The Civic Federation

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CHICAGO PUBLIC SCHOOLS FY2012 BUDGET:

Analysis and Recommendations

August 22, 2011

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

Table of Contents

EXECUTIVE SUMMARY

The Civic Federation **supports** the Chicago Public Schools proposed $5.9 billion budget for FY2012, which is an increase of 1.5%, or $87.0 million, from the year-end estimates of FY2011. The proposed budget is a reasonable short-term plan to fund the District's core educational mission through its difficult, deepening financial crisis. The Civic Federation is **very concerned** about the District's long term fiscal health. CPS will face enormous budget shortfalls in future years, particularly with the expiration of the partial pension contribution holiday in FY2014. It is imperative that CPS move quickly to develop a long-term financial plan that will implement significant structural changes to its expenditures and long-term obligations.

The Civic Federation offers the following **key findings** on the FY2012 Proposed Budget:

- The total proposed FY2012 CPS budget will increase by $87.0 million, or 1.5%, from FY2011 year-end estimates, growing from approximately $5.8 billion to $5.9 billion;
- Appropriations for the General Operating Funds will increase by $163.4 million, or 3.3%, to $5.1 billion in FY2012 from FY2011 year-end estimates;
- Since FY2008 compensation expenses have risen by 11.5%, or $371.0 million; and
- In FY2014, required pension contributions for that year alone will grow by at least $451.8 million.

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

- Implementing management efficiencies and cost saving strategies that reduced expenditures by $220.7 million;
- Eliminating the teacher cost-of-living adjustment increase for an immediate savings of $100.0 million plus future savings as a result of the frozen base;
- Increasing the property tax levy by the maximum amount allowed by the tax cap law, generating $153.2 million in additional revenue; and
- Including multi-year budget projections and expanding pension and capital budget information in the budget books.

The Civic Federation has **concerns** about the following areas of CPS FY2012 Proposed Budget:

- Continuing inaction on the District's pension funding crisis when reforms of the benefit structure and funding sources for the teacher pension system are necessary;
- Continuing use of reserve funds to balance the budget;
- Increasing long-term debt by 26.8%, or $1.0 billion, between FY2006 and FY2010;
- Operating with an ongoing structural budget deficit that will be exacerbated by the District's reliance on reserve funds and the upcoming pension funding spike in FY2014;
- Insufficient amount of time allowed for the public to review the budget before public hearings; and
- Lack of personnel-related data and other budget format issues.

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

- To stabilize CPS finances, implement a formal long-term financial plan that is shared with and reviewed by key policymakers and stakeholders, including the members of the Board of Education and the taxpaying public;

- Implement pension reforms, which include reducing benefits not yet earned by current employees, increasing employer and employee contributions to meet actuarially-based needs of the fund, aligning downstate teacher retirement system contributions with CPS teacher retirement contributions and ending the City subsidy of the employer contribution to the Municipal Fund;
- Pursue pension fund consolidation and reform the Teachers' Pension Fund governance structure to ensure a greater balance of employee and management interests;
- Complete the development of a comprehensive, district-wide, multi-year capital improvement plan;
- Require consistent financial reporting for charter schools; and
- Improve the transparency of the budget process by revising the public review and comment process and continue to add information to the budget document to make it more useful for readers.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the Chicago Public Schools proposed $5.1 billion operating budget for FY2012 as an effective short-term plan. However, we are **very concerned** about the District's long-term fiscal health. CPS will face enormous budget shortfalls in future years, especially in FY2014 when required pension contributions will grow by at least $451.8 million following a three-year partial pension contribution holiday. Significant structural changes to the District's expenditures and long-term obligations are urgently needed. It is imperative that the District move quickly to develop a long-term financial plan to address its looming fiscal challenges.

Issues the Civic Federation Supports

There are several issues that the Civic Federation specifically supports related to the Chicago Public Schools FY2012 Proposed Budget.

Implementing Management Efficiencies and Cost Saving Strategies

CPS proposes $220.7 million in expenditure reductions in FY2012 to reduce its $712 million budget shortfall. Savings include:

- *Reorganizing the central office and area offices for $107.0 million in savings.* Approximately $50.0 million is expected to be realized from the elimination of duplicate and unnecessary functions in various central instructional departments. Smaller amounts will be saved from reductions in activities or positions previously funded by federal stimulus funds that have expired ($32.0 million), the elimination of centrally funded school based performance management programs ($15.0 million) and rationalizations in spending in central office administrative support functions ($10.0 million).

- *Reducing unnecessary programs for $86.7 million in savings*. The three largest reductions will be a $29.7 million cut in citywide programs that provide services across schools, $23.5 million in savings from the elimination of contingency or, "cushion," teachers for schools that do not meet their enrollment projections and $10.7 million in cuts to certain mentoring programs.

- *Implementing operational efficiencies for $27.0 million in savings*. This includes $5.0 million in savings from restructuring bus routes, $9.0 million in reductions in the use of privatized custodians in underutilized schools and $13.0 million in cuts in CPS spending for Chicago Police Department services.

The expenditure reductions proposed by CPS are a serious effort to cut costs and better manage scarce resources by improving the District's operational efficiency. As CPS has acknowledged, additional efficiencies will need to be implemented in coming years to address the District's future budget gaps. We are encouraged that management has indicated its efforts to pursue additional efficiencies will continue in the next fiscal year and beyond.

Eliminating Teacher Cost-of-Living Adjustment Increase

The FY2012 CPS budget saves $100.0 million by forgoing the 4% cost-of-living adjustment (COLA) increase scheduled for teachers as per the current collective bargaining agreement. Teachers will still receive step and lane increases, and total FY2012 teacher salaries are projected to rise by 3.1%, or $62.9 million, over the FY2011 year-end estimate. Freezing the COLA increase has an important long-term effect. It will save money in the future because the base for any future cost of living increases will be less than it would have been with an increase this year.

Teachers' salaries alone are expected to cost $2.1 billion in FY2012, or 40.8% of the total CPS operating budget. All personnel costs, including non-teacher salaries and benefits for all employees, will cost $3.6 billion, or 70.1%, of the operating budget.

Given the magnitude of personnel expenses in its budget and the size of the deficit in 2012, CPS has little choice but to rein in these costs. In future years, additional cost cutting personnel actions will likely need to go further. Therefore, we support the administration's efforts to slow the growth in personnel costs by freezing the COLA increase in FY2012 as a prudent and necessary measure.

Property Tax Increase

This year CPS proposes to increase its property tax levy by 2.1% (the maximum amount allowed under the State tax cap law). This will generate $153.2 million in additional revenue for FY2012. The increase comes after three years of relative restraint as the District froze the levy in FY2011 and increased it by less than the maximum amount allowable under law in FY2009 and FY2010.[1]

The Civic Federation recognizes that property tax increases for homeowners and businesses in a time of economic uncertainty are painful. However, CPS has proposed to balance the property tax increase with over $320 million in proposed spending reductions and efficiencies. Prior to announcing a tax increase, $75 million in spending cuts were made in the first part of 2011.[2] These actions are evidence of a reasonable commitment by the District to increasing the efficiency of its operations. Without a property tax increase this year, CPS likely would have resorted to drawing down its reserves to extremely low levels, borrowing money or making additional layoffs that would significantly increase class sizes.[3]

The Civic Federation supports the CPS property tax increase this year given the District's emphasis on cost cutting, its enormous fiscal challenges and the continued uncertainty of future funding from the State of Illinois.

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[1] CPS has taxed to the legal maximum 12 out of the 17 years (including the proposed tax year 2010 levy) that the tax cap law has been in effect. In FY1996, FY1999, FY2009 and FY2010, it increased the levy by less than the legal maximum. In FY2011, it kept the levy flat. CPS Property Tax Fact Sheet, August 8, 2011.

[2] CPS FY2012 Budget Update Document, June 15, 2011.

[3] In FY2011 CPS resorted to using a bank line of credit to make payroll in November 2010 because State of Illinois payments and property tax collections were both late. This $75 million borrowing cost $542,000 in fees and interest (information provided by CPS Budget Office, August 12, 2011). If the District had had sufficient reserves it could have weathered this revenue disruption without paying for a line of credit.

Multi-Year Budget Projections Included in Budget Book

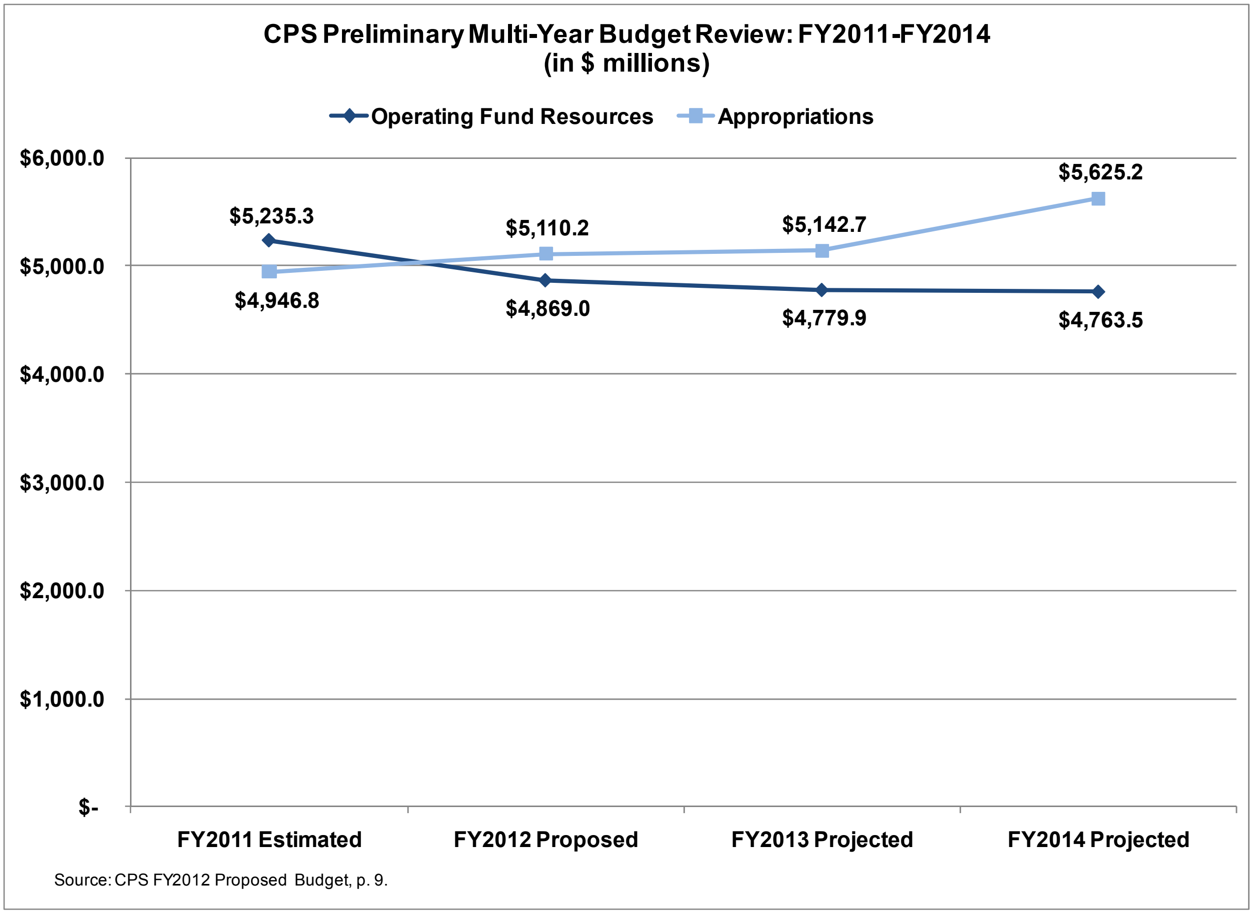
The CPS FY2012 Proposed Budget contains multi-year revenue and appropriation projections through FY2014. The projections use very conservative assumptions, including no revenue increases and no increases in teacher or support staff salaries. However, they do assume 8% annual increases in the cost of employee health insurance, and they reflect the anticipated employer pension contribution increase of at least $451.8 million in FY2014. The enormous pension funding increase will be required when the current State-authorized partial pension funding holiday expires in FY2014. However, fund balance is not included in the projections. Providing this information in the future will be essential so that the public and all stakeholders can understand the dire fiscal situation facing CPS in coming years. It will also greatly assist CPS leadership in developing a long-term financial plan to address the situation.

Budget Format and Transparency Improvements

The Federation is pleased that the District made additions to its budget format, including new chapters related to pensions and the capital budget. The Pensions chapter includes a benefits overview, pension funding policies and updates on pension reform legislation. Additionally, the Civic Federation has previously encouraged local governments to include capital budget information in their annual budget books. The Capital Budget chapter in the District's FY2012 proposed budget includes an overview, the Capital Improvement Plan for the current fiscal year with project costs and details, policies and statutory requirements, a three-year summary of the Capital Projects Funds and a four-year capital appropriations and spending table. These additions are important in working toward a transparent and financially accountable school district.

Issues of Concern to the Civic Federation

CPS faces an enormous fiscal crisis in just a few years. The multi-year projections in the FY2012 budget show that the District's $288.5 million surplus in FY2011 will shift to an $861.7 million deficit in FY2014. Several factors are leading to this negative situation, including the expiration of the current partial pension funding holiday, increasing personnel costs and mounting debt expenses.



Source: CPS FY2012 Proposed Budget, p. 9.

Pension Funding Crisis

In April 2010, at the urging of past CPS officials, Illinois enacted P.A. 96-0889, which created a different level of pension benefits for new employees and reduced the State statutory requirements for CPS pension funding, thereby revising the standards set forth in P.A. 89-15. The law reduced CPS' required employer pension contributions for FY2011, FY2012 and FY2013 to an amount estimated to be equivalent to the normal cost.[4] It also delayed the year that the pension fund must reach a 90% funded ratio from 2045 to 2059.

Prior to the passage of P.A. 96-0889, the FY2011 CPS Required Contribution was calculated to be $586.9 million, or almost double the FY2010 amount. P.A. 96-0889 provided substantial budgetary relief by reducing the District's required FY2011 contribution to $187.0 million, which was $120.5 million, or 39.2% less than the prior year contribution.[5] At the same time, the State of Illinois has been reducing its own contribution to the Chicago Teachers' Pension Fund from $65 million in FY2009 to $32.5 million in FY2010 and FY2011, and now to zero in FY2012. The three-year reduction in required CPS employer pension contributions and the State's elimination of its regular contribution to the pension fund are rapidly weakening the

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[4] "Normal cost" is an actuarially-calculated amount representing that portion of the present value of pension plan benefits and administrative expenses which is allocated to a given valuation year.
[5] Actuarial projection by Goldstein & Associates for Kevin Huber, Executive Director of the Public School Teachers' Pension and Retirement Fund of Chicago, March 31, 2010.

financial health of the fund, which fell from 100% funded in FY2000 to only 55.0% funded in FY2010 on a market value of assets basis. Inadequate current contributions to the fund will only increase future required contribution amounts unless major changes are made to the pension system. When the partial pension contribution holiday expires in FY2014, the District's pension payment will increase to at least $647.8 million, or $451.8 million more than the scheduled FY2013 contribution.

The Federation believes the District cannot afford its existing pension system. The partial pension holiday and the size of the gap created in FY2014 is evidence of this. The pension funding cliff created by this legislation threatens the fiscal stability of CPS and must be addressed by reforming the benefit structure and identifying adequate funding sources for the teacher pension system. Dramatic changes are necessary to reduce this large burden on the District. Although the FY2012 budget document states that the District "must actively work with state leaders to help address this pending fiscal crisis,"[6] it does not articulate any plan to do so or any potential solutions to the crisis. The longer the District waits to develop viable solutions to the pension crisis, the worse that crisis will become.

Continued Use of Reserve Funds to Balance Budget

CPS proposes to use a total of $241.0 million in fund balance to close its FY2012 all funds budget gap. Of that amount, $181.3 million will be drawn from the District's stabilization fund and $59.8 million from restricted reserve funds.[7] In FY2011 the District depleted its reserves and had to withdraw $75 million from a bank line of credit to meet expenditures in November 2010[8] before the State caught up on late payments and the City accelerated TIF surplus distributions, allowing CPS to ultimately end FY2011 with a surplus. In FY2010 and FY2009 the District used $102.2 million and $142.7 million, respectively, in reserves as it spent more than it received in revenues for those years.[9]

Occasional use of reserve funds may be reasonable, particularly if there is a severe economic situation or if a government has historically maintained an adequate cushion for contingencies or delayed revenues. However, it is not of sound fiscal practice to consistently use a one-time resource such as reserve funds in lieu of recurring revenues. Such repeated use is a strong indicator of a structural deficit that must be addressed as reserves will eventually be depleted.

Increasing Long-Term Debt

CPS General Obligation debt increased by 26.8%, or $1.0 billion, between FY2006 and FY2010. This represents an increase from $3.9 billion to $4.9 billion. There was a 16.1%, or $683.0 million, rise between FY2009 and FY2010, or an increase from $1,458 to $1,720 per capita. The increase reflects the District's large capital construction program over the past several years. The

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[6] CPS FY2012 Proposed Budget, p. 235.
[7] CPS FY2012 Budget Overview, p. 16.
[8] This $75 million borrowing cost $542,000 in fees and interest. Information provided by CPS Budget Office, August 12, 2011.
[9] Chicago Public Schools FY2010 and FY2009 Comprehensive Annual Financial Reports, Statements of Revenues, Expenditures by Object, Other Financing Sources and Net Changes in Fund Balance – Final Appropriations vs. Actual – General Operating Fund.

rate of increase over time has been large and it bears watching, particularly as CPS faces continuing challenges in meeting its rising expenditures in areas such as personnel and retirement costs. CPS projects that its debt service costs will rise from $328.2 million estimated for FY2011 to $447.5 million in FY2012, $515.1 million in FY2013 and $531.5 million in FY2014. As acknowledged in the CPS FY2012 Proposed Budget, increasing pension and debt costs threaten to "crowd out spending on classrooms."[10]

Insufficient Time for Public Review of Budget

The CPS FY2012 Proposed Budget was released on Friday, August 5, 2011 and three public hearings were held on August 10, 11 and 12. Thus, the first hearing was only three working days after the budget was released. This is a woefully inadequate amount of time for the public to comprehend a complex 315-page document. All governments have a duty to allow for public input related their proposed budget. As an educational institution, CPS' failure to allow for sufficient time for public input on the proposed budget is a missed opportunity to help educate, inform and build support for their proposed $5.9 billion expenditure of tax dollars.

Lack of Data Previously Reported and Other Budget Format Issues

Information on CPS personnel by location and type (administrative, school-based and capital fund positions) was not provided in the FY2012 budget. Information on the number of teachers, administrators and support staff is crucial data that should be presented clearly in the annual budget document. In addition to the omission of this data on full-time equivalent staffing levels, CPS did not include the "What's New in the Budget Book" section that was included in the FY2011 and FY2009 proposed budgets. The FY2012 Proposed Budget also lacked adequate actual data and/or year-end estimates for the additional financial tables, including Appropriations by Functional and Organizational Level, by Fund and Organizational Level and by Funds, Units and Account Groups.

Civic Federation Recommendations

The Civic Federation offers several recommendations regarding ways to improve the financial management of Chicago Public Schools.

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

CPS uses multi-year forecasts to project the impact of the proposed budget on future fiscal years. In the FY2012 budget book, the District published multi-year forecasts showing the future impact of certain spending increases such as for pensions. This is an important step in making the public, the Board of Education, CPS employees and all other stakeholders aware of the enormous fiscal challenges facing the District. The next step is for CPS to develop and implement a formal long-term financial plan that is shared with and/or reviewed by key policymakers and stakeholders. This plan must include concrete action steps to address the District's long-term fiscal viability.

[10] CPS FY2012 Proposed Budget, p. 3.

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.[11] A long-term financial plan typically 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. The plan helps governments address fiscal challenges before they become fiscal crises.

A long-term financial plan would frame the issues and challenges facing CPS, assist stakeholders in understanding those issues and challenges and help the district to focus on concrete actions it can take in the future.

CPS leadership has indicated to the Civic Federation on several occasions that it will move to develop a formal long-term financial plan:

1. At the April 10, 2007 press conference, CPS Chief Executive Officer Arne Duncan joined City of Chicago Mayor Daley and Metropolitan Mayors Caucus Chair Ed Schock of Elgin in endorsing a series of school financial management accountability reforms which included the development of a long-term financial plan;[12]

2. On July 31, 2007, CPS financial staff indicated to the Civic Federation that the District was developing a four-year long-term financial projection to be incorporated into the FY2009 budget;[13] and

3. On August 5, 2011, CPS financial staff indicated to the Civic Federation that the District will be moving to develop a long-term plan in the coming year.[14]

Given the imminent financial difficulties facing the District, developing a formal long-term financial plan that can be reviewed and discussed by key stakeholders is imperative. The Civic Federation strongly urges CPS to move forward on developing a long-term financial planning process.

Implement Pension Reforms

For FY2011, FY2012 and FY2013 CPS is deferring its required payment to teacher pensions and only contributing the normal cost of employee accrued benefits. While the legislation granting this partial pension contribution holiday provided temporary budgetary relief, it is not a permanent solution. On the contrary, it has only deepened the very serious pension situation by depriving the pension fund of badly needed contributions for three years. If nothing is done, CPS will have to make dramatic cuts to employees and services in order to make room for the increase of over $451.8 million in pension payments due beginning in FY2014. If the increased

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[11] *See* National Advisory Council on State and Local Budgeting and Government Finance Officers Association.
[12] Metropolitan Mayors Caucus. *Strengthening the Financial Accountability of Illinois School Districts: A Report of the Education Reform Committee of the Metropolitan Mayors Caucus*, April 2007, pp. 30-34.
[13] Information provided by CPS Finance and Budget staff, July 31, 2007.
[14] Information provided by CPS Budget Office, August 5, 2011.

payments were to be postponed further by another funding holiday, the pension fund would run a very real risk of running out of money to pay retirees in the near future.

It is imperative that CPS aggressively seek legislation to reform and re-establish a retirement system that is sustainable in the long-term. Some of the reforms the District should pursue are listed below:

<u>Reduce Benefits Not Yet Earned By Current Employees</u>

The Board of Education and CPS leadership should seek to reduce benefits not yet earned by current employees. They should obtain actuarial projections and legal opinions on the size and type of benefit reductions (e.g., raising the retirement age, reducing automatic annuity increase or reducing final average salary) needed to make the teachers' and non-teachers' pension plans affordable and sustainable now and in the future. Alternatively, employees could be permitted to retain their current benefit plan but be required to make higher contributions.[15]

A reduction in benefits would not affect existing retirees or benefits already earned by current employees, but would prospectively affect future benefits earned by current employees. Once the best options for ensuring the sustainability of the pension funds have been determined through legal and actuarial analysis, these options should be discussed with labor unions and presented to the General Assembly as soon as possible.

In the future, no benefit enhancements to the pension plans should be considered unless the funds are at least 90% funded. Any enhancement should only be considered if it is funded on a pay-as-you-go basis whereby employer and/or employee contributions are increased to fully fund the enhancement. Any enhancement should also expire after five years, subject to renewal.

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

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

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

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[15] Such an option would be similar to a proposal that was under consideration by the General Assembly in House Bill 149 and Senate Bill 512.

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

State of Illinois Should Align Downstate Teacher Retirement System Contributions with CPS Teacher Retirement Contributions

The State of Illinois should revise its existing policy on funding for Chicago teacher pensions. Currently, the State funds the required employer pension contribution for all teachers in Illinois, except for those who work for the Chicago Public Schools district. While in earlier years, the State contributed $65 million annually to the Chicago Teachers' Pension Fund, it reduced this contribution to $32.5 million in FY2010 and FY2011 and ended it completely for FY2012.[16] This treatment is fundamentally unfair to Chicago taxpayers whose tax dollars are used to fund pensions for both downstate and Chicago teachers, while the remainder of the State does not share the burden for funding Chicago teachers' pensions. The Civic Federation urges the State to adhere to its goal of contributing 20% to 30% of the amount it contributes to the downstate Teacher Retirement System to the Chicago Teachers' Fund. Alternatively, the State could merge the Chicago Teachers' Pension Fund with the downstate Teachers' Retirement System (see below) and thus fund all teacher pensions statewide equally.

End the City Subsidy of Chicago Public Schools' Employer Contribution to the Municipal Fund

The Civic Federation recommends that Chicago Public Schools begin paying for its share of the Municipal Fund employer contribution. This will shift a cost of at least $75 million to CPS. The Illinois General Assembly should grant CPS the authority to levy an additional property tax for this purpose. This alignment of employer contributions and pension funds in which employees participate is important for both transparency and accountability. It allows taxpayers to see where their tax dollars are going and it gives CPS a greater stake in the health and management of the Municipal Fund.

Pursue Pension Fund Consolidation

The Civic Federation recommends that CPS study ways to consolidate its separate Teachers' Pension Fund with the statewide Teachers' Retirement System, which covers all public school teachers in the state except for CPS teachers. CPS should also examine moving its non-teaching employees into the Illinois Municipal Retirement Fund, which is the pension system for non-teaching employees at all other school districts in Illinois. CPS should obtain a cost-benefit

[16] The State of Illinois makes additional contributions of 0.544% of teacher payroll to the Teachers' Pension Fund to offset a portion of the cost of benefit increases enacted under P.A. 90-582. The FY2012 budget estimates approximately $10.4 million in state aid for teachers' pensions.

analysis of maintaining separate pension systems for its employees versus joining the state-wide pension systems.

Reform Governance of the Teachers' Pension Board

The Public School Teachers' Pension and Retirement Fund of Chicago is governed by a 12-member Board of Trustees that includes two representatives from the Board of Education, six active members who are not principals, one active principal and three annuitants. Therefore the ratio of management to employee/retiree representatives is 2:10, one of the least balanced pension boards in Illinois.[17]
The proper role of a pension board is to safeguard the assets of the fund and to balance the interests of employees and retirees who receive pension benefits and taxpayers who pay for pension benefits. Each party has an interest in the management of the fund. However, the heavy tilt toward employees on the Teachers' Pension board raises questions about how objective the Board can be in its work. If CPS employees are not moved into statewide pension funds, the Civic Federation recommends that the composition of the Teachers' Pension Fund Boards of Trustees be revised in three ways. The balance of employee and management representation on the boards should be changed so that employees do not hold the majority of seats. A tripartite structure should be created that includes independent taxpayer representation on the board. Finally, financial experts should be included on the pension boards and financial training for non-expert members should be required.[18]

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

Complete Development of a Multi-Year Capital Improvement Plan

The Illinois General Assembly has approved and sent to the Governor Senate Bill 630, which will fundamentally change how CPS plans and budgets for capital improvements.[19] The legislation requires that the District develop a capital needs evaluation process as well as one- and five-year capital improvement plans. In addition, CPS will:

- *Develop a 10-year facilities master plan.* The District anticipates completing the plan in two months.
- *Conduct annual school capital assessments for 350 schools.* This has already been completed for FY2012.
- *Prepare and release a capital plan 60 days before the end of each fiscal year.* Currently the capital budget is released at the same time as the operating budget.

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[17] See Civic Federation, *Recommendations to Reform Public Pension Boards of Trustees in Illinois*, February 13, 2006.
[18] Government Finance Officers Association, "Best Practice: Governance of Public Employee Post-Retirement Benefits Systems (2010)." http://www.gfoa.org/downloads/GFOA_governanceretirementbenefitssystemsBP.pdf (last visited on February 9, 2011). See also Civic Federation, "Recommendations to Reform Public Pension Boards of Trustees in Illinois," February 16, 2006. http://www.civicfed.org/civic-federation/publications/recommendations-reform-public-pension-boards-trustees-illinois (last visited on February 9, 2011).
[19] Information from SB 630 and CPS FY2012 Budget Overview, August 5, 2011.

- *Publish an annual report detailing the differences between the projected 10-year Facility Master Plan and projects concluded in the one-year budget.*

In past years the Civic Federation has strongly urged CPS to develop a formal capital improvement plan. We support the action taken by the General Assembly and urge Governor Quinn to sign SB630 as soon as possible. The CPS financial management team is to be commended for moving pro-actively to implement portions of the legislation.

