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CITY COLLEGES OF CHICAGO FY2020 TENTATIVE BUDGET: *Analysis and Recommendations*

July 31, 2019

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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.

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EXECUTIVE SUMMARY

The Civic Federation **supports** the City Colleges of Chicago FY2020 Tentative Annual Operating Budget totaling $447.5 million, **but has concerns** about the future fiscal stability of the District. The District is still recovering from the two-year State budget impasse that severely underfunded higher education institutions and reduced and delayed MAP grants, impacting student enrollment. In an effort to stabilize its finances in FY2020, the District is proposing to increase its property tax levy to the maximum allowed under state law for the first time since FY2009, finalize the sale of its downtown headquarters and control costs by reducing staffing and better managing vacancies and turnovers. However, despite these positive efforts, the District continues to face a structural deficit and plans to use one-time revenue sources to balance this year's budget.

The District's FY2020 total budget will increase by 2.6%, or $11.4 million, above the FY2019 adopted budget of $436.1 million. This is primarily due to a $12.4 million increase in capital spending tied to the State of Illinois passing its first capital budget in over 10 years. The FY2020 budget for City Colleges is the third budget since FY2015 in which the District will receive a full year of funding from the State of Illinois. Total State funding in FY2020 is expected to be $87.4 million, which is an increase of $24.8 million, or 39.6% from the budgeted amount of $62.6 million in FY2019. In FY2016 and FY2017 City Colleges received only a fraction of the State funding it expected, which caused significant financial distress. In order to balance these budgets, City Colleges relied on short-term solutions, such as using its cash reserves, delaying capital expenses, not filling vacant positions and instituting a hiring freeze instead of relying on property tax hikes and tuition increases.

The damage caused by the two-year State budget impasse along with the delay in selling the District's downtown headquarters and a continued decline in student enrollment require a sound multi-year plan by the District to restore long-term financial and operational health. While the District was able to settle negotiations with the majority of its labor unions, which provides greater predictability for future years budgets, labor costs continue to grow as student enrollment continues to decline. Adding to the District's future financial challenges is the decision to use $12.9 million in proceeds from the sale of its downtown headquarters building and $4.0 million in tax increment financing surplus to help balance this year's budget. As result, the District will need to find additional cuts or increases in revenues in future years to help balance its budgets and is diminishing the effect of the savings and efficiencies proposed in the FY2020 budget.

The Civic Federation offers the following **key findings** on the City Colleges FY2020 tentative budget:

- City Colleges is projected to receive a full year of State funding in FY2020. This is the third full year of funding from the State since FY2015. However, the FY2019 level of funding is still less than FY2015 State funding levels;
- Appropriations for all funds in FY2020 total $447.5 million. This is a 2.6%, or $11.4 million, increase from FY2019 adopted appropriations of $436.1 million;
- The unrestricted operating budget will total $290.1 million in FY2020. This is a 1.6% or $4.7 million, increase above the adopted FY2019 unrestricted operating budget of nearly $285.4 million;[1]
- Property tax revenue is expected to increase by $1.8 million or 1.5% in FY2020, mostly due to an increase in the tax year 2019 property tax levy to the maximum increase allowed under the Property Tax Extension Limitation Law. The District will also levy for new property;
- Tuition and fee revenue is projected to decrease by $10.2 million, or 10.3%, below the FY2019

[1] Unrestricted operating fund budget includes the Education Fund, Operations & Maintenance Fund, Liability, Protection and Settlement Fund and Audit Fund. Not the Auxiliary/Enterprise Fund.

adopted budget;
- Between FY2019 and FY2020, appropriations for employees' salaries in the unrestricted operating funds will increase by $5.6 million, or 3.2%, from $177.3 million to $182.9 million, but offset by a $1.8 million, or 4.5% decrease in salaries;
- Between the FY2019 adopted budget and tentative FY2020 budget there will be a net decrease of 58 total full-time equivalent positions, or a 1.7% decrease in total FTEs; and
- Student enrollment decreased between FY2018 and FY2019 by 1,463 FTE students, or 4.3%, shrinking from 34,109 to 32,646 FTEs.

The Civic Federation **supports** several elements of the FY2020 City Colleges tentative budget:
- Dedicating a portion of the funds from the sale of the District headquarters to rebuilding reserves;
- Implementing prudent cost containment strategies to stabilize the financial position of the District;
- Livestreaming the public hearing on the FY2020 Tentative Annual Operating Budget;
- Developing a new strategic plan to help guide future decision-making; and
- Increasing the property tax levy to the maximum under the Property Tax Extension Limitation Law for the first time since FY2009.

The Civic Federation has the following **concerns** related to City Colleges' tentative FY2020 budget:
- Using one-time revenue sources to cope with a structural deficit; and
- Continued decline in student enrollment.

The Civic Federation offers the following **recommendations** for City Colleges:
- Provide greater detail on the number of full-time equivalent employees across all funds;
- 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;
- Improve transparency and accountability by livestreaming board and committee meetings;
- Institutionalize the long-term financial planning process by including more frequent updates and enhance opportunities for stakeholder input in financial planning decisions; and
- Provide more frequent updates on the District's strategic plan while maximizing stakeholder input.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the City Colleges of Chicago FY2020 Tentative Annual Operating Budget totaling $447.5 million, **but has concerns** about the future fiscal stability of the District. The District is still recovering from the two-year State budget impasse that severely underfunded higher education institutions and reduced and delayed MAP grants, impacting student enrollment. In an effort to stabilize its finances in FY2020, the District is proposing to increase its property tax levy to the maximum allowed under state law for the first time since FY2009, finalize the sale of its downtown headquarters and control costs by reducing staffing and better managing vacancies and turnovers. However, despite these positive efforts, the District continues to face a structural deficit and plans to use one-time revenue sources to balance this year's budget.

The District's FY2020 total budget will increase by 2.6%, or $11.4 million, above the FY2019 adopted budget of $436.1 million. This is primarily due to a $12.4 million increase in capital spending tied to the State of Illinois passing its first capital budget in over 10 years. The FY2020 budget for City Colleges is the third budget since FY2015 in which the District will receive a full year of funding from the State of Illinois. State funding in FY2020 is expected to be $87.4 million, which is an increase of $24.8 million, or 39.6% from the budgeted amount of $62.6 million in FY2019. In FY2016 and FY2017 City Colleges received only a fraction of the State funding it expected, which caused significant financial distress. In order to balance these budgets, City Colleges relied on short-term solutions, such as using its cash reserves, delaying capital expenses, not filling vacant positions and instituting a hiring freeze instead of relying on property tax hikes and tuition increases.

The damage caused by the two-year State budget impasse along with the delay in selling the District's downtown headquarters and a continued decline in student enrollment require a sound multi-year plan by the District to restore long-term financial and operational health. While the District was able to settle negotiations with the majority of its labor unions, which provides greater predictability for future year's budgets, labor costs continue to grow as student enrollment continues to decline. Adding to the District's future financial challenges is the decision to use $12.9 million in proceeds from the sale of its downtown headquarters building and $4.0 million in tax increment financing surplus to help balance this year's budget. As result, the District will need to find additional cuts or increases in revenues in future years to help balance its budgets and is diminishing the effect of the savings and efficiencies proposed in the FY2020 budget.

Issues the Civic Federation Supports

The following section details key issues that the Civic Federation supports in the City Colleges FY2020 Tentative Annual Operating Budget.

Dedicating a Portion of the Funds From the Sale of the District Headquarters to Rebuilding Cash Reserves

Between FY2014 and FY2017, City Colleges reported that the days of cash on hand at year end fell from 154 to just 39 days, indicating a steep drop in liquidity. However, the number of days rose to 90 in FY2018, which is a positive sign.

A government should maintain several months' worth of cash to pay bills as they come due. It is a sound practice to have at least have enough cash on hand to exceed the length of a typical billing period, or 30 to 60 days.[2] City Colleges current policy is to maintain 90 days of cash on hand, which it currently exceeds as of June 30, 2019.[3] The proceeds from the sale of the District headquarters will further improve their cash position, which declined as a result of the two-year State budget impasse.

[2] Steven A. Finkler. *Financial Management for Public, Health, and Not-for-Profit Organizations,* p. 535.
[3] Information provided by City Colleges of Chicago, July 23, 2019.

On June 28, 2017 City Colleges of Chicago Chancellor Juan Salgado announced that the District would sell its downtown headquarters. The headquarters was only 33% occupied. The move was intended to help facilitate the shifting of staff from the central office to existing space at the seven colleges and five satellite campuses, which was intended to move staff closer to students, reduce overhead costs and help rebuild reserves. The District also leased office space for certain administrative staff in the Loop. On January 11, 2018 the Board of Trustees voted to authorize the sale of the building. The District expects to close on the sale of the central office building in FY2020 for $31.7 million and dedicate $18.8 million to rebuilding its cash reserves and $12.9 million to cover operating expenses in FY2020.

A healthy cash reserve 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 a portion of the proceeds from the sale of its central office located in downtown Chicago.[4]

Implementing Cost Containment Strategies

As noted above, two years of severe underfunding by the State of Illinois in FY2016 and FY2017 led to the depletion of City Colleges' reserves as it used reserves instead of increasing the property tax levy or raising tuition rates. In addition, the District's student enrollment declined significantly in recent years due in part to reduced and delayed MAP grant funding and an improving economy.

In an effort to continue to stabilize the District's finances, the District has implemented a number of prudent measures to balance the FY2020 budget, stabilize its finances and focus on student outcomes by implementing the following strategies and efficiencies:[5]

- Reducing direct overhead and better utilizing existing space at the college campuses by finalizing the sale of its central office headquarters;
- Increasing financial resources through foundation support;
- Developing strategies to better manage student debt with the goal of boosting retention; and
- Reducing staff and better managing hiring and turnover.[6]

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

[4] See recommendation to improve fund balance policy on page 7 and concern about using one-time revenue sources beginning on page 6 of this report.
[5] City Colleges of Chicago FY2020 Tentative Annual Operating Budget, pp. 1-2.
[6] City Colleges of Chicago Budget Briefing, June 24, 2019, pp. 7 and 13.

Livestreaming Annual Budget Hearing

The Civic Federation was encouraged the City Colleges of Chicago live-broadcast the FY2020 Tentative Annual Operating Budget hearing. Broadcasting meetings online improves the transparency of District operations and the accountability of its members and staff to the public.

Other major governments in Chicago, such as the Chicago Transit Authority and the Chicago Park District, broadcast their board and committee meetings online. The City Colleges of Chicago serves nearly 2.7 million people in 77 communities that cover approximately 228 square miles. The sheer size of the community college district area and the number of people the District serves can make it very difficult for many interested parties to attend the meetings in person. The Civic Federation calls on the District to livestream and archive of all meetings to reach more of its constituents and improve the transparency and accountability of the District.

Developing a New Strategic Plan

City Colleges of Chicago is in the process of developing a new strategic plan. The District's *Five Year Plan: Strategic Initiatives and Objectives 2013-2018* helped guide the District during the *Reinvention* initiative under former Chancellor Cheryl Hyman by setting a number of goals pertaining to graduation rates, enrollment, transfer rates and other measures including financial goals. With the end of the prior strategic plan in 2018, the Federation is pleased the District is in the process of developing a new strategic plan to help guide the District in coming years as it faces continued shortfalls in state funding and challenges with student enrollment growth.

Increasing the Property Tax Levy to the Maximum Under State Statute for the First Time in Over Ten Years

City Colleges of Chicago property tax revenue is expected to increase by $1.8 million, or 1.5%, in FY2020, due to a maximum increase in the property tax levy allowed under the Property Tax Extension Limitation Law (PTELL) and levying for $0.7 million in new property. The District last increased its property tax levy to the maximum under PTELL in FY2009. The District's decision to levy to the maximum under PTELL this fiscal year is necessary given the financial challenges it has faced as a result of the severe underfunding from the State in recent years and the continued decline in enrollment.

The Civic Federation commends the District for its fiscal restraint over the past decade, especially 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.

Civic Federation Concerns

The following section details the Civic Federation's concerns with the City Colleges FY2020 Tentative Annual Operating Budget.

Use of One-Time Revenue Sources and Structural Deficit

City Colleges of Chicago has faced a number of financial challenges in recent years due to the two year State budget impasse that severely reduced state funding and reduced and delayed MAP grant funding, impacting student enrollment.

However, the District's efforts to stabilize its finances this year are going to be offset by the use of one-time revenues. By using $12.9 million of the $31.7 million in proceeds from the sale of its downtown headquarters building and $4.0 million in tax increment financing surplus, the District will need to find additional cuts or increases in revenues in future years to help balance its budgets since the proceeds from the property sale are not recurring and TIF surplus may not recur at the same amount in future years. This diminishes the effect of the savings and efficiencies proposed in the FY2020 budget and the sale of the building will not have as much of an impact on rebuilding the District's cash reserves.

It is important to note that while TIF surplus has annually been declared in recent years by the previous Mayor of Chicago, making it a recurring revenue, the extraordinarily large surpluses may not occur with the new administration.

Because the FY2020 budget is not structurally balanced, the District has budgeted these non-recurring revenues as appropriable resources. It is vital that the District achieve a structurally balanced budget given the uncertainty of future state funding at a time when student enrollment continues to decline and personnel expenses are increasing.

It is important to note that the Civic Federation does not object to using fund balance in certain compelling circumstances. For example, the District using fund balance to close budget gaps due to the unprecedented State budget impasse was appropriate and allowed City Colleges of Chicago to avoid making significant cuts to services like other community colleges were forced to do. However, the Civic Federation is concerned that the District is beginning to show a pattern of reliance on non-recurring methods to meet its operating needs.

Continued Decline in Student Enrollment

In the five-year period between FY2015 and FY2019, City Colleges' total FTE enrollment declined by 21.4%, or 8,882 FTEs, from 41,528 FTEs in FY2015 to an estimated 32,646 FTEs in FY2019. In FY2020 City Colleges is projecting a continued decline in enrollment.[7] Tuition and fees are projected to total $88.8 million, or 29.3% of the FY2020 unrestricted operating budget. This is a $38.2 million decline in tuition and fee revenue since FY2016. While enrollment has increased at certain City College campuses, district-wide enrollment has declined. The Federation recognizes that this is a trend a number of higher education institutions are facing state-wide. While the District is developing strategies to increase enrollment, the Federation is

[7] City Colleges of Chicago FY2020 Tentative Annual Operating Budget, p. 10.

concerned the steep decline in enrollment that City Colleges has endured in recent years could jeopardize its efforts to stabilize its finances following reductions in funding from other sources.

Civic Federation Recommendations

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

Provide Greater Detail on Personnel and Related Expenses

The District's FY2020 Tentative Annual Operating Budget does not provide any detail on its past or proposed staffing levels. Previously, the District provided full-time equivalent data for staffing in the unrestricted funds. The District should again include this FTE data in future budgets and also expand it to include five years of data on the number of full-time equivalent employees by position across all funds. The five years of data should include three years of audited data, one year of budgeted data and one year of proposed data.

This will improve the understanding amongst the public of how the District budgets and increase transparency of operations.

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.[8]

Improve the Fund Balance Policy

On December 1, 2016, the City Colleges' Board of Trustees adopted Resolution Number 33109, which replaced Resolution Number 29253.[9] 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 effectively be maintaining a 3% minimum unrestricted funds fund balance.[10] 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

[8] Government Finance Officers Association, "Establishing Government Charges and Fees," http://www.gfoa.org/establishing-government-charges-and-fees (last visited July 2, 2014).
[9] City Colleges of Chicago FY2020 Tentative Annual Operating Budget, p. 30; and City Colleges of Chicago Board of Trustees Resolution Number 33109.
[10] See the resolution on the City Colleges of Chicago's website at http://apps.ccc.edu/brpublic/2009/feb/29253.pdf.

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.[11]

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 community college 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 FY2020. City Colleges received $14.1 million in supplemental State funds in FY2015, $3.7 million in FY2016, $13.8 million in FY2017, $12.4 in FY2018, $12.6 million in FY2019 and only a slight increase in FY2020 to $13.3 million.[12] 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.

Livestream and Archive Board and Committee Meetings

The Civic Federation was pleased the District broadcasted its FY2020 Tentative Annual Operating Budget hearing. The Federation recommends the City Colleges of Chicago begin broadcasting all Board of Trustee meetings and committee meetings online. Broadcasting board and committee meetings online will improve the transparency of District operations and the accountability of its members and staff to the public.

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[11] Government Finance Officers Association, "Fund Balance Guidelines for the General Fund" (Adopted September 2015).
[12] City Colleges of Chicago FY2020 Tentative Annual Operating Budget, p. 37.

Unlike other major governments in Chicago, such as the Chicago Transit Authority and the Chicago Park District, the City Colleges of Chicago does not broadcast its board or committee meetings online. The City Colleges of Chicago serves nearly 2.7 million people in 77 communities that cover approximately 228 square miles. The sheer size of the community college district area and the number of people the District serves can make it very difficult for many interested parties to attend the meetings in person. The livestreaming and archiving of all meetings would therefore help the City Colleges of Chicago reach more of its constituents and improve the transparency and accountability of the District.

Long-Range Financial Planning Recommendations

City Colleges has recently been a leader in best practice financial planning among governments in the Chicago area. The District began releasing a long-range financial plan as part of the budget in FY2015. The long-range financial plan included a description of the District's five-year strategic plan for 2013-2018, a summary of the financial plan, a five-year financial forecast, an assessment of economic conditions and outlook, a description of the revenue and expense assumptions on which the forecast was based and overviews of the District's capital funding needs and long-term debt. These descriptions were informative because they connected the District's strategic plan goals to the District's financial planning process, a GFOA recommendation.

