



**THE CITY COLLEGES OF CHICAGO  
FY2005 PROGRAM BUDGET  
Analysis and Recommendations**

**Prepared By  
The Civic Federation  
September 28, 2004**

## EXECUTIVE SUMMARY

Illinois Community College District 508, the City Colleges of Chicago (CCC), proposes a \$342.2 million budget for FY2005. The budget is balanced through a property tax increase that is the maximum amount allowed under the tax cap law, tuition increases and one-time State funding.

### Key FY2005 Budget Findings

- FY2005 budgeted appropriations for all funds will increase by 9.0 % from FY2004, rising from \$297.7 million to \$324.2 million.
- Appropriations for employee compensation, including salaries and benefits, will increase by 7.9% in FY2005, from \$179 million to \$193 million. Compensation for employees accounts for 59.6% of the total proposed budget.
- The budget was balanced with a \$7 million increase in the amount of property taxes budgeted for operations, \$7.8 million from increased tuition and fees, \$7.3 million in net increased funding from the State of Illinois and a net fund balance carryover from FY2004 of \$4.1 million.
- The State of Illinois will provide \$15 million in new, one-time funding for the CCC this fiscal year to compensate the District as discussions continue regarding changes to the State community college equalization formula. However, the District will only receive a net funding increase of \$7.3 million because of reductions in other State aid programs.
- The property tax levy will increase by 1.9% on properties covered by the tax cap law and approximately 1.15% on tax cap exempt new construction. The total new gross levy will be \$135 million.
- The number of full-time equivalent positions will increase by 83, from 3,115 to 3,198.

### Civic Federation Position

- The Civic Federation **opposes** the FY2005 City Colleges budget.
- The budget is projected to increase by 9.0% in 2005 at the same time the District is proposing to increase its property tax levy to the maximum amount allowed under the tax cap, increase tuition and fees by 19% and receive new net one-time revenues of \$7.3 million from the State of Illinois.
- These infusions of revenue are not being balanced with countervailing actions that better manage resources, such as spending cuts.
- We see little evidence of efforts to control spending on personnel costs and contractual service costs; in fact, the District proposes to hire 70 new clerical and professional staff at an increased cost in salaries of \$5.6 million.
- The District prudently cut \$6.5 million in spending in 2004 as anticipated revenues did not materialize. However, this budget was not built on a lower base, but rather, that reduction was simply restored and additional spending included.
- The City Colleges' own forecasts demonstrate that the current rate of spending growth is unsustainable. Recurring deficits are projected through 2009. Efficiencies and cost controls must be introduced to eliminate those deficits.

### Civic Federation Recommendations

- The Civic Federation **commends** the financial management team at the City Colleges for substantially improving the format of the District's budget and offer the following recommendations for further improvement:
  - The budget document should include summary information about the entire budget, both unrestricted and restricted funds, as it did in past years.
  - The budget document needs a much clearer and more complete discussion of property tax revenues and the gross property tax levy.
- The Civic Federation **urges** the Governor and the Illinois Community College Board to recognize that the contributions of Illinois's largest community college system by fundamentally restructuring the equalization formula to provide fair and equitable funding to the City Colleges.

## INTRODUCTION

The Civic Federation recently concluded an analysis of financial issues related to the City Colleges of Chicago's (CCC) Recommended FY2005 \$325.4 million budget. Based upon our review of the budget, we offer the following comments. The full text of our analysis follows this summary and is also available on our web site at [www.civicfed.org](http://www.civicfed.org).

We would like to express our appreciation to Chancellor Wayne Watson, Vice Chancellor and Chief Financial Officer Abe Eshkenazi, Associate Chief Financial Officer J. Randall Dempsey and their staffs for their hard work in preparing this budget and their willingness to provide the Civic Federation with a briefing as well as answers to several of our budget questions.

### **Civic Federation Position: Opposition to FY2005 Budget**

The Civic Federation supported the City Colleges budget in FY2004 even though it contained a maximum allowable property tax increase because the District chose to contain costs rather than increase tuition and it reduced its budget by 1% from the previous year. This year, however, we **cannot support** the new proposed budget. It significantly increases both spending and revenues with little effort to control costs. At a time when other local governments are considering personnel reductions, cost saving management efficiencies and even service cuts, we do not believe that the City Colleges should follow the opposite course.

In this budget, the City Colleges is proposing to increase its property tax levy to the maximum amount allowed under the tax cap once again, increase tuition and fees by 19% and receive new net one-time revenues of \$7.3 million from the State of Illinois. However, these infusions of revenue are not being balanced with countervailing actions that better manage resources, such as spending cuts. In fact, the proposed FY2005 budget demonstrates little evidence at all of any spending restraint.

Based on a comparison of the proposed budget last year to the proposed budget this year, spending for all funds is projected to increase by 9%, from \$297.7 million to \$324.2 million. But, if we consider what the District estimates it will actually spend in FY2004 versus what it proposes to spend in FY2005, the rate of increase is 16%, or a \$43.8 million increase from \$280.3 million to \$324.2 million. Either calculation is **far in excess** of the projected rate of inflation in 2005 of 1.9%. And it is far in excess of the Chicago Public Schools FY2005 budget increase of 4.7%.

The District prudently cut \$6.5 million in spending in 2004 as anticipated revenues did not materialize. However, this budget was not built on a lower base, but rather, that reduction was simply restored and additional spending included.

This budget also proposes increasing the number of full-time equivalent positions by 83, from 3,115 to 3,198. The City Colleges have reduced staff in past years; 205 positions were eliminated in 2003. Yet, the FY2005 increase runs counter to the trend in virtually every other government. The Chicago Public Schools this year eliminated over 1,600 positions. The City of Chicago has eliminated 2,600 positions since FY2000. We consider this move to be ill-timed and without sufficient justification as it will surely acerbate the City Colleges' own projected future deficits.

While funding increases may be earmarked for important or worthy programs in 2005, the City Colleges own forecasts demonstrate that this rate of spending growth is unsustainable absent dramatic infusions of new revenues. The District projects recurring deficits in upcoming fiscal years through 2009. Therefore, it is reasonable to assume that the City Colleges will be forced to consider the introduction of efficiencies and cost controls to eliminate those deficits because:

- The District cannot raise sufficient revenues solely from tax capped property tax levies;
- If the District raises tuition and fees too high, it will ultimately risk a decline in enrollment. The scheduled tuition increases – 5% in 2005 and 5% in 2006 - will make City Colleges tuition one of the most expensive in the region. Additional rate increases could make it the most expensive.
- Adding full-time positions to the City Colleges workforce will have long-term fiscal consequences. Even if salaries are held to a 2% annual increase as projected, benefits costs are projected to rise by 46% or \$18 million by FY2009.<sup>1</sup>
- A favorable resolution of the District's dispute with the Illinois Community College Board over the equalization formula cannot be assumed.

