,660.0	\$ 1,900.4	14.9%
Drivers Education	\$ -	\$ 3,000.0	\$ 3,000.0	---
Mayor's After School Program	\$ -	\$ 5,000.0	\$ 5,000.0	---
Member Initiatives	\$ -	\$ 2,300.0	\$ 2,300.0	---
NEW FY 06: Healthy Kids/Healthy Minds	\$ 3,000.0	\$ 3,000.0	\$ -	0.0%
NEW FY 07: AfterSchool Programs	\$ -	\$ 1,500.0	\$ 1,500.0	---
NEW FY 07: OSF Laptop pilot; Teacher Cert Fund	\$ -	\$ 1,200.0	\$ 1,200.0	---
Other State Revenues	\$ -	\$ 1,740.0	\$ 1,740.0	---
Sub Total	\$ 998,628.1	\$1,093,610.0	\$ 93,241.9	9.3%
Chicago Block Grant				
Agriculture Education	\$ 26.2	\$ 31.7	\$ 5.5	21.0%
Bilingual - Chicago	\$ 34,896.6	\$ 36,896.6	\$ 2,000.0	5.7%
Early Childhood Block	\$ 101,104.2	\$ 117,754.2	\$ 16,650.0	16.5%
Extended Learning Opportunities (Bridges)	\$ 9,784.8	\$ 9,784.8	\$ -	0.0%
IL Free Lunch/Breakfast	\$ 10,647.0	\$ 10,647.0	\$ -	0.0%
Reading Improvement Block	\$ 22,613.5	\$ 22,613.5	\$ -	0.0%
ROE/ISC - Operations	\$ 762.6	\$ 963.6	\$ 201.0	26.4%
Sp Ed - Extraordinary	\$ 74,996.2	\$ 78,516.6	\$ 3,520.4	4.7%
Sp Ed - Orphanage 7.03	\$ 32,936.0	\$ 28,425.2	\$ (4,510.8)	-13.7%
Sp Ed - Personnel	\$ 69,333.0	\$ 70,383.5	\$ 1,050.5	1.5%
Sp Ed - Private Tuition	\$ 43,115.7	\$ 52,794.7	\$ 9,679.0	22.4%
Sp Ed - Summer School	\$ 4,414.2	\$ 4,729.5	\$ 315.3	7.1%
Transportation - Reg & Voc	\$ 10,203.6	\$ 11,158.6	\$ 955.0	9.4%
Transportation - Sp Ed	\$ 97,349.7	\$ 100,268.6	\$ 2,918.9	3.0%
Truants Alternative Optional Education	\$ 4,710.9	\$ 4,844.9	\$ 134.0	2.8%
Sub Total Chicago Block Grant	\$ 516,894.2	\$ 549,813.0	\$ 32,918.8	6.4%
TOTAL STATE FUNDING FOR CPS	\$ 1,515,522.3	\$ 1,643,423.0	\$ 126,160.7	8.3%

* The FY2007 General State Aid estimate includes the amount currently projected by ISBE and the FY2006 EAV adjustment to the GSA (\$16,300,000).

Source: State of Illinois Office of Management and Budget, CPS Office of Management and Budget

The General Assembly approved an increase in General State Aid (GSA) in the FY2007 state budget, from \$5164 per pupil to \$5334 per pupil. This is a \$170, or 3.3% increase over FY2006.

The next exhibit shows increases in the foundation level for State per pupil funding between FY2003 and FY2007. During this 5-year period, the foundation level rose by \$774, from \$4560 per pupil to \$5334 per pupil.

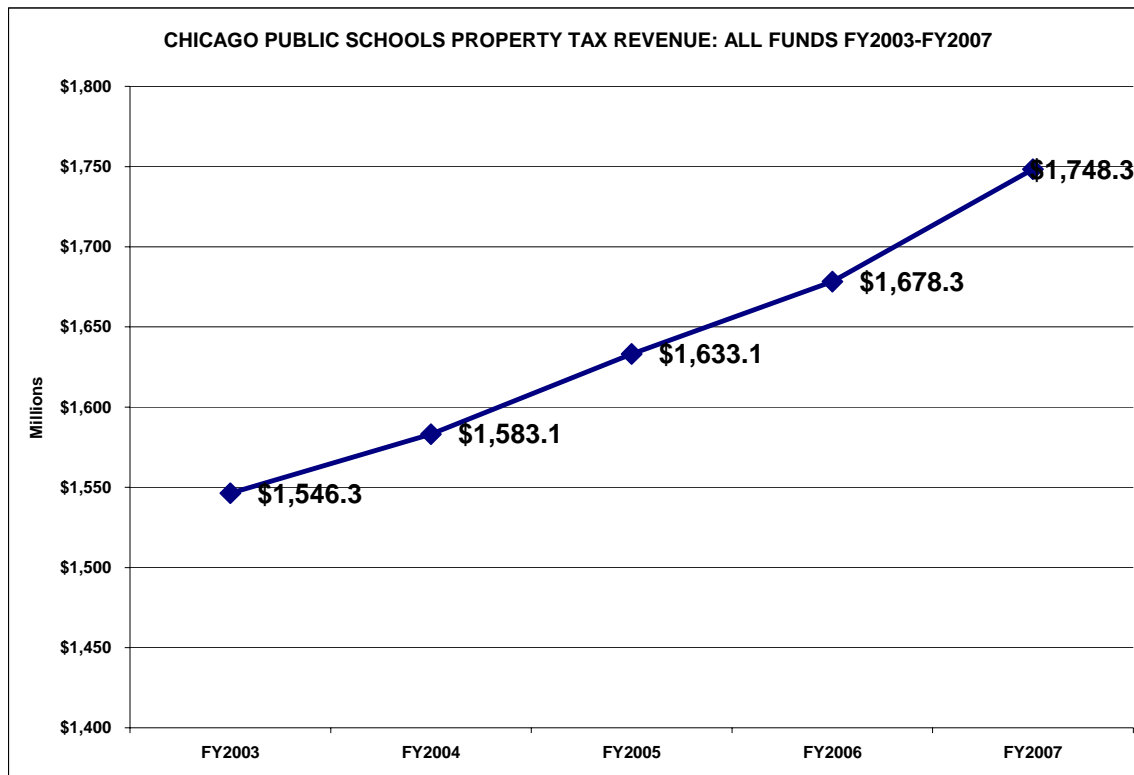
STATE OF ILLINOIS INCREASES IN GENERAL STATE AID FOUNDATION LEVEL ON A PER PUPIL BASIS			
	Foundation Level	\$ Change from	% Change from
	Per Pupil	Prior Year	Prior Year
FY2003	\$ 4,560	no change	no change
FY2004	\$ 4,810	\$ 250	5.5%
FY2005	\$ 4,964	\$ 154	3.2%
FY2006	\$ 5,164	\$ 200	4.0%
FY2007	\$ 5,334	\$ 170	3.3%
\$ CHG	\$ 774		
% CHG	17.0%		

Property Tax Levy: 3.4% Increase

The Chicago Public Schools property tax levy for all funds is projected to increase by 3.4%, or \$70 million, to \$1.74 billion in FY2007. This year, the Board of Education once again proposes to levy to the maximum amount allowed by the tax cap law.¹⁹

Under the tax cap law, the increase in the property tax levy for tax year 2006 is limited to the inflation rate of 3.4%.²⁰ A property tax increase of 3.4% on tax capped properties is projected to generate approximately \$55 million. The tax cap law exempts the value of new buildings or additions to existing buildings from the limitation on the property tax levy. The remaining \$15 million of the increase reflects the CPS's anticipation of the value of these new properties.

The FY2007 budget assumes a property tax collection rate of 96.5%, down slightly from 97.0% in FY2005.²¹ Since FY2003, total property tax revenues have increased by 13.1% or \$202.0 million.



¹⁹ The Property Tax Extension Limitation Law, commonly called "PTELL" or "tax caps", limits a taxing body's annual property tax extension increase to 5% or the rate of inflation, whichever is less (35 ILCS 200/18-185 through 35 ILCS 200/18-245). However, the value of new properties is exempted from the tax cap calculation, thus allowing for a greater total extension. For details see <http://www.revenue.state.il.us/LocalGovernment/PropertyTax/ptell.htm>.

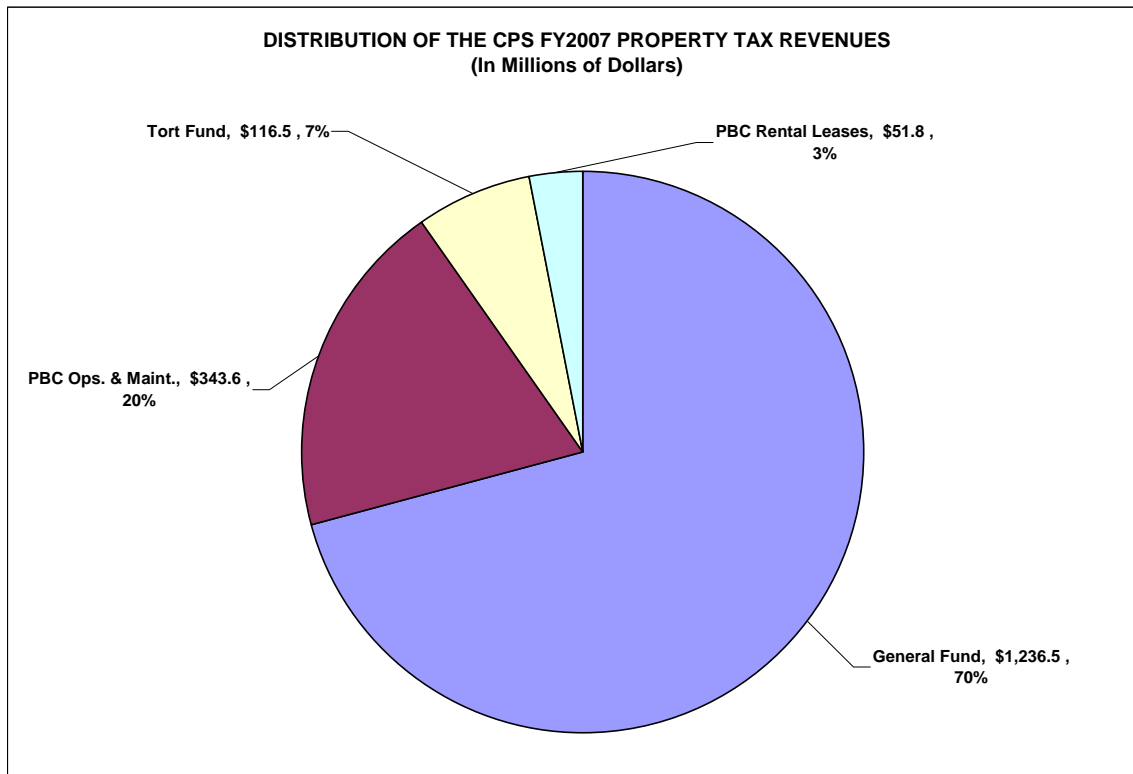
²⁰ The CPS fiscal year begins on July 1 and does not correspond to a tax year, which is based on a calendar year. Therefore, calculations for the amount of property tax dollars available must take into account the tax cap rate of 3.3% for the six months of the fiscal year in calendar year 2006 and 3.4% for the six months of the fiscal year in calendar year 2007. *Chicago Public Schools FY2007 Budget*, p. 27. CPS will submit its levy for tax year 2006 (payable in 2007) to the Cook County Clerk in December 2006.

²¹ *Chicago Public Schools FY2007 Budget*, p. 27 and *Chicago Public Schools FY2005 Budget*, p. 44.

The next exhibit shows a 10-year trend for Chicago Public Schools property tax revenues. Over that period, property tax revenues have risen by 33.3% or \$436.6 million. This represents an increase from approximately \$1.31 billion to \$1.74 billion.

CHICAGO PUBLIC SCHOOLS PROPERTY TAX REVENUE: FY1998 to FY2007			
Fiscal Year	REVENUE (\$000s)	% CHG FROM PREV YR	\$ CHG FROM PREV YR
FY1998	\$ 1,311.7
FY1999	\$ 1,368.1	4.3%	\$ 56.4
FY2000	\$ 1,403.7	2.6%	\$ 35.6
FY2001	\$ 1,429.9	1.9%	\$ 26.2
FY2002	\$ 1,480.0	3.5%	\$ 50.1
FY2003	\$ 1,546.3	4.5%	\$ 66.3
FY2004	\$ 1,583.1	2.4%	\$ 36.8
FY2005	\$ 1,633.1	3.2%	\$ 50.0
FY2006	\$ 1,678.3	2.8%	\$ 45.2
FY2007	\$ 1,748.3	4.2%	\$ 70.0
\$ CHG 10-YR	\$ 436.6		
% CHG 10-YR	33.3%		

Seventy percent or \$1.24 billion of the levy is earmarked for the General Fund to finance CPS operations. The second largest amount, \$343.6 million, is set-aside for the Public Building Commission Operations and Maintenance (PBC O & M) Fund, which supports the repair and maintenance of CPS buildings. Seven percent of the levy will be used for the Workers and Unemployment Compensation Tort Immunity Fund and 3% for Public Building Commission lease rental payments.



Increase in Property Tax Bills

Nearly half (49.4%) of the tax bill for a Chicago property owner goes to fund the Chicago Public Schools. In tax year 2004 (payable in 2005), the owner of a \$200,000 home receiving the minimum homeowner exemption of \$5,000 owed approximately \$1,121 in property taxes to CPS.

The projected increase in property taxes for a homeowner with a single family home valued at \$200,000 will be in the range of \$21 to \$36, depending on the size of the homeowner exemption awarded.²² These projections indicate how much more a taxpayer would have owed in tax year 2004 as a result of the additional levy; they do not estimate the tax rate or equalized assessed value of property for tax year 2006.

²² State law provides for a homeowner's exemption of \$5,000 to \$20,000 on residential property in Cook County.

\$ 200,000 Chicago homestead		
minimum homestead exemption (\$5,000)		maximum homestead exemption (\$20,000)
\$ 200,000	<u>Full Market Value of Property</u>	\$ 200,000
* 7.98%	<u>Median Level of Assessment*</u>	* 7.98%
= \$ 15,960	<u>Assessed Value</u>	= \$ 15,960
* 2.5757	<u>2004 Equalization Factor</u>	* 2.5757
= \$ 41,108		= \$ 41,108
- \$ 5,000	<u>Homeowner Exemption</u>	- \$ 20,000
\$ 36,108	Taxable Value (net Equalized Assessed Value)	\$ 21,108
* 3.104%	<u>2004 CPS Tax Rate</u>	* 3.104%
\$ 1,121	<u>CPS 2004 Property Tax Bill (paid in 2005)</u>	\$ 655
* 0.0995%	additional tax rate for maximum property tax increase	0.0995%
= \$ 36	additional tax owed due to maximum property tax increase	\$ 21

*2004 Assessment/Sales Ratio Study, Illinois Department of Revenue

The projected increase in property taxes for a homeowner with a single family home valued at \$300,000 will be in the range of \$41 to \$56, depending on the size of the homeowner exemption awarded.

