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CIVIC FEDERATION OFFERS QUALIFIED SUPPORT FOR CPS BUDGET URGES BOARD OF TRUSTEES TO REDUCE PROPERTY TAX LEVY BY \$32 MILLION

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Chicago Public Schools (CPS) has taken some important steps to contain costs and increase the transparency of its proposed \$5.8 billion operating budget, the Civic Federation reported in its 68-page budget analysis released today. However, the Federation qualified its support of the proposed FY2008 school spending plan until CPS leadership follows through on its commitment to publicly release detailed long-term financial and capital plans next year.

The Civic Federation applauds CPS for taking a number of fiscally responsible actions this year, such as reducing staffing by 160 as enrollment declines and successfully containing the cost of employee health insurance. The district's health insurance costs are projected to increase by 2% in 2008, compared to 9.5% last year and 7.3% two years ago. CPS has also made considerable progress in improving its budget document, crafting a budget that will be more accessible to the general public and contain better information. Most significantly, CPS leadership has made a public commitment to develop and implement long-overdue capital and fiscal planning strategies.

The Civic Federation also urges the Chicago Board of Education to **cut the CPS property tax levy by \$32 million** in response to extra funding the State of Illinois has appropriated for the district. CPS created its proposed budget with the expectation that it would receive \$98 million in new state aid, but the state budget recently passed by the General Assembly includes \$131 million for the district. Given that the FY2008 CPS budget as currently configured would increase property taxes to the maximum amount allowed under the tax cap law for the eleventh time since 1997, the Federation believes that it would be appropriate for the district to cut its levy. "Reducing the property tax levy at even a modest level would send a strong message to Springfield that increased state funding does have an impact on the district's property tax demand," said Laurence Msall, President of the Civic Federation.

CPS faces enormous fiscal challenges in coming years, from rising personnel costs, despite staff reductions, to exponentially growing pension costs. Benefit costs are outstripping revenue growth by a ratio of nearly two to one while student enrollment continues to fall. All of these budgetary pressures make it imperative that the CPS implement long term strategies to effectively prioritize the use of scarce resources. We were very pleased to see schools Chief Executive Officer Arne Duncan and Mayor Daley endorse the school financial management accountability reforms, such as capital improvement plans and long term financial plans, the Federation developed for a Metropolitan Mayors Caucus report released in April. "An enterprise as large and complex as the Chicago Public Schools must be able to show taxpayers their money is being used efficiently. Without a long term financial plan, it is difficult for the district to demonstrate the good fiscal stewardship needed to manage billions of dollars in operating funding and proposed capital investment," said Msall.

The CPS must also aggressively seek legislation to curb its rapidly growing retirement costs. A moratorium on **any** pension benefit enhancements would help control the rate of increase of pension liabilities, as would indexing annual increases in annuities to the lesser of CPI or 3%. We also advise CPS to seek reform of the Teachers' Pension Fund governing structure to ensure greater balance of interests between management and employee representatives.

The Civic Federation's full analysis and recommendations will be released to the public on our website, www.civiced.org, at 9:00 a.m. on Wednesday, August 22, 2007.

The Civic Federation is an independent, non-partisan government research organization founded in 1894. The Federation's membership includes business and professional leaders from a wide range of Chicago area corporations, professional service firms and institutions.



**CHICAGO PUBLIC SCHOOLS
FY2008 RECOMMENDED BUDGET**

Analysis and Recommendations

**Prepared By
The Civic Federation
August 22, 2007**

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EXECUTIVE SUMMARY

Chicago Public Schools (CPS) has proposed a \$5.8 billion budget for FY2008. In the proposed budget, the initial deficit of \$262.0 million was addressed through \$189.0 million in revenue enhancements and a transfer of \$73.0 million from reserve funds. The property tax levy will be increased to the maximum amount allowed under the state tax cap law.

The Civic Federation offers **qualified support** for CPS's Recommended FY2008 \$5.8 billion budget. CPS is taking some important measures to contain costs, such as eliminating 160 positions no longer necessary in light of declining enrollment. Healthcare costs will be held to just a 2.0% increase. The district has made considerable efforts to improve the transparency of the budget document this year, crafting a document that contains more accurate and accessible information. Finally, and perhaps most significantly, CPS leadership has made a public commitment to develop and implement long overdue capital and fiscal planning strategies that are essential if CPS is to meet the serious fiscal challenges it will face in the future.

However, The Civic Federation urges the Board of Trustees to **reduce its property tax levy this year by \$32 million**. CPS is scheduled to receive a greater share of State of Illinois funds this year than the district had projected when constructing its budget. Rather than regarding this money as a windfall that can be used to increase spending, the district should reduce property taxes by the entire amount of the additional state funding. Doing so would be a good faith gesture by the Board toward beleaguered Chicago taxpayers and a refreshing break from the district's past practice of reflexively increasing property taxes by the maximum amount allowed by law year after year.

With a \$5.8 billion budget and an enormous physical plant, CPS is one of the largest, most complex enterprises in the State of Illinois. Yet for far too many years, the district has failed to utilize common sense planning tools such as a multi-year capital improvement plan (CIP) and a long-term financial plan to develop long-term strategies and more effectively prioritize the use of scarce resources. We were therefore very pleased when CPS Chief Executive Officer Arne Duncan stood with Chicago Mayor Daley in endorsing a series of school financial management accountability reforms this year that included the development and publication of capital improvement plans, long-term financial plans, and support service performance measures.¹ In addition, CPS financial staff indicated that it is currently developing a three-year capital improvement plan and four-year financial projections. The staff has pledged that these plans will be published in the FY2009 budget.²

It is imperative that CPS follow carefully developed long-term financial strategies because it will face enormous fiscal challenges in coming years. Personnel costs rose by 4.2% this year despite staff reductions. The cost of teacher pensions rose by \$63 million this year, is projected to rise \$120.6 million next year, and will continue to rise exponentially for decades. Total employee benefit costs are outstripping general operating revenue growth by a ratio of nearly two to one; between FY2005 and FY2008, benefit costs rose by 40.2% while revenues correspondingly rose by 20.5%. Finally, these rising personnel expenses came at a time when student population was continuing to decline – between 2001 and 2006, student enrollment fell by over 23,000 students.

¹ April 10, 2007 Press Conference announcing the release of “*Strengthening the Financial Accountability of Illinois School Districts: A Report of the Education Reform Committee of the Metropolitan Mayors Caucus*”.

² Information provided to The Civic Federation in meeting with CPS Finance and Budget staff, July 31, 2007.

The Civic Federation's support of this budget is "**qualified**" because it is based in large part upon the pledge of CPS's leadership to develop long-term planning tools and strategies and to make the results of these exercises publicly available. We look forward to the implementation of these promises in the coming year.

The Civic Federation offers the following **key findings** on the FY2008 Recommended Budget:

- The total proposed FY2008 Chicago Public Schools budget will increase by 9.3%, rising from \$5.3 billion to \$5.8 billion. This is a \$491.4 million increase from FY2007;
- Nearly 46.7% of the total FY2008 budget increase, or \$229.4 million, is for capital spending attributable to the Modern Schools Across Chicago construction program (MSAC), which was announced by City of Chicago Mayor Richard Daley in the summer of 2006;
- Appropriations for employee compensation, including salaries and benefits, will increase by 5.4% in FY2008, rising from \$3.2 billion to \$3.3 billion. Since FY2004, compensation costs have risen by 20.7%, or \$578.2 million;
- Since FY2004, employee benefit costs for pension, health insurance, unemployment compensation and Medicare/social security have risen by 40.2%, from \$564.7 million to \$791.5 million. Teacher pension costs alone have risen by 76.7%, or from \$197.7 million to \$393.3 million;
- Property tax revenues for all funds are projected to increase to \$1.82 billion in FY2008, a 4.1% or \$74.2 million increase over FY2007 revenues. For the 2007 tax year, the levy will be increased to the maximum amount allowed under the tax cap law; and
- A total of 160 positions will be eliminated, reducing the District's overall number of positions to 43,990.

The Civic Federation is **encouraged** by several elements of the proposed budget:

- Staffing will be reduced by 160 positions in the FY2008 budget, nearly all of which are teaching positions. This is a reasonable measure given the district's declining enrollment;
- Health insurance costs will rise by only 2.0%, from \$301.3 million to \$307.3 million. This contrasts with a 9.5% increase in the prior budget cycle and a 7.3% rise two years ago. Keeping down health insurance costs is an important achievement, especially at a time when many governments are experiencing double-digit increases;
- Important format changes in the FY2008 budget document will significantly enhance taxpayers' and stakeholders' ability to understand the district's financial management strategies and budget priorities over time; and
- CPS has made a public commitment to incorporate formal, transparent, and comprehensive planning mechanisms into its budgetary and financial management strategies. These include the development of a three-year capital improvement plan and four-year financial projections. Both plans will be published in the FY2009 budget.

The Civic Federation has several **concerns** about the FY2008 Chicago Public Schools budget:

- CPS faces many daunting, long-term structural issues including continued increases in personnel costs despite personnel reductions, benefit cost increases that far outstrip general operating revenue increases, and declining student enrollment;

- CPS still has not developed and published a capital improvement plan, even though it has considered doing so for many years;
- CPS has not developed and implemented a long-term financial planning process;
- CPS has not developed a performance measurement system that would allow stakeholders to assess how efficiently funds are spent. Such a system is critical given that CPS has budgeted \$1.7 billion for “supporting services” in FY2008; and
- The property tax levy will be increased to the maximum amount allowed under the tax cap law for the eleventh time since FY1997.

The Civic Federation offers the following **recommendations** to improve the Chicago Public Schools’ financial management:

- Because CPS will receive \$32 million more in state funding than it had anticipated for FY2008, The Civic Federation urges the district to reduce its levy by that amount;
- CPS should, as promised, prepare and make publicly available a comprehensive multi-year capital improvement plan. It is time for CPS to make good on its four-year promise to prepare, disclose and implement a formal CIP linked to a comprehensive, district-wide financial planning process;
- CPS should develop a formal long-term financial plan that is shared with and/or reviewed by key policymakers and stakeholders, including the members of the Board of Education and the taxpaying public;
- CPS should follow up on the success of its effort to purchase prescription drugs with other local governments and pursue joint purchasing of health insurance;
- Pension benefit reforms should be pursued by the district to cap escalating pension expenses. Annual benefit increases for new hires should be held to 3% or the rate of inflation, whichever is less. The employee share of pension costs should be increased by at least one percentage point (to 3%); this shift of pension costs should be a top priority when CPS negotiates new collective bargaining agreements;
- The Teachers’ Pension Board should be restructured to balance employee and management interests. This would require developing a tripartite structure that includes both citizen and financial expert representation on pension boards, as well as requiring financial training for non-experts; and
- The budget format should be further enhanced by: providing current and historic aggregate personnel information, showing positions by fund for teachers and support personnel; an evaluation of budget initiative and management efficiencies proposed in the previous fiscal year budget supported by performance and cost-savings data; and clear presentation of all relevant charter school data.

OVERVIEW OF ANALYSIS

The Civic Federation offers **qualified support** for the Chicago Public Schools' (CPS) Recommended FY2008 \$5.8 billion budget. CPS is taking some prudent measures to contain costs and has made a commitment to develop and implement long-overdue capital and fiscal planning strategies.

However, we believe there is a real opportunity for CPS to show good faith with taxpayers and urge the Board of Trustees to **reduce its property tax levy this year by \$32 million**. CPS is scheduled to receive a greater share of State of Illinois funds this year than it had projected when drafting its FY2008 budget. Rather than regarding this money as a windfall that can be used to increase spending, the district should reduce property taxes by the entire amount. Doing so would be a good faith gesture by the Board toward beleaguered Chicago taxpayers and a refreshing break from the district's past practice of reflexively increasing property taxes by the maximum amount allowed by law year after year.

The Civic Federation **commends** CPS for taking a number of fiscally responsible actions this year. First, the district continues to reduce staffing as enrollment declines. Thus, in FY2008, there will be a net reduction of 160 positions; this comes after a 2,000 position reduction in FY2007. Second, the district contains the cost of employee health insurance, experiencing a rise of just 2.0% this year, which is a major achievement at a time of double-digit increases for many other governments. Third, the district has made considerable efforts to improve the transparency of its budget this year, crafting a document that contains more accessible and accurate information. Finally, and most significantly, CPS has made a public commitment to embrace the long-term planning strategies that must be implemented to deal with the serious fiscal challenges this government will face in the years ahead.

With a \$5.8 billion budget and an enormous physical plant, CPS is one of the largest, most complex enterprises in the State of Illinois. Yet for far too many years, the district has failed to utilize common sense planning tools such as a multi-year capital improvement plan (CIP) and a long-term financial plan to develop long-term strategies and more effectively prioritize the use of scarce resources. These tools are commonly used by governments and businesses across America. We were therefore very pleased this year when CPS Chief Executive Officer Arne Duncan stood with Chicago Mayor Daley and Metropolitan Mayors Caucus Chair Ed Schock of Elgin in endorsing a series of school financial management accountability reforms, including the development of capital improvement plans, long-term financial plans, and support service performance measures. In addition, CPS financial staff indicated that it is developing a three-year capital improvement plan and four-year long-term financial projections, and that these plans will be published in the FY2009 budget.³

The Civic Federation's support of this budget is "**qualified**" because it is based in large part upon the pledge of CPS's leadership to develop long-term planning strategies and to make the results of these exercises publicly available. We await those results next year.

It is imperative that CPS follow carefully developed long-term financial strategies because it will face enormous fiscal challenges in coming years. Personnel costs rose by 4.2% this year even

³ Information provided to The Civic Federation in meeting with CPS Finance and Budget staff, July 31, 2007.

with staff reductions. The cost of teacher pensions rose by \$63 million this year, is projected to rise \$120.6 million next year, and will continue to rise exponentially as the district struggles to improve the funding of its pension fund. Total benefit costs are outstripping general operating revenue growth by a ratio of nearly two to one. Between FY2004 and FY2008, benefit costs rose by 40.2% while revenues rose by 20.5%. Finally, these rising personnel expenses came at a time when student population was continuing to decline – between 2001 and 2006, student enrollment fell by over 23,000 students.

Issues that The Civic Federation Supports

The Civic Federation is very encouraged by several measures proposed by the CPS for the 2008 fiscal year. These efforts include reducing personnel, containing employee healthcare costs, greatly improving the budget format, and publicly committing to implement key planning mechanisms that will help address the district's ongoing fiscal problems.

Reduction in Positions

In the FY2008 budget CPS proposes a net reduction in personnel of 160 positions. Most of these positions are teaching positions. Last year, over 2,000 positions were eliminated. Student enrollment declined by over 23,000 students or 5.5% between the fall of 2001 and the fall of 2006. Given that this decline is expected to continue, The Civic Federation believes that continued reductions in staffing levels are appropriate. They have already helped slow the escalating rate of growth in benefit and salary costs for CPS.

Employee Healthcare Cost Containment

CPS has made progress in containing personnel costs, particularly in the area of employee health insurance costs, which will rise by just 2.0% this year.

Employee salaries and benefits will consume 58.2% of the entire budget and 72.4% of the operating budget in FY2008. Therefore, any effort to control overall budgetary expenses must necessarily consider ways to contain these costs.

In FY2008 total personnel costs will rise by 4.2%, from \$3.2 billion to \$3.3 billion. Last year, the budgeted increase was 4.3%. Personnel cost increases have been kept stable in large part because budgeted teacher salary cost increases were 2.9% in FY2007 and 1.2% in FY2008. These increases reflected the provisions of the current union contract and reductions in staffing. Holding the line on this expense is important because teacher salaries averaged 60% of total personnel costs in both years and thus are the key driver of personnel expenses.

A different picture emerges in an examination of benefit increases. In FY2008 benefit costs will increase by 11.1%, from \$712.3 million to \$791.5 million. The good news is that health insurance costs will rise by only 2.0%, from \$301.3 million to \$307.3 million. This contrasts with a 9.5% increase in the prior budget cycle and a 7.3% rise two years ago. Keeping down health insurance costs is an important achievement, especially at a time when many governments are experiencing double-digit increases.

The looming fiscal problem CPS faces moving forward is the rapidly escalating cost of pensions. As the exhibit shows, teacher pension costs will increase by nearly 20% in FY2008, from \$291.5 million to \$349.3 million, as mandated by state law.

CPS Employee Benefits FY2007-FY2008 (Operating Funds)				
Expenditure Type	FY2007	FY2008	\$ Change	% Change
Teacher Pension	\$ 291.5	\$ 349.3	\$ 57.8	19.8%
Educational Support Personnel Pension	\$ 84.3	\$ 89.7	\$ 5.4	6.4%
Hospitalization	\$ 301.3	\$ 307.3	\$ 6.0	2.0%
Unemployment Compensation	\$ 10.9	\$ 10.8	\$ (0.1)	-0.9%
Medicare/Social Security	\$ 24.3	\$ 34.4	\$ 10.1	41.6%
Total Benefits	\$ 712.3	\$ 791.5	\$ 79.2	11.1%

Source: CPS Office of Management and Budget

Currently, CPS is engaged in contract negotiations with its labor unions. CPS must be mindful of the critical need to contain personnel costs in the future. This will require continued strong efforts to control benefit increases. The Civic Federation believes these efforts should include instituting a two-tier pension system, resulting in reduced benefits for new hires.

Budget Format Improvements

The Civic Federation commends CPS's financial management team for substantially improving the format of the budget document. The changes adopted in the FY2008 budget will significantly enhance taxpayers' and stakeholders' ability to understand the district's financial management strategies and budget priorities over time. This year's budget includes:

- A "walk-up" that describes the sources of the current fiscal year budget deficit in the introductory pages of the budget;
- A "walk-down" that identifies the steps taken to eliminate the budget deficit;
- Clear narrative descriptions of district priorities, financial challenges and budget assumptions in the Budget Overview section;
- Narrative detail and cost information regarding staffing realignment and management efficiencies in the Budget Overview section;
- Identification of forthcoming cost-saving measures that will affect future budgets and their associated projected savings;
- Increased detail in the Financial Summary Tables section, including:
 - Appropriations listed by fund category and unit group (i.e. "High Schools", "Central / Area Office");
 - Appropriations by function (i.e. "Vocational Programs", "Bilingual Programs", "Health Services") and unit group;
 - Summary of appropriations by funds, organizational units (i.e. "Office of Literacy", "Office of Math & Science"), and objects (i.e. "Salaries", "Transportation"); and
 - A two-year summary table of appropriations and Full-Time Equivalent employees (FTEs) by administrative unit;
- A narrative section describing the district's financial strategy and resource realignment; and
- A new statistical history section with detailed charts showing five-year resource and appropriations data.

- Consistent presentation throughout the budget of All Funds and General Operating Funds data.
- A CD-ROM containing budgets for all individual CPS schools. These “school segment” reports provide parents and others with a snapshot of each school’s financial activity for the fiscal year. Included is:
 - Budgetary information by type of activity (Instruction, Administration, Support Services and Facility Support), by function (General Education, Special Education, etc.) and by object of expenditure (Salaries and Benefits, Textbooks, etc.); and
 - Demographic information such as enrollment, percent of students in poverty and student/teacher ratio.

Commitment to Developing and Implementing Planning Mechanisms

CPS leadership has indicated to The Civic Federation on two occasions that it embraces a strategy of developing and implementing critical planning mechanisms that will help address the district’s ongoing and future fiscal problems.

First, at an April 10, 2007 press conference, CPS Chief Executive Officer Arne Duncan joined Chicago Mayor Daley and Metropolitan Mayors Caucus Chair Ed Schock of Elgin in endorsing a series of school financial management accountability reforms. The reforms, which included calls for the development of capital improvement plans, long-term financial plans and support service performance measures, were included in “Strengthening the Financial Accountability of Illinois School Districts”, a report prepared by the Civic Federation for the Metropolitan Mayors Caucus.⁴

Second, in a meeting with The Civic Federation on the FY2008 budget, CPS financial staff indicated that it is in fact developing a three-year capital improvement plan and four-year long-term financial projections. These plans will be incorporated into the FY2009 budget.⁵

The Civic Federation **welcomes** CPS’s publicly expressed commitment to move toward incorporating formal, transparent and comprehensive planning mechanisms into its budgetary and financial management strategies. We urge the district to move further on this path and also to develop and implement a performance measurement system for its support services.

Issues of Concern to the Civic Federation

The Civic Federation has several concerns relating to CPS’s long-term structural difficulties, its lack of financial planning mechanisms and its reflexive move to once again increase property taxes to the maximum amount allowed by the tax cap law.

Structural Problems: Rising Personnel Costs, Declining Enrollment

CPS faces several major structural problems that must be addressed over time:

⁴ Metropolitan Mayors Caucus. *Strengthening the Financial Accountability of Illinois School Districts: A Report of the Education Reform Committee of the Metropolitan Mayors Caucus*, April 2007, pp. 30-34.

⁵ Information provided to The Civic Federation in meeting with CPS Finance and Budget staff, July 31, 2007.

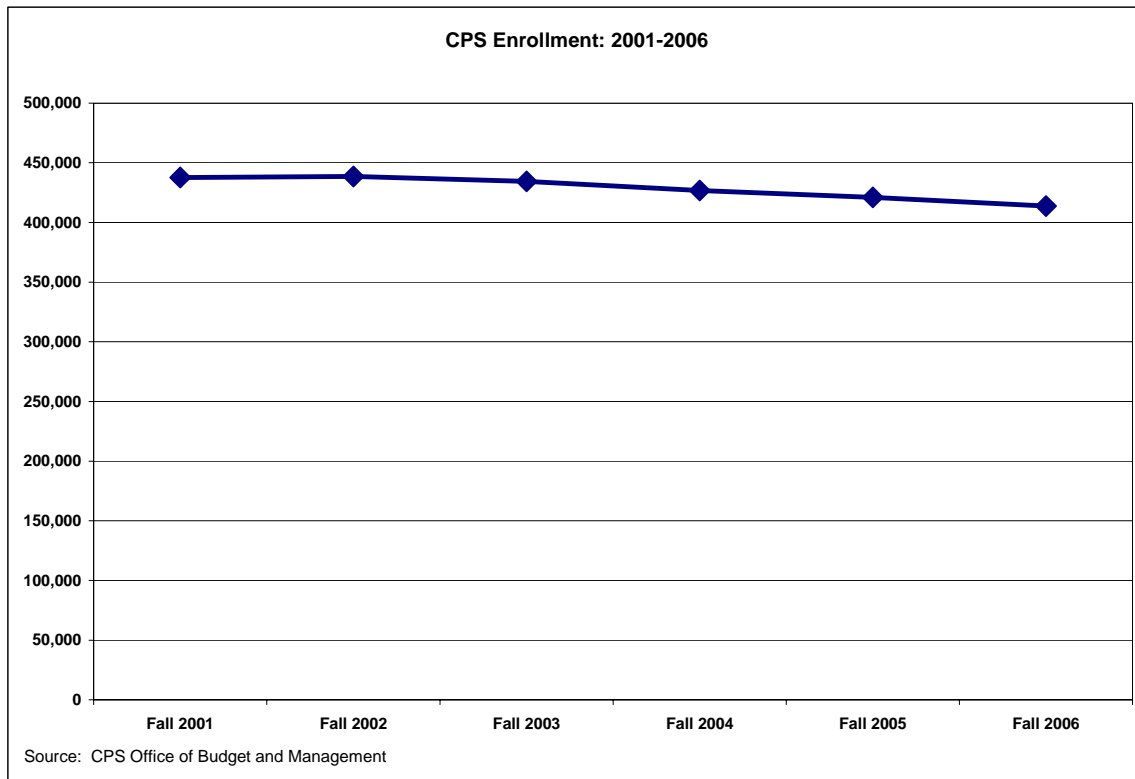
- **Ever Rising Personnel Costs.** CPS has successfully managed healthcare costs and reduced staffing by over 2,000 in FY2007 and 160 in FY2008. Despite taking these responsible measures, however, the district’s personnel costs continue to rise. In FY2008, total CPS personnel costs for salaries and benefits will rise by 4.2%, from \$3.2 billion to \$3.3 billion.
- **Skyrocketing Pension Costs.** In FY2008 the budgetary cost of pensions for teachers and educational support personnel will increase by over \$63 million, a nearly 17% rise. In future years CPS pension costs will skyrocket. Next year the district will be required to contribute \$120.6 million to the Teachers’ Retirement System. For each year after that until 2045, the annual pension contribution will increase exponentially, reaching \$484.2 million in 2045. These increases are mandated by a state law requiring the CPS to achieve a 90% funded ratio by 2045.
- **Total Benefit Cost Growth Outstrips Revenue Growth.** The growth in CPS personnel costs continues to outstrip general operating revenue growth. While CPS’s operating revenues⁶ rose by 20.5% in the five-year period between FY2004 and FY2008, benefits increased at a rate two times as high, or 40.2%. Teacher pension costs alone rose by 76.7% in FY2008. Given CPS’s present expenditure and revenue structure , the district’s current rate of benefit increases is unsustainable over time.