The following section reiterates best practices for developing a capital improvement plan.[20]

<u>Best Practices and Recommended Practices in School District Capital Improvement Planning</u>

The National Advisory Council on State and Local Budgeting (NACSLB) and the Government Finance Officers Association (GFOA) have developed best practices in capital improvement planning. In addition, the State of Florida Office of Program Policy Analysis and Government Accountability (OPPAGA) and the Civic Federation have developed several recommended practices in this policy area. A summary of the key recommendations of these practices follows.

1. *Develop a Formal Five-Year Capital Improvement Plan*
   All governments should develop a five-year CIP that identifies priorities, provides a timeline for completing projects and identifies funding sources for projects. The CIP should be updated annually and be approved formally by the governing body.[21]

2. *Required Information in a Capital Improvement Plan*
   A CIP should include the following information: [22]
   - A five-year summary list of projects and expenditures per project as well as funding sources per project;
   - Information about the impact of capital spending on the annual operating budget for each project;
   - Brief narrative descriptions of individual projects, including the purpose, need, history and current status of each project; and
   - The time frame for fulfilling capital projects and priorities.

3. *Make Capital Improvement Plan Publicly Available*

[20] This discussion is excerpted from Metropolitan Mayors Caucus. *Strengthening the Financial Accountability of Illinois School Districts: A Report of the Education Reform Committee of the Metropolitan Mayors Caucus*, April 2007, pp. 30-34.
[21] *See* NACSLB Recommended Practice 9.6: Develop a Capital Improvement Plan, the State of Florida Office of Program Policy Analysis and Government Accountability, Best Financial Management Practices, Facilities Construction. The State of Florida requires school districts to prepare comprehensive Five-Year Educational Plan Surveys. This is Point 1. d. of the Facilities Construction: Construction Planning Best Financial Management Practices Guidelines for School Districts. Florida Office of Program Policy Analysis and Government Accountability (OPPAGA). *Best Financial Management Practices.* See www.oppaga.state.fl.us/school_districts/bestprac/practices/practices.html.
[22] Ibid; *See* Point 3. a to c. of the Facilities Construction: Construction Planning best financial management practices guidelines for school districts. Florida Office of Program Policy Analysis and Government Accountability (OPPAGA). *Best Financial Management Practices.* See http://www.oppaga.state.fl.us/school_districts/bestprac/practices/practices.html.

The CIP should be made publicly available for review by elected officials and citizens. It should be published in the budget document or in a separate capital improvement plan. The CIP should be made available on the government's website. The public should be permitted at least ten working days to review the CIP prior to a public hearing.[23]

4. *Provide Opportunities for Stakeholder Input into Capital Improvement Planning Process*
   It is important to consider the views of stakeholders, including taxpayers, in developing a CIP. To achieve this goal, stakeholders should have opportunities to provide input into the development of the CIP. These opportunities could include participation in citizen advisory committees and/or hearings during different phases of CIP development. The governing body should hold a public hearing prior to adoption of the CIP, including opportunities for citizen commentary.[24]

5. *Require Formal Approval of Capital Improvement Plan by School District Board of Trustees*
   The CIP should be formally approved by an appropriate governing body. It is imperative that elected officials be fully aware and supportive of long-term plans that commit significant public resources.[25]

CPS should examine its previous CIPs, as well as best practice models from other jurisdictions, for the development of a new CIP.[26]

Require Consistent Financial Reporting for Charter Schools

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

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

[23] *See* NACSLB Recommended Practice 9.6: Develop a Capital Improvement Plan, Civic Federation Budget Analyses of Local Government Budgets – various years.
[24] Ibid.
[25] *See* Civic Federation Budget Analyses of Local Government Budgets – various years.
[26] For an example, see the 1996-2000 Capital Improvement Plan adopted by the Chicago School Reform Board of Trustees on January 24, 1996.

Increase Time Allowed for Public Review and Comment

More time should be allowed for the public to review and understand the Chicago Public Schools Chicago $5.9 billion dollar budget. At a minimum, **ten working days** should be allowed for the public review period before public testimony is heard. Only in this way can citizens give fully informed commentary on the largest local government budget.

Further Improvements to Budget Format and Transparency

In FY2012, the District made several additions to its budget format previously recommended by the Civic Federation, including the addition of multi-year budget projections, as well as chapters on pensions and the capital budget. The Civic Federation applauds the District and its staff for adding this information. However, the Federation offers the following additional recommendations to further increase the transparency and accessibility of the District's budget documents.

Additional Property Tax Information

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

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

Additional Section on Tax Increment Financing (TIF)

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

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

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

Create Budget Section for Intergovernmental Agreements (IGA)

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

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

Continue to Improve Format and Provide Sufficient Data

CPS's FY2012 Proposed Budget did not include "CPS All Positions by Location" which was included in previous budget documents. The table presents the distribution of all full-time employees within the school district by position (Teachers, Assistant Principals, Principals and School Support Personnel) and by location (School Based, Central-Office, Area-Office and Citywide Support). This section provides pertinent information not found elsewhere in the budget book, especially regarding the number of teachers throughout the District. Therefore, it is critical that this data always be included in the budget.

Though the District has worked to add actual revenue and expenditure data to the budget books, the District should provide actual data and/or year-end estimates for all financial tables, including the additional tables that present appropriations by functional and organizational level, by fund and organizational level and by funds, units and account groups.

The District's FY2012 Proposed Budget also did not include the "What's New in the Budget Book" section that was included in the FY2011 and FY2009 proposed budgets. This section briefly highlighted changes in the budget's formatting since the previous year. The Civic Federation believes that this section should be included in every budget book because it reflects on CPS' commitment to creating an improved budget document every fiscal year.

ACKNOWLEDGEMENTS

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

FY2012 DEFICIT DRIVERS AND GAP-CLOSING MEASURES

CPS proposes a FY2012 general operating funds budget of approximately $5.1 billion, which is a 3.3%, or $172.5 million, reduction from the FY2011 final budget of nearly $5.3 billion, but an increase of 3.3%, or $163.4 million, over the FY2011 year-end estimated expenditures.

On June 15, 2011, CPS projected a FY2012 budget gap of $712.0 million.[27] Approximately $501.0 million of the $712.0 million deficit was due to reductions in revenues from the previous year. This included a $260.0 million reduction resulting from the expiration of ARRA funding, a $77.0 million cut in state education appropriations and $4.0 million less in education jobs program funding. In addition, the $160.0 million in savings from bond restructuring that the District received in FY2011 was one-time revenue that is not available in FY2012. Expenditure increases contributing to the deficit included a $100.0 million increase in contractual salary increases for union employees, $35.0 million in step and lane increases for teachers, $35.0 million in increased employee benefit cost, $86.0 million in operational increases and $70.0 million in increased expenses to reimburse the Chicago Police Department for in-school support services.[28] This gross deficit amount was offset by $75 million in spending cuts announced in the first part of 2011 and a one-time receipt of $40 million in TIF surplus funds distributed by the City of Chicago.

CPS FY2012 Proposed Budget Deficit Drivers (in $ millions)

	$ Amount
End of ARRA Funding	$ 260.0
Reduction in Bond Restructuring Benefits	$ 160.0
Cut in State Appropriations	$ 77.0
Reduced Education Jobs Funding	$ 4.0
Revenue Losses	**$ 501.0**
Contractual Increases for Union Employees	$ 100.0
Step/Lane Increases for Teachers	$ 35.0
Healthcare and Pension Increase	$ 35.0
Operational Increases	$ 86.0
Chicago Police Department Reimbursement for In-School Support	$ 70.0
Expenditure Increases	**$ 326.0**
Gross Deficit	**$ 827.0**
Reductions Announced in last part of FY2011	$ (75.0)
TIF Surplus	$ (40.0)
Total Deficit as of 7/15/11	**$ 712.0**

Source: CPS FY2012 Budget Update document, June 15, 2011.

CPS reported that it would close the $712.0 million shortfall with a $320.7 million in expenditure reductions, a $150.3 million increase in property tax revenues and $241.0 million in use of reserve funds. The expenditure reductions include:

[27] CPS FY2012 Budget Update document, June 15, 2011.
[28] CPS FY2012 Budget Update document, June 15, 2011.

- **Reorganization of the central office and area offices** will realize $107.0 million in savings. Approximately $50.0 million is expected to be realized from the elimination of duplicate and unnecessary functions in various central instructional departments. Smaller amounts will be saved from reductions in activities or positions previously funded by federal ARRA funds that have expired ($32.0 million), the elimination of centrally funded school based performance management programs ($15.0 million) and rationalizations in spending in central office administrative support functions ($10.0 million).
- **Forgoing scheduled 4% COLA increases** for teachers will save $100.0 million.
- A wide variety of **program reductions** will save $86.7 million. The three largest reductions will be a $29.7 million cut in citywide programs that provide services across schools, $23.5 million in savings from the elimination of contingency or, "cushion," teachers for schools that do not meet their enrollment projections and $10.7 million in cuts to certain mentoring programs.
- Implementing **operational efficiencies** will save $27.0 million. This includes $5.0 million in savings from restructuring bus routes, $9.0 million in reductions in the use of privatized custodians in underutilized schools and $13.0 million in cuts in CPS spending for Chicago Police Department services.

CPS FY2012 Proposed Budget Deficit Closing Measures (in $ millions)		
Increase in Property Tax Revenues	$	150.3
Subtotal Revenue Enhancements	**$**	**150.3**
Reorganization of Central Office and Area Offices	$	107.0
Forgoing 4% COLA Increase	$	100.0
Program Reductions	$	86.7
Operational Efficiencies	$	27.0
Subtotal Expenditure Reductions	**$**	**320.7**
Use of Reserve Funds	$	241.0
Grand Total	**$**	**712.0**

Source: CPS FY2012 Budget Briefing document, August 5, 2011.

APPROPRIATIONS

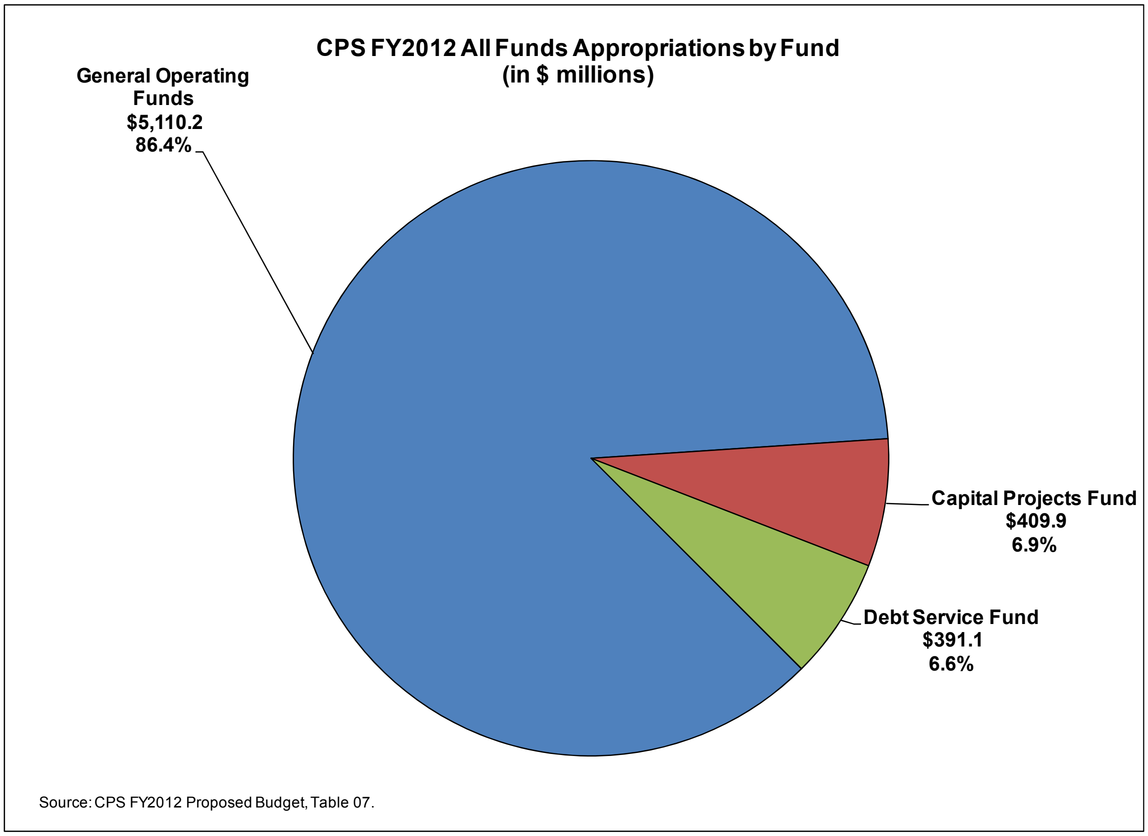
This section presents an analysis of the District's appropriation trends, including appropriations by type, function and location. Proposed FY2012 appropriations are compared with FY2011 final appropriations, FY2011 year-end estimates and FY2008 actual expenditures when available.

Total Appropriations for FY2012

The $5.9 billion CPS FY2012 Proposed Budget consists of $5.1 billion in General Operating Funds, $391.1 million in the Capital Projects Fund and $409.9 million in the Debt Service Fund. General Operating Funds represent 86.4% of the total budget, the Capital Projects Fund represents 6.9% and the Debt Service Fund represents 6.6%.

General Operating Funds finance employees' salaries and benefits, contractual services, charter school tuition transfers and other day-to-day expenditures. General Operating Funds include the

General Fund and the Special Revenues Fund. The General Fund is the primary fund used for instructional, professional, maintenance and administrative activities. The Special Revenue Fund receives revenues that are legally required to be expended only for specific purposes such as School Lunch Funds, Supplemental General State Aid for additional instruction to low-income students and other grant funds. The Capital Projects Fund is for construction and other capital expenditures. The Debt Service Fund is for payment of outstanding bond and lease obligations.[29]



[29] CPS FY2012 Proposed Budget, Appendix G.

Two-Year and Five-Year All Fund Appropriation Trends

The proposed FY2012 $5.9 billion budget is an increase of 1.5%, or $87.0 million, from the FY2011 year-end expenditures estimate of $5.8 billion. The proposed budget is a significant decrease from the approved FY2011 budget of nearly $6.6 billion. Appropriations for the General Operating Funds, which consist of the General Fund and the Special Revenue Fund, will increase by 3.3%, or $163.4 million, over the FY2011 year-end estimate. The proposed appropriations are a 3.3%, or $172.5 million reduction from than FY2011 final budgeted amounts.

CPS Appropriations All Funds: FY2011 & FY2012 (in $ millions)

Fund Type	FY2011 Final Budget	FY2011 Year-End Estimate	FY2012 Proposed Budget	FY2011 Y-E to FY2012 $ Change	FY2011 Y-E to FY2012 % Change
General Operating Funds	$ 5,282.7	$ 4,946.8	$ 5,110.2	$ 163.4	3.3%
Capital Projects Fund	$ 806.7	$ 530.3	$ 391.1	$ (139.2)	-26.2%
Debt Service Fund	$ 477.4	$ 347.1	$ 409.9	$ 62.8	18.1%
Total Appropriation	**$ 6,566.8**	**$ 5,824.2**	**$ 5,911.2**	**$ 87.0**	**1.5%**

Source: CPS FY2011 Final Budget, p. 35 and FY2012 Proposed Budget, pp. 20, 282 and 292.

The slight overall increase in appropriations over FY2011 year-end estimates is a result of growth in General Operating Funds and a $139.2 million cut in Capital Projects Fund appropriations. General Operating Funds are increasing with higher compensation costs due to step and lane increases for teachers and increases in healthcare expenses. Capital Projects Fund appropriations will decline by 26.2% from the FY2011 year-end estimates and by 51.5% from the FY2011 final budget appropriations. The proposed $391.1 million in the Capital Projects Fund are allocated for new appropriations starting in FY2012 and are predominantly for renovations and management of existing buildings. For further analysis of the Capital Budget, see page 78 of this report.

Appropriations for the Debt Service Fund will increase by 18.1%, or $62.8 million, over the FY2011 year-end estimate of $347.1 million. The proposed appropriation will be a reduction of $67.5 million, or 14.1%, from final FY2011 budgeted amounts. The FY2011 year-end estimates for debt service costs were below the original FY2011 budget due to restructuring of debt service to gain budget relief.[30] These appropriations include payments on existing alternate bonds and Public Building Commission payments.

CPS Appropriations by Type for All Funds: FY2011 & FY2012 (in $ millions)

General Operating Funds	FY2011 Final Budget	FY2011 Year-End Estimate	FY2012 Proposed Budget	FY2011 Y-E to FY2012 $ Change	FY2011 Y-E to FY2012 % Change
Teacher Salaries	$ 2,064.7	$ 2,019.9	$ 2,082.8	$ 62.9	3.1%
Non-Teacher Salaries	$ 619.4	$ 618.1	$ 628.9	$ 10.8	1.7%
Employee Benefits	$ 872.4	$ 845.8	$ 872.0	$ 26.2	3.1%
Subtotal General Operating Compensation	**$ 3,556.5**	**$ 3,483.8**	**$ 3,583.7**	**$ 99.9**	**2.9%**
Commodities & Utilities	$ 350.5	$ 328.7	$ 352.0	$ 23.3	7.1%
Contractual/ Professional Services/ Tuition	$ 854.3	$ 1,010.2	$ 973.0	$ (37.2)	-3.7%
Capital Outlay/ Equipment/ Repair	$ 68.2	$ 88.9	$ 71.7	$ (17.2)	-19.3%
Debt Service	$ -	$ -	$ -	$ -	-
Contingency and Other	$ 453.2	$ 35.3	$ 130.1	$ 94.8	268.3%
Subtotal Other General Operating	**$ 1,726.2**	**$ 1,463.1**	**$ 1,526.8**	**$ 63.7**	**4.4%**
Subtotal General Operating Funds	**$ 5,282.7**	**$ 4,946.8**	**$ 5,110.2**	**$ 163.4**	**3.3%**
Debt Service Fund					
Contractual/ Professional Services	$ 8.8	$ 51.9	$ 10.9	$ (41.0)	-79.0%
Debt Service Payments	$ 468.6	$ 295.2	$ 399.0	$ 103.8	35.2%
Subtotal Debt Service Fund	**$ 477.4**	**$ 347.1**	**$ 409.9**	**$ 62.8**	**18.1%**
Capital Projects Fund					
Capital Outlay/ Equipment/ Repair	$ 806.7	$ 530.3	$ 391.1	$ (139.2)	-26.2%
Subtotal Capital Projects Fund	**$ 806.7**	**$ 530.3**	**$ 391.1**	**$ (139.2)**	**-26.2%**
Grand Total	**$ 6,566.8**	**$ 5,824.2**	**$ 5,911.2**	**$ 87.0**	**1.5%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns.
Source: CPS FY2011 Final Budget, p. 35 and CPS FY2012 Proposed Budget, pp. 20, 272 and 282.

The next exhibit shows that CPS appropriations for all funds have risen from $5.1 billion to $5.9 billion, or $793.0 million, over five years. This is a 15.5% increase over actual expenditures in FY2008. Over the same time period, General Operating Funds have increased by 16.3% or $715.4 million due to increases in employee salaries and healthcare-related expenses,[31] as well as a 33.2% or $242.6 million increase in Contractual and Professional Services and Tuition

[30] CPS FY2012 Proposed Budget, p. 244.

expenses. This is largely due to increased appropriations in Tuition for expanding enrollment in charter and contract schools.[32]

Debt service appropriations will increase by 57.4%, which is attributable in part to an increase in debt issuance pursuant to federal stimulus provisions that increased the amount of debt local school districts can issue. Capital Project Fund appropriations will decrease by 15.5%, or $72.0 million, over the five-year period.

CPS Appropriations By Type for All Funds: FY2008 & FY2012 (in $ millions)				
General Operating Funds	**FY2008 Actual**	**FY2012 Proposed**	**$ Change**	**% Change**
Teacher Salaries	$ 1,885.4	$ 2,082.8	$ 197.4	10.5%
Non-Teacher Salaries	$ 559.7	$ 628.9	$ 69.2	12.4%
Employee Benefits	$ 767.4	$ 871.9	$ 104.5	13.6%
Subtotal General Operating Compensation	**$ 3,212.5**	**$ 3,583.5**	**$ 371.0**	**11.5%**
Commodities & Utilities	$ 324.2	$ 351.7	$ 27.5	8.5%
Contractual/ Professional Services/ Tuition	$ 730.5	$ 973.1	$ 242.6	33.2%
Capital Outlay/ Equipment/ Repair	$ 76.0	$ 71.8	$ (4.2)	-5.5%
Debt Service	$ 21.7	$ -	$ (21.7)	-100.0%
Contingency and Other	$ 29.9	$ 130.1	$ 100.2	335.1%
Subtotal Other General Operating	**$ 1,182.3**	**$ 1,526.7**	**$ 344.4**	**29.1%**
Subtotal General Operating Fund	**$ 4,394.8**	**$ 5,110.2**	**$ 715.4**	**16.3%**
Debt Service Fund				
Contractual/ Professional Services	$ 51.8	$ 10.9	$ (40.9)	-78.9%
Debt Service Payments	$ 208.6	$ 399.0	$ 190.4	91.3%
Subtotal Debt Service Fund	**$ 260.4**	**$ 409.9**	**$ 149.5**	**57.4%**
Capital Projects Fund				
Capital Outlay/ Equipment/ Repair	$ 463.1	$ 391.1	$ (72.0)	-15.5%
Subtotal Capital Projects Fund	**$ 463.1**	**$ 391.1**	**$ (72.0)**	**-15.5%**
Grand Total	**$ 5,118.3**	**$ 5,911.3**	**$ 793.0**	**15.5%**

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

Source: CPS FY2012 Proposed Budget, pp. 20, 282 and 292.

Two-Year and Five-Year Operating Fund Appropriation Trends

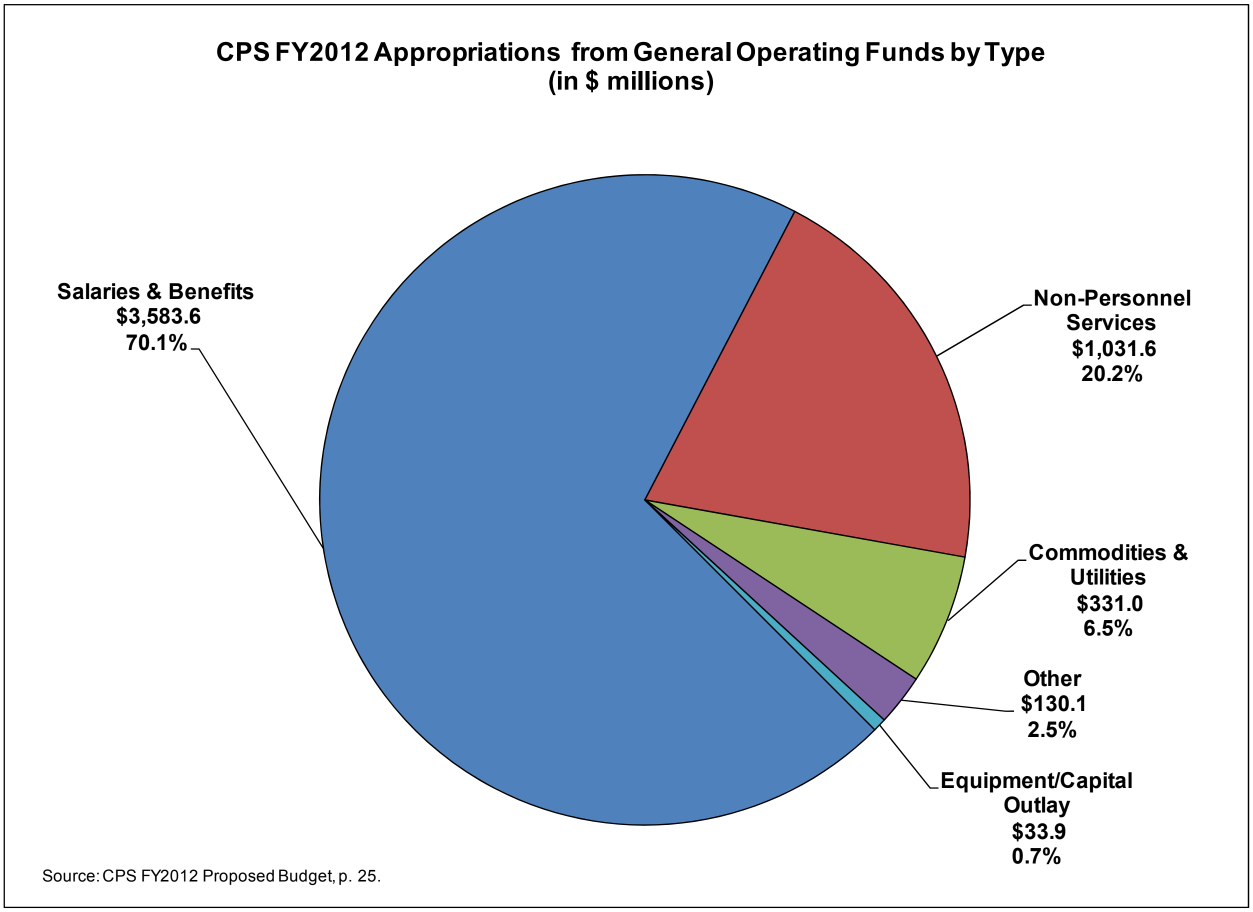
The following sections show trend data for operating funds appropriations by type, function and location.

Appropriations for Operating Funds – By Type

The exhibit below shows the breakdown of FY2012 General Operating Funds appropriations by type. The largest single portion is earmarked for salaries and benefits. Approximately 70.1% of the operating funds, or almost $3.6 billion, will be for teacher salaries, non-teacher compensation and employee benefits. Non-personnel services appropriations, totaling over $1.0 billion or 20.2%, include professional services, contractual payments to outside organizations that provide school support services and charter school tuition transfers. Some of the non-personnel service

[31] CPS FY2012 Proposed Budget, p. 282.
[32] CPS FY2012 Proposed Budget, p. 282.

appropriations support compensation costs of persons who provide direct services to CPS but are not CPS employees.



The following exhibit compares the proposed FY2012 General Operating Funds appropriations by type with the final FY2011 appropriations and the FY2011 year-end estimates. Total General Operating Funds will increase by 3.3%, or $163.4 million, over FY2011 year-end estimates, mostly due to increases in compensation expenses and other fixed charges. Salary appropriations will increase by 2.8%, or $73.6 million, over the FY2011 year-end estimate, due to step and lane increases for teachers and the presumed end of unpaid furloughs for education support personnel.[33] Total employee benefit costs increased by $26.2 million, or 3.3%, over year-end estimates due to an increased appropriation for teacher pension payments. Unemployment compensation will decline by 21.8%, or $4.7 million, over FY2011 year-end estimates. The difference is largely due to the expiration of extended unemployment benefits authorized by the United States Congress, which with CPS layoffs had increased in the prior fiscal year but will expire at the end of the 2011 calendar year.[34]

[33] Information provided by CPS Budget Office, August 5, 2011.
[34] Information provided by CPS Budget Office, August 12, 2011.