\$ 300,000 Chicago homestead		
minimum homestead exemption (\$5,000)		maximum homestead exemption (\$20,000)
\$ 300,000	<u>Full Market Value of Property</u>	\$ 300,000
* 7.98%	<u>Median Level of Assessment*</u>	* 7.98%
= \$ 23,940	<u>Assessed Value</u>	= \$ 23,940
* 2.5757	<u>2004 Equalization Factor</u>	* 2.5757
= \$ 61,662		= \$ 61,662
- \$ 5,000	<u>Homeowner Exemption</u>	- \$ 20,000
\$ 56,662	Taxable Value (net Equalized Assessed Value)	\$ 41,662
* 3.104%	<u>2004 CPS Tax Rate</u>	* 3.104%
\$ 1,759	<u>CPS 2004 Property Tax Bill (paid in 2005)</u>	\$ 1,293
* 0.0995%	additional tax rate for maximum property tax increase	0.0995%
= \$ 56	additional tax owed due to maximum property tax increase	\$ 41

*2004 Assessment/Sales Ratio Study, Illinois Department of Revenue

APPROPRIATION TRENDS

This section presents an analysis of Chicago Public Schools budget appropriation trends, including appropriations by expenditure type (e.g., salaries, commodities, etc.) and function (e.g., Instruction, Support Services, etc.). In this analysis, one-year and five year trends are compared. Appropriations by Location for FY2007 are also presented and discussed. In FY2007, total appropriations increased by \$252.0 million, or 5.00% from the previous year. General Operating Funds Appropriations will increase by \$198.8 million, or 4.7% from the previous year.

CPS Appropriations by Expenditure Type: Change from FY2006 to FY2007

The FY2007 Chicago Public Schools budget proposes a total All Funds appropriation of approximately \$5.3 billion. This is a 5.00% increase over the previous year's proposed appropriation of \$5.0 billion. Approximately 62% of appropriations or \$3.3 billion is earmarked for salaries and benefits. Almost \$2.0 billion, or 37.6% of all appropriations, is reserved for teachers' salaries, while \$527.6 million is proposed for non-teacher salaries, such as support staff, janitors, and any other employees who do not have teaching certificates.²³ \$258.9 million is allocated for debt service expenses, a 10.2% increase over the previous year.

CPS APPROPRIATIONS BY EXPENDITURE TYPE: FY03 & FY07				
All Funds (In Millions of Dollars)				
Operating Expenditure Type	FY03	FY07	\$Change	% Change
Teacher Salaries	\$ 1,691.4	\$ 1,988.2	\$ 296.8	17.5%
Non-Teacher Salaries	\$ 473.1	\$ 527.6	\$ 54.5	11.5%
Employee Benefits	\$ 524.7	\$ 735.3	\$ 210.6	40.1%
Subtotal Compensation Excluding Capital	\$ 2,689.2	\$ 3,251.1	\$ 561.9	20.9%
Commodities & Utilities	\$ 231.5	\$ 272.9	\$ 41.4	17.9%
Non-personnel Services	\$ 444.6	\$ 609.2	\$ 164.6	37.0%
Equipment/Capital Outlay	\$ 25.9	\$ 15.3	\$ (10.6)	-40.9%
Debt Service	\$ 270.5	\$ 258.9	\$ (11.6)	-4.3%
Other	\$ 289.3	\$ 262.1	\$ (27.2)	-9.4%
Subtotal Other Operating Excluding Capital	\$ 1,261.8	\$ 1,418.4	\$ 156.6	12.4%
Subtotal All Funds Excluding Capital	\$ 3,951.0	\$ 4,669.5	\$ 718.5	18.2%
Capital Fund				
Salaries	\$ 2.0	\$ 7.6	\$ 5.6	280.0%
Benefits	\$ 0.3	\$ 2.9	\$ 2.6	866.7%
Services, Commodities, Utilities	\$ 12.4	\$ 10.0	\$ (2.4)	-19.5%
Total Capital Outlay	\$ 657.5	\$ 617.7	\$ (39.8)	-6.1%
Other	\$ (3.3)	\$ (12.6)	\$ (9.3)	281.8%
Subtotal Capital Fund	\$ 668.9	\$ 625.6	\$ (43.3)	-6.5%
TOTAL	\$ 4,619.9	\$ 5,295.1	\$ 675.2	14.6%

Source: FY2003 CPS Budget, p. 61, and FY2007 CPS Budget, p. 37.

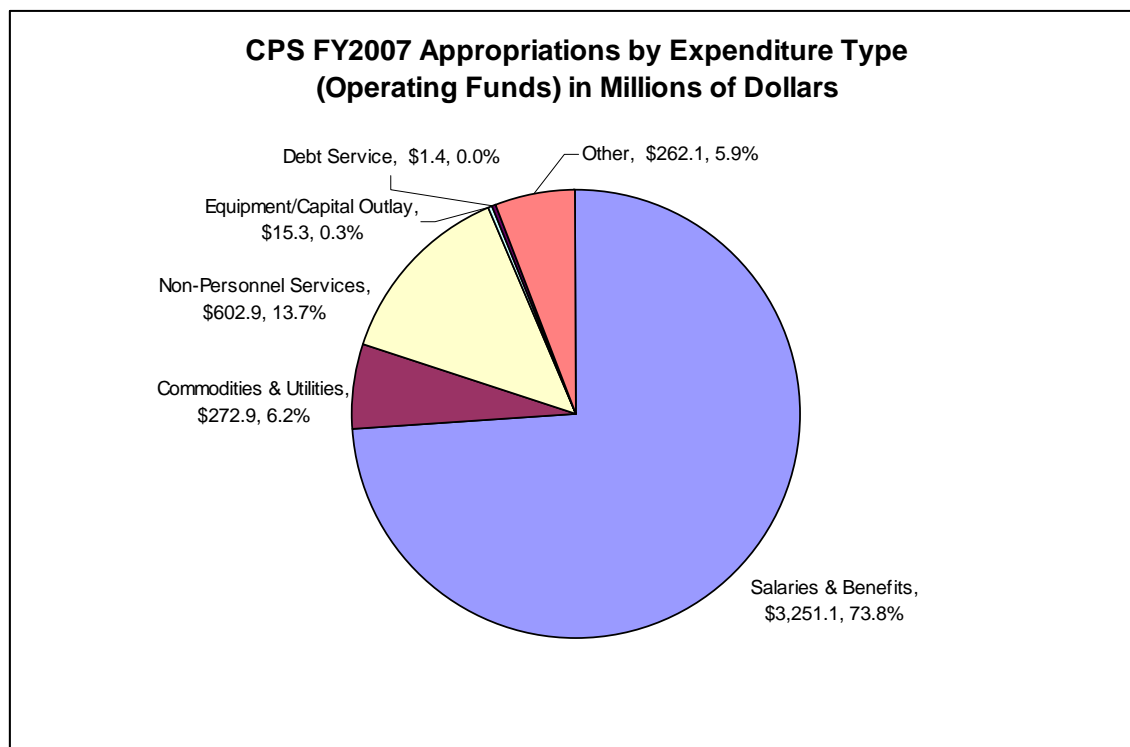
The following exhibit presents the CPS General Operating Funds by expenditure type, for FY2006 and FY2007. The General Operating Funds comprise both the General Fund as well as Special Revenue Funds. Forty-eight percent, or nearly \$2.0 billion, of the total general operating funds is reserved for teachers' salaries, while \$527.6 million is proposed for non-teacher salaries. In addition, employee benefits spending will rise by 14.3%, reflecting the \$53.6 million increase in CPS's required contribution to the pension system and the rising cost of health care coverage. The FY2007 healthcare cost is budgeted at \$301.3 million, an increase of \$26.7 million or 9.7% over FY2006 appropriations. These two increases alone constitute 55.3% of the \$145.1 million increase in compensation from FY2006 to FY2007. Taken together, salaries and benefits represent 73.8% of the total general operating funds appropriation.

²³ These figures do not include the \$7.6 million in salaries paid for out of the capital fund. The FY2007 CPS budget does not indicate how much of this money is intended for teacher salaries and how much is for non-teacher salaries.

CPS APPROPRIATIONS BY EXPENDITURE TYPE: FY06 & FY07				
General Operating Funds (In Millions of Dollars)				
Expenditure Type	FY06	FY07	\$Change	% Change
Teacher Salaries	\$ 1,932.2	\$ 1,988.2	\$ 56.0	2.9%
Non-Teacher Salaries	\$ 530.4	\$ 527.6	\$ (2.8)	-0.5%
Employee Benefits	\$ 643.4	\$ 735.3	\$ 91.9	14.3%
Subtotal Compensation	\$ 3,106.0	\$ 3,251.1	\$ 145.1	4.7%
Commodities & Utilities	\$ 247.6	\$ 272.9	\$ 25.3	10.2%
Non-personnel Services	\$ 571.1	\$ 602.9	\$ 31.8	5.6%
Equipment/Capital Outlay	\$ 18.5	\$ 15.3	\$ (3.2)	-17.3%
Debt Service	\$ 1.4	\$ 1.4	\$ -	0.0%
Other	\$ 262.3	\$ 262.1	\$ (0.2)	-0.1%
TOTAL	\$ 4,206.9	\$ 4,405.7	\$ 198.8	4.7%

Source: FY2006 CPS Budget, p. 83 and FY2007 CPS Budget, p. 37.

The next exhibit shows the breakdown of general operating appropriations in the FY2007 budget by percentage of expenditure types. The largest single portion of the FY2007 general operating appropriation is earmarked for salaries and benefits. 73.8% of the general and special funds, or nearly \$3.3 billion, will be used for teacher salaries, non-teacher compensation and employee benefits.



Source: FY2007 CPS Budget, p. 37

5-Year Appropriation Trends by Expenditure Type: FY2003 and FY2007

The exhibit below shows that CPS appropriations have risen from \$4.6 billion to \$5.3 billion over 5 years. This is a 14.6% increase since FY2003. The largest percentage increase in that 5-year period is for employee benefits, which rose by over 40.6%, from \$525.0 million to \$738.2 million. The increase reflects the rising cost of health care benefits and pensions. Total

employee compensation (salary and benefits) rose by 21.2% over this period. Non-personnel services also rose substantially, by 37.0%, from \$444.6 million to \$609.1 million.²⁴

CPS APPROPRIATIONS BY EXPENDITURE TYPE: FY06 & FY07				
All Funds (In Millions of Dollars)				
Operating Expenditure Type	FY06	FY07	\$Change	% Change
Teacher Salaries	\$ 1,932.2	\$ 1,988.2	\$ 56.0	2.9%
Non-Teacher Salaries	\$ 530.4	\$ 527.6	\$ (2.8)	-0.5%
Employee Benefits	\$ 643.4	\$ 735.3	\$ 91.9	14.3%
Subtotal Compensation Excluding Capital	\$ 3,106.0	\$ 3,251.1	\$ 145.1	4.7%
Commodities & Utilities	\$ 247.6	\$ 272.9	\$ 25.3	10.2%
Non-personnel Services	\$ 577.3	\$ 609.2	\$ 31.9	5.5%
Equipment/Capital Outlay	\$ 18.5	\$ 15.3	\$ (3.2)	-17.3%
Debt Service	\$ 235.0	\$ 258.9	\$ 23.9	10.2%
Other	\$ 262.3	\$ 262.1	\$ (0.2)	-0.1%
Subtotal Other Operating Excluding Capital	\$ 1,340.7	\$ 1,418.4	\$ 77.7	5.8%
Subtotal All Funds Excluding Capital	\$ 4,446.7	\$ 4,669.5	\$ 222.8	5.0%
Capital Fund				
Salaries	\$ 5.7	\$ 7.6	\$ 1.9	33.3%
Benefits	\$ 1.1	\$ 2.9	\$ 1.8	163.6%
Services, Commodities, Utilities	\$ 0.9	\$ 10.0	\$ 9.1	1011.1%
Total Capital Outlay	\$ 596.3	\$ 617.7	\$ 21.4	3.6%
Other	\$ (7.6)	\$ (12.6)	\$ (5.0)	65.8%
Subtotal Capital Fund	\$ 596.4	\$ 625.6	\$ 29.2	4.9%
TOTAL	\$ 5,043.1	\$ 5,295.1	\$ 252.0	5.0%

Source: FY2006 CPS Budget, p. 83, and FY2007 CPS Budget, p. 37.

The following exhibit presents a 5-year trend by expenditure type for the General Operating Funds, which comprise the General Fund and Special Revenue Funds. The largest percentage increase in that 5-year period for General Operating Funds is for employee benefits, which rose by 40.1%, from \$524.7 million to \$735.3 million. During the period analyzed, compensation (salaries and benefits) has risen by 20.9%, a difference of \$561.9 million. Salaries and benefits will absorb 73.8% of the total general operating funds in FY2007.

CPS APPROPRIATIONS BY EXPENDITURE TYPE: FY03 & FY07				
General Operating Funds (In Millions of Dollars)				
Expenditure Type	FY03	FY07	\$Change	% Change
Teacher Salaries	\$ 1,691.4	\$ 1,988.2	\$ 296.8	17.5%
Non-Teacher Salaries	\$ 473.1	\$ 527.6	\$ 54.5	11.5%
Employee Benefits	\$ 524.7	\$ 735.3	\$ 210.6	40.1%
Subtotal Compensation	\$ 2,689.2	\$ 3,251.1	\$ 561.9	20.9%
Commodities & Utilities	\$ 231.5	\$ 272.9	\$ 41.4	17.9%
Non-personnel Services	\$ 440.9	\$ 602.9	\$ 162.0	36.7%
Equipment/Capital Outlay	\$ 25.9	\$ 15.3	\$ (10.6)	-40.9%
Debt Service	\$ 1.5	\$ 1.4	\$ (0.1)	-6.7%
Other	\$ 289.2	\$ 262.1	\$ (27.1)	-9.4%
TOTAL	\$ 3,678.2	\$ 4,405.7	\$ 727.5	19.8%

Source: FY2003 CPS Budget, p. 61, and FY2007 CPS Budget, p. 37.

²⁴ These figures exclude non-personnel services paid for out of Capital Funds. The FY2007 CPS Budget does not specify how much of its Capital Funds appropriation will go for non-personnel services.

