The Civic Federation

Research * Information * Action * Est. 1894

# CITY COLLEGES OF CHICAGO
# FY2018 TENTATIVE BUDGET:
# *Analysis and Recommendations*

**August 3, 2017**

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

*The Civic Federation is an independent, non-partisan government research organization working to maximize the quality and cost-effectiveness of government services in the Chicago region and State of Illinois.*

# Table of Contents

## EXECUTIVE SUMMARY

The Civic Federation **supports** the City Colleges of Chicago FY2018 Tentative Annual Operating Budget totaling $442.6 million because it is a prudent plan to begin to stabilize the District's finances following the unprecedented two-year State of Illinois budget impasse that severely impacted institutions of higher learning.

The District's FY2018 total budget will decline by $81.1 million, or 15.5%, from the FY2017 adopted budget. This is primarily due to a decline of $57 million in funding tied to student financial aid because of a projected decline in enrollment and more conservative budget estimates. Unrestricted operating funds, the portion of the budget over which the District exercises maximum control, will decline by $11.5 million, or 4.0%, in FY2018. The tentative FY2018 budget will keep the property tax levy relatively flat and will not include an increase in the tuition rate for the third year in a row. This budget also includes judicious measures to reduce the District's real estate footprint and stabilize its fund balance reserves.

The State of Illinois operated without a full-year comprehensive balanced State budget for more than two years. The FY2018 budget for City Colleges is the first budget since FY2015 in which the District will receive a full-year of funding, albeit at 90% of the FY2015 level of funding. In FY2016, which started on July 1, 2015, City Colleges faced the financial challenge of receiving no State funding until April 2016. The District then only received a fraction of the State funding it expected through a stopgap funding measure for higher education institutions. In order for City Colleges to balance its FY2016 budget, it relied on short-term solutions, such as using its cash reserves, delaying capital expenses, not filling vacant positions and instituting a hiring freeze. In FY2017 the Illinois General Assembly passed and Governor Bruce Rauner signed a partial-year spending plan to fund higher education institutions that included approximately $22.5 million in funding for City Colleges.[1] In FY2017 the District did not increase its property tax levy or increase tuition rates to make up for the decline in State and local revenues. Instead the District again relied on the same short-term measures to balance its budget as well as eliminating its Resource Allocation Fund (RAF) and implementing other savings and efficiencies.

Although the District has developed a plan to stabilize its financial position by reducing expenses and rebuilding its reserves in FY2018, the damage caused by the two-year State budget impasse will require a sound multi-year plan to restore financial and operational health and future sustainability. Complicating the District's recovery is the fact that the tentative FY2018 budget relies on State funding that is 10% below the FY2015 level of funding and the fact that the District will need to incorporate new employees' Tier 3 pension normal costs, increased healthcare expenses and costs related to ongoing collective bargaining agreements into future budgets, adding additional strain on the District's finances.

The Civic Federation offers the following **key findings** on the City Colleges FY2018 tentative budget:

- City Colleges is projected to receive a full-year of State funding in FY2018. This is the first full-year of funding since FY2015. However, the FY2018 level of funding is approximately 10% less than FY2015 State funding levels;[2]
- Appropriations for all funds in FY2018 total $442.6 million. This is a 15.5%, or $81.1 million, decrease from FY2017 adopted appropriations of $523.7 million;
- Appropriations for the unrestricted operating funds budget will total $277.1 million. This is a decrease of 4.0%, or $11.5 million, below the FY2017 adopted operating fund budget of nearly

[1] Public Act 99-0524. Information provided by City Colleges of Chicago, Finance Department, July 1, 2016.
[2] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 1.

$288.6 million;[3]
- FY2018 gross property tax revenue will remain relatively flat at $125.3 million;
- Tuition and fee revenue is projected to decline by $16.8 million, or 15.0% below the FY2017 adopted budget;
- Between FY2017 and FY2018, appropriations for employees' salaries in the unrestricted operating funds will decrease by $17.8 million, or 9.5%, from nearly $188.0 million to $170.2 million;
- Between the FY2017 adopted budget and tentative FY2018 budget there will be a reduction of 650 full-time equivalent positions, or a 16.5% decrease in total FTEs; and
- Student enrollment decreased between FY2016 and FY2017 by 2,681 FTE students, or 7.1%, shrinking from 37,963 to 35,282 FTEs, and is projected to decline by 5.0% in FY2018.

The Civic Federation **supports** several elements of the FY2018 City Colleges tentative budget:
- Implementing prudent cost containment strategies to stabilize the financial position of the District;
- Developing a plan to rebuild the financial reserves of the District by selling the central office headquarters;
- Keeping the gross property tax levy relatively flat at $125.3 million;
- Keeping tuition rates flat for the third year in a row; and
- Continuing to implement *Reinvention* efforts that focus on student outcome gains.

The Civic Federation has the following **concerns** related to City Colleges' tentative FY2018 budget:
- The negative impact of the two-year State budget impasse caused the District to draw down its reserves, delay capital projects and contributed to lower student enrollment;
- The ongoing gridlock in Springfield may lead to reduced future State funding for institutions of higher learning in Illinois;
- Declining student enrollment may continue to impact the District's financial position and could potentially impact the regional economy; and
- Incorporating new employees' normal pension costs into future budgets may add additional strain on the District's finances.

The Civic Federation offers the following **recommendations** for City Colleges:
- Develop a tuition and fee policy and explore indexing tuition and fees;
- Improve the fund balance policy in the unrestricted funds that is approved by the City Colleges' Board of Trustees;
- Continue to advocate for the State of Illinois to change the community college equalization formula to more fairly fund City Colleges and other community colleges located in counties subject to the Property Tax Extension Limitation Law; and
- Institutionalize the long-term financial planning process and enhance opportunities for stakeholder input in financial planning decisions.

[3] Unrestricted operating fund budget includes the Education Fund, Operations & Maintenance Fund, Liability, Protection and Settlement Fund and Audit Fund.

## CIVIC FEDERATION POSITION

The Civic Federation **supports** the City Colleges of Chicago FY2018 Tentative Annual Operating Budget totaling $442.6 million because it is a prudent plan to begin to stabilize the District's finances following the unprecedented two-year State of Illinois budget impasse that severely impacted institutions of higher learning.

The District's FY2018 total budget will decline by $81.1 million, or 15.5%, from the FY2017 adopted budget. This is primarily due to a decline of $57 million in funding tied to student financial aid because of a projected decline in enrollment and more conservative budget estimates. Unrestricted operating funds, the portion of the budget over which the District exercises maximum control, will decline by $11.5 million, or 4.0%, in FY2018. The tentative FY2018 budget will keep the property tax levy relatively flat and will not include an increase in the tuition rate for the third year in a row. This budget also includes judicious measures to reduce the District's real estate footprint and stabilize its fund balance reserves.

The State of Illinois operated without a full-year comprehensive balanced State budget for more than two years. The FY2018 budget for City Colleges is the first budget since FY2015 in which the District will receive a full-year of funding, albeit at 90% of the FY2015 level of funding. In FY2016, which started on July 1, 2015, City Colleges faced the financial challenge of receiving no State funding until April 2016. The District then only received a fraction of the State funding it expected through a stopgap funding measure for higher education institutions. In order for City Colleges to balance its FY2016 budget, it relied on short-term solutions, such as using its cash reserves, delaying capital expenses, not filling vacant positions and instituting a hiring freeze. In FY2017 the Illinois General Assembly passed and Governor Bruce Rauner signed a partial-year spending plan to fund higher education institutions that included approximately $22.5 million in funding for City Colleges.[4] In FY2017 the District did not increase its property tax levy or increase tuition rates to make up for the decline in State and local revenues. Instead the District again relied on the same short-term measures to balance its budget as well as eliminating its Resource Allocation Fund (RAF) and implementing other savings and efficiencies.

Although the District has developed a plan to stabilize its financial position by reducing expenses and rebuilding its reserves in FY2018, the damage caused by the two-year State budget impasse will require a sound multi-year plan to restore financial and operational health and future sustainability. Complicating the District's recovery is the fact that the tentative FY2018 budget relies on State funding that is 10% below FY2015 level of funding and the fact that the District will need to incorporate new employees' Tier 3 pension normal costs, increased healthcare expenses and costs related to ongoing collective bargaining agreements into future budgets, adding additional strain on the District's finances.

### Issues the Civic Federation Supports

The following section details key issues that the Civic Federation supports in the City Colleges FY2018 Tentative Annual Operating Budget.

[4] Public Act 99-0524. Information provided by City Colleges of Chicago, Finance Department, July 1, 2016.

### *Implementing Cost Containment Strategies*

In recent years City Colleges has implemented many sound financial practices, including developing the budget based on performance measures, using zero-based budgeting, utilizing financial forecasting and modeling with monthly accounting reviews and other best-practice budgetary tools. Because of these actions the District has been well positioned to manage its finances during the two-year State budget impasse. In order to offset a decline in State and local revenues due to State gridlock and declining enrollment, the District developed a contingency plan and implemented a number of austerity measures to balance its FY2016 and FY2017 budgets. These austerity measures include the use of reserve funds, implementing a hiring freeze, delaying certain capital improvements and eliminating its Resource Allocation Fund (RAF). While necessary, these actions and the state budget impasse together have had major negative consequences on the financial health of the District and notably its credit rating, which was downgraded an extraordinary four notches in April 2017 to BBB from A+ by Standard & Poor's and one notch to A+ from AA- in March 2017 by Fitch Ratings.

On July 6, 2017 the Illinois General Assembly ended the two-year State budget impasse when it narrowly overrode Governor Bruce Rauner's veto to pass a full-year State budget. While the new State budget authorized funding for the District's 2018 fiscal year, it will only be at 90% of the FY2015 level of funding, the last full year of State higher education funding. In addition, the State budget includes partial funding for the second half of FY2017 as well as the restoration of Monetary Award Program (MAP) grant funding. However, the two-year State budget impasse has taken a toll on the financial and operational health of the District. Its unrestricted fund balance ratio decreased from 48.2% in FY2014 to only 4.8% at the end of FY2016. The majority of this large decline was due to the District drawing down its reserves by $59.0 million to cover an operating loss driven by the State budget impasse.[5] In addition, the District's student enrollment has declined significantly in recent years due in part to reduced and delayed MAP grant funding and an improving economy.

In FY2018 the District's unrestricted operating funds, over which it has the most control, will decrease by $11.5 million, or 4.0%, to $277.1 million, from $288.6 million in its FY2017 adopted budget. The majority of the decline in the unrestricted funds is related to a reduction in salary appropriations as a result of layoffs.[6] The District's overall budget will decline by $81.1 million, or 15.5%, below the FY2017 adopted budget of $523.7 million.

In an effort to stabilize the District's finances and continue to improve upon the student gains made under *Reinvention*, the District has implemented a number of prudent measures to balance the FY2018 budget, stabilize its finances, rebuild its reserves and focus on student outcomes by implementing the following strategies and efficiencies:[7]

- Reducing its real estate footprint by selling its central office headquarters and other underutilized facilities;

[5] Information provided by City Colleges of Chicago Finance Department on May 30, 2017 and July 13, 2017.
[6] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 2.
[7] City Colleges of Chicago Budget Briefing, p. 5, July 13, 2017.

- Reducing senior leadership compensation 10% through elimination of 100% pension contributions and medical reimbursements;
- Laying off approximately 120 administrative employees;
- Reducing travel expenses by 25%;
- Reducing contractual services and materials and supplies by 19%; and
- Reducing part-time staff.[8]

The Civic Federation commends City Colleges for effectively managing its limited financial resources and working to stabilize its financial position.

### *Developing a Plan to Rebuild Reserves*

The fund balance ratio for City Colleges averaged 43.5% between FY2007 and FY2016, well above the 16.7% ratio recommended by the Government Finance Officers Association (GFOA) and the District's own policy guidelines. However, in the two most recent years of audited financial data, the unrestricted fund balance ratio has declined significantly. The fund balance ratio decreased from 48.2% in FY2014 to 26.8% in FY2015 due to the continuing construction of the new Malcolm X campus.[9] Between FY2015 and FY2016 the fund balance ratio saw another significant decline to a ratio of only 4.8%. The majority of this large decline was due to the District drawing down its reserves by $59.0 million to cover an operating loss at the District driven by the State budget impasse.[10]

A healthy fund balance for contingencies, such as unexpected revenue shortfalls, is particularly important at a time when the State of Illinois' finances are precarious and future State funding is uncertain.

The Civic Federation commends the District for its commitment to replenish its reserves by using proceeds from the sale of several of its buildings, including the central office located in downtown Chicago.[11] The District has not announced how much such a sale would bring into its coffers, but it has noted that selling the assets would have the additional benefits of reducing its overhead costs and future capital expenses.

### *Keeping the Property Tax Levy Relatively Flat*

City Colleges proposes to keep its gross property tax revenues relatively flat from the previous year at $125.3 million, after having reduced its levy in FY2010. The projected increase in local tax revenues is due to an increase in the City Colleges property tax levy to capture revenue from expiring TIF districts within the City of Chicago and new property.[12] This maneuver, which has been used by the City of Chicago and other local governments in recent years, allows the District to collect additional property tax revenue without enacting a general property tax increase. The levy on new property is not an increase for all taxpayers because the taxes will only increase for taxpayers with new or improved property. For the taxpayers in the expiring or terminated TIF

---

[8] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 2.
[9] City Colleges of Chicago, FY2015 CAFR, p. 3.
[10] Information provided by City Colleges of Chicago Finance Department on May 30, 2017 and July 13, 2017.
[11] See recommendation to improve fund balance policy on page 9 of this report.
[12] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 3.

districts, the levy is not a tax increase because they were previously paying the levy into the TIF district and will now pay it to City Colleges of Chicago instead. The Civic Federation commends the District for its continued fiscal discipline at a time of ongoing financial hardship for many Chicago property taxpayers and when the City of Chicago and Chicago Public Schools, which access the same tax base, have increased their levies significantly in recent years.

### *Keeping Tuition Rates Flat*

As part of the FY2016 budget, the District altered its tuition and fee structure from a per-credit-hour-based tuition and fee structure to a tier-based tuition and fee structure that combined the tuition and fees into one flat rate for students depending on their enrollment status, effective in the fall 2015 semester. Prior to the change in tuition structure adopted as part of the FY2016 budget, the District had not increased tuition rates for the previous four years despite rising costs and reduced funding from other revenue sources. In FY2018 the District proposes to hold tuition rates flat for the third consecutive year.

The Federation commends the District for holding tuition rates flat for the third consecutive year, but warns of the possibility of uneven spikes in tuition and fees in future years if tuition is held flat over an extended period of time.[13]

### *Continuing to Implement Reinvention Efforts*

In 2010 City Colleges began a multi-year reorganization effort called *Reinvention* with the goal of improving student outcomes. *Reinvention* includes improving the financial and operational health of the colleges system, measuring progress on *Reinvention* outcomes and using zero-based budgeting to better align resources with goals.

The Civic Federation supports those goals and is encouraged the District is continuing the practice. The austerity measures taken by Chancellor Salgado to stabilize the District's finances while continuing to focus on student outcomes and preparing the future workforce of region should be applauded.

## Civic Federation Concerns

The following section details the Civic Federation's concerns with the City Colleges FY2018 tentative annual operating budget.

### *Effects of the Two-Year State of Illinois Budget Impasse*

The two-year State of Illinois budget impasse created a high level of uncertainty for many local governments and service providers across the State. City Colleges did not receive any State funding during FY2016 until April 2016, when the Illinois House and Senate passed a stopgap FY2016 appropriation bill authorizing General Funds payments of approximately $600 million for higher education.[14] The measure included $14.4 million for City Colleges, which was only a quarter of the funding originally projected for the District by the Illinois Community College

---

[13] See recommendation to develop a tuition and fee policy on page 8 of this report.
[14] 99th Illinois General Assembly, Public Act 99-0502, signed into law by the Governor on April 25, 2016.

Board (ICCB). The District received an additional $22.5 million in ICCB funding as part of the FY2017 stopgap funding measure approved by the Illinois General Assembly and signed by Governor Bruce Rauner on June 30, 2016.[15] In the FY2017 budget, State funding for all funds was projected to decrease by $7.5 million, or 11.8%, from the budgeted level of $63.5 million in FY2016 to $56.0 million in FY2017. While the Federation was concerned about the State's budget impasse continuing, it is important to note that the District planned for the possibility of receiving no additional funding in FY2016 or FY2017. The District's plan included using additional reserve funds, delaying investments in capital improvements and other measures in order to balance its budget.[16] However, these measures and the state budget impasse came with consequences. In August 2016 S&P Global Ratings lowered City Colleges credit rating two notches to A+ from AA and assigned a negative outlook and again lowered its credit rating in April 2017 four notches from A+ to BBB with a negative outlook.[17] Fitch downgraded District bonds one notch to A+ from AA- in March 2017.

The budget austerity measures were a reasonable response to a funding emergency, and the Civic Federation supported them. However, these austerity measures impacted the District's financial stability by depleting its reserves and delaying much needed capital investment and is an ongoing cause for concern.

### *Instability of Future State Funding*

Higher education funding was one of the areas hardest hit by the State of Illinois' two-year budget impasse. City Colleges estimates it lost approximately $40 million in State funding over the two-year State budget impasse.[18] The new budget for the State's 2018 fiscal year significantly increases spending on preschool-to-secondary education and fully funds State tuition grants for low income college students, while cutting agency operations by 5% and reducing spending on public universities and community colleges by 10% from FY2015, the last year when a complete budget was enacted. The passage of a full-year State budget by the Illinois General Assembly for the 2018 fiscal year provided a higher level of certainty for local governments and service providers throughout the State, but the challenges facing Illinois and its local governments are far from over. The State ended its 2017 fiscal year with a bill backlog of approximately $15 billion and continues to face enormous unfunded pension obligations of approximately $130 billion.

While City Colleges has taken necessary steps to balance its FY2018 budget and plans to rebuild its reserve fund, challenges remain. The legislative leaders in the Illinois General Assembly and Governor Bruce Rauner are still deadlocked over changes to the elementary and secondary school funding formula and the prospect of the battles between State leaders is unlikely to end in FY2018. The Civic Federation is concerned the instability at the State level could continue beyond the current fiscal year and may impact funding of higher education institutions in future years.

---

[15] Information provided by City Colleges of Chicago, Finance Department, July 1, 2016.
[16] City Colleges of Chicago, "Review of the Preliminary FY2017 Budget."
[17] Yvette Shields, "Chicago City Colleges Hit With Downgrade," *The Bond Buyer*, August 22, 2016, (last visited on July 28, 2017); and Yvette Shields, "S&P pounds ratings of Illinois public universities," *The Bond Buyer*, April 21, 2017, (last accessed July 28, 2017).
[18] City Colleges of Chicago, Budget Briefing, p. 6, July 13, 2017.