At this time, the Civic Federation would also like to comment on two other financial management issues: the new budget format and the State community college equalization formula.

The Civic Federation **commends** the financial management team at the City Colleges for substantially improving the format of the District's budget to reflect many of the more user-friendly guidelines of the Government Finance Officer's Association Distinguished Budget Awards Program. We recommend that these important improvements be further strengthened with the addition of summary information about the entire budget, both unrestricted and restricted funds, as it did in past years, and a much clearer and more complete discussion of property tax revenues and the gross property tax levy. We also congratulate the City Colleges for producing a FY2003 Comprehensive Annual Financial Report. This is an important step toward providing the public with more complete and transparent financial information.

Finally, the Civic Federation would like to voice its **strong support** for efforts to recalculate the State community college equalization factor. In our view, the current system, which adopted before the imposition of property tax caps, unfairly penalizes the City Colleges. We urge the Governor and the Illinois Community College Board to recognize that the contributions of Illinois's largest community college system by fundamentally restructuring the equalization formula to provide fair and equitable funding to the City Colleges.

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<sup>1</sup> *City Colleges FY2005 Budget*, p. 36.

## **FY2005 BUDGET HIGHLIGHTS**

The FY2005 budget is projected to total \$342.2 million. The District reports a \$2 million all funds (operating and rental funds) deficit for the remainder of FY2004. However, the operating funds generated a \$3.4 million surplus due to FY2004 spending cuts and the carryover of fund balance.

The proposed budget includes the following revenue enhancements:

- \$7.3 million in net, one-time funding from the State of Illinois;
- \$7.8 million from tuition and fee increases;
- \$4.1 million in reserve funds carried over from FY2004; and
- \$7 million in increased operating budget property tax revenues;

The gross property levy for operating and other purposes, including funding for Public Building Commission leases, is estimated to be \$135.0 million, up from \$131.2 million in the last tax year. The portion of the levy subject to the Property Tax Extension Limitation Law (“tax caps”) will increase by 1.9%.

The budget contains several appropriation increases from last year’s proposed budget:

- Employee salary costs are expected to rise by \$9 million or 6%, from nearly \$146 million to \$153 million;
- Employee benefit are anticipated to increase 22%, boosting those costs by \$7.1 million, or from \$32.7 million to \$39.9 million;
- Contractual services cost increases of 7% or \$2 million are projected, from \$29.9 million to \$31.9 million. Some of this increase is related to information technology projects.
- Capital outlay costs are expected to increase from \$6.3 million to \$6.4 million, a 1.9% increase. Much of the capital outlay appropriation is increase is earmarked for classroom technology investments.

## **FINANCIAL ISSUES AND TRENDS**

This section provides summaries of key issues likely to have an impact on the City Colleges’ financial situation in the forthcoming fiscal year as well as expenditure, appropriation and revenue trends.

### *State Funding Issues*

State funding to the City Colleges of Chicago has been cut by 15% since FY2001. This represents a \$9.5 million decrease from \$62.3 million to \$52.6 million. The reduction would have been much greater if the Illinois Community College Board (ICCB) had not awarded a one-time \$15 million grant for the FY2005 budget while negotiations continue for a revision to the State’s community college equalization formula. The CCC was originally slated to receive only \$50,000, a dramatic decrease from the \$16.7 million in equalization aid provided in FY2001.

The State of Illinois’ community college equalization grants are intended to guarantee that each Community College District has roughly the same financial means at its disposal, regardless of the property wealth available to the District for purposes of taxation. Because the formula for distributing equalization grants does not take into account the existence of the Property Tax

Extension Limitation Law (PTELL or “tax caps”), it assumes that a greater amount of property wealth is available to Districts than they can actually tax without seeking approval of the voters through a referendum. The result is, over time, sharply reduced amounts of state to the City Colleges. Revising this formula will require a great deal of negotiation and political will over the next year.

***APPROPRIATIONS***

The following section presents information and trends regarding City Colleges appropriations and expenditures. The FY2005 total proposed operating budget includes \$232 million from unrestricted funding sources and \$92 million from restricted funding sources such as grants awarded and grants applied for but not yet awarded. While unrestricted funds can be used for any activity, as long as it is approved by the Board of Trustees, restricted funding by private or government organizations must be used for a specific activity.

***The Proposed Operating Budget***

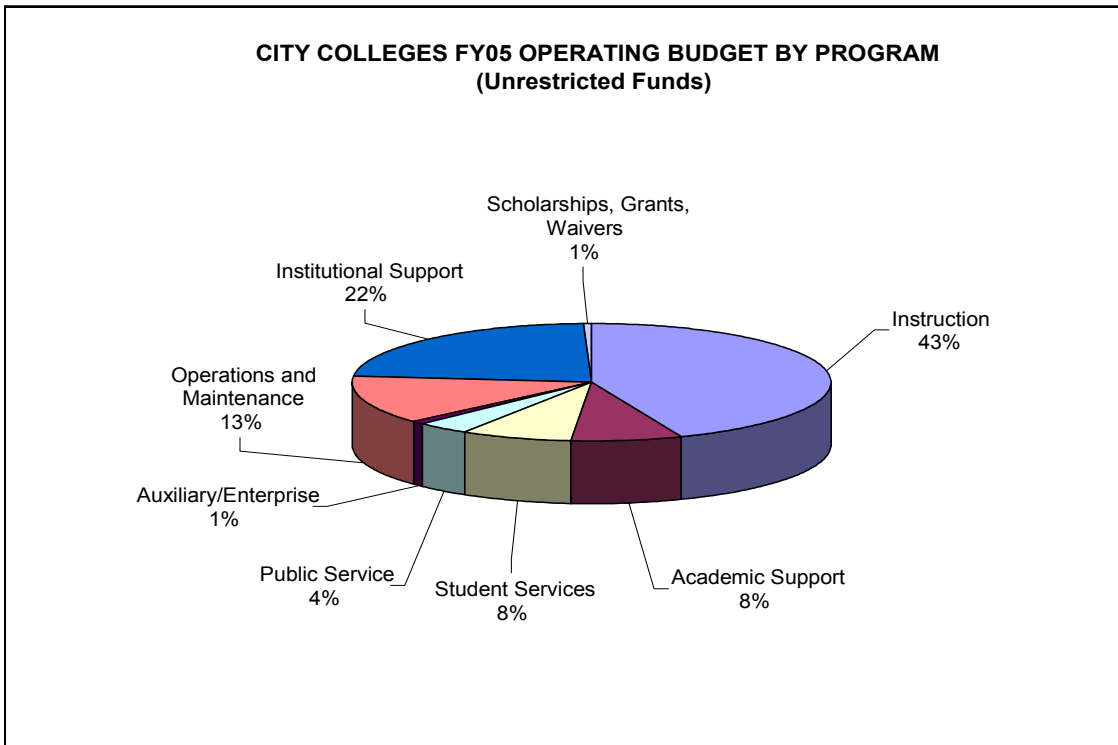
Fifty-five percent of the FY2005 appropriations or approximately \$129 million is earmarked for employee salaries. The next largest amount, approximately \$34 million, is proposed to fund employee benefits.