CPS Employee Benefits FY2004-FY2008 (Operating Funds)				
Expenditure Type	FY2004	FY2008	\$ Change	% Change
Teacher Pension	\$ 197.7	\$ 349.3	\$ 151.6	76.7%
Educational Support Personnel Pension	\$ 79.4	\$ 89.7	\$ 10.3	13.0%
Hospitalization	\$ 256.0	\$ 307.3	\$ 51.3	20.0%
Unemployment Compensation	\$ 2.7	\$ 10.8	\$ 8.1	300.0%
Medicare/Social Security	\$ 28.9	\$ 34.4	\$ 5.5	19.0%
Total Benefits	\$ 564.7	\$ 791.5	\$ 226.8	40.2%

Source: CPS Office of Management and Budget

- **Declining Enrollment.** CPS enrollment continues to decline at the same time operating costs climb. Between 2001 and 2006, pupil enrollment fell by 23,000 students or 5.5%. Enrollment is expected to continue to decline into the foreseeable future.

⁶ “Operating revenues” here refers to General and Special Revenue Funds.



The structural problems faced by CPS will require the district to clearly identify priorities and consequently make difficult choices. The best way to make informed decisions in the coming years is through the development and use of various planning and management strategies such as a capital improvement plan, performance measures and a long term financial plan. Therefore, it is imperative the CPS move quickly to significantly improve its planning capacity.

No Formal Capital Improvement Plan

For years CPS has said that it was working on a Capital Improvement Plan (CIP). The public is still waiting for that document. The district's financial management team has assured us that by next year (FY2009) they will have developed a three-year forecast of capital financial and project information, including a schedule of when buildings will come online.⁷ We applaud CPS for moving in this direction, but we are concerned about the slow pace of this transition. Developing and publishing a CIP is a key element in providing taxpayers with full and complete disclosure about the enormous capital investments the district makes on a regular basis, as well as what it is planning to fund in the future.

The Civic Federation would like to note that CPS currently provides useful capital project information. The following pieces of capital project information are located under the Department of Operations section on CPS's website:⁸

⁷ Information provided by CPS Budget Office, July 31, 2007.

⁸ See www.cps.k12.il.us/Operations/cip.html.

1. Under the “Capital Projects” section, CPS provides summary information for individual schools about project costs, whether projects have been completed and the scope of particular projects (see <http://www.csc.cps.k12.il.us/servlet/CIP>).
2. Under the “School Assessments” section, CPS provides a narrative description of the assessment process, a project priority ranking system, and both summaries and detailed assessments of capital infrastructure for each school. The assessments of capital infrastructure include priority rankings of projects, priority ranking descriptions and costs. Approximately one-third of CPS’s physical plant is assessed every year (see <http://www.cps.k12.il.us/operations/pdf/CPS%20Assessment%20Process.pdf>).
3. Under the “AIO Reporting” section, CPS provides construction status reports that include information about project scope, cost, percent complete and planned completion date (see www.cps.k12.il.us/operations/aio_reporting.asp).

While this is useful information, it falls far short of providing stakeholders with the detailed, comprehensive and multi-year information they need to assess CPS’s stewardship of its multi-million dollar capital program. Specifically:

- Capital project information is provided on the CPS website in disparate locations, making it difficult for citizens to readily access; and
- The information provided is focused on individual schools rather than the entire district. While school-based information is important, taxpayers are financing a district-wide capital program. They deserve district-wide fiscal and planning information in order to comprehensively review the priorities and plans of CPS.

The following section describes the key elements of a best practice capital improvement plan. It is excerpted from the report entitled “Strengthening the Financial Accountability of Illinois School Districts,” prepared by The Civic Federation for the Metropolitan Mayors Caucus earlier this year.⁹ CPS Chief Executive Officer Arne Duncan joined Chicago Mayor Daley and Metropolitan Mayors Caucus Chair Ed Schock of Elgin at an April 10, 2007 press conference endorsing the recommendations of that report. We sincerely hope that CPS makes good on its pledge at the press conference to move forward with producing a high quality CIP for the benefit of Chicago taxpayers.

Elements of a Capital Improvement Plan

A CIP is a multi-year plan that forecasts future facility, infrastructure and equipment needs, as well as the appropriations necessary to meet those needs. It also identifies financing sources and reports the impact of capital spending on the operating budget. A CIP typically covers a period of time ranging from three to ten years. The first year of the CIP becomes the jurisdiction’s capital budget for that fiscal year. A CIP is updated annually.

The capital needs of a jurisdiction typically exceed the amounts of funds available. The CIP is an important tool in assisting governments in the process of prioritizing projects and identifying funding sources for these projects.

⁹ Metropolitan Mayors Caucus. *Strengthening the Financial Accountability of Illinois School Districts: A Report of the Education Reform Committee of the Metropolitan Mayors Caucus*, April 2007, pp. 30-34.

Developing a CIP is an important financial accountability measure because capital projects are costly and must be paid for over a number of years that the funds are borrowed.

It must be recognized that a CIP is a planning tool, not a rigid set of requirements. As such, it is subject to change over time as circumstances change.

Best Practices and Recommended Practices in Capital Improvement Planning

The National Advisory Council on State and Local Budgeting (NACSLB) and the Government Finance Officers Association (GFOA) have developed best practices in capital improvement planning. In addition, the State of Florida Office of Program Policy Analysis and Government Accountability (OPPAGA) and The Civic Federation have developed several recommended practices in this policy area. A summary of the key recommendations of these practices follows.

1. Develop a Formal Five-Year Capital Improvement Plan

All governments should develop a five-year CIP that identifies priorities, provides a timeline for completing projects and identifies funding sources for projects. The CIP should be updated annually and be approved formally by the governing body.

(See NACSLB Recommended Practice 9.6: Develop a Capital Improvement Plan, the State of Florida Office of Program Policy Analysis and Government Accountability, Best Financial Management Practices, Facilities Construction).¹⁰

2. Required Information in a Capital Improvement Plan

A CIP should include the following information:

- A five-year summary list of projects and expenditures per project as well as funding sources per project;
- Information about the impact of capital spending on the annual operating budget for each project;
- Brief narrative descriptions of individual projects, including the purpose, need, history, and current status of each project; and
- The time frame for fulfilling capital projects and priorities.

(See NACSLB Recommended Practice 9.6: Develop a Capital Improvement Plan, the State of Florida Office of Program Policy Analysis and Government Accountability, Best Financial Management Practices, Facilities Construction).¹¹

¹⁰ The State of Florida requires school districts to prepare a comprehensive Five-Year Educational Plan Surveys. This is Point 1. d. of the Facilities Construction: Construction Planning Best Financial Management Practices Guidelines for School Districts. Florida Office of Program Policy Analysis and Government Accountability (OPPAGA). *Best Financial Management Practices*. See www.oppaga.state.fl.us/school_districts/bestprac/practices.html.

¹¹ The State of Florida requires school districts to prepare five year facilities plans that establish budgetary plans and priorities. This is Point 3. a to c. of the Facilities Construction: Construction Planning best financial management practices guidelines for school districts. Florida Office of Program Policy Analysis and Government

3. Make Capital Improvement Plan Publicly Available

The CIP should be made publicly available for review by elected officials and citizens. It should be published in the budget document or in a separate capital improvement plan. The CIP should be made available on the government's website. The public should be permitted at least ten working days to review the CIP prior to a public hearing.

(See NACSLB Recommended Practice 9.6: Develop a Capital Improvement Plan, Civic Federation Budget Analyses of Local Government Budget – various years).

4. Provide Opportunities for Stakeholder Input into Capital Improvement Planning Process

It is important to consider the views of stakeholders, including taxpayers, in developing a CIP. To achieve this goal, stakeholders, including citizens, should have opportunities to provide input into the development of the CIP. These opportunities could include participation in citizen advisory committees and/or hearings during different phases of CIP development. The governing body should hold a public hearing prior to adoption of the CIP, including opportunities for citizen commentary.

(See NACSLB Recommended Practice 9.6: Develop a Capital Improvement Plan, Civic Federation Budget Analyses of Local Government Budgets – various years).

5. Require Formal Approval of Capital Improvement Plan by School District Board of Trustees

The CIP should be formally approved by an appropriate governing body. It is imperative that elected officials be fully aware and supportive of long-term plans that commit significant public resources.

(See Civic Federation Budget Analyses of Local Government Budgets – various years).

No Formal Long-Term Financial Plan

CPS is not only one of the largest local governments in Illinois, it is also one of the largest local governments in the nation. Despite this status, it has yet to develop a formal long-term financial plan that is shared with, or reviewed by, key policymakers and stakeholders such as the Board of Education and the taxpaying public. This is both an unfortunate situation and an unwise policy. Good planning is necessary for all governments and full disclosure of all planning mechanisms to stakeholders is essential, particularly for a government facing significant fiscal challenges.

The 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.¹² A long-term financial plan should include a review of historic financial and programmatic trends, multi-year projections of revenues expenditures and debt, an analysis of those trends and projections, and the modeling of options to address problems or opportunities. A long-term financial plan will frame the issues

Accountability (OPPAGA). *Best Financial Management Practices*. See www.oppaga.state.fl.us/school_districts/bestprac/practices.html.

¹² See National Advisory Council on State and Local Budgeting and Government Finance Officers Association.

and challenges facing CPS, assist stakeholders in understanding those issues and challenges, and force the district to focus on concrete actions it can take in the future. Several local governments, including the City Colleges of Chicago and the Metropolitan Water Reclamation District, publish their long-term financial plans in their budget documents. The CPS must follow their fiscally-sound example.

No Performance Measures for Support Service Functions¹³

CPS proposes to budget \$1.7 billion for “supporting services” in FY2008. These are primarily administrative-related functions and programs and they are projected to consume 38.1% of the CPS’s total operating budget of \$4.6 billion. Despite the size of this amount, CPS has not developed a performance measurement system that would allow stakeholders to assess the efficiency at which these dollars are spent.

Performance measures are quantitative or qualitative indicators of program or service outputs and outcomes. They are an effective means of monitoring, measuring and evaluating departmental and program performance over time. They help track progress toward meeting intended programmatic goals and help assess whether programs are making an efficient use of resources. Evaluating and reporting on program results helps keep policymakers and taxpayers alike informed about actual results compared to expectations.¹⁴

There are four types of performance measures:

- **Workload Measures:** provide counts of a service performed or a good delivered;
- **Efficiency Measures:** provide information on how many resources are consumed in delivering a good or services, such as the cost per unit or output per employee;
- **Effectiveness Measures:** assess how well a program has met its goals by demonstrating planned output versus actual output; and
- **Quality Measures:** assess customer or constituent satisfaction with service delivery.

Producing reams of performance measures that are not linked to goals or objectives, utilized to inform management decisions, or developed with the buy-in of management and staff can be costly and have limited efficacy. However, using a few well-chosen measures, particularly those evaluating efficiency and effectiveness that are produced consistently and developed with the buy-in of staff, can be extremely useful in assisting CPS to improve their operations.

Best Practices and Recommended Practices for Performance Measurement

The NACSLB and the GFOA have developed best practices for performance measurement. In addition, the State of Florida OPPAGA has developed several recommended practices in this area. A summary of the key recommendations of those practices that have the most direct application to CPS follows.

¹³ Portions of the following section are excerpted from Metropolitan Mayors Caucus. *Strengthening the Financial Accountability of Illinois School Districts: A Report of the Education Reform Committee of the Metropolitan Mayors Caucus*, April 2007, pp. 47-49.

¹⁴ See Recommended Practice 11.1 “Monitor, Measure, and Evaluate Program Performance,” in National Advisory Council on State and Local Budgeting. *Recommended Budget Practices: A Framework for Improved State and Local Budgeting* (Chicago: GFOA, 1998).

1. Develop and Implement Performance Measures for Support Service Functions

All governments should develop and utilize performance measures that are linked to specific program goals and objectives. The measures adopted should be valid, reliable, and verifiable. A well-designed performance measurement system includes a limited number of comparisons of outputs and outcomes over time that are used for managerial decision making and are designed to help motivate staff to contribute to organizational efficiency in a meaningful way.

Performance measures should be developed for support service functions, including facilities management, food service and administration.

(See National Advisory Council on State and Local Budgeting Recommended Practice 6.4: Develop Performance Measures; GFOA Recommended Practice: Performance Management: Using Performance Measurement for Decision Making -2002 and Updated Performance Measures -1994; the State of Florida Office of Program Policy Analysis and Government Accountability, Best Financial Management Practices).¹⁵

2. Make Performance Measures Publicly Available

Performance measures should be included in budget documents and related financial management documents so that elected officials, citizens and other stakeholders can assess progress toward meeting program goals.

(See National Advisory Council on State and Local Budgeting Recommended Practice 6.4: Develop Performance Measures; GFOA Recommended Practice: Performance Management: Using Performance Measurement for Decision Making -2002 and- Updated Performance Measures -1994).

Property Tax Levy Increased to the Maximum Amount for 11th Time Since FY1997

CPS's property tax levy for all funds is projected to increase by 3.4%, or \$74 million, to \$1.74 billion in FY2008. This will be the eleventh time since FY1997 that the district has increased property taxes to the maximum amount allowed; the last year that the District's levy was less than the maximum amount allowed was FY1999.¹⁶ Approximately \$55 million of the levy amount this year will be generated from property taxes on tax capped properties while \$19 million will be derived from an estimate of taxes on new properties whose value is exempt from the tax cap law.¹⁷

Approximately 50.6% of the tax bill for the average Chicago property owner goes to fund CPS. This is an increase from 49.4% of the total bill last tax year and 48.8% two years ago.¹⁸

¹⁵ See Point 7 (Food Service Operations – Performance and Accountability) on pp. 58-59, and Point 20 (Transportation) on p. 55. Florida Office of Program Policy Analysis and Government Accountability (OPPAGA). *Best Financial Management Practices*. See www.oppaga.state.fl.us/school_districts/bestprac/practices.html.

¹⁶ *Chicago Public Schools FY1999 Budget*, p. 48.

¹⁷ Information provided by CPS Budget Office, August 13, 2007.

¹⁸ Cook County Clerk. 2005 Tax Rates, p. 8.

The owner of a \$200,000 home receiving the minimum homeowner exemption of \$5,000 owed approximately \$1,056 in property taxes to CPS for tax year 2005, payable in 2006. The projected increase in property taxes for a homeowner with a single family home valued at \$200,000 will be in the range of \$18 to \$32, depending on the size of the homeowner exemption awarded.¹⁹ These projections indicate how much more a taxpayer would have owed in tax year 2005 as a result of the additional levy; they do not estimate the tax rate or equalized assessed value of property for tax year 2007.

Civic Federation Recommendations

The Civic Federation offers the following recommendations to improve the Chicago Public Schools' financial management:

Reduce Property Tax Levy by \$32 Million

As of this writing, it is likely that the State of Illinois will provide CPS with approximately \$131 million in new state aid.²⁰ This is approximately \$32.7 million more than the \$98 million the district originally anticipated and included in their FY2008 budget proposal. The district has at least proposed to use these funds to supplement funding for categorical programs, such as Special Education and Transportation.²¹

The Civic Federation supports increased funding for Illinois schools. In our analysis of the FY2008 Illinois State Operating Budget, we called for an increase in the state income tax (linked to employee pension and health insurance benefit funding reforms) so that the state would have the capacity to boost its share of school funding.²² We advocate this position in part because Illinois schools are far too heavily reliant on locally-based property taxes. A greater percentage of state aid would permit some relief for local property taxpayers.

Due to the fact that CPS will receive greater than anticipated state funding this fiscal year, The Civic Federation urges the district to reduce its levy by \$32 million. This amount is a small percentage of the total amount of property revenues received by CPS. In FY2008, the \$32 million would amount to approximately 1.7% of the \$1.8 billion the district anticipates receiving from property tax revenues. Such a reduction would save a typical homeowner roughly \$8 to \$14 in taxes. Furthermore, it is likely that many local governments will increase the property tax levies to the maximum amount allowed under the tax cap law this year. In fact, the City Colleges already has done so. The impact of several governments simultaneously raising taxes is an onerous burden for taxpayers to bear. Any reduction in real estate taxes can make a difference and should be administered wherever possible. The Civic Federation believes that it would be appropriate for the district to make a good faith gesture this year to overburdened Chicago taxpayers and provide some tax relief, however small. Perhaps other Chicago area governments would follow the example.

¹⁹ State law currently provides for a homeowner's exemption of \$5,000 to \$20,000 on residential property in Cook County.

²⁰ Email Communication to the Civic Federation from the CPS Budget Office, August 14, 2007.

²¹ Information provided to the Civic Federation from the CPS Budget Office, August 13, 2007.

²² The Civic Federation. State of Illinois FY2008 Recommended Operating Budget: Analysis and Recommendations, May 7, 2007.

Develop a Multi-Year Capital Improvement Plan

Based on a review of the best practices in Capital Improvement Programming, CPS should develop an annually-updated formal Multi-Year Capital Improvement Plan. The CIP should include:

- A five-year summary list of projects and expenditures per project as well as funding sources per project;
- Information about the impact of capital spending on the annual operating budget for each project;
- Brief narrative descriptions of individual projects, including the purpose, need, history, and current status of each project; and
- The time frame for fulfilling capital projects and priorities.

Furthermore, CPS should provide opportunities for stakeholder input into the development and adoption of the CIP. The CIP should be made available on CPS's website at least ten working days prior to a public hearing. CPS should hold a public hearing on the CIP with opportunities for citizens to present commentary. The CIP should then be formally adopted by the CPS Board of Trustees.

CPS should examine its previous CIPs, as well as best practice models from other jurisdictions, as models for the development of a new CIP.²³

Implement a Formal Long-Term Financial Planning Process

CPS should develop and implement a formal long-term financial planning process. The Civic Federation is pleased that CPS has pledged this year to develop such a process. It would like to emphasize that the financial planning process should incorporate input from the Board of Education and key external stakeholders, as well as allowing for maximum transparency. We look forward to reviewing the long-term financial plan upon its promised release next year.

Develop and Implement Performance Measures for Support Service Functions

CPS should develop and implement performance measures for support service functions such as administration, food service and transportation. These performance measures should be made publicly available in the budget document and/or other financial management reports.

Continue to Improve Budget Format

There are several steps that CPS should take in order to further improve the budget document's transparency. The Civic Federation recommends that CPS include the following details in its FY2009 budget document:

- Current aggregate personnel information that shows positions by fund for teachers and support personnel;

²³ For an example, see the 1996-2000 Capital Improvement Plan adopted by the Chicago School Reform Board of Trustees on January 24, 1996.

- Five years of comparable, aggregate personnel information that shows positions by fund for teachers and support personnel;
- An evaluation of budget initiative and management efficiencies proposed in the previous fiscal year budget supported by performance and cost-savings data;
- A clear description of the number of existing and new charter schools, and the aggregate appropriations for charter schools (this information should be presented alongside identical information for other Renaissance 2010 schools);
- A two-year chart showing the aggregate cost of Education Improvement Programs broken out by individual programs (i.e. “Head Start Child Development”, “After-School All-Stars”); and
- Alphabetizing the list of individual schools on the CD-ROM rather than list them by school code to facilitate the ease at which CPS parents and stakeholders can identify particular schools.

Implement Pension Benefit Reforms

The Civic Federation believes that it is imperative that CPS aggressively seeks legislation to curb its rapidly escalating retirement costs. Some of the reforms the district should pursue are listed below:

A moratorium on new pension benefits. CPS should impose a moratorium on **any** new employee benefits until the pension system has achieved a 90% funded ratio. Until that goal has been reached, we call on CEO Arne Duncan and the Chicago School Board of Trustees to hold firm against any new pension enhancements.

Fix automatic increases for new hires at the lesser of 3% or CPI. The current fixed rate of automatic increase for retirement annuities is 3% per year. Other retirement systems index the rate of increase to the CPI, limit the dollar amount of increase, or approve new increases annually. For new hires only, automatic increases should be limited to the lesser of the change in CPI or 3%.

Increase the Employee Share of Pension Costs. Currently, CPS pays for 7% of the 9% employee share of costs; employees pay for the remaining 2%. In FY2008, CPS’s share of employee costs totaled over \$349 million. We believe that employees should be required to pay for at least an additional 1% of the 9% employee share, so that CPS’s share of employee payments drops to 6% and the employees’ share increases to 3% of the total. This change should be a top priority for CPS when it negotiates a new collective bargaining agreement. CPS should also seek to match its annual salary increases within the rate of its revenue source growth.

Reform Governance of the Teachers’ Pension Fund

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 representatives is 2:10, one of the least balanced of the 17 Illinois pension boards recently surveyed by The Civic Federation.²⁴

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. In our view, a pension board should:

- Balance employee and management representation on pension boards;
- Develop a tripartite structure that includes citizen representation on pension boards; and
- Include financial experts on pension boards and require financial training for non-experts.

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

Pursue Joint Purchasing of Employee Health Insurance with Other Local Governments

The Civic Federation urges CPS to pursue consolidated health insurance purchasing with the City of Chicago, Cook County, Chicago Park District, Chicago Transit Authority, City Colleges of Chicago and the Chicago Housing Authority. Substantial savings that can be achieved from an insurance pool would be extremely beneficial to CPS's future financial situation.