### *Declining Student Enrollment*

Between FY2013 and FY2017, City Colleges' full-time equivalent (FTE) enrollment declined by 24.5%, or 11,303 FTEs, down from 46,585 to 35,282. The District estimates that enrollment will decline by an additional 5.0% in FY2018. During the previous two fiscal years the District had underestimated the decline in enrollment, which directly impacts tuition and fee revenue. The District's FY2016 adopted budget projected tuition and fee revenue of $127.0 million. However, the District's FY2016 audited tuition and fee revenue was only $105.0 million, far below the originally budgeted amount. Had the District not implemented a temporary tuition cap and international rate discount for students in the fall 2015 semester, the District may have seen an even further decline in enrollment and greater variance between FY2016 budgeted and audited tuition and fee revenue. In FY2017 the District estimated a 3% decline in enrollment, but experienced an actual decline in enrollment of 10%. The District has laid out strategies to help boost enrollment in future years and the Civic Federation recognizes that enrollment is cyclical with the economy and unemployment rates, but we remain concerned about the long-term impact on the District and the regional economy if enrollment continues to decline.

### *Incorporating Pension Costs of New Tier 3 Employees into Future Budgets*

As part of the FY2018 State budget adopted by the Illinois General Assembly on July 7, 2017, a new Tier 3 level of benefits for new employees in the State Universities Retirement System (SURS) and other State sponsored pension plans was established. The changes were included in the budget implementation bill. The normal cost of pensions for this new tier of benefits will be shifted to school districts and universities. It is still too soon to fully know the impact Tier 3 employees will have on City Colleges of Chicago because it has uncertainties associated with the choices Tier II employees and new employees make with regard to their pensions. While City Colleges has prudently planned for the possible phase in of pension normal costs in previous years' budgets, the two-year State budget impasse has dramatically impaired the District's financial position and the Civic Federation recommends that the District carefully evaluate the impact the cost-shifting of pensions expenses will have on future years' budgets.

## Civic Federation Recommendations

The Civic Federation offers the following recommendations to improve the health and stability of the District's finances.

### *Develop a Tuition and Fee Policy, and Explore Indexing Tuition and Fees*

The Civic Federation recommends that City Colleges adopt the Government Finance Officers Association (GFOA) best practice of developing a charges and fees policy, possibly including tying them to an annual escalator to help guide the Board when making difficult budget decisions. One of the many benefits provided by a well-designed charges and fees policy is that it will "smooth charges and fees over several years rather than having uneven impacts" on students.[19]

[19] Government Finance Officers Association, "Establishing Government Charges and Fees," http://www.gfoa.org/establishing-government-charges-and-fees (last visited July 2, 2014).

### *Improve the Fund Balance Policy*

On December 1, 2016, the City Colleges' Board of Trustees adopted Resolution Number 33109, which replaced Resolution Number 29253.[20] Resolution 33109 allowed for a minor change in policy language that unrestricted fund balance over 3% of the unrestricted funds actual expenses shall be transferred to the restricted purpose Operations and Maintenance Fund during the annual close of the fiscal year without board approval. Resolution 29253 required the Board's approval for projects deemed necessary by the Officers of the District. However, both resolutions essentially State that the District should be effectively maintaining a 3% minimum unrestricted funds fund balance.[21] The Civic Federation supports this policy. However, the Civic Federation urges City Colleges to establish a formal fund balance policy for its unrestricted funds that meets the standard proposed by the Government Finance Officers Association (GFOA) and that is approved by the City Colleges' Board of Trustees.

The 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." City Colleges is a special purpose, not a general purpose government, but its size and the relative instability of its revenue stream, particularly State funding, 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.[22] At a minimum, the Civic Federation urges City Colleges to establish a fund balance policy of maintaining a minimum ratio of unrestricted net assets to expenditures or revenues of 5%, which is recommended by the major rating agencies.[23]

### *Advocate for the State of Illinois to Change the Community College Equalization Formula*

The State of Illinois provides community college districts with equalization grants intended to ensure that each district has approximately equivalent financial means, regardless of a district's taxable property wealth. Because the formula for distributing equalization grants does not account for the Property Tax Extension Limitation Law, also known as PTELL or "tax caps," that is in place in Cook County and 38 other Illinois counties, it assumes that a greater amount of property wealth is available to tax-capped districts than can actually be taxed without seeking approval of the voters through a referendum. Over time, this has meant that State funding for City Colleges has declined.

The current formula on its own would have provided City Colleges with almost no revenue in FY2018. City Colleges received $14.1 million in supplemental State funds in FY2015 and

[20] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 24; and City Colleges of Chicago Board of Trustees Resolution Number 33109.
[21] See the resolution on the City Colleges of Chicago's website at http://apps.ccc.edu/brpublic/2009/feb/29253.pdf.
[22] Government Finance Officers Association, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted October 2009).
[23] Standard & Poor's, "U.S. Local Governments General Obligation Ratings: Methodology and Assumptions," September 12, 2013, updated August 10, 2016, https://www.standardandpoors.com/en_US/web/guest/article/-/view/type/HTML/id/1729672, (last accessed July 31, 2017).

FY2016 and $13.7 million in FY2017, but will only receive $12.4 million in FY2018.[24] The Civic Federation supports City Colleges receiving supplemental funds, but urges the District to advocate for the State to rectify the situation that requires the District to seek such funds on an annual basis rather than receiving a reasonable annual allocation. The Civic Federation supports a recalculation of the State community college equalization formula. We also urge the Governor and the Illinois Community College Board to recognize the economic contributions of Illinois' largest community college system by fundamentally restructuring the equalization formula to provide fair and equitable funding to City Colleges.

### *Long-Term Financial Planning Recommendations for City Colleges*

City Colleges has been a leader in best practice financial planning among governments in the Chicago area. As the District moves forward in updating its strategic and capital plans, the Civic Federation suggests the following recommendations for City Colleges to enhance and institutionalize its long-term financial planning process and boost stakeholder input.[25]

#### Institutionalize Long-Term Financial Planning

The Civic Federation recommends that City Colleges institutionalize its strong long-term financial planning process through the establishment of a formal policy that requires long-term financial planning, and an official and separate review process specific to the long-range financial plan.

#### 1. Establish a Formal Long-Term Financial Planning Policy

City Colleges has financial policies that promote financial sustainability. For example, the District maintains a policy to reserve an annual unrestricted fund balance of 3.0% of unrestricted operating expenses for contingencies.[26] In addition to the District's current financial policies, the Civic Federation recommends that the District also establish a formal policy that requires City Colleges to engage in a long-term financial planning process on an annual basis.

Establishing a formal long-term financial planning policy would codify the City Colleges' long-standing practice of releasing a long-range financial plan with its annual budget, and would ensure that City Colleges' legacy of responsible financial planning would continue through future administrations. The Government Finance Officers Association provides examples of such policies on its website.[27] City Colleges can also examine the policies of other Chicago-area governments such as Cook County.[28]

---

[24] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 32; and Information provided by City Colleges of Chicago, July 31, 2017.
[25] These recommendations are based on a forthcoming Civic Federation study of long-term financial planning by governments in the Chicago area.
[26] City Colleges of Chicago FY2018 Tentative Operating Budget, p. 24. The policy was adopted as Resolution #33109 by the Board of Trustees on December 1, 2016.
[27] See http://www.gfoa.org/financial-policy-examples-long-term-financial-planning.
[28] Cook County's multi-year forecasting policy and long-term financial planning strategy can be found in the Cook County FY2017 Annual Appropriation, Volume 1, Financial Policies Section, pp. 292 and 297. Available at http://opendocs.cookcountyil.gov/budget/archive/2017-Adopted-Volume-1-Financial_Policies.pdf.

**2. Establish Official Review and Approval Process for Long-Range Financial Plan**

The Civic Federation applauds City Colleges for producing a long-range plan and making it available to the public. City Colleges began releasing its long-range plan publicly as part of the FY2015 budget process. Currently City Colleges approves its long-range financial plan as part of the annual budget document. The Federation recommends that City Colleges consider establishing a separate review process for the long-range financial plan such that the Board of Trustees takes special consideration of the long-range plan. The long-range plan could still be included in the annual budget book, or could become a stand-alone document.

The Civic Federation believes the involvement of the City Colleges Board of Trustees legitimizes the long-term financial planning process, and as such it is important for members of the Board of Trustees to understand the future projections for the District based on today's policies and management decisions. Therefore, we recommend that in addition to the annual budget, the Board of Trustees also approve the long-range financial plan through a separate review process.

Enhance Opportunities for Input from Stakeholders on Financial Planning Decisions

The Civic Federation commends City Colleges for its transparency in publicizing information about its strategic plan and financial decisions. Helpful information about the District's long-term goals and vision is made available on the *Reinvention* web page and the Office of Finance web page. City Colleges also obtains input from students, faculty and other stakeholders during strategic discussions regarding programmatic issues such as enrollment, faculty size and facilities.[29] However, City Colleges says it currently does not solicit input from students and the general public specific to the long-range financial plan because its forecast is driven primarily by technical assumptions and is designed to illustrate future effects of current policies and decisions rather than to estimate the possible costs of future decisions or policy changes.[30]

While understanding the internal nature of forecasting, the Civic Federation feels it is still worthwhile to encourage increased collaboration among stakeholders in the financial planning process by involving students, trustees, faculty, and staff from within other departments and colleges in the development of the long-range plan and to solicit their feedback regarding funding priorities and potential cuts.

The Civic Federation offers the following ideas for City Colleges to consider to increase interest and participation among the stakeholder groups:[31]

1. **Educate stakeholders** by providing easily digestible information in the form of presentations, infographics or abbreviated budget documents (such as a popular budget) to describe the City Colleges fiscal environment, current priorities and long-term needs and

[29] Information provided by City Colleges of Chicago Department of Budget and Planning on May 1, 2017.
[30] Information provided by City Colleges of Chicago Department of Budget and Planning on May 1, 2017.
[31] These ideas are based on communication strategies discussed by the Government Finance Officers Association in *Financing the Future: Long-Term Financial Planning for Local Government* by Shayne Kavanagh (Chicago: GFOA, 2007).

goals. For example, documents like the Office of Finance Long Range Vision[32] are useful in communicating finance staff's vision. The key is publicizing and disseminating information to targeted groups.

2. **Survey students and employees** to understand their priorities and gather their opinions on strategies, actions and scenarios that could be used to address financial imbalances.

3. **Establish a financial advisory body** composed of a variety of stakeholders (staff, faculty, students, administrators and trustees) to provide input and guidance on financial planning. One example City Colleges could look to for ideas is Lane Community College in Eugene, Oregon. Lane Community College has a unique governance structure that includes several governance councils. The Finance Council serves as its financial policy and planning body and is composed of students, operational staff, managers, faculty, finance leadership and governing board members.[33] It is responsible for developing a long-range financial plan every five years with annual updates each year.[34]

---

[32] Available at http://www.ccc.edu/departments/Documents/Office%20of%20Finance%20Long%20Range%20Plan.pdf.
[33] More information about the Finance Council available at https://www.lanecc.edu/governance/finance-council.
[34] Information about the Lane Community College long-range financial plan is available at https://www.lanecc.edu/conversation/2017-2022-long-range-financial-plan-conversation-kit

*ACKNOWLEDGEMENTS*

We would like to express our sincere thanks and appreciation to Chancellor Juan Salgado, Chief Financial Officer/Vice Chancellor, Finance and Business Enterprises Joyce Carson, and Associate Vice Chancellor of Finance JR Dempsey for providing us with a briefing on the budget and answering our questions.

## APPROPRIATIONS

The following section of this analysis presents information and trends regarding City Colleges' appropriations for all funds and for operating funds by object and by program. Except where noted, Fiscal Year 2018 appropriations are compared to FY2017 adopted appropriations and actual expenditures for FY2014-FY2016.

City Colleges has 11 funds: six operating funds, as well as debt service, capital and working cash funds. The operating funds include all funds except the capital, debt service and working cash funds. Operating funds pay for employees' salaries and benefits, utility costs and all other day-to-day expenditures. The six operating funds are composed of the following unrestricted and restricted funds:

**Unrestricted**

- **Education Fund**, which accounts for revenues and expenditures of the academic and service programs for each college;
- **Operations and Maintenance Fund**, which accounts for expenditures for the construction, acquisition, repair and improvement of community college buildings, along with procurement and maintenance of lands, fixtures and equipment;
- **Auxiliary/Enterprise Fund**, which accounts for college services where a fee is charged and the activity is intended to be self-supporting;[35]

**Restricted**

- **Audit Fund**, which levies and collects property taxes for the payment of the annual audit of the District's financial Statements;
- **Liability, Protection and Settlement Fund**, which primarily handles expenditures for tort liability, property insurance, Medicare taxes, Social Security taxes and unemployment insurance; and
- **Restricted Purposes Fund**, which accounts for monies that have external restrictions regarding their use, including grants.[36]

### Appropriations for All Funds

City Colleges proposed appropriations for all funds in FY2018 total $442.6 million. This is a 15.5%, or $81.1 million, decrease from FY2017 adopted appropriations of $523.7 million. The District's FY2018 tentative annual operating budget of $386.3 million will decline by 18.6%, or $88.3 million, below FY2017 adopted appropriations of $474.6 million. The majority of the decline in the operating funds is due to a reduction of $76.3 million, or 43.3%, in the restricted purposes fund. The District expects a decline in budgeted student financial aid as a result of a decline in student enrollment, more conservative budgeting and a decline in grant funding.[37] The proposed unrestricted operating appropriations in FY2018 will decrease by $11.5 million, or 4.0%, below FY2017 adopted appropriations of $288.6 million. City Colleges exercises maximum discretion over these unrestricted funds, unlike restricted funds that must be used for specific purposes as established by statute or terms of a grant or loan. The majority of the decline in the unrestricted funds is related to a reduction in salary appropriations as a result of the laying off of approximately 120 employees.[38]

Enterprise Funds appropriations are proposed to decrease by $0.5 million, or 5.1%, below FY2017 adopted appropriations of $9.9 million. Enterprise funds are supposed to be self-sustaining. In FY2018 the Enterprise Funds will rely on a nearly $3.0 million transfer from the Unrestricted Funds, approximately $500,000, or 15.3%, less than FY2017.[39]

---

[35] In the FY2014 through FY2018 budgets the Auxiliary/Enterprise Fund budget has been presented separately from the Unrestricted Funds in some sections of the budget.
[36] Descriptions of the fund categories may be found in City Colleges of Chicago FY2018 Tentative Annual Operating Budget on pp. 9-10.
[37] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 6.
[38] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 2.
[39] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p, 5.

The FY2018 Capital Fund appropriations will increase by 20.5%, or $7.2 million, above FY2017 adopted appropriations of $35.2 million. The Capital Fund provides pay-as-you-go funding for a substantial portion of its major building projects, as well as the improvement of existing structures.

The proposed capital appropriations for FY2018, totaling $42.4 million, will be 9.6% of total appropriations, compared to FY2017 adopted capital appropriations, which were 6.7% of total appropriations. FY2018 capital fund expenses are budgeted to increase after the Illinois General Assembly adopted a full-year budget in July 2017 following a two-year budget impasse that reduced and delayed funding to institutions of higher education and other social service organizations throughout the State. The updated $523.3 million five-year capital plan includes the reconvened construction of the new Olive Harvey Transportation, Distribution and Logistics Training Center and the Daley College Engineering & Advanced Manufacturing Center.[40]

Over the five-year period beginning in FY2014 the District's total expenditures are projected to decrease by $61.7 million, or 12.2%. This five-year decrease is driven primarily by a $42.4 million, or 29.8%, decrease in restricted spending and a $27.6 million, or 39.4%, decrease in capital spending. City Colleges completed a $250 million debt issuance in FY2014 to support its capital plan and has budgeted $13.9 million to pay for principal and interest in FY2018.

In FY2017 City Colleges capital plan reduced funding as a result of the completion of the new Malcolm X College, the uncertainty surrounding future State funding and savings achieved due to efficiencies from the District's College to Careers program.[41] However, the recently adopted full-year State budget includes capital funding for the District to move forward with its capital

[40] See the Capital section on page 35 of this report for more details on the City Colleges of Chicago Capital Plan.
[41] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 48.

projects, such as the Transportation, Distribution and Logistics Center at Olive-Harvey College and the Daley College Engineering & Advanced Manufacturing Center.[42]

| City Colleges Appropriations for All Funds by Type: FY2014-FY2018 (in $ millions) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Fund Type | FY2014 Actual | FY2015 Actual | FY2016 Actual | FY2017 Adopted Budget | FY2018 Tentative Budget | Two-Year $ Change | Two-Year % Change | Five-Year $ Change | Five-Year % Change |
| Operating Funds | | | | | | | | | |
| Unrestricted | $ 275.3 | $ 282.7 | $ 296.8 | $ 288.6 | $ 277.1 | $ (11.5) | -4.0% | $ 1.8 | 0.7% |
| Enterprise | $ 8.9 | $ 9.6 | $ 9.7 | $ 9.9 | $ 9.4 | $ (0.5) | -5.1% | $ 0.5 | 5.6% |
| Restricted | $ 142.2 | $ 131.1 | $ 96.5 | $ 176.1 | $ 99.8 | $ (76.3) | -43.3% | $ (42.4) | -29.8% |
| **Subtotal Operating** | **$ 426.4** | **$ 423.4** | **$ 403.0** | **$ 474.6** | **$ 386.3** | **$ (88.3)** | **-18.6%** | **$ (40.1)** | **-9.4%** |
| Capital Fund | $ 70.0 | $ 117.2 | $ 41.3 | $ 35.2 | $ 42.4 | $ 7.2 | 20.5% | $ (27.6) | -39.4% |
| Debt Service | $ 7.9 | $ 12.9 | $ 17.9 | $ 13.9 | $ 13.9 | $ - | - | $ 6.0 | 75.9% |
| **Total** | **$ 504.3** | **$ 553.5** | **$ 462.2** | **$ 523.7** | **$ 442.6** | **$ (81.1)** | **-15.5%** | **$ (61.7)** | **-12.2%** |

Note: Differences from budget book may occur due to rounding.
Source: City Colleges of Chicago FY2016 Annual Operating Budget, p. 4; FY2017 Annual Operating Budget, p. 2; and FY2018 Tentative Annual Operating Budget, p. 3.

## Unrestricted Operating Funds by Object[43]

The next exhibit shows changes in City Colleges' appropriations by object (line item) for the operating funds, including the Education Fund, Operations & Maintenance Fund, Audit Fund and Liability, Protection and Settlement Fund. In this section, FY2018 proposed appropriations are compared to adopted appropriations for FY2017 and actual expenditures for FY2014-FY2016. Over the five-year period, appropriations for these operating funds will increase by approximately $2.2 million, or 0.8%, from the FY2014 actual appropriations of $268.9 million to $271.1 million proposed in FY2018.

Proposed appropriations for salaries will total $170.2 million in FY2018, down 9.5%, or $17.8 million, from FY2017 adopted appropriations of nearly $188.0 million. Salaries make up 62.8% of total proposed operating appropriations in FY2018 compared to 66.6% of total budgeted operating appropriations in FY2017. The decrease over the two-year period can be primarily attributed to layoffs implemented by the District at the end of FY2017 and a 10% reduction in senior leadership compensation at the District.[44]

At nearly $39.5 million, FY2018 appropriations for benefits will increase by 19.6%, or approximately $6.5 million, above the FY2017 adopted appropriations of $33.0 million. The District projects healthcare costs to increase by 7% during FY2018.[45] However, the increase is offset slightly through the elimination of 100% pension contributions and medical reimbursements for senior leadership officials of the District.[46]

---

[42] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 3.
[43] The Operating Funds by Object in this section includes the Education Fund, Operations & Maintenance Fund, Liability, Protection and Settlement Fund and Audit Funds, not the Auxiliary/Enterprise Fund.
[44] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 2.
[45] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 7.
[46] City Colleges of Chicago FY2018 Tentative Annual Operating Budget. p. 7.

