The Civic Federation

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CHICAGO PUBLIC SCHOOLS FY2019 PROPOSED BUDGET:
Analysis and Recommendations

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The Civic Federation • 10 N. Dearborn Street • Chicago, IL 60602 • civicfed.org

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EXECUTIVE SUMMARY

The Civic Federation supports the Chicago Public Schools (CPS) proposed FY2019 budget, but with several significant reservations.

Going into FY2019, CPS finds itself in a more stable financial position than in prior years due to the passage of a new Evidence-Based Funding formula for public school districts across the State of Illinois, which went into effect during CPS' 2018 fiscal year. As a result of the new statewide school funding formula law, CPS received in FY2018 an additional $450 million consisting of $221 million from the State of Illinois to pay the normal cost contribution to the Chicago Teachers' Pension Fund, $130 million through the authority to increase a property tax levy specifically to fund teacher pension costs and approximately $100 million in additional State aid and grant funding. All of these funding sources are recurring revenues. CPS amended its FY2018 budget in October 2017 to account for the new funding.

The Civic Federation is encouraged by the turnaround in CPS finances thanks to the increased funding approved by the State. However, we remain concerned about the reliability of the State of Illinois as a funding partner. The two-year State budget impasse in FY2016 and FY2017 created financial uncertainty and delayed funding to CPS, aggravating the District's cash-flow issues. CPS had to borrow an additional $387 million in FY2017 for operations due to delayed block grant payments from the State. Thanks to the Evidence-Based Funding formula, CPS did not need to do this in FY2018 and does not anticipate needing to do so in FY2019. But the Evidence-Based formula requires the State to appropriate an additional $350 million annually. The State of Illinois is not out of its budget crisis yet with an ongoing backlog of unpaid bills and structurally unbalanced budget. Given the State's track record, this creates uncertainty for all school districts across Illinois.

There are several other positive aspects to CPS' finances. With the infusion of State funding, the District is relying less on short-term borrowing to deal with its ongoing liquidity problems compared to prior years. The District received improved outlooks from ratings agencies in the past year and a rating upgrade from Fitch in October 2017 and Moody's in July 2018. CPS' ratings are still below investment grade, but the improvements are a positive sign. The District has also been able to achieve reduced interest costs for debt issuances. Because CPS was able to increase its dedicated property tax levy for pensions, the District will be able to reduce the amount it must pay into the Chicago Teachers' Pension Fund out of other operating funds. Additionally, CPS is projecting its first operating surplus in several years at the end of FY2018.

CPS' proposed $7.6 billion spending plan for FY2019 includes nearly $6 billion for operations, $600 million for debt service costs and $1 billion for capital projects. The $989 million capital budget will require the District to generate an additional $750 million in capital funding, the majority of which will come from issuing long-term debt on top of the District's $8.2 billion in bonds already outstanding. The size of the FY2019 capital budget is of concern to the Civic Federation given the lack of public information about the prioritization of projects selected and how they fit into a multi-year capital plan. With CPS' finances just barely having reached more stable footing, the Civic Federation does not believe this is the right time to be issuing massive amounts of additional debt with only a portion going to the District's most critical facility needs.

The Civic Federation has several other concerns including: the District's ongoing use of $1 billion in short-term borrowing; declining enrollment while hiring additional personnel and spending on salaries and benefits continues to rise; and underfunded teacher pensions. The Chicago Teachers' Pension Fund is still only 50.1% funded. Improving the funding status of the pension fund will involve ongoing property tax increases that will not begin to reduce the unfunded liability until 2038.

The Civic Federation recommends that CPS make more information publicly available about the prioritization of capital projects and issue a five-year Capital Improvement Plan as required by law; revise the District's fund balance policy to correspond to updated reporting requirements and current practice; live-stream board meetings; present consistent budget information in both the budget book and online interactive budget platform; provide revenue and expenditure updates regularly at public meetings; and work to consolidate the Chicago Teachers' Pension Fund (CTPF) with the Teachers' Retirement System (TRS) to create true pension funding parity from the State.

The Civic Federation offers the following **key findings** from Chicago Public Schools' FY2019 Proposed Budget:

- The FY2019 proposed total spending plan for all funds of $7.6 billion is an increase of 18.2%, or $1.2 billion, from the FY2018 amended budget of $6.4 billion. The significant increase is primarily due to a capital budget of nearly $1 billion, compared to the FY2018 capital budget of $136.2 million, as well as smaller increases for general operations and debt service payments.
- Proposed FY2019 appropriations for general operating purposes of $6.0 billion are an increase of $284.9 million, or 5.0%, from $5.7 billion in the FY2018 amended budget. The increase is primarily due to a $93.8 million increase in salaries and a $50.9 million increase in benefits;
- The FY2019 proposed capital budget of $989.0 million will require the issuance of an additional $700 million in long-term debt and $50 million in other capital funding;
- Property tax revenue is projected to increase by 2.6%, or $74.9 million, from $2.91 billion in the FY2018 amended budget to nearly $3.0 billion in FY2019. The increase is due to a 2.1% increase in the property tax levy (which is the maximum increase under the tax cap) and taxing new property, property value growth captured by the recently reinstated property tax pension levy and revenue from the creation of a new Chicago Transit TIF district. Actual property tax revenues are expected to increase by $679.6 million, or 29.5%, in the five-year period from FY2015 to FY2019. Property tax revenue increased significantly in FY2017 due to the reinstatement of a property tax levy dedicated to funding the Chicago Teachers' Pension Fund;
- CPS is budgeting for a total of 36,856 total Full-Time Equivalent (FTE) positions in FY2019. This is an increase of 344.8 FTEs or 0.9% from FY2018. The increase consists of additional school support staff, school administrators, teachers and central and network offices. The only decrease from the prior year is in city-wide student support. Since FY2015, overall FTE count has decreased by 6.0%. The number of school administrator positions has increased by 6.6% while all other categories of personnel have declined;
- Salary expenses will increase in FY2019 from the prior year by $93.8 million, or 3.9%, primarily due to increased teacher salaries tied to collective bargaining agreements. Benefit expenses will increase by 3.6%, or $50.8 million, in FY2019, primarily due to a net increase in the required CPS contribution toward the Chicago Teachers Pension Fund in FY2019. Overall personnel costs will increase by $144.6 million, or 3.8% from $3.8 billion in FY2018 to nearly $4.0 billion in FY2019.
- Student enrollment projections for FY2019 are based on FY2018 20th day enrollment (fall 2017), which was 371,382. Enrollment has declined by 29,163 students, or 7.3%, in the five years since FY2014 (fall 2013);
- The FY2018 proposed budget will again rely on short-term borrowing through approximately $1.0 billion in Tax Anticipation Notes (TANs), compared to $1.55 billion in TANs two years prior;
- The District's general obligation debt increased by 18.0% in the five years from FY2013 through FY2017. As of June 30, 2017 CPS had $7.5 billion in bonds outstanding, an increase from $6.7

billion the prior year. CPS reports that its long-term debt increased to $8.2 billion outstanding as of June 30, 2018;

- CPS owes $809 million to the Chicago Teachers' Pension Fund in FY2019. The State of Illinois will cover $239 million of that amount, including $227 million to cover the normal cost and retiree healthcare plus an additional statutorily required contribution of $12.1 million. CPS will contribute the remaining $570 million, of which approximately $430 million will be covered by the dedicated property tax levy for teachers' pensions. In years prior to the passage of Public Act 100-0465,[1] CPS contributed the portion the State of Illinois now covers for the normal cost; and
- The Chicago Teachers' Pension Fund was 50.1% funded[2] as of June 30, 2017, compared to 79.4% funded in 2008. The Pension Fund had an Unfunded Actuarial Accrued Liability of $10.9 billion as of June 30, 2017, compared to $3.1 billion ten years prior.

The Civic Federation **supports** several aspects of the District's FY2019 Proposed Budget:

- The new Evidence-Based Funding formula for school district funding statewide has significantly improved CPS' finances;
- Measures included in the Evidence-Based Funding legislation for pension funding have put the financing of the Chicago Teachers' Pension Fund on more stable footing;
- The District's borrowing costs have been reduced thanks to increased State funding and pension funding relief; and
- The District released a Popular Annual Financial Report to accompany its audited financial statements for FY2017 and plans to release an FY2019 Popular Budget.

The Civic Federation has the following **concerns** about the CPS FY2019 Proposed Budget:

- CPS has ongoing liquidity problems, which it addresses via short-term borrowing;
- CPS' financial stability will continue to rely on the State of Illinois;
- The District's capital planning process for FY2019 lacks transparency;
- CPS is planning to issue an additional $700 million in long-term bonds to finance its $1 billion FY2019 capital budget;
- Enrollment is declining while spending and personnel counts are increasing in FY2019;
- There are differences between data in the budget book and in the online interactive reports; and
- The Chicago Teachers' Pension Fund remains severely underfunded.

The Civic Federation makes the following **recommendations** to Chicago Public Schools and the Chicago Board of Education:

- Issue a five-year Capital Improvement Plan and provide more detail in the one-year capital budgets;
- Live-stream Board of Education meetings to the public;
- Revise the District's fund balance policy to correspond to fund balance reporting requirements and the District's current fund balance practices;
- Present consistent budget figures between the budget book and online interactive reports;
- Provide revenue and expenditure reports on a regular basis at public Board or Committee meetings; and
- Work with the State to consolidate the Chicago Teachers' Pension Fund with the Teachers' Retirement System.

[1] Public Act 100-0465 was the enabling legislation of the new statewide Evidence-Based Funding formula.
[2] This is the funded ratio based on the actuarial value, not a market value basis.

CIVIC FEDERATION POSITION

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Going into FY2019, CPS finds itself in a more stable financial position than in prior years due to the passage of a new Evidence-Based Funding formula for public school districts across the State of Illinois, which went into effect during CPS' 2018 fiscal year. As a result of the new statewide school funding formula law, CPS received in FY2018 an additional $450 million consisting of $221 million from the State of Illinois to pay the normal cost contribution to the Chicago Teachers' Pension Fund, $130 million through the authority to increase a property tax levy specifically to fund teacher pension costs and approximately $100 million in additional State aid and grant funding. All of these funding sources are recurring revenues. CPS amended its FY2018 budget in October 2017 to account for the new funding.

The Civic Federation is encouraged by the turnaround in CPS finances thanks to the increased funding approved by the State. However, we remain concerned about the reliability of the State of Illinois as a funding partner. The two-year State budget impasse in FY2016 and FY2017 created financial uncertainty and delayed funding to CPS, aggravating the District's cash-flow issues. CPS had to borrow an additional $387 million in FY2017 for operations due to delayed block grant payments from the State. Thanks to the Evidence-Based Funding formula, CPS did not need to do this in FY2018 and does not anticipate needing to do so in FY2019. But the Evidence-Based formula requires the State to appropriate an additional $350 million annually. The State of Illinois is not out of its budget crisis yet with an ongoing backlog of unpaid bills and structurally unbalanced budget. Given the State's track record, this creates uncertainty for all school districts across Illinois.

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Issues the Civic Federation Supports

The Civic Federation supports several aspects of the District's FY2019 budget proposal and current financial situation.

New School Funding Formula Law Has Improved CPS Finances

On August 31, 2017, just after CPS approved its FY2018 budget, a new statewide funding formula was signed into law. Public Act 100-0465 created an Evidence-Based Funding model to more equitably fund all public school districts in Illinois. The Evidence-Based Funding formula replaces the historical General State Aid funding, which based funding on an equalization formula that aimed to reach a base foundation level per student. However, the State often failed to meet the per-student foundation level due to its own financial challenges. The Evidence-Based Funding formula aims to fill the gap between school districts' needs and funding adequacy by setting funding levels based on school districts' funding needs and their ability to generate local property tax revenues.

As a result of the legislation enacting new statewide school funding formula, CPS received an additional $450 million during its 2018 fiscal year. Of that amount, approximately $100 million was through additional State aid and grants, and approximately $350 million would help fund the Chicago Teachers' Pension Fund through $221 million from the State to cover the normal cost for Chicago teachers' pensions and authority to increase the CPS property tax levy dedicated to teachers' pension funding by $130 million.

The 2018-2019 school year will be the second fiscal year that CPS receives State funding through the Evidence-Based Formula. CPS estimates that it will receive $65 million more in Evidence-Based Funding in FY2019 than it did in FY2018, plus an additional $18.5 million in early childhood education funding.[3] Total State revenue for CPS is projected to be $111.9 million higher in FY2019 than in the FY2018 budget, which was amended in October 2017 to account for new revenue from the newly passed funding formula.

The Civic Federation is pleased that the State of Illinois passed long-needed school funding reform. The additional State revenue will help free up the District's operating revenue, some of which previously was diverted from classrooms to pay for required pension contributions.

In addition to the Evidence-Based Funding formula, the State of Illinois passed a FY2019 budget on time for the first time since FY2015. The budget impasse had seriously impacted funding of school districts and local governments across the State. In FY2017, due to delayed State grant payments, CPS was forced to issue $387 million Grant Anticipation Notes, a form of short-term borrowing that would be paid off with interest after the District received its grant funding. CPS is now on more secure financial footing thanks to the State having a full budget for FY2019, but will continue to rely on the State to approve on-time, balanced budgets every year going forward to enjoy the same financial security.

Pension Funding on More Stable Footing

With the passage of the Evidence-Based Funding formula law, two major changes were made that will significantly improve CPS' ability to make annual contributions to the Chicago Teachers' Pension Fund (CTPF) without crowding out classroom funding. Public Act 100-0465 included authorization for CPS to increase its property tax levy dedicated to teacher pensions from a rate of 0.383% to a rate of 0.567%. The rate increase follows the reinstatement of a dedicated pension levy in FY2017 at a property tax rate of 0.383%. The District estimated the rate increase would generate $130 million in additional property tax revenue FY2018. The pension levy is projected to generate a total of $430 million in FY2019.

Public Act 100-0465 also included an ongoing appropriation for the Chicago Teachers' Pension Fund to cover the normal cost[4] of the CPS annual pension contribution and a contribution for retiree healthcare. The contribution in FY2019 is $227 million. This State funding is in addition to a statutorily required contribution of $12.1 million from the State.

These two income sources will significantly reduce the amount that CPS will need to divert out of operating funds in order to make its annual contribution to the CTPF. The total required employer contribution to the CTPF in FY2019 is $809 million, of which $239 million will come from State funding and $430 million will come from the dedicated property tax levy for the CTPF. This leaves $140 million for CPS to reach its required contribution level. CPS estimates that the pension levy will fully cover the CPS portion of its employer contribution to the CTPF by 2037,[5] though this is based on actuarial and other assumptions which are by nature subject to uncertainty.

[3] CPS FY2019 Proposed Budget, p. 18.
[4] The normal cost is the annual cost of retiree benefits earned by active employees in the current year.
[5] CPS FY2019 Proposed Budget, p. 33.

Reductions in Borrowing Costs

The improved financial position of CPS since the approval of additional State of Illinois funding through the new Evidence-Based Funding formula as well as pension relief has enabled the district to benefit from reduced interest costs for its debt issuances. For example, on February 3, 2016, CPS sold $725 million in 28-year tax-exempt long-term debt. The bond yields were priced at 8.5%, a very high rate reflecting the District's non-investment grade credit ratings.[6] Comparatively, $562.3 million in unlimited tax general obligation refunding bonds issued in May 2018 had 5.0% interest rates.[7]

At an April 2018 presentation to the Board of Education, CPS finance officials announced that CPS was able to lower its 30-year bond rate from 7.65% to 4.80%, or a reduction of 285 basis points. These lower rates were estimated to save the District $200 million in interest costs on a $1 billion bond issuance in November 2017.[8]

In addition to savings on long-term borrowing, the District has also reduced costs associated with short-term borrowing. At the peak of the State's financial crisis during CPS' 2017 fiscal year, CPS borrowed $1.55 billion through Tax Anticipation Notes (TANs) at a budgeted interest cost of $79 million, plus an additional $387 million in Grant Anticipation Notes (GANs), at a budgeted cost of $18 million. CPS reports reducing its interest costs on short-term borrowing by $68 million in FY2018.[9]

Releasing Popular Annual Financial Report and Budget

For the first time since FY2010, CPS has released a Popular Annual Financial Report to accompany its Comprehensive Annual Financial Report (CAFR).[10] The CAFR provides audited and historical information through the prior fiscal year. The CAFR is very lengthy and can be complicated to understand for non-experts. The Popular Annual Financial Report provides an easier-to-digest snapshot of the CAFR, including a "CPS At a Glance" highlight of relevant CPS facts such as enrollment and student demographics, employee information, and number of schools; a summary of CPS' financial condition and performance in the prior year; and easy-to-consume summaries of the District's revenues, expenditures, capital plan and long-term debt.

The Popular Annual Financial Report makes the District's financial information more accessible for members of the CPS community, thereby helping to better inform stakeholders about the District. We commend CPS for reinstating the practice of producing a Popular Annual Financial Report.

The CPS Budget Office also indicated intent to release a Popular Budget this year. Similar to a Popular Annual Financial Report, a Popular Budget presents key budget figures in an easily

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[6] Heather Gillers. "CPS borrows at steep interest rate," *Chicago Tribune*, February 4, 2016.
[7] Board of Education of the City of Chicago Official Statement for $562,250,000 unlimited tax general obligation refunding bonds, May 25, 2018.
[8] Chicago Board of Education Finance and Audit Committee Meeting Presentation for Third Quarter 2018, April 25, 2018.
[9] CPS FY2019 Proposed Budget, p. 92.
[10] The CPS FY2017 Popular Annual Financial Report is available at https://cps.edu/About_CPS/Financial_information/Documents/FY2017_PAFR.pdf (last accessed July 19, 2018).

consumable format. The Civic Federation supports CPS in this endeavor because maximizing transparency is key to building trust among stakeholders. The Federation encourages CPS to release its FY2019 Popular Budget as soon as is feasible.

Issues of Concern

The Civic Federation has the following concerns regarding the FY2019 Proposed Budget.

Continued Liquidity Problems

CPS has had serious ongoing cash-flow problems for the past several years. CPS experiences annual cash-flow issues due to the timing of debt and pension payments that occur just before the District receives its two installments of property tax revenue, while large expenses such as payroll and vendor payments must be disbursed consistently throughout the year. CPS spent nearly all of FY2017 in a cash negative position. The District's cash position improved somewhat in FY2018 and FY2019, with projections of a net positive cash balance for about a quarter of the year in both years.

In the past, CPS relied on using its reserves to bridge the gap between incoming revenue and outgoing payments. However, the District depleted its reserves, and now uses short-term borrowing through Tax Anticipation Notes (TANs) to generate enough cash to make payments throughout the year.

CPS notes in the FY2019 budget that the District's reliance on short-term borrowing to generate cash flow was reduced by $550 million from $1.55 billion two years prior in FY2017. Yet the District still plans to rely on nearly $1 billion in short-term borrowing through Tax Anticipation Notes at an interest cost of $21 million.[11] While an improvement over past years, this is still an expensive way to operate.

While CPS' liquidity crisis is somewhat improved, such heavy annual reliance on short-term borrowing is still an issue that needs to be remedied. The District will always have timing issues between the receipt of revenues and disbursement of expenditures, but it is expensive for the District to continue to rely on significant amounts of short-term borrowing. It is imperative that CPS come up with a multi-year plan to end the short-term borrowing cycle and rebuild reserves to use to manage the District's annual cash-flow issues.

CPS Financial Stability Relies on State of Illinois

The Civic Federation is encouraged that the State of Illinois enacted both the Evidence-Based Funding formula for schools statewide and also passed a budget on time for FY2019 because both of these factors have vastly improved the financial outlook for both the State and CPS in FY2019. The Evidence-Based Formula required the State to appropriate an additional $350 million for allocation across the State. Every State budget going forward will require the Illinois General Assembly and Governor to appropriate this same increased level of funding until the model is fully funded.

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[11] CPS FY2019 Proposed Budget, p. 179.

The Civic Federation is concerned about the reliability of the State of Illinois as a funding partner, given the possibility of future budget impasses or underfunding negatively affecting CPS. Approximately one-third of the CPS budget will come from State funding in FY2019. CPS had to issue $387 million in Grant Anticipation Notes in FY2017 due to the State budget impasse, which resulted from the State delaying block grant payments to school districts because of its own severe budget crisis. Given that the State of Illinois still has not fully resolved its financial challenges, the State presents an ongoing source of uncertainty for CPS funding.

Lack of Transparency in Capital Planning

CPS is required by Illinois law to release a five-year Capital Improvement Plan (CIP) on an annual basis.[12] The most recent five-year CIP released by CPS is for FY2016-FY2020. It includes a list of projects by category and associated costs for each of the five years from FY2016-FY2020, as well as breakdowns of each project category by school and estimated cost, with projected start and end dates. However, a list of projects does not constitute a Capital Improvement Plan.

The District's Capital Improvement Plans have lacked many of the elements that would typically be included in a CIP, such as the following:

- Information about how projects are prioritized over others in a given year;
- Detailed narrative description of individual projects describing an overview of the projects and the work they entail;
- A five-year summary list of all projects and expenditures by project that includes funding sources per project;
- Annual status updates on actual costs and changes in scope as projects move forward; and
- An expected timeframe for completing each project and a plan for fulfilling overall capital priorities.

CPS says that its online interactive capital budgets provide more details about capital projects. The online reports do provide some additional details school by school, and for each project, CPS creates "project detail" one-pagers that include a project summary and financial details. These project summaries are very brief, provide a broad overview of project scopes and often are not updated to report on progress made, cost adjustments, or to report when projects have been finished. Funding sources are typically listed as general categories, such as "CPS Resources." This tells the reader very little about the sources CPS is using to fund specific projects.

Based on information publicly available, it is difficult to discern how proposed capital projects correspond to CPS' Educational Facilities Master Plan or prior Capital Improvement Plans. For example, the FY2016-FY2020 Capital Improvement Plan included a capital budget for FY2019 of $83.5 million, but CPS' proposed capital budget for FY2019 is nearly $1 billion.

It is also difficult to understand why CPS has selected the projects it did in the FY2019 capital budget. Only a third of the plan, approximately $336 million, is allocated for critical facility

[12] Public Act 97-0474.

needs. Meanwhile the District is setting aside $145 million to build two new high schools without an explanation for prioritizing these specific projects over others.

CPS is required to complete a ten-year Educational Facilities Master Plan with updates every five years. The first Master Plan was released in 2013 and the second was drafted in May 2018.[13] The Master Plan helps demonstrate the status of utilization across the District and identify school facility needs across the City, especially as they relate to population shifts that have resulted in underutilization in some schools and over-crowding in others. However, CPS fails to explain, either in the Master Plans or in its capital budgets or Capital Improvement Plans, what actions the District plans to take to remedy those needs.

Without a list of all capital needs across the District and justifications for prioritizing some projects over others, it is not clear why capital project decisions were made. CPS should produce a multi-year plan to show the projects CPS anticipates over the next several years so that CPS parents, staff and community members can anticipate what projects CPS will complete next and why.

Plans to Increase Long-Term Borrowing

CPS plans to approve a $989 million capital spending plan for FY2019, for which $750 million is yet to be funded and will primarily be paid for through additional bond sales in both FY2019 and FY2020. CPS budget officials say they consider the FY2019 capital budget to be a multi-year plan.

CPS' plans to increase its long-term borrowing to finance the massive one-year capital budget is of concern to the Civic Federation. The District already had $8.2 billion in long-term debt outstanding as of June 30, 2018.[14] The volume at which CPS has been and continues to issue long-term debt, as well as the high interest cost due to the District's below investment grade credit rating, is especially worrying given the lack of public information available about the selection process and prioritization of construction projects and plans for new schools while many of the District's schools appear to be in need of critical repairs.

Declining Enrollment

Enrollment in Chicago Public Schools has been steadily declining for the past ten years. Between FY2009 and FY2018, enrollment decreased by 37,897 students or 9.3%. The total 20th day enrollment across CPS during the fall of 2018 was 371,382. This year, CPS is changing its school funding methodology to be based on the prior year's 20th day enrollment figures rather than forward-looking enrollment projections, so FY2019 figures are not yet publicly available.

In addition to declining enrollment, population shifts across the City of Chicago are affecting CPS' building utilization. Population declines on the south and west sides of the City have led some schools to become underutilized, while some schools on the north and northwest sides of

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[13] A preliminary draft of the 2018 Educational Facilities Master Plan is available at https://cps.edu/About_CPS/Policies_and_guidelines/Pages/facilitystandards.aspx (last accessed July 20, 2018).
[14] CPS FY2019 Proposed Budget, p. 12.

Chicago have become over-utilized. These shifts put CPS in a difficult position from a capital planning perspective, as the District must identify how and where to mitigate utilization problems while also addressing critical facility needs.

While enrollment is decreasing, personnel counts and spending are increasing in FY2019. In FY2019 CPS is budgeting for a total of 36,856 total Full-Time Equivalent (FTE) positions, which is an increase of 344.8 FTEs or 0.9% from FY2018. The increase consists of additional school support staff, school administrators, teachers and central and network office positions. The only decrease from the prior year is in city-wide student support.

Total personnel spending will increase from FY2018 to FY2019 by $144.6 million, or 3.8%. Salaries will increase by $93.8 million, or 3.9% and benefit costs will increase by 3.6%, or $50.8 million. The increase is attributable in part to salary increases tied to the 2015-2019 collective bargaining agreement with the Chicago Teachers Union and an increase in the CPS contribution to the Chicago Teachers' Pension Fund in FY2019.

CPS will not be penalized for lower enrollment via decreases in State funding because the Evidence-Based Funding formula includes a Base Funding Minimum that holds schools harmless. However, the Civic Federation is concerned about the declining enrollment trend given that the District's costs continue to increase. The collective bargaining agreement with the CTU will end in 2019, at which point the District will again need to negotiate with the CTU while balancing the need to contain costs.

Differences Between Budget Book Data and Online Interactive Reports

CPS produces two versions of its budget: a PDF budget book and online interactive reports with more detail about school budgets. There are unexplained differences between the data presented in the budget book and the online interactive reports. For example, the budget book reports that the District has 37,120 Full Time Equivalent (FTE) employees, while the online interactive reports indicate that the District has 36,856 FTE employees. Revenue and expenditure data are classified differently. In the online interactive reports, revenues include line items such as use of fund balance and bond proceeds that are not included in the "All Funds by Revenue Source" summary in the budget book.

Resources for the capital budget are also presented differently between the two budget platforms. In the online interactive reports, revenues for the Capital Funds total $446.2 million, including $388 million in bond proceeds. These figures do not match the numbers provided in the Capital section of the budget book. The budget book shows total sources of $989 million, which include $750 million in anticipated bonds and other capital funds, $189 million in existing bond proceeds and $50 million from other outside funding sources. The differences in funding sources require one to make inferences about how the District will finance its capital plan. The capital revenues do not cover the full $989 million capital spending budget, presumably because additional debt will be issued in FY2020.

According to CPS, the reason for the difference in presentation of the online interactive reports is to provide the public with more detail from a practical spending and school-based perspective. However, the Civic Federation believes that there could be better consistency between the two sources for major categories (e.g. total resources, appropriations, personnel), while still allowing for detailed school-by-school budgets. Both presentations of the budget should use the same data sources.

Severely Underfunded Teacher Pensions

The Civic Federation continues to have concerns about the District's severely underfunded Teachers' Pension Fund, which is only 50.1% funded on an actuarial basis. CPS' budgetary ability to make statutorily mandated annual payments to the Fund based on a plan to get to 90% funded by 2059 has improved due to a dedicated property tax levy and the State's commitment to provide annual normal cost and retiree healthcare payments. However, the fact remains that even if the District is financially able to follow the plan, it is so back-loaded that payments will not be large enough to begin to reduce the unfunded liability until 2038.

The Chicago Teachers' Pension Fund (CTPF) unfunded pension liabilities totaled $10.9 billion in FY2017, up from $3.1 billion 10 years prior. The largest contributors to the CTPF's decline from 100% funded as recently as FY2001 were pension holidays and other sources of employer underfunding and investment losses.

The CTPF's actuary notes that the statutory funding plan is insufficient and recommends funding at the Actuarially Determined Contribution (ADC) level, established as a reporting requirement pursuant to Governmental Accounting Standards Board (GASB) Statements No. 67 and 68.[15] Contributing at the ADC would bring funding to 100% by 2043 and would have required CPS to come up with another $47.2 million in pension contribution funding for FY2019.

While CPS' annual pension contributions now divert less funding from classrooms, improving the funded status of the CTPF is going to require enormous financial effort from taxpayers and decades of funding discipline from both the State and CPS. Until and unless the State and CPS can consistently demonstrate the ability to break with past habits of funding holidays and gimmicks, CTPF will remain in financial peril.

Civic Federation Recommendations

The Civic Federation makes the following recommendations to Chicago Public Schools and the Chicago Board of Education.

Issue a Five-Year Capital Improvement Plan and Provide More Detail in One-Year Capital Plans

As noted above, the District has not released a recent five-year plan detailing capital projects despite the fact that it is required by law. CPS said that it would not be releasing FY2017 and FY2018 Capital Improvement Plans due to the District's financial uncertainty. The District is treating the FY2019 capital budget as a multi-year plan.

[15] Chicago Teachers' Pension Fund, *Actuarial Valuation Report as of June 30, 2017*, p. 12-16.

However, the recent capital budgets and Capital Improvement Plans only consist of a list of projects with their start dates, end dates and cost. More detail is provided in the online interactive capital budget about the types of projects budgeted and their location, but it still does not provide sufficient information about project criteria, updates on progress, changes in cost and impact on future budgets. The District's recent annual capital plans do not provide nearly enough information for stakeholders to understand the scope of the projects because there is no narrative providing a description of projects, justification for projects or updates on the capital projects.

Without a long-term capital plan, it is difficult for CPS stakeholders to anticipate what action the District will take next to address its facility needs and to ensure that upcoming projects constitute the District's highest priorities.

A best-practice capital improvement plan identifies and prioritizes capital needs throughout the District, provides a timeline for completing projects and identifies funding sources for projects. The District should include in its one-year capital plans a narrative of project descriptions, prioritization criteria, funding source, project justification, purpose and need and updates on project costs and completion. It would also be helpful for the District to connect its capital plans to the Educational Facilities Master Plan and justify capital projects based on the needs assessments that are conducted in conjunction with the Master Plan.

According to best practices for capital budgeting, a complete capital improvement plan (CIP) should include the following elements:[16]

- A narrative description of the CIP process including how criteria for projects were determined and whether materials and meetings were made available to the public;
- A five-year summary list of all projects and expenditures by project that includes funding sources per project;
- Criteria for projects to earn funding in the capital budget including a description of an objective and needs-based prioritization process;
- A publicly available list of project rankings based on the criteria and prioritization process;
- Information about the impact of capital spending on the annual operating budget of each project;
- Annual updates on actual costs and changes in scope as projects progress;
- Brief narrative descriptions of individual projects, including the purpose, need, history, and current status of each project; and
- An expected timeframe for completing each project and a plan for fulfilling overall capital priorities.

The District should issue an updated comprehensive five-year Capital Improvement Plan (CIP) with the elements listed above and information about capital project needs and what projects it can finance with the funds available.

[16] National Advisory Council on State and Local Budgeting Recommended Practice 9.10: Develop a Capital Improvement Plan, p. 34; Government Finance Officers Association, Best Practices, Development of Capital Planning Policies, October 2011.

Live-Stream Board of Education Meetings to the Public

CPS should broadcast its Board of Education meetings live. Board meetings are held during the day in the CPS downtown headquarters office. As the Civic Federation has pointed out in the past, many other school districts in Illinois and across the country live-stream their board meetings. As the third largest school district in the United States, CPS should be a leader in this area.

Holding daytime meetings requires teachers, principals, students and parents to miss school and work in order attend board meetings. Board meetings also involve a sign-up process for both speaking at and observing the meetings. The observer and speaker slots often fill up within hours. Board meetings are therefore often filled to capacity, leaving members of the public unable to enter and view the proceedings. With such a large stakeholder community to accommodate and not enough space to accommodate it, it makes practical sense for meetings be streamed live publicly to ensure that those who cannot attend in person still remain aware of the meeting's proceedings.

CPS already live-streams Board meetings internally to staff online and then posts videos of the meetings on the Board of Education's website after the fact. The Civic Federation encourages the Board of Education to take the initiative to make the live-stream of meetings open to the public.

Revise the District's Fund Balance Policy

Chicago Public Schools adopted a fund balance policy in FY2008[17] that establishes a target fund balance level for its general operating funds, referred to as the stabilization fund. The policy requires the Board to maintain an unreserved, designated (assigned) fund balance of a minimum of 5% and a maximum of 10% of the operating and debt service budgets for the new fiscal year as a stabilization fund in the General Fund when the budget is adopted.[18] If the stabilization fund falls below 5% of the upcoming operating and debt service budget, the Chief Financial Officer must present to the Board of Education a plan to replenish the reserves within twelve months. If restoration is not possible within twelve months, the Board must approve an extension of the restoration plan.[19]

The fund balance policy was adopted before changes made to fund balance reporting through GASB Statement No. 54, so the policy's terminology no longer matches the way fund balance is presented in the District's Comprehensive Annual Financial Reports. Further, the way CPS refers to its operating fund balance does not correspond to the 2008 policy. CPS now considers its unrestricted fund balance to be the combined amounts of the "unassigned" portion of the General Operating Fund fund balance and the Debt Service Stabilization Fund.[20] In recent years, reporting of the Debt Service Stabilization Fund has been inconsistent. From FY2011 through FY2015, the District's Balance Sheet for Governmental Funds included an amount "Assigned for

[17] Fund Balance and Budget Management Policy, Adopted August 27, 2008 through Board Report 08-0827-PO8. Found in Section 403.10 of the Chicago Public Schools Policy Manual, available at https://policy.cps.edu/download.aspx?ID=62 (last accessed July 13, 2018).
[18] CPS FY2019 Proposed Budget, p. 215.
[19] CPS FY2019 Proposed Budget, p. 215.
[20] Information provided by the CPS Budget Office on July 12, 2018.

Debt Service." In FY2016 and FY2017, the Balance Sheet for Governmental Funds did not include fund balance "Assigned for Debt Service," but did include an "unassigned" portion of fund balance.

The Civic Federation recommends that the Board of Education revise its fund balance policy to correspond with the updated terminology post-GASB 54 and with the District's current fund balance practices.

