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CPS MAKES DIFFICULT CHOICES TO BALANCE FY2012 BUDGET, MUST PLAN FOR ENORMOUS FUTURE BUDGET GAPS

The Civic Federation announced its support for the Chicago Public Schools proposed FY2012 budget in an 82-page analysis released today at civicfed.org. Although supporting the CPS's proposed \$5.9 billion spending plan for the coming school year, the Federation expresses strong concern about the District's longer term fiscal health. CPS must begin work immediately on a long-term financial plan that will guide structural changes to spending and pensions in order to avoid fiscal calamity in the very near future.

The proposed CPS budget maintains class size while making significant expenditure cuts and implementing reasonable increases in revenue. The expenditure cuts of \$220.7 million include reduced administrative costs, the elimination of unnecessary programs and more efficient operations in areas such as school bus routes. CPS has also taken the painful but necessary step of canceling a 4% cost-of-living increase to teacher salaries next year, saving \$100 million.

The District also plans to raise \$153.2 million in additional revenue by increasing its property tax levy to the maximum amount allowed under law. The revenue increase comes after three years of relative restraint in which CPS either held its levy flat or increased it by less than the maximum amount. The Federation recognizes that any property tax increase will be difficult for residents and businesses that are still experiencing economic uncertainty. However, the District's \$320 million in cuts and drawdown of \$241 million in budget reserves leaves the 2.1% property tax increase as the most reasonable way to maintain class sizes. "While the Civic Federation supports this year's property tax increase, we also caution CPS management that they must continue to emphasize cutting costs if they are going to head off an enormous fiscal crisis in just two years," said Laurence Msall, president of the Civic Federation.

The Federation's analysis identified several severe budget strains that will turn Chicago Public Schools' current \$288.5 million surplus into a predicted \$861.7 million deficit by FY2014. Primary among them is the District's growing pension crisis. The State of Illinois' elimination of its contribution to the Chicago Teachers Pension Fund and an ill-advised three-year CPS partial pension funding holiday are playing havoc with the financial health of the fund. Teachers' pensions were 100% funded in FY2000 on a market basis, but fell to just 55% funded by FY2010. The pension holiday will put more pressure on an already difficult budget situation in FY2014, when CPS's pension contribution will increase by \$451.8 million or more than 200% over the previous year's contribution.

"The District's growing financial storm offers frightening evidence that CPS cannot afford its existing pension system," said Msall. District officials must articulate a plan to address this pending fiscal crisis immediately. "If nothing is done, the pain and controversy of the FY2012 budget will seem mild in comparison to the massive cuts in personnel and services that will be necessary to balance the budget in FY2014." The Civic Federation's pension reform recommendations include reducing benefits that have not yet been earned by current employees and increasing teacher contributions to support their current benefit levels.

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.civicfed.org.

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