Proposed appropriations for contractual services will also decline over the two-year period by $4.2 million, or 25.7%, below FY2017 adopted appropriations of $16.4 million. The decline in contractual services is the result of reductions the District plans to implement.[47]

Expenses for waivers and scholarships will increase over the two-year period by $1.5 million, or 11.1%, from $13.7 million in FY2017 to $15.2 million in FY2018.

Over the five-year period the District's benefits appropriations are expected to increase by $10.5 million, or 36.4%, above FY2014 actual expenditures of $28.9 million. Benefit appropriations as a percentage of total operating fund appropriations averaged 12.5% over the five-year period, rising from 10.8% in FY2013 to a high of 15.3% of total operating fund appropriations in FY2016 before declining to 11.7% and 14.6% in FY2017 and FY2018 respectively. In FY2013 City Colleges and labor unions agreed to eliminate step increases and sick-day payouts for new employees and freeze of sick-day payouts for current employees.[48] In addition, benefits for non-union employees were changed to eliminate sick-day payouts for new employees, to freeze sick-day payouts for current employees, to increase health insurance co-payments and deductibles and to end premium-free lifetime retiree healthcare for senior leaders of City Colleges.[49] The FY2016 City Colleges budget saw an increase of $10 million for Other Post-Employment Benefits (OPEB) and a $6 million increase in benefits.[50] In FY2018 the District is continuing to better manage benefit expenses through the elimination of 100% pension contributions and medical reimbursements for senior leadership of the District.[51]

**City Colleges Appropriations by Object of Expenditure**
**Operating Funds: FY2014-FY2018**
**(in $ thousands)**

| Object | FY2014 Actual | FY2015 Actual | FY2016 Actual | FY2017 Adopted Budget | FY2018 Tentative Budget | Two-Year $ Change | Two-Year % Change | Five-Year $ Change | Five-Year % Change |
|---|---|---|---|---|---|---|---|---|---|
| Salaries | $ 190,559.7 | $ 193,183.0 | $ 194,989.0 | $ 187,982.4 | $ 170,184.7 | $ (17,797.7) | -9.5% | $ (20,375.0) | -10.7% |
| Employee Benefits | $ 28,942.7 | $ 29,275.7 | $ 45,279.7 | $ 33,001.2 | $ 39,472.0 | $ 6,470.8 | 19.6% | $ 10,529.3 | 36.4% |
| Contractual Services | $ 18,463.8 | $ 18,623.1 | $ 14,805.4 | $ 16,362.7 | $ 12,158.3 | $ (4,204.4) | -25.7% | $ (6,305.5) | -34.2% |
| Materials/Supplies | $ 11,040.6 | $ 14,354.0 | $ 13,376.8 | $ 14,035.7 | $ 9,897.4 | $ (4,138.4) | -29.5% | $ (1,143.2) | -10.4% |
| Travel/Conferences | $ 974.0 | $ 868.0 | $ 964.1 | $ 1,127.5 | $ 565.2 | $ (562.3) | -49.9% | $ (408.7) | -42.0% |
| Fixed Charges | $ 3,220.2 | $ 3,322.5 | $ 3,303.6 | $ 3,259.4 | $ 2,865.6 | $ (393.8) | -12.1% | $ (354.6) | -11.0% |
| Utilities | $ 8,422.7 | $ 9,254.9 | $ 7,883.7 | $ 8,511.8 | $ 8,468.1 | $ (43.7) | -0.5% | $ 45.4 | 0.5% |
| Bad Debt | $ 3,208.3 | $ 3,231.6 | $ 9,222.1 | $ 3,675.3 | $ 7,712.8 | $ 4,037.6 | 109.9% | $ 4,504.5 | 140.4% |
| Waivers and Scholarships | $ 5,102.0 | $ 5,175.1 | $ 6,510.7 | $ 13,672.0 | $ 15,184.3 | $ 1,512.3 | 11.1% | $ 10,082.3 | 197.6% |
| Other Expenditures* | $ (1,021.7) | $ 4,926.3 | $ 492.0 | $ 637.0 | $ 4,597.1 | $ 3,960.1 | 621.7% | $ 5,618.8 | -549.9% |
| **Total** | **$ 268,912.2** | **$ 282,214.4** | **$ 296,827.2** | **$ 282,264.9** | **$ 271,105.4** | **$ (11,159.5)** | **-4.0%** | **$ 2,193.2** | **0.8%** |

Note: Operating Funds in this chart includes the Education Fund, Operations & Maintenance Funds, Liability, Protection, and Settlement Fund and Audit Fund only. Not Auxiliary/Enterprise Fund.
* In FY2014 an adjustment was made to defer earnings for instructors working 20 pay periods who chose to receive their payroll over 26 pay periods instead of 20 pay periods and an adjustment was made to reduce Title IV liability to the Department of Education resulting in a negative number.
Source: City Colleges of Chicago FY2016 Annual Operating Budget, pp. 67-71.; FY2017 Annual Operating Budget, pp. 64-68.; FY2018 Tentative Annual Operating Budget, pp. 55-59; and Information provided by City Colleges of Chicago Finance Department, June 22, 2015

[47] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 2.
[48] Adult educators are represented by the American Federation of State, County and Municipal Employees (AFSCME) and clerical employees are represented by the Federation of College Clerical and Technical Personnel Local 1708.
[49] City Colleges of Chicago FY2016 Tentative Annual Operating Budget, p. iii.
[50] City Colleges of Chicago Budget Briefing, p. 8. July 13, 2017.
[51] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 2.

**Total Unrestricted Funds by Program**[52]

The following exhibit shows changes in the City Colleges' total unrestricted funds by program between FY2014 and FY2018. The FY2018 Tentative Annual Operating Budget is compared to the FY2014 amended budget and the FY2015, FY2016 and FY2017 adopted budgets. The program categories are listed below.[53]

- **Instruction** refers to classroom activities including faculty salaries and classroom materials;
- **Academic Support** refers to activities directly supporting instruction including tutoring and academic management;
- **Student Services** refer to activities including financial aid services, registering, admitting and testing students;
- **Public Services** refer to programs with a broad public purpose, such as customized training and continuing education;
- **Organized Research** includes separately budgeted research projects;
- **Auxiliary/Enterprise** accounts for college services where a fee is charged to students and/or staff. These activities are intended to be self-supporting;
- **Operations and Maintenance** refers to physical plant and facility-related activities;
- **Institutional Support** refers to activities related to general institutional management such as fiscal operations, legal services, general administration and data processing; and
- **Scholarships, Student Grants and Waivers** accounts for funding for student financial assistance programs.

Between FY2014 and FY2018, total unrestricted appropriations will decrease by 10.6%, or $33.6 million, from $317.1 million to $283.5 million. Appropriations for instruction account for the largest share of the unrestricted appropriations. They will decrease by 20.7%, or $25.6 million, declining from $123.6 million in FY2014 to $98.0 million in FY2018. Over the five-year period beginning in FY2014, appropriations for instruction as a percentage of the total unrestricted operating budget have fluctuated between a high of 39.8% in FY2015 and a low of 34.6% in FY2018. In FY2018, the next largest program category will be institutional support at $58.2

[52] The Unrestricted Operating Funds by Program includes the Education Fund, Operations & Maintenance Fund, Liability, Protection and Settlement Fund, Audit Fund and Auxiliary/Enterprise Fund.
[53] Descriptions of the program categories may be found in the City Colleges of Chicago FY2018 Tentative Annual Operating Budget, pp. 11-12.

million, or 20.5%, of the total unrestricted operating budget, followed by operations and maintenance at $39.9 million, or 14.1% of the total unrestricted operating budget in FY2018.

| City Colleges Appropriations by Program<br>Total Unrestricted Funds: FY2014-FY2018<br>(in $ thousands) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Program | FY2014 Amended Budget | FY2015 Adopted Budget | FY2016 Adopted Budget | FY2017 Adopted Budget | FY2018 Tentative Budget | Two-Year $ Change | Two- Year % Change | Five- Year $ Change | Five- Year % Change |
| Instruction | $ 123,631.6 | $ 128,820.2 | $ 110,322.8 | $ 104,766.2 | $ 98,016.2 | $ (6,750.1) | -6.4% | $ (25,615) | -20.7% |
| Academic Support | $ 17,252.1 | $ 17,897.5 | $ 26,825.9 | $ 21,363.9 | $ 20,087.6 | $ (1,276.4) | -6.0% | $ 2,835 | 16.4% |
| Student Services | $ 36,772.5 | $ 37,979.2 | $ 41,307.3 | $ 38,870.6 | $ 37,367.7 | $ (1,502.9) | -3.9% | $ 595 | 1.6% |
| Public Service | $ 323.5 | $ - | $ 2,671.2 | $ 1,649.1 | $ 1,133.6 | $ (515.5) | -31.3% | $ 810 | 250.4% |
| Organized Research | $ 294.1 | $ - | $ - | $ - | $ - | $ - | - | $ (294) | -100.0% |
| Auxiliary/Enterprise | $ 13,643.6 | $ 17,397.3 | $ 16,405.8 | $ 18,072.2 | $ 13,593.3 | $ (4,478.9) | -24.8% | $ (50) | -0.4% |
| Operations & Maintenance | $ 50,847.0 | $ 46,838.1 | $ 47,900.1 | $ 43,284.2 | $ 39,942.1 | $ (3,342.2) | -7.7% | $ (10,905) | -21.4% |
| Institutional Support | $ 69,464.1 | $ 69,042.5 | $ 71,792.8 | $ 53,366.8 | $ 58,229.6 | $ 4,862.8 | 9.1% | $ (11,235) | -16.2% |
| Scholarships, Grants, Waivers | $ 4,833.1 | $ 5,883.8 | $ 5,199.4 | $ 14,139.0 | $ 15,080.0 | $ 941.0 | 6.7% | $ 10,247 | 212.0% |
| **Total** | **$ 317,061.7** | **$ 323,858.7** | **$ 322,425.4** | **$ 295,512.1** | **$ 283,450.0** | **$ (12,062.1)** | **-4.1%** | **$ (33,612)** | **-10.6%** |

Note: The Total Unrestricted Funds in this chart include the Education Fund, Operations & Maintenance Fund, Liability, Protection and Settlement Fund, Audit Fund and the Auxiliary Enterprise Fund.
Source: City Colleges of Chicago FY2014 Supplemental Appropriation, Exhibit 1, Adopted August 1, 2013; FY2015 Annual Operating Budget, p. 68; FY2016 Annual Operating Budget, p. 65.; FY2017 Annual Operating Budget, p. 63; and FY2018 Tentative Annual Operating Budget, p. 53.

## RESOURCES

The following section presents information and trends regarding City Colleges' revenue sources, comparing FY2018 tentative budgeted resources to adopted resources for FY2014-FY2017.

### Total Resources for Fiscal Year 2018

City Colleges expects to generate a $457.6 million in total resources for all funds in FY2018. All funds include operating funds, capital funds and federal and State student aid funds that are passed on to students through grants and the Work Study program. Of the $457.6 million in available resources, only $442.6 million of the total will be spent as expenditures; $15.0 million will be used to replenish working cash reserves.

As shown in the table below, the largest revenue source in FY2018 will be property tax revenue, which will make up 26.3% of total resources. The second largest source of revenue will be tuition and fees. Tuition and fee revenue is expected to comprise 20.7% of total resources.

Federal funds will make up 19.6% of all resources and revenue from the State of Illinois is projected to account for 13.4% of total resources.

| City Colleges Net Resources for All Funds: FY2018 | | |
|---|---|---|
| **Source of Revenue** | **FY2018 Tentative Budget** | **% of Total** |
| Enterprise Fund Reserves | $ - | 0.0% |
| Operating Fund Reserves | $ 15,000,000 | 3.3% |
| Capital Reserves | $ 42,369,695 | 9.3% |
| **Subtotal Enterprise and Operating Funds & Reserves** | **$ 57,369,695** | **12.5%** |
| | | |
| Net Property Tax | $ 120,344,629 | 26.3% |
| Personal Property Replacement Tax | $ 13,867,201 | 3.0% |
| Tuition and Fees | $ 94,674,700 | 20.7% |
| Auxiliary/Enterprise | $ 9,387,499 | 2.1% |
| Investment Revenue | $ 120,000 | 0.0% |
| Local Government Grants | $ 3,463,645 | 0.8% |
| **Subtotal Local Sources** | **$ 241,857,674** | **52.9%** |
| | | |
| State Government | $ 61,146,349 | 13.4% |
| Federal Government | $ 89,806,541 | 19.6% |
| **Subtotal State & Federal Sources** | **$ 150,952,890** | **33.0%** |
| | | |
| Other Sources | $ 7,385,824 | 1.6% |
| **Total** | **$ 457,566,083** | **100.0%** |

Source: City Colleges of Chicago FY2018 Tentative Annual Operating Budget, All Funds Summary, p. 53.

Not included in the table but also important to note, is that the State of Illinois also makes contributions to the State Universities Retirement System (SURS) on behalf of City Colleges for most of the District's employees. This operating support is not reflected in the budget.[54] In FY2016, the most recent year for which audited data is available, State pension contributions made on behalf of City Colleges totaled $102.3 million[55] compared to $82.4 million in FY2015.[56]

### Trend in Total Resources for All Funds

City Colleges' total FY2018 resources of $457.6 million represent a decrease of $66.1 million, or 12.6%, from the FY2017 budget of $523.7 million. This is also a significant decrease in total resources compared to a peak of $723.1 million in the FY2015 budget.

Revenue from all local sources is projected to decrease by $20.1 million, or 7.7%, between FY2017 and FY2018. All sources of local revenue are expected to decline with the exception of

[54] The State of Illinois makes the employer pension contributions for City Colleges employees except those paid for with federal grants; the District pays the employer share of those pension costs.
[55] City Colleges of Chicago FY2016 Comprehensive Annual Financial Report, p. 31.
[56] City Colleges of Chicago FY2015 Comprehensive Annual Financial Report, p. 33.

revenue from the property tax and Personal Property Replacement Tax, which will both remain relatively flat. City Colleges projects a $16.8 million, or 15.0%, decrease in tuition and fee revenue from the FY2017 budget level of $111.4 million to $94.7 million in FY2018. City Colleges attributes this decrease to an actual decline in enrollment of 10.0% in FY2017 and a further expected enrollment decline of 5.0% in FY2018.[57] Local government grants received from other local government entities such as the City of Chicago and the Chicago Housing Authority[58] are expected to decline in FY2018 by $1.8 million, or 34.0%, from the prior year.

Until now FY2015 was the most recent year the State of Illinois authorized a comprehensive budget. The two-year budget impasse in both FY2016 and FY2017 significantly impacted City Colleges' revenues from the State. State funding anticipated by City Colleges fell from $75.9 million in FY2015 to $63.5 million in FY2016 and then $56.0 million in FY2017. However, only $21.4 million in State funding was actually received in FY2016,[59] which totals about a third of what the District had budgeted for.

On July 7, 2017, the Illinois General Assembly ended the budget impasse and passed a full State budget for FY2018, which began on July 1, 2017. City Colleges anticipates $61.1 million in State funding for FY2018, compared to $56.0 million the District anticipated in the FY2017 budget. This funding estimate is 80.5% of the level of State funding that City Colleges budgeted for in FY2015.[60] The State budget appropriation approved on July 7 also provided City Colleges with $36.0 million for the second half of FY2017.[61] In total, City Colleges received $60.2 million in State funding for FY2017.[62]

Federal funds primarily represent financial aid that is passed through to students, not revenues available for day-to-day operations. Federal funding will decrease drastically in FY2018, from $164.7 million in FY2017 to $89.8 million in FY2018. This is a $74.9 million, or 45.5% decrease from the prior year. The District projects this decline due to a lower anticipated enrollment and therefore a decrease in student financial aid, as well as more conservative estimates than in prior years and grants not yet received.[63]

Other sources of revenue include revenues that do not fall within specific categories such as subpoena fees, ATM commissions and fundraising.[64] Other sources of revenue are expected to increase by 6.7% from FY2017 to $7.4 million in FY2018. The District has set a goal of increasing fundraising by $2.0 million in FY2018.[65]

Total resources for all funds are expected to decrease by $66.1 million, or 12.6%, compared to the FY2017 budget. Over the five-year period from FY2014 to FY2018, total resources are

[57] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 7.
[58] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 12.
[59] City Colleges of Chicago FY2016 Comprehensive Annual Financial Report, p. 61.
[60] Calculation made based on City Colleges' budgeted State funding levels for all funds: $61.1 million in State funding budgeted in FY2018 compared to $75.9 million in State funding budgeted in FY2015.
[61] Information provided by City Colleges of Chicago on July 31, 2017.
[62] Information provided by City Colleges of Chicago on August 1, 2017.
[63] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 6.
[64] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 13.
[65] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 32.

expected to decrease by $213.5 million, or 31.8%. This decrease is largely due to the completion of Malcolm X College. Nearly every category of revenue, with the exception of Personal Property Replacement Tax and other sources, is expected to decline over the five year period. Federal funding will fall to nearly half of the District's FY2014 federal funding level. State revenues will also decrease by 23.9% from the FY2014 levels.