Additionally, in keeping with the current fund balance policy's requirement to present a plan to replenish the reserves, the Civic Federation urges CPS to establish a detailed plan to rebuild reserves to a level where they can be used to replace short-term borrowing for cash-flow. The FY2019 budget indicates that CPS will replenish the fund balance by continuing to push for additional State funding, monitoring expenses to achieve savings, having lower anticipated debt service payments and using conservative budgeting assumptions.[21] The Civic Federation encourages the District to outline a more specific and detailed plan to rebuild reserves rather than imprecise goals.

Present Consistent Budget Figures Across Platforms

CPS presents its budget information in both a budget book format and in online interactive budget reports. Funds are grouped slightly differently in the interactive budget compared to the budget book. According to CPS, the reason for this difference in presentation of the online interactive reports is to provide the public with more detail from a practical spending and school-based perspective. However, presenting numbers that do not match between the budget book and the online interactive budget without a detailed explanation or comparison adds confusion to using the budget. Textual explanation would be very helpful to parents, students, teachers and other stakeholders. Ideally, CPS should use the same source and present budget data the same way in both budget formats.

Provide Regular Revenue and Expenditure Reports

Several of the local governments whose finances the Civic Federation analyzes are required by their governing boards to produce on at least a monthly or quarterly basis a report of year-to-date revenues and expenditures. Government finance officials present the reports at a board or committee meeting, where discussion can take place between board members and staff in a public forum. The purpose of this kind of reporting is to keep the governing board and the public updated so that shortfalls can be anticipated and mid-year adjustments can be made. Doing so in a public forum is critical to maintaining the integrity and transparency of the government. A few examples of Chicago-based governments that do this are Cook County, the Chicago Transit Authority and the Forest Preserve District of Cook County. The City of Chicago also publishes quarterly financial reports on its website.

At the Finance and Audit Committee meeting held on April 25, 2018, the League of Women Voters of Chicago called on the District to report to the Board of Education financial reports with revenue and expenditure updates and cash-flow projections at public Board meetings on at least a

[21] CPS FY2019 Proposed Budget, p. 183.

quarterly basis. The Civic Federation agrees and echoes the League of Women Voters' call for regular financial reporting at Board of Education meetings or Finance and Audit Committee meetings if more appropriate. The Civic Federation urges the Board of Education to seriously consider making this type of financial reporting a requirement.

Consolidate the Chicago Teachers' Pension Fund with the Teachers' Retirement System

The Civic Federation continues to recommend that CPS work with the General Assembly and the Teachers' Retirement System to consolidate the Chicago Teachers' Pension Fund (CTPF) with the Teachers' Retirement System (TRS). TRS is the pension fund for the teachers in all school districts outside of Chicago. Even after an increase in teacher pension contributions from the State, CPS is still the only school district in the State that is required to support the great majority of its pension system. Consolidating the CTPF and TRS would eliminate the current inequitable funding structure under which Chicago taxpayers pay for most of the cost of Chicago teachers' pensions and also contribute downstate and suburban teachers' pension costs. It could also achieve some cost efficiencies as duplicative functions are eliminated.

Under a consolidation plan, the CTPF and TRS systems would be managed by a single pension board that would have proportional representation for both teachers' pension funds. However, the current member plans would be maintained as separate accounts, so contributions by and for Chicago teachers would not be comingled with downstate and suburban teacher pension funds. The State of Illinois would assume responsibility for the unfunded liability of CTPF, while CPS would resume paying for the pension fund's normal cost (the annual cost of the pension plan's benefits).

Currently the State pays for normal costs and toward the unfunded liability for downstate and suburban districts, but only the normal pension costs for CPS. The State picking up the normal cost of Chicago teachers' pensions is not pension parity. Rather, the Civic Federation believes the State should pay for the unfunded liability of the pension fund, and CPS should be responsible for the normal cost. This would be a much more feasible structure for CPS and would maintain the District's "skin in the game" by requiring CPS to pay for the annual cost of the pension program, while the State takes on the legacy cost of the underfunding that it allowed.

In FY2019 the State's statutorily required contribution to TRS will be over $4.3 billion.[22] It is reasonable for the State of Illinois to continue to assume financial responsibility for the unfunded liability of all school districts because the State created the current expensive and unsustainable situation that has led to $73.4 billion in unfunded liability and a funded ratio of 40.2% for TRS as of June 30, 2017 and $10.9 billion in unfunded liability and a funded ratio of 50.1% for CTPF. Paying these enormous costs is beyond the capability of local school districts to readily absorb. Rather, all school districts should begin to cover the normal cost for all of their teachers' pensions.

The Civic Federation has recommended consolidation of the two teachers' retirement systems in past years, and continues to support this recommendation because the State assuming

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[22] Civic Federation Blog, "Examining Pension Savings in Illinois' FY2019 Budget," July 5, 2018. Available at https://www.civicfed.org/iifs/blog/examining-pension-savings-illinois-fy2019-budget.

responsibility for the CTPF's unfunded pension liabilities would relieve much of the District's fiscal structural challenges and end a source of education funding inequity in Illinois.

ACKNOWLEDGEMENTS

We would like to express our appreciation to Chicago Public Schools Senior Vice President of Finance Ronald DeNard and Chief Financial Officer Jennie Huang Bennett for their work in preparing this budget, providing the Civic Federation staff with a budget briefing and for answering the Civic Federation's questions.

FY2019 BUDGET GAP-CLOSING MEASURES

For the past several years, the District has operated with a structural deficit driven by the consistent use of one-time funding sources, draining budgetary reserves, decreases in General State Aid (GSA) and a lack of pension funding from the State of Illinois. CPS has experienced annual operating deficits ranging from $500 million to $1.14 billion in FY2017. The District has closed these deficits using one-time revenues, operating reserves, debt restructuring to extend long-term debt payments, short-term borrowing and budget cuts.[23]

CPS expects a smaller budget gap of $59 million in FY2019 than in recent years.[24] CPS has stated that it plans to close the budget gap and end FY2019 with a balanced budget by taking into account the following measures shown in the table below. The table shows a combination of increased costs and investments anticipated during FY2019. Those include $59 million in salary increases for both union and non-union employees, employee healthcare increases, a $16 million reduction in Medicaid reimbursements, a $19 million pension contribution increase and several investments that will increase spending for schools and school supports by $107 million. These costs are offset by increases in several revenue sources including the District's property tax levies for both the Educational Fund and the Chicago Teachers' Pension Fund, personal property replacement tax, a $49 million increase in State aid revenues as a result of the new statewide Evidence-Based Funding formula. Other savings are achieved through long-term debt refunding to reduce debt service costs, interest earnings and reduced interest paid on short-term borrowing.

[23] *Official Statement, Series 2017AB*, Board of Education of the City of Chicago, July 2017, p. 22.
[24] Information provided by the CPS Budget Office on July 10 and 17, 2018.

Together these spending increases and increased revenue sources balance out to an ending deficit of $0.

CPS FY2019 Budget Gap Closing (in $ millions)		
FY2019 Beginning of Year Deficit	**$**	**(59.0)**
Labor Funding Sources / (Uses)		
Educational Fund Property Tax Levy Increase	$	76.0
Personal Property Replacement Tax Increase	$	15.0
State Evidence Based Funding Increase	$	49.0
CTU Contract COLA & Non-CTU Salary Increases	$	(59.0)
Healthcare Costs	$	(20.0)
Federal & Medicaid Revenue Decrease	$	(16.0)
Labor Surplus	**$**	**45.0**
Pension Funding Sources / (Uses)		
Pension Levy Increase	$	35.0
Pension Contribution Increase	$	(19.0)
Pension Surplus	**$**	**16.0**
Debt Service Funding Sources / (Uses)		
Long-Term Debt Refundings	$	78.0
Interest Earnings	$	15.0
Lower Short-Term Interest	$	12.0
Debt Service Surplus	**$**	**105.0**
Education Investment Sources / (Uses)		
Various Investments in Pre-K, IT, School Action Supports, Curriculum, Teacher Recruitment, Security, Asset Management	$	(24.0)
SBB Formula Adjustments and Proportionate Charter Increase	$	(44.0)
Special Education Staffing and Support	$	(30.0)
Additional Custodians and Energy Inflation Cost	$	(9.0)
Increased Educational Investments	**$**	**(107.0)**
Ending Deficit	**$**	**-**

Source: Information provided by CPS Budget Office, July 10, 2018 and July 17, 2018.

RESOURCES

This section presents total resources that CPS plans to generate in FY2019 and includes a discussion of resource and revenue trends and a discussion of the property tax levy. Resources include all local, state and federal revenue plus other non-revenue sources such as appropriated fund balance and income from debt financing.

In FY2019 CPS finds itself in a more stable financial position than in prior years due to the passage of a new Evidence-Based Funding formula for K-12 public school districts across the state, which went into effect during FY2018. The two-year State budget impasse in FY2016 and FY2017 created financial uncertainty and decreased funding for CPS. CPS passed a FY2017 budget that relied on $215.2 million in normal cost pension funding from the State that failed to be passed by the General Assembly, which led CPS to amend its budget in February 2017 to account for the funding gap through the use of furlough days, a freeze of non-personnel discretionary school funds, a cut in professional development and a proportionate reduction to charter schools.[25]

CPS approved the FY2018 budget based on the assumption that the District would receive $300 million in additional funding through a proposed evidence-based statewide school funding formula and $269 million from the City of Chicago. Ultimately the General Assembly and the Governor did compromise on an Evidence-Based Funding formula in Public Act 100-0465, signed by the Governor on August 31, 2017. As a result, CPS received an additional $450 million consisting of $221 million from the State of Illinois to pay the normal cost contribution to the Chicago Teachers' Pension Fund and retiree healthcare, $130 million through new authority to increase a property tax levy specifically to fund teacher pension costs, $76 million in additional State Aid revenue, $19 million in State grants and an additional $4 million in State Aid above the originally anticipated amount. All of these funding sources are recurring revenues. CPS amended its FY2018 budget on October 25, 2017 to account for the State funding changes. Changes to CPS' State revenue through the new funding formula are discussed further later in this section.

Total Resources FY2019 Snapshot

CPS projects total resources for all funds to be $7.0 billion in FY2019. It should be noted that total resources in FY2019 differ from total projected expenditures in FY2019. CPS plans to appropriate $7.6 billion in total spending in FY2019. The $568.3 million difference between resources and appropriations is accounted for within the capital budget. CPS plans to appropriate $989.0 in capital spending, but the District will only generate $446.2 million in financing in FY2019 for the Capital Projects Funds.[26] The remainder of capital funding will be acquired through debt issuances planned for FY2019 and FY2020. The capital budget is discussed further on page 93 of this report.

The pie chart below shows the distribution of CPS' $7.0 billion projected resources for FY2019 among the District's three main fund types – General Operating Funds, Debt Service Funds and

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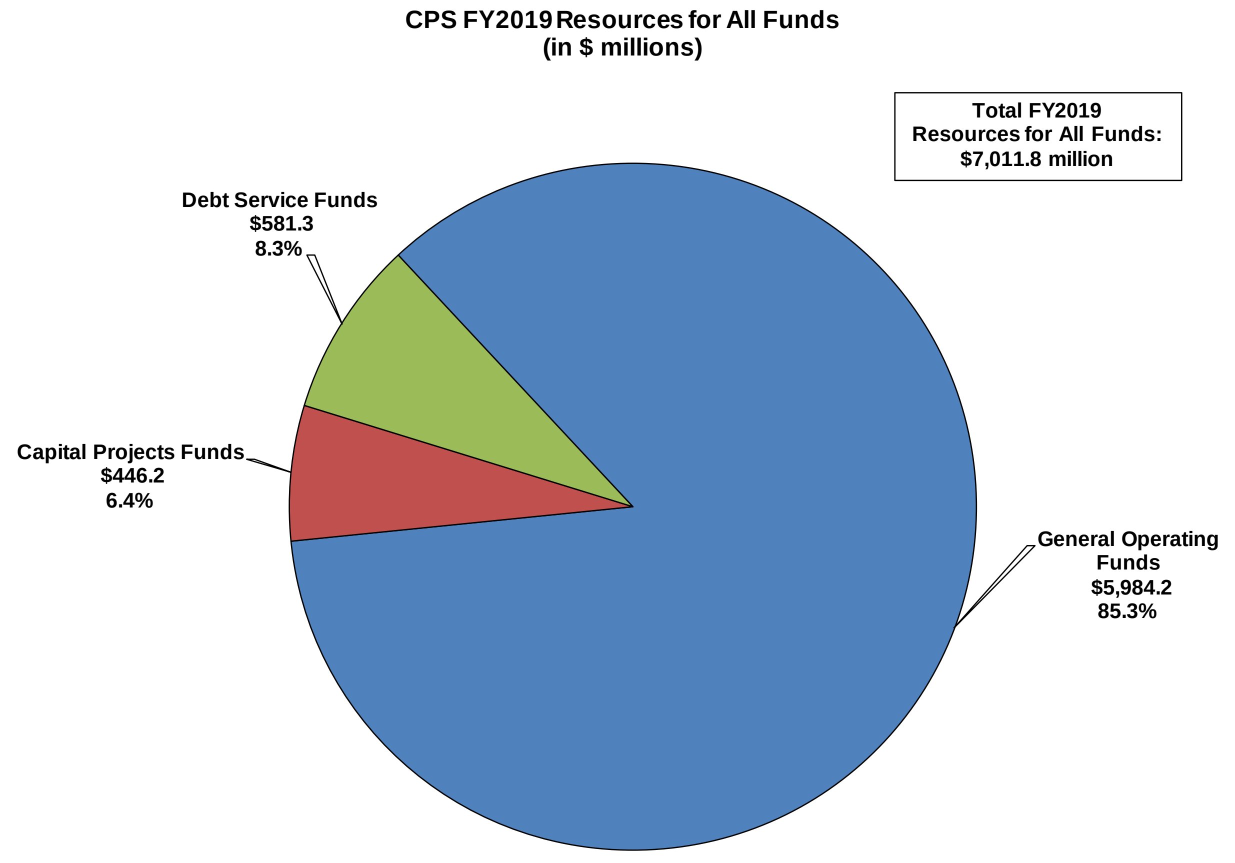
[25] CPS Amended FY2017 Budget: Board Update, presented at the February 22, 2017 Chicago Board of Education meeting.
[26] CPS FY2019 Budget Online Interactive Reports, Revenues & Expenditures, available at cps.edu/budget.

Capital Funds.[27] The General Operating Funds will account for the majority of resources at 85.3% or $6.0 billion. The Capital Projects Funds, which account for financial resources used for major capital acquisition or construction activities, will account for 6.4% of total resources or $446.2 million. Debt Service Funds, which are used to pay principal and interest on long-term debt, will total $581.3 million or 8.3% of total resources.



Source: CPS FY2019 Budget Online Interactive Reports, Revenues and Expenditures, available at www.cps.edu (last accessed July 9, 2018).

The next pie chart presents the District's total projected resources and revenues by source for FY2019. The largest revenue source is the property tax, which is expected to generate $3.0 billion, or 42.6%, of the District's total revenues. State revenue will constitute the second largest revenue source, at over 30% of total resources – including $1.6 billion, or 23.5%, in General State Aid (now Evidence-Based Funding) and $546.1 million, or 7.8%, in other State revenue. Other State revenue includes block grants and other grants, State pension aid for teachers and driver's education funding. Federal funds are expected to make up 11.9% of total resources, or $836.7 million. Personal Property Replacement Tax revenue will account for $161.1 million, or 2.3% of total resources. CPS also plans to use $62.6 million in fund balance for the FY2019 budget. Other financing sources, which are proceeds from the sale of bonds, will account for

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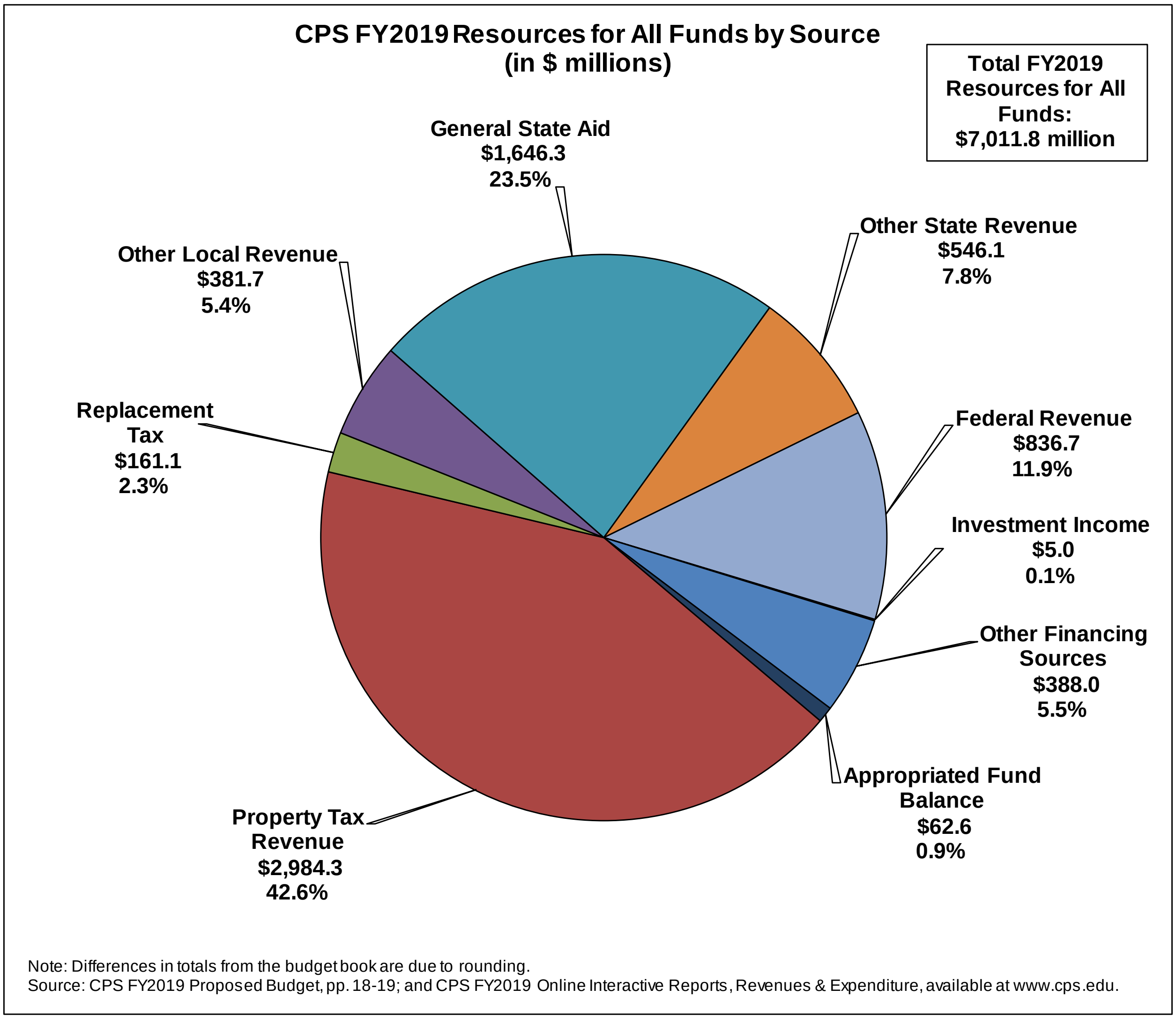
[27] Note that the three main fund types discussed here are used in the budget book and conform to Generally Accepted Accounting Principles (GAAP). The funds in the budget book differ from the funds used in the online interactive budget reports,

$388.0 million 5.5% in resources. Other local revenue and investment income will account for the remaining 5.5%, of FY2019 resources.



The following table details the resources shown above by fund (General Operating, Capital and Debt Service). Of the total $7.0 billion in resources expected to be available in FY2019, $6.0 billion is allocated for general operating purposes. This includes revenues from local, state and federal sources totaling $5.9 billion, plus $62.6 million in appropriated fund balance and $22.3 from TIF surplus declared by the City of Chicago. Total resources for the Capital Fund are expected to be $446.3 million, which includes $58.3 million in revenue plus $388.0 million in other financing sources, or proceeds from the sale of bonds. Total resources for the debt service fund are expected to be $581.3 million.

In FY2019 the District estimates that it will receive $3.5 billion in local government revenue, including almost $3.0 billion in property tax revenues. State revenues in FY2019 are projected to be $2.2 billion. The majority of State revenue, $1.8 billion, is allocated for general operations, and $328.0 million for debt service. Federal aid is expected to be $836.7 million, of which the majority, or $805.4 million, will be used for general operations.

CPS FY2019 Revenues and Resources by Fund Type (in $ millions)				
	General Operating	Capital	Debt Service	Total
Property Taxes	$ 2,899.4	$ 3.7	$ 81.2	$ 2,984.3
Replacement Tax	$ 126.2	$ -	$ 34.9	$ 161.1
Other Local Revenue	$ 219.2	$ 32.7	$ 112.5	$ 364.4
Subtotal Local Revenue	**$ 3,244.8**	**$ 36.4**	**$ 228.6**	**$ 3,509.7**
General State Aid/Evidence-Based Funding	$ 1,318.4	$ -	$ 328.0	$ 1,646.3
Other State Grants	$ 530.8	$ 15.3	$ -	$ 546.1
Subtotal State Revenue	**$ 1,849.2**	**$ 15.3**	**$ 328.0**	**$ 2,192.4**
Federal Revenue	$ 805.4	$ 6.6	$ 24.7	$ 836.7
Total Revenues	**$ 5,899.3**	**$ 58.3**	**$ 581.3**	**$ 6,538.8**
Other Financing Sources	$ -	$ 388.0	$ -	$ 388.0
TIF Surplus	$ 22.3	$ -	$ -	$ 22.3
Appropriated Fund Balance	$ 62.6	$ -	$ -	$ 62.6
Total Resources	**$ 5,984.2**	**$ 446.3**	**$ 581.3**	**$ 7,011.7**

Note: Differences may occur due to rounding.
Source: CPS FY2019 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 19, 2018).

Two-Year and Five-Year Trends for Resources in All Funds

The table below presents total revenues and resources for all funds from FY2015 to FY2019. In FY2019 total resources are projected to increase by 9.1%, or $586.2 million, from $6.4 billion in the amended FY2018 budget to $7.0 billion. Total revenues will increase by 3.0% or $193.4 million from FY2018 to FY2019. Other resources include other financing sources, which are proceeds from the sale of bonds, TIF surplus, the use of fund balance and transfers in/out. In FY2019, CPS plans to generate $388.0 million from bond proceeds, a 100% increase from the prior year because CPS did not utilize other financing sources in FY2018.

Over the five-year period between FY2015 and FY2019, total revenues have increased by 17.9% or $992.4 million. Over the same period, total resources have increased by 2.3%, or $159.9 million, due primarily to varying uses of other financing sources (bond proceeds) and fund balance.

The District has historically relied on one-time sources of funding to balance its budget. In FY2015 the District relied on $940.4 million in fund balance. The District budgeted for less use of fund balance in the following years because fund balance had been drained.

CPS also receives a portion of the TIF surplus declared by the City of Chicago. In FY2016 and FY2017 the District budgeted $87.2 million and $87.5 million, respectively, in TIF surplus. CPS estimated receiving $22.3 million in TIF surplus in both FY2018 and FY2019.

Local, state and federal revenues during this five-year period are described in more detail below.

CPS Revenues and Resources All Funds by Source: FY2015-FY2019 (in $ millions)									
Source	FY2015 Budget	FY2016 Budget	FY2017 Amended	FY2018 Amended	FY2019 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Property Taxes	$ 2,233.7	$ 2,359.8	$ 2,659.8	$ 2,909.4	$ 2,984.3	$ 74.9	2.6%	$ 750.6	33.6%
Replacement Taxes	$ 188.9	$ 207.8	$ 188.8	$ 148.7	$ 161.1	$ 12.4	8.3%	$ (27.8)	-14.7%
Other Local Revenue*	$ 392.1	$ 336.2	$ 310.6	$ 393.4	$ 364.4	$ (29.0)	-7.4%	$ (27.7)	-7.1%
Subtotal Local Revenue	**$ 2,814.7**	**$ 2,903.8**	**$ 3,159.2**	**$ 3,451.6**	**$ 3,509.7**	**$ 58.2**	**1.7%**	**$ 695.0**	**24.7%**
General State Aid / Evidence-Based Funding	$ 1,022.6	$ 952.2	$ 1,059.9	$ 1,546.2	$ 1,646.3	$ 100.1	6.5%	$ 623.7	61.0%
Other State Revenue	$ 811.9	$ 1,244.3	$ 827.2	$ 534.3	$ 546.1	$ 11.8	2.2%	$ (265.8)	-32.7%
Subtotal State Revenue	**$ 1,834.5**	**$ 2,196.5**	**$ 1,887.1**	**$ 2,080.5**	**$ 2,192.4**	**$ 111.9**	**5.4%**	**$ 357.9**	**19.5%**
Federal Revenue	$ 897.2	$ 889.9	$ 860.7	$ 813.4	$ 836.7	$ 23.3	2.9%	$ (60.5)	-6.7%
Total Revenues	**$ 5,546.4**	**$ 5,990.2**	**$ 5,907.0**	**$ 6,345.5**	**$ 6,538.8**	**$ 193.4**	**3.0%**	**$ 992.4**	**17.9%**
Bond Proceeds	$ 340.0	$ 849.5	$ 331.0	$ -	$ 388.0	$ 388.0	100.0%	$ 48.0	14.1%
TIF Surplus	$ 25.0	$ 87.2	$ 87.5	$ 22.3	$ 22.3	$ -	0.0%	$ (2.7)	-10.9%
Fund Balance Use / (Sources)	$ 940.4	$ 79.2	$ 80.8	$ 57.8	$ 62.6	$ 4.8	8.3%	$ (877.8)	-93.3%
Operating Transfers In/Out	$ -	$ (40.0)	$ 4.6	$ -	$ -	$ -	-	$ -	-
Total Resources	**$ 6,851.8**	**$ 6,966.2**	**$ 6,410.9**	**$ 6,425.5**	**$ 7,011.7**	**$ 586.2**	**9.1%**	**$ 159.9**	**2.3%**

*Other Local Revenue includes interest income.

Note: CPS has classified TIF surplus as a local revenue and as other financing sources in the five years examined. For consistency, the Civic Federation has classified TIF Surplus separately under Resources.

Source: CPS FY2015 Adopted Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 19, 2018); CPS FY2016 Adopted Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 19, 2018); CPS FY2017 Amended Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 19, 2018); CPS FY2018 Amended Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 19, 2018); CPS FY2019 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 19, 2018);

Local Revenue

As shown in the table above, total local revenue is expected to increase by 1.7%, or $58.2 million, in FY2019 compared to the FY2018 amended budget. Local revenues consist of property tax, Personal Property Replacement Tax and other local revenue sources from the City of Chicago. Over the five-year period from FY2015 to FY2019, total local revenue is projected to increase by 24.7%, or $695.0 million, from $2.8 billion in FY2015 to $3.5 billion in FY2019.

Property tax revenue will increase by 2.6%, or $74.9 million, from the FY2018 amended budget level of $2.91 billion to $2.98 billion in FY2019. The increase in FY2019 is due to several factors: first, the District will increase its property tax levy by 2.1%, which is the maximum increase allowed under the Property Tax Extension Law Limit (PTELL) based on the FY2018 inflation rate; second, property value growth will generate additional revenue for the property tax levies dedicated to both education and teacher pensions; and third, the District will receive some additional property tax revenue from the creation of a new Transit TIF district in FY2018.[28]

CPS' property tax revenue increased significantly in FY2018 from FY2017 due to the reinstatement of a property tax levy dedicated to funding the Chicago Teachers' Pension Fund in 2017. Over the five-year period from FY2015 to FY2019, property tax revenues are expected to increase by 33.6% or $750.6 million. The property tax levy is discussed further below.

The Personal Property Replacement Tax (PPRT), which is a corporate income tax the State collects from corporations and other business entities and distributes to local taxing districts, is expected to increase by $12.4 million, or 8.3%, from FY2018 to FY2019 to $161.1 million. The

[28] CPS FY2019 Proposed Budget, p. 20.

increase is largely due to an improving business climate.[29] A total of $126 million of the PPRT revenue will be used for general operations and $36 million will be allocated for debt service.[30] Since FY2015, PPRT revenue has declined by 14.7% or $27.8 million.

Other local revenues are projected to total $364.4 million in FY2019, a decrease of $29.0 million, or 7.4%, from FY2018. Other local revenues include City of Chicago pension contributions, donations, rental and fee revenues, intergovernmental agreements with the City of Chicago, interest income and other miscellaneous revenue sources.[31] This includes $52.5 million from the City to cover the pension payment for CPS employees who are part of the Municipal Employees Pension Fund.[32]

State Revenue

FY2019 will be the second year of State revenue since the passage of the statewide Evidence-Based Funding formula for K-12 public school districts across Illinois and the first year with a full-year State of Illinois budget. CPS projects a total of $2.2 billion in State funding in FY2019, compared to $2.1 billion in FY2018, an increase of $111.9 million or 5.4%. In FY2018, the first year of implementation of the Evidence-Based Funding formula, State funding represented an increase of $193.4 million above State funding levels in FY2017.

The Evidence-Based Funding model replaced a previous General State Aid model, with a more equitable formula based on funding adequacy of school districts based on property value. The Evidence-Based formula decreased the level of State funding outside of General State Aid, such as block grants, but significantly increased General State Aid. The level of Evidence-Based Funding (previously General State Aid) is projected to increase by 61.0% over the five year period since FY2015, while the remaining State revenue (including block grants) is projected to decrease by 32.7% over the same period.

The changes within the Evidence-Based Funding formula compared to historical State funding for CPS are discussed further below.

Federal Revenue

Federal revenue has decreased by 6.7% in the five year period since FY2015. Federal revenues are expected to increase by $23.3 million, or 2.9%, in FY2019 from the FY2018 amended budget. Most federal funding is restricted and can only be used to provide supplemental programs and services such as those for low income, non-English speaking or delinquent children, or for school food programs.[33]

Title I funds make up the majority of the District's federal funding and are calculated based upon Census data related to the number of children in poverty relative to other districts. The reduction

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[29] CPS FY2019 Proposed Budget, p. 21.
[30] CPS FY2019 Proposed Budget, p. 21.
[31] CPS FY2019 Budget, Online Interactive Reports, Revenues and Expenditures, available at cps.edu/budget (last accessed on July 17, 2018).
[32] CPS FY2019 Proposed Budget, p. 22.
[33] CPS FY2019 Proposed Budget, p. 25.

in Title I funds has been tempered because the Illinois State Board of Education (ISBE) has a 95.0% hold harmless provision for high poverty school districts, limiting the amount of an annual reduction.[34] In FY2019 CPS expects to receive Title I-A – Low Income funding, which is the largest grant received under the No Child Left Behind Act, of $231 million including $20 million in allowable carryover funds.[35]

Other Sources

In FY2019 CPS is anticipating $22.3 million in TIF surplus revenues from the City of Chicago. During this five-year period CPS has received a total of $244.3 million in TIF surplus. As previous noted, CPS has also relied heavily on fund balance in recent years to close its budget gaps. This has ranged from a high of $940.4 in FY2015 when CPS drained most of its reserves to a low of $57.8 million in FY2018. The District has also relied heavily on the issuance of debt to cover capital expenditures, which has ranged from not relying on any bond proceeds in FY2018 to a high of $849.5 million in FY2016. The FY2019 budget accounts for $388.0 million in anticipated bond proceeds.

Comparison of Historical State Funding vs. Evidence-Based Funding Formula

Previously, the State of Illinois provided funding to CPS via General State Aid, other State grants (including block grants for specific services) and funding for capital projects. CPS' funding from the State has historically consisted of the following components:

- General State Aid:
  - An Equalization Formula Grant supplemented each school district's resources to equalize funding across the state to reach a base "foundation level." First, school districts would levy for all available local property taxes, and then the State would provide supplemental funding to reach the foundation level, which was held at $6,119.0 per pupil since FY2010.[36] The State often prorated the foundation level funding per pupil because it was not fully funded, leading to lower amounts of GSA for CPS and other school districts.
  - A Supplemental Low Income Grant (Poverty Grant) was meant to supplement districts with higher concentrations of low income children.
  - In FY2017 CPS received an Equity Grant as an additional supplement to the poverty grant meant to account for a greater need for funding for districts with high concentrations of low income students.
- Other state funding:
  - A General Education Block Grant consisted of grants for early childhood education, truants alternative optional education program and agricultural education.
  - An Educational Services Block Grant consisted of grants for special education, state free and reduced meals and transportation.

[34] Communication with CPS Office of Budget and Management, July 16, 2014.
[35] CPS FY2019 Proposed Budget, p. 25.
[36] CPS FY2018 Proposed Budget, p. 33.

- Categorical grants provided additional State funding for bilingual education, vocational education and driver's education.
- CPS received statutory annual payments to fund capital projects.
- CPS also received a statutory annual payment of about $12 million for teacher pensions since FY2011, with the exception of an additional $50.0 million in FY2015. The pension payment from the State was well below the statutory goal of contributing an amount equivalent to 20-30% of the contribution made to the downstate Teachers' Retirement System pension fund,[37] which in FY2017 would total approximately $740 million.[38]

Public Act 100-0465, passed by the General Assembly in late August and signed by Governor Rauner on August 31, 2017, instituted a new Evidence-Based Funding formula to replace General State Aid. The Evidence-Based Funding formula consists of the following components:

- The Evidence-Based Funding formula sets a target funding level ("adequacy target") based on a school district's needs and calculates local capacity to fund schools based on the assessed value of property available to the school district for taxing, rather than setting the same funding level for every student. School districts are separated into four tiers based on how close they are to their adequacy target;
- The formula includes a Base Funding Minimum set at current State funding levels (referred to as hold harmless), which resulted in CPS keeping funding previously provided through block grants that will now be included in the evidence-based formula. All school districts will continue to receive the same Base Funding Minimum regardless of enrollment declines;
- Four block grants are now rolled into the base funding minimum calculation within the evidence-based formula. Nine block grants remain in their current form outside the evidence-based formula including Early Childhood, Driver's Education and Special Education Tuition and Transportation block grants;
- The new formula requires an increase of $350 million for allocation statewide to reach a Minimum Funding Level. CPS receives approximately 20%. The State will need to continue approving this level of additional funding in the annual State budget. If the Minimum Funding Level is not met, the most adequately funded school districts would lose dollars first and the least adequately funded districts would be prioritized; and
- The statutory payment to CPS for capital projects remains unchanged.