In FY2018 the District removed the long-range financial plan from the budget book because of changes being made to the forecasting process.[13] The FY2019 and FY2020 tentative annual operating budgets also do not include any information about the long-range financial plan. The Civic Federation offers the following recommendations related to the District's long-range financial plan:

1. **Continue to Publish the Long-Range Financial Plan**

   The Civic Federation encourages City Colleges to publicize a five-year long-range plan on an annual basis, either by reinstating the practice of including the long-range financial plan in the annual operating budget book or producing the financial plan as a separate document. The long-range plan should continue to include the elements that were included in the long-range plans produced as part of the annual budgets from FY2015-FY2017 and be connected to the new strategic plan being developed.

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

   The Civic Federation recommends that City Colleges consider establishing a separate review process for its long-range financial plan outside of the approval of the annual budget. Until now, the Board of Trustees has not reviewed or approved the long-range plan separately because it has been included in the annual budget document. The separate review would ideally include an annual presentation of the long-range financial plan showing projected revenues and expenditures over the next five years based on current policies and a discussion of potential strategies that could be used or policy changes that could address future

[13] Information provided by City Colleges, Finance Department, July 13, 2017.

shortfalls. The Board of Trustees would formally approve the long-range financial plan, similar to the annual budget approval.

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. The long-range plan could still be included in the annual budget book, or could become a stand-alone document.

3. Provide Quarterly Updates on Operating Budget

In addition to an annual review and approval of the long-range financial plan, the Civic Federation recommends that the City Colleges Office of Finance provide a quarterly update to the Board of Trustees on revenues and expenditures for the current fiscal year. The quarterly update would present a financial outlook based on year-to-date revenues and expenditures and allow for discussion about how to address potential budget gaps.

The Board of Trustees has a policy on financial reports that states, "The Chief Financial Officer shall present to the Board periodic summaries of the financial condition of the District showing the status of Board finances."[14] Currently, financial reports are not provided on a consistent basis. The Civic Federation recommends that the Board of Trustees strengthen this policy by specifying that the Chief Financial Officer shall present quarterly financial reports.

4. Establish a Formal Long-Term Financial Planning Policy

City Colleges has several financial policies that promote financial sustainability. One example is the District's fund balance policy to reserve an annual unrestricted fund balance of 3.0% of unrestricted operating expenses for contingencies.[15] 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 production of 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.[16] City Colleges can also examine the policies of other Chicago-area governments, such as Cook County.[17]

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[14] City Colleges of Chicago FY2019 Tentative Operating Budget, p. 21.
[15] City Colleges of Chicago FY2020 Tentative Operating Budget, p. 29. The policy was adopted as Resolution #33109 by the Board of Trustees on December 1, 2016.
[16] See http://www.gfoa.org/financial-policy-examples-long-term-financial-planning.
[17] 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.

Strategic Planning Recommendations

As noted earlier, City Colleges produced a five-year strategic plan for 2013-2018 and is in the process of updating its new five-year strategic plan. As the District prepares its next five-year strategic plan, the Civic Federation offers the following recommendations:

1. **Provide an Update on Outcomes from the 2013-2018 Strategic Plan**

   The 2013-2018 strategic plan included a number of goals to meet specific outcomes on metrics such as degrees awarded, transfers to four-year universities, employment and hiring time. It also included four strategies to increase success. After the conclusion of the five-year period, City Colleges should provide an update that measures how well the District did on meeting its goals in the 2013-2018 strategic plan.

2. **Provide Annual Updates to the Next Five-Year Strategic Plan**

   After City Colleges develops the next five-year strategic plan and set out goals, objectives and strategies, the District should provide annual updates that track progress made on the goals. As the strategic planning process is an ongoing and evolving process, this would provide stakeholders with data-based updates to measure progress and make adjustments as needed.

3. **Maximize Stakeholder Input in Strategic Planning Process**

   The Civic Federation encourages the District to incorporate greater stakeholder input into its strategic plan by holding multiple public meetings throughout the District in order to garner greater input from students, faculty, staff and the greater public. In doing so, the District will ensure that the strategic plan addresses all programmatic and financial needs of all stakeholders. The Federation further recommends that the District publicly release its strategic plan as a separate document from the budget and that it be developed in concert with a long-term financial plan, a best practice identified by the GFOA.

Acknowledgements

We would like to express our sincere thanks and appreciation to Chancellor Juan Salgado, Chief Financial Officer, Maribel Rodriguez and Deputy Chief Financial Officer, Jeffrey Wong 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. FY2020 appropriations are compared to FY2019 adopted appropriations and actual expenditures for FY2016-FY2018.

City Colleges has 11 funds: six operating funds, as well as debt service, capital 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 Funds

- **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;[18]

Restricted Funds

- **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.[19]

Appropriations for All Funds

City Colleges' proposed appropriations for all funds in FY2020 total $447.5 million. This is a 2.6%, or $11.4 million, increase from FY2019 adopted appropriations of $436.1 million.

The District's FY2020 tentative annual operating budget of $391.7 million will see a slight decrease from the FY2019 adopted appropriations. However, the unrestricted operating fund will increase by $4.7 million, or 1.6% and the enterprise operating fund will see a $4.0 million, or 46.5% increase over the two-year period. This is offset by a $10.2 million, or 10.3% decrease in the restricted portion of the operating funds. Restricted operating funds must be used for specific purposes as established by statute or terms of a grant or loan, while unrestricted funds can be spent at the discretion of the Board.

Enterprise Funds appropriations are proposed to increase by $4.0 million, or 46.5%, above FY2019 adopted appropriations of $8.6 million. Enterprise funds are supposed to be self-

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[18] In the FY2016 through FY2020 budgets the Auxiliary/Enterprise Fund budget has been presented separately from the Unrestricted Funds in some sections of the budget.

[19] Descriptions of the fund categories may be found in City Colleges of Chicago FY2020 Tentative Annual Operating Budget on pp. 13-15.

sustaining. However, in FY2020 the Enterprise Funds will rely on a $532,783 transfer from the Unrestricted Operating Funds, which is $199,530, or 27.2%, less than the transfer in FY2019.[20]

The FY2020 proposed Capital Fund appropriations totaling $42.6 million will increase by 41.1%, or $12.4 million, above FY2019 adopted appropriations of $30.2 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 FY2020, totaling $42.6 million, will make up 9.5% of total appropriations, compared to 6.9% of total appropriations in FY2019. Increased Capital Funds in FY2020 are projected as a result of the recently approved State capital funding bill.[21] The updated $236.9 million five-year capital plan appropriates approximately 25.7%, or $60.8 million, toward new facilities.[22]

Over the five-year period beginning in FY2016 the District's total expenditures are projected to decrease by $14.7 million, or 3.2%. This five-year decrease is driven primarily by $7.5 million, or 7.8%, decrease in the restricted spending and a $6.7 million, or 2.3%, decrease in unrestricted spending. City Colleges completed a $250 million debt issuance in FY2014 and a $78.2 million debt issuance in FY2018 to support its capital plan and has budgeted $20.7 million to pay for principal and interest in FY2020.[23]

City Colleges Appropriations for All Funds by Type: FY2016-FY2020 (in $ millions)

Fund Type	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Adopted Budget	FY2020 Tentative Budget	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Operating Funds									
Unrestricted	$ 296.8	$ 242.5	$ 307.7	$ 285.4	$ 290.1	$ 4.7	1.6%	$ (6.7)	-2.3%
Enterprise	$ 9.7	$ 12.7	$ 5.7	$ 8.6	$ 12.6	$ 4.0	46.5%	$ 2.9	29.9%
Restricted	$ 96.5	$ 87.1	$ 212.4	$ 99.2	$ 89.0	$ (10.2)	-10.3%	$ (7.5)	-7.8%
Subtotal Operating	**$ 403.0**	**$ 342.3**	**$ 525.8**	**$ 393.2**	**$ 391.7**	**$ (1.5)**	**-0.4%**	**$ (11.3)**	**-2.8%**
Capital Fund	$ 41.3	$ 16.0	$ 10.1	$ 30.2	$ 42.6	$ 12.4	41.1%	$ 1.3	3.1%
Debt Service	$ 17.9	$ 23.1	$ 17.0	$ 12.7	$ 13.2	$ 0.5	3.9%	$ (4.7)	-26.3%
Total	**$ 462.2**	**$ 381.4**	**$ 552.9**	**$ 436.1**	**$ 447.5**	**$ 11.4**	**2.6%**	**$ (14.7)**	**-3.2%**

Note: Differences from budget book may occur due to rounding.
Source: City Colleges of Chicago FY2018 Annual Operating Budget, p. 3; FY2019 Annual Operating Budget, p. 5; and FY2020 Tentative Annual Operating Budget, p. 5.

Operating Funds by Object

The next table shows changes in City Colleges' appropriations by object (line item) for the following operating funds: Education Fund, Operations & Maintenance Fund, Audit Fund and Liability, Protection and Settlement Fund. In this section, FY2020 proposed appropriations are compared to adopted appropriations for FY2019 and actual expenditures for FY2016-FY2018. Over the five-year period, appropriations for these operating funds will decrease by approximately $14.8 million, or 5.0%, from the FY2016 actual appropriations of $296.8 million to $282.0 million proposed in FY2020.

[20] City Colleges of Chicago FY2020 Tentative Annual Operating Budget, p. 58.
[21] City Colleges of Chicago FY2020 Tentative Annual Operation Budget, p. 5.
[22] See the Capital section on page 33 of this report for more details on the City Colleges of Chicago Capital Plan.
[23] City Colleges of Chicago FY2020 Tentative Annual Operating Budget, p. 51.

Proposed appropriations for salaries will total $182.9 million in FY2020, up 3.2%, or $5.6 million, from FY2019 adopted appropriations of $177.3 million. The increase over the two-year period can be primarily attributed to increases in salaries and wages tied to collective bargaining agreements.[24] Salaries will make up 64.9% of total proposed operating appropriations in FY2020 compared to 64.1% of total budgeted operating appropriations in FY2019.

Appropriations for employee benefits will decrease by 4.5%, or $1.8 million, below the FY2019 adopted appropriations of $39.8 million. Benefit expenses are being controlled through increased employee and retiree contributions.[25]

Salaries and employee benefits together will compose 78.5% of the total appropriations in the operating funds in FY2020.

Bad debt will see the largest percentage increase over the two-year period between FY2019 and FY2020, increasing by 53.5%, or $2.8 million, from $5.2 million in FY2019 to $8.0 million in FY2020. The increase is due to policy changes at the District that occurred in 2016 and the lack of third-party collection agencies.[26] In FY2020 the District is continuing to make an effort to better manage bad student debt.[27]

Over the five-year period the District's appropriations for salaries will decline by 6.2%, or $12.1 million. This is primarily due to the District reducing the size of its workforce in recent years. During the same time period benefits appropriations are expected to decrease by $7.3 million, or 16.1%, below FY2016 actual expenditures of $45.3 million. Benefit appropriations as a percentage of total operating fund appropriations averaged 13.8% over the five-year period, declining from 15.3% in FY2016 to a low of 12.2% of total operating fund appropriations in

[24] City Colleges of Chicago FY2020 Tentative Annual Operating Budget, p. 10.
[25] City Colleges of Chicago FY2020 Tentative Annual Operating Budget, p. 10.
[26] Information provided to Civic Federation, June 24, 2019.
[27] Information provided to Civic Federation, June 24, 2019.

FY2018 before increasing to 13.5% in FY2019. In FY2018 the District eliminated the 100% pension contributions and medical reimbursements for senior leadership of the District.[28]

City Colleges Appropriations by Object of Expenditure Operating Funds: FY2016-FY2020 (in $ thousands)									
Object	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Adopted Budget	FY2020 Tentative Budget	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries	$ 194,989.0	$ 192,376.1	$ 177,471.1	$ 177,318.3	$ 182,910.0	$ 5,591.7	3.2%	$ (12,079.1)	-6.2%
Employee Benefits	$ 45,279.7	$ 39,630.2	$ 32,286.4	$ 39,776.1	$ 37,982.1	$ (1,794.0)	-4.5%	$ (7,297.7)	-16.1%
Contractual Services	$ 14,805.4	$ 12,491.0	$ 11,881.1	$ 15,995.0	$ 15,668.3	$ (326.7)	-2.0%	$ 862.8	5.8%
Materials/Supplies	$ 13,376.8	$ 11,873.2	$ 9,740.5	$ 12,775.0	$ 12,273.6	$ (501.4)	-3.9%	$ (1,103.2)	-8.2%
Travel/Conferences	$ 964.1	$ 431.5	$ 583.4	$ 813.1	$ 948.4	$ 135.3	16.6%	$ (15.8)	-1.6%
Capital Outlay	$ -	$ 57.3	$ -	$ -	$ -	$ -	-	$ -	-
Fixed Charges	$ 3,303.6	$ 3,062.1	$ 1,815.9	$ 2,137.2	$ 2,857.8	$ 720.6	33.7%	$ (445.8)	-13.5%
Utilities	$ 7,883.7	$ 8,068.8	$ 7,994.4	$ 8,317.7	$ 8,407.6	$ 89.9	1.1%	$ 523.9	6.6%
Bad Debt	$ 9,222.1	$ 9,558.5	$ 10,429.5	$ 5,212.8	$ 8,000.0	$ 2,787.2	53.5%	$ (1,222.1)	-13.3%
Waivers and Scholarships	$ 6,510.7	$ 11,545.3	$ 9,591.8	$ 13,089.4	$ 11,945.3	$ (1,144.1)	-8.7%	$ 5,434.6	83.5%
Other Expenditures	$ 492.0	$ 676.6	$ 2,723.2	$ 1,165.1	$ 1,053.0	$ (112.1)	-9.6%	$ 561.0	114.0%
Total	**$ 296,827.2**	**$ 289,770.5**	**$ 264,517.2**	**$ 276,599.8**	**$ 282,046.1**	**$ 5,446.3**	**2.0%**	**$ (14,781.2)**	**-5.0%**

Note: Operating Funds in this chart include the Education Fund, Operations & Maintenance Funds, Liability, Protection, and Settlement Fund and Audit Fund only. Not the Auxiliary/Enterprise Fund.
Source: City Colleges of Chicago FY2018 Annual Operating Budget, pp. 55-59; FY2019 Annual Operating Budget, pp. 55-59; and FY2020 Tentative Annual Operating Budget, pp. 56-60.

RESOURCES

The following section presents City Colleges' revenue sources tentatively budgeted for FY2020, compared to adopted budget resources from FY2016-FY2019.

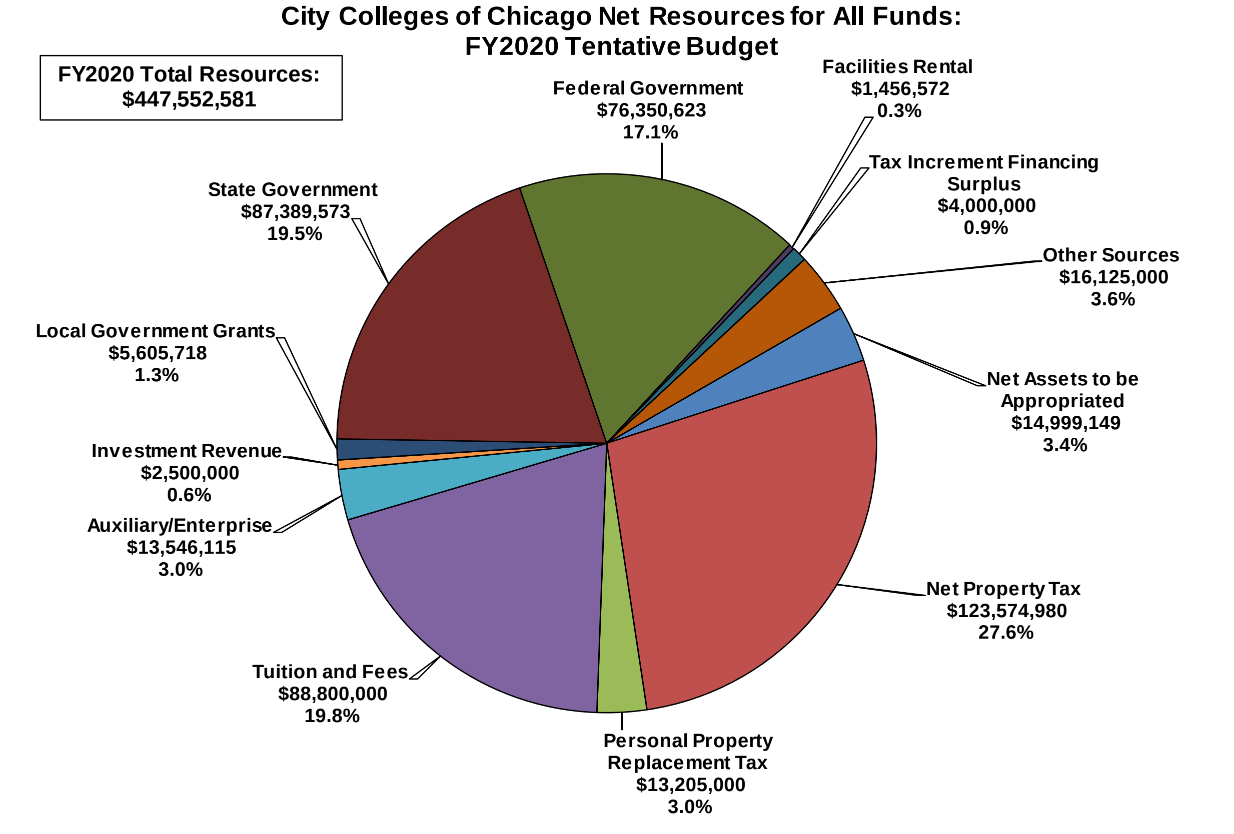
Total Resources for Fiscal Year 2020

City Colleges expects to generate $447.6 million in total resources for all funds in FY2020. All funds include operating funds, capital funds, debt service funds and federal and State student aid funds that are passed on to students through grants and the Work Study program.