Commodities and utilities will increase by $20.5 million from the FY2011 year-end estimates. The amount appropriated is higher than the FY2011 year-end expenditure estimate due to additional federal funds for school breakfasts in FY2012.[35]

Non-Personnel Services will decrease by 3.4%, or $36.3 million, from the FY2011 year-end estimates. These services include transportation, contractual services, tuition payments to charter schools and private schools that provide special education services, professional and technical services and repair contracts. Budgeted tuition payments will increase by 26.9%, or $101.3 million, from the final FY2011 appropriation of $376.3 million to $477.6 million in FY2012 due to the addition of four new charter schools and increased enrollment at existing charter and contract schools.[36] The proposed tuition appropriation is a $41.5 million, or 9.5%, increase over FY2011 year-end estimates. Appropriations for professional and contractual services will decrease by $75.8 million or 16.8% since the lack of ARRA funds have restrained vendor contracts.[37] These services include after school tutoring programs, curriculum coaching and technical support. Many of these services are being cut in an effort to close the FY2012 budget deficit, though the District expects schools to use their discretionary funds to continue funding some programs.[38]

“Other” is a category used to appropriate for competitive grants, carry-overs and other special revenue that may or may not be received during the year or has not yet been allocated to programs. Historically, actual “Other” expenditures were a few million dollars but the budgeted amount jumped to $453.6 million in the FY2010 budget in response to federal stimulus grant opportunities.[39] In FY2011, the final budget appropriation was $453.2 million, though the year-end estimate is only $35.3 million. The FY2012 proposed appropriation is $130.1 million, which is a $323.1 million, or 71.3% decline, from the FY2011 final appropriation. The proposed appropriation is a $94.8 million, or 268.4%, increase over the FY2011 year-end expenditure estimate.

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[35] Information provided by CPS Budget Office, August 5, 2011.
[36] Information provided by CPS Budget Office, August 5, 2011.
[37] Information provided by CPS Budget Office, August 12, 2011.
[38] Information provided by CPS Budget Office, August 5, 2011.
[39] CPS FY2010 Proposed Budget, p. 68.

CPS Appropriations by Type for General Operating Funds: FY2011 & FY2012 (in $ millions)					
Expenditure Type	**FY2011 Final Budget**	**FY2011 Year-End Estimate**	**FY2012 Proposed Budget**	**FY2011 Y-E to FY2012 $**	**FY2011 Y-E to FY2012 %**
Teacher Salaries	$ 2,064.7	$ 2,019.9	$ 2,082.8	$ 62.9	3.1%
Non-Teacher Salaries	$ 619.4	$ 618.1	$ 628.9	$ 10.8	1.7%
Total Salaries	$ 2,684.1	$ 2,638.0	$ 2,711.6	$ 73.6	2.8%
Other Employee Benefits					
Teacher Pension	$ 337.2	$ 310.2	$ 339.3	$ 29.1	9.4%
Ed Support Personnel Pension	$ 98.0	$ 96.9	$ 99.8	$ 2.9	3.0%
Hospitalization/Other Comp.	$ 347.7	$ 355.9	$ 348.4	$ (7.5)	-2.1%
Unemployment Compensation	$ 23.9	$ 21.5	$ 16.8	$ (4.7)	-21.8%
Medicare/Social Security	$ 37.1	$ 35.6	$ 37.6	$ 2.1	5.8%
Workers Compensation	$ 28.6	$ 25.7	$ 30.0	$ 4.3	16.9%
Total Employee Benefits	$ 872.4	$ 845.8	$ 872.0	$ 26.2	3.1%
Subtotal Compensation	**$ 3,556.5**	**$ 3,483.8**	**$ 3,583.6**	**$ 99.8**	**2.9%**
Commodities & Utilities	$ 350.5	$ 310.5	$ 331.0	$ 20.5	6.6%
Non-Personnel Services					
Transportation	$ 113.3	$ 110.4	$ 110.3	$ (0.1)	-0.1%
Professional and Contractual Services	$ 354.2	$ 450.6	$ 374.8	$ (75.8)	-16.8%
Tuition	$ 376.3	$ 436.1	$ 477.6	$ 41.5	9.5%
Repair Contracts	$ 38.0	$ 39.5	$ 37.9	$ (1.6)	-4.1%
Other	$ 10.4	$ 31.3	$ 31.2	$ (0.1)	-0.4%
Subtotal Non-Personnel Services	**$ 892.2**	**$ 1,067.9**	**$ 1,031.6**	**$ (36.3)**	**-3.4%**
Equipment/Capital Outlay	$ 30.2	$ 49.4	$ 33.9	$ (15.5)	-31.4%
Debt Service	$ -	$ -	$ -	$ -	-
Other	$ 453.2	$ 35.3	$ 130.1	$ 94.8	268.4%
Total	**$ 5,282.7**	**$ 4,946.8**	**$ 5,110.2**	**$ 163.4**	**3.3%**

Note: General Operating Funds total may differ from previous exhibits due to accrual basis.

Sources: CPS FY2011 Final Budget, p. 40 and FY2012 Proposed Budget, pp. 25 and 282.

The following exhibit presents a five-year trend for the General Operating Funds appropriations. Total FY2012 proposed operating appropriations will increase by $715.5 million, or 16.3% from the FY2008 actual expenditures. Total budgeted compensation will increase by $371.1 million, or 11.6%. The largest single increase is in the non-personnel services, which will grow by $283.4 million, or 37.9%. This increase reflects in part the growth of charter and contract school enrollment and related tuition payments made by CPS. The next largest increase over the five-year period is in total salaries, which will grow by $266.5 million, or 10.9%, from FY2008 actual expenditures. This is largely due to across-the-board salary increases and/or step and lane increases over the five years.[40] Pension payments for teachers have decreased by 3.2%, or $11.2 million, since FY2008 due to the temporary pension payment relief granted by the State of Illinois.[41]

CPS Proposed Appropriations by Type for General Operating Funds: FY2008 & FY2012 on an Accrual Basis (in $ millions)

Expenditure Type	FY2008 Actual	FY2012 Proposed	$ Change	% Change
Teacher Salaries	$ 1,885.4	$ 2,082.8	$ 197.4	10.5%
Non-Teacher Salaries	$ 559.7	$ 628.9	$ 69.2	12.4%
Total Salaries	$ 2,445.1	$ 2,711.6	$ 266.5	10.9%
Other Employee Benefits				
Teacher Pension	$ 350.5	$ 339.3	$ (11.2)	-3.2%
Ed Support Personnel Pension	$ 89.8	$ 99.8	$ 10.0	11.1%
Hospitalization/Other Comp.	$ 260.4	$ 348.4	$ 88.0	33.8%
Unemployment Compensation	$ 5.8	$ 16.8	$ 11.0	190.1%
Medicare/Social Security	$ 31.1	$ 37.6	$ 6.5	21.0%
Workers Compensation	$ 29.8	$ 30.0	-	-
Total Employee Benefits	$ 767.4	$ 872.0	$ 104.6	13.6%
Subtotal Compensation	**$ 3,212.5**	**$ 3,583.6**	**$ 371.1**	**11.6%**
Commodities & Utilities	$ 306.5	$ 331.0	$ 24.5	8.0%
Non-Personnel Services	$ 748.2	$ 1,031.6	$ 283.4	37.9%
Equipment/Capital Outlay	$ 76.0	$ 33.9	$ (42.1)	-55.4%
Debt Service	$ 21.7	$ -	$ (21.7)	100.0%
Other	$ 29.9	$ 130.1	$ 100.2	335.1%
Total	**$ 4,394.7**	**$ 5,110.2**	**$ 715.5**	**16.3%**

Note: General Operating Funds total may differ from previous exhibits due to accrual basis.

Sources: CPS FY2011 Proposed Budget, p. 104 and FY2012 Proposed Budget, p. 25.

Appropriations for Operating Funds – By Function

The exhibit below presents General Operating Funds proposed appropriations by function for FY2012 and final appropriations by function for FY2011. Year-end estimates are not provided in the budget documents. Total appropriations for Instruction will decrease slightly by 0.2%, or $4.9 million, from the final FY2011 appropriations. Regular Programs Instruction will decrease by $39.9 million, while Special Education Instruction and Vocational Education and Special Needs Instruction will each increase by 5.0%, or $27.7 million, and 4.5%, or $7.2 million, respectively. Supporting Services will decline by $104.4 million, or 5.3%. Supporting Services

[40] CPS FY2011 Proposed Budget, p. 89 and FY2012 Proposed Budget, p. 6.
[41] CPS FY2011 Proposed Budget, p. 89.

include services such as social work, speech pathology, assessment and testing, food service, transportation and general administration. Community Services will decline by $14.3 million, or 22.9%. Community Services includes activities such as parent involvement programs, early childhood outreach, flow-through of federal title funds for non-public schools, the After School Matters program and other after school programs.[42]

CPS Proposed Appropriations By Function for General Operating Funds: FY2011 & FY2012 (in $ millions)				
Function	**FY2011 Final Budget**	**FY2012 Proposed Budget**	**$ Change**	**% Change**
Instruction-Regular Programs	$ 2,398.7	$ 2,358.8	$ (39.9)	-1.7%
Instruction-Special Education	$ 557.5	$ 585.2	$ 27.7	5.0%
Instruction-Voc Ed & Special Needs	$ 159.6	$ 166.8	$ 7.2	4.5%
Subtotal Instruction	**$ 3,115.8**	**$ 3,110.8**	**$ (4.9)**	**-0.2%**
Support Services	$ 1,984.2	$ 1,879.8	$ (104.4)	-5.3%
Community Services	$ 62.3	$ 48.0	$ (14.3)	-22.9%
Interest and Debt Service	$ -	$ -	$ -	-
Provision for Contingencies	$ 120.4	$ 71.5	$ (48.9)	-40.6%
Total	**$ 5,282.7**	**$ 5,110.2**	**$ (172.5)**	**-3.3%**

Source: FY2011 Final Budget, pp. 45 and 46; FY2012 Proposed Budget, Appropriations by Functions and Organizational Level General Operating Funds, pp. 1 and 2.

Actual FY2008 expenditures by function are not provided in the budget documents. Between the proposed budgets for FY2008 and FY2012, appropriations for Instruction will increase by 15.8%, or $424.8 million, despite a 5.2% reduction in Vocational Education and Special Needs Instruction. Supporting Services will increase by $106.9 million, or 6.0%, while Community Services appropriations will decrease by $8.8 million, or 15.5%.

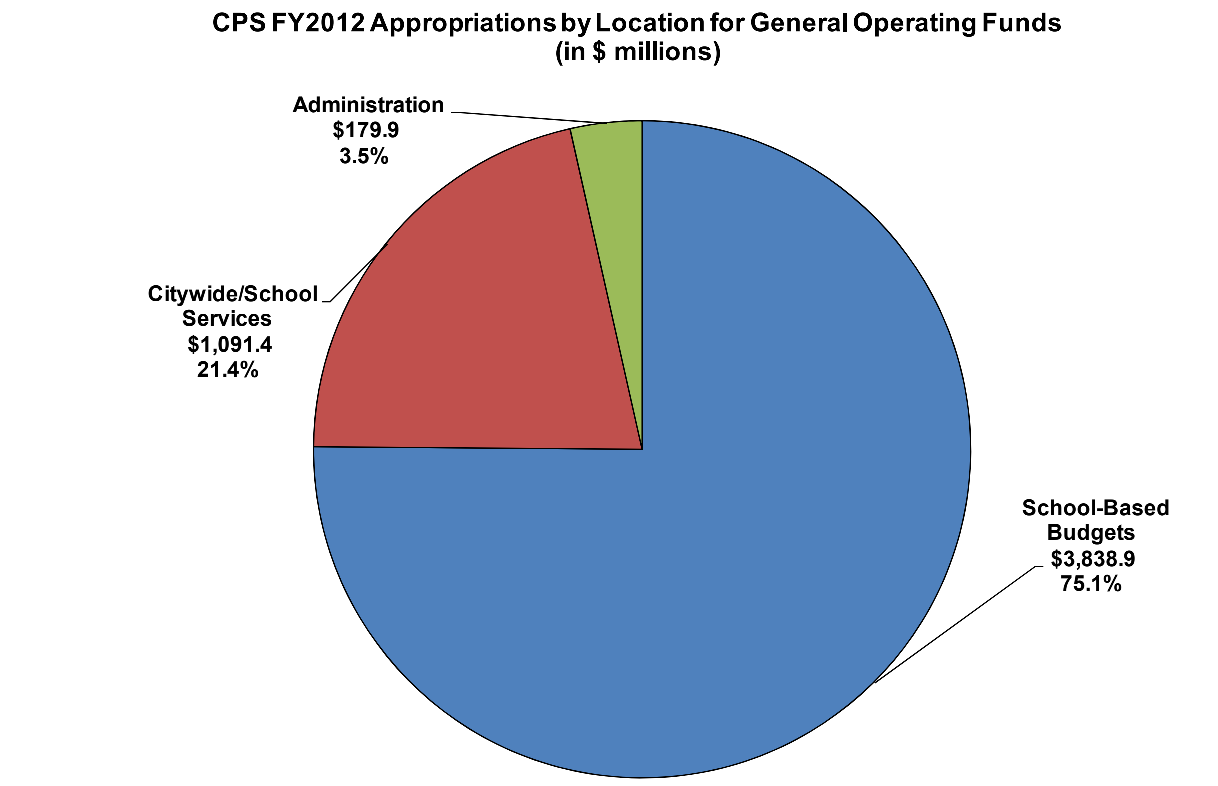
CPS Proposed Appropriations By Function for General Operating Funds: FY2008 & FY2012 (in $ millions)				
Function	**FY2008 Proposed Budget**	**FY2012 Proposed Budget**	**$ Change**	**% Change**
Instruction-Regular Programs	$ 2,019.1	$ 2,358.8	$ 339.8	16.8%
Instruction-Special Education	$ 491.1	$ 585.2	$ 94.0	19.1%
Instruction-Voc Ed & Special Needs	$ 175.9	$ 166.8	$ (9.1)	-5.2%
Subtotal Instruction	**$ 2,686.1**	**$ 3,110.8**	**$ 424.8**	**15.8%**
Supporting Services	$ 1,772.9	$ 1,879.8	$ 106.9	6.0%
Community Services	$ 56.9	$ 48.0	$ (8.8)	-15.5%
Non Program Charges	$ 17.0	$ -	$ (17.0)	-100.0%
Interest and Debt Service	$ 1.4	$ -	$ (1.4)	-100.0%
Provision for Contingencies	$ 114.0	$ 71.5	$ (42.4)	-37.2%
Total	**$ 4,648.3**	**$ 5,110.2**	**$ 462.0**	**9.9%**

Source: CPS FY2008 Proposed Budget, pp. 21 and 22; FY2012 Proposed Budget, Appropriations by Functions and Organizational Level General Operating Funds, pp. 1 and 2.

[42] Information provided by CPS Budget Office, August 18, 2010.

Appropriations for Operating Funds – By Location

The exhibit below shows the breakdown of proposed FY2012 General Operating Funds appropriations by location. School-Based Budgets comprise 75.1% of operating appropriations, or $3.8 billion; this includes direct costs for charter and alternative schools. Approximately 21.4% or nearly $1.1 billion will be for Citywide/School Services. These are programs and services that directly impact multiple schools, such as literacy, math and special education. Central Office Administration represents 3.5%, or $179.9 million, of operating appropriations.



Source: FY2012 Proposed Budget, Appropriations by Functions and Organizational Level General Operating Funds, pp. 1 and 2.

The following two-year and five-year trends compare the proposed FY2012 appropriations by location to the final budget for FY2011 and the proposed budget for FY2008. Year-end estimates and actual expenditures from prior years are not provided in the budget documents.

School-Based Budget appropriations will increase by 4.9%, or $180.9 million,, in FY2012 from FY2011 final appropriations. Citywide/School Services will be reduced by $351.8 million, or 24.4%, and Administration will be reduced by $1.6 million, or 0.9%. CPS has made efforts to reorganize the Central Office and Network Offices, resulting in $107 million in savings compared to FY2011 year-end estimates. Other savings include operations efficiencies such as restructured bus routes ($27 million), program reductions ($87 million) and forgoing the 4% COLA increases ($100 million).[43]

CPS Appropriations by Location for General Operating Funds: FY2011 & FY2012 (in $ millions)

Location	FY2011 Final Budget	FY2012 Proposed Budget	$ Change	% Change
School-Based Budgets	$ 3,658.0	$ 3,838.9	$ 180.9	4.9%
Citywide/School Services	$ 1,443.2	$ 1,091.4	$ (351.8)	-24.4%
Administration	$ 181.5	$ 179.9	$ (1.6)	-0.9%
Total	**$ 5,282.7**	**$ 5,110.2**	**$ (172.5)**	**-3.3%**

Source: FY2011 Final Budget, pp. 45 and 46; FY2012 Proposed Budget, Appropriations by Functions and Organizational Level General Operating Funds, pp. 1 and 2.

General Operating Funds proposed appropriations for School-Based Budgets will increase by 18.9%, or $609.8 million, between FY2008 and FY2012. Appropriations for Citywide/School Services will decline by 10.3%, or $124.8 million. Administration appropriations will decline by 11.4% over the five-year period, from $203.0 million proposed in FY2008 to $179.9 million in FY2012.

CPS Appropriations by Location for General Operating Funds: FY2008 & FY2012 (in $ millions)

Location	FY2008 Proposed Budget	FY2012 Proposed Budget	$ Change	% Change
School-Based Budgets	$ 3,229.1	$ 3,838.9	$ 609.8	18.9%
Citywide/School Services	$ 1,216.2	$ 1,091.4	$ (124.8)	-10.3%
Administration	$ 203.0	$ 179.9	$ (23.1)	-11.4%
Total	**$ 4,648.3**	**$ 5,110.2**	**$ 462.0**	**9.9%**

Source: CPS FY2008 Proposed Budget, pp. 21 and 22; FY2012 Proposed Budget, Appropriations by Functions and Organizational Level General Operating Funds, pp. 1 and 2.

RESOURCES

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

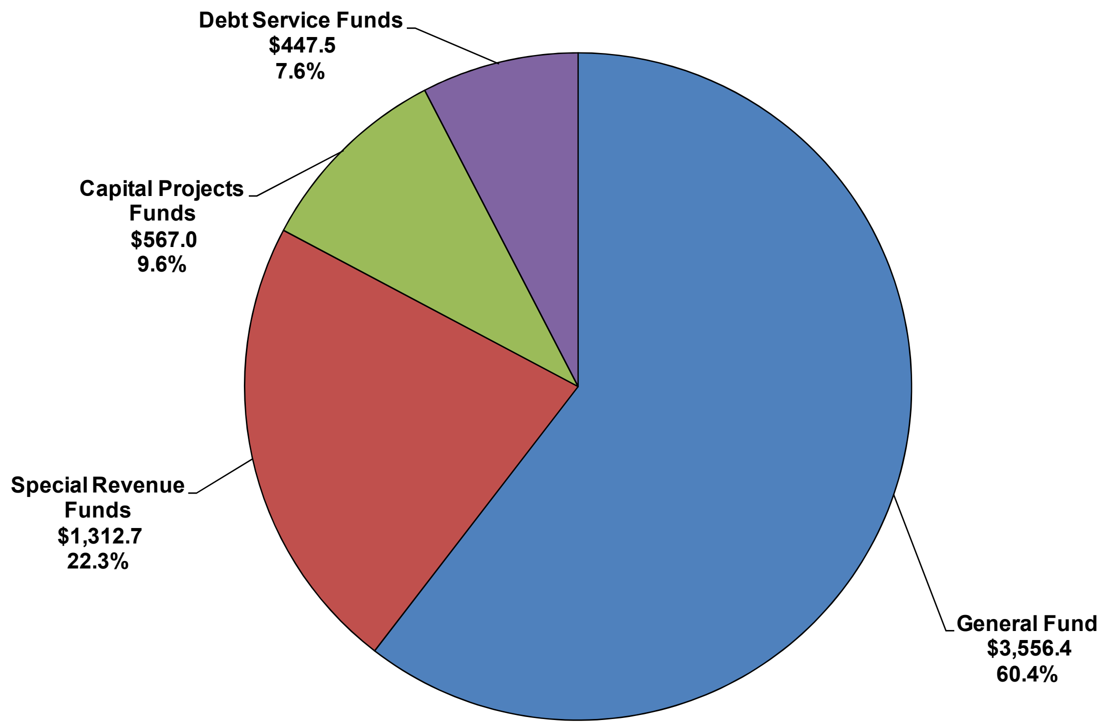
[43] CPS FY2012 Proposed Budget, p. 6.

funds. For a more detailed analysis of two-year and five-year revenue trends for the General Operating Funds, see Appendix A on page 81 of this report.

Total Resources for FY2012

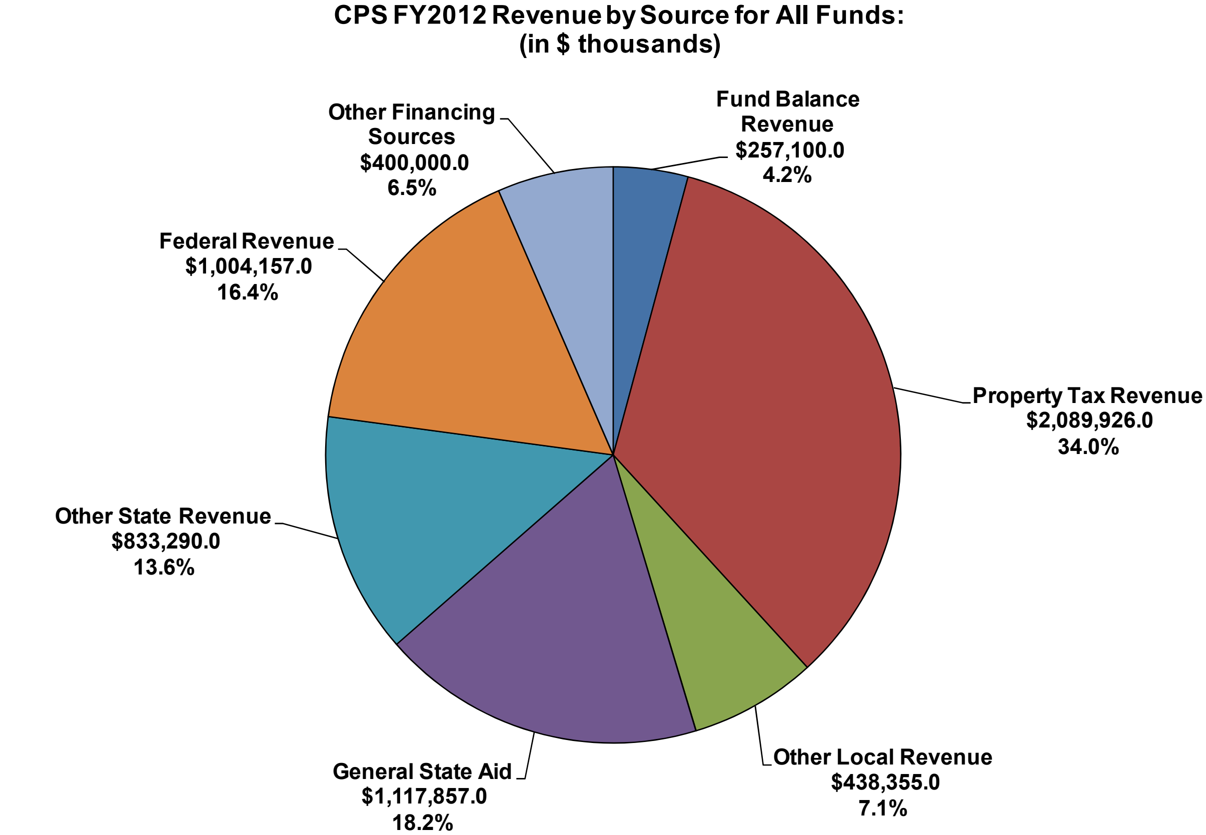
In FY2012 CPS will receive nearly $5.9 billion of local, state and federal revenues and other resources. The General Fund will hold the majority of resources with approximately 60.4%, or $3.6 billion, of total resources. The second largest component is the Special Revenue Funds, with $1.3 billion, or 22.3%, of total resources. Special Revenue Funds are used to account for the proceeds of specific revenue sources legally restricted to expenditures for their purposes. Capital Projects Funds will receive $567.0 million, or 9.6%, of total resources, which can be used for major capital facilities or equipment. Debt Service Funds, which account for principal and interest on long-term debt, will receive $447.5 million, or 7.6%, of total resources.

CPS FY2012 Resources for All Funds:
(in $ millions)



Source: CPS FY2012 Proposed Budget, p. 20.

In FY2012 34.0% of all CPS revenues, or nearly $2.1 billion, will come from local property tax revenues. General State Aid will provide the second largest component of the CPS revenue stream, with 18.2% of the total, or $1.1 billion. Federal funds will be the third largest source of revenues at 16.4% of the total, or $1.0 billion.



Source: CPS FY2012 Proposed Budget, p. 23.

In FY2012, the District will receive $2.5 billion in local government revenue, including $158.7 million in Personal Property Replacement Taxes and $275.6 million in miscellaneous local revenue. Miscellaneous local revenue includes revenue from the City of Chicago. State revenues in FY2012 total nearly $2.0 billion. Federal aid is expected to total $1.0 billion in FY2012. The following chart details the resources within the proposed CPS FY2012 budget.

CPS Appropriated Resources by Fund Type: FY2012 (in $ thousands)						
	General Fund	Special Revenue	Subtotal Operating Funds	Capital	Debt Service	Total
Property Taxes	$ 1,956,800	$ 81,200	**$ 2,038,000**	$ -	$ 51,926	**$ 2,089,926**
Replacement Taxes	$ 76,760	$ 26,800	**$ 103,560**	$ -	$ 55,141	**$ 158,701**
Investment Interest Income	$ 2,000	$ 100	**$ 2,100**	$ 2,000	$ -	**$ 4,100**
Miscellaneous Local Revenue	$ 105,891	$ 23,000	**$ 128,891**	$ 50,000	$ 96,663	**$ 275,554**
Subtotal Local Revenue	**$ 2,141,451**	**$ 131,100**	**$ 2,272,551**	**$ 52,000**	**$ 203,730**	**$ 2,528,281**
General State Aid (GSA)	$ 694,071	$ 261,000	**$ 955,071**	$ -	$ 162,786	**$ 1,117,857**
State Aid - Teacher Pension	$ 10,164	$ 285	**$ 10,449**	$ -	$ -	**$ 10,449**
Flat Grant ADA	$ -	$ -	**$ -**	$ -	$ -	**$ -**
Block Grants: Ed. Serv. & Gen. Ed.	$ 607,894	$ 13,334	**$ 621,228**	$ -	$ -	**$ 621,228**
Other State Aid	$ 24,400	$ 8,094	**$ 32,494**	$ 115,000	$ 54,119	**$ 201,613**
Subtotal State Revenue	**$ 1,336,529**	**$ 282,713**	**$ 1,619,242**	**$ 115,000**	**$ 216,905**	**$ 1,951,147**
Elem. & Sec. Ed.	$ 100	$ 485,876	**$ 485,976**	$ -	$ -	**$ 485,976**
Child Nutrition	$ -	$ 188,200	**$ 188,200**	$ -	$ -	**$ 188,200**
Special Ed. -- IDEA	$ -	$ 106,200	**$ 106,200**	$ -	$ -	**$ 106,200**
Medicaid, ROTC, Other	$ 78,300	$ 118,641	**$ 196,941**		$ 26,840	**$ 223,781**
Subtotal Federal Revenue	**$ 78,400**	**$ 898,917**	**$ 977,317**	**$ -**	**$ 26,840**	**$ 1,004,157**
Other Financing Sources	**$ -**	**$ -**	**$ -**	**$ 400,000**	**$ -**	**$ 400,000**
Total Revenues	**$ 3,556,380**	**$ 1,312,730**	**$ 4,869,110**	**$ 167,000**	**$ 447,475**	**$ 5,483,585**
Total Resources	**$ 3,556,380**	**$ 1,312,730**	**$ 4,869,110**	**$ 567,000**	**$ 447,475**	**$ 5,883,585**

Note: Total resources for all funds do not include appropriated fund balance.
Source: CPS FY2012 Proposed Budget, pp. 23 and 24.

Two-Year All Fund Resources Trends

CPS proposes budgeting nearly $5.9 billion in resources for all funds in FY2012, not including fund balance resources. This is a decrease of 2.6%, or $155.2 million, from the FY2011 year-end estimates and a 10.4%, or $683.2 million, decrease from the FY2011 final budget. A number of factors have contributed to the significant difference between CPS's final FY2011 appropriations and its year-end estimates, including the restructuring of outstanding debt, one-time payments from TIF districts and catch-up payments from the State of Illinois.[44] For the purpose of this analysis, both FY2011 final budgeted amounts and year-end estimates will be used to compare the FY2012 proposed appropriations.