Public Act 100-0465 also included several components that were not part of the originally drafted Evidence-Based model and fall outside of the funding formula:

- Authorization for a five-year pilot program offering income tax credits to individuals or businesses who donate to private school scholarships. Donors are eligible for a 75% income tax credit up to $1 million per donor. The program will provide a maximum of $75 million in tax credits and is estimated to cover fewer than 6,000 scholarships;

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[37] The "goal and intention" for the State to contribute 20-30% of the Teachers' Retirement System (TRS) contribution is noted in 40 ILCS 5/17-127.
[38] CPS FY2017 Proposed Budget, p. 150.

- Authorization for the Chicago Board of Education to increase its property tax levy for teacher pensions from a maximum rate of 0.383% to a maximum rate of 0.567%;
- Establishment of a new property tax relief pool fund for new State appropriations in excess of $300 million in any fiscal year up to a maximum of $50 million, to be distributed to eligible school districts with high property tax rates and low property tax values. This is intended to provide property tax relief to areas with low property values that depend heavily on property taxes to fund schools;
- Authorization for property tax reduction referenda to reduce the property tax levy by up to 10% in school districts that are funded at least at 110% of their adequacy target. A referendum would be allowed if 10% of registered voters sign a petition and if reducing the levy would not cause the district to fall below 110% of its adequacy target; and
- Creation of a TIF Reform Commission to study and make recommendations on tax increment financing.

Additionally, Public Act 100-0465 included an ongoing appropriation for the Chicago Teachers' Pension Fund to cover the normal cost, which is $227 million in FY2019.[39] CPS says it received an increase of $470 million due to the Evidence-Based Funding formula in FY2018, the first year of implementation.[40] CPS expects to receive an additional $65 million in Evidence-Based tier funding and another $18.5 million in early childhood funding in FY2019 as a result of the new formula.

Property Tax Levy and Revenue

CPS and other non-home rule taxing bodies in Cook County have been subject to the Property Tax Extension Limitation Law (PTELL) since tax year 1994 (payable in 1995). In general, the tax cap law allows tax extensions on existing property to rise each year by the lesser of 5.0% or the increase in the Consumer Price Index the previous year. For tax year 2018 (payable in 2019), the tax cap law permits a 2.1% increase on existing property value for property tax funds subject to the law. The tax cap also allows the tax rate calculated on the value of existing property to be applied to new property, thus generating additional revenue.

The tax year 2018 extension is paid by taxpayers in calendar year 2019 in first and second installments. The first installment is equal to 55.0% of the prior year's total tax bill and is due March 1.[41] The second installment includes the full year's tax extension minus the amount already paid in the first installment, so extension increases for a tax year are recognized by the second installment when new tax rates are computed. Since 2012, the second installment tax bill has been due on August 1.

[39] CPS FY2019 Proposed Budget, p. 23.
[40] CPS FY2019 Proposed Budget, p. 24.
[41] P.A. 96-490 changed this amount from 50% to 55% of the prior year's tax bill for tax year 2009 (first installment due March of 2010) and thereafter. The rationale for this change was that it would mitigate taxpayers' "sticker shock" resulting from tax increases that appear on second installment tax bills.

Property Tax Revenue Distribution

CPS expects its FY2019 property tax revenues to total $2.98 billion compared to $2.91 billion in the amended FY2018 budget.[42] This represents an increase of $74.9 million.

The following graph presents the allocation of expected FY2019 property tax revenues among the District's funds. The General Education Fund, Workers' Compensation/Tort Fund and Public Building Commission (PBC) Fund all fall within the District's general operating funds, according to the fund structure used in the CPS online interactive budget reports, which differ from the general operating funds used in the budget book.[43] The majority of FY2019 property tax revenue, 68.7%, or $2.1 billion will be distributed to the General Education Fund.

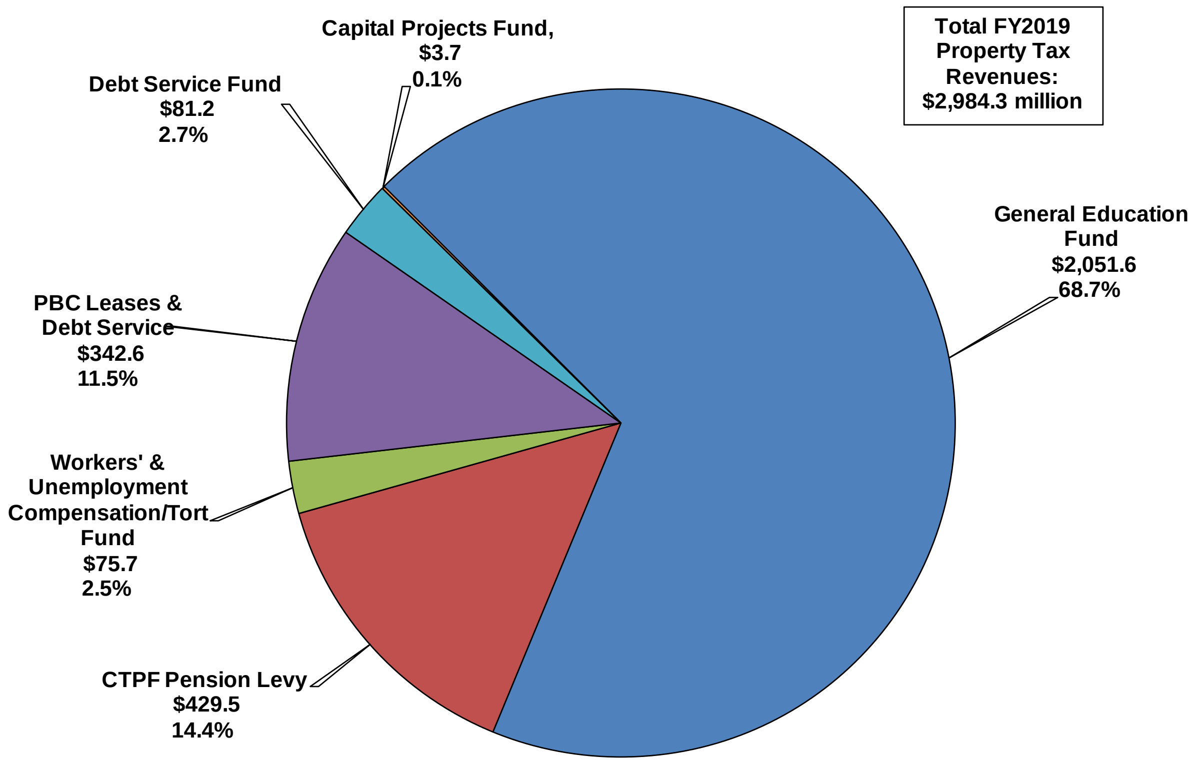
The Chicago Teachers' Pension Fund property tax levy will account for 14.4%, or $429.5 million, of property tax revenue in FY2019. A dedicated property tax levy to fund teacher pensions was reinstated in FY2017 at a tax rate of 0.383%. CPS received authority to increase the rate for the pension levy to 0.567% through Public Act 100-0465, the law enacting the new Evidence-Based Funding formula.

CPS will designate $342.6 million, or 11.5%, of property tax revenue to the Public Building Commission Fund for PBC leases and debt service payments; $75.7 million, or 2.5%, for the

[42] CPS FY2019 Proposed Budget, p. 18.
[43] In the budget book, the General Fund includes the Education Fund (consisting of the Regular Education, Special Education, Tuition-Based Preschool and School Special Income Funds) and the Building Operations and Maintenance Fund, and the Special Revenue Funds which include the Supplemental General State Aid Fund, Workers' and Unemployment Compensation/Tort Fund, School Lunch Funds and Federal and State Grant Funds.

Workers' and Unemployment Compensation/Tort Fund; $81.2 million, or 2.7%, to the Debt Service Fund; and $3.7 million, or 0.1%, to the Capital Projects Fund.

Distribution of CPS FY2019 Property Tax Revenues:
(in $ millions)



Source: CPS FY2019 Proposed Budget, Interactive Online Reports, Revenues and Expenditures, available at www.cps.edu (last visited July 16, 2018).

Trend in Property Tax Revenue

The next table presents CPS' property tax revenues from FY1991 through FY2019. Figures for FY1991 through FY2017 are actual property tax revenues received based on the most recent audited data available, while FY2018 figures are year-end estimates and FY2019 figures are proposed. Between FY1991 and FY2019, property tax revenues are projected to increase by 254%, or $2.1 billion, from $842.3 million in FY1991 to nearly $3.0 billion in FY2019. Over the 22-year period between FY1996, the first fiscal year that the tax cap law could limit CPS property tax revenues, and FY2017, the compound annual growth rate of revenues was 3.6%. The average annual growth rate was 5.2%.

In FY2017 CPS saw an increase in property tax revenue of 12.7% over the prior year due to the reinstatement of the District's dedicated pension levy. The District estimated this would allow it to capture $250.0 million in new revenue to fund the Chicago Teachers' Pension Fund outside of PTELL.[44] In FY2019 the District estimates that the pension levy will generate approximately

[44] CPS FY2017 Proposed Budget, pp. 26-27.

$430 million in property tax revenue.[45] The estimated property tax revenue for year-end FY2018 is a 7.2% increase over FY2017 actual revenue levels.

CPS Property Tax Revenue: FY1991-FY2019 (in $ thousands)			
	Property Tax Revenue	**$ Change from Previous Year**	**% Change from Previous Year**
FY1991	$ 842,339	--	--
FY1992	$ 882,181	$ 39,842	4.7%
FY1993	$ 1,008,481	$ 126,300	14.3%
FY1994*	$ 1,205,322	$ 196,841	19.5%
FY1995	$ 1,206,008	$ 686	0.1%
FY1996	$ 1,245,539	$ 39,531	3.3%
FY1997	$ 1,239,249	$ (6,290)	-0.5%
FY1998	$ 1,311,664	$ 72,415	5.8%
FY1999	$ 1,368,081	$ 56,417	4.3%
FY2000	$ 1,403,657	$ 35,576	2.6%
FY2001	$ 1,429,871	$ 26,214	1.9%
FY2002	$ 1,479,968	$ 50,097	3.5%
FY2003	$ 1,546,335	$ 66,367	4.5%
FY2004	$ 1,571,065	$ 24,730	1.6%
FY2005	$ 1,639,237	$ 68,172	4.3%
FY2006	$ 1,718,249	$ 79,012	4.8%
FY2007	$ 1,767,760	$ 49,511	2.9%
FY2008	$ 1,813,917	$ 46,157	2.6%
FY2009	$ 1,896,540	$ 82,623	4.6%
FY2010	$ 2,047,163	$ 150,623	7.9%
FY2011	$ 1,936,655	$ (110,508)	-5.4%
FY2012	$ 2,352,136	$ 415,481	21.5%
FY2013	$ 2,211,568	$ (140,568)	-6.0%
FY2014	$ 2,204,252	$ (7,316)	-0.3%
FY2015	$ 2,304,656	$ 100,404	4.6%
FY2016	$ 2,408,416	$ 103,760	4.5%
FY2017	$ 2,714,956	$ 306,540	12.7%
FY2018 Estimated	$ 2,909,400	$ 194,444	7.2%
FY2019 Proposed	$ 2,984,300	$ 74,900	2.6%

*The Property Tax Extension Limitation Law went into effect for non-home rule governments in Cook County in 1994, which limited the amount CPS could raise its property tax rate by the lesser of 5% or the rate of inflation.
Source: CPS Comprehensive Annual Financial Reports, FY2017, pp.114-115; FY2007, pp. 92-93; FY1999, pp. 80-81; and CPS FY2019 Proposed Budget, p. 18.

[45] CPS FY2019 Proposed Budget, Interactive Online Reports, Revenues and Expenditure, available at cps.edu/budget.

Trend in Property Tax Extension

Property tax years are the same as calendar years, while the CPS fiscal year runs July 1 to June 30. There is also a one-year lag in Cook County between when property taxes are levied and when they are collected. For example, taxes levied in 2018 will actually be received in 2019. Previous to a change in the District's revenue recognition period in FY2015, the effect was that property tax revenue was drawn from two separate tax years. However, since the District now counts revenue collected 60 days after the end of its fiscal year on June 30 as revenue for the previous year, CPS now receives the majority of both installments in the same fiscal year. The District's upcoming FY2019 property tax revenue will be drawn from the first and second installments of the 2018 tax year payments in March and August.

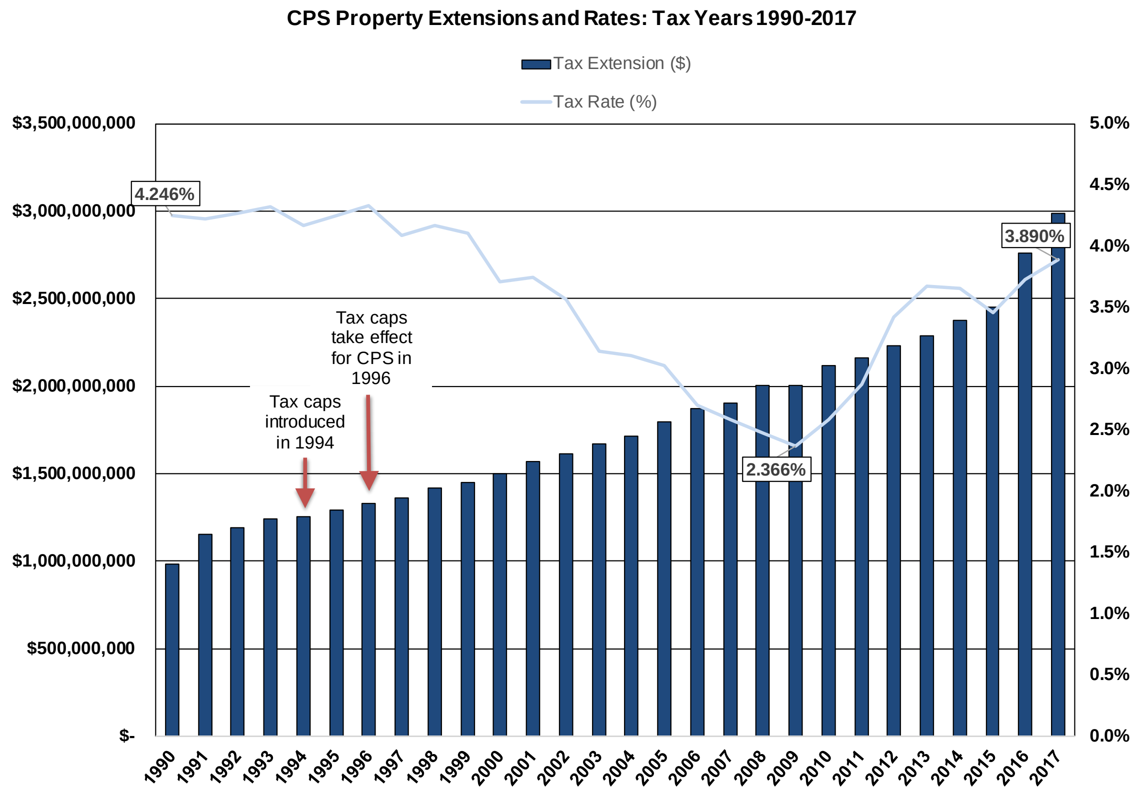
The Property Tax Extension Limitation Law, or tax caps, limits maximum growth in the CPS levy. Prior to 1994, the District's tax extension was limited by a maximum rate for each property tax fund. Some of the fund rate limits still exist, but the tax cap law, not rate limits, has been the operative limit on CPS tax increases since 1994.[46] The limiting effect of the tax cap has also meant that since 1994, tax increment financing has not diverted property tax revenue from CPS. CPS receives the full extension to which it is entitled by the tax cap law. The effect of TIF is to raise tax rates for all property taxpayers, not to divert revenue from local governments.[47]

The following graph illustrates the increase in CPS property tax extensions between tax year 1990 (payable in 1991) and tax year 2017 (payable in 2018) and the change in tax rates during that period. Tax year 2017 is the most recent year for which tax extension and rate data are available from the Cook County Clerk. The property tax extension is the amount of property tax revenue a government is authorized to receive and bill to taxpayers. CPS' property tax extension increased from $981.0 million in tax year 1990 to nearly $3.0 billion in tax year 2017. There was a 7.8% increase in the tax extension in tax year 2016 to $2.76 billion from $2.45 billion in tax year 2015 due to a new tax levy to fund teacher pensions. The extension increased by another 4.4% in tax year 2017.

While the tax extension has steadily increased since 1990, the tax rate has decreased. The tax rate decreased from 4.246% in tax year 1990 to 2.366% in tax year 2009, its lowest point during the period. The District's tax rate fell after the implementation of the tax cap law in 1994 even though its extension rose because taxable property value grew at a faster rate than tax extensions (rate = extension ÷ taxable value). The tax rate then started to grow again in tax year 2010

[46]Civic Federation, "The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts," June 22, 2013.
[47] Civic Federation, "The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts," June 22, 2013.

because the taxable value of property in Chicago fell significantly. The tax rate decreased again in tax year 2015, then rose again to 3.89% in tax year 2017.



Note: Taxes are payable in the year following the tax year.
Source: Cook County Clerk Annual Tax Rates Reports.

Timing of CPS Property Tax Receipts and Change In the Revenue Recognition Policy

Prior to FY2015, property tax revenues that arrived after the end of the fiscal year could be accounted for as long as the revenues were received within 30 days of the close of the fiscal year, or through July 30. This window of time is known as the revenue recognition period. Historically, Cook County sent property tax bills out late and thus local governments received payments late. Late payments led to delayed distributions of revenue to all of the County's taxing bodies, including CPS, therefore falling outside of the revenue recognition period. In summer 2012, for the first time in over 30 years, the County sent out property tax bills on time with a due date of August 1 and CPS received the property tax funds within its 30 day revenue recognition period. The accelerated property tax receipts left the FY2012 year-end audited General Fund with unexpected additional fund balance. The District then assumed the same property tax revenue receipts would occur in subsequent fiscal years.

Beginning in FY2015, CPS adopted a new revenue recognition policy extending the period in which property tax revenues can be recognized from 30 days after the close of the fiscal year to 60 days after the close of the fiscal year.[48] CPS noted that this change would reduce the volatility

[48] CPS FY2019 Proposed Budget, p. 217.

in property tax collection timing. The District acknowledges that its policy does not impact the total amount of property tax revenue received by the District but that the timing of the property tax receipts does impact the fiscal year in which the revenue must be recorded.[49] More importantly, the revenue recognition policy was used as an accounting mechanism to close the budget gap in FY2015.

APPROPRIATIONS

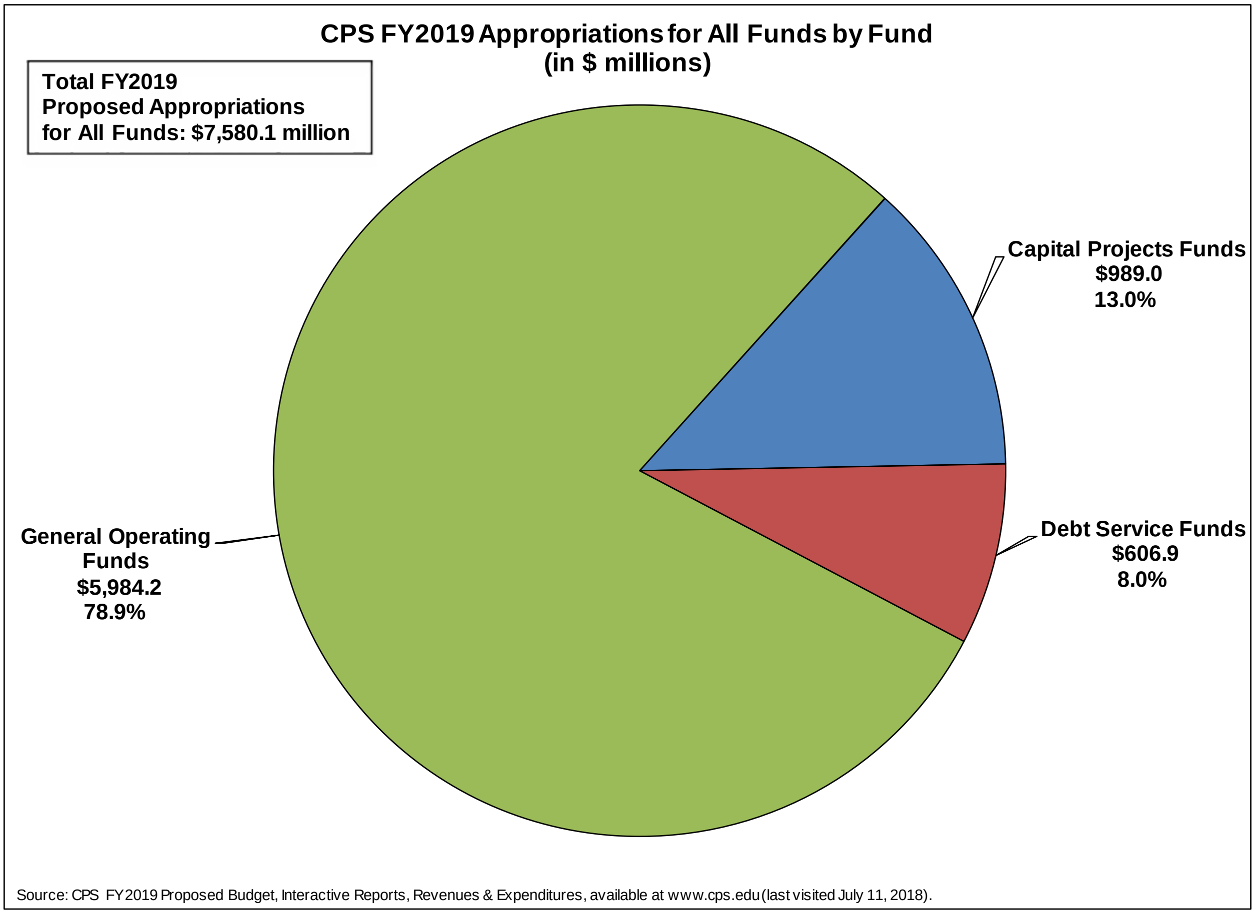
This section presents an analysis of CPS appropriation trends by source, type and location. The section includes two- and five-year appropriation trends for all funds and two- and five-year appropriation trends for general operating funds. Proposed FY2019 appropriations are compared with FY2018 amended appropriations, FY2017 amended appropriations, and FY2016 and FY2015 adopted appropriations.

Total Appropriations for all Funds in FY2019

The following chart shows total FY2019 proposed appropriations for all funds. The Chicago Public Schools' FY2019 Proposed Budget of $7.6 billion consists of appropriations of approximately $6.0 billion in the General Operating Funds, $989.0 million in the Capital Projects Funds and $606.9 million in the Debt Service Funds. The General Operating Funds represent 78.9% of the total budget, the Capital Projects Funds represent 13.0% and the Debt Service

[49] CPS FY2015 Proposed Budget, pp. 9-10.

Funds represent 8.0% of total appropriations for all funds.



The General Operating Funds finance employees' salaries and benefits, contractual services, charter school tuition transfers and other day-to-day expenditures. The General Operating Funds include the General Fund and the Special Revenue Funds. The General Fund is the primary fund used for instructional, professional, maintenance and administrative activities. The Special Revenue Funds receive revenues that are legally required to be expended only for specific purposes such as School Breakfast and Lunch Programs and other grant funds. The Capital Projects Funds are for the acquisition and construction of capital facilities or equipment. The Debt Service Funds are for the accumulation of resources for, and the payment of, principal and interest on long-term debt.[50]

Five-Year Appropriation Trends for All Funds by Fund and Type

The FY2019 proposed budget of $7.6 billion is an increase of 18.2%, or $1.2 billion, from the FY2018 amended budget of $6.4 billion. Appropriations for the General Operating Funds will increase by 5.0%, or $284.9 million, above the FY2018 amended budget. The $284.9 million increase in the General Operating Funds is primarily due to a $93.8 million increase in salaries and a $50.9 million increase in benefits. The Capital Projects Funds will increase by $852.8

[50] CPS FY2019 Proposed Budget, Appendix E – Glossary.

million, or 626.0%, over the two-year period, from $136.2 million to $989.0 million. The increase in the Capital Projects Funds is budgeted to cover urgent facility needs, reduce overcrowding, educational programs, site improvements, and IT and security upgrades.[51] The Debt Service Funds will increase by 5.2%, or $30.0 million, over the two-year period to $606.9 million in FY2019. The increase in debt service is primarily for alternate bonds, Capital Improvement Tax bonds and Public Building Commission bonds.[52]

Over the five-year period, total appropriations for all funds will increase by $710.1 million, or 10.3%, from $6.9 billion in the FY2015 adopted budget to approximately $7.6 billion in the FY2019 proposed budget. The Capital Projects Funds will see the largest dollar and percentage increase over the five-year period, increasing by $479.1 million, or 94.0%, from $509.9 million to $989.0 million. Appropriations for the General Operating Funds will increase by $228.0 million, or 4.0%, above the FY2015 adopted budget. The Debt Service Funds will increase by $3.1 million, or 0.5%, over the five-year period.

CPS Appropriations for All Funds by Fund: FY2015-FY2019
(in $ millions)

Fund Type	FY2015 Adopted	FY2016 Adopted	FY2017 Amended	FY2018 Amended	FY2019 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
General Operating Funds	$ 5,756.2	$ 5,691.8	$ 5,411.1	$ 5,699.3	$ 5,984.2	$ 284.9	5.0%	$ 228.0	4.0%
Capital Projects Funds	$ 509.9	$ 177.6	$ 337.5	$ 136.2	$ 989.0	$ 852.8	626.0%	$ 479.1	94.0%
Debt Service Funds	$ 603.8	$ 538.6	$ 563.7	$ 576.9	$ 606.9	$ 30.0	5.2%	$ 3.1	0.5%
Total Appropriation	**$ 6,869.9**	**$ 6,408.0**	**$ 6,312.3**	**$ 6,412.4**	**$ 7,580.1**	**$ 1,167.7**	**18.2%**	**$ 710.1**	**10.3%**

Note: Due to rounding, minimal differences may occur in totaling rows and columns.
Source: CPS FY2015 Approved Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 11, 2018); FY2016 Approved Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visitedJuly 11, 2018); FY2017 Amended Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 11, 2018); FY2018 Amended Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 11, 2018); and FY2019 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 11, 2018).

The chart below shows a trend analysis of appropriations for all funds by type of expense for the FY2019 proposed budget, FY2018 and FY2017 amended budgets, and FY2016 and FY2015 adopted budgets. Appropriations for equipment will see the largest dollar and percentage increase, rising by $852.9 million, or 559.7%, from $152.4 million in FY2018 to $1.0 billion in FY2019 as the District works to address critical facility needs, overcrowding relief, educational programs, site improvements, and IT and security upgrades.[53] Appropriations for salaries and benefits collectively will increase by $145.7 million between FY2018 and FY2019. The increase in salaries is a result of vacancy savings from unfilled positions in FY2018 and an increase in staffing in FY2019. Contingencies will increase by $67.8 million, or 22.4%, over the two-year period. It is important to note that funds held in contingency are often transferred and spent on salaries and benefits throughout the school year.[54] Contingencies include three types of funding: 1) funding that has been budgeted, but has yet to be allocated, 2) grant funding that has yet to be confirmed or allocated to a specific school or program, and 3) interest expenses tied to the District's line of credit. Once the item, program or school allocation has been decided, the funds are moved to a separate line item of the budget.[55] Contract spending will increase by $70.8 million, or 5.8%, over the two-year period. The increase is due to the District outsourcing its

[51] CPS FY2019 Proposed Budget, p. 11.
[52] CPS FY2019 Proposed Budget, p. 170.
[53] CPS FY2019 Proposed Budget, p. 11.
[54] CPS FY2019 Proposed Budget, p. 16.
[55] CPS FY2019 Proposed Budget, p. 17.

facilities management, which also reduced the increase in salaries by over $25 million in FY2019.[56]

Over the five-year period between FY2015 and FY2019, appropriations for all funds will increase by $710.1 million or 10.3%. The largest dollar increase over the five-year period by type is equipment, which is expected to increase by $455.0 million or 82.7%. This is primarily due to the District's FY2019 $1.0 billion capital improvement program. The second largest dollar increase over the five-year period is benefit expenses, which is budgeted to increase by $141.3 million, or 10.8%. The increase in benefits appropriations is primarily due to increased teacher pension contributions and increased healthcare costs.[57] Salaries will decrease by the largest dollar amount over the five-year period, declining from $2.6 billion in FY2015 to $2.5 billion in FY2019. This is primarily due to the District continuing to outsource its facilities management services.[58] Appropriations for contracts will increase by $161.5 million, or 14.3%, over the five-year period beginning in FY2015. As previously noted, the increase is due to the District continuing to outsource facility management services.

CPS Appropriations for All Funds by Type: FY2015 - FY2019 (in $ millions)

	FY2015 Adopted	FY2016 Adopted	FY2017 Amended	FY2018 Amended	FY2019 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries	$ 2,612.3	$ 2,554.7	$ 2,350.6	$ 2,410.0	$ 2,504.6	$ 94.6	3.9%	$ (107.7)	-4.1%
Benefits	$ 1,310.0	$ 1,332.5	$ 1,361.4	$ 1,400.2	$ 1,451.3	$ 51.1	3.7%	$ 141.3	10.8%
Contracts	$ 1,133.1	$ 1,153.9	$ 1,132.3	$ 1,223.8	$ 1,294.6	$ 70.8	5.8%	$ 161.5	14.3%
Commodities	$ 260.6	$ 264.1	$ 248.9	$ 242.8	$ 243.4	$ 0.6	0.2%	$ (17.2)	-6.6%
Equipment	$ 550.3	$ 197.9	$ 361.0	$ 152.4	$ 1,005.3	$ 852.9	559.7%	$ 455.0	82.7%
Transportation	$ 99.5	$ 100.1	$ 98.4	$ 106.7	$ 106.2	$ (0.5)	-0.5%	$ 6.7	6.7%
Contingencies	$ 303.6	$ 269.2	$ 198.9	$ 302.7	$ 370.5	$ 67.8	22.4%	$ 66.9	22.0%
Debt	$ 600.7	$ 535.6	$ 560.7	$ 573.9	$ 604.3	$ 30.4	5.3%	$ 3.6	0.6%
Other	$ -	$ -	$ 0.001	$ 0.002	$ -	$ (0.0)	-100.0%	$ -	-
Total	**$ 6,869.9**	**$ 6,408.0**	**$ 6,312.3**	**$ 6,412.4**	**$ 7,580.1**	**$ 1,167.7**	**18.2%**	**$ 710.1**	**10.3%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns.
Source: FY2015 Approved Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 11, 2018); FY2016 Approved Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 11, 2018); CPS FY2017 Amended Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 11, 2018); CPS FY2018 Amended Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 11, 2018); and FY2019 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 11, 2018).

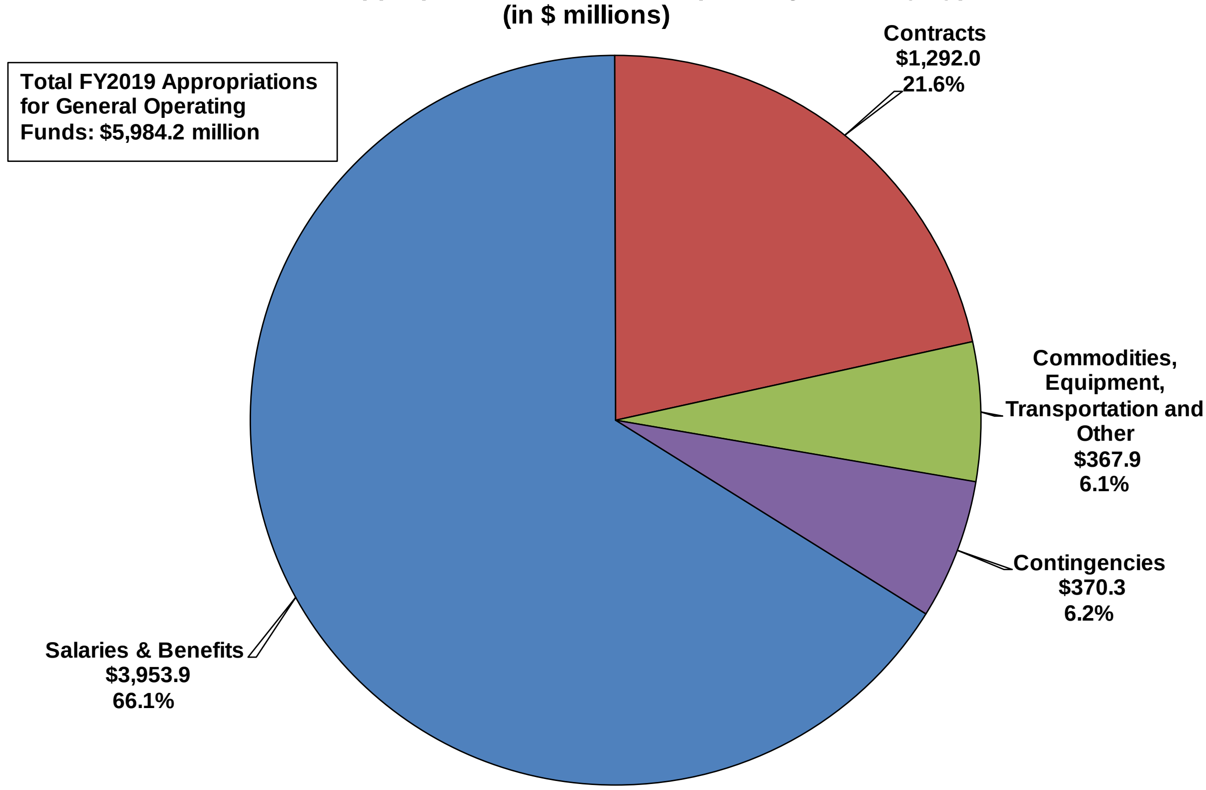
FY2019 Appropriations for General Operating Funds by Type

The chart below shows a breakdown of the proposed FY2019 General Operating Funds appropriations by type. The largest single portion is earmarked for salaries and benefits. Approximately 66.1% of the operating funds, or $4.0 billion, will be for teacher salaries, non-teacher salaries and employee benefits. Contracts, totaling approximately $1.3 billion, or 21.6%, of the total operating budget, include professional services and contractual payments to outside organizations that provide school support services as well as charter school tuition transfers. Some of the non-personnel service appropriations support compensation costs of persons who provide direct services to CPS but are not CPS employees. Appropriations for commodities, equipment and transportation make up $367.9 million, or 6.1%, of the operating budget, and

[56] CPS FY2019 Proposed Budget, p. 16.
[57] CPS FY2019 Proposed Budget, p. 16.
[58] CPS FY2018 Amended Budget, p. 25 and CPS FY2019 Proposed Budget, p. 16

contingencies account for $370.3 million, or 6.2%. Commodities include utilities, food, instructional supplies and other supplies.[59]

CPS FY2019 Appropriations for General Operating Funds by Type
(in $ millions)



Source: CPS FY2019 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 11, 2018).