<b>BY OBJECT OF EXPENDITURE (Unrestricted Funds)</b>		
<b>Appropriation by Object</b>	<b>FY05</b>	<b>% of Total</b>
Salaries	\$ 128,880,728	55.4%
Employee Benefits	\$ 34,917,417	15.0%
Contractual Services	\$ 27,009,576	11.6%
Materials/Supplies	\$ 9,602,351	4.1%
Travel/Conference	\$ 1,048,374	0.5%
Fixed Charges	\$ 793,945	0.3%
Utilities	\$ 10,760,566	4.6%
Capital Outlay	\$ 4,892,360	2.1%
Other	\$ 14,536,283	6.3%
<b>TOTAL</b>	<b>\$ 232,441,600</b>	<b>100.0%</b>
Source: City Colleges of Chicago FY2005 Budget, P. 19.		

The following chart illustrates that 43% of the operating budget, or approximately \$101 million, is designated for instruction. The next largest amount, \$52 million, is earmarked for institutional support and represents 22% of the operating budget. It is estimated that Operations and Maintenance will require \$31 million, or 13% of the budget. Instruction refers to classroom activities including faculty salaries and classroom materials.

- **Institutional Support** refers to activities related to general institutional management.
- **Operations and Maintenance** refers to physical plant and facility-related activities.
- **Academic Support** refers to activities directly supporting instruction including tutoring and academic management.
- **Student Services** refers to activities including registering, admitting and testing students.

- **Public Service** refers to programs designed to serve the public, such as customizing training and continuing education.



***Proposed Budget FY2004 to Proposed Budget FY2005: Appropriations Increase by 9%***

The FY2005 budget proposes a total appropriation of \$324 million, up \$27 million, or 9% from the FY2004 originally proposed budget of \$297 million. Fixed Charges will decrease by 62.5% in total, and travel and conference appropriations will decrease by 19.6%. Both Employee Benefits and other expenditures, the latter of which includes a FY2005 reserve for state funding and a \$1.8 million re-appropriated enterprise, will both increase by roughly 22%.

<b>CITY COLLEGES FUNDS (All Funds)</b>				
<b>Appropriation by Object</b>	<b>FY04</b>	<b>FY05</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
Salaries	\$ 146,339,231	\$ 153,274,815	\$ 6,935,584	4.7%
Employee Benefits	\$ 32,785,870	\$ 39,965,818	\$ 7,179,948	21.9%
Contractual Services	\$ 29,903,320	\$ 31,954,135	\$ 2,050,815	6.9%
Materials/Supplies	\$ 16,381,814	\$ 16,154,457	\$ (227,357)	-1.4%
Travel/Conferences	\$ 2,391,668	\$ 1,923,497	\$ (468,171)	-19.6%
Fixed Charges	\$ 2,176,272	\$ 816,194	\$ (1,360,078)	-62.5%
Utilities	\$ 9,962,510	\$ 10,778,981	\$ 816,471	8.2%
Capital Outlay	\$ 6,303,022	\$ 6,423,717	\$ 120,695	1.9%
Other	\$ 51,298,805	\$ 62,910,823	\$ 11,612,018	22.6%
<b>TOTAL</b>	<b>\$ 297,542,512</b>	<b>\$ 324,202,437</b>	<b>\$ 26,659,925</b>	<b>9.0%</b>

Source: City Colleges of Chicago FY2005 Budget, P. 19 & 47. FY2004 Budget, CCC-6, CCC-8.

In FY2005, unrestricted fund expenditures are projected to increase by 7.7%, from a proposed FY2004 appropriation of \$216 million, to \$232 million. Restricted fund revenues are expected to increase by 12% in FY2005, from \$82 million to \$92 million. The capital outlay appropriation will increase dramatically by 361.7% as the fixed charges, travel and conferences, and materials and supplies appropriations will all decrease by 63.3%, 41.9% and 23.5% respectfully.

<b>CITY COLLEGES OPERATING FUNDS (Unrestricted Funds)</b>				
<b>Appropriation by Object</b>	<b>FY04</b>	<b>FY05</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
Salaries	\$ 124,394,609	\$ 128,880,728	\$ 4,486,119	3.6%
Employee Benefits	\$ 30,775,558	\$ 34,917,417	\$ 4,141,859	13.5%
Contractual Services	\$ 21,864,722	\$ 27,009,576	\$ 5,144,854	23.5%
Materials/Supplies	\$ 12,436,856	\$ 9,602,351	\$ (2,834,505)	-22.8%
Travel/Conferences	\$ 1,803,359	\$ 1,048,374	\$ (754,985)	-41.9%
Fixed Charges	\$ 2,161,163	\$ 793,945	\$ (1,367,218)	-63.3%
Utilities	\$ 9,910,828	\$ 10,760,566	\$ 849,738	8.6%
Capital Outlay	\$ 1,059,548	\$ 4,892,360	\$ 3,832,812	361.7%
Other	\$ 11,374,868	\$ 14,536,283	\$ 3,161,415	27.8%
<b>TOTAL</b>	<b>\$ 215,781,511</b>	<b>\$ 232,441,600</b>	<b>\$ 16,660,089</b>	<b>7.7%</b>

Source: City Colleges of Chicago FY2005 Budget, P. 19. FY2004 Budget, CCC-6.



*Proposed Budget FY2005 to Actual Expenditures FY2004: Appropriations Increase by 15.6%*

As revealed in the exhibit below, when unaudited actual FY2004 expenditures are compared with the FY2005 proposed budget the differences between FY2004 and FY2005 are more pronounced. While the FY2005 budget proposes a total appropriation of \$324 million, the *actual* expenditures in FY2004 add up to \$280 million, an increase of 15.6%. When the FY2004 *proposed* budget is used above to note changes in the total funds appropriated, this difference is 9.0%. Capital outlay increases significantly with the FY2004 actual expenditures by 274.4% and the contractual services appropriation increase from a 6.9% change in the previous exhibit to a 34.2% change in the exhibit below.

