



**THE CHICAGO PUBLIC SCHOOLS
FY2003 PROPOSED BUDGET
Analysis and Recommendations**

**Prepared By;
The Civic Federation
July 1, 2002**

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ASSISTANCE OF THE SBC AMERITECH FOUNDATION**

INTRODUCTION

The Civic Federation recently concluded an analysis of financial issues related to the Chicago Public Schools proposed FY2003 budget. Based upon that review and a consideration of some key issues that we believe will have an impact in the future upon the District's long-term financial condition, we would like to offer the following comments. The full text of our analysis follows this summary. The analysis includes sections on FY2003 Budget Highlights, Financial Issues and Trends, Budget and Financial Statement Format and Civic Federation Concerns and Recommendations.

We commend the Chicago Public Schools on its sound long-term financial management. The District enjoys an A+ bond rating and we give high marks to the CPS for being the first major urban school district to implement the new financial reporting model required by the Governmental Standards Accounting Board's (GASB) Statement Number 34. The Civic Federation, which strongly supported approval of the new reporting model, views early implementation of the new reporting model as evidence of a commitment by the Board of Education and the CPS administration to transparency in its presentation of financial information.

The Civic Federation appreciates the difficult situation faced by Chicago Public Schools Chief Executive Officer Arne Duncan and his financial management team in drafting a FY2003 budget that sustains basic programs in a time of rising costs, a sharp economic downturn, and a state budget crisis. To that point, we applaud the CPS for eliminating \$28 million in spending, in addition to the \$90 million in cuts made in May in order to close a cumulative budget gap of at least \$192 million. We also commend the District for its continued privatization of custodial services, which will save CPS as much as \$14 million in addition to \$20-\$24 million already saved.

However, the Federation is disappointed that the CPS proposes to increase the number of budgeted positions in FY2003 by 113. The money spent in increased wages and salaries could have been used to help offset this year's deficit. Given the currently tenuous financial situation of the CPS, The Civic Federation strongly urges the District to follow the lead of other major local governments, including the City of Chicago and Cook County, which have frozen the number of budgeted positions for the upcoming fiscal year.

Given the ongoing economic uncertainties, the CPS may well endure more bad fiscal news during FY2003. Thus, it is imperative that the CPS implement measures that can generate additional budgetary savings. We congratulate the financial management team at CPS for actively working with The Civic Federation and other local governments to explore the possibility of consolidated health insurance purchasing and look forward to expeditious implementation of an agreement to achieve that goal. A recent Civic Federation study found that forming such an agreement consisting of the employees of the City of Chicago, Cook County, Chicago Park District, Chicago Transit Authority, the City Colleges of Chicago, the Chicago Public Schools and the Chicago Housing Authority could yield projected savings of \$40.1

million for all the governments in the first year or \$222 million over a 5-year period.¹ Given that CPS healthcare costs are projected to rise by \$43 million this fiscal year, the savings from an insurance pool would be very beneficial to the District's financial situation.

At this time, the Civic Federation would also like to comment upon two issues that could have an impact on the Chicago Public Schools in the long term: recent PTAB rulings and a potential broadening of the right to strike by teachers.

Recent decisions by the Illinois Property Tax Appeal Board (PTAB) could result in potentially huge financial losses in Chicago Public Schools and other local government revenue. If the decisions stand and are applied to all eligible property, the CPS could face a loss of as much as \$107 million per year (see Civic Federation report analyzing the impact of PTAB decision on Cook County local governments on our Web site). The PTAB's ruling is grounded in the wide discrepancy between law and practice in application of the Cook County classification system. As such, it is yet another problem with the antiquated Cook County property tax system that starkly illustrates the need for reform to make that system more consistent and equitable.

We would also like to take this opportunity to voice our concern and opposition to any legislative efforts to weaken or repeal Section 4.5 of the Illinois Educational Labor Relations Act that would weaken current limitations on the right to strike of teachers. We commend the CPS for its opposition to any such efforts. The Civic Federation believes that weakening the Section 4.5 strike limitations would unnecessarily weaken the reform process that has served the schools well and seriously hamper the Board's ability to introduce further efficiencies and economies in school operations. The Chicago Public Schools faced a budget gap of \$102 million out of a total budget of \$4.6 billion for FY2003. This includes projected state funding cuts of \$22 million. However, there may be additional reductions in state funding as the State of Illinois had not yet completed its budget process before the CPS budget was published.

FY2003 BUDGET HIGHLIGHTS

The \$4.6 billion FY2003 budget is balanced through a combination of revenue enhancements and expenditure reductions. They include:

- A \$57 million property tax increase. This 3.8% increase is the maximum amount permitted under the tax cap law. This will be the sixth time the CPS has raised property taxes since 1995;
- Spending cuts of \$28 million. This is in addition to \$90 million in cuts in May, which were achieved primarily through the elimination of 300 positions and reducing travel and consulting expenses in anticipation of the coming deficit; and
- A \$17 million increase in corporate income tax revenues that is expected if the Governor signs legislation decoupling the state corporate income tax from changes in the federal corporate income tax that were contained in the Federal Economic Stimulus bill approved this year.

¹ The Civic Federation. *Feasibility Study of Consolidated Purchasing: Chicago Public Employers*. A Study Conducted by the Segal Company. February 23, 2001.

FINANCIAL ISSUES AND TRENDS

This section provides summaries of key issues likely to have an impact on the Chicago Public Schools' financial situation in the forthcoming fiscal year as well as expenditure, appropriation and revenue trends.

Recent Property Tax Appeal Board Decisions: Chicago Public Schools Faces Potential Annual Loss of \$107 million