**City Colleges of Chicago Net Resources for All Funds: FY2014 - FY2018**
**(in $ thousands)**

| Sources of Revenues | FY2014 Amended Budget* | FY2015 Adopted Budget | FY2016 Adopted Budget | FY2017 Adopted Budget | FY2018 Tentative Budget | Two-Year $ Change | Two-Year % Change | Five-Year $ Change | Five-Year % Change |
|---|---|---|---|---|---|---|---|---|---|
| Appropriated Reserves | $ 141,433 | $ 178,278 | $ 157,249 | $ 34,036 | $ 57,370 | $ 23,334 | 68.6% | $ (84,063) | -59.4% |
| | | | | | | | | | |
| Net Property Tax Revenues | $ 120,906 | $ 122,488 | $ 119,993 | $ 120,070 | $ 120,345 | $ 275 | 0.2% | $ (561) | -0.5% |
| Personal Property Replacement Tax | $ 12,300 | $ 14,347 | $ 14,328 | $ 13,867 | $ 13,867 | $ - | 0.0% | $ 1,567 | 12.7% |
| Tuition and Fees | $ 114,158 | $ 115,000 | $ 126,985 | $ 111,446 | $ 94,675 | $ (16,771) | -15.0% | $ (19,483) | -17.1% |
| Auxiliary/Enterprise | $ 14,717 | $ 14,858 | $ 12,133 | $ 10,752 | $ 9,387 | $ (1,365) | -12.7% | $ (5,329) | -36.2% |
| Investment Revenue | $ 1,100 | $ 1,500 | $ 1,000 | $ 562 | $ 120 | $ (442) | -78.6% | $ (980) | -89.1% |
| Local Government Grants | $ 8,422 | $ 16,828 | $ 22,025 | $ 5,249 | $ 3,464 | $ (1,786) | -34.0% | $ (4,959) | -58.9% |
| **Total Local Sources** | **$ 271,603** | **$ 285,022** | **$ 296,465** | **$ 261,946** | **$ 241,858** | **$ (20,088)** | **-7.7%** | **$ (29,745)** | **-11.0%** |
| | | | | | | | | | |
| State Government | $ 80,330 | $ 75,912 | $ 63,489 | $ 56,021 | $ 61,146 | $ 5,125 | 9.1% | $ (19,184) | -23.9% |
| Federal Government | $ 173,265 | $ 173,118 | $ 171,299 | $ 164,749 | $ 89,807 | $ (74,942) | -45.5% | $ (83,458) | -48.2% |
| **Subtotal State & Federal Sources** | **$ 253,595** | **$ 249,030** | **$ 234,788** | **$ 220,770** | **$ 150,953** | **$ (69,817)** | **-31.6%** | **$ (102,642)** | **-40.5%** |
| | | | | | | | | | |
| Other Sources | $ 4,428 | $ 10,786 | $ 6,999 | $ 6,925 | $ 7,386 | $ 461 | 6.7% | $ 2,958 | 66.8% |
| **Total** | **$ 671,059** | **$ 723,115** | **$ 695,501** | **$ 523,677** | **$ 457,567** | **$ (66,110)** | **-12.6%** | **$ (213,492)** | **-31.8%** |

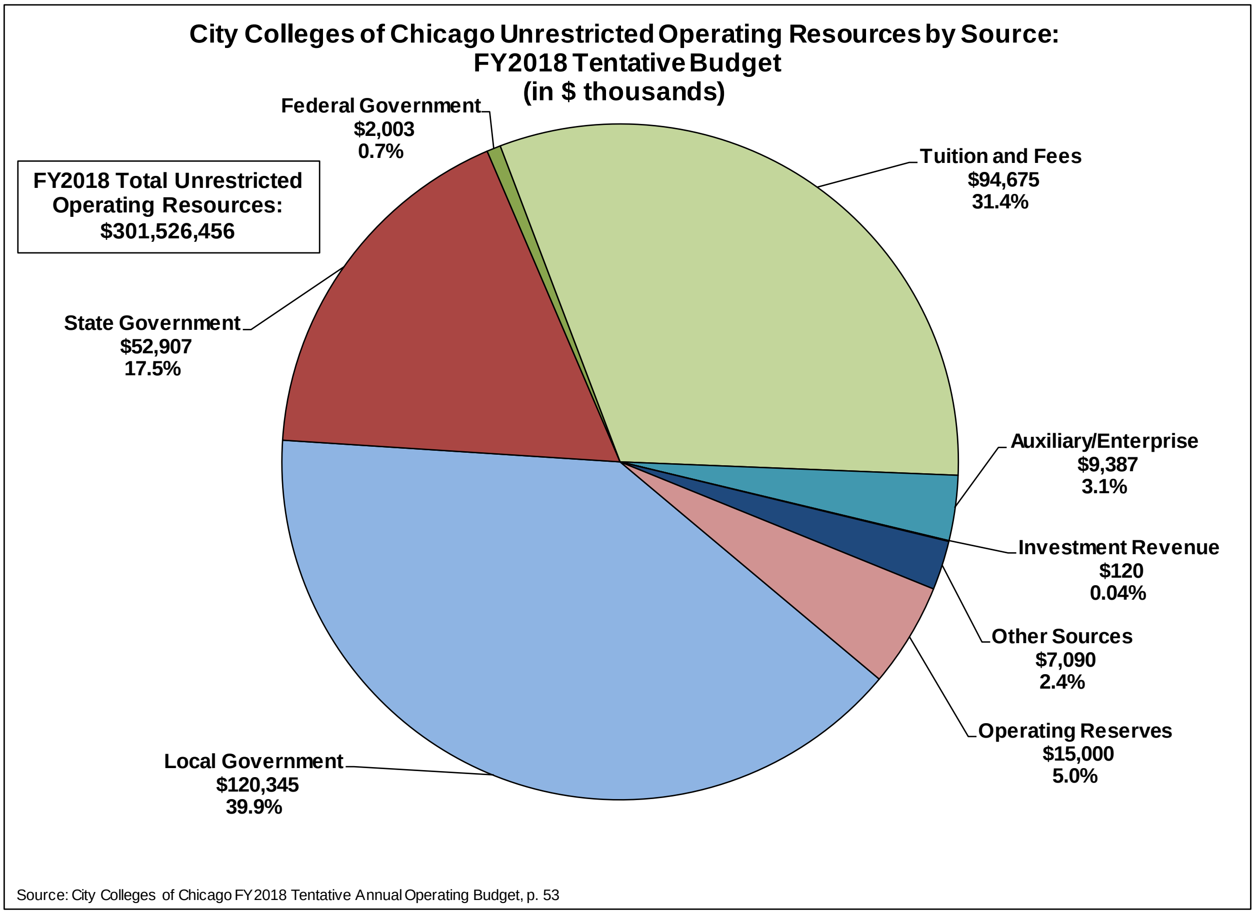
*FY2014 Amended Budget includes $12.4 million in State supplemental appropriations and $1.64 million in Auxilary/Enterprise appropriations that were approved at the August 1, 2013 Board of Trustees meeting.

Source: City Colleges of Chicago Adopted Budgets, FY2014 p. 66; FY2015, p. 68; FY2016, p. 65; FY2017, p. 62; Supplemental appropriations for FY2014 for Fiscal Year ending June 30, 2014, Exhibit 1, p. 3; and City Colleges of Chicago FY2018 Tentative Budget, p. 53.

## Unrestricted Funds

City Colleges' total unrestricted funds consist of the Operating Funds (Education, Operations and Maintenance, Liability and Audit Funds) and the Auxiliary Enterprise Fund. Total unrestricted funds are those funds over which City Colleges has the most discretionary control. They exclude restricted grants, such as student financial aid, and the Bond and Interest Fund.

The FY2018 Tentative Annual Operating Budget projects that 57.4% of the $301.5 million in unrestricted operating resources will come from State and local government sources, while approximately 31.4% will be generated by tuition and fees.




The next table presents the changes in total unrestricted resources over a five-year period and two-year period.

Total unrestricted resources are expected to increase by $3.0 million, or 1.0%, to $301.5 million over a two-year period from FY2017 to FY2018. Local government unrestricted funds (i.e., property tax revenues) are expected to remain relatively flat, increasing by 0.2% to $120.3 million. The property tax extension will increase slightly to levy for expiring TIF districts and new taxable property.[66] Tuition and fee revenue is projected to decrease by 15.0%, or $16.8 million, from the FY2017 budget to $94.7 million in FY2018 due to anticipated enrollment declines.

The District plans to use $15.0 million in operating reserves in FY2018 to replenish the Working Cash Fund.[67] Personal property replacement tax (PPRT) revenues have not been used for

[66] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 3.
[67] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 27.

unrestricted operating purposes since FY2015. PPRT revenue is now used instead to fund debt service payments.[68]

In the five-year period between FY2014 and FY2018, total resources for unrestricted funds will fall by $9.9 million, or 3.2%. Tuition and fee revenue will fall by $19.5 million, or 17.1%. Auxiliary and Enterprise revenue will decrease by $5.3 million, or 36.2%, to $9.4 million in FY2018. Auxiliary and Enterprise revenues are generated from self-supporting services that charge a fee such as facility rentals, transcript fees, the cafeteria and bookstore.[69]

Federal revenues have been used increasingly for unrestricted operating purposes since FY2014. While federal funds only make up 0.7% of total unrestricted resources, as shown in the pie chart above, the use of federal funds has increased by 649.7% from $267,000 in FY2014 to $2.0 million in FY2018.

**City Colleges Resources for Unrestricted Operating Funds: FY2014-FY2018**
**(in $ thousands)**

| Sources of Resources | FY2014 Amended Budget | FY2015 Adopted Budget | FY2016 Adopted Budget | FY2017 Adopted Budget | FY2018 Tentative Budget | Two-Year $ Change | Two-Year % Change | Five-Year $ Change | Five-Year % Change |
|---|---|---|---|---|---|---|---|---|---|
| Local Government | $ 120,906 | $ 122,488 | $ 119,993 | $ 120,070 | $ 120,345 | $ 275 | 0.2% | $ (561) | -0.5% |
| State Government | $ 52,171 | $ 57,402 | $ 55,879 | $ 48,543 | $ 52,907 | $ 4,364 | 9.0% | $ 736 | 1.4% |
| Federal Government | $ 267 | $ 400 | $ 300 | $ 635 | $ 2,003 | $ 1,368 | 215.4% | $ 1,736 | 649.7% |
| Tuition and Fees | $ 114,158 | $ 115,000 | $ 126,985 | $ 111,446 | $ 94,675 | $ (16,771) | -15.0% | $ (19,483) | -17.1% |
| Auxiliary/Enterprise | $ 14,717 | $ 14,858 | $ 12,133 | $ 10,752 | $ 9,387 | $ (1,365) | -12.7% | $ (5,330) | -36.2% |
| Investment Revenue | $ 1,100 | $ 1,500 | $ 1,000 | $ 562 | $ 120 | $ (442) | -78.6% | $ (980) | -89.1% |
| Other Sources | $ 2,082 | $ 9,500 | $ 6,670 | $ 6,496 | $ 7,090 | $ 594 | 9.1% | $ 5,008 | 240.5% |
| Personal Property Replacement Tax | $ 6,000 | $ 1,410 | $ - | $ - | $ - | $ - | -100.0% | $ (6,000) | -100.0% |
| Operating Reserves | $ - | $ 1,300 | $ 2,000 | $ - | $ 15,000 | $ - | 100.0% | $ 15,000 | 100.0% |
| **Total** | **$ 311,400** | **$ 323,858** | **$ 324,959** | **$ 298,504** | **$ 301,527** | **$ 3,023** | **1.0%** | **$ (9,873)** | **-3.2%** |

Source: City Colleges of Chicago FY2014 Amended Budget, Exhibit 1; FY2015 Adopted Budget p. 68; FY2016 Adopted Budget, p. 65; FY2017 Adopted Budget, p. 63; and FY2018 Tentative Budget, p. 53.

## City Colleges Tuition Changes FY2007-FY2018

In FY2018 City Colleges projects that revenue from tuition and fees will make up 34.6% of its general Operating Fund. City Colleges saw a decline in enrollment of 10% in FY2017 (for the 2016-2017 school year), and projects an additional 5% decline in enrollment in FY2018.[70] Because of this anticipated enrollment decline, tuition and fee revenue is expected to bring in $94.7 million in FY2018, compared to the budgeted amount of $111.4 million in FY2017.[71]

The following table shows the City Colleges tuition changes that have occurred since 2007. In the twelve-year period from FY2007 until FY2018, City colleges increased its in-district tuition per credit hour three times. In FY2016 City Colleges transitioned from a per-credit-hour tuition and fee based revenue structure to a tier-based cost of attendance model, which includes tuition and mandatory fees, based on a student’s part-time or full-time enrollment status. Beginning in FY2016, the flat rate charge for in-district enrollment is now $599 for one course, $1,069 for part-time enrollment and $1,753 for full-time enrollment. The current tiered tuition structure was

[68] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 31.
[69] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, pp. 11 and 13.
[70] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 7.
[71] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 7.

designed to encourage full-time enrollment and timely graduation, make cost of attendance more transparent for students[72] and simplify the revenue structure.[73]

| City Colleges of Chicago<br>Tuition per Credit Hour | | | |
|---|---|---|---|
| **Year** | **In-District Tuition per Credit Hour** | **Out-of-District Tuition per Credit Hour** | **Out-of-State Tuition per Credit Hour** |
| **2007** | $ 72.00 | $ 180.83 | $ 291.61 |
| **2008** | $ 72.00 | $ 189.95 | $ 309.76 |
| **2009** | $ 72.00 | $ 258.99 | $ 306.89 |
| **2010** | $ 79.00 | $ 259.15 | $ 301.55 |
| **2011** | $ 87.00 | $ 171.56 | $ 228.35 |
| **2012** | $ 89.00 | $ 173.56 | $ 230.35 |
| **2013** | $ 89.00 | $ 185.38 | $ 236.59 |
| **2014** | $ 89.00 | $ 185.52 | $ 233.84 |
| **2015** | $ 89.00 | $ 202.01 | $ 249.71 |
| **2016 (One Class/Part-time/Full-time)** | $599/$1,069/1,753 | $1,359/$3,159/ $4,603 | $1,719/$4,149/$5,953 |
| **2017 (One Class/Part-time/Full-time)** | $599/$1,069/1,753 | $1,359/$3,159/$4,603 | $1,719/$4,149/$5,953 |
| **2018 Tentative Budget (One Class/Part-time/Full-time)** | $599/$1,069/1,753 | $1,359/$3,159/$4,603 | $1,719/$4,149/$5,953 |

Source: City Colleges of Chicago FY2012 Comprehensive Annual Financial Report, p. 51; FY2014 Tentative Annual Operating Budget, p. 41; FY2018 Tentative Annual Operating Budget, p. 32.

For a comparison of City Colleges' in-district tuition to the in-district tuition of ten other community colleges in the Northeastern Illinois region, see the Appendix.

### Property Tax Revenues

Property tax years are the same as calendar years. However, the City Colleges fiscal year is July 1 to June 30, and there is also a one-year lag in Cook County between when property taxes are levied and when they are collected. Taxes levied in 2016 are actually received in 2017. The effect is that property tax funds available during the City Colleges upcoming fiscal year (FY2018) will be drawn from part of tax year 2016 and part of tax year 2017.

In FY2018 City Colleges expects to receive a net total of $120.3 million in property tax revenues, compared to $120.1 million in FY2017. The gross amount of tax levy revenues will be

72 City Colleges of Chicago FY2016 Tentative Annual Operating Budget, p. ii.
73 City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 357.

$125.3 million, but that amount is reduced by $4.9 million to account for loss and cost of collections, yielding net property tax revenue of $120.3 million.

| Property Tax Revenues Received by City Colleges: FY2017 & FY2018 | | |
|---|---|---|
| | **FY2017** | **FY2018** |
| 1/2 Estimated Gross 2015 Levy | $ 62,451,691 | |
| 1/2 Estimated Gross 2016 Levy | $ 62,490,691 | |
| 1/2 Estimated Gross 2016 Levy | | $ 62,490,691 |
| 1/2 Estimated Gross 2017 Levy | | $ 62,765,690 |
| **Subtotal Gross Levy Funds Available** | **$ 124,942,382** | **$ 125,256,381** |
| Estimated Loss and Cost of Collection | $ (4,872,753) | $ (4,911,752) |
| **Total (Net Levy)** | **$ 120,069,629** | **$ 120,344,629** |
| **$ Change** | | **$ 275,000** |
| **% Change** | | **0.2%** |

Source: City Colleges of Chicago FY2017 Adopted Operating Budget, p. 62 and FY2018 Tentative Annual Operating Budget, p. 53.

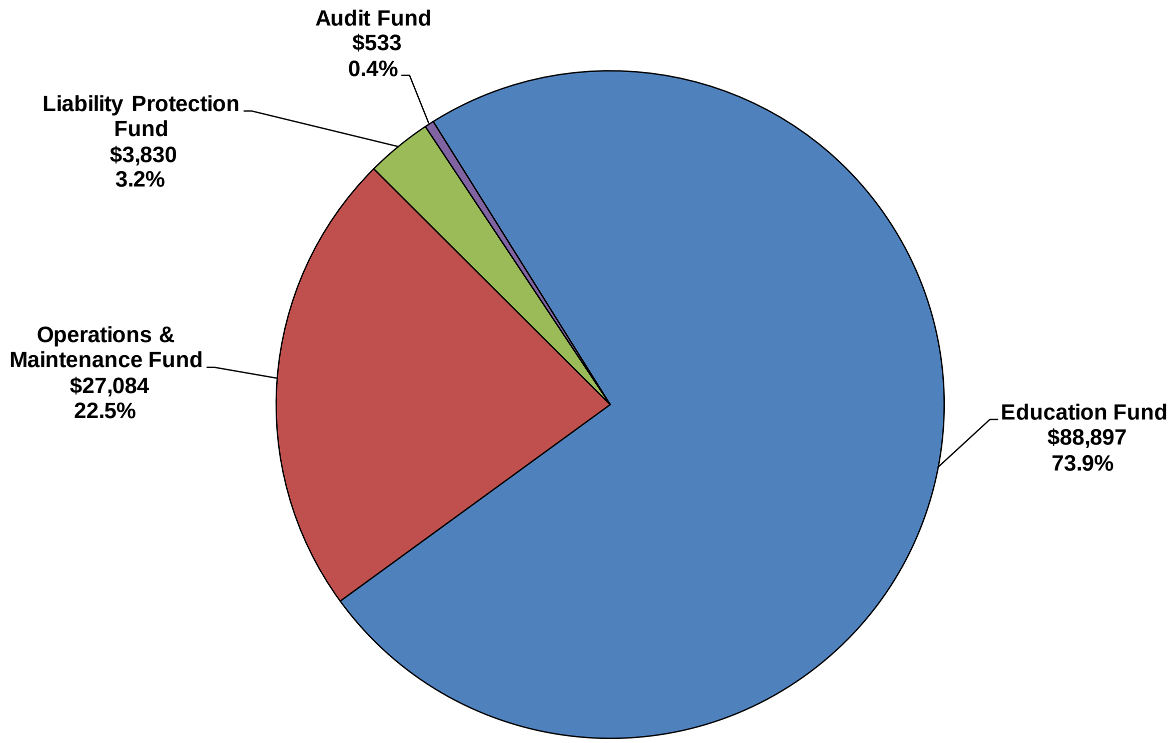
The $275,000 increase from FY2017 property tax revenues to FY2018 anticipated revenue is because City Colleges expects to capture new revenue from expiring TIF districts and new taxable property within the City of Chicago.[74] The levy increase is not an increase in the amount of money taxpayers will owe in property taxes; rather, the portion of property taxes that previously went to the TIF district will now go to City Colleges. Levying for new property only impacts property owners of new or improved property.

The distribution of net City Colleges' property tax revenues for FY2018 is shown in the pie chart below. All of the District's property tax revenue is used for operations.[75] Nearly 74% is earmarked for the Education Fund, which is the City Colleges' general operating fund; 22.5% is

[74] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 3.
[75] Note that all of the City Colleges operating funds are subject to the State's tax cap law, which limits annual property tax increases to 5.0% or the rate of inflation, whichever is less.

designated for the Operations and Maintenance Fund; 3.2%, is reserved for the Liability, Protection and Settlement Fund; and the remaining 0.4%, is earmarked for the Audit Fund.

**Distribution of City Colleges FY2018 Net Property Tax Revenues by Fund (in $ thousands)**




Source: City Colleges of Chicago FY2018 Tentative Annual Operating Budget, pp. 55-59.

