The Civic Federation

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CHICAGO PUBLIC SCHOOLS FY2013 PROPOSED BUDGET:

Analysis and Recommendations

July 19, 2012

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EXECUTIVE SUMMARY

The Civic Federation **opposes** the Chicago Public Schools (CPS) proposed $5.2 billion operating budget for FY2013, and **we urge the Board of Education to reject the proposed budget** in favor of a financially responsible plan that takes into account current and growing future liabilities. The Civic Federation is **very concerned** about the District's long-term fiscal health. CPS is delaying the inevitable by not addressing its devastating financial reality. CPS will face more enormous budget shortfalls in future years, especially next year in FY2014 when required pension contributions will rise by at least $338 million following the end of a three-year partial pension contribution holiday. Significant structural changes to the District's expenditures and long-term obligations are urgently needed. It is imperative that the District move quickly to develop both a pension reform plan and a long-term financial plan in order to resolve its fiscal crisis before it becomes catastrophic.

The Civic Federation offers the following **key findings** on the FY2013 Proposed Budget:

- The total proposed FY2013 CPS budget will decrease by $66.2 million, or 1.1%, from FY2012 year-end estimates, falling from approximately $5.8 billion to $5.7 billion;
- Appropriations for the General Operating Funds will increase by $286.8 million, or 5.9%, to approximately $5.2 billion in FY2013 from FY2012 year-end estimates of approximately $4.9 billion;
- In FY2014, required pension contributions for that year alone will grow by at least $338.2 million.

The Civic Federation has **concerns** about the following areas of the CPS FY2013 Proposed Budget:

- Operating with an ongoing structural deficit that will be exacerbated by the District's reliance on reserve funds and the upcoming pension funding spike in FY2014;
- Drawing down its unrestricted fund balance to use a total of $432 million in reserves to close its budget deficit of $665 million;
- Continuing inaction on the District's pension funding crisis when reforms of the benefit structure and funding sources for the teacher pension system are necessary;
- Increasing long-term debt by 28.3%, or $1.1 billion, between FY2007 and FY2012;
- Insufficient amount of time allowed for the public to review the budget before the first public hearing; and
- Lack of personnel-related data and other budget format issues.

The Civic Federation **supports** several elements of the proposed budget, including:

- Implementing management efficiencies and cost-saving strategies that reduce expenditures by $144.3 million;
- Producing a prioritized, publicly-available five-year Capital Improvement Plan; and
- Increasing the property tax levy by the maximum amount allowed by the tax cap law, generating $62.0 million in much-needed additional revenue.

The Civic Federation offers the following **recommendations** to improve CPS' financial management:

- The Board of Education should reject the CPS FY2013 Proposed Budget as it does not adequately address the fiscal crisis facing the District;
- To stabilize CPS finances, implement a formal long-term financial plan that is shared with and reviewed by key policymakers and stakeholders, including the members of the Board of Education and the taxpaying public;
- Develop and present a pension reform plan to the General Assembly to ensure a greater balance of employee, retiree and taxpayer interests;
- Require consistent financial reporting for Charter Schools;
- Improve the transparency of the budget process by revising the public review and comment process and continue to add necessary information to the budget document to make it more useful for readers.

CIVIC FEDERATION POSITION

The Civic Federation **opposes** the Chicago Public Schools (CPS) proposed $5.2 billion operating budget for FY2013, and **we urge the Board of Education to reject the proposed budget** in favor of a financially responsible plan that takes into account current and growing future liabilities. The Civic Federation is **very concerned** about the District's long-term fiscal health. CPS is delaying the inevitable by not addressing its devastating financial reality and relying instead on one-time revenue sources through a complete drawdown of its General Operating Fund fund balance. CPS is already projecting a $1.0 billion deficit for FY2014 due to its ongoing structural deficit and the end of a three-year partial pension contribution holiday.

Next year in FY2014, CPS pension contributions will increase significantly by $338.2 million from $196.0 million in FY2013 to $534.2 million in FY2014. This amount of increase is enormous for a government even of CPS' size and its impact will be further intensified as the District will have no fund balance available to help close its deficit next year. Without any reserves, CPS will lack the flexibility necessary to maintain a sustainable, balanced budget.

Significant structural changes to the District's expenditures and long-term obligations are urgently needed. It is imperative that the District move quickly to develop both a pension reform plan and a formal, publicly-available long-term financial plan in order to resolve its fiscal crisis before it becomes catastrophic.

Issues of Concern

The Civic Federation has the following concerns regarding the CPS FY2013 Proposed Budget.

Draining Reserve Funds to Balance Budget

To reduce its projected FY2013 budget deficit, CPS proposes to completely drawdown its unrestricted fund balance to use a total of $432 million in reserves to close its FY2013 all funds budget gap. Of that amount, $349 million will be drawn from the District's unrestricted fund balance and $25 million will come from restricted reserve funds. An additional $57.8 million of state discretionary funding not spent in FY2012 will also be used to close the budget gap.[1]
Not only is this proposal an irresponsible stopgap to a larger ongoing structural deficit, but by completely drawing down its unrestricted reserves, CPS fails to follow its own fund balance policy. CPS adopted its current fund balance policy in 2008, and it states that its fund balance "should carry a minimum 5 percent of the operating and debt-service total budget in the following year's budget." In its proposed FY2013 budget, CPS recognizes that it will not be able to meet this policy in FY2013 or FY2014 and proposes to request the Board of Education to extend its replenishment deadline.[2]

The Federation strongly opposes the District's proposal to break its own fund balance policy and put off replenishing its fund balance by at least another two years. Beyond its request for consideration from the Board of Education, the budget does not provide concrete details

[1] CPS FY2013 Proposed Budget, p. 12.
[2] CPS FY2013 Proposed Budget, p. 145.

regarding CPS' intentions to replenish its fund balance, and therefore does not satisfy the Civic Federation's definition of sound fiscal practice.[3]

In FY2011 the District depleted its reserves and had to withdraw $75 million from a bank line of credit to meet expenditures in November 2010 before the State caught up on late payments and the City accelerated tax increment financing (TIF) surplus distributions, allowing CPS to ultimately end FY2011 with a surplus.[4] In FY2010 and FY2009 the District used $102.2 million and $142.7 million, respectively, in reserves as it spent more than it received in revenues for those years.[5]

Use of some reserve funds may be reasonable, particularly if there is a severe economic situation or if a government has historically maintained an adequate cushion for contingencies or delayed revenues. However, it is not of sound fiscal practice to consistently use a one-time resource such as reserve funds in lieu of recurring revenues. Such repeated use is a strong indicator of a structural deficit that must be addressed as reserves will eventually be depleted, as is the current predicament with CPS. By depleting its unrestricted fund balance this year, CPS will have no reserves available next year when its financial crisis escalates with an estimated FY2014 budget deficit of nearly $1.0 billion.[6]

In addition to drawing down its fund balance, CPS plans to continue its reliance on one-time revenue sources by appropriating expected TIF funds of $30.0 million to the closure of its budget deficit – an increase of $14.0 million from FY2012 year-end estimates.[7]

Pension Funding Crisis

In April 2010, at the urging of past CPS officials, Illinois enacted P.A. 96-0889, which created a different level of pension benefits for new employees and reduced the State statutory requirements for CPS pension funding, thereby revising the standards set forth in P.A. 89-15. The law reduced CPS' required employer pension contributions for FY2011, FY2012 and FY2013 to an amount estimated to be equivalent to the normal cost.[8] It also delayed the year that the pension fund must reach a 90% funded ratio from 2045 to 2059.

Prior to the passage of P.A. 96-0889, the FY2011 CPS Required Contribution was calculated to be $586.9 million, or almost double the FY2010 amount. P.A. 96-0889 provided substantial budgetary relief by reducing the District's required FY2011 contribution to $187.0 million -

[3] CPS notes in its budget narrative that it intends to implement several policies to help replenish its fiscal stabilization fund during FY2013. However, the policies mentioned are vague and do not constitute a substantial plan to rebuild budgetary reserves.
[4] This $75 million borrowing cost $542,000 in fees and interest. Information provided by CPS Budget Office, August 12, 2011.
[5] CPS FY2010 and FY2009 Comprehensive Annual Financial Reports, Statements of Revenues, Expenditures by Object, Other Financing Sources and Net Changes in Fund Balance – Final Appropriations vs. Actual – General Operating Fund.
[6] CPS FY2013 Proposed Budget, p. 16.
[7] CPS FY2013 Proposed Budget, p. 10.
[8] "Normal cost" is an actuarially-calculated amount representing that portion of the present value of pension plan benefits and administrative expenses which is allocated to a given valuation year.

$120.5 million, or 39.2%, less than the prior year contribution.[9] At the same time, the State of Illinois has been reducing its own contribution to the Chicago Teachers' Pension Fund from $65 million in FY2009 to $32.5 million in FY2010 and FY2011, and now to $10.9 million in FY2012.[10] The three-year reduction in required CPS employer pension contributions and the State's elimination of its regular contribution to the pension fund are rapidly weakening the financial health of the fund, which fell from 100% funded in FY2000 to only 61.1% funded in FY2011 on a market value of assets basis. Inadequate current contributions to the fund will only increase future required contribution amounts unless major changes are made to the pension system. When the partial pension contribution holiday expires in FY2014, the District's pension payment will increase to at least $534.2 million, or $338.2 million more than the scheduled FY2013 contribution.

The Federation believes the District cannot afford its existing pension system. The partial pension holiday and the size of the gap created in FY2014 is evidence of this. The pension funding cliff created by this legislation threatens the already unstable fiscal health of CPS and must be addressed by reforming the benefit structure and identifying adequate funding sources for the teacher pension system. Dramatic changes are necessary to reduce this large burden on the District. Although the FY2013 budget document states that the District "will work closely with the General Assembly and stakeholders to make reforms so that the pension fund remains viable without threatening the classroom," it does not articulate any plan to do so or any potential solutions to the crisis.[11] The District cannot wait for the Illinois General Assembly to come up with pension reform; CPS must take immediate action to identify the reforms it needs to make its pension system sustainable in the long run for both taxpayers and employees and promote legislation in the General Assembly.

Increasing Long-Term Debt

CPS General Obligation debt increased by 28.3%, or $1.1 billion, between FY2007 and FY2011. This is an increase from $4.1 billion to $5.2 billion. Between FY2010 and FY2011, general obligation debt rose by 7.0%, or $344.6 million, from $4.9 billion to nearly $5.2 billion. This represents an increase in general obligation debt per capita from $1,819 in FY2010 to $1,947 in FY2011. The increase reflects the District's large capital construction program over the past several years.

Following the release of CPS' FY2013 Proposed Budget, Moody's Investors Service lowered the District's general obligation rating from Aa3 to A1 over concerns about the proposed complete elimination of the District's reserves, budgetary pressures, the need for increased pension contributions next year and an above-average debt burden. Moody's also lowered the CPS' general obligation rating outlook from stable to negative due to uncertainty regarding the outcome of negotiations with the Chicago Teachers' Union, increased pension contributions next year and an estimated $1 billion budget gap in FY2014.[12]

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[9] Actuarial projection by Goldstein & Associates for Kevin Huber, Executive Director of the Public School Teachers' Pension and Retirement Fund of Chicago, March 31, 2010.
[10] Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation as of June 30, 2011, p. 9.
[11] CPS FY2013 Proposed Budget, p. 15.
[12] Moody's Investors Service. "Rating Update: Moody's downgrades Chicago Board of Education's GO rating to A1 from Aa3; Outlook revised to negative from stable," July 10, 2012.

This decline comes after a rating decrease just nine months earlier in October 2011 when Moody's downgraded CPS from Aa2 with a stable outlook to Aa3, also with a stable outlook. In October, Moody's cited budgetary pressures, an above average debt burden, substantial capital needs and increased pension requirements as the reasons for its downgrade.[13]

Insufficient Time for Public Review of Budget

The CPS FY2013 Proposed Budget was released on Friday, July 6, 2012 and its first public hearing was held on Wednesday, July 11, 2012 - only three working days after the budget was released. This is a woefully inadequate amount of time for the public to comprehend a complex 206-page budget document. All governments have a duty to allow for public input related their proposed budgets. As an educational institution, CPS' failure to allow for sufficient time for public input on the proposed budget is a missed opportunity to help educate, inform and build support for their proposed $5.7 billion expenditure of tax dollars.

Lack of Data and Other Budget Format Issues

Despite the overwhelming issue of CPS' proposed FY2013 budget being the $665 million deficit, the budget document did not provide a detailed breakdown of the budget gap. It is imperative that data be presented illustrating how the deficit came about in order for the public to fully comprehend the District's financial crisis and offer informed recommendations and perspective on how to resolve it. Similarly, the proposed budget does not include an alternative plan for incorporating teacher salary raises greater than the estimated 2%. This is in spite of the fact that negotiations between CPS and the Chicago Teachers Union are still in progress and that the arbitrator assigned to the negotiations has recommended salary increases of at least 15% for CPS teachers.[14]

Information on CPS personnel by location and type (administrative, school-based and capital fund positions) in terms of full-time equivalent positions was not provided in the FY2013 budget or the FY2012 budget. Information on the number of teachers, administrators and support staff is crucial data that should be presented clearly in the annual budget document.

In addition to the omission of data on full-time equivalent staffing levels, CPS did not include the "What's New in the Budget Book" section that was included in the FY2011 and FY2009 proposed budgets. The FY2013 Proposed Budget also lacked adequate actual data and/or year-end estimates for the additional financial tables, including presentation of appropriations by function and organizational level.

While the new online budget format is an improvement to the District's transparency, the online version and the budget document do not provide identical information. For example, the budget website offers data regarding staff positions for all administrative units at CPS while the budget book only includes staffing data for selected administrative units. The inconsistencies between the two budget formats may be confusing to readers examining both versions. To ensure ease of

[13] CPS FY2013 Proposed Budget, pp. 137-138.
[14] Chicago Tribune, Arbitrator scolds CPS, teachers union for stubbornness as threat of strike looms, July 18, 2012.

use and accessibility, online versions of budgets should offer a "search" feature and an overview of all included data.

Issues the Civic Federation Supports

The Civic Federation supports the following elements of the proposed budget:

Implementing Management Efficiencies and Cost Saving Strategies

CPS proposes $144.3 million in expenditure reductions in FY2013 to reduce its $665 million budget shortfall. This amount comes on top of approximately $400 million in cost reductions in FY2012. Savings include reduction of unnecessary programs ($20.6 million), reorganization of Central Office administration ($10.0 million) and implementation of operational efficiencies ($95.3 million). Operating efficiencies include restructuring of bus routes ($8.0 million), information technology streamlining ($11.1 million) and procurement savings ($20.0 million).[15]

The expenditure reductions proposed by CPS reflect a serious effort to cut costs and better manage scarce resources by improving the District's operational efficiency. As CPS has acknowledged, additional efficiencies will need to be implemented in coming years to address the District's future budget gaps. We are encouraged that management has indicated its intentions to pursue additional efficiencies that will continue in the next fiscal year and beyond.

Budget Format and Transparency Improvements

The Federation is pleased that the District made additions to its budget format, including the creation of a comprehensive and interactive online budget. The new online format allows citizens to explore all aspects of the budget and includes detailed charts and tables. These additions are important in working toward a transparent and financially accountable school district.

This year CPS released its proposed budget on July 6, 2012. While this is still six days after the start of the District's fiscal year, which begins on July 1, it is an improvement compared to the budget releases in CPS' recent history. The FY2011 Proposed Budget was released on August 9, 2010 and the FY2012 Proposed Budget was released on August 5, 2011.

Producing a Prioritized, Publicly-Available Capital Improvement Plan

In May 2012 CPS released a capital budget via a new interactive website. The proposed capital improvement plan (CIP) includes a FY2013 capital budget and a five-year capital plan for FY2013-FY2017. The FY2013-FY2017 capital plan totals approximately $813.6 million, which includes $109.7 million for FY2013 capital projects. In addition, the plan describes CPS' 165 ongoing capital projects and each project's status. These projects total approximately $765 million and have been ongoing since 2006.

The CIP includes a brief explanation of the rationale for identifying and prioritizing capital needs through the CPS district, as well as a new model timeline for updating the capital budget on an annual basis. The rationale is based on recent changes to the State of Illinois' School Code, or

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[15] CPS FY2013 Proposed Budget, p. 9.

P.A. 97-0474, which provides guidelines and standards for master capital planning for schools and the development of an Educational Facilities Master Plan. CPS' Master Plan is expected to be released on January 1, 2013.

In past years the Civic Federation strongly urged CPS to develop a formal capital improvement plan, and therefore we support the action taken by the General Assembly last year to enact P.A. 97-0474. The CPS financial management team is to be commended for moving pro-actively to implement portions of the legislation.

Property Tax Increase

This year CPS proposes to increase its property tax levy by 1.5% (the maximum amount allowed under the State tax cap law). This will generate $62.0 million in additional revenue for FY2013. CPS also increased its property tax levy to the maximum amount allowable in FY2012. The increase came after three years of relative restraint as the District froze the levy in FY2011 and increased it by less than the maximum amount allowable under law in FY2009 and FY2010.[16]

The Civic Federation recognizes that property tax increases for homeowners and businesses in a time of economic uncertainty are painful. Given CPS' enormous fiscal challenges and the continued inconsistency of future funding from the State of Illinois, the Civic Federation supports the property tax increase as it will allow the District to access much-needed revenue. However, the tax increase should be implemented in the context of a more fiscally responsible budget plan.

Civic Federation Recommendations

The Civic Federation offers several recommendations regarding ways to improve the financial management of CPS.

Board of Education Should Reject CPS FY2013 Proposed Budget

The Civic Federation does not support CPS' FY2013 Proposed Budget as it does not adequately address the fiscal crisis facing the District and adds to the District's financial jeopardy by draining its reserves and presenting no viable plan to resolve the pending pension cliff in FY2014. Also, the proposed budget does not include alternative strategies if the arbitrator rules for raises for teachers higher than the 2% included in the budget. This is in spite of the fact that negotiations between CPS and the Chicago Teachers Union are still in progress and that the arbitrator assigned to the negotiations has recommended salary increases of at least 15% for CPS teachers.[17] Therefore, we urge the Board of Education to reject the proposed budget in favor of a budget that the District can afford and that does not exacerbate its current financial predicament.

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[16] CPS has taxed to the legal maximum 13 out of the 18 years (including the proposed tax year 2011 levy) that the tax cap law has been in effect. In FY1996, FY1999, FY2009 and FY2010, it increased the levy by less than the legal maximum. In FY2011, it kept the levy flat, but increased the levy to the maximum in FY2012. CPS Property Tax Fact Sheet, August 8, 2011.

[17] Chicago Tribune, Arbitrator scolds CPS, teachers union for stubbornness as threat of strike looms, July 18, 2012.

Implement a Formal Long-Term Financial Plan to Stabilize CPS Finances

While the District may internally use or implement features of a long-term financial plan, it does not currently develop a publicly-shared long-term financial plan. Given its present state of fiscal jeopardy, it is imperative that CPS institute a formal financial planning process to address its structural deficit, soon-to-be depleted fund balance and looming pension crisis. Resolving the CPS' financial instability will require deep and painful budget cuts throughout the District. Given that approximately 67.0% of CPS' all funds are dedicated to personnel costs, these cuts may have to include consolidation of under-enrolled schools and elimination of teacher positions.

It is important for governments to disclose forecasts to help stakeholders understand what their future financial situations will be and set a framework for future budgets and plans. This can be accomplished through the development and implementation of a formal long-term financial plan that is shared with and reviewed by key policymakers and stakeholders. This plan must also include concrete action steps to address the government's long-term fiscal balance.

The National Advisory Council on State and Local Budgeting (NACSLB) and the GFOA both recommend that all governments formally adopt a long-term financial plan as a key component of a sound budget process.[18] A long-term financial plan typically includes the following components:

- A review of historical financial and programmatic trends;
- Multi-year projections of revenues, expenditures and debt;
- An analysis of those multi-year trends and projections; and
- Modeling of options to address problems and opportunities, which helps governments address fiscal challenges before they become fiscal crises.

A key component of financial planning is engaging all stakeholders in the process of developing the plan. The GFOA describes long-term financial planning as "not just a staff-driven process. It is consensus-driven and inclusive, involving elected officials, staff and the public."[19] Among other benefits, involving all stakeholders can help staff refine forecasts, institutionalize planning processes and promote strategic decision-making.

For governments undertaking a new long-term financial planning process, we recommend proceeding in four stages:

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[18] More information on the National Advisory Council on State and Local Budgeting and the Government Finance Officers Association at www.gfoa.org.

[19] Government Finance Officers Association, "An Introduction to Financial Planning," (http://www.gfoa.org/downloads/LTFPbrochure.pdf (last visited on January 10, 2011). The following graphic illustration of the long-term financial planning process is based on the City of San Clemente, California's Long-Term Financial Plan and is reproduced in the Government Finance Officers Association document "Long-Term Financial Planning for Governments" available at http://www.gfoa.org/downloads/LTFPbrochure.pdf.

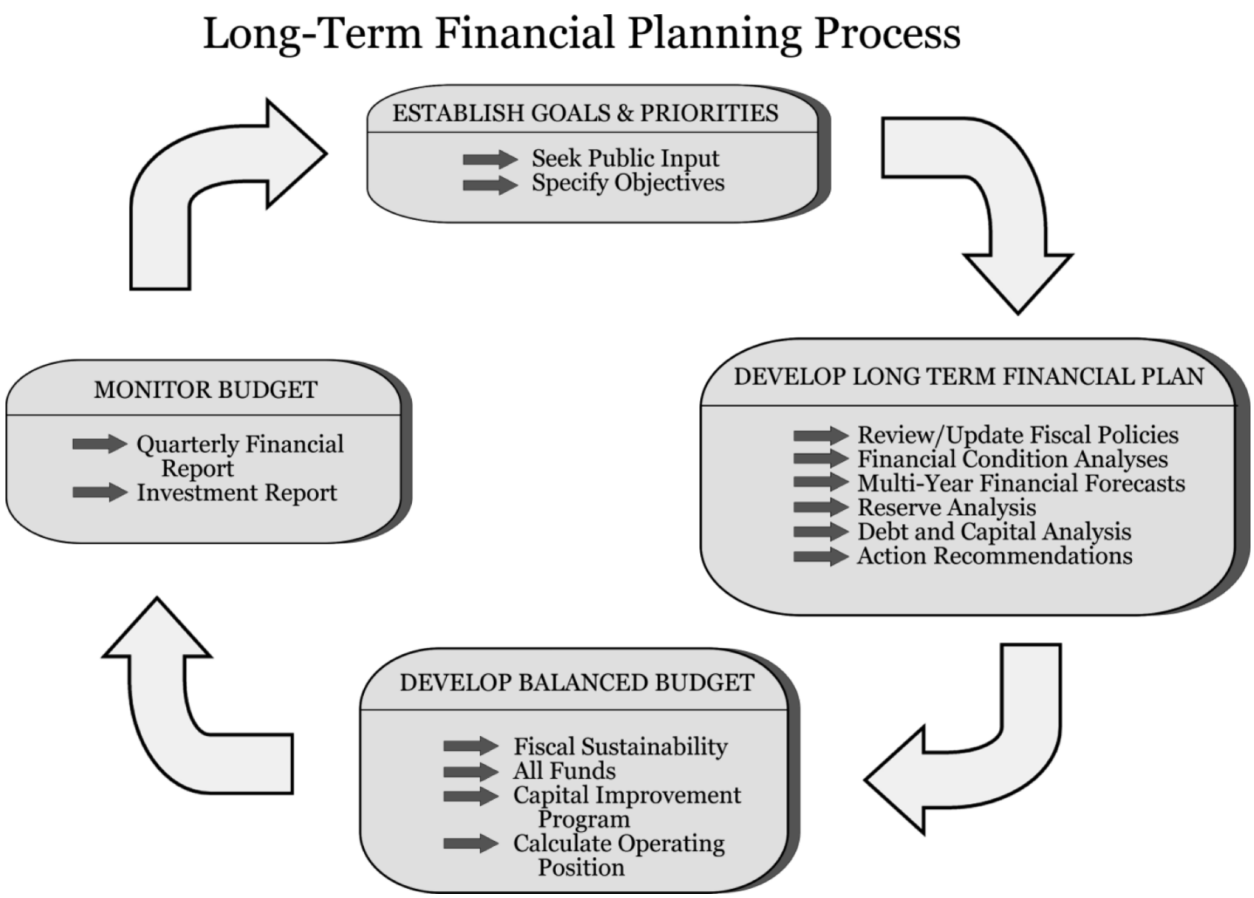
Along with a long-term financial plan, CPS needs to develop a plan for replenishing its fund balance. The GFOA also offers "best practice" recommendations on replenishment of a government's General Fund fund balance. See GFOA, "Replenishing Fund Balance in the General Fund (2011) (Budget and CAAFR) (new) at http://www.gfoa.org/index.php?option=com_content&task=view&id=1767 (last visited on July 16, 2012).

Stage 1: Fiscal and programmatic goals and priorities should be articulated through public input.

Stage 2: The long-term financial plan should evaluate financial and service data in order to determine how to accomplish the goals and priorities. It should include a review of the government's financial policies, a financial condition analysis that presents ten years of historical trend information, multi-year financial forecasts, a reserve analysis, an evaluation of debt and capital obligations and a series of action recommendations.

Stage 3: The insights derived from the long-term financial plan should directly inform the development of a balanced budget that is fiscally sustainable each year.

Stage 4: The plan should then be regularly monitored to ensure its viability by means of regular financial reports.



If a government chooses not to undertake a full long-term financial planning process, then at a minimum an annual document should be developed and published that would include:

1. A description of financial policies, service level targets and financial goals. Each policy should be reviewed using relevant forecasting data to determine if the policy is being followed, if the policy should be amended and if new policies should be added.
2. A scorecard or rating of the financial indicators as part of the financial analysis that assesses whether the trend is favorable, warrants caution, is a warning sign of potential problems or is unfavorable.
3. Possible strategies, actions and scenarios needed to address financial imbalances and other long-term issues. For example, a discussion of the long-term implications of continuing or ending existing programs or adding new ones. These actions should include information on fiscal impact and ease of implementation.
4. Sufficient stakeholder input including holding a public hearing for decision makers and the public to provide meaningful input on a long-term financial strategy to address the government's financial challenges.

Develop and Present Pension Reform Plan to General Assembly

For FY2011, FY2012 and FY2013 CPS is deferring its statutorily required payment to teacher pensions and only contributing the normal cost of employee and retiree accrued benefits. The statutorily required payments were established with the goal of reaching 90% funded ratio over a 50-year period. While the legislation granting this partial pension contribution holiday provided temporary budgetary relief, it is not a permanent solution. On the contrary, it has only deepened the very serious pension situation by depriving the pension fund of badly needed contributions for three years. If nothing is done, CPS will have to make dramatic cuts to employees and services in order to make room for the increase of $338.2 million in pension payments due beginning in FY2014. If the increased payments were to be postponed further by another funding holiday, the pension fund would run a very real risk of running out of money to pay retirees in the near future.

In May 2012, City of Chicago Mayor Rahm Emanuel offered a plan to reform pensions for employees of the City, CPS and the Chicago Park District during a hearing of the Illinois House of Representatives Personnel and Pensions Committee. The Civic Federation is encouraged by Mayor Emanuel's pension reform initiative and considers the proposal to be a strong outline of a comprehensive, balanced solution to the pension crises of these three local governments that includes shared sacrifice by retirees, current employees and eventually taxpayers.[20] Taking the lead from the Mayor's Office, it is imperative that CPS aggressively seek legislation to reform and re-establish its retirement system in a manner that is sustainable in the long-term for both retirees and taxpayers. Some of the reforms the District should pursue are listed below:[21]

[20] For more information on Mayor Emanuel's pension reform proposal, see Civic Federation, "Mayor Emanuel Proposes Significant Pension Reform," blog post, May 10, 2012.

[21] In previous years' analyses, the Civic Federation recommended that the Chicago Teachers' Pension Fund consider consolidation with the State of Illinois' Teachers' Retirement System. However, given the current poor financial status of the State and the likelihood of the General Assembly transferring teacher pension liabilities to local school districts, the Civic Federation has removed this proposal from its recommendations for pension reform.

Reduce Benefits For Current Employees and Retirees

The Board of Education and CPS leadership should seek to reduce benefits for current employees. They should obtain actuarial projections and legal opinions on the size and type of benefit reductions (e.g., raising the retirement age, reducing automatic annuity increase or and/or reducing final average salary) needed to make the teachers' and non-teachers' pension plans affordable and sustainable now and in the future. Alternatively, employees could be permitted to retain their current benefit plan, but be required to make higher contributions.[22]

A reduction in benefits may affect existing retirees and benefits already earned by current employees and would prospectively affect future benefits earned by current employees. Once the best options for ensuring the sustainability of the pension funds have been determined through legal and actuarial analysis, these options should be discussed with labor unions and presented to the General Assembly as soon as possible.