²⁴ The Civic Federation, *Recommendations to Reform Public Pension Boards of Trustees in Illinois*, February 13, 2006.

ACKNOWLEDGMENTS

We would like to express our appreciation to Chief Executive Officer Arne Duncan, Chief Financial Officer Pedro Martinez, Chief Administrative Officer Hill Hammock Management and Budget Director Elizabeth Swanson and their staffs for their hard work in preparing this budget and their willingness to provide The Civic Federation with a budget briefing as well as answers to many of our budget questions.

FY2008 BUDGET HIGHLIGHTS

CPS has proposed a FY2008 budget of \$5.8 billion. The district's deficit, which was originally projected to be \$262.0 million, was eliminated through a combination of expenditure reductions, increased state funding, increased Personal Property Replacement Tax revenues, increased property tax revenue reflecting both a rate increase and revenue from new construction, and a transfer of reserve funds.

Deficit Drivers

CPS's \$262.0 million deficit is primarily due to personnel-related cost increases. Approximately \$87.0 million or 33.2% of the deficit is due to salary increases and \$85.0 million is related to increases in benefits such as health insurance, pensions, and unemployment insurance costs. Approximately 34.4% of the deficit, or \$90.0 million, can be attributed to increases in non-personnel items such as increased charter school tuition costs, increased energy costs, and debt service.

CPS Cost Drivers for FY2008 (in \$ millions)		
	Amount	% of Total Deficit
Salaries	\$ 87.0	33.2%
Benefits		
Pension Payment Increase (Required by State Law)	\$ 50.0	19.1%
Other Benefits	\$ 35.0	13.4%
Subtotal Benefits	\$ 85.0	32.4%
Charter School Tuition Costs	\$ 40.0	15.3%
Reduction in Special Ed Tuition to Private Providers	\$ (7.0)	-2.7%
Supplies & Software License Fees	\$ 8.0	3.1%
Text Books	\$ 11.0	4.2%
Debt Service	\$ 23.0	8.8%
Other (energy, insurance, etc.)	\$ 8.0	3.1%
Unallocated Grants	\$ 7.0	2.7%
Subtotal Non-Personnel Expenditures	\$ 90.0	34.4%
Total	\$ 262.0	100.0%

Source: CPS FY2008 Budget, p. 7.

Gap-Closing Measures

CPS reported a \$262.0 million deficit for FY2008. The district proposes to close the budget gap with \$189.0 million in revenue enhancements and \$73.0 million in reserve fund transfers. The majority of the deficit will be closed through revenue enhancements, including a 3.4% rate

increase for the education fund (yielding \$55.0 million in increased property tax revenues),²⁵ \$19.0 million in property tax revenues resulting from new construction, an anticipated \$95.0 million in new state funds, and a total of \$17.0 million from higher interest on income, increased federal funds, and increased grants.

Gap-Closing Measures in FY2008 Chicago Public Schools Budget (in \$ millions)	
	Amount
Projected Deficit	\$ 262.0
Deficit Reduction Measures	
Increased State Funding Projection	\$ 95.0
Property Tax Increase from New Property Construction	\$ 19.0
Property Tax Increase from Raising Rates by 3.4%	\$ 55.0
Higher Interest Income	\$ 6.0
Increase in Federal Funds	\$ 4.0
Increase in Unallocated Grants	\$ 7.0
Subtotal Deficit Reduction Measures	\$ 186.0
Transfer from Reserves	\$ 73.0
Other State Revenue*	\$ 3.0
Total	\$ 262.0

*Specific funding source not specified by CPS

Source: CPS FY2008 Budget, pp. 7-8.

Improved Budget Format

CPS has dramatically improved the format of its budget for FY2008. This year's budget document provides a walk-up and a walk-down explaining the sources of CPS's initial \$262 million gap and steps taken to close that gap; significantly improved narrative descriptions of CPS's financial strategies and challenges; more accessible summary financial tables; and detailed history charts of CPS's revenues and expenditures. Though the budget still lacks some important data – such as aggregate personnel numbers for the district – this year's improvements signal a real commitment to financial management accountability that is reassuring for taxpayers. The Civic Federation commends CPS's financial management team for heeding its longstanding criticisms of previous budget formats and making these significant changes.

This year's budget also features a CD-ROM that contains a very useful feature for parents: budget reports for every CPS school that show how a school's money is being spent, the school's projected enrollment, and the number of teachers working at the school. Unlike last year's CD-ROM, which principally contained cumbersome documents that had formerly been published in the budget document itself, this year's CD-ROM adds functionality that enhances the public's ability to monitor CPS's financial management. This CD-ROM would be more useful to the

²⁵ The Property Tax Extension Limitation Law, commonly called "PTELL" or "tax caps," limits a taxing body's annual property tax extension increase to 5% or the rate of inflation, whichever is less (35 ILCS 200/18-185 through 35 ILCS 200/18-245). However, the value of new properties is exempted from the tax cap calculation, thus allowing for a greater total extension. For details see <http://www.revenue.state.il.us/LocalGovernment/PropertyTax/ptell.htm>.

public if the files were given names that would allow the documents to be alphabetized in the CD-ROM directory. (File names currently include abbreviated school names, but are listed primarily by cost center number, which makes the CD cumbersome to use.) Nevertheless, these reports are a valuable addition to the CPS budget.

RESOURCES: REVENUES AND FUND BALANCE

CPS proposes budgeting approximately \$5.8 billion in total resources for FY2008. This is an increase of 9.3%, or \$491.4 million over FY2007. Resources include local revenues, state and federal intergovernmental aid, appropriated fund balance carried over from the previous fiscal year, and certain non-revenue sources such as bond proceeds.

All funds resources include:

- \$5.2 billion in current revenues, including \$400.0 million of proceeds from new bond issues for the Modern Schools Across Chicago (MSAC) construction program; and
- \$559.0 million in prior-year fund balance carried over and appropriated for FY2008. The majority of this fund balance, \$450 million, is capital funding on hand from FY2007 for the MSAC construction program.

General Operating Fund resources will increase by 5.5% or \$242.5 million, from \$4.4 billion to \$4.6 billion. This year, CPS will use \$73 million of the previous year-end fund balance, leaving \$233.2 million in General Fund reserve fund balance for FY2008. Special Revenue Fund resources will increase by 4.0%, or \$58.3 million.

Debt service fund resources in FY2008 will increase by 7.4% or \$19.5 million to \$283.2 million. \$19.1 million of this increase is due to payments required for new bonds issued to finance the 2008 capital program.

The CPS Capital Projects Fund will rise by 36.7%, or \$229.4 million, over FY2007 due to the MSAC construction program. Approximately \$405 million, or 47%, of the FY2008 capital fund resources will come from “other financing sources”, while \$450 million comes from the re-appropriation of existing bond funds from previous years. The following chart details the revenues and resources appropriated within CPS during FY2008.

Chicago Public Schools FY2008 Appropriated Resources by Fund Type (in \$ thousands)						
	General Fund	Special Revenue	SUBTOTAL Operating Funds	Debt Service	Capital	GRAND TOTAL
Fund Balance Appropriated	\$ 73,000	\$ 36,000	\$ 109,000	\$ -	\$ 450,000	\$ 559,000
Property Taxes	\$ 1,320,149	\$ 450,540	\$ 1,770,689	\$ 51,800	\$ -	\$ 1,822,489
PPRT	\$ 115,900	\$ 30,000	\$ 145,900	\$ 54,107	\$ -	\$ 200,007
Investment Interest Income	\$ 28,390	\$ 8,260	\$ 36,650	\$ -	\$ -	\$ 36,650
Lunchroom Sales	\$ -	\$ 9,600	\$ 9,600	\$ -	\$ -	\$ 9,600
Miscellaneous Local Revenue	\$ 44,123	\$ 16,800	\$ 60,923	\$ 16,867	\$ -	\$ 77,790
Bonds	\$ -	\$ -	\$ -	\$ -	\$ 400,000	\$ 400,000
Subtotal Local Revenue	\$ 1,508,562	\$ 515,200	\$ 2,023,762	\$ 122,774	\$ 400,000	\$ 2,546,536
General State Aid (GSA)	\$ 665,000	\$ 261,000	\$ 926,000	\$ 160,382	\$ -	\$ 1,086,382
State Aid - Teacher Pension	\$ 75,263	\$ -	\$ 75,263	\$ -	\$ -	\$ 75,263
Flat Grant ADA	\$ 14,400	\$ -	\$ 14,400	\$ -	\$ -	\$ 14,400
Block Grants: Ed. Serv. & Gen. Ed	\$ 574,414	\$ 10,647	\$ 585,061	\$ -	\$ -	\$ 585,061
Other State Aid	\$ 28,700	\$ 23,908	\$ 52,608	\$ -	\$ -	\$ 52,608
Other State Revenue*	\$ 3,000	\$ -	\$ 3,000	\$ -	\$ -	\$ 3,000
Subtotal State	\$ 1,360,777	\$ 295,555	\$ 1,656,332	\$ 160,382	\$ -	\$ 1,816,714
Elem & Sec. Ed.--NCLB	\$ 161	\$ 434,839	\$ 435,000	\$ -	\$ -	\$ 435,000
Child Nutrition	\$ -	\$ 146,077	\$ 146,077	\$ -	\$ -	\$ 146,077
Special Ed. -- IDEA	\$ -	\$ 108,086	\$ 108,086	\$ -	\$ -	\$ 108,086
Medicaid, ROTC, Other	\$ 37,200	\$ 135,799	\$ 172,999	\$ -	\$ -	\$ 172,999
Capital	\$ -	\$ -	\$ -	\$ -	\$ 5,000	\$ 5,000
Subtotal Federal	\$ 37,361	\$ 824,801	\$ 862,162	\$ -	\$ 5,000	\$ 867,162
TOTAL REVENUES	\$ 2,906,700	\$ 1,635,556	\$ 4,542,256	\$ 283,156	\$ 405,000	\$ 5,230,412
TOTAL RESOURCES	\$ 2,979,700	\$ 1,671,556	\$ 4,651,256	\$ 283,156	\$ 855,000	\$ 5,789,412

*Specific funding source not specified by CPS.

Source: Chicago Public Schools FY2008 Budget, pp. 14 and 15.

All Fund Revenues Overview: 6.2% increase in FY2008

The FY2008 budget projects a 6.2% increase in revenues for all funds from the previous year. This is a \$303.7 million increase over FY2007.

- Local revenues are expected to increase by 7.5%, or \$176.7 million, to \$2.5 billion. This includes a \$54 million expected increase in Personal Property Replacement Tax revenues, and a \$74 million increase in property taxes, offset by a \$2.3 million decline in miscellaneous local revenue and \$5.0 million decline in lunchroom sales.
- Revenues provided by the State of Illinois are projected in rise by 5.5%, or \$98 million. However, this funding has not yet been allocated by the General Assembly.
- Federal funding will increase by 3.8%, or \$32.0 million, primarily due to increased funding for elementary and secondary schools through the No Child Left Behind legislation. Special Education funding is increasing by 7.5% or \$7.6 million.

Chicago Public Schools Appropriated Resources by Source				
All Funds FY2007-FY2008 (in \$ thousands)				
	FY2007 Proposed	FY2008 Proposed	\$ Change	% Change
Fund Balance Appropriated	\$ 371,258	\$ 559,000	\$ 187,742	50.6%
Property Taxes	\$ 1,748,328	\$ 1,822,489	\$ 74,161	4.2%
PPRT	\$ 145,600	\$ 200,007	\$ 54,407	37.4%
Investment Interest Income	\$ 29,911	\$ 36,650	\$ 6,739	22.5%
Lunchroom Sales	\$ 14,637	\$ 9,600	\$ (5,037)	-34.4%
Miscellaneous Local Revenue	\$ 80,052	\$ 77,790	\$ (2,262)	-2.8%
TIF	\$ 1,300	\$ -	\$ (1,300)	--
Bonds	\$ 350,000	\$ 400,000	\$ 50,000	14.3%
Subtotal Local Revenue	\$ 2,369,828	\$ 2,546,536	\$ 176,708	7.5%
General State Aid (GSA)	\$ 1,023,910	\$ 1,086,382	\$ 62,472	6.1%
State Aid - Teacher Pension	\$ 75,287	\$ 75,263	\$ (24)	0.0%
Flat Grant ADA	\$ 14,660	\$ 14,400	\$ (260)	-1.8%
Block Grants: Ed. Serv. & Gen. Ed	\$ 549,813	\$ 585,061	\$ 35,248	6.4%
Other State Aid	\$ 55,040	\$ 52,608	\$ (2,432)	-4.4%
Other State Revenue*	\$ -	\$ 3,000	\$ 3,000	100.0%
Subtotal State	\$ 1,718,710	\$ 1,816,714	\$ 98,004	5.7%
Elem & Sec. Ed.--NCLB	\$ 407,263	\$ 435,000	\$ 27,737	6.8%
Child Nutrition	\$ 149,595	\$ 146,077	\$ (3,518)	-2.4%
Special Ed. -- IDEA	\$ 100,507	\$ 108,086	\$ 7,579	7.5%
Medicaid, ROTC, Other	\$ 177,839	\$ 172,999	\$ (4,840)	-2.7%
Capital	\$ -	\$ 5,000	\$ 5,000	100.0%
Subtotal Federal	\$ 835,204	\$ 867,162	\$ 31,958	3.8%
TOTAL REVENUES	\$ 4,923,742	\$ 5,230,412	\$ 306,670	6.2%
TOTAL RESOURCES	\$ 5,295,000	\$ 5,789,412	\$ 494,412	9.3%

*Other source of revenue not specified by CPS

Source: Chicago Public Schools FY2007 Budget pp. 18 and 22; FY2008 Budget pp. 14 and 15.

Several key assumptions built into the FY2008 revenue projections, including projections for General State Aid and mandated categoricals, are based upon state budget proposals found within Senate Bill 1132.²⁶

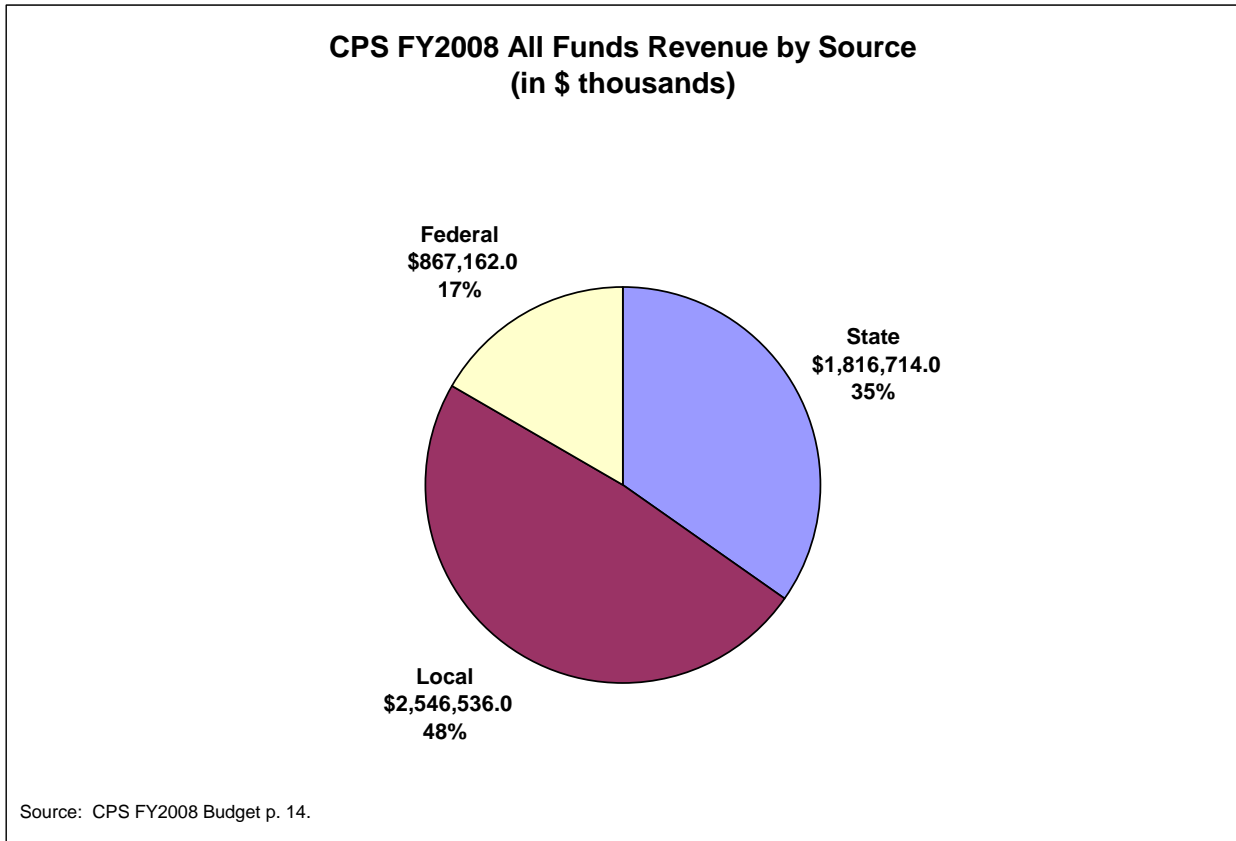
- The portion of the property tax for operating funds will be increased to the maximum amount allowed under the tax cap law;
- Personal Property Replacement Taxes are projected to increase 37.4%, or \$54.4 million. This increase is based on a budget-to-budget comparison. CPS, in fact, collected far more PPRT revenues than it had budgeted in FY2007. The FY2008 projection for PPRT revenues holds flat the amount actually collected in FY2007;
- Projected statewide increases for categorical programs are expected as follows: \$84.3 million for mandated categoricals; \$30.0 million for the Early Childhood Block Grant; and, \$5.3 million for the Transition Assistance grant. CPS is slated to receive a portion of these increases, including \$24.2 million from mandated categorical programs and \$11.1 million for the Early Childhood programs;
- CPS's budget projects that General State Aid will increase by \$62.4 million to \$1,086.4 million in FY2008. An increase in the state foundation level is also expected, rising to \$5,721 per pupil. This is a 7.3% increase, or \$387, from \$5,334 per pupil in FY2007;
- Under the terms of P.A. 93-845, CPS anticipates filing for a prior year EAV adjustment in FY2008; this is expected to generate \$16.3 million for CPS;

²⁶ Chicago Public Schools FY2008 Budget, p.86.

- CPS anticipates \$75.3 million in state pension aid to CPS; and
- Federal revenue figures are based on federal FY2008 revenue appropriations as well as fund balance carryover from FY2007.

Chicago Public Schools All Funds Revenues by Source

In FY2008, 48% of all CPS revenues, or over \$2.5 billion, will come from local revenue sources (including bonds). The State of Illinois will provide the second largest component of the CPS revenue stream, with 35% of the total, or \$1.8 billion. Federal funds will be the third largest source of revenues at 17% of the total or \$867.1 million.



Five-Year CPS Revenue Trend for All Funds: 18.2% increase

CPS revenues are projected to increase by 18.2%, between FY2004 and FY2008. This is a \$806.8 million increase, from \$4.4 billion to \$5.2 billion. Local revenues will increase by 18.6% over the five-year period, with property taxes, the largest local revenue source, rising by \$246.5 million. This increase represents 61.8% of the total local revenue increase. State revenues between FY2004 and FY2008 are projected to increase by 21.3%, from \$1.5 billion to \$1.8 billion. Revenue from the PPRT is projected to increase by 82.7% over the five-year period. Federal funding is expected to show the smallest percentage gain in revenues, up only 11.1% to \$867.2 million.

Chicago Public Schools Appropriated Resources by Source				
All Funds FY2004-FY2008 (in \$ thousands)				
	FY2004 Budget	FY2008 Proposed	\$ Change	% Change
Fund Balance Appropriated	\$ 414,326	\$ 559,000	\$ 144,674	34.9%
Property Taxes	\$ 1,576,027	\$ 1,822,489	\$ 246,462	15.6%
PPRT	\$ 109,455	\$ 200,007	\$ 90,552	82.7%
Investment Interest Income	\$ 37,472	\$ 36,650	\$ (822)	-2.2%
Lunchroom Sales	\$ 12,000	\$ 9,600	\$ (2,400)	-20.0%
Miscellaneous Local Revenue	\$ 80,400	\$ 77,790	\$ (2,610)	-3.2%
TIF	\$ 103,500	\$ -	\$ (103,500)	--
Bonds	\$ 229,000	\$ 400,000	\$ 171,000	74.7%
Subtotal Local Revenue	\$ 2,147,854	\$ 2,546,536	\$ 398,682	18.6%
General State Aid (GSA)	\$ 858,600	\$ 1,086,382	\$ 227,782	26.5%
State Aid - Teacher Pension	\$ -	\$ 75,263	\$ 75,263	100.0%
Flat Grant ADA	\$ 8,778	\$ 14,400	\$ 5,622	64.0%
Block Grants: Ed. Serv. & Gen. Ed	\$ 461,845	\$ 585,061	\$ 123,216	26.7%
Other State Aid	\$ 165,807	\$ 52,608	\$ (113,199)	-68.3%
Other State Revenue*	\$ -	\$ 3,000	\$ 3,000	100.0%
Subtotal State	\$ 1,495,030	\$ 1,816,714	\$ 321,684	21.5%
Elem & Sec. Ed.--NCLB	\$ 371,952	\$ 435,000	\$ 63,048	17.0%
Child Nutrition	\$ 155,214	\$ 146,077	\$ (9,137)	-5.9%
Special Ed. -- IDEA	\$ 90,083	\$ 108,086	\$ 18,003	20.0%
Medicaid, ROTC, Other	\$ 163,464	\$ 172,999	\$ 9,535	5.8%
Capital	\$ -	\$ 5,000	\$ 5,000	100.0%
Subtotal Federal	\$ 780,713	\$ 867,162	\$ 86,449	11.1%
TOTAL REVENUES	\$ 4,423,597	\$ 5,230,412	\$ 806,815	18.2%
TOTAL RESOURCES	\$ 4,837,923	\$ 5,789,412	\$ 951,489	19.7%

*Specific funding source not specified by CPS

Source: Chicago Public Schools FY2004 Budget, pp. 23 and 65; FY2008 Budget pp. 14 and 15.

General Operating Fund Revenues: 5.5% increase from previous year

CPS's General Operating Funds, comprising the General and Special Revenue Funds, together fund CPS's general operations. General Operating Fund Revenues will total \$4.5 billion and will represent 80.3% of all fund revenues in FY2008.

In FY2008, General Operating Funds resources are expected to rise by 5.5%, from \$4.4 to \$4.6 billion. This is an increase of \$242.5 million, including \$4.0 million in additional fund balance that will be appropriated.

CPS's local revenues will provide \$2.0 billion of all General Operating Funds revenues. State sources will provide the second largest amount, or \$1.7 billion. Federal funds are expected to total \$862.2 in FY2008.