<b>CITY COLLEGES FUNDS (All Funds)</b>				
<b>Appropriation by Object</b>	<b>FY04 (Actual)</b>	<b>FY05</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
Salaries	\$ 143,984,738	\$ 153,274,815	\$ 9,290,077	6.5%
Employee Benefits	\$ 30,621,907	\$ 39,965,818	\$ 9,343,911	30.5%
Contractual Services	\$ 23,807,645	\$ 31,954,135	\$ 8,146,490	34.2%
Materials/Supplies	\$ 14,784,982	\$ 16,154,457	\$ 1,369,475	9.3%
Travel/Conferences	\$ 1,514,243	\$ 1,923,497	\$ 409,254	27.0%
Fixed Charges	\$ 1,331,360	\$ 816,194	\$ (515,166)	-38.7%
Utilities	\$ 8,868,375	\$ 10,778,981	\$ 1,910,606	21.5%
Capital Outlay	\$ 1,715,828	\$ 6,423,717	\$ 4,707,889	274.4%
Other	\$ 53,753,049	\$ 62,910,823	\$ 9,157,774	17.0%
<b>TOTAL</b>	<b>\$ 280,382,127</b>	<b>\$ 324,202,437</b>	<b>\$ 43,820,310</b>	<b>15.6%</b>

Source: City Colleges of Chicago FY2005 Budget, P. 19 & 47.

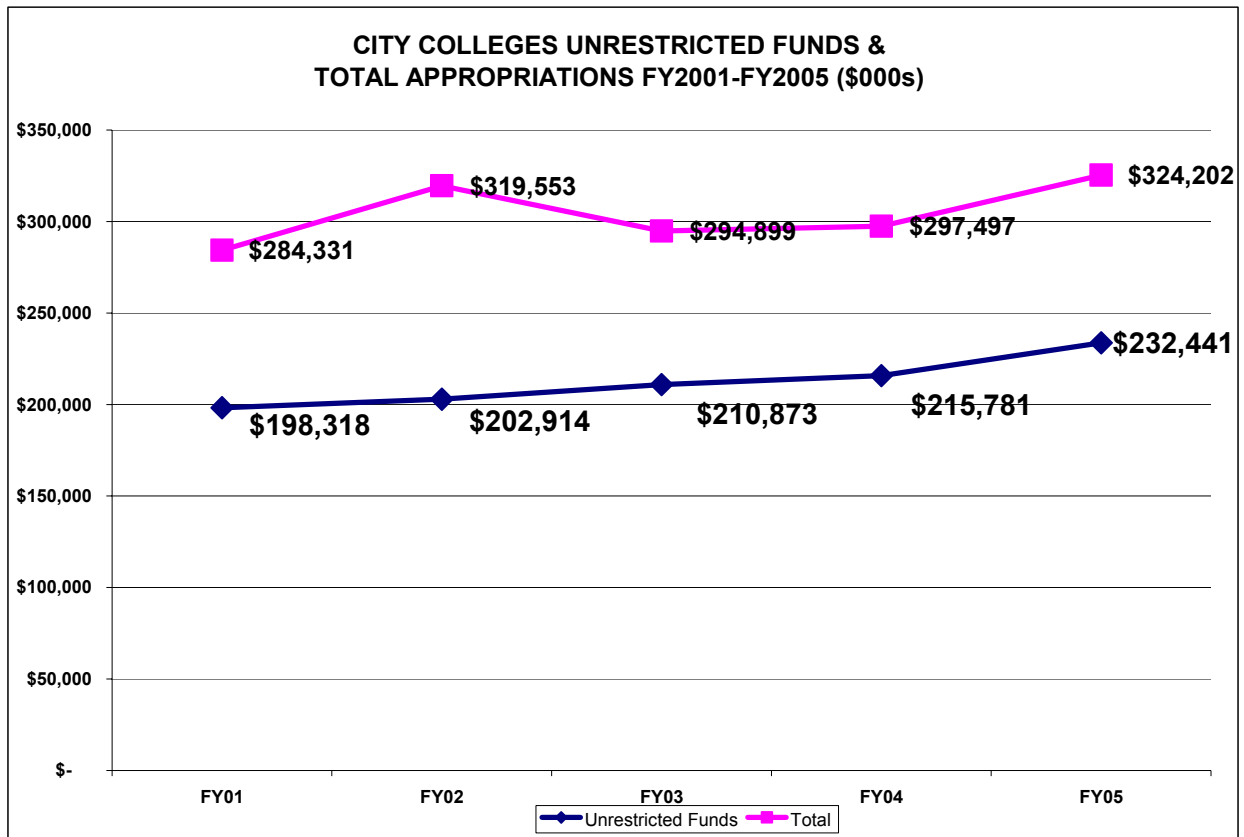
The following exhibit compares FY2004 unaudited numbers with the proposed FY2005 budget in terms of unrestricted funds. Similarly, in FY2005, unrestricted fund expenditures are projected to increase by 19.7%, from the *actual* FY2004 appropriation of \$194 million, to \$232 million. This compares to the 7.7% percentage increase that results with the FY2004 proposed budget.

<b>CITY COLLEGES OPERATING FUNDS (Unrestricted Funds)</b>				
<b>Appropriation by Object</b>	<b>FY04(Actual)</b>	<b>FY05</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
Salaries	\$ 121,359,352	\$ 128,880,728	\$ 7,521,376	6.2%
Employee Benefits	\$ 26,692,162	\$ 34,917,417	\$ 8,225,255	30.8%
Contractual Services	\$ 18,849,737	\$ 27,009,576	\$ 8,159,839	43.3%
Materials/Supplies	\$ 9,644,045	\$ 9,602,351	\$ (41,694)	-0.4%
Travel/Conferences	\$ 828,575	\$ 1,048,374	\$ 219,799	26.5%
Fixed Charges	\$ 1,313,845	\$ 793,945	\$ (519,900)	-39.6%
Utilities	\$ 8,846,602	\$ 10,760,566	\$ 1,913,964	21.6%
Capital Outlay	\$ 319,102	\$ 4,892,360	\$ 4,573,258	1433.2%
Other	\$ 6,310,149	\$ 14,536,283	\$ 8,226,134	130.4%
<b>TOTAL</b>	<b>\$ 194,163,569</b>	<b>\$ 232,441,600</b>	<b>\$ 38,278,031</b>	<b>19.7%</b>

Source: City Colleges of Chicago FY2005 Budget, P. 19.

### 5 – Year Appropriation Trends

The next exhibit presents the 5-year appropriation trends for the City Colleges unrestricted operating funds and total appropriations. Unrestricted fund appropriations rose 17% between FY2001 and FY2005, from \$198 million to \$232 million, while total appropriations have risen 14% since FY2001. The spike of \$320 million in FY2002 was due to an increase in restricted federal revenues, largely in the form of one-time grants.



