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EMBARGOED UNTIL 12:01 A.M., AUGUST 23, 2010

For more information contact Laurence Msall, 312-201-9044

CIVIC FEDERATION: CHICAGO PUBLIC SCHOOLS BUDGET IS A SHORT-TERM SOLUTION TO A LONG-TERM CRISIS *Spending Plan Exposes District to Greater Financial Risk in the Future*

The Civic Federation supports the FY2011 proposed Chicago Public Schools budget of \$6.5 billion as an adequate plan to close a large deficit and ensure continued access to education for students across Chicago this year. However, the Federation is **very concerned** that the spending plan guarantees future fiscal distress by draining the CPS reserve fund and using multiple one-time revenues. The full 74-page analysis of the budget is available at www.civiced.org.

“Chicago Public Schools had few options available to close a budget deficit that at one point totaled nearly one billion dollars,” said Laurence Msall, president of the Civic Federation. “The Civic Federation supports the District’s efforts to implement cost saving strategies, streamline administrative functions, and continue its focus on performance management. These initiatives have helped CPS to cut its spending by 5.9% below last year’s proposed budget.” The Federation also supports the administration’s decision to hold the property tax levy flat, given that a maximum tax increase under the tax cap law would only net the District an additional \$2 million.

Despite its support for the budget, the Civic Federation’s analysis found that three elements of the FY2011 budget proposal each expose CPS to greater financial risk in future years. In combination, they guarantee that that difficult times lie ahead for the District.

- 1) The District’s proposed draw-down of its budget stabilization fund to \$0 by transferring \$190 million to the General Fund is a risky move that could threaten the daily operation of schools. The Civic Federation is moreover concerned that the options the District has outlined to replenish the fund are not reliable. Two of the options would require action from outside governmental bodies that are also cash-strapped—the State of Illinois and City of Chicago. It is not sound policy to build a plan for replenishing a reserve fund on possibilities, not certainties. The Federation encourages CPS to develop a more reliable plan to restore its fund balance.
- 2) Chicago Public Schools acknowledges that it has an ongoing structural deficit due to annual expenditures exceeding available revenues. The District is furthermore relying on several one-time sources of revenue to balance its FY2011 budget, including its reserve funds and federal stimulus funds. One-time solutions exacerbate budget gaps by creating “funding cliffs” in future budgets when the revenues will not be available. Although the District has taken steps in the right direction by cutting expenditures, it must continue to right-size its operations to conform to its static revenues.
- 3) In April the State of Illinois granted CPS a three-year partial pension funding holiday of \$400 million per year. If not for this legislation, the District would have been required to contribute \$587 million to the Chicago Teachers Pension Fund in FY2011. Although this action will save the District more than \$1.2 billion over the next three years, it will also exacerbate the underfunding of the pension system and create a budget gap of at least \$400 million in FY2014 when the regular funding schedule resumes. The Civic Federation believes CPS cannot afford its existing pension system and must work with teachers and the General Assembly to implement significant changes to reduce the burden on the District.

The Civic Federation is an independent, non-partisan government research organization founded in 1894. The Federation's membership includes business and professional leaders from a wide range of Chicago area corporations, professional service firms and institutions. For more information, please visit the Federation's website at www.civiced.org.

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