Chicago Public Schools General Fund and Special Revenue Fund Resources FY2007-FY2008 (in \$ thousands)				
	FY2007	FY2008	\$ Change	% Change
Fund Balance Appropriated	\$ 104,958	\$ 109,000	\$ 4,042	3.9%
Property Taxes	\$ 1,696,562	\$ 1,770,689	\$ 74,127	4.4%
PPRT	\$ 91,494	\$ 145,900	\$ 54,406	59.5%
Investment Interest Income	\$ 21,911	\$ 36,650	\$ 14,739	67.3%
Lunchroom Sales	\$ 14,637	\$ 9,600	\$ (5,037)	-34.4%
Miscellaneous Local Revenue	\$ 56,927	\$ 60,923	\$ 3,996	7.0%
Subtotal Local Revenue	\$ 1,881,531	\$ 2,023,762	\$ 142,231	7.6%
General State Aid (GSA)	\$ 889,230	\$ 926,000	\$ 36,770	4.1%
State Aid - Teacher Pension	\$ 75,287	\$ 75,263	\$ (24)	0.0%
Flat Grant ADA	\$ 14,660	\$ 14,400	\$ (260)	-1.8%
Block Grants: Ed. Serv. & Gen. Ed	\$ 549,813	\$ 585,061	\$ 35,248	6.4%
Other State Aid	\$ 55,040	\$ 52,608	\$ (2,432)	-4.4%
Other State Revenue*	\$ -	\$ 3,000	\$ 3,000	100.0%
Subtotal State	\$ 1,584,030	\$ 1,656,332	\$ 72,302	4.6%
Elem & Sec. Ed.--NCLB	\$ 407,263	\$ 435,000	\$ 27,737	6.8%
Child Nutrition	\$ 149,595	\$ 146,077	\$ (3,518)	-2.4%
Special Ed. -- IDEA	\$ 100,507	\$ 108,086	\$ 7,579	7.5%
Medicaid, ROTC, Other	\$ 177,839	\$ 172,999	\$ (4,840)	-2.7%
Subtotal Federal	\$ 835,204	\$ 862,162	\$ 26,958	3.2%
TOTAL REVENUES	\$ 4,300,765	\$ 4,542,256	\$ 241,491	5.6%
TOTAL RESOURCES	\$ 4,405,723	\$ 4,651,256	\$ 245,533	5.6%

*Specific funding source not specified by CPS.

Source: Chicago Public Schools FY2007 Budget pp. 18 and 22; FY2008 Budget pp 14-15.

The next exhibit shows a five-year trend in General Operating Funds resources and revenues, from the FY2004 proposed budget to the FY2008 proposed budget. Over this five-year period, general operating resources, including appropriated fund balances, increased by 21.7%, or \$830.1 million.

Chicago Public Schools General Fund and Special Revenue Fund Resources FY2004-FY2008 (in \$ thousands)				
	FY2004	FY2008	\$ Change	% Change
Fund Balance Appropriated	\$ 51,150	\$ 109,000	\$ 57,850	113.1%
Property Taxes	\$ 1,524,700	\$ 1,770,689	\$ 245,989	16.1%
PPRT	\$ 50,925	\$ 145,900	\$ 94,975	186.5%
Investment Interest Income	\$ 16,440	\$ 36,650	\$ 20,210	122.9%
Lunchroom Sales	\$ 12,000	\$ 9,600	\$ (2,400)	-20.0%
Miscellaneous Local Revenue	\$ 65,000	\$ 60,923	\$ (4,077)	-6.3%
Subtotal Local Revenue	\$ 1,669,065	\$ 2,023,762	\$ 354,697	21.3%
General State Aid (GSA)	\$ 813,113	\$ 926,000	\$ 112,887	13.9%
State Aid - Teacher Pension	\$ -	\$ 75,263	\$ 75,263	100.0%
Flat Grant ADA	\$ 8,778	\$ 14,400	\$ 5,622	64.0%
Block Grants: Ed. Serv. & Gen. Ed	\$ 461,845	\$ 585,061	\$ 123,216	26.7%
Other State Aid	\$ 35,207	\$ 52,608	\$ 17,401	49.4%
Other State Revenue*	\$ -	\$ 3,000	\$ 3,000	100.0%
Subtotal State	\$ 1,318,943	\$ 1,656,332	\$ 337,389	25.6%
Elem & Sec. Ed.--NCLB	\$ 371,953	\$ 435,000	\$ 63,047	17.0%
Child Nutrition	\$ 155,214	\$ 146,077	\$ (9,137)	-5.9%
Special Ed. -- IDEA	\$ 90,083	\$ 108,086	\$ 18,003	20.0%
Medicaid, ROTC, Other	\$ 161,764	\$ 172,999	\$ 11,235	6.9%
Subtotal Federal	\$ 779,014	\$ 862,162	\$ 83,148	10.7%
TOTAL REVENUES	\$ 3,767,022	\$ 4,542,256	\$ 775,234	20.6%
TOTAL RESOURCES	\$ 3,818,172	\$ 4,651,256	\$ 833,084	21.8%

*Specific funding source not specified by CPS.

Source: Chicago Public Schools FY2004 Budget, p. 23; FY2008 Budget pp. 14-15.

State Funding for Programs: \$1.7 billion in FY2008

The State of Illinois will provide \$1.7 billion in revenues for CPS operating budget programs in FY2008. In addition, the state will provide a \$75.3 million contribution to the CPS teachers' pension fund.

The exhibit below shows the distribution of FY2008 state monies. State operating support, excluding pensions, will increase by 6.0%, or \$98.2 million. General State Aid will increase by 6.0%, or \$62.5 million. Spending for every mandated categorical program increased, with the exception of the Illinois Free Lunch and Breakfast program. Early Childhood Block funding increased by \$11 million, or 9.3%, over FY2007. Funding for Career and Technical Education Programs and Illinois Charter School Programs decreased, by 6.3% and 5.9% respectively, over FY2007.

Detail of State Funding for CPS General Operating Budget (Excluding Pensions) in FY2008
(in \$ millions)

	FY2007	FY2008	\$ Change	% Change
General State Aid (Net)	\$ 1,040.2	\$ 1,102.7	\$ 62.5	6.0%
Mandated Categoricals				
Sp Ed - Summer School	\$ 4.7	\$ 5.1	\$ 0.4	8.5%
Sp Ed - Extraordinary	\$ 78.5	\$ 84.0	\$ 5.5	7.0%
Sp Ed - Orphanage 7.03	\$ 28.4	\$ 30.4	\$ 2.0	7.0%
Sp Ed - Personnel	\$ 70.4	\$ 75.3	\$ 4.9	7.0%
Sp Ed - Private Tuition	\$ 52.8	\$ 56.5	\$ 3.7	7.0%
Transportation - Reg & Voc	\$ 11.2	\$ 11.9	\$ 0.7	6.3%
Transportation - Sp Ed	\$ 100.3	\$ 107.3	\$ 7.0	7.0%
IL Free Lunch/Breakfast	\$ 10.6	\$ 10.6	\$ -	0.0%
Orphanage Regular 18-3	\$ 6.3	\$ 6.5	\$ 0.2	3.2%
Sub Total	\$ 363.2	\$ 387.6	\$ 24.4	6.7%
Selected Other Categorical Programs				
Illinois Charter Schools	\$ 3.4	\$ 3.2	\$ (0.2)	-5.9%
Bilingual - Chicago	\$ 36.9	\$ 36.9	\$ -	0.0%
Early Childhood Block	\$ 117.8	\$ 128.8	\$ 11.0	9.3%
Reading Improvement Block	\$ 22.6	\$ 22.6	\$ -	0.0%
Extended Learning Opportunities (Bridges)	\$ 9.8	\$ 9.8	\$ -	0.0%
Truants Alternative Optional Education	\$ 4.8	\$ 4.8	\$ -	0.0%
School Safety & Ed Improvement Block Grant	\$ 14.4	\$ 14.4	\$ -	0.0%
Alternative Education/Regional Safe Schools	\$ 3.7	\$ 3.7	\$ -	0.0%
Career & Technical Ed	\$ 6.4	\$ 6.0	\$ (0.4)	-6.3%
ROE/ISC - Operations	\$ 0.9	\$ 0.9	\$ -	0.0%
Sub Total Selected Other Programs	\$ 220.7	\$ 231.1	\$ 10.4	4.7%
All Other State General Fd Ed Programs	\$ 16.1	\$ 14.0	\$ (2.1)	-13.0%
Other State Revenue*	\$ -	\$ 3.0	\$ 3.0	100.0%
TOTAL STATE FUNDING FOR CPS	\$ 1,640.2	\$ 1,738.4	\$ 98.2	6.0%

Note: The FY2007 numbers reflect CPS's actual share of the state education budget allocation, whereas the FY2008 numbers reflect CPS's estimation of their share of the state education budget allocation.

*CPS did not specify the source of this funding.

Source: CPS Office of Management and Budget

At the time of the CPS FY2008 Budget release, the General Assembly had not passed a budget and therefore had not set the General State Aid (GSA) foundation level for FY2008. CPS is projecting that foundation level will increase from \$5,334 in FY2007 to \$5,721 per pupil in FY2008, a \$387 or 7.3% increase. This is a substantially larger than the increase that occurred between FY2006 and FY2007. The foundation level rose by \$170 or 3.3% over that period.

The next exhibit shows increases in the foundation level for state per pupil funding between FY2004 and FY2008. During this five-year period, the foundation level rose by \$911 or 18.9%, from \$4,810 per pupil to \$5,721 per pupil.

State of Illinois General State Aid Foundation Level (Per Pupil)			
	Foundation Level Per Pupil	\$ Change from Prior Year	% Change from Prior Year
FY2004	\$ 4,810	--	--
FY2005	\$ 4,964	\$ 154	3.2%
FY2006	\$ 5,164	\$ 200	4.0%
FY2007	\$ 5,334	\$ 170	3.3%
FY2008*	\$ 5,721	\$ 387	7.3%
\$ Change	\$ 911	N/A	N/A
% Change	18.9%	N/A	N/A

*Note: the foundation level for FY2008 is a CPS estimate, whereas the figures listed for FY2004 through FY2007 are actual.

Source: ISBE Illinois Ed. Funding Recommendations, April 2005, p. 2; FY2007 Budget, p. 7; CPS FY2008 Budget, p. 91

Property Tax Revenues: 4.1% Increase

Property tax years are the same as calendar years. However, CPS's fiscal year is July 1 to June 30, and there is also a one-year lag in Cook County between when property taxes are levied and when they are collected. Taxes levied in 2007 will actually be received in 2008. Taken together, these two circumstances mean that the property tax funds available during the CPS upcoming fiscal year (FY2008) will be drawn from half of tax year 2006 and half of tax year 2007.

Overall, the CPS's property tax revenues for all funds are projected to increase to \$1.82 billion in FY2008, a 4.1% or \$74.2 million increase over FY2007 revenues. For the 2007 tax year, the Board of Education once again proposes to levy to the maximum amount allowed by the tax cap law.²⁷

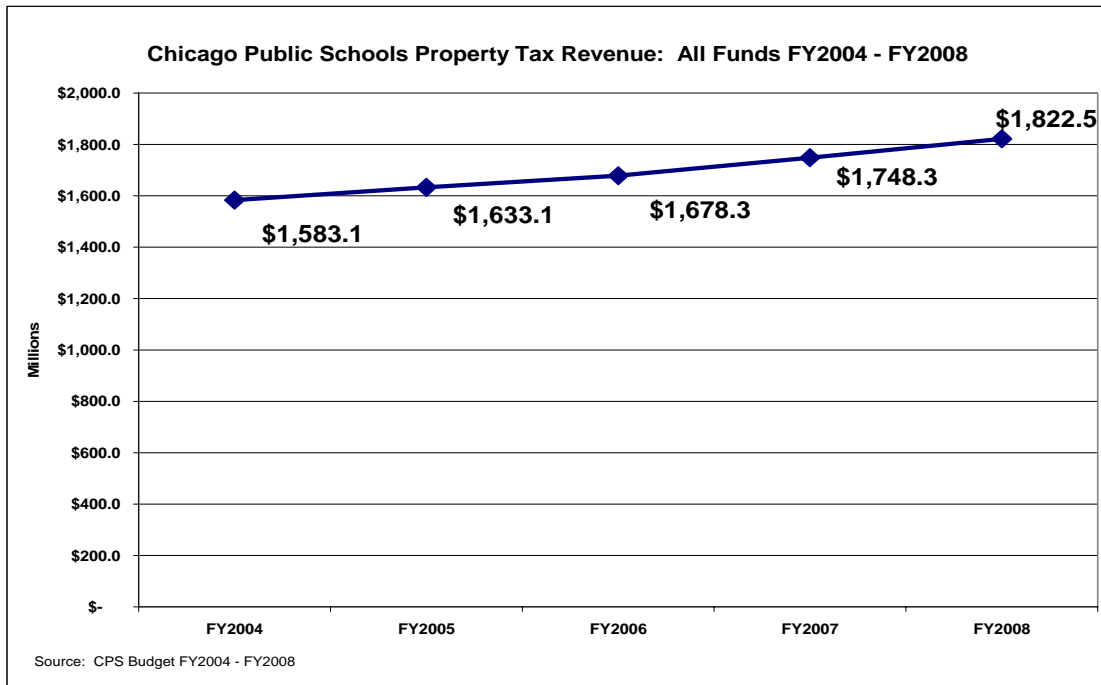
Under the tax cap law, the increase in the property tax levy for tax year 2007 is limited to the inflation rate of 2.5%.²⁸ A property tax increase of 2.5% on tax capped properties is projected to generate approximately \$55 million. The tax cap law exempts the value of new buildings or additions to existing buildings from the limitation on the property tax levy. The remaining \$19 million of the increase reflects the CPS's anticipation of the value of these new properties.

The FY2008 budget assumes a property tax collection rate of 96.5%, identical with the collection rate assumed in FY2007.²⁹ Since FY2004, total property tax revenues have increased by 15.6% or \$246.5 million.

²⁷ The Property Tax Extension Limitation Law, commonly called "PTELL" or "tax caps", limits a taxing body's annual property tax extension increase to 5% or the rate of inflation, whichever is less (35 ILCS 200/18-185 through 35 ILCS 200/18-245). However, the value of new properties is exempted from the tax cap calculation, thus allowing for a greater total extension. For details see <http://www.revenue.state.il.us/LocalGovernment/PropertyTax/ptell.htm>.

²⁸ CPS will submit its levy for tax year 2007 (payable in 2008) to the Cook County Clerk in December 2007.

²⁹ Chicago Public Schools FY2008 Budget p. 86 and FY2007 Budget, p. 27.

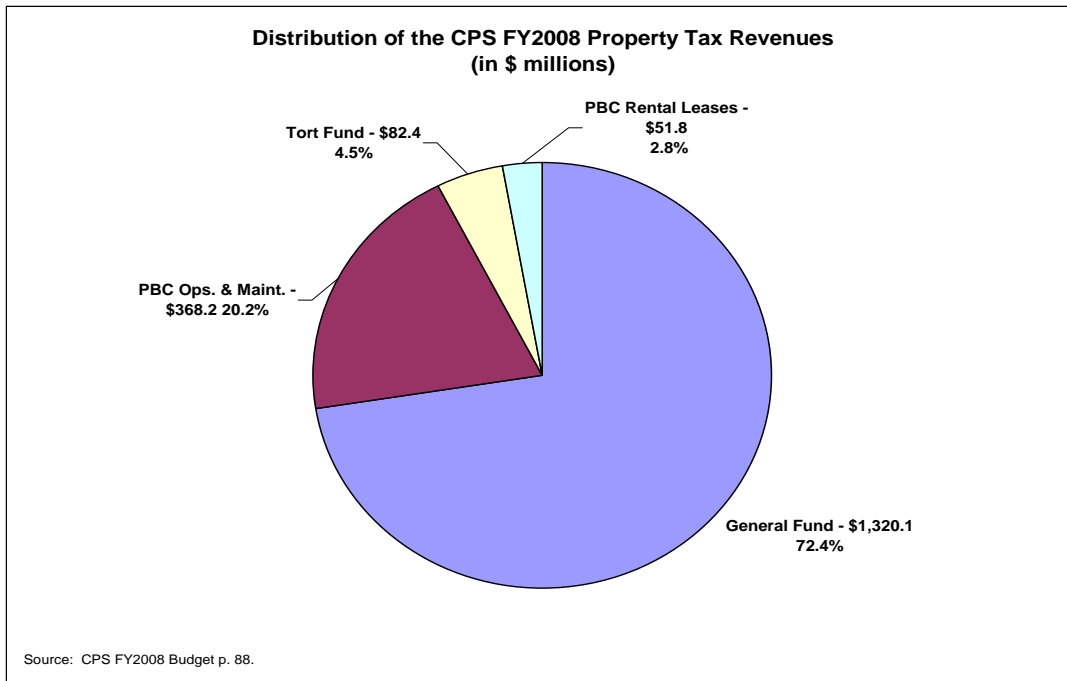


The next exhibit shows a ten-year trend for CPS property tax revenues. Over that period, property tax revenues have risen by 33.2% or \$454.4 million. This represents an increase from approximately \$1.37 billion to \$1.82 billion.

Chicago Public Schools Property Tax Revenue: FY1999 to FY2008 (in \$ millions)			
Fiscal Year	Revenue	\$ Change from Previous Year	% Change from Previous Year
FY1999	\$ 1,368.1	--	--
FY2000	\$ 1,403.7	\$ 35.6	2.6%
FY2001	\$ 1,429.9	\$ 26.2	1.9%
FY2002	\$ 1,480.0	\$ 50.1	3.5%
FY2003	\$ 1,546.3	\$ 66.3	4.5%
FY2004	\$ 1,583.1	\$ 36.8	2.4%
FY2005	\$ 1,633.1	\$ 50.0	3.2%
FY2006	\$ 1,678.3	\$ 45.2	2.8%
FY2007	\$ 1,748.3	\$ 70.0	4.2%
FY2008	\$ 1,822.5	\$ 74.2	4.2%
10-Year \$ Change		\$ 454.4	
10-Year % Change		33.2%	

Source: CPS Budgets FY1999-FY2008

Approximately 72% or \$1.32 billion of the levy is earmarked for the General Fund to finance CPS operations. The second largest amount, \$368.2 million, is set aside for the Public Building Commission Operations and Maintenance (PBC O & M) Fund, which supports the repair and maintenance of CPS buildings. Approximately 5% of the levy will be used for the Workers and Unemployment Compensation Tort Immunity Fund and 3% for Public Building Commission lease rental payments.



APPROPRIATION TRENDS

This section presents an analysis of CPS's budget appropriation trends, including appropriations by expenditure type (e.g. salaries, commodities, etc.) and function (e.g. Instruction, Support Services, etc.). In this analysis, one-year and five-year trends are compared. Appropriations by Location for FY2008 are also presented and discussed.

Appropriations: 9.3% Increase from FY2007

The proposed FY2008 Chicago Public Schools budget will increase by 9.3%, rising from \$5.3 billion to \$5.8 billion. This is a \$491.4 million increase. Nearly 46.7% of the total increase or \$229.4 million is in capital spending attributable to the MSAC construction program, which was announced by City of Chicago Mayor Richard Daley in the summer of 2006. Appropriations for the General Operating Funds, which comprises both the General Fund and the Special Revenue Fund, will increase by 5.5%, or by \$242.5 million.

CPS Appropriations: All Funds FY2007 & FY2008 (in \$ millions)				
Fund Type	FY2007 Proposed	FY2008 Proposed	\$ Change	% Change
General Operating Funds	\$ 4,405.7	\$ 4,648.2	\$ 242.5	5.5%
Capital Projects Fund	\$ 625.6	\$ 855.0	\$ 229.4	36.7%
Debt Service Fund	\$ 263.7	\$ 283.2	\$ 19.5	7.4%
Total Appropriation	\$ 5,295.0	\$ 5,786.4	\$ 491.4	9.3%

Source: CPS Budget FY2008, p. 5

Appropriations by Expenditure Type: Change from FY2007 to FY2008

The FY2008 CPS budget proposes a total All Funds appropriation of approximately \$5.8 billion. This is a 9.3% increase over the previous year's proposed appropriation of \$5.3 billion.

Approximately 58.1% of appropriations or \$3.4 billion is earmarked for salaries and benefits. \$2.0 billion, or 34.8% of all appropriations, is reserved for teachers' salaries, while \$562.0 million is proposed for non-teacher salaries, such as support staff, janitors, and any other employees who do not have teaching certificates. Approximately \$283.2 million is allocated for debt service expenses, a 7.4% increase over the previous year.