While appropriations for instruction have increased slightly, funds for public service and Scholarships have increased dramatically. Academic support has experienced a 31.2% increase, while institutional support has experienced a 10.6% decline in funding.

<b>APPROPRIATIONS BY CATEGORY 5 YEAR TREND (All Funds)</b>			
	<b>FY2001</b>	<b>FY2005</b>	<b>% Change</b>
Instruction	\$ 107,456,000	\$ 112,982,226	5.1%
Academic Support	\$ 21,170,000	\$ 27,782,405	31.2%
Student Services	\$ 20,218,000	\$ 26,009,670	28.6%
Public Service	\$ 6,800,000	\$ 16,905,824	148.6%
Auxiliary/Enterprise	...	\$ 1,913,165	N/A
Organized Research	...	\$ 315,176	N/A
Operations and Maintenance	\$ 33,998,000	\$ 32,708,690	-3.8%
Institutional Support	\$ 64,187,000	\$ 57,409,023	-10.6%
Scholarships/Grants/Waivers	\$ 30,502,000	\$ 48,176,259	57.9%
<b>TOTAL</b>	<b>\$ 284,331,000</b>	<b>\$ 324,202,438</b>	<b>14.0%</b>

Source: City Colleges of Chicago FY2005 Budget, P. 19 & 47. FY2001 Budget, P. 3 & 6.

In terms of unrestricted funds, public service expenditures have increased considerably, by 3508.7%, since FY2001. Instruction increased by 21.5% and academic support increased by 37.3%. While scholarships, grants, and waivers appear to decrease in the following exhibit, it is due to the fact that a large portion of restricted funds make up this category. Institutional support has declined slightly by 1.2%, from \$53.3 million to \$52.7 million.

<b>APPROPRIATIONS BY CATEGORY 5 YEAR TREND (Unrestricted)</b>			
	<b>FY2001</b>	<b>FY2005</b>	<b>% Change</b>
Instruction	\$ 83,882,000	\$ 101,895,045	21.5%
Academic Support	\$ 12,757,000	\$ 17,512,643	37.3%
Student Services	\$ 15,358,000	\$ 17,651,578	14.9%
Public Service	\$ 228,000	\$ 8,227,763	3508.7%
Auxiliary/Enterprise	...	\$ 1,786,849	N/A
Operations and Maintenance	\$ 31,025,000	\$ 31,270,772	0.8%
Institutional Support	\$ 53,337,000	\$ 52,707,659	-1.2%
Scholarships/Grants/Waivers	\$ 1,731,000	\$ 1,389,292	-19.7%
<b>TOTAL</b>	<b>\$ 198,318,000</b>	<b>\$ 232,441,601</b>	<b>17.2%</b>

Source: City Colleges of Chicago FY2005 Budget, P. 19. FY2001 Budget, P. 6.

**Personnel Trends: 83 New Positions in FY2005**

The City Colleges plans to fund 3,198 positions in FY2005. Of those positions, 610 constitute full-time faculty positions, an increase of 56 full time positions, or a 1% increase from FY2004. This is offset by 39 fewer part-time positions and 5 fewer positions in operations and management. 70 clerical and professional positions will be added in FY2005.

<b>CITY COLLEGES FY05 PLANNED FULL-TIME PERSONNEL BY STAFF DESCRIPTION</b>				
<b>Staff Description</b>	<b>FY04</b>	<b>FY05</b>	<b># CHANGE</b>	<b>% CHANGE</b>
Full-Time Faculty	554	610	56	0.10
Part-Time Faculty	1,070	1,031	-39	-0.04
Administrators	188	189	1	0.01
Clerical and Professional	824	894	70	0.08
Operations and Maintenance	479	474	-5	-0.01
<b>TOTAL</b>	<b>3,115</b>	<b>3,198</b>	<b>83</b>	<b>0.03</b>

Source: City Colleges of Chicago FY2005 Budget, P.28.

A breakdown of the 70 additional clerical and professional positions is provided below.

<b>CITY COLLEGES FY05 CLERICAL AND PROFESSIONAL STAFF CHANGES</b>	
<b>Category</b>	<b>FTE change FY05</b>
Academic Support: Tutors, Student Advisors, Teaching Assistants	30
Student Services: Financial Aid Advisors, Admission and Registrar Offices	13
Public Service: Customized Trainers	15
Institutional Support: Colleges and WYCC Business/Presidents Offices, Advertising/Sales	6
Institutional Support: Information Technology Staff In-Sourcing	6
<b>TOTAL</b>	<b>70</b>

Source: Supplementary information provided by the City Colleges on September 28, 2004 after the budget was approved by the Board of Trustees.

**Revenues: 6% Increase between FY2004 and FY2005**

Total revenues are projected to increase by 5.6%, from \$301 million to \$318 million. Tuition and Federal funding are expected to increase by 9.6% and 14.2% respectively. Auxiliary and Enterprise funding, both supplementary revenue and self-sustaining activities, will decrease by 26.2%.

<b>CITY COLLEGES REVENUES (All Funds)</b>				
<b>Sources of Revenues</b>	<b>FY04</b>	<b>FY05</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
Local Government	\$ 94,622,198	\$ 100,155,666	\$ 5,533,468	5.8%
State Government	\$ 79,119,126	\$ 76,981,024	\$ (2,138,102)	-2.7%
Federal Government	\$ 58,131,110	\$ 66,359,882	\$ 8,228,772	14.2%
Tuition and Fees	\$ 57,972,468	\$ 63,545,041	\$ (5,572,573)	9.6%
Auxiliary/Enterprise	\$ 8,918,941	\$ 6,584,777	\$ 2,334,164	-26.2%
Investment Revenue	\$ 1,500,000	\$ 1,500,000	\$ -	0.0%
Other Sources	\$ 1,093,406	\$ 3,108,518	\$ 2,015,112	184.3%
<b>TOTAL</b>	<b>\$ 301,357,249</b>	<b>\$ 318,234,908</b>	<b>\$ 16,877,659</b>	<b>5.6%</b>

Source: City Colleges of Chicago FY2005 Budget, P. 19 & 47.

Unrestricted fund (general operating) revenues will increase by 8.4% or \$17.5 million, from \$208 million to \$226 million.