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

The following section shows trend data for the General Operating funds appropriations by type and location for FY2015 and FY2016 adopted appropriations, FY2017 and FY2018 amended appropriations and the FY2019 proposed appropriations.

Total appropriations in the General Operating Funds will increase by $284.9 million, or 5.0%, between FY2018 and FY2019, primarily due to an increase in salary and benefits appropriations of $144.7 million and a $71.2 million increase in contracts. The primary driver behind the increase in contract spending is due to the outsourcing of facilities management services.[60] Contingencies will see a 22.3%, or $67.6 million increase between FY2018 and FY2019.

Salary expenses will increase by $93.8 million, or 3.9% over the two-year period. This is primarily due to the District increasing staffing levels in FY2019 by adding 344.8 FTE

[59] CPS FY2019 Proposed Budget, p. 16.
[60] CPS FY2019 Proposed Budget, p. 16.

positions.[61] Benefit expenses will increase over the two-year period by $50.9 million or 3.6%. The increase is primarily attributable to increased pension contributions and rising healthcare costs.[62] Appropriations for Contracts will increase by $71.2 million, or 5.8%. This is primarily due to the District's continued outsourcing of facilities management services.[63]

Over the five-year period between FY2015 and FY2019, total appropriations in the General Operating Funds will rise by $227.8 million, or 4.0%, primarily due to increases in benefits, contract expenses and contingencies. Employee benefits will increase by $141.1 million, or 10.8%, over the five-year period, primarily due to increased contributions to the Chicago Teachers' Pension Fund in recent years.[64] Appropriations for contracts will increase by $162.0 million or 14.3%. As previously noted, contracts include professional services and contractual payments to outside organizations that provide school support services as well as charter school tuition transfers. In FY2019 the District is outsourcing 200 additional custodian positions.[65] Appropriations for salaries will decrease by $108.5 million, or 4.2%, over the five-year period. Salary appropriations have declined in recent years as the District outsources its facilities management staff, which is reflected in the increase contract spending. Appropriations for commodities will decrease by a total of nearly $17.2 million, or 6.6%, over the five-year period.

CPS Appropriations for Operating Funds by Type: FY2015-FY2019
(in $ millions)

Type	FY2015 Adopted	FY2016 Adopted	FY2017 Amended	FY2018 Amended	FY2019 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries	$ 2,611.6	$ 2,553.4	$ 2,349.9	$ 2,409.3	$ 2,503.1	$ 93.8	3.9%	$ (108.5)	-4.2%
Benefits	$ 1,309.8	$ 1,332.2	$ 1,361.2	$ 1,400.0	$ 1,450.9	$ 50.9	3.6%	$ 141.1	10.8%
Contracts	$ 1,130.0	$ 1,150.9	$ 1,129.3	$ 1,220.8	$ 1,292.0	$ 71.2	5.8%	$ 162.0	14.3%
Commodities	$ 260.6	$ 264.1	$ 248.9	$ 242.8	$ 243.4	$ 0.6	0.2%	$ (17.2)	-6.6%
Equipment	$ 41.4	$ 22.0	$ 24.5	$ 17.1	$ 18.3	$ 1.3	7.5%	$ (23.1)	-55.8%
Transportation	$ 99.5	$ 100.1	$ 98.4	$ 106.7	$ 106.2	$ (0.5)	-0.5%	$ 6.7	6.7%
Contingencies	$ 303.6	$ 269.2	$ 198.9	$ 302.7	$ 370.3	$ 67.6	22.3%	$ 66.8	22.0%
Other	$ -	$ -	$ 0.001	$ 0.002	$ -	$ (0.0)	-100.0%	$ -	-
Total	**$ 5,756.4**	**$ 5,691.8**	**$ 5,411.1**	**$ 5,699.3**	**$ 5,984.2**	**$ 284.9**	**5.0%**	**$ 227.8**	**4.0%**

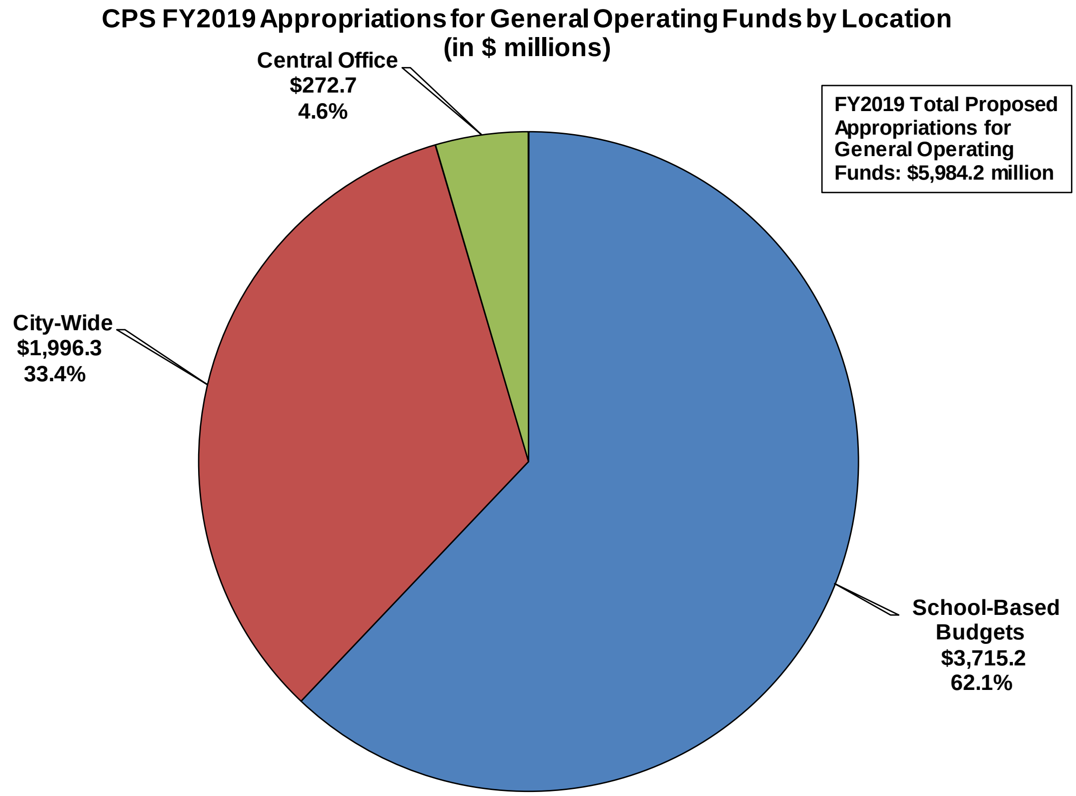
Note: Because of rounding, minimal differences may occur in the totaling rows and columns.
Source: FY2015 Approved Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 11, 2018); FY2016 Approved Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 11, 2018); CPS FY2017 Amended Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 11, 2018); CPS FY2018 Amended Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 11, 2018); and FY2019 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 11, 2018).

Appropriations for General Operating Funds by Location

The exhibit below shows the breakdown of proposed FY2019 General Operating Funds appropriations by location. School-based budgets compose 62.1% of operating appropriations, or $3.7 billion. This includes direct costs for CPS, charter and alternative schools. Approximately 33.4%, or nearly $2.0 billion, will be for city-wide appropriations. These are programs and services that directly impact multiple schools across the District and include teacher pension

[61] CPS FY2019 Proposed Budget, Interactive Reports, Positions, available at www.cps.edu (last visited July 12, 2018).
[62] CPS FY2019 Proposed Budget, p. 16.
[63] CPS FY2019 Proposed Budget, p. 16.
[64] CPS FY2018 Amended Budget, p. 25 and pp. 42-46; and FY2019 Proposed Budget, p. 16.
[65] CPS FY2019 Proposed Budget, pp. 9 and 16.

contributions. Appropriations for Central Office will represent 4.6%, or $272.7 million, of general operating appropriations.



Source: CPS FY2019 Proposed Budget, Interactive Reports, Find Your School Budget, available at www.cps.edu (last visited July 11, 2018).

The following chart compares two-year and five-year CPS budget trends by location.

Between FY2018 and FY2019 the General Operating funds appropriations will increase by $234.3 million or 4.1%. School-based budget appropriations will rise by the largest dollar amount of the two-year period, increasing by $135.5 million, from $3.6 billion in FY2018 to more than $3.7 billion in FY2019. This is primarily due to increased funding from the State through the new evidence-based school funding formula.

City-wide appropriations are projected to increases by $45.7 million, or 2.3%, over the two-year period. The increase is primarily due to contingencies and teacher pension contributions being included in city-wide appropriations.

Network offices were reclassified and categorized under Central Office expenditures beginning in FY2018. Central Office/Network Offices appropriations will increase by 24.2% or $53.1 million. The increase in the Central Office/Network Offices is partially attributable to the District increasing the number of networks from 13 to 17 and adding 39 grant-funded early childhood positions.[66]

Over the five-year period between the FY2015 and FY2019, the General Operating Funds appropriations for school-based budgets will increase by 0.5%, or $16.7 million. Appropriations for city-wide offices will rise by 13.7% or $241.1 million. This is due to teacher pension contributions and contingencies being accounted for in the city-wide offices. The Central Office appropriations will increase by 4.2%, or $10.9 million, over the five-year period. Central Office appropriations have declined significantly since FY2015, primarily due to the District reducing Central Office staff by 400 positions. However, there is an increase because network offices were reclassified and categorized under Central Office beginning in FY2018. The decline in Central Office appropriations between FY2015 and the amended FY2017 budget is due to a number of personnel reductions, management reforms and efficiencies that have been implemented in recent years.[67]

CPS Appropriations for General Operating Funds by Location: FY2015-FY2019
(in $ millions)

Location	FY2015 Approved	FY2016 Approved	FY2017 Amended	FY2018 Amended	FY2019 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
School-Based Budgets	$ 3,698.5	$ 3,728.4	$ 3,551.3	$ 3,579.7	$ 3,715.2	$ 135.5	3.8%	$ 16.7	0.5%
City-Wide	$ 1,755.2	$ 1,762.6	$ 1,678.0	$ 1,950.6	$ 1,996.3	$ 45.7	2.3%	$ 241.1	13.7%
Central Office	$ 261.8	$ 153.1	$ 140.4	$ 219.6	$ 272.7	$ 53.1	24.2%	$ 10.9	4.2%
Network Offices*	$ 40.8	$ 47.7	$ 41.4	$ -	$ -	$ -	-	$ (40.8)	-100.0%
Total	**$ 5,756.2**	**$ 5,691.8**	**$ 5,411.1**	**$ 5,749.9**	**$ 5,984.2**	**$ 234.3**	**4.1%**	**$ 228.0**	**4.0%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns.
*Beginning in FY2018 Network Offices is now classified under Central Office.
Source: FY2015 Approved Budget, Interactive Reports, Find Your School Budget, available at www.cps.edu (last visited July 11, 2018); FY2016 Approved Budget, Interactive Reports, Find Your School Budget, available at www.cps.edu (last visited July 11, 2018); and FY2017 Amended Budget, Interactive Reports, Find Your School Budget, available at www.cps.edu (last visited July 11, 2018); FY2018 Amended Budget, Interactive Reports, Find Your School Budget, available at www.cps.edu (last visited July 11, 2018); and FY2019 Proposed Budget, Interactive Reports, Find Your School Budget, available at www.cps.edu (last visited July 11, 2018).

[66] CPS FY2019 Proposed Budget, p. 46.
[67] CPS FY2017 Amended Budget, pp. 6 and 8; CPS FY2016 Approved Budget, pp. 4 and 10; and CPS FY2015 Approved Budget, pp. 4 and 7.

RESERVES

This section describes Chicago Public Schools' reserves, or fund balance. It includes discussion of the following:

- An overview of definitions describing the way fund balance is classified and reported based on standards set by the Governmental Accounting Standards Board;
- Best practices for fund balance set by the Government Finance Officers Association;
- An assessment of CPS' audited unrestricted fund balance compared to the GFOA guidelines;
- An assessment of the District's stabilization fund balance compared to its own fund balance policy;
- A discussion of the use of CPS' reserves in the FY2018 and FY2019 budgets; and
- A discussion of cash-flow issues that impact the District's use of reserves.

Fund Balance Definitions and Components

Fund balance is a term commonly used to describe the net assets of a governmental fund and serves as a measure of budgetary reserves.[68] Prior to FY2011, CPS reported *unreserved* fund balance, or resources available for appropriation without any external legal restrictions or constraints.[69] Starting in FY2011, the audited financial statements for CPS include a modification in fund balance reporting, as recommended by the Governmental Accounting Standards Board (GASB). GASB Statement No. 54 shifts the focus of fund balance reporting from the availability of fund resources for budgeting purposes to the "extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent."[70]

GASB Statement No. 54 creates five components of fund balance, though not every government or governmental fund will report all components. The five components are:

- *Nonspendable fund balance* – resources that inherently cannot be spent such as pre-paid rent or the long-term portion of loans receivable. In addition, this category includes resources that cannot be spent because of legal or contractual provisions, such as the principal of an endowment.
- *Restricted fund balance* – net fund resources subject to legal restrictions that are externally enforceable, including restrictions imposed by the constitution, creditors or laws and regulations of non-local governments.
- *Committed fund balance* – net fund resources with self-imposed limitations set at the highest level of decision-making which remain binding unless removed by the same action used to create the limitation.
- *Assigned fund balance* – the portion of fund balance reflecting the government's intended use of resources, with the intent established by government committees or officials in addition to the governing board. Appropriated fund balance, or the portion of existing

[68] Government Finance Officers Association (GFOA), Fund Balance Guidelines for the General Fund (Adopted September 2015). Available at http://www.gfoa.org/fund-balance-guidelines-general-fund.
[69] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009.
[70] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009 and GASB Statement No. 54, paragraph 5.

fund balance used to fill the gap between appropriations and estimated revenues for the following year, would be categorized as assigned fund balance.

- *Unassigned fund balance* – in the General Fund, the remaining surplus of net resources after funds have been identified in the four categories above.[71]

The current method of measuring fund balance per GASB 54 is through *unrestricted* fund balance, which is identified by the GFOA as "only resources without a constraint on spending or for which the constraint on spending is imposed by the government itself."[72] ***Unrestricted*** fund balance includes the combined total of ***committed fund balance, assigned fund balance*** and ***unassigned fund balance***.

GFOA Best Practices

The Government Finance Officers Association (GFOA) recommends "at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures."[73] Two months of operating expenditures is approximately 17%. Chicago Public Schools is a special purpose government, not a general purpose government. However, the District's size and the relative instability of its revenue stream make it prudent for the District to maintain adequate reserves. The GFOA statement adds that each unit of government should adopt a formal policy that considers the unit's own specific circumstances and that a smaller fund balance ratio may be appropriate for the largest governments.[74]

Audited Fund Balance Ratio: FY2011-FY2017

The table below presents the District's unrestricted fund balance for FY2011 through FY2017. The table begins with FY2011 because this was the first year in which CPS implemented the fund balance reporting changes of GASB 54 described above, and ends in FY2017 because it is the most recent year of audited financial information available.

In FY2012 the unrestricted fund balance increased from 11.8% to 18.5% due primarily to timing shifts in property tax revenue receipts, which shifted approximately $350 million in revenue from FY2013 to FY2012.[75] Between FY2013 and FY2016, the fund balance fell to negative 4.2%. This significant decline was primarily due to the fact that reserves were used to balance several budgets. The unrestricted fund balance continued to decline to negative 6.7% in FY2017

[71] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review,* April 2009.
[72] GFOA, Fund Balance Guidelines for the General Fund (Adopted September 2015).
[73] GFOA, Fund Balance Guidelines for the General Fund (Adopted September 2015).
[74] GFOA, Fund Balance Guidelines for the General Fund (Adopted September 2015).
[75] CPS FY2012 Comprehensive Annual Financial Report, p. 12; see also page 36 of this report.

due to an operating deficit caused in part by declining State funding and rising pension obligations.[76]

CPS Unrestricted General Operating Fund Fund Balance Ratio: FY2011-FY2017			
	General Operating Fund Balance	General Fund Expenditures	Ratio
FY2011	$ 577,756,000	$ 4,909,952,000	11.8%
FY2012	$ 902,872,000	$ 4,888,328,000	18.5%
FY2013	$ 819,004,000	$ 4,946,370,000	16.6%
FY2014	$ 354,719,000	$ 5,450,131,000	6.5%
FY2015	$ 254,328,000	$ 5,620,366,000	4.5%
FY2016	$ (227,031,000)	$ 5,414,846,000	-4.2%
FY2017	$ (354,861,000)	$ 5,297,758,000	-6.7%

Source: CPS Comprehensive Annual Financial Report, FY2011, p. 40 and 42; FY2012, p. 42, 44 and 103; FY2013, p. 44, 46; FY2014, p. 36, 38; FY2015, p. 32, 34; FY2016, pp. 38, 40; FY2017, pp. 40, 42.

The District estimates that its General Fund fund balance will return to a positive $303.8 million by the end of FY2018 due to the State enacting a new Evidence-Based Funding formula for schools statewide that resulted in increased funding for CPS.[77]

CPS Stabilization Fund Balance Policy

Chicago Public Schools adopted a fund balance policy in FY2008[78] that establishes a target fund balance level for its general operating funds, referred to as the stabilization fund. The CPS policy requires the Board to maintain an unreserved, designated (assigned) fund balance of a minimum of 5% and a maximum of 10% of the operating and debt service budgets for the new fiscal year as a stabilization fund in the General Fund when the budget is adopted.[79] If the stabilization fund falls below 5% of the upcoming operating and debt service budget, the Chief Financial Officer must present to the Board of Education a plan to replenish the reserves within twelve months. If restoration is not possible within twelve months, the Board must approve an extension of the restoration plan.[80]

However, because the fund balance policy was adopted before the GASB 54 changes to fund balance reporting, the policy's terminology no longer matches the way fund balance is presented in the District's Comprehensive Annual Financial Reports.[81] Further, the way CPS refers to its operating fund balance does not correspond to the 2008 policy. CPS now considers its unrestricted fund balance to be the combined amounts of the "unassigned" portion of the General

[76] CPS FY2017 Comprehensive Annual Financial Report, p. 8.
[77] CPS FY2019 Proposed Budget, p. 182.
[78] Fund Balance and Budget Management Policy, Adopted August 27, 2008 through Board Report 08-0827-PO8. Found in Section 403.10 of the Chicago Public Schools Policy Manual, available at https://policy.cps.edu/download.aspx?ID=62 (last accessed July 13, 2018).
[79] CPS FY2019 Proposed Budget, p. 215.
[80] CPS FY2019 Proposed Budget, p. 215.
[81] Fund balance is reported in the Balance Sheet – Governmental Funds.

Operating Fund fund balance and the Debt Service Stabilization Fund.[82] In recent years, reporting of the Debt Service Stabilization Fund has been inconsistent. From FY2011 through FY2015, the District's Balance Sheet for Governmental Funds included an amount "Assigned for Debt Service." In FY2016 and FY2017, the Balance Sheet for Governmental Funds did not include fund balance "Assigned for Debt Service," but did include an "unassigned" portion of fund balance.

The following table presents CPS' audited fund balance according to its own interpretation of fund balance from FY2011 (the first year in which the GASB 54 reporting changes took effect) to FY2017. The table shows the sum of unassigned General Operating Fund fund balance and the Debt Service Stabilization fund balance as a percentage of the total combined general operating and debt service expenditures for that same year. According to this measure, the District had a positive yet declining fund balance ratio through FY2015. In FY2016 the fund balance in both the unassigned General Operating Fund and the Debt Service Stabilization Fund dipped into negative percentages, then fell even further in FY2017.

CPS Reserves in the General Operating and Debt Service Funds
Fund Balance Ratio: FY2011-FY2017

	Unassigned General Operating Fund Balance	Debt Service Stabilization Fund Balance	Unassigned General Operating + Debt Service Stabilization Fund Balance	General Operating + Debt Service Expenditures	Ratio
FY2011	$5,293,000	$231,413,000	$236,706,000	$5,242,049,000	4.5%
FY2012	$443,575,000	$254,967,000	$698,542,000	$5,262,822,000	13.3%
FY2013	$150,664,000	$269,176,000	$419,840,000	$5,336,779,000	7.9%
FY2014	$0	$193,877,000	$193,877,000	$5,918,035,000	3.3%
FY2015	$102,002,000	$57,057,000	$159,059,000	$6,153,859,000	2.6%
FY2016	($227,031,000)	($65,809,000)	($292,840,000)	$5,870,131,000	-5.0%
FY2017	($354,861,000)	($85,691,000)	($440,552,000)	$5,828,717,000	-7.6%

Note: The Debt Service Stabilization Fund balance for FY2011-FY2015 is categorized as "Assigned for Debt Service," whereas the Debt Service fund balance for FY2016 and FY2017 is categorized as "Unassigned."

Sources: CPS Comprehensive Annual Financial Reports FY2011-FY2017, Balance Sheet - Governmental Funds and Statement of Revenues, Expenditures and Net Changes in Fund Balances - Governmental Funds; and Information provided by the CPS Budget Office on July 12, 2018.

The Civic Federation urges CPS to revise the Board's fund balance policy to correspond with the updated terminology post-GASB 54 and with the District's current fund balance practices.

General Operating Reserves in FY2018 and FY2019

While the Comprehensive Annual Financial Reports only provide information about fund balance through FY2017, the CPS budget provides information about the District's projected fund balance levels in FY2018 and FY2019 for the total General Operating Fund. This includes not just the unrestricted portion of the operating fund balance discussed above, but all components of fund balance (nonspendable, restricted, committed, assigned and unassigned fund balance).

In FY2017 CPS ended the year with a General Operating Fund balance of negative $275.2 million. As shown in the table below, the District began FY2018 with the same negative balance.

[82] Information provided by the CPS Budget Office on July 12, 2018.

During the course of FY2018, CPS says it improved its fund balance position by an estimated $505.8 million due to $274 million in debt financing, a $111 million increase in State grants due to more timely payments, $51 million in lower short-term borrowing costs and $69 million in other improvements including reduced spending.[83] This is projected to increase the District's FY2018 end of year General Operating Fund fund balance to $230.6 million.

CPS is budgeting for the use of $62.6 million in operating fund balance in FY2019. This would result in a decrease in fund balance to an estimated $168.0 million by the end of FY2019, if there is not additional budget surplus or deficit. The FY2019 General Operating Fund fund balance target is $329.5 million, or 5.0% of the combined operating and debt service budgets,[84] which together equal a total of $6.6 billion.

CPS FY2019 Use of Total Operating Funds Fund Balance		
FY2018 Beginning Balance	$	(275.2)
FY2018 Estimated Sources / (Use)	$	505.8
FY2018 Estimated End of Year Balance	**$**	**230.6**
FY2019 Estimated Beginning Balance	$	230.6
FY2019 Estimated Sources / (Use)	$	(62.6)
FY2019 Estimated End of Year Balance	**$**	**168.0**

Note: CPS also anticipates receiving $69 million in outstanding categorical grants from the State of Illinois in both FY2018 and FY2019, which are not reflected in the end of year balance estimates in this table.

Source: CPS FY2019 Proposed Budget, p. 182.

The FY2019 budget indicates that CPS will replenish the fund balance by continuing to push for additional State funding, monitoring expenses to achieve savings, having lower anticipated debt service payments and using conservative budgeting assumptions.[85]

Cash-Flow Issues

CPS experiences annual cash-flow issues due to the timing of debt and pension payments that occur just before the District receives its two installments of property tax revenue, while payroll and vendor payments must be disbursed consistently throughout the year.[86] In the absence of a fund balance for the District to draw on, this creates a cash shortfall. In order to avoid making cuts, CPS relied on spending down its budgetary reserves between FY2013 and FY2015 to balance its budgets and to make its annual pension payment.[87]

By FY2015, reserves had been depleted and the Board began to use a line of credit to cover cash-flow needs between property tax payments. CPS issued $700.0 million in Tax Anticipation Notes

[83] CPS FY2019 Proposed Budget, p. 181.
[84] CPS FY2019 Proposed Budget, p. 183.
[85] CPS FY2019 Proposed Budget, p. 183.
[86] CPS FY2019 Proposed Budget, pp. 178-179.
[87] CPS FY2018 Proposed Budget, p. 186. CPS also adopted a new revenue recognition policy in FY2015 that allows the District to recognize property tax revenues for up to 60 days after the close of the fiscal year. Formerly the revenue recognition period was 30 days. This change was intended to reduce the volatility in property tax collection timing.

(TANs)[88] in FY2015, $1.07 billion in TANs in FY2016,[89] $1.55 billion in FY2017 and $1.1 billion in FY2018.[90] CPS expects to issue $994 million in TANs in FY2019.[91]

CPS plans to reduce its usage of TANs by $550 million in FY2019 compared to two years prior in FY2017, which the District attributes to its improved cash position following the passage of the statewide Evidence-Based Funding formula, resulting in increased State funding for CPS. However, despite the reduction in reliance on TANs, they still come at a cost. The District expects the TANs to cost $21 million in interest in FY2019, compared to $79 million in FY2018 and $34 million in FY2017.[92]

In June 2017 CPS issued $387 million in short-term Grant Anticipation Notes (GANs) due to delayed block grants payment from the State of Illinois, resulting in a shortfall. The GANs were paid off once the delayed State grant payments were received.[93] CPS does not anticipate needing to rely on GANs in FY2019. In FY2018 the District held a negative cash position for the majority of the fiscal year. CPS forecasts that it will also hold a negative cash position for three-quarters of FY2019 without short-term borrowing.[94]

PERSONNEL

This section of the analysis presents the District's full-time equivalent (FTE) position count by type and personnel appropriation trends for general operating funds by type. The analysis compares the FY2019 proposed budget to the FY2015, FY2016, FY2017 and FY2018 approved and amended budgets and actual budgets when available.

Two-Year and Five-Year Full-Time Equivalent (FTE) Positions by Type

Between FY2018 and FY2019 the District's FTE position count will increase by 344.8 FTEs or 0.9%. Over the two-year period, the largest increase in FTEs will be school support staff, which will rise by 3.4%, or 340.0 FTEs. The District plans to add 160 social workers to allow for one new full-time social worker for 160 elementary and high schools and at least 94 new special education case manager across 78 schools.[95] During the same period, city-wide student support staff will see a decrease of 10.5% or 511.0 FTEs. The second largest increase in FTE positions is teachers, which will increase by 1.2%, or 238.5 FTEs. The central and network offices will increase by 15.5% or 152.8 FTEs. School administrators will increase by 12.8% or 124.5 FTEs.

Between FY2015 and FY2019, total FTE positions for the District will decrease by 6.0%, or 2,350.7 FTEs. The only increase over the five-year period will be with number of school

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88 TANs are backed by anticipated property tax revenues.
89 CPS FY2017 Proposed Budget, p. 173.
90 CPS FY2019 Proposed Budget, p. 179.
91 Information provided by CPS Budget Office on July 10, 2018.
92 CPS FY2019 Proposed Budget, p. 179.
93 CPS FY2017 Comprehensive Annual Financial Report, p. 84.
94 Information provided by CPS Budget Office on July 10, 2018.
95 Perez Jr., Juan, "Citing 'firmer' budget and sex abuse scandal, CPS to hire 250 social workers, case managers" *Chicago Tribune*, July 16, 2018, http://www.chicagotribune.com/news/ct-met-chicago-schools-social-workers-20180716-story.html (last visited July 17, 2018).

administrators, which will increase by 67.5 FTE positions or 6.6% increase. Teachers will see the largest decline in positions at 1,249.9 FTEs, or 5.9%, over the five-year period. City-wide student support will see the largest percentage decline over the same period, dropping by 17.9% or 946.0 FTEs. The second largest percentage decline will be central and network office positions, which will see a decline of 12.2%, or 158.3 positions, over the five-year period. School support staff will see the smallest reduction in positions by 64.0 FTEs, or 0.6%, over the five-year period.

Chicago Public Schools Full-Time Equivalent (FTE) Positions By Type FY2015-FY2019									
	FY2015 Approved	FY2016 Approved	FY2017 Amended	FY2018 Amended	FY2019 Proposed	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Teachers	21,080.9	20,760.4	20,013.3	19,592.5	19,831.0	238.5	1.2%	-1,249.9	-5.9%
School Administrators	1,026.0	1,016.0	968.0	969.0	1,093.5	124.5	12.8%	67.5	6.6%
School Support Staff	10,509.5	10,099.6	10,249.0	10,105.5	10,445.5	340.0	3.4%	-64.0	-0.6%
Central and Network Offices	1,299.5	1,212.0	991.1	988.4	1,141.2	152.8	15.5%	-158.3	-12.2%
City-wide Student Support	5,290.5	5,271.0	4,866.0	4,855.5	4,344.5	-511.0	-10.5%	-946.0	-17.9%
Total	**39,206.4**	**38,359.0**	**37,087.4**	**36,510.9**	**36,855.7**	**344.8**	**0.9%**	**-2,350.7**	**-6.0%**

Note: The number of FTEs in the CPS FY2019 Proposed Budget Book, p. 15 differ from the number of FTEs listed in the CPS FY2019 Proposed Budget, Interactive Reports, Positions, available at www.cps.edu (last visited July 19, 2018).
Source: CPS FY2015 Approved Budget, Interactive Reports, Positions, available at www.cps.edu (last visited July 11, 2018); and FY2016 Approved Budget, Interactive Reports, Positions, available at www.cps.edu (last visited July 11, 2018); CPS FY2017 Amended Budget, Interactive Reports, Positions, available at www.cps.edu (last visited July 11, 2018); FY2018 Proposed Budget, Interactive Reports, Positions, available at www.cps.edu (last visited July 11, 2018); and FY2019 Proposed Budget, Interactive Reports, Positions, available at www.cps.edu (last visited July 11, 2018).

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

Between FY2018 and FY2019 CPS total compensation costs are expected to increase by $144.6 million, or 3.8%. Salaries, which constitute 63.3% of all employee compensation, will increase by $93.8 million, or 3.9%, over the two-year period. Benefit costs, which include pensions, health and dental insurance, unemployment compensation and payroll tax contributions for Social Security[96] and Medicare, will increase by 3.6%, or $50.8 million, in FY2019. The vast majority of this increase can be attributed to a $38.8 million net increase in the CPS contribution toward the Chicago Teachers Pension Fund in FY2019.

The District's $934.6 million total contribution toward teacher pensions in FY2019 includes a 7.0% pension pick-up of the 9.0% annual employee contributions for unionized teaching positions, which totals $125.8 million for FY2019. With Public Act 96-0889, the Illinois General Assembly had granted the District budgetary relief in FY2011, FY2012 and FY2013 by lowering its annual required pension contribution to the Chicago Teachers' Pension Fund to an amount equivalent to the normal cost for that fiscal year.[97] In FY2015 the State contributed $62.0 million towards the Chicago Teachers' Pension Fund.[98] In FY2016 the State contributed $12.0 million towards the Chicago Teachers' Pension Fund.[99] In FY2017 CPS was relying on the State to contribute $12.0 million towards the Chicago Teachers' Pension Fund, plus an additional $215.2 million towards the normal cost of pensions.[100] However, Governor Rauner vetoed the

[96] Non-teaching staff contribute to Social Security.
[97] "Normal cost" is an actuarially calculated amount representing that portion of the present value of pension plan benefits and administrative expenses which is allocated to a given valuation year.
[98] CPS FY2017 Approved Budget, p. 142.
[99] CPS FY2016 Approved Budget, p. 143.
[100] CPS FY2017 Proposed Budget, p. 150, See p. 66 of this analysis for more information about Chicago Public Schools contributions to teacher pensions.

legislation that would have allocated the additional $215.2 million to CPS.[101] In FY2018 CPS budgeted $221 million from the State to pay the normal cost of pensions through Senate Bill 1, which was also vetoed by the Governor. However, a new bill was introduced and was ultimately signed into law by Governor Rauner. In FY2019 the State will contribute a total of $239 million for the annual cost of Chicago teachers' pensions.[102]

Over the five-year period between FY2015 to FY2019, total compensation costs will increase by 0.5% or $21.3 million. Appropriations for teacher and non-teacher salaries will decline by $73.5 million or 2.9%. Appropriations for employee benefits will increase by 7.0%, or $94.8 million, between FY2015 and FY2019, rising from $1.4 billion to $1.5 billion.

Between FY2015 and FY2019 the increase in benefit costs is driven primarily by a $108.3 million, or 13.1%, increase in total teacher pension contributions including the employee contribution pension pick-up. CPS also picks up 7.0% of the 8.5% employee contribution for non-teacher union employees. However, in FY2016 the District started to phase out the pick-up for non-union non-teacher employees. The pension pick-up decreased from 7.0% to 5.0% in FY2016 and then to 3.0% in FY2017. In FY2018 the District completely phased out this practice and non-union employees now contribute the full employee portion toward their pensions.[103] In addition, new teachers hired on or after January 1, 2017 are no longer eligible for the pension pick-up per the new Chicago Teachers Union contract.