The District cannot afford its existing pension system and cannot wait for the General Assembly to implement pension reform. CPS must instead take immediate action and identify the reforms needed to re-establish its pension system as sustainable in the long-term for taxpayers and employees and propose legislation in the General Assembly.

Increase Employer and Employee Contributions to Meet the Actuarially-Based Needs of the Fund

Employee contributions to the Chicago Teachers Pension Fund and the Municipal Pension Fund are a fixed percentage of pay. The City of Chicago pays the employer contribution on behalf of non-teaching CPS employees who participate in the Municipal Fund, and this contribution is simply a multiple of past employee contributions with no relationship to the financial health of the plan. CPS pays the employer contribution to the Teachers' Fund, which will begin a schedule to reach 90% funded ratio by 2060.

The Civic Federation recommends that employer and employee contributions for both pension funds be tied to actuarial liabilities and funded ratios, such that contributions are at levels consistent with the actuarially calculated annual required contribution (ARC). Contribution increases should be implemented as soon as possible, because the longer they are postponed, the larger the increases will have to be in the future.

Currently, CPS pays for 7% of the 9% teachers' share of pension costs and 7% of the 8.5% of non-teaching employees' share of pension costs. Employees pay for the remaining 2% and 1.5% respectively. The Civic Federation believes that employees need to share in the rising costs of public pension plans and recommends that employer and employee contributions be restructured

[22] Such an option would be similar to two significant legislative initiatives proposed by the Metropolitan Water Reclamation District (MWRD) Retirement Board. The legislation increases employee and employer pension contributions in order for the fund to reach 90% funded by 2050. It is important to note that this legislation, unlike other pension reforms being considered by State officials, does not change benefits for current employees or current retirees. The proposed reforms required amending the MWRD Article of the Illinois Pension Code and therefore, approval from the Illinois General Assembly. The House and Senate have both passed HB 4513, and it is currently awaiting approval from Governor Quinn. For more information on HB 4513, see Civic Federation, "MWRD Retirement Fund," blog post, June 13, 2012.

such that employees pay a proportion of required contributions, similar to the structure of the Chicago Transit Authority contributions. A proportional relationship should be set whereby, for example, the employer pays 50% and the employees pay 50% of the annual required contribution. Whether the proportion is 50%/50%, 60%/40%, or some other ratio, it is critical that both parties pay a share of required contributions, and that those contributions relate to what is actually needed to maintain the fiscal health of the fund.

Continue Work to End the City Subsidy of Chicago Public Schools' Employer Contribution to the Municipal Fund

The Civic Federation encourages CPS and the City of Chicago to continue to work together to ensure that CPS starts to pay its share of the Municipal Fund employer contribution. In its FY2012 budget, the City included a reimbursement cost shift from CPS of $32.5 million.[23] Considering its financial difficulties, CPS is hoping that the City will defer the District's FY2012 and FY2013 reimbursement contributions.[24]

The Civic Federation believes that the Illinois General Assembly should grant CPS the authority to levy an additional property tax for the purpose of funding its non-teacher pensions. This alignment of employer contributions and pension funds in which employees participate is important for both transparency and accountability. It allows taxpayers to see where their tax dollars are going and it gives CPS a greater stake in the health and management of the Municipal Fund.

Reform Governance of the Teachers' Pension Board

The Public School Teachers' Pension and Retirement Fund of Chicago is governed by a 12-member Board of Trustees that includes two representatives from the Board of Education, six active members who are not principals, one active principal and three annuitants. Therefore the ratio of management to employee/retiree representatives is 2:10, one of the least balanced pension boards in Illinois.[25]

The proper role of a pension board is to safeguard the assets of the fund and to balance the interests of employees and retirees who receive pension benefits and taxpayers who pay for pension benefits. Each party has an interest in the management of the fund. However, the heavy tilt toward employees on the Teachers' Pension board raises questions about how objective the Board can be in its work. The Civic Federation recommends that the composition of the Teachers' Pension Fund Board of Trustees be revised in three ways. The balance of employee and management representation on the boards should be changed so that employees do not hold the majority of seats. A tripartite structure should be created that includes independent taxpayer representation on the board. Finally, financial experts should be included on the pension boards and financial training for non-expert members should be required.[26]

[23] City of Chicago, FY2012 Budget Overview, pp. 6 and 15.
[24] Information provided by CPS Budget Office, July 17, 2012.
[25] See Civic Federation, "Recommendations to Reform Public Pension Boards of Trustees in Illinois," February 13, 2006.
[26] Government Finance Officers Association, "Best Practice: Governance of Public Employee Post-Retirement Benefits Systems (2010)." http://www.gfoa.org/downloads/GFOA_governanceretirementbenefitssystemsBP.pdf

We urge CPS to seek reform of the Chicago Teachers' Pension Fund governing structure through the General Assembly to ensure greater balance of interests.

Require Consistent Financial Reporting for Charter Schools

The lack of standardized, consistent categories for Chicago charter school financial reporting makes it very difficult for stakeholders to analyze the financial data and trends associated with these public schools. The Civic Federation believes that CPS should require all charter schools to prepare and publish their financial reports in a consistent manner, grouping individual line items into revenue and expense categories that are comparable across schools and with CPS financial categories. These categories should correspond to the categories in the CPS Statement of Activities in the District's Comprehensive Annual Financial Reports. This will allow for greater financial transparency and accountability as the schools' financial performance can be regularly assessed and compared by all stakeholders.

Proposed Charter School Fiscal Reporting Categories	
Expense Categories	**Revenue Categories**
Instruction	Federal
Pupil Support Services	State
Administrative Support Services	Local (CPS)
Facilities	School-Based
Other	Other

Increase Time Allowed for Public Review and Comment

More time should be allowed for the public to review and understand the CPS $5.7 billion budget. At a minimum, **ten working days** should be allowed for the public review period before the first public testimony is heard. Only in this way can citizens give fully informed commentary on one of the largest local government budgets in the Chicago area.

Fully Disclose Information on Future Chicago Infrastructure Trust Projects and Develop Procedures and Safeguards

In an effort to provide the utmost transparency to the District's constituents, the District should provide full disclosure of information about investors and contracts when engaging in projects related to the Chicago Infrastructure Trust.[27] Additional disclosure language that should be incorporated into the District's capital budget should include the allocation of all proceeds, including appropriations, investments, interest income and distribution within the budget year. Other disclosures should include all fees associated with transactions and public funds provided, including funds by other component units of government. The District should also develop procedures and safeguards including annual project status updates published in the capital budget

(last visited on February 9, 2011). See also Civic Federation, "Recommendations to Reform Public Pension Boards of Trustees in Illinois," February 16, 2006. http://www.civicfed.org/civic-federation/publications/recommendations-reform-public-pension-boards-trustees-illinois (last visited on February 9, 2011).

[27] CPS has already included $40 million in Infrastructure Trust projects in its FY2013 capital budget. CPS FY2013 Proposed Budget, p. 127.

and legal protections for taxpayers if a vendor defaults on any contractual obligations. This disclosure information should also be included in the District's 10-Year Educational Facility Master Plan scheduled to be released in January 2013.

Further Improvements to Budget Format and Transparency

The Civic Federation applauds the District and its staff for increasing transparency of the budget through its implementation of an online interactive budget. However, the Federation offers the following additional recommendations to further increase the transparency and accessibility of the District's budget documents.

Additional Property Tax Information

The District should include much more information related to property taxes in its proposed budget. The following should be included in the property tax chapter:

- Ten years of data on the District's property tax levies by fund including actual tax revenues and year-end estimates when available;
- Estimates of projected revenue increases had the District maximized its property tax levy in those years that it did not; and
- Explanations of the Public Building Commission levy and abatement process.

Additional Section on Tax Increment Financing (TIF)

The Civic Federation recommends that the District create a detailed budget section on tax increment financing (TIF). This section should explain and provide data on:

- How TIF equalized assessed value (EAV) becomes available outside the property tax cap for one year following dissolution of the TIF and thus provides additional revenue if the District levies for it;
- How and when TIF surplus revenues have been distributed, either when surplus was declared by the City of Chicago or when TIF districts with fund balances expired;
- How TIF does not affect the maximum property tax levy available to CPS; and
- How much TIF revenue CPS has received in the form of new schools and facilities.

Significant public concern exists over the relationship between TIF and CPS. It is important to provide taxpayers with an accurate picture of how their tax dollars are being used. The Civic Federation urges the District to provide citizens with a more complete picture of how TIF and intergovernmental revenues affect the District's annual budgets.

Create Budget Section for Intergovernmental Agreements (IGA)

The Civic Federation recommends that CPS create a detailed budget section on intergovernmental agreements (IGA). This section should explain financial arrangements that CPS has with other units of government, such as:

- Capital support from the City of Chicago in the form of the Modern Schools Across Chicago (MSAC) program and other facilities construction;
- The relationship between the Public Building Commission (PBC) and CPS;
- Any joint purchasing agreements with other governments;

- Any services provided by or to other governments, such as Chicago Police officers in schools; and
- The City of Chicago's Infrastructure Trust.

Continue to Improve Format and Provide Sufficient Data

The District's FY2013 Proposed Budget did not include a detailed breakdown of the $665 million budget deficit. This information is necessary in order for taxpayers to provide informed opinions and recommendations regarding potential solutions to the District's financial challenges.

The District's FY2013 Proposed Budget did not include data regarding CPS staffing positions according to full-time equivalent (FTE) status. This information was provided in previous budget documents in a table titled, "CPS All Positions by Location." This table presented the distribution of all full-time employees within the school district by position (Teachers, Assistant Principals, Principals and School Support Personnel) and by location (School Based, Central-Office, Area-Office and Citywide Support). This section provided pertinent information not found elsewhere in the budget book, especially regarding the number of teachers throughout the District. Therefore, it is critical that this data always be included in the budget.

Though the District has worked to add actual revenue and expenditure data to the budget books, the District should provide actual data and/or year-end estimates for all financial tables, including the additional tables that present appropriations by functional and organizational level.

The District's FY2013 Proposed Budget also did not include the "What's New in the Budget Book" section that was included in the FY2011 and FY2009 proposed budgets. This section briefly highlighted changes in the budget's formatting since the previous year. The Civic Federation believes that this section should be included in every budget book because it reflects on CPS' commitment to creating an improved budget document every fiscal year.

ACKNOWLEDGEMENTS

We would like to express our appreciation to Chief Administrative Officer Tim Cawley, Interim Deputy Chief Financial Officer Melanie Shaker, Budget Director Ginger Ostro and their staffs for their work in preparing this budget and their willingness to answer the Civic Federation's questions.

FY2013 DEFICIT DRIVERS AND GAP-CLOSING MEASURES

CPS proposes a FY2013 General Operating Funds budget of nearly $5.2 billion, which is a 1.0%, or $52.2 million, increase from the FY2012 final budget of $5.1 billion and an increase of 5.9%, or $286.8 million, over the FY2012 year-end estimated expenditures.

In its proposed budget, CPS projects a FY2013 budget gap of over $665.0 million.[28] Approximately $107.8 million of the deficit is attributed to actual FY2012 revenues coming in lower than expected. A detailed breakdown of the FY2013 deficit was not included in the proposed budget.

CPS reports that it will close the $665.0 million shortfall with $144.3 million in expenditure reductions, $76.0 million increase in property tax revenues and $432.0 million in use of reserve funds. Deficit-closing measures include:

CPS FY2013 Proposed Budget Deficit Closing Measures (in $ millions)	
Additional Revenue	
Increase in Property Tax Revenues	$ 62.0
Increase in TIF Revenues	$ 14.0
Subtotal Additional Revenue	**$ 76.0**
Operations Savings	
Facilities	$ 36.0
Procurement	$ 20.0
IT Streamlining	$ 11.1
Reduction in Non-Personnel Costs	$ 8.4
Transportation	$ 8.0
Transportation Alternatives	$ 4.3
Other Operations Savings	$ 7.5
Subtotal Operations Savings	**$ 95.3**
Education Savings	
Program Elimination	$ 20.6
Central Office Reductions	$ 10.0
Culture of Calm Efficiencies	$ 7.7
Rationalization of Staffing for Schools*	$ 6.3
Subtotal Education Savings	**$ 44.6**
Use of Reserve Funds	$ 432.0
Other Adjustments	$ 12.3
Grand Total	**$ 660.2**

*Schools include magnet, IB, regional gifted and classical.

Source: CPS FY2013 Proposed Budget, pp. i and 9.

The $20.6 million in cuts to outdated and less effective programs include the elimination of the following programs:

[28] CPS FY2013 Proposed Budget, p. i.

- Additional Learning Opportunities ($4.8 million),
- Freshmen Connection ($3.6 million),
- K-2 Summer of Reading Teacher PD ($3.4 million),[29]
- Funding for Math/Science Recommended PD Materials ($2.4 million),
- "AMPS Allocation" Funds ($1.5 million),[30] and
- AVID Program ($1.0 million).

Half of the funds designated for the College & Career Coaches program will be shifted to schools ($1.4 million), and an additional $2.5 million in miscellaneous program costs will be eliminated.[31]

The facilities savings of $36 million are attributed to:

- Cost reductions from more efficient scheduling through a privatized custodial contract;
- Centralized management of CPS building engineers, resulting in the reduction of overtime costs and improvement in preventative maintenance; and
- Consolidated purchasing of custodial and other supplies.[32]

APPROPRIATIONS

This section presents an analysis of CPS appropriation trends, including appropriations by type, source and location. Proposed FY2013 appropriations are compared with FY2012 final appropriations, FY2012 year-end estimates and FY2009 actual expenditures when available.

Total Appropriations for FY2013

The $5.7 billion CPS FY2013 Proposed Budget consists of approximately $5.2 billion in General Operating Funds, $169.8 million in the Capital Projects Fund and $394.5 million in the Debt Service Fund. General Operating Funds represent 90.1% of the total budget, the Capital Projects Fund represents 3.0% and the Debt Service Fund represents 6.9%.

General Operating Funds finance employees' salaries and benefits, contractual services, charter school tuition transfers and other day-to-day expenditures. General Operating Funds include the General Fund and the Special Revenues Fund. The General Fund is the primary fund used for instructional, professional, maintenance and administrative activities. The Special Revenue Fund receives revenues that are legally required to be expended only for specific purposes such as School Breakfast and Lunch Programs, Supplemental General State Aid for additional instruction to low-income students and other grant funds. The Capital Projects Fund is for construction and other capital expenditures. The Debt Service Fund is for payment of long-term debt, such as bond issuances and lease obligations.[33]

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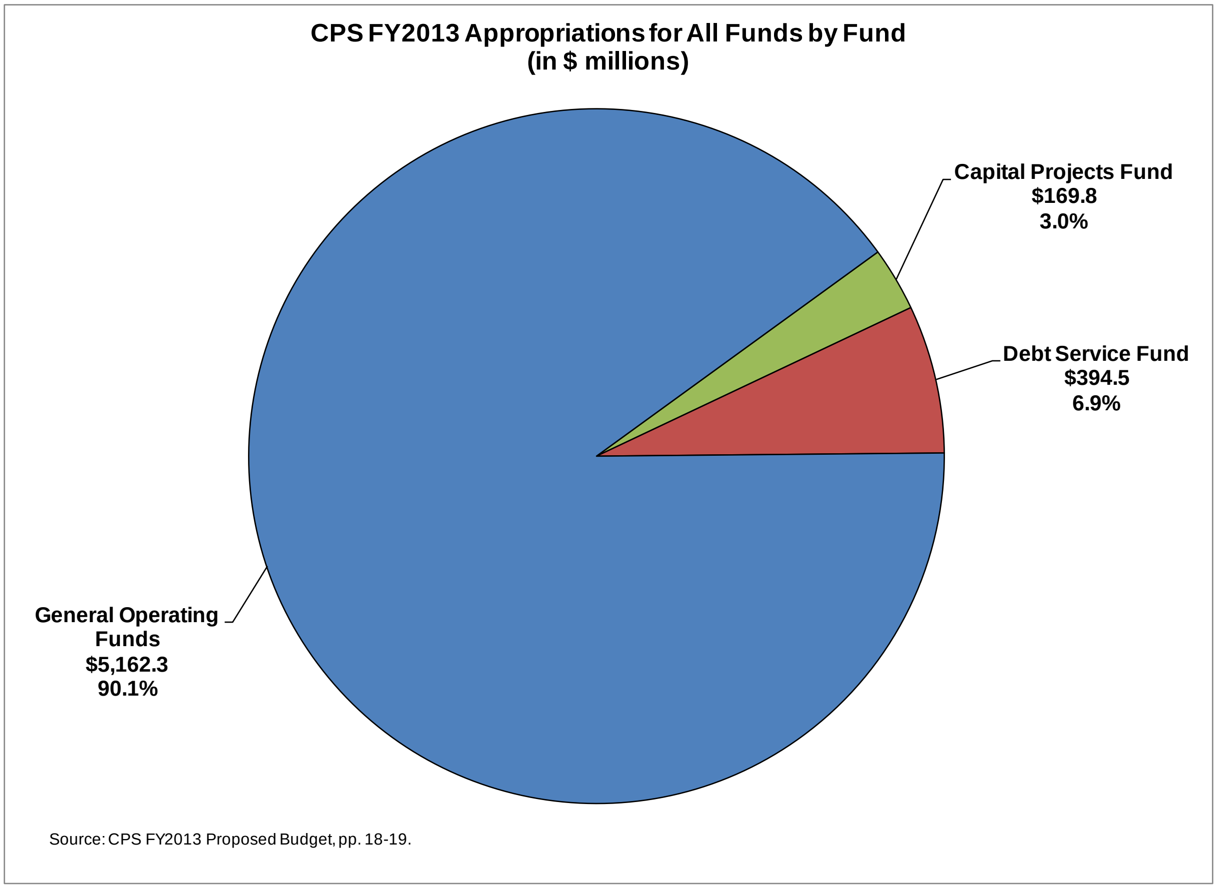
[29] This elimination is only expected to impact teachers, not students. Information provided by CPS Budget Office, July 17, 2012.
[30] Program no longer exists. Information provided by CPS Budget Office, July 17, 2012.
[31] Information provided by CPS Budget Office, July 17, 2012.
[32] Information provided by CPS Budget Office, July 17, 2012.
[33] CPS FY2013 Proposed Budget, p. 23 and Appendix F – Glossary.


CPS FY2013 Appropriations for All Funds by Fund
(in $ millions)
Capital Projects Fund
$169.8
3.0%
Debt Service Fund
$394.5
6.9%
General Operating
Funds
$5,162.3
90.1%
Source: CPS FY2013 Proposed Budget, pp. 18-19.

Two-Year and Five-Year All Funds Appropriation Trends

The proposed FY2013 $5.7 billion budget is a slight decrease of 1.1%, or $66.2 million, from the FY2012 year-end expenditures estimate of nearly $5.8 billion. The proposed FY2013 budget is a 5.9% reduction from the approved FY2012 budget of approximately $6.1 billion. Appropriations for the General Operating Funds, which consist of the General Fund and the Special Revenue Fund, will increase by 5.9%, or $286.4 million, over the FY2012 year-end estimate. The proposed appropriations are a 5.9%, or $360.5 million, reduction from the FY2012 final budgeted amounts.

CPS Appropriations for All Funds by Fund: FY2012 & FY2013 (in $ millions)

Fund Type	FY2012 Final Budget	FY2012 Year-End Estimate	FY2013 Proposed Budget	FY2012 Y-E to FY2013 $ Change	FY2012 Y-E to FY2013 % Change
General Operating Funds	$ 5,110.2	$ 4,875.9	$ 5,162.3	$ 286.4	5.9%
Capital Projects Fund	$ 567.0	$ 533.4	$ 169.8	$ (363.6)	-68.2%
Debt Service Fund	$ 409.9	$ 383.5	$ 394.5	$ 11.0	2.9%
Total Appropriation	**$ 6,087.1**	**$ 5,792.8**	**$ 5,726.6**	**$ (66.2)**	**-1.1%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns.

Source: CPS FY2012 Final Budget, p. 297 and FY2013 Proposed Budget, pp. 20 and 181.

The overall 1.1% decrease in appropriations over FY2012 year-end estimates is a result of growth in General Operating Funds, despite a decrease in compensation, which includes salaries and benefits, and a 68.2% reduction in Capital Projects Fund appropriations. General Operating appropriations other than compensation are increasing by 22.1%, or $307.6 million, over the two-year period. This significant increase is attributable to a rise of $195.1 million, or nearly 879.0%, in contingency and other expenses. Capital Projects Fund appropriations will decline by $363.6 million from the FY2012 year-end estimates and by $397.2 million, or 70.1%, from the FY2012 final budget appropriations. Approximately 65.0%, or $109.7 million, of the proposed $169.8 million in the Capital Projects Fund are allocated for projects addressed in the FY2013 Capital Budget and CPS' Five-Year Capital Plan. For further analysis of the Capital Budget, see page 72 of this report.

Appropriations for the Debt Service Fund will increase by 2.9%, or $11.0 million, over the FY2012 year-end estimate of $383.5 million to $394.5 million in FY2013. The proposed appropriation will be a reduction of $15.4 million, or 3.8%, from final FY2012 budgeted amounts. These appropriations include payments on existing alternate bonds and Public Building Commission payments. In addition to the $394.5 million allocated for debt service payments, CPS plans to issue new bonds totaling approximately $500 million to fund capital projects from FY2012 and in FY2013.[34]

CPS Appropriations for All Funds by Type: FY2012 & FY2013 (in $ millions)

General Operating Funds	FY2012 Final Budget	FY2012 Year-End Estimate	FY2013 Proposed Budget	FY2012 Y-E to FY2013 $ Change	FY2012 Y-E to FY2013 % Change
Teacher Salaries	$ 2,082.8	$ 2,012.5	$ 1,943.5	$ (69.0)	-3.4%
Non-Teacher Salaries	$ 628.9	$ 625.2	$ 628.7	$ 3.5	0.6%
Employee Benefits	$ 871.9	$ 843.1	$ 887.8	$ 44.7	5.3%
Subtotal General Operating Compensation	**$ 3,583.6**	**$ 3,480.8**	**$ 3,460.0**	**$ (20.8)**	**-0.6%**
Commodities & Utilities	$ 351.7	$ 308.4	$ 367.6	$ 59.2	19.2%
Contractual/ Professional Services/ Tuition	$ 973.1	$ 991.4	$ 1,032.6	$ 41.2	4.2%
Capital Outlay/ Equipment/ Repair	$ 71.8	$ 72.9	$ 85.0	$ 12.1	16.6%
Debt Service	$ -	$ -	$ -	$ -	-
Contingency and Other	$ 130.1	$ 22.2	$ 217.3	$ 195.1	878.8%
Subtotal Other General Operating	**$ 1,526.7**	**$ 1,394.9**	**$ 1,702.5**	**$ 307.6**	**22.1%**
Subtotal General Operating Funds	**$ 5,110.3**	**$ 4,875.7**	**$ 5,162.5**	**$ 286.8**	**5.9%**
Debt Service Fund					
Contractual/ Professional Services	$ 51.9	$ 51.9	$ 8.6	$ (43.3)	-83.4%
Debt Service Payments	$ 358.0	$ 331.6	$ 385.9	$ 54.3	16.4%
Subtotal Debt Service Fund	**$ 409.9**	**$ 383.5**	**$ 394.5**	**$ 11.0**	**2.9%**
Capital Projects Fund					
Capital Outlay/ Equipment/ Repair	$ 567.0	$ 533.4	$ 169.8	$ (363.6)	-68.2%
Subtotal Capital Projects Fund	**$ 567.0**	**$ 533.4**	**$ 169.8**	**$ (363.6)**	**-68.2%**
Grand Total	**$ 6,087.2**	**$ 5,792.6**	**$ 5,726.8**	**$ (65.8)**	**-1.1%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns.

Source: CPS FY2012 Final Budget, p. 207 and CPS FY2013 Proposed Budget, pp. 171 and 181.

[34] The anticipated $500 million bond issuance is not included in the projections of this analysis. CPS FY2013 Proposed Budget, p. 133.

The next exhibit shows that CPS appropriations for all funds will remain relatively flat over the last five years, increasing slightly by 0.6%, or $34.6 million, from $5.69 billion in FY2009 to $5.73 billion in FY2013. Over the same time period, General Operating Funds will increase by 8.8%, or $419.6 million, due to increases in non-teacher salaries and healthcare-related expenses. Non-compensation related operating expenses will increase due largely to increased appropriations in tuition for expanding enrollment in charter and contract schools.[35]

Between FY2009 and FY2013, debt service appropriations will increase by 31.1%, or $93.5 million, which is attributable in part to an increase in debt issuance pursuant to federal stimulus provisions that increased the amount of debt local school districts can issue. Capital Project Fund appropriations will decrease by 73.8%, or $478.5 million, over the five-year period.

CPS Appropriations for All Funds by Type: FY2009-FY2013 (in $ millions)

General Operating Funds	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Year-End Estimate	FY2013 Proposed	FY2009 to FY2013 $ Change	FY2009 to FY2013 % Change
Teacher Salaries	$ 1,975.9	$ 2,026.3	$ 2,023.5	$ 2,012.5	$ 1,943.5	$ (32.4)	-1.6%
Non-Teacher Salaries	$ 597.5	$ 604.0	$ 610.7	$ 625.2	$ 628.7	$ 31.2	5.2%
Employee Benefits	$ 856.2	$ 962.5	$ 845.1	$ 843.1	$ 887.8	$ 31.6	3.7%
Subtotal General Operating Compensation	**$ 3,429.6**	**$ 3,592.8**	**$ 3,479.3**	**$ 3,480.8**	**$ 3,460.0**	**$ 30.4**	**0.9%**
Commodities & Utilities	$ 333.4	$ 309.5	$ 318.8	$ 308.4	$ 367.6	$ 34.2	10.3%
Contractual/ Professional Services/ Tuition	$ 884.3	$ 895.8	$ 1,006.3	$ 991.4	$ 1,032.6	$ 148.3	16.8%
Capital Outlay/ Equipment/ Repair	$ 69.3	$ 65.6	$ 79.3	$ 72.9	$ 85.0	$ 15.7	22.7%
Debt Service	$ 1.0	$ 2.7	$ -	$ -	$ -	$ (1.0)	-100.0%
Contingency and Other	$ 25.3	$ 29.6	$ 26.3	$ 22.2	$ 217.3	$ 192.0	758.9%
Subtotal Other General Operating	**$ 1,313.3**	**$ 1,303.2**	**$ 1,430.7**	**$ 1,394.9**	**$ 1,702.5**	**$ 389.2**	**29.6%**
Subtotal General Operating Fund	**$ 4,742.9**	**$ 4,896.0**	**$ 4,910.0**	**$ 4,875.7**	**$ 5,162.5**	**$ 419.6**	**8.8%**
Debt Service Fund							
Contractual/ Professional Services	$ 51.8	$ 51.8	$ 51.8	$ 51.9	$ 53.2	$ 1.4	2.7%
Debt Service Payments	$ 249.3	$ 332.1	$ 280.2	$ 331.6	$ 341.4	$ 92.1	36.9%
Subtotal Debt Service Fund	**$ 301.1**	**$ 383.9**	**$ 332.0**	**$ 383.5**	**$ 394.6**	**$ 93.5**	**31.1%**
Capital Projects Fund							
Capital Outlay/ Equipment/ Repair	$ 648.3	$ 691.8	$ 563.4	$ 533.4	$ 169.8	$ (478.5)	-73.8%
Subtotal Capital Projects Fund	**$ 648.3**	**$ 691.8**	**$ 563.4**	**$ 533.4**	**$ 169.8**	**$ (478.5)**	**-73.8%**
Grand Total	**$ 5,692.3**	**$ 5,971.7**	**$ 5,805.4**	**$ 5,792.6**	**$ 5,726.9**	**$ 34.6**	**0.6%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns.
Source: CPS FY2013 Proposed Budget, pp. 171 and 181.