As shown in the pie chart below, the largest revenue source in FY2020 will be property tax revenue, which is expected to make up 27.6% of total resources, or $123.6 million in revenue. The second largest source of revenue will be tuition and fees revenue, which is expected to generate 19.8% of total resources or $88.8 million. State revenue, will account for 19.5% of all resources or $87.4 million. Federal funds will make up 17.1% of all resources at $76.4 million.

[28] City Colleges of Chicago FY2018 Tentative Annual Operating Budget, p. 2.

The District also plans to use $15.0 million in reserves, which will make up 3.4% of total resources.



Source: City Colleges of Chicago FY2020 Tentative Annual Operating Budget, All Funds Summary, p. 54.

Trend in Total Resources for All Funds

City Colleges' total proposed FY2020 resources of $447.6 million represent an increase of $11.5 million, or 2.6%, from the FY2019 adopted budget of $436.0 million. However, it is a decrease over the five-year period from FY2016 to FY2020 of 35.7% from $695.5 million in FY2016. Total resources for all funds over the five-year period are shown in the next table.

Revenue from all local sources is estimated to be $252.7 million in FY2020, which is a slight increase of $2.3 million, or 0.9%, from $250.4 million in FY2019. While most local revenue sources are expected to increase between FY2019 and FY2020, tuition and fee revenue is expected to decrease by 10.3% or $10.2 million. The decrease in tuition is in line with a projected continued decline in enrollment.

Property tax revenue is expected to increase by $1.8 million or 1.5% in FY2020, primarily due to an increase in the property tax levy of 1.9%, which is the maximum increase allowed under the

Property Tax Extension Limitation Law.[29] The levy increase also accounts for approximately $700,000 in new property.[30] The District is also budgeting for $4.0 million in Tax Increment Financing Surplus, which is revenue distributed by the City of Chicago among taxing districts when TIF surplus funds are declared. Auxiliary/enterprise revenue generated through fees to cover activity expenses such as child care, culinary programs and contract training is expected to increase by $2.5 million, or 23.2%, primarily due to an intergovernmental agreement with the Chicago Department of Family and Support Services for Early Childhood Education programs.[31]

State funding is expected to be $87.4 million in FY2020, which is an increase of $24.8 million, or 39.6% from the budgeted amount of $62.6 million in FY2019. Due to the two-year State budget impasse that lasted from July 2015 through August 2017, City Colleges only received a fraction of expected funding from the State of Illinois in FY2016 and FY2017. The District budgeted for State funding of $63.5 million in FY2016 and $56.0 million in FY2017. However, City Colleges actually received $21.4 million (33.6% of the budgeted amount) in FY2016 and $27.6 million (about half of the budgeted amount) in FY2017.[32] The District budgeted for $62.6 million in State funding in FY2019.

Federal funds primarily represent financial aid that is passed on to students, not revenues available for day-to-day operations. Federal funding is expected to decrease by 12.1% in FY2020, or $10.5 million, from $86.8 million in FY2019 to $76.4 million in FY2020. This decrease is primarily due to the declining enrollment trend and the associated decrease in student financial aid.[33]

Since FY2016, federal funding has decreased by 55.4% from $171.3 million. For the past several years, actual federal revenues have been much lower than budgeted projections. While the District budgeted for $171.3 million in federal resources in FY2016 and $164.7 million in FY2017, the District only actually received $84.3 million in FY2016 and $80.1 million in FY2017, about half of the budgeted amounts.[34] The District decreased its federal funding estimate in FY2018 due to lower enrollment and therefore a decrease in student financial aid, more conservative estimates than in prior years and grants awarded but not yet received.[35]

Other sources of revenue include revenues that do not fall within specific categories such as fees and fundraising.[36] Other sources of revenue are expected to increase by $11.7 million from $4.5 million in FY2019 to $16.1 million in FY2020. The $16.1 million in other sources includes $12.9 million in proceeds related to the sale of the District's downtown headquarters and $3.2

[29] Illinois Department of Revenue, History of CPI's Used for the PTELL, January 11, 2019. https://www2.illinois.gov/rev/localgovernments/property/Documents/cpihistory.pdf (last accessed July 31, 2019).
[30] Information provided by City Colleges to the Civic Federation, July 23, 2019.
[31] City Colleges of Chicago FY2020 Tentative Annual Operating Budget, pp. 8 and 14.
[32] City Colleges of Chicago FY2019 Annual Operating Budget, p. 32.
[33] City Colleges of Chicago FY2020 Tentative Annual Operating Budget, p. 9.
[34] City Colleges of Chicago FY2020 Tentative Annual Operating Budget, p. 33.
[35] City Colleges of Chicago FY2018 Annual Operating Budget, p. 6.
[36] City Colleges of Chicago FY2019 Annual Operating Budget, p. 17.

million in fundraising.[37] Investment revenue is projected to increase from $1.5 million in FY2019 to $2.5 million in FY2020.[38]

Over the five-year period from FY2016 to FY2020, total resources are expected to decrease by $247.9 million, or 35.7%. This decrease is largely due to significant decreases in tuition and fee revenue, federal funding and local government grants.

City Colleges of Chicago Net Resources for All Funds: FY2016 - FY2020
(in $ thousands)

Sources of Revenues	FY2016 Adopted Budget	FY2017 Adopted Budget	FY2018 Adopted Budget	FY2019 Adopted Budget	FY2020 Tentative Budget	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Net Property Tax Revenues	$ 119,993	$ 120,070	$ 120,345	$ 121,775	$ 123,575	$ 1,800	1.5%	$ 3,582	3.0%
Personal Property Replacement Tax	$ 14,328	$ 13,867	$ 13,867	$ 12,705	$ 13,205	$ 500	3.9%	$ (1,123)	-7.8%
Tuition and Fees	$ 126,985	$ 111,446	$ 94,675	$ 99,038	$ 88,800	$ (10,238)	-10.3%	$ (38,185)	-30.1%
Auxiliary/Enterprise	$ 12,133	$ 10,752	$ 9,387	$ 10,998	$ 13,546	$ 2,549	23.2%	$ 1,413	11.6%
Investment Revenue	$ 1,000	$ 562	$ 120	$ 1,474	$ 2,500	$ 1,026	69.6%	$ 1,500	150.0%
Local Government Grants	$ 22,025	$ 5,249	$ 3,464	$ 4,448	$ 5,606	$ 1,158	26.0%	$ (16,420)	-74.5%
Tax Increment Financing Surplus	$ -	$ -	$ -	$ -	$ 4,000	$ 4,000	-	$ 4,000	-
Facilities Rental	$ -	$ -	$ -	$ -	$ 1,457	$ 1,457	-	$ 1,457	-
Total Local Sources	**$ 296,465**	**$ 261,946**	**$ 241,858**	**$ 250,437**	**$ 252,688**	**$ 2,251**	**0.9%**	**$ (43,776)**	**-14.8%**
State Government	$ 63,489	$ 56,021	$ 61,146	$ 62,616	$ 87,390	$ 24,774	39.6%	$ 23,900	37.6%
Federal Government	$ 171,299	$ 164,749	$ 89,807	$ 86,838	$ 76,351	$ (10,487)	-12.1%	$ (94,948)	-55.4%
Subtotal State & Federal Sources	**$ 234,788**	**$ 220,770**	**$ 150,953**	**$ 149,454**	**$ 163,740**	**$ 14,287**	**9.6%**	**$ (71,048)**	**-30.3%**
Appropriated Reserves	$ 157,249	$ 34,036	$ 57,370	$ 31,665	$ 14,999	$ (16,665)	-52.6%	$ (142,250)	-90.5%
Other Sources	$ 6,999	$ 6,925	$ 7,426	$ 4,460	$ 16,125	$ 11,665	261.5%	$ 9,126	130.4%
Total	**$ 695,501**	**$ 523,677**	**$ 457,606**	**$ 436,016**	**$ 447,553**	**$ 11,537**	**2.6%**	**$ (247,948)**	**-35.7%**

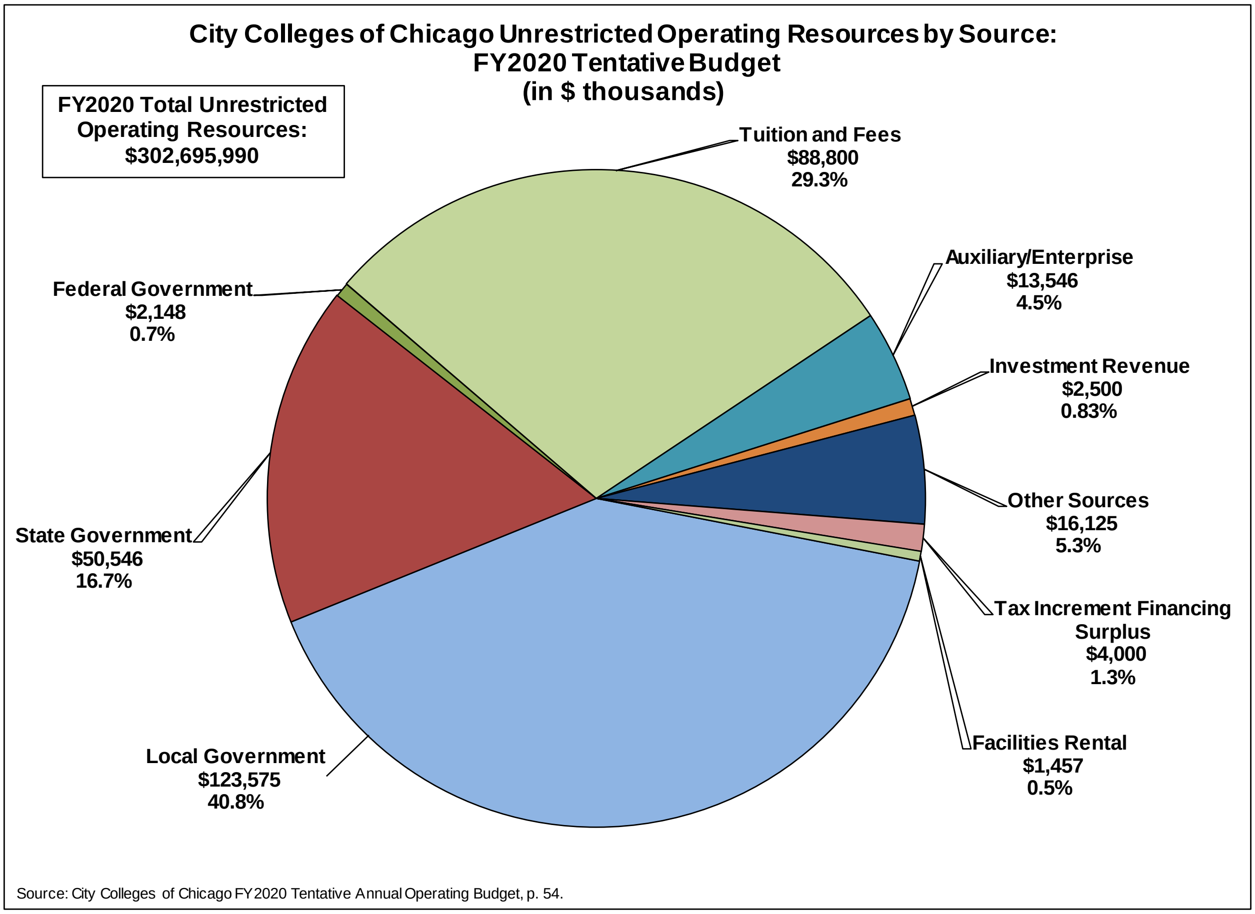
Source: City Colleges of Chicago Adopted Budgets, FY2016, p. 65; FY2017, p. 62; FY2018, p. 53; FY2019, p. 53; and City Colleges of Chicago FY2020 Tentative Budget, p. 54.

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. 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. City Colleges is budgeting a total of $302.7 million in unrestricted funds for FY2020.

[37] City Colleges of Chicago FY2020 Tentative Annual Operating Budget, p. 37; and information provided by City Colleges to Civic Federation, July 23, 2019.
[38] City Colleges of Chicago FY2019 Annual Operating Budget, p. 35.

Local government sources are projected to make up 40.8% of unrestricted funding sources, or $123.6 million. State government funding will make up 16.7% at $50.5 million. Tuition and fee revenue of $88.8 million is expected to account for 29.3%.



The next table presents the changes in total unrestricted resources over the five-year period from FY2016-FY2020. Total estimated unrestricted revenue sources of $302.7 million represent a slight decrease of $2.9 million, or 1.0%, from $305.6 million budgeted in FY2019. Over the five-year period starting in FY2016, unrestricted resources will decline by $22.3 million or 6.9%.

Local government unrestricted funds (i.e., property tax revenues) are expected to increase by 1.5% from $121.8 million in FY2019 to $123.6 million in FY2020 due to an increase in the District's property tax levy. Tuition and fee revenue, which is only used for unrestricted purposes, is projected to decrease from FY2019 to FY2020 by 10.3%, or $10.2 million due to an anticipated enrollment decline.

Auxiliary/Enterprise revenue is projected to increase by $2.5 million, or 23.2%, from $11.0 million in FY2019 to $13.5 million in FY2020 primarily due to an intergovernmental agreement with the Chicago Department of Family and Support Services for Early Childhood Education programs.[39] Auxiliary/Enterprise revenues are generated from self-supporting services that charge a fee such as facility rentals, transcript fees, the cafeteria and the bookstore.[40]

The District has used operating reserves for general operating purposes in past years, but does not plan to utilize unrestricted fund reserves in FY2020. Federal funds are used primarily for restricted purposes, so only $2.1 million in federal funding is budgeted for the unrestricted funds in FY2020.

City Colleges Resources for Unrestricted Operating Funds: FY2016-FY2020
(in $ thousands)

Sources of Resources	FY2016 Adopted Budget	FY2017 Adopted Budget	FY2018 Adopted Budget	FY2019 Adopted Budget	FY2020 Tentative Budget	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Local Government	$ 119,993	$ 120,070	$ 120,345	$ 121,775	$ 123,575	$ 1,800	1.5%	$ 3,582	3.0%
State Government	$ 55,879	$ 48,543	$ 52,907	$ 52,696	$ 50,546	$ (2,150)	-4.1%	$ (5,333)	-9.5%
Federal Government	$ 300	$ 635	$ 2,003	$ 2,012	$ 2,148	$ 136	6.7%	$ 1,848	615.9%
Tuition and Fees	$ 126,985	$ 111,446	$ 94,675	$ 99,038	$ 88,800	$ (10,238)	-10.3%	$ (38,185)	-30.1%
Auxiliary/Enterprise	$ 12,133	$ 10,752	$ 9,387	$ 10,998	$ 13,546	$ 2,549	23.2%	$ 1,413	11.6%
Investment Revenue	$ 1,000	$ 562	$ 120	$ 1,474	$ 2,500	$ 1,026	69.6%	$ 1,500	150.0%
Other Sources	$ 6,670	$ 6,496	$ 7,090	$ 16,125	$ 16,125	$ -	0.0%	$ 9,455	141.8%
Tax Increment Financing Surplus	$ -	$ -	$ -	$ -	$ 4,000	$ 4,000	-	$ 4,000	-
Facilities Rental	$ -	$ -	$ -	$ -	$ 1,457	$ 1,457	-	$ 1,457	-
Operating Reserves	$ 2,000	$ -	$ 15,000	$ 1,500	$ -	$ (1,500)	-100.0%	$ (2,000)	-100.0%
Total	**$ 324,959**	**$ 298,504**	**$ 301,527**	**$ 305,617**	**$ 302,696**	**$ (2,921)**	**-1.0%**	**$ (22,263)**	**-6.9%**

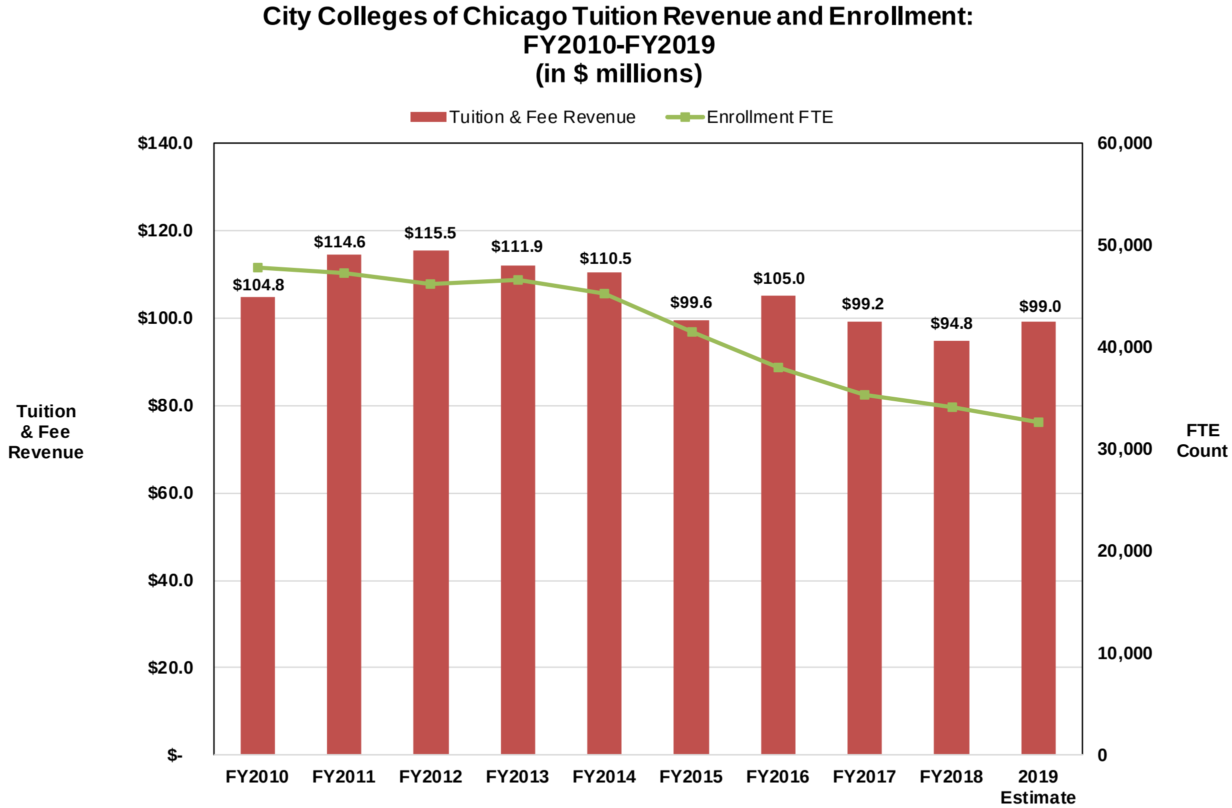
Source: City Colleges of Chicago FY2016 Adopted Budget, p. 65; FY2017 Adopted Budget, p. 63; FY2018 Adopted Budget, p. 53; FY2019 Adopted Budget, p. 53; FY2020 Tentative Budget, p. 54.