CPS Personnel Appropriations for General Operating Funds by Type: FY2015-FY2019 (in $ millions)

	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Amended	FY2019 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries									
Teacher Salaries	$ 1,953.9	$ 1,869.7	$ 1,815.3	$ 1,860.9	$ 1,926.9	$ 65.9	3.5%	$ (27.1)	-1.4%
Ed. Support Salaries	$ 622.6	$ 605.8	$ 581.7	$ 548.4	$ 576.2	$ 27.8	5.1%	$ (46.4)	-7.5%
Total Salaries	**$ 2,576.5**	**$ 2,475.5**	**$ 2,397.0**	**$ 2,409.3**	**$ 2,503.1**	**$ 93.8**	**3.9%**	**$ (73.5)**	**-2.9%**
Employee Benefits									
Teacher Pension Employer Portion	$ 696.5	$ 688.0	$ 733.2	$ 784.4	$ 808.8	$ 24.4	3.1%	$ 112.2	16.1%
Teacher Pension Pickup*	$ 129.7	$ 123.1	$ 119.2	$ 111.4	$ 125.8	$ 14.4	12.9%	$ (3.8)	-3.0%
Total Teacher Pensions	**$ 826.3**	**$ 811.0**	**$ 852.4**	**$ 895.8**	**$ 934.6**	**$ 38.8**	**4.3%**	**$ 108.3**	**13.1%**
Ed. Support Pension Employer Portion	$ 63.4	$ 67.2	$ 65.5	$ 56.7	$ 58.1	$ 1.4	2.6%	$ (5.3)	-8.3%
Ed. Support Pension Pickup*	$ 38.6	$ 35.8	$ 34.0	$ 32.2	$ 33.7	$ 1.5	4.6%	$ (4.9)	-12.8%
Total Ed. Support Pension	**$ 102.0**	**$ 102.9**	**$ 99.5**	**$ 88.9**	**$ 91.8**	**$ 2.9**	**3.3%**	**$ (10.2)**	**-10.0%**
Hospitalization/Other Comp.	$ 357.1	$ 348.1	$ 306.9	$ 348.0	$ 356.2	$ 8.2	2.3%	$ (0.9)	-0.3%
Unemployment Compensation	$ 8.1	$ 9.4	$ 7.0	$ 9.0	$ 9.0	$ 0.0	0.1%	$ 0.9	10.6%
Medicare/Social Security	$ 36.6	$ 34.8	$ 33.7	$ 36.4	$ 37.3	$ 0.9	2.5%	$ 0.7	2.0%
Workers' Compensation	$ 25.9	$ 20.3	$ 20.5	$ 22.0	$ 22.0	$ 0.0	0.1%	$ (3.9)	-15.1%
Total Employee Benefits	**$ 1,356.1**	**$ 1,326.6**	**$ 1,320.0**	**$ 1,400.0**	**$ 1,450.8**	**$ 50.8**	**3.6%**	**$ 94.8**	**7.0%**
Total Compensation	**$ 3,932.6**	**$ 3,802.1**	**$ 3,717.0**	**$ 3,809.3**	**$ 3,953.9**	**$ 144.6**	**3.8%**	**$ 21.3**	**0.5%**

*CPS "picks up" 7% of the 9% annual employee pension contribution for teachers and other affiliated employees hired before January 1, 2017, meaning it pays 7% of the employee 9% contribution on behalf of the employees. However, those teachers and other afilliated employees hired after January 1, 2017 are not eligible for the "pick up" as a result of the collective bargaining agreement ratified on October 10, 2016. CPS alsoused to pick up 7% of the 8.5% employee contribution for non-teacher union employees. However, in FY2016 the District started to phase out the pickup for non-union non-teacher employees. The "pickup" decreased from 7% to 5% in FY2016, to 3% in FY2017 and 0% in FY2018.

Source: CPS FY2019 Proposed Budget, Interactive Reports, Revenue and Expenditures, available at www.cps.edu (last visited July 11, 2018); CPS FY2018 Amended Budget, Interactive Reports, Revenue and Expenditures, available at www.cps.edu (last visited July 11, 2018); ; CPS FY2015 CAFR, pp. 67, 68 and 71; CPS FY2016 CAFR, pp. 70,71 and 74; CPS FY2017 CAFR, pp. 74 and 78.

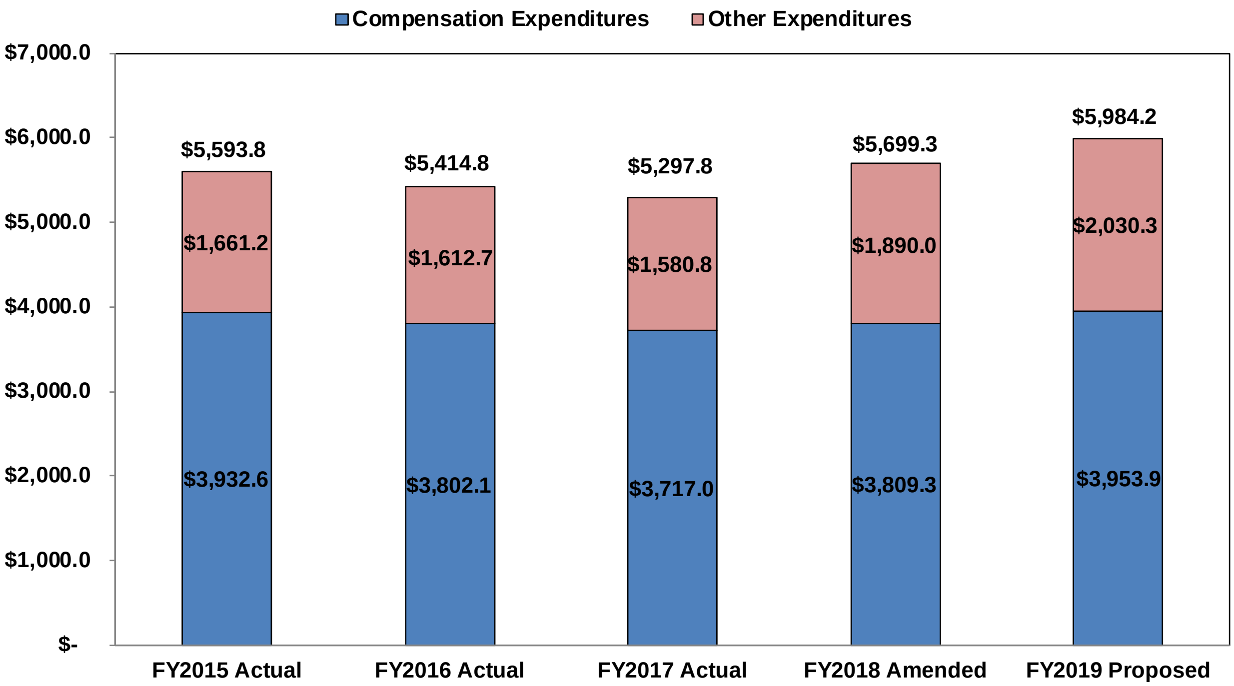
The next chart shows the District's employee compensation expenditures as a portion of all operating funds expenditures. The chart compares FY2019 proposed appropriations to FY2018 amended appropriations and actual expenditures from FY2015 through FY2017. Similar to the table above, total compensation expenditures include salaries and pension benefits for teachers

[101] CPS FY2018 Proposed Budget, p. 7.
[102] CPS FY2019 Proposed Budget, p. 10
[103] CPS FY2017 Proposed Budget, p. 6.

and education support staff, health expenses, Medicare and Social Security, workers' compensation and unemployment compensation.

Over the five-year period the percentage of all operating funds appropriations dedicated to personnel has averaged 68.7%, with a low of 66.1% in FY2018 and a high of 70.3% in FY2015. Since FY2015 compensation expenditures have increased by 0.5% or $21.3 million. Other operating expenditures have increased by 22.2% or $369.1 million, rising from $1.7 billion in FY2015 to $2.0 billion in FY2019. The increase in other expenditures is primarily due to an increase in contractual and contingency expenditures. Contingencies include funding that has been budgeted but has yet to be allocated, which is primarily why the budgeted and proposed contingency expenditures are higher than actual spending for contingencies.

CPS Employee Compensation Appropriations as a Portion of Total General Operating Fund Appropriations: FY2015-FY2019 (in $ thousands)



Source: CPS FY2019 Proposed Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 11, 2018); CPS FY2018 Amended Budget, Interactive Reports, Revenues & Expenditures, available at www.cps.edu (last visited July 11, 2018); Chicago Public Schools Comprehensive Annual Financial Report (CAFR), pp. 67, 68 and 71; CPS FY2016 CAFR, pp. 70,71 and 74; CPS FY2017 CAFR, pp. 74 and 78.

ENROLLMENT

Unlike in previous years, the FY2019 budget is based on 20th day enrollments for each school during the 2017-2018 school year rather than enrollment projections for the upcoming year. With this departure from enrollment projections-based budgets, schools that experience enrollment decline in the fall will not see a budget reduction. Further, schools with enrollment increases will receive funding to compensate for growing student bodies.[104]

As the table and graph below indicate, CPS has experienced a decrease in student enrollment of 29,163 over the last five years. This is a 7.3% decline from FY2014 to FY2018. CPS cites lower birth rates as one possible factor, a trend found throughout Illinois and the country.[105]

Over this five-year period, preschool enrollment has dropped by 4,230 students or 17.9%. Despite this, CPS plans to expand its free, full-day preschool program by 185 classrooms in FY2019.[106]

Student enrollment declines have been less severe for elementary and high schools. Elementary school enrollment decreased by 7.6%, or 20,256 students, over this five-year period. High school enrollment declined by 4.2%, or 4,677 students, the smallest decrease of these three groups.

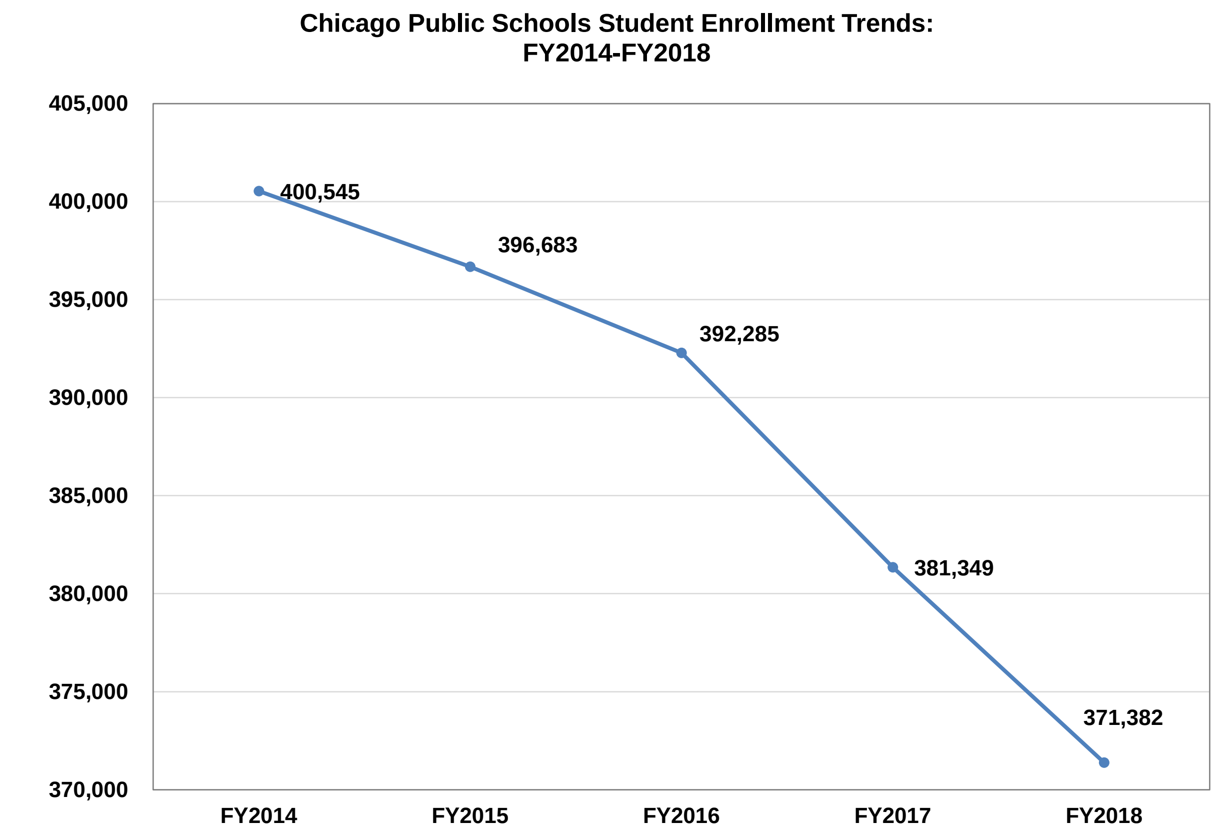
CPS Student Enrollment: FY2014-FY2018

	FY2014	FY2015	FY2016	FY2017	FY2018	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Preschool	23,671	22,873	22,555	20,673	19,441	(1,232)	-6.0%	(4,230)	-17.9%
Elementary School (K-8)	264,845	261,803	258,563	251,623	244,589	(7,034)	-2.8%	(20,256)	-7.6%
High School (9-12)	112,029	112,007	111,167	109,053	107,352	(1,701)	-1.6%	(4,677)	-4.2%
Total	**400,545**	**396,683**	**392,285**	**381,349**	**371,382**	**(9,967)**	**-2.6%**	**(29,163)**	**-7.3%**

Source: CPS FY2019 Proposed Budget, p. 189.

104 CPS FY2019 Proposed Budget, p. 34
105 CPS FY2019 Proposed Budget, p. 189
106 CPS FY2019 Proposed Budget, pp. 41, 42

The following graph illustrates the overall downward trend in CPS total student enrollment from FY2014 to FY2018. As noted previously, enrollment decreased by 29,163 students, or 7.3% during that period.



Source: CPS Proposed FY2019 Budget, p. 189.

CPS stated that it will not be publicly releasing end-of-year enrollment numbers because state and federal funding is based on 20th day enrollment. The District also declined to provide FY2019 enrollment projections because of its own change to budgeting based on 20th day enrollment.[107]

[107] Email communication between the Civic Federation and CPS Budget Office on July 12, 2018.

MUNICIPAL EMPLOYEES' PENSION FUND

Eligible non-teaching employees of CPS participate in the City of Chicago's Municipal Employees' Annuity and Benefit Fund.[108] As of December 31, 2016, approximately 16,468, or 54.4%, of the 30,296 active Municipal Fund members were CPS employees.[109]

The employer contribution for CPS employees participating in the Municipal Fund is made by the City of Chicago, not by CPS. The City makes most of the Municipal Fund employer contribution through its property tax levy, the water-sewer usage tax on consumers and through reimbursements from its enterprise and special revenue funds.[110] CPS estimates that the FY2019 Municipal Fund contribution from the City (recorded as revenue) will be nearly $52.5 million.[111] CPS does make some contributions to the Municipal Fund on behalf of its employees. For union employees, CPS "picks up" 7 percentage points of the annual non-teacher employee pension contribution of 8.5%. CPS phased out the pick-up for non-union, non-teacher employee pensions in FY2018. The District's FY2019 cost for the non-teacher employee pick-up is approximately $33.7 million and is part of the District's budgeted pension appropriation.[112] The District additionally reimburses the City for the employer pick-up of employees funded by federal grants; this reimbursement is budgeted at $5.7 million in FY2019.[113]

Budget legislation approved in July 2017 by the Illinois General Assembly over the veto of Governor Bruce Rauner included provisions to change the way the City of Chicago must fund two of its four pension funds.[114] The City of Chicago had previously announced that it had come to an agreement in principle with unions on how to put the Municipal Fund, "…on a path to solvency" but the reforms required changes to state law.[115] Public Act 100-0023 statutorily mandates increased employer funding of the Municipal Fund and the increased contributions are partially funded through a water-sewer usage tax on consumers imposed through the City's home rule powers. The City will increase payments over a 40-year plan to get to 90% funded. Another provision of the legislation creates a new tier of benefits for employees hired after January 1, 2017 that will increase employee contributions by three percentage points and reduce the retirement age to 65 from the Tier 2 level of 67.

On March 24, 2016, the Illinois Supreme Court struck down previous pension reform legislation, Public Act 98-0641, as unconstitutional under the Illinois Constitution's pension protection clause (Article XIII, Section 5). P.A. 98-0641 impacted non-teacher employees of CPS,

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108 40 ILCS 5/8-110.

109 CPS FY2017 Comprehensive Annual Financial Report, p. 77.

110 City of Chicago FY2018 Budget Overview, p. 36. In the City's FY2012 budget, the City included reimbursement from CPS for part of the statutory employer contribution the City made for CPS employees participating in the Municipal Fund. The reimbursement amount proposed for FY2012 was $32.5 million, but has been postponed indefinitely given the District's ongoing financial difficulties.

111 CPS FY2019 Proposed Budget, p. 22 and Interactive Proposed Budget, Revenues and Expenditures, available at cps.edu/budget.

112 CPS FY2019 Interactive Proposed Budget, Revenues and Expenditures, available at cps.edu/budget.

113 CPS FY2019 Interactive Proposed Budget, Revenues and Expenditures, available at cps.edu/budget.

114 Public Act 100-0023. See also http://www.meabf.org/legislature for more information about the legislation.

115 City of Chicago Press Release, "Mayor Emanuel Announces Final Pension Funding Solution Reached in Partnership with Union Leaders for Municipal Employees' Annuity and Benefit Fund," August 3, 2016. Available at http://www.cityofchicago.org/content/dam/city/depts/mayor/Press%20Room/Press%20Releases/2016/July/8.3.16FinalPensionFunding.pdf.

increasing their contributions toward the fund and affecting their automatic annual annuity increase once they retire. As of January 1, 2015, non-teachers' contributions to the Municipal Fund were increased by 0.5% to 9.0% from the previous 8.5% level. Non-teacher retirees were made subject to a COLA "pause" and reductions to future annuity increases. However, since CPS does not make the employer contribution to the Municipal Fund, it was not impacted by the legislation's employer funding provisions. These provisions instead were to increase the City of Chicago's contributions to the Municipal Fund over several years until the City was contributing at a level that would increase the funding level to 90.0% over 40 years.

In December 2014, two lawsuits were filed in Cook County Circuit Court that challenged the constitutionality of pension reforms for the Chicago Municipal and Laborers' funds.[116] On July 24, 2015, Circuit Court Judge Rita Novak ruled that the legislation was unconstitutional and ordered that the increased contributions that had been made by employees starting January 1, 2015 be refunded.[117] The increased employer contributions were not made.

The financial status of the Municipal Fund is examined in the Civic Federation's annual analysis of the City's budget proposal.[118] The next section focuses on the Chicago Teachers' Pension Fund.

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[116] Civic Federation, "Chicago Pension Reform Litigation on Hold Pending Illinois Supreme Court Ruling," February 25, 2015, https://www.civicfed.org/civic-federation/blog/chicago-pension-reform-litigation-hold-pending-illinois-supreme-court-ruling.

[117] Judge Novak's opinion and order is available at http://chicagotonight.wttw.com/sites/default/files/article/file-attachments/Chicago%20Pension%20Ruling.pdf.

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

TEACHERS' PENSION FUND

Certified CPS teachers are enrolled in the Public School Teachers' Pension and Retirement Fund of Chicago (CTPF). The data presented below are for the Teachers' Pension Fund only. The following subsections include a plan description, membership data, benefits provided, employer and employee contributions, future funding projections and pension fund indicators. There is also a discussion of the Fund's liabilities as reported according to accounting standards required by Governmental Accounting Standards Board Statements Number 67 and 68 (GASB 67 and 68). Unless otherwise stated, the numbers used in this chapter are statutorily required numbers used for funding purposes.

The fiscal year of the Teachers' Pension Fund begins on July 1 and ends on June 30, as does the fiscal year of CPS. The most recent data available are for FY2017, which ended on June 30, 2017.

Plan Description

The Public School Teachers' Pension and Retirement Fund of Chicago is a cost-sharing multiple-employer defined benefit pension plan created by the Illinois legislature in 1895 to provide retirement, death and disability benefits for teachers and employees of the Fund. Members include certified teachers at the Chicago Public Schools and charter schools.[119] Plan benefits and contributions can only be amended through state legislation.[120]

The fund is governed by a 12-member Board of Trustees. As prescribed in state statute, six trustees are elected by the teacher members of the fund, three are elected by the annuitants, one is elected by the principal and administrative members of the Fund and two are appointed by the Chicago Board of Education.

Members of the Chicago Teachers' Pension Fund do not participate in the federal Social Security system.[121]

Membership

In FY2017 the Teachers' Pension Fund had 57,294 members, including 28,439 retirees and beneficiaries receiving benefits and 28,855 active employee members. In the ten years since FY2008, the number of retirees and beneficiaries receiving benefits increased by 18.9%, or 4,519, and has grown each year. Conversely, the number of active employee members has declined by 10.1%, or 3,231 members, over the same period. The ratio of active employees to beneficiaries has fallen every year since FY2008. A decline in the ratio of active employees to retirees can create fiscal stress for an underfunded pension fund like the CTPF because it means

[119] Chicago Teachers' Pension Fund, FY2017 Comprehensive Annual Financial Report, p. 26.
[120] The Chicago Teachers' Pension Fund statute is 40 ILCS 5/17, but the fund is also governed by other parts of the pension code such as 40 ILCS 5/1-160, which defines the changes to benefits for new employees enacted in P.A. 96-0889.
[121] CPS did not participate in Medicare until 1986 but most CTPF members are now eligible for Medicare.

there are fewer dollars in employee contributions going into the fund and more in annuity payments flowing out of the fund.

CPS Teachers' Pension Fund Membership: FY2008-FY2017				
Fiscal Year	**Retirees & Beneficiaries Receiving Benefits**	**Active Employee Members**	**Total**	**Ratio of Active to Beneficiary**
FY2008	23,920	32,086	56,006	1.34
FY2009	24,218	31,905	56,123	1.32
FY2010	24,600	31,012	55,612	1.26
FY2011	25,199	30,133	55,332	1.20
FY2012	25,926	30,366	56,292	1.17
FY2013	27,440	30,969	58,409	1.13
FY2014	27,722	30,654	58,376	1.11
FY2015	28,114	29,706	57,820	1.06
FY2016	28,298	29,543	57,841	1.04
FY2017	28,439	28,855	57,294	1.01

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

Source: Chicago Teachers' Pension Fund, Actuarial Valuations, FY2008-FY2017.

Summary of Key Teachers' Pension Fund Benefits

In April 2010, Illinois enacted P.A. 96-0889, which created a reduced level of pension benefits for employees hired on or after January 1, 2011 and granted a temporary pension contribution reduction to CPS.[122]

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

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

increase from 3.0% compounded to the lesser of 3.0% or one half of the increase in Consumer Price Index, simple interest.

Major Chicago Teachers' Pension Fund Benefit Provisions		
	Employees hired before 1/1/2011	**Employees hired on or after 1/1/2011**
Full Retirement Eligibility: Age & Service	age 55 with 34 years of service; age 60 with 20 years of service; age 62 with 5 years of service	age 67 with 10 years of service
Early Retirement Eligibility: Age & Service	age 55 with 20 years of service	age 62 with 10 years of service
Final Average Salary	highest average monthly salary for any 48 consecutive months within the last 10 years of service	highest average monthly salary for any 96 consecutive months within the last 10 years of service; pensionable salary capped at $111,572*
Annuity Formula	2.2% of final average salary for each year of service**	
Early Retirement Formula Reduction	0.5% per month under age 60	0.5% per month under age 67
Maximum Annuity	75% of final average salary	
Annual Automatic COLA on Retiree or Surviving Spouse Annuity	3% compounded; begins at anniversary date of retirement or 61st birthday, whichever is later	lesser of 3% or one-half of the annual increase in CPI-U, not compounded; begins at the later of age 67 or the first anniversary of retirement

*The maximum pensionable salary automatically increases by the lesser of 3% or one-half of the annual increase in the CPI-U. $112,408 is the 2017 limitation. FY2017 CAFR, p. 27.

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

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

Sources: Public School Teachers' Pension and Retirement Fund of Chicago, CAFR as of June 30, 2017, p. 26-28; 40 ILCS 5/9; Public Act 96-0889; and Public Act 96-1490.

Pension Contributions

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

Employer Contributions

The State statutes governing the Chicago Teachers' Pension Fund require employer contributions when the fund falls below a 90.0% funded ratio. As described on the following pages, relatively small amounts are required from the State and from CPS pursuant to benefit enhancements enacted in P.A. 90-582. Much larger contributions are required by CPS pursuant to P.A. 89-0015 and P.A. 96-0889 in order to bring the fund up to a 90.0% funded ratio over a 50-year period and by the State pursuant to P.A. 100-0465.

State Employer Contribution: Illinois State legislation to change how P-12 education is funded, Public Act 100-0465, which was signed into law on August 31, 2017, included provisions to increase the State's funding to Chicago teachers' pensions starting in FY2018 and take into account the fact that the funding CPS must provide to teachers' pensions cannot be spent in the classroom. Under the new funding law, the State of Illinois will provide in FY2019 a contribution of $227.0 million for the annual cost of providing retirement benefits for services performed by today's members —the normal cost—and retiree healthcare.[123]

The State of Illinois had previously traditionally contributed roughly $65.0 million each year to the Teachers' Fund pursuant to 40 ILCS 5/17-127, which declares the General Assembly's "goal and intention" to contribute an amount equivalent to 20.0% or 30.0% of the contribution it makes to the downstate Teachers' Retirement System.[124] However, the traditional $65.0 million contribution was actually much less than the 20.0% or 30.0% intention stated in the statute. The State's enacted FY2010 budget reduced the usual $65.0 million appropriation by 50.0% to $32.5 million.[125] For FY2011 the State appropriated $32.5 million for the Teachers' Fund, but designated it specifically for retiree healthcare costs paid out of the fund, so the amount is not considered part of the employer contribution in the calculation shown below.[126] There was no State contribution other than the statutory state contribution described below in FY2012, FY2013, and FY2014.[127] The State of Illinois' FY2015 budget included a $50.0 million contribution to the Chicago Teachers' Pension Fund that is in addition to the statutory contribution described below. This reduced the amount CPS must contribute to the fund by $50.0 million.[128] During the budget impasse in FY2016 and FY2017, the State did not make an additional contribution.

Additional State Contribution: The State is required to make additional contributions in FY2018 of 0.544% of teacher payroll to the Teachers' Fund to offset a portion of the cost of benefit increases enacted under Public Act 90-0582. No additional contributions are required if the funded ratio is at least 90.0%. The required additional State contribution in FY2019 is projected at $12.1 million, up from FY2018.[129]

Additional CPS Contribution: CPS must make additional contributions of 0.58% of teacher payroll to offset a portion of the cost of benefit increases enacted under Public Act 90-0582. No additional contributions are required if the funded ratio is at least 90.0%. The required additional contribution in FY2019 is projected at nearly $12.9 million, up slightly from FY2018.[130]

CPS Required Contribution: Under the funding plan established by P.A. 89-0015, the minimum contribution to the Teachers' Pension Fund was previously an amount needed to bring the total assets of the fund up to 90.0% of the total actuarial liabilities by the end of FY2045. The required CPS contribution was calculated as a level percentage of payroll over the years through FY2045. The calculation for determining the CPS required contribution was the total amount of the employer contribution less additional state appropriations, additional CPS appropriations and

[123] For more about the new funding formula, see Civic Federation, "What the New Illinois School Funding Formula Means for Chicago Public Schools," September 1, 2017. Available at https://www.civicfed.org/civic-federation/blog/what-new-illinois-school-funding-formula-means-chicago-public-schools.
[124] The downstate Teachers' Retirement System covers all public school teachers in Illinois except for those teaching in Chicago Public Schools.
[125] Illinois State FY2011 Budget, pp. 5-8.
[126] Information provided by the CPS budget office, August 17, 2010.
[127] Chicago Public Schools FY2015 Proposed Budget, p. 147.
[128] Chicago Public Schools FY2015 Proposed Budget, p. 147.
[129] Chicago Teachers' Pension Fund Comprehensive Annual Financial Report, FY2017, p. 95 and FY2016, p. 93.
[130] Chicago Teachers' Pension Fund Comprehensive Annual Financial Report, FY2017, p. 95 and FY2016, p. 93.

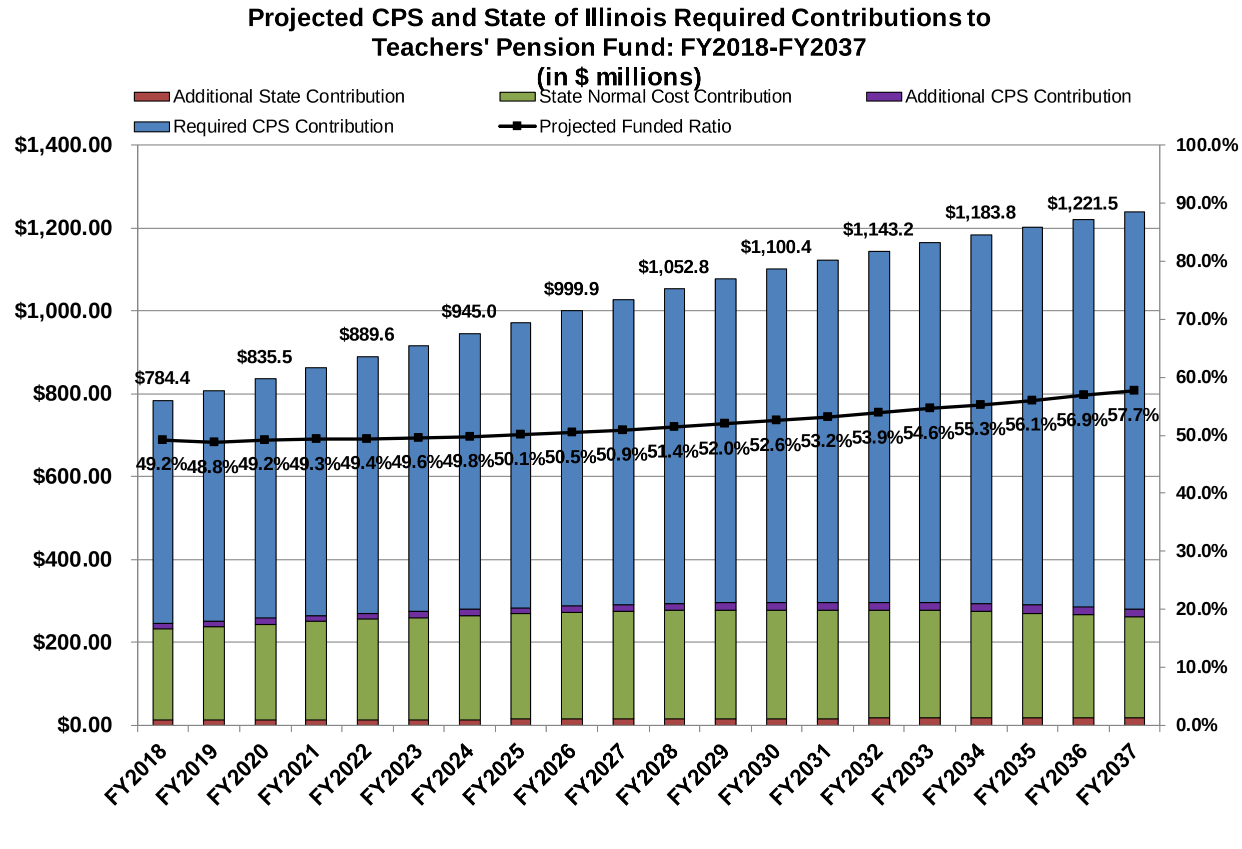
other employer appropriations.[131] The funding schedule established in P.A. 89-0015 was changed by P.A. 96-0889, enacted in April 2010. The new law reduced CPS's required employer pension contribution for FY2011, FY2012 and FY2013 to an amount estimated to be equivalent to the employer's normal cost.[132] It also delayed the year that the pension fund must reach a 90.0% funded ratio from 2045 to the end of 2059.

Prior to the passage of P.A. 96-0889, the CPS required contribution for FY2011 was calculated to be $586.9 million, or almost double the FY2010 amount. P.A. 96-0889 reduced CPS's required FY2011 contribution to $187.0 million, which was approximately $158.0 million, or 45.8%, less than the prior year's contribution.[133] After the end of the three-year partial pension funding holiday in FY2014, the District's contribution jumped to $600.0 million and increased thereafter.[134] However, the FY2018 required Board of Education contribution was reduced from $760.2 million to $540.2 million by P.A. 100-0465, which included a $221 million contribution to the CTPF for employer normal costs and retiree healthcare. The FY2019 State contribution for normal cost and retiree healthcare of $227.0 million will reduce the CPS required contribution from $783.6 million to $556.8 million.

The exhibit below shows actuarial projections of required CPS and State of Illinois contributions to the Teachers' Pension Fund from FY2018 to FY2037 based on P.A. 96-0889 and P.A. 100-0465 and the projected funded ratio. Despite significantly increasing annual contributions, over the next twenty years the funded ratio of the CTPF will not improve much because the funding schedule is extremely backloaded. This means statutorily required annual contributions will not

[131] This annual required contribution must be calculated by February 28 each year, per 40 ILCS 5/17-129.
[132] "Normal cost" is an actuarially calculated amount representing that portion of the present value of the pension plan benefits and administrative expenses which is allocated to a given valuation year.
[133] Actuarial projection by Goldstein & Associates for Kevin Huber, Executive Director of the Public School Teachers' Pension and Retirement Fund of Chicago, March 31, 2010. See also Illinois Commission on Government Forecasting and Accountability, *Illinois Public Retirement Systems: A Report on the Financial Condition of the Chicago, Cook County and Illinois Municipal Retirement Fund Systems of Illinois*, November 2010, p. 119.
[134] Public School Teachers' Pension and Retirement Fund of Chicago, *Statutorily Required Funding Valuation as of June 30, 2012*, p. 25; Chicago Public Schools FY2015 Proposed Budget, p. 147; Public School Teachers' Pension and Retirement Fund of Chicago, *Statutorily Required Funding Valuation as of June 30, 2014*, p. i; Public School Teachers' Pension and Retirement Fund of Chicago, *Actuarial Valuation and Review as of June 30, 2015*, p. ii.

be sufficient to prevent the growth of the unfunded liability until FY2038. See the Appendix for projected funding through FY2059.



Source: Public School Teachers' Pension and Retirement Fund of Chicago, *Actuarial Valuation as of June 30, 2017,* p. 23.