<b>CITY COLLEGES REVENUES (Unrestricted Funds)</b>				
<b>Sources of Revenues</b>	<b>FY04</b>	<b>FY05</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
Local Government	\$ 92,203,133	\$ 95,990,999	\$ 3,787,866	4.1%
State Government	\$ 47,005,950	\$ 56,013,873	\$ 9,007,923	19.2%
Federal Government	\$ 227,501	\$ 250,000	\$ 22,499	9.9%
Tuition and Fees	\$ 57,972,468	\$ 63,545,041	\$ (5,572,573)	9.6%
Auxiliary/Enterprise	\$ 8,918,941	\$ 6,584,777	\$ 2,334,164	-26.2%
Investment Revenue	\$ 1,500,000	\$ 1,500,000	\$ -	0.0%
Other Sources	\$ 1,093,406	\$ 2,589,383	\$ 1,495,977	136.8%
<b>TOTAL</b>	<b>\$ 208,921,399</b>	<b>\$ 226,474,073</b>	<b>\$ 17,552,674</b>	<b>8.4%</b>

Source: City Colleges of Chicago FY2005 Budget, P. 19 % 47.

*5 Year Revenue Trends: All Funds Revenues up 11.9% FY2001 to FY2005*

Revenue funds are projected to increase by 11.9% since FY2001, from \$284 million to \$318 million. Federal funding, much of which is accounted for in the restricted funds, is expected to increase by 45.3%. Tuition and fees are projected to increase by approximately 44%, State funding will decrease by 23.7% and investment revenue is expected to drop by 31.8% respectfully.

<b>CITY COLLEGES REVENUES 5 YEAR TREND (All Funds)</b>			
	<b>FY2001</b>	<b>FY2005</b>	<b>% Change</b>
Local Government	\$ 88,619,000	\$ 100,155,666	13.0%
State Government	\$ 100,948,000	\$ 76,981,024	-23.7%
Federal Government	\$ 45,678,000	\$ 66,359,882	45.3%
Tuition and Fees	\$ 44,123,000	\$ 63,545,041	44.0%
Auxiliary/Enterprise	...	\$ 6,584,777	N/A
Investment Revenue	\$ 2,200,000	\$ 1,500,000	-31.8%
Other Sources	\$ 2,762,000	\$ 3,108,518	12.5%
<b>TOTAL</b>	<b>\$ 284,330,000</b>	<b>\$ 318,234,908</b>	<b>11.9%</b>

Source: City Colleges of Chicago FY2005 Budget, P. 19 & 47. FY2001 Budget, P. 7.

The next exhibit examines 5-year trends for unrestricted funds only. Overall, unrestricted fund revenues will increase by 14.2%, from \$198 million to \$226 million. The largest single increase is expected to be from tuition and fees, which will experience a 44% increase, from \$44 million to \$63 million. This large increase is driven primarily by the 2004 tuition and fee increase. Local government revenues, derived from property taxes, are expected to increase by 11%. The largest decrease will be in the category of investment income, which will drop by 31.8% between FY2001 and FY2005.

<b>CITY COLLEGES REVENUES</b>			
<b>5 YEAR TREND (Unrestricted Funds)</b>			
	<b>FY2001</b>	<b>FY2005</b>	<b>% Change</b>
Local Government	\$ 86,207,000	\$ 95,990,999	11.3%
State Government	\$ 58,859,000	\$ 56,013,873	-4.8%
Federal Government	\$ 4,167,000	\$ 250,000	-94.0%
Tuition and Fees	\$ 44,123,000	\$ 63,545,041	44.0%
Auxiliary/Enterprise	...	\$ 6,584,777	N/A
Investment Revenue	\$ 2,200,000	\$ 1,500,000	-31.8%
Other Sources	\$ 2,762,000	\$ 2,589,383	-6.2%
<b>TOTAL</b>	<b>\$ 198,318,000</b>	<b>\$ 226,474,073</b>	<b>14.2%</b>

Source: City Colleges of Chicago FY2005 Budget, P. 19. FY2001 Budget, P. 7.

*Tuition Increase from \$52 to \$62 per Credit Hour*

The City Colleges approved a 3-year staggered tuition increase in 2004. Tuition increased from \$52 to \$62 per credit hour in 2004 and will increase to \$67 per credit hour in 2005 and \$72 per credit hour in 2006. Until approval of the 2004 increase, the City Colleges had one of the least expensive tuitions per credit hour of the regional community colleges. However, the 2004 increase from \$52 to \$62 per credit hour now will make it one of the most expensive. If no other regional community colleges raise tuition in 2005 or 2006, the CCC will have the highest tuition in the region. Since Fall 2002, every community college in Illinois except the City Colleges has raised tuition.

<b>CURRENT BASIC CREDIT HOUR TUITION FOR DISTRICT RESIDENTS</b>	
<b>COLLEGE</b>	<b>TUITION</b>
College of DuPage (Glen Ellyn)	\$ 46
Morton College (Cicero)	\$ 52
College of Lake County	\$ 52
Triton College (River Grove)	\$ 56
Oakton Community College (Des)	\$ 58
Prairie State (Chicago Heights)	\$ 61
<b>City Colleges of Chicago</b>	<b>\$ 62</b>
Elgin Community College (Elgin)	\$ 62
South Suburban College (South)	\$ 64
Harper College (Palatine)	\$ 67

\* Doesn't include fees.

