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CHICAGO PUBLIC SCHOOLS' FY2015 BUDGET: ANOTHER SHORT-SIGHTED AND GIMMICK-BASED STOPGAP FOR DISTRICT

(CHICAGO) In an analysis released today, the Civic Federation announced that it cannot support the Chicago Public Schools' (CPS) short-sighted FY2015 budget because it does nothing to address the District's grave fiscal crisis. The proposed \$6.8 billion budget is balanced only by an accounting maneuver that allows the District to book more than 12 months of revenue into a single fiscal year. The Civic Federation's full 83-page analysis is available at www.civicfed.org.

"This is yet another misguided budget that fails to address the alarmingly clear message that the District's current cost structure is unaffordable," said Sarah Wetmore, vice president of the Civic Federation. CPS blames the State of Illinois for its budgetary crisis, citing lack of reforms for its pension fund and inadequate state funding. While there is no doubt that the State has played a significant role in creating this fiscal crisis, the District bears ultimate responsibility because it has a duty to plan for the long-term impacts of the budget decisions it makes annually. Despite declining revenues, the FY2015 budget will broaden the District's programming and real estate footprint with over \$400 million in increased spending.

The FY2015 budget relies on a near complete drawdown of the District's unrestricted reserve funds to close a projected deficit of \$876.3 million. In FY2013 and FY2014, Chicago Public Schools narrowly avoided completely exhausting its reserves by taking advantage of lower than expected expenditures and early payments from the State. The District plans to artificially inflate the reserves available for the FY2015 budget by extending its revenue recognition period by 30 days. This complicated accounting gimmick, involving restating prior fiscal years, is expected to generate over \$600 million in FY2014 unrestricted fund balance that can then be used to close the gaping FY2015 deficit. However, this one-time and non-recurring revenue will leave a gap in future budgets, contributing to deficits of over \$1.0 billion in FY2016 and FY2017.

"This prolonged fiscal crisis demands expansive and innovative reforms that right-size the District's spending and funding sources," said Wetmore. Among other reforms, the Civic Federation urges the District to consider consolidation of its Chicago Teachers' Pension Fund (CTPF) with the State Teachers' Retirement System (TRS). Both funds are similarly under-funded: the CTPF's funded ratio fell to 51.0% in FY2013 while the TRS funded ratio was 42.5%. TRS is funded primarily by State taxpayers, including those in the City of Chicago, while the CTPF is mainly funded by Chicago taxpayers. Consolidation would mean that the State of Illinois would be responsible for the CTPF's unfunded liability, as is already the case for downstate and suburban teachers' pensions. Therefore, even if the annual normal cost of employee pension benefits was then shifted from the State to employers, as has been proposed by the Illinois General Assembly, the District's finances would still improve.

The Federation's full report also examines key events and factors leading to the District's current financial crisis. These include a series of short-sighted decisions by CPS, declining federal and state revenue, pension fund investment losses and State-sanctioned pension payment holidays.

The Civic Federation is an independent, non-partisan government research organization that promotes efficient delivery of public services and sustainable tax policies in the Chicago region and State of Illinois. For more information, please visit the Federation's website at www.civicfed.org.



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