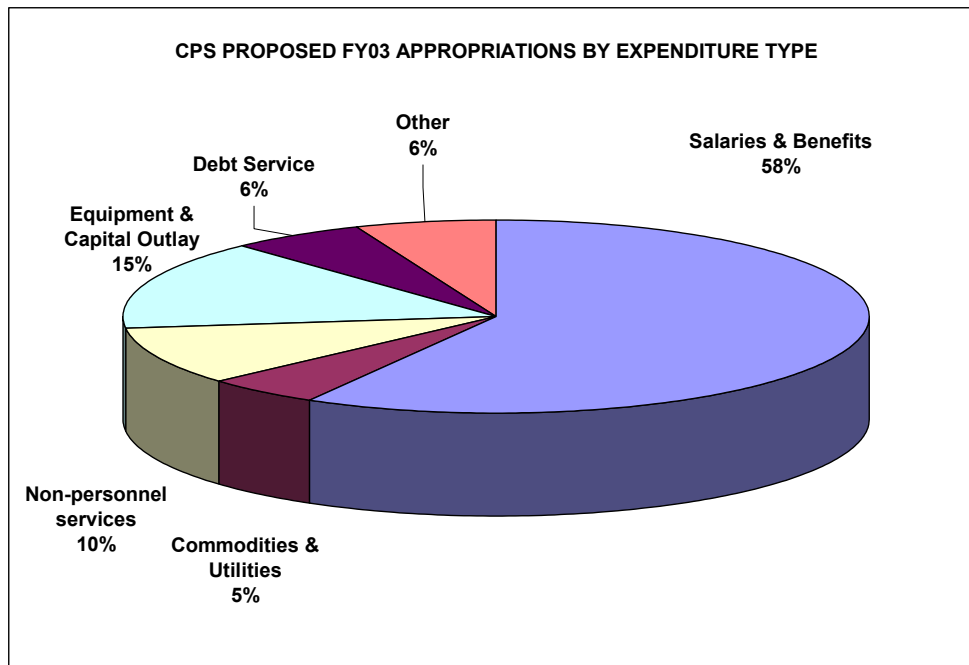
Recent decisions by the Illinois Property Tax Appeal Board (PTAB) could result in potentially huge losses in local government revenue and a significant tax burden shift onto homeowners. If the decisions stand and are applied to all property within the boundaries of the Chicago School District, The Civic Federation's projections indicate that the CPS could face a loss of \$107 million per year. The maximum potential loss to all governmental units in Cook County may exceed \$500 million per year. These losses could come at a time when revenue growth is anemic due to the economic downturn.

The Illinois State Constitution requires that the highest assessment level be no more than 2.5 times the lowest assessment level. The Cook County ordinance that classifies property for taxation sets the lowest assessment level at 16% for residential property and the highest assessment level at 38% for commercial property. However, the Illinois Department of Revenue conducts studies every year claiming that residential property is actually assessed at closer to 10% of its value. Based on these studies, the PTAB has created a new level of assessment for non-residential (business and apartment) property. This new level of assessment is the result of multiplying the Department of Revenue's median residential assessment level of approximately 10% by 2.5. The result is a maximum assessment level of 25%. Therefore, a commercial property appealing its assessment to the PTAB would be assessed at 25% of its value, rather than 38% as the Cook County ordinance directs. This lower assessment level, if applied to all properties currently assessed at more than 25% of full value, would result in large refunds for commercial and industrial properties.

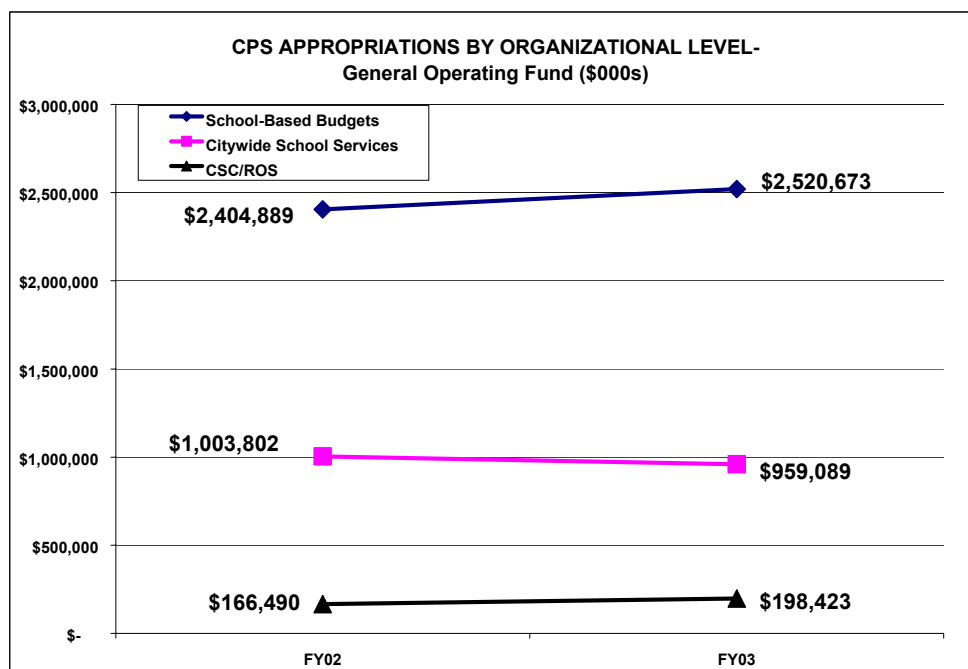
Unless it is addressed soon, PTAB's decision has the potential to cause a serious fiscal crisis in the Chicago Public Schools. The Civic Federation believes that it is imperative that the Chicago Public Schools join with other local governments and the State of Illinois to address local governments' overreliance on property taxes.

Appropriations and Expenditures

The FY2003 budget proposes a net appropriation of \$4.6 billion. This is an increase of 5.4% from the FY2002 appropriation of \$4.4 billion. 58% of the appropriations, or \$2.6 billion, are earmarked for salaries and benefits. \$1.7 billion of that amount is proposed for teacher salaries, with \$470 million proposed for non-teacher salaries and \$478 million proposed for employee benefits.



The next two exhibits summarize changes in General Operating Fund appropriations between FY2002 and FY2003 by organizational level and by function. General Operating Fund appropriations by organizational level for FY2002 and FY2003 are presented below. The exhibit shows that school-based budget appropriations are projected to rise by 5%. Citywide school service appropriations, which includes spending for teachers and employees serving multiple locations such as social workers, nurses and physical therapists, is projected to decrease by 4% or \$44 million. Finally, appropriations for both and Central Service Centers (CSC) and Regional Office Services (ROS) will increase by \$32 million or 19%.



General Fund appropriations by function, such as instruction and supporting services, are presented in the following exhibit. The largest single percentage increase will be in special education instruction, which is projected to rise by 6% in FY2003. General Operating Funds appropriated for all instructional functions will increase by 3%, from approximately \$2.1 billion to almost \$2.2 billion. Supporting services will rise by 4%. This category includes a wide variety of non-instructional appropriations for items including general administration, transportation services, food services, health services, social work services, guidance services, business services, etc.

CPS APPROPRIATIONS BY FUNCTION			
General Operating Fund			
FUNCTION	FY02	FY03	% CHANGE
Instruction-Regular Programs	\$ 1,400,556,436	\$ 1,424,734,731	2%
Instruction-Special Education	\$ 420,563,494	\$ 446,063,009	6%
Instruction-Voc Ed & Special Needs	\$ 281,681,248	\$ 287,152,727	2%
SUBTOTAL INSTRUCTION	\$ 2,102,801,178	\$ 2,157,950,467	3%
SUPPORTING SERVICES	\$ 1,282,372,690	\$ 1,327,377,662	4%
COMMUNITY SERVICES	\$ 54,680,726	\$ 56,144,581	3%
STATE REV. PENSION ADJUST.	\$ 65,045,000	\$ 65,045,000	0%
OTHER	\$ 70,283,232	\$ 71,669,312	2%
GRAND TOTAL	\$ 3,575,182,826	\$ 3,678,187,022	3%

5-Year Appropriations Trends

The next two exhibits present 5-year appropriations trend information by expenditure type and by organizational level.

