



**THE CITY COLLEGES OF CHICAGO**  
**FY2006 TENTATIVE BUDGET**  
**Analysis and Recommendations**

**Prepared By**  
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## EXECUTIVE SUMMARY

Illinois Community College District 508, the City Colleges of Chicago (CCC), proposes a \$474.2 million total budget for FY2006. The budget is balanced through a property tax levy that is the maximum amount allowed under the tax cap law, tuition increases, one-time State funding and the appropriation of fund balances.

The Civic Federation is pleased that the City Colleges has made some important strides in improving how it manages its resources including a more transparent budget format, implementation of a strategic plan and significant increases in employee health care contributions leading to a benefit cost reduction in FY2006. However, in reviewing the entire financial plan submitted to the public in this budget, we are confronted with a lack of demonstrable evidence that City Colleges is committed to reducing operating costs and eliminating inefficiencies. For these reasons, the Civic Federation cannot support the proposed property tax and tuition increases that are the basis of the financial plan and we oppose this budget.

The City Colleges District proposes a double digit spending increase at the same time enrollment is declining and the future of State funding support is uncertain. The District projects that the gap between operating revenues and expenditures could be \$20.9 million next year and grow as large as \$46.5 million in FY2010. This gap comes despite the cost control relief afforded by lower employee benefit costs this year, projected 2% per year increases in property taxes and a 26.2%, \$18 million aggregate expected increase in tuition and fee revenues over that period of time. Clearly, this financial plan is not sustainable in both the short and the long term. However, despite this situation, the public has no evidence of a long-term financial plan to control costs. Such a strategy must be implemented soon and it must include the implementation of management efficiencies, including the consolidation and elimination of programs.

The Civic Federation offers the following **key findings** on the CCC FY2006 Recommended Budget:

- The City Colleges FY2006 budget is projected to total approximately \$474.2 million, an increase of 11.2% or \$47.7 million from FY2005.
- The budget was balanced with a \$3.6 million increase in the amount of property taxes budgeted this fiscal year, \$5.1 million from increased tuition and fees and a net fund balance carryover from FY2005 of \$7.7 million.
- The City Colleges District will receive a net increase of \$1.9 million in State funds for unrestricted purposes; this includes \$15 million in one-time funding in FY2006 to compensate the District as discussions continue regarding changes to the State community college equalization formula. In addition, the City Colleges will receive a net decrease of \$2.0 million for State grants.
- The property tax levy will increase by 3.4% on properties covered by the tax cap law and approximately 1.0% on tax cap exempt new construction. The total new gross levy will be approximately \$143.1 million. However, that amount will be scaled back when the levy is extended by the Cook County Clerk and all appropriate rate limitations and the tax cap are applied.
- The number of full-time equivalent positions will increase by 96 FTEs, from 3,198 to 3,294.
- Employee benefits costs will decrease by 0.5%, from \$39.9 million to \$39.7 million, following contract negotiations with the Cook County College Teachers Union, Local 1600.
- Enrollment in the City Colleges has dropped by 7% from FY2001 to FY2005, falling from 48,457 to 45,043 full time equivalent students.

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

- Employee benefit costs were **reduced** due to productive negotiations in the District's collective bargaining agreement with Local 1600. This is an impressive achievement that no other local government in the Chicago area to date has been able to attain this year.
- Budget transparency has been **improved significantly**. The FY2006 budget document is more logically organized than in previous years and provides more consistent and complete information.

We commend the financial management team for producing a more informative and useful document than in previous years in a very short time frame.

- We **applaud** the City Colleges for implementing the Annual Program and Service Analysis (APSA), a process used to systematically evaluate the quality and effectiveness of all programs. We believe that all City Colleges stakeholders would be well served if more information about the outcomes in the APSA reports were included in the Budget Book and related documents.

The Civic Federation has several **concerns** about the FY2006 City Colleges budget:

- The CCC has once again increased its property tax levy to the maximum amount permitted by the tax cap law. The Civic Federation is very disappointed that the City Colleges this year did not take up Mayor Richard Daley's challenge to the District and other governments to "do all they can to improve their management and continue to cut spending."<sup>1</sup> Instead, the City Colleges appears to have adopted a standard policy of automatically increasing property taxes to the maximum amount allowed by law.
- Although the budget format is improved, the budget still fails to provide the public with easily accessible information about programs and policies it is undertaking that generate quantifiable efficiencies and cost reductions. Public proof of actual budget savings and management efficiencies is a critical step in securing public confidence that the Chicago community college system is being operated efficiently and effectively. While this year's budget format is a good start, even more budget transparency is critical in succeeding years if the CCC is to win the confidence of the taxpaying public that the District is an efficient steward of over \$474 million of public money.
- The CCC has allowed an unreasonably short amount of time for public review and comment, releasing its budget only seven working days before its one day of scheduled public testimony.

The Civic Federation offers the following **recommendations** to improve the Chicago City Colleges financial management:

- The City Colleges should continue to build upon the improvements in the **budget format** made this year by including a budget calendar, a description of the reasons for a gap between revenues and expenditures and the steps taken to eliminate that gap in the introductory pages of the budget document; detailed quantitative information about management efficiencies implemented; a discussion of the District's gross property tax levy for all funds; a presentation of 5-year trends for the gross property tax levy; and comparable 5-year personnel trends.
- The public should be given a minimum of **10 working days** to review the budget before public hearings begin.
- The City Colleges should build upon the steps they have taken to develop and publish revenue and expenditure projections in the Budget Book and develop a formal **long-term financial plan** that would be shared with and/or reviewed by key policymakers and stakeholders.
- Once again, the Civic Federation strongly urges the Governor and the Illinois Community College Board to recognize 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> "Mayor Daley Orders 3 Percent Cut in Non-Public Safety Spending: Efficiencies Necessary to Keep Tax Increases as Last Resort, Mayor Says," Press Release from the City of Chicago, July 28, 2005.

## OVERVIEW

The Civic Federation recently concluded an analysis of financial issues related to the City Colleges of Chicago's (CCC) Recommended FY2006 \$474.2 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).

The Civic Federation is pleased that the City Colleges has made some important strides in improving how it manages its resources including a more transparent budget format, implementation of a strategic plan and significant increases in employee health care contributions leading to a benefit cost reduction in FY2006. However, in reviewing the entire financial plan submitted to the public in this budget, we are confronted with a lack of demonstrable evidence that City Colleges is committed to reducing operating costs and eliminating inefficiencies. For these reasons, the Civic Federation cannot support the proposed property tax and tuition increases that are the basis of the financial plan and we oppose this budget.

The City Colleges District proposes a double digit spending increase at the same time enrollment is declining and the future of State funding support is uncertain. The District projects that the gap between operating revenues and expenditures could be \$20.9 million next year and grow as large as \$46.5 million in FY2010, just four years away. This gap comes despite the cost control relief afforded by reduced benefit costs this year, projected 2% per year increases in property taxes and a 26.2%, \$18 million aggregate expected increase in tuition and fee revenues over that period of time. Clearly, this financial plan is not sustainable in both the short and the long term. However, despite this situation, we do not see evidence of a long-term financial plan to control costs. Such a strategy must be implemented soon and it must involve management efficiencies, including the consolidation and elimination of programs.

### *Troublesome Plan for Double Digit Spending Proposal while Enrollment Declines*

The City Colleges FY2006 budget once again significantly increases both spending and taxpayer required revenues. Failing to heed Mayor Daley's recent exhortation to introduce management efficiencies and cut spending as a first resort before raising taxes, the District continues its policy of increasing the property tax levy to the maximum amount allowed under the tax cap law. Overall spending will increase by 11.2%. This comes on the heels of a \$38 million, 9.8% increase in FY2005. Both of these increases are far in excess of inflation. This year's increase also moves in the opposite direction of the Chicago Public Schools, which actually cut its appropriation by 0.5% in FY2006.

The increase in spending is driven in large part by personnel and personnel-related costs. Salaries for employees in the operating funds will rise by 10.1%, from \$153.2 million to \$168.7 million. Even as the District brings the financial management function in-house, contractual service appropriations are projected to rise by 12.1%, or by \$3.8 million. Overall, the number of employees will continue to rise in FY2006, increasing by 96 full time equivalent positions to 3,294 FTEs.

At the same time as spending is rising at the City Colleges, enrollment is declining. Between FY2003 and FY2004, the last year for which complete data are available, enrollment dropped by 6.3% or over 3,000 student FTEs. Since FY2001, enrollment has fallen by 7.0%. The number of

students attending the Chicago Public Schools, which is a major source of City College students, is also declining. The number of Adult Education students, who provided over 44% of all City Colleges enrollees in FY2004, has dropped by 19.2% since FY2001 as immigration laws have tightened. The City Colleges budget documents contain little information as to how the system is or will be managing the dramatic enrollment declines and the long term impact that will have on the system's operating costs.

#### *Little Evidence of Management Efficiencies*

Unfortunately, we find little evidence of efforts by the City Colleges to either justify these increases or demonstrate that the District has acted to implement system-wide management efficiencies or cost cutting efforts other than the benefit reduction negotiation. If the District is in fact implementing efficiencies, it is difficult to determine this from the budget document. There is a section in the budget that discusses the District's Strategic Plan, including the Annual Program and Service Analysis (APSA). APSA is a process used to systematically evaluate the quality and effectiveness of all programs. This is an important program designed to better deliver services. But, particularly given the dire nature of the District's finances in the long-term, the City Colleges also urgently needs a comprehensive financial review of all programs to find ways to cap non-operating costs. This may require the consolidation and/or elimination of duplicative or non-essential programs. Absent dramatic new infusions of revenues from other governments, which are unlikely, cost cutting will become mandatory soon.