CPS General Operating Funds: Appropriations by Function

Changes in General Operating Fund appropriations by function are presented in the following exhibits. Each function denotes a particular service for which funds are allocated, such as classroom teaching or administrative support. Regular Instructional Programs will increase by 5.5%, or over \$100.1 million. Vocational and Special Needs Instructional Programs, after increasing by 20.8% in FY2006, will undergo a spending reduction of 4.8%, from \$209.0 million to \$199.1 million. Of CPS's non-instructional programs, support services will increase by 5.8%, and community services will increase by 16.1%. Other Services (Interest and Debt services and total provision for contingencies) will increase by \$27.6 million, a 30.1% increase over FY2006.

CPS APPROPRIATIONS BY FUNCTION: FY06 & FY07				
General Operating Funds (General Fund & Special Revenue Fund)				
FUNCTION	FY06	FY07	\$ CHANGE	% CHANGE
Instruction-Regular Programs	\$ 1,821,251,257	\$ 1,921,398,805	\$ 100,147,548	5.5%
Instruction-Special Education	\$ 466,921,376	\$ 468,649,295	\$ 1,727,919	0.4%
Instruction-Voc Ed & Special Needs	\$ 209,012,522	\$ 199,064,337	\$ (9,948,185)	-4.8%
SUBTOTAL INSTRUCTION	\$ 2,497,185,155	\$ 2,589,112,437	\$ 91,927,282	3.7%
SUPPORTING SERVICES	\$ 1,552,857,193	\$ 1,642,547,770	\$ 89,690,577	5.8%
COMMUNITY SERVICES	\$ 47,114,920	\$ 54,715,899	\$ 7,600,979	16.1%
STATE REV. PENSION ADJUST.	\$ -	\$ -	\$ -	-
OTHER	\$ 91,732,845	\$ 119,347,445	\$ 27,614,600	30.1%
TOTAL	\$ 4,207,000,000	\$ 4,405,723,551	\$ 198,723,551	4.7%

Source: FY2006 CPS Budget, p. 44, and FY2007 CPS Budget CDROM

Projections for CPS's FY2007 General Operating Fund appropriations by function show significant changes from FY2003 appropriations. Appropriations for Regular Instructional Programs will rise by 34.9%, or \$496.7 million. Vocational and Special Needs Instructional Programs will decrease by 30.7%, from \$287.2 million to \$199.1 million.

As for non-instructional programs, appropriations for supporting services will increase by 23.7%, while community services will be reduced by 2.5%. Other services (Interest and Debt services and total provision for contingencies) will increase by 66.5%, or \$47.7 million.

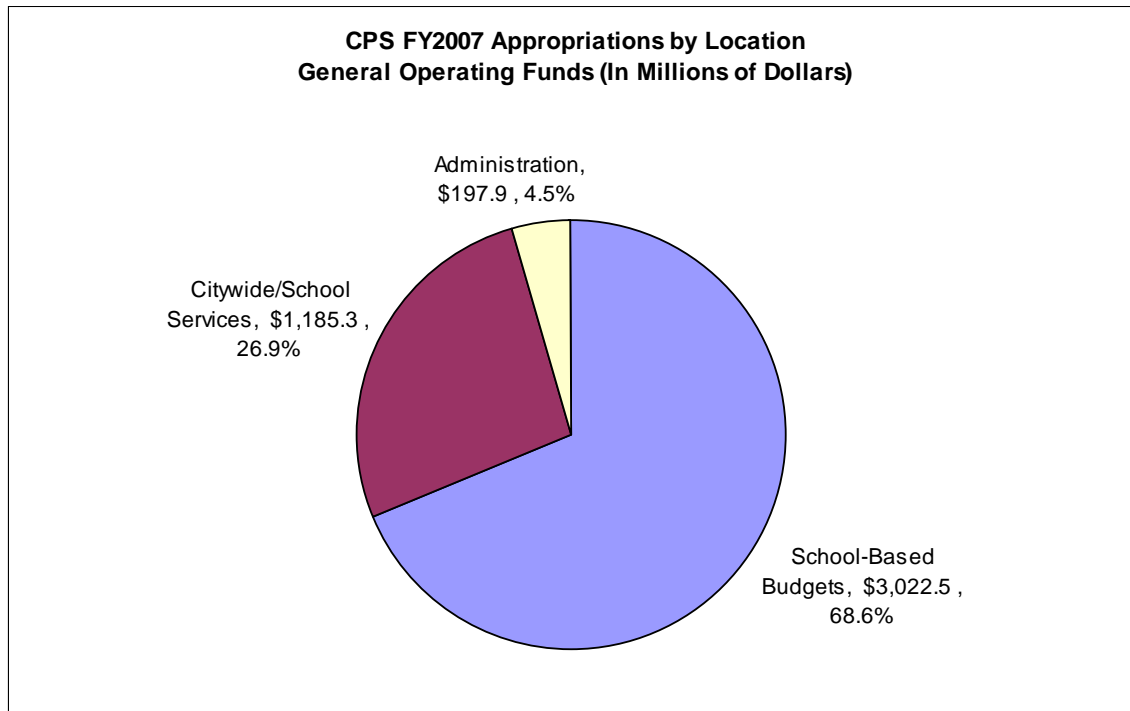
CPS APPROPRIATIONS BY FUNCTION: FY03 & FY07				
General Operating Funds (General Fund & Special Revenue Fund)				
FUNCTION	FY03	FY07	\$ CHANGE	% CHANGE
Instruction-Regular Programs	\$ 1,424,734,731	\$ 1,921,398,805	\$ 496,664,074	34.9%
Instruction-Special Education	\$ 446,063,009	\$ 468,649,295	\$ 22,586,286	5.1%
Instruction-Voc Ed & Special Needs	\$ 287,152,727	\$ 199,064,337	\$ (88,088,390)	-30.7%
SUBTOTAL INSTRUCTION	\$ 2,157,950,467	\$ 2,589,112,437	\$ 431,161,970	20.0%
SUPPORTING SERVICES	\$ 1,327,377,662	\$ 1,642,547,770	\$ 315,170,108	23.7%
COMMUNITY SERVICES	\$ 56,144,581	\$ 54,715,899	\$ (1,428,682)	-2.5%
STATE REV. PENSION ADJUST.	\$ 65,045,000	\$ -	\$ (65,045,000)	-100.0%
OTHER	\$ 71,669,312	\$ 119,347,445	\$ 47,678,133	66.5%
TOTAL	\$ 3,678,187,022	\$ 4,405,723,551	\$ 727,536,529	19.8%

Source: FY2003 CPS Budget, p. 28, and FY2007 CPS Budget CDROM

CPS Appropriations by Location

The exhibit below provides the FY2007 General Operating Funds allocation by location. A total of \$3.0 billion or 68.6% of the FY2007 CPS operating budget will be used for various types of schools and school-based programs, including general high schools, vocational high schools,

elementary schools and special education schools. Citywide/School Services, which designates resources like literacy, math, or special education teachers who serve multiple locations, will receive \$1.2 billion or 26.9% of general operating funds. \$197.9 million or 4.5% of the General Operating Funds allocation will go to Central Office administration (this amount does not include salaries for school-based administrators).



Source: CPS FY2007 Budget CDROM

Compared to FY2006 expenditures, Citywide/School Services, consisting of appropriations that directly impact the schools, will see an increase of 9.3% – \$100.7 million more will be allocated for these programs. School-based budgets will also receive a 3.6% funding increase, while administrative costs will be reduced by \$7.3 million compared to FY2006.

CPS APPROPRIATIONS BY LOCATION General Operating Funds (In Millions of Dollars)				
LOCATION	FY06	FY07	\$ Change	% Change
School-Based Budgets	\$ 2,917.2	\$ 3,022.5	\$ 105.3	3.6%
Citywide/School Services	\$ 1,084.6	\$ 1,185.3	\$ 100.7	9.3%
Administration	\$ 205.2	\$ 197.9	\$ (7.3)	-3.6%
TOTAL	\$ 4,207.0	\$ 4,405.7	\$ 198.7	4.7%

Source: FY2006 CPS Budget, p. 45, and FY2007 Budget CDROM

CPS Personnel Appropriations

In FY2007 CPS personnel appropriations are expected to increase by \$138.4 million to \$3.3 billion, a 4.4% increase over the FY2006 budgeted appropriation of \$3.1 billion. Salaries, which constitute 77.4% of all personal service appropriations, will increase by 1.9%. Benefit costs, which include pensions, hospitalization insurance, worker's compensation, unemployment compensation, and payroll tax contributions for Social Security and Medicare, will rise at a much

faster rate. In the aggregate, benefit costs will increase by 14.1% or \$90.9 million, rising from \$644.5 million to \$735.4 million.

CPS Employee Compensation FY06-FY07 (Operating Funds)				
Expenditure Type	FY06	FY07	\$ Change	% Change
Teacher Salaries	\$ 1,932.5	\$ 1,988.2	\$ 55.7	2.9%
ESP Salaries	\$ 535.8	\$ 527.6	\$ (8.2)	-1.5%
Subtotal Salaries	\$ 2,468.3	\$ 2,515.8	\$ 47.5	1.9%
Teacher Pension	\$ 235.6	\$ 291.5	\$ 55.9	23.7%
ESP Pension	\$ 82.4	\$ 84.3	\$ 1.9	2.3%
Hospitalization	\$ 275.1	\$ 301.3	\$ 26.2	9.5%
Workers' Compensation	\$ 18.1	\$ 23.1	\$ 5.0	27.6%
Unemployment Compensation	\$ 8.9	\$ 10.9	\$ 2.0	22.5%
Medicare/Socail Security	\$ 24.4	\$ 24.3	\$ (0.1)	-0.4%
Subtotal Benefits	\$ 644.5	\$ 735.4	\$ 90.9	14.1%
Total	\$ 3,112.8	\$ 3,251.2	\$ 138.4	4.4%

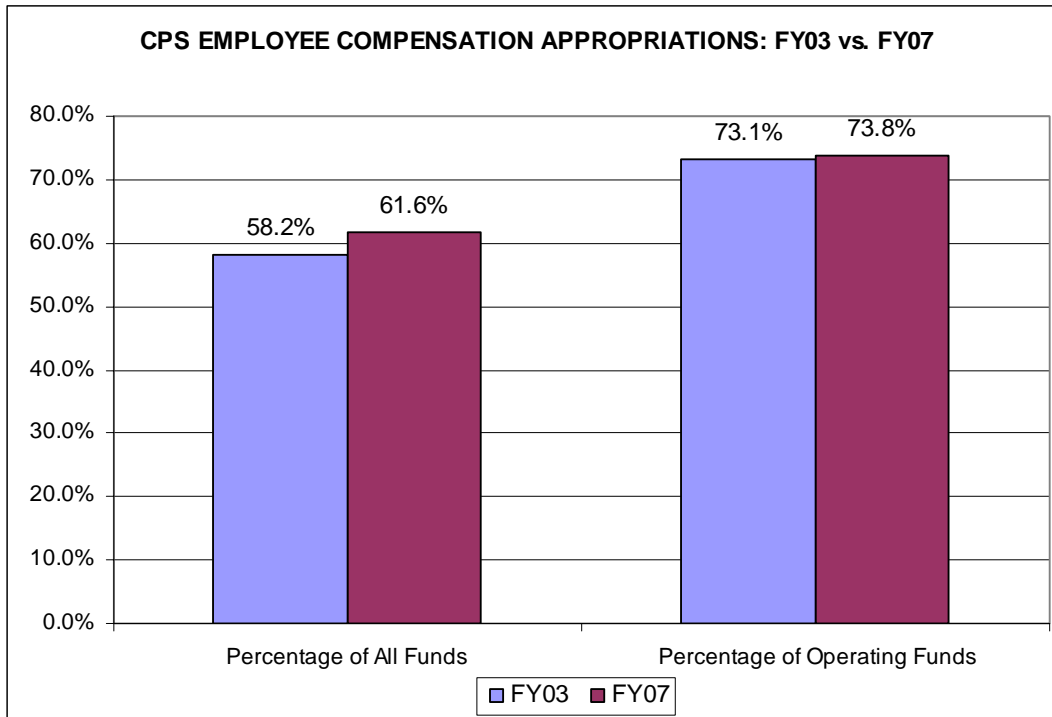
Source: CPS Budgets, FY2006-FY2007

Over a five-year period, the compensation costs Chicago Public Schools pays for out of its General Operating Funds have risen by 20.8%, or by \$559.7 million. Salaries during that period increased by 16.1%, from \$2.2 billion to \$2.5 billion. Benefits rose at a much faster rate, increasing by 40.1% or by \$210.4 million.

CPS Employee Compensation FY03-FY07 (Operating Funds)							
Expenditure Type	FY03	FY04	FY05	FY06	FY07	FY03-FY07 \$ Change	FY03-FY07 % Change
Teacher Salaries	\$ 1,691.5	\$ 1,741.0	\$ 1,890.7	\$ 1,932.5	\$ 1,988.2	\$ 296.7	17.5%
ESP Salaries	\$ 475.0	\$ 481.3	\$ 512.8	\$ 535.8	\$ 527.6	\$ 52.6	11.1%
Subtotal Salaries	\$ 2,166.5	\$ 2,222.3	\$ 2,403.5	\$ 2,468.3	\$ 2,515.8	\$ 349.3	16.1%
Teacher Pension	\$ 191.0	\$ 197.7	\$ 199.0	\$ 235.6	\$ 291.5	\$ 100.5	52.6%
ESP Pension	\$ 74.1	\$ 79.4	\$ 83.4	\$ 82.4	\$ 84.3	\$ 10.2	13.8%
Hospitalization	\$ 220.0	\$ 256.0	\$ 256.5	\$ 275.1	\$ 301.3	\$ 81.3	37.0%
Workers' Compensation	\$ 14.2	\$ 14.3	\$ 16.0	\$ 18.1	\$ 23.1	\$ 8.9	62.7%
Unemployment Compensation	\$ 2.6	\$ 2.7	\$ 3.2	\$ 8.9	\$ 10.9	\$ 8.3	319.2%
Medicare/Socail Security	\$ 23.1	\$ 28.9	\$ 25.6	\$ 24.4	\$ 24.3	\$ 1.2	5.2%
Subtotal Benefits	\$ 525.0	\$ 579.0	\$ 583.7	\$ 644.5	\$ 735.4	\$ 210.4	40.1%
Total	\$ 2,691.5	\$ 2,801.3	\$ 2,987.2	\$ 3,112.8	\$ 3,251.2	\$ 559.7	20.8%

Source: CPS Budgets, FY2003-FY2007

The next exhibit compares the percentage of CPS appropriations earmarked for employee compensation in FY2003 versus FY2007. The percentage of all funds and general operating appropriations dedicated to personnel has risen over the last five years, though the percentage of General and Special Revenue Fund appropriations earmarked for personnel expenditures has risen by only 0.7%.