Appropriations by expenditure type for all funds have risen by 19% over this 5-year period. The largest single increase has come in appropriations for debt service, which increased by 93%, from \$139 million to \$270 million. This sharp increase reflects the Board of Education's efforts in recent years to substantially repair and build its infrastructure.

APPROPRIATIONS BY EXPENDITURE TYPE: FY99 & FY03			
(\$000s)			
Expenditure Type	FY1999	FY2003	% Change
Teacher Salaries	\$ 1,491.3	\$ 1,691.5	13%
Non-Teacher Salaries	\$ 382.3	\$ 475.0	24%
Employee Benefits	\$ 388.5	\$ 525.0	35%
Subtotal Compensation	\$ 2,262.1	\$ 2,691.0	19%
Commodities & Utilities	\$ 221.8	\$ 231.5	4%
Non-personnel services	\$ 373.5	\$ 457.0	22%
Equipment/Capital Outlay	\$ 632.5	\$ 683.5	8%
Debt Service	\$ 139.9	\$ 270.5	93%
Other	\$ 267.3	\$ 286.0	7%
TOTAL	\$ 3,897.1	\$ 4,619.5	19%

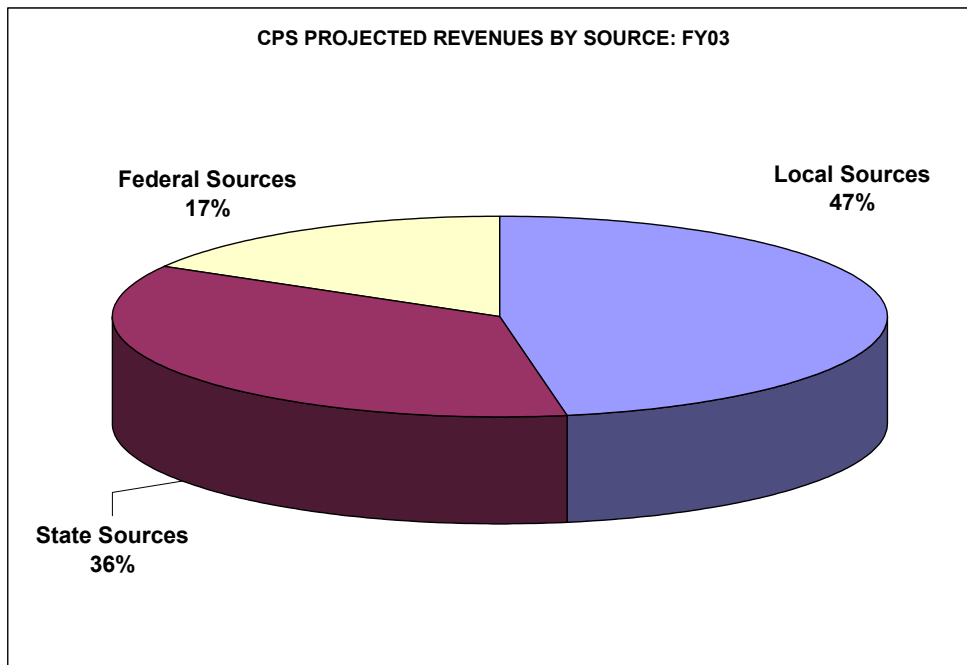
Source: CPS Budgets.

The last exhibit shows the 5-year trend for General Operating Fund appropriations by organizational level. The largest single appropriation increase was the 104% increase for the Central Service Centers, boosting that appropriation from approximately \$97 million to \$197 million. Appropriations for Regional Office Services dipped sharply by 83%, while school-based budget appropriations rose by 17%, from \$2 billion to \$2.5 billion.

APPROPRIATIONS BY ORGANIZATIONAL LEVEL			
General Operating Fund			
Organizational Level	FY99	FY03	% Change FY99-FY03
School-Based Budgets	\$ 2,152,421,953	\$ 2,520,673,632	17%
Citywide School Services	\$ 924,840,609	\$ 959,089,260	4%
Region Office Services	\$ 6,519,792	\$ 1,127,661	-83%
Central Service Centers	\$ 96,679,986	\$ 197,296,469	104%
TOTAL	\$ 3,180,462,340	\$ 3,678,187,022	16%

Revenue Trends

Chicago Public Schools revenues are derived from local, state and federal sources. Local sources will account for nearly half of all revenues in FY2003, approximately \$1.9 billion. 80% of that amount, or \$1.5 billion, comes from property taxes. The State of Illinois is expected to provide 36% of all revenues, with \$771 million coming from General and Supplemental state aid. Finally, federal sources are expected to provide \$690 million.



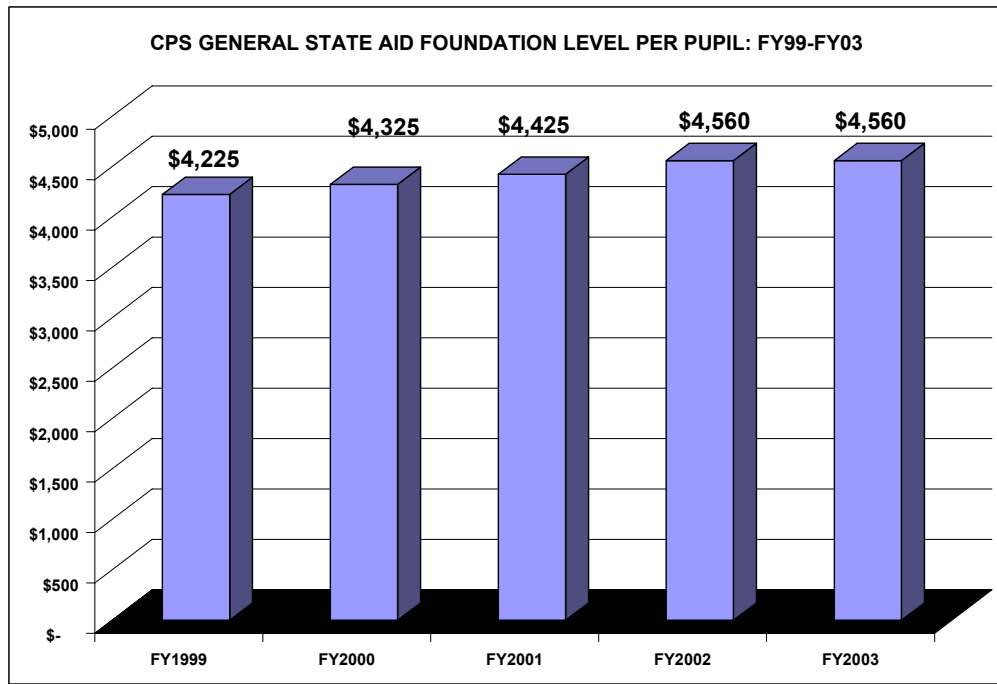
The next exhibit compares all major CPS revenue sources in FY2002 and FY2003. Total revenues are expected to increase by 8%, from \$3.8 billion to \$4.1 billion.