CPS Appropriations by Expenditure Type: FY2007 & FY2008				
All Funds (in \$ millions)				
General Operating Funds	FY2007	FY2008	\$ Change	% Change
Teacher Salaries	\$ 1,988.2	\$ 2,011.6	\$ 23.4	1.2%
Non-Teacher Salaries	\$ 527.6	\$ 562.0	\$ 34.4	6.5%
Employee Benefits	\$ 735.3	\$ 791.4	\$ 56.1	7.6%
Subtotal General Operating Compensation	\$ 3,251.1	\$ 3,365.0	\$ 113.9	3.5%
Commodities & Utilities	\$ 272.9	\$ 317.4	\$ 44.5	16.3%
Non-personnel Services	\$ 606.2	\$ 689.0	\$ 82.8	13.7%
Equipment/Capital Outlay	\$ 15.3	\$ 20.3	\$ 5.0	32.7%
Debt Service	\$ 1.4	\$ 1.4	\$ -	0.0%
Other	\$ 258.9	\$ 255.3	\$ (3.6)	-1.4%
Subtotal Other Operating	\$ 1,154.7	\$ 1,283.4	\$ 128.7	11.1%
Subtotal General Operating	\$ 4,405.8	\$ 4,648.4	\$ 242.6	5.5%
Debt Service Fund				
Services Other than Personnel	\$ 3.0	\$ 6.5	\$ 3.5	116.7%
Debt Service Payments	\$ 260.7	\$ 276.7	\$ 16.0	6.1%
Subtotal Debt Service	\$ 263.7	\$ 283.2	\$ 19.5	7.4%
Capital Fund				
Salaries	\$ 7.6	\$ 8.7	\$ 1.1	14.5%
Benefits	\$ 2.9	\$ 2.5	\$ (0.4)	-13.8%
Services, Commodities, Utilities	\$ 10.0	\$ 0.5	\$ (9.5)	-95.0%
Total Capital Outlay	\$ 617.7	\$ 855.0	\$ 237.3	38.4%
Other	\$ (12.6)	\$ (11.8)	\$ 0.8	-6.3%
Subtotal Capital Fund	\$ 625.6	\$ 854.9	\$ 229.3	36.7%
TOTAL	\$ 5,295.1	\$ 5,786.5	\$ 491.4	9.3%

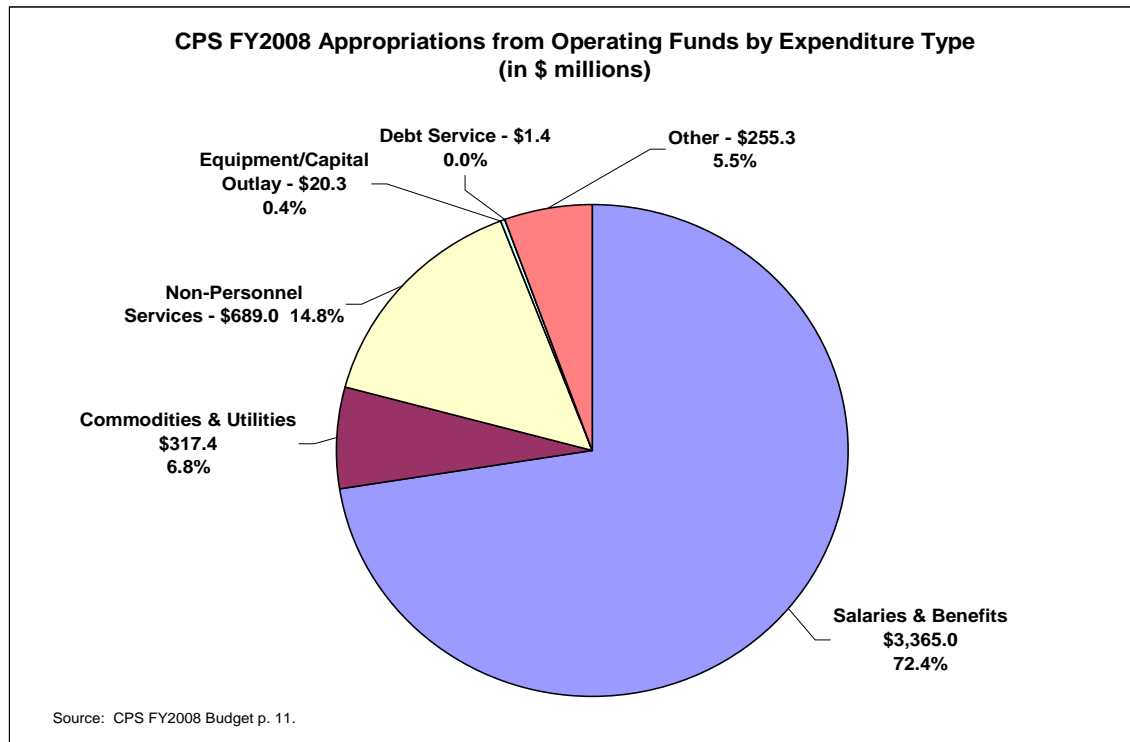
Source: FY2007 CPS Budget, p. 15, and FY2008 CPS Budget, p. 11.

The following exhibit presents the CPS General Operating Funds by expenditure type, for FY2007 and FY2008. Over 43%, or \$2.0 billion, of the total general operating funds is reserved for teachers' salaries, while \$562.0 million is proposed for non-teacher salaries. In addition, employee benefits spending will rise by 11.1%, reflecting the \$57.8 million increase in CPS's required contribution to the teacher pension system and the rising cost of health care coverage. The FY2008 healthcare cost is budgeted at \$307.3 million, an increase of \$6.0 million or 2.0% over FY2007 appropriations. Taken together, salaries and benefits represent 72.4% of the total general operating funds appropriation.

CPS Appropriations by Expenditure Type: FY2007 and FY2008 General Operating Funds (in \$ millions)				
Expenditure Type	FY2007	FY2008	\$Change	% Change
Teacher Salaries	\$ 1,988.2	\$ 2,011.6	\$ 23.4	1.2%
Non-Teacher Salaries	\$ 527.6	\$ 562.0	\$ 34.4	6.5%
Employee Benefits				
Teacher Pension	\$ 291.5	\$ 349.3	\$ 57.8	19.8%
Ed Support Personnel Pension	\$ 84.3	\$ 89.7	\$ 5.4	6.4%
Hospitalization/Other Comp.	\$ 301.3	\$ 307.3	\$ 6.0	2.0%
Unemployment Compensation	\$ 10.9	\$ 10.8	\$ (0.1)	-0.9%
Medicare/Social Security	\$ 24.3	\$ 34.4	\$ 10.1	41.6%
Total Employee Benefits	\$ 712.3	\$ 791.5	\$ 79.2	11.1%
Subtotal Compensation	\$ 3,228.1	\$ 3,365.1	\$ 137.0	4.2%
Worker Compensation	\$ 23.1		\$ (23.1)	-100.0%
Commodities & Utilities	\$ 272.9	\$ 317.4	\$ 44.5	16.3%
Non-personnel Services	\$ 602.9	\$ 689.0	\$ 86.1	14.3%
Equipment/Capital Outlay	\$ 15.3	\$ 20.3	\$ 5.0	32.7%
Debt Service	\$ 1.4	\$ 1.4	\$ -	0.0%
Other	\$ 262.1	\$ 255.3	\$ (6.8)	-2.6%
TOTAL	\$ 4,405.8	\$ 4,648.5	\$ 242.7	5.5%

Source: FY2007 CPS Budget, pp. 20 & 37, and FY2008 CPS Budget, pp. 11, 12 & 16.

The next exhibit shows the breakdown of general operating appropriations in the FY2008 budget by percentage of expenditure types. The largest single portion of the FY2008 general operating appropriation is earmarked for salaries and benefits. Approximately 72.4% of the general and special funds, or nearly \$3.4 billion, will be used for teacher salaries, non-teacher compensation and employee benefits.



Five-Year Appropriation Trends by Expenditure Type: FY2004 and FY2008

The exhibit below shows that CPS appropriations for all funds have risen from \$4.8 billion to \$5.8 billion over five years. This is a 20.0% increase since FY2004. The largest significant percentage increase in that five-year period is for non-personnel services, which rose by 52.0%, from \$453.4 million to \$689.0 million.³⁰ Total employee compensation (salary and benefits) rose by 20.4% over this period. Commodities and Utilities also rose substantially, by 37.9%, from \$230.1 million to \$317.4 million.

CPS Appropriations By Expenditure Type: FY2004 & FY2008				
All Funds (in \$ millions)				
Operating Expenditure Type	FY2004	FY2008	\$Change	% Change
Teacher Salaries	\$ 1,740.8	\$ 2,011.6	\$ 270.8	15.6%
Non-Teacher Salaries	\$ 475.7	\$ 562.0	\$ 86.3	18.1%
Employee Benefits	\$ 578.5	\$ 791.4	\$ 212.9	36.8%
Subtotal General Operating Compensation	\$ 2,795.0	\$ 3,365.0	\$ 570.0	20.4%
Commodities & Utilities	\$ 230.1	\$ 317.4	\$ 87.3	37.9%
Non-personnel Services	\$ 453.4	\$ 689.0	\$ 235.6	52.0%
Equipment/Capital Outlay	\$ 18.1	\$ 20.3	\$ 2.2	12.2%
Debt Service	\$ 1.5	\$ 1.4	\$ (0.1)	-6.7%
Other	\$ 342.7	\$ 255.3	\$ (87.4)	-25.5%
Subtotal Other General Operating	\$ 1,045.8	\$ 1,283.4	\$ 237.6	22.7%
Subtotal General Operating	\$ 3,840.8	\$ 4,648.4	\$ 807.6	21.0%
Debt Service Fund				
Services Other than Personnel	\$ 4.2	\$ 6.5	\$ 2.3	54.8%
Debt Service Payments	\$ 285.8	\$ 276.7	\$ (9.1)	-3.2%
Subtotal Debt Service	\$ 290.0	\$ 283.2	\$ (6.8)	-2.3%
Capital Fund				
Salaries	\$ 5.8	\$ 8.7	\$ 2.9	50.0%
Benefits	\$ 0.5	\$ 2.5	\$ 2.0	400.0%
Services, Commodities, Utilities	\$ 2.0	\$ 0.5	\$ (1.5)	-75.0%
Total Capital Outlay	\$ 686.1	\$ 855.0	\$ 168.9	24.6%
Other	\$ (7.5)	\$ (11.8)	\$ (4.3)	57.3%
Subtotal Capital Fund	\$ 686.9	\$ 854.9	\$ 168.0	24.5%
TOTAL	\$ 4,817.7	\$ 5,786.5	\$ 962.0	20.0%

Source: FY2004 CPS Budget, pp. 20 & 21, and FY2008 CPS Budget, p. 11.

The following exhibit presents a five-year trend by expenditure type for the General Operating Funds. The largest percentage increase in that five-year period for General Operating Funds is for non-personnel services, which rose by 52.0%, from \$453.4 million to \$689.0 million. During the period analyzed, compensation (salaries and benefits) has risen by 20.4%, a difference of \$570.0 million. Salaries and benefits will absorb 72.4% of the total general operating funds in FY2008.

CPS Appopriations by Expenditure Type: FY2004 & FY2008				
General Operating Funds (in \$ millions)				
Expenditure Type	FY2004	FY2008	\$Change	% Change
Teacher Salaries	\$ 1,740.8	\$ 2,011.6	\$ 270.8	15.6%
Non-Teacher Salaries	\$ 475.7	\$ 562.0	\$ 86.3	18.1%
Employee Benefits	\$ 578.5	\$ 791.4	\$ 212.9	36.8%
Subtotal Compensation	\$ 2,795.0	\$ 3,365.0	\$ 570.0	20.4%
Commodities & Utilities	\$ 230.1	\$ 317.4	\$ 87.3	37.9%
Non-personnel Services	\$ 453.4	\$ 689.0	\$ 235.6	52.0%
Equipment/Capital Outlay	\$ 18.1	\$ 20.3	\$ 2.2	12.2%
Debt Service	\$ 1.5	\$ 1.4	\$ (0.1)	-6.7%
Other	\$ 342.7	\$ 255.3	\$ (87.4)	-25.5%
TOTAL	\$ 3,840.8	\$ 4,648.4	\$ 807.6	21.0%

Source: FY2004 CPS Budget, p. 21, and FY2008 CPS Budget, p. 11.

General Operating Funds: Appropriations by Function

Changes in General Operating Fund appropriations by function are presented in the following exhibits. Each function denotes a particular service for which funds are allocated, such as classroom teaching or administrative support. Regular Instructional Programs will increase by 5.1%, or over \$97.7 million. Funding for Special Education Programs will increase by 4.8%, from \$468.6 million in FY2007 to \$491.1 million in FY2008. Spending for Vocational and Special Needs Instructional Programs will continue to decline for the second year in a row, resulting in a spending reduction of 11.6%, from \$199.1 million in FY2007 to \$175.9 million in FY2008. Of CPS's non-instructional programs, support services will increase by 7.9%, and community services will increase by 3.9%. Other Services (Interest and Debt services and total provision for contingencies) will increase by \$13.1 million, a 10.9% increase over FY2007.

CPS Appropriations By Function: FY2007 & FY2008				
General Operating Funds (General Fund & Special Revenue Fund)				
Function	FY2007	FY2008	\$ Change	% Change
Instruction-Regular Programs	\$ 1,921,398,805	\$ 2,019,051,156	\$ 97,652,351	5.1%
Instruction-Special Education	\$ 468,649,295	\$ 491,127,232	\$ 22,477,937	4.8%
Instruction-Voc Ed & Special Needs	\$ 199,064,337	\$ 175,884,137	\$ (23,180,200)	-11.6%
Subtotal Instruction	\$ 2,589,112,437	\$ 2,686,062,525	\$ 96,950,088	3.7%
Supporting Services	\$ 1,642,547,770	\$ 1,772,912,150	\$ 130,364,380	7.9%
Community Services	\$ 54,715,899	\$ 56,865,530	\$ 2,149,631	3.9%
State Rev. Pension Adjust.	\$ -	\$ -	\$ -	-
Other	\$ 119,347,445	\$ 132,415,795	\$ 13,068,350	10.9%
TOTAL	\$ 4,405,723,551	\$ 4,648,256,000	\$ 242,532,449	5.5%

Source: FY2007 CPS Budget CDROM, and FY2008 CPS Budget pp. 21 & 22.

Projections for CPS's FY2008 General Operating Fund appropriations by function show significant changes from FY2004 appropriations. Appropriations for Regular Instructional Programs will rise by 19.5%, or \$329.3 million. Vocational and Special Needs Instructional Programs will decrease by 35.2%, from \$271.5 million to \$175.9 million.

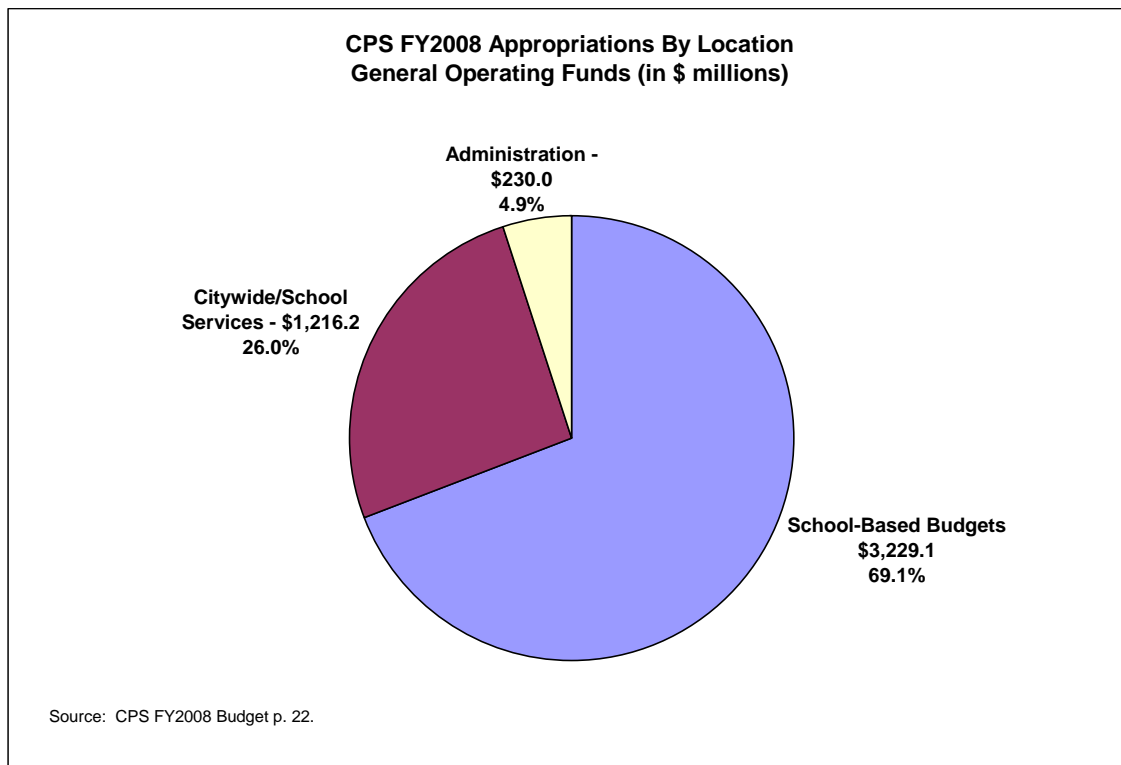
As for non-instructional programs, appropriations for supporting services will increase by 36.8%, and community services appropriations will increase by 30.0%. Other services (Interest and Debt services and total provision for contingencies) will increase by 64.5%, or \$51.9 million.

CPS Appropriations By Function: FY2004 & FY2008				
General Operating Funds (General Fund & Special Revenue Fund)				
Function	FY2004	FY2008	\$ Change	% Change
Instruction-Regular Programs	\$ 1,689,710,343	\$ 2,019,051,156	\$ 329,340,813	19.5%
Instruction-Special Education	\$ 459,719,328	\$ 491,127,232	\$ 31,407,904	6.8%
Instruction-Voc Ed & Special Needs	\$ 271,466,908	\$ 175,884,137	\$ (95,582,771)	-35.2%
Subtotal Instruction	\$ 2,420,896,579	\$ 2,686,062,525	\$ 265,165,946	11.0%
Supporting Services	\$ 1,295,557,012	\$ 1,772,912,150	\$ 477,355,138	36.8%
Community Services	\$ 43,731,859	\$ 56,865,530	\$ 13,133,671	30.0%
State Rev. Pension Adjust.	\$ -	\$ -	\$ -	0.0%
Other	\$ 80,485,420	\$ 132,415,795	\$ 51,930,375	64.5%
TOTAL	\$ 3,840,670,870	\$ 4,648,256,000	\$ 807,585,130	21.0%

Source: FY2004 CPS Budget, p. 30 & 31, and FY2008 CPS Budget pp. 21 & 22.

Appropriations by Location

The exhibit below provides the FY2008 General Operating Funds allocation by location. A total of \$3.2 billion or 69.1% of the FY2008 CPS operating budget will be used for various types of schools and school-based programs, including general high schools, vocational high schools, elementary schools and special education schools. Citywide/School Services, which designates resources like literacy, math, or special education teachers who serve multiple locations, will receive \$1.2 billion or 26.0% of general operating funds. \$230.0 million or 4.9% of the General Operating Funds allocation will go to Central Office administration (this amount does not include salaries for school-based administrators).



Compared to FY2007 expenditures, Citywide/School Services, consisting of appropriations that directly impact the schools, will see an increase of 2.6% – \$30.9 million more will be allocated for these programs. School-based budgets will receive a 6.8% funding increase, while administrative costs will be increased by \$32.1 million compared to FY2007.

CPS Appropriations By Location				
General Operating Funds (in \$ millions)				
LOCATION	FY2007	FY2008	\$ Change	% Change
School-Based Budgets	\$ 3,022.5	\$ 3,229.1	\$ 206.6	6.8%
Citywide/School Services	\$ 1,185.3	\$ 1,216.2	\$ 30.9	2.6%
Administration	\$ 197.9	\$ 230.0	\$ 32.1	16.2%
TOTAL	\$ 4,405.7	\$ 4,675.3	\$ 269.6	6.1%

Source: FY2007 Budget CDROM, and FY2008 Budget p. 22.

Personnel Appropriations

In FY2008 CPS personnel appropriations are expected to increase by \$114.0 million to \$3.4 billion, a 3.5% increase over the FY2007 budgeted appropriation of \$3.3 billion. Salaries, which constitute 76.5% of all personal service appropriations, will increase by 2.3%. Benefit costs, which include pensions, hospitalization insurance, unemployment compensation, and payroll tax contributions for Social Security and Medicare, will rise at a much faster rate. In the aggregate, benefit costs will increase by 7.6% or \$56.2 million, rising from \$735.4 million to \$791.6 million.

CPS Employee Compensation FY2007-FY2008 (Operating Funds)				
(in \$ millions)				
Expenditure Type	FY2007	FY2008	\$ Change	% Change
Teacher Salaries	\$ 1,988.2	\$ 2,011.6	\$ 23.4	1.2%
Ed. Support Personnel Salaries	\$ 527.6	\$ 562.0	\$ 34.4	6.5%
Subtotal Salaries	\$ 2,515.8	\$ 2,573.6	\$ 57.8	2.3%
Teacher Pension	\$ 291.5	\$ 349.3	\$ 57.8	19.8%
ESP Pension	\$ 84.3	\$ 89.7	\$ 5.4	6.4%
Hospitalization	\$ 301.3	\$ 307.3	\$ 6.0	2.0%
Workers' Compensation	\$ 23.1	\$ -	\$ (23.1)	-100.0%
Unemployment Compensation	\$ 10.9	\$ 10.9	\$ -	0.0%
Medicare/Socail Security	\$ 24.3	\$ 34.4	\$ 10.1	41.6%
Subtotal Benefits	\$ 735.4	\$ 791.6	\$ 56.2	7.6%
Total	\$ 3,251.2	\$ 3,365.2	\$ 114.0	3.5%

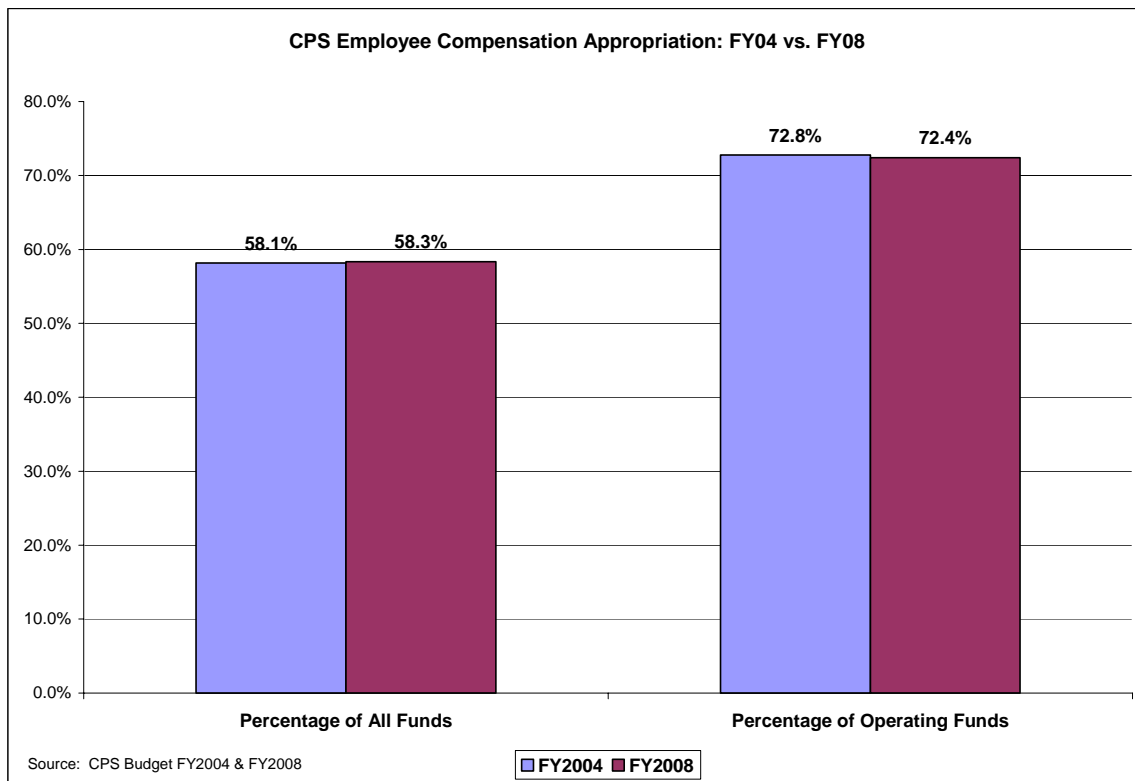
Source: FY2007 Budget p. 20, and FY2008 Budget p. 16.

Over a five-year period, the compensation costs CPS pays for out of its General Operating Funds have risen by 20.1%, or by \$563.9 million. Salaries during that period increased by 15.8%, from \$2.2 billion to \$2.6 billion. Benefits rose at a much faster rate, increasing by 36.7% or by \$212.6 million.