#### *Financial Situation Unsustainable in the Long-Term*

In the long-term, the CCC's financial situation is unsustainable: mounting costs are outstripping revenue growth as District FTE student enrollment falls.<sup>2</sup> The Civic Federation is concerned about the following projections:

- The gap between revenues and expenditures is expected to grow from \$20.9 million next year to \$46.5 million four years later. This scenario assumes non-renewal of the State of Illinois \$15 million equalization grant.
- Continuing to add positions to the City Colleges workforce will have long-term fiscal consequences. Even if salaries are held to a 2% annual increase as projected, salary costs will rise by 17% by 2010, or from \$137.2 million to \$160.5 million.
- Employee benefits costs are projected to rise by 81.1% or from \$34.2 million to \$62.0 million by FY2010.<sup>3</sup>
- The Federation supports a favorable resolution of the District's dispute with the Illinois Community College Board over the equalization formula, but such an outcome should not be assumed. The State has failed to address flaws in the equalization system, instead providing \$15.0 million this year and last year in the form of one-time grants. However, the funding is not guaranteed.

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<sup>2</sup> City Colleges FY2006 Budget, pp. 45-46.

<sup>3</sup> City Colleges FY2005 Budget, p. 36.

CITY COLLEGES PROJECTED REVENUES VS. EXPENDITURES FY2007-FY2010			
	Revenues	Expenditures	Deficit
FY2007	\$ 232,666,747	\$ 253,601,195	\$ (20,934,448)
FY2008	\$ 238,061,698	\$ 267,013,843	\$ (28,952,145)
FY2009	\$ 244,434,535	\$ 281,741,670	\$ (37,307,135)
FY2010	\$ 251,464,302	\$ 297,961,765	\$ (46,497,463)

Source: City Colleges FY2006 Budget, p. 47.

Even if the State provided a secure \$15 million equalization grant each year until FY2010, the gap between revenues and expenditures would widen from \$5.9 million next year to \$31.5 million in FY2010.

CITY COLLEGES REVENUE SHORTFALL: WITH OR WITHOUT STATE EQUALIZATION GRANT		
	Gap w/o \$15 Million State Grant	Gap with \$15 Million State Grant
FY2007	\$ (20,934,448)	\$ (5,934,448)
FY2008	\$ (28,952,145)	\$ (13,952,145)
FY2009	\$ (37,307,135)	\$ (22,307,135)
FY2010	\$ (46,497,463)	\$ (31,497,463)

Source: City Colleges FY2006 Budget, pp. 45-47.

### Issues that The Civic Federation Supports

The Civic Federation is encouraged that the City Colleges District has made several significant strides this year in improving its financial management.

#### Reducing Employee Benefit Costs

The Civic Federation **commends** the City Colleges financial management team for successfully achieving a **decrease** in employee benefit costs in FY2006. This is an impressive achievement that no other local government in the Chicago area has been able to attain this year.

As a result of contract negotiations with the Cook County College Teachers Union, Local 1600, the City Colleges will be able to reduce their overall expenditures on health insurance by 0.5%, or from \$39.9 million to \$39.7 million. The reductions are due to increases in required co-payments, higher annual out-of-pocket expenses, lower health care service fee coverage for physician and hospital services and increase in co-payments for prescription drug benefits.

#### Improvements in Budget Transparency

The Civic Federation **strongly commends** the new financial management team at the City Colleges for making significant improvements to the format of the FY2006 budget. We were particularly pleased that the budget document has been placed on the City Colleges Web site and that is better and more logically organized than in previous years. In addition, the budget:

- Contains summary information about the entire budget for all funds;

- Has greatly improved narrative descriptions;
- Includes a vastly improved discussion of property tax revenues, including a discussion of the amount of funds that the District will receive from property taxes for each fund for the current fiscal year;
- Includes an informative and detailed Capital Budget narrative; and
- Contains a detailed description of the basis of budgeting and accounting, including budgetary policies.

These achievements were especially significant given the very short time that staff had to complete the document this year. In sum, the Civic Federation believes the FY2006 budget document represents an important step toward providing the public with more complete and transparent financial information.

### Annual Program and Service Analysis

As part of the City Colleges strategic planning process, it prepares an Annual Program and Service Analysis (APSA). APSA is a process used to systematically evaluate the quality and effectiveness of all programs. It includes quality measures in the form of surveys of satisfaction, which is an important indicator of how well a program is working for its customers; some unit cost information, which is a good indicator of effectiveness; and other measures that are important ways to help assess how well programs and services are being provided. The Civic Federation **applauds** the City Colleges for conducting this review. We would like to see more information about the outcomes it reports in the Budget Book and related documents. And we would like to see something similar to the APSA process developed and implemented on a system-wide basis that focuses on measuring financial performance. Such a review would be invaluable in helping the City Colleges meet its mounting financial challenges in the long term.

### **Issues of Concern to The Civic Federation**

The Civic Federation has several **concerns** about certain elements of the FY2006 budget:

#### Property Tax Levy Again Increased to the Maximum Amount Allowed

In FY2006, the City Colleges of Chicago once again proposes to increase the property tax levy by the maximum amount permitted by the tax cap law, or 3.4%. The additional amount of taxes owed by the typical homeowner to the City Colleges may be relatively small, ranging from \$1.00 to \$2.00. But, taxpayers pay a composite property tax bill that aggregates the requests of all taxing bodies in a jurisdiction. The City Colleges' increase comes on the heels of the recent 3.4% property tax hike by the Chicago Public Schools and a proposed \$17 million property tax hike by the City of Chicago in a proposed Downtown Special Service Area (SSA). Undoubtedly, other local governments such as the Chicago Park District, the Metropolitan Water Reclamation District and the Forest Preserve District of Cook County will follow suit in the coming months. These increases by individual governments combine to substantially increase the property tax burden borne by homeowners and businesses in the City of Chicago.

The Civic Federation is very disappointed that the City Colleges this year did not take up Mayor Richard Daley's challenge to the District and other governments to "do all they can to improve



their management and continue to cut spending.”<sup>4</sup> Instead, the City Colleges appears to have adopted a standard policy of automatically increasing property taxes to the maximum amount allowed by law.

#### Lack of Information in Budget about Management Efficiencies

The City Colleges budget proposes a maximum property tax hike in addition to tuition and fee increases to pay for an 11.2% expenditure increase. Although the budget format is improved, the budget still fails to provide the public with easily accessible information about programs and policies it is undertaking that generate quantifiable efficiencies and cost reductions. Public proof of actual budget savings and management efficiencies is a critical step in securing public confidence that the Chicago community college system is being operated efficiently and effectively. We are surprised and disappointed that the District does not do more to promote any management improvements that demonstrate its ability to better utilize resources.

The City Colleges budget does contain some information about its ongoing strategic planning plan and initiatives. In FY2004, the planning process was enhanced with the introduction of the Annual Program and Service Analysis (APSA), which is a systematic review of the quality and effectiveness of programs and services as measured by both qualitative and quantitative measures.<sup>5</sup> The District reports that the 2004-2005 APSA process led to the review of 475 programs and the elimination of 81 programs. Unfortunately, however, the budget documents fail to provide detailed information about the actual outcomes produced in the APSA process.

Public proof of actual budget savings and management efficiencies is a critical step in securing public confidence that the Chicago community college system is being operated efficiently and effectively. While this year’s improved budget format is a great start, even more budget transparency is mandatory in succeeding years if the CCC is to win the confidence of the taxpaying public that the District is an efficient steward of over \$474 million of public money.

#### Lack of Time for Public Review and Commentary

Seven working days are insufficient for taxpayers, parents, educators or citizens to review and comprehend a \$474 million budget. However, that is all the time the CCC allows citizens to understand the vast amount of information contained in the District’s budget document before asking them for meaningful input in public hearings. This short time frame is compounded by the lack of detailed and historic information in the Budget Book. We are also concerned that the City Colleges prepares and releases its budget long after the beginning of the fiscal year and that it produces both a tentative and final budget. The process is confusing and makes it difficult to comprehend the true City Colleges spending plan for the fiscal year.

#### **Civic Federation Recommendations**

The Civic Federation offers several **recommendations** regarding ways to improve the City Colleges of Chicago financial management and fulfill its ongoing financial obligations.

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<sup>4</sup> “Mayor Daley Orders 3 Percent Cut in Non-Public Safety Spending: Efficiencies Necessary to Keep Tax Increases as Last Resort, Mayor Says,” Press Release from the City of Chicago, July 28, 2005.

<sup>5</sup> City Colleges FY2006 Budget, p. 16.

### Budget Format Improvements

The FY2006 budget format is much improved. At this time, the Civic Federation offers the following recommendations to further improve the format of the budget document:

- The budget should include a budget calendar outlining the budget process and key dates;
- The budget should include an easily understood description of the reasons for a gap between revenues and expenditures if there is one and the steps taken to eliminate that gap.
- The budget document should provide detailed **quantitative information about any management efficiencies implemented**, including cost savings generated from those efficiencies. It is impossible to evaluate the impact of those efficiencies without any information about them.
- The budget should include a discussion of the District's gross property tax levy for all funds and a presentation of 5-year trends for the **gross property tax 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.
- The budget should contain comparable **5-year personnel trends** in future years. There should also be some narrative that discusses the personnel changes and the reasons for those changes. It is our understanding that there are still some technical difficulties in calculating FTEs and presenting comparable multi-year trends for personnel. However, we urge the District to make every effort to compile and present this information. It is important to know exactly how many FTEs are employed by the District.