### *Five-Year Property Tax Levy Trend*

Historically, City Colleges has not increased property taxes, other than levying for expiring TIF districts and new or improved property. The chart below displays the tax levy for City Colleges over the past five years, for levy years 2013-2017 (taxes collected in 2014-2018). In tax year 2017 (taxes payable in calendar year 2018) the gross City Colleges gross property tax levy (before accounting for loss in collections) will total $125.5 million. This represents a 1.4% increase compared to the gross levy of $123.9 million in tax year 2013.[76]

In addition to the property tax revenue that City Colleges levies for itself, the City of Chicago also levies property taxes on behalf of City Colleges in order for the District to pay debt service on capital improvement bonds issued for City Colleges' projects.[77] The City of Chicago does so because of the expiration of District authority to levy for debt issued by the Public Building

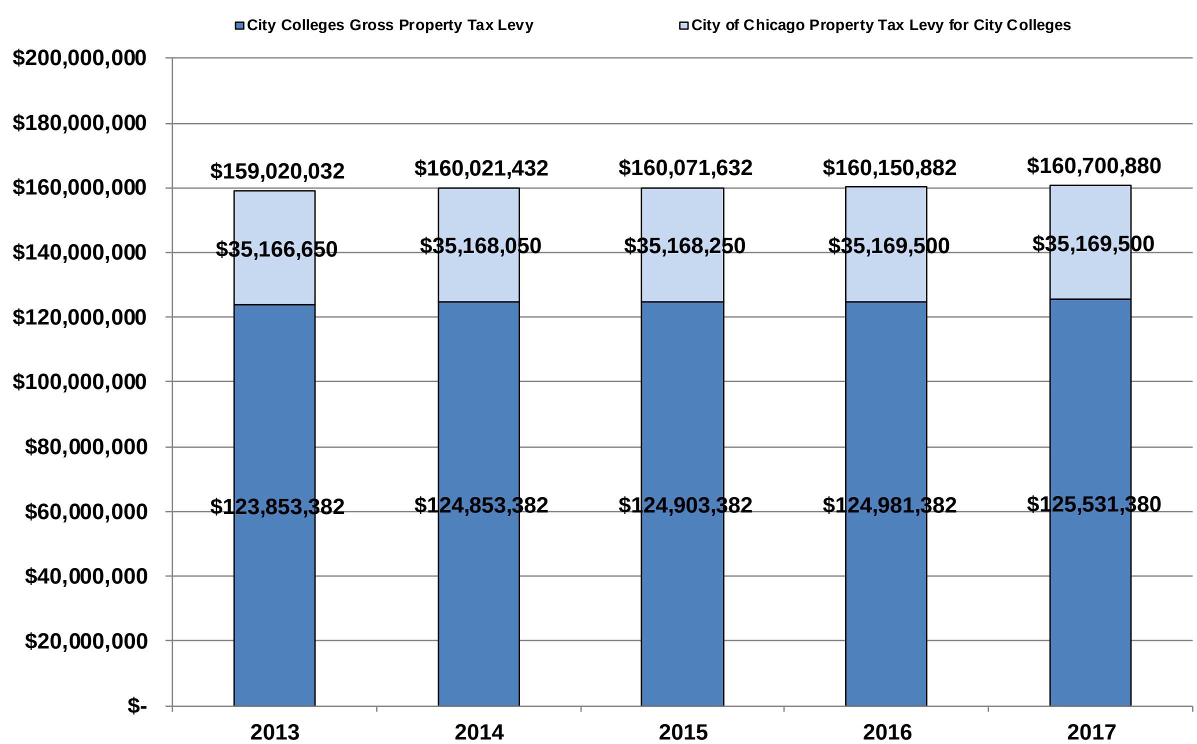
[76] City Colleges was able to increase its levy without increasing the amount taxpayers pay on their property tax bills by applying its tax rate to the equalized assessed value within a Tax Increment Financing District that has been dissolved in order to generate additional revenue for City Colleges that would have previously gone to the TIF district.

[77] The City of Chicago similarly levies property taxes on behalf of the Chicago Public Schools.

Commission (PBC) on behalf of City Colleges. Debt service limits for City Colleges were fixed at the time the tax cap law was implemented in 1995. At that time, the District's debt burden consisted of obligations issued through the PBC and paid for through a PBC Operations and Maintenance (O&M) levy. When these were paid, the O&M levy was eliminated, requiring the District to seek other ways to issue debt. The City of Chicago, by means of an intergovernmental agreement, now levies property taxes that are used to pay for PBC Commission obligations and City Colleges' projects.[78] The City levy on behalf of City Colleges is set at levels previously authorized for the O&M levy. Without these funds, it would be difficult for City Colleges to raise adequate funds for maintenance, rehabilitation and construction of capital improvements.

The City's levy for the City Colleges' debt has remained relatively stable at approximately $35.2 million since tax year 2008. This levy is part of the City of Chicago tax rate and does *not* appear as a separate line item on property tax bills. After including the City of Chicago levy for City Colleges' capital improvement bonds, the total property tax levy for City Colleges is $160.7 million for FY2018. This represents a slight increase from $159.0 million in tax year 2013.

**City Colleges Total Gross Property Tax Levies, Including Levy by City of Chicago on Behalf of City Colleges: Tax Levy Years 2013-2017**




Source: City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 186.

[78] Information provided by City Colleges of Chicago, June 26, 2008.

**State Equalization Formula**

The State of Illinois provides community college districts with equalization grants intended to ensure that each district has approximately equivalent financial means, regardless of a district's taxable property wealth. Because the formula for distributing equalization grants does not account for the Property Tax Extension Limitation Law (PTELL, also known as "tax caps"), it assumes that a greater amount of property wealth is available to tax-capped districts than can actually be taxed without seeking approval of the voters through a referendum. Over time, this has meant that State funding for City Colleges has declined. The City Colleges equalization grant dropped from more than $16 million in FY2002 to $50,000 in FY2005 and down to $0 thereafter.[79]

As the current formula would have provided City Colleges with almost no revenue, the State awarded a $15.0 million alternate equalization grant to City Colleges in FY2005 to replace the $16.0 million grant it lost.[80] Each year between FY2006 and FY2012, the State renewed the grant for $15.0 million. Since then, the alternate equalization grant has been reduced proportionately along with other reductions in funding from the Illinois Community College Board.[81] In FY2018 the District is budgeting an alternate equalization grant of $12.4 million.[82]

## ENROLLMENT TRENDS

City Colleges estimates that FY2017 student enrollment declined by 7.1% from the previous year.[83] The decline in enrollment in FY2017 is attributed primarily to the decline in unemployment rates.[84]

Over the two-year period from FY2016 to FY2017, student enrollment is projected to fall in City Colleges' largest instructional area, the Career Credit and Skills program, by 2,233 FTEs, or 8.5%. Enrollment is also expected to decline in the Adult Education area by 451 FTEs, or 3.9%. Continuing Education enrollment is expected to increase modestly by a total of 3 FTEs or 75.0%. This is because students enrolled in Continuing Education are now referred to professional and personal development students, which fall under the category type of Career Credit and Skills.[85]

Between FY2013 and FY2017, City Colleges FTE enrollment declined by 24.5%, or 11,303 FTEs, down from 46,585 to 35,282. The greatest percentage decrease over the five-year period in FTE enrollment is in the Continuing Education area, which declined by 85.3%, or 562 FTEs. As noted above, this decline is because Continuing Education students were reclassified as professional and personal development students, which fall under the category of Career Credit and Skills students. The greatest decrease in students came in the Career Credit and Skills area,

[79] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 33.
[80] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 33.
[81] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 33.
[82] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 32.
[83] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 188.
[84] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 184.
[85] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 184.

which saw enrollment decline 7,354 FTEs or 23.1%. Enrollment in the Adult Education area also dropped by 24.7% or 3,387 FTEs.

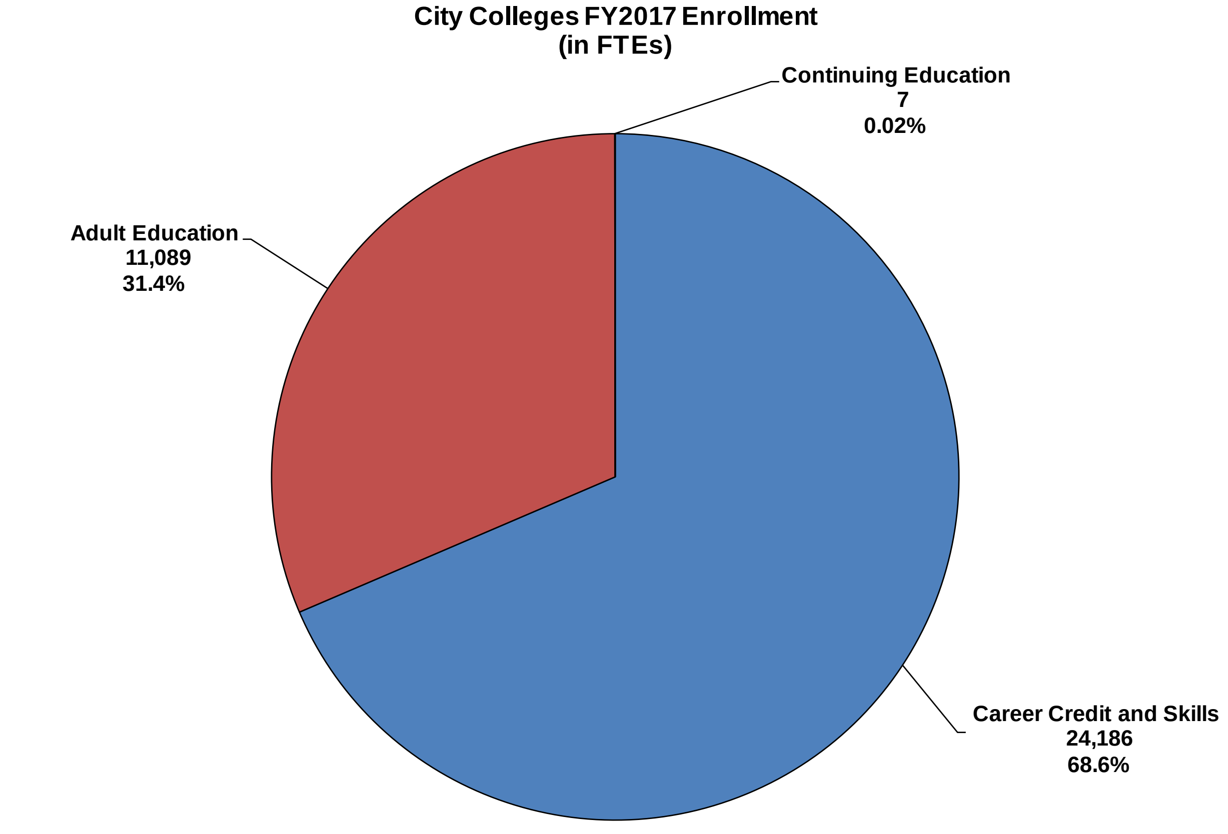
| City Colleges Full-Time Equivalent (FTE) Enrollment: FY2013-FY2017 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Type** | **FY2013** | **FY2014** | **FY2015** | **FY2016** | **FY2017*** | **Two-Year # Change** | **Two-Year % Change** | **Five-Year # Change** | **Five-Year % Change** |
| Career Credit and Skills | 31,540 | 31,232 | 29,263 | 26,419 | 24,186 | (2,233) | -8.5% | (7,354) | -23.1% |
| Adult Education | 14,476 | 13,461 | 11,874 | 11,540 | 11,089 | (451) | -3.9% | (3,387) | -24.7% |
| Continuing Education | 569 | 567 | 391 | 4 | 7 | 3 | 75.0% | (562) | -85.3% |
| **Total** | **46,585** | **45,260** | **41,528** | **37,963** | **35,282** | **(2,681)** | **-7.1%** | **(11,303)** | **-24.5%** |

Note: Differences from budget book may occur due to rounding.

*FY2017 enrollment data is a preliminary estimate as of May 15, 2017.

Source: City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 188.

The exhibit that follows identifies City Colleges' FY2017 enrollment. The Career Credit and Skills students composed the largest percentage of students at 24,186, or 68.6%. Adult Education and Continuing Education students composed 11,089, or 31.4%, and 7, or 0.02%, respectively. City Colleges is projecting a further decline in enrollment for the 2018 fiscal year of 5.0%.[86]




Note: FY2017 enrollment data is preliminary as of May 15, 2017.
Source: City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 188.

## PERSONNEL AND PERSONNEL SERVICES

In its FY2018 tentative annual operating budget, City Colleges provides full-time equivalent (FTE) data by position type and status for FY2016 through FY2018. FTE data reflects the total hours worked by all employees as a factor of full-time employment. Generally, it is more useful and accurate to examine FTE data, as opposed to headcount data which represents the total number of individual employees including full-time, part-time and student workers. FTE data helps to make varying workloads within the organization more comparable.

In the three-year period between FY2016 and FY2018, FTEs are budgeted to decline by 1,085 positions, or 24.8%, from 4,379 FTEs to 3,294 FTEs. This is a reduction of 387 full-time FTE positions, or 15.9%, and a reduction of 698 part-time FTE positions, or 35.8%. The majority of the decline in full-time FTE positions will be professional/technical staff, administrators and clerical staff positions, which will decline by 198, 114 and 141 FTE positions respectively. The majority of the decline in part-time FTE positions will be from faculty and front-line direct support staff, which will decline by 513 and 194 FTE positions, respectively.

[86] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 7.

In the two-year period between FY2017 and FY2018 there will be a reduction of 650 FTE positions, or a 16.5% decrease in total FTEs. Full-time staff will decrease by 299 positions, or 12.8%. This decrease will include 44 fewer full-time faculty, 164 fewer full-time professional and technical staff, 105 fewer full-time administrators, 103 fewer full-time clerical workers, 23 fewer full-time front-line direct support workers, no change in the number of full-time student workers and an increase of 140 additional full-time academic support staff. During the same time period, part-time FTE positions will decrease by a total of 351, or 21.9%. There will be 216 fewer part-time faculty positions, 20 fewer part-time professional and technical FTE staff positions, one fewer part-time FTE administrator, eight fewer part-time clerical FTE staff, 112 fewer front-line direct support staff FTEs, 11 fewer part-time FTE student workers and an increase of 17 part-time academic support FTE positions.

**City Colleges of Chicago Full-Time Equivalent (FTE) Employees by Position Type and Status in Unrestricted Funds: FY2016-FY2018**

| Position Type | Status | FY2016 Adopted | FY2017 Adopted | FY2018 Tentative Budget | Two-Year # Change | Two-Year % Change | Three-Year # Change | Three-Year % Change |
|---|---|---|---|---|---|---|---|---|
| Faculty | Full Time | 627 | 619 | 575 | -44 | -7.1% | -52 | -8.3% |
| | Part Time | 1,156 | 859 | 643 | -216 | -25.1% | -513 | -44.4% |
| Professional/Technical Staff | Full Time | 592 | 558 | 394 | -164 | -29.4% | -198 | -33.4% |
| | Part Time | 68 | 66 | 46 | -20 | -30.3% | -22 | -32.4% |
| Administrators | Full Time | 424 | 415 | 310 | -105 | -25.3% | -114 | -26.9% |
| | Part Time | 2 | 1 | 0 | -1 | -100.0% | -2 | -100.0% |
| Clerical | Full Time | 354 | 316 | 213 | -103 | -32.6% | -141 | -39.8% |
| | Part Time | 10 | 19 | 11 | -8 | -42.1% | 1 | 10.0% |
| Front-Line Direct Support | Full Time | 269 | 264 | 241 | -23 | -8.7% | -28 | -10.4% |
| | Part Time | 373 | 291 | 179 | -112 | -38.5% | -194 | -52.0% |
| Academic Support | Full Time | 161 | 168 | 308 | 140 | 83.3% | 147 | 91.3% |
| | Part Time | 322 | 341 | 358 | 17 | 5.0% | 36 | 11.2% |
| Student Workers | Full Time | 1 | 0 | 0 | 0 | - | -1 | -100.0% |
| | Part Time | 20 | 27 | 16 | -11 | -40.7% | -4 | -20.0% |
| **Sub-Totals** | **Full Time** | **2,428** | **2,340** | **2,041** | **-299** | **-12.8%** | **-387** | **-15.9%** |
| | **Part Time** | **1,951** | **1,604** | **1,253** | **-351** | **-21.9%** | **-698** | **-35.8%** |
| **Total Full-time Equivalent (FTEs)** | | **4,379** | **3,944** | **3,294** | **-650** | **-16.5%** | **-1,085** | **-24.8%** |

Note 1: Different totals may appear due to rounding.
Note 2: A review of all positions, job families, groups and functionality was performed in FY2017 by City Colleges of Chicago staff. Data has been realigned from previous years to reflect the resulting changes.
Source: City Colleges of Chicago FY2017 Tentative Annual Operating Budge, p. 187.

The following chart shows operating funds appropriations for salaries and benefits between FY2014 and FY2018. The FY2018 tentative budget of $209.7 million for salaries and benefits is a decrease of $11.3 million, or 5.1%, from the FY2017 adopted budget of $221.0 million. Over the five-year period, salaries will decrease by $20.4 million, or 10.7%, while benefits will increase by $10.5 million, or 36.4%.

| City Colleges Unrestricted Operating Funds Personnel Appropriations: FY2014-FY2018 (in $ thousands) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY2014 Actual | FY2015 Actual | FY2016 Actual | FY2017 Adopted Budget | FY2018 Tentative Budget | Two-Year $ Change | Two-Year % Change | Five-Year $ Change | Five-Year $ Change |
| Salaries | $ 190,560 | $ 193,183 | $ 194,989 | $ 187,982 | $ 170,185 | $ (17,798) | -9.5% | $ (20,375) | -10.7% |
| Benefits | $ 28,943 | $ 29,276 | $ 45,280 | $ 33,001 | $ 39,472 | $ 6,471 | 19.6% | $ 10,529 | 36.4% |
| **Total** | **$ 219,502** | **$ 222,459** | **$ 240,269** | **$ 220,984** | **$ 209,657** | **$ (11,327)** | **-5.1%** | **$ (9,846)** | **-4.5%** |

Source: City Colleges of Chicago FY2016 Annual Operating Budget, pp. 67-70.; FY2017 Annual Operating Budget, pp. 64-68; and FY2018 Tentative Annual Operating Budget, pp. 55-59.

## FUND BALANCE

Fund balance is a term commonly used to describe the net assets of governmental funds and is a measure of financial resources.[87] The Government Finance Officers Association (GFOA) recommends that general purpose governments maintain an unrestricted general fund fund balance of no less than two months, or 16.7%, of regular general fund operating revenues or regular general fund operating expenditures.

City Colleges is a special purpose, not a general purpose government, but its 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. Since the fund balance ratio reflects the savings that a government has accumulated relative to its expenditures for the fiscal year, it is an indicator of the government's financial ability to maintain current service levels.

City Colleges adopted a fund balance policy on December 1, 2016 for the District to maintain an unrestricted fund balance equal to 3.0% of the total annual operating expenses within the unrestricted funds, which include the Education Fund, Operations & Maintenance Fund, Auxiliary/Enterprise Fund and Working Cash Fund.[88] Any additional fund balance will be transferred to the restricted Operations & Maintenance Fund, also referred to as the Capital Fund. The policy also includes principles to help guide the District in managing its fund balances, including not using operating fund balance to finance current operations, recognizing bond ratings and credit implications, considering the District's limited revenue sources and using fund balances to support capital improvements but always maintaining a healthy reserve.[89]

Beginning in FY2011, many governments changed the way they reported fund balance per the implementation of the Governmental Accounting Standards Board (GASB) Statement 54, which reclassifies fund balance components within governmental funds. City Colleges of Chicago, however, is not required to implement the GASB changes because as a public college system it only has business-type funds. Therefore, City Colleges reports net position for all of its funds.