City Colleges Tuition

In FY2020 City Colleges projects that revenue from tuition and fees will total $88.8 million. This constitutes 29.2% of the District's general operating funds. City Colleges has seen an enrollment decline of nearly 32% between FY2010 and FY2019, and expects a 5.9% decline in credit hours enrollment in FY2020.[41] The chart below shows a ten-year trend of tuition revenue compared to enrollment. Actual tuition revenue has fluctuated over that period, but generally has decreased. The District's adopted FY2019 budget projected that tuition revenue would increase

[39] City Colleges of Chicago FY2020 Tentative Annual Operating Budget, pp. 8 and 14.
[40] City Colleges of Chicago FY2020 Tentative Annual Operating Budget, pp. 8 and 14.
[41] City Colleges of Chicago FY2020 Tentative Annual Operating Budget, p. 37.

to $99.0 million, but estimates for FY2019 enrollment show a continued decline. Enrollment is discussed further on page 27 of this report.



Source: City Colleges of Chicago FY2018 Comprehensive Annual Financial Report, p. 67; FY2014 Adopted Budget, p. 294; FY2017 Adopted Budget, p. 323; and FY2020 Tentative Budget, p. 200.

City Colleges currently charges $146 per credit hour for in-district students, with a cap of 12 credit hours. Enrollment above 12 credit hours is charged a flat rate of $1,752. This hybrid tuition structure was implemented in the fall of 2018 (fiscal year 2019). City Colleges has changed its tuition structure several times in past years, as shown in the table below. Until 2015, City Colleges charged a per-credit-hour tuition, which increased several times between 2007 and 2015. Beginning in FY2016 City Colleges transitioned from a per-credit-hour tuition and fee based revenue structure to a tier-based cost of attendance model that charged a flat rate based on part-time or full-time enrollment. The flat rate charge for in-district enrollment was $599 for one course, $1,069 for part-time enrollment and $1,753 for full-time enrollment. The tiered tuition structure was designed to encourage full-time enrollment and timely graduation, make cost of attendance more transparent for students[42] and simplify the revenue structure.[43]

Beginning in summer 2018, the District returned to a per-credit-hour charge of $146 per credit hour for part-time students enrolled in fewer than 12 credit hours and a flat rate of $1,752 for full-time students enrolled in 12 credit hours or more of coursework. This includes mandatory

[42] City Colleges of Chicago FY2016 Tentative Annual Operating Budget, p. ii.
[43] City Colleges of Chicago FY2017 Tentative Annual Operating Budget, p. 357.

fees. The current tuition structure charges part-time students the same rate per credit hour as a full-time student enrolled in 12 credit hours.

City Colleges of Chicago 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	$ 173.56	$ 230.35
2014	$ 89.00	$ 173.56	$ 230.35
2015	$ 89.00	$ 173.56	$ 230.35
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 (One Class/Part-time/Full-time)	$599/$1,069/1,753	$1,359/$3,159/$4,603	$1,719/$4,149/$5,953
2019 (Less than 12 credit hours / 12+ credit hours)	$146 per credit hour / $1,752 flat rate full time	$384 per credit hour/ $4,608 flat rate	$481 per credit hour/ $5,772 flat rate
2020 Tentative Budget (Less than 12 credit hours / 12+ credit hours)	$146 per credit hour / $1,752 flat rate full time	$384 per credit hour/ $4,608 flat rate	$481 per credit hour/ $5,772 flat rate

Source: City Colleges of Chicago FY2012 Comprehensive Annual Financial Report, p. 51; FY2014 Annual Operating Budget, p. 41; FY2018 Annual Operating Budget, p. 32; FY2019 Annual Operating Budget, p. 36; and FY2020 Tentative Annual Operating Budget, p. 37.

For a comparison of City Colleges' in-district tuition to the in-district tuition of 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, so property taxes for each fiscal year are drawn from half of two calendar years. There is also a one-year lag in Cook County between when property taxes are levied and when they are collected. As a result, property tax funds received during the City Colleges upcoming fiscal year (FY2020) will be drawn from the City Colleges property tax levy from part of tax year 2018 and part of tax year 2019.

In FY2020 City Colleges expects to receive a net total of $123.6 million in property tax revenue, compared to $121.8 million in FY2019. The gross amount of tax levy revenue in FY2020 is estimated to be $128.6 million, but that amount is reduced by $5.0 million to account for estimated loss and cost of collections and refunds of back taxes, yielding net property tax revenue of $123.6 million.[44]

Property Tax Revenues Received by City Colleges: FY2019 & FY2020		
	FY2018	FY2019
1/2 Estimated Gross 2017 Levy	$ 62,923,193	
1/2 Estimated Gross 2018 Levy	$ 63,345,845	
1/2 Estimated Gross 2018 Levy		$ 63,345,845
1/2 Estimated Gross 2019 Levy		$ 65,253,502
Subtotal Gross Levy Funds Available	**$ 126,269,038**	**$ 128,599,347**
Estimated Loss and Cost of Collection	$ (4,494,058)	$ (5,024,367)
Total (Net Levy)	**$ 121,774,980**	**$ 123,574,980**
$ Change		**$ 1,800,000**
% Change		**1.5%**

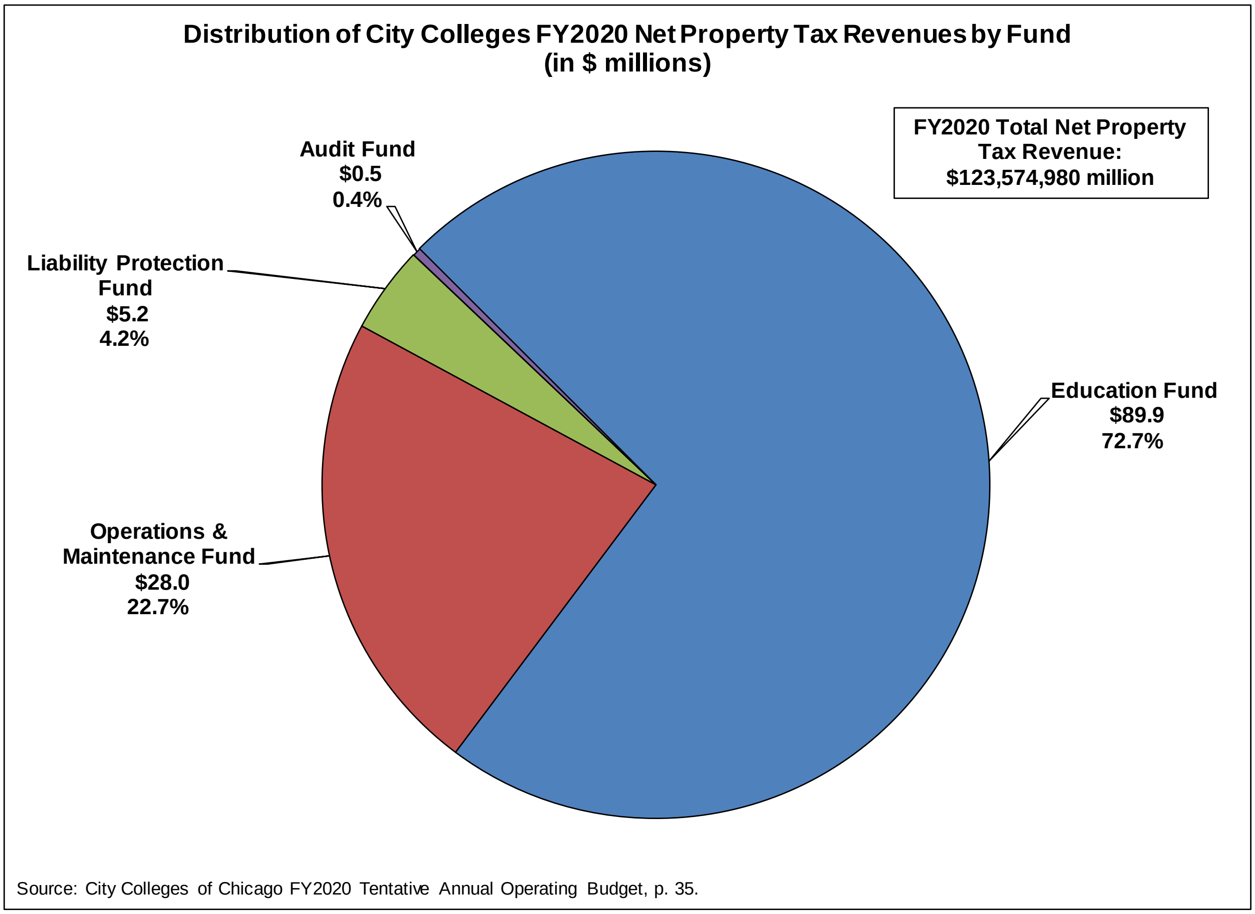
Source: City Colleges of Chicago FY2019 Adopted Operating Budget, p. 53 and FY2020 Tentative Annual Operating Budget, p. 54.

Estimated property tax revenue in FY2020 is an increase of $1.8 million, or 1.5%, over the previous year because City Colleges plans to increase its gross property tax levy by the maximum allowed by State statute, which is 5.0% or the rate of inflation, whichever is less.[45]

The distribution of City Colleges' FY2020 net property tax revenues of $123.6 million is shown in the pie chart below. All of the District's property tax revenue is used for operations. Note that the figures shown below exclude the $4.0 million the District is budgeting for Tax Increment Financing Surplus. The largest portion, 72.7%, or $89.9 million, is distributed to the Education Fund, which is the City Colleges' general operating fund. The Operations and Maintenance Fund

[44] City Colleges of Chicago FY2020 Tentative Annual Operating Budget, p. 35.
[45] Property Tax Extension Limitation Law (PTELL), Public Act 89-1.

will receive 22.7% of property tax funds; the Liability, Protection and Settlement Fund will receive 4.2%; and the Audit Fund will receive 0.4%.



Five-Year Property Tax Levy Trend

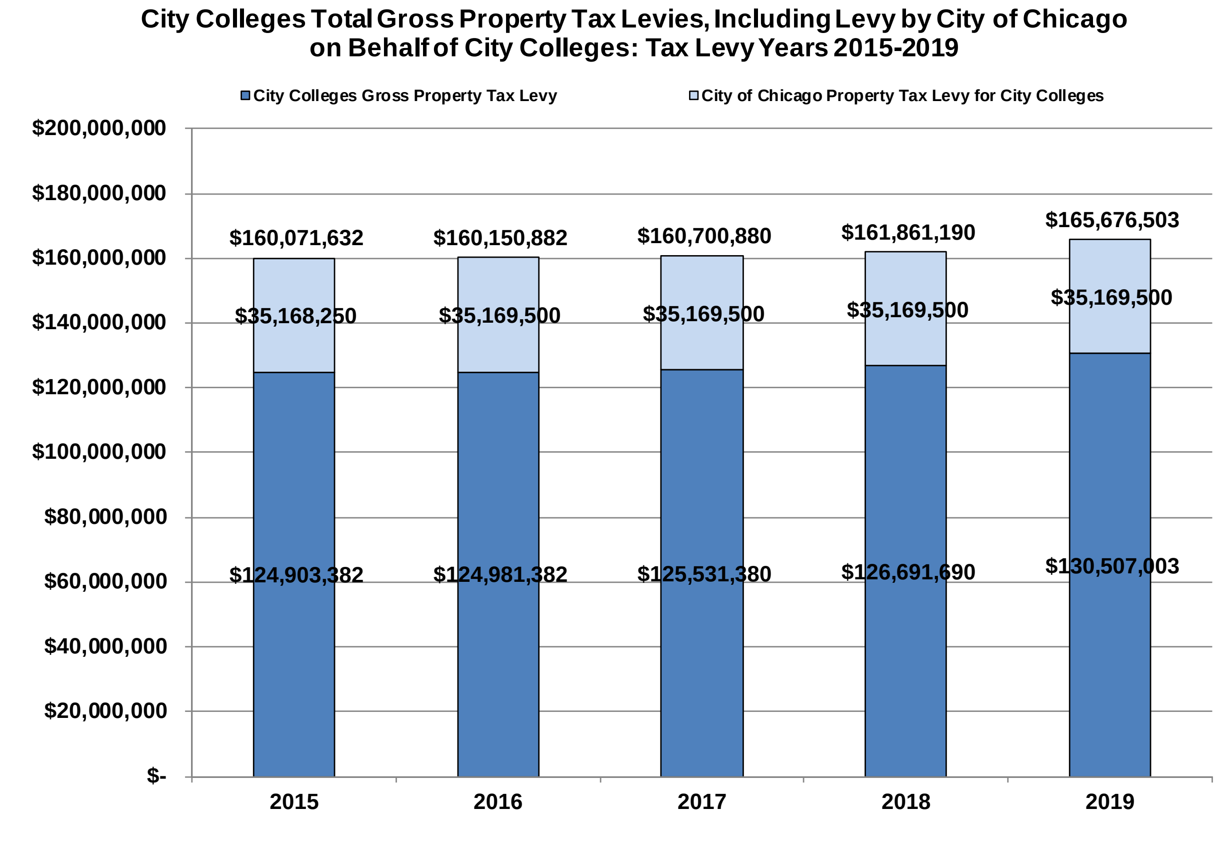
Historically, City Colleges has not increased property taxes, other than levying for expiring TIF districts and new or improved property. In FY2020, however, the District will increase its property tax levy by $1.3 million, which is the highest increase allowed under State law.[46] The chart below shows the tax levy for City Colleges for levy years 2015-2019 (taxes levied in 2015-2019 but collected in 2016-2020). In tax levy year 2019 (taxes payable in calendar year 2020) the City Colleges gross property tax levy, before accounting for loss in collections, will total $130.5 million. This represents a 3.0% increase compared to the gross levy of $126.7 million the prior year, and a 4.5% increase compared to 2015.

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.[47] The City of Chicago does so because of the expiration of District authority to levy for debt issued by the Public Building

[46] The Property Tax Extension Limitation Law (PTELL) limits property tax increases to 5% or the rate of inflation, whichever is less.
[47] 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.[48] 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 because of limits set by the Property Tax Extension Limitation Law.

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 $165.7 million in tax year 2019. This represents a 3.5% increase from $160.1 million in tax year 2015.



Source: City Colleges of Chicago FY2020 Tentative Annual Operating Budget, p. 200.

48 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.[49]

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 the District lost.[50] 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.[51] In FY2020 the District is anticipating an alternate equalization grant of $13.2 million.[52]

ENROLLMENT TRENDS

City Colleges estimates FY2019 student enrollment to total 32,646 full-time equivalent students (FTEs).[53] FTE enrollment is a calculation of the total number of enrolled credit hours per year divided by thirty credit hours, based on a full-time class load of 15 credit hours per academic semester.[54] Rather than the total student headcount, FTE enrollment makes class loads more comparable.