Health Insurance Benefits

Retired Chicago Public Schools teachers are offered three options for healthcare coverage: Blue Cross/Blue Shield PPO, Humana HMO, and HMO Illinois. The Public School Teachers' Pension and Retirement Fund of Chicago provides a rebate for a portion of the monthly premiums owed by those participating in any of the three plans. In 2006, for example, the premium for a single individual's policy was reduced by approximately 70.0% as a result of the rebate.²⁵ This is a substantial increase since 2004, when the rebate covered 55.0% of a single individual's policy premium.²⁶ The rebate only applies to the retired teacher's portion of these insurance policies.

The following exhibit shows the extent to which the Pension Fund's health insurance subsidy has increased over the past decade. From 1995 to 2004, total insurance premium rebates paid increased by 104.2%, or \$27.1 million.²⁷

²⁵ *Public School Teachers' Pension and Retirement Fund of Chicago 2006 Health Insurance Open Enrollment Handbook*, p. 35.

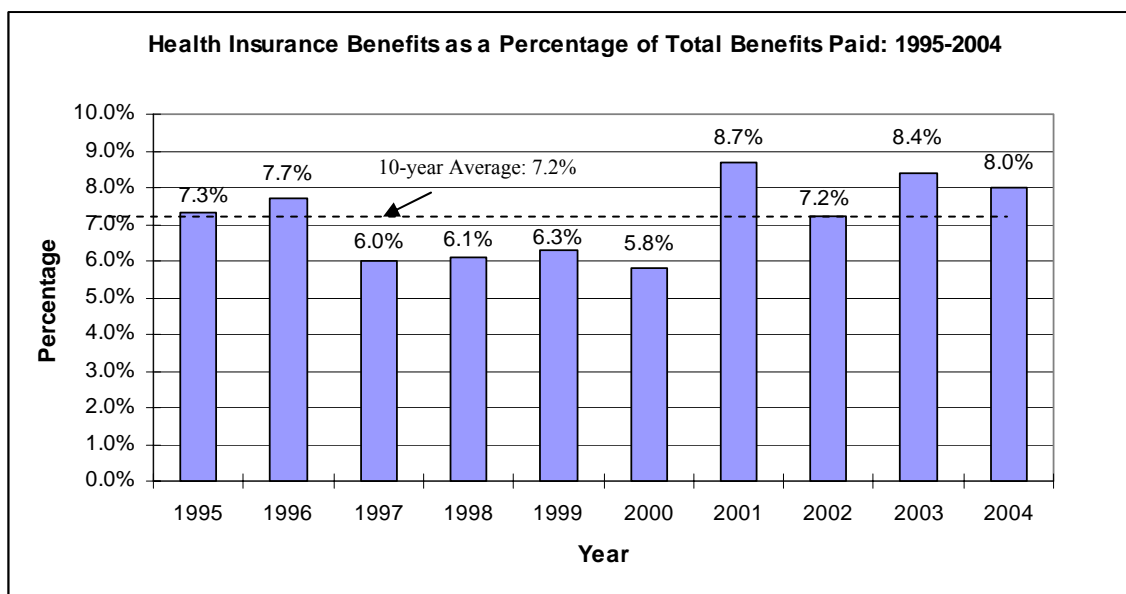
²⁶ *Public School Teachers' Pension and Retirement Fund of Chicago 2004 Health Insurance Open Enrollment Handbook*, p. 19.

²⁷ Data for 2005 is currently unavailable.

Health Insurance Premium Rebates Paid to Retired CPS Teachers: 1995-2004		
Year	Health Insurance Benefits Paid	Health Insurance % Change
1995	\$ 26,003,656	...
1996	\$ 28,540,558	9.8%
1997	\$ 22,796,866	-20.1%
1998	\$ 24,225,631	6.3%
1999	\$ 22,013,995	-9.1%
2000	\$ 26,144,939	18.8%
2001	\$ 44,088,569	68.6%
2002	\$ 44,068,275	0.0%
2003	\$ 51,395,920	16.6%
2004	\$ 53,106,379	3.3%
Total Change	\$ 27,102,723	104.2%

Source: Public School Teachers' Pension & Retirement Fund of Chicago CAFR 2004, p. 89

Looking at health insurance benefits as a percentage of total benefits paid by the Teachers' Pension Fund,²⁸ from 1995 to 2004 health insurance has comprised an average of 7.1% of the Pension Fund's total expenditures per year.



Source: Public School Teachers' Pension and Retirement Fund of Chicago CAFR 2004

A comparison of health insurance payments for current Chicago Public Schools teachers and retired teachers receiving health insurance payments from the Teachers' Pension Fund reveals that, in the five year period between 2000 and 2004, Pension Fund insurance payments rose by 103.4%, while the Chicago Public Schools' insurance payments increased by 63.8%.²⁹ In the case of the Pension Fund, however, much of this increase was due to a drastic 68.6% jump in 2001. In other years, the increases have been much smaller.

²⁸ Total benefits paid include retirement, disability, refunds (for separation, death or other causes), death benefits, and health insurance. *Public School Teachers' Pension and Retirement Fund of Chicago CAFR 2004*, p. 89.

²⁹ Note that there may be a slight discrepancy in the Chicago Public Schools insurance data, since the FY2000 figures were drawn from the final budget, while the information for FY2004 is based on the proposed budget.

Health Insurance Payments for Retired versus Active CPS Teachers: FY00 & FY04 (in Millions of Dollars)				
	FY00	FY04	\$ Change	% Change
Pension Fund Health Insurance Payments	\$ 26.1	\$ 53.1	\$ 27.0	103.4%
CPS Health Insurance Payments	\$ 156.3	\$ 256.0	\$ 99.7	63.8%

Source: CPS Budgets FY2000 & FY2004, Public School Teachers' Pension & Retirement Fund of Chicago CAFR 2004, p. 89

New and Enhanced Education Initiatives for CPS FY2007 Budget

The CPS annually reports information about its education initiatives, which include pre-school and after school programs, dropout prevention programs, summer job programs, and enhanced educational opportunities for highly motivated students. As in FY2006, there will be an overall increase in funding for educational initiatives in FY2007. Funding for these projects will increase by 3.3%, from \$452.1 million in FY2006 to \$467.1 million in FY2007. Appropriations for educational initiatives will constitute 8.8% of the CPS's total \$5.295 billion budget in FY2007.

Total CPS Educational Budget Initiative Funding: All Funds FY06 & FY07 (In Millions of Dollars)				
	FY06	FY07	\$ Change	% Change
Total Funding	\$ 452.1	\$ 467.1	\$ 15.0	3.3%

Source: CPS FY2006 Budget, p. 12, and CPS FY2007 Budget, p. 13

Two programs, Art and Music Enhancement and High School Demonstration, were eliminated in the FY2007 budget, saving the District a total of \$2.0 million. Two new programs, though, were created, costing the District \$10.0 million.

New Programs in FY07: All Funds (In Millions of Dollars)	
	FY07
Choice Transportation	\$ 5.0
Enrichment & Learning Academies	\$ 5.0
Total	\$ 10.0

Source: CPS FY2006 Budget, p. 12, and CPS FY2007 Budget, p. 13

Unfortunately, there is no description of either of these programs in the F2007 budget.

The next section presents a review of selected continuing programs that are either receive a significant funding reduction or increase in the proposed FY2007 budget.

Selected CPS Educational Budget Initiatives: All Funds FY06 & FY07 (In Millions of Dollars)				
	FY06	FY07	\$ Change	% Change
Program Reductions				
Summer Programs	\$ 51.4	\$ 42.9	\$ (8.5)	-16.5%
Bilingual/Language Acquisition	\$ 47.6	\$ 42.9	\$ (4.7)	-9.9%
Reading and Math Initiatives	\$ 61.6	\$ 49.4	\$ (12.2)	-19.8%
Program Increases				
Early Childhood	\$ 148.9	\$ 172.5	\$ 23.6	15.8%
International Baccalaureate	\$ 3.2	\$ 7.1	\$ 4.0	125.4%
Professional Development	\$ 4.0	\$ 6.6	\$ 2.6	63.8%

Source: CPS FY2006 Budget, p. 12, and CPS FY2007 Budget, p. 13

Reduction: Summer Programs, -16.5%

In the aggregate, appropriations for CPS Summer Programs will decrease by \$8.5 million or 16.5%, from \$51.4 million to \$42.9 million. Summer Programs includes: the Summer Bridge program, which provides an intensive reading and math curriculum for students unable to meet the requirements of CPS's promotion policy; a high school program, mandatory for under-performing 9th graders, that is designed to reduce the dropout rate; the Extended School Year Summer Program; and Mayor Daley's Kid Start Summer Youth program, which provides part-time summer job opportunities for over 12,000 young people ages 14-21. Due to CPS's new budget format, it is not possible to determine which programs will see the most significant cuts.

Reduction: Bilingual/Language Acquisition, -9.9%

Funding levels for CPS Bilingual/Language Acquisition programs will fall \$4.7 million or by 9.9%, from \$47.6 million to \$42.9 million. This line item includes the State-mandated Transitional Bilingual Education (TBE) program, which serves over 55,000 English Language learners in Kindergarten through grade 12. Area Bilingual Instructional Coaches, assigned to areas with schools implementing TBE Programs, provide onsite instructional support. A compliance unit composed of six staff members reviews and audits bilingual programs to ensure that they meet state and federal statutes and CPS policies.

Reduction: Reading and Math Initiatives, -19.8%

In the aggregate, the Chicago Mathematics and Science Initiative (CMSI) and the Chicago Reading Initiative / Office of Literacy programs will have funding levels reduced by 19.8% in FY2007. Proposed appropriations were cut from \$61.6 million in FY2006 to \$49.4 million in FY2007. CMSI is a comprehensive CPS plan to improve mathematics and science instruction in all schools. It is built on the premise that better prepared teachers, coherent programs and policies, and high-quality support for instruction will lead to increased student achievement. Area-based math/science coaches, Central Office Facilitators, and Citywide specialists support the implementation of CMSI curricular materials. The Chicago Reading Initiative and Office of Literacy programs support all CPS elementary and secondary schools, giving additional support to low-performing schools. Like CMSI, these programs are focused on professional development.³⁰ Due to CPS's new budget format, it is not possible to determine which programs will see the most significant cuts.

³⁰ *Chicago Public Schools Budget FY2007 Budget*, p. 7.

Increase: Early Childhood, 15.8%

In FY2007 Early Childhood programs will receive a 15.8% or \$23.6 million increase in funding. In the aggregate, appropriations for these programs will rise from \$148.9 million to \$172.5 million. Early Childhood programs includes State Pre-Kindergarten, Head Start, the Tuition-Based Early Childhood Program, Child Parent Centers, and the Teen Parent Initiative. The State Pre-Kindergarten program served 12,325 students in FY2006 and will serve approximately 500 more in FY2007. Its funding (through the Illinois State Early Childhood Block Grant) will increase from \$101 million in FY2006 to \$118 million in FY2007. The Tuition based Pre-School program provides opportunities for children not otherwise eligible for early childhood programs offered by the Chicago Public Schools. In FY2007 the program will operate in 26 classrooms, two more than in the previous year, and will have the capacity to serve 520 children, 40 more than in FY2006. In FY2007 the weekly tuition will increase from \$185 to \$200.³¹

Increase: International Baccalaureate, 125.4%

The International Baccalaureate program for elementary and high schools will receive \$7.1 million in FY2007, more than twice the funding it received in FY2006. Prospective or authorized International Baccalaureate programs will go into a number of middle schools and high schools to provide highly motivated students with accelerated academic options within the Chicago Public Schools.³²

Increases: Professional Development, 63.8% Increase

Appropriations for Professional Development programs will rise from \$4.0 million to \$6.6 million. The Department of Human Resources provides various professional development activities to teachers and principals in the system. Under the GOLDEN Program (Guidance, Orientation, and Leadership Development empowering New Teachers), budgeted for FY2007 at \$1.6 million, Human Resources provides instruction services to new teachers in the system and monitors teachers that are currently undergoing recertification.³³

CHARTER SCHOOLS AND RENAISSANCE 2010 INITIATIVE

In FY2007 the number of charter schools will increase from 23 schools on 30 campuses to 28 schools on 48 campuses. The number of charter school students is also expected to increase significantly, by 5,000 or 32.7%. Charter school student enrollment will grow from approximately 15,300 in FY2006 to 20,300 in FY2007. Proposed appropriations for charter schools will grow by 44.4%, from approximately \$90 million in FY2006 to \$130 million in FY2007. CPS will allocate another \$20 million for charter schools' share of categorical program spending in FY2007.³⁴

³¹ *Chicago Public Schools Budget FY2007*, pp. 7-8.

³² *Chicago Public Schools Budget FY2007*, p. 11.

³³ *Chicago Public Schools Budget FY2007*, p. 7.

³⁴ Unfortunately, CPS's FY2007 budget document does not explicitly state the FY2007 appropriation for charter schools, FY2007 charter schools' projected enrollment, or the total number of charter schools and charter school campuses. All charter school data was obtained from the CPS Office of Management and Budget.