### Increase Time Allowed for Public Review and Comment

More time should be allowed for the public to review and understand the Chicago City Colleges' \$474.2 million 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 make fully informed commentary on the City Colleges financial plan.

### Develop a Formal Long-Term Financial Plan

In past years we have praised City Colleges for beginning to put together the elements of a long-term financial planning process. The Budget book does contain a 4-year financial outlook that presents revenue and expenditure projections based on assumptions which are disclosed. We salute the District for being one of the few local governments to present this information. At this juncture, the Civic Federation urges the City Colleges to take the next steps and develop a formal long-term financial plan. This would include the development and publication of a plan that is shared with and/or reviewed by key policymakers and stakeholders.

## The State of Illinois Must Change the Community College Equalization Factor

The Civic Federation reiterates its **strong support** for the City Colleges' efforts to effect a recalculation of the State community college equalization factor. The current system, which was 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 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.

### **FY2006 BUDGET HIGHLIGHTS**

The City Colleges FY2006 budget is projected to total approximately \$474.2 million, an increase of 11.2% or \$47.7 million from FY2005. The operating budget, including both Unrestricted and Restricted Funds (grants) will total approximately \$357.4 million while both the appropriations for the Capital Projects and Debt Service Funds combined will be approximately \$116.8 million.

#### **Revenue Highlights**

- The property tax levy will be increased to the maximum amount allowed by the tax cap law, or 3.4%. The net amount the City Colleges expect to receive in property tax dollars in FY2006 will be \$130.6 million, up 2.8% from the FY2005 amount of \$127.1 million.
- The State of Illinois will provide \$1.9 million in new revenues for general purposes this year, an increase from \$52.6 million to \$54.5 million. This includes a \$15.0 million grant designed to compensate the District for a lack of State Equalization funding.
- \$7.7 million in Operating fund balance will be appropriated this fiscal year.
- The tuition increase from \$62 to \$67 per credit hour will generate \$5.1 million in new revenues.

#### **Appropriation Highlights**

- Employee salary costs are expected to increase by 10.1%, from \$153.2 million to \$168.7 million.
- Employee benefits are anticipated decrease by 0.5%, or from \$39.9 million to \$39.7 million.
- Contractual services costs will increase by 12.1%, a \$3.8 million increase from \$31.9 million to \$35.8 million.
- Capital outlay costs are expected to decrease by 13.7%. This is an \$881,356 decline from \$6.4 million to \$5.5 million.

### **ACKNOWLEDGMENTS**

We would like to express our sincere thanks and appreciation to Chancellor Wayne Watson, Chief Financial Officer Kenneth Gotsch, Budget Director Joanna Koh and their staffs for their hard work in preparing this budget and their willingness to provide the Civic Federation with two briefings as well as answers to several of our budget questions.

### **REVENUES**

The City Colleges will utilize a total \$474.2 million of resources for all funds in FY2006 to balance the District's budget. The exhibit below shows the breakdown of those resources. Approximately \$7.7 million of fund balance will be appropriated in addition to \$466.6 million in

revenues from the local, state and federal sources. The single largest revenue source will be property tax revenues which will provide 29.2% or \$138.6 million of total revenues. The State of Illinois will provide 19.1% of all resources or \$90.4 million.<sup>6</sup> State and Federal intergovernmental revenues combined will provide 70.1% of the FY2006 budget, or \$332.4 million.

<b>CITY COLLEGES RESOURCES: FY2006 BUDGET</b>		
<b>Sources of Revenues</b>	<b>FY2006</b>	<b>% of Total</b>
Estimated Fund Balance	\$ 76,930,015	
Fund Balance to be Reserved	\$ (69,184,733)	
<b>Fund Balance to be Appropriated</b>	<b>\$ 7,745,282</b>	<b>1.6%</b>
Property Tax Revenues (Gross)	\$ 138,641,447	29.2%
Less Est. Loss and Cost of Collection	\$ (3,119,433)	-0.7%
Less Back Taxes	\$ (4,852,451)	-1.0%
Subtotal Property Taxes (Net)	\$ 130,669,563	27.6%
Local Government Grants	\$ 3,292,000	0.7%
<b>Total Local Government</b>	<b>\$ 133,961,563</b>	<b>28.3%</b>
Personal Property Replacement Tax	\$ 10,800,000	2.3%
State Government	\$ 90,463,147	19.1%
Federal Government	\$ 71,197,000	15.0%
Tuition and Fees	\$ 68,686,427	14.5%
Auxiliary/Enterprise	\$ 6,195,111	1.3%
Investment Revenue	\$ 2,536,000	0.5%
Other Sources	\$ 82,600,530	17.4%
<b>Subtotal State &amp; Federal Sources</b>	<b>\$ 332,478,215</b>	<b>70.1%</b>
<b>GRAND TOTAL</b>	<b>\$ 474,185,060</b>	<b>100.0%</b>

### Operating Revenues

Revenues for the Operating Funds (including grants) are projected to increase by 12.3% in FY2006 from the previous year.<sup>7</sup> This represents a \$39.1 million increase from \$318.2 million to \$357.3 million. Tuition will generate an additional \$5.1 million, primarily as a result of the tuition increase to \$67 per credit hour. State government revenues reportedly will increase by 26.0%; however, this figure assumes that the District will receive \$25.0 million in grants that have been applied for from various state sources.<sup>8</sup> Auxiliary and Enterprise funding, both supplementary revenue and self-sustaining activities, will decrease by 5.9%.

<sup>6</sup> Complete comparable data are not available for FY2005.

<sup>7</sup> Comparable data are not available for All funds, that is the Operating Funds, Capital Fund and Debt Service Fund.

<sup>8</sup> Information provided by City Colleges Budget Office, August 29, 2005.

<b>CITY COLLEGES REVENUES OPERATING FUNDS (FY2005-FY2006)</b>				
<b>Sources of Revenues</b>	<b>FY2005</b>	<b>FY2006</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
Local Government	\$ 100,155,666	\$ 102,872,666	\$ 2,717,000	2.7%
State Government	\$ 76,981,024	\$ 97,009,077	\$ 20,028,053	26.0%
Federal Government	\$ 66,359,882	\$ 71,197,000	\$ 4,837,118	7.3%
Tuition and Fees	\$ 63,545,041	\$ 68,686,427	\$ 5,141,386	8.1%
Auxiliary/Enterprise	\$ 6,584,777	\$ 6,195,111	\$ (389,666)	-5.9%
Investment Revenue	\$ 1,500,000	\$ 2,536,000	\$ 1,036,000	69.1%
Other Sources	\$ 3,108,518	\$ 5,200,530	\$ 2,092,012	67.3%
Fund Balance Appropriated	\$ -	\$ 3,664,324	\$ 3,664,324	100.0%
<b>TOTAL</b>	<b>\$ 318,234,908</b>	<b>\$ 357,361,135</b>	<b>\$ 39,126,227</b>	<b>12.3%</b>

Source: City Colleges FY2006 Budget, pp. 50 and 57.

Unrestricted fund revenues (excluding restricted grant revenues) will increase by 6.9% or \$15.5 million, from \$226.5 million to \$241.9 million. State revenues for unrestricted purposes will increase from \$52.6 million to \$54.5 million; this is a \$1.9 million increase.<sup>9</sup>

<b>CITY COLLEGES REVENUES UNRESTRICTED FUNDS: FY2005 and FY2006</b>				
<b>Sources of Revenues</b>	<b>FY2005</b>	<b>FY2006</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
Local Government	\$ 95,990,999	\$ 99,580,666	\$ 3,589,667	3.7%
State Government	\$ 56,013,873	\$ 61,416,077	\$ 5,402,204	9.6%
Federal Government	\$ 250,000	\$ 370,000	\$ 120,000	48.0%
Tuition and Fees	\$ 63,545,041	\$ 68,686,427	\$ 5,141,386	8.1%
Auxiliary/Enterprise	\$ 6,584,777	\$ 5,727,111	\$ (857,666)	-13.0%
Investment Revenue	\$ 1,500,000	\$ 1,800,000	\$ 300,000	20.0%
Other Sources	\$ 2,589,383	\$ 4,416,530	\$ 1,827,147	70.6%
<b>TOTAL</b>	<b>\$ 226,474,073</b>	<b>\$ 241,996,811</b>	<b>\$ 15,522,738</b>	<b>6.9%</b>

Source: City Colleges FY2006 Budget, p. 50.

### Five-Year Revenue Trends

Operating revenue funds are projected to increase by 11.8% since FY2002, from \$319.5 million to \$357.3 million. Federal funding, much of which is accounted for in the restricted funds, is expected to increase by 48.9%. Tuition and fees are projected to increase by 52.6%, largely as a result of tuition increases in FY2005 and FY2006. State funding is projected to decrease by 20.9% and investment revenue is expected to drop by 15.5%.

<sup>9</sup> City Colleges FY2006 Budget, p. 32.