Resources include local revenues, state and federal intergovernmental aid and certain non-revenue sources, such as bond proceeds. Much of the $155.2 million decline is due to one-time receipts in FY2011, including the final federal stimulus program funds. In addition, the proposed budget recommends that the Board of Education levy property taxes up to the 2.7% statutory cap (in this case, the rate of inflation) for an expected increase of $153.2 million in property tax revenue for FY2012.

[44] CPS FY2012 Proposed Budget, p. 5.

General Operating Funds will decrease by 7.0%, or $366.1 million, from FY2011 year-end estimates. Capital Projects Funds in FY2012 will increase by 19.3%, or $91.6 million, to $567.0 million. Debt Service Funds will increase by $119.3 million, or 36.3%, to $447.5 million in FY2012.

Chicago Public Schools Resources for All Funds: FY2011 & FY2012 (in $ millions)					
	FY2011 Final Budget	FY2011 Year-End Estimate	FY2012 Proposed Budget	FY2011 Y-E to FY2012 $ Change	FY2011 Y-E to FY2012 % Change
General Operating Funds					
General Fund	$ 3,585.5	$ 3,755.5	$ 3,556.4	$ (199.1)	-5.3%
Special Revenue Funds	$ 1,697.2	$ 1,479.7	$ 1,312.7	$ (167.0)	-11.3%
Subtotal General Operating Funds	**$ 5,282.7**	**$ 5,235.2**	**$ 4,869.1**	**$ (366.1)**	**-7.0%**
Capital Projects Funds	$ 806.7	$ 475.4	$ 567.0	$ 91.6	19.3%
Debt Service Funds	$ 477.4	$ 328.2	$ 447.5	$ 119.3	36.3%
Total	**$ 6,566.8**	**$ 6,038.8**	**$ 5,883.6**	**$ (155.2)**	**-2.6%**

Source: CPS FY2011 Final Budget, p. 35 and FY2012 Proposed Budget, pp. 277-280.

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

The FY2012 budget projects a 3.1%, or $173.1 million, decrease in revenues for all funds over the FY2011 year-end estimates.

- Local revenues are expected to decrease by 1.1%, or $27.3 million, to $2.5 billion. Despite a $153.2 million increase in Property Tax Revenues over the FY2011 year-end revenue estimates, overall local revenues decline due to a 32.6% or $133.0 million decrease in Miscellaneous Local Revenue, a 19.8%, or $39.1 million, decline in Replacement Taxes and a 67.2%, or $8.4 million, decline in Investment Interest Income.
- The FY2012 budget includes increasing the property tax levy up to the 2.7% tax cap. The total increase in property tax bills will be $108.0 million for property owners, though due to the timing of collections, property tax revenues will increase by $153.2 million over FY2011 year-end estimates.[45]
- Personal Property Replacement Tax (PPRT)[46] revenues are projected to decrease by 19.8% from FY2011 year-end estimates. This is primarily due to the receipt of $35.5 million in one-time PPRT revenues for FY2011 following a state tax amnesty program.[47]
- Miscellaneous Local Revenue will drop significantly from $408.6 million at the end of FY2011 to $275.6 million in FY2012. This is a 32.6%, or $133.0 million, decline in expected revenues. The reduction is primarily based on the reduction of payments from the City of Chicago for the Modern Schools Across Chicago (MSAC) program and from the receipt of $123.4 million in non-recurring TIF funds in FY2011.[48]
- Federal funding will decrease by 13.7%, or $160.0 million, from FY2011 year-end revenue estimates, primarily due to significant reductions in available stimulus funding.
- The decrease of $225.8 million, or 36.6%, of federal Elementary and Secondary Education (ESEA) funds reflects the expiration of stimulus grants. However, excluding ARRA and

[45] CPS FY2012 Proposed Budget, p. 33.
[46] The Personal Property Replacement Tax is a corporate income tax.
[47] CPS FY2012 Proposed Budget, p. 13.
[48] CPS FY2012 Proposed Budget, p. 34.

Education Jobs Program funds, total ESEA grants available are projected to increase in FY2012. The increase is the result of new competitively awarded School Improvement Grants.[49]

- Other funding sources will total $400.0 million due to an anticipated $400 million bond issuance, which will result in additional annual debt service of $32 million.

Several key assumptions built into the FY2012 revenue projections, including projections for General State Aid and mandated categoricals, are based upon state budget appropriations found within Public Acts, appropriation allocations by the State Board of Education and the Governor's appropriation allocation.

- Revenues provided by the State of Illinois are projected to increase slightly by 0.7%, or $14.2 million;
- CPS's budget projects that General State Aid (GSA) will decrease by 2.5%, or $29.2 million, to $1.1 billion in FY2012. This is because the statewide appropriation is insufficient to pay for the GSA foundation level, which has remained the same since FY2010. All school districts are expected to receive 94.8% of their GSA.[50]
- CPS anticipates $10.4 million in state pension aid to CPS, which is a 75.7% decrease from the FY2011 state pension contribution.

[49] CPS FY2012 Proposed Budget, p. 36.
[50] CPS FY2012 Proposed Budget, p. 34.

CPS Appropriated Resources by Source for All Funds: FY2011 & FY2012 (in $ millions)					
	FY2011 Final Budget	FY2011 Year-End Estimate	FY2012 Proposed Budget	FY2011 Y-E to FY2012 $ Change	FY2011 Y-E to FY2012 % Change
Property Taxes	$ 1,932.0	$ 1,936.7	$ 2,089.9	$ 153.2	7.9%
Replacement Taxes	$ 152.5	$ 197.8	$ 158.7	$ (39.1)	-19.8%
Investment Interest Income	$ 4.1	$ 12.5	$ 4.1	$ (8.4)	-67.2%
Miscellaneous Local Revenue	$ 345.9	$ 408.6	$ 275.6	$ (133.0)	-32.6%
Subtotal Local Revenue	**$ 2,434.5**	**$ 2,555.6**	**$ 2,528.3**	**$ (27.3)**	**-1.1%**
General State Aid (GSA)	$ 1,141.6	$ 1,147.1	$ 1,117.9	$ (29.2)	-2.5%
State Aid - Teacher Pension	$ 43.0	$ 42.8	$ 10.4	$ (32.4)	-75.7%
Flat Grant ADA	$ -	$ -	$ -	$ -	-
Block Grants: Ed. Serv. & Gen. Ed.	$ 628.9	$ 688.7	$ 621.2	$ (67.5)	-9.8%
Other State Aid	$ 117.4	$ 58.3	$ 201.6	$ 143.3	245.8%
Subtotal State	**$ 1,930.8**	**$ 1,936.9**	**$ 1,951.1**	**$ 14.2**	**0.7%**
Elem. & Sec. Ed.	$ 814.3	$ 617.2	$ 391.4	$ (225.8)	-36.6%
Child Nutrition	$ 172.7	$ 164.4	$ 188.2	$ 23.8	14.5%
Special Ed. -- IDEA	$ 112.6	$ 100.5	$ 106.2	$ 5.7	5.7%
Medicaid, ROTC, Other	$ 205.3	$ 282.1	$ 318.4	$ 36.3	12.9%
Subtotal Federal	**$ 1,304.9**	**$ 1,164.2**	**$ 1,004.2**	**$ (160.0)**	**-13.7%**
Total Revenues	**$ 5,670.2**	**$ 5,656.7**	**$ 5,483.6**	**$ (173.1)**	**-3.1%**
Other Financing Sources	**$ 600.0**	**$ 382.1**	**$ 400.0**	**$ 17.9**	**4.7%**
Total Resources	**$ 6,270.2**	**$ 6,038.8**	**$ 5,883.6**	**$ (155.2)**	**-2.6%**

Notes: Because of rounding, minimal differences may occur in totaling rows and columns. Total resources for all funds do not include appropriated fund balance.

Source: FY2011 Final Budget, p. 38.; and CPS FY2012 Proposed Budget, p. 275.

CPS total resources, excluding appropriated fund balances, are projected to increase by 12.7% between FY2008 and FY2012. This is a $660.7 million increase from $5.2 billion in FY2008 to $5.9 billion in FY2012. Local revenues will increase by 10.1% over the five-year period, with property taxes, the largest local revenue source, rising by $276.0 million. State revenues between FY2008 and FY2012 are projected to increase by 5.7% or $105.2 million. Federal funding is expected to rise by 20.6%, or $171.6 million, rising from $832.6 million in FY2008 to $1.0 billion in FY2012.

CPS Appropriated Resources by Source for All Funds: FY2008 & FY2012 (in $ millions)

	FY2008 Actual	FY2012 Proposed	$ Change	% Change
Property Taxes	$ 1,813.9	$ 2,089.9	$ 276.0	15.2%
Replacement Taxes	$ 215.5	$ 158.7	$ (56.8)	-26.4%
Investment Interest Income	$ 85.9	$ 4.1	$ (81.8)	-95.2%
Miscellaneous Local Revenue	$ 181.0	$ 275.6	$ 94.6	52.3%
Subtotal Local Revenue	**$ 2,296.3**	**$ 2,528.3**	**$ 232.0**	**10.1%**
General State Aid (GSA)	$ 1,091.1	$ 1,117.9	$ 26.8	2.5%
State Aid - Teacher Pension	$ 74.8	$ 10.4	$ (64.4)	-86.1%
Flat Grant ADA	$ 12.8	$ -	$ (12.8)	-100.0%
Block Grants: Ed. Serv. & Gen. Ed.	$ 613.9	$ 621.2	$ 7.3	1.2%
Other State Aid	$ 53.3	$ 201.6	$ 148.3	278.2%
Subtotal State Revenue	**$ 1,845.9**	**$ 1,951.1**	**$ 105.2**	**5.7%**
Elem. & Sec. Ed.--NCLB	$ 350.5	$ 391.4	$ 40.9	11.7%
Child Nutrition	$ 150.4	$ 188.2	$ 37.8	25.1%
Special Ed. -- IDEA	$ 106.1	$ 106.2	$ 0.1	0.1%
Medicaid, ROTC, Other	$ 225.6	$ 318.4	$ 92.8	41.1%
Subtotal Federal Revenue	**$ 832.6**	**$ 1,004.2**	**$ 171.6**	**20.6%**
Total Revenues	**$ 4,974.8**	**$ 5,483.6**	**$ 508.8**	**10.2%**
Other Financing Sources	**$ 248.1**	**$ 400.0**	**$ 151.9**	**61.2%**
Total Resources	**$ 5,222.9**	**$ 5,883.6**	**$ 660.7**	**12.7%**

Notes: Because of rounding, minimal differences may occur in totaling rows and columns. Total resources for all funds do not include appropriated fund balance.

Source: CPS FY2012 Proposed Budget, p. 275.

For two-year and five-year trends of the District's General Operating Fund revenues, including detailed tables comparing FY2011 final budget amounts, FY2011 year-end estimates and the proposed FY2012 budget, see Appendix A on page 81 of this report.

Federal Funding

The District will receive just over $1.0 billion in funding from the federal government in FY2012. This is a decrease of $160.0 million, or 13.7%, from FY2011 year-end federal revenue estimates totaling $1.2 billion. The decrease is attributable to the expiration of federal stimulus funds that flow directly to the District from the federal government. In addition, the District received $104.4 million from the Education Jobs Program, of which $48.2 million remained for use in FY2012.[51] The District is also receiving new competitively awarded School Improvement Grants resulting in an additional $45.9 million in ESEA grants.[52] Federal reimbursements for CPS's universal school breakfast programs will increase by $19.8 million.[53]

State of Illinois Funding

The State of Illinois will provide a total of nearly $2.0 billion of revenues in the FY2012 budget, which is a $14.2 million increase over FY2011 year-end estimates. CPS will receive an increase of $143.3 million in other state aid, reflecting the State's adoption of a major new capital program. CPS expects to receive $446.0 million in capital funding over six years, with approximately $169.1 million available for FY2012. Other state funding includes capital funds and small categorical state grants.[54]

The GSA foundation level is the financial support per student representing combined state and local resources available resulting from the general state aid formula.[55] The foundation level for the District will remain at $6,119 per pupil in FY2012. The next exhibit shows increases in the foundation level for state per pupil funding between FY2008 and FY2012. During this five-year period, the foundation level rose by $385, or 6.7%, from $5,734 to $6,119 per pupil.

State of Illinois General State Aid Foundation Level: FY2008 - FY2012 (Per Pupil)

	Foundation Level Per Pupil	$ Change from Prior Year	% Change from Prior Year	$ Change from FY2008	% Change from FY2008
FY2008	$ 5,734	-	-	-	-
FY2009	$ 5,959	$ 225	3.9%	$ 225	3.9%
FY2010	$ 6,119	$ 160	2.7%	$ 385	6.7%
FY2011	$ 6,119	$ -	0.0%	$ 385	6.7%
FY2012	$ 6,119	$ -	0.0%	$ 385	6.7%

Source: FY2009 Proposed Budget, p. 52; FY2010 Proposed Budget, p. 41; FY2011 Proposed Budget, p. 65; and FY2012 Proposed Budget, p. 35.

The GSA distribution to school districts is based on a number of factors, including local property tax capacity. The GSA distribution formula assumes that school districts will levy for all available local property taxes first before the State provides additional funding to reach the foundation level. Because the statewide appropriation is insufficient to pay for the foundation level this year, all CPS school districts will receive only 94.8% of their GSA. GSA revenue is estimated to decrease by $29.2 million, or 2.5%, as a result.[56]

The State will contribute only the statutory required contribution in Teacher Pension aid. This amount is approximately $10.4 million or $32.4 million less than the FY2011 year-end amount, which is a decline of 75.7%.

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[51] CPS FY2012 Proposed Budget, p. 36.
[52] CPS FY2012 Proposed Budget, p. 36.
[53] CPS FY2012 Proposed Budget, p. 38.
[54] CPS FY2012 Proposed Budget, p. 36.
[55] CPS FY2012 Proposed Budget, p. 308.
[56] CPS FY2012 Proposed Budget, p. 35.

Property Tax Levy and Revenue

CPS expects its FY2012 property tax revenues to total $2,089.9 million, an increase of $153.2 million, or 7.9%, from estimated FY2011 property tax revenues. The $153.2 million increase will result from a $108.0 million increase in the tax year 2010 extension, for which taxes are payable in calendar year 2011.[57] The **$108.0 million extension increase** is attributable to the following:

1. *A maximum use of levy authority under the Property Tax Extension Limitation Law ("tax caps").* CPS and other non-home rule taxing bodies in Cook County have been subject to the tax cap law since tax year 1994 (payable in 1995). In general, the tax cap law allows tax extensions on existing property to rise each year by the lesser of 5% or the increase in Consumer Price Index.[58] For levy year 2010, the tax cap law permits a 2.7% increase on existing property value for property tax funds subject to the law. This accounts for **$54 million** of the extension increase.[59] CPS has taxed to the legal maximum 12 out of the 17 years (including the proposed tax year 2010 levy) that the tax cap law has been in effect.[60]
2. *Levying taxes on new property.* The tax cap law allows the tax rate calculated on the value of existing property to also be applied to new property, thus generating additional revenue.[61] The District expects $500 million in new property taxable value for tax year 2010,[62] which would bring **$13 million** in additional property tax revenue.[63]
3. *Ending the Public Building Commission (PBC) property tax abatement.* The PBC is a governmental agency that sold bonds to fund CPS facility construction in 1989 and 1990. CPS is obligated to make lease payments to the PBC through 2020. At the time of the bond issuances, the schedule of required annual payments was delivered to the Cook County Clerk to be automatically levied every year.[64] The PBC fund is not subject to the tax cap law. In 1998, 2008, 2009 and 2010, CPS chose to abate (reduce the pre-scheduled levy of) the PBC fund levy in order to provide property tax relief to taxpayers while still maintaining its maximum tax authority for tax-capped funds.[65] In recent years,

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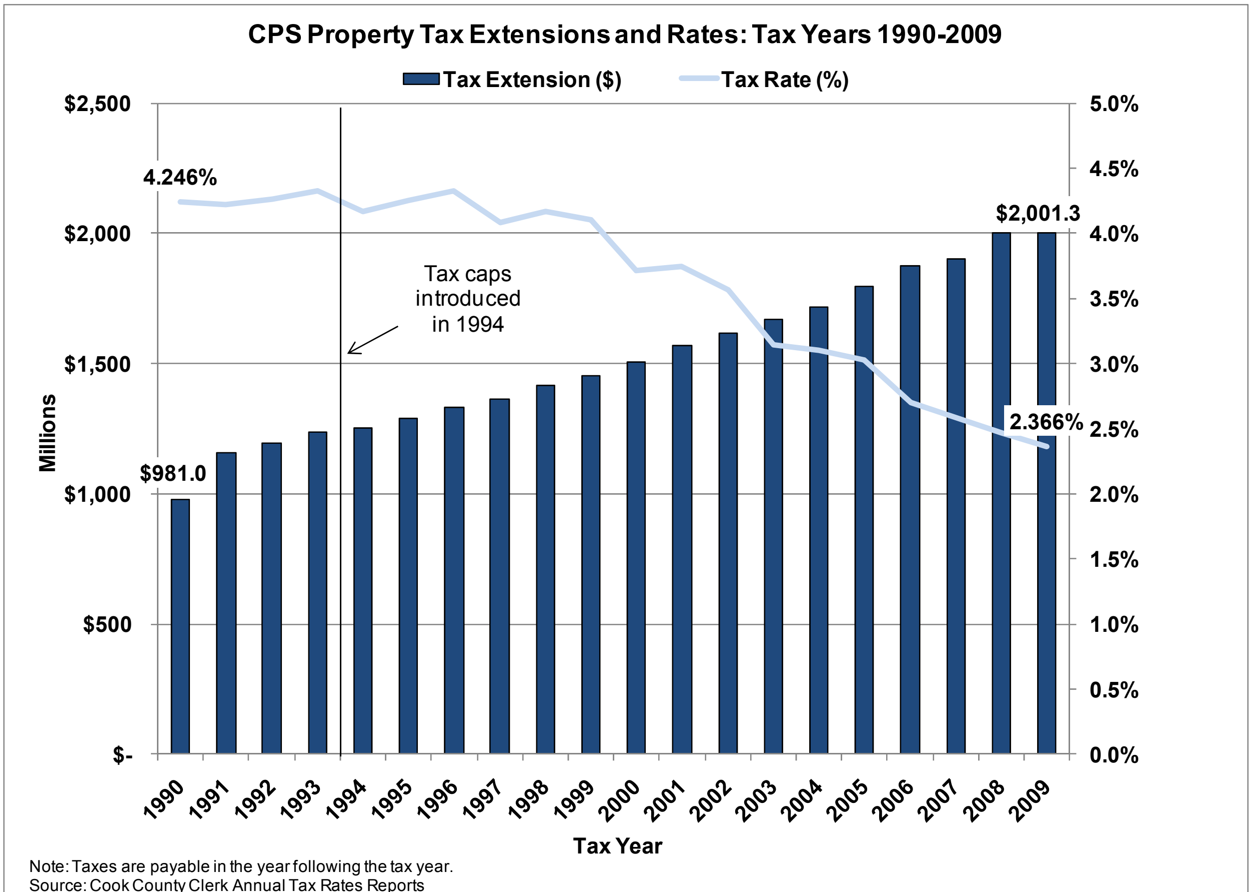
[57] CPS FY2012 Proposed Budget, p. 33. Pursuant to 105 ILCS 5/34-54.1, the Chicago Board of Education must file a tax year levy in December of the tax year, but the levy amount may be reduced through action of the CPS Comptroller after that date. The tax year 2010 levy reflecting an expected $108.0 million extension increase was filed in December 2010 and would not be reduced by the Comptroller under the FY2012 proposed budget.
[58] See the Civic Federation's *The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts* for detail on the tax cap law.
[59] CPS Property Tax Fact Sheet, August 8, 2011.
[60] CPS Property Tax Fact Sheet, August 8, 2011.
[61] The "new property" category technically includes that year's new property, annexed property, recovered TIF increment, expired incentives and subtracts disconnected property. See the Civic Federation's *The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts* for detail on the new property exception to the tax cap law.
[62] CPS FY2012 Proposed Budget, p. 34. In tax years 2009, 2008 and 2007 there was $1.1 billion, $3.4 billion and $0.9 billion, respectively, of new property available. Cook County Clerk Agency Tax Rate Reports. Some of these prior year amounts included expiring TIF districts. CPS does not expect any TIF districts to expire for tax year 2010. Information provided by CPS Budget Office, August 12, 2011.
[63] CPS Property Tax Fact Sheet, August 8, 2011.
[64] This is typical of property-tax backed bonds.
[65] CPS Property Tax Fact Sheet, August 8, 2011. If CPS had maintained the full PBC levy but instead reduced the levy on tax-capped funds, it would have lost some capacity to raise tax-capped funds again in the future.

CPS had levied approximately $11 million annually for the PBC, but was required to pay the PBC approximately $51 million according to the schedule. The difference between the levy and the payment came from other general revenues. For the FY2012 budget (tax year 2010 levy), CPS will resume collecting the full PBC payment obligation from property taxes, which represents roughly **$41 million** of the $108 million property tax levy increase.

The property tax levy is the amount requested by the District. By law, taxing districts do not request tax rates, but rather total dollar amount levies. The property tax extension is the amount of property tax revenue that the District is legally authorized to receive and is billed to taxpayers. The Cook County Clerk receives tax levy requests and calculates final tax rates and extensions for all taxing districts in Cook County.

The following graph illustrates the increase in CPS property tax extensions between tax year 1990 (payable in 1991) and tax year 2009 (payable in 2010) as well as the decrease in tax rates. The tax extension was $981.0 million in tax year 1990 and rose gradually to $2.0 billion in 2009. The CPS tax rate fell from 4.246% in tax year 1990 to 2.366% in 2009. The District's tax rate fell while its extension rose because taxable property value was growing much faster than extensions (rate = extension ÷ taxable value). The tax cap took effect in 1994, limiting the maximum growth in the levy. Prior to 1994, the District's tax extension was limited by a maximum rate for each property tax fund. The fund rate limits still exist but the tax cap law, not rate limits, has been the operative limit on CPS tax increases since 1994.[66] The limiting effect of the tax cap has also meant that since tax year 1994, tax increment financing has not diverted property tax revenue from CPS. CPS receives the full extension to which it is entitled by the tax cap law. The effect of TIF is to raise tax rates for all property taxpayers, not to divert revenue from local governments.[67]



The increase in property tax **revenue** received in FY2012 is expected to be nearly 50% higher than the increase in the tax year 2010 **extension** amount due primarily to the timing of property

66 See the Civic Federation's *The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts* for detail on rate limits and tax caps.

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

tax receipts. The tax year 2010 extension is paid by taxpayers in 2011 spring and fall installments. The spring installment is equal to 55% of the prior year's total tax bill.[68] The second (fall) installment includes the full year's tax extension minus the amount already paid in the spring; in other words, an extension increase for that tax year is borne by the second installment when new tax rates are computed. Furthermore, CPS assumes that 94% of first installment taxes owed are collected in the spring and 96.5% of annual taxes net of refunds are collected each year.[69] Finally, the CPS FY2012 fiscal year is July 1, 2011 through June 30, 2012, and thus will include second installment tax year 2010 receipts (payable fall of 2011) and first installment tax year 2011 receipts (payable spring of 2012, which are equal to 55% of the prior year's total tax bill). The interaction of these factors and assumptions results in an expected property tax revenue increase that is higher than the extension increase. However, the same interaction that produces this acceleration of revenue will also result in a property tax revenue decline for FY2013 if CPS does not again raise its levy by at least $40 million.[70]

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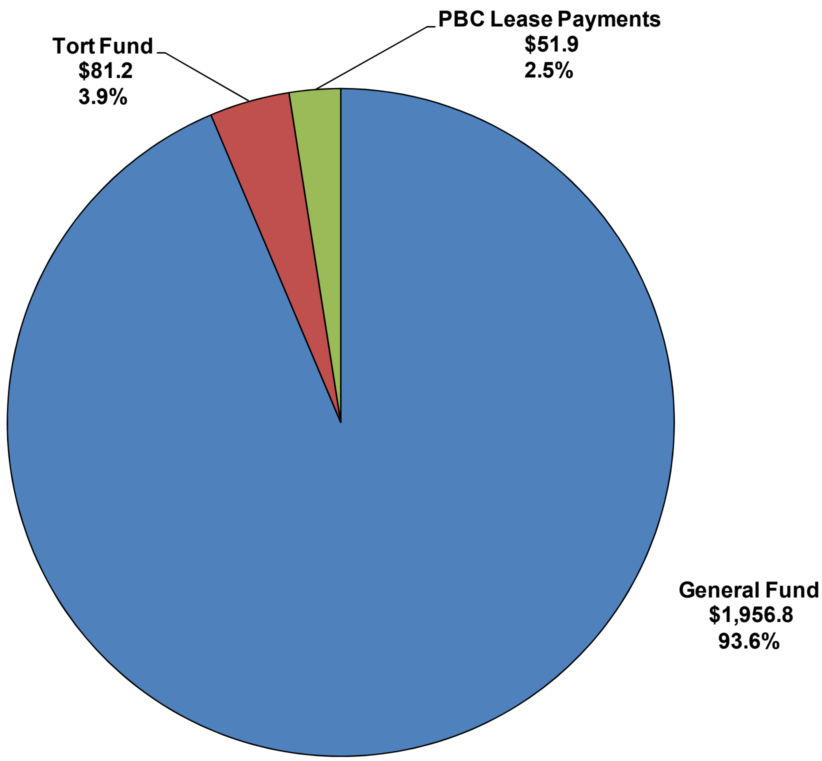
[68] P.A. 96-490 changed this amount from 50% to 55% of the prior years' tax bill for tax year 2009 (first installment due March of 2010) and thereafter. The rational for this change was that it would mitigate taxpayers' "sticker shock" resulting from tax increases that appear on second installment tax bills.

[69] Information provided by CPS Budget Office, August 9, 2011. Approximately 98% of the total annual extension is usually collected and retained over time. Information provided by CPS Budget Office, August 12, 2011.

[70] Projection based on Civic Federation calculation.

The following graph depicts the allocation of expected FY2012 property tax revenues among funds. Approximately 93.6%, or nearly $2.0 billion, is distributed to the General Fund to finance CPS operations. The second largest amount, $81.2 million, or 3.9%, is designated for the Workers and Unemployment Compensation Tort Immunity Fund, while $51.9 million, or 2.5%, of the revenues will be used for Public Building Commission lease payments.

Distribution of CPS FY2012 Property Tax Revenues: (in $ millions)



Source: CPS FY2012 Proposed Budget, p. 23.

The next exhibit presents CPS property tax revenues from FY1990 actual to FY2012 projected. Over that period, projected property tax revenues have risen by 148.1% or $1.2 billion, from $842.3 million, to $2.1 billion. Since FY1996, the first fiscal year that the tax cap law could limit CPS property tax revenues (tax year 1994 levy), the compound annual growth rate of revenues (through FY2012 estimate) has been 3.3%. The Consumer Price Index compound annual growth rate from 1996-2010 was 1.7%.[71]

CPS Property Tax Revenue: FY1990-FY2012 (in $ thousands)			
	Property Tax Revenue	$ Change from Previous Year	% Change from Previous Year
FY1990	$ 842,339	--	--
FY1991	$ 882,181	$ 39,842	4.7%
FY1992	$ 1,008,481	$ 126,300	14.3%
FY1993	$ 1,205,322	$ 196,841	19.5%
FY1994	$ 1,206,008	$ 686	0.1%
FY1995	$ 1,245,539	$ 39,531	3.3%
FY1996	$ 1,239,249	$ (6,290)	-0.5%
FY1997	$ 1,278,734	$ 39,485	3.2%
FY1998	$ 1,311,664	$ 32,930	2.6%
FY1999	$ 1,368,081	$ 56,417	4.3%
FY2000	$ 1,403,657	$ 35,576	2.6%
FY2001	$ 1,429,871	$ 26,214	1.9%
FY2002	$ 1,479,968	$ 50,097	3.5%
FY2003	$ 1,546,335	$ 66,367	4.5%
FY2004	$ 1,571,065	$ 24,730	1.6%
FY2005	$ 1,639,237	$ 68,172	4.3%
FY2006	$ 1,718,249	$ 79,012	4.8%
FY2007	$ 1,767,760	$ 49,511	2.9%
FY2008	$ 1,813,917	$ 46,157	2.6%
FY2009	$ 1,896,540	$ 82,623	4.6%
FY2010	$ 2,047,163	$ 150,623	7.9%
FY2011 (estimate)	$ 1,936,700	$ (110,463)	-5.4%
FY2012 (estimate)	$ 2,089,900	$ 153,200	7.9%

Source: CPS Comprehensive Annual Financial Report FY2010 pp. 98-99; CAFR FY1999 pp. 80-81; and CPS FY2012 Proposed Budget, p. 275.