*Property Tax Revenues: \$135 Million Total Levy Proposed*

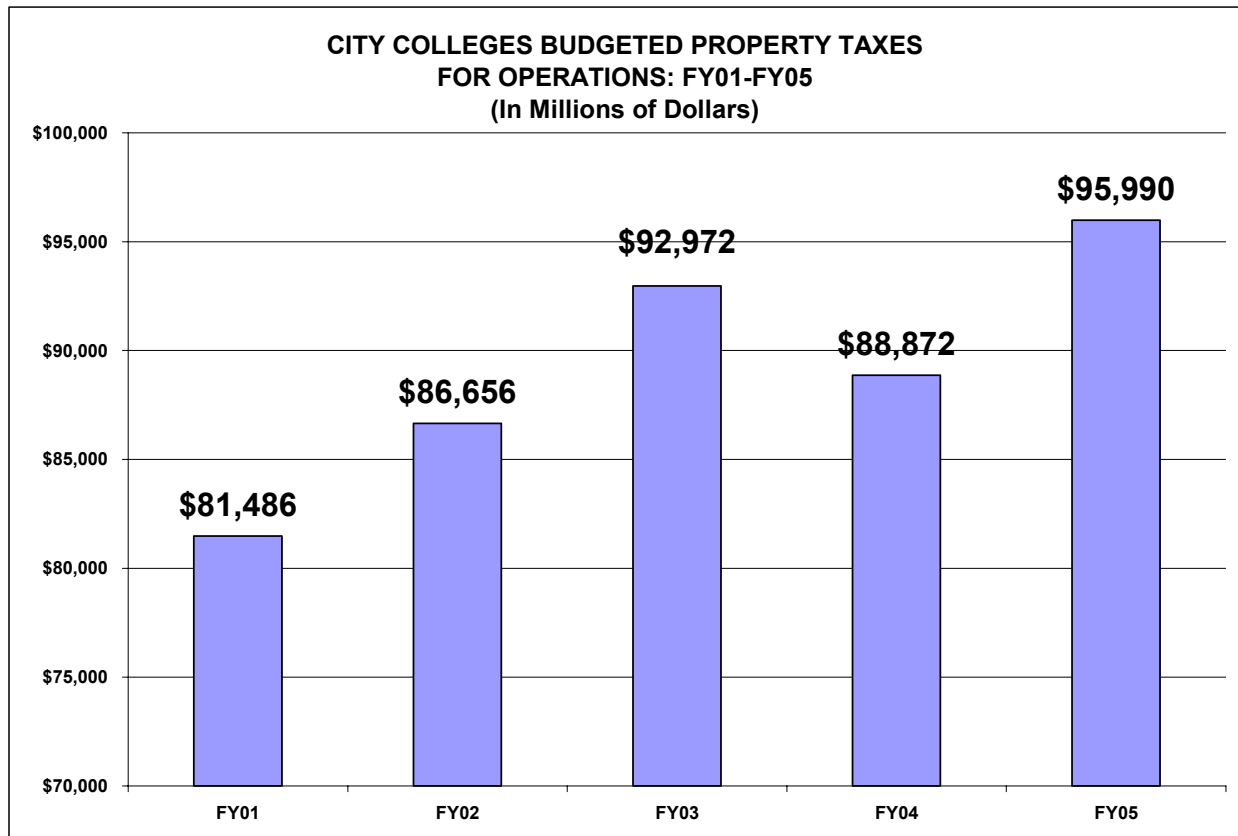
The City Colleges proposes to increase its property tax levy by 1.9% (plus an amount to be determined for increases in non-capped new construction) in tax year 2004, the maximum amount allowed by the tax cap law. The new levy is estimated to be \$135.0 million, up from \$131.2 million in the last tax year.

Property tax years are the same as calendar years. However, the City Colleges fiscal year, for which funds are budgeted, is July 1 to June 30. Property tax funds available during this fiscal year will be drawn from part of tax year 2003 and part of tax year 2004.

For Fiscal Year 2005, the amount of dollars to be generated from property taxes for the City Colleges for all funds will be \$135 million. That amount includes:

- \$95.9 million to support the District’s operating budget;
- \$33.1 million used to make lease payments to the Public Building Commission of Chicago;
- \$4.7 million for estimated loss and cost of taxes; and
- \$3.1 million for back tax revenue.

The next exhibit shows the City College District’s budgeted property taxes dedicated to operating purposes over a 5-year period. The amount of revenue derived from property taxes will rise by 7% or \$7 million in 2005, from \$88.8 million to \$95.9 million. Since FY2001, this amount has risen by 18%, from \$81.4 million to \$95.9 million.



## UNRESERVED, UNDESIGNATED FUND BALANCE

This year, the Civic Federation used the standard recently recommended by the Government Finance Officers Association to measure the cash solvency of the City Colleges' unrestricted net assets or fund balance. The purpose of this indicator is to measure the ability of a government to quickly convert illiquid assets to cash to meet contingency needs. The GFOA recommends that governments maintain an unreserved fund balance of no less than 5% to 15% of General Fund operating revenues or 1-2 months of operating expenditures.<sup>2</sup>

### Unrestricted Fund Balance Ratio: Within GFOA Recommendation in FY2003

Between FY1999 and FY2003, the CCC General Operating Funds' unrestricted fund balance increased from less than 1% or \$117,944 to 10.7% of operating expenses or \$32.1 million. The ratio rose above the 5% minimum GFOA recommendation in FY2001. The dramatic increase in fund balance is a very good sign and a positive reflection on the financial management of the City Colleges.

CITY COLLEGES UNRESTRICTED FUND BALANCE RATIO			
	Unrestricted Fund Balance	Operating Expenditures	Ratio
FY1999	\$ 117,944	\$ 270,379,241	0.0%
FY2000	\$ 3,034,911	\$ 265,086,186	1.1%
FY2001	\$ 19,203,107	\$ 278,247,017	6.9%
FY2002	\$ 30,144,800	\$ 281,633,975	10.7%
FY2003	\$ 32,103,031	\$ 300,212,420	10.7%

## DEBT TRENDS

The Civic Federation has employed two measures of debt for purposes of this analysis: short-term debt trends and long-term debt per capita trends.

### *Short-Term Debt Trends: 44% Increase between FY1999 and FY2003*

Short-term debt is a financial obligation that must be satisfied within one year. An increasing trend in short-term debt may be a warning sign of future financial difficulties. It is a measure of budgetary solvency, that is, a government's ability to generate enough revenue over the course of a normal budgetary period to meet its expenditures and prevent deficits

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<sup>2</sup> Government Finance Officers Association. Recommended Practice on Appropriate Level of Unreserved Fund Balance in the General Fund (2002). The City Colleges is a special purpose, not a general purpose government, but its size and the relative stability of its revenue stream make it prudent for the CCC to maintain adequate reserves.



Short-term debt includes obligations such as accounts payable, deferred salaries payable, deferred property tax revenue, deferred revenue and termination benefits payable. In sum, it includes all liabilities except accrued salaries and wages, accrued payroll and compensated absences. Put another way, it includes all current liabilities less accrued payroll and the current portion of non-current liabilities.