<b>City Colleges Revenues (Operating Funds)*</b>				
<b>5-Year Trend: FY2002-FY2006</b>				
	<b>FY2002</b>	<b>FY2006</b>	<b>\$ Change</b>	<b>% Change</b>
Local Government	\$ 95,998,000	\$ 102,872,666	\$ 6,874,666	7.2%
State Government	\$ 122,633,000	\$ 97,009,077	\$ (25,623,923)	-20.9%
Federal Government	\$ 47,823,000	\$ 71,197,000	\$ 23,374,000	48.9%
Tuition and Fees	\$ 45,000,000	\$ 68,686,427	\$ 23,686,427	52.6%
Auxiliary/Enterprise	\$ -	\$ 6,195,111	\$ 6,195,111	N/A
Investment Revenue	\$ 3,000,000	\$ 2,536,000	\$ (464,000)	-15.5%
Other Sources	\$ 5,098,000	\$ 5,200,530	\$ 102,530	2.0%
Fund Balance Appropriated	\$ -	\$ 3,664,324	\$ 3,664,324	N/A
<b>TOTAL</b>	<b>\$ 319,552,000</b>	<b>\$ 357,361,135</b>	<b>\$ 37,809,135</b>	<b>11.8%</b>

\* Includes appropriated fund balance.

Sources: FY2002 and FY2006 City Colleges of Chicago Budgets

The next exhibit examines 5-year trends for unrestricted funds only, that is, operating funds excluding grants. Overall, unrestricted fund revenues will increase by 19.3%, from \$202.9 million to \$241.9 million. The largest single increase is expected to be from tuition and fees, which will experience a 52.6% increase, from \$45.0 million to \$68.6 million. This large increase is driven primarily by the FY2005 and FY2006 tuition and fee increases. Local government revenues, derived from property taxes, are expected to increase by 10.8%, from \$89.8 million to \$99.5 million. The largest decrease will be in the category of investment income, which will drop by 40.0%, or from \$3.0 million to \$1.8 million.

<b>City Colleges Revenues (Unrestricted Funds)</b>				
<b>5-Year Trend: FY2002-FY2006</b>				
	<b>FY2002</b>	<b>FY2006</b>	<b>\$ Change</b>	<b>% Change</b>
Local Government	\$ 89,835,000	\$ 99,580,666	\$ 9,745,666	10.8%
State Government	\$ 54,490,000	\$ 61,416,077	\$ 6,926,077	12.7%
Federal Government	\$ 5,765,000	\$ 370,000	\$ (5,395,000)	-93.6%
Tuition and Fees	\$ 45,000,000	\$ 68,686,427	\$ 23,686,427	52.6%
Auxiliary/Enterprise	\$ -	\$ 5,727,111	\$ 5,727,111	N/A
Investment Revenue	\$ 3,000,000	\$ 1,800,000	\$ (1,200,000)	-40.0%
Other Sources	\$ 4,823,000	\$ 4,416,530	\$ (406,470)	-8.4%
<b>TOTAL</b>	<b>\$ 202,913,000</b>	<b>\$ 241,996,811</b>	<b>\$ 39,083,811</b>	<b>19.3%</b>

Sources: FY2002 and FY2006 City Colleges of Chicago Budgets

### **Tuition Increase in FY2006 to \$67 per Credit Hour**

The City Colleges approved a 3-year staggered tuition increase in 2004. Tuition in that year increased from \$52 to \$62 per credit hour and it will increase to \$67 per credit hour in 2005. Next year, a final increase will raise tuition to \$72 per credit hour. Until approval of the 2004 increase, the City Colleges had one of the least expensive tuitions per credit hour of the regional community colleges. The exhibit below compares City Colleges tuition with that charged by other regional community colleges.

<b>FALL 2005 BASIC CREDIT HOUR FOR DISTRICT RESIDENTS*</b>	
<b>COLLEGE</b>	<b>TUITION</b>
South Suburban College	\$ 78.00
Prairie State College (Chicago Heights)	\$ 76.00
Elgin Community College (Elgin)	\$ 75.00
Harper College (Palatine)	\$ 75.00
College of DuPage (Glen Ellyn)	\$ 70.35
Oakton Community College (DesPlaines)	\$ 69.00
<b>City Colleges of Chicago</b>	<b>\$ 67.00</b>
College of Lake County	\$ 62.95
Morton College (Cicero)	\$ 58.00
Triton College (River Grove)	\$ 56.00

\* Doesn't include fees

Source: Web Sites of Colleges

### **State Equalization Formula**

The State of Illinois provides community college districts with equalization grants that are intended to guarantee that each district has approximately equivalent 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 tax cap law, it assumes that a greater amount of property wealth is available to tax-capped Districts than they can actually tax without seeking approval of the voters through a referendum. The result, over time, is sharply reduced amounts of State funding to the City Colleges. Under the current formula, the City Colleges would have received only \$50,000. The State once again will provide the City Colleges with a \$15.0 million grant to reimburse the District. However, this grant is not permanent and must be re-appropriated in future years at the discretion of the General Assembly. The City Colleges should continue to seek a revision of the formula.

### **Amount of Property Tax Revenues in FY2006**

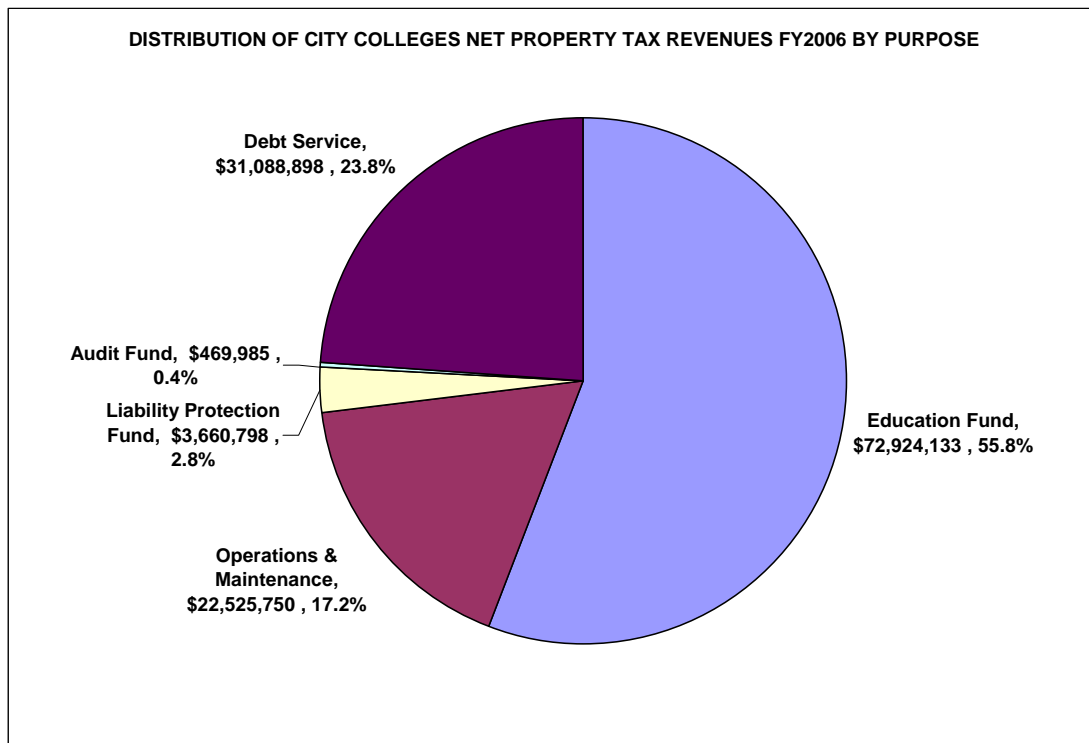
Property tax years are the same as calendar years. However, the City Colleges fiscal year, for which funds are budgeted, is July 1 to June 30. In addition, there is a one-year lag in Cook County between the time that property taxes are levied and when they are collected. Taxes levied in 2005 will actually be received in 2006. Because of the effect of both of these factors, the property tax funds available during the City Colleges upcoming fiscal year (FY2006) will be drawn from part of tax year 2004 and part of tax year 2005.

In FY2006, the City Colleges will have a total of \$130.6 million in property tax revenues available to utilize. Of that amount, \$67.0 million will be derived from the estimated 2004 levy and \$71.5 million will be derived from the estimated 2005 levy. Net property tax revenues are expected to increase by 2.8% or \$3.5 million between FY2005 and FY2006.

<b>Amount of Property Tax Revenues Received by City Colleges: FY2005 &amp; FY2006</b>		
	<b>FY2005</b>	<b>FY2006</b>
1/2 Estimated Gross 2003 Levy	\$ 67,953,559	
1/2 Estimated Gross 2004 Levy	\$ 67,058,292	
1/2 Estimated Gross 2004 Levy		\$ 67,058,292
1/2 Estimated Gross 2005 Levy		\$ 71,583,155
<b>Subtotal: Gross Levy Funds Available</b>	<b>\$ 135,011,851</b>	<b>\$ 138,641,447</b>
Back Taxes Revenue	\$ (3,150,000)	\$ (3,119,433)
Estimated Loss and Cost of Collection	\$ (4,725,415)	\$ (4,852,451)
<b>TOTAL (Net Levy)</b>	<b>\$ 127,136,436</b>	<b>\$ 130,669,563</b>
<b>\$ CHG FY05-FY06</b>		<b>\$ 3,533,127</b>
<b>% CHG FY05-FY06</b>		<b>2.8%</b>

Source: City Colleges FY2005 & FY2006 Budgets

Approximately \$99.6 million of the total property tax revenues available in FY2006 are subject to the State's tax cap law, which limits increases to 5% or inflation, whichever is less.<sup>10</sup> The tax cap limitation for tax year 2004 is 1.9% and 3.4% (plus 1.0% for increases in non-capped new property) in tax year 2005. The distribution of total net City Colleges property tax revenues is shown below. Approximately 55.8% or \$72.9 million is used for the Education Fund, the City Colleges general operating fund. Approximately 23.8%, or \$31.0 million is earmarked for Debt Service and \$22.5 million or 17.2% of the total is reserved for Operations and Maintenance.