In addition to the new charter schools, two other schools – one contract school and one performance school – will open under the Renaissance 2010 initiative in FY2007. The total number of Renaissance 2010 schools in FY2007, including some charter schools, will be 30, and they will operate a total of 37 campuses. Renaissance 2010 schools are projected to serve 8,600 students in FY2007, an 87.0 % increase over FY2006 Renaissance 2010 enrollment.³⁵ These schools will be funded by a lump sum allocation rather than formula-driven allocation.³⁶ The Renaissance 2010 initiative proposes to increase educational choices and opportunities for at-risk students by creating 100 new schools over the next five years. These schools will be a combination of CPS-run, contract, and charter schools. Operation of individual schools will be awarded via a Request for Proposals process. Schools will be held accountable via performance agreements that list expectations for student achievement, on-going community and parent involvement and school management.³⁷

The Chicago Public Schools reimburses charter schools for the cost of providing special education. Individual schools are given the option of hiring their own special education teachers or having special education teachers provided by the District. The District also pays for charter school food service and transportation costs and provides funding for facilities maintenance, including janitorial and engineering services. Charter schools receive the same funding as traditional schools for poverty-related federal and state categorical programs.³⁸

PERSONNEL: 2,061 POSITIONS ELIMINATED IN FY2007

In FY2007, the Chicago Public Schools will fund a total of 44,149 full time equivalent positions. This is a 4.5% decrease from the FY2006 total of 46,211. The following exhibit details CPS staff reductions:

CPS Distribution of Personnel: FY06 & FY07				
Location	FY06	FY07	Change	% Change
Administrative Positions	1,650	1,580	(70)	-4.2%
School-Based Positions	44,481	42,489	(1,992)	-4.5%
Subtotal Operating Funds Positions	46,131	44,069	(2,062)	-4.5%
Capital-Funded Positions	80	80	0	0.0%
Total	46,211	44,149	(2,062)	-4.5%

Source: CPS Budget FY2007, p. 76

In FY2007, the Chicago Public Schools will budget for 27,868 teaching positions. This is a 3.7% reduction in the teaching staff, and entailed the elimination of 1,062 teaching positions. Thirty-three percent, or 14,621 FY2007 budgeted positions are designated as non-teaching school-based staff, including teachers’ aides, clerical staff, custodians, security officers, and building engineers. Four percent are administrative staff. The 80 capital-funded staff positions are primarily programmers and project managers who are working to implement a new student information system over the next 24 months. These positions will be closed out as implementation is completed.³⁹

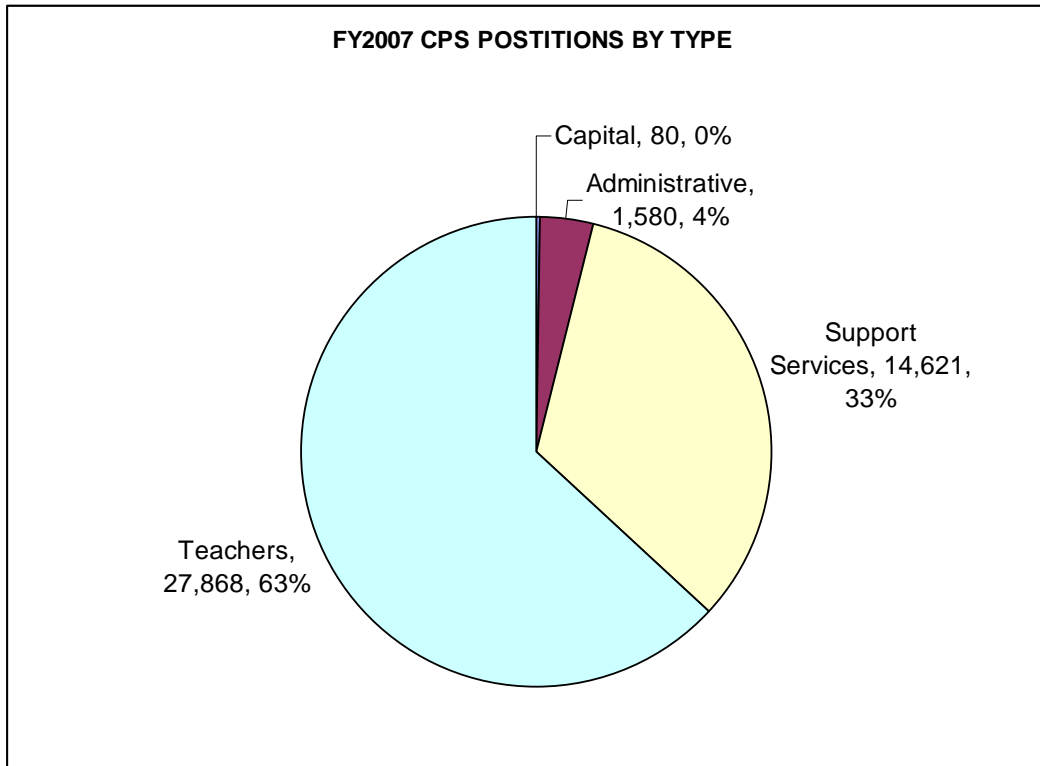
³⁵ All information on Renaissance 2010 schools has been obtained from the Renaissance 2010 Office.

³⁶ *Chicago Public Schools Budget FY2006*, p. 13.

³⁷ For information on the Renaissance 2010 initiative, please see <http://www.ren2010.cps.k12.il.us/overview.shtml>.

³⁸ Information provided by Chicago Public Schools Office of Management and Budget, July 9, 2005.

³⁹ Communication from the CPS Office of Management and Budget.



Source: CPS FY2007 Budget, p. 38 and p. 76

In order to more accurately reflect the classification of personnel functions, the Chicago Public Schools have followed a new format for presenting personnel figures in the budget for the past three years. Previously, positions were classified by categories that described location: Central Office, Schools, and Citywide.⁴⁰ The new format originally divided employees into two categories, Administrative positions and School-Based positions. This year, CPS has added a “Capital Funded Positions” category to avoid contradictions in the presentation of personnel information elsewhere in the budget document.

Because of these format changes, historical comparisons of positions by type cannot be made at this time.

Administrative Staff by Unit

The following exhibit shows the Chicago Public Schools system’s administrative staff levels itemized by individual administrative unit in the budget book. In FY2007, 70 full-time equivalent positions were eliminated, resulting in an 4.2% decrease in total administrative staff.

⁴⁰ The “Citywide” designation included employees for system-wide functions as well as teachers and employees who worked at multiple school locations.

CPS Administrative Staff Levels: FY06 & FY07 (Full-Time Equivalent Positions)				
Administrative Unit	FY06	FY07	Change	% Change
Board of Education	20	19	(1)	-5.0%
C.E.O.	13	10	(3)	-23.1%
Chief of Staff	9	7	(2)	-22.2%
Inspector General	19	16	(3)	-16.2%
Law	79	79	-	0.0%
Communications	14	14	-	0.0%
Audit Services	3	3	-	0.0%
New Schools Development	19	24	5	26.3%
External Affairs	50	48	(2)	-4.0%
Business Diversity	3	4	1	16.7%
Chief Education Officer	10	7	(3)	-30.0%
Literacy	38	36	(2)	-5.3%
High School Programs	133	146	13	9.5%
Education to Careers	36	40	4	11.0%
Early Childhood Education	19	19	-	0.0%
Math & Science	42	38	(4)	-10.0%
Research, Eval. & Accountability	43	35	(8)	-18.6%
Instruction & School Mgmt.	231	224	(7)	-3.0%
School Demographics & Planning	-	1	1	-
Principal Preparation & Development	8	8	-	0.0%
Academic Enhancement	11	12	1	9.1%
Specialized Services	81	66	(15)	-18.5%
Strategic Planning	9	7	(2)	-22.2%
Language & Cultural Education	53	47	(6)	-11.7%
Fine Arts	-	8	8	-
Chief Administrative Officer	9	6	(3)	-33.3%
Human Resources	213	179	(34)	-15.8%
Contracts & Procurement	34	32	(2)	-5.9%
Safety & Security	61	58	(3)	-4.9%
Technology Services	147	157	10	6.7%
Business Service Center	-	23	23	-
School Financial Services	131	113	(18)	-13.8%
Management & Budget	53	44	(9)	-17.0%
Chief Operating Officer	16	12	(4)	-25.0%
Facility Operations & Maintenance	19	17	(2)	-10.5%
Facility Planning	2	2	-	0.0%
Food Services	21	20	(1)	-2.4%
Student Transportation	1	1	-	0.0%
TOTAL	1,649	1,580	(69)	-4.2%

Note: This chart does not include school-based administrative positions or positions paid for out of the Capital Fund. FY06 figures are from the FY06 Adopted Budget. Slight discrepancies between tabulations of FTE positions are caused by rounding. Source: CPS Budget FY2007 CDROM data

Twenty-two of the 38 units listed above, or 57.9%, will undergo staffing reductions. The administrative units that experienced the greatest reductions in staff levels include:

- Chief Administrative Officer (-33.3%)
- Chief Education Officer (-30.0%)
- Chief Operating Officer (-25.0%)

- C.E.O (-23.1%)
- Chief of Staff (-22.2%)

Two new units, the Office of Fine Arts and the Business Service Center were created for FY2007. Their initial staffing levels will be 8 and 23 positions respectively. The units that increased their staff levels to the greatest extent include:

- New Schools Development (+26.3%)
- Education to Careers (+11.7%)
- High School Programs (+9.5%),
- Academic Enhancement (+9.1%)

ENROLLMENT: CONTINUED DECLINE PROJECTED

The Chicago Public Schools predict an ongoing decline in overall student enrollment across the system. As the following exhibit indicates, total enrollment dropped by 5,830 students from 2004 to 2005. Between the fall of 2000 and the fall of 2005, actual enrollment has dropped by 14,488 students, a decrease of 3.3% percent.⁴¹

CPS Student Enrollment Fall 2000 - Fall 2005								
	Fall 2000	Fall 2001	Fall 2002	Fall 2003	Fall 2004	Fall 2005	00-05 CHG	00-05 % CHG
Preschool	21,793	21,109	21,788	22,085	21,712	21,205	(588)	-2.7%
Elementary, K-8	317,488	317,336	315,671	308,111	299,007	290,645	(26,843)	-8.5%
High School	96,189	99,173	101,064	104,223	106,093	109,132	12,943	13.5%
Total	435,470	437,618	438,523	434,419	426,812	420,982	(14,488)	-3.3%

Source: CPS FY2007 Budget, p. 64

In the FY2006 budget CPS used its Fall 2005 actual enrollment to estimate total enrollment in FY2006 at 420,982 students. In the current budget, CPS projects that FY2007 total enrollment will be 415,000.⁴² Based on the FY2007 projection, total CPS enrollment will have declined by 23,523 students, or by 5.4% since the fall of 2002.

UNRESERVED, UNDESIGNATED FUND BALANCE

Between FY2001 and FY2005, the CPS General Operating Funds' unreserved, undesignated fund balance declined from 6.0% to 1.5% of operating expenditures in those funds. In four of these years, the ratio fell below the 5% minimum recommended by the Government Finance Officers Association. In FY2004, the fund balance fell to just 0.7%. However, the District did improve the situation the following year, boosting the unreserved undesignated fund balance to \$58.5 million for a ratio of 1.5%. While the increase is definitely an encouraging trend, the ratio remains quite low. The Civic Federation urges the CPS to continue increasing the size of its fund balance in future years.

⁴¹ Chicago Public Schools Budget FY2007, p. 64.

⁴² Chicago Public Schools Budget FY2007, p. 61.

CHICAGO PUBLIC SCHOOLS UNRESERVED, UNDESIGNATED FUND BALANCE RATIO			
	Undesignated General Operating Fund Balance	Expenditures	Ratio
FY2001	\$ 201,520,000	\$ 3,353,119,000	6.0%
FY2002	\$ 8,383,000	\$ 3,493,886,000	0.2%
FY2003	\$ 47,126,000	\$ 3,595,441,000	1.3%
FY2004	\$ 25,210,000	\$ 3,758,510,000	0.7%
FY2005	\$ 58,546,000	\$ 3,862,396,000	1.5%

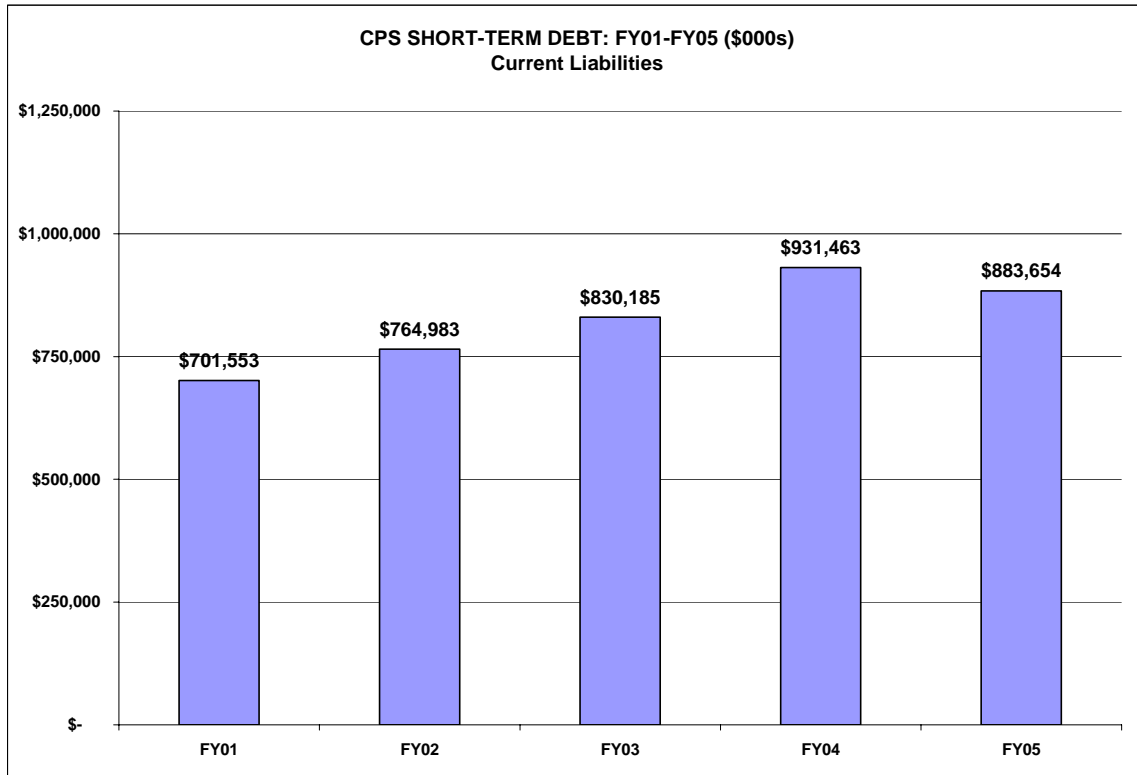
Source: Chicago Public Schools Comprehensive Annual Financial Reports.

SHORT-TERM DEBT TRENDS

Short-term debt is a financial obligation that must be satisfied within one year. An increasing trend in short-term debt may be a warning sign of future financial difficulties. It is a measure of budgetary solvency, that is, a government's ability to generate enough revenue over the course of a normal budgetary period to meet its expenditures and prevent deficits. For purposes of this analysis, short-term debt in the Governmental Funds includes obligations such as accounts payable and other accrued liabilities. In short, it includes all current liabilities.⁴³

The exhibit below presents the Chicago Public Schools short-term debt trends for Fiscal Years 2001 through 2005. During that 5-year period, short-term debt obligations rose by 26.0% or from \$701.5 million to \$883.6 million. However, between FY2004 and FY2005, short-term debt decreased by 5.1%, from \$931.4 million to \$883.6 million. The decrease, reversing a steady trend of increases since FY2001, is a positive sign. Any future increases bear watching.

⁴³ GASB Statement No. 34 requires the reporting of current and long-term liabilities in the entity-wide Statement of Net Assets. The CPS has complied with this requirement since FY2001. The Civic Federation has changed its method of calculating short-term debt to be consistent with GASB reporting requirements.