[87] Government Finance Officer's Association (GFOA), Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).
[88] The policy was adopted by the Board of Trustees as Resolution #33109. City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 24.
[89] City Colleges of Chicago, FY2018 Tentative Annual Operating Budget, p. 24.

The City Colleges of Chicago recently provided information to the Civic Federation that makes adjustments to past years' Statements of Net Position to comply with both GASB Statements 54 and 63. In this report, the Civic Federation is using the information provided by the District to report unrestricted net assets and data directly from Comprehensive Annual Financial Reports (CAFRs).

The following table presents unrestricted fund balance for FY2007 through FY2016. The fund balance ratio for City Colleges averaged 43.5% between FY2007 and FY2016, well above the 16.7% ratio recommended by the GFOA and the District's own policy guidelines. However, in the two most recent years of audited financial data, the unrestricted fund balance ratio has declined significantly. The fund balance ratio decreased from 48.2% in FY2014 to 26.8% in FY2015 due to the continuing construction of the new Malcolm X campus.[90] Between FY2015 and FY2016 the fund balance ratio saw another significant decline to a ratio of only 4.8%. The majority of this large decline was due to the District drawing down its reserves by $59.0 million to cover an operating loss at the District driven by the State budget impasse.[91]

**Audited and Unaudited City Colleges Unrestricted Fund Balance Ratio FY2007-FY2016**

| | Unrestricted Net Position | Operating Expenses | Ratio |
|---|---|---|---|
| **FY2007** | $ 194,343,222 | $ 389,995,809 | 49.8% |
| **FY2008** | $ 166,715,957 | $ 389,995,809 | 42.7% |
| **FY2009** | $ 191,280,203 | $ 372,202,855 | 51.4% |
| **FY2010** | $ 199,852,756 | $ 404,365,535 | 49.4% |
| **FY2011** | $ 227,551,818 | $ 435,306,374 | 52.3% |
| **FY2012** | $ 254,977,399 | $ 449,612,320 | 56.7% |
| **FY2013** | $ 254,548,655 | $ 477,356,341 | 53.3% |
| **FY2014** | $ 221,854,399 | $ 460,397,991 | 48.2% |
| **FY2015** | $ 135,002,378 | $ 503,729,283 | 26.8% |
| **FY2016** | $ 24,896,253 | $ 521,994,070 | 4.8% |

Note: FY2006-FY2012 data was reclassifed to comply with GASB Statements 54 and 63.

Source: Information provided by City Colleges of Chicago budget staff, March 13, 2015 and FY2013-FY2016 CAFRs.

After two years of depletion of City Colleges' reserves due to underfunding by the State of Illinois, the District has committed to replenishing its reserves. The District plans to replenish its reserves by using the proceeds from the sale of several of its buildings, including the central office located in downtown Chicago.[92]

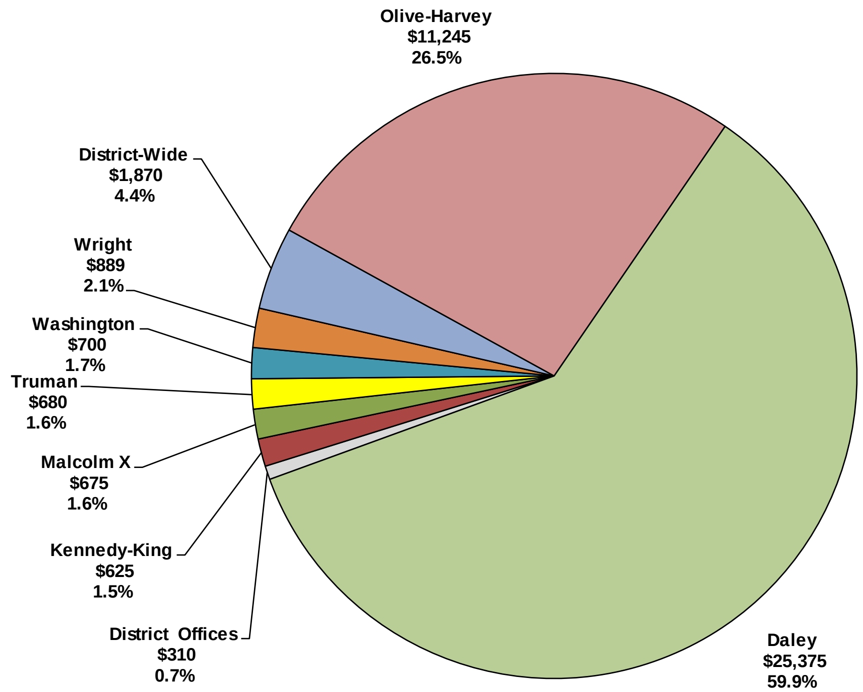
[90] City Colleges of Chicago, FY2015 CAFR, p. 3.
[91] Information provided by City Colleges of Chicago Finance Department on May 30, 2017 and July 13, 2017.
[92] Information provided by City Colleges of Chicago Finance Department on July 13, 2017.

## CAPITAL BUDGET

City Colleges prepares a capital budget at the same time as the operating budget. In FY2018 the total capital budget is proposed to be approximately $42.3 million. The distribution of the FY2018 capital budget by location is shown below.

The largest amount of projected capital spending in FY2018, at $25.4 million or 59.9% of all spending, will be earmarked for Daley College. Those funds will be spent primarily for the design and construction of a new Advanced Manufacturing and Engineering Center.[93] About $11.2 million, or 26.5% of the capital budget, will be used to complete construction at the Olive-Harvey Campus to include a new 103,000-square-foot Transportation, Distribution and Logistics building.[94]

**City Colleges FY2018 Total Capital Budget for Existing Facilities by Location (in $ thousands)**




Source: City Colleges of Chicago FY2018 Tentative Annual Operating Budget, pp. 40-43.

[93] City Colleges of Chicago, FY2018 Tentative Annual Operating Budget, p. 46.
[94] City Colleges of Chicago, FY2018 Tentative Annual Operating Budget, p. 46.

The next exhibit shows the FY2018 total capital budget by type of expenditure. Approximately $35.9 million or 85.0% of the budget will be earmarked for new facilities.

| City Colleges Total Approved Capital Projects by Type: FY2018 ($ in thousands) | | |
|---|---|---|
| **Type** | **$ Amount** | **% of Total** |
| New Facilities | $ 35,946 | 84.8% |
| Mechanical | $ 1,440 | 3.4% |
| Architectural & Structural | $ 1,195 | 2.8% |
| Information Technology | $ 1,000 | 2.4% |
| Electrical | $ 914 | 2.2% |
| Conveying Systems | $ 875 | 2.1% |
| Campus Security | $ 600 | 1.4% |
| Environmental & Compliance | $ 150 | 0.4% |
| Academic Enhancements | $ 150 | 0.4% |
| Equipment | $ 100 | 0.2% |
| **Total** | **$ 42,370** | **100.0%** |

Source: City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 39.

### Capital Improvement Plan

City Colleges' Capital Improvement Plan (CIP) includes a comprehensive survey of all existing capital assets conducted by a team of architects and engineers, a condition assessment of all existing capital assets and a cost estimate related to the ongoing replacement and maintenance of those assets. Projects are then prioritized and planned using needs-based criteria.

In FY2014, CCC created a five-year Capital Plan. It was not intended to be a rolling plan but instead focused on the immediate capital needs for those 5 years. There is one remaining year in this plan, FY2018. A new strategic plan and related capital plan will be developed over the course of the next year.[95]

A presentation of the $523.3 million CIP for FY2014-FY2018 in capital needs by type of project for City Colleges follows. Approximately 55.8% of the total CIP amount, or $267.8 million, is projected for new facilities.

| Proposed Capital Projects by Type: FY2014-FY2018 (in $ thousands) | | | | | | |
|---|---|---|---|---|---|---|
| **Type** | **FY2014** | **FY2015** | **FY2016** | **FY2017** | **FY2018** | **Total** |
| Equipment | $ 5,936 | $ 654 | $ 1,867 | $ 164 | $ 100 | $ 8,721 |
| Architectural & Structural | $ 15,790 | $ 17,787 | $ 15,765 | $ 3,165 | $ 1,195 | $ 53,702 |
| Conveying Systems | $ 123 | $ 1,234 | $ 1,526 | $ 875 | $ 875 | $ 4,633 |
| Mechanical Systems | $ 1,024 | $ 4,060 | $ 6,102 | $ 1,973 | $ 1,440 | $ 14,599 |
| Electrical Systems | $ 1,021 | $ 3,211 | $ 2,349 | $ 1,325 | $ 914 | $ 8,820 |
| Environmental & Compliance | $ 37 | $ 25 | $ - | $ - | $ 150 | $ 212 |
| Academic Enhancements | $ 1,215 | $ 7,725 | $ 12,747 | $ 4,025 | $ 150 | $ 25,862 |
| Information Technology | $ 15,393 | $ 20,867 | $ 24,474 | $ 12,655 | $ 1,000 | $ 74,389 |
| Campus Security | $ 6,918 | $ 6,842 | $ 5,584 | $ 1,495 | $ 600 | $ 21,439 |
| New Facilities | $ 43,061 | $ 126,798 | $ 85,081 | $ 20,000 | $ 35,946 | $ 310,886 |
| **Grand Total** | **$ 90,518** | **$ 189,203** | **$ 155,495** | **$ 45,677** | **$ 42,370** | **$ 523,263** |

Source: City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 40.

[95] Information provided by City Colleges Budget Office, July 31, 2017.

CIP spending by location for FY2014-FY2018 shows that 55.4% of all funding will be earmarked for Malcom X College. The second largest amount spent over this five-year period will be the $60.2 million, 11.5% of the total, to be utilized for district-wide projects.

| Proposed Capital Projects by Location: FY2014-FY2018 (in $ thousands) | | | | | | | |
|---|---|---|---|---|---|---|---|
| College or Office | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 | Total | % of Total |
| Daley College | $ 2,145 | $ 2,530 | $ 3,442 | $ 8,965 | $ 25,375 | $ 42,457 | 8.1% |
| Harold Washington College | $ 2,133 | $ 2,940 | $ 5,816 | $ 3,255 | $ 700 | $ 14,844 | 2.8% |
| Kennedy-King College | $ 2,679 | $ 4,248 | $ 6,421 | $ 1,900 | $ 625 | $ 15,873 | 3.0% |
| Malcolm X College | $ 44,861 | $ 130,098 | $ 96,276 | $ 17,942 | $ 675 | $ 289,852 | 55.4% |
| Olive-Harvey College | $ 5,085 | $ 7,652 | $ 17,533 | $ 1,925 | $ 11,245 | $ 43,440 | 8.3% |
| Truman College | $ 4,604 | $ 7,711 | $ 8,022 | $ 3,558 | $ 680 | $ 24,575 | 4.7% |
| Wright College | $ 6,428 | $ 5,435 | $ 4,349 | $ 1,268 | $ 889 | $ 18,369 | 3.5% |
| District Offices | $ 3,436 | $ 3,882 | $ 3,533 | $ 2,450 | $ 310 | $ 13,611 | 2.6% |
| District-Wide | $ 19,147 | $ 24,708 | $ 10,104 | $ 4,415 | $ 1,870 | $ 60,244 | 11.5% |
| **Total** | **$ 90,518** | **$ 189,204** | **$ 155,496** | **$ 45,678** | **$ 42,369** | **$ 523,265** | **100.0%** |

The numbers in this exhibit may be slightly different than those in the Budget Book due to rounding.
Source: City Colleges of Chicago FY2018 Tentative Annual Operating Budget, pp. 40-43

Approximately $499.4 million or 95.4% of total CIP funding will come from local sources such as cash available for capital purposes, bond proceeds and tax increment financing. State source funds from the Illinois Capital Development Board totaling $23.9 million will provide monies for the remaining amount.

| City Colleges Funding Sources for Capital Improvement Plan: FY2014-FY2018 (in $ millions) | |
|---|---|
| | FY2014-FY2018 |
| **Sources** | |
| Cash available for capital purposes | $ 163.7 |
| Illinois Capital Development Board Contribution | $ 23.9 |
| City of Chicago TIF (Wilson Yard TIF) | $ 5.7 |
| Bond Proceeds (Existing $250 million bond + new $80 million bond) | $ 330.0 |
| **Total** | **$ 523.3** |

Source: City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 44.

## LIABILITIES

This section of the analysis provides an overview of City Colleges' short- and long-term liabilities from FY2012 through FY2016, the most recent years for which audited data are available.

### 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 and other current liabilities. City

Colleges of Chicago currently reports no short-term debt, but does include the following short-term liabilities in the Statement of net position in its Annual Financial Report:[96]

- *Accounts payable*: monies owed to vendors or employees for goods and services;
- *Accrued payroll*: employee pay carried over from previous years;
- *Deposits held in custody*: funds owed to student organizations and other outside entities included in the institution's endowment investment fund;
- *Other liabilities*: include self-insurance funds, unclaimed property and other unspecified liabilities; and
- *Other accruals*: unpaid invoices at year-end for goods and services received in prior fiscal year.

The following chart shows short-term liabilities by category and the percent and dollar change over the previous year and past five years. In FY2016, the most recent year for which data are available, total short-term liabilities decreased by roughly $335,200 from the previous year, or by 0.5%. Much of this decrease was due to a large $7.9 million, or 18.9%, increase in accounts payable. Much of the decrease occurred because  major expenditures incurred in FY2015 were not repeated in FY2016 as capital projects were completed and assets placed into service.[97]

Between FY2012 through FY2016, accounts payable, the largest component of current liabilities, increased by 58.2% or $12.6 million. They rose from $21.6 million to roughly $34.2 million. Between FY2012 and FY2013, accounts payable increased by $9.8 million, or 45.3%. This large increase from $21.6 million to $31.4 million can be attributed to the accrual of $9.6 million for a prior-year liability.[98] Between FY2013 and FY2014, accounts payable again rose sharply, increasing by 24.6% from $31.4 million to $39.1 million. This increase was due to higher capital spending on the new Malcolm X College campus building in FY2014, resulting in a higher year-end accounts payable balance.[99] In the two-year period between FY2014 and FY2015, accounts payable rose again by $3.1 million, or 7.8%. As noted above, accounts payable decreased in FY2016 due to the completion of capital projects.

Overall, between FY2012 and FY2016, current liabilities rose by 42.7%, or $20.9 million.

**City Colleges Short-Term Liabilities: FY2012-FY2016**
**(in $ thousands)**

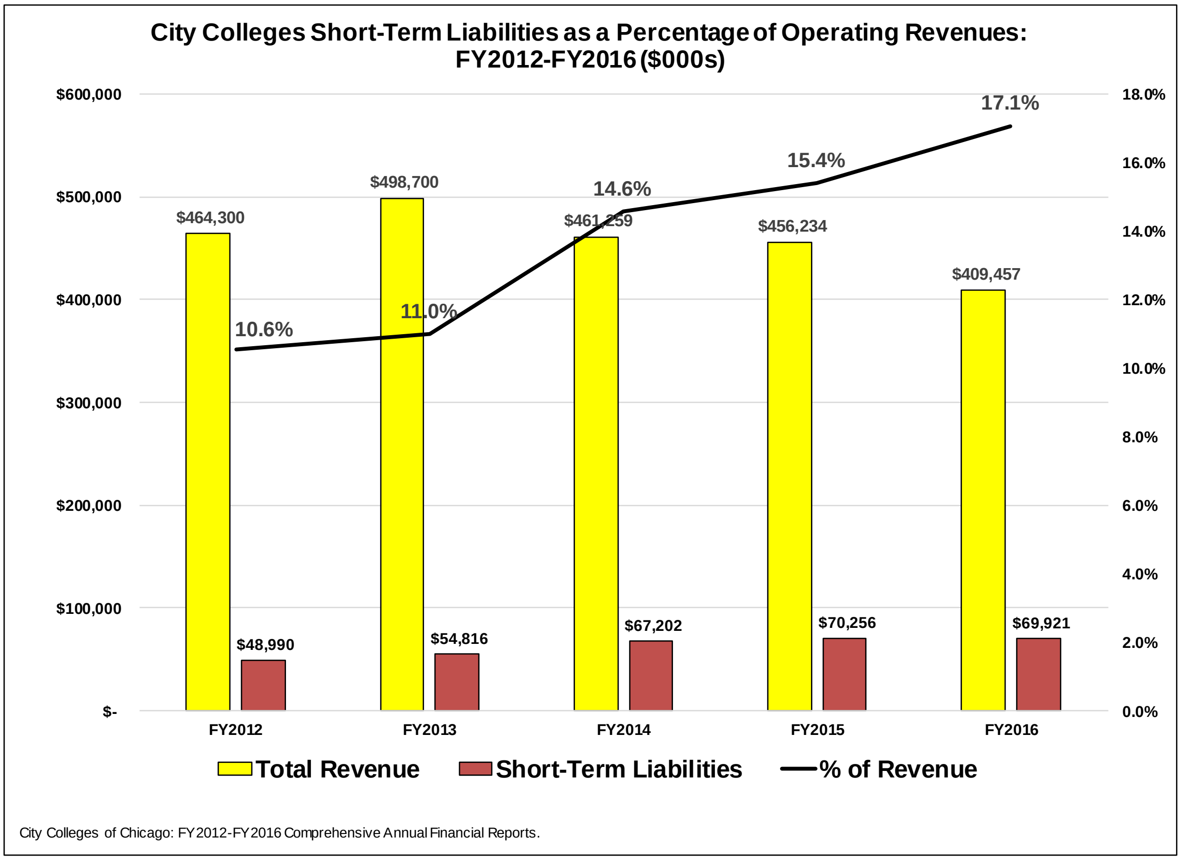
| Current Liability | FY2012 | FY2013 | FY2014 | FY2015 | FY2016 | Two-Year $ Change | Two-Year % Change | Five-Year $ Change | Five-Year % Change |
|---|---|---|---|---|---|---|---|---|---|
| Accounts Payable | $ 21,635.8 | $ 31,427.7 | $ 39,147.0 | $ 42,198.8 | $34,235.8 | $ (7,963.0) | -18.9% | $ 12,600.0 | 58.2% |
| Accrued Payroll | $ 2,500.6 | $ 3,438.7 | $ 8,180.0 | $ 13,475.8 | $15,888.3 | $ 2,412.5 | 17.9% | $ 13,387.7 | 535.4% |
| Deposits Held In Custody | $ 1,402.6 | $ 1,414.0 | $ 1,489.3 | $ 1,228.7 | $ 1,060.0 | $ (168.7) | -13.7% | $ (342.6) | -24.4% |
| Other Liabilities | $ 22,206.1 | $ 17,639.8 | $ 12,453.3 | $ 10,106.3 | $13,042.7 | $ 2,936.4 | 29.1% | $ (9,163.4) | -41.3% |
| Other Accruals | $ 1,245.0 | $ 896.2 | $ 5,932.4 | $ 3,246.2 | $ 5,693.8 | $ 2,447.6 | 75.4% | $ 4,448.8 | 357.3% |
| **Total Current Liabilities** | **$ 48,990** | **$ 54,816** | **$ 67,202** | **$ 70,255.8** | **$69,920.6** | **$ (335.2)** | **-0.5%** | **$ 20,930.5** | **42.7%** |

Note: Accrued property tax refunds were reclassified in 2013 and are now included in non-current liabilities as a result of implementation of GASB Statement No. 65.
Sources: City Colleges of Chicago CAFRs, FY2012-FY2016.