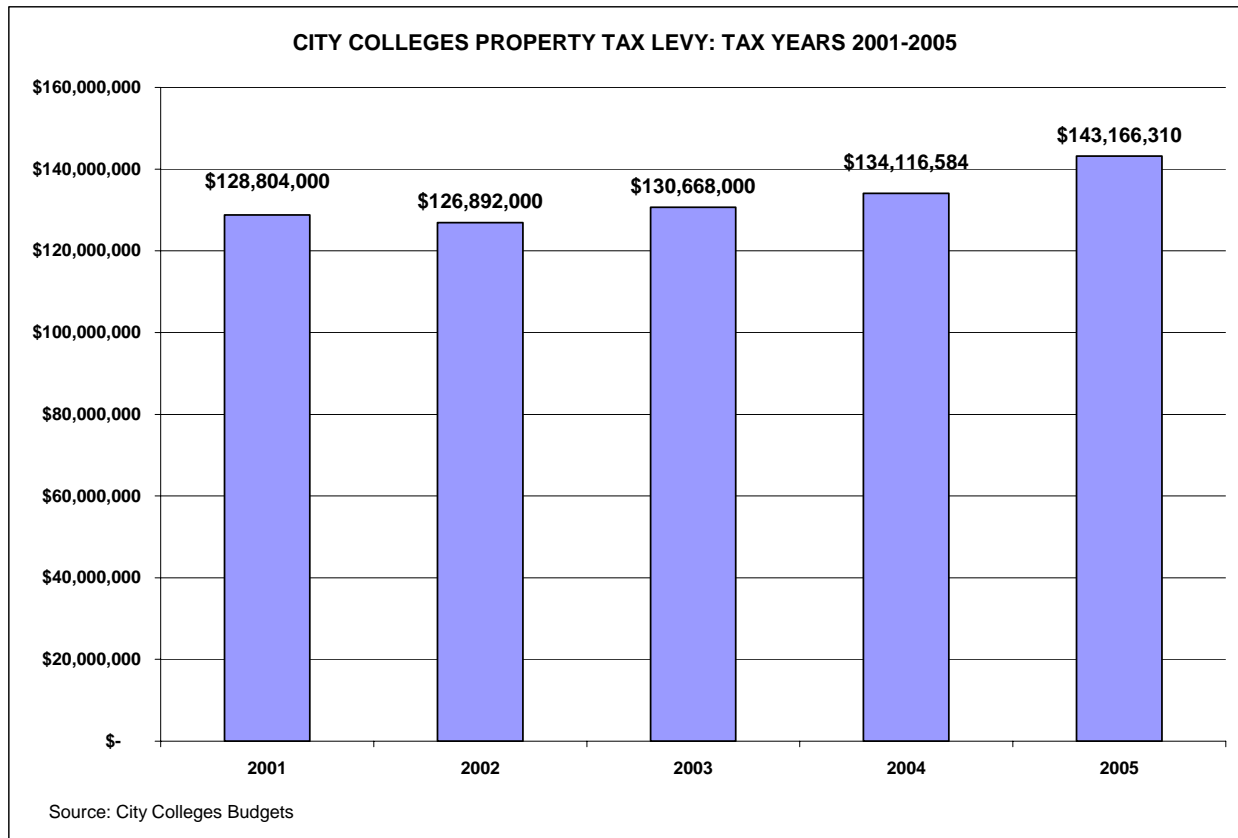


<sup>10</sup> The remaining funds are exempt from the tax cap; they are primarily for debt service payments to the Chicago Public Building Commission for capital leases.



## Gross Property Tax Levy

The exhibit below shows the amount of the gross property tax levy for all purposes for tax years 2001 through 2005. The gross property tax levy for tax year 2005 will rise by 6.7% from the previous year or from \$134.1 million to \$143.2 million. It is important to note that the actual amount of property tax dollars City Colleges will receive in tax year 2005 will not be known until the Cook County Clerk actually extends the levy and applies all relevant rate limits and the tax cap on eligible funds. The final extension amount is different than and usually less than the original levy amount.



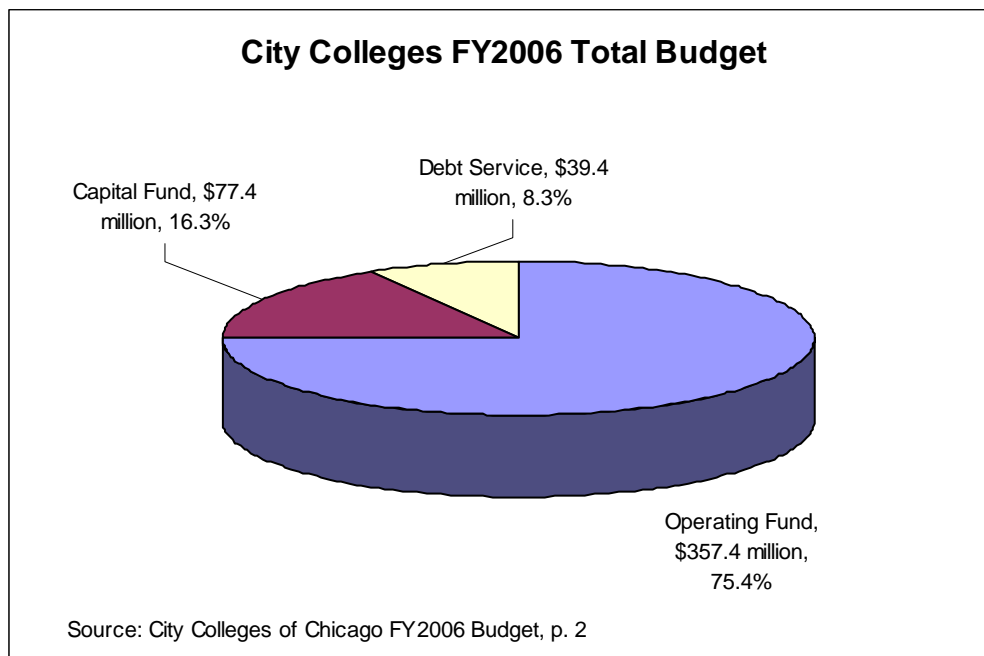
## APPROPRIATION TRENDS

The following section presents information and trends regarding the City Colleges' appropriations and expenditures. The FY2006 City Colleges proposed budget will be approximately \$474.2 million.

### Total Appropriations for FY2006

Of the City Colleges' \$474.2 million FY2006 budget, approximately 75.4% will go to the operating funds, 16.3% to the capital fund, and 8.3% to debt service. Operating funds finance employees' salaries and benefits, pay for utility costs, and fund all other day-to-day expenditures incurred by the City Colleges. The capital fund provides money for all major building projects as

well as the improvement of existing structures. The debt service funds pay for the City Colleges' outstanding bond obligations.



As the following table shows, from FY2005 to FY2006 the City Colleges' total budget is expected to increase by 11.2%, or \$47.7 million. The largest increase is in the capital fund, which will rise by \$14.1 million, a 22.3% increase. Within the operating fund, unrestricted funds will increase by 10.6% and restricted funds will rise by 9.5%. While unrestricted funds can be used for any purpose as long as that use is approved by the Board of Trustees, restricted funding by private or government organizations must be used for a specific activity.

<b>CITY COLLEGES BUDGET FY2005-FY2006</b>				
<b>(All Funds)(In Millions)</b>				
<b>Fund Type</b>	<b>FY2005</b>	<b>FY2006</b>	<b>\$ Change</b>	<b>% Change</b>
Operating Funds				
Unrestricted	\$ 216.4	\$ 239.4	\$ 23.0	10.6%
Restricted	\$ 107.8	\$ 118.0	\$ 10.2	9.5%
Total Operating	\$ 324.2	\$ 357.4	\$ 33.2	10.2%
Capital Fund	\$ 63.3	\$ 77.4	\$ 14.1	22.3%
Debt Service Funds	\$ 39.0	\$ 39.4	\$ 0.4	1.0%
<b>TOTAL</b>	<b>\$ 426.5</b>	<b>\$ 474.2</b>	<b>\$ 47.7</b>	<b>11.2%</b>

Source: City Colleges of Chicago FY2006 Budget, p. 28

### Five-Year Appropriation Trends

As the following table indicates, over the past five years operating funds are expected to increase by 11.9%. Most of that increase is due to a rise in unrestricted funds, from \$202.9 million to \$239.4 million. By contrast, restricted funds have only grown by \$1.4 million, or 1.2%. It is important to note that, for the FY2002 capital and debt service fund data included in this table, previous City Colleges budget documents did not report capital fund or debt service

appropriations (the figures for those categories provided in this table are based on estimates provided by the City Colleges).