The District's own-source revenues are projected to rise by 9%, from \$1.8 billion to \$1.9 billion. State-source revenues are projected to rise only a modest 1.5% while federal revenues will increase by 14.4%. Investment income is expected to decline by 36%, reflecting the continuing effects of the current recession. Personal Property Replacement Tax (PPRT) revenues, another economically sensitive revenue source, are projected to increase by nearly 6%. The CPS is relying on projections by the Illinois Economic and Fiscal Commission and Blue Chip Economic Indicators of an 8% growth in corporate profits for FY2003. However, PPRT receipts were nearly \$20 million less in FY2002 than anticipated and 3rd quarter FY2002 state corporate income tax receipts were 36% lower than compared to 3rd quarter FY2001 figures.² This suggests that the District's PPRT projections may be optimistic.

CPS MAJOR REVENUES: ALL FUNDS			
Revenue Source	Est FY2002	Est FY2003	% Change
Property Taxes	\$ 1,483.2	\$ 1,539.8	3.8%
PPRT	\$ 120.0	\$ 127.0	5.8%
Investment Income	\$ 82.9	\$ 52.9	-36.2%
Lunchroom Sales	\$ 12.4	\$ 12.0	-3.2%
Miscellaneous Local	\$ 85.6	\$ 213.4	149.3%
Subtotal Local Revenue	\$ 1,784.1	\$ 1,945.1	9.0%
General State Aid (GSA)	\$ 505.6	\$ 510.6	1.0%
Supplemental GSA	\$ 261.0	\$ 261.0	0.0%
Flat Grant by ADA	\$ 14.4	\$ 13.9	-3.5%
Teacher Pension	\$ 65.0	\$ 65.0	0.0%
Other State	\$ 617.7	\$ 635.1	2.8%
Subtotal State	\$ 1,463.7	\$ 1,485.6	1.5%
ESEA Title I	\$ 180.0	\$ 244.1	35.6%
Lunchroom	\$ 139.4	\$ 151.2	8.5%
Medicaid Reimbursement	\$ 41.6	\$ 46.0	10.6%
Federal Other	\$ 243.0	\$ 249.6	2.7%
Subtotal Federal	\$ 604.0	\$ 690.9	14.4%
GRAND TOTAL	\$ 3,815.9	\$ 4,121.6	8.0%

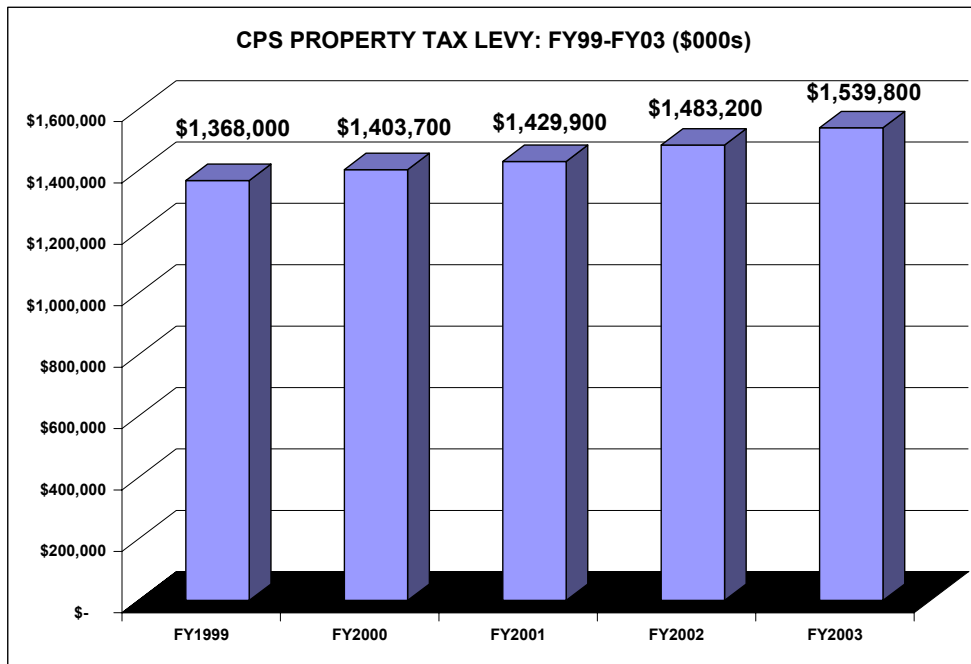
² Illinois Bureau of the Budget. Fiscal Year 2002 Third Quarter Economic Outlook, p. 7.

The General State Aid foundation level has increased slightly since FY1999, from \$4,225 per student to \$4,560. For FY2003, the foundation level for low-income students will be \$1,362.



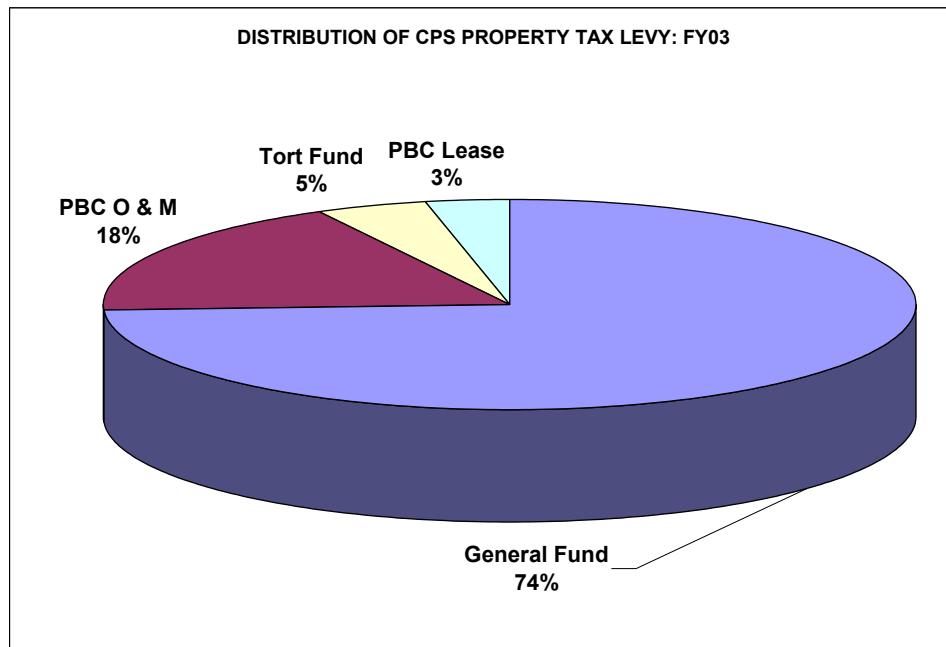
Property Tax Levy Trends

The CPS property tax levy is projected to increase by 3.8% in FY2003, from \$1.48 billion to \$1.54 billion. Since FY1999, the levy has risen by 13%.