Employee Contributions

Employee contributions to the Teachers' Pension Fund are statutorily set at 9.0% of the employee's salary. One percent of that 9.0% amount is for survivors' and children's pension benefits.

CPS "picks up" 7.0% of the 9.0% annual employee pension contribution, meaning it pays seven percentage points of the employee 9.0% contribution on behalf of teachers. Therefore, teachers effectively pay 2.0% of their annual salary toward their pensions. The District's FY2019 cost for the 7.0% employee pick-up is approximately $125.9 million and is part of the District's budgeted pension appropriation.[135] The 2015-19 Collective Bargaining Agreement with the Chicago Teacher's Union ended the pension pick-up for teachers hired on or after January 1, 2017.[136]

[135] CPS FY2018 Interactive Proposed Budget, Revenues and Expenditures, available at cps.edu/budget. CPS also "picks up" 7.0% of employee contributions to the Chicago Municipal Fund for some eligible non-teacher employees at a projected cost of $33.7 million in FY2019.
[136] CPS FY2018 Proposed Budget, p. 42.

Pension Fund Indicators

The Civic Federation uses three measures to present a multi-year evaluation of the fiscal health of the Teachers' pension fund: funded ratios, unfunded actuarial accrued liabilities (UAAL) and the investment rate of return. Note that the numbers used in the following section are calculated as laid out in Illinois statute for funding purposes. A section at the end of this chapter will explore the funding and liabilities as calculated for *reporting* purposes under Governmental Accounting Standards Board Statements 67 and 68.

Funded Ratios

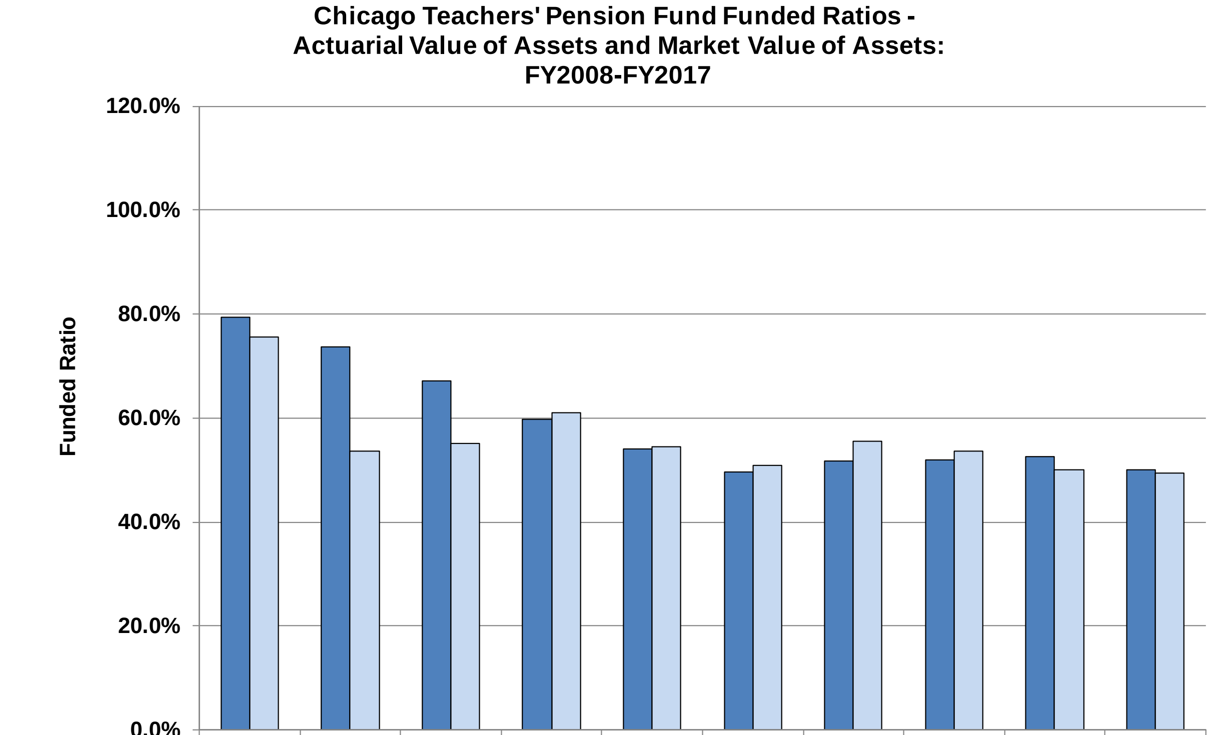
This report uses two measurements of pension plan funded ratio: the actuarial value of assets measurement and the market value of assets measurement. These ratios show the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting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

The actuarial value of assets measurement presents the ratio of assets to liabilities and accounts for assets by recognizing unexpected gains and losses over a period of three to five years.[137] The market value of assets measurement presents the ratio of assets to liabilities by recognizing investments only at current market value. Market value funded ratios are more volatile than actuarial funded ratios due to the smoothing effect of actuarial value. However, market value funded ratios represent how much money is actually available at the time of measurement to cover actuarial accrued liabilities.

The following exhibit shows the actuarial and market value funded ratios for the Chicago Teachers' Pension Fund over the last ten years. The fund was 79.4% funded on an actuarial value basis in FY2008, and this funded ratio fell to 49.7% in FY2013 before rising in FY2016 to 52.5% and then falling to 50.1% in FY2017 The market value funded ratio fell from 75.5% in

[137] For more detail on the actuarial value of assets, see Civic Federation, Status of Local Pension Funding FY2012, October 2, 2014, https://www.civicfed.org/sites/default/files/StatusOfLocalPensionFundingFY2012.pdf The Chicago Teachers' Pension Fund smoothes returns over four years.

FY2008 to 53.7% in FY2009 and recovered to 61.1% in FY2011 before fluctuating over the next several years and eventually falling to 49.5% in FY2017.

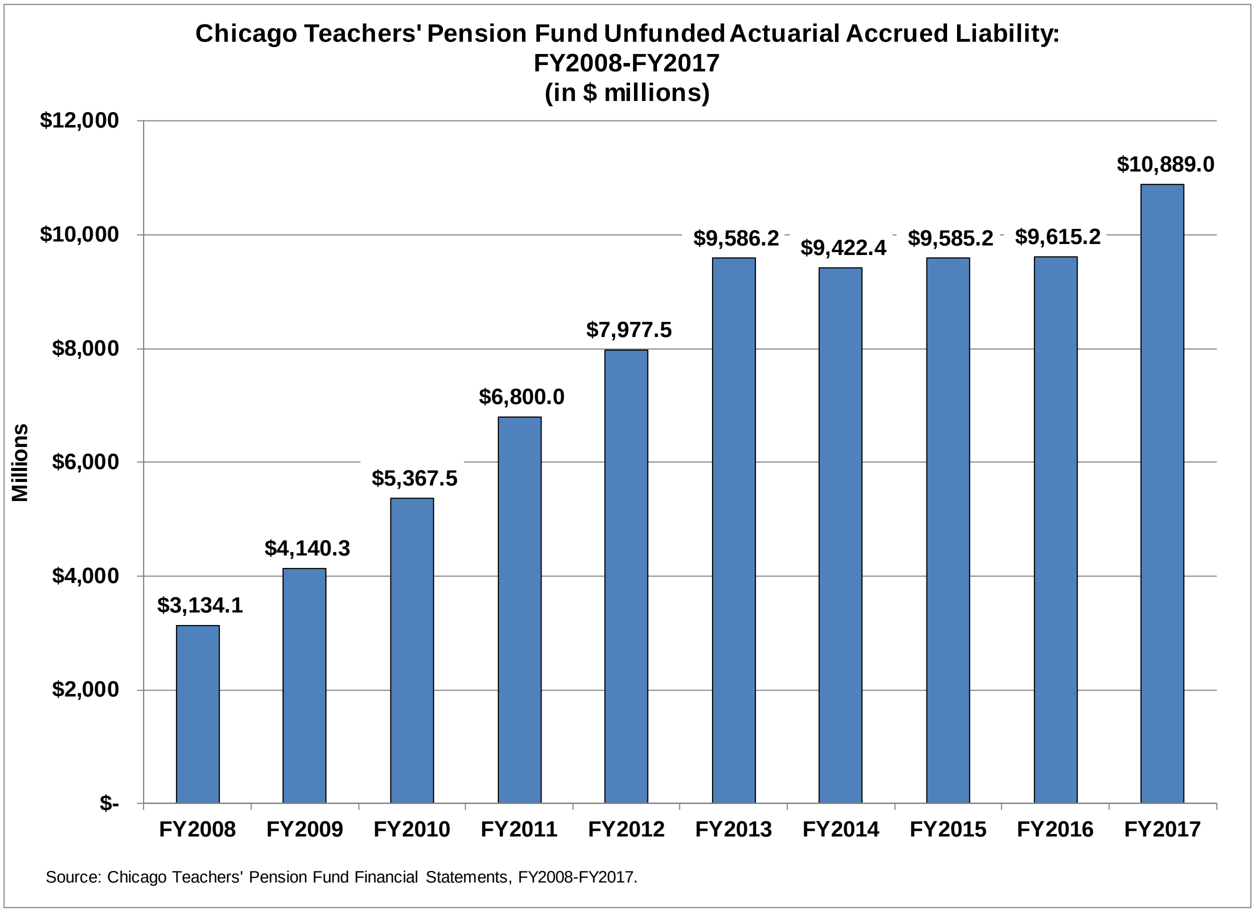


	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Actuarial Value	79.4%	73.6%	67.1%	59.9%	54.1%	49.7%	51.7%	52.0%	52.5%	50.1%
Market Value	75.5%	53.7%	55.0%	61.1%	54.5%	51.0%	55.6%	53.7%	50.0%	49.5%

Source: Civic Federation calculations based on Chicago Teachers' Pension Fund Financial Statements, FY2008-FY2017.

Unfunded Actuarial Accrued Liability

Unfunded actuarial accrued liability is the dollar value of accrued liabilities not covered by the actuarial value of assets. As shown in the exhibit below, the unfunded liability for the Teachers' Pension Fund was $3.1 billion in FY2008. Since FY2008 unfunded liabilities have increased by 247.4%, rising to $10.9 billion in ten years. The UAAL increased significantly by nearly $1.3 billion in FY2017 from FY2016 or 13.2%. The increase was due predominantly to a change in the actuarial assumptions of the fund, reducing the expected rate of return on investment to 7.25% from 7.75%, among other changes.[138]



Source: Chicago Teachers' Pension Fund Financial Statements, FY2008-FY2017.

A breakdown of the causes of the change in unfunded liability each year is available in the annual actuarial valuations of the fund. The table below summarizes the changes as calculated by the fund actuary from FY2008 to FY2017. The single largest contributor to the increase in unfunded liability is the consistent failure of the employer contribution to be sufficient to cover the employer's normal cost for service earned that year, as well as the interest accrued on the existing unfunded liability.[139] This deficiency in employer contributions added $3.3 billion to the unfunded liability between FY2008 and FY2017.

Over the past 10 years the second largest contributor to the unfunded liability is a shortfall in investment returns compared to expectations. The Fund's annual actuarial valuation smoothes the investment gains and losses over a period of four years, such that even if a single year's market rate of return exceeds the assumption, the four-year smoothed return may not. This was the case in FY2011, when the market value rate of return was 24.7%, but the four-year smoothed return was -0.5%, reflecting losses in FY2008 and FY2009. Conversely, in FY2014 the market

[138] Public School Teachers' Pension and Retirement Fund of Chicago Statutorily Required Funding Valuation as of June 30, 2017, p. 4.
[139] Total increase in unfunded liability includes increase in FY2008 over FY2007, included in the first line of the chart below.

value rate of return reported in the actuarial valuation was 3.6%, far below the 7.75% assumption, and the smoothed rate of return was 8.2% because high returns in FY2013 and FY2014 were still being incorporated.[140] However, over the ten-year period, the failure of investment returns to meet the 8.0%, 7.75% or 7.25% assumption added $2.5 billion to the unfunded liability.

Chicago Teachers' Pension Fund Reasons for Change in Unfunded Actuarial Accrued Liability: FY2008-FY2017							
	Employer Contribution Lower/(Higher) than Normal Cost Plus Interest on Unfunded Liability	Investment Return Lower/(Higher) Than Assumed	Salary Increase (Lower)/Higher Than Assumed	Benefit Increases	Change in Actuarial Assumptions, Methods, or Data	Other	Total Net UAAL Change
FY2008	$ 181,412,779	$ 14,768,502	$ 168,853,909	$ -	$ (386,588,901)	$ 240,804,331	**$ 219,250,620**
FY2009	$ 154,901,393	$ 923,403,137	$ 12,964,057	$ -	$ -	$ (40,308,708)	**$ 1,050,959,879**
FY2010	$ 146,648,566	$ 941,589,095	$ (118,648,048)	$ -	$ -	$ 257,585,304	**$ 1,227,174,917**
FY2011	$ 393,912,145	$ 896,407,893	$ (25,480,115)	$ -	$ -	$ 167,678,088	**$ 1,432,518,011**
FY2012	$ 532,383,133	$ 685,743,831	*	$ -	$ -	$ (40,655,176)	**$ 1,177,471,788**
FY2013	$ 621,672,350	$ (281,738,207)	*	$ -	$ 1,021,937,507	$ 246,886,533	**$ 1,608,758,183**
FY2014	$ 319,107,731	$ (454,691,436)	*	$ -	$ -	$ (28,259,604)	**$ (163,843,309)**
FY2015	$ 241,161,140	$ (45,212,951)	*	$ -	$ -	$ (33,120,109)	**$ 162,828,080**
FY2016	$ 260,150,252	$ (81,129,490)	*	$ -	$ -	$ (149,058,710)	**$ 29,962,052**
FY2017	$ 459,668,378	$ (80,937,857)	$ (180,217,505)	$ -	$ 1,074,523,844	$ 778,007	**$ 1,273,814,867**
10-Year Total	**$ 3,311,017,867**	**$ 2,518,202,517**	**$ (142,527,702)**	**$ -**	**$ 1,709,872,450**	**$ 622,329,956**	**$ 8,018,895,088**

* Change in UAAL due to salary assumptions restored in FY2017 with new actuary. Previous actuary combined salary assumptions with Other between FY2012 and FY2016.

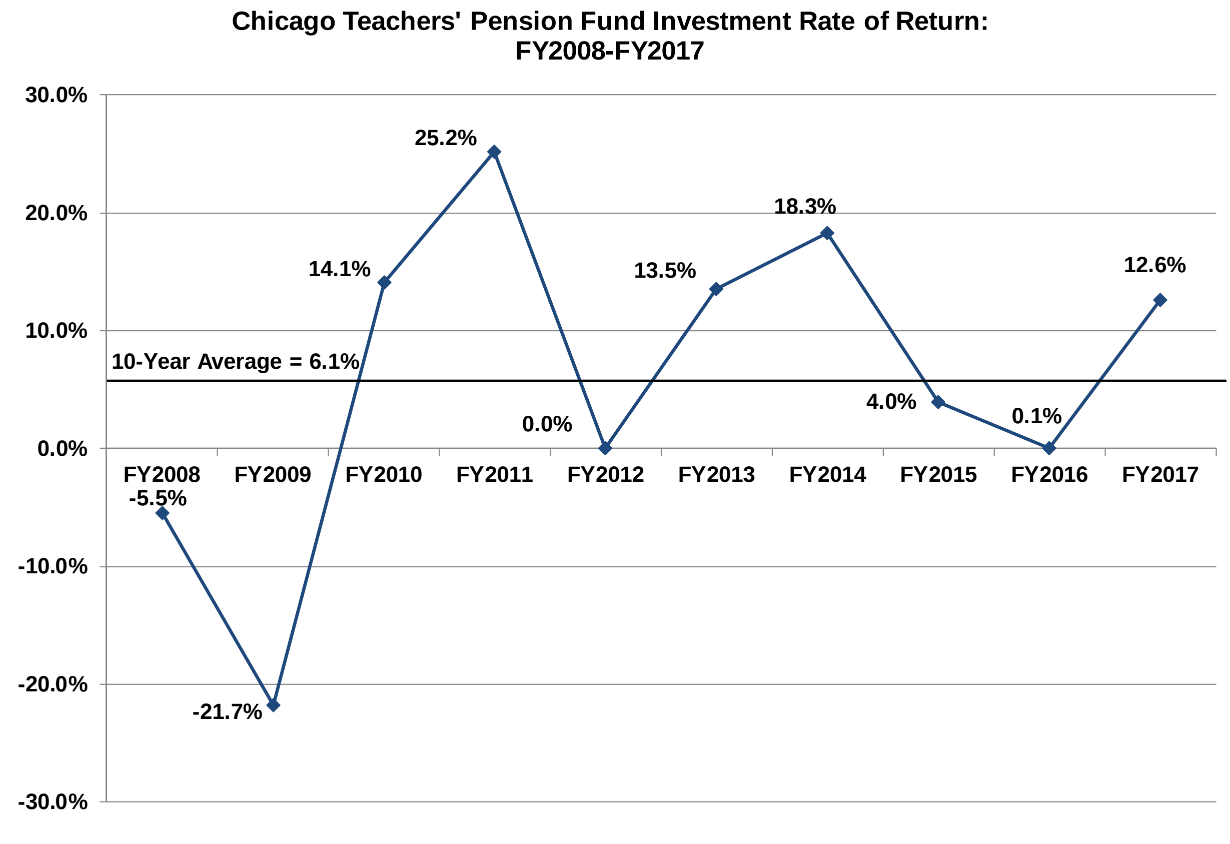
Source: Chicago Teachers' Pension Fund, Actuarial Valuations, FY2008-FY2017.

Investment Rate of Return

Investment income typically provides a significant portion of the funding for pension funds. Thus, declines over a period of time can have a negative effect on pension assets. Between FY2008 and FY2017, the Chicago Teachers' Pension Fund average annual rate of return was

[140] Chicago Teachers' Pension Fund FY2014 Statutory Actuarial Valuation, p. 6.

6.1%.[141] This is below the fund's assumed rate of return of 7.25%. Returns ranged from a high of 25.2% in FY2011 to a low of -21.7% in FY2009.



Source: Civic Federation calculations based on Chicago Teachers' Pension Fund Financial Statements, FY2008-FY2017.

Pension Liabilities as Reported Under Governmental Accounting Standards Board Statements Number 67 and 68

In 2012 the Governmental Accounting Standards Board (GASB) issued new accounting and financial reporting standards for public pension plans and for governments, Statements 67 and 68. According to GASB, the new standards were intended to "improve the way state and local governments report their pension liabilities and expenses, resulting in a more faithful representation of the full impact of these obligations."[142] Among other disclosures, pension funds and governments are now required to report total pension liability, fiduciary net position, net pension liability, pension expense and actuarially determined contribution (ADC), which are

[141] The Civic Federation calculates investment rate of return using the following formula: Current Year Rate of Return = Current Year Gross Investment Income/ (0.5*(Previous Year Market Value of Assets + Current Year Market Value of Assets – Current Year Gross Investment Income)). This is not necessarily the formula used by the pension fund's actuary and investment managers; thus investment rates of return reported here may differ from those reported in a fund's actuarial statements. However, this is a standard actuarial formula. Gross investment income includes income from securities lending activities, net of borrower rebates. It does not subtract out related investment and securities lending fees, which are treated as expenses.
[142] Governmental Accounting Standards Board, Pension Standards for State and Local Governments. Available at: http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176163528472.

calculated on a different basis from previous GASB 25 and 27 pension disclosure requirements. Both pension funds and governments must also disclose additional information about pensions in the notes to the financial statements and in required supplementary information sections. It is important to note that GASB intended to separate pension reporting from pension funding. Thus, the numbers reported according to GASB 67 and 68 standards are not used to determine how much a government must contribute to its pensions. They are a reporting, NOT a funding requirement. Chicago Public Schools and other governments will continue to use traditional public pension accounting methods to determine funding requirements. However, as the GASB 67 and 68 numbers can provide important new ways to understand a fund's sustainability, the Federation will address them here.

The Chicago Teachers' Pension Fund began reporting according to GASB 67 in its FY2014 CAFR and actuarial valuations. The Chicago Public Schools began reporting according to GASB 68 in its FY2015 financial statements.

The total pension liability, fiduciary net position, net pension liability and ADC[143] are all calculated on a different basis both from what used to be required by GASB and from the traditional public pension actuarial basis.

Total Pension Liability – This number is similar in concept to the actuarial accrued liability (AAL) discussed above, but is NOT the same. The actuarial cost method and discount rate (among other things) are different. All plans are required to use:

- Entry age normal actuarial cost method and level percent of payroll. CTPF uses projected unit credit, a different cost allocation method, for statutory reporting and funding purposes.
- Single blended discount rate, instead of basing the discount rate only on projected investment earnings. The discount rate is used to calculate the present value of the future obligations of a pension fund. The discount rate has an inverse relationship to actuarial liabilities, such that a lower discount rate will result in higher liabilities.
  - If a government is projected to have enough assets to cover its projected benefit payments to current and inactive employees, it can use the expected return on investments as its discount rate.
  - If a government is projected to reach a crossover point beyond which projected assets are insufficient to cover projected benefit payments, then a blended discount rate must be used. Benefit payments projected to be made from that point forward are discounted using a high-quality municipal bond interest rate of 3.56%. The blended rate is a single equivalent rate that reflects the investment rate of return and the high-quality municipal bond interest rate.
  - The Chicago Teachers' Pension Fund was for the first time projected to reach the crossover point in its FY2017, so its GASB 67 and 68 reporting is discounted at 7.07%, rather than 7.25%.

Fiduciary Net Position – This number is essentially the market value of assets in the pension plan as of the end of the fiscal year, not the assets as calculated on an actuarially smoothed

[143] Other differences and newly reported numbers are not central to the discussion here.

basis under previous reporting requirements. CTPF still uses smoothed actuarial value of assets to determine statutory employer contribution requirements.

Net Pension Liability – This number is similar in concept to the unfunded actuarial accrued liability, but again is NOT the same. It is the difference between the Total Pension Liability and the Fiduciary Net Position of the fund. Governments are required to report the Net Pension Liability in their Statements of Net Position in their financial statements, according to GASB 68.

Actuarially Determined Contribution (ADC) – Another change from previous standards is that funds are no longer required to report an Annual Required Contribution (ARC) based on standards promulgated by GASB. Instead, the funds will calculate an Actuarially Determined Contribution or ADC that reflects their own funding plan, unless that funding scheme does not follow actuarial standards of practice. Then the fund must report an ADC that is calculated according to actuarial standards of practice. It is again important to emphasize that the ADC is a reporting and not a funding requirement. See the discussion below for a summary of how the basis for calculating the Teachers' Fund ADC differs from the ARC.

Difference between the ADC and ARC

Depending on the employer's funding plan, a pension fund's ADC may be very similar to the previously reported ARC. The chart below summarizes the main assumptions behind the Chicago Teachers' Pension Fund calculations of ADC and ARC. The only difference between the two numbers is that the ADC has a closed amortization period and the ARC had an open amortization period. An open amortization period remains the same every year (e.g., each valuation amortizes UAAL over 30 years), while a closed amortization period declines as each year passes (e.g., successive valuations amortize at 30 years, 29 years, 28 years, etc.). The ADC uses the actuarially calculated UAAL number instead of the GASB 67 net pension liability number, which also makes it similar to the ARC. Additionally, the ADC need not follow the GASB 67 and 68 requirement of using the market value of assets. The CTPF uses a four-year smoothed valuation of assets.

Calculation of the Actuarially Required Contribution (ADC) vs the Annual Required Contribution (ARC)

	ADC (FY2014 and After)	ARC (FY2013 and Earlier)
Amortization Period	30-year closed (26 years remaining)	30-year open
Amortization Method	Level % of Payroll	Level % of Payroll
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit
Actuarial Value of Assets	4-year smoothed	4-year smoothed
Investment Rate of Return	7.25%	7.75%

Source: Chicago Teachers' Pension Fund FY2017 and FY2012 Actuarial Valuations.

Chicago Teachers' Pension Fund Reported Liabilities Under GASB Statements Number 67 and 68

The following table shows the Teachers' Fund pension financial reporting under GASB 67 and 68. Fiduciary Net Position as a percentage of Total Pension Liabilities is analogous to a funded ratio as calculated under actuarial standards. CTPF's pension liability reporting under GASB 67 and 68 is significantly different from its statutorily reported numbers calculated on an actuarial basis for FY2017. The reason is that projected assets are forecast to be insufficient to cover projected benefit payments after 2076 and therefore a lower municipal bond rate of 3.56% must be used as the discount rate for benefit payments after that year.[144]

Chicago Teachers' Pension Fund GASB 67 Reporting FY2013-FY2017

	Total Pension Liability	Fiduciary Net Position	Net Pension Liability	Fiduciary Net Position as a Percentage of Total Pension Liability	Actuarially Determined Contribution
FY2013	$ 19,795,922,569	$ 9,674,188,563	$ 10,121,734,006	48.87%	
FY2014	$ 20,316,899,952	$ 10,815,694,614	$ 9,501,205,338	53.23%	$ 719,781,746
FY2015	$ 20,713,217,296	$ 10,689,954,320	$ 10,023,262,976	51.61%	$ 728,488,520
FY2016	$ 21,124,697,012	$ 10,113,297,310	$ 11,011,399,702	47.87%	$ 749,796,517
FY2017	$ 23,175,590,999	$ 10,793,173,927	$ 12,382,417,072	46.57%	$ 754,764,093
Five-Year Change	**$ 3,379,668,430**	**$ 439,108,747**	**$ 2,260,683,066**		**$ 34,982,347**
Five-Year % Change	**17.07%**	**4.54%**	**22.33%**		**4.86%**

Source: FY2014-FY2017 Chicago Teachers' Pension Fund Actuarial Valuations and CAFRs. FY2013 numbers were presented in the FY2014 report.

[144] Public School Teachers' Pension and Retirement Fund of Chicago, GASB Statement Nos. 67 and 68 Accounting and Financial Reporting for Pensions, June 30, 2017, p. 18. For more on discount rates and how they impact measurements of the present value of liabilities, read the Civic Federation blog: https://www.civicfed.org/iifs/blog/state-pension-liabilities-rise-due-lower-expected-investment-returns and https://www.civicfed.org/civic-federation/blog/local-government-pension-funds-lower-their-expected-investment-rates-return-fy.

OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

The CTPF provides a "rebate" for a significant portion of the monthly premiums owed by those who enroll. The rebate only applies to the retired teacher's portion of these insurance policies, not to the additional cost of enrolling eligible dependents. However, the rebate does apply to eligible dependents who are survivors of deceased retirees. The Fund had previously provided reimbursement of 70.0% of the cost of pensioners' health insurance coverage, but it was reduced to 60.0% on January 1, 2011 and to 50.0% on January 1, 2015. According to Illinois statute, total payments from the Teachers' Pension Fund to reimburse retirees may not exceed 75.0% of total retiree health insurance costs.[145]

In FY2016 a total of 18,063 retirees and beneficiaries received health insurance benefits. There were also 5,715 terminated employees who may be entitled to OPEB benefits but are not yet receiving them and 10,235 retirees and beneficiaries entitled to benefits but not currently receiving them.[146] The Illinois Pension Code limits total annual payments paid by the pension fund's Board of Trustees to $65.0 million per year plus amounts authorized in previous years but not spent.[147] In FY2016 the Teachers' Pension Fund spent $66.7 million on OPEB.[148]

The following exhibit shows the extent to which the aggregate cost of the CTPF's health insurance subsidy has increased over the past decade. From FY2007 to FY2016, insurance premium rebates paid to beneficiaries increased by 9.2%, or $5.6 million. The health insurance

[145] 40 ILCS 17-142.1.
[146] Chicago Teachers' Pension Fund FY2016 Comprehensive Annual Financial Report, p. 132.
[147] 40 ILCS 17-142.1.
[148] Chicago Teachers' Pension Fund, FY2016 Comprehensive Annual Financial Report, p. 147.

rebate has represented approximately 4.7% to 7.5% of total pension and OPEB benefit expenditures over the ten-year period.

Paid to Retired CPS Teachers: FY2007-FY2016		
	Health Insurance Rebate Paid	% Change over Previous Year
FY2007	$ 61,028,841	--
FY2008	$ 68,691,191	12.6%
FY2009	$ 75,811,835	10.4%
FY2010	$ 79,953,873	5.5%
FY2011	$ 78,892,292	-1.3%
FY2012	$ 69,011,323	-12.5%
FY2013	$ 71,763,523	4.0%
FY2014	$ 72,874,594	1.5%
FY2015	$ 79,316,153	8.8%
FY2016	$ 66,673,226	-15.9%
Ten-Year Change	**$ 5,644,385**	**9.2%**

Source: Chicago Teachers' Pension Fund, Comprehensive Annual Financial Report FY2016, p. 147-148.

The following exhibit shows the funded status of the teachers' OPEB plan. The total actuarial liability fluctuated over the ten-year period from FY2007 to FY2016. The liability was $2.0 billion in FY2007, rose to $3.1 billion in FY2012, and fell over the next three years to $1.9 billion in FY2015 before rising again in FY2016 to $2.2 billion. Assets as a percentage of the actuarial liability were 2.3% in FY2007 and 0.9% in FY2016. The actuarial assumptions used in the FY2016 valuation included a 3.5% discount rate and an annual healthcare cost trend rate that is projected to decline gradually from 7.75% to 4.5% over eight years.[149]

Funded Status of the Chicago Public Schools Pension Fund Other Post Employment Benefit (OPEB) Plan: FY2007-FY2016				
	Total Actuarial Liability	**Actuarial Value of Assets**	**Unfunded Actuarial Accrued Liability (UAAL)**	**Assets as a % of Actuarial Liability**
FY2007	$ 2,022,007,643	$ 47,401,758	$ 1,974,605,885	2.3%
FY2008	$ 2,407,122,492	$ 44,989,385	$ 2,362,133,107	1.9%
FY2009	$ 2,670,282,662	$ 49,691,750	$ 2,620,590,912	1.9%
FY2010	$ 2,864,877,305	$ 34,857,732	$ 2,830,019,573	1.2%
FY2011	$ 3,071,516,739	$ 31,324,572	$ 3,040,192,167	1.0%
FY2012	$ 3,110,316,263	$ 34,124,958	$ 3,076,191,305	1.1%
FY2013	$ 2,386,105,927	$ 35,796,904	$ 2,350,309,023	1.5%
FY2014	$ 1,938,855,895	$ 35,977,444	$ 1,902,878,451	1.9%
FY2015	$ 1,910,991,991	$ 21,713,159	$ 1,889,278,832	1.1%
FY2016	$ 2,222,546,319	$ 20,229,722	$ 2,202,316,597	0.9%

Source: Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation and Review as of June 30, 2016, p. 60.

[149] Chicago Teachers' Pension Fund FY2016 CAFR, p. 133.

LIABILITIES

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

Short-Term Liabilities

Short-term liabilities are financial obligations that must be satisfied within one year. They can include short-term debt, accounts payable, accrued payroll, amounts held for student activities and other current liabilities. CPS includes the following short-term liabilities in the Governmental Funds Balance Sheet in its annual Comprehensive Annual Financial Report:

- *Accounts payable*: monies owed to vendors or employees for goods and services;
- *Accrued payroll and benefits*: employee pay and benefits carried over from previous years;
- *Amounts held for student activities*: deposits held in custody or funds that belong to individual school accounts;
- *Line of credit*: Funds borrowed at year-end to make required pension payments;[150] and
- *Tax/Grant Anticipation Notes*: At the end of FY2017, CPS had approximately $1.34 billion outstanding in short-term notes. Of that amount, $950.0 million was in tax anticipation notes and $387.0 was in grant anticipation notes. In FY2016, CPS borrowed $870.0 million in tax anticipation notes.[151]

[150] Chicago Public Schools FY2015 Comprehensive Annual Financial Report, p. 16.
[151] Chicago Public Schools FY2017 Comprehensive Annual Financial Report, p. 61.

The following table shows CPS short-term liabilities from FY2013 through FY2017, which is the most recent data available in audited financial reports. Between FY2016 and FY2017 total short-term liabilities increased by 35.2%, or $499.0 million, rising from $1.4 billion to $1.9 billion. Most of the increase was due to the $1.4 billion short-term borrowing outstanding at the end of FY2017. In this two-year period, accounts payable increased by 13.0%, or $46.4 million, while accrued payroll and benefits decreased by 8.5% or $12.3 million.

In the five-year period between FY2013 and FY2017, total short-term liabilities increased by 105.9% or $985.2 million. Much of the increase was due to short-term tax anticipation and grant anticipation note borrowing in FY2016 and FY2017. During the same period, accounts payable declined by 4.0%, or $16.8 million, and accrued payroll and benefits fell by 72.0%, or $340.8 million.

CPS Short-Term Liabilities in the Governmental Funds: FY2013 - FY2017
(in $ thousands)

	FY2013	FY2014	FY2015	FY2016	FY2017	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Accounts Payable	$ 421,491	$ 317,488	$ 307,675	$ 358,303	$ 404,731	$ 46,428	13.0%	$ (16,760)	-4.0%
Accrued Payroll & Benefits	$ 473,189	$ 111,812	$ 144,133	$ 144,686	$ 132,427	$ (12,259)	-8.5%	$(340,762)	-72.0%
Amount Held for Student Activities	$ 35,536	$ 38,413	$ 40,888	$ 43,520	$ 41,288	$ (2,232)	-5.1%	$ 5,752	16.2%
Line of Credit	$ -	$ -	$ 700,000	$ -	$ -	$ -	---	---	---
Tax Anticipation Notes	$ -	$ -	$ -	$ 869,996	$ 950,000	$ 80,004	9.2%	$ 950,000	---
Grant Anticipation Notes	$ -	$ -	$ -	$ -	$ 386,994	$ 386,994	---	$ 386,994	---
Total	**$ 930,216**	**$ 467,713**	**$ 1,192,696**	**$ 1,416,505**	**$ 1,915,440**	**$ 498,935**	**35.2%**	**$ 985,224**	**105.9%**

Source: CPS Comprehensive Annual Financial Reports, Balance Sheets - Governmental Funds, FY2013 - FY2017.