<b>CITY COLLEGES BUDGET FIVE YEAR TREND</b>				
<b>(All Funds)(In Millions)</b>				
<b>Fund Type</b>	<b>FY2002</b>	<b>FY2006</b>	<b>\$ Change</b>	<b>% Change</b>
Operating Funds				
Unrestricted	\$ 202.9	\$ 239.4	\$ 36.5	18.0%
Restricted	\$ 116.6	\$ 118.0	\$ 1.4	1.2%
Total Operating	\$ 319.5	\$ 357.4	\$ 37.9	11.9%
Capital Fund	\$ 21.3	\$ 77.4	\$ 56.1	263.4%
Debt Service Funds	\$ 38.8	\$ 39.4	\$ 0.6	1.5%
<b>TOTAL</b>	<b>\$ 379.6</b>	<b>\$ 474.2</b>	<b>\$ 94.6</b>	<b>24.9%</b>

Source: City Colleges of Chicago FY2002 Budget, p. 33 and FY2006 Budget, p. 28

Note: FY2002 Capital Fund and Debt Service figures are estimates provided by the City Colleges, and are not definitive

### **The Proposed Operating Budget: Unrestricted and Restricted Funds**

The FY2006 budget proposes a total operating funds appropriation of \$357.3 million, up \$33.1 million, or 10.2% from the FY2005 originally proposed budget of \$324.2 million. Fixed charges will increase by 136.2%, and travel and conference appropriations will increase by 21.8%. While salaries will rise by 10.1%, employee benefits costs are expected to decrease by 0.5%. In addition, contractual services will rise by 12.1%, despite the fact that the City Colleges terminated its contract with American Express to provide financial management services. Funding for the City Colleges budget office will increase from \$3.6 to \$4.2 million in FY2006.<sup>11</sup>

<b>CITY COLLEGES OPERATING FUNDS BY OBJECT OF EXPENDITURE</b>				
<b>(Operating Funds)</b>				
<b>Appropriation by Object</b>	<b>FY05</b>	<b>FY06</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
Salaries	\$ 153,274,815	\$ 168,726,857	\$ 15,452,042	10.1%
Employee Benefits	\$ 39,965,818	\$ 39,784,538	\$ (181,280)	-0.5%
Contractual Services	\$ 31,954,135	\$ 35,822,923	\$ 3,868,788	12.1%
Materials/Supplies	\$ 16,154,457	\$ 19,269,028	\$ 3,114,571	19.3%
Travel/Conferences	\$ 1,923,497	\$ 2,342,901	\$ 419,404	21.8%
Fixed Charges	\$ 816,194	\$ 1,927,757	\$ 1,111,563	136.2%
Utilities	\$ 10,778,981	\$ 12,136,990	\$ 1,358,009	12.6%
Capital Outlay	\$ 6,423,717	\$ 5,542,361	\$ (881,356)	-13.7%
Other	\$ 62,910,823	\$ 71,807,779	\$ 8,896,956	14.1%
<b>TOTAL</b>	<b>\$ 324,202,437</b>	<b>\$ 357,361,134</b>	<b>\$ 33,158,697</b>	<b>10.2%</b>

Source: City Colleges of Chicago FY2005 Budget, p. 19 and p. 47, and FY2006 Budget, p. 50 and p. 57

Turning to operating funds by program, organized research funds will increase by 37.3%; scholarships, grants, and waivers will increase by 23%; and academic support will grow by 18.1%. Auxiliary and enterprise funds will decrease by 15.5% and public service appropriations will decrease by 6.8%.

<sup>11</sup> Communication from the City Colleges of Chicago Budget Office, September 2, 2005.

<b>CITY COLLEGES OPERATING FUNDS BY PROGRAM (Operating Funds)</b>				
<b>Appropriation by Object</b>	<b>FY2005</b>	<b>FY2006</b>	<b>\$ Change</b>	<b>% Change</b>
Instruction	\$ 112,982,226	\$ 121,992,495	\$ 9,010,269	8.0%
Academic Support	\$ 27,782,405	\$ 32,819,321	\$ 5,036,916	18.1%
Student Services	\$ 26,148,605	\$ 28,082,229	\$ 1,933,624	7.4%
Public Service	\$ 16,905,824	\$ 15,752,330	\$ (1,153,494)	-6.8%
Auxiliary/Enterprise	\$ 1,913,165	\$ 1,617,459	\$ (295,706)	-15.5%
Organized Research	\$ 176,242	\$ 242,000	\$ 65,758	37.3%
Operations and Maintenance	\$ 32,708,690	\$ 35,948,530	\$ 3,239,840	9.9%
Institutional Support	\$ 57,409,023	\$ 61,637,670	\$ 4,228,647	7.4%
Scholarships/Grants/Waivers	\$ 48,176,259	\$ 59,269,100	\$ 11,092,841	23.0%
<b>TOTAL</b>	<b>\$ 324,202,439</b>	<b>\$ 357,361,134</b>	<b>\$ 33,158,695</b>	<b>10.2%</b>

Source: City Colleges of Chicago FY2006 Budget, p. 50 and p. 57

As some of the City Colleges' program categories comprise a number of disparate activities, the following list presents these categories to a greater degree of specificity:

- **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.

### Five-Year Operating Funds Trend

While appropriations for instruction will increase slightly between the FY2002 and FY2006 proposed budgets, public service expenditures will rise by 80.6%. Scholarships, grants and waivers will increase by 79.4%, primarily due to an increase in restricted funds intended for this purpose. Funds for institutional support, however, will decrease by 25.8%.

<b>CITY COLLEGES APPROPRIATIONS BY PROGRAM 5 YEAR TREND (Operating Funds)</b>				
<b>Appropriation by Program</b>	<b>FY2002</b>	<b>FY2006</b>	<b>\$ Change</b>	<b>% Change</b>
Instruction	\$ 112,691,000	\$ 121,992,495	\$ 9,301,495	8.3%
Academic Support	\$ 26,266,000	\$ 32,819,321	\$ 6,553,321	24.9%
Student Services	\$ 22,230,000	\$ 28,082,229	\$ 5,852,229	26.3%
Public Service	\$ 8,721,000	\$ 15,752,330	\$ 7,031,330	80.6%
Auxiliary/Enterprise	...	\$ 1,617,459	N/A	N/A
Organized Research	...	\$ 242,000	N/A	N/A
Operations and Maintenance	\$ 33,537,000	\$ 35,948,530	\$ 2,411,530	7.2%
Institutional Support	\$ 83,071,000	\$ 61,637,670	\$ (21,433,330)	-25.8%
Scholarships/Grants/Waivers	\$ 33,036,000	\$ 59,269,100	\$ 26,233,100	79.4%
<b>TOTAL</b>	<b>\$ 319,552,000</b>	<b>\$ 357,361,134</b>	<b>\$ 37,809,134</b>	<b>11.8%</b>

Source: City Colleges of Chicago FY2002 Budget, p. 33, and FY2006 Budget, p. 48

## The Proposed Operating Budget: Unrestricted Funds

In FY2006, unrestricted fund expenditures are projected to increase by 5.7%, from a proposed FY2005 appropriation of \$232.4 million, to well over \$245.6 million.

Fixed charges will increase by 138.5%, travel and conference expenditures by 31.2%, and materials and supplies costs by 25.5%. Capital outlay expenditures are expected to decrease by 25.8% and employee benefits will decrease by 1.9%.

<b>CITY COLLEGES OPERATING REVENUES BY OBJECT OF EXPENDITURE</b>				
<b>(Unrestricted Funds)</b>				
<b>Appropriation by Object</b>	<b>FY2005</b>	<b>FY2006</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
Salaries	\$ 128,880,728	\$ 137,229,857	\$ 8,349,129	6.5%
Employee Benefits	\$ 34,917,417	\$ 34,243,538	\$ (673,879)	-1.9%
Contractual Services	\$ 27,009,576	\$ 28,906,923	\$ 1,897,347	7.0%
Materials/Supplies	\$ 9,602,351	\$ 12,049,028	\$ 2,446,677	25.5%
Travel/Conferences	\$ 1,048,374	\$ 1,375,901	\$ 327,527	31.2%
Fixed Charges	\$ 793,945	\$ 1,893,757	\$ 1,099,812	138.5%
Utilities	\$ 10,760,566	\$ 12,107,990	\$ 1,347,424	12.5%
Capital Outlay	\$ 4,892,360	\$ 3,628,361	\$ (1,263,999)	-25.8%
Other	\$ 14,536,283	\$ 14,225,779	\$ (310,504)	-2.1%
<b>TOTAL</b>	<b>\$ 232,441,600</b>	<b>\$ 245,661,134</b>	<b>\$ 13,219,534</b>	<b>5.7%</b>

Source: City Colleges of Chicago FY2006 Budget, p. 50

The projected decrease in employee benefits appropriations is especially significant. Employee benefits comprise employer Medicare and Social Security taxes, health and dental insurance costs, as well as life insurance. As a result of contract negotiations with the Cook County College Teachers Union, Local 1600, the City Colleges will be able to reduce their overall expenditures on health insurance, resulting in a slight decrease in appropriations for aggregate employee benefits.<sup>12</sup> Specifically, this alteration of the current benefits package will take the following form:

- The City Colleges Preferred Provider Organization plan has adopted higher annual deductibles (from \$600 to \$900 per family), higher annual out-of-pocket expenses (from \$2,250 to \$4,000 per family) and lower health care service fee coverage for physician and hospital services (from 90% to 85%).
- The Humana Health Maintenance Organization plan requires higher co-payments for office visits (from \$5 to \$10 per visit), a new \$500 co-payment for hospital services, and a \$15 co-payment for physical therapy, up from \$5. There has also been an increase in co-payments for prescription drug benefits.

As the table below shows, scholarships, grants, and waivers will increase by 21.4% and academic support will expand by 13.2%. In contrast, auxiliary and enterprise appropriations will decrease by 18.8% and public service funds will drop by 4.2%. No entries exist for organized research since all of these appropriations are within restricted fund categories.

<sup>12</sup> City Colleges of Chicago FY2006 Budget, p. 40.