CPS Employee Compensation FY2004-FY2008 (Operating Funds)							
(in \$ millions)							
Expenditure Type	FY2004	FY2005	FY2006	FY2007	FY2008	FY04-FY08 \$ Change	FY04-FY08 % Change
Teacher Salaries	\$ 1,741.0	\$ 1,890.7	\$ 1,932.5	\$ 1,988.2	\$ 2,011.6	\$ 270.6	15.5%
Ed. Support Personnel Salaries	\$ 481.3	\$ 512.8	\$ 535.8	\$ 527.6	\$ 562.0	\$ 80.7	16.8%
Subtotal Salaries	\$ 2,222.3	\$ 2,403.5	\$ 2,468.3	\$ 2,515.8	\$ 2,573.6	\$ 351.3	15.8%
Teacher Pension	\$ 197.7	\$ 199.0	\$ 235.6	\$ 291.5	\$ 349.3	\$ 151.6	76.7%
ESP Pension	\$ 79.4	\$ 83.4	\$ 82.4	\$ 84.3	\$ 89.7	\$ 10.3	13.0%
Hospitalization	\$ 256.0	\$ 256.5	\$ 275.1	\$ 301.3	\$ 307.3	\$ 51.3	20.0%
Workers' Compensation	\$ 14.3	\$ 16.0	\$ 18.1	\$ 23.1	\$ -	\$ (14.3)	-100.0%
Unemployment Compensation	\$ 2.7	\$ 3.2	\$ 8.9	\$ 10.9	\$ 10.9	\$ 8.2	303.7%
Medicare/Social Security	\$ 28.9	\$ 25.6	\$ 24.4	\$ 24.3	\$ 34.4	\$ 5.5	19.0%
Subtotal Benefits	\$ 579.0	\$ 583.7	\$ 644.5	\$ 735.4	\$ 791.6	\$ 212.6	36.7%
Total	\$ 2,801.3	\$ 2,987.2	\$ 3,112.8	\$ 3,251.2	\$ 3,365.2	\$ 563.9	20.1%

Source: CPS Budgets, FY2004-FY2008

The next exhibit compares the percentage of CPS appropriations earmarked for employee compensation in FY2004 versus FY2008. The percentage of all funds and general operating appropriations dedicated to personnel has risen over the last five years, though the percentage of General and Special Revenue Fund appropriations earmarked for personnel expenditures has decreased by 0.4%.



Retiree Health Insurance Benefits

Retired CPS teachers and eligible dependents are permitted to enroll in one of three healthcare coverage options: Blue Cross/Blue Shield PPO, Humana HMO, or HMO Illinois. The Public School Teachers' Pension and Retirement Fund of Chicago (also called the Chicago Teachers' Pension Fund, or CTPF) 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 addition cost of enrolling eligible dependents. The rebate does apply, however, to eligible dependents who are survivors of deceased retirees. In 2006 the pension fund rebated 70% of the retiree cost for an individual policy.³¹

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 1997 to 2006, total insurance premium rebates paid increased by 155.6% or \$35.5 million.

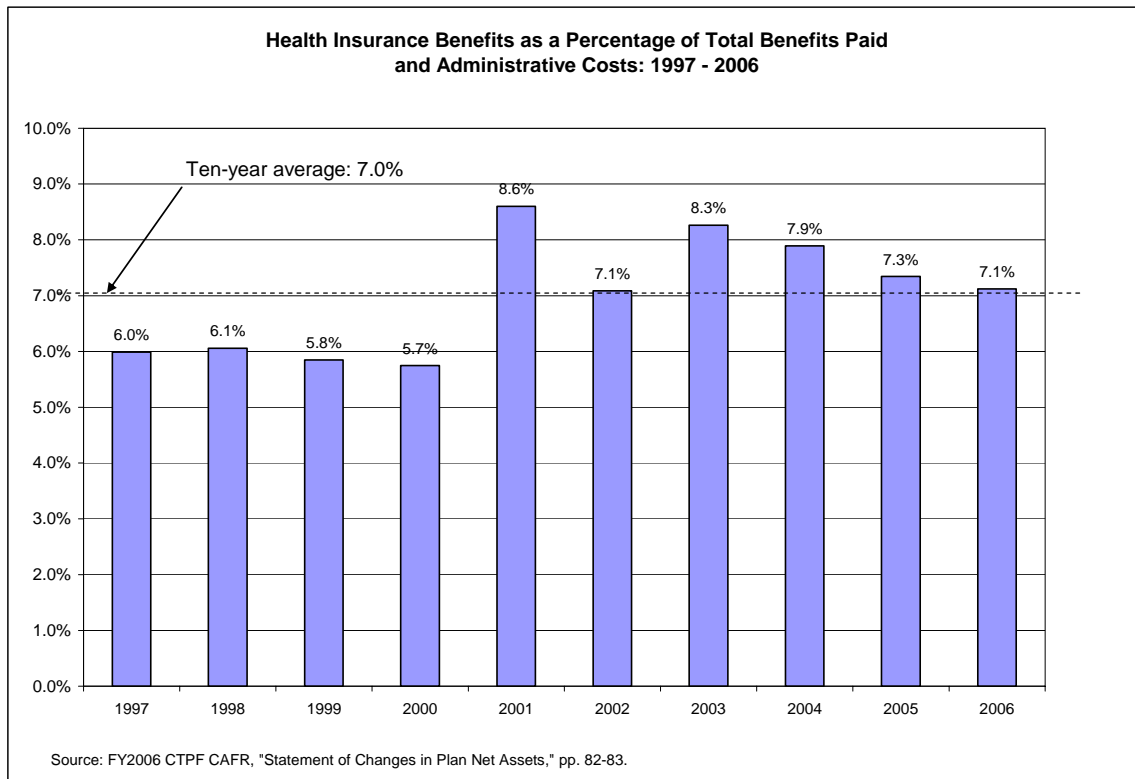
Health Insurance Premium Rebates Paid to Retired CPS Teachers: 1997 to 2006		
Year	Health Insurance Benefits Paid	% Change over Previous Year
1997	\$ 22,796,866	--
1998	\$ 24,225,631	6.3%
1999	\$ 22,013,995	-9.1%
2000	\$ 26,144,939	18.8%
2001	\$ 44,088,569	68.6%
2002	\$ 44,068,275	0.0%
2003	\$ 51,395,920	16.6%
2004	\$ 53,106,379	3.3%
2005	\$ 54,410,887	2.5%
2006	\$ 58,279,900	7.1%
Ten-Year Change	\$ 35,483,034	155.6%

Source: Chicago Teachers' Pension Fund 2006 CAFR, pp. 82-83.

From 1997 to 2006 health insurance has constituted an average of 7.0% of the Pension Fund's total expenditures on all benefits per year.³² This percentage has declined for four consecutive years.

³¹ Information provided by CPS, August 20, 2007.

³² Total benefits paid include retirement, disability, refunds (for separation, death or other causes), death benefits, and health insurance. The total figure used in the following table also includes the administrative cost of the fund. *Public School Teachers' Pension and Retirement Fund of Chicago CAFR 2006*, pp. 25.



A comparison of health insurance payments for current CPS teachers and for retired teachers' rebates between 2002 and 2006, shows that Pension Fund insurance payments rose by 32.2% while the CPS's insurance payments increased by 26.4%.

Health Insurance Payments for Retirees v. Payments for Active CPS Teachers: FY2002 and FY2006 (in \$ millions)				
	FY2002	FY2006	\$ Change	% Change
CTPF Health Insurance Rebates	\$ 44.1	\$ 58.3	\$ 14.2	32.2%
CPS Health Insurance Payments	\$ 192.3	\$ 243.0	\$ 50.7	26.4%

Source: CPS FY2008 Budget, p. 112, and Chicago Teachers' Pension Fund CAFR, pp. 82-83

New and Enhanced Education Initiatives for CPS FY2008 Budget

CPS annually reports information about its education initiatives, which include pre-school and after school programs, dropout prevention programs, summer job programs, and enhanced educational opportunities for highly motivated students. Though the district continues to provide narrative descriptions of these programs, CPS did not provide comprehensive data in its FY2008 budget showing the amount that will be appropriated for education initiatives either individually or in the aggregate. The Civic Federation believes that the funding level and changes in appropriations for these programs provide important evidence of the district's overall educational priorities. This information, which has been included in previous CPS budgets, should be restored in FY2009.

CPS did provide a list of new resources for educational initiatives in FY2008. The district reports that it will increase funding for student-oriented initiatives by \$37.0 million. The district's full-day kindergarten programs (\$10 million) and K-8 after-school programs (\$5.0 million) will see the largest increases.

FY2008 New Resources for Educational Initiatives (in \$ millions)	
Program	New Funding
Full-Day Kindergarten Expansion	\$ 10.0
After-School Programs (K-8)	\$ 5.0
Saturday Academies	\$ 1.5
AVID	\$ 1.4
High School Credit Recovery	\$ 1.0
Sports/Summer Sports	\$ 2.3
Summer Counselors	\$ 1.4
College Bridge/Summer Quest	\$ 1.0
ACT/PSAE Preparation	\$ 3.5
Post-Secondary Career Labs	\$ 3.0
Freshmen Drop-Out Prevention	\$ 1.0
Receiving High School Support	\$ 1.0
Communit Schools Initiative	\$ 5.0
Total	\$ 37.1

Source: CPS FY2008 Budget, p. 45.

CPS also reports that it will allocate an additional \$6.0 million for teacher-training programs, as shown below.

FY2008 New Resources for Professional Development (in \$ millions)	
Program	New Funding
Teacher Induction	\$ 2.0
National Board Certification	\$ 1.2
Principal Mentorship	\$ 1.3
Saturday Teacher Professional Development	\$ 1.5
Total	\$ 6.0

Source: CPS FY2008 Budget, p. 43.

CHARTER SCHOOLS AND RENAISSANCE 2010 INITIATIVE

The Renaissance 2010 initiative proposes to increase educational choices and opportunities for at-risk students by creating 100 new schools by the year 2010. These schools will be a combination of CPS-run, contract, and charter schools. Operation of individual schools will be awarded via a Request for Proposals process. Schools will be held accountable via performance agreements that list expectations for student achievement, on-going community and parent involvement and school management.³³

There will be nine new Renaissance 2010 schools in addition to new charter schools in FY2008 – three contract schools and six performance schools – that will open under the Renaissance 2010 initiative. The total number of Renaissance 2010 schools and campuses in FY2008, including some charter schools, will be 79. Renaissance 2010 schools are projected to serve a total of 30,357 students in FY2008.³⁴

³³ For information on the Renaissance 2010 initiative, please see <http://www.ren2010.cps.k12.il.us/overview.shtml>.

³⁴ All information on Renaissance 2010 schools has been obtained from CPS's Office of Management and Budget.

In FY2008 the number of charter schools will increase from 28 schools operating on 48 campuses to 28 schools on 56 campuses. The number of charter school students is also expected to increase significantly, by 4,409 or 21.7%. Charter school student enrollment will grow from approximately 20,300 in FY2007 to 24,709 in FY2008. Proposed appropriations for charter schools will grow by 38.4%, from \$130.0 million in FY2007 to \$175.9 million in FY2008. CPS will allocate another \$20.1 million for charter schools' share of categorical program spending in FY2008.³⁵

For FY2008 charter schools will be funded on a per pupil basis, beginning with a base per pupil General Education rate of \$5,460 for Elementary Schools and \$6,775 for High Schools. Additional Programmatic and Other Funding will be provided for qualifying schools and students.³⁶ For example, CPS reimburses charter schools for the cost of providing special education. Individual schools are given the option of hiring their own special education teachers or having special education teachers provided by the district. The district also pays for charter school food service and transportation costs and provides funding for facilities maintenance, including janitorial and engineering services. Charter schools receive the same funding as traditional schools for poverty-related federal and state categorical programs.³⁷

PERSONNEL: 160 POSITIONS ELIMINATED IN FY2008

In FY2008, CPS will fund a total of 43,990 full time equivalent positions. This is a 0.4% decrease from the FY2007 total of 44,149. The following exhibit details CPS staff reductions:

CPS Distribution of Personnel: FY2007 & FY2008				
Location	FY2007	FY2008	Change	% Change
Administrative Positions	1,580	1,648	68	4.3%
School-Based Positions	42,489	42,231	(258)	-0.6%
Subtotal Operating Funds Positions	44,069	43,879	(190)	-0.4%
Capital-Funded Positions	80	110.5	31	38.1%
Total	44,149	43,990	(160)	-0.4%

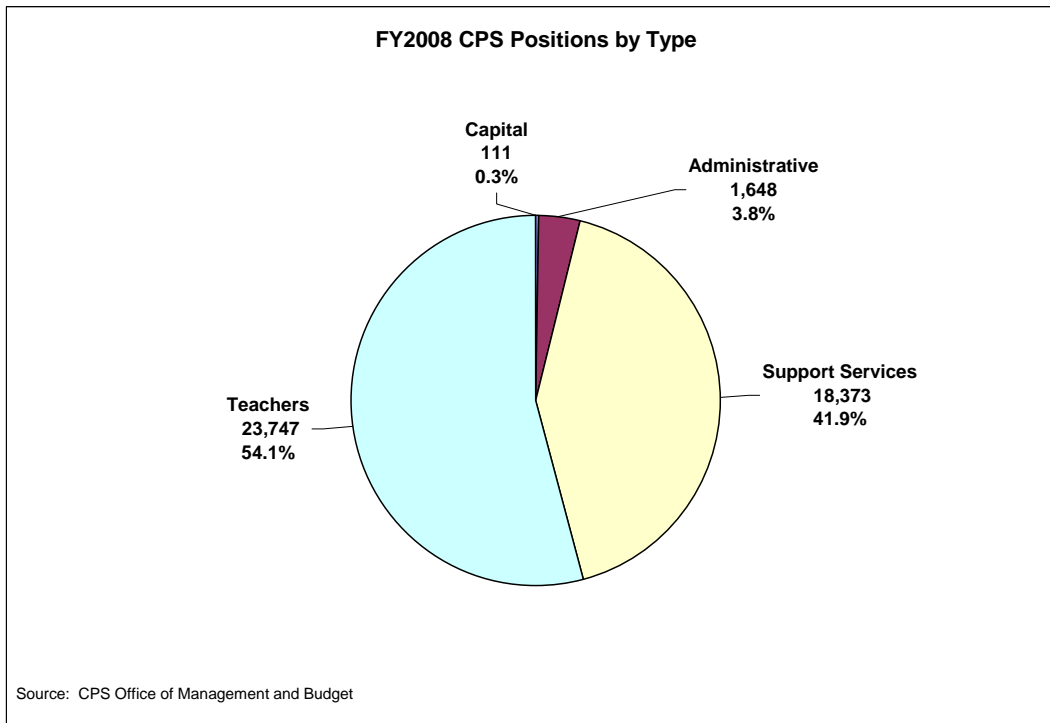
Source: CPS Budget FY2007, p. 76, and CPS Office of Management and Budget

In FY2008, the Chicago Public Schools will budget for 23,747 teaching positions. Approximately 41.9%, or 18,373 of FY2008 budgeted positions, are designated as non-teaching school-based staff, including teachers' aides, clerical staff, custodians, security officers, and building engineers. Administrative staff composes 3.8% of all CPS employees. The remaining 111 positions are funded out of capital dollars.

³⁵ All charter school data was obtained from the CPS Office of Management and Budget.

³⁶ *Chicago Public Schools Budget FY2008*, p. 155.

³⁷ Information provided by Chicago Public Schools Office of Management and Budget, July 9, 2005.



In order to more accurately reflect the classification of personnel functions, CPS has followed a new format for presenting personnel figures in the budget for the past four years. Previously, positions were classified by categories that described location: Central Office, Schools, and Citywide.³⁸ The new format originally divided employees into two categories: Administrative positions and School-Based positions. Beginning with last year’s budget presentation, CPS has added a “Capital Funded Positions” category to avoid contradictions in the presentation of personnel information elsewhere in the budget document.

Because of these format changes, historical comparisons of positions by type cannot be made at this time.

Administrative Staff by Unit

The following exhibit shows CPS’s administrative staff levels itemized by individual administrative unit in the budget book. In FY2007, 70 full-time equivalent positions were eliminated, resulting in an 4.2% decrease in total administrative staff. However, in FY2008 67 administrative positions were added back to CPS’s full-time staff, negating most of the earlier staff reduction efforts.

³⁸ The “Citywide” designation included employees for system-wide functions as well as teachers and employees who worked at multiple school locations.

CPS Administrative Staff Levels: FY2007 & FY2008 (Full-Time Equivalent Positions)				
Administrative Unit	FY2007	FY2008	Change	% Change
Board of Education	19	20	1	5.3%
C.E.O.	10	10	-	0.0%
Chief of Staff	7	8	1	14.3%
Inspector General	16	16	-	0.0%
Law	79	79	-	0.0%
Communications	14	14	-	0.0%
Audit Services	3	3	-	0.0%
New Schools Development	24	26	2	8.3%
External Affairs	48	48	-	0.0%
Business Diversity	4	4	-	0.0%
Chief Education Officer	8	7	(1)	-12.5%
Literacy	35	36	1	2.9%
High School Programs	154	160	6	3.9%
Education to Careers	41	44	3	7.3%
Early Childhood Education	19	19	-	0.0%
Math & Science	38	31	(7)	-18.0%
Research, Eval. & Accountability	34	34	-	0.0%
Instruction & School Mgmt.	216	230	14	6.7%
School Demographics & Planning	1	1	-	0.0%
Principal Preparation & Development	8	10	2	25.0%
Academic Enhancement	10	11	1	10.0%
Specialized Services	66	60	(6)	-9.1%
Strategic Planning	7	6	(1)	-14.3%
Language & Cultural Education	46	44	(2)	-4.3%
Fine Arts	6	9	3	50.0%
Chief Administrative Officer	7	6	(1)	-14.3%
Human Resources	223	232	9	4.0%
Contracts & Procurement	42	47	5	11.9%
Safety & Security	58	53	(5)	-8.6%
Technology Services	148	145	(3)	-2.0%
Business Service Center	23	37	14	60.9%
School Financial Services	64	64	-	0.0%
Management & Budget	43	31	(12)	-27.9%
Chief Operating Officer	12	5	(7)	-58.3%
Facility Operations & Maintenance	17	11	(6)	-35.3%
Real Estate	2	1	(1)	-50.0%
Food Services	20	21	1	5.0%
Student Transportation	1	1	-	0.0%
Instructional Design and Assessment	10	24	14	140.0%
Autonomous Mgmt & Performance School	-	2	2	100.0%
Extended Learning Opportunities	-	17	17	100.0%
Grants Management and Administration	-	22	22	100.0%
TOTAL	1,582	1,648	67	4.2%

Note: This chart does not include school-based administrative positions or positions paid for out of the Capital Fund. FY07 figures are from the FY07 Original Budget. Slight discrepancies between tabulations of FTE positions are caused by rounding. Source: CPS Budget FY2008 pp. 37 & 38.

Twelve of the 42 units listed above, or 28.6%, will undergo staffing reductions. The administrative units that experienced the greatest reductions in staff levels include:

- Chief Operating Officer (-58.3%);
- Facility Operations and Maintenance (-35.3%); and
- Office of Management and Budget (-27.9%).

Three new units, the Office of Autonomous Management and Performance Schools, Office of Extended Learning Opportunities, and Office of Grants Management and Administration, were created for FY2008. Their initial staffing levels will be 2, 17, and 22 positions respectively. The units that increased their staff levels to the greatest extent include:

- Instructional Design and Assessment (+140.0%);
- Principal Preparation and Development (+25.0%); and
- Contracts and Procurement (+11.9%).

ENROLLMENT: CONTINUED DECLINE PROJECTED

CPS predicts an ongoing decline in overall student enrollment across the system. As the following exhibit indicates, total enrollment dropped by 7,288 students from 2005 to 2006. Between the fall of 2001 and the fall of 2006, actual enrollment has dropped by 23,924 students, a decrease of 5.5% percent.³⁹

CPS Student Enrollment Fall 2001 - Fall 2006								
	Fall 2001	Fall 2002	Fall 2003	Fall 2004	Fall 2005	Fall 2006	01-06 CHG	01-06 % CHG
Preschool	21,109	21,788	22,085	21,712	21,205	21,363	254	1.2%
Elementary, K-8	317,336	315,671	308,111	299,007	290,645	280,767	(36,569)	-11.5%
High School	99,173	101,064	104,223	106,093	109,132	111,564	12,391	12.5%
Total	437,618	438,523	434,419	426,812	420,982	413,694	(23,924)	-5.5%

Source: CPS FY2008 Budget, p. 138.

In the FY2007 budget CPS used its Fall 2006 actual enrollment to estimate total enrollment in FY2007 at 415,000 students. In the current budget, CPS projects that FY2008 total enrollment will be 409,000.⁴⁰ Based on the FY2008 projection, total CPS enrollment will have declined by 28,618 students, or by 5.5% since the fall of 2001.

UNRESERVED, UNDESIGNATED FUND BALANCE RATIO

Between FY2002 and FY2006, the CPS General Operating Funds' unreserved, undesignated fund balance increased from 0.2% to 2.2% of operating expenditures in those funds. This is well below the 5% minimum ratio recommended by the Government Finance Officers Association and is a marked decline from the 6.0% ratio reported in FY2001.

³⁹ *Chicago Public Schools Budget FY2008*, p. 138.

⁴⁰ *Chicago Public Schools Budget FY2008*, p. 60.

After falling to a low of 0.7% in FY2004, the fund balance ratio increased in FY2005. The increase is an encouraging trend, the ratio remains quite low. The Civic Federation urges CPS to continue increasing the size of its fund balance in future years.

Chicago Public Schools Unreserved, Undesignated Fund Balance Ratio for FY2002-FY2006			
	Undesignated General Operating Fund Balance	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%

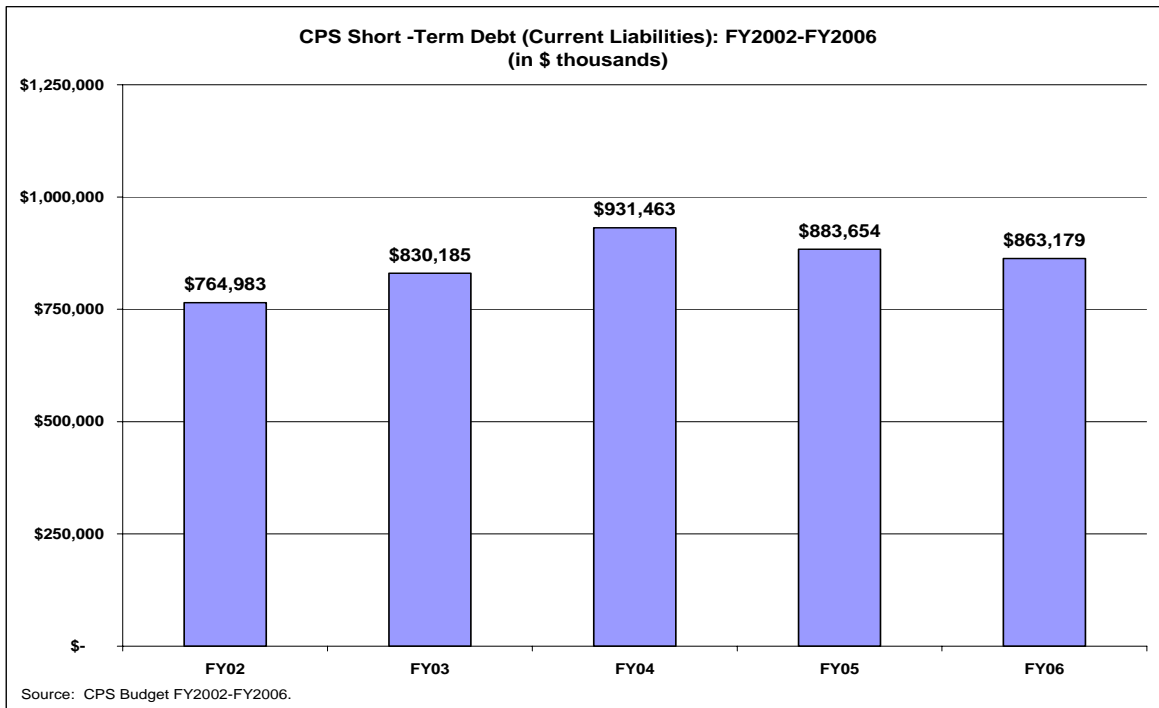
Source: Chicago Public Schools Comprehensive Annual Financial Reports FY2002 - FY2006.