Between FY2018 and FY2019, City Colleges estimates that student enrollment will decrease by 4.3%, or 1,463 FTEs, from 34,109 total FTEs in FY2018. Enrollment in the District's largest instructional area, the Career Credit and Skills program, is expected to decrease by 678 FTEs, or 2.8%. Enrollment in Adult Education is expected to decline by 785 FTEs or 7.6%. Continuing Education enrollment is zero because Continuing Education courses are non-credit courses taken for personal interest and do not have an FTE credit value.[55]

In the five-year period between FY2015 and FY2019, City Colleges' total FTE enrollment declined by 21.4%, or 8,882 FTEs, from 41,528 in FY2015 to an estimated 32,646 in FY2019. The decline in enrollment can be attributed to a number of factors including: an improving economy that has impacted enrollment at community colleges within Illinois and nationally, the two-year state budget impasse that reduced and delayed funding to community colleges and a

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[49] City Colleges of Chicago FY2020 Tentative Annual Operating Budget, p. 38.
[50] City Colleges of Chicago FY2020 Tentative Annual Operating Budget, p. 38.
[51] City Colleges of Chicago FY2019 Tentative Annual Operating Budget, p. 37.
[52] City Colleges of Chicago FY2020 Tentative Annual Operating Budget, p. 37.
[53] City Colleges of Chicago does not include full-time equivalent enrollment projections in the budget book for FY2020, but does include a projection for FY2020 credit hours. In FY2020 City Colleges projects a 5.9% decline in credit hour enrollment from FY2019.
[54] City Colleges of Chicago FY2020 Tentative Annual Operating Budget, p. 229.
[55] Information provided by City Colleges of Chicago, June 21, 2018.

decline in population within Chicago, particularly within African American communities, as well as programming changes within the District.[56] FTE enrollment in Career Credit and Skills decreased by 20.9%, or 6,116 FTEs over that period. Adult Education enrollment fell by 20.0% or 2,375 FTEs.

City Colleges Full-Time Equivalent (FTE) Enrollment: FY2015-FY2019									
Type	**FY2015**	**FY2016**	**FY2017**	**FY2018**	**FY2019***	**Two-Year # Change**	**Two-Year % Change**	**Five-Year # Change**	**Five-Year % Change**
Career Credit and Skills	29,263	26,419	24,181	23,825	23,147	(678)	-2.8%	(6,116)	-20.9%
Adult Education	11,874	11,540	11,086	10,284	9,499	(785)	-7.6%	(2,375)	-20.0%
Continuing Education	391	4	7	-	-	-	-	(391)	-100.0%
Total	**41,528**	**37,963**	**35,274**	**34,109**	**32,646**	**(1,463)**	**-4.3%**	**(8,882)**	**-21.4%**

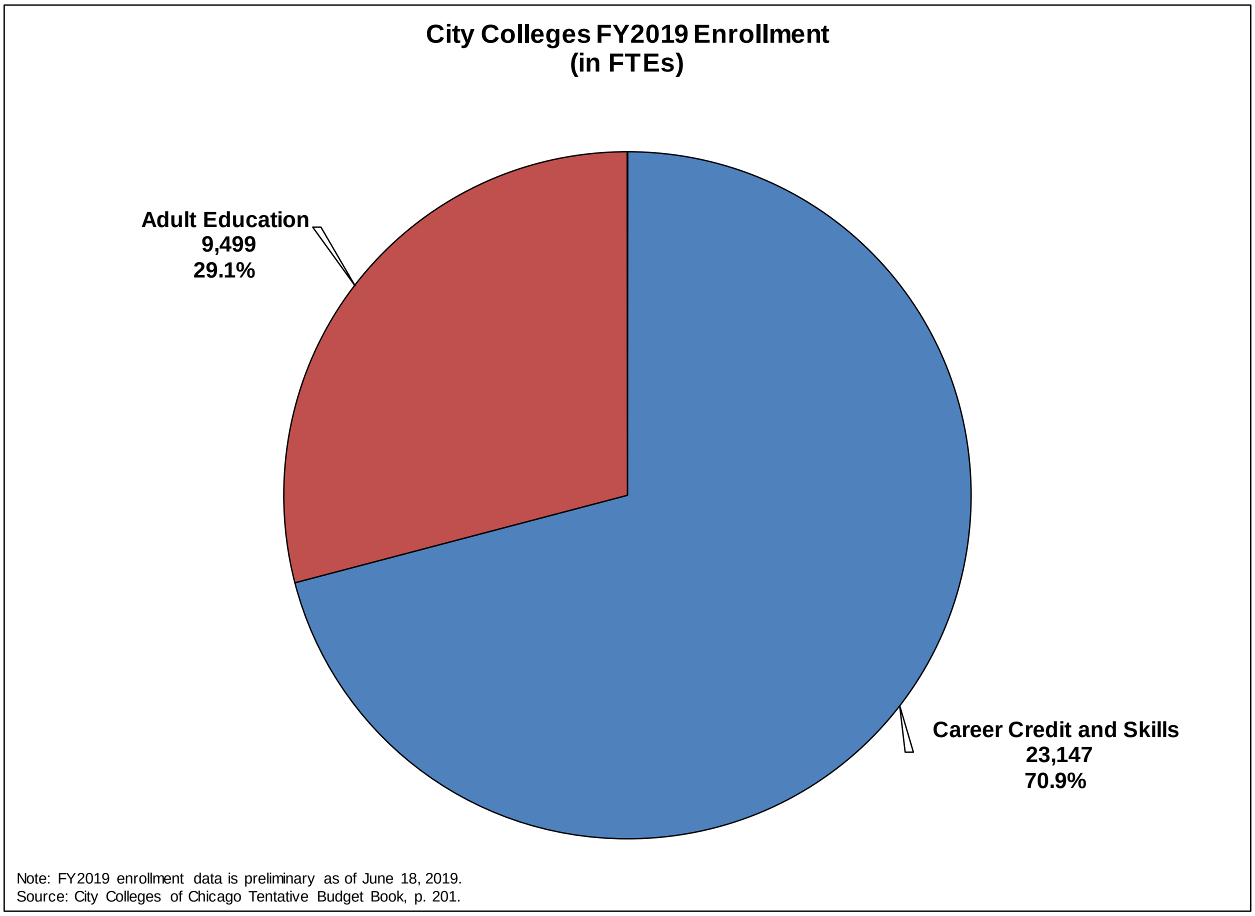
*FY2019 enrollment data is a preliminary estimate as of June 18, 2019.

Source: City Colleges of Chicago FY2020 Tentative Annual Operating Budget, p. 201.

The following chart shows the distribution of City Colleges' estimated FY2019 enrollment between the Career Credit and Skills program and the Adult Education program. The Career Credit and Skills program had the majority of credit enrollment at 23,147 FTEs or 70.9%. Adult

[56] Information provided by City Colleges of Chicago, July, 23, 2019.

Education enrollment accounted for 29.1% of credit hours or 9,499 FTEs. In FY2020 City Colleges is projecting a continued decline in enrollment.[57]



PERSONNEL AND PERSONNEL SERVICES

The following section of this analysis presents information and trends regarding City Colleges' full-time equivalent (FTE) personnel and salaries and benefits for the unrestricted funds between FY2016 and FY2020. Actual data is presented when available.

FTE data reflects the total hours worked by all employees divided by the average annual hours worked in a full-time position. 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 five-year period between FY2016 and FY2020, the total number of FTEs is budgeted to decline by 972 positions, or 22.2%, from 4,379 FTEs to 3,407 FTEs. This is a reduction of 457 full-time FTE positions, or 18.8%, and a reduction of 515 part-time FTE positions, or 26.4%. The majority of the decline in full-time FTE positions will be professional/technical staff,

[57] City Colleges of Chicago FY2020 Tentative Annual Operating Budget, p. 10.

administrators and clerical staff positions, which will decline by 270, 91 and 154 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 192 and 202 FTE positions, respectively. During the same period, full-time FTE positions for academic support will increase by 170 FTE positions.

In the two-year period between FY2019 and FY2020 there will be a net reduction of 58 total FTE positions, or a 1.7% decrease in total FTEs. Full-time staff will decrease by 4.4% or 91 positions. This includes a reduction of 24 full-time FTE faculty positions, 64 full-time FTE professional/technical staff, 7 full-time FTE clerical positions and 16 full-time FTE front-line direct support positions, but is offset by smaller increases in full-time administrators and academic support positions. There is no change in the number of full-time student workers. During the same two-year period, part-time FTE positions will increase by a total of 33 or 2.4%. This is due to an increase of 111 part-time faculty positions, but is offset by smaller reductions in other part-time FTE position types.

City Colleges of Chicago Full-Time Equivalent (FTE) Employees by Position Type and Status in Unrestricted Funds: FY2016-FY2020

Position Type	Status	FY2016 Adopted Budget	FY2017 Adopted Budget	FY2018 Adopted Budget	FY2019 Adopted Budget	FY2020 Tentative Budget	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Faculty	Full Time	627	619	575	573	549	(24)	-4.2%	(78)	-12.4%
	Part Time	1,156	859	643	853	964	111	13.0%	(192)	-16.6%
Professional/Technical Staff	Full Time	592	558	394	386	322	(64)	-16.6%	(270)	-45.6%
	Part Time	68	66	46	41	31	(10)	-24.4%	(37)	-54.4%
Administrators	Full Time	424	415	310	325	333	8	2.5%	(91)	-21.5%
	Part Time	2	1	0	1	0	(1)	-100.0%	(2)	-100.0%
Clerical	Full Time	354	316	213	207	200	(7)	-3.4%	(154)	-43.5%
	Part Time	10	19	11	17	14	(3)	-17.6%	4	40.0%
Front-Line Direct Support	Full Time	269	264	241	252	236	(16)	-6.3%	(33)	-12.3%
	Part Time	373	291	179	178	171	(7)	-3.9%	(202)	-54.2%
Academic Support	Full Time	161	168	308	319	331	12	3.8%	170	105.6%
	Part Time	322	341	358	289	237	(52)	-18.0%	(85)	-26.4%
Student Workers	Full Time	1	0	0	0	0	0	-	(1)	-100.0%
	Part Time	20	27	16	24	19	(5)	-20.8%	(1)	-5.0%
Sub-Totals	**Full Time**	**2,428**	**2,340**	**2,041**	**2,062**	**1,971**	(91)	-4.4%	(457)	-18.8%
	Part Time	**1,951**	**1,604**	**1,253**	**1,403**	**1,436**	33	2.4%	(515)	-26.4%
Total Full-time Equivalent (FTEs)		**4,379**	**3,944**	**3,294**	**3,465**	**3,407**	**(58)**	**-1.7%**	**(972)**	**-22.2%**

Note: Different totals may appear due to rounding.
Source: City Colleges of Chicago FY2018 Annual Operating Budget, p. 187; and FY2019 Annual Operating Budget, p. 201; and Information provided by City Colleges of Chicago budget staff, July 1, 2019.

The following chart displays the unrestricted operating funds appropriations for salaries and benefits between FY2016 and FY2020. The FY2020 tentative budget of nearly $220.9 million for salaries and benefits is an increase of $3.8 million, or 1.7%, from the FY2019 adopted budget of $217.1 million. Over the five-year period, salaries are projected to decrease by $12.1 million, or 6.2%, and benefits are projected to decrease by $7.3 million or 16.1%.

City Colleges Unrestricted Operating Funds Personnel Appropriations: FY2016-FY2020 (in $ thousands)									
	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Adopted Budget	FY2020 Tentative Budget	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year $ Change
Salaries	$ 194,989	$ 192,376	$ 177,471	$ 177,318	$ 182,910	$ 5,592	3.2%	$ (12,079)	-6.2%
Benefits	$ 45,280	$ 39,630	$ 32,286	$ 39,776	$ 37,982	$ (1,794)	-4.5%	$ (7,298)	-16.1%
Total	**$ 240,269**	**$ 232,006**	**$ 209,757**	**$ 217,094**	**$ 220,892**	**$ 3,798**	**1.7%**	**$ (19,377)**	**-8.1%**

Note: Unrestricted Operating Funds in this chart: Includes the Education Fund, Operations & Maintenance Fund and the Liability, Protection, and Settlement Fund. Not the Auxiliary/Enterprise Fund.

Source: City Colleges of Chicago FY2018 Annual Operating Budget, pp. 55-58; FY2019 Annual Operating Budget, pp. 55-59; and FY2020 Tentative Annual Operating Budget, pp. 56-59.

FUND BALANCE

Fund balance is a term commonly used to describe the net assets of governmental funds and is a measure of financial resources. 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.[58]

City Colleges is a special purpose, not a general purpose government, but its size and the relative instability of its revenue streams make it prudent for the District to maintain adequate reserves. The GFOA also recommends that each unit of government adopt a formal policy that considers the unit's own specific circumstances. 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 has a fund balance policy 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.[59] Any additional fund balance is 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.[60]

Unlike other governments that report fund balance amounts within governmental funds, as a public college system, City Colleges of Chicago only has business-type funds. Therefore, City Colleges reports net position for all of its funds rather than fund balance components within

[58] Government Finance Officers Association (GFOA), Fund Balance Guidelines for the General Fund (Best Practice Adopted September 2015).

[59] The policy was adopted by the Board of Trustees as Resolution #33109 on December 1, 2016. City Colleges of Chicago FY2020 Tentative Annual Operating Budget, p. 30.

[60] City Colleges of Chicago, FY2020 Tentative Annual Operating Budget, p. 30.

governmental funds as defined by the Governmental Accounting Standards Board (GASB) Statement 54. City Colleges 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 through FY2012 and data from the Statements of Net Position reported in the District's Comprehensive Annual Financial Reports (CAFRs).

The following table shows City Colleges' unrestricted fund balance ratio of unrestricted net position to total operating expenses from FY2009 through FY2018. For the majority of this ten-year period, the fund balance ratio remained close to 50%, meaning that the District had reserves that could cover about half a year of operating expenses. This level was well above the 16.7% ratio recommended by the GFOA and the District's own policy guidelines.

In FY2015 the fund balance ratio decreased from 48.2% of operating expenses to 26.8% due to use of reserves for the construction of the new Malcolm X campus.[61] The fund balance level dropped significantly again in FY2016 to 4.8%, mostly due to the District using $59.0 million in reserves to cover an operating loss at the District driven by a State of Illinois budget impasse.[62]

In FY2017 the fund balance fell to negative $37.7 million due to a decrease in federal grants, a lack of sufficient State funding and a decrease in tuition revenue.[63] Additionally, the State of Illinois approved supplemental funding to community colleges for FY2017 too late for City Colleges to recognize it as revenue that year, so an additional $31.4 million from the State was recognized in FY2018. However, City Colleges restated the FY2017 unrestricted net position to negative $113.2 million in FY2018 to account for additional reporting requirements required through GASB Statement 75, which requires holistic reporting of other post employment benefit (OPEB) liabilities for retiree healthcare. The restated net position for year-end FY2017 accounted for $75.5 million in OPEB liability.

The FY2018 unrestricted net position was negative $78.7 million. This was a $34.6 million increase from the restated FY2017 unrestricted net position of negative $113.2 million. The

[61] City Colleges of Chicago, FY2015 Comprehensive Annual Financial Report, p. 3.
[62] Information provided by City Colleges of Chicago Finance Department on May 30, 2017 and July 13, 2017.
[63] City Colleges of Chicago, FY2017 Comprehensive Annual Financial Report, p. 4.

increase was primarily due to timing of $31.4 million in supplemental funding from the State of Illinois for FY2017 that had to be recognized as revenue by City Colleges in FY2018.

City Colleges Unrestricted Fund Balance Ratio FY2009-FY2018			
	Unrestricted Net Position	Operating Expenses	Ratio
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%
FY2017*	$ (113,220,125)	$ 519,626,585	-21.8%
FY2018	$ (78,655,342)	$ 504,756,461	-15.6%

* The FY2017 year-end unrestricted net position was restated in the FY2018 CAFR to account for retiree healthcare liabilities required to be reported through GASB Statement 75.