Two-Year and Five-Year Operating Fund Appropriation Trends

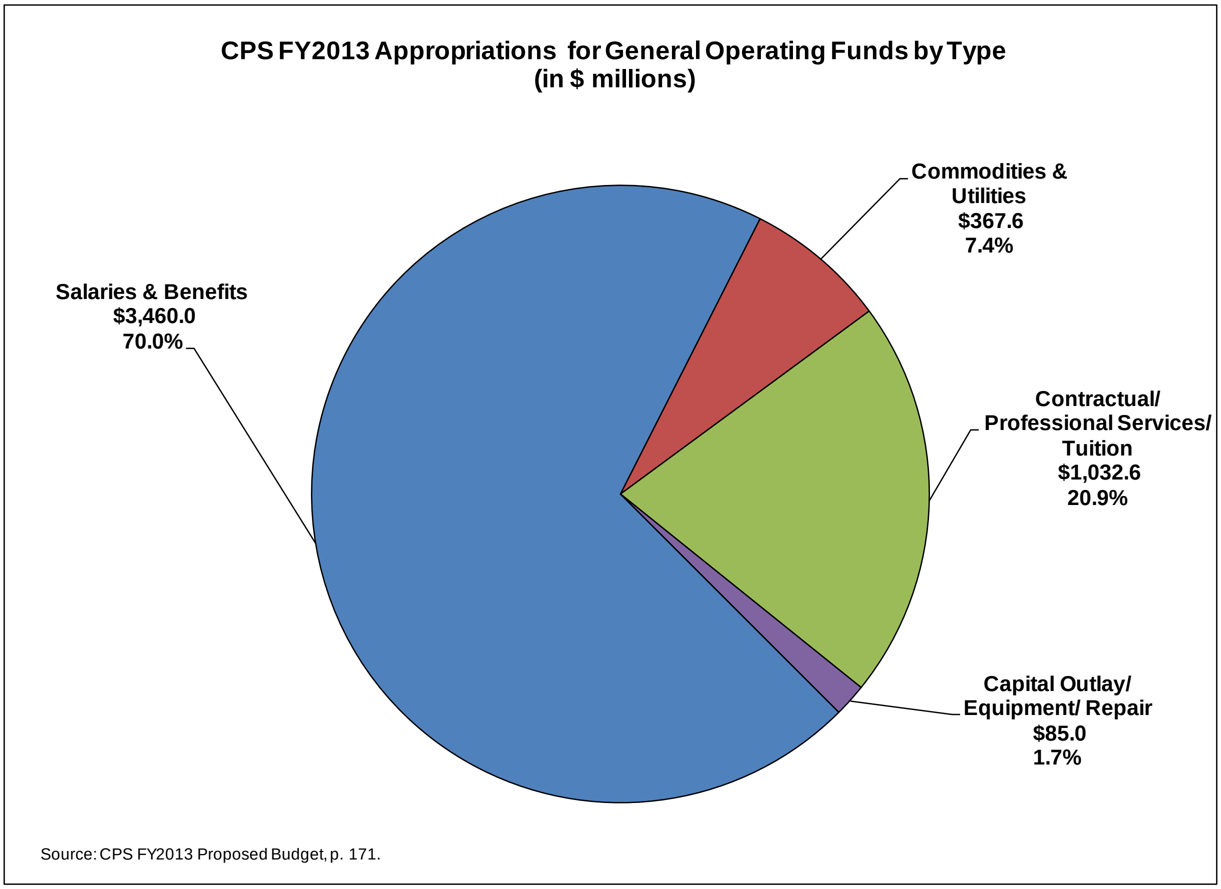
The following sections show trend data for operating funds appropriations by type, source and location.

Appropriations for Operating Funds by Type

The exhibit below shows the breakdown of FY2013 General Operating Funds appropriations by type. The largest single portion is earmarked for salaries and benefits. Approximately 70.0% of the operating funds, or nearly $3.5 billion, will be for teacher salaries, non-teacher salaries and employee benefits. Non-personnel services appropriations, totaling over $1.0 billion, or 20.9%, include professional services, contractual payments to outside organizations that provide school support services and charter school tuition transfers. Some of the non-personnel service

[35] CPS FY2012 Proposed Budget, p. 282.

appropriations support compensation costs of persons who provide direct services to CPS but are not CPS employees. Appropriations for commodities and utilities and capital outlay, educational equipment and repairs make up the remaining 9.1% of the General Operating Funds budget at 7.4% and 1.7%, respectively.



The following exhibit compares the proposed FY2013 General Operating Funds appropriations by type with the final FY2012 appropriations and the FY2012 year-end estimates. Total General Operating Funds will increase by 5.9%, or $286.8 million, over FY2012 year-end estimates, mostly due to increases in other fixed charges. Salary appropriations will decrease by 2.5%, or $65.5 million, over the FY2012 year-end estimates. Total employee benefit costs will increase by 5.3%, or $44.7 million, in FY2013 over FY2012 year-end estimates primarily due to a rise in hospitalization and dental insurance expenses, which are increasing by 9.1%. Appropriations for all other employee benefits will also increase in the two-year period with percentage increases ranging from 1.4% to 4.2%.

Commodities and utilities will increase by $59.2 million, or 19.2%, from the FY2012 year-end estimates. Expenses for textbooks will grow by the largest amount, in terms of dollars and percentage, from $53.0 million according to FY2012 year-end estimates to $82.4 million in FY2013. This is an increase of $29.4 million, or 55.5%. A portion of the increase, $8.5 million, is attributable to the three-part disbursement process for Supplemental General State Aid (SGSA) in which SGSA funds are kept as a "placeholder" in the textbook line of the budget until final allocation is determined.[36]

Appropriations for capital outlay, equipment and repair will increase by 16.6%, or $12.1 million, over the two-year period. Educational equipment expenses will rise by $10.2 million, or 27.1% while appropriations for repairs and replacements will increase by $2.2 million, or 6.3%. Debt services appropriations in the General Operating Fund will remain flat at zero over the two-year period.

CPS Appropriations for General Operating Funds by Type: FY2012 & FY2013 (in $ millions)

Expenditure Type	FY2012 Final Budget	FY2012 Year-End Estimate	FY2013 Proposed Budget	FY2012 Y-E to FY2013 $ Change	FY2012 Y-E to FY2013 % Change
Salaries					
Teacher Salaries	$ 2,082.8	$ 2,012.5	$ 1,943.5	$ (69.0)	-3.4%
Non-Teacher Salaries	$ 628.9	$ 625.2	$ 628.7	$ 3.5	0.6%
Total Salaries	**$ 2,711.7**	**$ 2,637.7**	**$ 2,572.2**	**$ (65.5)**	**-2.5%**
Other Employee Benefits					
Teachers' Pension	$ 339.3	$ 333.3	$ 343.3	$ 10.0	3.0%
Ed Support Personnel Pension	$ 99.8	$ 97.9	$ 100.5	$ 2.6	2.7%
Hospitalization and Dental Insurance	$ 348.4	$ 330.1	$ 360.2	$ 30.1	9.1%
Medicare/Social Security	$ 37.6	$ 36.8	$ 37.3	$ 0.5	1.4%
Unemployment Compensation	$ 16.8	$ 16.4	$ 16.7	$ 0.3	1.8%
Workers' Compensation	$ 30.0	$ 28.6	$ 29.8	$ 1.2	4.2%
Total Employee Benefits	**$ 871.9**	**$ 843.1**	**$ 887.8**	**$ 44.7**	**5.3%**
Subtotal Compensation	**$ 3,583.6**	**$ 3,480.8**	**$ 3,460.0**	**$ (20.8)**	**-0.6%**
Commodities & Utilities					
Energy	$ 82.6	$ 79.9	$ 84.2	$ 4.3	5.4%
Food	$ 112.2	$ 106.4	$ 117.5	$ 11.1	10.4%
Textbooks	$ 74.1	$ 53.0	$ 82.4	$ 29.4	55.5%
Supplies	$ 61.5	$ 48.6	$ 61.5	$ 12.9	26.5%
Other Commodities	$ 0.5	$ 0.6	$ 0.7	$ 0.1	16.7%
Telephone	$ 20.8	$ 19.9	$ 21.3	$ 1.4	7.0%
Subtotal Commodities & Utilities	**$ 351.7**	**$ 308.4**	**$ 367.6**	**$ 59.2**	**19.2%**
Contractual/ Professional Services/ Tuition					
Professional & Contractual Services	$ 374.8	$ 400.6	$ 411.9	$ 11.3	2.8%
Transportation	$ 110.3	$ 113.3	$ 121.6	$ 8.3	7.3%
Tuition	$ 477.6	$ 466.2	$ 485.8	$ 19.6	4.2%
Other Services	$ 10.4	$ 11.3	$ 13.3	$ 2.0	17.7%
Subtotal Contractual/ Professional Services/ Tuition	**$ 973.1**	**$ 991.4**	**$ 1,032.6**	**$ 41.2**	**4.2%**
Capital Outlay/ Equipment/ Repair					
Educational Equipment	$ 33.9	$ 37.6	$ 47.8	$ 10.2	27.1%
Repairs and Replacements	$ 37.9	$ 35.0	$ 37.2	$ 2.2	6.3%
Capital Outlay	$ -	$ 0.3	$ -	$ (0.3)	-
Subtotal Capital Outlay/ Equipment/ Repair	**$ 71.8**	**$ 72.9**	**$ 85.0**	**$ 12.1**	**16.6%**
Debt Service	$ -	$ -	$ -	$ -	-
Subtotal Debt Service	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Contingency and Other					
Space Rental	$ 11.7	$ 12.2	$ 12.1	$ (0.1)	-0.8%
Other Fixed Charges	$ 118.4	$ 10.0	$ 205.2	$ 195.2	1,952.%
Subtotal Contingency and Other	**$ 130.1**	**$ 22.2**	**$ 217.3**	**$ 195.1**	**$ 19.5**
Total	**$ 5,110.3**	**$ 4,875.7**	**$ 5,162.5**	**$ 286.8**	**5.9%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns.

Sources: CPS FY2012 Final Budget, p. 207 and FY2013 Proposed Budget, p. 171.

[36] Final allocation is based on school enrollment counts which take place on the 20th day of the school year. Once allocated to schools, these funds are not required to be used for textbooks. Information provided by CPS Budget Office, July 17, 2012.

The following exhibit presents a five-year trend for the General Operating Funds appropriations. Total FY2013 proposed operating appropriations will increase by $547.9 million, or 11.9%, from FY2009 actual expenditures. Total compensation expenses will increase by $158.7 million, or 4.8% in the five-year period. With the exception of appropriations for other fixed charges, which represent the largest percentage and dollar increase, the largest single percentage increase will occur in unemployment compensation. The next largest single dollar increase is tuition, which will grow by $165.7 million, or 51.8%, between FY2009 and FY2013. This increase reflects the growth of charter and contract school enrollment and related tuition payments made by CPS. Pension payments for teachers have decreased by 12.6%, or $49.5 million, since FY2009 due to the temporary partial pension payment holiday granted by the State of Illinois and decreased funding from the State.[37]

CPS Appropriations for General Operating Funds by Type:
FY2009-FY2013
(in $ millions)

Expenditure Type	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Year-End Estimate	FY2013 Proposed	FY2009 to FY2013 $ Change	FY2009 to FY2013 # Change
Salaries							
Teacher Salaries	$ 1,885.4	$ 2,082.8	$ 2,082.8	$ 2,012.5	$ 1,943.5	$ 58.1	3.1%
Non-Teacher Salaries	$ 559.7	$ 628.9	$ 628.9	$ 625.2	$ 628.7	$ 69.0	12.3%
Total Salaries	**$ 2,445.1**	**$ 2,711.6**	**$ 2,711.6**	**$ 2,637.7**	**$ 2,572.2**	**$ 127.1**	**5.2%**
Other Employee Benefits							
Teachers' Pension	$ 392.8	$ 475.6	$ 306.1	$ 333.3	$ 343.3	$ (49.5)	-12.6%
Ed Support Personnel Pension	$ 93.8	$ 96.9	$ 102.2	$ 97.9	$ 100.5	$ 6.7	7.1%
Hospitalization and Dental Insurance	$ 299.2	$ 311.0	$ 353.9	$ 330.1	$ 360.2	$ 61.0	20.4%
Medicare/Social Security	$ 33.7	$ 34.8	$ 35.0	$ 36.8	$ 37.3	$ 3.6	10.7%
Unemployment Compensation	$ 8.6	$ 16.0	$ 22.0	$ 16.4	$ 16.7	$ 8.1	94.2%
Workers' Compensation	$ 28.1	$ 28.2	$ 25.9	$ 28.6	$ 29.8	$ 1.7	6.0%
Total Employee Benefits	**$ 856.2**	**$ 962.5**	**$ 845.1**	**$ 843.1**	**$ 887.8**	**$ 31.6**	**3.7%**
Subtotal Compensation	**$ 3,301.3**	**$ 3,674.1**	**$ 3,556.7**	**$ 3,480.8**	**$ 3,460.0**	**$ 158.7**	**4.8%**
Commodities & Utilities							
Energy	$ 92.4	$ 78.7	$ 83.4	$ 79.9	$ 84.2	$ (8.2)	-8.9%
Food	$ 89.6	$ 93.1	$ 93.8	$ 106.4	$ 117.5	$ 27.9	31.1%
Textbooks	$ 86.4	$ 70.6	$ 70.2	$ 53.0	$ 82.4	$ (4.0)	-4.6%
Supplies	$ 44.6	$ 48.0	$ 51.1	$ 48.6	$ 61.5	$ 16.9	37.9%
Other Commodities	$ 1.0	$ 0.9	$ 0.5	$ 0.6	$ 0.7	$ (0.3)	-30.0%
Telephone	$ 19.4	$ 18.2	$ 19.8	$ 19.9	$ 21.3	$ 1.9	9.8%
Subtotal Commodities & Utilities	**$ 333.4**	**$ 309.5**	**$ 318.8**	**$ 308.4**	**$ 367.6**	**$ 34.2**	**10.3%**
Contractual/ Professional Services/ Tuition							
Professional & Contractual Services	$ 440.9	$ 381.9	$ 450.1	$ 400.6	$ 411.9	$ (29.0)	-6.6%
Transportation	$ 109.4	$ 109.3	$ 107.5	$ 113.3	$ 121.6	$ 12.2	11.2%
Tuition	$ 320.1	$ 388.9	$ 436.9	$ 466.2	$ 485.8	$ 165.7	51.8%
Other Services	$ 13.9	$ 15.7	$ 11.8	$ 11.3	$ 13.3	$ (0.6)	-4.3%
Subtotal Contractual/ Professional Services/ Tuition	**$ 884.3**	**$ 895.8**	**$ 1,006.3**	**$ 991.4**	**$ 1,032.6**	**$ 148.3**	**16.8%**
Capital Outlay/ Equipment/ Repair							
Educational Equipment	$ 34.5	$ 33.7	$ 41.9	$ 37.6	$ 47.8	$ 13.3	38.6%
Repairs and Replacements	$ 34.8	$ 31.9	$ 37.4	$ 35.0	$ 37.2	$ 2.4	6.9%
Capital Outlay	$ -	$ -	$ -	$ 0.3	$ -	$ -	-
Subtotal Capital Outlay/ Equipment/ Repair	**$ 69.3**	**$ 65.6**	**$ 79.3**	**$ 72.9**	**$ 85.0**	**$ 15.7**	**22.7%**
Debt Service	$ 1.0	$ 2.7	$ -	$ -	$ -	$ (1.0)	-100.0%
Subtotal Debt Service	**$ 1.0**	**$ 2.7**	**$ -**	**$ -**	**$ -**		
Contingency and Other							
Space Rental	$ 12.0	$ 12.1	$ 11.9	$ 12.2	$ 12.1	$ 0.1	0.8%
Other Fixed Charges	$ 13.3	$ 17.5	$ 14.4	$ 10.0	$ 205.2	$ 191.9	1,442.9%
Subtotal Contingency and Other	**$ 25.3**	**$ 29.6**	**$ 26.3**	**$ 22.2**	**$ 217.3**	**$ 192.0**	**758.9%**
Total	**$ 4,614.6**	**$ 4,977.3**	**$ 4,987.4**	**$ 4,875.7**	**$ 5,162.5**	**$ 547.9**	**11.9%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns.

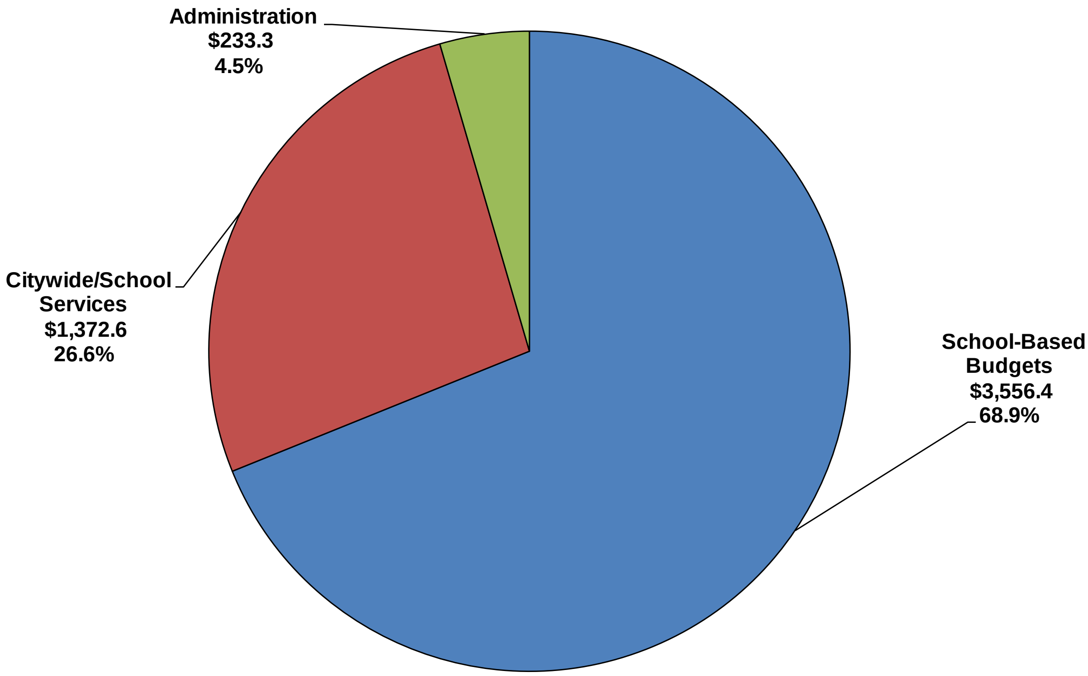
Sources: CPS FY2012 Final Budget, p. 207 and FY2013 Proposed Budget, p. 171.

[37] CPS FY2013 Proposed Budget, p. 125.

Appropriations for Operating Funds by Location

The exhibit below shows the breakdown of proposed FY2013 General Operating Funds appropriations by location. School-based budgets comprise 68.9% of operating appropriations, or approximately $3.6 billion; this includes direct costs for CPS, charter and alternative schools. Approximately 26.6%, or nearly $1.4 billion, will be for citywide/school services. These are programs and services that directly impact multiple schools across the district. Central Office administration represents 4.5%, or $233.3 million, of operating appropriations.

CPS FY2013 Appropriations for General Operating Funds by Location (in $ millions)



Source: CPS FY2013 Proposed Budget, CPS Interactive Budget at https://supplier.csc.cps.k12.il.us/analytics/saw.dll?Dashboard, accessed July 10, 2012.

The following chart compares two-year and five-year trends by location for the FY2013 proposed budget to the final budget for FY2012 and the final budget for FY2009. Year-end estimates and actual expenditures from prior years are not provided in the budget documents.

School-based budget appropriations will decrease by 7.4%, or $282.5 million, in FY2013 from FY2012 final appropriations. Conversely, citywide/school services and administration expenditures will increase substantially by 25.8%, or $281.2 million, and 29.9%, or $53.7 million, respectively. A portion of the shift in appropriations from school-based budgets to administration ($70 million) is due to the restructuring of 700 engineer positions from being budgeted and managed by individual schools to the control of the Central Office.[38]

Between FY2009 and FY2013, General Operating Funds proposed appropriations for school-based budgets will increase by 7.3%, or $243.1 million. Appropriations for citywide/school services will also rise, by 4.5%, or $59.7 million. Administration appropriations will increase by 2.0%, or $4.5 million, over the five-year period. However, it should also be noted that administration appropriations declined each year between FY2009 and FY2012 before increasing in FY2013.

CPS Appropriations for General Operating Funds by Location: FY2009-FY2013 (in $ millions)

Location	FY2009 Final Budget	FY2010 Final Budget	FY2011 Final Budget	FY2012 Final Budget	FY2013 Proposed Budget	Two-Year $ Change	Two-Year $ Change	Five-Year $ Change	Five-Year $ Change
School-Based Budgets	$ 3,313.3	$ 3,472.8	$ 3,658.0	$ 3,838.9	$ 3,556.4	$ (282.5)	-7.4%	$ 243.1	7.3%
Citywide/School Services	$ 1,312.9	$ 1,631.3	$ 1,443.2	$ 1,091.4	$ 1,372.6	$ 281.2	25.8%	$ 59.7	4.5%
Administration	$ 228.8	$ 223.8	$ 181.5	$ 179.6	$ 233.3	$ 53.7	29.9%	$ 4.5	2.0%
Total	**$ 4,854.9**	**$ 5,327.9**	**$ 5,282.7**	**$ 5,109.9**	**$ 5,162.3**	**$ 52.4**	**1.0%**	**$ 307.4**	**6.3%**

Note: Because of rounding, minimal differences may occur in totaling rows and columns.

Source: CPS Final Budget, Appropriations by Functions and Organizational Level - General Operating Funds, FY2009-FY2012 and FY2013 Proposed Budget, CPS Interactive Budget at https://supplier.csc.cps.k12.il.us/analytics/saw.dll?Dashboard, accessed July 10, 2012.

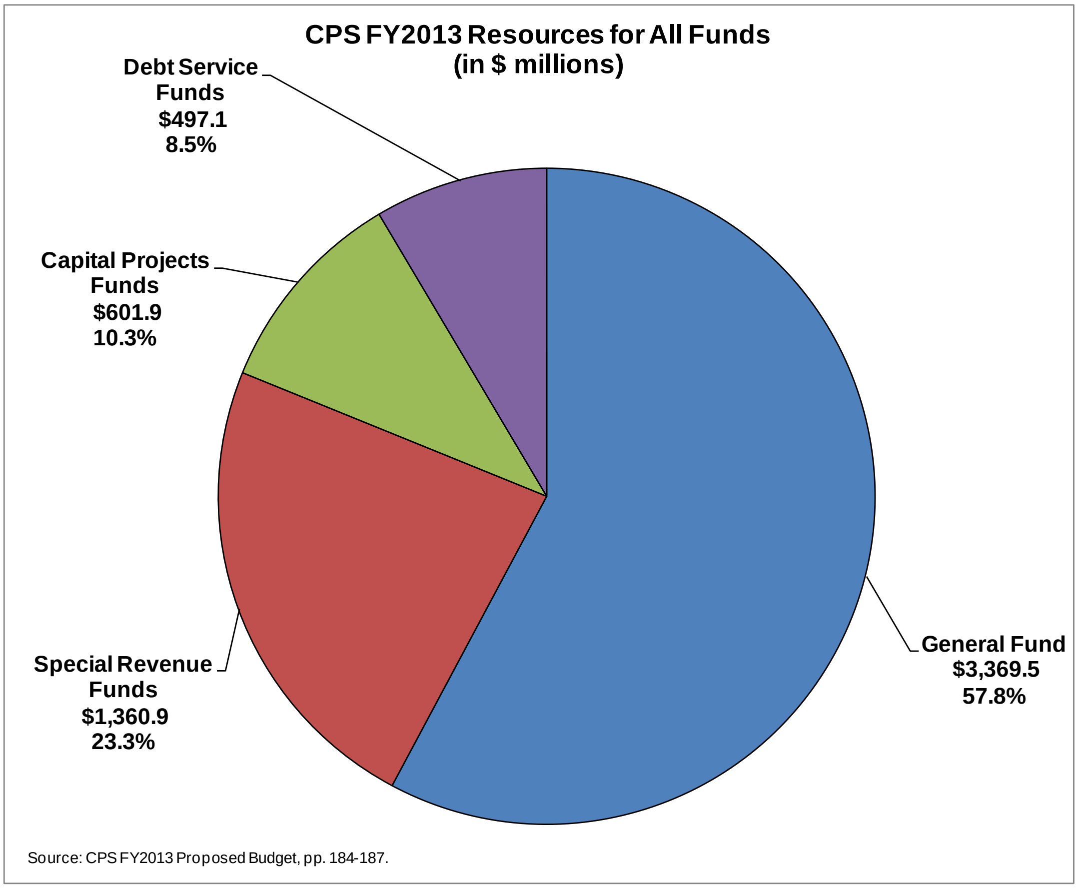
RESOURCES

The following section presents revenues and resources that CPS is planning to utilize for the upcoming fiscal year and also includes an analysis of federal, state and local resources for all funds.

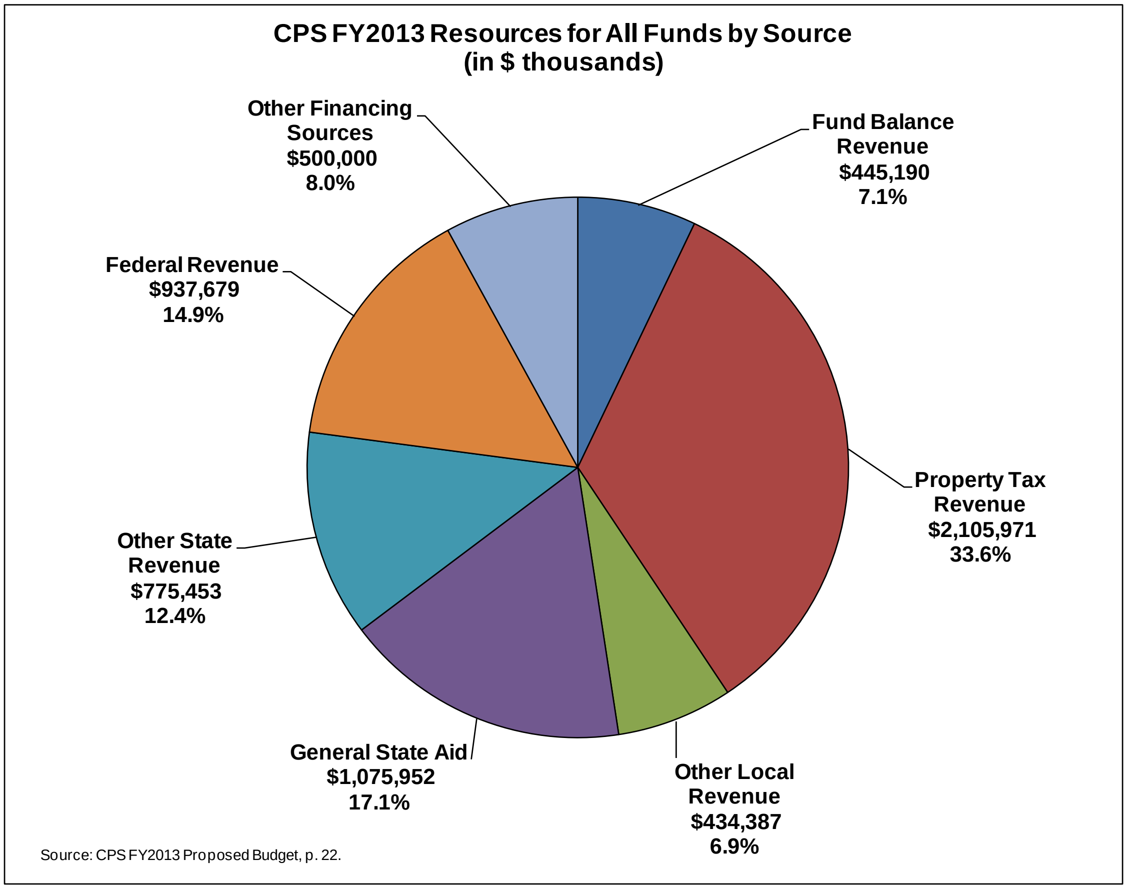
Total Resources for FY2013

In FY2013 CPS will receive approximately $5.8 billion of local, state and federal revenues and other resources, not including appropriated fund balance. The General Fund will hold the majority of resources with approximately 57.8%, or $3.4 billion, of total resources. The second largest component is the Special Revenue Funds, with nearly $1.4 billion, or 23.3%, of total resources. Special Revenue Funds are used to account for the proceeds of specific revenue sources legally restricted to expenditures for their purposes. Capital Projects Funds will receive $601.9 million, or 10.3%, of total resources, which can be used for major capital facilities or equipment. Debt Service Funds, which account for principal and interest on long-term debt, will receive $497.1 million, or 8.5%, of total resources.

[38] CPS FY2013 Proposed Budget, p. 13.


CPS FY2013 Resources for All Funds
(in $ millions)
Debt Service Funds
$497.1
8.5%
Capital Projects Funds
$601.9
10.3%
Special Revenue Funds
$1,360.9
23.3%
General Fund
$3,369.5
57.8%
Source: CPS FY2013 Proposed Budget, pp. 184-187.

In FY2012 33.6% of all CPS resources, or over $2.1 billion, will come from local property tax revenues. General State Aid will provide the second largest component of the CPS revenue stream, with 17.1% of the total, or nearly $1.1 billion. Federal funds will be the third largest source of revenues at 14.9% of the total, or $937.7 million. Fund balance to be appropriated will provide 7.1% of the District's resources with $445.2 million.