PERSONNEL

Historically, this section presents an analysis of CPS personnel trends by location and type: administrative, school-based and capital fund. However, this information was not provided in the CPS FY2012 Proposed Budget, therefore an analysis of personnel trends by location could not be conducted.

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

Data outlining CPS administrative staffing levels itemized by administrative unit are included in this section. The analysis compares the proposed FY2012 personnel figures to the personnel figures for FY2011 and FY2008.

Central and Area Offices Staff by Unit

The following exhibit details full-time equivalent (FTE) positions within CPS Central and Area Offices by administrative unit. Between FY2008 and FY2012, some administrative units have been eliminated, created and/or have had name changes. For example, in FY2011 Administrative Unit 11375 was called "Extended Learning Opportunities." However, for FY2012 the unit's name is "Learning Supports." In FY2012 there will be a reduction of 25 FTE positions, a 2.0% decrease from the FY2011 final budget.

CPS Distribution of Central and Area Offices Personnel: FY2011 & FY2012 Full-Time Equivalent (FTE) Positions					
Administrative Unit	Administrative Unit Name	FY2011 Final	FY2012 Proposed	# Change	% Change
05251	Office of School Management	20	16	(4)	-20.0%
10110	Board of Education	15	15	0	0.0%
10210	Office of Law	74	76	2	2.7%
10320	Inspector General	17	17	0	0.0%
10410	Chief Executive Officer	8	8	0	0.0%
10430	Department of Audit Services	4	5	1	25.0%
10450	Intergovernmental Affairs	5	5	0	0.0%
10510	Office of Communications	12	9	(3)	-25.0%
10610	Office of School Safety and Security	39	45	6	15.4%
10710	Chief of Staff	11	8	(3)	-27.3%
10715	School Demographics and Planning	4	4	0	0.0%
10805	Data Program Management	5	6	1	20.0%
10810	Chief Education Officer	12	13	1	0.08%
10835	Office of Teaching & Learning	25	13	(12)	-48.0%
10850	*Student Support Models*	-	*11*	*11*	-
10860	Office of Humanities*	5	15	10	200.0%
10870	Office of Student Support and Engagement	7	5	(2)	-28.6%
10880	Academic Enhancement	8	8	0	0.0%
10890	Office of Arts Education	5	0	(5)	-100.0%
10910	LSC Relations	19	17	(2)	-10.5%
11010	Office of Human Capital	177	174	(3)	-1.7%
11110	Leadership Development and Support	7	6	(1)	-14.3%
11210	Office of Student Assessments	9	9	0	0.0%
11360	Early Childhood Development	12	16	4	33.3%
11375	Learning Supports*	13	9	(4)	-30.8%
11510	Office of Language and Cultural Education	14	14	0	-
11610	Office of Special Education & Supports	37	36	(1)	-2.7%
11860	Facility Operations & Maintenance	25	26	1	4.0%
11870	Student Transportation	1	18	17	1700.0%
11910	Real Estate	5	5	0	0.0%
12010	Nutrition Support Services	20	20	0	0.0%
12210	Office of Procurement and Contracts	27	25	(2)	-
12280	Business Diversity	4	3	(1)	-25.0%
12310	Chief Financial Officer*	4	2	(2)	-50.0%
12410	Corporate Accounting	38	38	0	0.0%
12430	Accounts Payable	12	12	0	0.0%
12440	Treasury	10	9	(1)	-10.0%
12510	Information & Technology Services	203	192	(11)	-5.4%
12610	Office of Management and Budget	44	41	(3)	-6.8%
12620	Office of Grants Management and Administration	36	31	(5)	-13.9%
13610	New School Development	21	17	(4)	-19.0%
13700	Reading & Language Arts	23	11	(12)	-52.2%
13710	Science Technology Engineering Mathematics (STEM)*	5	13	8	160.0%
13720	Supports for High Risk Populations*	8	11	3	37.5%
13725	Office of College and Career Preparation	50	50	0	0.0%
13730	Academic Initiatives*	6	8	2	33.3%
13735	Sports and Driver Education*	15	12	(3)	-20.0%
14010	Chief Administrative Officer	20	2	(18)	-90.0%
14040	External Affairs and Partnerships	13	13	0	0.0%
14060	*Family & Community Engagement*	-	*17*	*17*	-
15010	Business Service Center	35	34	(1)	-2.9%
16050	Office of Performance	43	37	(6)	-14.0%
Total		**1232**	**1207**	**(25)**	**-2.0%**

Note: This chart does not include school-based administrative positions or positions paid for out of the Capital Fund. Slight discrepancies between tabulations of FTE positions are caused by rounding.

Italics indicates newly created administrative unit.

* indicates administrative unit name change from FY2011.

Source: CPS Final Budget FY2011, p. 322-323; CPS Proposed Budget FY2012, p.230-231.

The chart above reflects a variety of restructuring in the FY2012 budget, including reduction and addition of staff members across several units. Between FY2011 and FY2012, 109 FTE positions will be eliminated and 84 FTE positions will be added. The administrative units that will experience the greatest reductions in staff levels include:

- Chief Administrative Officer, where FTEs will decline by 90%, or 18 employees – the most dramatic reduction of staff;
- Reading & Language Arts will decrease by more half, as its FTEs decline from 23 to 11, or 52.2%; and
- Chief Financial Officer will also decrease by 50% as it 2 of its current 4 positions are eliminated.

The units that will increase their staffing levels by the largest percentage amounts include:

- Student Transportation will grow significantly from 1 FTE to 18 FTEs, an increase of 1700%;
- Office of Humanities, previously called the Department of Libraries and Information Systems, will increase by 10 FTEs, or 188.5%; and
- Science Technology Engineering Mathematics (STEM), formally known as the Office of Mathematics, will increase by 8 FTEs, or 160%.

Two new units will be created from the FY2012 budget proposal: Family & Community Engagement and Student Support Models. These new units will employ 17 and 11 FTEs, respectively.

Central and Area Offices Staff by Unit Five-Year Trend

The following exhibit compares CPS' administrative unit staffing levels itemized by individual administrative unit for FY2008 and FY2012. Personnel in FY2012 will decrease by 245 FTE positions, or 16.6%, compared to actual FTE levels in FY2008. Between FY2008 and FY2012, 561 FTE positions will be eliminated and 317 FTE positions will be added.

Over the past five years, administrative units have undergone many changes. These changes include the elimination of 10 administrative units and the addition of 13 administrative units.

The units that will experience the greatest reductions in staff relative to FY2008 include:

- Office of Arts Education will reduce its staff by 100%, to 0 FTEs. In FY2008 the Office had 9 FTEs;
- Office of Student Assessment will decrease from 34 FTEs in FY2008 to 9 FTEs in FY2012, a 73.5% reduction; and
- Several offices will decrease staff by between 60% and 70%, including the Office of School Management (60.2%), LSC Relations (64.6%), Chief Administrative Officer (66.7%) and Reading & Language Arts (69.4%).

The units with increases in staffing relative to FY2008 staffing levels include:

- Student Transportation will increase by 1700% as the number of FTEs grows from 1 to 18, as previously described;
- School Demographics and Planning will experience a 300% increase as it adds 3 FTEs.
- Real Estate will add 4 FTEs, a 400% increase from its 1 FTE in FY2008; and
- Facility Operations and Maintenance will increase by 15 FTEs from its 11 FTEs in FY2008, or by 136.4%.

CPS Distribution of Central and Area Offices Personnel: FY2008 & FY2012 Full-Time Equivalent (FTE) Positions					
Administrative Unit	Administrative Unit Name	FY2008 Proposed	FY2012 Proposed	# Change	% Change
05251	Office of School Management*	40	16	(24)	-60.2%
10110	Board of Education	20	15	(5)	-25.0%
10210	Office of Law	79	76	(3)	-3.8%
10320	Inspector General	16	17	2	9.7%
10410	Chief Executive Officer	10	8	(2)	-20.0%
10420	Strategic Planning	6	-	(6)	-
10430	Department of Audit Services	3	5	2	66.7%
10440	Office of Autonomous Management and Performance School	2	-	(2)	-
10450	*Intergovernmental Affairs*	-	5	5	-
10510	Office of Communications	14	9	(5)	-35.7%
10610	Office of School Safety and Security	53	45	(8)	-15.1%
10710	Chief of Staff	8	8	0	0.0%
10715	School Demographics and Planning	1	4	3	300.0%
10805	*Data Program Management*	-	6	6	-
10810	Chief Education Officer	7	13	6	85.7%
10835	Office of Teaching & Learning*	24	13	(11)	-46.7%
10850	*Student Support Models*	-	11	11	-
10860	*Office of Humanities**	-	15	15	-
10870	*Office of Student Support and Engagement*	-	5	5	-
10880	Academic Enhancement	11	8	(3)	-27.3%
10890	Office of Arts Education*	9	0	(9)	-100.0%
10910	LSC Relations*	48	17	(31)	-64.6%
11110	Leadership Development and Support*	15	6	(9)	0.0%
11210	Office of Student Assessments*	34	9	(25)	-73.5%
11320	High School Programs	128	-	(128)	-
11360	Early Childhood Development	19	16	(3)	-15.8%
11375	Learning Supports*	17	9	(8)	-47.1%
11410	Department of Education to Careers	44	-	(44)	-
11510	Office of Language and Cultural Education*	44	14	(30)	0.0%
11610	Office of Special Education & Supports*	60	36	(24)	-40.0%
11710	Chief Operating Officer	5	-	(5)	-
11860	Facility Operations & Maintenance	11	26	15	136.4%
11870	Student Transportation	1	18	17	1700.0%
11910	Real Estate	1	5	4	400.0%
12010	Nutrition Support Services*	21	20	(1)	-4.8%
12210	Office of Procurement and Contracts*	47	25	(22)	0.0%
12280	Business Diversity	4	3	(1)	-14.3%
12310	Chief Financial Officer*	3	2	(1)	-33.3%
12410	Corporate Accounting*	61	38	(23)	-37.2%
12430	*Accounts Payable*	-	*12*	*12*	-
12440	Treasury	10	9	(1)	-10.0%
12510	Information & Technology Services	145	192	47	32.4%
12610	Office of Management and Budget	31	41	10	32.3%
12620	Office of Grants Management and Administration	22	31	9	40.9%
13610	New School Development	26	17	(9)	-34.6%
13700	Reading & Language Arts*	36	11	(25)	-69.4%
13710	Science Technology Engineering Mathematics (STEM)*	31	13	(18)	-58.6%
13720	*Supports for High Risk Populations**	-	11	11	-
13725	*Office of College and Career Preparation*	-	50	50	-
13730	*Academic Initiatives**	-	8	8	-
13735	*Sports and Driver Education**	-	12	12	-
13810	Principal Preparation and Development	10	-	(10)	-
14010	Chief Administrative Officer	6	2	(4)	-66.7%
14040	*External Affairs and Partnerships*	-	13	13	-
14060	*Family & Community Engagement*	-	*17*	*17*	-
15010	Business Service Center	37	34	(3)	-8.1%
16050	*Office of Performance*	-	37	37	-
Total		**1452**	**1207**	**(245)**	**-16.9%**

Notes: This chart does not include school-based administrative positions or positions paid for out of the Capital Fund.

Slight discrepancies between tabulations of FTE positions are caused by rounding.

Gray fill indicates administrative unit termination between FY2008 and FY2012.

Italics indicates administrative unit creation between FY2008 and FY2012.

* indicates administrative unit name change between FY2008 and FY2012.

Source: CPS Final Budget FY2008, p. 37-38; CPS Proposed Budget FY2012, p.230-231.

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

In FY2012 CPS personnel appropriations are expected to increase by $27.1 million, or 0.8%. Salaries, which constitute 75.7% of all employee compensation, will increase by 1.0% in FY2012. Benefit costs, which include pensions, hospitalization insurance, unemployment compensation and payroll tax contributions for Social Security and Medicare, will decrease by 0.4%. CPS expects to see 8% annual increases in healthcare costs (identified as Hospitalization/Other Comp. in table below) in years FY2012 through FY2015.[72] An increase of $700,000, or 0.2%, for healthcare costs is projected for FY2012.

CPS Personnel Appropriations by Type for General Operating Funds: FY2011 & FY2012 (in $ millions)					
Expenditure Type	**FY2011 Final Budget**	**FY2011 Year-End Estimate**	**FY2012 Proposed Budget**	**FY2011 Y-E to FY2012 $ Change**	**FY2011 Y-E to FY2012 % Change**
Teacher Salaries	$ 2,064.7	$ 2,019.9	$ 2,082.8	$ 18.1	0.9%
Ed. Support Salaries	$ 619.4	$ 618.1	$ 628.9	$ 9.5	1.5%
Total Salaries	**$ 2,684.1**	**$ 2,638.0**	**$ 2,711.6**	**$ 27.5**	**1.0%**
Other Employee Benefits					
Teacher Pension Employer Portion	-	$ 208.6	$ 210.3	$ 1.7	0.8%
Teacher Pension Pickup for Employee	-	$ 130.1	$ 129.1	$ (1.0)	-0.8%
Total Teacher Pension	**$ 337.2**	**$ 338.7**	**$ 339.3**	**$ 2.1**	**0.6%**
Ed. Support Pension Employer Portion	-	$ 58.2	$ 60.2	$ 2.0	3.4%
Ed. Support Pension Pickup for Employee	-	$ 38.6	$ 39.6	$ 1.0	2.7%
Total Ed. Support Pension	**$ 98.0**	**$ 96.9**	**$ 99.8**	**$ 2.9**	**1.8%**
Hospitalization/Other Comp.	$ 347.7	$ 355.9	$ 348.4	$ (7.5)	0.2%
Unemployment Compensation	$ 23.9	$ 21.5	$ 16.8	$ (4.7)	-29.5%
Medicare/Social Security	$ 37.1	$ 35.6	$ 37.6	$ 2.0	1.5%
Workers Compensation	$ 28.6	$ 25.7	$ 30.0	$ 4.3	5.1%
Total Employee Benefits	**$ 872.4**	**$ 874.30**	**$ 872.0**	**$ (2.3)**	**0.0%**
Total Compensation	**$ 3,556.5**	**$ 3,947.9**	**$ 3,583.6**	**$ (364.3)**	**0.8%**

Note: FY2011 Year-End data presented does not reflect $32.0 million adjustment made to Chicago Teachers' Pension Fund under the title of retiree health insurance. These funds are accounted for under Hopsital and Dental Insurance.

Sources: CPS FY2011 Final Budget, p. 40; CPS FY2012 Proposed Budget, p. 25; email communication between the Civic Federation and CPS, August 14, 2011; and information provided by CPS, August 17, 2011.

[72] CPS FY2012 Proposed Budget, p. 9.

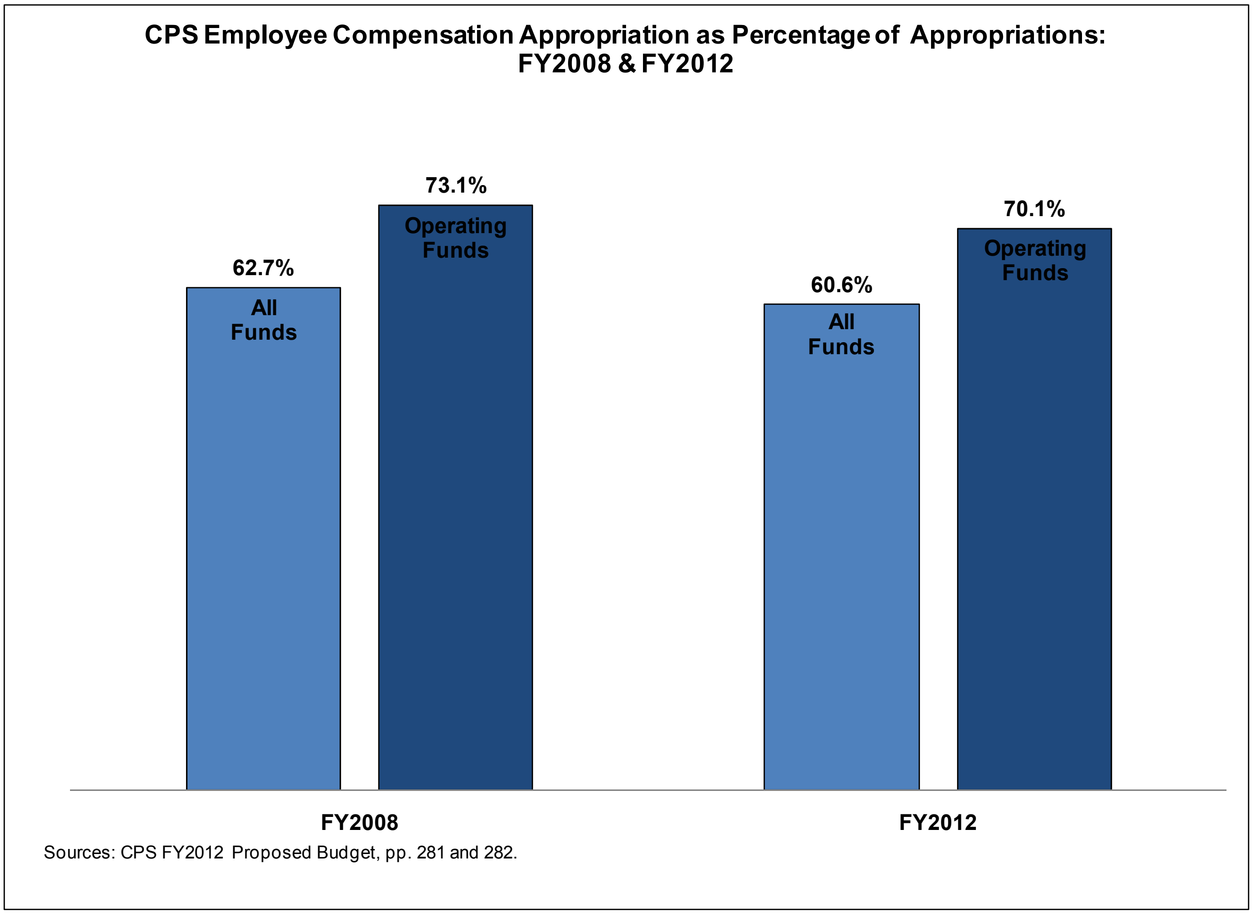
Over a five-year period, from FY2008 to FY2012, the total compensation costs CPS pays for out of its General Operating Funds are expected to rise by $169.2 million, or 5.0%. Salaries will increase by 5.4%, from approximately $2.6 billion to $2.7 billion. Benefits will increase by a slightly slower rate at 3.7%, or $31.1 million.

CPS Personnel Appropriations by Type for General Operating Funds: FY2008 & FY2012 (in $ millions)

Expenditure Type	FY2008 Actual	FY2012 Proposed	$ Change	% Change
Teacher Salaries	1,885.4	$ 2,082.8	$ 197.4	10.5%
Non-Teacher Salaries	559.7	$ 628.9	$ 69.2	12.4%
Total Salaries	**2,445.1**	**$ 2,711.6**	**$ 266.5**	**10.9%**
Other Employee Benefits				
Teacher Pension Employer Portion	231.8	$ 210.3	$ (21.5)	-9.3%
Teacher Pension Pickup for Employee	117.0	$ 129.1	$ 12.1	10.3%
Total Teacher Pension	**349.3**	**$ 339.3**	**$ (10.0)**	**-2.9%**
Ed. Support Pension Employer Portion	55.5	$ 39.6	$ (15.9)	-28.6%
Ed. Support Pension Pickup for Employee	35.7	$ 60.2	$ 24.5	68.5%
Total Ed. Support Pension	**89.7**	**$ 99.8**	**$ 10.1**	**11.3%**
Hospitalization/Other Comp.	260.4	$ 348.4	$ 88.0	33.8%
Unemployment Compensation	5.8	$ 16.8	$ 11.0	190.1%
Medicare/Social Security	31.1	$ 37.6	$ 6.5	21.0%
Workers Compensation	29.8	$ 30.0	$ 0.2	0.8%
Total Employee Benefits	**766.1**	**$ 872.0**	**$ 105.9**	**13.8%**
Total Compensation	**$ 3,211.2**	**$ 3,583.6**	**$ 372.4**	**11.6%**

Sources: CPS FY2012 Proposed Budget, pp. 25 and 282 and email communication between the Civic Federation and CPS, August 14, 2011.

The next exhibit compares the percentage of CPS appropriations earmarked for employee compensation in FY2008 versus FY2012. The percentage of all funds appropriations dedicated to personnel has declined from 62.7% to 60.6% over the last five years, and the percentage of operating funds appropriations earmarked for personnel expenditures has decreased from 73.1% to 70.1%. This reduction in personnel costs may be a result of a transfer of expenditures from CPS employee appropriations to appropriations for Professional and Contractual Services and Tuition, which help to fund the growing charter and contract schools.



ENROLLMENT

CPS is projecting a slight increase in overall student enrollment across the system for fall 2011. According to the FY2012 budget, actual fall 2010 enrollment reached 402,681 students. The estimated enrollment for fall 2011 is 407,000 students, resulting in a projected increase of 4,319 students, or 1.1%.

CPS Student Actual and Projected Enrollment: Fall 2011 - Fall 2012			
Actual Fall 2011	Projected Fall 2012	# Change	% Change
402,681	407,000	4,319	1.1%

Source: CPS FY2012 Proposed Budget, p. 253.

As the following exhibit indicates, total actual enrollment rose by 1,324 students between fall 2007 and fall 2008. It then dropped by 708 students between school years 2008 to 2009 and even more significantly, by 5,890 students, between the 2009 and 2010 school years. Based on fall 2011 enrollment projections, actual enrollment is estimated to drop by 955 students, or 0.2%, compared to fall 2007 actual enrollment data. Enrollment for preschool and high school students is expected to increase while enrollment for elementary students is projected to decrease by 2,092 students, or 0.8%. Reasons for the reduction in student enrollment may include transfers of students between public and nonpublic schools, public perception of school reform initiatives or changes in birth rates and migration rates or in policies affecting grade progression, retention and graduation rates.[73]

CPS Actual and Projected Student Enrollment: Fall 2008 - Fall 2012							
	Actual Fall 2008	Actual Fall 2009	Actual Fall 2010	Actual Fall 2011	Projected Fall 2012	2008 to 2012 # Change	2008 to 2012 % Change
Preschool	23,325	24,370	24,247	23,705	23,832	507	2.2%
Elementary, K-8	271,464	269,139	269,010	265,336	269,372	(2,092)	-0.8%
High School	113,166	115,770	115,314	113,640	113,796	630	0.6%
Total	**407,955**	**409,279**	**408,571**	**402,681**	**407,000**	**(955)**	**-0.2%**

Source: CPS FY2012 Proposed Budget, p. 253 and 255.

FUND BALANCE

This year CPS is proposing to use $181.3 million of the General Fund fund balance as part of its plan to balance the budget.[74] The District additionally plans to use $59.8 million of restricted fund balance for a total of $241.1 million in reserves. This section discusses five aspects of fund balance: fund balance policy and definitions, a presentation of historical audited data, budgeted data, an analysis of General Operating Funds budget to actual variances and a brief discussion of the District's use of a line of credit for contingencies in FY2011.

Fund Balance Policy and Definitions

Fund balance is a term commonly used to describe the net assets of a governmental fund and serves as a measure of financial resources.[75] However, a variety of external and internal constraints may prevent portions of the fund balance from being available for budgeting. The *unreserved* fund balance refers to resources that do not have any external legal restrictions or constraints. The unreserved fund balance can be further categorized as designated and undesignated. A *designation* is a limitation placed on the use of the fund balance by the government itself for planning purposes or to earmark funds.[76]

CPS took the prudent step of adopting a fund balance policy in FY2008. As noted in the policy, the goals of maintaining an adequate fund balance are to provide working capital, for the District to ensure uninterrupted services, to provide for capital improvements and to achieve a balanced budget within a four-year period. The policy requires the District to maintain an unreserved, designated fund balance in the operating and debt funds of 5% to 10% of the budget for each new fiscal year. Once that stabilization is adequately established, any excess fund balance can be appropriated under certain circumstances, including to offset a temporary reduction in revenues from local, state and federal sources.[77]

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[73] CPS FY2012 Proposed Budget, p. 255.
[74] CPS FY2012 Proposed Budget, p. 14.
[75] GFOA, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).
[76]Gauthier, Steven, "Fund Balance: New and Improved," Government Finance Review, April 2009.
[77] Chicago Public Schools Policy Manual, Fund Balance and Budget Management Policy (Adopted August 2008) CPS FY2012 Proposed Budget, p. 297.

The Government Finance Officers Association (GFOA) recommends "at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures." Two months of operating expenditures is approximately 17%. The GFOA statement adds that each unit of government should adopt a formal policy that considers the unit's own specific circumstances and that a smaller fund balance ratio may be appropriate for the largest governments.[78] Considering the large size of the District compared to other governments their fund balance policy appears reasonable.

Audited Fund Balance

The first chart includes only the undesignated unreserved fund balance to determine the portion of the fund balance without any constraints. This analysis differs from the CPS fund balance policy which includes unreserved balances. Between FY2006 and FY2007, the CPS General Operating Fund unreserved undesignated fund balance increased from 2.2% to 4.1% of expenditures. [79] The ratio remained steady in FY2008 at 4.0%. In 2009, the fund balance ratio decreased significantly to 2.7% due to an increase in general fund expenditures and a drawdown of fund balance. In FY2010, the fund balance ratio rose again to 4.1%.

CPS Unreserved, Undesignated General Operating Fund Balance Ratio: FY2006-FY2010

	General Operating Fund Balance	General Fund Expenditures	Ratio
FY2006	$ 89,320,000	$ 4,085,093,000	2.2%
FY2007	$ 171,643,000	$ 4,146,369,000	4.1%
FY2008	$ 174,391,000	$ 4,394,685,000	4.0%
FY2009	$ 130,222,000	$ 4,742,779,000	2.7%
FY2010	$ 198,461,000	$ 4,896,142,000	4.1%

Sources: CPS Comprehensive Annual Financial Reports FY2006-FY2010.

The CPS fund balance policy refers specifically to the unreserved designated general operating fund balance as a ratio of operating and debt service budgets. This fund balance ratio remained relatively stable and within the policy's range from 5.1% in FY2006 to 5.5% in FY2008. The ratio declined in FY2009 to 3.6% and to 0% in FY2010. CPS attributes the decline in the stabilization fund to the State of Illinois' delay in payments of $236 million.[80]

[78] GFOA, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).
[79] The General Operating Fund and General Fund both refer to the CPS primary operating fund. The audit uses the term General Operating Fund while the budget uses General Fund.
[80] CPS Comprehensive Annual Financial Report FY2010, pp. 11 and 13.

CPS Unreserved, Designated General Operating Fund Fund Balance Ratio: FY2006-FY2010			
	General Operating Fund Balance	Operating and Debt Service Expenditures	Ratio
FY2006	$ 218,400,000	$ 4,298,325,000	5.1%
FY2007	$ 233,200,000	$ 4,487,279,000	5.2%
FY2008	$ 258,000,000	$ 4,655,123,000	5.5%
FY2009	$ 181,200,000	$ 5,043,948,000	3.6%
FY2010	$ -	$ 5,280,029,000	0.0%

Source: CPS Comprehensive Annual Financial Report FY2006-FY2010.