LONG-TERM DEBT TRENDS

This section of the analysis presents information about long-term debt trends of the Chicago Public Schools. It includes information about capital outlays, long-term debt, direct debt, direct debt per capita and bond ratings.

Capital Outlay

The FY2007 appropriation for CPS capital projects will be \$625.6 million. This is a 4.9% increase from the previous year's appropriation of \$596.4 million. The Chicago Public Schools propose to issue \$350 million in new bonds in FY2006. Allocated but unspent bond proceeds from FY2006 that will be re-appropriated in FY2007 total \$266.3 million.⁴⁴

⁴⁴ *Chicago Public Schools FY2007 Budget*, p. 47

CHICAGO PUBLIC SCHOOLS FY2007 CAPITAL PROJECTS FUNDS				
Sources of New Funds	FY2006	FY2007	\$ CHG	% CHG
Local				
Proposed Bonds	\$ 250.0	\$ 350.0	\$ 100.0	40.0%
Interest	\$ 8.0	\$ 8.0	\$ -	0.0%
Soundproofing & Energy Conservation	\$ 15.6	\$ -	\$ (15.6)	-100.0%
State				
Capital Development Board	\$ -	\$ -	\$ -	
Federal				
Qualified Zone Academy Bonds	\$ 6.8	\$ -	\$ (6.8)	-100.0%
Subtotal New Funds	\$ 280.4	\$ 358.0	\$ 77.6	27.7%
Sources of Additional Funds (Prior-Year Projects)				
Other Government Revenue	\$ 1.3	\$ 1.3	\$ -	0.0%
Subtotal Additional Funds	\$ 1.3	\$ 1.3	\$ -	0.0%
Re-Appropriation of Existing Bond Funds	\$ 314.7	\$ 266.3	\$ (48.4)	-15.4%
Total Source of All Funds	\$ 596.4	\$ 625.6	\$ 29.2	4.9%

Source: Chicago Public Schools FY2006 Budget, p. 115 and Chicago Public Schools Budget, p. 47.

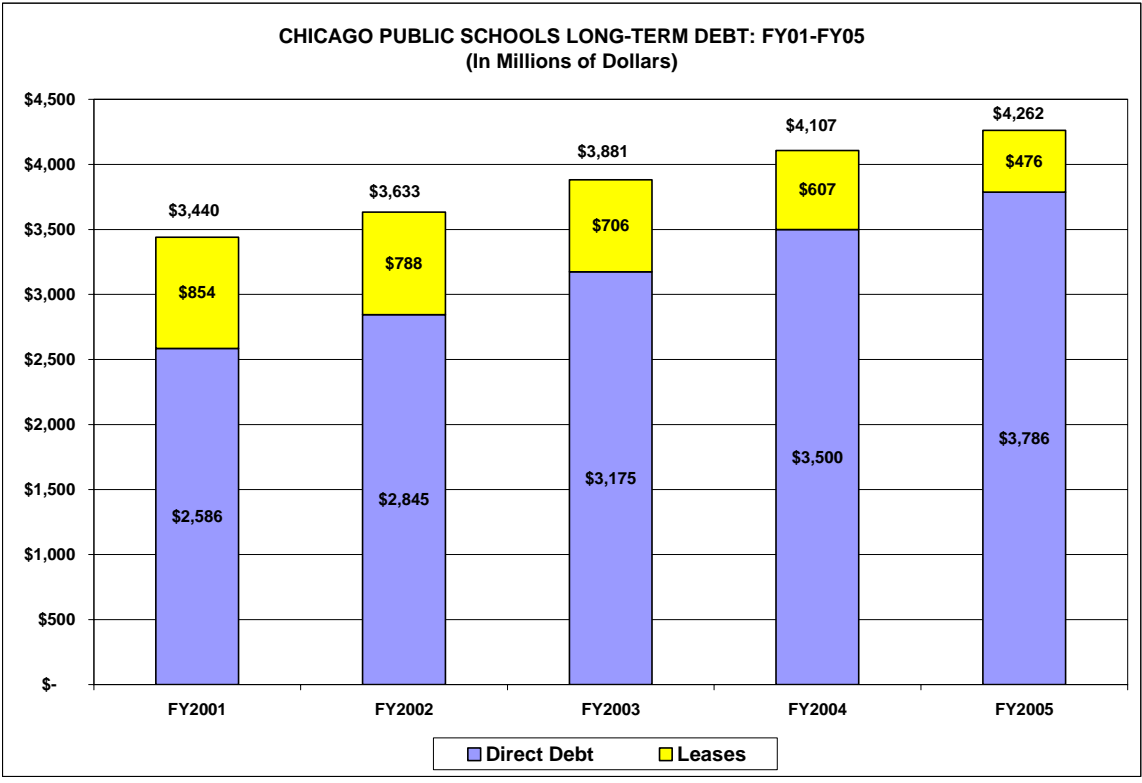
Long-Term Debt

Long-term debt comprises long-term direct debt and other forms of debt such as installment purchase agreements (leases), sales and motor fuel tax revenue bonds, and Tax Increment Financing and Special Service Area bonds.⁴⁵ For the Chicago Public Schools, long-term debt includes unlimited tax General Obligation bonds, Qualified Zone Academy Bonds, State Technology Revolving Loan funds and Asbestos Abatement Loans and Public Building Commission leases secured by property tax revenues or State of Illinois school construction grants.⁴⁶ It excludes other long-term liabilities such as accrued sick pay benefits, accrued vacation pay benefits, accrued workers' compensation benefits, accrued general and automobile claims, tort liabilities and unfunded pension obligations.

Chicago Public Schools long-term debt increased by 23.8% between FY2001 and FY2005. This represents an \$820.5 million increase from \$3.4 billion to \$4.2 billion. While direct tax supported debt increased by 46.4% during this five year time period, the amount outstanding for capital leases declined from \$854 million to \$476 million or by 44.3%. The overall high rate of increase in long-term debt bears watching, particularly as the CPS faces challenges in meeting its rising expenditures in areas such as personnel and retirement costs.

⁴⁵ Information for direct debt is from both Note 8 (Long Term Debt) and Note 9 (Capitalized Lease Obligations) in *CPS Comprehensive Annual Financial Reports*.

⁴⁶ *CPS FY2005 Comprehensive Annual Financial Report*, Notes 8 and 9, pp. 53-57.

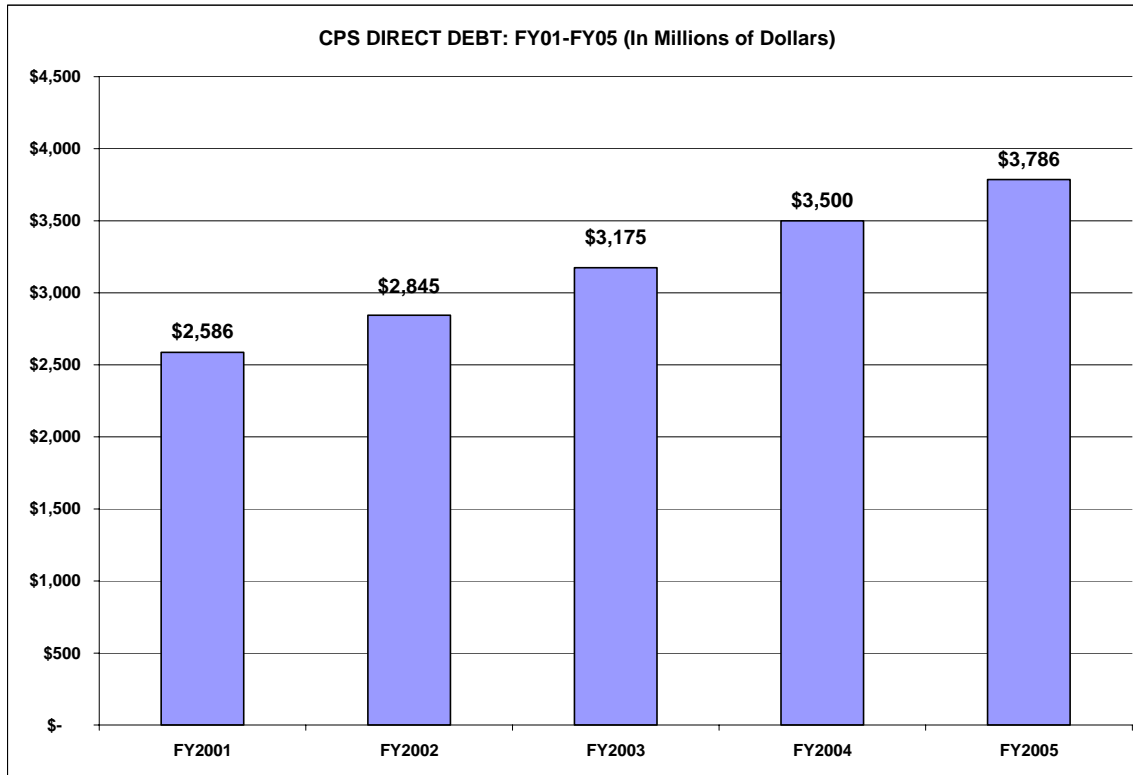


Direct Debt

Direct debt is a government’s tax-supported, bonded debt, much of which is general obligation debt funded by property taxes. Increases bear watching as a potential sign of increasing 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.

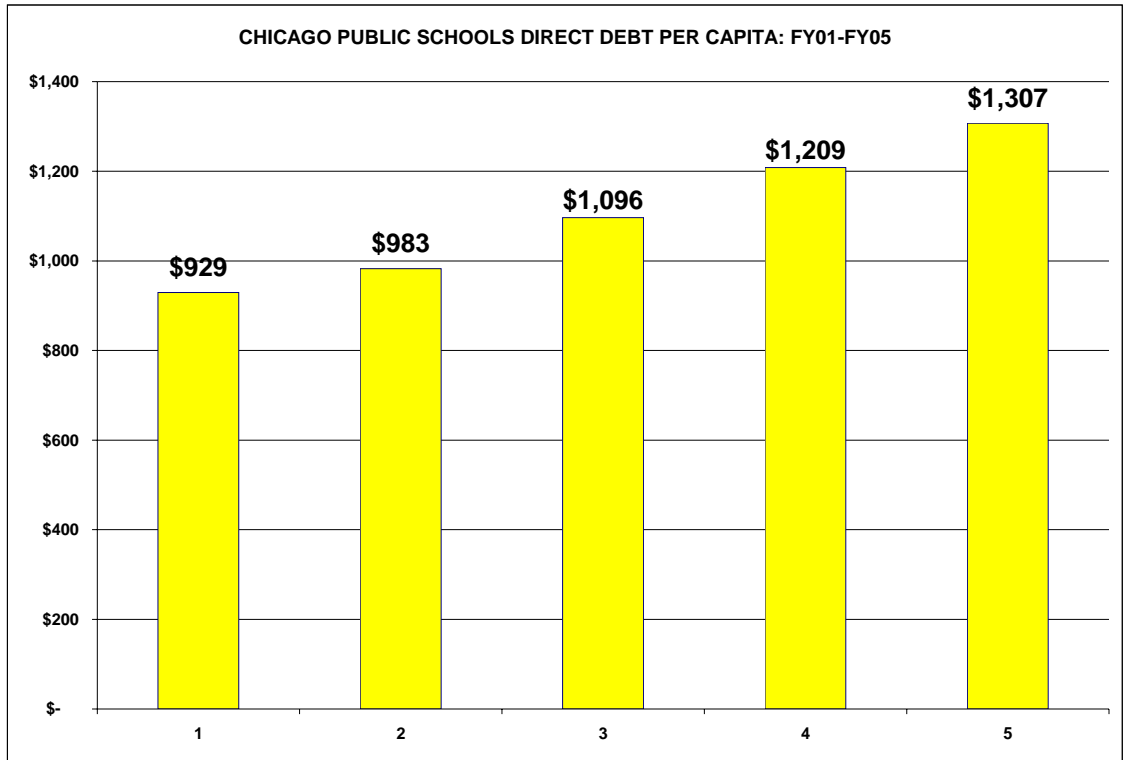
Chicago Public Schools direct debt includes unlimited tax General Obligation bonds, Qualified Zone Academy Bonds, State Technology Revolving Loan funds and Asbestos Abatement Loans. It excludes lease payments.⁴⁷ Between FY2000 and FY2004, the direct debt burden of the Chicago Public Schools increased by from \$2.5 billion to \$3.7 billion. This is nearly a \$1.2 billion, 46.4% increase. This increase reflects the Chicago School District’s large capital construction program over the past several years.

⁴⁷ Information for direct debt from Note 8 (Long Term Debt) in CPS *Comprehensive Annual Financial Reports*.



Direct Debt Per Capita

Direct debt per capita is a measure of a government's ability to maintain its current financial policies, and direct debt indicators are commonly used by rating agencies to measure debt burden across governments. Essentially, this indicator takes the Chicago Public Schools' total direct debt amount per year and divides it by population of the jurisdiction. Increases bear watching as a potential sign of increasing financial risk in much the same manner as total direct debt figures. CPS direct debt per capita increased by 40.7% between FY2001 and FY2005, from \$929 to \$1,307. It rose by 8.2% between FY2004 and FY2005.



Current CPS Bond Ratings

The CPA bond ratings in 2005 were as follows:⁴⁸

Standard & Poor's	A+
Moody's	A2
Fitch	A+

TEACHERS' PENSION FUND

Chicago public school teachers are enrolled in the Public School Teachers' Pension and Retirement System of Chicago. All non-teaching employees are enrolled in the City of Chicago's Municipal Employees' Annuity and Benefit Fund. The data presented below are for the Teachers' Pension Fund only.

In FY2005, the Teachers' Pension Fund had over 58,000 members, including 20,954 retirees and beneficiaries receiving benefits and 37,521 current members. Since FY2001, membership has increased by 6.4%.

⁴⁸ CPS FY2005 Comprehensive Annual Financial Report, p. 142.

TEACHERS' PENSION FUND MEMBERSHIP			
	Retirees & Beneficiaries Receiving Benefits	Current Members	Total
FY2001	17,298	37,648	54,946
FY2002	17,867	37,374	55,241
FY2003	18,565	36,548	55,113
FY2004	19,266	37,362	56,628
FY2005	20,954	37,521	58,475

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

Sources: Teachers' Pension CAFRs, FY2005 Actuarial Report

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

Pension funds are funded through a combination of employer and employee contributions. State statute requires the ratio of Teachers' Pension Fund assets to liabilities is at least 90%. If the ratio drops below that 90% figure, the remainder of the costs must be paid by the Chicago Public Schools, the State of Illinois from the State Distributive Fund and investment income.