In FY2013 the District will receive $2.5 billion in local government revenue, including $163.4 million in Personal Property Replacement Taxes and $266.5 million in miscellaneous local revenue. Miscellaneous local revenue includes revenue from the City of Chicago. State revenues in FY2013 total nearly $1.9 billion. Federal aid is expected to total $937.7 million in FY2013. CPS will also issue approximately $500 million in new bonds to finance the capital program. The following chart details the resources within the proposed CPS FY2013 budget.

CPS FY2013 Appropriated Resources by Fund Type
(in $ thousands)

	General Fund	Special Revenue	Subtotal Operating Funds	Capital	Debt Service	Total
Appropriated Fund Balance	**$ 349,000**	**$ 82,800**	**$ 431,800**	**$ -**	**$ 13,390**	**$ 445,190**
Property Taxes	$ 1,995,100	$ 57,700	**$ 2,052,800**	$ -	$ 53,171	**$ 2,105,971**
Replacement Taxes	$ 74,730	$ 31,000	**$ 105,730**	$ -	$ 57,672	**$ 163,402**
Investment Interest Income	$ 3,300	$ 200	**$ 3,500**	$ 1,000	$ -	**$ 4,500**
Miscellaneous Local Revenue	$ 110,979	$ 23,400	**$ 134,379**	$ 40,000	$ 92,106	**$ 266,485**
Subtotal Local Revenue	**$ 2,184,109**	**$ 112,300**	**$ 2,296,409**	**$ 41,000**	**$ 202,949**	**$ 2,540,358**
General State Aid (GSA)	$ 601,779	$ 261,000	**$ 862,779**	$ -	$ 213,173	**$ 1,075,952**
State Aid - Teacher Pension	$ 10,550	$ 381	**$ 10,931**	$ -	$ -	**$ 10,931**
State Bilingual Ed	$ -	$ 24,000	**$ 24,000**	$ -	$ -	**$ 24,000**
Block Grants: Ed. Serv. & Gen. Ed.	$ 464,628	$ 121,557	**$ 586,185**	$ -	$ -	**$ 586,185**
Other State Aid	$ 33,000	$ 6,337	**$ 39,337**	$ 60,900	$ 54,100	**$ 154,337**
Subtotal State Revenue	**$ 1,109,957**	**$ 413,275**	**$ 1,523,232**	**$ 60,900**	**$ 267,273**	**$ 1,851,405**
Elem. & Sec. Ed.	$ 100	$ 438,264	**$ 438,364**	$ -	$ -	**$ 438,364**
Child Nutrition	$ -	$ 197,700	**$ 197,700**	$ -	$ -	**$ 197,700**
Special Ed. -- IDEA	$ -	$ 100,389	**$ 100,389**	$ -	$ -	**$ 100,389**
Medicaid, ROTC, Other	$ 75,400	$ 98,986	**$ 174,386**		$ 26,840	**$ 201,226**
Subtotal Federal Revenue	**$ 75,500**	**$ 835,339**	**$ 910,839**	**$ -**	**$ 26,840**	**$ 937,679**
Other Financing Sources	**$ -**	**$ -**	**$ -**	**$ 500,000**	**$ -**	**$ 500,000**
Total Revenues	**$ 3,369,566**	**$ 1,360,914**	**$ 4,730,480**	**$ 101,900**	**$ 497,062**	**$ 5,329,442**
Total Resources	**$ 3,718,566**	**$ 1,443,714**	**$ 5,162,280**	**$ 601,900**	**$ 510,452**	**$ 6,274,632**

Source: CPS FY2013 Proposed Budget, p. 22.

Two-Year Resources Trends for All Funds by Fund

CPS proposes budgeting $5.8 billion in resources for all funds in FY2013, not including fund balance resources. This is an increase of 2.6%, or $147.3 million, from the FY2012 year-end estimates and a 0.9%, or $54.2 million, decrease from the FY2012 final budget. The difference between CPS' final FY2012 budgeted resources and its year-end estimates are primarily attributed to less than anticipated federal revenues due to a delay after payments were changed from allocations to reimbursements.[39] For the purpose of this analysis, both FY2012 final budgeted amounts and year-end estimates will be used to compare the FY2013 proposed resources.

Resources include local revenues, state and federal intergovernmental aid and certain non-revenue sources, such as bond proceeds. Much of the $147.3 million increase is due to increases in restricted revenues in the Special Revenue Funds, Capital Project Funds and Debt Service Funds. In addition, the proposed budget recommends that the Board of Education levy property

[39] CPS FY2013 Proposed Budget, pp. 7-8.

taxes up to the 1.5% statutory cap for an expected increase of $62.0 million in property tax revenue for FY2013.[40]

General Operating Funds will decrease by 0.6%, or $30.9 million, from FY2012 year-end estimates. Much of this decline is due to a nearly $120 million drop in revenues from the State of Illinois. The revenue decline is due to cuts at the state level and an increase in the amount of General State Aid appropriated for debt service rather than operating support.[41]

CPS Resources for All Funds: FY2012 & FY2013 (in $ millions)					
	FY2012 Final Budget	FY2012 Year-End Estimate	FY2013 Proposed Budget	FY2012 Y-E to FY2013 $ Change	FY2012 Y-E to FY2013 % Change
General Operating Funds					
General Fund	$ 3,556.4	$ 3,625.4	$ 3,369.5	$ (255.9)	-7.1%
Special Revenue Funds	$ 1,312.7	$ 1,135.9	$ 1,360.9	$ 225.0	19.8%
Subtotal General Operating Funds	**$ 4,869.1**	**$ 4,761.3**	**$ 4,730.4**	**$ (30.9)**	**-0.6%**
Capital Projects Funds	$ 567.0	$ 464.7	$ 601.9	$ 137.2	29.5%
Debt Service Funds	$ 447.5	$ 456.1	$ 497.1	$ 41.0	9.0%
Total	**$ 5,883.6**	**$ 5,682.1**	**$ 5,829.4**	**$ 147.3**	**2.6%**

Source: CPS FY2012 Final Budget, p. 35 and FY2013 Proposed Budget, pp. 184-187.

Two-Year and Five-Year All Fund Resources Trends by Source

The FY2013 budget projects a 3.1%, or $174.8 million, increase in resources, not including appropriated fund balance, for all funds over the FY2012 year-end estimates.

- Local revenues are expected to decrease by 1.2%, or $31.1 million, to $2.5 billion. Despite increasing the property tax levy to the maximum amount allowable, projected revenues from property taxes remain flat due to the difference between the CPS fiscal year and the calendar year the Cook County property tax system uses and the lower tax cap for tax year 2012.[42] Personal Property Replacement Taxes (PPRT) are expected to decrease by $12.1 million, or 6.9%.[43] This is primarily due to weak corporate profits and legislative changes that shifted certain costs to PPRT.[44] Investment income is expected to decline by 62.2%, or $7.4 million.
- The FY2013 budget includes increasing the property tax levy up to the 1.5% tax cap. The total property tax increase will generate $62 million, though as noted above, due to the timing of collections, revenues appear to remain flat from FY2012 year-end estimates.[45]
- The largest dollar increase driving the estimated growth in resources is the $110.1 million, or 13.3%, increase in federal funding.
- Federal funding for Medicaid Reimbursement is expected to decline in FY2013 by 30.2% or, $87.1 million. The decline reflects the end of temporary increases in reimbursements

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[40] CPS FY2013 Proposed Budget, p. 12.
[41] CPS FY2013 Proposed Budget, p. 11.
[42] CPS FY2013 Proposed Budget, pp. 25-26.
[43] The Personal Property Replacement Tax is a corporate income tax.
[44] CPS FY2013 Proposed Budget, p. 26.
[45] CPS FY2013 Proposed Budget, p. 12

from FY2009 through FY2012 that were the result of changes made by the Illinois Department of Healthcare and Family Services whereby the Department applied cost-based rates retroactively.[46]

Several key assumptions built into the FY2013 revenue projections, including projections for General State Aid and mandated categoricals, are based upon state budget appropriations found within Public Acts, appropriation allocations by the State Board of Education and the Governor's appropriation allocation.

- Revenues provided by the State of Illinois are projected to decrease slightly by $0.5 million;
- CPS projects that General State Aid (GSA) will decrease by 4.0%, or $44.2 million, to nearly $1.1 billion in FY2013. This is because the statewide appropriation is insufficient to pay for the GSA foundation level, which has remained the same since FY2010. The District is expected to receive only 89.1% of its GSA.[47]
- CPS anticipates $10.9 million in statutorily-required state pension aid to CPS, which is a 4.6% increase from the FY2012 required state pension contribution.

CPS total resources, not including appropriated fund balances, are projected to increase by 16.1% between FY2009 actual resources and FY2013 projected resources. This is a $809.3 million increase from $5.0 billion in FY2009 to $5.8 billion in FY2013. Local revenues will increase by 6.6% over the five-year period, with property taxes, the largest local revenue source, rising by $209.5 million. State revenues between FY2009 and FY2013 are projected to increase by 22.5%, or $339.5 million, largely driven by increases in GSA and other state funding. Federal funding is expected to decrease by 16.7%, or $188.0 million, falling from $1.1 billion in FY2009 to $937.7 million in FY2013.

[46] CPS FY2012 Proposed Budget, p. 36.
[47] CPS FY2012 Proposed Budget, p. 34.

CPS Appropriated Resources for All Funds by Source: FY2009-FY2013 (in $ millions)									
	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Estimate	FY2013 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Property Taxes	$ 1,896.5	$ 2,047.2	$ 1,936.7	$ 2,106.0	$ 2,106.0	$ (0.0)	0.0%	$ 209.5	11.0%
Replacement Taxes	$ 188.5	$ 152.5	$ 197.8	$ 175.5	$ 163.4	$ (12.1)	-6.9%	$ (25.1)	-13.3%
Investment Interest Income	$ 43.7	$ 12.5	$ 13.4	$ 11.9	$ 4.5	$ (7.4)	-62.2%	$ (39.2)	-89.7%
Miscellaneous Local Revenue	$ 253.3	$ 359.6	$ 417.6	$ 278.1	$ 266.5	$ (11.6)	-4.2%	$ 13.2	5.2%
Subtotal Local Revenue	**$ 2,382.0**	**$ 2,571.8**	**$ 2,565.5**	**$ 2,571.5**	**$ 2,540.4**	**$ (31.1)**	**-1.2%**	**$ 158.4**	**6.6%**
General State Aid (GSA)	$ 879.7	$ 985.5	$ 1,147.1	$ 1,120.2	$ 1,076.0	$ (44.2)	-4.0%	$ 196.3	22.3%
State Aid - Teacher Pension	$ 74.8	$ 37.4	$ 43.0	$ 10.4	$ 10.9	$ 0.5	4.6%	$ (63.9)	-85.4%
Flat Grant ADA	$ 12.6	$ 1.6	$ 1.6	$ -	$ 24.0	$ 24.0	-	$ 11.4	90.5%
Block Grants: Ed. Serv. & Gen. Ed.	$ 492.6	$ 490.1	$ 687.2	$ 617.8	$ 586.2	$ (31.6)	-5.1%	$ 93.6	19.0%
Other State Aid	$ 52.2	$ 37.5	$ 70.9	$ 103.5	$ 154.3	$ 50.8	49.1%	$ 102.1	195.7%
Subtotal State Revenue	**$ 1,511.9**	**$ 1,552.1**	**$ 1,949.8**	**$ 1,851.9**	**$ 1,851.4**	**$ (0.5)**	**0.0%**	**$ 339.5**	**22.5%**
Elem & Sec. Ed.	$ 369.4	$ 426.7	$ 533.5	$ 272.3	$ 438.4	$ 166.1	61.0%	$ 69.0	18.7%
Child Nutrition	$ 139.2	$ 178.8	$ 175.8	$ 178.5	$ 197.7	$ 19.2	10.8%	$ 58.5	42.0%
Special Ed. -- IDEA	$ 95.2	$ 96.2	$ 88.1	$ 88.5	$ 100.4	$ 11.9	13.4%	$ 5.2	5.5%
Medicaid, ROTC, Other	$ 521.9	$ 478.4	$ 347.5	$ 288.3	$ 201.2	$ (87.1)	-30.2%	$ (320.7)	-61.4%
Subtotal Federal Revenue	**$ 1,125.7**	**$ 1,180.1**	**$ 1,144.9**	**$ 827.6**	**$ 937.7**	**$ 110.1**	**13.3%**	**$ (188.0)**	**-16.7%**
Total Revenues	**$ 5,019.6**	**$ 5,304.0**	**$ 5,660.2**	**$ 5,251.0**	**$ 5,329.4**	**$ 78.4**	**1.5%**	**$ 309.8**	**6.2%**
Other Financing Sources	**$ 0.5**	**$ 801.0**	**$ 384.2**	**$ 403.6**	**$ 500.0**	**$ 96.4**	**23.9%**	**$ 499.5**	**99900.0%**
Total Resources	**$ 5,020.1**	**$ 6,105.0**	**$ 6,044.4**	**$ 5,654.6**	**$ 5,829.4**	**$ 174.8**	**3.1%**	**$ 809.3**	**16.1%**

Source: CPS FY2013 Proposed Budget, pp. 18, 22 and 182 and CPS FY2011 CAFR, pp. 40 and 177.

Note: This table includes only revenues and other financing sources. Fund balance is not included.

Federal Funding

The District will receive just over $937.7 million in funding from the federal government in FY2013. This is an increase of $110.1 million, or 13.3%, from FY2012 year-end federal revenue estimates totaling $827.6 million. The fluctuations in federal funding since FY2009 are attributable to the availability of federal stimulus funds that flowed directly to the District from the federal government. In FY2013 the District will receive $438.4 million in Elementary and Secondary Education Act (ESEA) funds, which is a slight increase due to growth of $12.8 million from the School Improvement Grants. Federal reimbursements for CPS's universal school breakfast programs will increase by $19.2 million as a result of ten more student attendance days for FY2013.[48]

State of Illinois Funding

The State of Illinois will provide a total of nearly $1.9 billion of revenues in the FY2013 budget, which is a $0.5 million decrease from FY2012 year-end estimates. CPS will receive an increase of $50.8 million in other state aid, reflecting the State's adoption of a major new capital program in FY2010. CPS expects to receive $446.0 million in capital funding over six years, with approximately $115 million for capital and $10 million for school maintenance available for FY2013. Other state funding includes capital funds and small categorical state grants.[49]

The GSA foundation level is the financial support per student representing combined state and local resources available resulting from the general state aid formula.[50] The foundation level for the District will remain at $6,119 per pupil in FY2013. The next exhibit shows increases in the

[48] CPS FY2013 Proposed Budget, p. 30.
[49] CPS FY2013 Proposed Budget, p. 28.
[50] CPS FY2013 Proposed Budget, p. 27.

foundation level for state per pupil funding between FY2009 and FY2013. During this five-year period, the foundation level rose once between FY2009 and FY2010 by $160, or 2.7%, from $5,959 to $6,119 per pupil.

State of Illinois General State Aid Foundation Level: FY2009-FY2013 (Per Pupil)					
	Foundation Level Per Pupil	$ Change from Prior Year	% Change from Prior Year	$ Change from FY2009	% Change from FY2009
FY2009	$ 5,959	-	-	-	0.0%
FY2010	$ 6,119	$ 160	2.7%	$ 160	2.7%
FY2011	$ 6,119	$ -	0.0%	$ 160	2.7%
FY2012	$ 6,119	$ -	0.0%	$ 160	2.7%
FY2013*	$ 6,119	$ -	0.0%	$ 160	2.7%

*The General State Aid foundation level will remain at $6,119 in FY2013; however, the statewide appropriation is insufficient to pay for the foundation level this year. Therefore, CPS will only receive 89.1% of the General State Aid in FY2013.

Source: CPS FY2009 Proposed Budget, p. 52; FY2010 Proposed Budget, p. 41; FY2011 Proposed Budget, p. 65; FY2012 Proposed Budget, p. 35; and FY2013 Proposed Budget, p. 27.

The GSA distribution to school districts is based on a number of factors, including local property tax capacity. The GSA distribution formula assumes that school districts will levy for all available local property taxes first before the State provides additional funding to reach the foundation level. Because the statewide appropriation is insufficient to pay for the foundation level this year, all CPS school districts will receive only 89.1% of their GSA. GSA revenue is estimated to decrease by $44.2 million, or 4.0%, as a result.[51]

The State will contribute only the statutory required contribution in Teacher Pension aid to offset a portion of the cost of benefit increases enacted under Public Act 90-0582. This amount is approximately $10.9 million, or $0.5 million more than the FY2012 year-end amount, which is an increase of 4.6%. The additional appropriation that was provided by the State until FY2011 is again zeroed out in the FY2013 enacted Illinois budget.[52]

Property Tax Levy and Revenue

CPS expects its FY2013 property tax revenues to total $2.1 billion, an amount that is relatively flat from estimated FY2012 property tax revenues due to timing issues, even though it is increasing its extension by $41 million.[53]

CPS and other non-home rule taxing bodies in Cook County have been subject to the tax cap law since tax year 1995 (payable in 1995). In general, the tax cap law allows tax extensions on existing property to rise each year by the lesser of 5% or the increase in Consumer Price

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[51] CPS FY2013 Proposed Budget, p. 27.
[52] State of Illinois, Fiscal Year 2013 Enacted Budget, p. 376, or Chapter 5-246.
[53] CPS FY2013 Proposed Budget, p. 22. Pursuant to 105 ILCS 5/34-54.1, the Chicago Board of Education must file a tax year levy in December of the tax year, but the levy amount may be reduced through action of the CPS Comptroller after that date. The tax year 2011 levy reflecting an expected $41 million extension increase was filed in December 2010 and would not be reduced by the Comptroller under the FY2013 proposed budget.

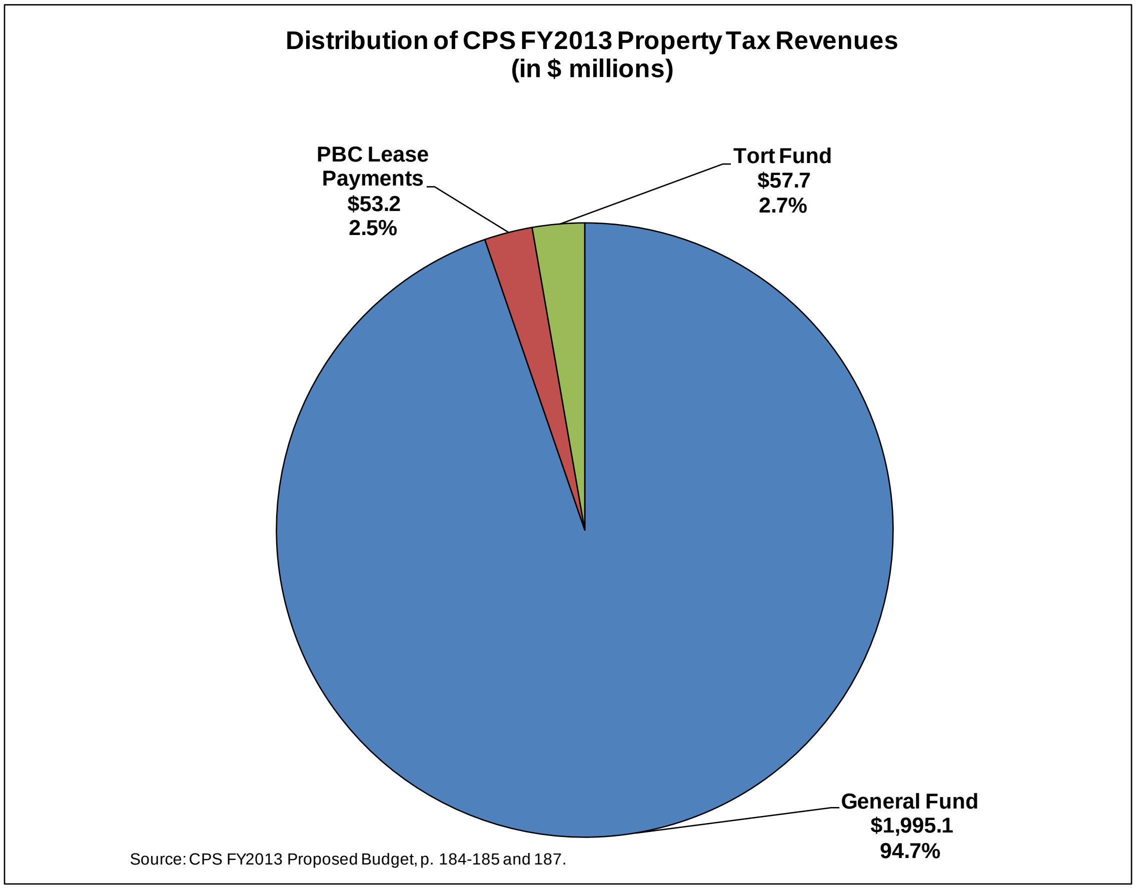
Index."[54] For levy year 2011, the tax cap law permits a 1.5% increase on existing property value for property tax funds subject to the law. The tax cap also allows the tax rate calculated on the value of existing property to be applied to new property, thus generating additional revenue. CPS notes that it will also capture all growth from new property for FY2013.

The increase in property tax **revenue** received in FY2013 is expected to be relatively flat despite the tax year 2011 **extension** amount due primarily to the timing of tax receipts. The tax year 2011 extension is paid by taxpayers in 2012 spring and fall installments. The spring installment is equal to 55% of the prior year's total tax bill.[55] The second (fall) installment includes the full year's tax extension minus the amount already paid in the spring, so extension increases for a tax year are recognized by the second installment when new tax rates are computed. The CPS FY2013 fiscal year is July 1, 2012 through June 30, 2013, and thus will include second installment tax year 2011 tax receipts (payable fall of 2012) and the first installment tax year 2012 receipts (payable spring of 2013, which are equal to 55% of the prior year's total tax bill).

[54] See the Civic Federation's *The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts* for detail on the tax cap law.

[55] P.A. 96-490 hanged this amount from 50% to 55% of the prior year's tax bill for tax year 2009 (first installment due March of 2010) and thereafter. The rationale for this change was that it would mitigate taxpayers' "sticker shock" resulting from tax increases that appear on second installment tax bills.

The following graph depicts the allocation of expected FY2013 property tax revenues among funds. Approximately 94.7%, or nearly $2.0 billion, is distributed to the General Fund to finance CPS operations. The second largest amount of $57.7 million, or 2.7%, is designated for the Workers and Unemployment Compensation Tort Immunity Fund. The remaining $53.2 million, or 2.5%, of the revenues will be used for the Public Building Commission lease payments.



PERSONNEL

Historically, this section presents an analysis of CPS personnel trends based on full-time equivalent (FTE) positions by location and type: administrative, school-based and capital fund. However, this information was not provided in the CPS FY2013 Proposed Budget, therefore an analysis of personnel trends by location and type could not be performed.

Two-Year and Five-Year Personnel Appropriations for General Operating Funds

CPS personnel appropriations are expected to decline by $35.3 million, or 1.0%, in FY2013 from FY2012 year-end estimates. Salaries, which constitute 74.3% of all employee compensation, will decrease by 2.5% over the two-year period. Benefit costs, which include pensions, hospital and dental insurance, unemployment compensation and payroll tax contributions for Social Security and Medicare, will increase by 1.9%, or $15.9 million, in FY2013. Hospital and dental insurance costs are expected to rise by $30.1 million, or 9.1%.

CPS Personnel Appropriations for General Operating Funds by Type: FY2012 & FY2013 (in $ millions)

Expenditure Type	FY2012 Final Budget	FY2012 Year-End Estimate	FY2013 Proposed Budget	FY2012 Y-E to FY2013 $ Change	FY2012 Y-E to FY2013 % Change
Salaries					
Teacher Salaries	$ 2,082.8	$ 2,012.5	$ 1,943.5	$ (139.3)	-6.7%
Ed. Support Salaries	$ 628.9	$ 625.2	$ 628.7	$ (0.2)	0.0%
Total Salaries	**$ 2,684.1**	**$ 2,637.7**	**$ 2,572.2**	**$ (65.5)**	**-2.5%**
Employee Benefits					
Teacher Pension Employer Portion	$ 210.3	$ 213.1	$ 215.6	$ 2.5	1.2%
Teacher Pension Pickup for Employees*	$ 129.1	$ 135.8	$ 127.7	$ (8.1)	-6.0%
Total Teacher Pensions	**$ 339.3**	**$ 348.9**	**$ 343.3**	**$ (5.6)**	**-1.6%**
Ed. Support Pension Employer Portion	$ 39.6	$ 60.5	$ 60.5	$ -	0.0%
Ed. Support Pension Pickup for Employees*	$ 60.2	$ 36.3	$ 40.0	$ 3.7	10.2%
Total Ed. Support Pension	**$ 99.8**	**$ 96.8**	**$ 100.5**	**$ 3.7**	**3.8%**
Hospital and Dental Insurance	$ 348.4	$ 330.1	$ 360.2	$ 30.1	9.1%
Unemployment Compensation	$ 16.8	$ 16.4	$ 16.7	$ 0.3	1.8%
Medicare/Social Security	$ 37.6	$ 36.8	$ 37.3	$ 0.5	1.4%
Workers' Compensation	$ 30.0	$ 28.6	$ 29.8	$ 1.2	4.2%
Total Employee Benefits	**$ 871.9**	**$ 857.6**	**$ 887.8**	**$ 15.9**	**1.9%**
Total Compensation	**$ 3,556.0**	**$ 3,495.3**	**$ 3,460.0**	**$ (35.3)**	**-1.0%**

*CPS "picks up" 7% of the 9% annual employee pension contribution, meaning it pays 7% of the employee 9% contribution on behalf of teachers.

Note: $22.5 million and $6.8 million in federal funds contribute to FY2012 year-end estimates for the Teacher Pension Employer Portion and the Ed. Support Pension Employer Portion, respectively. $18.8 million and $6.3 million in federal funds contribute to FY2013 proposed appropriations for the Teacher Pension Employer Portion and the Ed. Support Pension Employer Portion, respectively.

Sources: CPS FY2012 Final Budget, p. 207, FY2013 Proposed Budget, p. 171 and information provided by CPS Budget Office, July 17, 2012.

Over the five-year period between FY2009 to FY2013, total compensation costs will rise slightly by 0.9%, or $31.0 million. Salaries will remain flat, increasing by only $1.2 million in the five-year period. Employee benefits will increase by 3.8%, or $32.2 million, between FY2009 and FY2013, rising from $855.6 million to $887.8 million. Appropriations for teacher pensions will fall by 12.5%, or $48.9 million, due to the temporary partial pension holiday granted by the State of Illinois and decreases in State contributions.[56]

CPS Personnel Appropriations for General Operating Funds by Type: FY2009-FY2013 (in $ millions)

Expenditure Type	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Year-End Estimate	FY2013 Proposed Budget	FY2009 to FY2013 $ Change	FY2009 to FY2013 % Change
Salaries							
Teacher Salaries	$ 1,975.9	$ 2,026.3	$ 2,023.5	$ 2,012.5	$ 1,943.5	$ (32.4)	-1.6%
Ed. Support Salaries	$ 597.5	$ 604.0	$ 610.7	$ 625.2	$ 628.7	$ 31.2	5.2%
Total Salaries	**$ 2,573.4**	**$ 2,630.3**	**$ 2,634.2**	**$ 2,637.7**	**$ 2,572.2**	**$ (1.2)**	**0.0%**
Employee Benefits							
Teacher Pension Employer Portion	$ 263.1	$ 355.8	$ 177.4	$ 213.1	$ 215.6	$ (47.5)	-18.1%
Teacher Pension Pickup for Employees*	$ 129.1	$ 131.4	$ 129.6	$ 135.8	$ 127.7	$ (1.4)	-1.1%
Total Teacher Pensions	**$ 392.2**	**$ 487.2**	**$ 307.0**	**$ 348.9**	**$ 343.3**	**$ (48.9)**	**-12.5%**
Ed. Support Pension Employer Portion	$ 55.8	$ 58.4	$ 63.3	$ 60.5	$ 60.5	$ 4.7	8.4%
Ed. Support Pension Pickup for Employees*	$ 38.0	$ 38.5	$ 38.2	$ 36.3	$ 40.0	$ 2.0	5.3%
Total Ed. Support Pension	**$ 93.8**	**$ 96.9**	**$ 101.5**	**$ 96.8**	**$ 100.5**	**$ 6.7**	**7.1%**
Hospitalization/Other Comp.	$ 299.2	$ 311.0	$ 353.9	$ 330.1	$ 360.2	$ 61.0	20.4%
Unemployment Compensation	$ 8.6	$ 16.0	$ 22.0	$ 16.4	$ 16.7	$ 8.1	94.2%
Medicare/Social Security	$ 33.7	$ 34.8	$ 35.0	$ 36.8	$ 37.3	$ 3.6	10.7%
Workers' Compensation	$ 28.1	$ 28.2	$ 25.9	$ 28.6	$ 29.8	$ 1.7	6.0%
Total Employee Benefits	**$ 855.6**	**$ 974.1**	**$ 845.3**	**$ 857.6**	**$ 887.8**	**$ 32.2**	**3.8%**
Total Compensation	**$ 3,429.0**	**$ 3,604.4**	**$ 3,479.5**	**$ 3,495.3**	**$ 3,460.0**	**$ 31.0**	**0.9%**

*CPS "picks up" 7% of the 9% annual employee pension contribution, meaning it pays 7% of the employee 9% contribution on behalf of teachers.