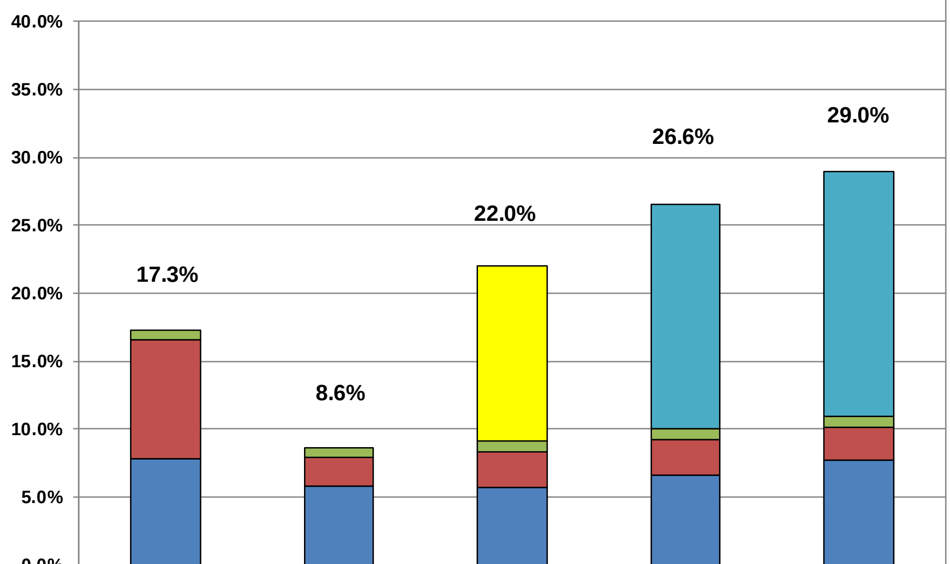
Short-Term Liabilities as a Percentage of Net Operating Revenues

Increasing short-term (current) liabilities at the end of the year in a government's operating funds as a percentage of net operating revenues may be a warning sign of a government's future financial difficulties.[152] This ratio indicator, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending.

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

The following graph shows the five-year trend in the District's short-term liabilities as a percentage of operating revenues by category. Between FY2013 and FY2017, the ratio rose from 17.3% to 29.0%. The increase is due primarily to the $700.0 million line of credit CPS used in FY2015 at year-end to make pension payments,[153] the $870.0 million in Tax Anticipation Notes issued in FY2016 and $1.4 billion in short-term borrowing in FY2017. These large increases have been a cause for concern because the District has relied on expensive short term borrowing in FY2015 through FY2017 to make operating budget payments. The financial situation has improved since then due to the approval of additional state funding for the District. However, CPS still faces significant financial challenges going forward and plans to continue borrowing short-term debt to stabilize its finances.

Chicago Public Schools Short Term Liabilities in Governmental Funds as a % of Operating Revenues: FY2013-FY2017



	FY2013	FY2014	FY2015	FY2016	FY2017
Tax Anticipation Notes	0.0%	0.0%	0.0%	16.5%	18.0%
Line of Credit	0.0%	0.0%	12.9%	0.0%	0.0%
Amount Held for Student Activities	0.7%	0.7%	0.8%	0.8%	0.8%
Accrued Payroll	8.8%	2.1%	2.7%	2.7%	2.5%
Accounts Payable	7.8%	5.8%	5.7%	6.6%	7.7%

Source: Chicago Public Schools Comprehesive Annual Financial Reports, FY2013-FY2017.

153 Chicago Public Schools FY2015 Comprehensive Annual Financial Report, p. 16.

Short-Term Borrowing

In FY2015, FY2016, FY2017 and FY2018 CPS relied on short-term borrowing to cover anticipated cash-flow difficulties. In FY2018, CPS issued $1.1 billion in short-term debt to bridge the gap between revenue collections and expenses.[154] During the first half of the FY2017 fiscal year, the District issued a total of $1.55 billion of short-term borrowing; these funds were issued as Tax Anticipation Notes and secured with dedicated property tax revenues.[155] Additionally, to address liquidity issues caused by delayed State categorical funding payments, CPS issued $387.0 million in short term Grant Anticipation Notes (GANs) in late June 2017. By August 2017 CPS had repaid and ended all of these outstanding TANs and GANs.[156] CPS plans to utilize nearly $1 billion in TANs in FY2019.[157]

The District's lack of fund balance and resulting liquidity crisis has a price. The FY2017 Budget planned for up to $35 million in interest on the Tax Anticipation Notes,[158] while the Grant Anticipation Notes were estimated to cost the district at least $7 million for a three month period.[159] The interest on the TANs cost the district $34 million in FY2017, $79 million in FY2018 and is anticipated to cost $21 million in FY2019.[160]

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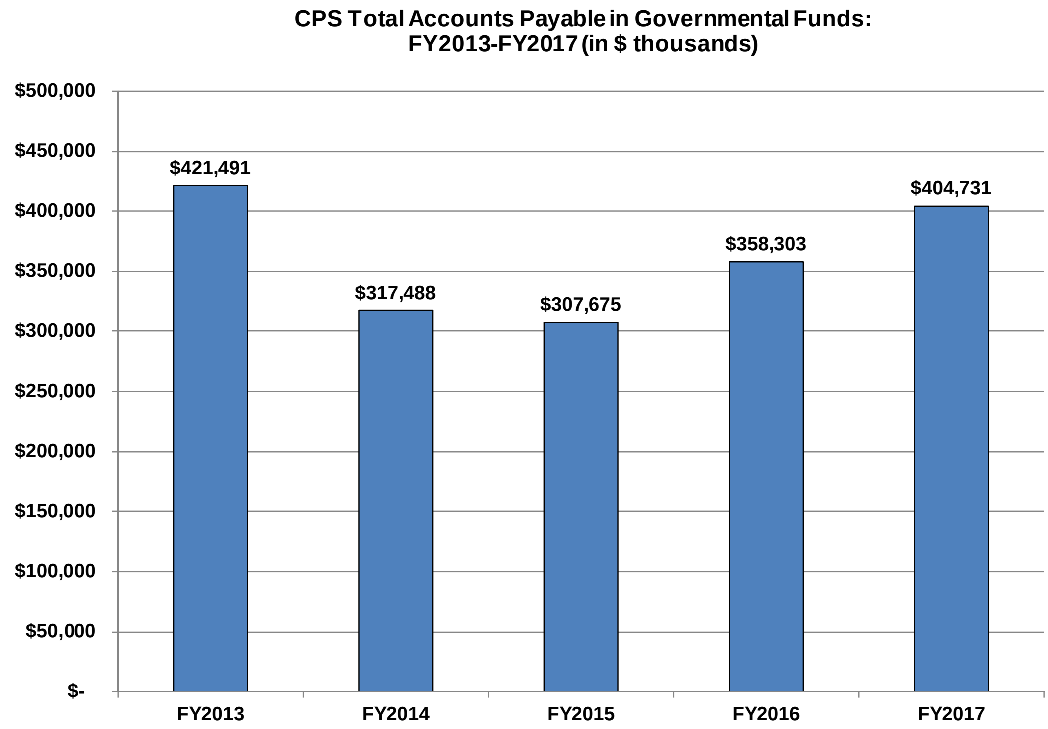
[154] Chicago Public Schools Proposed FY2019 Proposed Budget, p. 178.
[155] Board of Education of the City of Chicago, *Supplement to the Limited Offering Memorandum Dated November 10, 2016, Series 2016A-3*, January 10, 2017.
[156] Chicago Public Schools FY2017 Comprehensive Annual Financial Report, p. 84.
[157] Information provided by the CPS Budget Office, July 10, 2018.
[158] Chicago Public Schools Amended FY2017 Budget, p. 173.
[159] Juan Perez, Jr. and Peter Matuszak, "$70,000 a day in interest — the cost of another short-term CPS budget solution," *Chicago Tribune*, June 27, 2017, http://www.chicagotribune.com/news/watchdog/ct-chicago-schools-expensive-loan-met-20170626-story.html (last visited on August 15, 2017).
[160] Chicago Public Schools Proposed FY2019 Budget, p. 179.

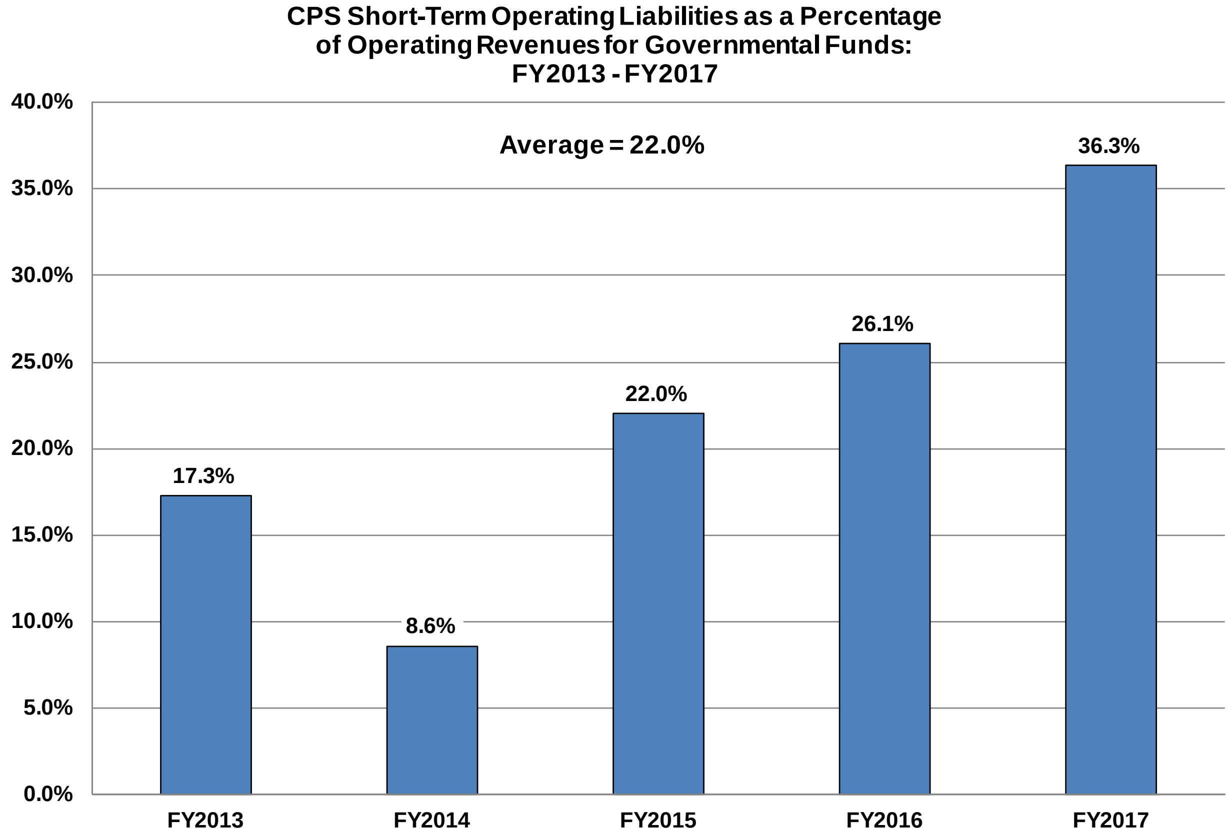
Accounts Payable Trends

Rising amounts of accounts payable over time may indicate a government's difficulty in controlling expenses or keeping up with spending pressures. Between FY2013 and FY2017, accounts payable declined by 4.0% or $16.8 million. This was a decrease from $421.5 million to $404.7 million. Accounts payable increased between FY2015 and FY2017 by 31.5% or $97.1 million. However, the overall five-year decrease was a positive sign.



Source: CPS Comprehensive Annual Financial Reports, FY2013- FY2017.

The District's ratio of accounts payable in the Governmental Funds to operating revenues increased from 17.3% in FY2013 to 36.3% in FY2017 due to increases in short-term borrowing.



Source: CPS Comprehensive Annual Financial Reports, FY2013-FY2017.

Current Ratio

The current ratio is a measure of liquidity. It assesses whether a government has enough cash and other liquid resources to meet its short-term obligations as they come due. The current ratio is calculated by dividing short-term assets by short-term liabilities. A ratio of 1.0 means that current assets are equal to current liabilities and are sufficient to cover obligations in the near term. Generally, a government's current ratio should be close to 2.0 or higher.[161] In addition to the short-term liabilities listed in the previous section, the current ratio formula uses the current assets of the District:

- *Cash and investments* are (1) assets that are cash or can be converted into cash immediately including petty cash, demand deposits and certificates of deposit and/or (2) any investments that the District has made that will expire within one year including stocks and bonds that can be liquidated quickly;
- *Cash and investments in escrow* in the Debt Service Fund represent the amount available for debt service payments on the Unlimited Tax General Obligation Bonds and Public Building Commission Leases. The cash and investments in escrow in the Capital Projects Funds represent the unspent proceeds from the Unlimited Tax General Obligation Bonds, Public Building Commission Building Revenue Bonds, State Technology Revolving Loan Fund and other revenues;[162]
- *Cash and investments held in school internal accounts* represent the book balance for checking and investments for individual schools;[163]
- *Receivables* are monetary obligations owed to the government including property taxes, replacement taxes and state or federal aid; and
- *Other assets* include prepaid assets and deferred charges recorded as expenditures in the governmental funds. Deferred charges are for bond issuance costs.[164]

The CPS current ratio was 1.9 in FY2017, the most recent year for which data are available. This was a sharp 57.1% decline from a ratio of 4.4 in FY2013. The decline was driven by:

- A 105.9% or $985.2 million increase in current liabilities primarily fueled by the inclusion of a $700.0 million line of credit in FY2015, $870.0 million in yet outstanding tax anticipation borrowing in FY2016 and $1.4 billion in short-term borrowing in FY2017;
- A simultaneous 11.6%, or $479.7 million, decline in current assets driven in large part by a $1.1 billion decrease in cash and investments on hand due to the drawdown of fund balance to close budget deficits.

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[161] Steven A. Finkler. *Financial Management for Public, Health and Not-for-Profit Organizations,* Upper Saddle River, NJ, 2001, p. 476.
[162] Chicago Public Schools FY2017 Comprehensive Annual Financial Report, p. 49.
[163] Chicago Public Schools FY2017 Comprehensive Annual Financial Report, p. 55.
[164] Chicago Public Schools FY2017 Comprehensive Annual Financial Report, p. 50.

Over the past five years, the District's current ratio averaged 3.3. This is greater than the benchmark of 2.0, which is considered a healthy level of liquidity. However, the continuously falling trend and the fact that CPS fell below the 2.0 benchmark in FY2016 and FY2017 is a cause for concern. It is, however, important to note that the District's financial situation improved in FY2018 due to the approval of additional State funding for CPS and the other school districts in Illinois.

CPS Current Ratio in the Governmental Funds: FY2013-FY2017 (in $ thousands)									
	FY2013	FY2014	FY2015	FY2016	FY2017	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Current Assets									
Cash and Investments	$ 1,259,273	$ 254,551	$ 166,113	$ 33,915	$ 120,596	$ 86,681	255.6%	$ (1,138,677)	-90.4%
Cash and Investments in Escrow	$ 755,025	$ 580,457	$ 508,498	$ 519,099	$ 1,454,162	$ 935,063	180.1%	$ 699,137	92.6%
Cash and Investments Held in School Internal Accounts	$ 35,536	$ 38,413	$ 40,888	$ 43,520	$ 41,288	$ (2,232)	-5.1%	$ 5,752	16.2%
Receivables: Property Taxes, Net	$ 1,061,198	$ 1,064,710	$ 1,114,780	$ 1,134,583	$ 1,395,299	$ 260,716	23.0%	$ 334,101	31.5%
Receivables: Replacement Taxes	$ 35,870	$ 31,920	$ 33,183	$ 33,320	$ 32,296	$ (1,024)	-3.1%	$ (3,574)	-10.0%
Receivables: State Aid, Net	$ 514,760	$ 516,147	$ 600,980	$ 618,190	$ 431,478	$ (186,712)	-30.2%	$ (83,282)	-16.2%
Receivables: Federal Aid	$ 291,336	$ 211,090	$ 115,513	$ 115,785	$ 98,148	$ (17,637)	-15.2%	$ (193,188)	-66.3%
Receivables: Other	$ 159,492	$ 106,791	$ 58,090	$ 59,730	$ 62,889	$ 3,159	5.3%	$ (96,603)	-60.6%
Other Assets	$ 5,687	$ 1	$ -	$ -	$ 2,356	$ 2,356	---	$ (3,331)	-58.6%
Total Current Assets	**$ 4,118,177**	**$ 2,804,080**	**$ 2,638,045**	**$ 2,558,142**	**$ 3,638,512**	**$ 1,080,370**	**42.2%**	**$ (479,665)**	**-11.6%**
Current Liabilities									
Accounts Payable	$ 421,491	$ 317,488	$ 307,675	$ 358,303	$ 404,731	$ 46,428	13.0%	$ (16,760)	-4.0%
Accrued Payroll & Benefits	$ 473,189	$ 111,812	$ 144,133	$ 144,686	$ 132,427	$ (12,259)	-8.5%	$ (340,762)	-72.0%
Amount Held for Student Activities	$ 35,536	$ 38,413	$ 40,888	$ 43,520	$ 41,288	$ (2,232)	-5.1%	$ 5,752	16.2%
Line of Credit	$ -	$ -	$ 700,000	$ -	$ -	---	---	$ -	---
Tax Anticipation Notes	$ -	$ -	$ -	$ 869,996	$ 950,000	$ 80,004	9.2%	$ 950,000	---
Grant Anticipation Notes	$ -	$ -	$ -	$ -	$ 386,994	$ 386,994	---	$ 386,994	---
Total Current Liabilities	**$ 930,216**	**$ 467,713**	**$ 1,192,696**	**$ 1,416,505**	**$ 1,915,440**	**$ 498,935**	**35.2%**	**$ 985,224**	**105.9%**
Current Ratio	**4.4**	**6.0**	**2.2**	**1.8**	**1.9**		**5.2%**		**-57.1%**

Source: CPS Comprehensive Annual Financial Reports, Balance Sheets - Governmental Funds, FY2013- FY2017.

Long-Term Liabilities

This section examines trends in CPS long-term liabilities. It includes a review of trends in the District's total long-term liabilities and a discussion of its tax supported long-term debt. Long-term liabilities are all of the obligations owed by a government over time.[165] Increases in long-term liabilities over time may be a sign of fiscal stress. They include long-term debt as well as:

- *Accrued Sick Pay Benefits*: CPS provides sick pay benefits for nearly all of its employees. Eligible employees were able to accumulate a maximum of 325 sick days granted before July 1, 2012. If an employee reached age 65, had a minimum of 20 years of service at the time of resignation or retirement or death, the employee (or surviving dependent in the case of employee death) was entitled to receive, as additional cash compensation, all or a portion of her or his accumulated sick leave days. After July 1, 2012, unused sick days at the end of a fiscal year will no longer be carried over to the next fiscal year. Payout of the value of any unused sick days will no longer be paid out to employees. CPS budgets an amount each year in the General Operating Fund for these estimated payments to employees terminated in the current fiscal year.

[165] Descriptions of accrued sick pay benefits, accrued vacation pay benefits, accrued workers' compensation claims, and accrued general and automobile claims and tort liabilities and other claims are found in Note 11: Other Benefits and Claims, CPS FY2017 Comprehensive Annual Financial Report, pp. 71-72.

- *Accrued Vacation Pay Benefits*: For eligible employees, the maximum number of accumulated unused vacation days permitted is 40 days for those employees with up to ten years of service, 53 days for those with 11 to 20 years of service and 66 days for those with more than 20 years of service. Eligible employees are entitled to receive 100.0% of accumulated vacation days at their current salary rate when they retire. These amounts are paid from the General Operating Fund.
- *Accrued Workers' Compensation Claims, Accrued General and Automobile Claims and Tort Liabilities and Other Claims*: CPS is substantially self-insured and assumes risk of loss as follows:

    CPS maintains commercial excess property insurance for "all risks" of physical loss or damage with limits of $250,000,000 and Boiler and Machinery Insurance with limits of $100,000,000 with the following deductibles:

    - Data Processing Equipment & Media $50,000
    - Mechanical Breakdown $50,000
    - All Other Losses $500,000
- *Net Pension Obligations (NPO)*: NPO is the cumulative difference, since the effective date of GASB Statement 27, between the annual pension cost and the employer's contributions to the plan. This includes the pension liability at transition (beginning pension liability) and excludes short-term differences and unpaid contributions that have been converted to pension-related debt. The last year NPO was reported was FY2014.
- *Net Pension Liabilities*: Beginning in FY2015, CPS reports 100% of the Chicago Teachers' Pension Fund's (CTPF) net pension liability in the Statement of Net Position to comply with GASB Statement 68 requirements. Previously, this liability was reported in the Statement of Net Position as a Net Pension Obligation or NPO (see description above). As a result of the reporting change for pensions involved in implementing GASB 68, the amount of CPS long-term liabilities **reported** has increased substantially. This is because it reflects a more holistic approach to measuring the liabilities of the government, which the previous NPO pension measurement did not. The amount owed by CPS to the CTPF has not significantly changed. It is only being reported more transparently.
- *Net Other Post Employment Benefit (OPEB) Obligation*s: This is the cumulative difference, since the effective date of GASB Statement 45, between the annual OPEB cost and the employer's contributions to its OPEB Plan.[166]

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

Between FY2013 and FY2017, total CPS long-term liabilities increased by 83.6%, or by $9.6 billion, rising from approximately $11.4 billion to $21.0 billion. Most of this increase was due to the change in pension reporting in FY2015 which led to an increase of $8.0 billion in reported pension liability. As noted above, the new pension liability reporting requirements of GASB Statement 68 present a more transparent approach to measuring these liabilities than the previous approach, rather than a one-year large increase in liabilities.

Total other long-term liabilities, which includes accrued sick leave and vacation pay, net pension obligations/net pension liabilities and net OPEB obligations grew by 164.9% or more than $8.4 billion over the five-year period. As noted above, net pension obligations/net pension liabilities alone increased by 264.6% or $8.0 billion, while net OPEB obligations grew by 32.4%, rising from approximately $1.5 billion to $2.0 billion.

Total long-term CPS debt increased by $1.1 billion, or 18.0%, over the five-year period. CPS long-term debt includes general obligation bonds, leases securing Public Building Commission bonds and capital leases. These liabilities are secured by property tax revenues or State of Illinois school construction grants.

(in $ thousands)

Type of Obligation	FY2013	FY2014	FY2015	FY2016	FY2017	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
General Obligation Bonds*	$ 6,058,398	$ 5,944,516	$ 6,073,049	$ 6,578,983	$ 6,617,275	$ 38,292	0.6%	$ 558,877	9.2%
Leases Securing PBC Bonds	$ 267,330	$ 232,940	$ 196,470	$ 157,780	$ 116,850	$ (40,930)	-25.9%	$ (150,480)	-56.3%
Capital Leases	$ 1,750	$ 1,575	$ 1,400	$ 1,225	$ 1,050	$ (175)	-14.3%	$ (700)	-40.0%
Dedicated Capital Improvement Tax Bonds	$ -	$ -	$ -	$ -	$ 729,600	---	---	---	---
Subtotal Long-Term Debt	**$ 6,327,478**	**$ 6,179,031**	**$ 6,270,919**	**$ 6,737,988**	**$ 7,464,775**	**$ 726,787**	**10.8%**	**$ 1,137,297**	**18.0%**
Accrued Sick Pay Benefits	$ 365,299	$ 357,321	$ 342,293	$ 311,378	$ 298,818	$ (12,560)	-4.0%	$ (66,481)	-18.2%
Accrued Vacation Pay Benefits	$ 69,853	$ 60,992	$ 59,044	$ 51,260	$ 49,520	$ (1,740)	-3.4%	$ (20,333)	-29.1%
Accrued Workers' Compensation Claims	$ 114,268	$ 129,280	$ 132,699	$ 114,891	$ 114,290	$ (601)	-0.5%	$ 22	0.0%
Accrued General and Automobile Claims	$ 5,808	$ 6,218	$ 8,212	$ 13,508	$ 21,085	$ 7,577	56.1%	$ 15,277	263.0%
Tort Liabilities and Other Claims	$ 3,278	$ 10,778	$ 21,578	$ 17,700	$ 19,216	$ 1,516	8.6%	$ 15,938	486.2%
Net Pension Obligation/Net Pension Liability**	$ 3,020,049	$ 3,190,380	$ 9,501,206	$ 10,023,263	$11,011,400	$ 988,137	9.9%	$ 7,991,351	264.6%
Net OPEB Obligation	$ 1,536,593	$ 1,680,247	$ 1,789,441	$ 1,895,045	$ 2,034,016	$ 138,971	7.3%	$ 497,423	32.4%
Subtotal Other Long-Term Liabilities	**$ 5,115,148**	**$ 5,435,216**	**$11,854,473**	**$ 12,427,045**	**$13,548,345**	**$ 1,121,300**	**9.0%**	**$ 8,433,197**	**164.9%**
Grand Total Long-Term Liabilities	**$ 11,442,626**	**$ 11,614,247**	**$ 18,125,392**	**$ 19,165,033**	**$21,013,120**	**$ 1,848,087**	**9.6%**	**$ 9,570,494**	**83.6%**

* Outstanding principal.

** Beginning in FY2015, Governments report 100% of their net pension liabilities rather than the net pension obligations.

Beginning in FY2013, CPS includes information about accumulated resources restricted to repaying the principal of outstanding general obligation debt. These amounts are subtracted from the total CPS GO debt in order to calculate a net total primary amount. For years prior to FY2013, total outstanding GO debt per capita is total debt divided by population. In FY2013 and succeeding years, the per capita ratio is the net total GO debt divided by population. See the FY2014 CPS Comprehensive Annual Financial Report, p. 138.

Source: CPS Comprehensive Annual Financial Reports, Notes 8, 9, 11 and 12, FY2013-FY2017.

CPS Long-Term Debt

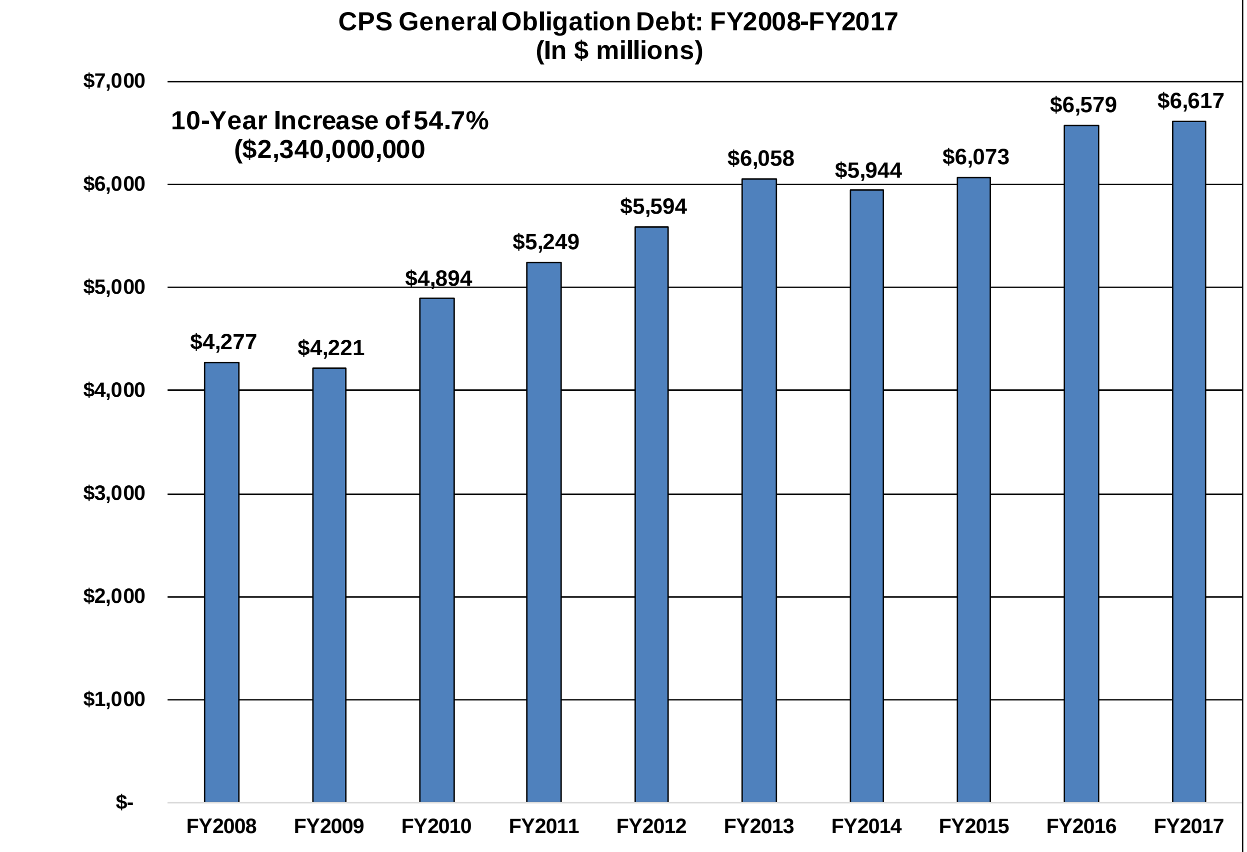
Increases in government-issued general obligation debt bear watching as they are a potential sign of escalating financial risk. The concern is that unless a government secures additional revenues or reduces spending at the same time it that increases its debt burden, it may have difficulty making principal and interest payments at some point in the future.

The improved financial position of CPS since the approval of additional State of Illinois funding through the new evidence-based state aid formula as well as pension relief has enabled the district to benefit from reduced interest costs for its debt issuances. For example, on February 3, 2016, CPS sold $725 million in 28-year tax-exempt long-term debt. The bond yields were priced at 8.5%, a very high rate reflecting the District's non-investment grade credit ratings.[167] In sharp

[167] Heather Gillers. "CPS borrows at steep interest rate," *Chicago Tribune*, February 4, 2016.

contrast, $562.3 million in unlimited tax general obligation refunding bonds issued in May 2018 had 5.0% interest rates.[168]

CPS long-term tax supported debt increased by 54.7% between FY2008 and FY2017, rising from $4.3 billion to $6.6 billion. This large increase is a cause for concern because the District also faces serious and continuing challenges in meeting its rising expenditures in areas such as personnel and retirement costs.

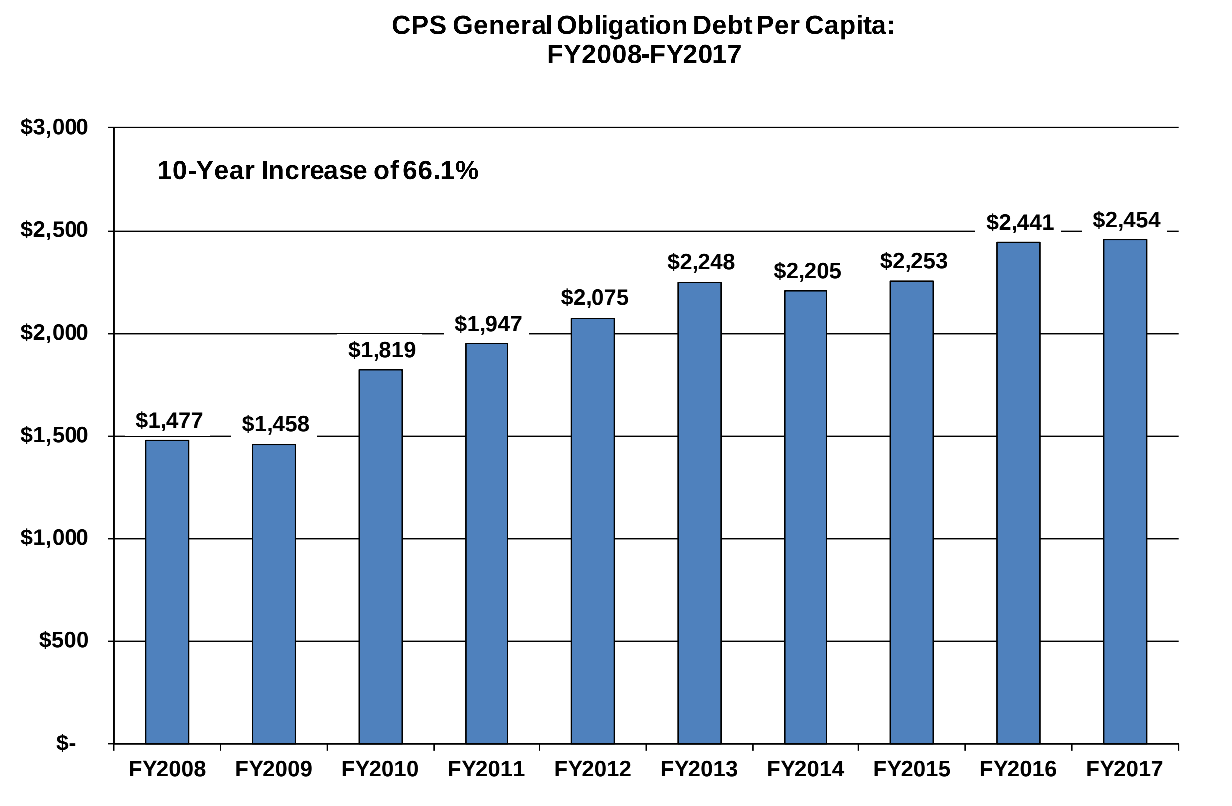


CPS FY2017 Comprehensive Annual Financial Report, p. 62 and 156.

[168] Board of Education of the City of Chicago Official Statement for $562,250,000 unlimited tax general obligation refunding bonds, May 25, 2018.

A commonly used measure of the debt burden on citizens is general obligation debt per capita. This indicator divides CPS general obligation debt by the population of the jurisdiction. Increases in the ratio bear watching as a potential sign of increasing financial risk in much the same manner as increases in total debt outstanding figures do.

Overall, CPS general obligation debt per capita increased by 66.1% between FY2008 and FY2017, rising from $1,477 to $2,454. The increase reflects a significant increase in direct debt, but is not the same as the dollar percentage increase over time for general obligation debt because the City's population has **decreased** by 6.9% over the time period, falling from 2,896,016 to 2,695,598.[169] Between FY2013 and FY2014, CPS general obligation debt per capita declined slightly by 1.9% from $2,248 to $2,205. However, it rose to $2,253 in FY2015, to $2,441 in FY2016 and $2,454 in FY2017.[170]



Source: CPS FY2017 Comprehensive Annual Financial Report, pp.62 and 156-157.