Where do property revenues go? In recent years, property tax revenues have been distributed into four funds. The chart below shows the proposed allocation for FY2003. This mirrors the distribution in recent years.

The vast majority of property tax receipts are used for General Fund purposes. Approximately 74% of the levy, or \$1.1 billion, will be deposited into the General Fund in FY2003. The second largest amount, \$276 million, will be used for the Public Building Commission Operations and Maintenance (PBC O & M) Fund. This fund supports the repair and maintenance of CPS buildings. 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.

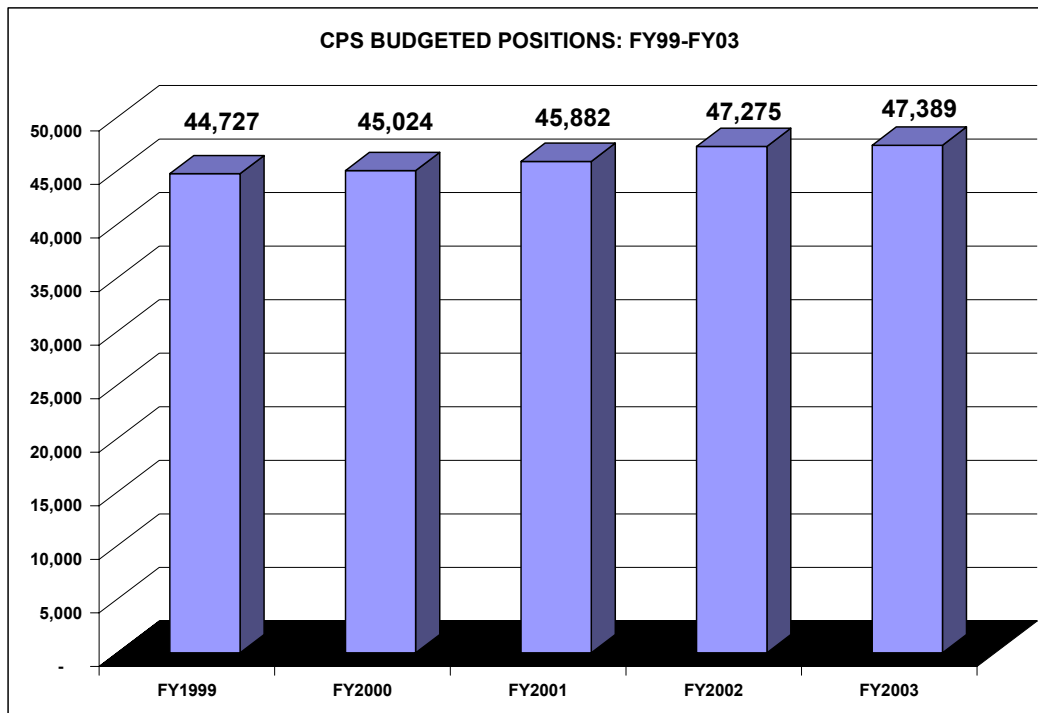


Personnel Trends

The CPS FY2003 budget proposes to add 457 positions while cutting 344 positions for a net gain of 113 positions.

Since FY1999, the Chicago Public Schools have added 2,662 positions, a 6% increase. In FY2003, 43,045 positions, or 91% of the total, will be located in the elementary and high schools. 3,019 positions are budgeted for City Wide offices³ and 1,325 for the Central and Regional offices.

³ City Wide positions include employees for systemwide programs as well as teachers and employees who serve multiple school locations such as social workers, nurses, and psychologists.



The next exhibit provides a breakdown of CPS budgeted positions by location over a 5-year period. The percentage of budgeted positions located in the schools averaged 91% between FY1999 and FY2003. The number of positions budgeted at the District's high schools and elementary schools increased by 5% between FY1999 and FY2003, while the number of citywide positions rose by 18% and the number of central and regional office positions increased by 34%.

CPS BUDGETED POSITIONS BY LOCATION: FY97-FY03					
Location	FY99	FY00	FY01	FY02	FY03
Schools	41,176	41,170	41,603	42,635	43,045
Citywide	2,560	2,779	3,056	3,363	3,019
Central	991	1,075	1,223	1,278	1,325
TOTAL	44,727	45,024	45,882	47,276	47,389

The final personnel exhibit presents the changes in positions budgeted between FY2002 and FY2003. Overall, 113 positions have been added. Most of the increase is in the schools, where 410 positions were added. 344 positions were cut citywide and 47 positions added in the central and regional offices.

CHANGE IN CPS BUDGETED POSITIONS BY LOCATION: FY02 & FY03				
Location	FY02	FY03	Increase	% Change
Schools	42,635	43,045	410	1.0%
Citywide	3,363	3,019	(344)	-10.2%
Central	1,278	1,325	47	3.7%
TOTAL	47,276	47,389	113	0.2%

Fund Balance: Current Fund Balance Ratio

The current fund balance ratio was devised by The Civic Federation to measure a government's ability to meet its financial obligations over time, long enough to convert illiquid assets to cash. It is calculated by dividing General Operating Fund expenditures by the unreserved fund balances in that fund. Historic trends are presented below for the Chicago Public Schools for FY1997 through FY2001. Ratios under 10% are categorized as "Low" while ratios between 10% and 25% are categorized as "Adequate."