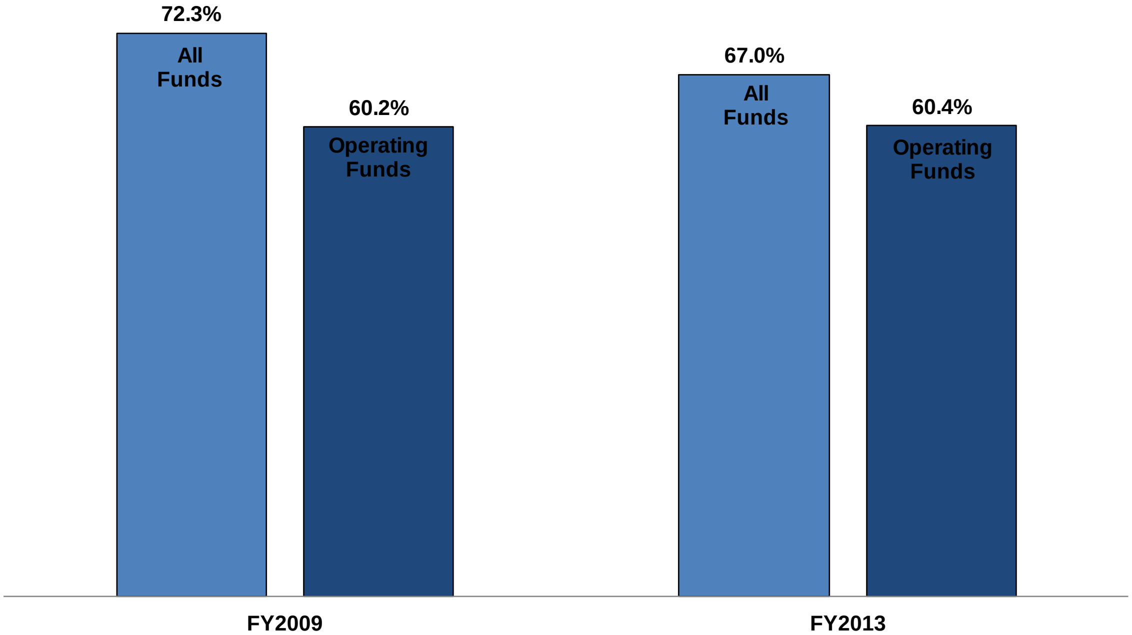
Note: $28.3 million and $10.3 million in federal funds contribute to FY2011 actual expenditures for the Teacher Pension Employer Portion and the Ed. Support Pension Employer Portion, respectively. $22.5 million and $6.8 million in federal funds contribute to FY2012 year-end estimates for the Teacher Pension Employer Portion and the Ed. Support Pension Employer Portion, respectively. $18.8 million and $6.3 million in federal funds contribute to FY2013 proposed appropriations for the Teacher Pension Employer Portion and the Ed. Support Pension Employer Portion, respectively.

Sources: CPS FY2012 Final Budget, p. 207, FY2013 Proposed Budget, p. 171 and information provided by CPS Budget Office, July 17, 2012.

[56] CPS FY2013 Proposed Budget, p. 125.

The next exhibit compares CPS actual FY2009 expenditures and FY2013 proposed appropriations earmarked for employee compensation as percentages of all funds and General Operating Funds. The percentage of all funds appropriations dedicated to personnel has declined from 72.3% to 67.0% over the last five years while the percentage of operating funds appropriations earmarked for personnel expenditures has increased slightly from 60.2% to 60.4%.

CPS Employee Compensation Appropriations as a Percentage of Total Appropriations: FY2009 & FY2013



Source: CPS FY2012 Final Budget, p. 207 and FY2013 Proposed Budget, p. 171.

ENROLLMENT

CPS is projecting a slight decrease in overall student enrollment across the system for FY2013 from FY2012. According to the FY2013 proposed budget, actual FY2012 enrollment reached 404,151 students. The estimated enrollment for FY2013 is 402,708 students, resulting in a projected decrease of 1,443 students, or 0.4%.

CPS Student Actual and Projected Enrollment: FY2012-FY2013

Actual 2011-2012	Projected Fall 2012-2013	# Change	% Change
404,151	402,708	(1,443)	-0.4%

Source: CPS FY2013 Proposed Budget, p. 151.

As the following exhibits indicate, total actual enrollment is projected to drop by 6,571 students, or 1.6%, between FY2009 and FY2013. Enrollment declined by 708 students between FY2009 and FY2010 and even more significantly, by 5,890 students, between FY2010 and FY2011. Based on actual enrollment for FY2012, enrollment rose by 1,470 from actual FY2011 enrollment.

Enrollment for high school students is expected to increase by 7,127 students, or 6.2% between FY2009 and FY2013. Conversely, enrollment for preschool and elementary students is projected to decline by a total of 13,698 students, or 6.0% and 4.5%, respectively, over the five-year period. Reasons for the reduction in student enrollment may include transfers of students between public and nonpublic schools, public perception of school reform initiatives, changes in birth rates and migration rates or changes in CPS policies affecting grade progression, retention and graduation rates.[57]

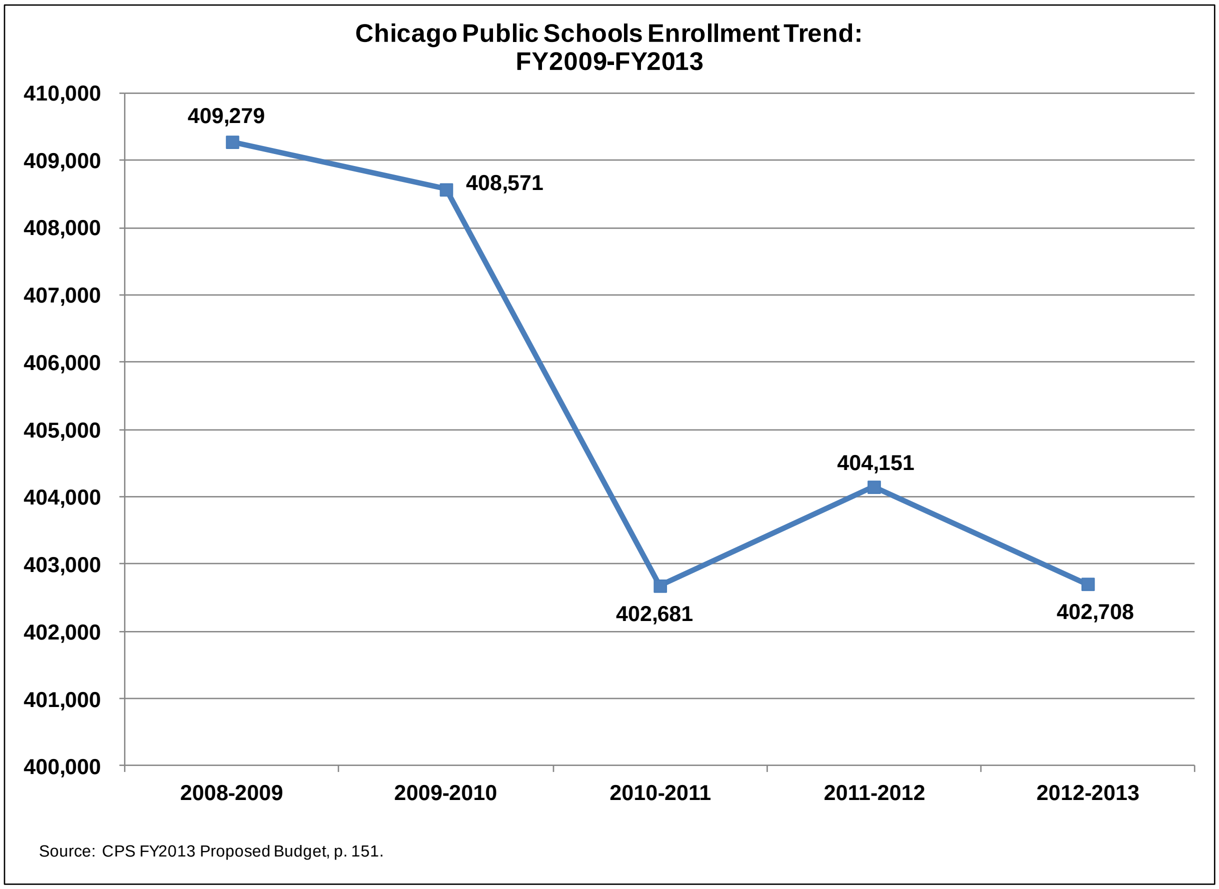
CPS Actual and Projected Student Enrollment: FY2009-FY2013*

	Actual 2008-2009	Actual 2009-2010	Actual 2010-2011	Actual 2011-2012	Projected 2012-2013	FY2009-FY2013 # Change	FY2009-FY2013 % Change
Preschool	24,370	24,247	23,705	24,232	22,911	(1,459)	-6.0%
Elementary, K-8	269,139	269,010	265,336	266,046	256,900	(12,239)	-4.5%
High School	115,770	115,314	113,640	113,873	122,897	7,127	6.2%
Total	**409,279**	**408,571**	**402,681**	**404,151**	**402,708**	**(6,571)**	**-1.6%**

*Chart refers to enrollment by school years and by fiscal years. School year 2008-2009 is also referred to as FY2009; 2009-2010 as FY2010; 2010-2011 as FY2011; 2011-2012 as FY2012; and 2012-2013 as FY2013.

Source: CPS FY2013 Proposed Budget, p. 151.

[57] CPS FY2013 Proposed Budget, p. 151.



FUND BALANCE

This year CPS is proposing to appropriate $431.8 million of fund balance as part of its plan to balance the budget. This includes $349.0 million from the General Fund fund balance, or the entirety of the District's unassigned fund balance. The District will additionally draw down $82.8 million of fund balance from the Special Revenues Fund.[58] The full depletion of the District's unassigned General Fund fund balance is a serious cause for concern as the District will no longer have funds set aside for contingencies.

This section discusses five aspects of fund balance: fund balance policy and definitions, a presentation of historical audited data, budgeted data, an analysis of General Operating Funds budget to actual variances and a brief discussion of the District's use of a line of credit for contingencies in FY2011.

Fund Balance Policy and Definitions

Fund balance is a term commonly used to describe the net assets of a governmental fund and serves as a measure of financial resources.[59] The FY2011 audited financial statements for CPS include a modification in fund balance reporting, as recommended by the Governmental

[58] CPS FY2013 Proposed Budget, p. 19.
[59] Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).

Accounting Standards Board (GASB). GASB Statement No. 54 shifts the focus of fund balance reporting from the availability of fund resources for budgeting purposes to the "extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent."[60]

Previous Components of Fund Balance

Previously, the categories for fund balance focused on whether resources were available for appropriation by governments. The *unreserved* fund balance thus referred to resources that did not have any external legal restrictions or constraints. The unreserved fund balance was able to be further categorized as designated and undesignated. A *designation* was a limitation placed on the use of the fund balance by the government itself for planning purposes or to earmark funds.[61]

New Components of Fund Balance

GASB Statement No. 54 creates five components of fund balance, though not every government or governmental fund will report all components. The five components are:

- *Nonspendable fund balance* – resources that inherently cannot be spent such as pre-paid rent or the long-term portion of loans receivable. In addition, this category includes resources that cannot be spent because of legal or contractual provisions, such as the principal of an endowment.
- *Restricted fund balance* – net fund resources subject to legal restrictions that are externally enforceable, including restrictions imposed by constitution, creditors or laws and regulations of non-local governments.
- *Committed fund balance* – net fund resources with self-imposed limitations set at the highest level of decision-making which remain binding unless removed by the same action used to create the limitation.
- *Assigned fund balance* – the portion of fund balance reflecting the government's intended use of resources, with the intent established by government committees or officials in addition to the governing board. Appropriated fund balance, or the portion of existing fund balance used to fill the gap between appropriations and estimated revenues for the following year, would be categorized as assigned fund balance.
- *Unassigned fund balance* – in the General Fund, the remaining surplus of net resources after funds have been identified in the four categories above.[62]

CPS Policy and GFOA Best Practices

CPS took the prudent step of adopting a fund balance policy in FY2008. As noted in the policy, the goals of maintaining an adequate fund balance are to provide working capital for the District to ensure uninterrupted services, to provide for capital improvements and to achieve a balanced budget within a four-year period. The policy, using the pre-GASB 54 language, requires the District to maintain an unreserved, designated fund balance in the operating and debt funds of 5% to 10% of the budget for each new fiscal year. Once that stabilization is adequately

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[60] Gauthier, Steven, "Fund Balance: New and Improved," Government Finance Review, April 2009 and GASB Statement No. 54, paragraph 5.
[61] Gauthier, Steven, "Fund Balance: New and Improved," Government Finance Review, April 2009.
[62] Gauthier, Steven, "Fund Balance: New and Improved," Government Finance Review, April 2009.

established, any excess fund balance can be appropriated under certain circumstances, including to offset a temporary reduction in revenues from local, state and federal sources.[63] While the fund balance policy is stated using pre-GASB 54, the FY2013 CPS budget book states that, "The stabilization fund is equivalent to an assigned fund balance under Governmental Accounting Standard Board Statement No. 54."[64]

The Government Finance Officers Association (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." Two months of operating expenditures is approximately 17%. 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.[65] Considering the large size of the District compared to other Chicago-area governments, their fund balance policy appears reasonable. However, the District should officially revise its fund balance policy with new GASB 54 terminology.

Audited Fund Balance

The exhibit below shows ten years of CPS' general operating fund balance and its ratio to general fund expenditures. Prior to FY2011 and GASB Statement No. 54, the District categorized their unreserved fund balance into *designated to provide operating capital* and *undesignated* fund balance. The first chart includes only the undesignated unreserved fund balance to determine the portion of the fund balance without any constraints. It is important to note that this analysis differs from the CPS fund balance policy which includes unreserved balances. Between FY2002 and FY2010, the District's unreserved undesignated fund balance fluctuated between a low of 0.2% in FY2002 and a high of 4.1% in FY2007 and FY2010.[66] In 2009 the fund balance ratio decreased significantly to 2.7% due to an increase in general fund expenditures and a drawdown of fund balance.

[63] Chicago Public Schools Policy Manual, Fund Balance and Budget Management Policy (Adopted August 2008) CPS FY2012 Proposed Budget, p. 297.
[64] CPS FY2013 Proposed Budget, p. 145.
[65] GFOA, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009). "Unrestricted fund balance" includes Committed, Assigned and Unassigned fund balances.
[66] The General Operating Fund and General Fund both refer to the CPS primary operating fund. The audit uses the term General Operating Fund while the budget uses General Fund.

CPS Unreserved, Undesignated General Operating Fund Fund Balance Ratio: FY2002-FY2010			
	General Operating Fund Balance	General Fund Expenditures	Ratio
FY2002	$ 8,383,000	$ 3,493,886,000	0.2%
FY2003	$ 47,126,000	$ 3,595,441,000	1.3%
FY2004	$ 25,210,000	$ 3,758,510,000	0.7%
FY2005	$ 58,546,000	$ 3,862,396,000	1.5%
FY2006	$ 89,320,000	$ 4,085,093,000	2.2%
FY2007	$ 171,643,000	$ 4,146,369,000	4.1%
FY2008	$ 174,391,000	$ 4,394,685,000	4.0%
FY2009	$ 130,222,000	$ 4,742,779,000	2.7%
FY2010	$ 198,461,000	$ 4,896,142,000	4.1%

Source: CPS Comprehensive Annual Financial Reports, FY2002-FY2010.

The following chart presents unrestricted fund balance for FY2011. In this exhibit, the District's net resources including self-imposed constraints, amount to $520.5 million, or 10.6% of general fund expenditures. These resources include those assigned for educational services ($289.0 million), appropriated fund balance ($181.3 million) and encumbrances ($44.9 million). The unassigned portion of fund balance – the District's net resources without constraints, self or externally imposed – amounts to approximately $5.3 million, or 0.1%, of general fund expenditures.[67]

CPS FY2011 Unrestricted General Operating Fund Fund Balance			
	General Operating Fund Balance	General Fund Expenditures	Ratio
FY2011	$ 520,517,000	$ 4,909,952,000	10.6%

Source: CPS FY2011 Comprehensive Annual Financial Report, pp. 40 and 42.

A ten-year trend analysis of the District's fund balance ratio including the most recent FY2011 numbers is not possible because the data has been classified differently with implementation of GASB No. 54. In the interest of government transparency, the Civic Federation recommends that all local governments, including CPS, provide ten years of fiscal data in the GASB No. 54 format in the statistical section of their audited financial statements. The government should also provide a guide as to how different fund balance lines were reclassified. An accurate trend analysis can only be conducted with reclassified data.

The CPS fund balance policy refers specifically to the unreserved designated general operating fund balance as a ratio of operating and debt service budgets. This fund balance ratio remained relatively stable and within the policy's range in FY2007 and FY2008. The ratio declined in FY2009 and FY2010 to 3.6% and to 0%, respectively, before rising to 9.8% in FY2011. CPS attributes the FY2009 and FY2010 declines in the stabilization fund to the State of Illinois' delay in payments. Despite current plans to deplete its discretionary fund balance, the District notes the importance of maintaining a healthy reserve balance to offset such fluctuations in cash flow.[68]

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[67] CPS FY2011 Comprehensive Annual Financial Report, p. 40.
[68] CPS FY2011 Comprehensive Annual Financial Report, p. 13.

CPS Unreserved, Designated/Assigned General Operating Fund Fund Balance Ratio: FY2007-FY2011			
	General Operating Fund Balance	Operating and Debt Service Expenditures	Ratio
FY2007	$ 233,200,000	$ 4,487,279,000	5.2%
FY2008	$ 258,000,000	$ 4,655,123,000	5.5%
FY2009	$ 181,200,000	$ 5,043,948,000	3.6%
FY2010	$ -	$ 5,280,029,000	0.0%
FY2011	$ 515,224,000	$ 5,242,049,000	9.8%

Source: CPS Comprehensive Annual Financial Reports, FY2007-FY2011.
Note: The CPS fund balance policy is stated in pre-GASB 54 terminology. CPS stated in its FY2013 Proposed Budget that the stabilization fund is equivalent to an "assigned" fund balance under GASB 54. Thus, the FY2011 fund balance is the sum of the assigned fund balances reported in the FY2011 Comprehensive Annual Financial Report.

The Debt Service Fund fund balance is not included in the chart above because it is included in a separate section of the fund balance policy and does not have a specific ratio attached to it. CPS has long planned that the majority of this fund balance would be utilized for Qualified Zone Academy Bonds (QZAB) debt service because they become due in non-uniform increments and are difficult to match to recurring revenue.[69] The interest-free QZABs have 15-year maturities with no annual debt service payment required other than paying off the principal at maturity for these bonds.

As of the FY2011 year-end audit, there was $503.1 million in restricted and assigned Debt Service fund balance. The estimated balance at the end of FY2012 is $575.7 million and CPS estimates the fund balance will grow to $678.2 million by the end of FY2013.[70]

General Operating Fund Budget to Actual Variances: FY2007-FY2011

A budget to actual variance report shows how closely a government's actual revenues and expenditures matched the originally appropriated amounts at year-end. There are two metrics presented:

1) **Variance: Final Appropriation to Actual**: This indicates the difference between how much was appropriated in revenues and expenditures in the final budget versus how much was actually received in revenues and spent that year. It shows the extent to which actual spending and revenues matched expectations.

2) **Revenues in Excess of (Less Than) Expenditures**: This indicates the difference was between 1) final appropriation revenues versus expenditures and 2) actual revenues versus expenditures. A negative number indicates that revenues were insufficient to meet expenditures and that other financing resources and/or fund balance was used to meet expenditures. A positive number indicates that revenues were sufficient to meet the fiscal year expenditures.

[69] Communication between Civic Federation and CPS, August 17, 2010.
[70] CPS FY2011 Comprehensive Annual Financial Report, p. 40 and FY2013 Proposed Budget, p. 19.

Legally, CPS must balance its budget annually, ensuring that expenditures are paid for with available resources. The resources available to meet the District's spending goals include revenues from taxes, federal aid and state aid, as well as non-revenue sources such as fund balance, short-term borrowing and transfers from other funds. If appropriated expenditures exceed appropriated revenues, it indicates that the District expects to use fund balance or other resources to cover the gap between revenues and expenditures. If the District does not use resources such as fund balance to meet spending, it may close the gap by reducing its spending from the original appropriated amount. While it may be possible for the District to annually spend more than it receives in revenue for a few years, this is not a sustainable long-term practice because it ultimately drains reserve funds and other resources.

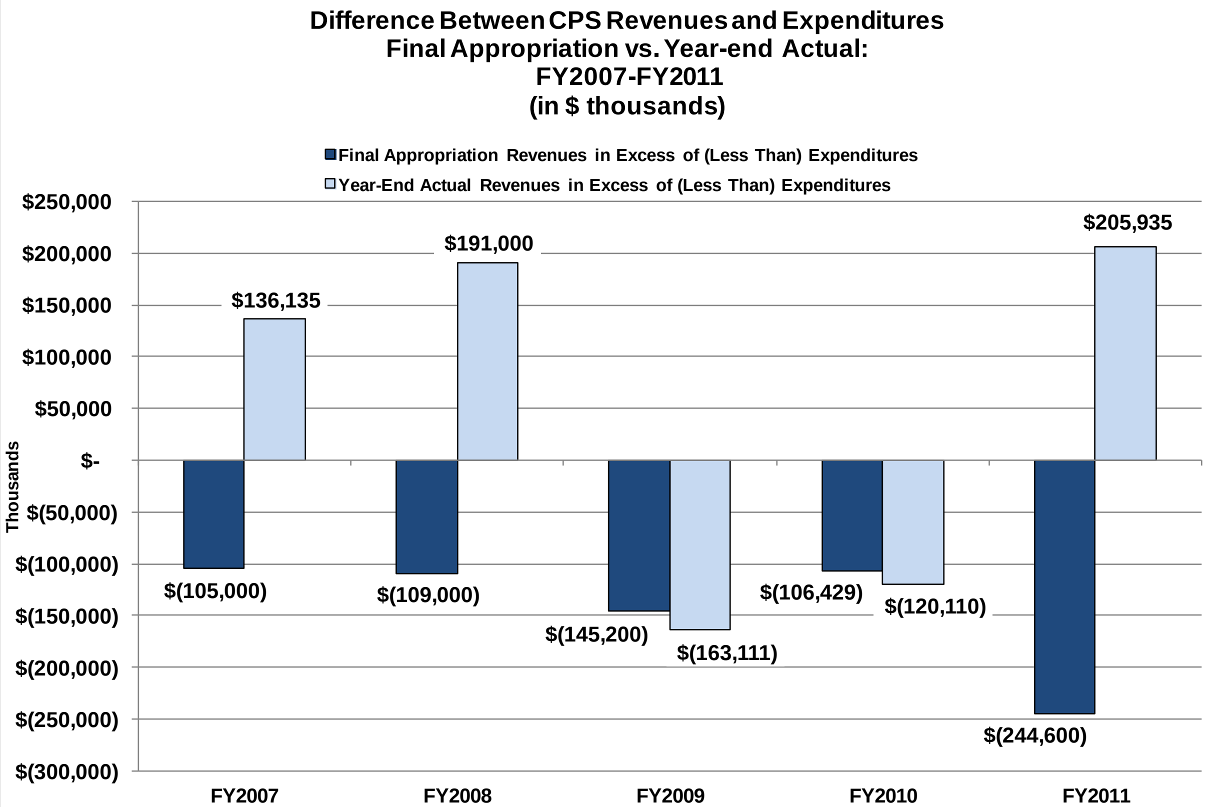
The exhibit below shows the District's General Operating Fund budget to actual variances between FY2007 and FY2011. For each of the five years, the final appropriation expenditures exceeded revenues, meaning that the District had budgeted some other resource such as fund balance to make up the difference. In FY2007, FY2008 and FY2011, the District was able to finish the year with expenditures less than revenues—a positive outcome. Although the District continued to spend less than was originally appropriated, the FY2009 and FY2010 revenue deficits were more significant than cost saving, reflecting reductions in federal aid, reductions and slow payment of State source revenues and the impact of slow economic growth on Personal Property Replacement Tax receipts and investment returns.

In FY2009 actual revenues were $130.0 million, or 2.8%, less than appropriated. The next year, revenues were $445.4 million, or 8.5%, less than appropriated. Despite spending reductions, the District ended FY2009 and FY2010 having spent $163.1 million and $120.1 million more, respectively, than it received in revenues. During those years the District used non-revenue resources, primarily fund balance, to meet expenditures. In effect, CPS drew down its "savings account" or "rainy day" fund to pay for its spending obligations. This strategy is not sustainable in the long-term as fund balance is depleted. In FY2011, a slight increase in actual revenues and a significant cut in expenditures led to a positive variance of $450.5 million.

CPS Budget to Actual General Operating Fund Variances: FY2007-FY2011 (in $ thousands)				
FY2007	**Final Appropriation**	**Year-end Actual**	**Variance: Final Appropriation to Actual**	**% Variance**
Revenues	$ 4,300,722	$ 4,282,504	$ (18,218)	-0.4%
Expenditures	$ 4,405,722	$ 4,146,369	$ (259,353)	-5.9%
Revenues in Excess of or (Less Than) Expenditures	$ (105,000)	$ 136,135	$ 241,135	
FY2008	**Final Appropriation**	**Year-end Actual**	**Variance: Final Appropriation to Actual**	**% Variance**
Revenues	$ 4,539,256	$ 4,585,685	$ 46,429	1.0%
Expenditures	$ 4,648,256	$ 4,394,685	$ (253,571)	-5.5%
Revenues in Excess of or (Less Than) Expenditures	$ (109,000)	$ 191,000	$ 300,000	
FY2009	**Final Appropriation**	**Year-end Actual**	**Variance: Final Appropriation to Actual**	**% Variance**
Revenues	$ 4,709,721	$ 4,579,668	$ (130,053)	-2.8%
Expenditures	$ 4,854,921	$ 4,742,779	$ (112,142)	-2.3%
Revenues in Excess of or (Less Than) Expenditures	$ (145,200)	$ (163,111)	$ (17,911)	
FY2010	**Final Appropriation**	**Year-end Actual**	**Variance: Final Appropriation to Actual**	**% Variance**
Revenues	$ 5,221,442	$ 4,776,032	$ (445,410)	-8.5%
Expenditures	$ 5,327,871	$ 4,896,142	$ (431,729)	-8.1%
Revenues in Excess of or (Less Than) Expenditures	$ (106,429)	$ (120,110)	$ (13,681)	
FY2011	**Final Appropriation**	**Year-end Actual**	**Variance: Final Appropriation to Actual**	**% Variance**
Revenues	$ 5,038,085	$ 5,115,887	$ 77,802	1.5%
Expenditures	$ 5,282,685	$ 4,909,952	$ (372,733)	-7.1%
Revenues in Excess of or (Less Than) Expenditures	$ (244,600)	$ 205,935	$ 450,535	

Source: CPS Comprehensive Annual Financial Reports, Statements of Revenues, Expenditures by Object Other Financing Sources and Net Changes in Fund Balances Final Appropriations vs. Actual - General Operating Fund, FY2007-FY2011.

The next exhibit graphically displays the difference described above between CPS revenues and expenditures from FY2007 through FY2011. In FY2009 and FY2010, end of year losses were greater than anticipated due to insufficient revenues, despite efforts made by the District to reduce spending. In those years, meeting actual expenditures required relatively large infusions of fund balance resources.



Source: CPS Comprehensive Annual Financial Reports, Statements of Revenues, Expenditures by Object Other Financing Sources and Net Changes in Fund Balances Final Appropriations vs. Actual - General Operating Fund, FY2007-FY2011.

Budgeted Fund Balance and the FY2011 Line of Credit

The proposed FY2013 budget is not the first year in which the District has planned to appropriate a significant amount of its fund balance in order to balance its budget. In order to address possible cash flow problems in FY2011 after depleting its fund balance, CPS employed a bank line of credit. On June 15, 2010, the Board of Education authorized the issuance of a note and obligations including a line of credit with a bank in an amount not to exceed $800 million.[71] In the fall of 2010 cash flow problems resulted from delayed State payments and delayed property tax collections. CPS implemented a $500 million line of credit from October 2010 through March 2011. It borrowed $75 million in November from the line of credit in order to meet payroll expenses. The District paid $542,000 in order to establish and access the line of credit.[72]

[71] Resolution 10-0615-RS3, June 15, 2010.
[72] Information provided by CPS Budget Office, August 12, 2011.