Employer Contributions

The Chicago Public Schools makes an **employer contribution** to the Teachers' Pension Fund annually based on a calculation taking into account the amount of funding needed to ensure that the 90% funded ratio. The actuarial calculations used to determine the employer level of funding for FY2006 are shown in the exhibit below. The Fund will require a total of \$114.7 million in employer contributions. Because the funded ratio fell to 85.8% in FY2004, the State of Illinois was required to provide an additional \$9.8 million and the CPS will be required to contribute an additional \$15.8 million in FY2006.

State Appropriations: The State of Illinois provides a sum of \$65 million annually.

Additional State Appropriations: The State must make additional contributions of 0.544% of payroll to the Teachers' Fund to offset a portion of the cost of benefit increases enacted under P.A. 90-582. No additional contributions are required if the funded ratio is at least 90%.

Additional CPS Contribution: The Board of Education must make additional contributions of 0.58% of each teacher's salary to offset a portion of the benefit increases enacted under P.A. 90-582. No additional contributions are required if the funded ratio is at least 90%.

CPS Required Contribution: Under the funding plan established by P.A. 89-15, the minimum contribution to the Teachers' Pension Fund shall be an amount determined 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 is calculated as a level percentage of payroll over the years through FY2045. The calculation for determining the CPS required contribution is the total amount of the

employer contribution less additional state appropriations, additional CPS appropriations and other employer appropriations.

In FY2006, the required CPS contribution was \$15.8 million. It will increase dramatically to at least \$69.4 million in FY2007 as the unfunded liabilities of the Teachers Pension Fund continue to rise and the funded ratio correspondingly falls.

CPS (Employer) Contribution to Teachers' Pension Fund for State FY2006 & FY2007		
	FY2006	FY2007
Total Required Employer Contribution	\$ 114,721,000	\$ 167,245,000
State Appropriations	\$ 65,000,000	\$ 65,000,000
Additional State Appropriations	\$ 9,877,000	\$ 10,242,000
Additional CPS Contribution	\$ 10,530,000	\$ 10,920,000
Other Employer Contributions	\$ 13,494,000	\$ 11,663,000
CPS Required Contribution (1-2-3-4-5)	\$ 15,820,000	\$ 69,420,000

Source: FY2004 & FY2005 Actuarial Reports of the Chicago Teachers Pension Fund

Employee Contributions

The Chicago Public Schools also makes an annual appropriation of 7% of regular salaries of employees as part of the **employee contribution** to the Teachers' Pension Fund.⁴⁹ Essentially, the District "picks up" 7% of the 9% required employee contribution for the retirement system. In addition, the State of Illinois makes an annual employer contribution to the Teachers' Pension Fund of approximately \$65 million.

⁴⁹ *Chicago Public Schools FY2005 Budget*, p. 72.

Pension Funding Appropriations in FY2007

In FY2007, the State of Illinois is providing \$10.2 million in funding for the Teacher's Pension Fund in addition to its regular \$65.0 million contribution, bringing the total State contribution to approximately \$75.2 million. The CPS expects to appropriate a total of \$375.8 million for teacher and educational support personnel retirement costs. This is a \$57.8 million, 18.2% increase from FY2006. Fully \$291.5 million will be appropriated for the Teachers' Pension Fund. This equals nearly \$56 million, or a hefty 23.7% increase. The majority of this increase, or \$53.6 million, can be attributed to the requirement of PA 89-15 that the CPS contribute additional funds increase the total assets of the Teachers Pension Fund up to 90% of the total actuarial liabilities by the end of FY2045.⁵⁰

CPS RETIREMENT BENEFIT APPROPRIATIONS: FY06-FY07				
Type	FY2006	FY2007	\$ CHG	% CHG
Teachers' Pensions	\$ 235.6	\$ 291.5	\$ 55.9	23.7%
Educational Support Personnel	\$ 82.4	\$ 84.3	\$ 1.9	2.3%
Total	\$ 318.0	\$ 375.8	\$ 57.8	18.2%

Source: FY2006 CPS Budget, p. 85 & FY2007 CPS Budget, p. 61.

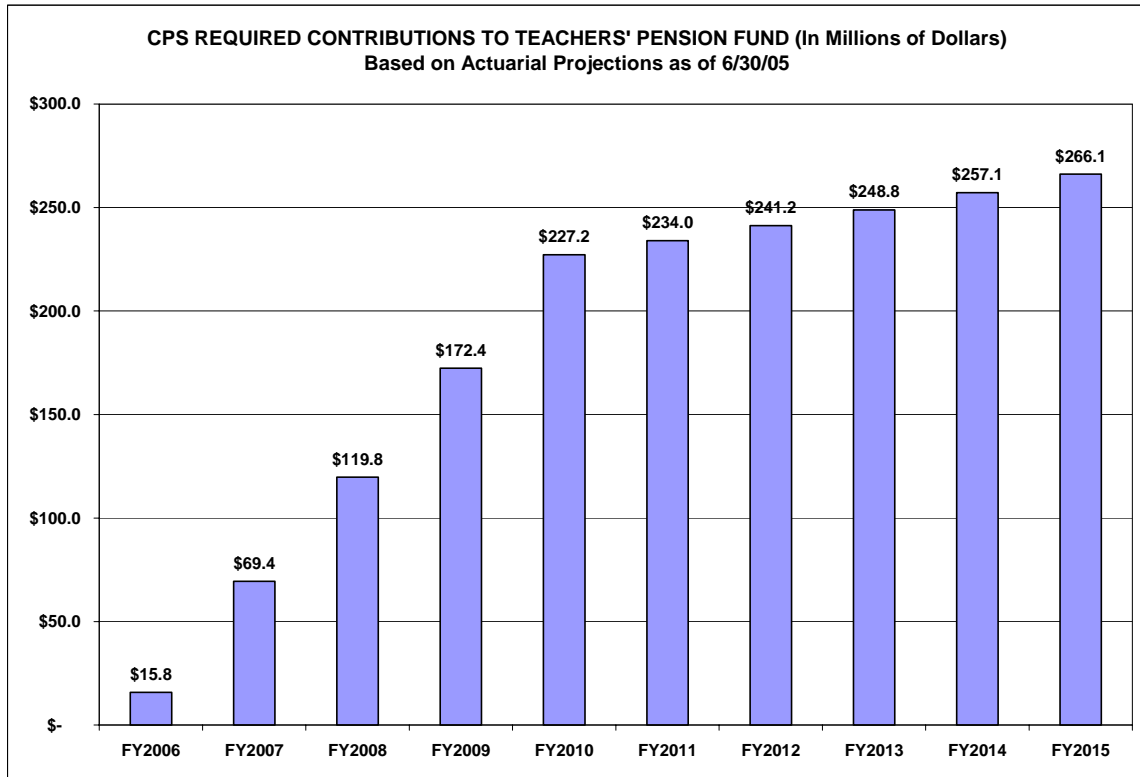
Future Actuarial Projections of CPS Funding Costs

The CPS faces mounting pension costs in future years, according to the actuarial valuation report submitted to the District on December 20, 2005.⁵¹ The exhibit below shows estimates of required CPS contributions to the Pension Fund from FY2006 to FY2015. During that time period, the CPS required contribution per year will rise from \$15.8 million to \$266.1 million. State of Illinois contributions in addition to the \$65 million annual payment will rise from \$9.8 million to \$12.4 million by FY2015.⁵²

⁵⁰ *Chicago Public Schools FY2007 Budget*, pp. 39-40.

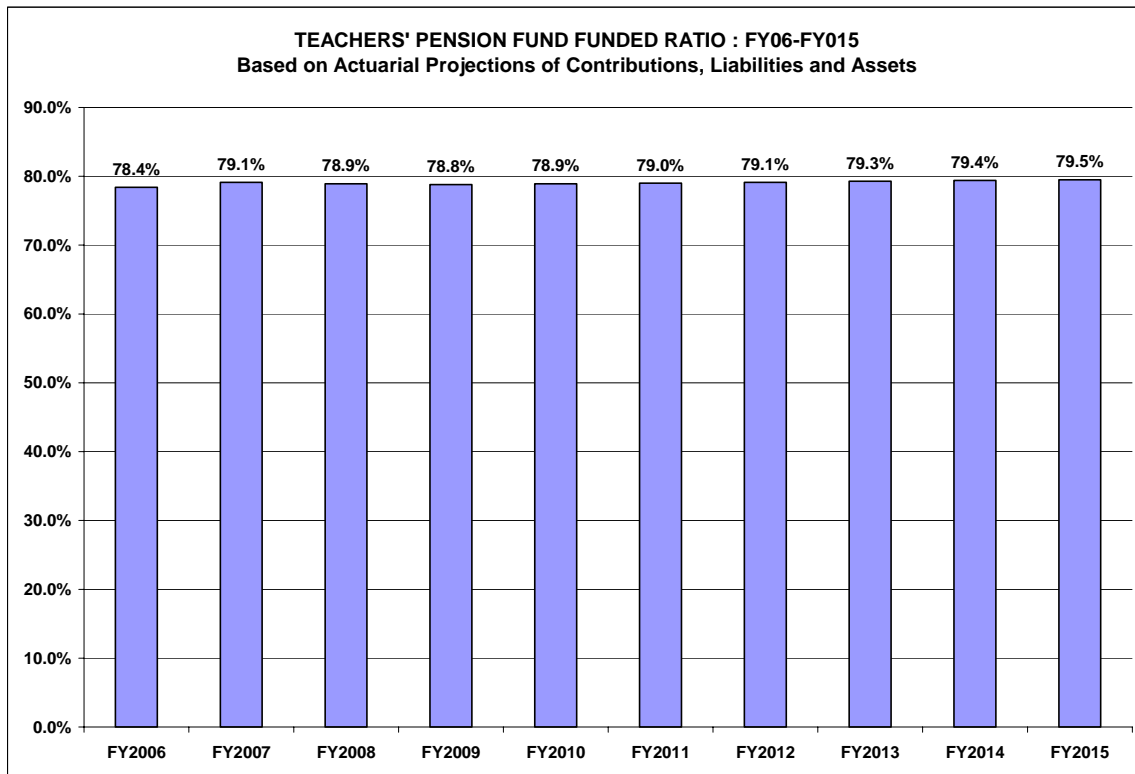
⁵¹ Public School Teachers' Pension and Retirement Fund of Chicago. *Actuarial Valuation as of June 30, 2005*.

⁵² Public School Teachers' Pension and Retirement Fund of Chicago. *Actuarial Valuation as of June 30, 2005*, p. 16.



The Actuarial Valuation Report estimates that the Teachers Pension Fund's funded ratio will never exceed 80% in the period between FY2006 to FY2015.⁵³

⁵³ Public School Teachers' Pension and Retirement Fund of Chicago. *Actuarial Valuation as of June 30, 2005*, p. 16.



CPS is required to make substantial increases in employer contributions to its pension systems in the future as a result of P.A. 89-15. CPS has indicated that it has two long-term strategies to manage these increasing, which are not mutually exclusive:

3. Pursue legislation requiring the state to assume greater responsibility for funding CPS' pension fund. For example, it could ask the state to contribute the equivalent of 20-30% of its contribution to the downstate Teachers' Retirement System to CPS. FY2007 state contributions to CPS are at roughly 7.3% of TRS contributions. State statute indicates that it is the state's intention to fund CPS at 20-30% of its TRS contribution (40 ILCS 5/17127).
4. Pursue legislation that would smooth the annual funding requirement schedule, which currently is structured with a steep ramp through 2010.⁵⁴

Pension Fund Indicators

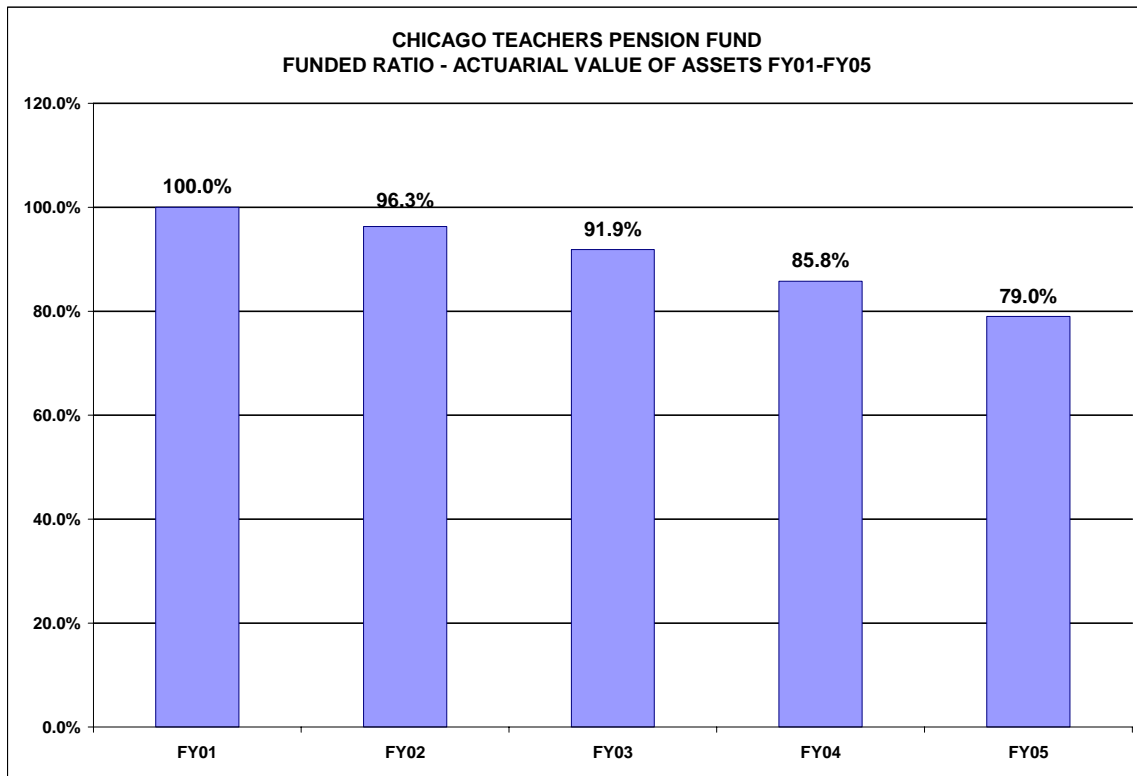
The Civic Federation used three measures to present a multi-year evaluation of the fiscal health of the Teachers' pension fund: funded ratios, the investment rate of return and the value of unfunded liabilities.