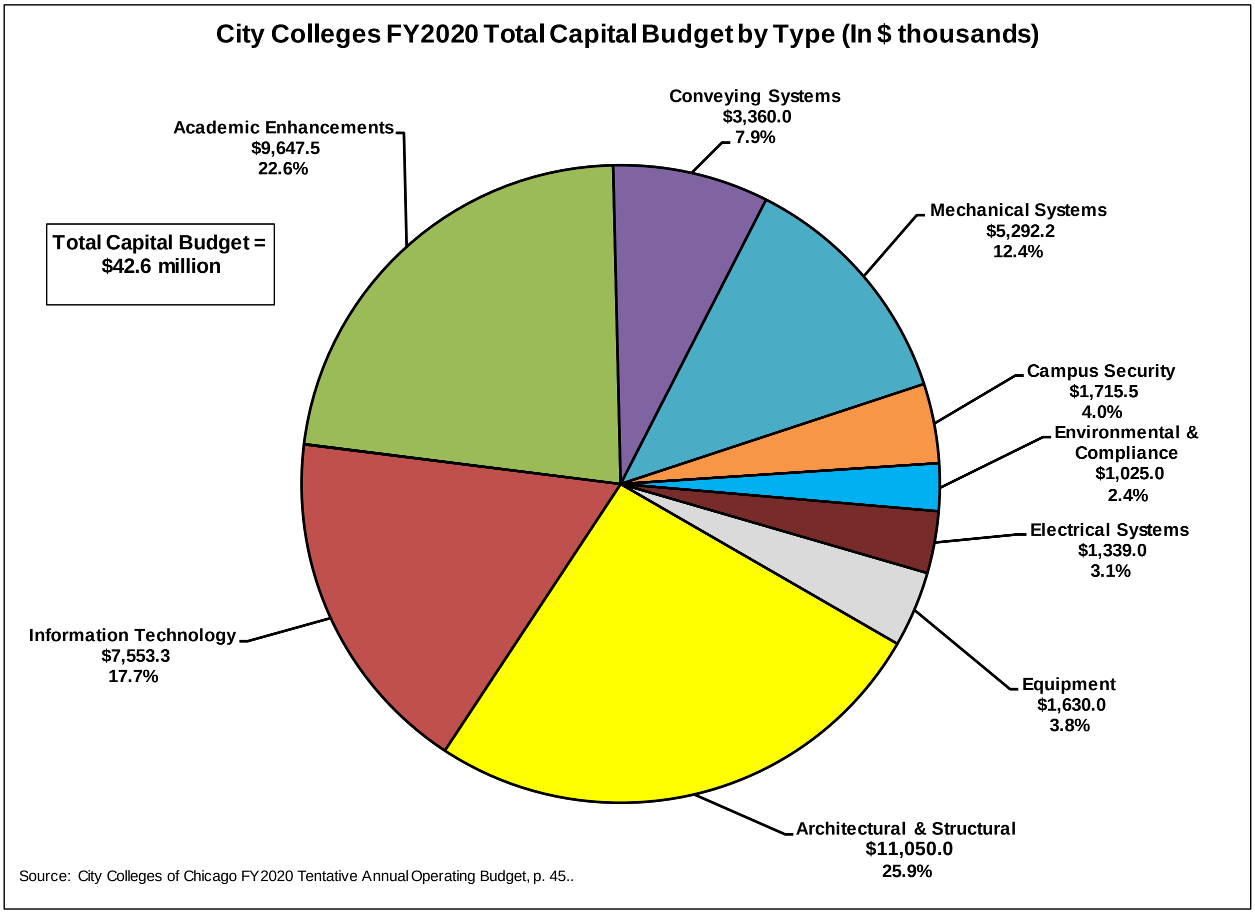
Note: FY2009-FY2012 data was reclassifed to comply with GASB Statements 54 and 63.

Source: Information provided by City Colleges of Chicago budget staff, March 13, 2015 and FY2013-FY2018 CAFRs.

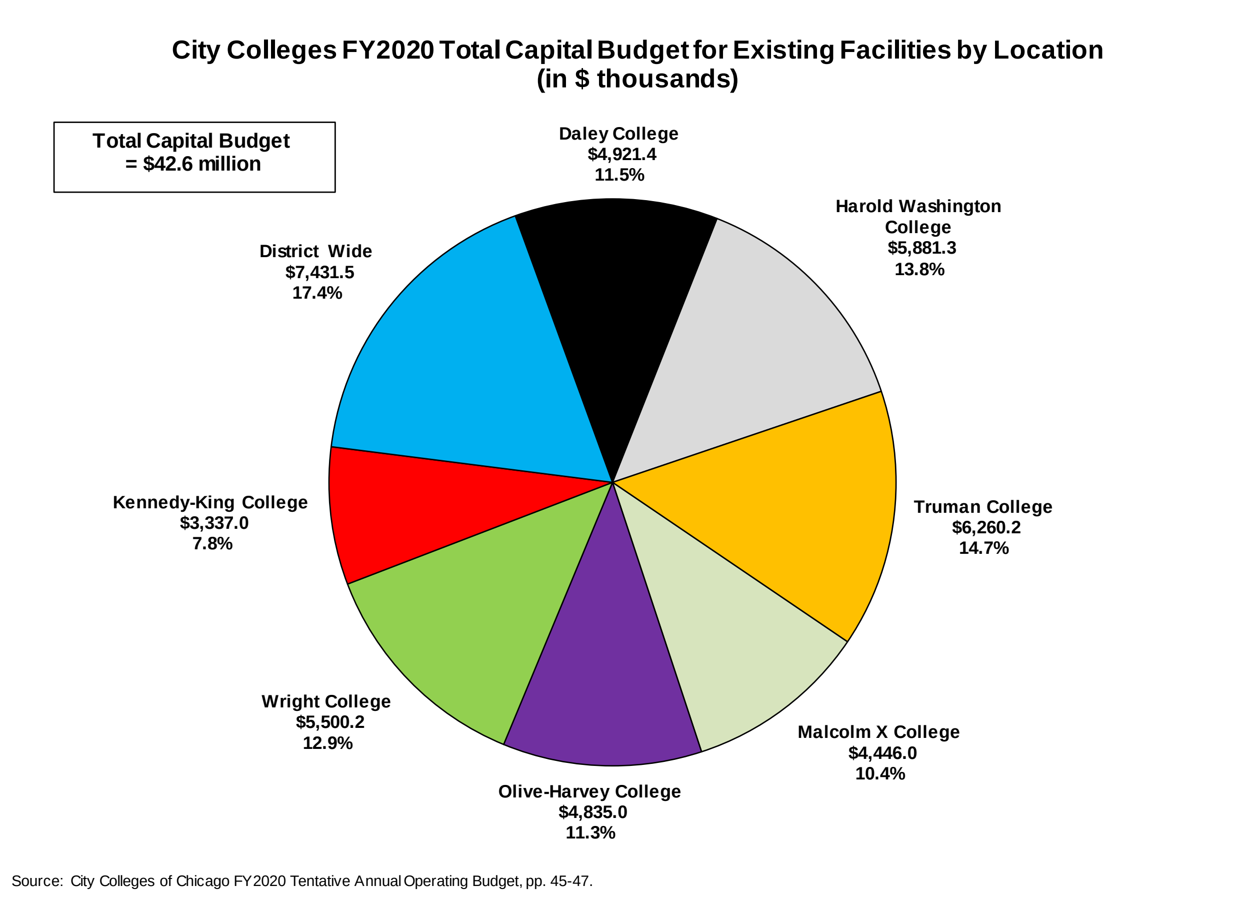
CAPITAL BUDGET

City Colleges prepares a capital budget at the same time as the operating budget. In FY2020 the total capital budget is proposed to be approximately $42.6 million.

The distribution of the FY2020 capital budget by type of expenditure is shown below. Approximately 48.6% of all funds will be reserved for architectural and structural projects and academic enhancements. No funds will be earmarked for new facilities.



The distribution of the FY2020 capital budget by location is shown below. The largest amount of funding, or 17.4%, is earmarked for district-wide projects, primarily for information technology projects.[64]



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 its first five-year Capital Plan. The second five-year $236.9 million plan commenced on July 1, 2018.[65] A presentation of the capital improvement plan (CIP) for FY2019-FY2023 by type of project for City Colleges follows. Approximately 25.7% of the total CIP amount, or $60.8 million, is projected for new facilities. Another 19.8% is earmarked for

[64] City Colleges of Chicago, FY2020 Tentative Annual Operating Budget, p. 47.
[65] City Colleges of Chicago. FY2020 Tentative Annual Operating Budget, p. 42.

architectural and structural projects, while 18.2% is projected for information technology projects.

Proposed Capital Projects by Type: FY2019-FY2023 (in $ thousands)							
Type	FY2019	FY2020	FY2021	FY2022	FY2023	Total	% of Total
New Facilities	$ 16,136.9	$ -	$ 5,143.8	$ 18,570.0	$ 20,950.0	$ 60,800.7	25.7%
Architectural & Structural	$ 3,090.0	$ 11,050.0	$ 15,410.0	$ 11,455.0	$ 5,795.0	$ 46,800.0	19.8%
Information Technology	$ 5,647.1	$ 7,553.3	$ 10,092.0	$ 10,042.0	$ 9,792.0	$ 43,126.4	18.2%
Academic Enhancements	$ 1,657.5	$ 9,647.5	$ 12,757.5	$ 10,857.5	$ 5,707.5	$ 40,627.5	17.1%
Conveying Systems	$ 1,015.0	$ 3,360.0	$ 4,020.0	$ 2,630.0	$ 2,445.0	$ 13,470.0	5.7%
Mechanical Systems	$ 327.5	$ 5,292.2	$ 3,573.0	$ 2,087.5	$ 1,679.5	$ 12,959.7	5.5%
Campus Security	$ 640.0	$ 1,715.5	$ 1,605.0	$ 1,365.0	$ 1,330.0	$ 6,655.5	2.8%
Environmental & Compliance	$ 435.0	$ 1,025.0	$ 1,600.0	$ 600.0	$ 600.0	$ 4,260.0	1.8%
Electrical Systems	$ 287.5	$ 1,339.0	$ 937.0	$ 937.0	$ 737.0	$ 4,237.5	1.8%
Equipment	$ 928.0	$ 1,630.0	$ 615.0	$ 415.0	$ 370.0	$ 3,958.0	1.7%
Grand Total	**$ 30,164.5**	**$ 42,612.5**	**$ 55,753.3**	**$ 58,959.0**	**$ 49,406.0**	**$ 236,895.3**	**100.0%**

Source: City Colleges of Chicago FY2020 Tentative Annual Operating Budget, p. 45.

CIP spending by location for FY2019-FY2023 shows that 22.7% of all funding, or $53.8 million, is earmarked for Daley College. The second largest amount spent over this five-year period will be the $52.8 million, or 22.3% of the total, to be utilized for Wright College.

Proposed Capital Projects by Location: FY2019-FY2023 (in $ thousands)							
College or Office	FY2019	FY2020	FY2021	FY2022	FY2023	Total	% of Total
Daley College	$ 18,342.9	$ 4,921.4	$ 8,073.1	$11,742.0	$10,672.0	$ 53,751.4	22.7%
Wright College	$ 755.0	$ 5,500.2	$ 10,662.8	$18,332.5	$17,587.5	$ 52,838.0	22.3%
District Wide	$ 4,001.1	$ 7,431.5	$ 6,072.0	$ 6,072.0	$ 5,872.0	$ 29,448.6	12.4%
Harold Washington College	$ 1,345.0	$ 5,881.3	$ 7,985.0	$ 6,885.0	$ 6,885.0	$ 28,981.3	12.2%
Truman College	$ 725.0	$ 6,260.2	$ 7,955.4	$ 7,035.0	$ 2,544.5	$ 24,520.1	10.4%
Malcolm X College	$ 1,695.0	$ 4,446.0	$ 6,482.5	$ 2,620.0	$ 1,440.0	$ 16,683.5	7.0%
Olive-Harvey College	$ 2,220.5	$ 4,835.0	$ 4,080.0	$ 2,780.0	$ 1,780.0	$ 15,695.5	6.6%
Kennedy-King College	$ 1,080.0	$ 3,337.0	$ 4,442.5	$ 3,492.5	$ 2,625.0	$ 14,977.0	6.3%
Total	**$ 30,164.5**	**$ 42,612.6**	**$ 55,753.3**	**$58,959.0**	**$49,406.0**	**$ 236,895.4**	**100.0%**

Source: City Colleges of Chicago FY2020 Tentative Annual Operating Budget, pp. 45-47; and information provided by City Colleges of Chicago, July 24, 2019.

Approximately $171.8 million, or 72.5%, of total CIP funding will come from local sources such as cash available for capital purposes and bond proceeds. State source funds totaling $65.1 million will provide monies for the remaining amount.

City Colleges Funding Sources for Capital Improvement Plan: FY2019-FY2023 (in $ millions)		
	FY2019-FY2023	% of Total
Sources		
State Funds	$ 65.1	27.5%
Cash available for capital purposes	$ 108.8	45.9%
Bond Proceeds	$ 63.0	26.6%
Total	**$ 236.9**	**100.0%**

Source: City Colleges of Chicago FY2020 Tentative Annual Operating Budget, p. 48.

LIABILITIES

This section of the analysis provides an overview of City Colleges' short- and long-term liabilities from FY2014 through FY2018, 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 Comprehensive Annual Financial Report:[66]

- *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 FY2018, total short-term liabilities increased by $27.3 million from the previous year, or by 56.9%. Much of this large increase was due to increases in accounts payable and other accruals. Accounts payable rose by 84.1% or $10.3 million, or from $12.2 million to $22.4 million, primarily because of the timing of the submission of a $5.6 million Public Building Commission invoice for Daley College, a $1.3 million invoice for Blue Cross and Blue Shield of Illinois for employee health insurance costs and other capital construction vendor invoices.[67] Other accruals increased by nearly $6.0 million or 102.0% because of $1.7 million in accounts receivable due to the dissolution of a contract at the District's French Pastry School and an $3.8 million for litigation related to Malcom X College's prior year capital construction costs.[68]

In the five-year period between FY2014 and FY2018, total current liabilities increased by 12.2% or $8.2 million. In that period accounts payable, the largest component of current liabilities, decreased by 42.7% or $16.7 million. They fell from $39.1 million to approximately $22.4 million. Between FY2014 and FY2015, accounts payable rose by $3.1 million, or 7.8%. However, in FY2016 they decreased by $7.9 million, or 18.9% due to the completion of various capital projects. The relatively large $22.0 million decrease in accounts payable from FY2016 to FY2017 was again primarily related to timing of spending on Malcolm X College capital

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[66] In fiscal year 2013, City Colleges implemented GASB Statement 65, *Items Previously Reported as Assets and Liabilities* early, which resulted in a reclassification of deferred property tax revenues to deferred inflows of resources.
[67] Information provided by City Colleges of Chicago Finance Department, July 1, 2019.
[68] Information provided by City Colleges of Chicago Finance Department, July 1, 2019.

construction.[69] As noted above, the FY2018 increase in accounts payable was related to the timing of invoices submitted for Public Building Commission construction and Blue Cross and Blue Shield of Illinois health insurance costs.

City Colleges Short-Term Liabilities: FY2014-FY2018 (in $ thousands)									
Current Liability	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**FY2018**	**Two-Year $ Change**	**Two-Year % Change**	**Five-Year $ Change**	**Five-Year % Change**
Accounts Payable	$ 39,147.0	$ 42,198.8	$ 34,235.8	$ 12,189.1	$ 22,439.1	$ 10,250.0	84.1%	$ (16,707.9)	-42.7%
Accrued Payroll	$ 8,180.0	$ 13,475.8	$ 15,888.3	$ 18,252.2	$ 21,636.0	$ 3,383.8	18.5%	$ 13,456.0	164.5%
Deposits Held In Custody	$ 1,489.3	$ 1,228.7	$ 1,060.0	$ 1,033.1	$ 5,630.0	$ 4,596.9	445.0%	$ 4,140.7	278.0%
Other Liabilities	$ 12,453.3	$ 10,106.3	$ 13,042.7	$ 10,720.2	$ 13,830.3	$ 3,110.1	29.0%	$ 1,377.0	11.1%
Other Accruals	$ 5,932.4	$ 3,246.2	$ 5,693.8	$ 5,872.8	$ 11,863.2	$ 5,990.4	102.0%	$ 5,930.8	100.0%
Total Current Liabilities	**$ 67,202.0**	**$ 70,255.8**	**$ 69,920.6**	**$ 48,067.4**	**$ 75,398.6**	**$ 27,331.2**	**56.9%**	**$ 8,196.6**	**12.2%**

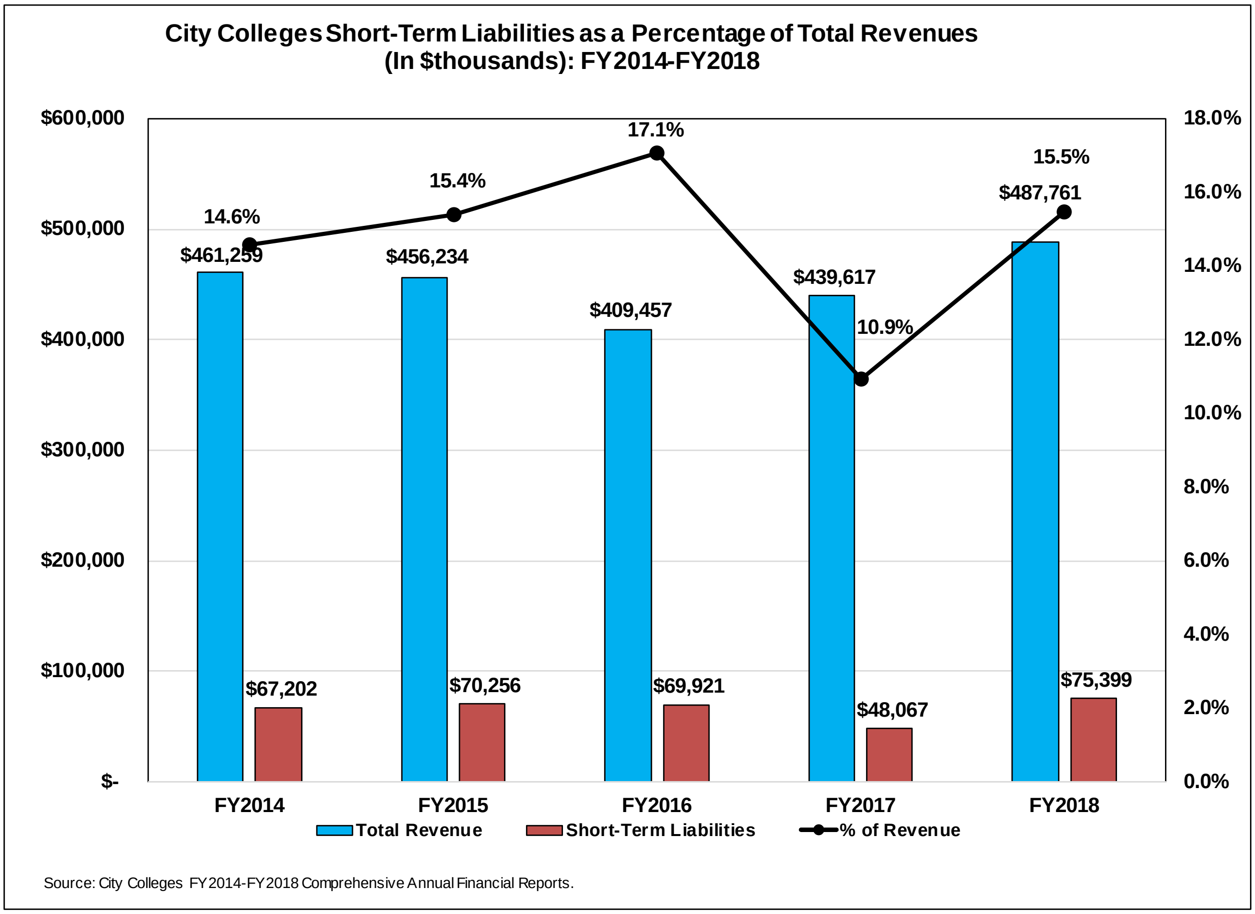
Note: Accrued property tax refunds were reclassified in 2013 and are now included in non-current liabilities as a result of implementation of GASB Statement No. 65.
Sources: City Colleges Comprehensive Annual Financial Reports, FY2014-FY2018.