The District's General Fund fund balance at the beginning of FY2013 is projected at $349.0 million. The District proposes to use the entire balance to help close the projected FY2013 budget gap of $665 million, leaving few options for addressing its projected FY2014 gap of nearly $1 billion.[73]

It is understandable that there would be a temporary deviation from the 5% fund balance target during a time of fiscal stress and revenue delays. However, a budget that utilizes a significant amount of its fund balance for consecutive years without a concrete plan to replenish its reserves is unsustainable and a serious cause for concern. [74] The absence of adequate fund balance can cause a number of challenges and risks for a government, including significant cash flow issues which can inhibit the government's ability to pay its immediate expenses.

MUNICIPAL EMPLOYEES' PENSION FUND

Eligible non-teaching employees of CPS participate in the City of Chicago's Municipal Employees' Annuity and Benefit Fund.[75] Approximately 16,061, or 52.3%, of the 30,726 active Municipal Fund members are CPS employees.[76]

Until FY2011, the City of Chicago made the employer contributions for CPS employees participating in the Municipal Fund. Beginning with the City's FY2012 budget, the City included reimbursement from CPS for part of the statutory employer contribution the City has traditionally made for CPS employees participating in the Municipal Fund. The reimbursement amount proposed for FY2012 was $32.5 million.[77] The City made the FY2012 Municipal Fund employer contribution through its property tax levy and personal property replacement tax revenues (PPRT).[78] However, considering its financial difficulties, CPS is hoping that the City will defer the proposed FY2012 and FY2013 reimbursement contributions from the District. In FY2012, CPS reimbursed the City for $9.1 million of the City's FY2012 contribution to the Municipal Fund for the employer pick-up of employees funded by federal grants.[79]

CPS estimates that the FY2013 Municipal Fund contribution from the City (recorded as revenue) will be $53.0 million.[80] CPS budgeted $6.3 million to be reimbursed to the City for the employer pick-up of employees funded by federal grants for FY2013.[81]

The financial status of the Municipal Fund is examined in the Civic Federation's annual analysis of the City's budget proposal and the Federation's annual *Status of Local Pension Funding* report. The next section focuses on the Chicago Teachers' Pension Fund.

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[73] CPS FY2013 Proposed Budget, p. 146.
[74] CPS notes in its budget narrative that it intends to implement several policies to help replenish its fiscal stabilization fund during FY2013. However, the policies mentioned are vague and do not constitute a substantial plan to rebuild budgetary reserves.
[75] 40 ILCS 5/8-110
[76] CPS FY2011 Comprehensive Annual Financial Report, p. 75.
[77] City of Chicago FY2012 Budget Overview, pp. 6 and 15.
[78] City of Chicago FY2012 Budget Overview, p. 166.
[79] Information provided by CPS Budget Office, July 17, 2012.
[80] CPS FY2013 Proposed Budget, p. 26. This amount is for the CPS 2013 fiscal year, which is July 1 to June 30, not the City's fiscal year, which runs January 1-December 31.
[81] Information provided by CPS Budget Office, July 17, 2012.

TEACHERS' PENSION FUND

Certified CPS teachers are enrolled in the Public School Teachers' Pension and Retirement Fund of Chicago. The data presented below are for the Teachers' Pension Fund only. The following subsections include a plan description, membership data, benefits provided, employer and employee contributions, future funding projections and pension fund indicators.

The fiscal year of the Teachers' Pension Fund begins on July 1 and ends on June 30, as does the fiscal year of CPS. The most recent data available is for FY2011, which ended on June 30, 2011.

Plan Description

The Public School Teachers' Pension and Retirement Fund of Chicago is a cost-sharing multiple-employer defined benefit pension plan created by the Illinois legislature in 1895 to provide retirement, death and disability benefits for teachers and employees of the Fund. Members include certified teachers at the Chicago Public Schools and charter schools.[82] Plan benefits and contributions can only be amended through state legislation.[83]

The fund is governed by a twelve-member Board of Trustees. As prescribed in state statute, six trustees are elected by the teacher members of the fund, three are elected by the annuitants, one is elected by the principal and administrator members of the fund and two are appointed by the Chicago Board of Education.

Members of the Chicago Teachers' Pension Fund do not participate in the federal Social Security system.

Membership

In FY2011 the Teachers' Pension Fund had 55,332 members, including 25,199 retirees and beneficiaries receiving benefits and 30,133 active employee members. In the ten years since FY2002, the number of retirees and beneficiaries receiving benefits increased by 41.0%, or 7,332, and grew each year. In contrast, the number of active employee members declined by 19.4%, or 7,241 members, over the same period. The number of actives generally declined until FY2009 and then increased by over 2,000 teachers in FY2010 and declined again by 3,850 in FY2011. The ratio of active employees to beneficiaries fell from 2.09 in FY2002 to 1.32 in FY2009 before rising slightly to 1.38 in FY2010 and declining sharply to 1.20 in FY2011. A decline in the ratio of active employees to retirees can create fiscal stress for the fund because it means there are fewer dollars in employee contributions and more in annuity payments.

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[82] Chicago Teachers' Pension Fund, FY2009 Comprehensive Annual Financial Report, p. 26.
[83] The Chicago Teachers' Pension Fund statute is 40 ILCS 5/17, but the fund is also governed by other parts of the pension code such as 40 ILCS 5/1-160, which defines the changes to benefits for new employees enacted in P.A. 96-0889.

CPS Teachers' Pension Fund Membership: FY2002 - FY2011				
Fiscal Year	**Retirees & Beneficiaries Receiving Benefits**	**Active Employee Members**	**Total**	**Ratio of Active to Beneficiary**
FY2002	17,867	37,374	55,241	2.09
FY2003	18,565	36,548	55,113	1.97
FY2004	19,266	37,362	56,628	1.94
FY2005	20,954	37,521	58,475	1.79
FY2006	22,105	34,682	56,787	1.57
FY2007	23,623	32,968	56,591	1.40
FY2008	23,920	32,086	56,006	1.34
FY2009	24,218	31,905	56,123	1.32
FY2010	24,600	33,983	58,583	1.38
FY2011	25,199	30,133	55,332	1.20

Note: Excludes terminated members entitled to benefits but not yet receiving them.

Source: Chicago Teachers' Pension Fund, Actuarial Valuations, FY2002-FY2011.

Summary of Key Teachers' Pension Fund Benefits

In April 2010, Illinois enacted P.A. 96-0889, which created a reduced level of pension benefits for employees hired on or after January 1, 2011 and granted a temporary pension contribution reduction to CPS.[84]

[84] A "trailer bill" to correct technical problems with P.A. 96-0889 was enacted in December 2010 as P.A. 96-1490.

The following table lists major benefits for members hired before and after January 1, 2011. Major changes for new hires include: the increase in full retirement age to 67 and early retirement age to 62; the reduction of final average salary from the highest 4-year average to the highest 8-year average; the $106,800 cap on pensionable salary; and the reduction of the automatic annuity increase from 3% compounded to the lesser of 3% or one half of the increase in Consumer Price Index not compounded.

Major Chicago Teachers' Pension Fund Benefit Provisions		
	Employees hired before 1/1/2011	**Employees hired on or after 1/1/2011**
Full Retirement Eligibility: Age & Service	age 55 with 34 years of service; age 60 with 20 years of service; age 62 with 5 years of service	age 67 with 10 years of service
Early Retirement Eligibility: Age & Service	age 55 with 20 years of service	age 62 with 10 years of service
Final Average Salary	highest average monthly salary for any 48 consecutive months within the last 10 years of service	highest average monthly salary for any 96 consecutive months within the last 10 years of service; pensionable salary capped at $106,800*
Annuity Formula	2.2% of final average salary for each year of service**	
Early Retirement Formula Reduction	0.5% per month under age 60	0.5% per month under age 67
Maximum Annuity	75% of final average salary	
Annuity Automatic COLA on Retiree or Surviving Spouse Annuity	3% compounded; begins at anniversary date of retirement or 61st birthday, whichever is later	lesser of 3% or one-half of the annual increase in CPI-U, not compounded; begins at the later of age 67 or the first anniversary of retirement

*The $106,800 maximum pensionable salary automatically increases by the lesser of 3% or one-half of the annual increase in the CPI-U.

** For service prior to 1998 there are different formulas for different amounts of service.

Note: New hires are prohibited from simultaneously receiving a salary and a pension from any public employers covered by the State Pension Code ("double-dipping").

Sources: Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation as of June 30, 2010, pp. 22-25; 40 ILCS 5/9; P.A. 96-0889; and P.A. 96-1490.

Pension Contributions

The Teachers' Pension Fund is funded through a combination of State, CPS and employee contributions as described below.

Employer Contributions

The state statutes governing the Chicago Teachers' Pension Fund require employer contributions when the fund falls below a 90% funded ratio. As described on the following pages, relatively small amounts are required from the State and from CPS pursuant to benefit enhancements enacted in P.A. 90-582. Much larger contributions are required by CPS pursuant to P.A. 89-15 and P.A. 96-0889 in order to bring the fund up to a 90% funded ratio over a 50-year period.

State Employer Contribution: The State of Illinois has traditionally contributed roughly $65 million each year to the Teachers' Fund pursuant to 40 ILCS 5/17-127 which declares the General Assembly's "goal and intention" to contribute an amount equivalent to 20% or 30% of the contribution it makes to the downstate Teachers' Retirement System.[85] However, the traditional $65 million contribution was actually much less than the 20% or 30% intention stated in the statute. The estimated State contribution to the Teachers' Retirement System will be $2.7 billion in FY2013; therefore, if the General Assembly were to follow its "intention" in FY2013, the State would contribute at least $540 million to the Chicago Teachers' Pension Fund.

The State's enacted FY2010 budget reduced the usual $65 million appropriation by 50% to $32.5 million.[86] For FY2011 the State appropriated $32.5 million for the Teachers' Fund, but designated it specifically for retiree healthcare costs paid out of the fund, so the amount is not considered as part of the employer contribution in the calculation shown below.[87] The FY2012 recommended appropriation for the Teachers' Fund was $0 and the FY2013 enacted appropriation is also $0.[88]

Additional State Contribution: The State must make additional contributions of 0.544% of teacher payroll to the Teachers' Fund to offset a portion of the cost of benefit increases enacted under Public Act 90-0582. No additional contributions are required if the funded ratio is at least 90%. The required additional State contribution for FY2013 is $10.9 million.[89]

Additional CPS Contribution: CPS must make additional contributions of 0.58% of teacher payroll to offset a portion of the cost of benefit increases enacted under Public Act 90-0582. No additional contributions are required if the funded ratio is at least 90%. The required additional CPS contribution for FY2013 is $11.7 million.[90]

CPS Required Contribution: Under the funding plan established by P.A. 89-15, the minimum contribution to the Teachers' Pension Fund was previously an amount needed to bring the total assets of the Fund up to 90% of the total actuarial liabilities by the end of FY2045. P.A. 96-0889 revised the employer contributions required under P.A. 89-15, reducing CPS' required employer pension contribution for FY2011, FY2012 and FY2013 to an amount estimated to be equivalent to the normal cost.[91] Prior to the passage of P.A. 96-0889, the CPS required contribution for FY2011 was calculated to be $586.9 million, or almost double the FY2010 amount. P.A. 96-0889 reduced the District's required FY2011 contribution to $187.0 million, which was $120.5 million, or 39.2%, less than the prior year contribution.[92] When the Act was signed in April 2010, it reduced the District's projected FY2011 deficit of $1 billion to a $600 million deficit.

P.A. 96-0889 also delayed the year that the pension fund must reach a 90% funded ratio from 2045 to 2060. Beginning with FY2014, the total required employer contribution will be

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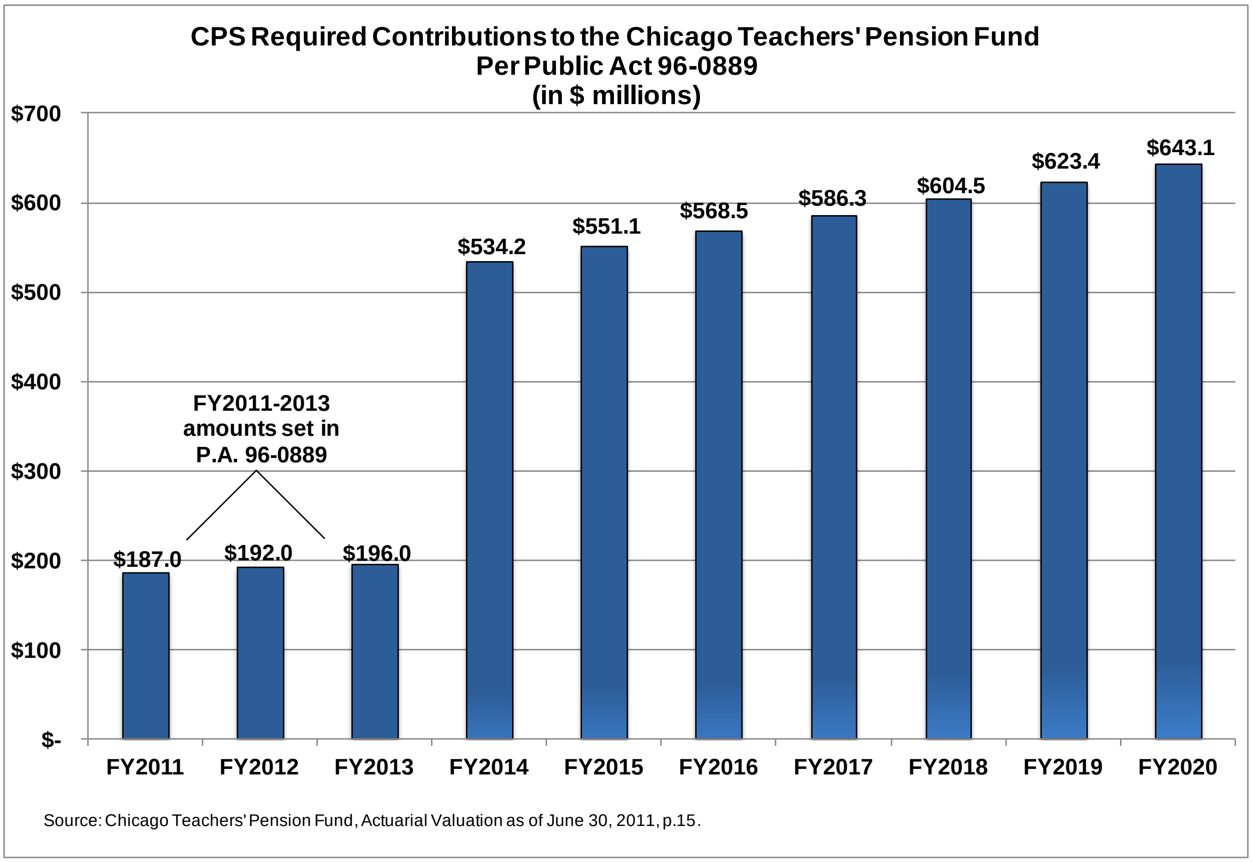
[85] The downstate Teachers' Retirement System covers all public school teachers in Illinois except those in the Chicago Public Schools.
[86] State of Illinois Budget, FY2011, pp. 5-8.
[87] Information provided by the CPS budget office, August 17, 2010.
[88] State of Illinois, Fiscal Year 2013 Enacted Budget, p. 376, or Chapter 5-246.
[89] Public School Teachers' Pension and Retirement Fund of Chicago Actuarial Valuation as of June 30, 2011, p. 9
[90] Public School Teachers' Pension and Retirement Fund of Chicago Actuarial Valuation as of June 30, 2011, p. 10
[91] "Normal cost" is an actuarially-calculated amount representing that portion of the present value of pension plan benefits and administrative expenses which is allocated to a given valuation year.
[92] Actuarial projection by Goldstein & Associates for Kevin Huber, Executive Director of the Public School Teachers' Pension and Retirement Fund of Chicago, March 31, 2010.

calculated as a level percentage of payroll through FY2059. The CPS required contribution will be the total amount of the required employer contribution less additional state appropriations, additional CPS appropriations and other employer appropriations.

The exhibit below shows actuarial projections of required CPS contributions to the Teachers' Pension Fund from FY2011 to FY2020 based on P.A. 96-0889. As noted above, the FY2011, FY2012 and FY2013 amounts were fixed in state statute, but in FY2014 the required contribution will be actuarially determined as the schedule to reach 90% funded by 2060 begins. The projected FY2014 contribution nearly triples from the previous year, growing by $338.2 million from $196.0 million in FY2013 to $534.2 million in FY2014. The required employer contribution will be recalculated each year based on the fund experience.



Employee Contributions

Employee contributions to the Teachers' Pension Fund are statutorily set at 9% of the employee's salary. One percent of that 9% amount is for survivors' and children's pension benefits.

CPS "picks up" 7% of the 9% annual employee pension contribution, meaning it pays 7% of the employee 9% contribution on behalf of teachers. The District's FY2013 cost for the 7%

employee pick-up is approximately $127 million and is part of the District's budgeted pension appropriation.[93]

Pension Fund Indicators

The Civic Federation uses three measures to present a multi-year evaluation of the fiscal health of the Teachers' pension fund: funded ratios, unfunded actuarial accrued liabilities, and the investment rate of return.

Funded Ratios

This report uses two measurements of pension plan funded ratio: the actuarial value of assets measurement and the market value of assets measurement. These ratios show the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting future obligations.

The actuarial value of assets measurement presents the ratio of assets to liabilities and accounts for assets by recognizing unexpected gains and losses over a period of three to five years.[94] The market value of assets measurement presents the ratio of assets to liabilities by recognizing investments only at current market value. Market value funded ratios are more volatile than actuarial funded ratios due to the smoothing effect of actuarial value. However, market value funded ratios represent how much money is actually available at the time of measurement to cover actuarial accrued liabilities.

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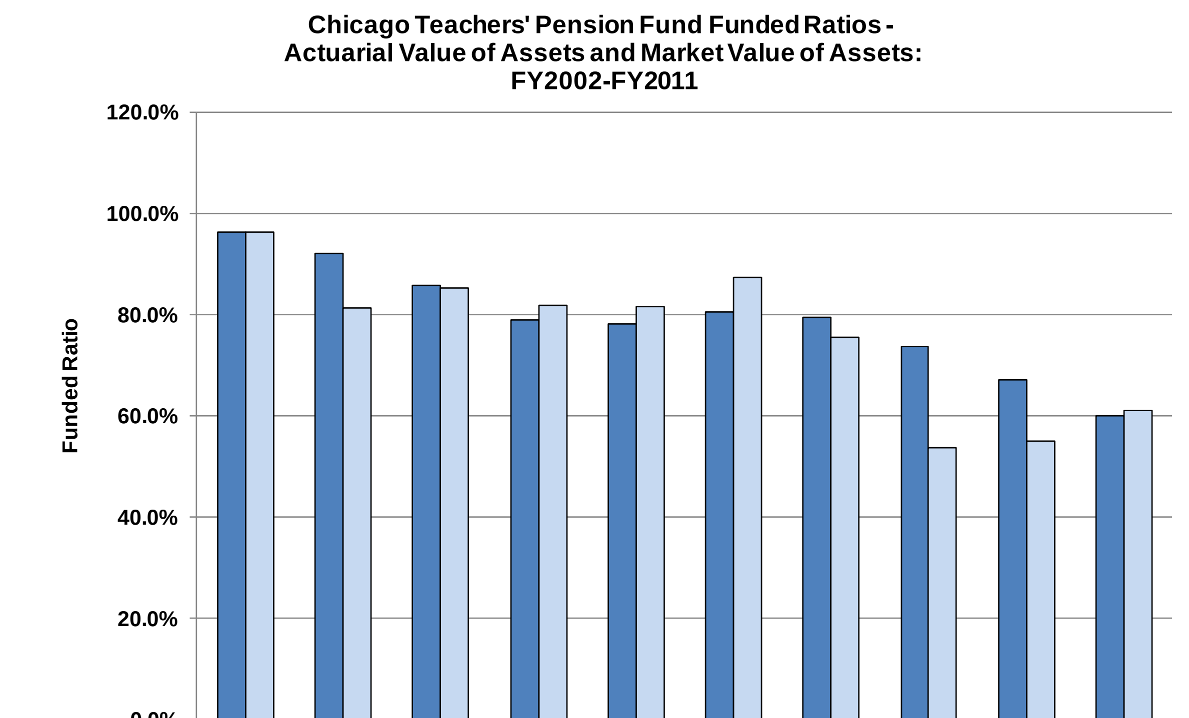
[93] CPS FY2012 Proposed Budget, p. 125. CPS also "picks up" 7% of employee contributions to the Chicago Municipal Fund for eligible non-teacher employees at a cost of $40 million in FY2013.
[94] For more detail on the actuarial value of assets, see Civic Federation, *Status of Local Pension Funding FY2010*, June 25, 2012, http://civicfed.org/FY2010LocalPensionsReport (last visited on July 13, 2012). The Chicago Teachers' Pension Fund smoothes returns over four years.

The following exhibit shows the actuarial and market value funded ratios for the Teachers' Pension Fund over the last ten years. The fund was 96.3% funded on both an actuarial and market value basis in FY2002. The actuarial value funded ratio fell to 59.9% in FY2011. The market value funded ratio fell to its lowest point at 53.7% in FY2009 and recovered to 61.1% in FY2011. The sizeable difference between FY2009 and FY2010 market value and actuarial value funded ratios is due to the fact that FY2009 investment returns were much lower than the returns smoothed out over four years. The fact that the market value funded ratio in FY2011 is higher than the actuarial value reflects strong investment returns in FY2011 and that losses in FY2008 and FY2009 are still being recognized in the actuarial valuation.

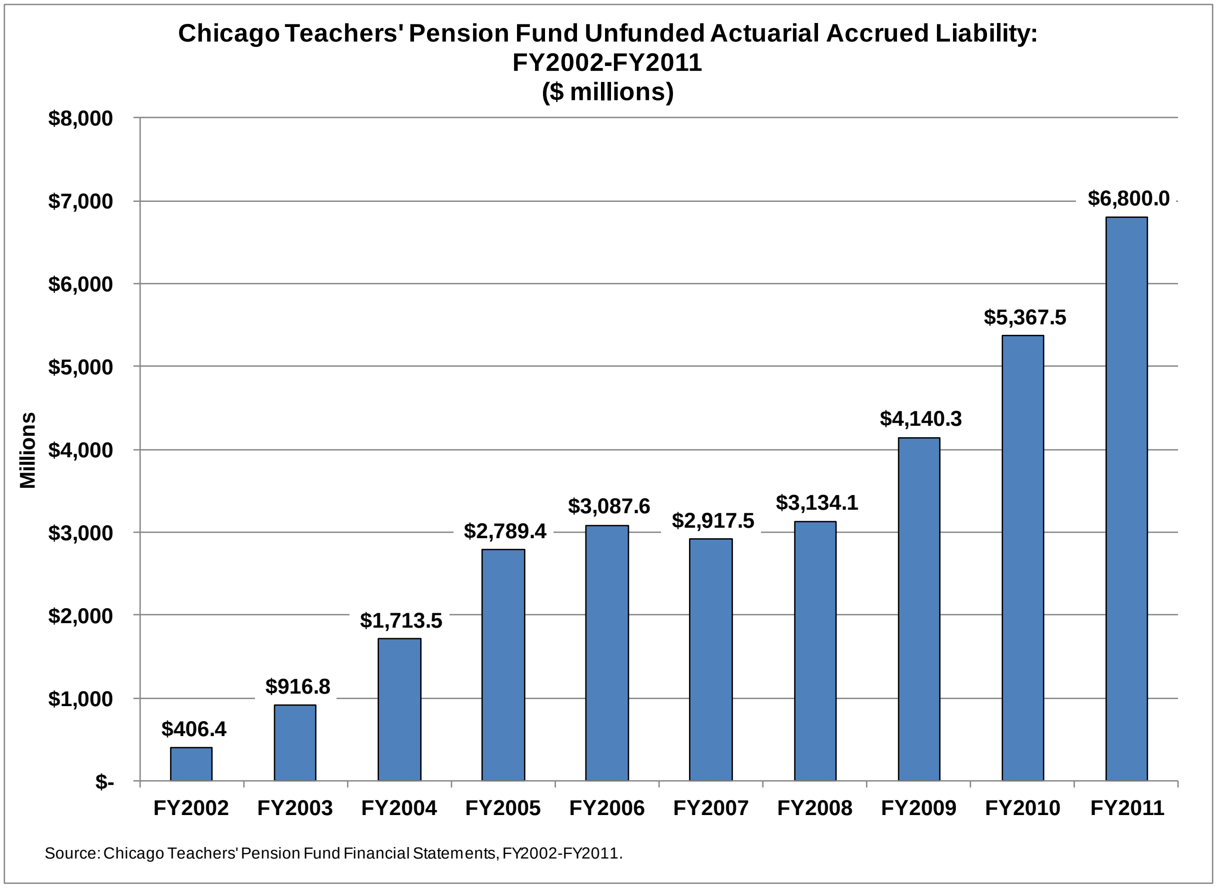


	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Actuarial Value	96.3%	92.0%	85.8%	79.0%	78.0%	80.4%	79.4%	73.6%	67.1%	59.9%
Market Value	96.3%	81.2%	85.3%	81.7%	81.4%	87.3%	75.5%	53.7%	55.0%	61.1%

Source: Civic Federation calculations based on Chicago Teachers' Pension Fund Financial Statements, FY2002-FY2011.

Unfunded Actuarial Accrued Liability

Unfunded actuarial accrued liability is the dollar value of accrued liabilities not covered by the actuarial value of assets. As shown in the exhibit below, the unfunded liability for the Teachers' Pension Fund was $406.4 million in FY2002. Since FY2002 unfunded liabilities have increased by over 1,500%, rising to nearly $6.8 billion in ten years. In just one year, from FY2010 to FY2011, unfunded liabilities grew by $1.4 billion.


Chicago Teachers' Pension Fund Unfunded Actuarial Accrued Liability:
FY2002-FY2011
($ millions)
Millions
$8,000
$7,000
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$-
$406.4
$916.8
$1,713.5
$2,789.4
$3,087.6
$2,917.5
$3,134.1
$4,140.3
$5,367.5
$6,800.0
FY2002
FY2003
FY2004
FY2005
FY2006
FY2007
FY2008
FY2009
FY2010
FY2011
Source: Chicago Teachers' Pension Fund Financial Statements, FY2002-FY2011.

A breakdown of the causes of the change in unfunded liability each year is available in the annual actuarial valuations of the fund. The table below summarizes the changes as calculated by the fund actuary from FY2002 to FY2011. The single largest contributor to the $6.4 billion increase in unfunded liability is the investment return. For the purpose of actuarial valuation, the fund assumes that it will earn an annual 8.0% investment return. The valuation smoothes the investment gains and losses over a period of four years, such that even if a single year's market rate of return exceeds the 8.0% assumption, the four-year smoothed return may not. This was the case in FY2011, when the market value rate of return was 24.7%, but the four-year smoothed return was -0.5%, reflecting losses in FY2008 and FY2009. Over the ten-year period, the failure of investment returns to meet the 8.0% assumption added $3.5 billion to the unfunded liability.

The second largest contributor to the growth in unfunded liability was the consistent failure of the employer contribution to be sufficient to cover the employer's normal cost for service earned that year, as well as the interest accrued on the existing unfunded liability to keep it from growing. This deficiency in employer contributions added $2.1 billion to the unfunded liability.