As the exhibit below shows, the Chicago Public Schools fund balance ratio averaged 9% over the entire 5-year period analyzed, placing it in the "Low" category. The ratios ranged from a high of 12% in FY2000 to a low of 6% in FY2001. Between FY2000 and FY2001, the fund balance fell from \$393 million to \$201 million. However, it is important to note that this decrease reflects the impact of a new accounting rule (GASB No. 33), which reduces the year-end balance by \$152.5 million at the end of FY2001.⁴

CHICAGO PUBLIC SCHOOLS CURRENT FUND BALANCE RATIO: FY97-FY01				
Fiscal Year	Fund Balance	Expenditures	Ratio	Rating
FY1997	\$ 287,928,000	\$ 2,568,581,000	11%	Adequate
FY1998	\$ 221,997,000	\$ 2,914,667,000	8%	Low
FY1999	\$ 288,255,000	\$ 3,060,728,000	9%	Low
FY2000	\$ 393,057,000	\$ 3,184,502,000	12%	Adequate
FY2001	\$ 201,520,000	\$ 3,353,119,000	6%	Low

Short and Long-Term Debt Trends

The Civic Federation has employed two measures of debt for purposes of this analysis: short-term debt trends and long-term debt per capita trends.

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

⁴ See Chicago Public Schools FY2003 Budget, p. 20 footnote.

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.⁵

The exhibit below presents the Chicago Public Schools short-term debt trends for Fiscal Years 1997 through 2001. It shows that the Board of Education’s short-term debt obligations grew by 65% during the 5-year period analyzed, a substantial increase. In dollars, this represented a \$135 million increase, from \$208 million to \$343 million. However, much of the increase came between FY1997 and FY1998, when short-term debt rose by \$121 million, a 58% increase. There have been no substantial increases since then. In fact, between FY1998 and FY2001, short-term debt rose by just 4%, which is a moderate increase and not a cause for concern.

CHICAGO PUBLIC SCHOOLS SHORT-TERM DEBT TRENDS: FY97-FY01		
Fiscal Year	Total Short-Term Debt	% Annual Increase
1997	\$ 208,596,000	
1998	\$ 329,593,000	58%
1999	\$ 335,381,000	2%
2000	\$ 292,741,000	-13%
2001	\$ 343,991,000	18%

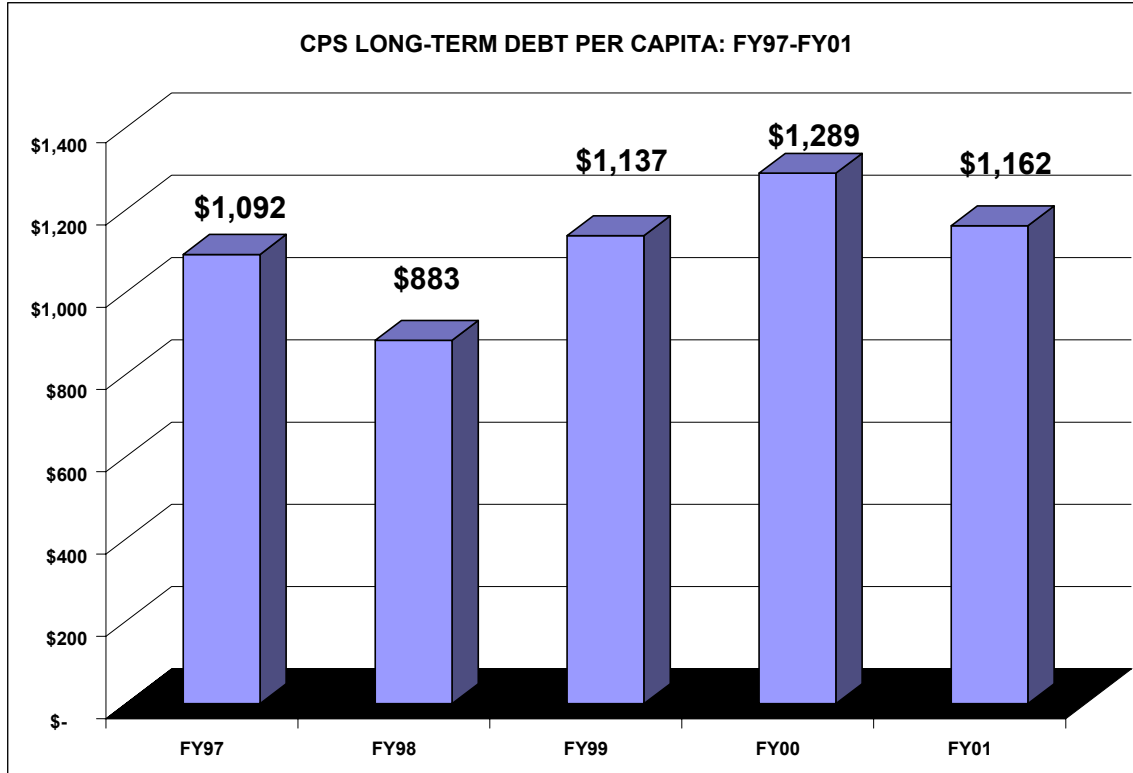
Source: CPS Comprehensive Annual Financial Reports: FY97-FY01

Long-Term Debt Per Capita

Long-term debt per capita is a measure of a government’s ability to maintain its current financial policies. This long-term debt analysis takes the total liabilities in the General Long-Term Obligations Account Group and divides them by population. The Chicago Public Schools’ long-term debt includes general obligation bonds, capitalized lease obligations, and asbestos abatement loans from the U.S. Environmental Protection Agency. Any increases bear watching as a potential sign of increasing financial risk.

Long-term debt per capita increased by 6% between FY1997 and FY2001, from \$1,092 to \$1,162. Long-term debt did dip by 10% between FY2001 and FY2000. However, it rose by a substantial 32% between FY1998 and FY2001. The decrease between FY2000 and FY2001 and the 5-year moderate rate of increase are positive signs.

⁵ In order to provide consistent comparisons, long-term liabilities due within one year, which are reported in the Statement of Net Assets beginning in FY2001 as a requirement of the new GASB No. 34 reporting model, were not included in the trend analysis



Teachers' Pension Fund Trends

Chicago Public School 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 resented below are for the Teachers' Pension Fund only.