Increasing current liabilities as a percentage of net operating revenues may be a warning sign of a government's future financial difficulties.[70] 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 slightly increased over the past five years from 14.6% in FY2014 to 15.5% in FY2018. It rose steadily from 14.6% in FY2014 to 17.1% in FY2016 as revenues declined relative to short-term liabilities. However, in FY2017, total revenues increased and short-term liabilities decreased significantly primarily because of a decline in accounts payable. This resulted in a drop of the ratio from 17.1% to 10.9%. In

[69] Information provided by City Colleges of Chicago Finance Department, June 12, 2018.
[70] Karl Nollenberger, et al., *Evaluating Financial Condition: A Handbook for Local Government* (Washington, D.C.: ICMA, 2003), p. 77.

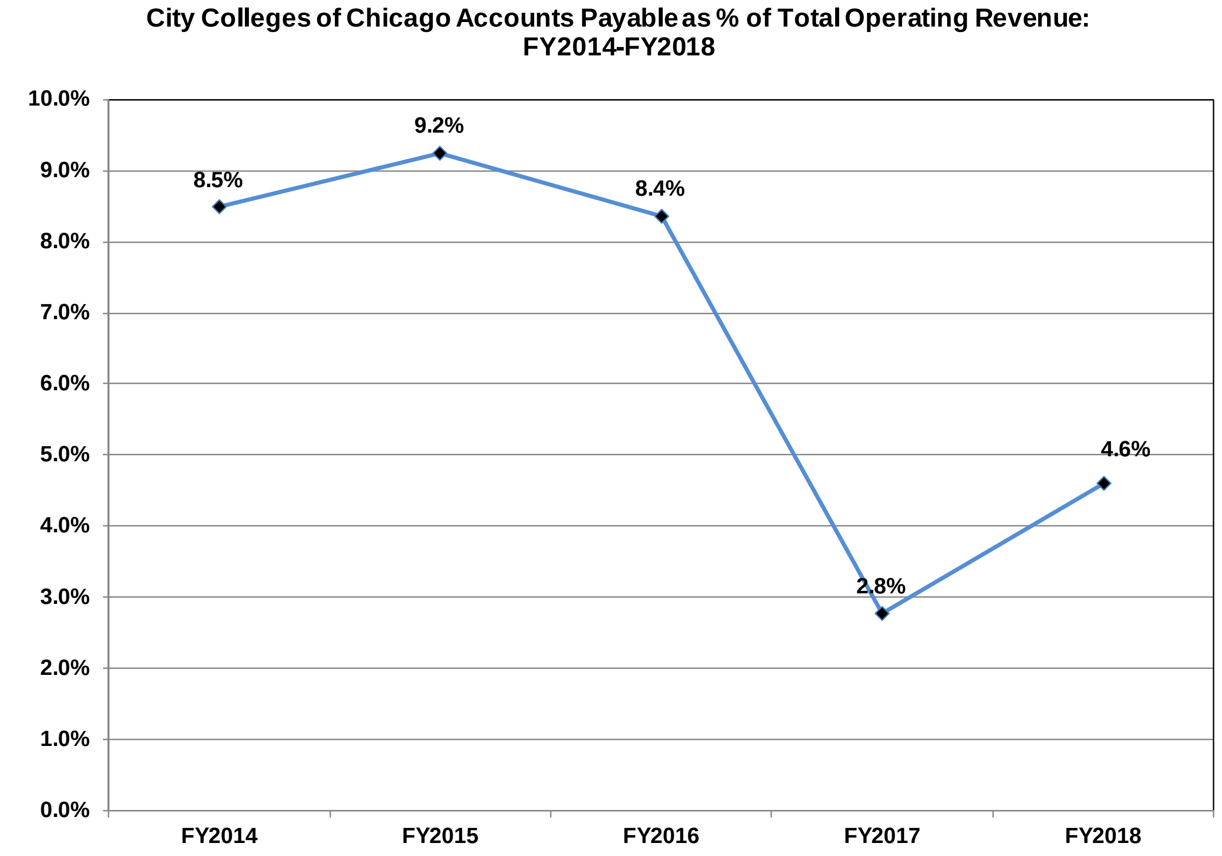
FY2018, the reverse situation occurred, due primarily to a large increase in accounts payable in that year.



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.

The accounts payable ratio for City Colleges rose from 8.5% in FY2014 to 9.2% in FY2015 before dropping to 8.4% in FY2016 and then dropping sharply to 2.8% in FY2017 as Malcolm X College construction began to conclude. It rose again in FY2018 because of a large $10.3 million increase in accounts payable due to timing of invoices submitted for Public Building Commission construction and Blue Cross and Blue Shield of Illinois health insurance costs.



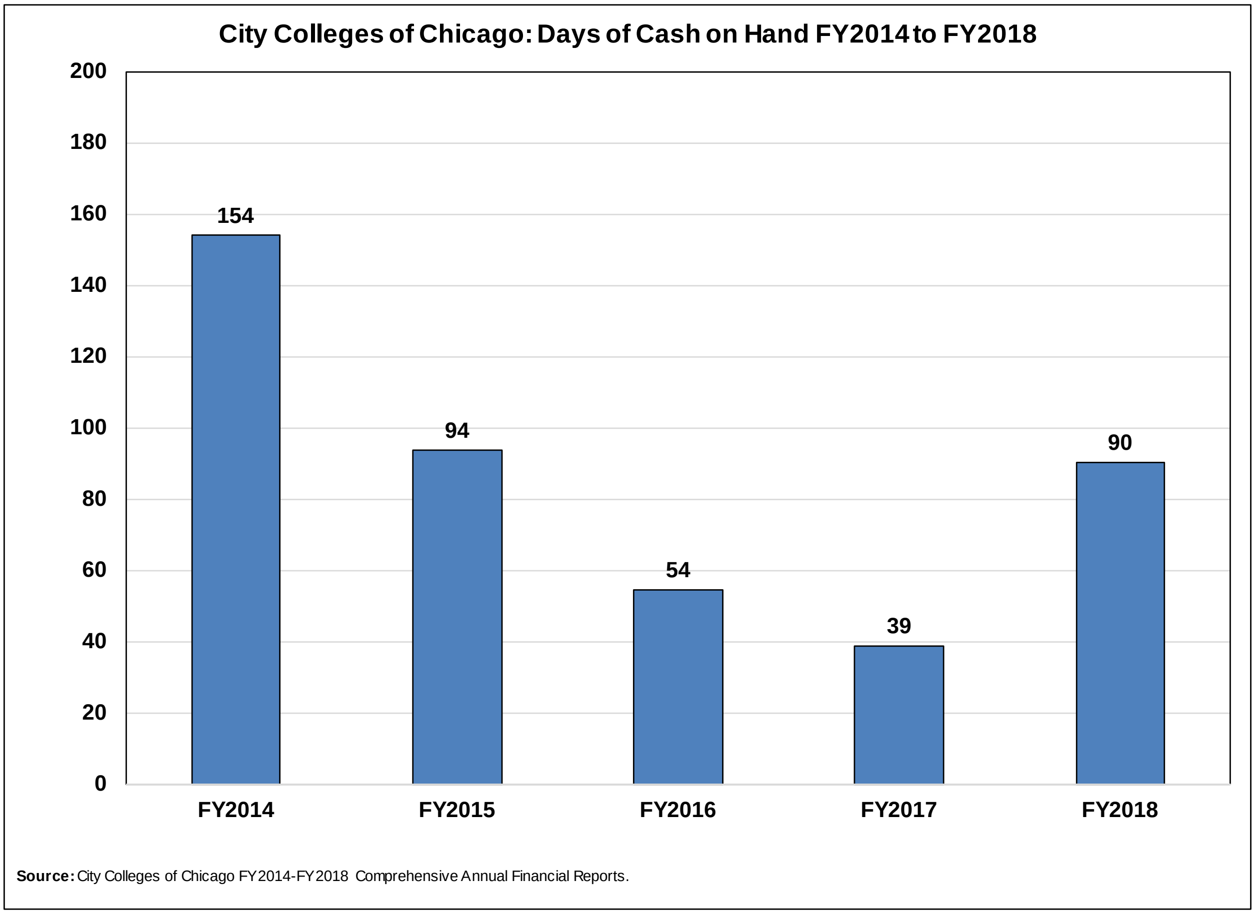
Source: City Colleges of Chicago FY2014-FY2018 Comprehensive Annual Financial Reports.

Days of Cash on Hand

Days of cash on hand is a widely used liquidity ratio. It shows how long an organization could meet its daily expenses using the cash on hand or assets that can quickly be turned into cash. It is calculated by dividing the amount of cash and marketable securities by daily operating expenses. A government should maintain several months' worth of cash to pay bills as they come due. It is a sound practice to have at least have enough cash on hand to exceed the length of a typical billing period, or 30 to 60 days.[71]

[71] Steven A. Finkler. *Financial Management for Public, Health, and Not-for-Profit Organizations*, p. 535.

Between FY2014 and FY2017, City Colleges reported that the days of cash on hand at year end fell from 154 to just 39 days, indicating a steep drop in liquidity. However, the number of days rose to 90 in FY2018, which is a positive sign.



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.[72] In addition to the short-term liabilities listed above, the current ratio formula uses the current assets of the District:[73]

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

[73] 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

- *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.[74]

The City Colleges' current ratio was 2.8 in FY2018. In the past five years, the District's current ratio averaged 3.2, which is greater than the benchmark of 2.0 and thus demonstrates a healthy level of liquidity. Between FY2014 and FY2016, the current ratio fell from 4.3 to 2.5 primarily because of a $111.5 million, or 38.6%, decrease in assets fueled by a large drop in short-term investment returns versus a 4.0%, or $2.7 million, increase in current liabilities. The ratio improved in FY2017 as liabilities decreased from the previous year by 31.3%, or $21.9 million, even as assets dropped by 12.2% or $21.7 million. However, the trend reversed in FY2018, when liabilities rose by 56.9 % or $27.3 million, outstripping the 36.5% increase in assets. The liability increase was fueled by large increases in accounts payables and other accruals.

City Colleges Current Ratio:
FY2014 - FY2018 (in $ thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018	Five-Year $ Change	Five-Year % Change
Current Assets							
Cash and cash equivalents	$ 39,362.0	$ 38,847.9	$ 27,901.0	$ 11,126.1	$ 14,037.0	$ (25,325.0)	-64.3%
Short-term investments	$154,774.0	$ 90,441.7	$ 49,977.1	$ 44,118.6	$110,870.0	$ (43,904.0)	-28.4%
Property taxes receivable, net	$ 58,142.0	$ 58,803.2	$ 57,686.5	$ 57,929.4	$ 57,464.3	$ (677.7)	-1.2%
PPRT taxes receivable	$ 2,300.0	$ 2,390.9	$ 2,400.7	$ 2,326.9	$ 2,066.0	$ (234.0)	-10.2%
Other accounts receivable, net	$ 34,342.0	$ 31,880.8	$ 39,602.7	$ 40,409.5	$ 28,366.1	$ (5,975.9)	-17.4%
Prepaid items and other assets	$ 160.5	$ 136.7	$ -	$ -	$ -	$ (160.5)	-100.0%
Total Current Assets	**$289,080.5**	**$222,501.2**	**$177,568.0**	**$155,910.5**	**$212,803.4**	**$ (76,277.1)**	**-26.4%**
Current Liabilities							
Accounts Payable	$ 39,147.0	$ 42,198.8	$ 34,235.8	$ 12,189.1	$ 22,439.1	$ (16,707.9)	-42.7%
Accrued Payroll	$ 8,180.0	$ 13,475.8	$ 15,888.3	$ 18,252.2	$ 21,636.0	$ 13,456.0	164.5%
Deposits Held In Custody	$ 1,489.3	$ 1,228.7	$ 1,060.0	$ 1,033.1	$ 5,630.0	$ 4,140.7	278.0%
Other Liabilities	$ 12,453.3	$ 10,106.3	$ 13,042.7	$ 10,720.2	$ 13,830.3	$ 1,377.0	11.1%
Other Accruals	$ 5,932.4	$ 3,246.2	$ 5,693.8	$ 5,872.8	$ 11,863.2	$ 5,930.8	100.0%
Total Current Liabilities	**$ 67,202.0**	**$ 70,255.8**	**$ 69,920.6**	**$ 48,067.4**	**$ 75,398.6**	**$ 8,196.6**	**12.2%**
Current Ratio	**4.3**	**3.2**	**2.5**	**3.2**	**2.8**		

FY2014-FY2018 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.

- 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.

[74] City Colleges of Chicago FY2018 Comprehensive Annual Financial Report, p. 22.

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:

- *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;[75]
- *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. Eligible employees are administrative and non-bargained-for employees hired prior to January 1, 2012 and certain union-represented employees pursuant to their respective collective bargaining agreements, who have served continuously for 10 years or more and are eligible for an annuity under the State Universities Retirement System (SURS);[76] and
- *Net Other Post-Employment Benefit (OPEB) liabilities:* Beginning with the FY2018 CAFR, City Colleges of Chicago will implement GASB Statement 75 requirements to report net OPEB liability as the portion of the present value of projected benefit payments to current active and inactive employees that is attributed to those employees' past periods of service less the amount of the OPEB plan's fiduciary net position.[77]

  Prior to FY2018, under the requirements of GASB Statement 45, net Other Post-Employment Benefit (OPEB) liabilities were reported as the cumulative difference between the annual OPEB cost and the employer's contributions to its OPEB plan.[78]

  As a result of the reporting change for other post-employment liabilities involved in implementing GASB 75, the amount of City Colleges long-term liabilities **reported** has increased substantially. This is because it reflects a more holistic approach to measuring the liabilities of the government, which the previous net other post-employment measurement did not. The amount owed by City Colleges for retiree health insurance to its pension funds has not significantly changed. It is only being reported more transparently.

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[75] City Colleges of Chicago FY2018 Comprehensive Annual Financial Report, p. 24.
[76] City Colleges of Chicago FY2018 Comprehensive Annual Financial Report, p. 39.
[77] Governmental Accounting Standards Board, Summary Of Statement No. 75: Accounting And Financial Reporting For Postemployment Benefits Other Than Pensions at**:** https://www.gasb.org/cs/ContentServer?cid=1176166370763&d=&pagename=GASB%2FPronouncement_C%2FGASBSummaryPage**.**
[78] 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 FY2018 Comprehensive Annual Financial Report, p. 40.

The District's total long-term liabilities increased by $125.0 million, or 36.4%, between FY2017 and FY2018. There were two principal drivers of this increase:

- Bonds payable rose by 30.5%, from $241.8 million to $315.6 million.
- Other post-employment benefits reported increased from $60.3 million to $107.7 million. As noted above, this increase reflects the reporting change for other post-employment liabilities required by GASB Statement 75. The amount owed by City Colleges for retiree health insurance has not significantly changed. It is only being reported more transparently and holistically.

Over the five-year period between FY2014 and FY2018, long-term liabilities increased by 44.8% or $144.8 million. Here too, the major reasons for the rise were increases in bonds payable and other post-employment benefits.

Between FY2014 and FY2018, City Colleges reported that **bonds payable** rose by 26.2% or $65.6 million. 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 for those bonds 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 long-term capital plan. On December 11, 2017 City Colleges issued $78.0 million in Unlimited Tax General Obligation Bonds (Series 2017). The bonds were issued with interest rates ranging from 4% to 5% with payment dates of June 1 and December 1 of each year.[79] Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

The largest dollar increase between FY2014 and FY2018 for non-debt expenses was for **other post-employment benefits**, which rose by $68.0 million or 171.3%. Again, this was the result of GASB Statement 75 reporting requirements, not an increase in the amount owed for these obligations.