The Debt Service Fund fund balance is not included in the chart above because it is included in a separate section of the fund balance policy and does not have a specific ratio attached to it. CPS has long planned that the majority of this fund balance would be utilized for Qualified Zone Academy Bonds (QZAB) debt service because they become due in non-uniform increments and are difficult to match to recurring revenue.[81] The interest-free QZABs have 15-year maturities with no annual debt service payment required other than paying off the principal at maturity for these bonds.

As of the FY2010 year-end audit, there was $124.6 million in Debt Service fund balance. The estimated balance at the end of FY2011 is $219.8 million and CPS estimates the fund balance to remain the same for FY2012.[82]

Budgeted Fund Balance

The CPS FY2011 budget anticipated the full use of all of its appropriable fund balance to close its deficit. Throughout FY2011 a number of measures helped to restore the fund balance, including:

- Expenditures were monitored and grant revenues were maximized for an additional $91.8 million in the General Fund;
- Existing debt was refinanced for $174.1 million of savings to the General Fund;
- The General Fund received $123.4 million of one-time TIF surplus from the City of Chicago;
- A statewide tax-amnesty program generated $35.5 million of additional Personal Property Replacement Tax revenues; and
- State block grant payments were estimated at $176.1 million or three months at the end of FY2011.[83]

As a result, CPS projects the General Fund fund balance at the beginning of FY2012 to be $470.3 million. The District proposes to use $181.3 million of the balance to close the FY2012 budget deficit, leaving approximately $289.0 million in the fund balance. This would be 5.9% of General Operating appropriations and would meet the District's policy. However, continued use of fund balance in future years will quickly deplete it. Use of fund balance will not be a viable

[81] Communication between Civic Federation and CPS, August 17, 2010.
[82] CPS FY2012 Proposed Budget, p. 14.
[83] CPS FY2012 Proposed Budget, pp. 13-14.

option for closing the District's projected FY2013 budget gap of $326.8 million or its projected FY2014 gap of $861.7 million.[84]

General Operating Fund Budget to Actual Variances: FY2006-FY2010

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

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

2) **Revenues in Excess of (Less Than) Expenditures**: This indicates the difference was between 1) final appropriation revenues versus expenditures and 2) actual revenues versus expenditures. A negative number indicates that revenues were insufficient to meet expenditures and that other financing resources and/or fund balance was used to meet expenditures. A positive number indicates that revenues were sufficient to meet the fiscal year expenditures.

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

The exhibit below shows CPS General Operating Fund budget to actual variances between FY2006 and FY2010. For each of the five years, the final appropriation expenditures exceeded revenues, meaning that the District had budgeted some other resource such as fund balance to make up the difference. In FY2006 through FY2008, CPS was actually able to finish the year with expenditures less than revenues—a positive outcome. It accomplished this primarily by reducing actual spending from the originally appropriated amount. The variance between the original expenditure appropriations to the amount actually spent ranged from -2.9%, or a reduction of $121.9 million, in FY2006 to -5.5%, or a reduction of $253.6 million, in FY2008. There also were small increases in revenue collections above original appropriations in FY2006 and FY2008 that helped to close the gap.

In FY2009 and FY2010 the situation changed. CPS continued to spend less than was originally appropriated but revenues actually collected were much less than originally appropriated,

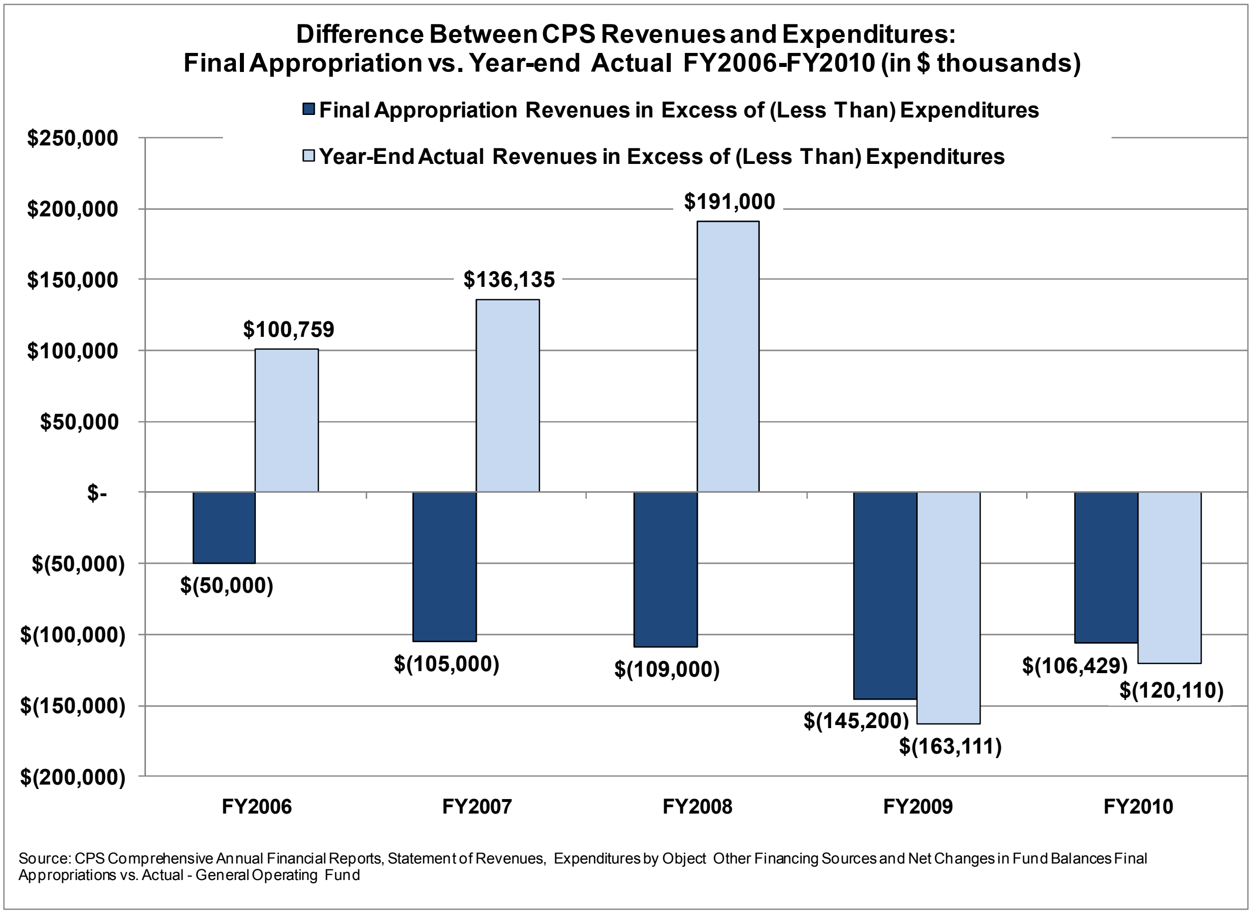
[84] Projected budget deficits can be found in the CPS FY2012 Proposed Budget, p. 9.

reflecting reductions in federal aid, reductions and slow payment of State source revenues and the impact of slow economic growth on Personal Property Replacement Tax receipts and investment returns. In FY2009, actual revenues were $130.0 million, or 2.8%, less than appropriated. The next year, revenues were $445.4 million, or 8.5%, less than appropriated. Spending in these years was reduced as before, but the District still ended fiscal years 2009 and 2010 having spent $163.1 million and $120.1 million more, respectively, than it received in revenues. During those years the District used non-revenue resources, primarily fund balance, to meet expenditures. In effect, CPS drew down its "savings account" or "rainy day" fund to pay for its spending obligations. This strategy is not sustainable in the long-term as fund balance is depleted.

CPS Budget to Actual Variances: FY2006-FY2010 (in $ thousands)				
FY2006	**Final Appropriation**	**Year-end Actual**	**Variance: Final Appropriation to Actual**	**% Variance**
Revenues	$ 4,157,000	$ 4,185,852	$ 28,852	0.7%
Expenditures	$ 4,207,000	$ 4,085,093	$ (121,907)	-2.9%
Revenues in Excess of or (Less Than) Expenditures	$ (50,000)	$ 100,759	$ 150,759	
FY2007	**Final Appropriation**	**Year-end Actual**	**Variance: Final Appropriation to Actual**	**% Variance**
Revenues	$ 4,300,722	$ 4,282,504	$ (18,218)	-0.4%
Expenditures	$ 4,405,722	$ 4,146,369	$ (259,353)	-5.9%
Revenues in Excess of or (Less Than) Expenditures	$ (105,000)	$ 136,135	$ 241,135	
FY2008	**Final Appropriation**	**Year-end Actual**	**Variance: Final Appropriation to Actual**	**% Variance**
Revenues	$ 4,539,256	$ 4,585,685	$ 46,429	1.0%
Expenditures	$ 4,648,256	$ 4,394,685	$ (253,571)	-5.5%
Revenues in Excess of or (Less Than) Expenditures	$ (109,000)	$ 191,000	$ 300,000	
FY2009	**Final Appropriation**	**Year-end Actual**	**Variance: Final Appropriation to Actual**	**% Variance**
Revenues	$ 4,709,721	$ 4,579,668	$ (130,053)	-2.8%
Expenditures	$ 4,854,921	$ 4,742,779	$ (112,142)	-2.3%
Revenues in Excess of or (Less Than) Expenditures	$ (145,200)	$ (163,111)	$ (17,911)	
FY2010	**Final Appropriation**	**Year-end Actual**	**Variance: Final Appropriation to Actual**	**% Variance**
Revenues	$ 5,221,442	$ 4,776,032	$ (445,410)	-8.5%
Expenditures	$ 5,327,871	$ 4,896,142	$ (431,729)	-8.1%
Revenues in Excess of or (Less Than) Expenditures	$ (106,429)	$ (120,110)	$ (13,681)	

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

The next exhibit graphically displays the difference described above between CPS revenues and expenditures from FY2006 through FY2010. In FY2009 and FY2010, end of year losses were greater than anticipated due to insufficient revenues, despite efforts made by the District to reduce spending. In those years, meeting actual expenditures required relatively large infusions of fund balance resources.



FY2011 Line of Credit

The absence of adequate fund balance can cause a number of challenges and risks for a government, including cash flow issues. In order to address possible cash flow problems in FY2011, CPS employed a bank line of credit. On June 15, 2010 the Board of Education authorized the issuance of a note and obligations including a line of credit with a bank in an amount not to exceed $800 million.[85] In the fall of 2010 cash flow problems resulted from delayed State payments and delayed property tax collections. CPS implemented a $500 million line of credit from October 2010 through March 2011. It borrowed $75 million in November from the line of credit in order to meet payroll expenses. The District paid $542,000 in order to establish and access the line of credit.[86]

It is understandable that there would be a temporary deviation from the 5% fund balance target during a time of fiscal stress and revenue delays. However, a budget that utilizes a significant amount of its fund balance for consecutive years is unsustainable.

[85] Resolution 10-0615-RS3, June 15, 2010.
[86] Information provided by CPS Budget Office, August 12, 2011.

MUNICIPAL EMPLOYEES' PENSION FUND

Eligible non-teaching employees of CPS participate in the City of Chicago's Municipal Employees' Annuity and Benefit Fund.[87] Approximately 16,481, or 52.2%, of the 31,586 active Municipal Fund members are CPS employees.[88]

The employer contribution for CPS employees participating in the Municipal Fund is made by the City of Chicago, not by CPS. The City makes the Municipal Fund employer contribution through its property tax levy and personal property replacement tax revenues (PPRT).[89] The City's FY2011 contribution to the Fund on behalf of CPS employees is expected to be $60.4 million; CPS will reimburse the City for $7.5 million of this amount for the employer pick-up of employees funded by federal grants.[90] CPS estimates that the FY2012 Municipal Fund contribution from the City (recorded as revenue) will be $49.7 million.[91]

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

TEACHERS' PENSION FUND

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

The fiscal year of the Teachers' Pension Fund begins on July 1 and ends on June 30, as does the fiscal year of CPS. The most recent data available is for FY2010, which ended on June 30, 2010.

Plan Description

The Public School Teachers' Pension and Retirement Fund of Chicago is a cost-sharing multiple-employer defined benefit pension plan created by the Illinois legislature in 1895 to provide retirement, death and disability benefits for teachers and employees of the Fund. Members include certified teachers at the Chicago Public Schools and charter schools.[92] Plan benefits and contributions can only be amended through state legislation.[93]

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[87] 40 ILCS 5/8-110

[88] Chicago Public Schools, *Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010*, p. 73.

[89] City of Chicago FY2011 Budget, Overview and Revenue Estimates, p. 112.

[90] City of Chicago Annual Financial Analysis 2011, p. 53. This amount is for the City's fiscal year, which is January 1 to December 31. See page 63 of this report for more on the employer pick-up. Information provided by CPS Budget Office, August 12, 2011.

[91] Chicago Public Schools FY2012 Proposed Budget, p. 34. This amount is for the CPS fiscal year, which is July 1 to June 30.

[92] Chicago Teachers' Pension Fund, *114th Comprehensive Annual Financial Report for the Year Ended June 30, 2009*, p. 26.

[93] The Chicago Teachers' Pension Fund statute is 40 ILCS 5/17 but the fund is also governed by other parts of the pension code such as 40 ILCS 5/1-160, which defines the changes to benefits for new employees enacted in P.A. 96-0889.

The fund is governed by a twelve-member Board of Trustees. As prescribed in state statute, six trustees are elected by the teacher members, three are elected by the annuitants, one is elected by the principal and administrator members and two are appointed by the Chicago Board of Education.

Members of the Chicago Teachers' Pension Fund do not participate in the federal Social Security system.

Membership

In FY2010, the Teachers' Pension Fund had 58,583 members, including 24,600 retirees and beneficiaries receiving benefits and 33,983 active employee members. In the ten years since FY2001, the number of retirees and beneficiaries receiving benefits increased by 42.2%, or 7,302, and grew each year. In contrast, the number of active employee members declined by 9.7%, or 3,665 members, over the same period, having generally declined until FY2009 and then increased by over 2,000 teachers in FY2010. The ratio of active employees to beneficiaries fell from 2.18 in FY2001 to 1.32 in FY2009 before rising slightly to 1.38 in FY2010. A decline in the ratio of active employees to retirees can create fiscal stress for the fund because it means there are less employee contributions and more annuity payments.

CPS Teachers' Pension Fund Membership: FY2001 - FY2010

Fiscal Year	Retirees & Beneficiaries Receiving Benefits	Active Employee Members	Total	Ratio of Active to Beneficiary
FY2001	17,298	37,648	54,946	2.18
FY2002	17,867	37,374	55,241	2.09
FY2003	18,565	36,548	55,113	1.97
FY2004	19,266	37,362	56,628	1.94
FY2005	20,954	37,521	58,475	1.79
FY2006	22,105	34,682	56,787	1.57
FY2007	23,623	32,968	56,591	1.40
FY2008	23,920	32,086	56,006	1.34
FY2009	24,218	31,905	56,123	1.32
FY2010	24,600	33,983	58,583	1.38

Note: Excludes terminated members entitled to benefits but not yet receiving them.
Sources: Chicago Teachers' Pension Fund Actuarial Valuations

Summary of Key Teachers' Pension Fund Benefits

In April 2010, Illinois enacted P.A. 96-0889, which created a reduced level of pension benefits for employees hired on or after January 1, 2011 and granted a temporary pension contribution reduction to CPS.[94]

The following table lists major benefits for members hired before and after January 1, 2011. Major changes for new hires are the increase in full retirement age to 67 and early retirement age to 62; the reduction of final average salary from the highest 4-year average to the highest 8-year average; the $106,800 cap on pensionable salary; and the reduction of the automatic annuity

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

increase from 3% compounded to the lesser of 3% or one half of the increase in Consumer Price Index not compounded.

Major Chicago Teachers' Pension Fund Benefit Provisions		
	Employees hired before 1/1/2011	**Employees hired on or after 1/1/2011**
Full Retirement Eligibility: Age & Service	age 55 with 34 years of service; age 60 with 20 years of service; age 62 with 5 years of service	age 67 with 10 years of service
Early Retirement Eligibility: Age & Service	age 55 with 20 years of service	age 62 with 10 years of service
Final Average Salary	highest average monthly salary for any 48 consecutive months within the last 10 years of service	highest average monthly salary for any 96 consecutive months within the last 10 years of service; pensionable salary capped at $106,800*
Annuity Formula	2.2% of final average salary for each year of service**	
Early Retirement Formula Reduction	0.5% per month under age 60	0.5% per month under age 67
Maximum Annuity	75% of final average salary	
Annuity Automatic COLA on Retiree or Surviving Spouse Annuity	3% compounded; begins at anniversary date of retirement or 61st birthday, whichever is later	lesser of 3% or one-half of the annual increase in CPI-U, not compounded; begins at the later of age 67 or the first anniversary of retirement

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

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

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

Sources: Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation as of June 30, 2010, pp.22-25; 40 ILCS 5/9; Public Act 96-0889; and Public Act 96-1490.

Pension Contributions

The Teachers' Pension Fund is funded through a combination of State, CPS and employee contributions as described below.

Employer Contributions

The state statutes governing the Chicago Teachers' Pension Fund require employer contributions when the fund falls below a 90% funded ratio. As described on the following pages, relatively small amounts are required from the State and from CPS pursuant to benefit enhancements enacted in P.A. 90-582. Much larger contributions are required by CPS pursuant to P.A. 89-15 and P.A. 96-0889 in order to bring the fund up to a 90% funded ratio over a 50-year period.

State Appropriations: The State of Illinois has traditionally contributed roughly $65 million each year to the Chicago Teachers' Pension Fund pursuant to 40 ILCS 5/17-127 which declares the General Assembly's "goal and intention" to contribute an amount equivalent to 20% or 30% of the contribution it makes to the downstate Teachers Retirement System.[95] A $65 million

[95] The downstate Teachers Retirement System covers all public school teachers in Illinois except those in the Chicago Public Schools.

contribution is actually much less than the 20% or 30% intention stated in the statute, however. According to the Illinois General Assembly's Commission on Government Forecasting and Accountability, 20% of the FY2012 state contribution to TRS would be $481.3 million.[96]

In FY2010 and FY2011 the State reduced its typical $65 million contribution by 50% to $32.5 million.[97] In FY2011 that same amount was designated for retiree health care costs paid out of the fund, so it was not considered to be part of the employer contribution.[98] For FY2012 the State is eliminating this appropriation completely. The only State support for the Chicago Teachers' Pension Fund will be the small contribution pursuant to P.A. 90-582, described below.

Additional State Appropriations: The State must make additional contributions of 0.544% of teacher 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%. The required additional State contribution for FY2012 is $11.0 million.[99]

Additional CPS Contribution: CPS must make additional contributions of 0.58% of teacher payroll to offset a portion of the cost of benefit increases enacted under P.A. 90-582. No additional contributions are required if the funded ratio is at least 90%. The required additional CPS contribution for FY2012 is $11.7 million.[100]

CPS Required Contribution: Under the funding plan established by P.A. 89-15, the minimum contribution to the Teachers' Pension Fund was previously an amount needed to bring the total assets of the Fund up to 90% of the total actuarial liabilities by the end of FY2045. P.A. 96-0889 revised the employer contributions required under P.A. 89-15, reducing CPS' required employer pension contribution for FY2011, FY2012 and FY2013 to an amount estimated to be equivalent to the normal cost.[101] Prior to the passage of P.A. 96-0889, the CPS required contribution for FY2011 was calculated to be $586.9 million, or almost double the FY2010 amount. P.A. 96-0889 reduced the District's required FY2011 contribution to $187.0 million, which was $120.5 million, or 39.2%, less than the prior year contribution.[102] When the Act was signed in April 2010, it reduced the District's projected $1 billion FY2011 deficit to a $600 million deficit.

P.A. 96-0889 also delayed the year that the pension fund must reach a 90% funded ratio from 2045 to 2060. Beginning with FY2014, the total required employer contribution will be calculated as a level percentage of payroll through FY2059. The CPS required contribution will be the total amount of the required employer contribution less additional state appropriations, additional CPS appropriations and other employer appropriations.

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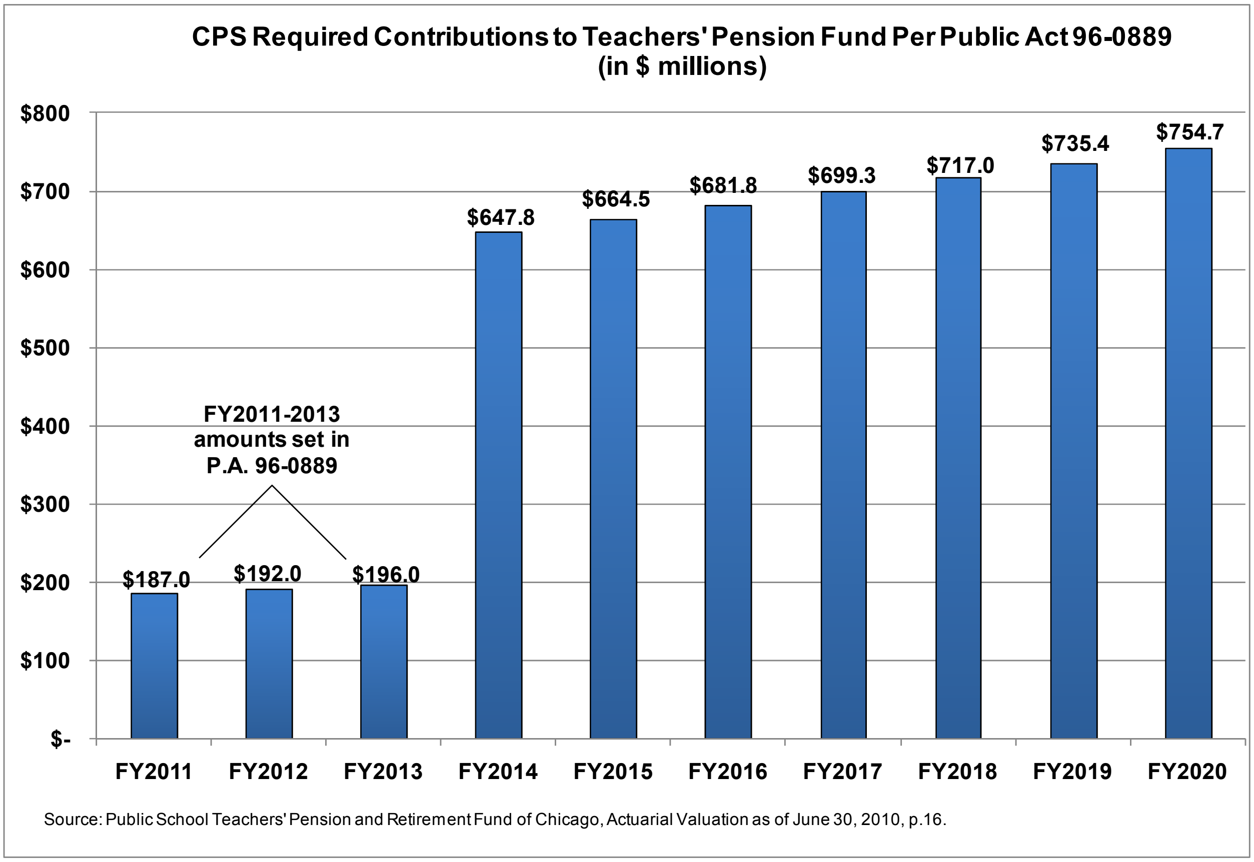
[96] Commission on Government Forecasting and Accountability, Fiscal Impact Note for HB 1544 in the 97th General Assembly, February 22, 2011.
[97] State of Illinois Budget, FY2012, p. 6-8.
[98] Information provided by CPS Budget Office, August 17, 2010.
[99] Public School Teachers' Pension and Retirement Fund of Chicago Actuarial Valuation as of June 30, 2010, p. 10.
[100] Public School Teachers' Pension and Retirement Fund of Chicago Actuarial Valuation as of June 30, 2010, p. 11.
[101] "Normal cost" is an actuarially-calculated amount representing that portion of the present value of pension plan benefits and administrative expenses which is allocated to a given valuation year.
[102] Actuarial projection by Goldstein & Associates for Kevin Huber, Executive Director of the Public School Teachers' Pension and Retirement Fund of Chicago, March 31, 2010.

The exhibit below shows actuarial projections of required CPS contributions to the Teachers' Pension Fund from FY2011 to FY2020 based on P.A. 96-0889. As noted above, the FY2011, FY2012 and FY2013 amounts were fixed in state statute, but in FY2014 the required contribution will be actuarially determined as the schedule to reach 90% funded by 2060 begins. The projected FY2014 contribution more than triples from the previous year, growing by $451.8 million from $196.0 million in FY2013 to $647.8 million in FY2014. The required employer contribution will be recalculated each year based on the fund experience.



Employee Contributions

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

CPS "picks up" 7% of the 9% annual employee pension contribution, meaning it pays 7% of the employee 9% contribution on behalf of teachers.[103] The District's FY2012 cost for the 7% employee pick-up is approximately $146 million and is part of the District's budgeted pension appropriation.[104]

[103] CPS FY2012 Proposed Budget, p. 235.

[104] CPS FY2012 Proposed Budget, p. 235. CPS also "picks up" 7% of employee contributions to the Chicago Municipal Fund for eligible non-teacher employees. Information provided by CPS Budget Office, August 17, 2010.

Pension Fund Indicators

The Civic Federation uses three measures to present a multi-year evaluation of the fiscal health of the Teachers' pension fund: funded ratios, unfunded actuarial accrued liabilities, the investment rate of return and annual required employer contributions.

Funded Ratios

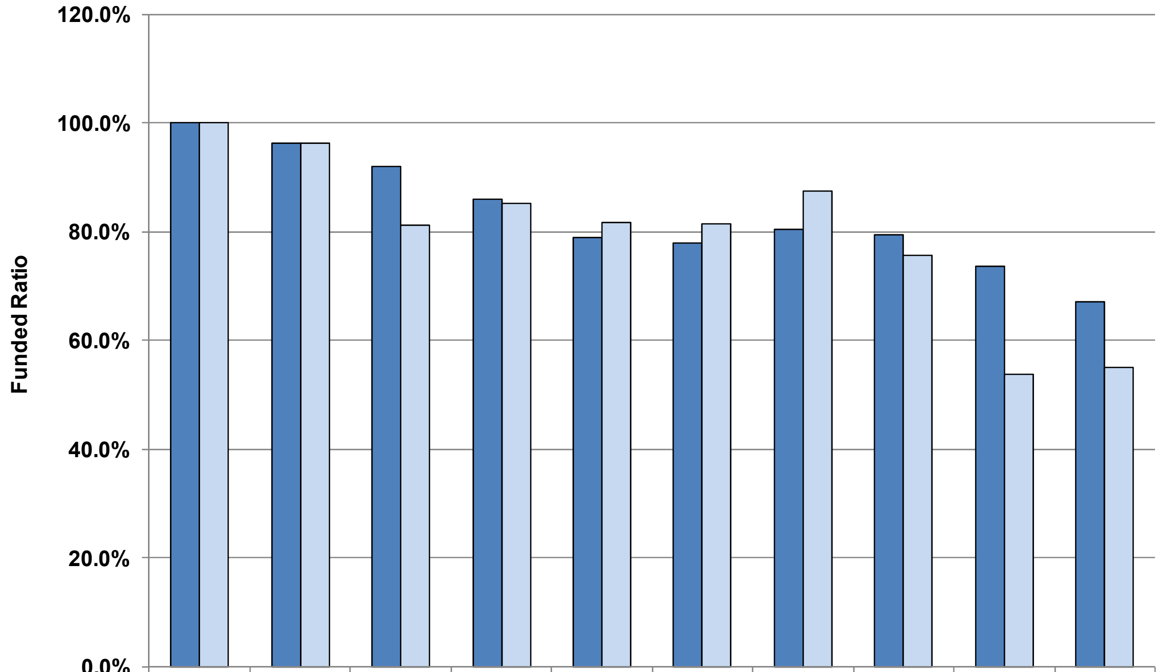
This report uses two measurements of pension plan funded ratio: the actuarial value of assets measurement and the market value of assets measurement. These ratios show the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting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

The actuarial value of assets measurement presents the ratio of assets to liabilities and accounts for assets by recognizing unexpected gains and losses over a period of three to five years.[105] The market value of assets measurement presents the ratio of assets to liabilities by recognizing investments only at current market value. Market value funded ratios are more volatile than actuarial funded ratios due to the smoothing effect of actuarial value. However, market value funded ratios represent how much money is actually available at the time of measurement to cover actuarial accrued liabilities.