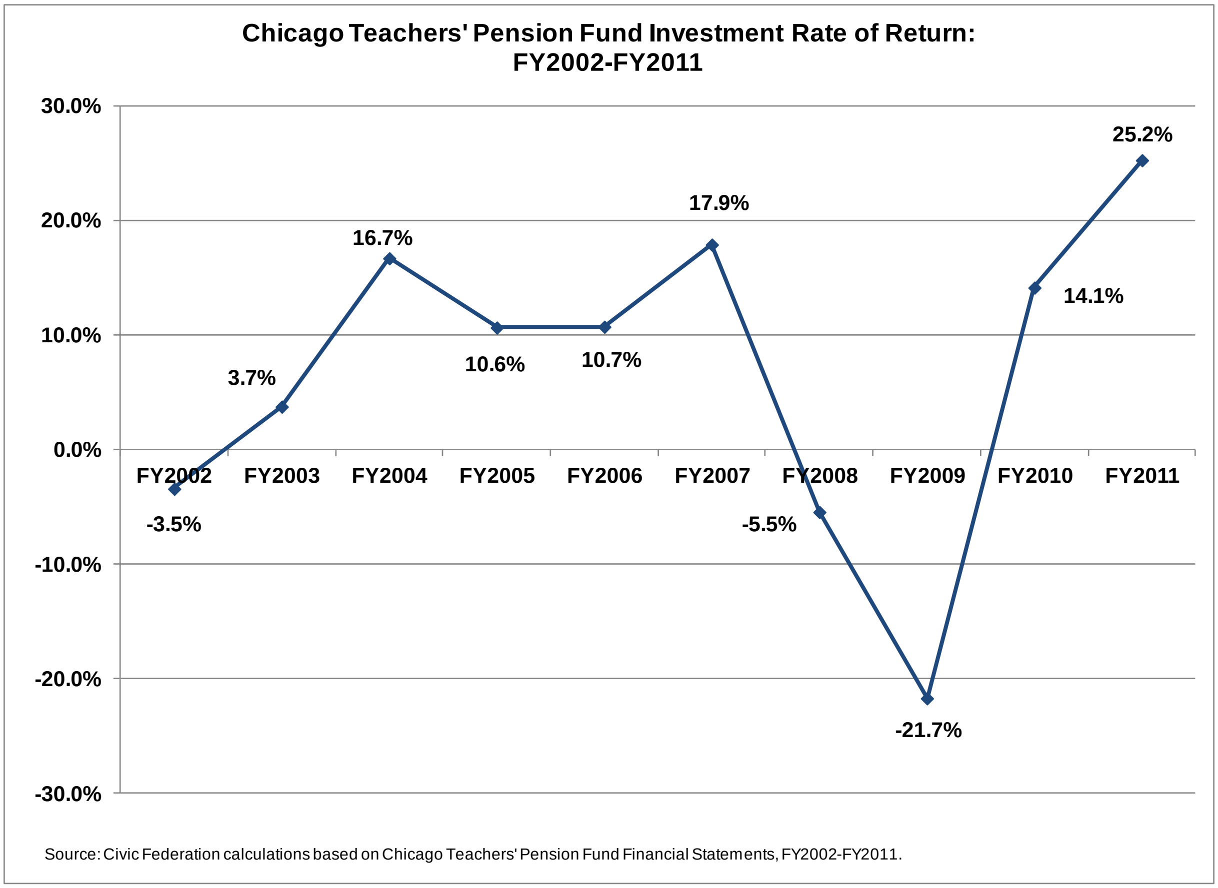
Chicago Teachers' Pension Fund Reasons for Change in Unfunded Actuarial Accrued Liability: FY2002-FY2011

	Employer Contribution Lower/(Higher) than Normal Cost Plus Interest on Unfunded Liability	Investment Return Lower/(Higher) Than Assumed	Salary Increase (Lower)/Higher Than Assumed	Benefit Increases	Change in Actuarial Assumptions, Methods, or Data	Other	Total Net UAAL Change
FY2002	$ 101,460,372	$ 163,273,619	$ (137,391,641)	$ 71,343,528	$ 54,446,520	$ 148,152,640	**$ 401,285,038**
FY2003	$ 134,336,830	$ 599,200,884	$ (360,506,774)	$ -	$ 179,292,049	$ (41,970,075)	**$ 510,352,914**
FY2004	$ 157,713,698	$ 500,523,724	$ (163,105,603)	$ -	$ 74,032,562	$ 227,549,415	**$ 796,713,796**
FY2005	$ 231,938,546	$ 207,005,890	$ 158,843,367	$ -	$ -	$ 478,129,728	**$ 1,075,917,531**
FY2006	$ 287,817,648	$ (159,120,969)	$ (7,751,201)	$ -	$ -	$ 177,278,548	**$ 298,224,026**
FY2007	$ 264,371,299	$ (563,871,066)	$ 12,680,902	$ -	$ -	$ 69,273,370	**$ (217,545,495)**
FY2008	$ 181,412,779	$ 14,768,502	$ 168,853,909	$ -	$ (386,588,901)	$ 240,804,331	**$ 219,250,620**
FY2009	$ 154,901,393	$ 923,403,137	$ 12,964,057	$ -	$ -	$ (40,308,708)	**$ 1,050,959,879**
FY2010	$ 146,648,566	$ 941,589,095	$ (118,648,048)	$ -	$ -	$ 257,585,304	**$ 1,227,174,917**
FY2011	$ 393,912,145	$ 896,407,893	$ (25,480,115)	$ -	$ -	$ 167,678,088	**$ 1,432,518,011**
10-Year Total	**$ 2,054,513,276**	**$ 3,523,180,709**	**$ (459,541,147)**	**$ 71,343,528**	**$ (78,817,770)**	**$ 1,684,172,641**	**$ 6,393,566,199**

Source: Chicago Teachers' Pension Fund, Actuarial Valuations, FY2002-FY2011.

Investment Rate of Return

Investment income typically provides a significant portion of the funding for pension funds. Thus, declines over a period of time can have a negative effect on pension assets. Between FY2002 and FY2011, the Chicago Teachers' Pension Fund average annual rate of return was 6.8%.[95] Returns ranged from a high of 25.2% in FY2011 to a low of -21.7% in FY2009.



[95] The Civic Federation calculates investment rate of return using the following formula: Current Year Rate of Return = Current Year Gross Investment Income/ (0.5*(Previous Year Market Value of Assets + Current Year Market Value of Assets – Current Year Gross Investment Income)). This is not necessarily the formula used by the pension fund's actuary and investment managers, thus investment rates of return reported here may differ from those reported in a fund's actuarial statements. However, it is a standard actuarial formula. Gross investment income includes income from securities lending activities, net of borrower rebates. It does not subtract out related investment and securities lending fees, which are treated as expenses.

OTHER POST EMPLOYMENT BENEFITS (OPEB)

Non-pension benefits provided to employees after employment ends are referred to as Other Post Employment Benefits (OPEB). OPEB includes health insurance coverage for retirees and their families, dental insurance, life insurance and term care coverage. It does not include termination benefits such as accrued sick leave and vacation. CPS has not established an irrevocable trust fund to account for its OPEB plan. These obligations are financed on a pay-as-you-go basis through the Chicago Teachers' Pension Fund. It is important to note that these benefits are funded by the retirement system, not CPS.

The Teachers' Pension Fund provides a "rebate" for a significant portion of the monthly premiums owed by those who enroll. The rebate only applies to the retired teacher's portion of these insurance policies, not to the additional cost of enrolling eligible dependents. However, the rebate does apply to eligible dependents who are survivors of deceased retirees. For the last several years the Fund has provided reimbursement of 70% of the cost of pensioners' health insurance coverage. Total payments from the Teachers' Pension Fund to reimburse retirees may not exceed 75% of total retiree health insurance costs.[96]

In FY2010 a total of 16,796 retirees and beneficiaries were receiving health insurance benefits. There were 2,752 terminated employees entitled to OPEB benefits but not yet receiving them.[97] The Illinois Pension Code limits total annual payments to $65 million per year plus amounts authorized in previous years but not spent.[98] In FY2010 the Teachers' Pension Fund spent $80.0 million on OPEB.[99]

[96] 40 ILCS 17-142.1; Chicago Teachers' Pension Fund, FY2009 Comprehensive Annual Financial Report, p. 78.
[97] Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation of Retiree Health Insurance Plan as of June 30, 2010, p. 2.
[98] 40 ILCS 17-142.1
[99] Chicago Teachers' Pension Fund, FY2010 Comprehensive Annual Financial Report, p. 24.

The following exhibit shows the extent to which the aggregate cost of the Pension Fund's health insurance subsidy has increased over the past decade. From 2001 to 2010, insurance premium rebates paid to beneficiaries increased by 81.3% or $35.9 million. The health insurance rebate has represented approximately 7% to 9% of total benefit expenditures over the ten-year period.

Health Insurance Premium Rebates Paid to Retired CPS Teachers: FY2002-FY2011

	Health Insurance Benefits Paid	% Change over Previous Year
FY2002	$ 44,068,275	--
FY2003	$ 51,395,920	-16.6%
FY2004	$ 53,106,379	-3.3%
FY2005	$ 54,410,887	-2.5%
FY2006	$ 58,279,900	-7.1%
FY2007	$ 61,028,841	-4.7%
FY2008	$ 68,691,191	-12.6%
FY2009	$ 75,811,835	-10.4%
FY2010	$ 79,953,873	-5.5%
FY2011	$ 78,892,292	5.5%
Ten-Year Change	**$ 34,824,017**	**79.0%**

Source: Chicago Teachers' Pension Fund, FY2011 Comprehensive Annual Financial Report, p. 106 and FY2010 Comprehensive Annual Financial Report, Statement of Changes in Net Assets Health Insurance Fund.

The following exhibit shows the funded status of the teachers' OPEB plan. The total actuarial liability grew from $2.0 billion in FY2007 to $3.1 billion in FY2011. Assets as a percentage of the actuarial liability were 2.3% in FY2007 and 1.0% in FY2011. The actuarial assumptions used included a 4.5% discount rate and an annual healthcare cost trend rate which is projected to decline from 8.0% in 2011 to 5.0% in 2017 and later.[100]

Funded Status of the Chicago Public Schools Pension Fund Other Post Employee Benefit (OPEB) Plan: FY2007 - FY2011

	Total Actuarial Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Assets as a % of Actuarial Liability
FY2007	$ 2,022,007,643	$ 47,401,758	$ 1,974,605,885	2.3%
FY2008	$ 2,407,122,492	$ 44,989,385	$ 2,362,133,107	1.9%
FY2009	$ 2,670,282,662	$ 49,691,750	$ 2,620,590,912	1.9%
FY2010	$ 2,864,877,305	$ 34,857,732	$ 2,830,019,573	1.2%
FY2011	$ 3,071,516,739	$ 31,324,572	$ 3,040,192,167	1.0%

Source: Chicago Teachers' Pension Fund, Actuarial Valuation of Retiree Health Insurance Plan as of June 30, 2011, p. 14.

[100] Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation of Retiree Health Insurance Plan as of June 30, 2010, p. 6.

LIABILITIES

This section of the analysis provides an overview of short-term and long-term liabilities of Chicago Public Schools.

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. The District currently reports no short-term debt. CPS does include the following short-term liabilities in the statement of net assets in its annual Comprehensive Annual Financial Report:

- *Accounts payable*: monies owed to vendors or employees for goods and services;
- *Accrued payroll*: employee pay carried over from previous years;
- *Other accrued liabilities*: these can include self insurance funds, unclaimed property and other unspecified liabilities; and
- *Amounts held for student activities*: these are deposits held in custody or funds that belong to individual school accounts.

In the Governmental Funds, FY2011 liabilities increased by approximately $118.1 million, or 13.1%, from the previous year. Since FY2007 short-term liabilities have increased by $232.5 million, or 29.6%. The following chart shows short-term liabilities by category and the percent change over the past five years.

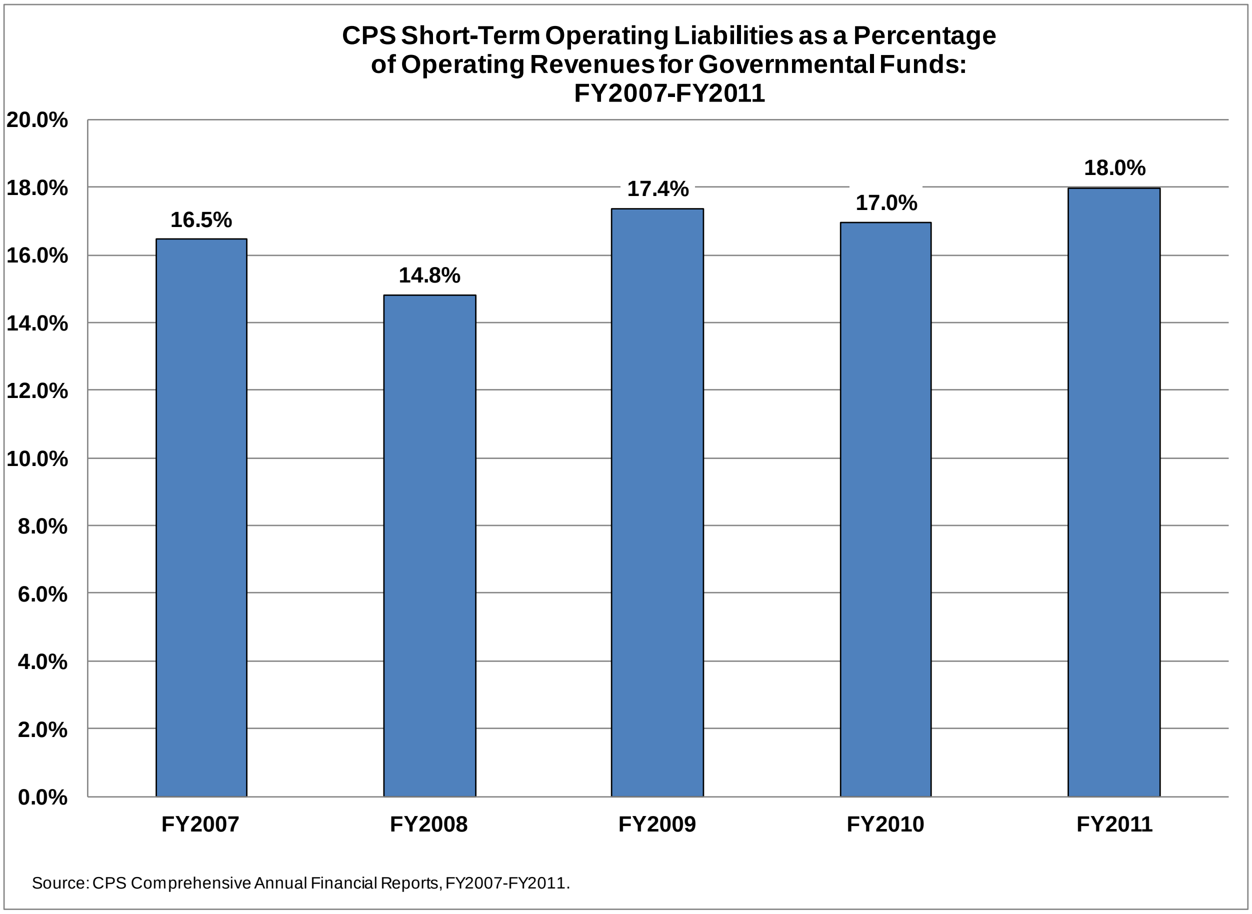
CPS Short-Term Liabilities in the Governmental Funds: FY2007 - FY2011 (in $ thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011	Five-Year $ Change	Five-Year % Change
Accounts payable	$ 272,095	$ 284,650	$ 369,499	$ 347,225	$ 464,286	$ 192,191	70.6%
Accrued payroll	$ 483,047	$ 428,753	$ 471,602	$ 520,769	$ 518,652	$ 35,605	7.4%
Amount held for student activities	$ 30,123	$ 30,167	$ 30,359	$ 31,647	$ 34,840	$ 4,717	15.7%
Total	**$ 785,265**	**$ 743,570**	**$ 871,460**	**$ 899,641**	**$ 1,017,778**	**$ 232,513**	**29.6%**

Source: CPS Comprehensive Annual Financial Reports, Balance Sheets - Governmental Funds, FY2007 - FY2011.

Short-Term Liabilities as a Percentage of Net Operating Revenues

Increasing short-term (current) liabilities in a government's operating funds at the end of the year as a percentage of net operating revenues may be a warning sign of a government's future financial difficulties.[101] This ratio 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. Between FY2007 and FY2011, the ratio averaged 16.7%, fluctuating slightly from a low of 14.8% in FY2008 to a high of 18.0% in FY2011. The ratio increased from 17.0% in FY2010 to 18.0% in FY2011. The upward movement bears watching.



Accounts Payable Trends

Rising amounts of accounts payable over time may indicate a government's difficulty in controlling expenses or keeping up with spending pressures. CPS reported an increase of 33.7% in total accounts payable, or $117.0 million, from FY2010 to FY2011. Over the past five years, total accounts payable reported at the end of the fiscal year has grown by $192.2 million, or

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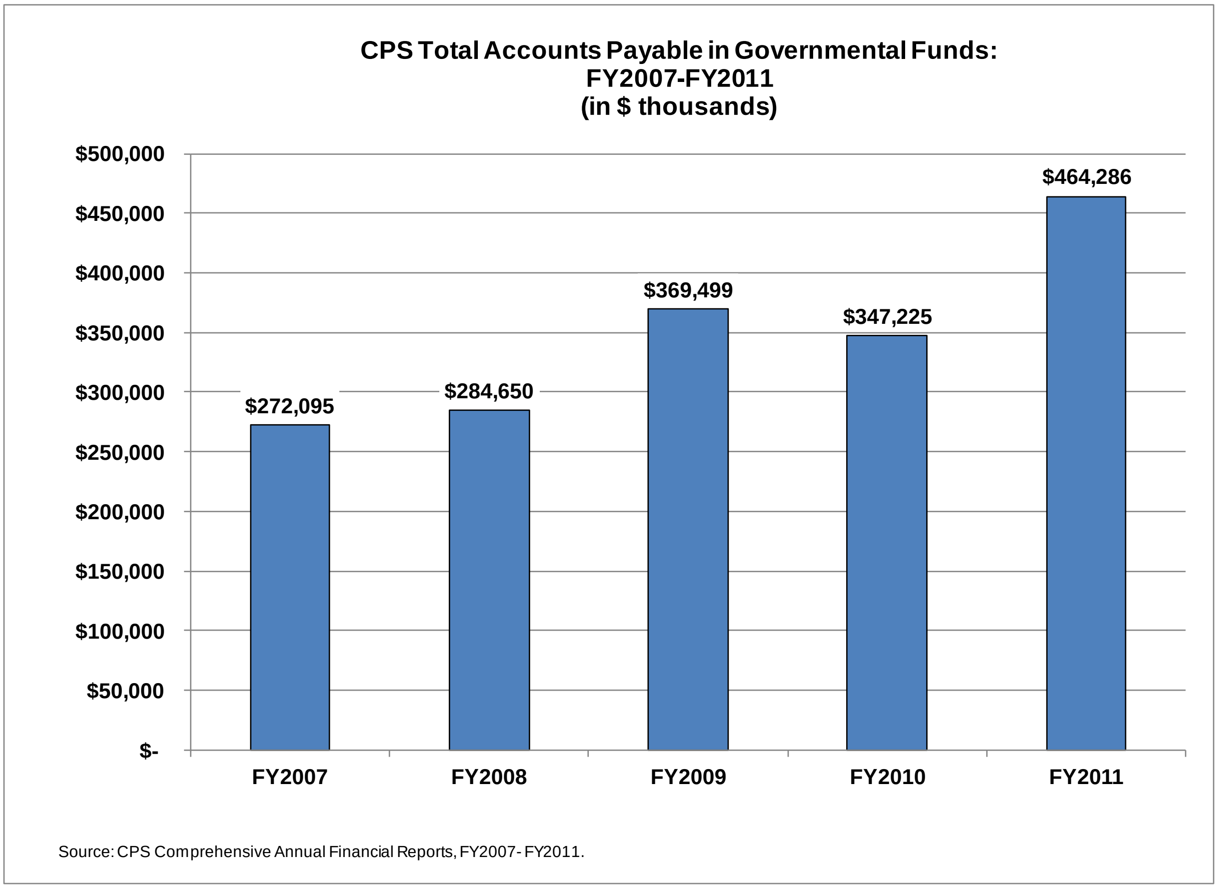
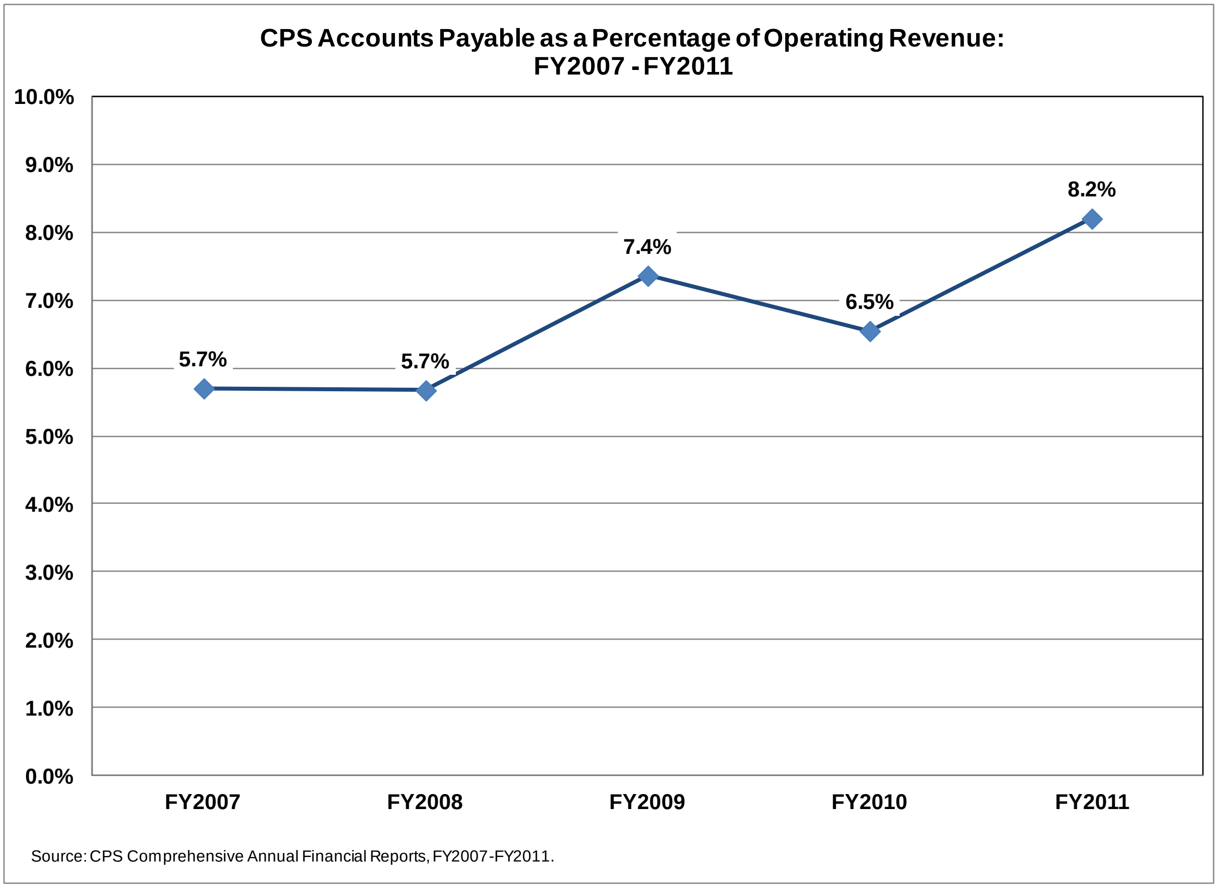
[101] Operating funds for CPS are its Governmental Funds, which are those funds used to account for general operations. See Karl Nollenberger, Sanford Groves and Maureen G. Valente. *Evaluating Financial Condition: A Handbook for Local Government* (International City/County Management Association, 2003), p. 77 and p. 169.

70.6%. A portion of this increase, $43 million, is attributable to a payment accrual made to the Chicago Police Department for police services.[102]



[102] Information provided by CPS Budget Office, July 17, 2012.

The CPS ratio of accounts payable in the governmental funds to operating revenues has increased from 5.7% in FY2007 to 8.2% five years later. It rose sharply from 5.7% to 7.4% between FY2008 and FY2009 before falling to 6.5% in FY2010 and then rising again to 8.2% in FY2011.



Current Ratio

The current ratio is a measure of liquidity. It assesses whether a 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.[103] In addition to the short-term liabilities listed in the previous exhibit, the current ratio formula uses the current assets of the District:

- *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 and/or 2) any investments that the District has made that will expire within one year, including stocks and bonds that can be liquidated quickly;

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

- *Cash and investments in escrow* in the Debt Service Fund represent the amount available for debt service payments on the Unlimited Tax General Obligation Bonds and Public Building Commission Leases. The cash and investments in escrow in the Capital Projects Fund represent the unspent proceeds from the Unlimited Tax General Obligation Bonds, Public Building Commission Building Revenue Bonds, State Technology Revolving Loan Fund and other revenues.[104]
- *Cash and investments held in school internal accounts* represent the book balance for checking and investments for individual schools.[105]
- *Receivables* are monetary obligations owed to the government including property taxes, replacement taxes and state or federal aid.
- *Due from other funds* represents Interfund borrowings that are repaid between major programs at year end. The balances result from operating transactions between funds and are repaid during the fiscal year within the normal course of business.[106]
- *Other assets* include prepaid assets and deferred charges recorded as expenditures in the governmental funds. Deferred charges are for bond issuance costs.[107]

CPS' current ratio was 4.4 in FY2011, the most recent year for which data is available. In the past five years, the District's current ratio averaged 4.8, which is greater than the benchmark of 2.0, and thus demonstrates a healthy level of liquidity. Between FY2007 to FY2011, the current ratio fell from 5.0 to 4.4.

CPS Current Ratio in the Governmental Funds: FY2007 - FY2011 (in $ thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011	Five-Year $ Change	Five-Year % Change
Current Assets							
Cash and investments	$1,187,856	$1,117,433	$1,250,988	$ 857,002	$1,157,460	$ (30,396)	-2.6%
Cash and investments in escrow	$ 971,697	$ 969,166	$ 583,415	$ 951,546	$ 778,083	$(193,614)	-19.9%
Cash and investments held in school internal accounts	$ 30,123	$ 30,167	$ 30,359	$ 31,647	$ 34,840	$ 4,717	15.7%
Receivables: Property Taxes, net	$ 973,942	$1,009,746	$1,055,561	$ 906,944	$1,022,827	$ 48,885	5.0%
Receivables: Replacement Taxes	$ 35,576	$ 32,511	$ 29,417	$ 22,829	$ 24,342	$ (11,234)	-31.6%
Receivables: State Aid, net	$ 398,071	$ 515,087	$ 612,208	$ 807,665	$ 775,970	$ 377,899	94.9%
Receivables: Federal Aid	$ 152,336	$ 223,988	$ 52,276	$ 156,023	$ 277,650	$ 125,314	82.3%
Receivables: Other	$ 65,612	$ 57,983	$ 56,052	$ 40,209	$ 146,247	$ 80,635	122.9%
Due from other funds	$ 86,011	$ 128,217	$ 138,229	$ 319,624	$ 249,516	$ 163,505	190.1%
Other Assets	$ 6,375	$ 5,098	$ 4,356	$ 4,595	$ 2,095	$ (4,280)	-67.1%
Total Current Assets	**$3,907,599**	**$4,089,396**	**$3,812,861**	**$4,098,084**	**$4,469,030**	**$ 561,431**	**14.4%**
Current Liabilities							
Accounts payable	$ 272,095	$ 284,650	$ 369,499	$ 347,225	$ 464,286	$ 192,191	70.6%
Accrued payroll	$ 483,047	$ 428,753	$ 471,602	$ 520,769	$ 518,652	$ 35,605	7.4%
Amount held for student activities	$ 30,123	$ 30,167	$ 30,359	$ 31,647	$ 34,840	$ 4,717	15.7%
Total Current Liabilities	**$ 785,265**	**$ 743,570**	**$ 871,460**	**$ 899,641**	**$ 1,017,778**	**$ 232,513**	**29.6%**
Current Ratio	**5.0**	**5.5**	**4.4**	**4.6**	**4.4**		

Source: CPS Comprehensive Annual Financial Reports, Balance Sheets - Governmental Funds, FY2007-FY2011.

104 Chicago Public Schools FY2009 Comprehensive Annual Financial Report, p. 50.
105 Chicago Public Schools FY2009 Comprehensive Annual Financial Report, p. 57.
106 Chicago Public Schools FY2009 Comprehensive Annual Financial Report, p. 54
107 Chicago Public Schools FY2009 Comprehensive Annual Financial Report, p. 39.

Long-Term Liabilities

This section of the analysis examines trends in CPS's long-term liabilities. It includes a review of trends in the District's total long-term liabilities and a discussion of its tax supported long-term debt. Long-term liabilities are all of the obligations owed by a government over time.[108] Increases in long-term liabilities over time may be a sign of fiscal stress. They include long-term debt as well as:

- *Accrued Sick Pay Benefits*: CPS provides sick pay benefits for substantially all of its employees. Eligible employees can accumulate a maximum of 320 sick days. If an employee either reaches age 65, has a minimum of 20 years of service at the time of resignation or retirement or dies, the employee is entitled to receive, as additional cash compensation, all or a portion of their accumulated sick leave days. CPS budgets an amount each year in the General Operating Fund for these estimated payments to employees terminated in the current fiscal year.

- *Accrued Vacation Pay Benefits*: For eligible employees, the maximum number of accumulated unused vacation days permitted is 40 days for those employees with up to ten years of service, 53 days for those with 11 to 20 years of service; and 66 days for those with more than 20 years of service. Eligible employees are entitled to receive 100% of accumulated vacation days at their current salary rate. These amounts are paid from the General Operating Fund.