Funded Ratio

The following exhibit shows the funded ratio as reported for the actuarial value of assets for the Chicago Public Schools Teachers' pension fund. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may

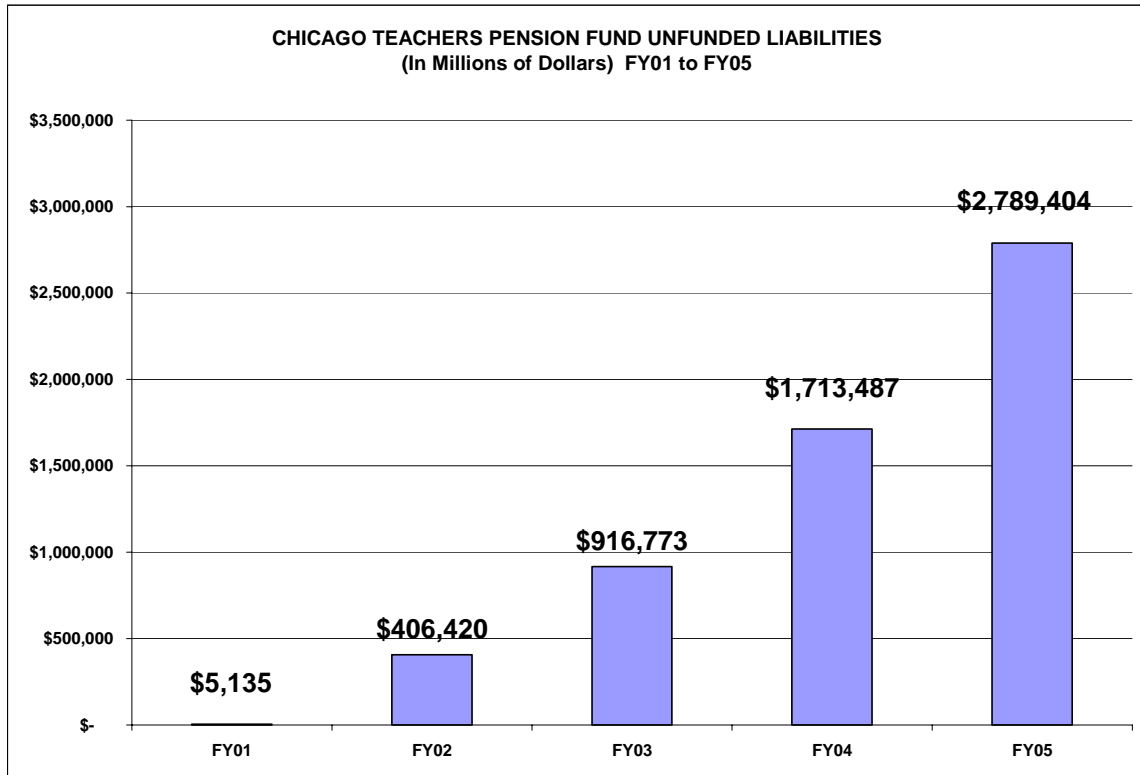
⁵⁴ Information provided by Chicago Public Schools Office of Management and Budget, June 6, 2006.

have in meeting future obligations. In FY2005, the Teachers Pension Fund's Actuarial Valuation Report indicated that the funded ratio was 79.0%. Since FY2001, the funded ratio has declined by 21.0%.



Unfunded Pension Liabilities

Unfunded liabilities are the dollar value of pension liabilities not covered by assets. As the exhibit below shows, unfunded liabilities for the Chicago Public Schools Teachers' pension fund totaled approximately \$2.7 billion in FY2005. This represents a steep 62.8% or over \$1 billion increase from the previous year. Since FY2001, unfunded liabilities have increased by \$2.7 billion or from \$5.1 million to \$2.7 billion.



The next exhibit shows the reasons for the \$1.0 billion increase in unfunded liabilities. The largest single reason for the increase in unfunded liability was that the CPS experienced more retirement than expected (See Due to Other Sources) and that the District fell short of the \$306.4 million funding requirement of normal cost plus interest by \$231.9 million. Also, \$207.0 million of the liability increase was due to investment returns being lower than assumed (6.0% versus an assumed rate of 8.0%).⁵⁵

⁵⁵ Public School Teachers' Pension and Retirement Fund of Chicago. *Actuarial Valuation as of June 30, 2005*, p. 12.

EXPLANATION OF FY2005 INCREASE IN UNFUNDED LIABILITIES	
Unfunded Actuarial Liability 7/1/04	\$ 1,713,487,462
Increases in Unfunded Liability	
Due to Employer Contribution Being Less than Normal Cost Plus Interest on Unfunded Liability	\$ 231,938,546
Due to Investment Returns Lower than Assumed	\$ 207,005,890
Due to Salary Increases Higher than Assumed	\$ 158,843,367
Due to Other Sources	\$ 478,129,728
Net Increase in Unfunded Liability for the Year	\$ 1,075,917,531
FY2005 Total Unfunded Liability	\$ 2,789,404,993

Source: Teachers Pension & Retirement Fund. FY2005 Actuarial Valuation Report, p. 16.

Summary of Key Teachers' Pension Fund Benefits

The following information provides a summary of key benefits provided by the Teachers' Pension Fund.⁵⁶

Post-Retirement Increases: Retirees receive an automatic annual increase equal to 3% of the current amount of the pension provided. Increases accrue from the anniversary date of retirement or the 61st birthday, whichever is later.

Eligibility for Pension: The right to retirement vests after 1) 20 years of validated service with pension payable at age 55 or older or 2) after 5 years of validated service, with pension payable at age 62 or older

Amount of Retirement Pension:

- For service earned before July 1, 1998 the retirement pension is 1.67% of "final average salary" for each of the first 10 years of validated service; 1.90% for each of the next 10 years; 2.10% for each of the next 10 years; and 2.30% for each year above 30 years of service.
- For service earned after July 1, 1998, pension is equal to 2.2% of final average salary for each year of service.
- The maximum pension is 75% of final average salary or \$1,500 per month, whichever is greater.

⁵⁶ Public School Teachers' Pension and Retirement Fund of Chicago, 109th Comprehensive Annual Financial Report for the Year Ended June 30, 2004, pp. 81-82.

Health Insurance Reimbursement: The Pension Board reimburses the cost of pension plan recipient health insurance coverage with the total amount of payment not to exceed \$65 million or 75% of the total cost of health insurance coverage in any given year.

CIVIC FEDERATION RECOMMENDATIONS

The Civic Federation offers several recommendations regarding ways to improve the Chicago Public Schools' financial management and fulfill its ongoing financial obligations.

Contain Growing Retirement Costs

The Civic Federation believes that it is imperative that the CPS begin immediately to curb its growing retirement costs. Those recommendations proposed by the Governor's Blue Ribbon Commission on Pension Funding that are applicable to the Teachers' Pension Fund should be considered for adoption for new hires. We propose that:

- A cap of 3% or CPI, whichever is less, should be imposed on annual pension benefit increases for new hires. Currently, retirees receive an automatic 3% increase.
- The employee share of pension costs should be increased. Currently, the CPS pays for 7% of the 9% employee share of costs; employees pay for the remaining 2%. In FY2007, the CPS's share of employee costs totaled over \$291 million. We believe that employees should be required to pay for at least an additional 1% of the 9% employee share, so that the CPS share of employee payments drops to 6% and the employees' share increases to 3% of the total. This change should be a top priority of the CPS when it negotiates a new collective bargaining agreement. The CPS should also seek to match its annual salary increases within the rate of its revenue source growth.

Reform Governance of the Teachers' Pension Fund

The Public School Teachers' Pension and Retirement Fund of Chicago is governed by a 12-member Board of Trustees that includes: 2 representatives from the Board of Education, 6 active members who are not principals, 1 active principal and 3 annuitants.

Therefore the ratio of management to employee representatives is 2:10, one of the least balanced of the 17 Illinois pension boards recently surveyed by the Civic Federation.⁵⁷

The proper role of a pension board is to safeguard the assets of the fund and to balance the interests of employees and retirees who receive benefits and taxpayers who pay for pension benefits. All of these parties have an interest in the management of the fund. However, the heavy tilt toward employees on the Teachers' Pension board raises questions about how objective the Board can be in its work. In our view, a pension board should:

- Balance employee and management representation on pension boards;
- Develop a tripartite structure that includes citizen representation on pension boards, and
- Include financial experts on pension boards and require financial training for non-experts.

⁵⁷ Civic Federation, *Recommendations to Reform Public Pension Boards of Trustees in Illinois*, forthcoming.

We urge the Chicago Public Schools to seek reform of the Teachers' Pension Fund governing structure to ensure greater balance of interests.

Develop a Multi-Year Capital Improvement Plan

The Civic Federation strongly urges the CPS to complete work as soon as possible on its long-delayed 3-year Capital Improvement Plan (CIP). The District announced it was working on a CIP two years but still has not completed it. The CPS first developed a one-year Capital Improvement Plan in 1996.⁵⁸ While that effort was a step in the right direction, a multi-year plan is essential for the CPS to be able to effectively prioritize projects and clearly identify funding needs and sources. Given the size of its capital budget, which will exceed \$625 million in FY2007, it is imperative that the CPS move toward better planning for its infrastructure needs. We urge the CPS in future years to consider a 5-year CIP that is fully integrated into an overall formal financial plan.⁵⁹

Implement a Formal Long-Term Financial Planning Process

The CPS undoubtedly employs many of the techniques of a long-term financial planning process internally, including the projection of multi-year revenue trends and modeling of various revenue and expenditure options. However, the District does not develop a formal plan that is shared with and/or reviewed by key policymakers and stakeholders. The Civic Federation recommends that the Chicago Public Schools develop and implement a formal long-term financial planning process that would allow input from the Board of Education and key external stakeholders.

Improve the Budget Format

The Civic Federation recommends that the CPS budget format be revised to include the following information:

- A “walk-up” that describes the sources of the current fiscal year budget deficit in the introductory pages of the budget.
- A “walk-down” that clearly identifies the steps taken to eliminate the budget deficit, including identification of the location of personnel reductions.
- Narrative detail and cost information regarding the management efficiencies listed in the introductory section of the budget.
- Information about which of the management efficiencies listed in the previous fiscal year budget were implemented and what savings each generated.
- Narrative descriptions of the schools and school-based units similar to those provided for the various administrative units in Section XI of the FY2006 budget document, “CPS Program Summaries by Unit.”
- Five years of summary financial information, including:
 - Appropriations and Expenditures for each Administrative and School-Based Unit and
 - Appropriations and Expenditures by Object Classification and Fund

⁵⁸ Chicago Public Schools. *1996-2000 Capital Improvement Plan*. Adopted January 24, 1996. See p. 3 of the CIP.

⁵⁹ The National Advisory Council on State and Local Budgeting (NACSLB) recommends that all governments develop a 5-year Capital Improvement Plan. See NACSLB. *Recommended Budget Practices*, (Chicago: Government Finance Officers Association, 1998), Recommended Budget Practice 9.6.

- Five years of comparable personnel information that shows Positions by Fund and for each Administrative and School-Based Unit, including positions by type (e.g., teachers, principals, engineers, special ed., teachers aides, nurses, secretaries, etc.).
- Five years of comparable expenditure and revenue figures for each fund.
- Restoration of the Chicago Public Schools program summaries by unit section of the budget, which was omitted from the FY2007 budget.
- A printed hard copy of the entire budget. A CD-ROM is a nice addition, but should simply be an electronic version of the complete printed budget. This is standard practice for other government budgets, such as the State of Illinois and the Chicago Transit Authority.

Pursue Joint Purchasing of Employee Health Insurance with Other Local Governments

The Civic Federation urges the CPS to pursue consolidated health insurance purchasing with the City of Chicago, Cook County, Chicago Park District, Chicago Transit Authority, City Colleges of Chicago, the Chicago Public Schools and the Chicago Housing Authority. Substantial savings that can be achieved from an insurance pool would be extremely beneficial to CPS's future financial situation.

Appendix: Renaissance 2010 and Charter Schools

School Type	Fiscal Year of School Opening
Charter	
Academy of Communications & Technology*	1998
ACE Technical Charter School*	2005
Alain Locke Charter School*	2000
Aspira Charter School	
Haugan Campus	2006
Mirta Ramirez Computer Science Campus*	2004
Betty Shabazz International Charter School	
Betty Shabazz International Charter School*	1999
Barbara A. Sizemore Academy	2006
DuSable Leadership Academy	2006
Bronzeville Lighthouse Charter School	2007
Catalyst Charter School	
Howland Campus	2007
Chicago International Charter School	
Avalon / South Shore Campus	2006
Basil Campus*	2003
Bucktown Campus*	1998
Longwood Campus*	1998
Northtown Campus*	1998
Prairie Campus*	1998
Ralph Ellison Campus	2007
Washington Park Campus*	1998
West Belden Campus*	2003
Wrightwood Campus	2006
Chicago Mathemeatics and Science Academy*	2005
Chicago School of the Children's Choir	2007
Chicago Virtual Charter	2007
Dodge Renaissance Academy*	2004
Erie Elementary Charter School	2006
Galapagos Charter School	2006
Global Alliance Preparatory Charter School**	2007
KIPP Ascend Academy Charter School*	2004
L.E.A.R.N. Charter School*	2002
Legacy Charter School	2006
Namaste Charter School*	2005
Noble Street Charter School	
Cortland Campus	2007
Noble Campus*	2000
Ohio Campus	2007
North Lawndale College Prep Charter School*	1999
Passages Charter School*	2002
Perspectives Charter School	
Archer Campus*	1998
Calumet Campus	2007
Providence Englewood Charter School	
Bunche Campus	2007
University of Chicago Charter School	
Donoghue Campus	2006
North Kenwood/Oakland Campus*	1999
Woodlawn High School Campus	2007
UNO Charter School	
Bartolome de las Casas Campus	2007
Carlos Fuentes Campus	2007
Octavio Paz*	1999
Rufino Tamayo Campus	2006
Urban Prep Academy for Young Men Charter	
Englewood Campus	2007
Young Women's Leadership Charter School*	2001
Youth Connection Charter School*	1998

* Not a Renaissance 2010 School (opened prior to FY2006).

**Global Alliance Preparatory Charter School does not yet have an approved charter.

School Type	Fiscal Year of School Opening
Contract	
Austin Business and Entrepreneurship Academy	2007
Performance	
Bronzeville Scholastic Institute	2006
Daniel Hale Williams Preparatory School of Medicine	2006
Infinity High School	2006
Lindblom High School	2006
Multicultural Arts High	2006
Pershing West Middle School	2006
Rickover Naval Academy High School	2006
School of Social Justice	2006
Sherman School of Excellence	2007
Suder Montessori Elementary School	2006
Tarkington School of Excellence	2006
UPLIFT Community School	2006
World Language High School	2006

Source: Renaissance 2010 Office