[105] For more detail on the actuarial value of assets, see Civic Federation, *Status of Local Pension Funding FY2009,* February 10, 2011, http://www.civicfed.org/civic-federation/publications/status-local-pension-funding-fiscal-year-2009-evaluation-ten-local-gov (last visited on February 10, 2011).

The following exhibit shows the actuarial and market value funded ratios for the Teachers' Fund over the last ten years. The fund was 100% funded on both an actuarial and market value basis in FY2001. The actuarial value funded ratio fell to 67.1% in FY2010. The market value funded ratio fell to its lowest point at 53.7% in FY2009 and recovered slightly to 55.0% in FY2010. The sizeable difference between FY2009 and FY2010 market value and actuarial value funded ratios is due to the fact that FY2009 investment returns were much lower than the returns smoothed out over four years.

Chicago Teachers' Pension Fund Funded Ratios:
Actuarial Value of Assets and Market Value of Assets FY2001-FY2010

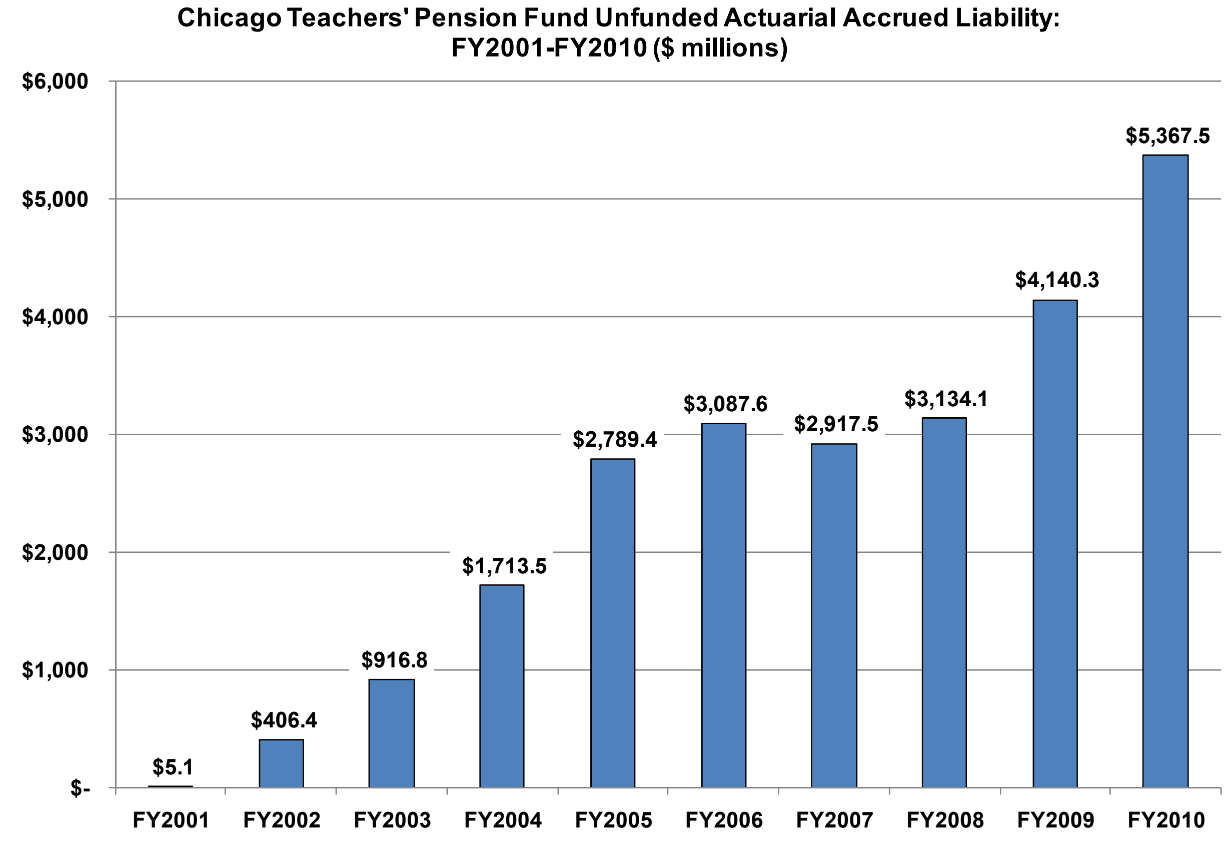


	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Actuarial Value	100.0%	96.3%	92.0%	85.8%	79.0%	78.0%	80.4%	79.4%	73.6%	67.1%
Market Value	100.0%	96.3%	81.2%	85.3%	81.7%	81.4%	87.3%	75.5%	53.7%	55.0%

Source: Civic Federation calculations based on Chicago Teachers' Pension Fund Financial Statements FY2001-FY2010.

Unfunded Actuarial Accrued Liability

Unfunded actuarial accrued liability is the dollar value of accrued liabilities not covered by the actuarial value of assets. As shown in the exhibit below, the unfunded liability for the Teachers' Pension Fund was only $5.1 million in FY2001. Since FY2001 unfunded liabilities have increased by a factor of one thousand, rising to nearly $5.4 billion in ten years. In just two years, from FY2008 to FY2010, unfunded liabilities grew by $2.3 billion.



Source: Chicago Teachers' Pension Fund Financial Statements FY2001-FY2010.

A breakdown of the causes of the change in unfunded liability each year is available in the annual actuarial valuations of the fund. The table below summarizes the changes as calculated by the fund actuary from FY2001 to FY2010. The single largest contributor to the $5.4 billion increase in unfunded liability is the investment return. For the purpose of actuarial valuation, the fund assumes that it will earn an annual 8.0% investment return. The valuation smoothes the investment gains and losses over a period of four years, such that even if a single year's market rate of return exceeds the 8.0% assumption, the four-year smoothed return may not. This was the case in FY2010, when the market value rate of return was 14.1%, but the four-year smoothed return was -0.4%, reflecting losses in FY2008 and FY2009. Over the ten-year period, the failure of investment returns to meet the 8.0% assumption added $2.3 billion to the unfunded liability.

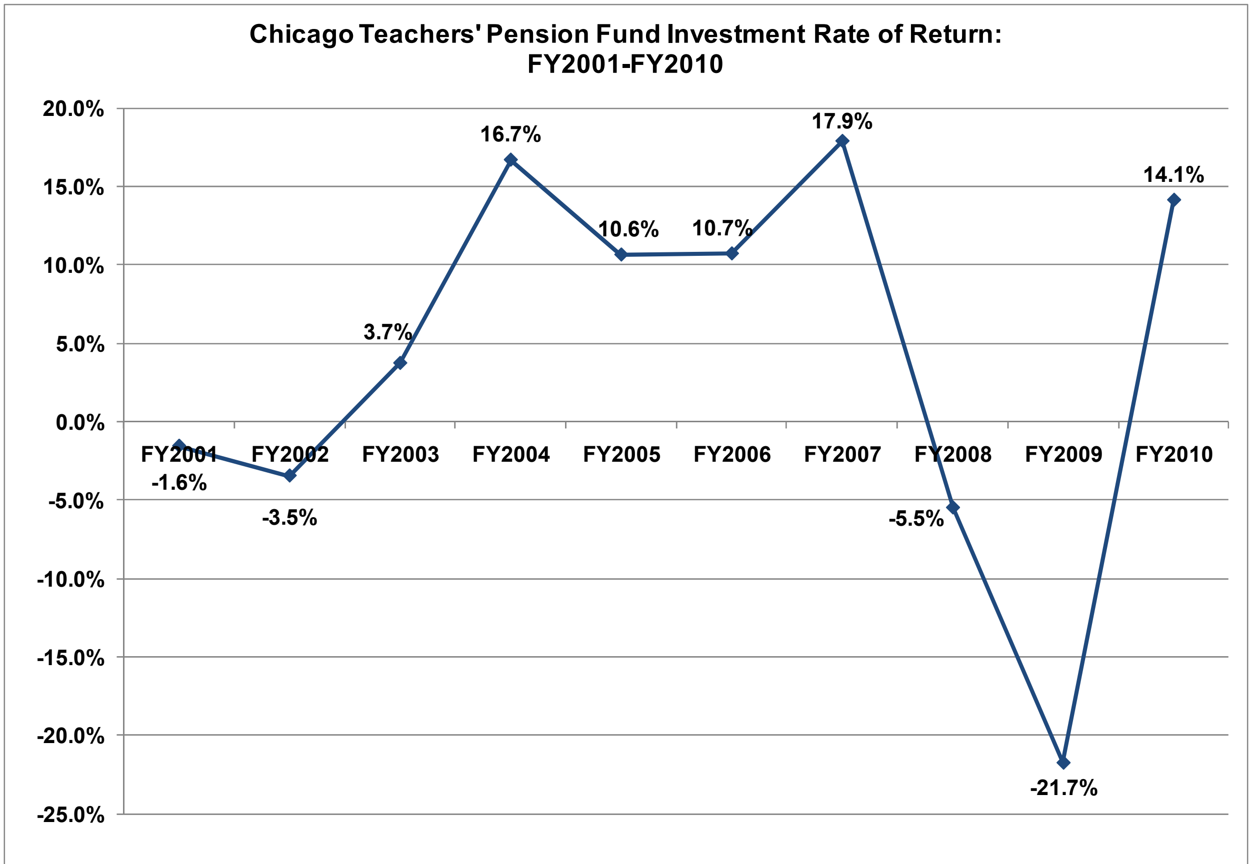
The second largest contributor to the growth in unfunded liability was the consistent failure of the employer contribution to be sufficient to cover the employer's normal cost for service earned that year, as well as the interest accrued on the existing unfunded liability to keep it from growing. This deficiency in employer contributions added $1.8 billion to the unfunded liability.

Chicago Teachers' Pension Fund Reasons for Change in Unfunded Actuarial Accrued Liability							
	Employer Contribution Lower/(Higher) than Normal Cost Plus Interest on Unfunded Liability	Investment Return Lower/(Higher) Than Assumed	Salary Increase (Lower)/Higher Than Assumed	Benefit Increases	Change in Actuarial Assumptions, Methods or Data	Other	Total Net UAAL Change
FY2001	$ 123,584,171	$ (303,900,648)	$ (240,062,346)	$ -	$ -	$ 97,345,763	**$ (323,033,060)**
FY2002	$ 101,460,372	$ 163,273,619	$ (137,391,641)	$ 71,343,528	$ 54,446,520	$ 148,152,640	**$ 401,285,038**
FY2003	$ 134,336,830	$ 599,200,884	$ (360,506,774)	$ -	$ 179,292,049	$ (41,970,075)	**$ 510,352,914**
FY2004	$ 157,713,698	$ 500,523,724	$ (163,105,603)	$ -	$ 74,032,562	$ 227,549,415	**$ 796,713,796**
FY2005	$ 231,938,546	$ 207,005,890	$ 158,843,367	$ -	$ -	$ 478,129,728	**$ 1,075,917,531**
FY2006	$ 287,817,648	$ (159,120,969)	$ (7,751,201)	$ -	$ -	$ 177,278,548	**$ 298,224,026**
FY2007	$ 264,371,299	$ (563,871,066)	$ 12,680,902	$ -	$ -	$ 69,273,370	**$ (217,545,495)**
FY2008	$ 181,412,779	$ 14,768,502	$ 168,853,909	$ -	$ (386,588,901)	$ 240,804,331	**$ 219,250,620**
FY2009	$ 154,901,393	$ 923,403,137	$ 12,964,057	$ -	$ -	$ (40,308,708)	**$ 1,050,959,879**
FY2010	$ 146,648,566	$ 941,589,095	$ (118,648,048)	$ -	$ -	$ 257,585,304	**$ 1,227,174,917**
10-Year Total	**$ 1,784,185,302**	**$ 2,322,872,168**	**$ (674,123,378)**	**$ 71,343,528**	**$ (78,817,770)**	**$ 1,613,840,316**	**$ 5,362,333,226**

Source: Chicago Teachers' Pension Fund, Actuarial Valuations FY2001-FY2010.

Investment Rate of Return

Investment income typically provides a significant portion of the funding for pension funds. Thus, declines over a period of time can have a negative effect on pension assets. Between FY2001 and FY2010, the Chicago Teachers' Fund average annual rate of return was 4.1%.[106] Returns ranged from a high of 17.9% in FY2007 to a low of -21.7% in FY2009. The FY2010 return rebounded to 14.1%.



Source: Civic Federation calculations based on Chicago Teachers' Pension Fund Financial Statements FY2001-FY2010.

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

OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

CTPF provides a "rebate" for a significant portion of the monthly premiums owed by those who enroll. The rebate only applies to the retired teacher's portion of these insurance policies, not to the addition cost of enrolling eligible dependents. The rebate does apply, however, to eligible dependents who are survivors of deceased retirees. For the last several years the Fund has provided reimbursement of 70% of the cost of pensioners' health insurance coverage. Total payments from CTPF to reimburse retirees may not exceed 75% of total retiree health insurance costs.[107]

In FY2010 a total of 16,796 retirees and beneficiaries were receiving health insurance benefits. There were 2,752 terminated employees entitled to OPEB benefits but not yet receiving them.[108] The Illinois Pension Code limits total annual payments to $65 million per year plus amounts authorized in previous years but not spent.[109] In FY2010 the Teachers' Pension Fund spent $80.0 million on OPEB.[110]

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[107] 40 ILCS 17-142.1; FY2009 Public School Teachers' Pension and Retirement System of Chicago Comprehensive Annual Financial Report, p. 78.

[108] Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation of Retiree Health Insurance Plan as of June 30, 2010, p. 2.

[109] 40 ILCS 17-142.1

[110] Public School Teachers' Pension and Retirement System of Chicago Statement of Changes in Plan Net Assets for the Year ended June 30, 2010.

The following exhibit shows the extent to which the aggregate cost of the Pension Fund's health insurance subsidy has increased over the past decade. From 2001 to 2010, insurance premium rebates paid to beneficiaries increased by 81.3% or $35.9 million. The health insurance rebate has represented approximately 7% to 9% of total benefit expenditures over the ten-year period.

Health Insurance Premium Rebates Paid to Retired CPS Teachers: FY2001 - FY2010		
	Health Insurance Benefits Paid	% Change over Previous Year
FY2001	$ 44,088,569	--
FY2002	$ 44,068,275	0.0%
FY2003	$ 51,395,920	16.6%
FY2004	$ 53,106,379	3.3%
FY2005	$ 54,410,887	2.5%
FY2006	$ 58,279,900	7.1%
FY2007	$ 61,028,841	4.7%
FY2008	$ 68,691,191	12.6%
FY2009	$ 75,811,835	10.4%
FY2010	$ 79,953,873	5.5%
Ten-Year Change	**$ 35,865,304**	**81.3%**

Source: Chicago Teachers' Pension Fund FY2009 CAFR, pp. 98-99; FY2010 Statement of Changes in Net Assets.

The following exhibit shows the funded status of the teachers' OPEB plan. The total actuarial liability grew from $2.4 billion in FY2006 to $2.8 billion in FY2010. Assets as a percentage of the actuarial liability were 1.7% in FY2006 and 1.2% in FY2010. The actuarial assumptions used included a 4.5% discount rate and an annual healthcare cost trend rate which is projected to decline from 8.0% in 2011 to 5.0% in 2017 and later.[111]

Funded Status of the Chicago Public Schools Pension Fund: Other Post Employee Benefit (OPEB) Plan FY2006 - FY2010				
	Total Actuarial Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Assets as a % of Actuarial Liability
FY2006	$ 2,373,773,770	$ 41,057,585	$ 2,332,716,185	1.7%
FY2007	$ 2,022,007,643	$ 47,401,758	$ 1,974,605,885	2.3%
FY2008	$ 2,407,122,492	$ 44,989,385	$ 2,362,133,107	1.9%
FY2009	$ 2,670,282,662	$ 49,691,750	$ 2,620,590,912	1.9%
FY2010	$ 2,864,877,305	$ 34,857,732	$ 2,830,019,573	1.2%

Source: Public School Teachers' Pension and Retirement Fund of Chicago. Actuarial Valuation of Retiree Health Insurance Plan as of June 30, 2010, p. 14.

[111] Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation of Retiree Health Insurance Plan as of June 30, 2010, p. 6.

LIABILITIES

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

Short-Term Liabilities

Short-term liabilities are financial obligations that must be satisfied within one year. They can include short-term debt, accounts payable, accrued payroll and other current liabilities. The District currently reports no short-term debt. CPS does include the following short-term liabilities in the statement of net assets in its annual Comprehensive Annual Financial Report:

- Accounts payable: monies owed to vendors or employees for goods and services;
- Accrued payroll: employee pay carried over from previous years;
- Other accrued liabilities: these can include self insurance funds, unclaimed property and other unspecified liabilities; and
- Amounts held for student activities: these are deposits held in custody or funds that belong to individual school accounts.

In the Governmental Funds these liabilities increased by approximately $28.2 million for FY2010 or 3.2% from the previous year. Since FY2006 short-term liabilities have increased by $166.7 million, or 22.8%. The following chart shows short-term liabilities by category and the percent change over the past five years.

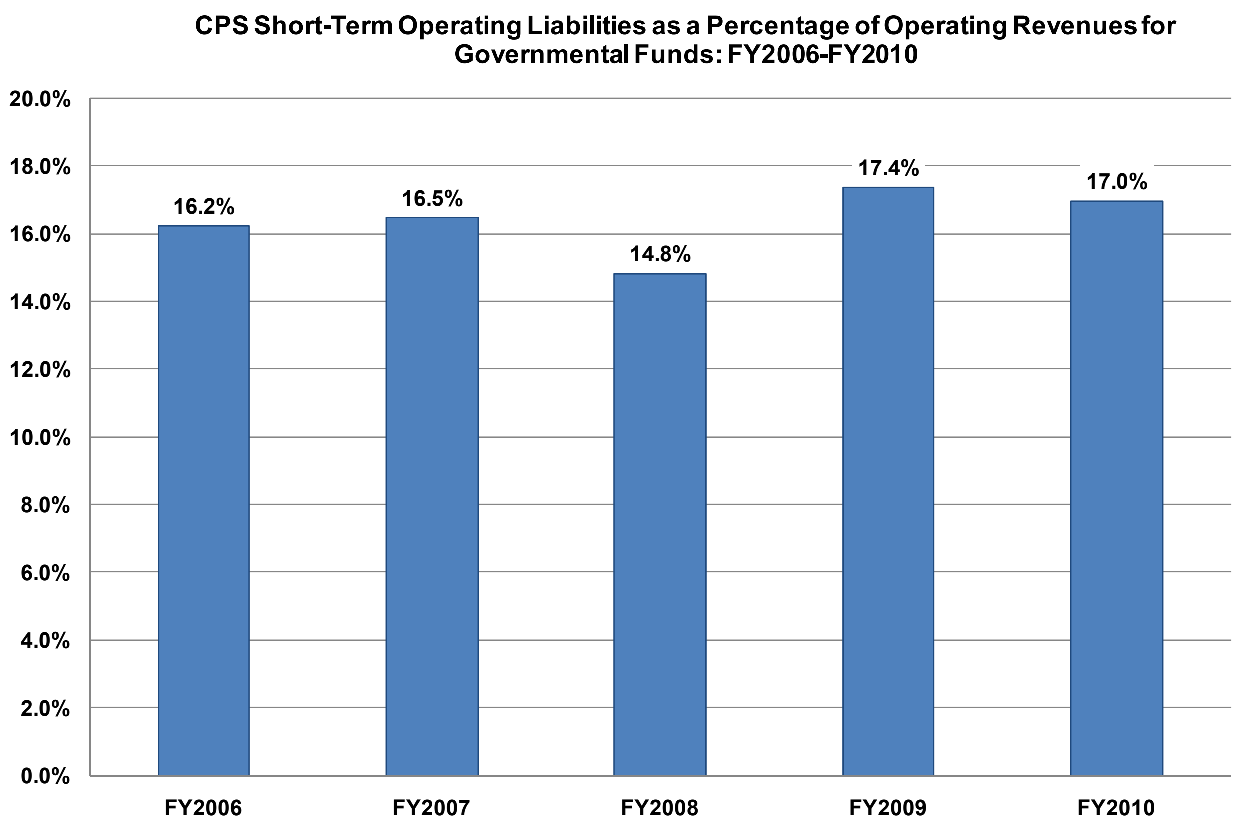
CPS Short-Term Liabilities in the Governmental Funds: FY2006 - FY2010 (in $ thousands)

	FY2006	FY2007	FY2008	FY2009	FY2010	Five-Year $ Change	Five-Year % Change
Accounts payable	$232,843	$272,095	$ 284,650	$369,499	$347,225	$ 114,382	49.1%
Accrued payroll	$467,533	$483,047	$ 428,753	$471,602	$520,769	$ 53,236	11.4%
Other accrued liabilities	$ 4,000	$ -	$ -	$ -	$ -	$ (4,000)	-100.0%
Amount held for student activities	$ 28,522	$ 30,123	$ 30,167	$ 30,359	$ 31,647	$ 3,125	11.0%
Total	**$732,898**	**$785,265**	**$ 743,570**	**$871,460**	**$899,641**	**$ 166,743**	**22.8%**

Source: CPS Comprehensive Annual Financial Reports, FY2006 - FY2010, Balance Sheet - Govermental Funds.

Short-Term Liabilities as a Percentage of Net Operating Revenues

Increasing short-term (current) liabilities in a government's operating funds at the end of the year as a percentage of net operating revenues may be a warning sign of a government's future financial difficulties.[112] This ratio indicator, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending. Between FY2006 and FY2010, the ratio averaged 16.4%, fluctuating slightly from a low of 14.8% in FY2008 to a high of 17.4% in FY2009. The ratio decreased from 17.4% in FY2009 to 17.0% in FY2010. The upward movement since FY2008 bears watching.



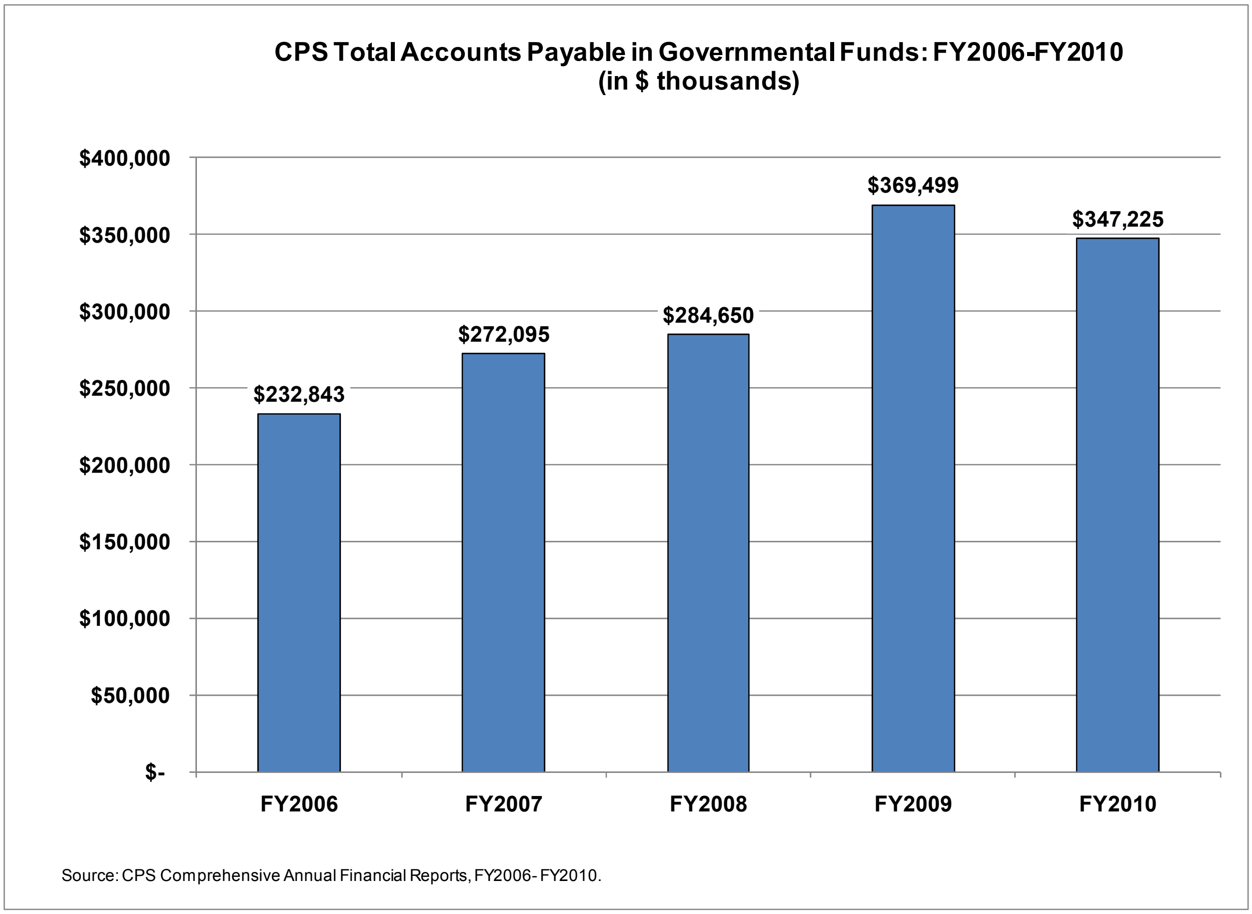
Source: CPS Comprehensive Annual Financial Reports, FY2006 -FY2010

Accounts Payable Trends

Rising amounts of accounts payable over time may indicate a government's difficulty in controlling expenses or keeping up with spending pressures. CPS reported a decrease of 6.0% in total accounts payable, or \$22.2 million, from FY2009 to FY2010. Over the past five years, total accounts payable reported at the end of the fiscal year has grown by \$114.4 million, or 49.1%,

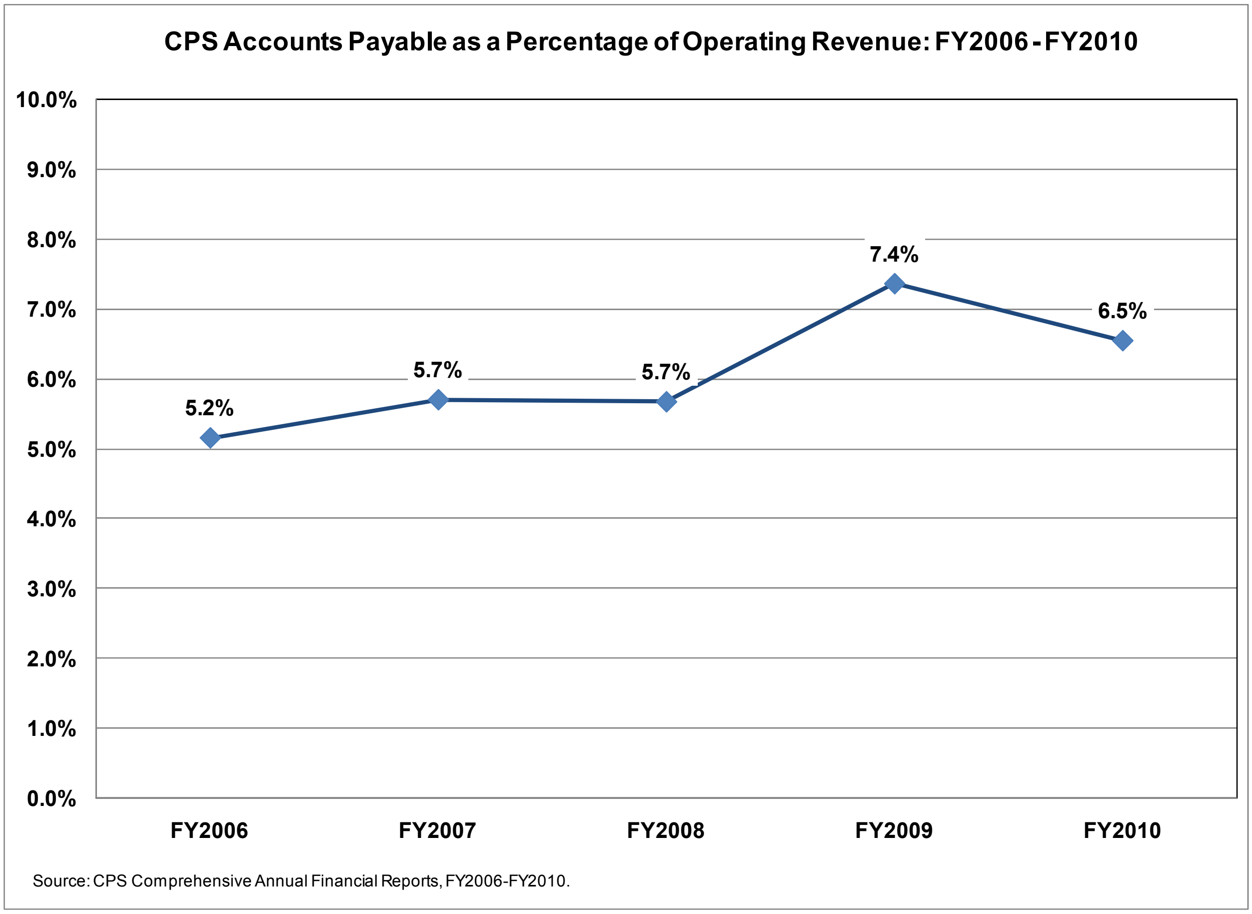
[112] Operating funds for CPS are its Governmental Funds, which are those funds used to account for general operations. See Karl Nollenberger, Sanford Groves and Maureen G. Valente. *Evaluating Financial Condition: A Handbook for Local Government* (International City/County Management Association, 2003),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

although it dropped between FY2009 and FY2010. Approximately $21.0 million of the increase is in the Capital Projects Fund, which varies based on the size and timing of capital projects. The remainder of the increase is in the General Operating Fund and reflects increases in non-payroll expenditures over time as well as employee tax withholdings.[113]



[113] Information provided by CPS Budget Office, August 12, 2011.