<b>CITY COLLEGES OPERATING FUNDS BY PROGRAM (Unrestricted Funds)</b>				
<b>Appropriation by Object</b>	<b>FY2005</b>	<b>FY2006</b>	<b>\$ Change</b>	<b>% Change</b>
Instruction	\$ 101,895,045	\$ 108,274,495	\$ 6,379,450	6.3%
Academic Support	\$ 17,512,643	\$ 19,820,321	\$ 2,307,678	13.2%
Student Services	\$ 17,651,578	\$ 18,392,229	\$ 740,651	4.2%
Public Service	\$ 8,227,763	\$ 7,882,330	\$ (345,433)	-4.2%
Auxiliary/Enterprise	\$ 1,786,849	\$ 1,451,459	\$ (335,390)	-18.8%
Organized Research	...	...	N/A	N/A
Operations and Maintenance	\$ 31,270,772	\$ 33,476,530	\$ 2,205,758	7.1%
Institutional Support	\$ 52,707,659	\$ 54,676,670	\$ 1,969,011	3.7%
Scholarships/Grants/Waivers	\$ 1,389,292	\$ 1,687,100	\$ 297,808	21.4%
<b>TOTAL</b>	<b>\$ 232,441,601</b>	<b>\$ 245,661,134</b>	<b>\$ 13,219,533</b>	<b>5.7%</b>

Source: City Colleges of Chicago FY2006 Budget, p. 50

### Five-Year Unrestricted Fund Appropriation Trends

From FY2002 to FY2006, unrestricted expenditures will increase by 21.1%, from \$202.9 million to \$245.6 million. Public service expenditures will increase by 680.4%, although it should be noted that the dollar amount to be spent in FY2006, \$7.8 million, does not comprise a large percentage of the overall unrestricted funds appropriations. Instruction increased by 22.7% and academic support increased by 43.5%.

<b>CITY COLLEGES APPROPRIATIONS BY PROGRAM 5 YEAR TREND (Unrestricted Funds)</b>				
<b>Appropriation by Program</b>	<b>FY2002</b>	<b>FY2006</b>	<b>\$ Change</b>	<b>% Change</b>
Instruction	\$ 88,232,000	\$ 108,274,495	\$ 20,042,495	22.7%
Academic Support	\$ 13,813,000	\$ 19,820,321	\$ 6,007,321	43.5%
Student Services	\$ 14,394,000	\$ 18,392,229	\$ 3,998,229	27.8%
Public Service	\$ 1,010,000	\$ 7,882,330	\$ 6,872,330	680.4%
Auxiliary/Enterprise	...	\$ 1,451,459	N/A	N/A
Operations and Maintenance	\$ 31,414,000	\$ 33,476,530	\$ 2,062,530	6.6%
Institutional Support	\$ 52,623,000	\$ 54,676,670	\$ 2,053,670	3.9%
Scholarships/Grants/Waivers	\$ 1,428,000	\$ 1,687,100	\$ 259,100	18.1%
<b>TOTAL</b>	<b>\$ 202,914,000</b>	<b>\$ 245,661,134</b>	<b>\$ 42,747,134</b>	<b>21.1%</b>

Source: City Colleges of Chicago FY2002 Budget, p. 33, and FY2006 Budget, p. 50

### PERSONNEL TRENDS

The City Colleges plan to fund 3,294 full-time equivalent positions in FY2006. Of those positions, 622 will be full-time faculty positions, an increase of 12 full time positions, or a 2% increase from FY2005. This is offset by 182 fewer part-time faculty positions. Administrative positions are expected to rise by 75 new full-time equivalent positions, clerical and professional positions will increase by 109, and the operations and maintenance staff will grow by 82 new full-time equivalent staff. Part of the increase in administrative personnel is due to the fact that the City Colleges have terminated their contract with American Express to provide budget and financial management services. In FY2006, 27 new full-time equivalent administrative positions will be added to manage the financial, budget, and payroll-related duties that American Express consultants previously handled.<sup>13</sup>

<sup>13</sup> Information provided by the City Colleges of Chicago Budget Office on September 1, 2005.

<b>CITY COLLEGES FTE PERSONNEL BY STAFF DESCRIPTION PROPOSED BUDGETS FY2005-FY2006</b>				
<b>Staff Description</b>	<b>FY2005</b>	<b>FY2006</b>	<b># Change</b>	<b>% Change</b>
Full-Time Faculty	610	622	12	2.0%
Part-Time Faculty	1,031	849	-182	-17.7%
Administrators	189	264	75	39.7%
Clerical & Professional	894	1,003	109	12.2%
Operations & Maintenance	474	556	82	17.3%
<b>TOTAL</b>	<b>3,198</b>	<b>3,294</b>	<b>96</b>	<b>3.0%</b>

Source: City Colleges of Chicago FY2005 Budget, p. 28, and FY2006 Budget, p. 157

When comparing the number of actual full-time equivalent positions in FY2005 to the number proposed in the FY2006 budget, the City Colleges' hiring strategy appears to be somewhat different. As the table below makes clear, in FY2005 the City Colleges hired 27 more full-time equivalent administrators and 58 fewer full-time faculty members than the proposed FY2005 budget anticipated. In addition, while the proposed FY2005 budget would have funded 894 clerical and professional full-time equivalent positions, in actuality the City Colleges paid for 1,033 such positions—an increase of 15.5% over the number included in the proposed budget.

<b>CITY COLLEGES FTE PERSONNEL BY STAFF DESCRIPTION FY2005 YTD - FY2006 PROPOSED</b>				
<b>Staff Description</b>	<b>FY2005</b>	<b>FY2006</b>	<b># Change</b>	<b>% Change</b>
Full-Time Faculty	552	622	70	12.7%
Part-Time Faculty	831	849	18	2.2%
Administrators	216	264	48	22.2%
Clerical & Professional	1,033	1,003	-30	-2.9%
Operations & Maintenance	568	556	-12	-2.1%
<b>TOTAL</b>	<b>3,200</b>	<b>3,294</b>	<b>94</b>	<b>2.9%</b>

Source: City Colleges of Chicago FY2006 Budget, p. 157

### **ENROLLMENT TRENDS FY2001-FY2005: A 7% DECLINE**

As the following table indicates, full-time equivalent student enrollment at the City Colleges has decreased by 7% from 2001 to 2005, dropping from 48,457 to 45,043. This is a reduction of 3,414 FTEs. In particular, military enrollment dropped by almost 87% due to the phasing out of contracts between the armed forces and the City Colleges. Continuing education decreased by over 54% and adult education enrollment dropped by 19.2%. These decreases are due in large part to decreased immigration after September 11, 2001, and the resultant lack of demand for courses in English as a second language.<sup>14</sup>

While there was a modest increase in the full-time equivalent enrollment of credit and pre-credit students, only manufacturing technology saw a major increase, from 62 to 312 students—a 403% rise in enrollment.

<sup>14</sup> Communication from the City Colleges of Chicago Budget Office, August 29, 2005.

<b>CITY COLLEGES FTE ENROLLMENT: FY2001-FY2005</b>						
Type	2001	2002	2003	2004	2005	2001-2005
<b>Credit</b>	18,551	19,649	21,403	22,007	22,135	19.3%
<b>Pre-Credit</b>	734	834	830	813	794	8.2%
<b>Continuing Education</b>	1,463	1,457	1,393	1,213	665	-54.5%
<b>Adult Education</b>	24,564	24,513	23,558	22,258	19,857	-19.2%
<b>Vocational Skills</b>	1,785	1,589	1,360	1,158	1,107	-38.0%
<b>Mfg Technology</b>	62	62	134	419	312	403.2%
<b>Military</b>	1,298	1,286	1,161	205	173	-86.7%
<b>TOTAL</b>	<b>48,457</b>	<b>49,390</b>	<b>49,839</b>	<b>48,073</b>	<b>45,043</b>	<b>-7.0%</b>

Source: City Colleges of Chicago FY2006 Budget, p. 151

## UNRESERVED, UNDESIGNATED FUND BALANCE

The Government Finance Officers Association 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>15</sup> The purpose of this indicator is to measure the ability of a government to quickly convert illiquid assets to cash to meet contingency needs.

<b>CITY COLLEGES UNRESTRICTED FUND BALANCE RATIO</b>			
	Unreserved Fund Balance	Operating Expenses	Ratio
<b>FY2000</b>	\$ 3,034,911	\$ 265,086,186	1.1%
<b>FY2001</b>	\$ 19,203,107	\$ 278,247,017	6.9%
<b>FY2002</b>	\$ 30,144,800	\$ 281,633,975	10.7%
<b>FY2003</b>	\$ 32,103,031	\$ 300,212,420	8.2%
<b>FY2004*</b>	\$ 29,274,365	\$ 357,696,112	8.2%

Source: City Colleges FY2004 CAFR.

\* The City Colleges Board of Trustees also designated \$10.3 million in Unrestricted Net Assets to be reserved for capital expenditures.

### *Unrestricted Fund Balance Ratio: Within GFOA Recommendation in FY2004*

Between FY2000 and FY2004, the CCC General Operating Funds' unrestricted fund balance increased from 1.1% or \$3.0 million to 8.2% of operating expenses or \$29.2 million. Therefore, the ratio has been above the 5% minimum GFOA recommendation since FY2001. The ratio did drop a bit in FY2003, falling from 10.7% to 8.2%. However, in the long-term, the dramatic increase in fund balance is a positive reflection on the financial management of the City Colleges.

## 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.

<sup>15</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 Trends

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

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.