169 CPS FY2017 Comprehensive Annual Financial Report, p. 157.

170 CPS FY2017 Comprehensive Annual Financial Report, pp. 156-157.

Debt Service Appropriations as a Percentage of Operating Appropriations

The ratio of debt service expenditures as a percentage of total Governmental Fund expenditures is frequently used by rating agencies to assess debt burden. The rating agencies consider a debt burden high if this ratio is between 15.0% and 20.0%.[171] Although the debt service ratio for CPS will increase significantly from 9.3% in FY2015 to 10.2% in FY2019, it is still below the 15% threshold. Between FY2015 and FY2019, the debt service ratio is expected to average 9.3%.

Chicago Public Schools Budgeted Debt Service Appropriations as of % of Operating Appropriations: FY2015-FY2019

	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Estimated	FY2019 Proposed	$ Change	% Change
Debt Service Appropriations	$ 533.5	$ 455.3	$ 531.0	$ 532.4	$ 611.9	$ 78.40	14.7%
Operating Appropriations	$ 5,756.3	$ 5,691.8	$ 5,411.0	$ 5,699.4	$ 5,984.2	$ 227.90	4.0%
Debt Service as a % of Total Appropriations	**9.3%**	**8.0%**	**9.8%**	**9.3%**	**10.2%**		

Sources: CPS Proposed FY2019 Budget, pp. 11 and 171 (for FY2018 and FY2019); CPS Proposed FY2017 Budget, pp. 12 and 168; CPS FY2016 Proposed Budget, pp. 9 and 161; and CPS FY2015 Proposed Budget at http://www.cps.edu/fy15budget/Pages/debtmanagement.aspx.

CPS General Obligation Bond Ratings

In 2015, 2016 and 2017 the Chicago Public Schools continued on a path of steadily falling credit ratings as the District struggled to finance its mounting debt and pension obligations and depleted its reserves. In 2018, the financial situation improved as the State of Illinois approved legislation providing new and substantial financial assistance.

As of July 2018, Standard & Poor's, Moody's Investors Services and Fitch Ratings rate CPS debt at B, B2 and BB- respectively. These ratings are below investment grade status. Kroll, however, rates CPS debt issuances as investment grade with ratings of BBB and BBB-.

In FY2017 two rating agencies gave CPS bonds backed by the District's new Capital Improvement Tax (CIT) separate, investment grade ratings. Fitch rated the CIT credit as A grade and Kroll gave them a BBB rating.[172] These ratings did not change in 2018.[173]

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[171] Standard & Poor's, *Public Finance Criteria 2007*, p. 64. See also Moody's, *General Obligation Bonds Issued by U.S. Local Governments*, October 2009, p. 18.
[172] Chicago Public Schools FY2018 Budget, p. 174.
[173] Chicago Public Schools FY2019 Proposed Budget, p. 170 and Chicago Public Schools. "Credit Ratings" at https://www.cps.edu/About_CPS/Financial_information/Pages/CreditRatings.aspx, modified March 9, 2018.

Chicago Public Schools General Obligation Bond Credit Ratings: 2006-July 2018											
Name of Agency	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017-18**
Kroll Bond Rating Agency										BBB+	BBB*	BBB***
											BBB- **	BBB- ****
Fitch Ratings	A+	A+	A+	A+	AA-	A+	A	A-	A-	BBB-	B+	BB-
Standard & Poor's	A+	AA-	AA-	AA-	AA-	AA-	A+	A+	A+	A-	BB	B
Moody's Investor Services	A2	A1	A1	A1	Aa2	Aa3	A2	A3	Baa1	Ba3	B3	B2

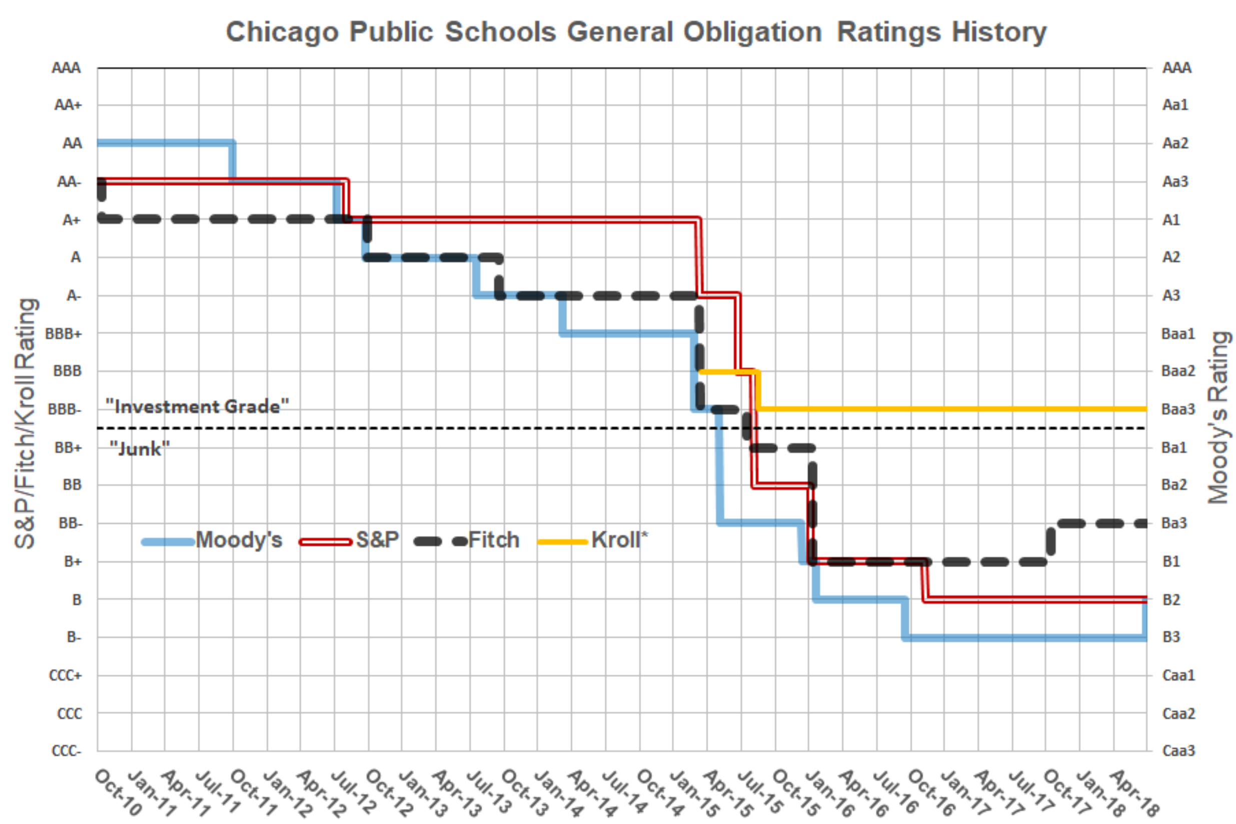
*Series 2016AB

** Series issued prior to Series 2016AB

***Series 2016AB, Series 2017BCDEFGH

****Series 2017A and series issued prior to Series 2016AB

Sources: Fran Spielman, "Bond ratings for Chicago and Chicago Public Schools a tad less junky,: Chicago Sun-Times, July 12, 2018; Chicago Public Schools FY2019 Proposed Budget, p. 170 and Chicago Public Schools. “Credit Ratings at https://www.cps.edu/About_CPS/Financial_information/Pages/CreditRatings.aspx, modified March 9, 2018; Chicago Public Schools FY2018 Proposed Budget, p. 174; Chicago Public Schools. “Credit Ratings at http://www.cps.edu/About_CPS/Financial_information/Pages/CreditRatings.aspx. Modified February 1, 2016; Juan Perez Jr. "Moody's downgrades Chicago Public schools further into junk status," Chicago Tribune, September 27, 2016.



*Kroll has assigned the Series 2016AB, 2017BCDEFGH and 2018AB a BBB rating. All other outstanding Alternate Revenue GO Bonds carry a BBB- rating.
Source: Moody's Investors Service, www.moodys.com; S&P Global Ratings, www.standardandpoors.com; Fitch Ratings, www.fitchratings.com; Kroll Bond Rating Agency, krollbondratings.com

2018 Credit Upgrades

Standard and Poor's, Moody's and Kroll's all adjusted their outlooks on CPS debt in spring 2018 from negative to stable as a result of the approval of the State's new school funding and the approval of a new dedicated pension levy.[174] In mid-July 2018 Moody's Investors services upgraded Chicago Public Schools debt from B3 to B2 because of the approval of the State's new school funding formula and the approval of a new dedicated pension levy. These actions have substantially improved the District's fiscal condition.[175]

2017 Credit Upgrades

Fitch Ratings upgraded Chicago Public Schools' credit rating from B+ to BB- in October 2017 and changed the outlook from negative to stable. The reason for the upgrade was that the State of Illinois' new school funding formula would improve the amount and timing of state aid and that the new funds would help stabilize the District's revenue stream.[176]

2017 Credit Issues

In July 2017 Moody's Investors Services warned CPS that its general obligation rating was under review for further downgrades from its B3 rating. This action was prompted at that time by concern over the State of Illinois's failure to provide timely operating aid to the district.[177]

2016 Downgrades

Standard & Poor's lowered the credit rating for CPS general obligation debt to B from B+ on November 9, 2016. The reason given was the poor liquidity status of CPS combined with its heavy reliance on cash-flow borrowing and increased expenditures from the District's new labor contract.[178]

On September 26, 2016, Moody's Investors Services downgraded CPS credit to B3 from B2 because of the District's increasingly precarious liquidity position and its need for cash-flow borrowing to pay for operations. Moody's noted that the District's structural deficit was getting worse and that its budget relied on unrealistic assumptions including financial assistance from the cash strapped State of Illinois.[179]

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[174] Juan Perez, Jr. "Wall Street offers slightly brighter outlook on CPS finances," *Chicago Tribune*, March 21, 2018 at http://www.chicagotribune.com/news/ct-met-chicago-school-board-roundup-20180321-story.html.
[175] Fran Spielman, "Bond ratings for Chicago and Chicago Public Schools a tad less junky," *Chicago Sun-Times*, July 12, 2018.
[176] Fran Spielman, "Wall Street agency upgrades CPS bond rating – for a change," *Chicago Sun-Times*, October 27, 2017.
[177] Yvette Shields, "Moody's places Chicago Board of Education, IL's B3 GO rating on review for downgrade." *The Bond Buyer*, July 6, 2017.
[178] Andy Grimm, "Standard & Poor's drops Chicago Public Schools' credit rating," *Chicago Sun-Times*, November 9, 2016.
[179] *Reuters*, "Update 2 – Moody's drops Chicago schools' credit rating deeper into junk," September 26, 2016 at https://www.reuters.com/article/chicago-education-ratings-idusl2n1c222h.

Moody's downgraded CPS credit on January 29, 2016 from B1 to B2 because of the District's continuing severe liquidity situation, its need to access the credit markets to fund ongoing operations and its structurally unbalanced budget.[180]

On January 19, 2016 Fitch Ratings downgraded Chicago Public Schools' approximately $6.1 billion of outstanding unlimited tax general obligation debt from BB+ to B+ with a negative rating outlook. The rating agency cited the District's FY2016 budget, which had a $480.0 million deficit, and its enormous unfunded pension liabilities as the reason for the downgrade.[181]

On January 15, 2016 Standard and Poor's downgraded CPS debt by two notches, from BB to B+ status. The rating agency cited a number of factors as the reason for the downgrade, including cash-flow concerns, a FY2016 budget built on an assumption of state assurance and union concessions and the District's limited ability to raise new revenues.[182]

2015 Downgrades

Moody's Investors Services downgraded CPS credit from Ba3 to B1 on December 21, 2015. The rating agency cited the District's precarious liquidity situation which has resulted in large scale cash-flow borrowing and the structurally unbalanced CPS budget.[183]

On August 27, 2015 Kroll Bond Rating Agency downgraded the credit rating of CPS general obligation bonds from BBB+ to BBB- and revised the outlook to negative. The decision was based on the District's adoption of a structurally unbalanced FY2016 budget, reliance on non-recurring revenue, its weak liquidity position and increased dependence on external cash-flow borrowing for operations.[184]

In August 2015, Standard & Poor's (S&P) downgraded CPS credit to BB from a BBB rating with a negative outlook. S&P cited the District's structural budget deficit, its decision to rely on $480.0 million in uncommitted state aid in its budget and its plan to borrow $200.0 million in order to push off debt payments coming due.[185]

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[180] Moody's Investors Services, "Rating Update: Moody's downgrades Chicago Board of Education, IL's GO to B2; outlook negative," January 29, 2016.

[181] Fitch Ratings, "Fitch Downgrades Chicago Board of Ed (IL) ULTGOs to 'B+'; Outlook Negative," January 19, 2016.

[182] Juan Perez, Jr., *Chicago Tribune*, "CPS gets harsh notice on debt: Standard & Poor's further downgrades district's rating," January 16, 2016.

[183] Moody's Investors Services, Moody's downgrades Chicago Board of Education, IL's GO to B1; rating under review for further downgrade," December 2015.

[184] Kroll Bond Rating Agency, "Kroll Bond Rating Agency Downgrades Rating on the Board of Education of the City of Chicago's General Obligation Bonds," August 27, 2015 at https://www.krollbondratings.com/announcements/1598.

[185] Standard & Poor's, "Chicago Board of Education GO Rating Lowered To 'BB' From 'BBB' On Structural Imbalance And Low Liquidity," August 14, 2015.

In July 2015, Fitch downgraded the Chicago Public Schools' credit rating to BB+ from BBB- with a negative outlook. Fitch cited the District's structural budget gap, lack of reserves, enormous pension liabilities, high debt levels and a record of contentious negotiations with organized labor as the reasons for the downgrade. Fitch noted that CPS has limited options for improving the situation.[186]

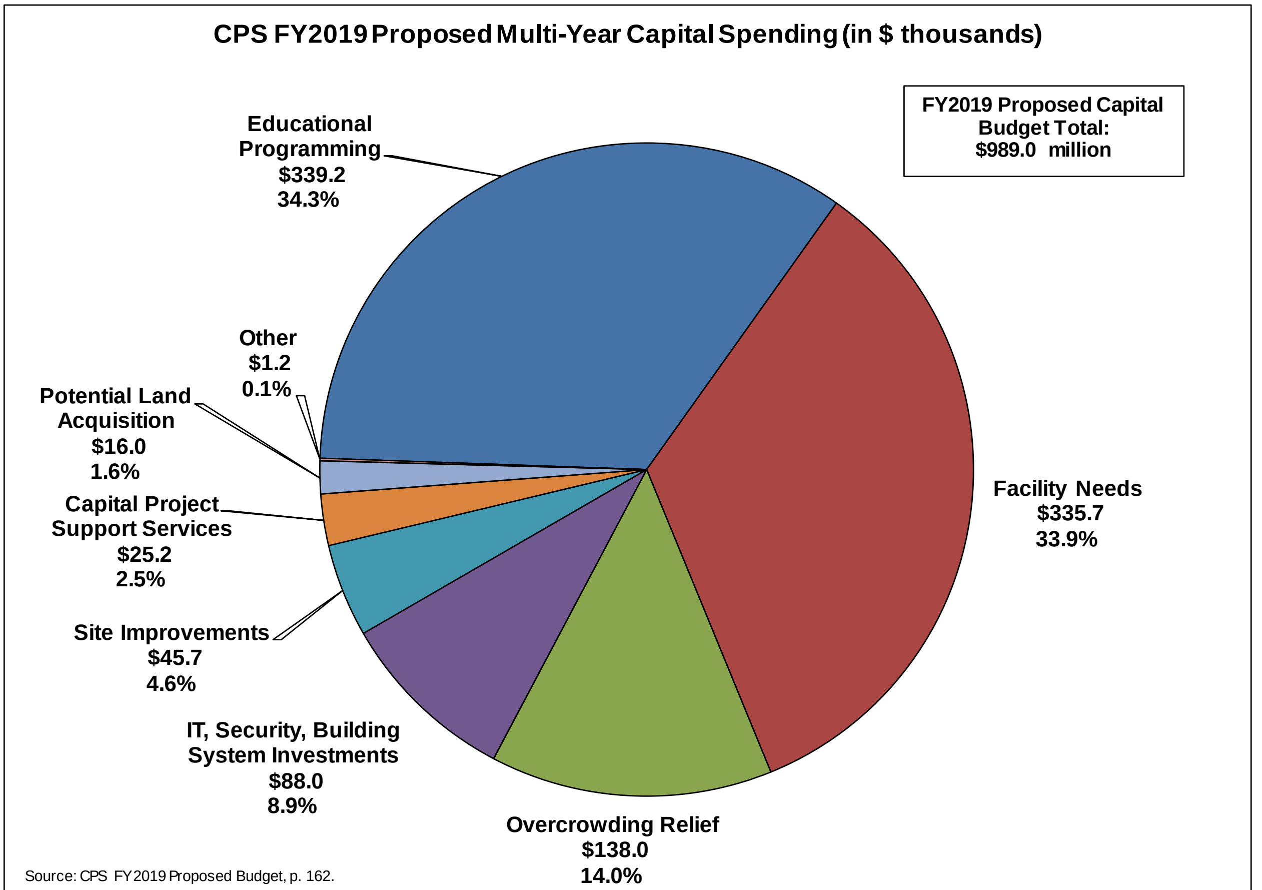
In May 2015 Moody's dropped CPS' rating three notches to Ba3 from Baa3, with a continuing negative outlook.[187]

In March 2015 Fitch downgraded CPS' credit rating three notches to BBB- with a negative outlook. Moody's cut its rating two notches to Baa3, one level above non-investment grade status, and Standard & Poor's cut it two notches to A-.[188] The downgrades triggered penalties under the terms of the District's debt swap agreements with financial institutions of well over $200 million.[189]

[186] Fitch Ratings, "Fitch Downgrades Chicago Board of Ed (IL) ULTGOs to BBB+; Negative Watch," July 7, 2015.
[187] Lauren Fitzpatrick and Tina Sfondeles, "Chicago public schools and park district's debt downgraded to junk status," *Chicago Sun-Times*, May 13, 2015.
[188] *Reuters*, "Update 2-Fitch Downgrades Chicago Board of Education rating to BBB-," March 20, 2015.
[189] Dan Mihalopoulos and Lauren Fitzpatrick, "CPS facing $200 million-plus penalties as bond ratings plunge," *Chicago Sun-Times*, March 20, 2015.

CAPITAL SPENDING

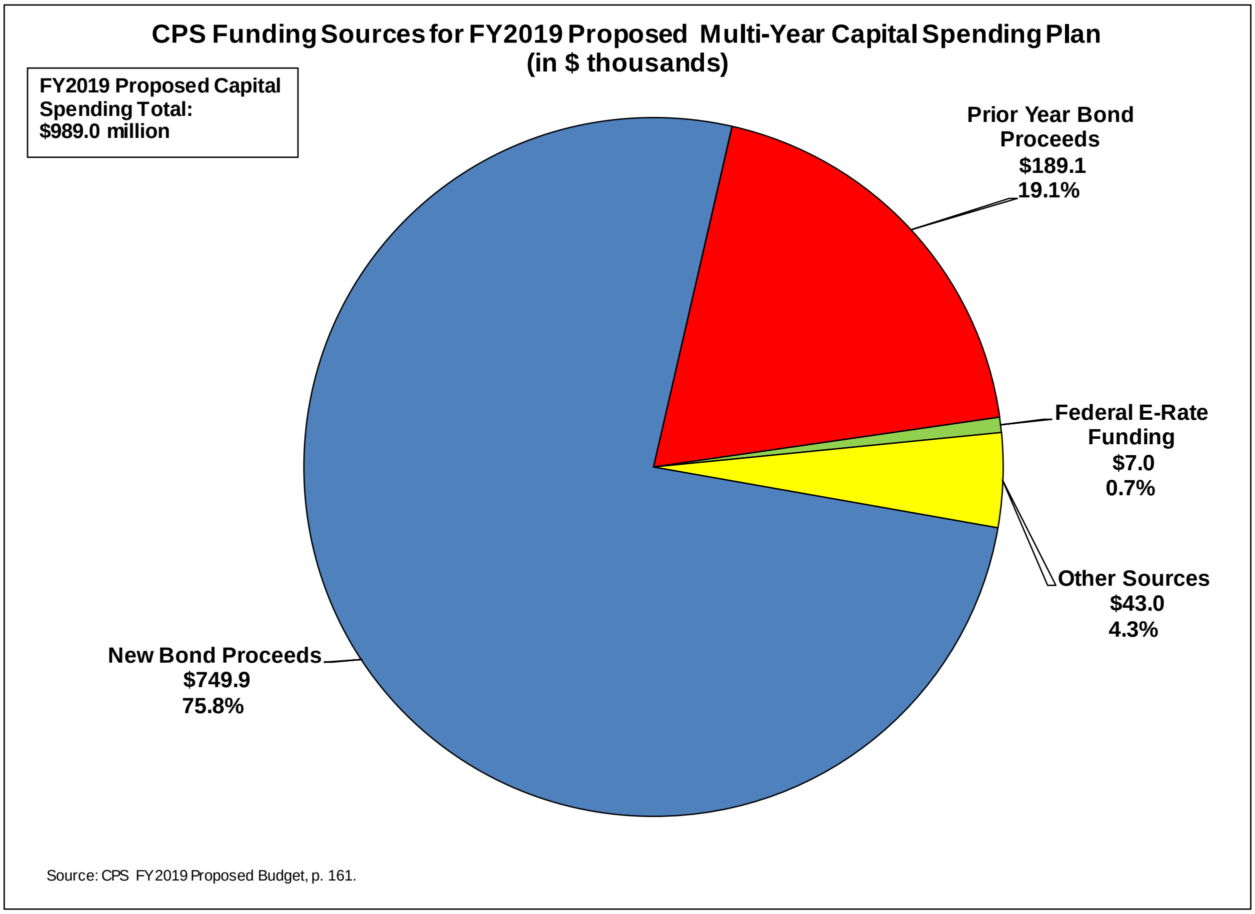
In its FY2019 budget book, CPS proposes spending $989.0 million over time for capital projects.[190] The capital budget includes funding for projects that will be built over a period of several years, unlike the operating budget, which includes spending for the upcoming fiscal year. The largest single amount in the proposed multi-year budget plan, or 34.3% of the total, will be $339.2 million for infrastructure improvements that support educational programs, including funds for building renovations, lab upgrades, pre-K centers, playgrounds and two new high schools. Approximately 33.9%, or $335.7 million, will be spent on facility needs, including repairs to roofs, boilers, mechanical systems and chimneys. Overcrowding relief will consume 14.9%, or $138.0 million, of the new capital plan. Smaller amounts will be used for information technology and security services, land acquisition, capital project support services, site improvements as well as funding to support externally funded projects (i.e., "other" projects).[191]



Source: CPS FY2019 Proposed Budget, p. 162.

[190] Chicago Public Schools FY2019 Proposed Budget, pp. 162.
[191] Chicago Public Schools FY2019 Proposed Budget, pp. 162-164.

The FY2019 capital spending plan will be funded over time primarily with debt proceeds. About $749.9 million, or 75.8% of all resources used, will be financed by new debt issuances. About 19.1%, or $189.1 million, will be financed with prior year bond proceeds. Finally 4.3%, or $43.0 million, will be derived from other unidentified sources and 0.7% will come from federal E-Rate funds.



Capital Project Revenues and Spending: FY2015-FY2019

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

The exhibit that follows shows capital revenues and expenses (outlays) to be incurred in FY2019 regardless of the year in which the project was appropriated. The fund balance amount shown is the difference between expected FY2019 capital expenses versus revenues; the amount unspent in one fiscal year carries forward into the next fiscal year.[192]

[192] CPS FY2019 Proposed Budget, p. 165.

Here are some of the significant two-year changes between the FY2018 estimated and the FY2019 proposed budget:

- Total capital revenues will increase by $3.9 million, or 7.2%, from $54.4 million to $58.3 million;
- State of Illinois revenues are expected to increase from $13.3 million to $15.3 million. Of the $15.3 million amount, $13.3 million will be derived from gaming revenue for new construction projects, $0.8 million will be from Illinois Green Infrastructure Grants, $0.3 million will be funded by state environmental fines and $1.0 million will derive from other State of Illinois grants.[193]
- Local revenues will increase slightly from $34.5 million in FY2018 to $36.4 million in FY2019. Approximately $18.0 million of the FY2018 amount will be from TIF-related projects and nearly $18.4 million will derive from other local funding sources;[194] and
- Federal revenues are expected to remain flat at $6.6 million. The federal revenue total is expected to be derived from Federal E-Rate funding for upgrades to the District's IT infrastructure.[195]

On the expenditure side, capital outlays will rise sharply from $218.6 million in FY2018 to $521.6 million in FY2019; this is an increase of 138.6%. The $521.6 million figure represents amounts originally budgeted in prior years that will be spent in FY2019 as well as the estimated $197.7 million to be budgeted and spent in FY2019.

In the same period, bond issuance will decrease slightly by 1.7%, falling from $318.3 million to $313.0 million. The sale of capital assets will decrease from $9.6 million to $3.0 million. In the same period, the District's end of year fund balance is expected to fall by 14.9%, from $986.0 million to $839.0 million.

Over the five-year period between FY2015 and FY2019, total capital revenues are expected to decrease by 69.9% or $135.7 million. Capital outlays will increase by 35.7% or $137.1 million, rising from $384.5 million to $521.6 million. The end of year fund balance will rise from a

[193] CPS FY2019 Proposed Budget, p. 165.
[194] CPS FY2019 Proposed Budget, p. 165.
[195] CPS FY2019 Proposed Budget, p. 165.

negative balance of $131.9 million to $839.0 million, a 736.1% increase.

CPS Capital Revenues and Outlays to be Incurred in FY2019 (in $ millions)	FY2015 Actual Budget	FY2016 Actual Budget	FY2017 Actual Budget	FY2018 Estimated Budget	FY2019 Proposed Budget	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Beginning of Year Fund Balance	$ (92.0)	$ (131.0)	$ 138.9	$ 822.2	$ 986.0	$ 163.8	19.9%	$ 1,078.0	-1171.7%
Revenues									
Local Revenue	$ 155.5	$ 42.6	$ 75.8	$ 34.5	$ 36.4	$ 1.9	5.5%	$ (119.1)	-76.6%
State Revenue	$ 32.1	$ 39.4	$ 30.1	$ 13.3	$ 15.3	$ 2.0	15.0%	$ (16.8)	-
Federal Revenue	$ 6.4	$ 7.7	$ 6.7	$ 6.6	$ 6.6	$ -	---	$ 0.2	3.1%
Other	$ -	$ 62.9	$ -	$ -	$ -	$ -	-	$ -	---
Total Revenue	**$ 194.0**	**$ 152.6**	**$ 112.6**	**$ 54.4**	**$ 58.3**	**$ 3.9**	**7.2%**	**$ (135.7)**	**-69.9%**
Expenditures									
Capital Outlay	$ 384.5	$ 293.0	$ 204.8	$ 218.6	$ 521.6	$ 303.0	138.6%	$ 137.1	35.7%
Bond Issuance	$ 148.5	$ 363.9	$ 775.5	$ 318.3	$ 313.0	$ (5.3)	-1.7%	$ 164.5	110.8%
Sales of Capital Assets	$ -	$ 15.0	$ -	$ 9.6	$ 3.0	$ (6.6)	-68.8%	$ 3.0	---
End of Year Fund Balance	**$ (131.9)**	**$ 107.2**	**$ 822.2**	**$ 986.0**	**$ 839.0**	**$ (147.0)**	**-14.9%**	**$ 970.9**	**736.1%**

Sources: CPS FY2016 Proposed Budget and CPS FY2019 Proposed Budget, p. 165.

There is usually a difference between the amount of funds appropriated for capital projects each year and the amount actually spent in that year. The next exhibit shows the amount of capital funds spent each year that the funds were appropriated; this includes funds appropriated in prior years. In FY2019 alone, of the $989.0 million to be appropriated for capital projects, CPS intends to actually spend $197.7 million. Approximately $791.3 million of the FY2019 capital appropriation will be spent in subsequent time periods. A total of $1.48 billion will be spent in future years that was originally appropriated in budget years FY2015 through FY2019.

CPS Capital Spending Year by Year FY2015-FY2019 ($Millions)	Total Appropriations	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Estimated	FY2019 Budgeted	Remaining Appropriation
Prior Year/Other Expenditures		$ 231.9	$ 84.9	$ 32.8	$ 4.7	$ -	
FY2015 Capital Budget	$ 509.9	$ 152.6	$ 119.4	$ 42.0	$ 4.3	$ 2.0	$ 189.6
FY2016 Capital Budget	$ 160.3	$ -	$ 66.8	$ 56.5	$ 16.7	$ 10.0	$ 10.3
FY2017 Capital Budget	$ 937.8	$ -	$ -	$ 73.5	$ 168.2	$ 241.9	$ 454.2
FY2018 Capital Budget	$ 136.2	$ -	$ -	$ -	$ 24.7	$ 70.0	$ 41.5
FY2019 Capital Budget	$ 989.0	$ -	$ -	$ -	$ -	$ 197.7	$ 791.3
Total Spending Year by Year		**$ 384.5**	**$ 271.1**	**$ 204.8**	**$ 218.6**	**$ 521.6**	**$ 1,486.9**

Source: CPS FY2019 Proposed Budget, p. 166.

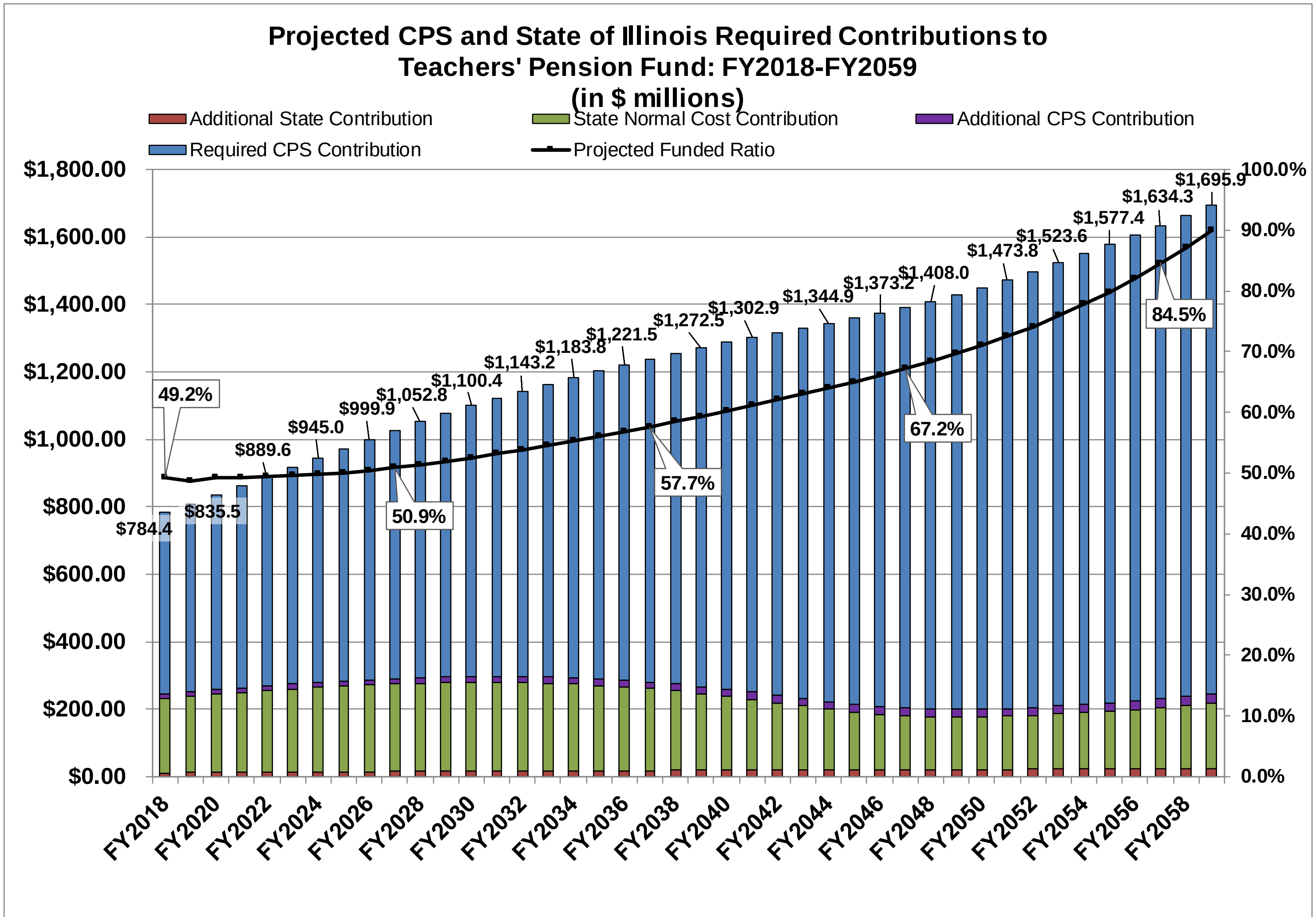
CPS FY2018-FY2022 Capital Improvement Plan

Public Act 97-0474 requires CPS annually to prepare and publish a five-year capital improvement plan (CIP). This requirement was amended by P.A. 97-1133 to also require development of a 10-year Educational Facilities Master Plan. That plan is supposed to be used to guide completion of the FY2018 capital budget and five-year capital improvement plan. The plan's goals include: 1) using educational goals to guide the direction of capital programming; 2) maintaining health and safety of students and staff; 3) supporting a full school day; 4) relieving overcrowding; and 5) identifying partners for external funding support. The latest update to the Master Plan is a draft dated May 2018.[196] CPS has not yet published a FY2019-FY2023 capital improvement plan.

[196] Chicago Public Schools. Preliminary Draft, Educational Facilities Master Plan, May 2018 at https://schoolreports.cps.edu/EFMP/EducationalFacilitiesMasterPlan_2018.pdf.

APPENDIX

The following chart shows projected CPS and State of Illinois payments to the Chicago Teachers' Pension Fund through fiscal year 2059, based on statutory funding provisions.



Source: Public School Teachers' Pension and Retirement Fund of Chicago, *Actuarial Valuation as of June 30, 2017,* p. 23.