[96] In In fiscal year 2013, City Colleges implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* early, which resulted in a reclassification of deferred property tax revenues to deferred inflows of resources.
[97] City Colleges of Chicago FY2016 Comprehensive Annual Financial Report, p. 28.
[98] Communication with City Colleges of Chicago budget staff, June 30, 2014.
[99] Information provided by City Colleges of Chicago Finance Department, June 15, 2015.

Increasing current liabilities as a percentage of net operating revenues, may be a warning sign of a government's future financial difficulties.[100] This 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.

The ratio of short-term liabilities to operating revenue has increased over the past five years from 10.6% in FY2012 to 17.1% in FY2016. The major reason for the five-year increase is that operating revenues declined by 11.8%, or $54.8 million, falling from $464.3 million to $409.5 million while at the same time short-term liabilities rose by $20.9 million or 42.7%, increasing from $49.0 million to roughly $70.0 million. Continued future increases in this ratio could be a cause for concern as it could indicate liquidity problems.

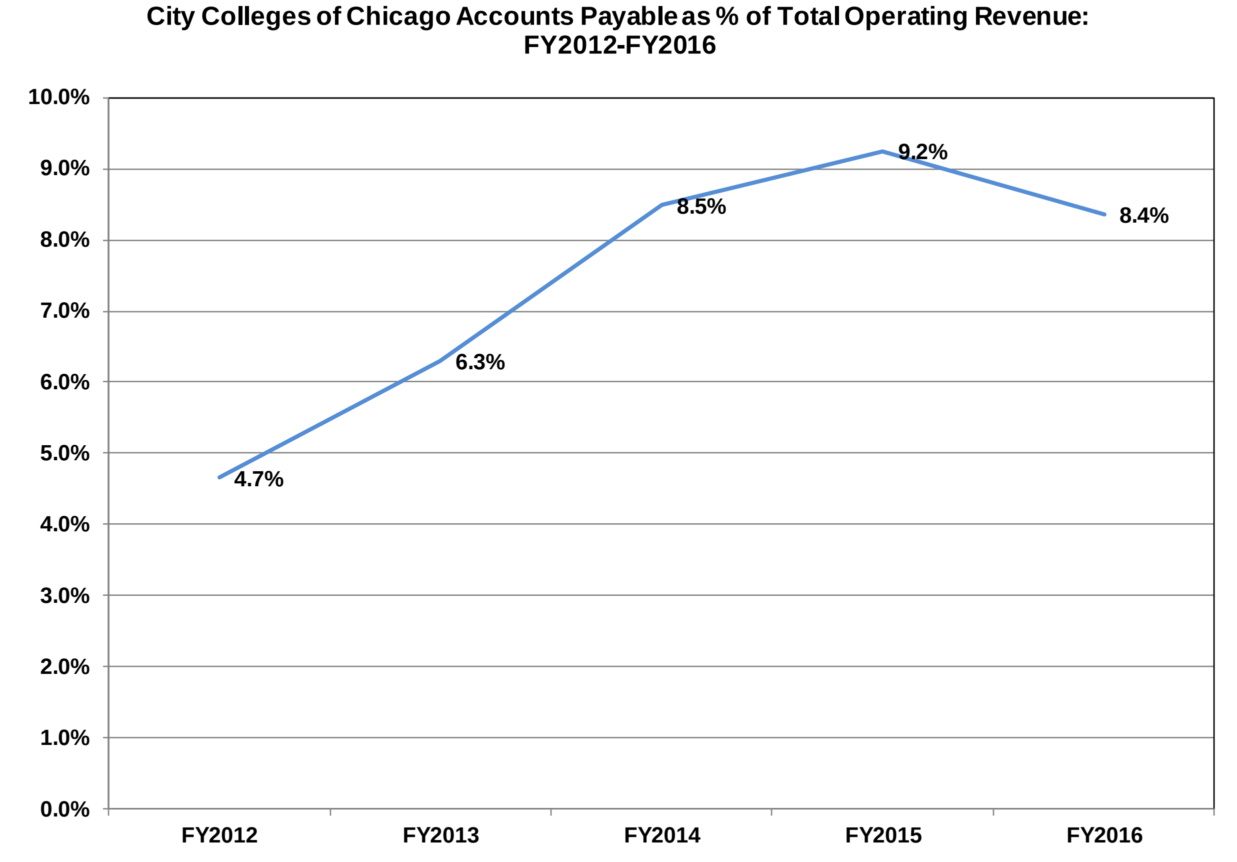



**Accounts Payable to Operating Revenues Ratio**

The next exhibit shows the ratio of accounts payable to operating revenues. Increasing amounts of accounts payable can indicate that the government is deferring payment of outstanding liabilities due to liquidity problems.

[100] Karl Nollenberger, et al., *Evaluating Financial Condition: A Handbook for Local Government* (Washington, D.C.: ICMA, 2003), p. 77.

The accounts payable ratio for City Colleges rose from 4.7% in FY2012 to 9.2% in FY2015 before dropping to 8.4% in FY2016. The decrease in the ratio is a step in the right direction.



Source: City Colleges of Chicago FY2012-FY2016 CAFR.

## Current Ratio

The current ratio is a measure of liquidity. It assesses whether the government has enough cash and other liquid resources to meet its short-term obligations as they come due. 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.[101] In addition to the short-term liabilities listed above, the current ratio formula uses the current assets of the District:[102]

---

[101] Steven A. Finkler. *Financial Management for Public, Health and Not-for-Profit Organizations,* Upper Saddle River, NJ, 2001, p. 476.

[102] The Civic Federation does not include unearned revenue (also called **deferred revenues**) in our short-term liability trend analysis for the following reasons:

- Unearned revenue is from property taxes, program fees and other sources received before a good or service has been provided.
- It is classified as a current liability on the balance sheet until it is recognized as earned during the accounting cycle; and
- For the governments we analyze, unearned revenue usually refers to property tax revenues levied but not spent; it is an issue related to the timing of property tax collections and not an issue of fiscal stress.

- *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 as well as 2) any investments that the District has made that will expire within one year, including stocks and bonds that can be liquidated quickly;
- *Receivables* are monetary obligations owed to the government including property taxes, replacement taxes, and State or federal aid; and
- *Prepaid items and other assets* represent amounts paid as of June 30 whose recognition is postponed to a future period. Prepaid expenses consist primarily of prepayments to vendors for maintenance contracts.[103]

The City Colleges' current ratio was 2.5 in FY2016, the most recent year for which data is available. In the past five years, the District's current ratio averaged 4.7, which is far greater than the benchmark of 2.0 and thus demonstrates an acceptable level of liquidity. Between FY2012 and FY2016, the current ratio fell from 6.9 to 2.5 primarily because of a $160.4 million or 47.5% decrease in assets fueled by large drops in cash and cash equivalents as well as short-term investment returns versus a 42.7%, $20.9 million increase in current liabilities.

**City Colleges Current Ratio: FY2012 - FY2016 (in $ thousands)**

| | FY2012 | FY2013 | FY2014 | FY2015 | FY2016 | Five-Year $ Change | Five-Year % Change |
|---|---|---|---|---|---|---|---|
| **Current Assets** | | | | | | | |
| Cash and cash equivalents | $102,797.8 | $ 88,030.0 | $ 39,362.0 | $ 38,847.9 | $ 27,901.0 | $ (74,897) | -72.9% |
| Short-term investments | $137,167.3 | $178,811.9 | $154,774.0 | $ 90,441.7 | $ 49,977.1 | $ (87,190) | -63.6% |
| Property taxes receivable, net | $ 57,546.7 | $ 58,522.1 | $ 58,142.0 | $ 58,803.2 | $ 57,686.5 | $ 140 | 0.2% |
| PPRT taxes receivable | $ 1,707.3 | $ 2,584.5 | $ 2,300.0 | $ 2,390.9 | $ 2,400.7 | $ 693 | 40.6% |
| Other accounts receivable, net | $ 38,605.1 | $ 37,204.1 | $ 34,342.0 | $ 31,880.8 | $ 39,602.7 | $ 998 | 2.6% |
| Prepaid items and other assets | $ 189.2 | $ 90.7 | $ 160.5 | $ 136.7 | $ - | $ (189) | -100.0% |
| **Total Current Assets** | **$338,013.3** | **$365,243.3** | **$289,080.5** | **$222,501.2** | **$177,568.0** | **$ (160,445)** | **-47.5%** |
| **Current Liabilities** | | | | | | | |
| Accounts Payable | $ 21,635.8 | $ 31,427.7 | $ 39,147.0 | $ 42,198.8 | $ 34,235.8 | $ 12,600 | 58.2% |
| Accrued Payroll | $ 2,500.6 | $ 3,438.7 | $ 8,180.0 | $ 13,475.8 | $ 15,888.3 | $ 13,388 | 535.4% |
| Deposits Held In Custody | $ 1,402.6 | $ 1,414.0 | $ 1,489.3 | $ 1,228.7 | $ 1,060.0 | $ (343) | -24.4% |
| Other Liabilities | $ 22,206.1 | $ 17,639.8 | $ 12,453.3 | $ 10,106.3 | $ 13,042.7 | $ (9,163) | -41.3% |
| Other Accruals | $ 1,245.0 | $ 896.2 | $ 5,932.4 | $ 3,246.2 | $ 5,693.8 | $ 4,449 | 357.3% |
| **Total Current Liabilities** | **$ 48,990.1** | **$ 54,816.4** | **$ 67,202.0** | **$ 70,255.8** | **$ 69,920.6** | **$ 20,931** | **42.7%** |
| **Current Ratio** | **6.9** | **6.7** | **4.3** | **3.2** | **2.5** | | |

Note: Accrued Property Tax Refunds were reclassified in 2013 and are now included in non-current liabilities. Accrued Property Tax Refunds for FY2011-FY2012 were kept in the current liabilities column for comparabiltiy purposes.
Source: City Colleges of Chicago FY2012-FY2016 Comprehensive Annual Financial Reports, Statement of Net Assets and Statement of Net Position.

## Long-Term Liabilities

This section of the analysis examines trends in City Colleges' long-term liabilities. This 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. Increases in long-term liabilities over time could be a sign of fiscal stress. For City Colleges they include long-term debt as well as the following categories:

[103] City Colleges of Chicago FY2016 Comprehensive Annual Financial Report, p. 18.

- *Bonds payable* are amounts reported for tax supported long-term debt;
- *Bond premiums and discounts* are deferred and amortized over the life of the bonds using the effective interest method;[104]
- *Accrued Compensated Absences* are liabilities owed for current employees' time off with pay for vacations, holidays and sick days;
- *Accrued Property Tax Refunds* are property taxes that may be refunded to taxpayers in the future;
- *Sick Leave Benefits* are payments to retirees for accumulated unused sick days;[105] and
- *Net Other Post-Employment Benefit (OPEB) liabilities* 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.[106]

The District's total long-term liabilities increased by $6.2 million, or 1.9%, between FY2015 and FY2016. Over the five-year period between FY2012 and FY2016, these liabilities increased by 550.8% or $280.8 million. Most of the five-year increase was due to the issuance of $250.0 million in bonds in FY2013.

Beginning in FY2007, through an intergovernmental agreement, City Colleges transferred its outstanding capital debt from general obligation bonds issued in FY1999 and FY2007 to the City of Chicago. At the time, 100% of the outstanding debt was in the form of capital leases, which required a $32.7 million payment in FY2007. The FY1999 issuance totaled $389.0 million and the FY2007 series totaled $39.1 million. In accordance with the transfer, the City of Chicago now levies the property taxes needed to pay the annual debt service on behalf of City Colleges of Chicago.

The District completed its first bond issuance since the transfer of its general obligations to the City of Chicago of $250.0 million in October 2013 to fund its $545 million capital plan. The largest projects in the current five-year capital plan are a new Malcolm X College campus and a Transportation, Distribution and Logistics Center at Olive-Harvey College. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. In September 2017 City Colleges plans to issue an additional $64.1 million in bonds.[107]

---

[104] City Colleges of Chicago FY2016 Comprehensive Annual Financial Report, p. 20.

[105] During FY2012, the Board amended the unused and accrued sick time policy so that effective July, 1, 2012, non-union employees hired before January 1, 2012 may receive payment for the lesser of accumulated sick days through July 1, 2012 or accumulated sick days through the time of retirement. Non-union employees hired after January 1, 2012 are not eligible for sick leave payout. Sick leave payout for union employees hired before June 7, 2012 is capped at the amount accrued as of July 1, 2014 and has been eliminated for those hired after June 7, 2012. City Colleges of Chicago FY2016 Comprehensive Annual Financial Report, pp. 34-35.

[106] City Colleges' OPEB Plan includes health and life insurance for retired employees. Currently, City Colleges provides subsidized coverage for the medical, dental and vision insurance for a period of 10 years from the employee's retirement date. Retired employees are covered for life insurance for a period of six to ten years, with City Colleges paying the cost of the coverage. During the ten-year subsidy period, City Colleges pays approximately 85% of the cost of the premiums and retirees pay approximately 15% of the cost of the medical, dental and vision coverage. City Colleges of Chicago FY2016 Comprehensive Annual Financial Report, p. 36.

[107] FY2018 City Colleges of Chicago Budget Overview, July 13, 2017, p. 9.

The largest increase between FY2012 and FY2016 for non-debt expenses was for other post-employment benefits, which rose by 77.2%, from $30.8 million to $54.6 million. The liability for sick leave benefits decreased by 61.6% or $10.8 million while accrued compensation absences liabilities increased by 15.4%, or $409,300.

| City Colleges Long Term Liabilities: FY2012-FY2016 (in $ thousands) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Liability | FY2012 | FY2013 | FY2014 | FY2015 | FY2016 | Two-Year $ Change | Two-Year % Change | Five-Year $ Change | Five-Year % Change |
| Accrued Compensation Absences | $ 2,656.4 | $ 3,165.7 | $ 3,019.0 | $ 3,109.3 | $ 3,065.7 | $ (43.6) | -1.4% | $ 409.3 | 15.4% |
| Accrued Property Tax Refunds | $ - | $ 10,737.1 | $ 11,873.2 | $ 14,939.7 | $ 16,277.3 | $ 1,337.6 | 9.0% | $ 16,277.3 | --- |
| Sick Leave Benefits | $ 17,504.6 | $ 17,834.0 | $ 11,457.0 | $ 8,857.8 | $ 6,727.9 | $ (2,129.9) | -24.0% | $ (10,776.7) | -61.6% |
| Other Post-Employment Benefits | $ 30,820.1 | $ 35,459.8 | $ 39,704.0 | $ 42,414.1 | $ 54,598.8 | $ 12,184.7 | 28.7% | $ 23,778.7 | 77.2% |
| Bonds Payable | $ - | $ - | $ 250,000.0 | $ 250,000.0 | $ 245,995.0 | $ (4,005.0) | --- | $ 245,995.0 | --- |
| Bonds Premiums and Discounts | $ - | $ - | $ 7,407.0 | $ 6,211.9 | $ 5,094.7 | $ (1,117.2) | --- | $ 5,094.7 | --- |
| **Total** | **$ 50,981.0** | **$ 67,196.6** | **$ 323,460.2** | **$ 325,532.8** | **$ 331,759.4** | **$ 6,226.6** | **1.9%** | **$ 280,778.4** | **550.8%** |

Note: Accrued property tax refunds were reclassified in 2013 and are now included in non-current liabilities.
Source: City Colleges of Chicago FY2012-FY2016 CAFRs, Note 9: Changes in Non-Current Liabilities, p. 34.

## Debt Service Appropriations as a Percentage of Total Appropriations

The ratio of debt service expenditures as a percentage of total 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% and 20%.[108]

City Colleges debt service appropriations in the proposed budget for FY2018 are expected to be $16.9 million, or 3.8% of Total Appropriations of $442.6 million.[109] The ratio remains well below the 15% threshold deemed by the rating agencies to be high.

## City Colleges Bond Ratings

City Colleges had the following credit ratings as of July 2017:

| City Colleges Bond Ratings as of July 2017 | |
|---|---|
| Standard & Poor's | BBB |
| Fitch Ratings | A+ |

Sources: Reuters. "S & P Downgrades Six Illinois Universities' Credit Ratings," April 20, 2017 at https://www.usnews.com/news/us/articles/2017-04-20/s-p-downgrades-six-illinois-universities-credit-ratings and Fitch Ratings. "Fitch Downgrades Community College Dist. No. 508 (City Colleges of Chicago), IL GOs to 'A+', March 28, 2017.

Over the past two years the rating agencies have significantly downgraded the City Colleges' credit.

[108] 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.
[109] City Colleges of Chicago. FY2018 Tentative Annual Operating Budget, p. 48.

In April 2017, Standard and Poor's lowered the credit rating for the District from A+ to BBB, one notch above junk status, because of concerns that failure to resolve the ongoing State of Illinois budget crisis could lead to a loss of State funding for the District.[110]

Fitch downgraded the City Colleges' credit from AA- to A+ with a stable outlook in March 2017 based on the prolonged fiscal stress brought on by failure to end the State's two-year budget crisis as well as the District's drawdown of reserves to balance its operating budget.[111]

Standard and Poor's downgraded City Colleges credit ratings two notches in April 2016 from AA to A- because the District had previously significantly drew down its reserves to balance its FY2017 budget as well as continued uncertainty over State funding due to the State's budget crisis.[112]

**PENSION**

The majority of City Colleges' employees are enrolled in the State Universities Retirement System (SURS) of Illinois, a multi-employer defined benefit plan to which the State of Illinois makes the vast majority of employer contributions. Currently there are 4,920 active employees who are enrolled in the SURS retirement plan. All full-time faculty and staff contribute to SURS, except temporary workers who contribute to Social Security. There are also 406 active employees contributing to Social Security. These employees are temporary or irregular status workers, staff who work less than four months consecutively, students or re-hired retirees.[113]

Public Act 100-0023, the State Budget Implementation Bill (BIMP) for FY2018, is one of three budget-related bills that the General Assembly approved with bipartisan majorities over the veto of Governor Bruce Rauner on July 6, 2017. Among many other provisions, the BIMP creates a Tier 3 hybrid pension plan option that will be the default plan for new hires in SURS. Tier 1 members of Illinois pension plans were hired before January 1, 2011. Tier 2 members were hired on and after January 1, 2011 but before the implementation of the new Tier 3 level of benefits.

Under P.A. 100-0023, Current Tier 2 members and new hires will be able to irrevocably choose between the Tier 2 and Tier 3 plans. New hires will additionally be able to choose the Self-Managed Plan. The BIMP also requires community colleges, universities and school districts to cover all pension costs for new employees.[114] The bill gives the State Universities Retirement System time to develop and implement the new tier of benefits, so for now the City Colleges FY2018 budget simply acknowledges that the District will be responsible for some additional pension funding going forward.