SHORT-TERM DEBT TRENDS

Short-term debt is a financial obligation that must be satisfied within one year. An increasing trend in short-term debt may be a warning sign of future financial difficulties. It is a measure of budgetary solvency, that is, a government's ability to generate enough revenue over the course of a normal budgetary period to meet its expenditures and prevent deficits. For purposes of this analysis, short-term debt in the Governmental Funds includes obligations such as accounts payable and other accrued liabilities. In short, it includes all current liabilities.⁴¹

The exhibit below presents the CPS's short-term debt trends for fiscal years 2002 through 2006. During that five-year period, short-term debt obligations rose by 12.8% or from \$764.9 million to \$863.1 million. However, between FY2004 and FY2006, short-term debt decreased by 7.3%, from \$931.4 million to \$863.1 million. The trend of reducing short-term debt since FY2004 is a positive sign.

⁴¹ GASB Statement No. 34 requires the reporting of current and long-term liabilities in the entity-wide Statement of Net Assets. The CPS has complied with this requirement since FY2001. The Civic Federation has changed its method of calculating short-term debt to be consistent with GASB reporting requirements.



LONG-TERM DEBT TRENDS

This section of the analysis presents information about CPS's long-term debt trends. It includes information about capital outlays, long-term debt, direct debt, direct debt per capita and bond ratings.

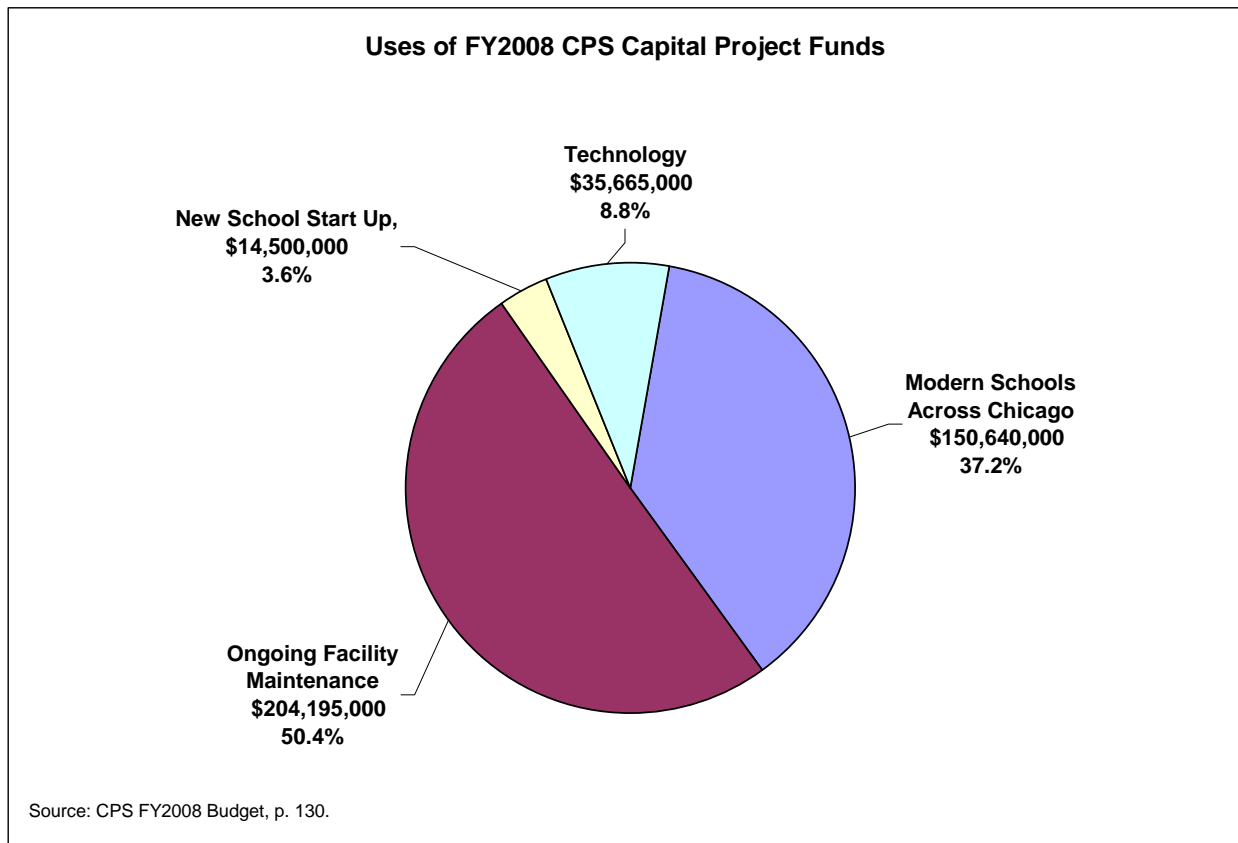
Capital Outlay

The FY2008 appropriation for CPS capital projects will be approximately \$855.0 million. This is a 36.6% increase from the previous year's appropriation of \$626.0 million. Allocated but unspent bond proceeds from FY2007 that will be re-appropriated in FY2008 total \$450.0 million.

CPS FY2008 Capital Projects Fund Budget Summary				
Resources	FY2007	FY2008	\$ Change	% Change
Beginning Fund Balance	\$ 266.0	\$ 450.0	\$ 184.0	69.2%
Revenues				
Local Revenue	\$ 9.0	\$ -	\$ (9.0)	-100.0%
State Revenue	\$ -	\$ -	\$ -	
Federal Revenue	\$ -	\$ 5.0	\$ 5.0	
Subtotal Revenues	\$ 9.0	\$ 5.0	\$ (4.0)	-44.4%
Bond Proceeds	\$ 350.0	\$ 400.0	\$ 50.0	14.3%
Total Resources	\$ 626.0	\$ 855.0	\$ 229.0	36.6%

Source: CPS FY2008 Budget, p. 130.

The next exhibit shows the uses of the total of \$450 million in FY2008 capital project funds. The largest proportion, or 50.4%, will be used for ongoing facility maintenance. Over 37% will be earmarked for projects included in the MSAC construction program. The remaining 12.4% of the funds are reserved for technology projects and new school start-ups.



Long-Term Debt

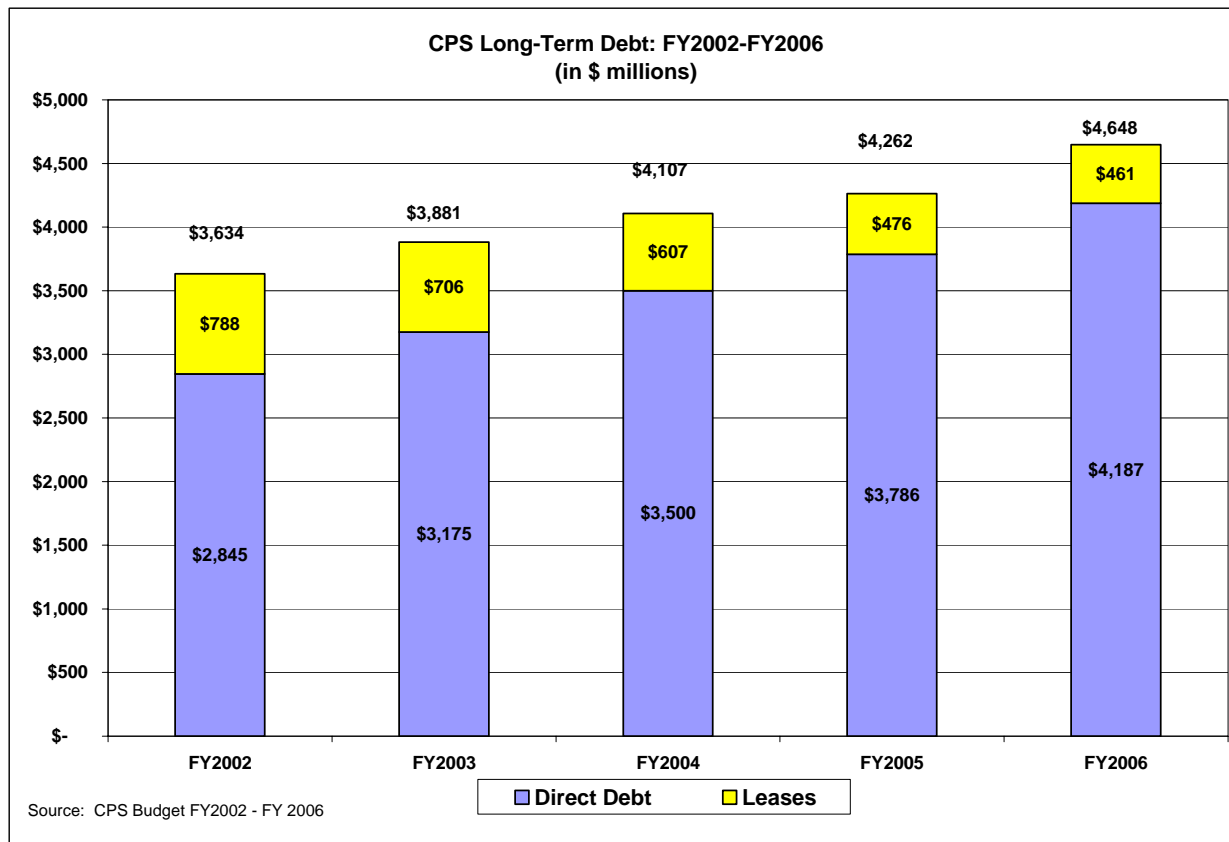
Long-term debt comprises long-term direct debt and other forms of debt such as installment purchase agreements (leases), sales and motor fuel tax revenue bonds, and Tax Increment Financing and Special Service Area bonds.⁴² For CPS, long-term debt includes unlimited tax General Obligation bonds, Qualified Zone Academy Bonds, State Technology Revolving Loan funds and Asbestos Abatement Loans and Public Building Commission leases secured by property tax revenues or State of Illinois school construction grants.⁴³ It excludes other long-term liabilities such as accrued sick pay benefits, accrued vacation pay benefits, accrued workers' compensation benefits, accrued general and automobile claims, tort liabilities and unfunded pension obligations.

CPS's long-term debt increased by 27.9% between FY2002 and FY2006. This represents a \$1.0 billion increase from \$3.6 billion to \$4.6 billion. While direct tax-supported debt increased by 47.2% during this five-year time period, the amount outstanding for capital leases declined from \$788 million to \$461 million or by 41.6%. The overall high rate of increase in long-term debt

⁴² Information for direct debt is from both Note 8 (Long Term Debt) and Note 9 (Capitalized Lease Obligations) in CPS *Comprehensive Annual Financial Reports*.

⁴³ CPS FY2005 *Comprehensive Annual Financial Report*, Notes 8 and 9, pp. 53-57.

bears watching, particularly as the CPS faces continuing challenges in meeting its rising expenditures in areas such as personnel and retirement costs.

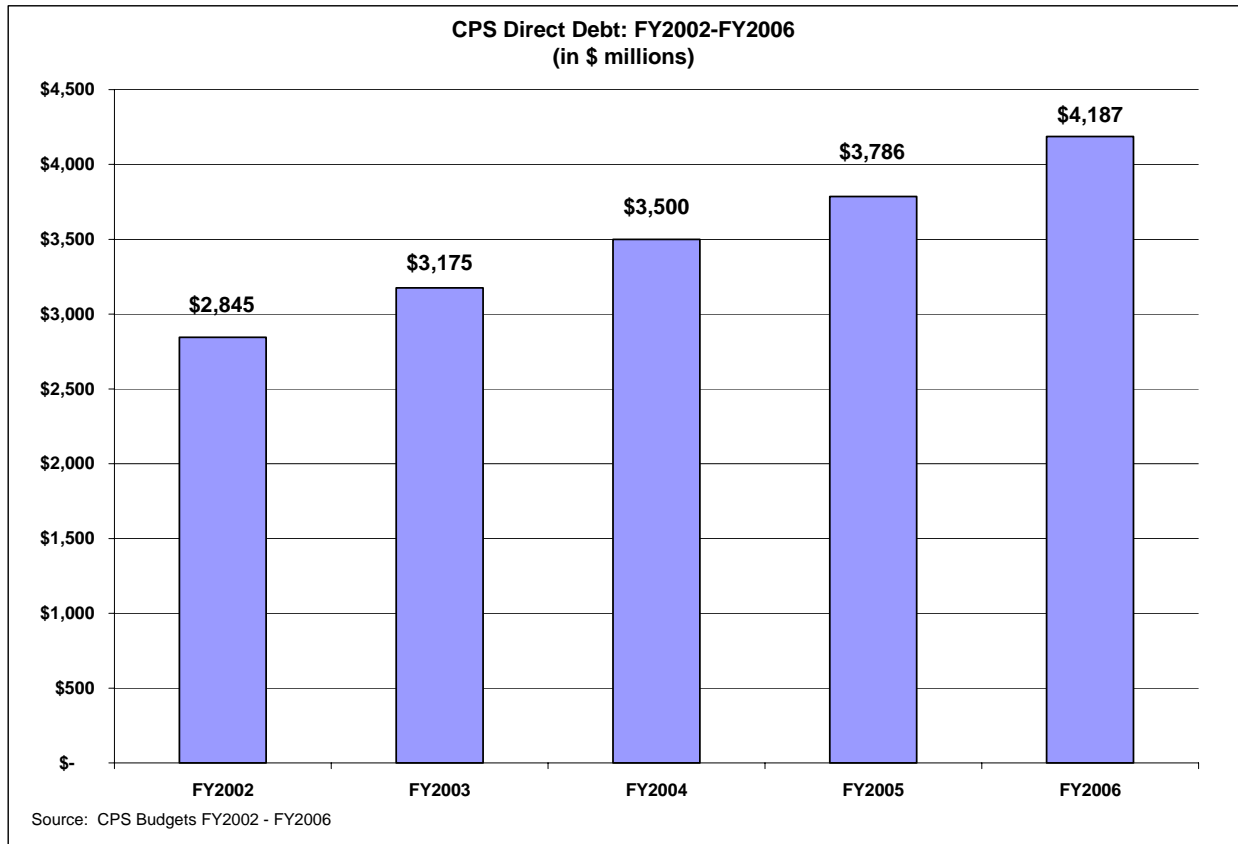


Direct Debt

Direct debt is a government’s tax-supported, bonded debt, much of which is general obligation debt funded by property taxes. Increases bear watching as a potential sign of increasing 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.

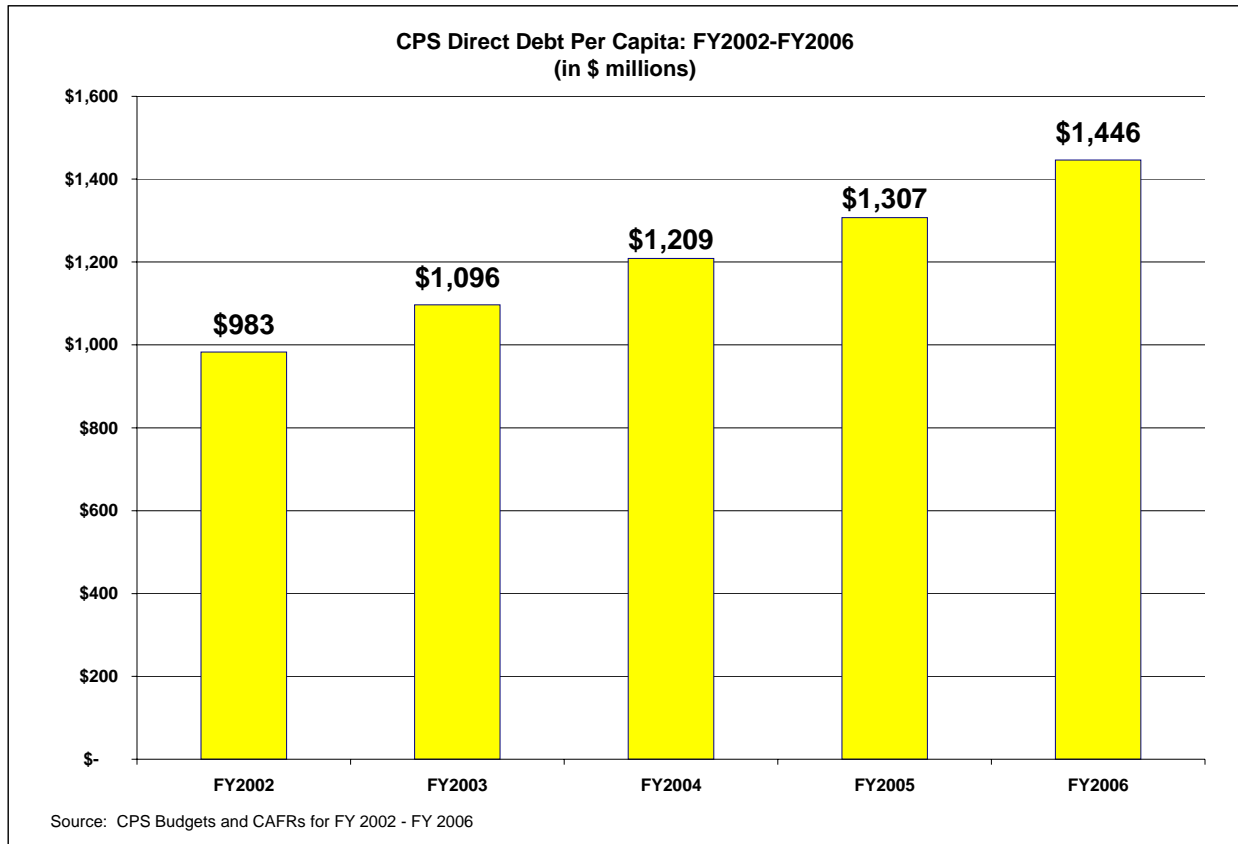
CPS’s direct debt includes unlimited tax General Obligation bonds, Qualified Zone Academy Bonds, State Technology Revolving Loan funds and Asbestos Abatement Loans. It excludes lease payments.⁴⁴ Between FY2002 and FY2006, the direct debt burden of the Chicago Public Schools increased by from \$2.8 billion to \$4.1 billion. This is nearly a \$1.3 billion, 47.2% increase. This increase reflects the CPS’s large capital construction program over the past several years.

⁴⁴ Information for direct debt from Note 8 (Long Term Debt) in CPS *Comprehensive Annual Financial Reports*.



Direct Debt Per Capita

Direct debt per capita is a measure of a government's ability to maintain its current financial policies, and direct debt indicators are commonly used by rating agencies to measure debt burden across governments. Essentially, this indicator takes CPS's total direct debt amount per year and divides it by 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 direct debt per capita increased by 47.2% between FY2002 and FY2006, from \$983 to \$1,446. It rose by 10.6% between FY2005 and FY2006.



TEACHERS' PENSION FUND

CPS teachers are enrolled in the Public School Teachers' Pension and Retirement System of Chicago. All non-teaching employees are enrolled in the City of Chicago's Municipal Employees' Annuity and Benefit Fund. The data presented below are for the Teachers' Pension Fund only.

In FY2006, the Teachers' Pension Fund had over 56,000 members, including 22,105 retirees and beneficiaries receiving benefits and 34,682 current members. Since FY2002, membership has increased by 2.8%; however membership did drop by 2.9% between FY2005 and FY2006 as the number of CPS employees was reduced.

CPS Teachers' Pension Fund Membership FY2002 - FY2006			
Fiscal Year	Retirees & Beneficiaries Receiving Benefits	Current Members	Total
FY2002	17,867	37,374	55,241
FY2003	18,565	36,548	55,113
FY2004	19,266	37,362	56,628
FY2005	20,954	37,521	58,475
FY2006	22,105	34,682	56,787

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

Sources: Teachers' Pension CAFRs, FY2006 Actuarial Report, p. 24.

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

Pension funds are funded through a combination of employer and employee contributions. State statute requires the ratio of Teachers' Pension Fund assets to liabilities to be at least 90%. If the ratio drops below that 90% figure, the remainder of the costs must be paid by CPS, the State of Illinois from the State Distributive Fund and investment income.

Employer Contributions

CPS makes an **employer contribution** to the Teachers' Pension Fund annually based on a calculation taking into account the amount of funding needed to ensure that the 90% funded ratio is reached by the year 2045. The actuarial calculations used to determine the employer level of funding for FY2006 are shown in the exhibit below.

State Appropriations: The State of Illinois provides a sum of \$65 million annually.

Additional State Appropriations: The State must make additional contributions of 0.544% of payroll to the Teachers' Fund to offset a portion of the cost of benefit increases enacted under P.A. 90-582. No additional contributions are required if the funded ratio is at least 90%.

Additional CPS Contribution: The Board of Education must make additional contributions of 0.58% of each teacher's salary to offset a portion of the benefit increases enacted under P.A. 90-582. No additional contributions are required if the funded ratio is at least 90%.

CPS Required Contribution: Under the funding plan established by P.A. 89-15, the minimum contribution to the Teachers' Pension Fund shall be an amount determined to bring the total assets of the Fund up to 90% of the total actuarial liabilities by the end of FY2045. The required CPS contribution is calculated as a level percentage of payroll over the years through FY2045. The calculation for determining the CPS required contribution is the total amount of the employer contribution less additional state appropriations, additional CPS appropriations and other employer appropriations.

In FY2006, the required CPS contribution was \$15.8 million. It will increase dramatically to approximately \$120.6 million in FY2008 as the unfunded liabilities of the Teachers Pension Fund continue to rise and the funded ratio correspondingly falls. This is a 662.1% increase in just three years.