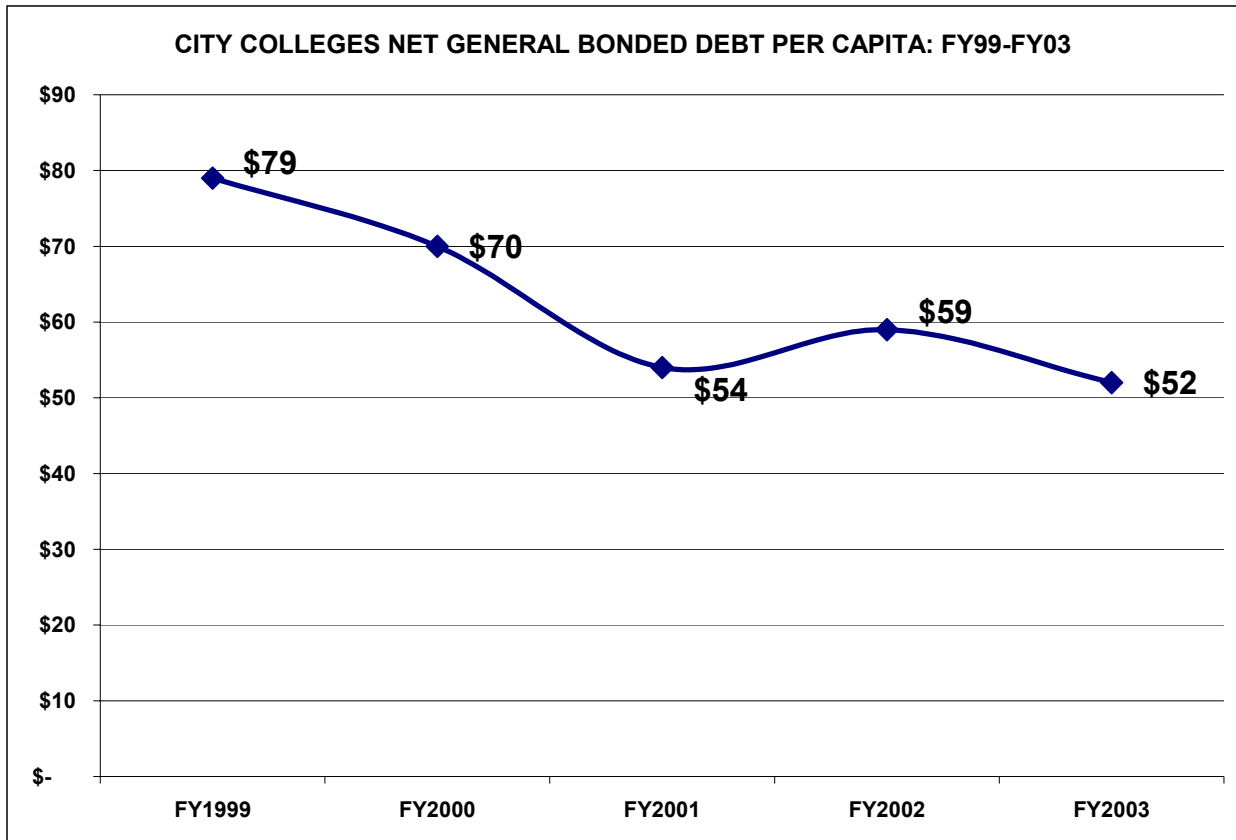
City Colleges reported a large 44% increase in short-term debt between FY1999 and FY2003, from \$91 million to \$131 million. Short-term debt rose from \$101 million to \$131 million between FY2002 and FY2003. These sharp increases over this 5-year period are a cause for concern at this time

<b>CITY COLLEGES SHORT-TERM DEBT</b>		
<b>FY1999 to FY2003</b>		
<b>Fiscal Year</b>	<b>Short-Term Debt</b>	<b>% Change</b>
<b>FY1999</b>	\$ 91,244,496	...
<b>FY2000</b>	\$ 95,747,230	5%
<b>FY2001</b>	\$ 96,637,003	1%
<b>FY2002</b>	\$ 101,383,893	5%
<b>FY2003</b>	\$ 131,301,725	30%
<b>5-Year Increase</b>	<b>\$ 40,057,229</b>	<b>44%</b>

*Net General Bonded Debt Per Capita: 34% Decrease between FY1999 and FY2003*

The next exhibit presents historic City Colleges net general bonded debt per capita figures. Net general bonded debt includes capital lease obligations capital lease arrangements with the Chicago Public Building Commission and revenue bonds payable. This indicator is a measure of a government's ability to maintain its current financial policies. Increases bear watching as a potential sign of increasing financial risk.

Long-term City Colleges debt per capita decreased by 34% between FY1999 and FY2003 from \$79 to \$52. This is a positive long-term trend.



**EMPLOYEE RETIREMENT PENSION FUND**

City Colleges employees are enrolled in the State Universities Retirement System (SIRS) of Illinois. Plan members contribute 8.0% of their annual covered salary. The State of Illinois substantially makes employer contributions on behalf of the City Colleges at the actuarially determined rate of 11.13% of covered payroll. State contributions to SURS on behalf of the City Colleges for FY2003 were \$11.8 million. In addition, the City Colleges make employer contributions for certain positions that are not State funded. Contributions for these positions totaled \$260,111 in FY2003.<sup>3</sup>

<sup>3</sup> City Colleges of Chicago Comprehensive Annual Financial Report for the Year Ended June 30, 2003, p. 33.

## BUDGET FORMAT ISSUES AND RECOMMENDATIONS

The Civic Federation **commends** the financial management team at the City Colleges for substantially improving the format of the District's budget to reflect many of the guidelines of the Government Finance Officer's Association Distinguished Budget Awards Program. The budget contains many user-friendly features, including:

- A table of contents;
- An organizational chart;
- A description of budget procedures and structure;
- Narrative descriptions of funds and colleges;
- Glossaries of terms;
- Descriptions of District financial policies;
- Descriptions of the City Colleges' strategic goals and initiatives and the concrete steps the District has taken to meet those goals; and
- Three years of summary information regarding revenues, appropriations and full-time equivalent positions

We were very pleased to find 5-year projections of operating net revenues and expenditures as well as the assumptions underlying those projections contained in the budget document. Developing and presenting forecasts is a key component of a long-term financial planning process and will help the District craft solutions to its long-range financial challenges before they become crises.

The Civic Federation also congratulates the City Colleges for producing a Comprehensive Annual Financial Report (CAFR). This is an important achievement that greatly increases the availability and transparency of District financial information for users, including the general public.

### *Budget Format Recommendations*

The Civic Federation offers the following recommendations to further improve the format of the City Colleges budget document:

- The budget should include a budget calendar;
- The budget should include an easily understood "walk-up" that describes the sources of the current fiscal year budget deficit or surplus in the introductory pages of the budget and a "walk down" that clearly identifies the steps taken to eliminate the budget deficit if there is one.
- The budget document should include summary information about the entire budget, both unrestricted and restricted funds, as it did in past years. It is important for taxpayers and citizens to be presented with a complete picture of the District's finances.
- The budget document needs a much clearer and more complete discussion of property tax revenues and the property tax levy. More specifically, we urge the District to present:

1. A glossary description of what is included in the category “local government” revenue.
  2. A discussion of the District’s gross property tax levy for all funds and a presentation of 5-year trends for the gross levy. Taxpayers must pay property taxes that are distributed to all of the levy funds, not just the operating funds. Failure to clearly present and explain gross levy trends presents only a partial picture of District local government revenues. Virtually every government presents this information in an aggregate format and so should the District.
  3. A discussion of the amount of funds that the District will receive from property taxes for all funds for the current fiscal year.
- The budget should contain 5-year personnel trends in future years. It is our understanding that the District’s financial management information system does not permit presentation of historic 5-year trends for personnel. However, we urge the District to present an additional year of information for each of the next two years until it is possible to present 5-year trend.