The CPS ratio of accounts payable in the governmental funds to operating revenues has increased from 5.2% in FY2006 to 6.5% five years later. It rose sharply from 5.7% to 7.4% between FY2008 and FY2009 before falling to 6.5% in FY2010.



Long-Term Liabilities

This section of the analysis examines trends in CPS's long-term liabilities. It includes a review of trends in the District's total long-term liabilities and a discussion of its tax supported long-term debt.

Long-term liabilities are all of the obligations owed by a government over time. Increases in long-term liabilities over time may be a sign of fiscal stress. They include long-term debt as well as:

- **Accrued Sick Pay Benefits:** CPS provides sick pay benefits for substantially all of its employees. Eligible employees can accumulate a maximum of 320 days. If an employee either reaches age 65, has a minimum of 20 years of service at the time of resignation or retirement, or dies, the employee is entitled to receive, as additional cash compensation, all or a portion of their accumulated sick leave days. The CPS budgets an amount each year in the General Operating Fund for these estimated payments to employees terminated in the current fiscal year.

- **Accrued Vacation Pay Benefits:** For eligible employees, the maximum number of accumulated unused vacation days permitted is 40 days for those employees with up to 10 years of service, 53 days for those with 11 to 20 years of service; and 66 days for those with more than 20 years of service. Eligible employees are entitled to receive 100% of accumulated vacation days at their current salary rate. These amounts will be paid from the General Operating Fund.

- **Accrued Workers' Compensation Claims, Accrued General and Automobile Claims and Tort Liabilities and Other Claims:** CPS is substantially self-insured and assumes risk of loss as follows:
  - CPS maintains commercial excess property insurance for "all risks" of physical loss or damage with limits of $250,000,000 and Boiler & Machinery Insurance with limits of $100,000,000 with the following deductibles:
  - Data Processing Equipment & Media $25,000
  - Mechanical Breakdown $50,000
  - All Other Losses $500,000

- **Net pension obligations (NPO):** The cumulative difference, since the effective date of GASB Statement 27, between the annual pension cost and the employer's contributions to the plan. This includes the pension liability at transition (beginning pension liability) and excludes short-term differences and unpaid contributions that have been converted to pension-related debt.

- **Net OPEB Obligation:** Net Other Post Employment Benefit (OPEB) liabilities: The cumulative difference, since the effective date of GASB Statement 45, between the annual OPEB (employee health insurance) cost and the employer's contributions to its OPEB Plan.[114]

Between FY2006 and FY2010, total CPS long-term liabilities increased by 36.2% or $2.3 billion, rising from $6.4 billion to $8.7 billion. Other long-term liabilities, such as accrued sick leave and vacation pay, net pension obligations and net OPEB obligations grew by 67.5% or $1.3 billion. This rate of growth is three times as much as the 21.4% increase for long-term debt. Net pension and net OPEB obligations combined grew by 69.0%, rising from $1.7 billion to $2.9 billion.

[114] See CPS FY2010 Comprehensive Annual Financial Report, p. 69.

CPS long-term debt includes general obligation bonds, leases securing Public Building Commission bonds, capital leases, asbestos abatement loan payments and notes payable. These liabilities are secured by property tax revenues or State of Illinois school construction grants. Long-term debt increased by $651.6 million, or 14.1%, between FY2009 and FY2010, rising from $4.6 billion to nearly $5.3 billion. Over the five-year period from FY2006 to FY2010, long-term debt rose from $4.3 billion to nearly $5.3 billion, a 21.4% increase. General obligation debt is the only type of long-term debt that increased in this time period.

CPS Long-Term Liabilities: FY2006-FY2010 (in $ thousands)

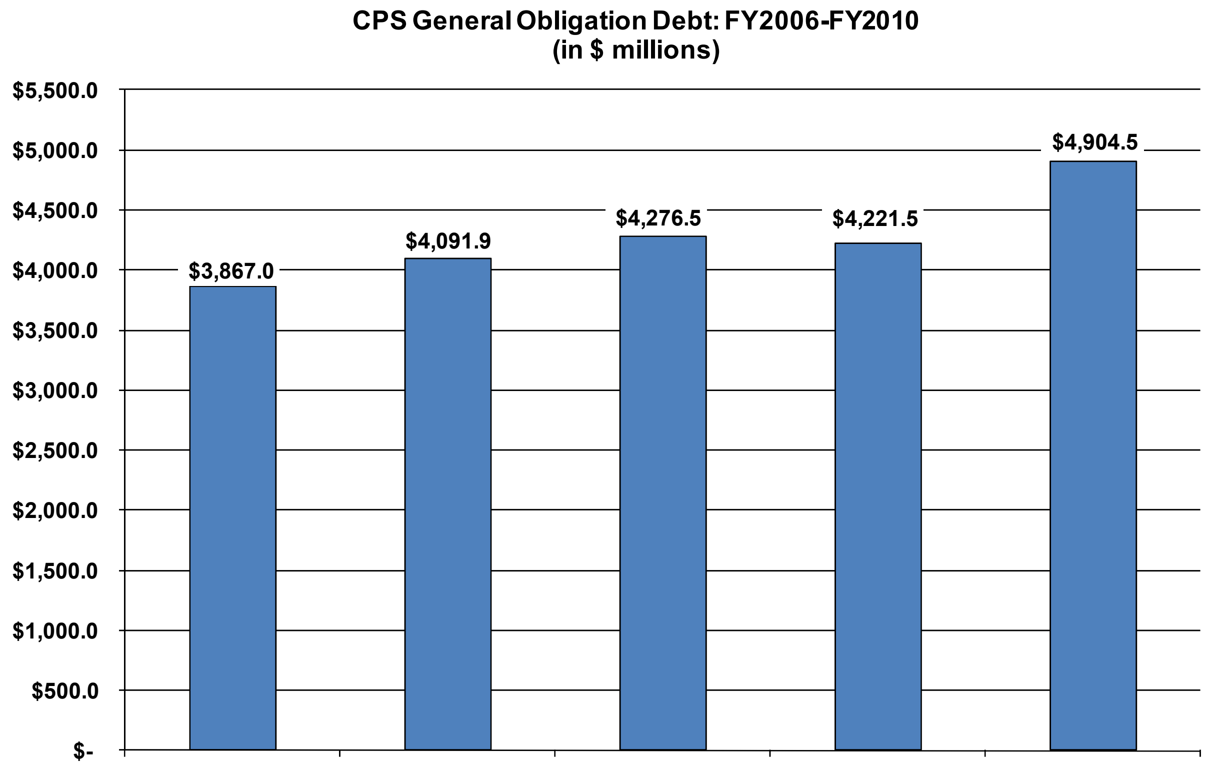
Type of Obligation	FY2006	FY2007	FY2008	FY2009	FY2010	5-year $ Change	5-year % Change
General Obligation Bonds	$3,866,956	$4,091,856	$4,276,507	$4,221,497	$4,904,510	$1,037,554	26.8%
Leases Securing PBC Bonds	$ 458,030	$ 435,535	$ 411,690	$ 386,385	$ 359,215	$ (98,815)	-21.6%
Capital Leases	$ 2,975	$ 2,800	$ 2,625	$ 2,450	$ 2,275	$ (700)	-23.5%
Asbestos Abatement Loan	$ 6,154	$ 4,885	$ 3,747	$ 2,710	$ -	$ (6,154)	-100.0%
Note Payable	$ 4,598	$ 3,606	$ 2,516	$ 1,317	$ -	$ (4,598)	-100.0%
Subtotal Long-Term Debt	**$4,338,713**	**$4,538,682**	**$4,697,085**	**$4,614,359**	**$5,266,000**	**$ 927,287**	**21.4%**
Accrued Sick Pay Benefits	$ 245,812	$ 214,883	$ 269,045	$ 295,302	$ 334,968	$ 89,156	36.3%
Accrued Vacation Pay Benefits	$ 44,426	$ 39,359	$ 73,890	$ 74,306	$ 75,508	$ 31,082	70.0%
Accrued Workers' Compensation Claims	$ 69,506	$ 75,414	$ 86,818	$ 91,791	$ 103,676	$ 34,170	49.2%
Accrued General and Automobile Claims	$ 4,339	$ 10,184	$ 10,149	$ 9,000	$ 5,531	$ 1,192	27.5%
Tort Liabilities and Other Claims	$ 2,900	$ 4,150	$ 1,400	$ 2,000	$ 2,500	$ (400)	-13.8%
Net Pension Obligation	$1,513,023	$1,751,427	$1,968,685	$1,929,885	$1,968,685	$ 455,662	30.1%
Net OPEB Obligation	$ 213,316	$ 425,104	$ 579,803	$ 756,653	$ 949,371	$ 736,055	345.1%
Subtotal Other Long-Term Liabilities	**$2,093,322**	**$2,520,521**	**$2,989,790**	**$3,158,937**	**$3,440,239**	**$1,346,917**	**64.3%**
Grand Total Long-Term Liabilities	**$6,432,035**	**$7,059,203**	**$7,686,875**	**$7,773,296**	**$8,706,239**	**$2,274,204**	**35.4%**

Source: CPS Comprehensive Annual Financial Reports, Notes 11 and 12.

General Obligation Debt

CPS general obligation (GO) debt is the largest component of the District's long-term debt portfolio, averaging 91.0% of all long-term debt from FY2006 to FY2010. General obligation debt is funded by property taxes and is backed by the full faith and credit of the District. Increases in general obligation debt amounts bear watching as a potential sign of escalating financial risk. The concern is that unless a government secures additional revenues or reduces spending at the same time it is increasing its debt burden, it may have difficulty making principal and interest payments at some point in the future.

CPS general obligation debt increased by 26.8%, or $1.0 billion, between FY2006 and FY2010. This represents an increase from $3.9 billion to $4.9 billion. There was a 16.1%, or $683.0 million, rise between FY2009 and FY2010. The increase reflects the District's large capital construction program over the past several years. The rate of increase over time has been large and it bears watching, particularly as the CPS faces continuing challenges in meeting its rising expenditures in areas such as personnel and retirement costs.

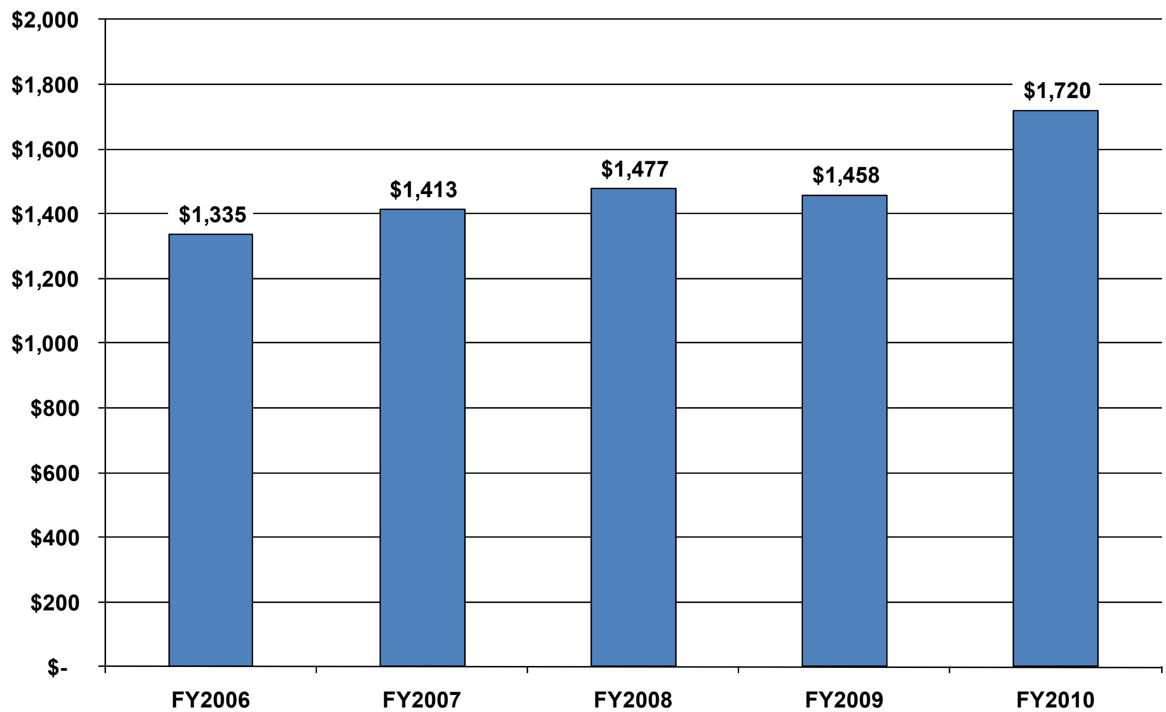


Source: CPS FY2010 Comprehensive Annual Financial Report, p. 130.

General Obligation Debt Per Capita

General obligation debt per capita is a measure of a government's ability to maintain its current financial policies. This indicator is commonly used by rating agencies to measure debt burden across governments. This indicator takes Chicago Public Schools general obligation debt amount per year and divides it by the 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 general obligation debt per capita increased by 28.8% between FY2006 and FY2010. The increase tracks but is not the same as the dollar increase over time for general obligation debt because the District's population fell between 2000 and 2010 according to the decennial census. Over the past two fiscal years, CPS direct debt per capita has jumped from $1,458 to $1,720, or 18.0%, from FY2009 to FY2010.

CPS General Obligation Debt Per Capita: FY2006-FY2010



Source: Source: CPS FY2010 Comprehensive Annual Financial Report, p. 131.

CPS Bond Ratings

In FY2011 the credit ratings for CPS were AA- from Standard & Poor's and Aa2 by Moody's Investors Service. However, Fitch Ratings lowered its rating to A+ from AA- in October 2010. Standard & Poor's and Moody's Investors Service both gave CPS a negative outlook because of weaknesses in the District's financial condition. They included CPS's inability to meet its Fund Balance Policy goal in fiscal 2010 through the use of rainy day reserves, the large size of out-year deficits and the State's continual payment delays.[115]

CAPITAL BUDGET

This section of the analysis presents information about CPS capital budget spending. The FY2012 proposed budget for CPS capital projects totals $391.7 million. This is a $98.9 million, or 20.2%, decrease from the previous year's estimate. The end of year capital projects fund

[115] CPS Proposed FY2012 Budget, pp. 247-248.

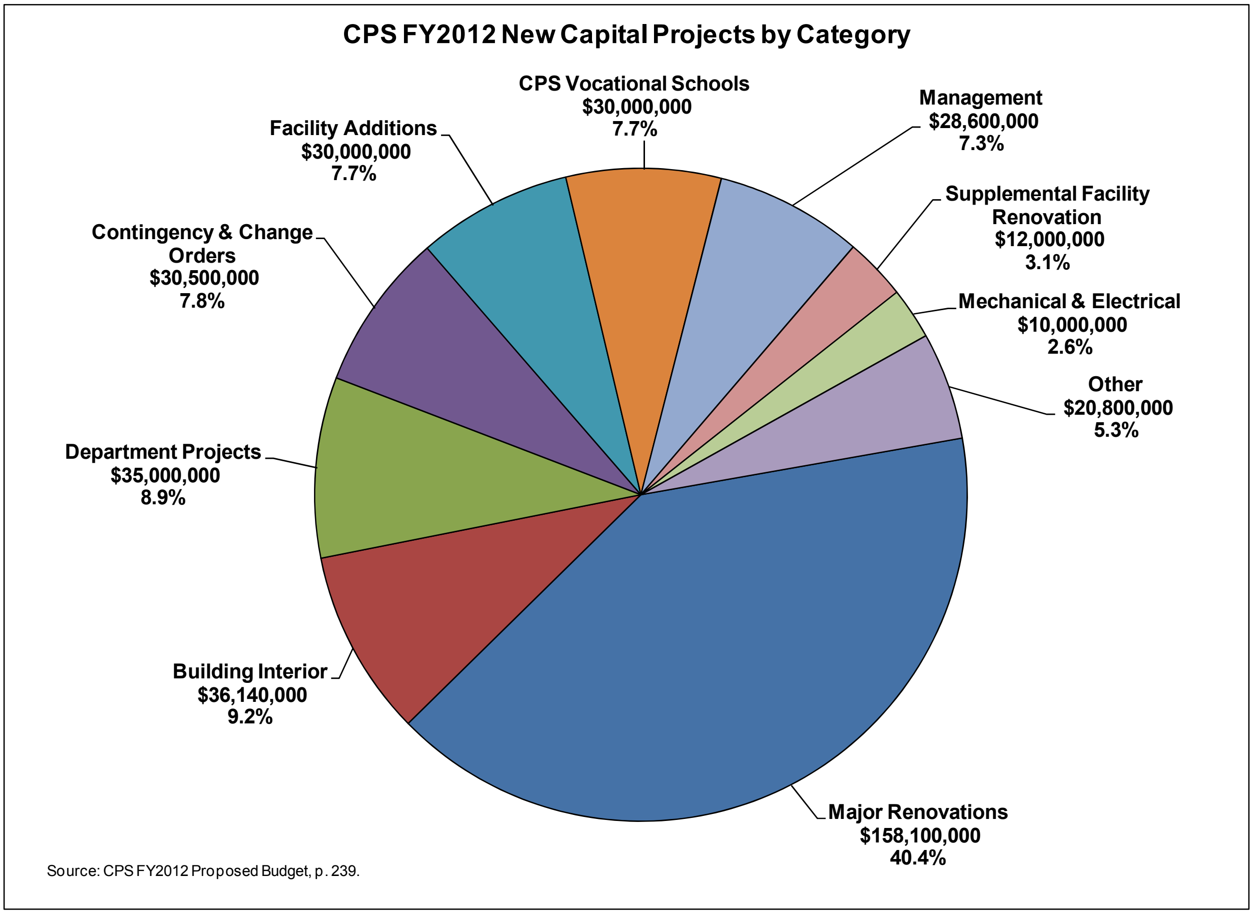
balance will be held flat from the previous year at $208.5 million. The FY2012 budget proposes issuing $400 million in capital bonds to support capital projects. Capital outlays in FY2012 are projected to total $567.0 million, a 6.9%, or $36.7 million, increase from the FY2011 estimate. Since FY2010, however, capital outlays will fall by 18.0%, or $124.8 million.

CPS FY2012 Capital Projects Fund Budget Summary: (in $ millions)

	FY2010 Actual	FY2011 Estimate	FY2012 Proposed	3-Year $ Change	3-Year % Change
Appropriations	$ 382.1	$ 490.0	$ 391.1	$ 9.0	2.4%
Beginning of Year Fund Balance	$ 100.7	$ 263.4	$ 208.5	$ 107.8	107.1%
Revenues					
Local Revenue	$ 83.1	$ 88.4	$ 50.0	$ (33.1)	-39.8%
State Revenue	$ -	$ -	$ 115.0	$ 115.0	-
Federal Revenue	$ 12.3	$ 2.4	$ -	$ (12.3)	-100.0%
Interest Earnings	$ 2.0	$ 2.5	$ 2.0	$ -	0.0%
Total Revenue	**$ 97.4**	**$ 93.3**	**$ 167.0**	**$ 69.6**	**71.5%**
Expenditures					
Capital Outlay	$ 691.8	$ 530.3	$ 567.0	$ (124.8)	-18.0%
Bond Issuance	$ 757.0	$ 382.1	$ 400.0	$ (357.0)	-47.2%
End of Year Fund Balance	**$ 263.4**	**$ 208.5**	**$ 208.5**	**$ (54.9)**	**-20.8%**

Source: CPS FY2012 Proposed Budget p. 240.

In FY2012 CPS proposes $391.1 million in new capital projects. The largest single amount of new appropriations will be $158.1 million for major renovations, which addresses boiler or mechanical system repairs, life safety issues and deteriorated interior finishes.[116] The second largest individual category is $36.1 million for Building Interiors, which primarily comprises Americans with Disabilities Act required improvements. The "Other" category includes several smaller capital categories such as the early childhood construction program, facility site improvements, the energy efficiency program and exterior envelope improvements.



[116] CPS FY2012 Proposed Budget, pp. 239-240.

APPENDIX A: TWO-YEAR AND FIVE-YEAR GENERAL OPERATING FUND REVENUE TRENDS

CPS utilizes the General Fund and Special Revenue funds for general operations. General Operating Fund revenues are expected to fall by 5.0% or $256.0 million, from approximately $5.1 billion estimated at the end of FY2011 to $4.9 billion projected in FY2012.

CPS local revenues will provide nearly $2.3 billion of General Operating Fund revenues. State sources will provide $1.6 billion, while federal sources will provide $977.4 million. The federal stimulus funds received in FY2010 created an anomalous year with more revenue received from the federal government than the State. In FY2011, there was a return to the historical norm as expected stimulus funding decreased. The $165.3 million decline in federal funds for FY2012 primarily reflects the expiration of stimulus grants: funding from the Education Jobs Program and ARRA will decline by $261.7 million from FY2011 year-end estimates.

CPS General Fund and Special Revenue Fund Revenues: FY2011 & FY2012 (in $ millions)

	FY2011 Final Budget	FY2011 Year-End Estimate	FY2012 Proposed Budget	FY2011 Y-E to FY2012 $ Change	FY2011 Y-E to FY2012 % Change
Property Taxes	$ 1,920.1	$ 1,904.2	$ 2,038.0	$ 133.8	7.0%
Replacement Taxes	$ 98.7	$ 172.4	$ 103.6	$ (68.8)	-39.9%
Miscellaneous Local Revenue	$ 101.8	$ 221.1	$ 131.0	$ (90.1)	-40.8%
Subtotal Local Revenue	**$ 2,120.6**	**$ 2,297.7**	**$ 2,272.6**	**$ (25.1)**	**-1.1%**
General State Aid (GSA)	$ 923.4	$ 940.9	$ 955.1	$ 14.2	1.5%
State Aid - Teacher Pension	$ 43.0	$ 43.0	$ 10.4	$ (32.6)	-75.8%
Flat Grant ADA	$ -	$ -	$ -	$ -	-
Other State Aid	$ 662.1	$ 700.9	$ 653.7	$ (47.2)	-6.7%
Subtotal State Revenue	**$ 1,628.5**	**$ 1,684.8**	**$ 1,619.2**	**$ (65.6)**	**-3.9%**
ESEA Title IA, ID, V-A	$ 326.2	$ 305.2	$ 340.3	$ 35.1	11.5%
Lunchroom and Medicaid	$ 222.2	$ 236.7	$ 248.2	$ 11.5	4.9%
Special Education	$ 112.6	$ 100.5	$ 106.2	$ 5.7	5.7%
Ed Jobs and ARRA	$ 408.0	$ 312.0	$ 50.3	$ (261.7)	-83.9%
Other	$ 220.0	$ 188.3	$ 232.4	$ 44.1	23.4%
Subtotal Federal Revenue	**$ 1,289.0**	**$ 1,142.7**	**$ 977.4**	**$ (165.3)**	**-14.5%**
Total Revenues	**$ 5,038.1**	**$ 5,125.2**	**$ 4,869.2**	**$ (256.0)**	**-5.0%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns. Total resources for general operating funds do not include appropriated fund balance.

Source: CPS FY2011 Final Budget p. 36, and FY2012 Proposed Budget p. 23.

The next exhibit shows a five-year trend in General Operating Funds revenues, from the FY2008 actual amounts to the FY2012 proposed budget. Over this five-year period, general operating revenues increased by 6.2%, or $283.5 million. The increase is largely due to increases in property tax revenues and federal stimulus funding. Overall state revenue has declined by $73.1 million, or 4.3%, with state aid for teacher pension payments decreasing sharply from $75.4 million in FY2008 to $10.4 million in FY2012, which reflects lower statutory requirements for state contributions.

CPS General Fund and Special Revenue Fund Revenues: FY2008 & FY2012 (in $ millions)				
	FY2008 Actual	FY2012 Proposed Budget	$ Change	% Change
Property Taxes	$ 1,763.3	$ 2,038.0	$ 274.7	15.6%
Replacement Taxes	$ 159.8	$ 103.6	$ (56.2)	-35.2%
Miscellaneous Local Revenue	$ 137.7	$ 131.0	$ (6.7)	-4.9%
Subtotal Local Revenue	**$ 2,060.8**	**$ 2,272.6**	**$ 211.8**	**10.3%**
General State Aid (GSA)	$ 953.8	$ 955.1	$ 1.3	0.1%
State Aid - Teacher Pension	$ 75.2	$ 10.4	$ (64.8)	-86.2%
Flat Grant ADA	$ 12.8	$ -	$ (12.8)	-100.0%
Other State Aid	$ 650.5	$ 653.7	$ 3.2	0.5%
Subtotal State Revenue	**$ 1,692.3**	**$ 1,619.2**	**$ (73.1)**	**-4.3%**
ESEA Title IA, ID, V-A	$ 269.4	$ 340.3	$ 70.9	26.3%
Lunchroom and Medicaid	$ 181.6	$ 248.2	$ 66.6	36.7%
Special Education	$ 106.1	$ 106.2	$ 0.1	0.1%
Ed Jobs and ARRA	$ -	$ 50.3	$ 50.3	-
Other	$ 275.5	$ 232.4	$ (43.1)	-15.6%
Subtotal Federal Revenue	**$ 832.6**	**$ 977.4**	**$ 144.8**	**17.4%**
Total Revenues	**$ 4,585.7**	**$ 4,869.2**	**$ 283.5**	**6.2%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns. Total resources for general operating funds do not include appropriated fund balance.

Source: CPS FY2010 Proposed Budget p. 11 and FY2012 Proposed Budget p. 21.