- *Accrued Workers' Compensation Claims, Accrued General and Automobile Claims and Tort Liabilities and Other Claims:* CPS is substantially self-insured and assumes risk of loss as follows:
    - CPS maintains commercial excess property insurance for "all risks" of physical loss or damage with limits of $250,000,000 and Boiler and Machinery Insurance with limits of $100,000,000 with the following deductibles:
        - Data Processing Equipment & Media $25,000
        - Mechanical Breakdown $50,000
        - All Other Losses $500,000

- *Net Pension Obligations (NPO):* NPO is the cumulative difference, since the effective date of GASB Statement 27, between the annual pension cost and the employer's contributions to the plan. This includes the pension liability at transition (beginning pension liability) and excludes short-term differences and unpaid contributions that have been converted to pension-related debt.

[108] Descriptions of accrued sick pay benefits, accrued vacation pay benefits; accrued workers' compensation claims; and accrued general and automobile claims and tort liabilities and other claims are found in Note 11: Other Benefits and Claims, CPS FY2011 Comprehensive Annual Financial Report, pp. 71-72.

- *Net Other Post Employment Benefit (OPEB) Obligation*s: This is the cumulative difference, since the effective date of GASB Statement 45, between the annual OPEB cost and the employer's contributions to its OPEB Plan.[109]

Between FY2007 and FY2011, total CPS long-term liabilities increased by 36.2%, or nearly $2.6 billion, rising from approximately $7.1 billion to $9.6 billion. Other long-term liabilities, such as accrued sick leave and vacation pay, net pension obligations and net OPEB obligations grew by 60.1% or $1.5 billion. Net pension and net OPEB obligations combined grew by 55.9%, rising from approximately $2.2 billion to $4.0 billion.

CPS long-term debt includes general obligation bonds, leases securing Public Building Commission bonds and capital leases. These liabilities are secured by property tax revenues or State of Illinois school construction grants. Long-term debt increased by $315.6 million, or 6.0%, between FY2010 and FY2011, rising from $5.27 billion to $5.58 billion. Over the five-year period from FY2007 to FY2011, long-term debt rose from $4.5 billion to nearly $5.6 billion, a 23.0% increase. General obligation debt is the only type of long-term debt that increased in this time period.

CPS Long-Term Liabilities:
FY2007-FY2011
(in $ thousands)

Type of Obligation	FY2007	FY2008	FY2009	FY2010	FY2011	Five-Year $ Change	Five-Year % Change
General Obligation Bonds	$ 4,091,856	$ 4,276,507	$ 4,221,497	$ 4,904,510	$ 5,249,147	$ 1,157,291	28.3%
Leases Securing PBC Bonds	$ 435,535	$ 411,690	$ 386,385	$ 359,215	$ 330,375	$ (105,160)	-24.1%
Capital Leases	$ 2,800	$ 2,625	$ 2,450	$ 2,275	$ 2,100	$ (700)	-25.0%
Asbestos Abatement Loan	$ 4,885	$ 3,747	$ 2,710	$ -	$ -	$ (4,885)	-100.0%
Note Payable	$ 3,606	$ 2,516	$ 1,317	$ -	$ -	$ (3,606)	-100.0%
Subtotal Long-Term Debt	**$ 4,538,682**	**$ 4,697,085**	**$ 4,614,359**	**$ 5,266,000**	**$ 5,581,622**	**$ 1,042,940**	**23.0%**
Accrued Sick Pay Benefits	$ 214,883	$ 269,045	$ 295,302	$ 334,968	$ 459,823	$ 244,940	114.0%
Accrued Vacation Pay Benefits	$ 39,359	$ 73,890	$ 74,306	$ 75,508	$ 66,389	$ 27,030	68.7%
Accrued Workers' Compensation Claims	$ 75,414	$ 86,818	$ 91,791	$ 103,676	$ 109,735	$ 34,321	45.5%
Accrued General and Automobile Claims	$ 10,184	$ 10,149	$ 9,000	$ 5,531	$ 5,343	$ (4,841)	-47.5%
Tort Liabilities and Other Claims	$ 4,150	$ 1,400	$ 2,000	$ 2,500	$ 2,000	$ (2,150)	-51.8%
Net Pension Obligation	$ 1,751,427	$ 1,968,685	$ 1,929,885	$ 1,968,685	$ 2,262,010	$ 510,583	29.2%
Net OPEB Obligation	$ 425,104	$ 579,803	$ 756,653	$ 949,371	$ 1,130,197	$ 705,093	165.9%
Subtotal Other Long-Term Liabilities	**$2,520,521**	**$2,989,790**	**$3,158,937**	**$3,440,239**	**$4,035,497**	**$1,514,976**	**60.1%**
Grand Total Long-Term Liabilities	**$ 7,059,203**	**$ 7,686,875**	**$ 7,773,296**	**$ 8,706,239**	**$ 9,617,119**	**$ 2,557,916**	**36.2%**

Source: CPS Comprehensive Annual Financial Reports, Notes 8, 11 and 12, FY2007-FY2011.

General Obligation Debt

CPS general obligation debt is the largest component of the District's long-term debt portfolio, averaging 92.0% of all long-term debt from FY2007 to FY2011. General obligation debt is

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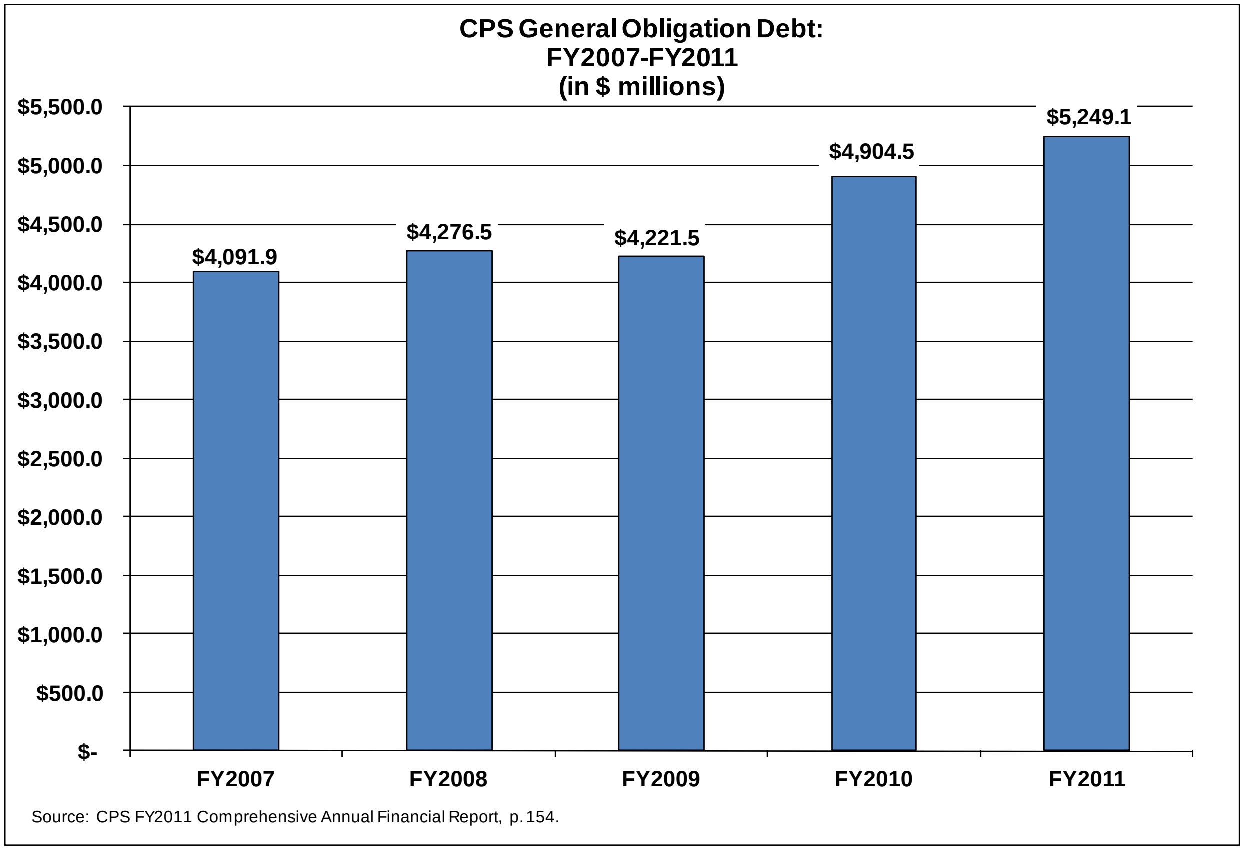
[109] Non-pension benefits provided to employees after employment ends are referred to as Other Post Employment Benefits (OPEB). OPEB includes health insurance coverage for retirees and their families, dental insurance, life insurance and term care coverage. It does not include termination benefits such as accrued sick leave and vacation. CPS has not established an irrevocable trust fund to account for its OPEB plan. These obligations are financed on a pay-as-you-go basis through the Chicago Teachers' Pension Fund. It is important to note that these benefits are funded by the retirement system, not CPS.

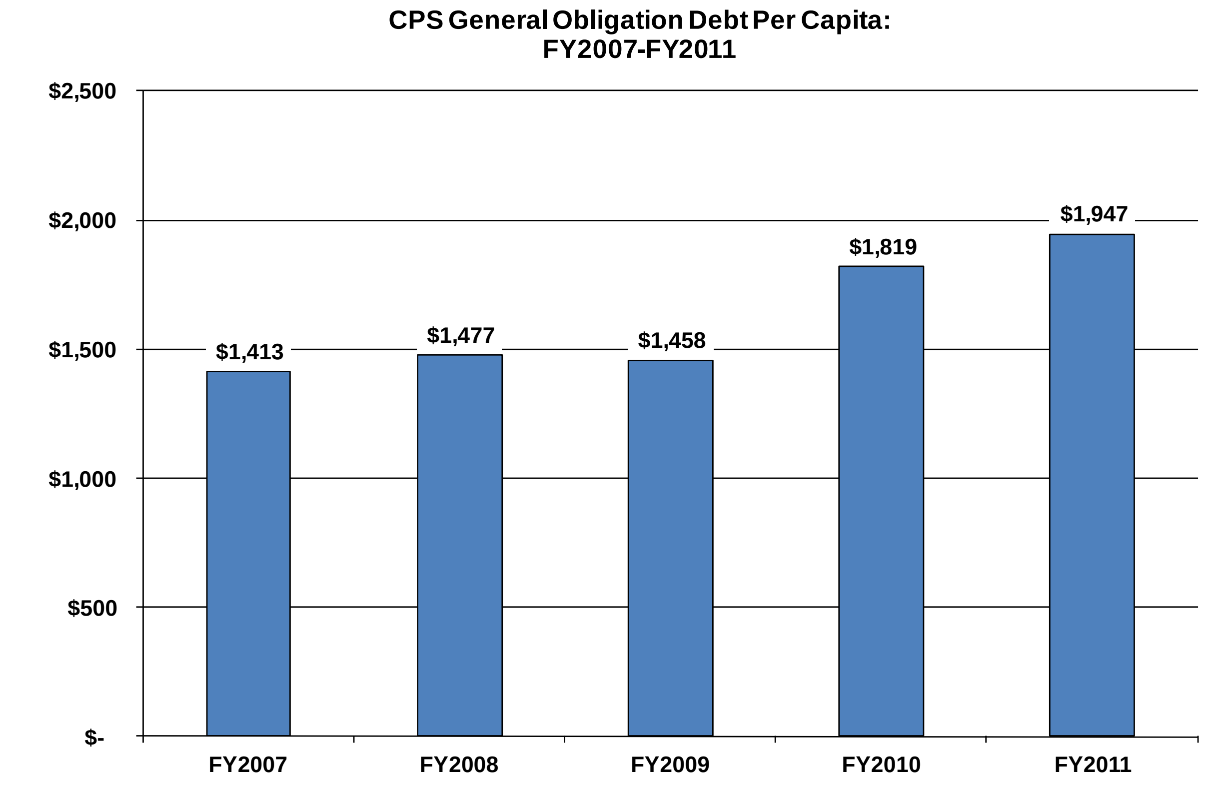
funded by property taxes and is backed by the full faith and credit of the District. Increases in general obligation debt amounts bear watching as a potential sign of escalating financial risk. The concern is that unless a government secures additional revenues or reduces spending at the same time it is increasing its debt burden, it may have difficulty making principal and interest payments at some point in the future.

CPS general obligation debt increased by 28.3%, or approximately $1.1 billion, between FY2007 and FY2011. This represents an increase from $4.1 billion to $5.2 billion. There was a 7.0%, or $344.6 million, rise between FY2010 and FY2011. The increase reflects the District's large capital construction program over the past several years. The rate of increase over time has been large and it bears watching, particularly as CPS faces continuing challenges in meeting its rising expenditures in areas such as personnel and retirement costs.



General Obligation Debt Per Capita

General obligation debt per capita is a measure of a government's ability to maintain its current financial policies. This indicator is commonly used by rating agencies to measure debt burden across governments. This indicator divides CPS general obligation debt amount per year by the population of the jurisdiction. Increases bear watching as a potential sign of increasing financial risk in much the same manner as total direct debt figures. CPS general obligation debt per capita increased by 37.8% between FY2007 and FY2011, rising from $1,413 to $1,947. The increase tracks, but is not the same as the dollar percentage increase over time for general obligation debt because the District's population fell between 2000 and 2010 according to the decennial census. Over the past two fiscal years, CPS direct debt per capita has jumped from $1,819 to $1,947, or 7.0%, from FY2010 to FY2011.



Source: Source: CPS FY2011 Comprehensive Annual Financial Report, p. 155.

Debt Service Appropriations as a Percentage of Total Appropriations

The ratio of debt service expenditures as a percentage of total Governmental Fund 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%.[110] Between FY2009 and FY2013, the debt service ratio averaged 6.6%, far below the 15% threshold.

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[110] 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.

CPS Bond Ratings

In FY2012 the credit ratings for CPS remained at A+ from Fitch and AA- from Standard & Poor's. The outlook from Standard & Poor's improved from negative to stable.

Moody's Investors Service lowered the District's rating from Aa2 with a stable outlook to Aa3 in October 2011. Moody's cited budgetary pressures, an above average debt burden, substantial additional capital needs and increased pension requirements as the reasons for its downgrade.[111] On July 10, 2012, shortly after the public release of the District's FY2013 budget. Moody's further downgraded CPS' general obligation rating to A1 from Aa3 over concerns about the proposed complete elimination of the District's reserves as well as the issues cited above. In addition, the credit outlook was revised from stable to negative because of the District's ongoing financial pressures including delayed intergovernmental revenues from the State of Illinois, uncertainty regarding the outcome of negotiations with the Chicago Teacher Union, the need for increased pension contributions next year and an estimated $1 billion budget gap for FY2014.[112]

CAPITAL BUDGET

On May 2, 2012, CPS released a capital budget via a new interactive website. The proposed capital improvement plan (CIP) includes a FY2013 capital budget and a five-year capital plan for FY2013-FY2017 as required by P.A. 97-0474. The plan describes CPS' 165 ongoing capital projects and each project's status. These projects total approximately $765 million and have been ongoing since 2006. The District notes that it has approximately $4.9 billion in unmet capital needs.

The website features a summary page for each project included under the capital plan. The project summaries provide information regarding a project's type and category, status, amount budgeted and corresponding budget year, anticipated start and completion dates, funding source and the purpose and scope of the project. As an example, below is a project summary page from the CIP for Lane Tech High School.

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[111] CPS FY2013 Proposed Budget, pp. 137-138.
[112] Moody's Investors Service. "Rating Update: Moody's downgrades Chicago Board of Education's GO rating to A1 from Aa3; Outlook revised to negative from stable," July 10, 2012.

Chicago Board of Education | **Project Detail**

Lane Tech High School

Project Summary

Project Type: ADA Accomodations	**Budget Amount: $16,065**
Department: Facilities	Budget Year: 2012
Status: Construction	Construction Start Date: April 2012
Unit Number: 46221	In Service Date: August 2012
	Anticipated Completion Date: September 2012

The purpose of this project is to provide an accessible doors for appropriate access to school programming.

Financial Details

Project Phase	Original Budget	Current Estimate
Design:	$1,434	$1,434
Construction:	$13,532	$13,531
Environmental:	$220	$220
Management:	$880	$880
Project Total:	**$16,065**	**$16,064**

Current Estimate:	**$16,064**
Expenditure to Date:	**$2,967**
Percent Complete:	**18%**
Funding Source:	**CPS Resources**

Details

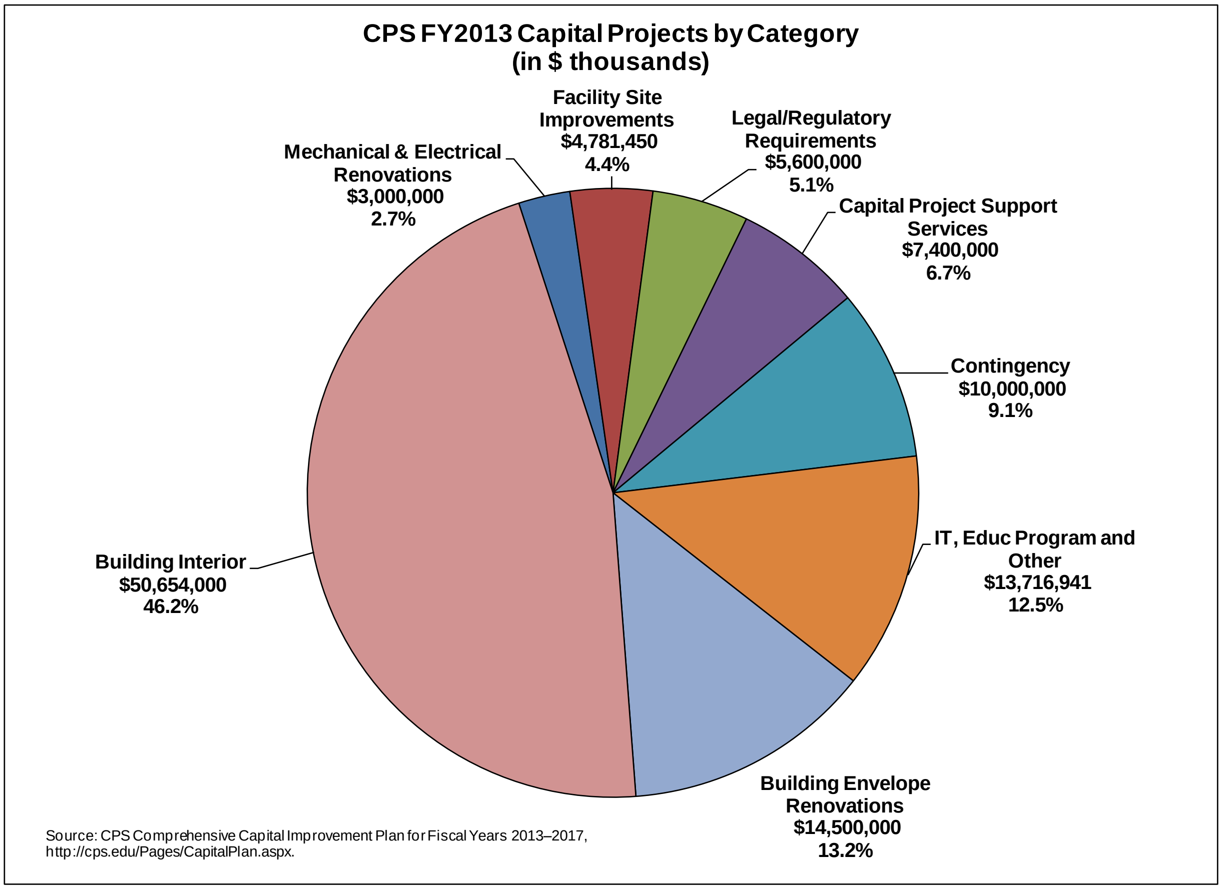
Ideal Program Enrollment:	3744
2011/2012 Enrollment:	4368
Space Utilization Index / Status:	17% (efficient)
Performance Level:	Level 1
Building Age:	78 Years
Network:	North-Northwest Side HS

Scope

The scope of this project is to provide additional accessibility. The renovations consist of replacing the power-assist doors at two student toilet rooms as well as replacing inaccurate signage that does not correctly depict accurate path of travel.

FY2013 Capital Budget

In FY2013 CPS proposes $109.7 million in capital projects. The largest single amount of new appropriations will be $50.6 million for building interior improvements, which primarily comprises Americans with Disabilities Act required improvements. The second largest individual category is $14.5 million for building envelope renovations (i.e., the roof, exterior walls and floor of a building). Information Technology, Educational Programming and Other Projects will consume 12.5%, or $13.7 million, of the capital budget.



Capital Project Revenues and Spending: FY2010-FY2013

This section of the analysis presents information about trends in CPS capital budget spending.

Between FY2012 and FY2013 total capital revenues will increase by $40.9 million, or 67.0%, from $61.0 million to $101.9 million. State revenues are expected to rise from $1.2 million to $60.9 million. Of that amount, $59.9 million is anticipated to be Capital Development Board grants and $1.0 million in an Illinois Environmental Protection Agency grant for stormwater management at Goethe School. Local revenues will fall from $59.3 million to $41.0 million. Of that $41.0 million, $39.9 million is expected from Chicago Infrastructure Trust receipts related to CPS's energy efficiency program.[113]

Capital outlays will rise from $533.3 million to $672.3 million in FY2013 from the previous year. In the same period, bond issuance will increase by 23.9%, rising from $403.6 million to $500.0 million. The end of year fund balance will drop substantially by 61.6%, falling from $114.2 million to $43.8 million. No federal funds are expected.

Over the four year period between FY2010 and FY2013, total capital revenues will rise by 4.6%, or $4.5 million. Capital outlays will fall slightly by 2.8%, or $19.5 million, dropping from

[113] CPS FY2013 Proposed Budget, p. 132.

$691.8 million to $672.3 million. The end of year fund balance will drop sharply from $263.4 million to $43.8 million, an 83.4% decline.

CPS FY2013 Capital Projects Fund Budget Summary: (in $ millions)								
	FY2010 Actual	FY2011 Actual	FY2012 Year-End Estimate	FY2013 Proposed Budget	Two-Year $ Change	Two-Year % Change	Four-Year $ Change	Four-Year % Change
Beginning of Year Fund Balance	$ 100.7	$ 263.4	$ 182.9	$ 114.2	$ (68.7)	-37.6%	$ 13.5	13.4%
Revenues								
Local Revenue	$ 83.1	$ 93.4	$ 59.3	$ 41.0	$ (18.3)	-30.9%	$ (42.1)	-50.7%
State Revenue	$ -	$ 2.8	$ 1.2	$ 60.9	$ 59.7	4975.0%	$ 60.9	-
Federal Revenue	$ 12.3	$ 4.4	$ 0.5	$ -	$ (0.5)	-100.0%	$ (12.3)	-100.0%
Interest Earnings	$ 2.0	$ -	$ -	$ -	$ -	-	$ (2.0)	-100.0%
Total Revenue	**$ 97.4**	**$ 100.6**	**$ 61.0**	**$ 101.9**	**$ 40.9**	**67.0%**	**$ 4.5**	**4.6%**
Expenditures								
Capital Outlay	$ 691.8	$ 563.4	$ 533.3	$ 672.3	$ 139.0	26.1%	$ (19.5)	-2.8%
Bond Issuance	$ 757.0	$ 382.3	$ 403.6	$ 500.0	$ 96.4	23.9%	$ (257.0)	-33.9%
End of Year Fund Balance	**$ 263.4**	**$ 182.9**	**$ 114.2**	**$ 43.8**	**$ (70.4)**	**-61.6%**	**$ (219.6)**	**-83.4%**

Source: CPS FY2012 Proposed Budget, p. 240 (for FY2010 data) and FY2013 Proposed Budget p. 132.

CPS FY2013-FY2017 Capital Improvement Plan

The FY2013-FY2017 capital plan totals approximately $813.6 million.[114] The proposed budgets for each year of the multi-year plan are:

- $109.7 million in FY2013;
- $97.9 million in FY2014;
- $203.1 million in FY2015;
- $201.0 million in FY2016; and
- $201.9 million in FY2017.

In fiscal years 2014-2017, CPS plans to renovate 59 schools through building envelope renovations ($242.6 million), mechanical and electrical renovations ($149.1 million) and major renovations ($67.5 million).[115] In FY2014 CPS plans to conduct a major renovation of the current Malcolm X College campus. It will become the site of the Chicago High School for the Arts after Malcolm X College transitions to its new home in FY2015. Schools also identified for major renovations include: Sumner Academy (FY2015), Pilsen Academy (FY2016) and Tanner School and Ross School (FY2017).

The CIP allocates annual funding for several other major initiatives, which include $3.6 million for playgrounds (included under Facility Site Improvements), $10.0 million for IT investments and upgrades, $5.0 million in chimney repairs and maintenance and $500,000 in FY2013-FY2015 and $10.0 million in FY2016-FY2017 in projects to improve accessibility options under the Americans with Disabilities Act.

[114] See CPS Comprehensive Capital Improvement Plan for Fiscal Years 2013–2017 at http://cps.edu/Pages/CapitalPlan.aspx.
[115] Building envelope renovations include maintenance and repairs to roofs, chimneys, masonry and windows. Major renovations encompass both building envelope and mechanical and electrical renovations.

Chicago Public Schools Capital Improvement Plan by Category: FY2013-FY2017						
Category	FY2013	FY2014	FY2015	FY2016	FY2017	Total
Building Envelope Renovations	$ 14,500,000	$ 28,400,000	$ 82,000,000	$ 62,600,000	$ 55,100,000	$ 242,600,000
Mechanical & Electrical Renovations	$ 3,000,000	$ 3,600,000	$ 46,100,000	$ 52,800,000	$ 43,600,000	$ 149,100,000
Major Renovations	$ -	$ 30,000,000	$ 9,100,000	$ 9,000,000	$ 19,400,000	$ 67,500,000
Building Interior	$ 50,654,000	$ 500,000	$ 500,000	$ 10,000,000	$ 10,000,000	$ 71,654,000
Facility Projects	$ -	$ -	$ -	$ -	$ 8,400,000	$ 8,400,000
Facility Site Improvements	$ 4,781,450	$ 3,600,000	$ 3,600,000	$ 3,600,000	$ 3,600,000	$ 19,181,450
New Facility Construction	$ -	$ -	$ 30,000,000	$ 30,000,000	$ 30,000,000	$ 90,000,000
Contingency	$ 10,000,000	$ 10,000,000	$ 10,000,000	$ 10,000,000	$ 10,000,000	$ 50,000,000
Capital Project Support Services	$ 7,400,000	$ 7,400,000	$ 7,400,000	$ 7,400,000	$ 7,400,000	$ 37,000,000
IT, Educational Programming and Other Projects	$ 13,716,941	$ 10,000,000	$ 10,000,000	$ 10,000,000	$ 10,000,000	$ 53,716,941
Legal/Regulatory Requirements	$ 5,600,000	$ 4,400,000	$ 4,400,000	$ 5,600,000	$ 4,400,000	$ 24,400,000
Total	**$ 109,652,391**	**$ 97,900,000**	**$ 203,100,000**	**$ 201,000,000**	**$ 201,900,000**	**$ 813,552,391**

Source: CPS, Capital Improvement Plan for Fiscal Years 2013-2017, www.cps.edu/capitalplan.

Planning and Prioritization

The capital improvement plan includes a brief explanation of the rationale for identifying and prioritizing capital needs throughout the CPS district, as well as a new model timeline for updating the capital budget on an annual basis. The rationale is based on recent changes to the State of Illinois' School Code in Public Act 97-0474, which provides guidelines and standards for master capital planning for schools and the development of a Ten-Year Educational Facility Master Plan. CPS' Master Plan is expected to be released on January 1, 2013. The following chart illustrates the annual capital budget timeline established by CPS.

Chicago Public Schools Annual Capital Budget Timeline	
Date(s)	**Step**
January 1	Publish list of all property owned by or leased to CPS on CPS website
January-April	Project assessment, needs analysis and formal approval process
May 1	Release of One-Year and Five-Year CIP
October 1	Release of Annual Capital Expenditure
January 1	Release of Preliminary Ten-Year Educational Facility Master Plan
July 1	Approval of Ten-Year Educational Facility Master Plan

The timeline does not include public review; however, the press release announcing the capital budget states that public input will be accepted via the website and at public hearings – dates and times have yet to be announced. Public testimony on the capital plan will also be permitted at the FY2013 budget hearings as the Board of Education will vote on approval of the FY2013 capital budget and FY2013 budget at the same time.[116]

The District's CIP meets the requirements of P.A. 97-0474 for developing a five year capital plan as well as most of the best practice requirements as defined by GFOA and the National Advisory Council on State and Local Budgeting. These include identifying and describing the prioritization process used, providing a timeline for completing projects, identifying funding sources for projects, making the CIP publically available for stakeholders on the CPS website and accepting public input via the website and at public hearings.

[116] The Board of Education votes to adopt the one-year capital budget, not the full five-year CIP. Information provided by CPS Budget Office, July 17, 2012.