---

[110] Reuters. "S & P Downgrades Six Illinois Universities' Credit Ratings," April 20, 2017 at . https://www.usnews.com/news/us/articles/2017-04-20/s-p-downgrades-six-illinois-universities-credit-ratings.

[111] Fitch Ratings. "Fitch Downgrades Community College Dist. No. 508 (City Colleges of Chicago), IL GOs to 'A+', March 28, 2017.

[112] Yvette Shields. Chicago City Colleges Hit with Downgrade," *Bond Buyer*, April 22, 2016.

[113] Information provided by City Colleges Finance Office, July 31, 2017.

[114] State Universities Retirement System, Legislative/Appropriations webpage, "SB 0042 - Fiscal Year 2018 Budget Implementation Act," available at http://www.surs.com/legislation?field_type_value=App&sort_by=field_number_value&sort_order=ASC.

Tier 1 and 2 SURS members contribute 8.0% of their annual covered salary to the pension fund. The State of Illinois makes nearly all of the employer pension contributions on behalf of City Colleges for Tier 1 and 2 employees and retirees.[115] City Colleges makes the employer contribution for Tier 1 and 2 employees for federal, trust or grant positions out of those same grant funds.

SURS members who choose Tier 3 will contribute the lower of 6.2% of salary or the normal cost of benefits under the defined benefit portion of the plan and a minimum of 4% of salary for the defined contribution portion of the plan.

The employer pension contribution made by the State of Illinois on behalf of City Colleges in FY2016 was reported in the City Colleges financial statements as $102.3 million and is based on contributions actually made by the State to SURS in FY2015.[116] City Colleges' employer contribution for federal, trust or grant-funded positions in FY2016 was $1,018,568 and is based on contributions actually made in FY2016 but reported as deferred outflows of resources in the FY2016 CAFR.[117]

In FY2016 City Colleges was required to report additional pension information in the notes to its financial statements, as required under GASB 68. City Colleges' proportionate share of the State of Illinois' FY2015 net pension liability for SURS was $1.2 billion or 5.1301% of the total net pension liability.[118] The net pension liability is the difference between the total pension liability and the plan's fiduciary net position. The concept is similar to the accrued liability less the market value of assets (not the smoothed actuarial value of assets). However the FY2015 total pension liability is measured differently from the accrued liability because the accrued liability is based on the long-term expected rate of return on pension plan investments of 7.25%, while the total pension liability is measured based on a blended discount rate of 7.12%.[119] In any event, because of the special funding situation in which the State of Illinois pays nearly all of the pension contributions on behalf of City Colleges, the District does not need to recognize its proportionate share of the net pension liability in its Statement of Net Position.[120]

## OTHER POST EMPLOYMENT BENEFITS (OPEB)

City Colleges began reporting information about other post-employment benefits (OPEB) in its FY2006 CAFR as required by GASB Statement 45. OPEB includes health and life insurance for retirees and their spouses. The District pays for approximately 85% of the medical and life insurance premiums for most retirees. The District increased retiree contributions from approximately 10% in FY2015 to approximately 15% in FY2016. The contribution percentages

---

115 As a member of SURS, a cost-sharing, multiple-employer defined pension plan with a special funding situation, City Colleges is not required to include actuarial information about pensions in its financial statements. However, pursuant to GASB Statement 68, City Colleges reported in its FY2016 financial report a net pension liability, pension expense, and pension-related deferred inflows and outflows of resources based on its proportionate share of the collective amounts for all the governments that participate in SURS. City Colleges of Chicago FY2016 Comprehensive Annual Financial Report, pp. 30-33.
116 City Colleges of Chicago FY2016 Comprehensive Annual Financial Report, p. 31.
117 The City Colleges of Chicago FY2016 Comprehensive Annual Financial Report, p. 32.
118 City Colleges of Chicago FY2016 Comprehensive Annual Financial Report, p. 31.
119 State Universities Retirement System FY2015 GASB 67 Financial Report, p. 4.
120 City Colleges of Chicago FY2016 Comprehensive Annual Financial Report, p. 31.

are negotiated between the District and retirees and can be amended by City Colleges through its personnel manual and union contracts.[121]

Between FY2013 and FY2016 the number of active vested members increased from 1,899 to 2,390. City Colleges revised its membership data in the FY2015 CAFR to include all benefits and all persons covered by the insurance (retiree and dependents). The prior membership data counted medical coverage for retirees only. The FY2015 CAFR also provided two years of restated data from FY2013 and FY2014, which is presented in the following chart.[122] In the FY2016 CAFR, only 951 people were reported to be receiving benefits. This could be a return to the previous practice of reporting only retirees, not beneficiaries, but the District could not confirm for certain.[123]

**City Colleges Other Post Employment Benefit Plan: Active Employees and Current Beneficiaries: FY2013-FY2016**

| Members | FY2013 | FY2014 | FY2015 | FY2016 | Four-Year $ Change | Four-Year % Change |
|---|---|---|---|---|---|---|
| Active Employees (vested) | 1,899 | 1,976 | 2,274 | 2,390 | 491 | 25.9% |
| Current Beneficiaries | 1,093 | 1,386 | 1,279 | 951 | (142) | -13.0% |
| **Total** | **2,992** | **3,362** | **3,553** | **3,341** | **349** | **11.7%** |

Source: City Colleges of Chicago FY2016 Comprehensive Annual Financial Report, p. 36 and FY2015 CAFR, p. 36.

City Colleges has not established an irrevocable trust fund for its OPEB plan; it is funded on a pay-as-you-go basis. However, it had previously been City Colleges' practice to annually invest an amount equal to the increase in the net OPEB obligation in an account designated for its OPEB obligation.[124] However, this contribution was not made in FY2017.[125] City Colleges had $32 million in investments designated for its OPEB obligation in FY2013, which grew to $35 million in FY2014 and to $40 million in FY2015.[126] Historically, City Colleges had considered using the designated funds to establish an irrevocable OPEB trust.[127] However, in FY2017 City Colleges used the $40 million in investments designated for its OPEB obligations to help balance its budget due to a lack of funding from the State of Illinois.[128]

The FY2016 pay-as-you-go employer contribution of $2.5 million is budgeted as part of the District's employee health insurance costs.[129] The table below shows the difference between the actuarially calculated annual OPEB cost of the employer and the actual payments made by City Colleges from FY2012 to FY2016.[130] The actuarial assumptions used in the calculation included a 3.61% discount rate and an annual healthcare cost trend rate of 7.5%, which is assumed to

[121] City Colleges of Chicago FY2016 Comprehensive Annual Financial Report, p. 35.
[122] Information provided by City Colleges, June 22, 2016.
[123] Information provided by City Colleges finance office, July 31, 2017.
[124] Information provided by City Colleges finance office, June 30, 2011.
[125] Information provided by City Colleges finance office, June 28, 2016.
[126] City Colleges of Chicago FY2014 Comprehensive Annual Financial Report, p, 31 and FY2015, p. 37.
[127] Information provided by City Colleges of Chicago Finance Department, July 6, 2015.
[128] Information provided by City Colleges finance office, July 31, 2017.
[129] Information provided by City Colleges finance office, August 3, 2010.
[130] The Annual OPEB Cost is a specific accounting term that is calculated and disclosed according to Governmental Accounting Standards Board Statement 45. It is not a funding requirement.

decline to a 4.0% rate by 2022.[131] City Colleges' net OPEB obligation has grown over the five-year period because its annual payments have been less than the annual actuarially calculated OPEB cost.

| City Colleges Other Post Employment Benefits: Annual OPEB Cost and Net Obligation FY2012-FY2016 | | | | | |
|---|---|---|---|---|---|
| | **FY2012** | **FY2013** | **FY2014** | **FY2015** | **FY2016** |
| Annual Actuarial OPEB Cost | $ 11,593,396 | $ 11,413,965 | $ 11,072,215 | $ 11,992,523 | $ 14,665,441 |
| Employer Contributions | $ 7,485,562 | $ 6,774,237 | $ 6,828,202 | $ 9,282,215 | $ 2,480,807 |
| Increase in Net OPEB Obligation | $ 4,107,834 | $ 4,639,728 | $ 4,244,013 | $ 2,710,308 | $ 12,184,634 |
| % of Annual Actuarial OPEB Cost Contributed | 64.6% | 59.4% | 61.7% | 77.4% | 16.9% |
| **Net OPEB Obligation (End of Year)** | **$ 30,820,071** | **$ 35,459,799** | **$ 39,703,812** | **$ 42,414,120** | **$ 54,598,754** |

Source: City Colleges of Chicago FY2013 Comprehensive Annual Financial Report, p. 31; FY2016, p. 37.

The next exhibit shows the Unfunded Actuarial Accrued Liability (UAAL) of the City Colleges' OPEB plan. The actuarial value of assets is not shown because, as mentioned previously, the District does not pre-fund its OPEB obligation through an irrevocable trust. The UAAL was $143.6 million in FY2016, up from nearly $119.3 million in FY2012. In the past five years, the UAAL as a percent of covered payroll has declined, falling from a high of 108.3% in FY2012 to a five-year low of 82.7% in FY2015, before growing again to 96.6% in FY2016.

| Unfunded Actuarial Accrued Liability of the City Colleges OPEB Plan: FY2012-FY2016 | | | | | |
|---|---|---|---|---|---|
| | **FY2012** | **FY2013** | **FY2014** | **FY2015** | **FY2016** |
| Unfunded Actuarial Accrued Liability (UAAL) | $ 119,275,116 | $ 112,458,352 | $ 115,158,411 | $ 120,853,689 | $ 143,642,679 |
| Covered Payroll (active plan members) | $ 110,092,137 | $ 107,485,980 | $ 128,106,608 | $ 146,164,608 | $ 148,691,885 |
| UAAL as a % of Covered Payroll | 108.3% | 104.6% | 89.9% | 82.7% | 96.6% |

Note: The actuarial value of assets and liabilities are not shown here because there are no designated assets; thus the actuarial accrued liability is the same as the unfunded actuarial accrued liability and the funded ratio is 0%.
Source: City Colleges of Chicago Comprehensive Annual Financial Reports, FY2013, p. 32 and FY2016, p. 38.

[131] City Colleges of Chicago FY2016 Comprehensive Annual Financial Report, p. 36.

## APPENDIX

### Regional Comparison of City Colleges Tuition to Selected Community Colleges

Until the 2015-2016 school year, City Colleges used a per-credit-hour tuition structure, which is common among other community colleges in northeastern Illinois. In FY2016 City Colleges changed its tuition structure from a per-credit-hour structure to a tier-based tuition rate for part time and full-time students.

Before the tuition structure change, City Colleges had the second lowest tuition compared to ten other selected community college districts in the northeastern Illinois area. Now, the cost of in-district tuition and mandatory fees at City Colleges varies based on the number of credit hours taken compared to other community colleges.

City Colleges currently charges full-time in-district students, meaning those taking at least 12 credit hours, $1,753 per semester. Part-time in-district students taking at least two classes, or between 5 and 11 credit hours, pay a flat rate of $1,069 per semester. Students taking only one class pay a flat rate of $599 per semester.[132]

When City Colleges first made the change to its tuition structure, the District became an outlier for the rate charged to part-time students. The result was that students enrolled in fewer credit hours paid a disproportionately higher tuition rate than that of other community colleges. However, as other community colleges have made annual increases to their tuition or fees, the City Colleges tuition rates have fallen more to the middle. In 2017, every one of the ten community colleges chosen for comparison, with the exception of College of DuPage, increased its tuition or fees for tuition effective in fall of 2017.

The following table compares City Colleges' FY2018 tier-based tuition rate to the ten other selected northeastern Illinois community colleges by credit hour, including mandatory fees. City Colleges' in-district tuition remains the lowest among the selected community colleges for students taking at least 14 credit hours, which would be considered full-time. It is also the lowest for students taking between 9 and 11 credit hours, which would be considered part-time. City Colleges' tuition is the highest among the selected community colleges for students taking one class worth 1-3 credits, and for part-time students taking 5-6 credits.

While City Colleges charges the highest tuition for students taking 1-3 or 5-6 credit hours, Prairie State has the highest tuition rates for students enrolled in 4 credit hours or 7 credit hours

[132] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 32.

or more. Morton College and Elgin College charge the lowest tuition rates for part-time students taking 2-8 credit hours.

| Fall 2017 In-District Tuition, Including Mandatory Fees* Per Credit Hour of Eleven Selected Community Colleges | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Class Load** | Credit Hours | Triton College | Elgin College | College of Dupage | Morton College | College of Lake County | Moraine Valley College | South Suburban College | Prairie State College | Harper College | Oakton College | City Colleges of Chicago |
| One Class | 1 | $134.0 | $135.0 | $135.0 | $138.0 | $138.0 | $145.0 | $162.75 | $171.0 | $177.0 | $166.25 | $599.0 |
| | 2 | $268.0 | $264.0 | $270.0 | $266.0 | $276.0 | $287.0 | $325.50 | $342.0 | $318.0 | $305.50 | $599.0 |
| | 3 | $402.0 | $393.0 | $405.0 | $394.0 | $414.0 | $429.0 | $488.25 | $513.0 | $459.0 | $444.75 | $599.0 |
| | 4 | $536.0 | $522.0 | $540.0 | $522.0 | $552.0 | $571.0 | $651.00 | $684.0 | $600.0 | $584.00 | $599.0 |
| | | | | | | | | | | | | |
| Two to Four Classes (Part-time) | 5 | $670.0 | $651.0 | $675.0 | $650.0 | $690.0 | $713.0 | $813.75 | $855.0 | $741.0 | $723.25 | $1,069.0 |
| | 6 | $804.0 | $780.0 | $810.0 | $778.0 | $828.0 | $855.0 | $976.50 | $1,026.0 | $882.0 | $862.50 | $1,069.0 |
| | 7 | $938.0 | $909.0 | $945.0 | $906.0 | $966.0 | $997.0 | $1,139.25 | $1,197.0 | $1,023.0 | $1,001.75 | $1,069.0 |
| | 8 | $1,072.0 | $1,038.0 | $1,080.0 | $1,034.0 | $1,104.0 | $1,139.0 | $1,302.00 | $1,368.0 | $1,164.0 | $1,141.00 | $1,069.0 |
| | 9 | $1,206.0 | $1,167.0 | $1,215.0 | $1,162.0 | $1,242.0 | $1,281.0 | $1,464.75 | $1,539.0 | $1,305.0 | $1,280.25 | $1,069.0 |
| | 10 | $1,340.0 | $1,296.0 | $1,350.0 | $1,290.0 | $1,380.0 | $1,423.0 | $1,627.50 | $1,710.0 | $1,446.0 | $1,419.50 | $1,069.0 |
| | 11 | $1,474.0 | $1,425.0 | $1,485.0 | $1,418.0 | $1,518.0 | $1,565.0 | $1,790.25 | $1,881.0 | $1,587.0 | $1,558.75 | $1,069.0 |
| | | | | | | | | | | | | |
| Three to Six+ Classes (Full-Time) | 12 | $1,608.0 | $1,554.0 | $1,620.0 | $1,546.0 | $1,656.0 | $1,707.0 | $1,953.00 | $2,052.0 | $1,728.0 | $1,698.00 | $1,753.0 |
| | 13 | $1,742.0 | $1,683.0 | $1,755.0 | $1,674.0 | $1,794.0 | $1,849.0 | $2,115.75 | $2,223.0 | $1,869.0 | $1,837.25 | $1,753.0 |
| | 14 | $1,876.0 | $1,812.0 | $1,890.0 | $1,802.0 | $1,932.0 | $1,991.0 | $2,278.50 | $2,394.0 | $2,010.0 | $1,976.50 | $1,753.0 |
| | 15 | $2,010.0 | $1,941.0 | $2,025.0 | $1,930.0 | $2,070.0 | $2,133.0 | $2,441.25 | $2,565.0 | $2,151.0 | $2,115.75 | $1,753.0 |
| | 16 | $2,144.0 | $2,070.0 | $2,160.0 | $2,058.0 | $2,208.0 | $2,275.0 | $2,604.00 | $2,736.0 | $2,292.0 | $2,255.00 | $1,753.0 |
| | 17 | $2,278.0 | $2,199.0 | $2,295.0 | $2,186.0 | $2,346.0 | $2,417.0 | $2,766.75 | $2,907.0 | $2,433.0 | $2,394.25 | $1,753.0 |
| | 18 | $2,412.0 | $2,328.0 | $2,430.0 | $2,314.0 | $2,484.0 | $2,559.0 | $2,929.50 | $3,078.0 | $2,574.0 | $2,533.50 | $1,753.0 |
| | 19 | $2,546.0 | $2,457.0 | $2,565.0 | $2,442.0 | $2,622.0 | $2,701.0 | $3,092.25 | $3,249.0 | $2,715.0 | $2,672.75 | $1,753.0 |
| | 20 | $2,680.0 | $2,586.0 | $2,700.0 | $2,570.0 | $2,760.0 | $2,843.0 | $3,255.00 | $3,420.0 | $2,856.0 | $2,812.00 | $1,753.0 |

*Fees associated with certain classes and programs may be higher.

**Class load is approximate because classes can range from 1-6 credit hours per class. Generally one class is 3 or 4 credit hours.

Sources: Websites of selected community college districts as of July 21, 2017; and City Colleges FY2018 Tentative Annual Operating Budget, p. 32.

The following table lists the mandatory fees charged by each of the selected community colleges in northeastern Illinois. The fees in the table below are also incorporated into the tuition rates in the table above.

| Fall 2017 Fees Per Credit Hour for Selected Community College Districts | |
|---|---|
| **College** | **Fees included** |
| Triton College (River Grove) | Student service fee $7/hr, auxilary fee $1/hr, technology fee $6/hr, registration $2/hr |
| Elgin Community College (Elgin) | Enrollment fee $6/semester |
| College of DuPage (Glen Ellyn) | $32.85 comprehensive fee (included in tuition price) |
| Morton College (Cicero) | Registration fee $10/semester, comphehensive fee $9/hr, technology fee $9/hr, repair/renovation fee $22/hr |
| College of Lake County (Grayslake) | $23 comprehensive fee |
| Moraine Valley Community College (Palos Hills) | Activities fee $2/hr, technology fee $10/hr, construction fee $8/hr, student ID fee $3/semester |
| South Suburban College (South Holland) | $7.75 student development fee and $10.00 instructional technology fee |
| Prairie State College (Chicago Heights) | General $30.50 fee (included in tuition price), $4 athletic fee, $2 educational fund fee, $0.25 extracurricular fee, $0.25 student activity fee, $10 technology fee, $9 infrastructure fee |
| Harper College (Palatine) | Activity fee $42 (full-time) and $21 (part-time) per semester, registration $15 per semester, technology fee $7/hr, construction and construction and renovation fee $9/hr |
| Oakton Community College (Des Plaines) | Audit $10/hr, constuction $2/hr, student activities $3/hr, registration $15/semester |
| City Colleges of Chicago | No additional fees; fees are included in flat rate semester-based tuition |

Sources: Websites of selected community college districts as of July 21, 2017; and City Colleges FY2018 Tentative Annual Operating Budget, p. 32.