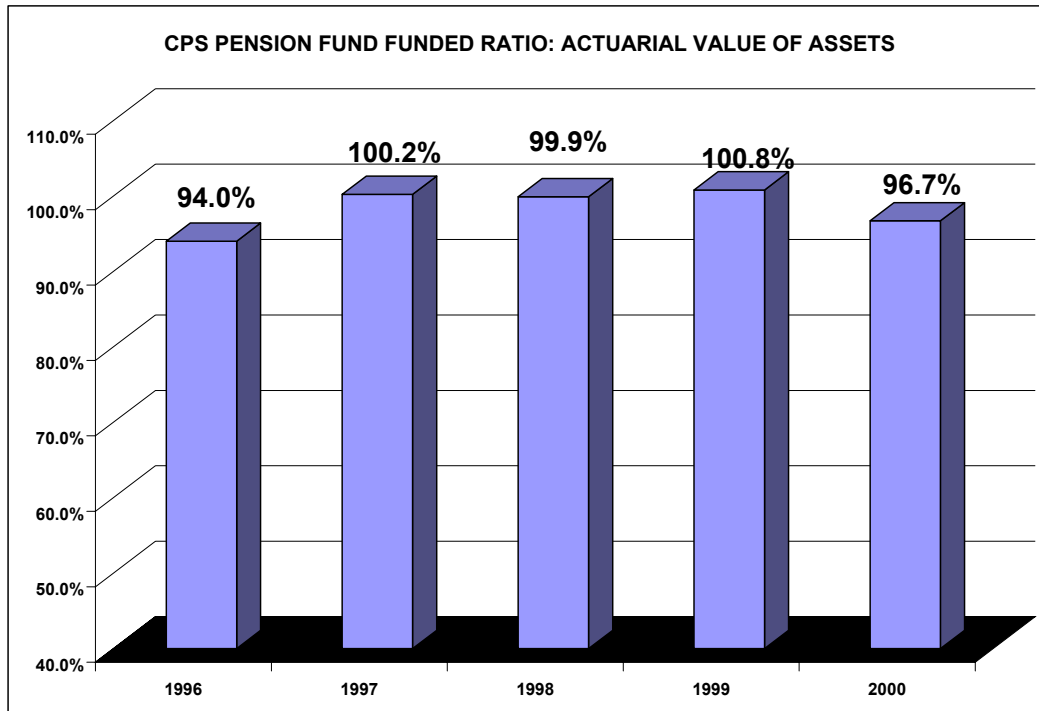
The Civic Federation used three measures to present a multi-year evaluation of the fiscal health of the Teachers' pension fund: funded ratios, the investment rate of return and the value of unfunded liabilities.⁶

Funded Ratios – Actuarial Value of Assets

The following exhibit shows the funded ratio for the Chicago Public Schools 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.

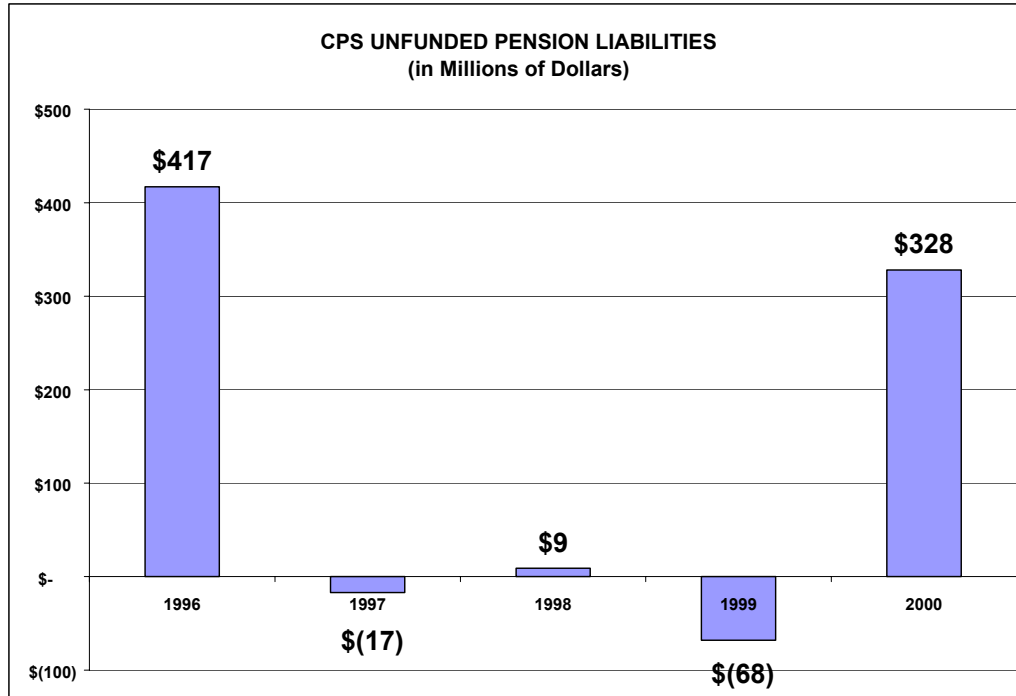
The funded ratio for the Teachers' Pension Fund averaged 98% between FY1996 and FY2000. Thus, the Chicago Public Schools had more than adequate assets to cover pension liabilities in the long term during this period.

⁶ The discussion of the Chicago Public Schools Teachers' pension fund trends is drawn from Myer Blank. *Status of Local Pension Funding* (Chicago: Civic Federation, 2001).



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 \$328 million in FY2000. This was a 21% decrease since FY1996. In FY1997 and FY1999, the pension fund was funded at rates above 100%. Thus, the figures shown in the exhibit are negative.