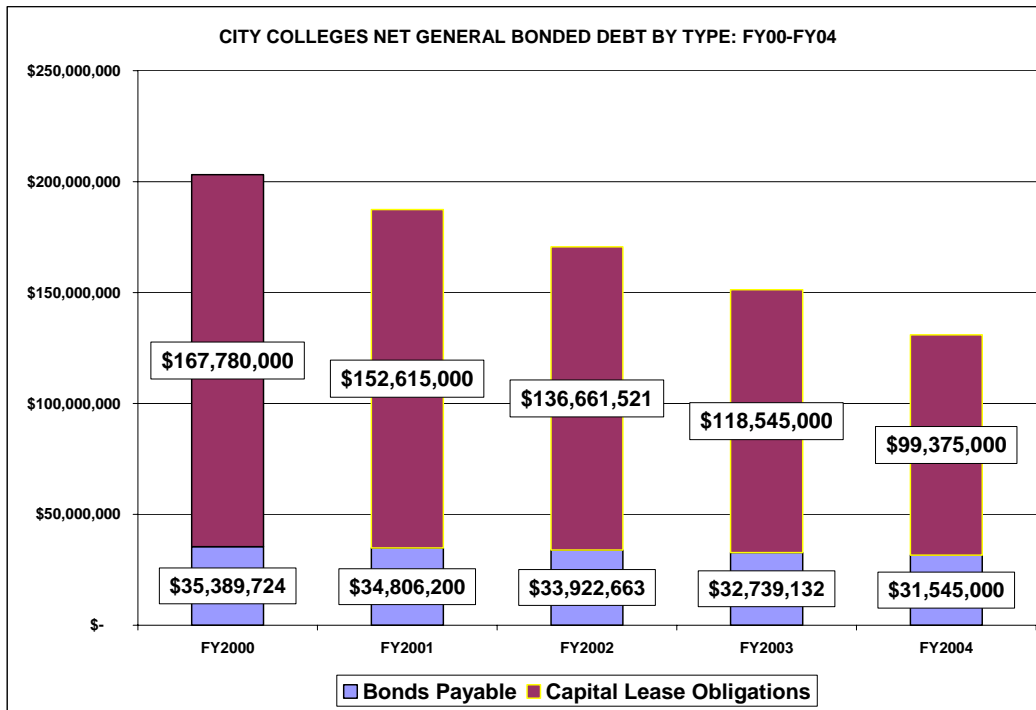
Between FY2000 and FY2004, the short-term debt burden of the City Colleges increased by 36.6%, from \$95.7 million to \$130.7 million. The biggest increase came in FY2003, when the short-term debt burden rose by 28.2% to \$131.3 million. The relatively large increase over this 5-year period bears watching. However, the reduction in short-term debt in FY2004 is a trend in the right direction.

<b>CITY COLLEGES SHORT-TERM DEBT</b>		
<b>Fiscal Year</b>	<b>Short-Term Debt</b>	<b>% Change</b>
<b>FY2000</b>	\$ 95,747,230	...
<b>FY2001</b>	\$ 96,637,003	0.9%
<b>FY2002</b>	\$ 102,407,372	6.0%
<b>FY2003</b>	\$ 131,301,725	28.2%
<b>FY2004</b>	\$ 130,742,987	-0.4%
<b>5-Year Increase</b>	<b>\$ 34,995,757</b>	<b>36.6%</b>

Source: FY2004 City Colleges CAFR

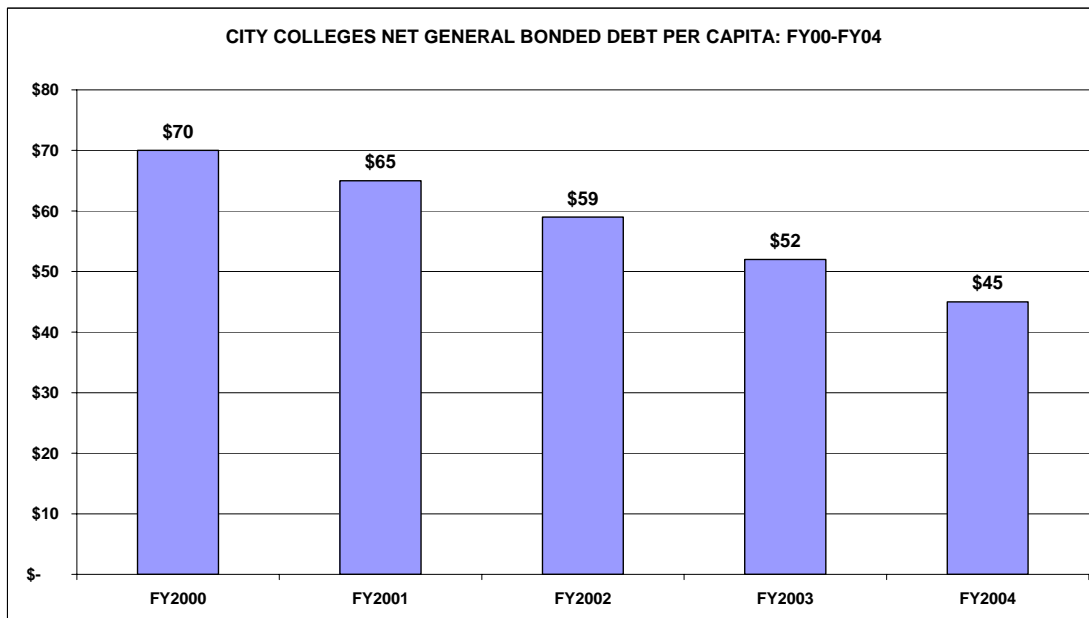
## Net General Bonded Debt Trends

Net general bonded debt includes capital lease obligations with the Chicago Public Building Commission and revenue bonds payable. The exhibit below shows the breakdown of capital lease obligations versus bonds payable for FY2000 through FY2004. During that 5-year period, the total debt burden declined from \$203.1 to \$130.9 million. Capital lease obligations declined slightly as a proportion of total debt, falling from 82.6% to 75.9%.



Source: City Colleges FY2004 CAFR.

The next exhibit presents historic City Colleges net general bonded debt per capita figures. 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. Overall, long-term City Colleges’ debt per capita decreased by 35.7% between FY2000 and FY2004 from \$70 to \$45. This is a positive long-term trend.



Source: City Colleges FY2004 CAFR.

## EMPLOYEE RETIREMENT PENSION FUND

City Colleges employees are enrolled in the State Universities Retirement System (SURS) of Illinois. Plan members contribute 8.0% of their annual covered salary. In FY2004, the State of Illinois made employer contributions on behalf of the City Colleges at the actuarially determined rate of 11.0% of covered payroll. State contributions to SURS on behalf of the City Colleges for FY2004 were \$76.0 million. Of that amount, \$62.4 million was a one-time payment representing the City Colleges' share of \$1.4 billion in proceeds from the State's pension obligation bond issue in 2003. The remaining \$13.6 million were the State's regular contribution to the City Colleges for their annuitants. In addition, the City Colleges make employer contributions for certain positions that are not State funded. Contributions for these positions totaled \$508,757 in FY2004.<sup>16</sup>

## CIVIC FEDERATION RECOMMENDATIONS

The Civic Federation offers the following recommendations regarding ways to improve the City Colleges financial management and fulfill its financial obligations.

### Budget Format Improvements

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 outlining the budget process and key dates;
- The budget should include an easily understood description of the reasons for a gap between revenues and expenditures if there is one and the steps taken to eliminate that gap.
- The budget document should provide detailed quantitative information about management efficiencies implemented, including cost savings generated from those efficiencies. It is impossible to evaluate the impact of those efficiencies without any information about them.
- The budget should include a discussion of the District's gross property tax levy for all funds and a presentation of 5-year trends for the **gross property tax 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.
- The budget should contain comparable 5-year personnel trends in future years. There should also be some narrative that discusses the personnel changes and the reasons for those changes. It is our understanding that there are still some technical difficulties in calculating FTEs and presenting comparable multi-year trends for personnel. However, we urge the District to make every effort to compile and present this information. It is important to know exactly how many FTEs are employed by the District.

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<sup>16</sup> *City Colleges of Chicago Comprehensive Annual Financial Report for the Year Ended June 30, 2004*, p. 35.

## **Increase Time Allowed for Public Review and Comment**

More time should be allowed for the public to review and understand the Chicago City Colleges' \$474.2 million 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 make fully informed commentary on the largest local government budget.

## **Implement a Formal Long Term Planning Process**

In past years we have praised City Colleges for beginning to put together the elements of a long-term financial planning process. The Budget book does contain a 4-year financial outlook that presents revenue and expenditure projections based on assumptions which are disclosed. We salute the District for being one of the few local governments to present this information.

At this juncture, the Civic Federation urges the City Colleges to take the next steps and develop a formal long-term financial plan. This would include the development and publication of a plan that is shared with and/or reviewed by key policymakers and stakeholders. A typical long-term financial plan (LTFP) consists of a 3-5 year forecast of revenues, expenditures and debt capacity; an assessment of historic economic and financial trends; and an evaluation of problems or opportunities and actions to address them, such as gap-closing or surplus management actions. The benefits of long-term financial planning include helping to determine if:

- Revenues are adequate to maintain services at current levels;
- Financial resources are sufficient to address future operating and capital expenditures;
- It is possible to expand existing programs or initiate new ones; or
- It is prudent to issue new debt to fund new capital projects.

By effectively linking policy and program priorities to the financial resources available currently and in the near future, the long-term financial planning process helps governments prepare for future contingencies before they become crises.

## **The State of Illinois Must Change the Community College Equalization Formula**

The Civic Federation reiterates its **strong support** for the City Colleges' efforts to effect a recalculation of the State community college equalization formula. 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.