CPS (Employer) Contribution to Teachers' Pension Fund for State FY2006-FY2008			
	FY2006	FY2007	FY2008
Total Required Employer Contribution	\$ 114,721,000	\$ 167,245,000	\$ 227,319,000
State Appropriations	\$ 65,000,000	\$ 65,000,000	\$ 65,000,000
Additional State Appropriations (P.A. 90-582)	\$ 9,877,000	\$ 10,242,000	\$ 10,218,000
Additional CPS Contribution (P.A. 90-582)	\$ 10,530,000	\$ 10,920,000	\$ 10,894,000
Other Employer Contributions	\$ 13,494,000	\$ 11,663,000	\$ 20,646,000
CPS Required Contribution (1-2-3-4-5) Under P.A. 89-15	\$ 15,820,000	\$ 69,420,000	\$ 120,561,000

Source: FY2004, FY2005 and FY2006 Annual Financial Reports of the Chicago Teachers Pension Fund

CPS also makes an annual appropriation of 7% of regular salaries of employees as part of the **employee contribution** to the Teachers' Pension Fund.⁴⁵ Essentially, the District "picks up" 7% of the 9% required employee contribution for the retirement system.

Pension Funding Appropriations in FY2008

CPS's FY2008 pension appropriation totals \$439.0 million. This includes both of the CPS and state contributions described above, as well as the 7% CPS "pick up" of the employee contribution. Over \$349.3 million will be appropriated for the teachers' pension fund, and \$89.7 will be appropriated for educational support personnel pensions.⁴⁶

CPS Retirement Benefit Appropriations: FY2007-FY2008				
(in \$ millions)				
Type	FY2007	FY2008	\$ Change	% Change
Teachers' Pensions	\$ 291.5	\$ 349.3	\$ 57.8	19.8%
Educational Support Personnel	\$ 84.3	\$ 89.7	\$ 5.4	6.4%
Total	\$ 375.8	\$ 439.0	\$ 63.2	16.8%

Source: FY2007 CPS Budget, p. 61 and FY2008 CPS Budget, p. 60.

Future Actuarial Projections of CPS Funding Costs

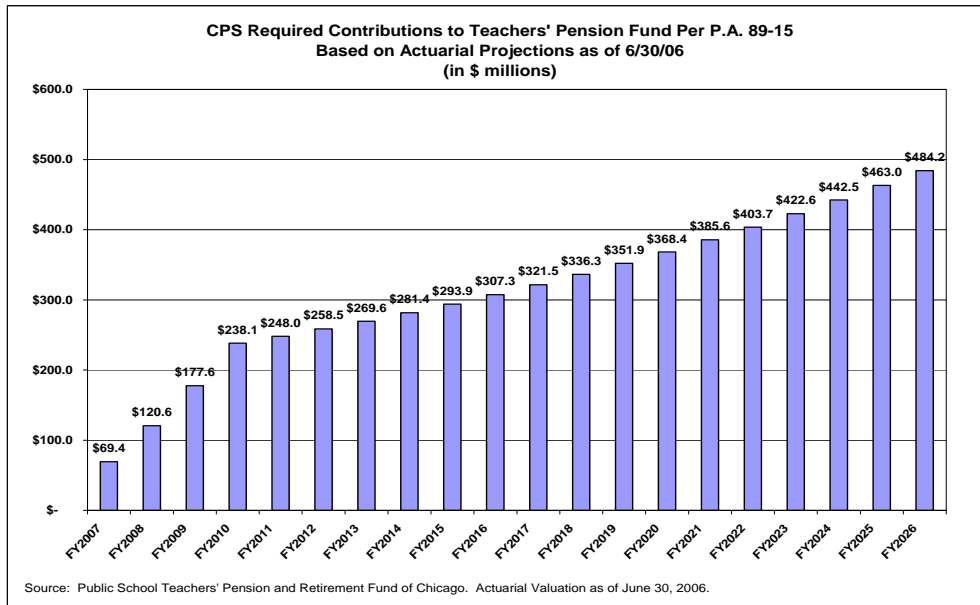
CPS faces mounting pension costs in future years, according to the actuarial valuation report submitted to the District on December 21, 2006.⁴⁷ The exhibit below shows estimates of required CPS contributions to the Pension Fund from FY2007 to FY2026. During that time period, CPS required contribution per year will rise from \$69.4 million to \$484.2 million. State of Illinois contributions in addition to the \$65 million annual payment will rise from \$10.2 million to \$19.7 million by FY2026.⁴⁸

⁴⁵ *Chicago Public Schools FY2005 Budget*, p. 72.

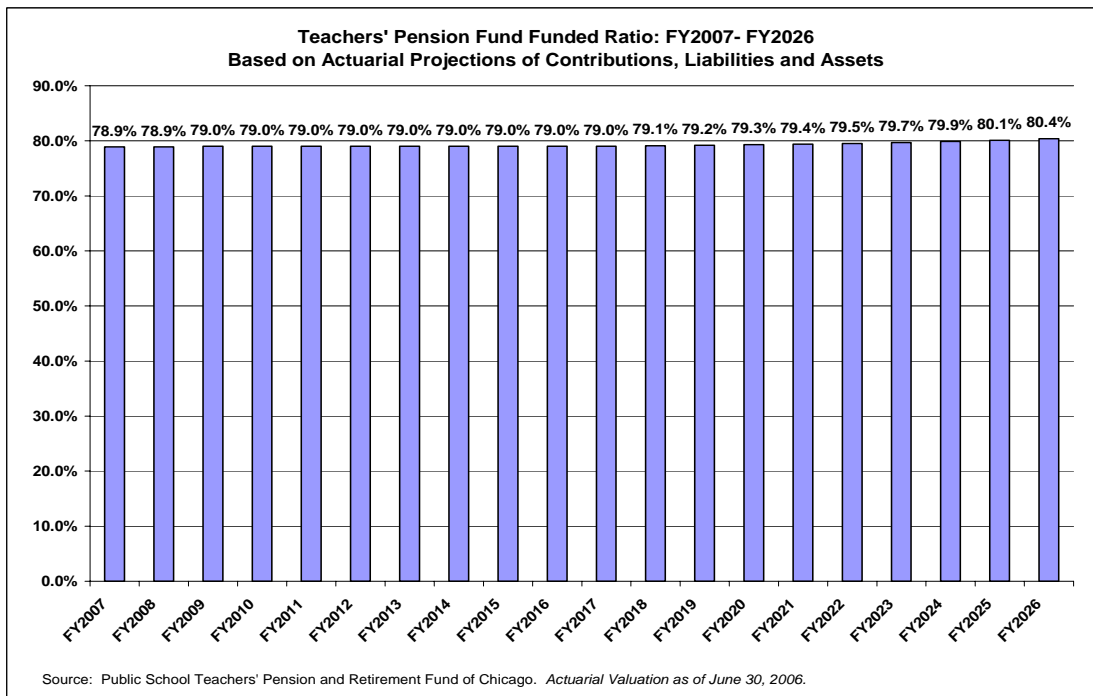
⁴⁶ *Chicago Public Schools FY2008 Budget*, p. 60.

⁴⁷ Public School Teachers' Pension and Retirement Fund of Chicago. *Actuarial Valuation as of June 30, 2006*.

⁴⁸ Public School Teachers' Pension and Retirement Fund of Chicago. *Actuarial Valuation as of June 30, 2005*, p. 17.



The Actuarial Valuation Report estimates that the Teachers Pension Fund's funded ratio will not exceed 80% in the period between FY2007 to FY2026 until FY2025.⁴⁹



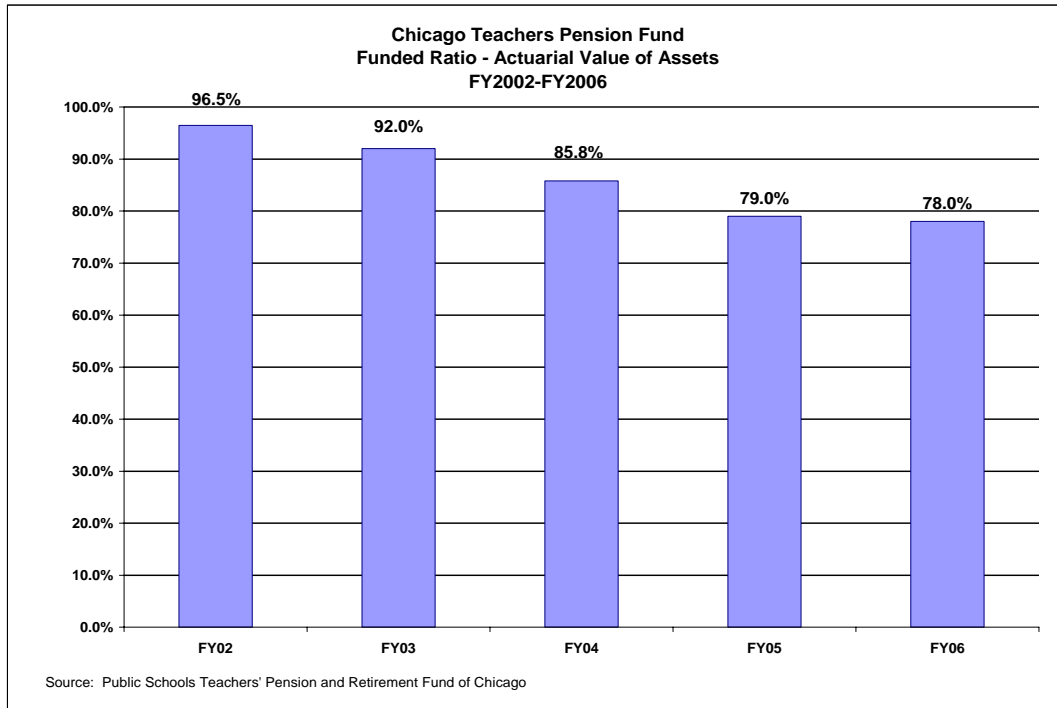
Pension Fund Indicators

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

⁴⁹ Public School Teachers' Pension and Retirement Fund of Chicago. *Actuarial Valuation as of June 30, 2006*, p. 17.

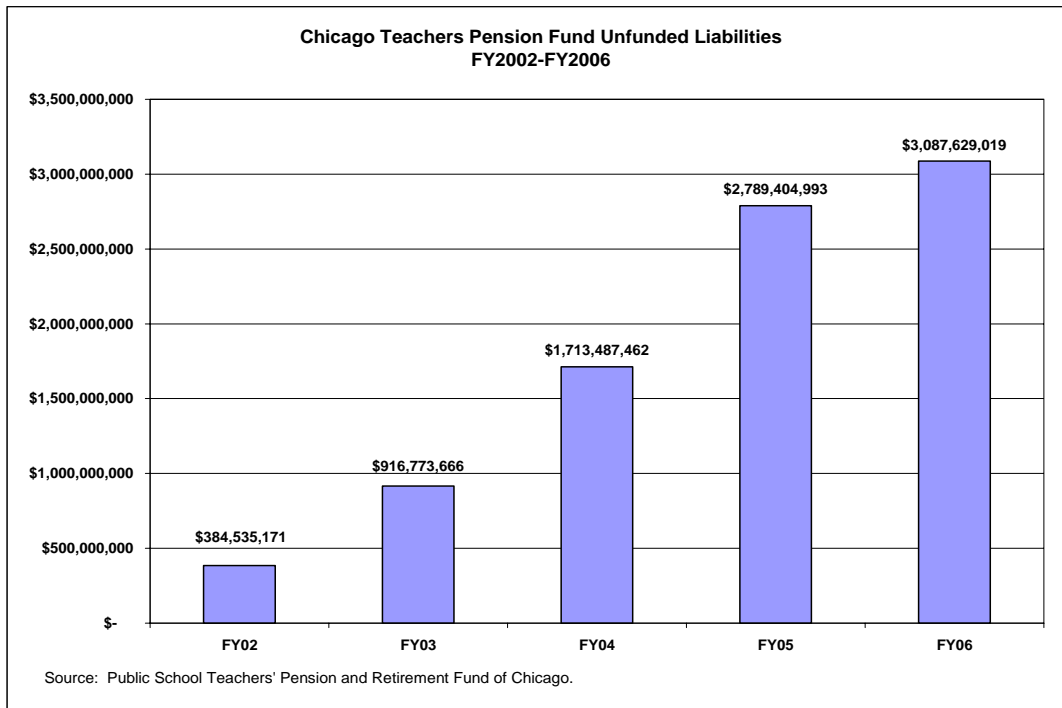
Funded Ratio

The following exhibit shows the funded ratio as reported for the actuarial value of assets for CPS teachers' pension fund. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting future obligations. The funded ratio has declined steadily since FY2002, falling from 96.5% to 78.0%.



Unfunded Pension Liabilities

Unfunded liabilities are the dollar value of pension liabilities not covered by assets. As the exhibit below shows, unfunded liabilities for the Chicago Public Schools Teachers' pension fund totaled approximately \$3.0 billion in FY2006. This represents a \$298.2 million or 10.7% increase from the previous year. Since FY2002, unfunded liabilities have increased by 703.0%, rising by \$2.7 billion or from \$384.5 million to \$3.0 billion.



The next exhibit shows the reasons for the \$298.2 million increase in unfunded liabilities. The largest single reason for the increase in unfunded liability was that the district fell short of the \$405.7 million funding requirement (normal cost plus interest) by \$287.8 million. Of the \$166.8 million in decrease in unfunded liabilities, \$159.2 million was due to investment returns being higher than assumed (9.5% versus an assumed rate of 8.0%).⁵⁰

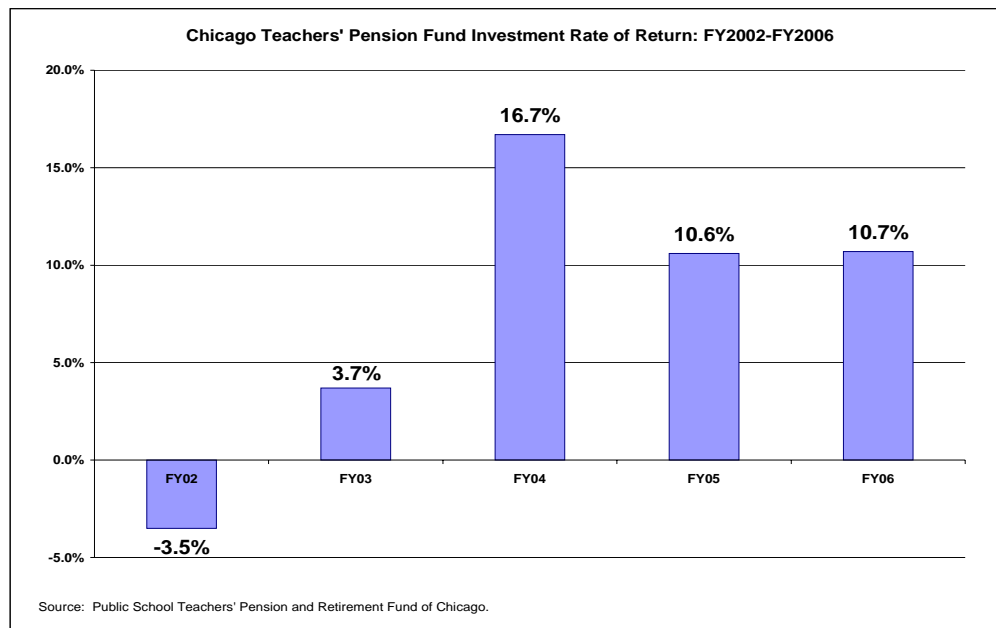
Explanation of FY2006 Increase in Unfunded Liabilities	
Unfunded Actuarial Liability 7/1/05	\$ 2,789,404,993
Increases in Unfunded Liability	
Due to Employer Contribution Being Less than Normal Cost Plus Interest on Unfunded Liability from 7/1/05 to 6/30/06	\$ 287,817,648
Due to Other Sources	\$ 177,278,548
Subtotal Increases in Unfunded Liability	\$ 465,096,196
Decreases in Unfunded Liability	
Due to Investment Returns Higher than Assumed	\$ 159,120,969
Due to Salary Increases Lower than Assumed	\$ 7,751,201
Subtotal Decreases in Unfunded Liability	\$ 166,872,170
Net Increase in Unfunded Liability for the Year	\$ 298,224,026
FY2005 Total Unfunded Liability	\$ 3,087,629,019

Source: Teachers Pension & Retirement Fund. FY2006 Comprehensive Annual Financial Report, p. 70.

⁵⁰ Public School Teachers' Pension and Retirement Fund of Chicago. *Comprehensive Annual Financial Report for the Year Ended June 30, 2006*, p. 70.

Investment Rates of Return

Investment returns for CPS teachers' pension fund increased by 10.7% in FY2006. This is a decline from the 16.7% rate of return reported in FY2004 but an big improvement from the negative 3.5% rate of growth in FY2002.



Summary of Key Teachers' Pension Fund Benefits

The following information provides a summary of key benefits provided by the Teachers' Pension Fund.⁵¹

Post-Retirement Increases: Retirees receive an automatic annual increase equal to 3% of the current amount of the pension provided. Increases accrue from the anniversary date of retirement or the 61st birthday, whichever is later.

Eligibility for Pension: The right to retirement vests after 1) 20 years of validated service with pension payable at age 55 or older or 2) after 5 years of validated service, with pension payable at age 62 or older.

Amount of Retirement Pension:

- For service earned before July 1, 1998 the retirement pension is 1.67% of "final average salary" for each of the first 10 years of validated service; 1.90% for each of the next 10 years; 2.10% for each of the next 10 years; and 2.30% for each year above 30 years of service.
- For service earned after July 1, 1998, pension is equal to 2.2% of final average salary for each year of service.

⁵¹ Public School Teachers' Pension and Retirement Fund of Chicago, *Comprehensive Annual Financial Report for the Year Ended June 30, 2006*, pp. 77-78

- The maximum pension is 75% of final average salary or \$1,500 per month, whichever is greater.

Health Insurance Reimbursement: The Pension Board reimburses the cost of pension plan recipient health insurance coverage with the total amount of payment not to exceed \$65 million or 75% of the total cost of health insurance coverage in any given year.

CIVIC FEDERATION RECOMMENDATIONS

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

Reduce Property Tax Levy by \$32 Million

Due to the fact that CPS will receive greater than anticipated state funding this fiscal year, The Civic Federation urges the district to reduce its levy by \$32 million. This amount is a small percentage of the total amount of property revenues received by CPS. In FY2008, the \$32 million would amount to approximately 1.7% of the \$1.8 billion the district anticipates receiving from property tax revenues. Such a reduction would save a typical homeowner roughly \$8 to \$14 in taxes. Furthermore, it is likely that many local governments will increase the property tax levies to the maximum amount allowed under the tax cap law this year. In fact, the City Colleges already has done so. The impact of several governments simultaneously raising taxes is an onerous burden for taxpayers to bear. Any reduction in real estate taxes can make a difference and should be administered wherever possible. The Civic Federation believes that it would be appropriate for the district to make a good faith gesture this year to overburdened Chicago taxpayers and provide some tax relief, however small. Perhaps other Chicago area governments would follow the example.

Develop a Multi-Year Capital Improvement Plan

CPS should develop a formal Multi-Year Capital Improvement Plan that is updated annually. The Capital Improvement Plan optimally would include:

- A five-year summary list of projects and expenditures per project as well as funding sources per project;
- Information about the impact of capital spending on the annual operating budget for each project;
- Brief narrative descriptions of individual projects, including the purpose, need, history, and current status of each project; and
- The time frame for fulfilling capital projects and priorities.

The CIP should be made available on CPS's website at least ten working days prior to a public hearing. Citizens should have an opportunity to present commentary at the public hearing. Finally, the Capital Improvement Plans should be formally adopted by CPS's Board of Trustees.

Implement a Formal Long-Term Financial Planning Process

CPS should develop and implement a formal long-term financial planning process. The Civic Federation is pleased that CPS has pledged this year to develop such a process. It would like to emphasize that it should be one that would incorporate input from the Board of Education and key external stakeholders and allows maximum transparency. We look forward to reviewing the long term financial plan upon its promised release next year.

Develop and Implement Performance Measures for Support Service Functions

CPS should develop and implement performance measures for support service functions such as administration, food service and transportation. The performance measures should be made publicly available in the budget document and in other financial management reports.

Continue to Improve Budget Format

The Civic Federation recommends that CPS include the following details in its FY2009 budget document:

- Five years of comparable, aggregate personnel information that shows Positions by Fund for Teachers and Support Personnel;
- An evaluation of budget initiatives and management efficiencies proposed in the previous fiscal year budget supported by performance and cost-savings data;
- A clear description of the number of existing and new charter schools, and the aggregate appropriations for charter schools (this information should be presented alongside identical information for other Renaissance 2010 schools);
- A two-year chart showing the aggregate cost of Education Improvement Programs broken out by individual programs (i.e. “Head Start Child Development”, “After-School All-Stars”); and
- Alphabetizing the list of individual schools on the CD-ROM rather than list them by school code to facilitate the ease at which CPS parents and stakeholders can identify particular schools.

Implement Pension Benefit Reforms

The Civic Federation believes that it is imperative for CPS to aggressively seek legislation to curb its rapidly escalating retirement costs. Some of the reforms the district should pursue are listed below.

A Moratorium on New Pension Benefits. CPS should impose a moratorium on **any** new employee benefits until the pension system has achieved a 90% funded ratio. Until that goal has been reached, we call on CEO Arne Duncan and the Chicago School Board of Trustees to hold firm against any new pension enhancements.

Fix automatic increases for new hires at the lesser of 3% or CPI. The current fixed rate of automatic increase for retirement annuities is 3% per year. Other retirement systems index the rate of increase to the CPI, limit the dollar amount of increase, or approve new increases annually. For new hires only, automatic increases should be limited to the lesser of the change in CPI or 3%.

Increase the Employee Share of Pension Costs. Currently, CPS pays for 7% of the 9% employee share of costs; employees pay for the remaining 2%. We believe that employees should be required to pay for at least an additional 1% of the 9% employee share, so that the CPS share of employee payments drops to 6% and the employees' share increases to 3% of the total. This change should be a top priority for CPS when it negotiates a new collective bargaining agreement. CPS should also seek to match its annual salary increases within the rate of its revenue source growth.

Reform Governance of the Teachers' Pension Fund

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 representatives is 2:10, one of the least balanced of the 17 Illinois pension boards recently surveyed by The Civic Federation.⁵²

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 benefits and taxpayers who pay for pension benefits. All of these parties have 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. In our view, a pension board should:

- Balance employee and management representation on pension boards;
- Develop a tripartite structure that includes citizen representation on pension boards; and
- Include financial experts on pension boards and require financial training for non-experts.

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

Pursue Joint Purchasing of Employee Health Insurance with Other Local Governments

The Civic Federation urges CPS to pursue consolidated health insurance purchasing with the City of Chicago, Cook County, Chicago Park District, Chicago Transit Authority, City Colleges of Chicago and the Chicago Housing Authority. Substantial savings that can be achieved from an insurance pool would be extremely beneficial to CPS's future financial situation.

⁵² The Civic Federation, *Recommendations to Reform Public Pension Boards of Trustees in Illinois*, February 13, 2006.