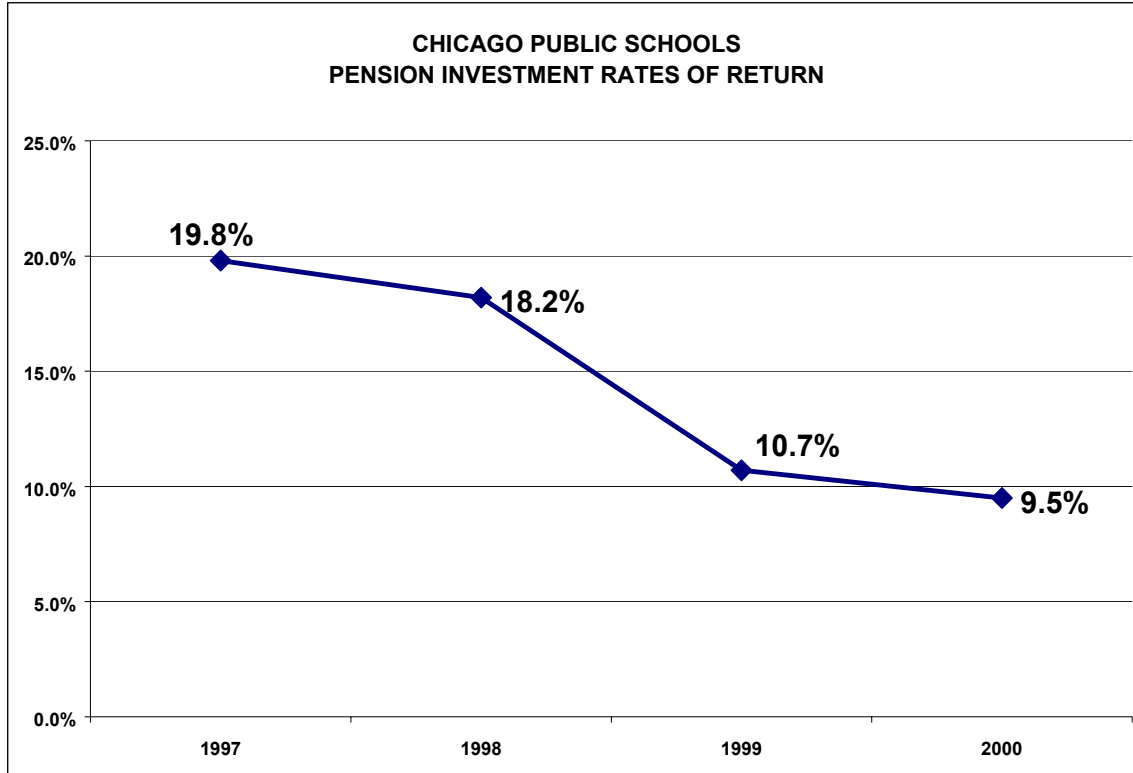


Investment Rates of Return

Investment returns for the Chicago Public Schools Teachers' pension fund fell in FY2000 because of declining financial markets, as the following exhibit illustrates. The Fund's rate of return fell from 10.7% in FY1997 to 9.5% in FY2000. Investment income typically provides a significant portion (over 50%) of the funding for pension funds.

Clearly, investment income is down sharply from the boom years of the 1990s. However, this is not necessarily a cause for concern at this time. Because the stock market has increased in value over the long-term, the pension funds' investment income (which is derived largely from stock market investments) is likely to rise over time as well. It is also important to note that: 1) the Teachers' pension fund's investment rate of return for FY2000 (9.5%) continued to outpace the rate of inflation (3.2%)⁷ and 2) to reiterate that the pension fund is currently very well funded.

⁷ Consumer Price Index – Chicago Metropolitan Region (All Consumers).



BUDGET AND FINANCIAL STATEMENT FORMAT

In 1993, The Civic Federation published *Reforming the Chicago Public Schools Budget System: A Tool for Effective Management and Accountability* in cooperation with the Board of Education. The study analyzed the CPS budget process and made recommendation for change based upon best practice models, such as those published by the Government Finance Officers Association. The CPS administration subsequently produced a single volume document that incorporated many of our suggestions. The FY2003 budget format continues in that tradition. The Civic Federation salutes the CPS Office of Management and Budget for producing an excellent budget document that is informative and user-friendly. In our view, it ranks among the best local government budget documents.

CPS Wins High Marks for Early Implementation of GASB Statement No. 34

The CPS is the first major urban school district to implement the new financial reporting model required by the Governmental Standards Accounting Board's (GASB) Statement Number 34. The Civic Federation, which strongly supported approval of the new reporting model, applauds the CPS for this move. Early implementation of the new reporting model is evidence of commitment by the Board and the CPS administration to transparency in its presentation of financial information.

The new reporting model permits all stakeholders, including the general public, to more accurately assess the cost of delivering services on a government-wide basis. The Management's Discussion and Analysis (MD & A) provides users with a summary of a government's financial

position, including an analysis of financial position and the results of operations, a description of major capital asset and long-term debt activity over the course of the fiscal year, and facts or decisions expected to impact the government's financial condition in the coming year. For the first time, the financial statements bring together government activities, business-type activities and component unit activity. Financial information is reported using a flow of economic resources measurement focus and the accrual basis of accounting and includes information on capital assets.

The Civic Federation has always focused on ways government can deliver services more efficiently and effectively. The information provided by GASB No. 34 Statements will make it possible for stakeholders to more accurately assess the full cost of government and changes in governmental financial condition.

CIVIC FEDERATION CONCERNS AND RECOMMENDATIONS

The Civic Federation has concerns regarding several issues that can have a deleterious effect on the CPS financial condition: increases in the number of budgeted positions, recent tax refund decisions, and proposed changes in teachers' right to strike.

Increased Number of Budgeted Positions

The Civic Federation is disappointed that the CPS proposes to increase the number of budgeted positions in FY2003 by 114. The money spent in increased wages and salaries could have been used to help offset this year's deficit. Given the currently tenuous financial situation of the CPS, The Civic Federation strongly urges the District to follow the lead of other major local governments, including the City of Chicago and Cook County, which have frozen the number of budgeted positions for the upcoming fiscal year.

Property Tax Appeal Board Decisions Could Lead to Substantial Revenue Loss

Recent decisions by the Illinois Property Tax Appeal Board (PTAB) could result in potentially huge financial losses in Chicago Public Schools and other local government revenue. If the decisions stand and are applied to all eligible property, the CPS could face a loss of as much as \$107 million per year (see Civic Federation report analyzing the impact of PTAB decision on Cook County local governments on our Web site). The PTAB's ruling is grounded in the wide discrepancy between law and practice in application of the Cook County classification system. As such, it is yet another problem with the antiquated Cook County property tax system that starkly illustrates the need for reform to make that system more consistent and equitable.

Easing Teachers' Strike Provisions in Section 4.5 of the Illinois Labor Relations Act Could Undo Reforms, Increase Costs in the Long-Term

The Civic Federation has always been a strong supporter of the Chicago school reform process. To that point, we would like to take this opportunity to voice our concern and opposition to any legislative efforts to weaken or repeal Section 4.5 of the Illinois Educational Labor Relations Act that would weaken current limitations on the right to strike of teachers. We commend the CPS

for its opposition to any such efforts. The Civic Federation believes that weakening the Section 4.5 strike limitations would unnecessarily weaken the reform process that has served the schools well and seriously hamper the Board's ability to introduce further efficiencies and economies in school operations.

Civic Federation Recommendation: Aggressively Pursue Joint Purchasing of Health Insurance

Given the ongoing economic uncertainties, the CPS may well endure more bad fiscal news during FY2003. Thus, it is imperative that the CPS implement measures that can generate additional budgetary savings. To that point, we congratulate the financial management team at CPS for actively working with The Civic Federation and other local governments to explore the possibility of consolidated health insurance purchasing and look forward to expeditious implementation of an agreement to achieve that goal. A recent Civic Federation study found that forming such an agreement consisting of the employees of the City of Chicago, Cook County, Chicago Park District, Chicago Transit Authority, the City Colleges of Chicago, the Chicago Public Schools and the Chicago Housing Authority could yield projected savings of \$40.1 million for all the governments in the first year or \$222 million over a 5-year period.⁸ Given that CPS healthcare costs are projected to rise by \$43 million this fiscal year, the savings from an insurance pool would be very beneficial to the District's financial situation.

⁸ The Civic Federation. *Feasibility Study of Consolidated Purchasing: Chicago Public Employers. A Study Conducted by the Segal Company.* February 23, 2001.