City Colleges Long Term Liabilities: FY2014-FY2018 (in $ thousands)

Liability	FY2014	FY2015	FY2016	FY2017	FY2018	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Accrued Compensated Absences	$ 3,019.0	$ 3,109.3	$ 3,065.7	$ 2,989.3	$ 2,530.3	$ (459.0)	-15.4%	$ (488.7)	-16.2%
Accrued Property Tax Refunds	$ 11,873.2	$ 14,939.7	$ 16,277.3	$ 19,122.0	$ 18,897.8	$ (224.2)	-1.2%	$ 7,024.6	59.2%
Sick Leave Benefits	$ 11,457.0	$ 8,857.8	$ 6,727.9	$ 5,021.6	$ 3,883.7	$ (1,137.9)	-22.7%	$ (7,573.3)	-66.1%
Other Post-Employment Benefits	$ 39,704.0	$ 42,414.1	$ 54,598.8	$ 60,267.7	$ 107,718.9	$ 47,451.2	78.7%	$ 68,014.9	171.3%
Bonds Payable	$ 250,000.0	$ 250,000.0	$ 245,995.0	$ 241,830.0	$ 315,560.0	$ 73,730.0	30.5%	$ 65,560.0	26.2%
Bonds Premiums and Discounts	$ 7,407.0	$ 6,211.9	$ 5,094.7	$ 4,103.1	$ 10,427.2	$ 6,324.1	154.1%	$ 3,020.2	40.8%
Lease Obligations	$ -	$ -	$ -	$ 9,897.0	$ 9,216.8	$ (680.2)	-6.9%	$ 9,216.8	---
Total	**$ 323,460.2**	**$ 325,532.8**	**$ 331,759.4**	**$ 343,230.7**	**$ 468,234.7**	**$ 125,004.0**	**36.4%**	**$ 144,774.5**	**44.8%**

Note: Accrued property tax refunds were reclassified in 2013 and are now included in non-current liabilities.
Source: City Colleges of Chicago FY2014-FY2018 CAFRs, Note 8: Changes in Non-Current Liabilities.

[79] City Colleges of Chicago FY2018 Comprehensive Annual Financial Report, p. 44.

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%.[80]

City Colleges debt service appropriations in the proposed budget for FY2020 are projected to be $20.7 million, or 4.6% of total appropriations of $449.1 million.[81] The ratio remains well below the 15% threshold deemed by the rating agencies to be high. Debt service spending will decrease slightly from the previous year when it represented $20.9 million, or 4.8% of total appropriations of $438.0 million.[82]

City Colleges Bond Ratings

City Colleges had the following credit ratings as of June 2019:

City Colleges Bond Ratings as of June 2018	
Standard & Poor's	BBB
Fitch Ratings	A+

Sources: City Colleges of Chicago, "Investor Relations," at http://www.ccc.edu/menu/Pages/Investor-Relations.aspx; Official Statement: $78,065,000 Community College District Number 508 Unlimited Tax Obligation Bonds Series 2017; 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 several years the rating agencies have significantly downgraded the City Colleges’ credit.

In April 2017, Standard and Poor’s lowered the credit rating for the District from A- to BBB, two notches above junk status, because of concerns at that time that failure to resolve the ongoing State of Illinois budget crisis could lead to a loss of State funding for the District.[83]

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

[80] 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.
[81] City Colleges of Chicago. FY2020 Tentative Annual Operating Budget, pp. 51 and 54.
[82] City Colleges of Chicago. FY2019 Tentative Annual Operating Budget, p. 50.
[83] 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.

crisis as well as the District's drawdown of reserves to balance its operating budget.[84] In November 2017 Fitch revised its outlook to negative.[85]

Standard and Poor's had previously downgraded City Colleges credit ratings two notches in April 2016 from AA to A- because the District previously had significantly drawn down its reserves to balance its FY2017 budget as well as continued uncertainty over State funding due to the State's budget crisis.[86]

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 4,915 active City Colleges employees 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 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.[87]

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.[88] City Colleges makes the employer contribution for Tier 1 and 2 employees for federal, trust or grant positions out of those same grant funds.

The employer pension contribution made by the State of Illinois on behalf of City Colleges in FY2018 was reported in the City Colleges financial statements as $123.9 million and is based on contributions actually made by the State to SURS in FY2017.[89] City Colleges' employer contribution for federal, trust or grant-funded positions in FY2018 was $750,068 and is based on contributions actually made in FY2018 but reported as deferred outflows of resources in the FY2018 CAFR.[90]

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[84] Fitch Ratings, "Fitch Downgrades Community College Dist. No. 508 (City Colleges of Chicago), IL GOs to 'A+', March 28, 2017.
[85] City Colleges of Chicago, Investor Relations, Overview of Series 2017 Bonds at http://www.ccc.edu/menu/Pages/Investor-Relations.aspx.
[86] Yvette Shields, "Chicago City Colleges Hit with Downgrade," *The Bond Buyer*, April 22, 2016.
[87] Information provided by City Colleges Finance Office, July 1, 2019.
[88] As a member of SURS, a cost-sharing, multiple-employer defined benefit 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 FY2018 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 FY2018 Comprehensive Annual Financial Report, pp. 35-36.
[89] City Colleges of Chicago FY2018 Comprehensive Annual Financial Report, p. 36.
[90] City Colleges of Chicago FY2018 Comprehensive Annual Financial Report, p. 36.

City Colleges' proportionate share of the State of Illinois' FY2016 net pension liability for SURS rolled forward to FY2017 was $1.3 billion or 5.1% of the total net pension liability.[91] 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 or unfunded liability (not the smoothed actuarial value of assets). However the FY2016 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 7.09%, among other differences.[92] 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.[93]

OTHER POST EMPLOYMENT BENEFITS

Non-pension benefits provided to employees after employment ends are referred to as Other Post Employment Benefits (OPEB). OPEB for City Colleges retirees includes subsidized coverage for the medical, dental and vision insurance for most retirees and spouses available for a period of 10 years from the employee's retirement date. City Colleges pays for approximately 85% of the medical and life insurance premiums for most retirees and the retirees pay approximately 15%. The contribution percentages are negotiated between the District and retirees and can be amended by City Colleges through its personnel manual and union contracts.[94] City Colleges has not established an irrevocable trust fund for its OPEB plan; it is funded on a pay-as-you-go basis. The FY2018 pay-as-you-go employer contribution of $4,968,062 was budgeted as part of the District's employee health insurance costs.

Between FY2014 and FY2018 the number of active employee vested members decreased from 1,976 to 1,678. The significant decline in active membership between FY2016 and FY2017 was due to an audit of the retiree population which allowed the District to exclude non-eligible populations such as part-time status employees.

City Colleges revised its membership data in the FY2015 CAFR for those members currently receiving benefits to include all benefits and all persons covered by the insurance (retiree and dependents). The prior membership data had counted medical coverage for retirees only. The FY2015 CAFR also provided two years of restated data from FY2013 and FY2014, one year of which is presented in the following chart.[95] However in the FY2017 CAFR, only 917 people were reported to be receiving benefits, a significant decline from FY2015. The District confirmed that only retirees receiving medical benefits—not dependents—were reported in FY2017, in comparison to FY2015, when both retirees and beneficiaries were reported.[96] In FY2018 another decline to 468 beneficiaries was reported and was due to a rate study done by the District's actuary which provided better data on retirees actually receiving benefits. Previous numbers may have included retirees not receiving benefits such as those who had exhausted the

[91] City Colleges of Chicago FY2018 Comprehensive Annual Financial Report, p. 36.
[92] City Colleges of Chicago FY2018 Comprehensive Annual Financial Report, p. 38.
[93] City Colleges of Chicago FY2018 Comprehensive Annual Financial Report, p. 36.
[94] City Colleges of Chicago FY2018 Comprehensive Annual Financial Report, p. 39.
[95] Information provided by City Colleges, June 22, 2016.
[96] Information provided by City Colleges Finance Department, June 21, 2018.

10-year benefit eligibility, retirees who had died and those who had part-time status and not entitled to receive retiree medical benefits.[97]

City Colleges Other Post Employment Benefit Plan: Active Employees and Current Beneficiaries: FY2014-FY2018							
Members	FY2014	FY2015	FY2016	FY2017	FY2018	Five-Year $ Change	Five-Year % Change
Active Employees (vested)	1,976	2,274	2,390	1,834	1,678	(298)	-15.1%
Current Beneficiaries	1,386	1,279	951	917	468	(918)	-66.2%
Total	**3,362**	**3,553**	**3,341**	**2,751**	**2,146**	**(1,216)**	**-36.2%**

Source: City Colleges of Chicago FY2017 Comprehensive Annual Financial Report, p. 40 and FY2015 CAFR, p. 36.

OPEB Liabilities as Reported Under Governmental Accounting Standards Board Statement Number 75

In 2015 the Governmental Accounting Standards Board (GASB) issued new accounting and financial reporting standards for governments' OPEB obligations, Statement 75. According to GASB, the new standards were intended to "improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions." Pension funds and governments are now required to report additional information in the financial statements about OPEB liabilities, assets (if any) and expenses that are calculated on a different basis from previous GASB Statement 45 OPEB disclosure requirements. Both pension funds and governments must also disclose additional information about OPEB in the notes to the financial statements and in required supplementary information sections.

Previously, governments reported OPEB liabilities in the Statement of Net Position to the extent the required contribution was not funded. The new statement requires the full net liability to be reported. As City Colleges has not set aside assets in trust for OPEB, the District reports Total OPEB Liability, which is similar in concept to the previously reported actuarial accrued liability, but how the total cost of OPEB is measured has changed. The actuarial assumptions used in the calculation included a 3.9% discount rate and an annual healthcare cost trend rate of 5.5%, which is assumed to decline to a 4.0% rate by 2022.[98]

City Colleges reported a total OPEB liability for FY2018 of $107.7 million, down from the restated FY2017 total OPEB liability of $135.8 million.[99] The District reported the liability in its Statement of Net Position for the first time in FY2018, which was an increase from the reported net OPEB obligation in FY2017 of $60.3 million. However, it is important to note that the cost of the program has not increased—it is how the obligation is measured that has changed.

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[97] Information provided by City Colleges Finance Department, July 1, 2019.
[98] City Colleges of Chicago FY2017 Comprehensive Annual Financial Report, p. 39.
[99] City Colleges of Chicago FY2018 Comprehensive Annual Financial Report, p. 58.

APPENDIX

Regional Comparison of City Colleges Tuition to Selected Community Colleges

City Colleges currently charges a tuition rate of $146 per credit hour for in-district students, with a cap of 12 credit hours. Enrollment for 12 credit hours or more is charged a flat rate of $1,752. This hybrid tuition structure was implemented in the fall of 2018 (fiscal year 2019). The $146 per-credit-hour charge includes all student fees, with the exception of some programs that require special fees.

Compared to ten other community colleges in the northeastern Illinois region, City Colleges' per-credit-hour tuition rate of $146 falls into the middle, at fifth highest. Previously, City Colleges tuition had been among the lowest of the community colleges, but several changes to the District's tuition rates and structure have brought City Colleges to the middle of the pack.

Prior to the 2015-2016 school year, City Colleges charged $89 per credit hour, which was the second lowest tuition rate compared to the ten other selected community college districts. In 2016 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. The tier-based structure charged students a flat fee based on the number of classes taken: full-time in-district students taking at least 12 credit hours paid $1,752 per semester; part-time in-district students taking between 5 and 11 credit hours paid a flat rate of $1,069 per semester; and students taking only one class paid a flat rate of $599 per semester.[100] This change made the City Colleges tuition rate charged to part-time students the highest compared to other northeastern Illinois community colleges.

The change to the current tuition rate of $146 per credit hour up to 12 hours and $1,752 for 12 or more credit hours, along with annual increases made by the other colleges, has placed City Colleges tuition below the average for every class load.

The following table shows the tuition rates charged by City Colleges and ten other selected northeastern Illinois community colleges by credit hour, including mandatory fees. The College of DuPage charges the lowest tuition and fee rate at $137 per credit hour. Elgin Community College charges the lowest tuition and fee rate for students taking between 3-13 credit hours. Prairie State has the highest tuition and fee rates across the board, with the exception of classes worth only one credit hour, in which case Harper College charges the highest rate.

The most recent change made to the City Colleges tuition structure makes the District's in-district tuition rates more competitive compared to these other community colleges, especially for full-time students. City Colleges charges the lowest tuition and fee rate for students taking 14-20 credit hours.

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

Fall 2019 In-District Tuition, Including Mandatory Fees* Per Credit Hour of Eleven Selected Community Colleges												
Class Load**	**Credit Hours**	**Triton College**	**Elgin Community College**	**College of Dupage**	**Morton College**	**College of Lake County**	**Moraine Valley Community College**	**South Suburban College**	**Prairie State College**	**Harper College**	**Oakton College**	**City Colleges of Chicago**
One Class	1	$144.0	$138.0	$137.0	$154.0	$144.0	$151.0	$169.75	$174.0	$188.50	$166.25	$146.0
	2	$288.0	$270.0	$274.0	$298.0	$288.0	$299.0	$339.50	$348.0	$341.00	$305.50	$292.0
	3	$432.0	$402.0	$411.0	$442.0	$432.0	$447.0	$509.25	$522.0	$493.50	$444.75	$438.0
	4	$576.0	$534.0	$548.0	$586.0	$576.0	$595.0	$679.00	$696.0	$646.00	$584.00	$584.0
Two to Four Classes (Part-time)	5	$720.0	$666.0	$685.0	$730.0	$720.0	$743.0	$848.75	$870.0	$798.50	$723.25	$730.0
	6	$864.0	$798.0	$822.0	$874.0	$864.0	$891.0	$1,018.50	$1,044.0	$951.00	$862.50	$876.0
	7	$1,008.0	$930.0	$959.0	$1,018.0	$1,008.0	$1,039.0	$1,188.25	$1,218.0	$1,103.50	$1,001.75	$1,022.0
	8	$1,152.0	$1,062.0	$1,096.0	$1,162.0	$1,152.0	$1,187.0	$1,358.00	$1,392.0	$1,256.00	$1,141.00	$1,168.0
	9	$1,296.0	$1,194.0	$1,233.0	$1,306.0	$1,296.0	$1,335.0	$1,527.75	$1,566.0	$1,408.50	$1,280.25	$1,314.0
	10	$1,440.0	$1,326.0	$1,370.0	$1,450.0	$1,440.0	$1,483.0	$1,697.50	$1,740.0	$1,561.00	$1,419.50	$1,460.0
	11	$1,584.0	$1,458.0	$1,507.0	$1,594.0	$1,584.0	$1,631.0	$1,867.25	$1,914.0	$1,713.50	$1,558.75	$1,606.0
Three to Six+ Classes (Full-Time)	12	$1,728.0	$1,590.0	$1,644.0	$1,738.0	$1,728.0	$1,779.0	$2,037.00	$2,088.0	$1,866.00	$1,698.00	$1,752.0
	13	$1,872.0	$1,722.0	$1,781.0	$1,882.0	$1,872.0	$1,927.0	$2,206.75	$2,262.0	$2,018.50	$1,837.25	$1,752.0
	14	$2,016.0	$1,854.0	$1,918.0	$2,026.0	$2,016.0	$2,075.0	$2,376.50	$2,436.0	$2,171.00	$1,976.50	$1,752.0
	15	$2,160.0	$1,986.0	$2,055.0	$2,170.0	$2,160.0	$2,223.0	$2,546.25	$2,610.0	$2,323.50	$2,115.75	$1,752.0
	16	$2,304.0	$2,118.0	$2,192.0	$2,314.0	$2,304.0	$2,371.0	$2,716.00	$2,784.0	$2,476.00	$2,255.00	$1,752.0
	17	$2,448.0	$2,250.0	$2,329.0	$2,458.0	$2,448.0	$2,519.0	$2,885.75	$2,958.0	$2,628.50	$2,394.25	$1,752.0
	18	$2,592.0	$2,382.0	$2,466.0	$2,602.0	$2,592.0	$2,667.0	$3,055.50	$3,132.0	$2,781.00	$2,533.50	$1,752.0
	19	$2,736.0	$2,514.0	$2,603.0	$2,746.0	$2,736.0	$2,815.0	$3,225.25	$3,306.0	$2,933.50	$2,672.75	$1,752.0
	20	$2,880.0	$2,646.0	$2,740.0	$2,890.0	$2,880.0	$2,963.0	$3,395.00	$3,480.0	$3,086.00	$2,812.00	$1,752.0

*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 5, 2019; and City Colleges FY2020 Tentative Annual Operating Budget, p. 37.

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. City Colleges does not charge any mandatory fees in addition to tuition; all fees are included in the City Colleges tuition rate.[101]

Fall 2019 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)	$22 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), which consists of a $4 athletic fee, $2 educational fund fee, $0.25 extracurricular fee, $0.25 student activity fee, $15 technology fee, $9 infrastructure fee
Harper College (Palatine)	Activity fee $42 (full-time) and $21 (part-time) per semester, registration fee $15 per semester, universal fee $19/hr
Oakton Community College (Des Plaines)	Audit fee $10/hr, constuction fee $2/hr, student activities fee $3/hr, registration $15/semester
City Colleges of Chicago	No additional fees; fees are included in tuition rates

Sources: Websites of selected community college districts as of July 5, 2019; and City Colleges FY2020 Tentative Annual Operating Budget, p. 37.

[101] City Colleges of Chicago charges different tuition rates for nursing and other specialized programs. For other program tuition and fee rates, see the tuition page of the City Colleges website at http://www.ccc.edu/departments/pages/tuition-and-fees.aspx.